ESG Now Podcast

“Making Energy Great Again!”

Transcript, 21 February, 2025

Bentley Kaplan

Hello and welcome to the weekly edition of ESG Now, the show that explores how the environment, our society, and corporate governance affects and are affected by our economy. I'm Bentley Kaplan, your host for this episode. And on this episode we're going to get into a topic that'll be on the minds of many investors and for all kinds of different reasons because a new US administration has signaled its intent to support greater oil and gas production in the country and to reduce energy prices. It is a notable shift from the previous Biden administration, which had prioritized the development of renewables and lowering greenhouse gas emissions.

And this shift will have raised a lot of questions for both companies and investors, not just those linked to clean tech and renewables, but equally, oil and gas and the broader energy market. From electric vehicles to hyperscaling data centers and beefing up LNG export terminals, there's a lot to discuss. So thanks for sticking around, let's do this.

Now, whether you're a news anchor, a financial analyst, an investor, or even just a casual YouTube viewer, the first six weeks of 2025 have been pretty busy. And it doesn't look as though this busyness is going anywhere anytime soon. Now, much of this stems from the new US administration, which has been pretty active, especially when it comes to executive orders and policy directives. And for US energy in particular, well, it's had a fair share of the limelight.

To mention just a few headlines, executive orders have focused on things like declaring a national energy emergency, which might see fossil fuel extraction projects taking priority over environmental regulations. Or establishing an energy council to focus on removing regulatory hurdles and boosting private funding and innovation in oil and gas production. Or rescinding a decades old executive order, which may ultimately limit the influence that the Council on Environmental Policy has on the review process for new oil and gas projects.

In terms of policy directives, they focused on things like authorizing more LNG exports, reversing offshore drilling bans, and promoting production in places like Alaska. There's also been a 60-day pause on approvals for new renewable energy projects and a freezing of disbursements from the Inflation Reduction Act, which may limit available funding. And finally, the administration's decision

to leave the Paris Climate Agreement might reduce pressure on companies to limit their emissions, at least in response to pressure from the federal government.

That is all quite a lot to take in and to be fair, some of these headlines may be rewritten or edited in the coming months. But today, we're going to focus on the potential implications of all of these changes to date.

For investors, two questions will likely be at the top of their list. One, does all of this mean that companies are going to let their emissions targets wither on the vine, and will they cut investments in decarbonization? And will that aggregate up to my wider portfolios?

And two, should I recalibrate my expectations about a future energy transition? Is this a small bump in the road, or more of a hard turn?

Now, if you zoom out far enough and you squint hard enough, all you're really going to see is that oil and gas is very much in, and that renewables and clean tech are very much out. But how things will actually unfold for companies and investors is going to be a lot more nuanced and not quite as black and white.

Because until January, global financial institutions have probably had a lot more certainty in terms of the general direction of energy markets and their emissions. So... is this is a good time to pivot? To rewrite the old playbook? Maybe. Maybe not. It's a hard question to nail down in one episode in my defense, but we're going to take some real good nips at the edges. And we'll tackle this in three parts. First, we'll start with what these changes mean for clean tech and renewables in the US. Then we'll look at what it could mean for the US oil and gas industry. And finally, we'll talk through what all of this means in the context of a global energy market.

To start us off is Mathew Lee out of MSCI's New York office. Mathew's been on the show a few times before and I asked him to talk me through the whiplash that renewables and clean tech are feeling in the US, what parts of it might be cracking and which parts might hold.

Mathew first tackled what's changing in terms of the Inflation Reduction Act, or the IRA. And if you're not all that caught up on how the IRA is, or was, funding clean tech, don't worry, your secret is safe with me. But you can think of it in two main components: disbursements—things like loans, grants, or rebates—and tax credits.

The disbursement pot is sizable, think in the tens of billions of dollars, and was primarily intended to support specific projects—things like large-scale renewable energy or energy efficiency initiatives. Critically, this was upfront funding designed to get big projects moving.

Meanwhile, the tax credit pot is actually much larger in total allocation but works differently—it's not about direct funding but rather incentives, little nudges that make clean energy adoption more affordable. These credits support things like homeowners, renters, and businesses making energy improvements to houses, offices, and vehicles So, consider that your 101.

But I digress. Here's Mathew.

Mathew Lee

So let's start with what's really changed at the federal versus local level. In terms of what's changed, of course the grants and the loans from the Department of Energy going on pause, those have been the biggest announcements because they immediately will affect disbursements to companies that were meant to rely on them. But the tax credits as of today passed by Congress, so whether that's a manufacturing incentive, power generation incentive, those are still in force right now. Locally, states with climate targets are going to be more active than those without. So states like Illinois or New York due to their renewable energy targets, utilities have assurance that their investments in decarbonization will be approved.

And so what are the impacts of these recent announcements from the administration and what are they signaling? I think this definitely means the pace of expansion for renewables will slow down from where it was on over the last couple of years. I think the two factors investors need to look out for, for specific technologies, are the commercial readiness and the industry interest. Technologies like solar or onshore wind that are quite competitive with traditional energy sources, likely will continue to have a runway. But when it comes to some of the more moonshot advanced hydrogen initiatives, or even EVs and EV charging that still were relying on a lot of public investments and those Department of Energy loans and grants are going to see a bigger immediate commercial impact in terms of their financing.

