

IOC shake-up and impact on East Med development

IENE

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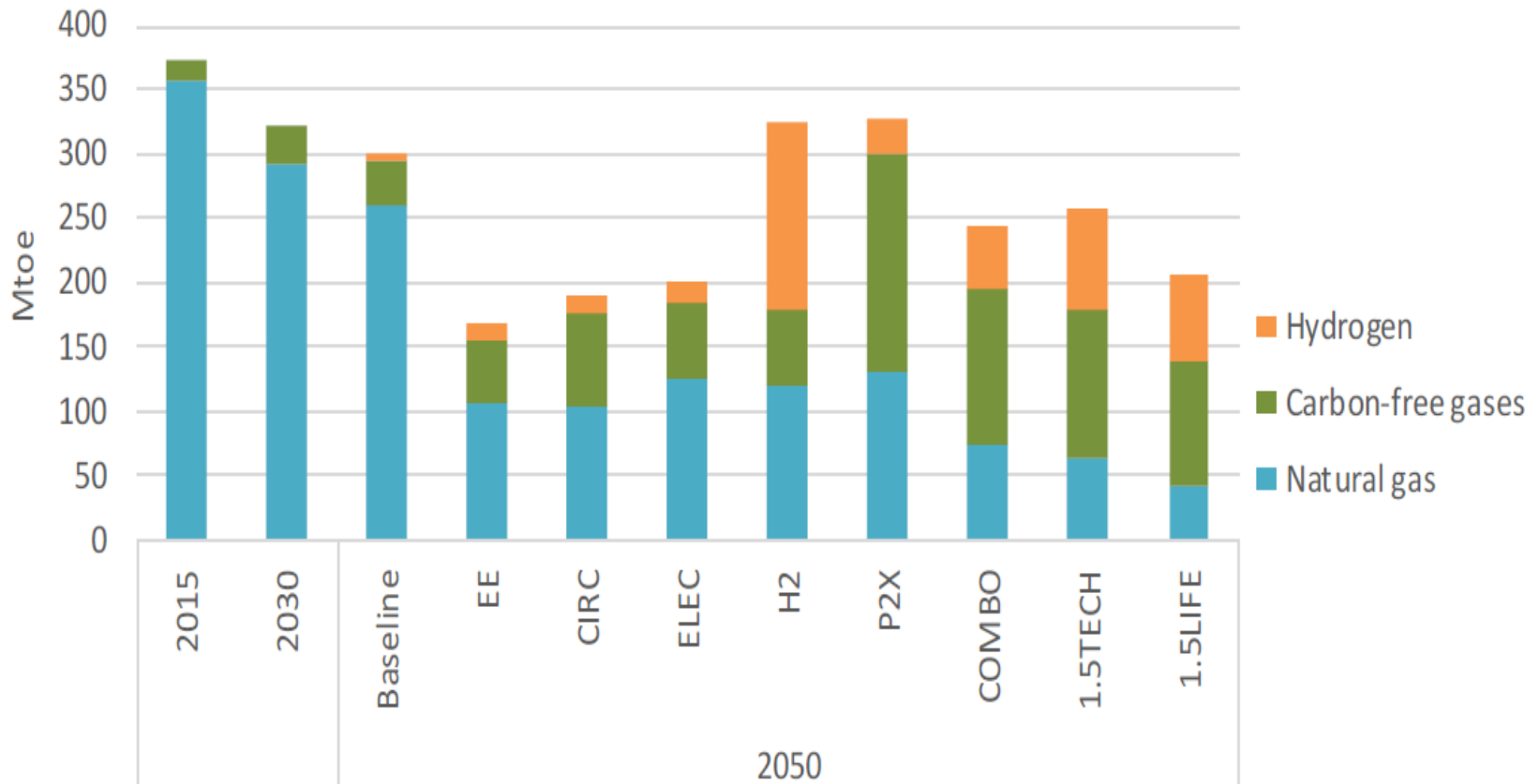
Global developments

- The world has veered decisively towards bringing climate change issues to the forefront, not only in terms of energy but also politically
- The world's largest banks and investment institutions are committing to a low-carbon future. It is fast-becoming a case of not just 'peak oil', but also of 'peak oil investment'
- The IOCs are now being forced to adjust and operate in this new, highly challenging, environment
- Recovery from Covid-19 has brought about a respite, with increasing oil and gas demand and prices
- But the IEA is "calling time" on the fossil fuel industry, calling for a stop to new oil and gas exploration
- This creates a huge problem for all IOCs and financing of new projects.

