Hello and welcome to Watson Farley and Williams’ ‘Countdown to COP: Financing and Fuelling the Future’ podcast series.

I’m Mhairi Main Garcia, your host today. In this chapter we will be discussing the oil and gas sector and the drive towards net zero.

I’d like to welcome our guest, Joe Levin. Joe is a partner in the firm’s projects team based in London. He advises lenders and sponsors on project finance, acquisition finance, reserve based lending and other structured financings and has a particularly impressive track record in the upstream oil and gas sector advising E&P companies, traders, and both multilateral and commercial lenders across Europe, Africa and beyond.

Welcome, Joe.

Thank you for having me.

Let’s kick start today’s discussion with a general question. Where does the oil and gas sector stand in the drive towards net zero?

I think the oil and gas sector in particular has a huge responsibility here and is going to be key in the drive towards net zero.

At the moment there’s a lot of push in the sector to decarbonise production and operations in oil and gas and I think we’re seeing a lot more of that as a lot of the companies that we work with, a lot of the independent players, a lot of the national oil companies, a lot of the oil majors look to produce oil and gas but at the same time reduce the amount of carbon that is emitted for that production. We’re also seeing oil and gas companies really focus on carbon capture projects which I think they’ll lead the way on, and we’ll see how that also removes carbon from the process. So, we’re seeing a big drive by oil and gas companies to decarbonise while still maintaining production in the sector.

Thanks, Joe. And I think when we’re looking at that and looking at sort of maintaining production in the sector, maybe we should just take a step back as well and just understand whether net zero can actually be achieved in the sector. So, you’ve talked about emissions and so on being reduced but can net zero actually be achieved in the sector?
Guest: Joe Levin

I think the sector can definitely reduce its carbon emissions. I don't know without other methods such as carbon credits and other systems, whether it can become net zero, but I do feel that carbon reduction, carbon capture and storage and use of new technologies, use of new production methods - if we look at what Equinor has done in Norway, for example, it's reduced carbon emissions from production hugely and it's probably setting examples that can be used globally across the market for new production, which are emitting carbon from its gas developments at probably 10% or 20% what we're seeing across the North Sea for example. So, I think the sector can definitely decarbonise in combination with other technologies other methods of producing energy et cetera it will play its part in the net zero.

Host: Mhairi Main Garcia

Thank you. And those are interesting statistics and I think it goes to show that obviously a lot can be done particularly looking at new production methods and using new technologies. So, with that in mind, what are the biggest barriers then to the sector actually achieving or at least significantly reducing emissions and striving towards net zero?

Guest: Joe Levin

So, I guess it's a very global thing, oil and gas. We see each country where oil and gas is produced has its own different regime. For example, Norway is probably where you look at sort of best practice, there's a government that ensures reporting, best practice, use of new technologies and it's a very supportive regime and tax regime that actually encourages best practice. But obviously, we've seen with things like the windfall tax where these things caused barriers to investment, it makes it harder for companies to do new developments, to do them in the cleanest possible way and then that goes all the way through to countries such as in South America, North America, the Middle East, et cetera, they have also different regimes around production. There's no one size fits all when it comes to the barriers because in different jurisdictions it could be a tax regime, it could be geological, it could be to do with local legislation, et cetera some of the barriers that we're seeing maybe closer to home in the UK for example, we're seeing lenders and financiers sometimes moving away from the sector and I think that makes it harder for companies to fund new developments and use new technologies and to do things in the right way. I think what would help the sector and help reduce barriers is to make sure there's sufficient finance available for development where certain new technologies are being used and we need to see more of that available to companies to help them decarbonise, because new developments need to be done in the best possible way and I think that is a barrier in some instances: that we're not seeing enough finance available to these companies to do that.

Host: Mhairi Main Garcia

So, financing itself can be a barrier. What's your top tip for companies looking to secure financing in a sector?