There's going to be momentum we can already see for certain technologies based on industry interest. So for geothermal, for example, a lot of traditional energy and fossil fuel firms are major investors in this technology. Another one that comes to mind is nuclear, where a lot of the tech

companies are still willing to sign very long-term off-take agreements to foster this industry in the US.

In terms of what happens for if you're invested in these technologies that face more uncertainty, what we're likely going to see is adjustments in growth expectations and needing to focus very deftly on state-specific public financing and partnership options. So it's not going to be as easy as larger federal block grants.

A real curveball here that I'm going to keep tracking is whether we see a comeback of community relations-related issues that pop up. Even if you get the permit to construct something and develop an energy project or a pipeline, there can still be local stakeholder opposition that's very fervent to a point that it does become financially material. So I'm keen to track whether this time around we see companies engaging more constructively with local communities too.

Bentley Kaplan

Right. So saying that clean tech and renewables have been dealt a hammer blow in the US is probably a bit of a stretch. Sure, there are some technologies, some regions, and some funding structures that are definitely vulnerable, but others whether tied into more supportive state-level regulations, technologies with more robust profitability, and less fickle funding structures, well, they might fare better.

Mathew also mentioned to me that even though the new administration's executive orders and policy directives are explicitly supportive of oil and gas, there may actually be some wiggle room for renewable projects to squeeze through, especially when it comes to things like more permissive permitting approval processes. And an executive order tied to critical minerals could ultimately benefit EV and battery technology producers in the US, an industry that is still very much dominated by Chinese companies.

But if clean tech and renewable operators are having to squint to see the silver lining, US oil and gas producers might just be basking in some full sunlight. Or are they? Because making it easier to drill, baby, drill to improve capacity for exporting LNG and softening pressure on US operators to meet emissions targets, all of that helps. But for these operators, key considerations that sit outside of executive orders and policy directives will be things like oil prices, profitability, and critically, demand, both inside and outside of the US.

As an example of one of these dynamics, my next guest, Chris Cote, out of MSCI's Boston office, told me about the meteoric rise of electric vehicles in China. It's a phenomenon that's effectively removed something like a million barrels of oil per day from global demand, and that has knock-on effects for oil prices, global trade, and supply dynamics, right? And so does demand for petrochemicals, which in turn may be influenced by broader economic growth, which in itself may be affected by tariffs and trade wars. So yeah, things can get a little complex. So I asked Chris to start us off with whether these changes in the US could see supply starting to grow.

Chris Cote

Let's get one thing out of the way to start. You don't do the Field of Dreams approach with oil markets. Supply chases demand, not the other way around. So then, okay, what can you do on the supply side? I think the first thing to keep in mind here is that the consortium known as OPEC+, which is the standard set of OPEC countries, I think largely Saudi and its colleagues in the Middle East, but also plus including Russia and others, is restraining production currently by just over 5 million barrels a day. So that's pent-up supply that if demand changed or they didn't mind a change in prices, they have that buffer or that room to change.

There's also to some sense, a lot of restrained supply within the US where after flooding the market with cheap oil and gas, largely from the Permian Basin, that gas and oil were exported, but at the expense of company profitability. Now that's changed. Companies have shifted toward a focus on profitability. Their margins have increased, they've become more profitable. They've started to turn more cash back to investors through dividends or buybacks on a regular basis. Those producers could invest more to increase their supply, but that might put their dividends and buybacks at risk.

It's worth also looking back a little bit. The shale producers or just the US oil producers in general have also taken already a huge bite out of the global oil pie. It doesn't sound very appetizing. But since 2021, 2022, the US has increased its market share by almost 15%, while OPEC and Russia both have seen their share decline by between 5 to 10%. So the change that many US producers are looking for, can they get a bigger share of that pie, has already happened. So it would just be gains on the margin at this point, which could still happen. The first big bite has been taken already, and I think that's an important baseline update to keep in mind.

Bentley Kaplan

Right. So as Chris says, for oil, you can build it, but that doesn't mean that they'll come, unlike the late '80s baseball movie, Field of Dreams. James Earl Jones, RIP. And for US oil producers, some of the headiest days of growth may already be behind them. It's also worth noting that easier permitting and more access to areas like Alaska and offshore US territory do not necessarily negate the risks associated with things like community conflicts and environmental litigation. Pipelines in particular have been plagued by protests and lengthy legal battles, but these risks can also affect more localized exploration and production projects. So for oil, investors may be a little circumspect about growth prospects, but the same may not be true for gas.

