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WoodMac: 50% of Oil Majors' Production could be Hit with Carbon Costs

by Rigzone Staff|Friday, November 18, 2016

Up to 50% of oil majors' production could be hit with carbon costs over the next decade, if the countries and regions that currently price carbon extend their policies to the extractives sectors. Up to 50 percent of oil majors' production could be hit with carbon costs over the next decade, if the countries and regions that currently price carbon extend their policies to the extractives sectors, according to a new study from Wood Mackenzie.

"As carbon policy intensifies, the oil and gas majors will face more regulatory burden and are likely to face increasing costs," Paul McConnell, research director of global trends for Wood Mackenzie, said.

"Green financing could also mean higher cost of capital for more carbon-intensive oil assets such as oil sands, as investors shift to alternative fuels and lower-carbon technologies," he added.

Wood Mackenzie's study shows that only 13 percent of global emissions are currently covered by a price on carbon. The vast majority of the majors' upstream operations are not yet directly impacted, with most policies primarily focused on the power and industrial sectors.

"While all the major oil companies put a price on carbon in their long-term planning, the big question is how much risk each has taken into account," McConnell said.

According to the study the global major oil companies are under pressure to de-risk their existing business models and diversify into low-carbon energies. However, diversification into renewables will be challenging, Woodmac said.

"The timing of a transition to low-carbon energy will be critical," McConnell said.

"Diversifying to renewable energy will be a balancing act. Moving too quickly could leave money on the table from the majors' fossil fuels business. But too slowly, and they could miss their window of opportunity. The biggest risk for oil and gas companies is to do nothing, and be left exposed to investors making their own minds up," he added.

Natural gas and zero-carbon fuels will satisfy at least 60 percent of the rise in global energy demand to 2035, and under some scenarios renewable energy could grow nearly 500 percent in the next 20 years, a Woodmac representative stated. The study also outlined that coal and oil demand could peak well before 2035.

"There is notably an emergence of three different strategies by the major oil companies – decarbonize, capitalize or grow. The majors are testing different strategies to decarbonize and mitigate risks, to capitalize by using existing capabilities to explore opportunities in renewables and to grow a profitable and substantial renewables business," McConnell said.

"Regardless of the diverging strategies, the majors are all increasing their share in gas while also aiming to push down the cost curve," he added.