

Oil Industry Exits Point to Medium Term Supply Challenges and Incremental Renewable Investment

By Brad Handler

The energy majors' exit from Russian relationships seems likely to put pressure on peers and the major Western service companies to follow suit. Such a broad exit points to eventual, and enduring declines in Russian oil production as well as lower Russian gas exports. Higher resulting oil and gas prices should further incentivize clean energy investments in the OECD and beyond.

BP, Equinor, ExxonMobil and Shell exits from Russian relationships should spur others to follow suit. Thus far, the four companies committed to divest their equity interests/JVs with Russian companies in Upstream operations while TotalEnergies, the Supermajor with the next-largest exposure to Russian hydrocarbon production after BP and Shell (16%, per [industry analysts](#)), committed (only) to stopping capital for new projects. It can be expected, however, that TotalEnergies and other oil companies (go further in) severing ties as they consider the likely changed longer-term geopolitical situation and face public pressure.

Expect a retrenching from Russia to extend to Western Oilfield Service (OFS) as well. Like the oil Majors, several of the US and European-based OFS companies have a decades-long presence in Russia and highly localized staff. These OFS companies have traditionally been instrumental in more challenging operations in Russia (e.g. in Sakhalin, the Caspian Sea and the Arctic), although are relevant in conventional operations as well, in part through acquisitions (e.g. Schlumberger's acquisition of PetroAlliance commencing ~20 years ago). Again, public pressure (vs. legal requirement) could lead to a severing of these Russian operations.

Some of loss of Russian hydrocarbon production/productivity over the long term is a likely result. The combined loss of know-how from oil and OFS company exits would suggest impaired production to some degree, despite a very well-established and sophisticated indigenous industry. If

sanctions are imposed on either technology sold to Russia or on Russian oil itself (thus far not implemented), that can have a bearing on hydrocarbon supply as well, although sanctions can be contravened by Russian-friendly actors.

Higher oil and gas prices can spur increased clean energy investment. With the cost of renewable energy production having fallen to the point where it was already competitive with fossil fuel production, an outlook higher oil and natural gas prices over the medium term given lower Russian production should spur incremental investment in OECD countries, all else equal. Russia currently has crude oil productive capacity of [10.5 million barrels per day](#), or ~10% of the world's total and exports 40% of Europe's gas consumption.

The Oil Majors may also increase the scale and pace of investment in clean energy. The majors have committed returning portions of their cash flow to investors — either a fixed amount such as ExxonMobil's \$10 Billion share buyback (although this could be accelerated) or a proportion such as BP's 60% of “surplus cash flow” and Shell's 20-30% of Cash Flow From Operations. This suggests that at least some of the cash generated from sales of their Russian positions can be reinvested by the companies into clean energy operations, although that is speculation at this point, although this may be partially offset from revenue lost from the Russian divestments.

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Brad Handler is a researcher and heads the Payne Institute's Sustainable Finance Lab. He is also the Principal and Founder of Energy Transition Research LLC. He has recently had articles published in the Financial Times, Washington Post, Nasdaq.com, Petroleum Economist, Transition Economist, WorldOil, POWER Magazine, The Conversation and The Hill. Brad is a former Wall Street Equity Research Analyst with 20 years' experience covering the Oilfield Services & Drilling (OFS) sector at firms including Jefferies and Credit Suisse. He has an M.B.A from the Kellogg School of Management at Northwestern University and a B.A. in Economics from Johns Hopkins University.

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