Energy Intelligence

Energy Intelligence Premium Weekly

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Strategy: Realigning Energy Priorities

The Ukraine crisis has disrupted the "trilemma" of security, sustainability and affordability, complicating the trajectory of the low-carbon energy transition. Officials from energy, finance and government told this week's Energy Intelligence Forum in London that near-term pressures have thrown these priorities into conflict — but that government intervention and capital mobilization offer a path to long-term realignment.

- **Energy security and sustainability are clashing now, but can align longer term.** Multiple speakers and delegates said the current crisis is focusing attention on fossil fuel supply near-term, but should accelerate low-carbon adoption, particularly in Europe, as countries seek long-term energy security through more home-grown supplies. However, massive additional investment, stronger policies — and time — are required. Industry executives argued that Europe overstated its capacity to rapidly switch from fossil fuels, with punishing consequences for energy affordability. The crisis has created a "paradigm shift," said Shell head Ben van Beurden, as decarbonization becomes a focus for security, not just climate, objectives. Leading climate economist Lord Stern predicted that the focus on fossil fuel supply and capital market disruption would slow the transition for now, but accelerate it 3-5 years out — echoing our house view. Some said falling renewables costs meant the trilemma's third prong, affordability, could also become aligned.

- **Energy finance is becoming more nuanced and inclusive.** We heard from the financial community that the crisis has spurred greater tolerance toward fossil fuels, a more questioning attitude toward new energy and a greater willingness to finance both — reflecting the need to balance near-term energy security with long-term decarbonization. Many investors stressed the need to maintain ownership of carbon-intensive assets to both finance and guarantee decarbonization. Other aspects of evolution include "glimmers" of a premium for stronger ESG performers, particularly around cost of financing, and a potential softening of attitudes toward the role of absolute Scope 3 (end-use) emissions targets given limits in changing consumer behavior. Oil and gas companies universally stressed an unwavering commitment to make supplies ever-cleaner, with mounting calls for CCS in support.

- **Oil and gas "affordability" may not return any time soon.** The retreat of capital from oil and gas may have slowed, but executives stressed that decarbonization and diversification mandates from investors would continue constraining investment. Multiple gas executives acknowledged minimal spare capacity in global gas and LNG markets through 2025, while Saudi Aramco's Amin Nasser warned of a similar trajectory for oil. Government and industry representatives agreed Europe likely faces greater gas supply challenges for the next two years given constraints. Yet E&P and IOC executives stressed that incremental capex would be limited, within previous guidance and focused on short-cycle supplies. Harbour CEO Linda Cook noted shareholders now prefer backing investments with reserves life under 8 years, versus 15-20 years previously.

- **Massive new investment is essential to realign priorities.** High prices signal a need for widespread energy investment, but constraints mean capital will flow in different ways. Baker Hughes and Varo executives spoke of the need for oil and gas spending to focus on optimization and decarbonization to maximize the efficacy of limited capital. Exxon's Liam Mallon stressed capital efficiency despite cost inflation, aiding efforts. Speakers emphasized that spending on renewables — and mining for materials — needs to ramp up sharply, alongside other supply chain adaptations. Acwa and Bechtel said the crisis would likely pause sharp falls in renewables costs, but stabilization was possible. Green strategist Kingsmill Bond flagged past instances where innovation and scale broke through short periods of flattening renewables costs to restart their downward trajectory.

- **Government intervention is required on unprecedented scale.** Industry heads and financiers emphasized that government support will be crucial in resolving both near-term and long-term energy requirements. Executives said policy "carrots" are more effective than "sticks," with the US Inflation Reduction Act cited as the gold standard and a possible accelerator of global innovation. Policy certainty is also crucial, they said, while streamlined permitting and regulatory approvals, public infrastructure investment (especially transmission) and end-use market development (including mandated uptake; especially for hydrogen) would significantly support deployment. Columbia University's Jason Bordoff cited a need for effective trade policies to reduce low-carbon supply chain security risks. On the other hand, multiple speakers and delegates warned that "crisis-driven" intervention policies — particularly price caps — presented significant risks by distorting market signals to drive investment.

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