Developments in the EU

- IEA's call may not be practical or feasible at present and neither it is clear how the world will get there. But it is fueling the climate debate and activists who are piling the pressure on oil companies.
- It is affecting the role of natural gas as a cleaner transition fuel
- And yet the IEA is also warning that investment in renewables is only a third of what is needed. In other words as things stand, renewables alone will not provide the energy the world needs
- In Europe gas is facing an 'existential crisis' as a result of new climate policies that are now affecting investment in new natural gas projects and plants
- Frans Timmermans, European Commission vice-president, said in March that there will only be a "marginal role for fossil gas" on the path to net zero emissions by 2050, with gas demand expected to drop substantially by 2030.

EU - Consumption of fuel gases until 2050



Source: https://ec.europa.eu/clima/policies/strategies/2050_en

Source: European Commission

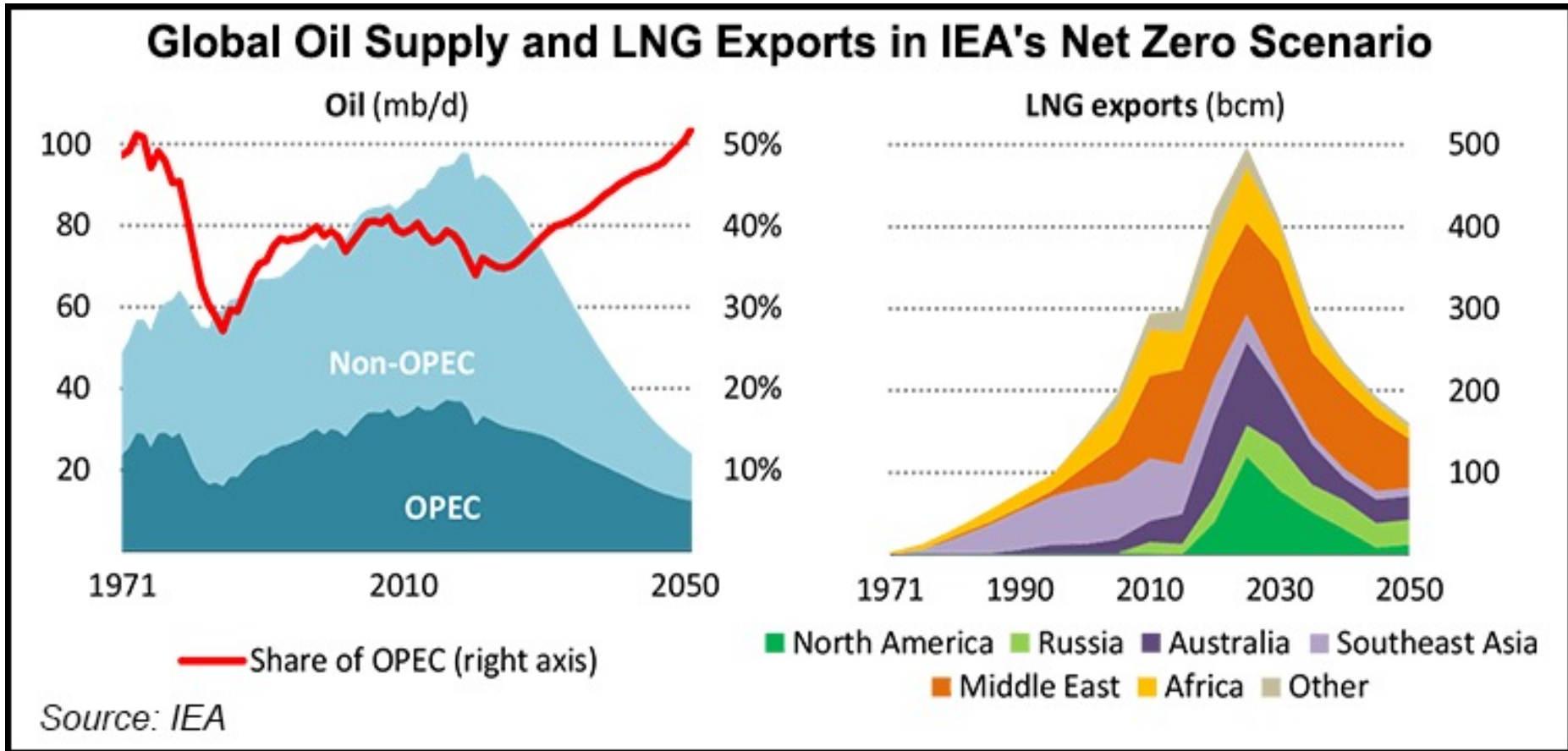
Big oil sector shake-up

- In May the Big Oil sector faced a major shake-up
- A court in the Netherlands ordered Shell to aggressively cut emissions - not just resulting from its operations but also from the use of the oil and gas it sells – by 45% by 2030 compared to 2019 levels - much harder and faster than planned
- Shareholders backed activist investors at ExxonMobil's annual general meeting, who won three board seats, promising to force diversification beyond oil and to fight climate change
- Chevron shareholders approved a proposal to force the company to substantially cut pollution produced by the products it sells
- In order to achieve carbon emission cuts at this scale, the IOCs will be forced to make substantial cuts to their oil and gas production and divert future investments decisively into other, cleaner, forms of energy.

Consequences

- IOC shareholders - and activists - are now emboldened by these developments, making them more determined to drive for even more change
- A growing number of IOC shareholders agree with IEA's message, asking for more drastic action to be taken to combat climate change
- It is clear that winds of change are blowing through the entire oil and gas industry that so far has been seen to have been slow, or reluctant, to embrace climate change
- Massive shifts in clean technologies, government regulations and consumers demand a stronger strategic response. This is about to start happening, at least in the western world
- But it will take time. ExxonMobil and Chevron are not rushing to change their modes of operation. But more later.

Impact on global oil & gas consumption



Source: IEA

Not all doom and gloom

- Asia does not appear to be ready to follow these developments
