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EDITORIAL: Trump aims to gut US government support for clean ***energy, and keep up tariff pres-*** *sures, whatever the cost*

De-liberation day

US president Donald Trump's second term has shown that he likes to keep his enemies close and his friends humiliated. So it should come as no surprise that his bromance with electric vehicle (EV) company Tesla's chief executive, Elon Musk, may have come to an ugly end, at least for now.

Their inevitable falling out has been widely predicted ever since their unexpected alliance last year helped Trump to clinch the presidency. It is only Trump's explanation of the cause of their rift — "I took away his EV mandate" — that is perhaps unexpected. But why Musk — whose main business line of manufacturing EVs depends on support from an ideologically aligned regulator — decided to back the unabashedly pro-fossil fuel Trump can never be reasonably explained.

Musk had just concluded a ruthless efficiency campaign against US government institutions and the federal workforce with Trump's blessing. But he then unexpectedly attacked the president's signature budget bill that, among other things, seeks to gut green industrial tax credits established by former president Joe Biden's administration. Initially warning that this would threaten US energy independence and the reliability of the grid, Musk ratcheted up his criticism of the bill into the financially ominous, and of Trump into the predictably personal.

Few, if any, Republican lawmakers would take Musk's side against Trump. He is not very popular in the Republican base, while the broader US public responded to his anti-government crusade by turning away from his cars or, in some cases, torching Tesla showrooms. But his warnings have arrived at a time when Trump is pushing the narrow Republican majority in the US Senate to ignore concerns about clean energy tax credits when it votes on a budget bill expected to add trillions of dollars to the federal deficit.

Whatever Musk's motivations, his criticism has a point — the US under Trump is deliberately ceding technological and manufacturing advantage on EVs and clean energy applications. The clear winner in this case, as in many of Trump's actions, is China. Biden's policies aimed to close the gap with China's dominance of EV manufacturing and renewable energy, complete with its control of the supply and processing of many critical minerals needed for energy transition.

China invests more in renewable energy than the US and the EU combined, the IEA says. US shale oil investment, meanwhile, is falling in the face of lower oil prices and rising costs, in large part tied to Trump's tariff policies. Beijing has turned its rare earths advantage to use in the trade war that Trump has unleashed — its export controls are worrying US and European car manufacturers, and have prompted another round of escalation in its trade war with the US.

Despite, or perhaps because of, Beijing's strong arm tactics, Trump is eager to deal with Chinese president Xi Jinping. Xi on 5 June finally granted the favour of a phone call with Trump, who has been asking for one since February, with the two leaders agreeing to have their underlings meet to discuss trade again. German chancellor Friedrich Merz, who met with Trump on the same day, received no hint of trade concessions from a president more focused on excoriating Musk. US competition with China remains at the source of Trump's tariff policy. Yet fallout from that policy is hitting not only China, but US allies in Europe and east Asia, not to mention the US economy itself.

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GEOPOLITICS

Trump shrugs off EU overtures on Russia, trade

Calls from the EU and Congress for tougher sanctions on Russia show little sign of encouraging Trump to put pressure on Putin, writes Haik Gugarats

The EU's efforts to negotiate with President Donald Trump's administration to avoid a trade war and to hold ranks to stop Russia's war in Ukraine have proved unsuccessful so far, but Washington's closest allies keep trying.

Germany's new chancellor Friedrich Merz was the latest European leader to visit Trump at the White House in an attempt to persuade him to join the EU in imposing additional sanctions against Russia. But Trump is refusing to publicly commit to such a step, and told Merz during their 5 June meeting that both Moscow and Kyiv could be liable for US sanctions if US efforts to stop hostilities do not succeed. "We are looking for more pressure on Russia... so let's talk about what we can do jointly," Merz told Trump.

But Trump, who last year promised to end the war in Ukraine within a day of taking office, said that he no longer has a set time limit to accomplish the goal. The US administration could at some point decide to impose sanctions to advance peace talks, and "it could be on both countries, to be honest", he told Merz.

The US could at some point impose sanctions to advance Russia-Ukraine peace talks, and 'it could be on both countries, to be honest', Trump says

Trump even compared the war between Ukraine and Russia to a fight between two children. "Sometimes you're better off letting them fight for a while and then pulling them apart," he said. Merz reminded him that the EU is on "the side of Ukraine and we are trying to get them stronger and stronger just to make [Russian president Vladimir] Putin stop this war."

Trump has acknowledged that his personal diplomacy with Putin has not been successful, but he is now taking his relationship with the Russian president to the next level by asking Moscow to help negotiate a US-Iran nuclear deal. Russia was among the global powers that helped negotiate the JCPOA deal with Iran, under then US president Barack Obama. Putin is following a familiar playbook of offering to resolve international crises of concern to the US, as he did during Trump's first term in 2017-21, when he offered Moscow's good offices in Syria and Venezuela.

Trump has used both sanctions and diplomacy in relations with Iran, but his administration has pushed back against proposed new economic penalties against Moscow, arguing that new sanctions could disrupt Trump's Ukraine peace efforts. His allies on Capitol Hill have circulated legislation, with broad bipartisan support, to force the White House to impose stricter sanctions against Russian energy exports. But Trump dismissed the congressional effort. "They'll be guided by me," he said during Merz's visit. "At the right time, I'll do what I want to do."