Guest: Joe Levin

I think what we're seeing now is that, and it goes along with decarbonisation, is that when we're seeing new financings, especially when there's development assets and aspects to it, we're seeing a lot of engagement between the companies looking to borrow, and their lenders, on the ESG side, ensuring best practice. Lenders are agreeing with companies’ environmental and social action plans and, it’s in
those plans, where lenders might say to companies: “we are going to lend to you, but we need to see you reduce flaring or we need to see you use these technologies”. What we would recommend to oil and gas company clients is that they engage with their lenders and work out what is the art of the possible, of course it has to be economic, there's no point in lenders requiring companies to put at use technologies that just aren’t economic for the deal or for the company, or don't really work in the jurisdictions that that company is developing assets in, but really it's engagement between the borrower and its lenders on the ESG side and what could be done to ensure best practice and I think that allows banks to lend more to these companies and I think it's just that key engagement between borrowers and banks that will hopefully unlock more capital and more lending into the sector.

**Host: Mhairi Main Garcia**

So, it really seems that engagement with lenders is absolutely fundamental and ESG is central to the lender requirements so that therefore has to be the key message I think in terms of securing financing.

**Guest: Joe Levin**

I think that's right and actually it's very helpful that banks bring best practice to the sector but those companies, they've got shareholders or they might be listed, they also have their own pressures and their own targets to reduce carbon, so it’s not normally a difficult conversation because everyone's sort of pushing in the right direction.

**Host: Mhairi Main Garcia**

And staying on the topic of financing, what does the sector need to make financing easier to achieve net zero?

**Guest: Joe Levin**

What's always an issue for lenders generally is stability. So, legal regime stability in tax regimes and stability ideally in things like the oil and gas price, but that's obviously affected by global factors. It's very difficult to control a stable oil price but where we can see more government control; keeping a tax regime, for example, steady and consistent, that helps lending. The recent introduction of the windfall tax in the UK, for example, really had a negative impact on what lenders can lend into the sector in the UK. Legislation changes that could impact the oil and gas sector will impact bankability issues such as taking security for a lender in certain regimes, all of that stability is key so that when banks lend they know exactly what they're lending into and have confidence, so I'd say just a bit of stability in those areas would be key.

**Host: Mhairi Main Garcia**

And, I suppose with stability, it depends where you are in the world a lot of the less developed regimes will have stability entrenched in the contractual documentation and so there'll be some contractual protection there, potentially at least, that lenders can get more comfort from?

**Guest: Joe Levin**

That's right. I mean oil and gas has been around for a long time and there are deals and there are a number of significant oil and gas jurisdictions where the regimes have been relatively stable for long periods, but governments change and in some jurisdictions there is no stability but somehow deals
still get done. We sometimes see jurisdictions where in the past lenders have actually lost money in because of regime changes or expropriation. But then later, banks can return to those jurisdictions and lend into new transactions as they start to have some stability. As you mentioned, jurisdictions vary and the rules and the regimes vary, so it's very difficult to get that consistency but where there is that consistency and stability it's easier for lenders to invest.

Host: Mhairi Main Garcia

And do you think that the trend of IOCs of international oil companies, to have green or renewable arms, a number of them have opened those up and set up green and renewable arms in recent years and they're being very proactive in that respect, do you think that's also helping drive forward the sector in terms of green credentials and perhaps the drive towards net zero?

Guest: Joe Levin

The oil majors have a huge role to play in achieving net zero because these companies have got offices and experience in a huge number of jurisdictions. They know how to do big projects in all of these jurisdictions, they've got engineers, they've got a lot of technical skills, experience, and they've also got the financial power to undertake renewables projects, invest in clean tech and I think that's what we're going to continue to see. I mean look at Equinor, the national oil company of Norway, and they are a lead player in offshore wind currently, so I think they're probably well ahead of the curve. But you see people like BP or Shell really investing in clean tech, investing in renewables and, of course, they use revenue from their oil and gas assets to do it but because of the scale of these companies I don't think we can achieve net zero without them playing a massive role in investing in renewables and alternative energy and clean fuels.

Host: Mhairi Main Garcia

And if we could look at the opportunities for clients, clients that are looking to finance in the oil and gas sector, what opportunities do you see?