- Globally, demand for hydrocarbons continues to be robust and these developments will not change that for some time yet
- As Ben van Beurden, Shell's CEO said, if the IOCs do not supply this oil and gas, someone else will
- National oil companies (NOCs), such as Saudi Aramco and Rosneft, are ready to step in and do exactly that, stepping-up their investments
- Activism does not apply to them and their countries are committed to continue with oil and gas production and exports
- Demand for oil and gas will continue and exploration will still be important for a while yet. Energy transition will not happen overnight

Impact on IOCs

- But it is different for the IOCs, who are subject to activism, courts enforcing ambitious emission reduction cuts and governments, in the EU and the US, making increasingly more demanding climate change commitments
- As a result of these developments the IOCs are already planning to spend less, with the risk that later this decade supply shortages may lead to higher prices
- The trend for IOCs will be contraction to core regions and larger projects, with less appetite to take on new areas
- They are being forced to concentrate on “higher returns, lower carbon,” based on lower capital and cost programmes, investing in only the highest-return projects. In effect, their clout is fading

Impact on the East Med

- These changes will have major impact on the operations of IOCs worldwide, including in the East Med and in Cyprus' EEZ
- Not only East Med gas is expensive to develop and get to global markets, but the recent regional turmoils caused by a belligerent Turkey, the Libyan instability, the lingering Israel-Lebanon dispute and the Israeli-Palestinian flare-up, may be becoming too challenging for the beleaguered IOCs to tackle
- As operations, exploration and production in the East Med – and in Cyprus' EEZ – are led by the IOCs, these developments are bound to have a ripple effect
- They are bound to affect future investments and plans substantially. The region needs to wake-up to this fast-evolving situation and adjust accordingly
- Israel and Egypt are already giving emphasis on domestic consumption

EastMed gas pipeline



The future of energy in the East Med

- The East Med is no longer a high priority for the IOCs, battling for survival in a fast-changing energy world. Their priority is to get transition right and their future development strategies are geared in that direction
- Similarly, East Med countries must re-assess their own future energy plans. Outdated policies based on exports, developed during the last decade require complete overhaul. Plans based on exports to global markets are fast-becoming untenable
- The future is regional, with natural gas developed to support the wider deployment of increasingly cheaper renewables