Measured response

The EU has so far held back on imposing retaliatory tariffs against the US following Trump's imposition from 5 April of a 10pc tax on imports from EU members. Trump has threatened to impose an even higher tariff of 50pc on imports from the EU — delaying the measure until 9 July. The European bloc has so far agreed counter-measures against Trump's decision in March to impose 25pc tariffs on imported steel and aluminium. Trump raised those tariffs to 50pc from 4 June.

Trump says Congress will be 'guided by me' regarding tougher sanctions on Russia. 'At the right time, I'll do what I want to do'

A potential deal to increase the EU's LNG imports from the US faces regulatory hurdles, such as the pending EU regulations on methane emissions and the bloc's long-term push to reduce natural gas demand. Some European trade negotiators are hoping that Merz can achieve a breakthrough in US-EU talks if he pushes German utilities Sefe and Uniper to sign up for additional US LNG offtake contracts. But such deals could take months or years to negotiate.

The Trump administration, at any rate, has provided confusing signals on its goals. US commerce secretary Howard Lutnick told a Senate panel this week that lowering trade barriers is not really an objective for Trump, and that higher US tariffs will remain in place regardless of the outcome of negotiations.

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PRODUCTION POLICY

Opec+ eight faces tougher decision as doubts emerge

Hiking output for July left oil prices unruffled, but doing so for August could have a different effect, write Bachar Halabi, Nader Itayim and Aydin Calik

Eight core Opec+ members on 31 May agreed to a third consecutive month of accelerated crude output increases for July. But unlike in previous months, this time around, some in the group needed a little more convincing.

The group of eight — Saudi Arabia, Iraq, Kuwait, Russia, the UAE, Algeria, Oman and Kazakhstan — will raise its collective production ceiling by 411,000 b/d in July, mirroring the increases agreed for May and June. This pace is three times faster than the original plan, set out in March, which called for monthly increments of 137,000 b/d from April 2025 through to September 2026. The group pointed again to healthy market fundamentals and in particular expectations of stronger demand during the northern hemisphere's summer.

But while the ministers worked to finalise July output policy, two countries — Russia and Oman — voiced their support for a pause in the hikes that month. This marked the first such divergence within the group of eight since it made the call in March to kick-start the unwinding process. Russia's primary concern is that continuing with this accelerated approach could put pressure on oil prices, particularly as its war in Ukraine intensifies and ceasefire talks falter, dimming prospects for a breakthrough on sanctions relief in the near term.

But the decision to go with another three-in-one hike was ultimately agreed because the majority of the factors that shaped decisions for previous months persist. Chief among these is a continued lack of compliance by certain group members, most notably Kazakhstan, which has been producing well above its quota ever since a ramp-up in output at the Chevron-led Tengiz field in January.

The output acceleration was intended to send a message to the likes of Kazakhstan that persistent overproduction would not be tolerated any longer

Kazakhstan produced 1.76mn b/d of crude in May, deputy energy minister Alibek Zhamauov says, a massive 274,000 b/d above its 1.486mn b/d target for the month. The government is "still trying to negotiate" production constraints with the foreign operators, he says, but so far they "refuse to reduce output".

The acceleration was intended to send a message to the likes of Kazakhstan, and to a lesser extent Iraq and Russia, that persistent overproduction would not be tolerated any longer within the group. A warning was issued early — these bumper monthly increases could continue, unless the overproducers show serious efforts to bring output back in line with their quotas.

Feeling the heat

Other supporting factors, the Opec+ eight say, are "healthy market fundamentals" and "low inventory levels" leading into a period that typically sees a seasonal rise in demand because of the US driving season and increased power use in the Mideast Gulf to meet demand for cooling. Saudi Arabia, Iraq and, to a lesser degree, Kuwait increase crude burning for power generation in the peak summer months. And with much of the 411,000 b/d monthly increments coming from that region, the expectation is that most of this supply will be used domestically rather than reaching the international market.

What should further mute the impact of the monthly increases is that all but one of the eight have, at least in theory, committed to produce below their allowances over the coming months, to compensate for past overproduction.

But the group may have to take a more cautious approach beyond July, particularly ahead of the year's final quarter. Bank Morgan Stanley argues a global oil inventory surplus is forming earlier than expected, with builds averaging around 2mn b/d over the past 13 weeks. Builds earlier in the year were slightly below projections, but inventory accumulation accelerated notably from March onwards. This, coupled with newly voiced concerns by members, suggest the alliance may face a tougher decision at next month's meeting to decide on August policy.

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NORTH AMERICA

The need for new crude export routes to Asia-Pacific is warming relations between Ottawa and Alberta, writes Brett Holmes

Canada considers fast-tracking crude pipeline, CCS

A new oil pipeline to Canada's west coast is among the country's priorities for fast-tracking, prime minister Mark Carney confirmed this week, signalling that such a project is likely to be contingent on further decarbonisation efforts.

"There is an ability to build that energy infrastructure, that oil pipeline," Carney said. "The opportunity is there. The market is there, in Asia." Carney made the comments after a 2 June meeting with provincial premiers in Saskatchewan, where the talk of building big projects to pivot trade away from the US thawed previously icy relations between Ottawa and Canada's oil provinces.

Alberta premier Danielle Smith wants a 1mn b/d crude pipeline going to northwest British Columbia (BC), and Carney's wish to decarbonise production — perhaps through the proposed C$16.5bn ($12bn) Pathways Alliance carbon capture and storage (CCS) hub — may be just the project to secure a compromise. "Let's call it 'The Grand Bargain'," Smith says. "There are lots of ways to decarbonise, but the Pathways is an expensive project," she says.