Guest: Joe Levin

So, at the moment we are seeing a lot of oil majors selling non-core assets and part of the revenues they get from selling those oil and gas assets is put into clean tech, put into other operations and we're seeing opportunities for independent companies, mid-sized, smaller companies, to buy up those assets and often non-core assets don't get the most investment from oil majors, because they're looking at bigger projects and it allows new entrants or smaller companies to buy those assets, run them more efficiently, invest in them. And to those companies there seems to be sufficient debt available from a number of sources, from commercial banks, from multilateral banks, from traders. There seems to be enough debt in the market to support those transactions and of course as we discussed when lenders come and they provide debt to those transactions, they are making sure that their borrowers are operating and developing assets in an efficient way, looking to reduce carbon emissions from those assets and so bringing best practice to it.

Host: Mhairi Main Garcia

So, sounds like there are actually a lot of opportunities for clients and it's obviously quite an exciting sector if not a challenging sector?
Guest: Joe Levin

It's very exciting and actually we're incredibly busy in the sector because we're in the middle of a lot of these transactions. Big ticket bank groups are being put together, oil major disposals are sort of happening, primarily across Africa, but we're expecting to see some more of that in the Asian market as well. We've already seen oil majors sell in the UK North Sea and they've disposed of assets in Egypt quite recently for example, so there's lots of these transactions, a lot of our clients are very active in this space and, we're doing a lot of work with lenders, but also utilising our ESG capability when advising on those because, as mentioned earlier, the ESG aspects of these transactions are playing a much greater role.

Host: Mhairi Main Garcia

So, it's busy now and there's already a huge focus on ESG.

Let's fast forward five years. What will be the most important steps in the next five years to help the oil and gas sector in the drive towards net zero?

Guest: Joe Levin

I think definitely the continued focus for the lenders on ESG requirements in respect of the transactions that they lend into, people we work with like Harbour Energy, we see also INEOS and other companies, are looking at carbon capture projects and we're seeing that across a number of jurisdictions. I think we'll see some of those carbon capture and storage projects, how they're going to work, what impact they're going to have, it all looks very promising at the moment and these companies are spending serious money on carbon capture but I think within five years we'll know how well they'll be working and we'll have better blueprints for other companies to be able to do it because, what we're really doing there is taking old production assets and, once those assets are dry, capturing carbon and putting it back down underground. So, I think that's something that will have a big role to play in reducing carbon emissions in the future but we're at quite an early stage at the moment.

Host: Mhairi Main Garcia

Thank you Joe, and it really does seem that there's a long way to go, certainly there's a lot of exciting things going on at the moment.

Guest: Joe Levin

Yeah, I think that's right. There's lots going on. I think the whole oil and gas sector is focussed on reducing carbon emissions it's on everyone's mind and everyone's working towards it.

Host: Mhairi Main Garcia

Thank you, and thank you for an informative discussion and sharing your expertise.

Guest: Joe Levin

Thank you for having me it was a very interesting discussion.
Host: Mhairi Main Garcia

And I’d like to just try and sum up some of the key points that you discussed today.

Firstly, the oil and gas sector is key in the drive towards achieving net zero and it’s a huge responsibility on the sector and in particular on the oil majors. The oil majors are the people with the financial power, the technical skills and the expertise and it’s really incumbent on them to help drive forward net zero. There’s a focus on carbon capture projects and on the use of new production methods. But in terms of financing, ESG is key and so that’s going to be an ongoing key requirement and that really will drive forward best practice in the sector.

However, there do still remain barriers. No one size fits all as you said. Tax, geological, technological, local legislation, all of these are different barriers in different countries and so they need to be looked at in context. Horses for courses as they say. And I think the last thing to sum up is in terms of net zero being on everyone’s minds. I thought what was really key, that everyone’s really working towards it in the sector, but it is an ongoing challenge there’s a journey to go and that by itself the sector may not necessarily achieve it, it needs to have the support of governments but also needs to have collaboration amongst stakeholders and also the benefit of new technologies.

Guest: Joe Levin

Yep, that’s that sums it up very well.

Host: Mhairi Main Garcia

Thank you and thanks for being our guest on this podcast. And thank you to the listeners for your time and engagement.

Please do get in contact with us for your feedback or if you have any questions about the topics we’ve covered today.

To listen or view the transcripts of all the episodes of the COP 28 series, please visit wfw.com. We look forward to welcoming you to our next podcast of Watson Farley & Williams’ ‘Countdown to COP: Financing and Fuelling the Future’ podcast series.

Thank you.