

Energy Intelligence Premium Weekly

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Energy Transition: COP27's Energy Takeaways

Behind the COP27 climate conference's "neutral" outcome, we saw a strong focus on methane emissions, healthy interest in hydrogen and cautious advances on offsets. Differences between oil producers and consumers were deep and could intensify.

- **Producer-consumer divisions are now a defining factor in the climate debate.** We view COP27's outcome essentially as a draw, with progress in North-South relations over compensation, but with oil producer-consumer tensions stalling moves to tighten language on fossil fuels. Producers were more assertive, pushing for a continued role for "low-emission" fossil fuels. Beyond the formal process, we view COP meetings as a test of, and catalyst for, momentum. Our conversations in Egypt indicated that (1) long-term transition planning by policymakers, financial players and many companies has deepened and accelerated, (2) many consuming nations view the Ukraine crisis as reinforcing their push for domestic renewables, and (3) new technologies continue to gain momentum. Gas is a potential loser, as negative geopolitics and volatile prices add to methane leakage concerns. We saw less attention on financial institutions' net-zero targets, but a continued focus on public and private-sector finance for renewables, especially in the developing world. Broadly, the meeting reinforced our thinking that underlying forces still support an accelerating medium-term transition, with the crisis' impact mainly near term.
- **Carbon offsets made progress, but skepticism persists.** Carbon offsetting received a reputational boost with US promotion of a new Energy Transition Accelerator to unleash private-sector funds through offsets. The scheme's focus on credit quality and integrity, and on climate flows to developing countries, should temper past criticisms. New details agreed under the Paris Agreement's Article 6 on the validation and legitimacy of credits could also help. An Africa Carbon Markets Initiative was launched. But the underlying message was that offsets should supplement, not substitute for, decarbonization efforts, and that companies should not over-rely on them for net-zero strategies. A UN committee warned against using offsets for "greenwashing."
- **Hydrogen played a strong role on the sidelines.** The focus on hydrogen was much higher than in previous years, with support from most stakeholder groups despite lingering debates about blue versus green. Egypt and the EU announced an alliance, US officials cited strong demand for grants, and multiple countries rolled out strategies and proposed projects, including Chile, Namibia, Oman, Saudi Arabia and Australia. Some noted slow development of transportation infrastructure and new end-use markets.
- **Methane emissions remain a target for regulation.** Countries backing the Global Methane Pledge rose to 150, broadening the plan to cut global methane emissions by 30% by 2030. The US and Canada unveiled tougher-than-expected plans to slash oil and gas emissions, and Washington said it would work with Mexico. Other announcements came from Egypt, Nigeria and a broad multinational group. Technological and financial initiatives targeting methane emissions were rolled out. The UN Environment Program announced its [Methane Alert and Response System](#) — a satellite that will alert governments and industry to sources. We expect more regulation and restrictions going forward, including for new upstream projects. The methane focus fits oil industry plans and is compatible with continued fossil fuel use, but greater scrutiny could still raise questions about gas' role.
- **The debate over fossil fuels will intensify.** COP27's neutral outcome, combined with greater technology momentum and extreme weather events, will increase pressure ahead of next year's COP28 in the UAE. While compromises are possible (as with "loss and damage" this year), the host will likely face a greater challenge balancing the interests of oil producers and those seeking a faster transition, while preserving national prestige. The meeting's "stocktaking" status — assessing progress on national targets — will create pressure for a successful outcome. Some streamlining of the COP process is possible, after criticism of Egypt's chairmanship. More broadly, we question whether the consensual COP process is hitting its limits, with national policies, other international cooperation and technology costs/deployment now more important. We are watching, in particular, (1) the pace of Europe's clean technology rollout, (2) China's long-term energy targets, (3) the impact of the US' Inflation Reduction Act on solar/wind, hydrogen and CCS, (4) accelerating electric vehicle adoption in key markets, (5) the pace of financial institutions' decarbonization moves, especially in the US, and (6) a potential hardening of Western social attitudes.

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