Carney's wish to decarbonise and the call from oil-producing provinces for more crude export capacity could form the basis a 'Grand Bargain'

Canada produced a record 5.1mn b/d of oil in 2024, according to Statistics Canada, and forecast output growth will put further pressure on export capacity, if more pipelines are not built. Carney has pledged to move on federal legislation to improve the regulatory process that the industry says has stifled investment and dissuades companies from pitching such projects. The intention is to fast-track projects that are awaiting decisions and create more predictability for future proponents, including shorter timelines on decision-making.

Carney, who now has a long list of potential projects, said the meeting's aim was to "catalyse" the process and achieve a shared understanding of what would constitute a project in the national interest. "As more private proponents become aware of the opportunity here, we're going to see more projects coming forward."

You'll need to be more Pacific

Premiers across Canada have joined Smith in touting the importance of expanding oil exports, but leaders from BC and Quebec are withholding judgment until seeing a real pipeline proposal. The federally-owned 890,000 b/d Trans Mountain system linking Alberta to the greater Vancouver area has spare capacity — albeit maybe less than previously thought, at 15pc — giving BC premier David Eby some pause.

'Ensuring that publicly owned infrastructure is used to its full capacity... seems a great place to start, rather than opening up the north coast to tanker traffic'

"I would start there with a conversation with the federal government about ensuring that this publicly owned infrastructure is used to its full capacity," Eby said last month. "That seems like a great place to start, rather than opening up the pristine north coast to tanker traffic." The BC government, and Eby as the province's attorney-general at the time, opposed the Trans Mountain Expansion (TMX) project throughout its lengthy regulatory process. Ottawa succeeded in pushing it through because it was deemed to be in the national interest, but had to take ownership of TMX after escalating costs and growing opposition to the line prompted then-owner US midstream firm Kinder Morgan to exit Canada.

Around 750km north of Trans Mountain's terminus at Vancouver is the port of Prince Rupert, promising an even faster shipping route to Asia-Pacific refiners. As the deepest port in North America it can cater to the largest vessels, the local port authority says. Former prime minister Justin Trudeau banned oil tankers from the area in 2019, which would be one of many laws that Carney would have to tweak or eliminate for a pipeline to Prince Rupert to make sense. But even with Eby's reservations and no midstream company publicly floating a major greenfield development, Smith is cautiously optimistic, given the co-operative tone Carney has set to lure private-sector investors back to Canada. "We will have failed at the assignment if government has to build another pipeline," she says.

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US

Senate starts work on massive energy, tax bill

Some Republican senators are warning against a wholesale push to cut clean energy incentives, writes Chris Knight

Republicans in the US Senate are trying to rapidly enact a massive budget bill that would phase out clean energy tax credits and expand fossil fuel leasing, as they deal with unanticipated pushback by automaker Tesla chief executive Elon Musk.

President Donald Trump and his congressional allies aim to enact the bill before the 4 July federal holiday, giving them a month to negotiate changes and pass the bill through both chambers of Congress, which Republicans control with small majorities. The US House of Representatives last week passed a version of the bill that would phase out $570bn of clean energy tax credits over the next decade, expand federal oil and gas leasing and cut royalty rates, repeal fuel-economy rules and expedite energy permits. Senate majority leader John Thune is predicting a "very busy month" as committees release bill text by the end of next week.

But Musk, who recently exited from his role in the administration after spearheading a cost-cutting initiative named DOGE, this week announced his opposition to the bill. Rather than being what Trump has dubbed the "Big Beautiful Bill", Musk says the budget package is a "disgusting abomination", which would massively add to US debt that already stands at $36 trillion. It remains unclear why Musk suddenly turned against the bill, but last week he used social media to highlight concerns by Tesla — which benefits from federal tax credits for electric vehicles (EVs) and energy storage systems — about the House's plan to "abruptly" terminate federal tax credits for energy storage projects.

Slashing clean energy incentives would 'pull the rug out from under American innovators' and forfeit advancements in energy technology to China and Russia

A handful of moderate Republicans in the Senate are among those advocating to retain clean energy tax credits when the bill comes up for a vote. Utah senator John Curtis this week wrote an opinion piece that said the House's plan to slash those tax credits would "pull the rug out from under American innovators" and forfeit advancements in energy technology to China and Russia. Curtis said many of the tax credits set for elimination were originally "Republican policies", and should be reviewed on a case-by-case basis. In April, Curtis signed a letter with three other Senate Republicans opposing the "wholesale repeal" of the energy tax credits the Democrats passed in 2022 through the Inflation Reduction Act.

Conservatives are pursuing a competing goal to slash the bill's cost, in alignment with Musk's attacks, adding to complications for Senate leaders who can only afford to lose the support of three Republican senators when the bill comes up for a vote. Thune says he hopes Musk comes to a "different conclusion" about the bill, while Democrats are strategising their own attacks on it. "Billionaires win and families lose when Republicans kill clean energy investments," Senate minority leader Chuck Schumer says.