Chris Cote

Gas is a bit different, right? Natural gas is very closely related and linked to oil, but has its own dynamics. In a recent publication by MSCI's chief research officer, we focused on Asia as the driver of energy transition. The region's on track to consume as much energy as the rest of the world combined. But then when you begin to look at what they consume, the picture gets a little bit more interesting still. The region of Asia versus the rest of the world, they both consume a lot of hydrocarbons. Renewables are growing fast from a small base, but there's one thing that's really different, coal and gas make up a large share of each region's energy demand. But for Asia, it's almost all coal and just a little bit of gas, whereas in the rest of the world, it's almost all gas with just a little bit of coal. So it's an inverse ratio for these two things.

Texas producers and those also in Qatar and Australia, the two other largest gas exporters in the world, they're hoping that a flood of cheap gas focused on Asia can help displace coal there, maybe clean up the environment a little bit and I guess make a lot of people rich also. Gas exports from the US, they started surging about 10 years ago when they were allowed to happen for the first time. 40%, just under half of the gas production, the two areas that matter most, the Permian and Haynesville, it's exported as liquefied natural gas. That capacity is about 13 billion cubic feet today. So it's a large number.

The LNG export facilities, they have capacity of 13 billion cubic feet today, but the Department of Energy has already approved 17 billion cubic feet more of capacity, and that's the number that's already approved and under construction. In addition to that, there's 16 billion cubic feet of capacity that's approved, but not yet under construction. This is an enormous, enormous, enormous amount of gas that could come online and come out of the US. Where does it go? I think this is the big question, but it's not the only question I would say.

The gas doesn't need to leave the US. For a long, long time, US electricity demand and gas demand in general, a lot of it goes toward generating electricity, but it also goes toward heating homes and businesses, but also for industrial purposes. You need really intense heat to do a lot of industrial

processes that nothing else is really good at yet. But you know what else needs gas? Data centers, or at least a lot of firm electricity.

The hyperscalers are searching for clean firm power. They're hoping to turn on nuclear reactors, build a lot of small modular nuclear reactors, sort out how to process and get the uranium from somewhere other than Russia, or maybe build a lot of renewables with big batteries. It's unclear exactly how they're going to sort out this problem or even what the demand for hyperscaling data centers is going to be. But all eyes are on the potential for gas growth.

Bentley Kaplan

Right. So for US gas producers, local opportunities are certainly there.

If we think about this accelerating demand to power data centers – that has to come from somewhere. As Chris said, wind and solar might struggle to meet baseload requirements and nuclear, while having a bit of a second coming, is still fussy and complicated. So gas might well find a niche for itself. But globally for US exports, there might be a particularly bright light in Asia, that is if coal starts sliding off the menu, which is not yet a given.

Chris also mentioned to me that ultimately Europe may become a key partner for growing US gas, but that geopolitical complexity leaves a lot of long-term possibilities, quite uncertain. And this interconnectedness between the US and the global economy has come through clearly in what Mathew had to say about clean tech and renewables and Chris's thoughts on US oil and gas producers.

So to close this episode out, I'm going to bring in my final guest, Elchin Mammadov. Elchin's based in MSCI's London office. And sitting across the Atlantic from Washington, it felt fitting to have him add color from a global perspective to highlight how these changes in the US might affect energy markets and in turn, how energy markets may affect US ambitions.

Elchin Mammadov

From a global perspective, I do think that under the new administration, we may see reduced investment in renewables, but I don't expect that alone, the US energy and trade policy on the new administration to significantly slow down the global energy transition. And that's because we already have a huge overcapacity of clean tech manufacturing, particularly in Asia and not only in China, but in India. There's a plant in Vietnam, Indonesia, et cetera.

Number two, we are seeing clean tech solutions already being quite competitive, many of those clean tech solutions, against fossil fuel equivalents in many parts of the world. And finally, politicians, particularly Europe, but also in parts of emerging markets, they're increasingly seeking to reduce their dependence on fossil fuel imports because these carry significant geopolitical and energy security risks.

So those are the positives for clean tech investment and momentum. However, the biggest known unknown for me, and Mathew mentioned it earlier as well, is where the interest rate and inflation are going to be, but also where the oil, gas, and coal prices are going to be because that will determine the appetite for clean tech investment. Energy markets are notoriously hard to predict, as we've seen with COVID and more recently, the full-scale invasion of Ukraine. So we'll be watching the space, but those are the main moving parts.

And when it comes to investment flows, in the past few years, many international investors in clean tech have increased their exposure to the US, given the huge drive by Inflation Reduction Act, but also the fact that there's good wind and solar resources, there's a huge economy, et cetera. So they have pulled back on certain markets, particularly LatAm for European utilities, was a huge market. It still is, but they had to curb their investment in that region in order to focus more on the US. We do see that potentially reversing.

So yeah, again, regions like LatAm, Australia, parts of Middle East and Africa could benefit by more investment if there will be less international capital for clean tech going into the US. But the main beneficiary for me is probably going to be Europe because it's a big market that there are already a bunch of international investors there, and it's a very developed market. So I think that's going to be the biggest beneficiary in terms of foreign direct investment.

Bentley Kaplan

And that is it for the week. A massive thanks to Mathew and Chris and Elchin for their takes on the news with a sustainability twist. And I also do want to say thank you very much for tuning in. If you

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