'Billionaires win and families lose when Republicans kill clean energy investments' — Senate minority leader Chuck Schumer

A lack of credit

Trump's efforts to block or defund the development of clean energy projects are already having an effect across the US. Developers have cancelled or delayed more than $14bn of proposed wind, battery, EV and other clean energy projects since January, according to an analysis published by clean energy firm E2 Group on 29 May. The Department of Energy on 30 May terminated $3.7bn in clean energy grants, including $332mn to ExxonMobil for a low-carbon hydrogen project in Texas.

Repealing tax credits from the Inflation Reduction Act will accelerate project cancellations and, in turn, raise prices for electricity and natural gas, clean energy supporters say. Electricity rates could surge by 13pc for households in Arizona and by 14pc for households in Kansas, according to a new study by industry group the Clean Energy Buyers Association. "If these tax credits disappear, American households and businesses in both red and blue states would experience economic harm," the group's chief executive, Rich Powell, says.

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INVESTMENT

Oil bucks record energy spending trend: IEA

Solar power spending will outstrip oil investment for the first time, but energy security concerns still underpin coal growth, writes Georgia Gratton

Global energy investment is set to reach a record $3.3 trillion this year, two-thirds of which will be in "clean energy" technologies, double the amount going to fossil fuels, energy watchdog the IEA said this week. And the agency expects upstream oil and gas investment to see its first decline since 2020.

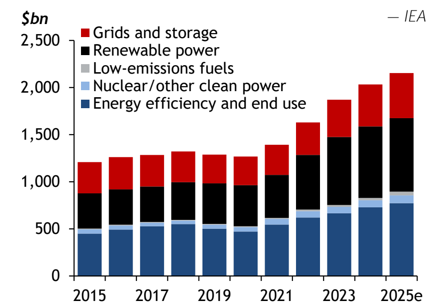
The total marks a 2pc rise "in real terms" compared with 2024, "despite headwinds from elevated geopolitical tensions and economic uncertainty", the IEA said. Although the "fast-evolving economic and trade picture means that some investors are adopting a wait-and-see approach to new energy project approvals... in most areas we have yet to see significant implications for existing projects", IEA executive director Fatih Birol said.

The agency forecasts that around $2.2 trillion will go to renewables, nuclear, grids, storage, low-emissions fuels, energy efficiency and electrification in 2025, compared with $1.1 trillion for oil, gas and coal. The rise in "clean energy" investment reflects "not only efforts to reduce emissions but also the growing influence of industrial policy, energy security concerns and the cost competitiveness of electricity-based solutions", the IEA said.

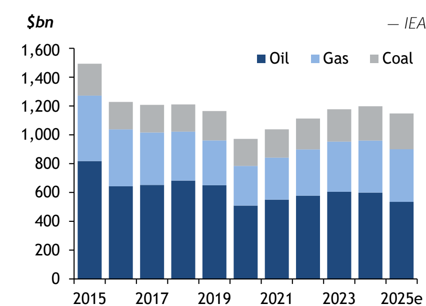
In contrast, investment in fossil fuel supply is expected to fall by around 2pc this year owing to a "drop in prices and uncertain investment climate", the IEA said. Upstream oil and gas investment is forecast to fall by 4pc to just under $570bn, led by a 6pc decline in upstream oil spending to roughly $420bn. But the IEA also noted that rising costs mean that "activity levels are set to fall by an even greater amount". New projects and US tight oil production are likely to be most affected, while investment in existing fields will be "more robust", it said.

And investment in gas, which has held broadly steady in recent years, is set to rise "marginally" this year, according to the agency. National oil companies (NOCs) in the Middle East and Asia-Pacific continue to invest steadily in upstream oil and gas, while spending from other NOCs and majors remains significantly lower, and that from independents is set to dip this year, the IEA said. "The sharp drop in oil prices, rising operational costs, the impacts of tariffs and concerns about potential oversupply have led many companies to revise their investment plans," it said.

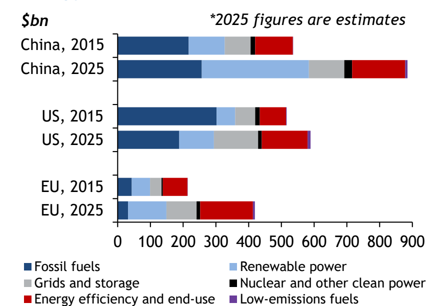
Global investment in clean energy



Global investment in fossil fuels



Energy investment, 2015 and 2025*



Bring me sunshine

Investment trends are being shaped by "the onset of the 'Age of Electricity' and the rapid rise in electricity demand", for industry, cooling, transportation, data centres and artificial intelligence, the IEA said. Global spending on the electricity sector is set to hit $1.5 trillion this year, driven mainly by record investment in low-emissions generation. The agency expects solar power alone to attract $450bn this year, with spending in this sector $30bn more than for upstream oil.

The IEA points to the "strong downward trend" in costs for clean energy technologies. "Emissions reductions provide a powerful reason to invest, but are often not the primary driver for investment in technologies that are increasingly mature and cost-competitive," it said.

But energy security remains "a key driver" of the growth in investment globally, Birol said. This partly explains the expected investment in coal this year — still growing, albeit more slowly at 4pc than its recent annual average of 6pc — and driven primarily by new coal-fired power additions in China. That country remains the world's largest energy investor "by a wide margin", the IEA said. China's share of global clean energy investment has risen from a quarter a decade ago to almost a third today, with its spending across all energy estimated to be just under $900bn this year — nearly as much as the US and EU combined. A decade ago China's energy investment was in line with that of the US.

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INDONESIA

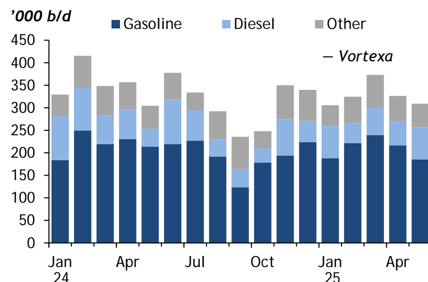
Jakarta product import plans threaten Pertamina

The government is making new demands on the state-owned company while national energy security concerns grow, write Prethika Nair and Aldric Chew

Indonesia wants to shift away from importing oil products from Singapore and import more fuel from the Middle East and the US, a move that would place additional pressure on already embattled state-owned energy firm Pertamina.

Indonesia's energy minister Bahlil Lahadalia last month called for the country to stop all oil product imports from Singapore, which is its largest gasoline supplier, accounting for more than 60pc of total shipments last year, according to customs data. Singapore exported 236,000 b/d of gasoline to Indonesia in 2024, with Malaysia a distant second at 79,500 b/d. It is also a major gasoil and jet fuel supplier to Indonesia, shipping over 54,000 b/d of gasoil and 8,300 b/d of jet fuel to the country in January-April, according to Singapore government data.

Singapore exports to Indonesia



Indonesia has proposed raising energy imports from the US and the Middle East instead. There is no reason Indonesia cannot import fuel from the US, Bahlil said, noting that it already imports US LPG. The sudden push to import more fuel from the US comes as Indonesia is negotiating with Washington to reduce import tariffs threatened by President Donald Trump, which are due to come into effect by the end of July. But Jakarta has given no indication of why it is keen to increase flows from the Middle East or why it wants to reduce them from Singapore.

Market participants have expressed concern over the feasibility of shifting trade flows so drastically, citing the likely additional logistics costs of trying to sideline Singapore, Asia-Pacific's key oil product blending hub, if that involves "double handling" to divert cargoes for blending in Malaysian storage instead. Indonesia's push to buy from the Middle East would also come at a potentially higher cost unless the arbitrage is sufficiently open for cargoes to move to southeast Asia. Middle Eastern product exporters currently supply mainly east Africa, South Africa, Pakistan and their own regional market. And it is "extremely unfeasible" for Indonesia to import gasoline from the US, Singapore traders say, citing even higher freight costs and logistical challenges.

It is 'extremely unfeasible' for Indonesia to import gasoline from the US, Singapore traders say, citing high freight costs and logistical challenges

The potential increase in import costs would hike Indonesia's financial burden, as Jakarta still provides fuel subsidies to maintain citizens' purchasing power. Bahlil last year put that fuel subsidy cost at 435 trillion rupiah ($26.7bn) for 2024.

Arrested development

Indonesia's latest directive comes as Pertamina is already facing greater scrutiny from the government. Jakarta in February arrested four company executives over alleged corruption related to its crude and oil product imports. Pertamina is supposed to prioritise meeting its oil demand from domestic suppliers before buying from the import market, but the attorney-general's office alleges that the executives chose instead to import crude and products, or reduce refinery output to depress demand for domestic crude. The alleged offences, between 2018 and 2023, cost the state around Rp194 trillion, the office says.

But the additional trial of shifting product import flows would only add to the obstacles Indonesia faces in trying to meet its fuel demand. President Prabowo Subianto has set a target for reviving Indonesia's oil output to 900,000-1mn b/d by 2028-29, but the likelihood of meeting this goal seems low. Current production is around 600,000 b/d, with Pertamina accounting for 400,000 b/d of the total, while the country consumes over 1.5mn b/d.

Indonesia in March announced plans to build 1mn b/d of refining capacity across the country, which would reduce its dependence on product imports. But details on construction timelines were not provided, and it remains to be seen whether these plans will be realised. The country last built a new refinery in 1994, and several projects discussed in recent years have failed to reach a final investment decision.

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SOUTH KOREA

Election result signals accelerating energy transition

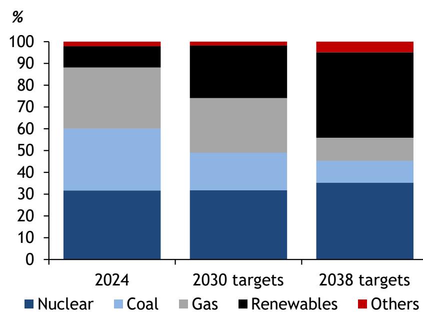
The new president may drive renewable power growth, but LNG will remain key to energy security, writes Evelyn Lee

South Korea is on the verge of initiating a comprehensive overhaul of its energy market structure, driven by newly elected president Lee Jae-Myung's aim to facilitate decarbonisation through an ambitious expansion of renewable energy.

Lee, a former leader of South Korea's liberal opposition Democratic Party (DP), secured the presidency following a snap election on 3 June. The election process started in April, when South Korea's Constitutional Court upheld the impeachment of former president Yoon Suk Yeol after his failed attempt to impose martial law in December. Yoon's administration had struggled to push key legislation through the national assembly controlled by the DP, leading to months of legislative paralysis. That DP domination should now ensure that Lee has strong legislative backing, giving momentum for the implementation of the party's policy agenda.

At the core of Lee's energy policy lies an ambitious commitment to decarbonisation. He has reiterated a pledge to cut economy-wide emissions by 40pc by 2030 from a 2018 baseline, to be achieved through greatly expanding the share of renewables in the power mix and phasing out coal-fired power generation by 2040 — 10 years earlier than pledged by former liberal president Moon Jae-In in 2021.

South Korea power mix plans



Lee has adopted a more cautious approach to nuclear power, pledging to "maintain the share of nuclear in the generation mix and gradually reduce it through social consensus". This may have been motivated by the need to reinforce base-load capacity, especially given his aim of making South Korea an artificial intelligence-based society.

The new president also plans to scale up solar and wind capacities rapidly, especially in Honam, in the southwest of the country. The region has one of the country's most congested energy grids, which Lee aims to relieve by building an "energy highway" along the west coast by 2030. "We will transmit 20GW of offshore wind power from the southwest coast to major industrial areas via offshore power grids and expand RE100 industrial complexes nationwide," Lee says. A digitally integrated "energy super grid" will be introduced to facilitate the efficient distribution of electricity across production and consumption regions, reducing volatility and enabling better load balancing, he says.

A crucial element of Lee's policy is the creation of a climate energy ministry, addressing long-standing criticisms of fragmented oversight between ministries with conflicting priorities

A crucial element of Lee's policy is the creation of a dedicated climate energy ministry. This new body would centralise governance of climate and energy initiatives, addressing long-standing criticisms of fragmented oversight between ministries with conflicting priorities.

Diversity drive

Alongside pushing renewables to the forefront, Lee views LNG as a transitional fuel that can ensure grid reliability while renewable infrastructure is developed. South Korea's persistent grid bottleneck problems that hamper its coal-fired generation disproportionately have already enhanced the role of gas as its swing generation resource. Acknowledging this, Lee has talked of the need for diversifying LNG supply routes and sources to enhance energy security, including showing an interest in the US' proposed 20mn t/yr Alaska LNG project, after meeting with Alaska governor Mike Dunleavy.

Lee previously floated the possibility of developing a trans-Korean pipeline that would supply Russian gas through North Korea during an unsuccessful election campaign in early 2022. Regional tensions with Pyongyang and the damage that Moscow's weaponisation of its pipeline gas supplies to Europe has done to its reputation as a reliable supplier have rendered such a plan impractical. But the underlying aim of the proposal speaks to Lee's broader goal of enhancing energy security by opening new supply corridors and cutting transportation costs.

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JAPAN

LNG will continue to play a large role in Japan's energy mix, regardless of the introduction of emissions trading, write Motoko Hasegawa, Yusuke Maekawa

Tokyo's ETS unlikely to hasten LNG phase-out

Japan is advancing an emissions trading system (ETS) that will help drive the transition to decarbonisation, but this could also end up extending the use of LNG, as the cleanest fossil fuel, to ensure energy security and economic growth.

Japan's parliament on 28 May passed a bill to launch a full-scale green transformation ETS (GX-ETS). The market-based tool will require around 300-400 entities with average CO_2 emissions exceeding 100,000 t/yr in the past three fiscal years to participate in the cap-and-trade programme. Trading is scheduled to begin in autumn 2027, after Tokyo allocates free allowances to each entity.

GX-ETS is in principle designed to promote domestic industries to reduce GHG emissions as part of the country's wider effort to achieve carbon neutrality by 2050. But the new measure could greenlight Japan's power sector to keep burning fossil fuels, especially LNG, depending on the level of carbon pricing. Firms will basically look at the price tag and choose the cheaper one — gas or carbon, a source familiar with the sector tells *Argus*. The use of hedging, and the need to maintain a balanced portfolio, could result in some firms continuing to purchase LNG while offsetting their emissions through the GX-ETS, the source says.

Japan will also need to rely on LNG as a back-up power source to address the intermittency of rising renewable energy, given growing uncertainty over the future availability of base-load nuclear power and the phase-out of coal-fired capacity. And the role of LNG could be much bigger than initially thought given increasing scepticism over the pace of renewable and clean energy development.

Renewable energy makes up 40-50pc of Japan's power mix in the April 2040-March 2041 fiscal year, according to its latest strategic energy plan (SEP), up from 22.9pc in 2023-24, while cutting the thermal share to 30-40pc from nearly 70pc. But there is already a sense that the SEP's target is unattainable, owing to rising costs that are slowing the development of offshore wind power projects, a committee member of the agency for natural resources and energy under trade and industry ministry Meti says. Another member points to growing uncertainty over the future supply of green hydrogen globally.

Japanese energy conglomerate Eneos has already scrapped its target to supply up to 4mn t/yr of hydrogen by 2040. The company will maintain its conventional business, including upstream LNG projects, along with other low-carbon sectors such as biofuels and sustainable aviation fuel.

The role of LNG could be much bigger than initially thought given increasing scepticism over the pace of renewable and clean energy development

Long for long term

This uncertainty over renewable energy development and the subsequent extended reliance on LNG has been reflected in supply deals agreed by major Japanese buyers. Utility Jera signed a 20-year contract for 2mn t/yr of LNG from US firm NextDecade's planned fifth train at its Rio Grande export facility in Texas, subject to a final investment decision. Domestic counterpart Kyushu Electric Power signed a 20-year deal with US company Energy Transfer for up to 1mn t/yr of LNG, to be supplied from the planned 16.5mn t/yr Lake Charles export terminal in Louisiana. The deals were announced just a day after the GX-ETS was approved.

Jera and Kyushu secured their respective deals on a fob basis, with the prices linked to the US Henry Hub. This allows the utilities to deliver excess cargoes to any destination depending on domestic demand and market conditions. This contract flexibility over destination is essential given uncertainty over the strength of future LNG demand. Japan's primary LNG supply for 2040-41 is estimated at 53mn-74mn t under the SEP, with the wide range reflecting uncertainty over the pace of clean energy technology deployment and rising geopolitical instability. The potential 21mn t gap equates to a third of Japan's LNG imports of 65.9mn t in 2024.

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IN BRIEF

Gazprom plans 2025 spending boost

Russian state-controlled Gazprom's capital expenditure (capex) could increase by nearly a fifth in 2025 after it returned to profit in 2024. The company plans to invest Rbs2.81 trillion ($31.9bn) across its oil, gas and power businesses this year. More than half of spending, Rbs1.52 trillion, will be in the gas sector — 7pc less than in 2024, although adjustments are expected later this year. Priority gas projects include expanding production capacity in eastern Russia and on the far north Yamal peninsula, as well as extending the regional pipeline network and increasing capacity on the 38bn m^3/yr Power of Siberia 1 (PoS 1) export route to China. PoS 1 has been operating at full capacity since December.

BP completes deals with Azerbaijan's Socar

BP has reached agreements with Azerbaijan's state-owned Socar covering exploration and development of the Caspian offshore 438mn bl Karabakh oil field and Ashrafi-Dan Ulduzu-Aypara block. BP will have a 35pc operating interest in each, with Socar holding 65pc. And BP and Socar have agreed on Turkish state-owned TPAO taking a 30pc interest in Azerbaijan's offshore Shafag-Asiman block. BP and Socar will each retain 35pc stakes in Shafag-Asiman. BP and its partners at Azerbaijan's offshore 1.2 trillion m^3 Shakh Deniz field have also approved a $2.9bn plan to boost gas production and extend the project's life.

Alaska LNG sees $115bn in bids from over 50 firms

The proposed 20mn t/yr (2.67bn ft^3/d) Alaska LNG project has completed the first round of a strategic partner selection process, with more than 50 companies formally expressing interest through more than $115bn of contracts, developer Glenfarne says. The interested firms come from the US, Japan, South Korea, Taiwan, Thailand, India and the EU, and cover equipment and material supply services, investment and customer agreements. Alaska LNG would allow its customers to deliver LNG to Asia-Pacific at prices lower than contracts indexed to Henry Hub on the US Gulf coast, Glenfarne says. The firm aims to reach a final investment decision on the project's first phase by the end of 2025.

UAE's XRG eyes LNG portfolio expansion

UAE state-owned Adnoc's energy investment arm XRG plans to expand its LNG portfolio to 20mn-25mn t/yr by 2035. It has already built a portfolio of almost 6.5mn t/yr through stakes in US group NextDecade's 17.6mn t/yr Rio Grande LNG phase one and upstream production in Mozambique. The firm took over Adnoc's 11.7pc stake in Rio Grande LNG's first three trains — expected on line in 2027-29 — and is scheduled to receive 1.9mn t/yr from train 4. XRG also owns 10pc of the Area 4 gas concession in Mozambique's Rovuma basin, which feeds into the 3.5mn t/yr Coral Sul floating LNG (FLNG) project, the planned 3.5mn t/yr Coral Norte FLNG and the planned 18mn t/yr Rovuma onshore LNG export facility.

Gas projects lift Trinidad's LNG prospects

Two projects pursued by Shell and BP are lifting Trinidad and Tobago's natural gas production prospects. The Mento field, off the southeast coast, has delivered its first gas, according to BP, the field's 50:50 joint owner with US firm EOG Resources. The firm did not provide details on volumes or quality. Shell has taken a final investment decision on the Aphrodite project off the east coast, which will provide feedgas for Trinidad's sole LNG producer, the 11.8mn t/yr Atlantic liquefaction plant. A persistent gas shortage has impeded the unit's output. Shell expects first gas from Aphrodite in 2027, with peak output of 107mn ft^3/d (1.12bn m^3/yr).

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MARKET OVERVIEW

Crude prices rose on prospects for improved US-China trade relations, but the rally may prove short-lived

Prices strengthen but supply rise looms

Global oil prices firmed, supported by talks between the US and China over their trade war, although eight Opec+ members agreed to accelerate the unwinding of their production cuts for a third month in a row in July.

Atlantic basin benchmark North Sea Dated was $2.79/bl higher on the week, settling at $67.36/bl on 5 June, while US benchmark WTI rose by $2.43/bl to $63.37/bl over the same period.

US crude inventories fell by 4.3mn bl in the week to 30 May, as rising refinery runs more than offset a drop in oil exports, EIA data show. Crude stocks fell close to 436mn bl during the week, down from 440.4mn bl a week earlier. Inventories were 19.9mn bl lower than a year earlier. Stocks in the US Gulf coast region fell by 3.1mn bl for a second week running, to a three-month low of about 245mn bl.

US Gulf sour crude prices were supported by tightening stocks and the 27 May expiry of Chevron's waiver to produce heavy sour crude in Venezuela, which had allowed the company to move about 200,000 b/d of such crude to the US. At the same time, a wildfire in Alberta's oil sands region forced at least 344,000 b/d of output off line, as several of the country's largest operators evacuated the area, lifting sour prices in the US further.

The prospect of higher Opec+ supply weighed on medium sour prices in Asia-Pacific, with Oman weakening to around a 60¢/bl discount to Abu Dhabi light sour Murban in early June, from near parity over the past six months. Saudi Aramco also cut the July Asia-Pacific formula prices of its flagship Arab Light, Arab Extra Light and Arab Super Light grades by 20¢/bl from June. The July Arab Medium price was trimmed by 10¢/bl from the previous month, while Arab Heavy's July price was left unchanged from June.

But Murban firmed after Abu Dhabi's Adnoc unexpectedly lowered its forecast for the grade's export availability from August, as part of feedstock optimisation plans for its Ruwais refinery. Ifad August Murban futures rose to a premium of just over $2/bl to August Dubai swaps on 2 June, a two-month high. Running more Murban domestically could support exports of medium sour Upper Zakum.

Discounts for Russian medium sour Urals to North Sea Dated widened on the prospect of higher supply. A number of Russian refineries will undergo maintenance this month, while Indian demand has fallen ahead of the monsoon season.

Oversupply resulting from a surge in Chinese exports is putting pressure on the jet fuel market in Asia-Pacific. Regional naphtha crack spreads fell after the arbitrage opened to move cargoes from west of Suez to the region. But the regional gasoline crack spread edged up on firmer demand from the Mideast Gulf, tightening supplies in Asia-Pacific. Gasoil continued to strengthen on prompt import demand from Japan.

Gasoline crack spreads in Europe fell by around $2/bl on the week owing to slower transatlantic demand. Exports rose in May, mostly supported by an open transatlantic arbitrage during the month. But that arbitrage has now closed, despite the start of the US summer driving season.

More for less

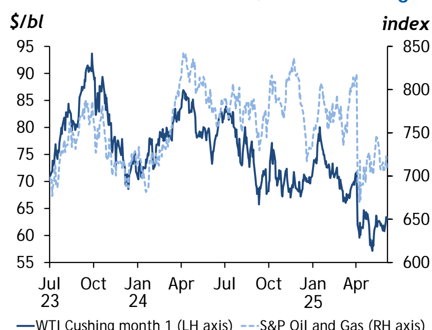
The unofficial start of the US summer driving season has come and gone, but domestic refiners trimmed gasoline production owing to unseasonably low demand. US consumers are expected to travel more miles this year, but this is unlikely to result in dramatically higher gasoline use, as recent demand patterns, driven by increased engine efficiencies and the use of electric vehicles, appear set to continue. US gasoline output fell to an eight-month low of 9.04mn b/d in the week to 30 May, while demand dropped to 8.26mn b/d, a four-month low.

Key oil prices			$/bl
		5 Jun	± 29 May
North Sea Dated		67.36	+2.79
WTI Cushing	Jul	63.37	+2.43
Oman	Aug	64.16	-0.66
Dubai	Aug	64.81	+2.27
Tapis		70.21	+2.79
ASCI	Jul	64.63	+3.24
Netbacks*		5 Jun	± 29 May
NW Europe - Brent		73.81	-0.41
US Gulf - WTI		78.80	-0.41
Singapore - Oman		65.57	+0.40

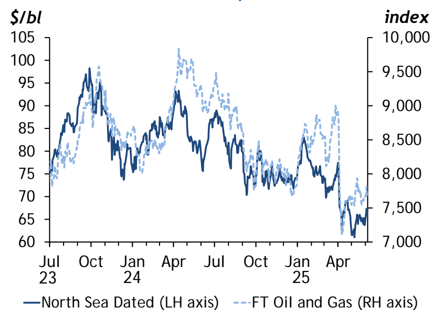
**complex yield for NWE and US, simple yield for Singapore*

SHARE PRICES AND ENERGY INDEXES

S&P Oil and Gas Index, WTI Cushing



FT Oil and Gas Index, North Sea Dated



World energy share indexes				5 Jun
	Index	±	52-week	
	5 Jun	29 May	High	Low
Americas				
S&P Energy	620	-3	744	573
S&P Oil & Gas	708	-3	842	653
S&P Equipment & Services	239	-3	328	224
TSE Oil & Gas	3,395	+21	3,617	2,869
Europe				
FT Oil & Gas	7,695	+82	9,488	7,117
Russia				
RTS Oil & Gas	187	-1	211	123
Micex Oil & Gas	7,640	+15	9,302	6,590
Asia-Pacific				
TOPIX Oil & Coal	1,623	-1	2,074	1,407

Company share prices				5 Jun
	5 Jun	29 May		±%
BP	£3.58	£3.58	▼	-0.03
Chevron	$136.90	$137.91	▼	-0.73
ConocoPhillips	$85.35	$85.60	▼	-0.29
Eni	€13.21	€12.93	▲	+2.15
Equinor	NKr244.10	NKr244.50	▼	-0.16
ExxonMobil	$101.83	$102.69	▼	-0.84
Repsol	€11.97	€11.79	▲	+1.48
Shell	£24.79	£24.42	▲	+1.54
TotalEnergies	€51.87	€51.41	▲	+0.89
Uniper (*see p2*)	€40.00	€39.90	▲	+0.25
Tesla (*see p5*)	$284.70	$358.43	▼	-20.57

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