

ENERGY UNWRAPPED! BY CHRIS SLADEN

An insightful commentary on the ever-evolving energy sector, written exclusively for the ANZMEX Business Council

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The long and winding road

With COP30 about to start in Belem, Brazil, and around 50,000 people descending upon the small port at the mouth of the Amazon delta, here is an update on the energy transition and things to remember about its path over the last decade.

10 YEARS AGO. The world rejoiced with the Paris Accords that were agreed in December 2015. It created a transformation in the global economy, government policies, companies, and societies. With near universal buy-in to reduce greenhouse gases believed to cause climate change by 196 countries, there was a positive route forward for an energy transition. The Accords set a long-term goal to keep the rise in global temperatures to well below 2 degrees centigrade and preferably 1.5 centigrade.

The world embarked on making a quicker transition than ever before. Generally thought of a smooth, gradual, manageable, urgent transition that was targeting 20-30 years, the past examples of transitions were often 50-70+ years, for example the ascent of oil, and later natural gas. At the time, some players were more enthusiastic than others; various Pacific islands impacted by sea level rise were strong supporters, elsewhere many car and truck manufacturers were less keen. Many 'green finance' schemes soon appeared as well as a push towards carbon trading and a carbon price.

With excess oil supply, weak demand, and a slowing global economy, there was an early 2016 price collapse. Oil prices fell to US\$ 40-50 per barrel. The dramatic rise of US-led shale/fracking resulted in surging oil and gas liquids production, and the US ban on crude export was eventually lifted. OPEC influence and control was being put to the test.

Natural gas was touted as the bridge fuel for the energy transition. Carbon capture and underground storage (CCUS) and hydrogen production for power generation were quickly positioned as a way of saving and continuing the Oil & Gas industry, whilst providing a cleaner burning product. Following the 2014 invasion of Ukraine, Russia began to weaponize natural gas as a political tool, throwing European energy supply into disarray.

The mantra 'electrify everything' was widely adopted and such a simple phrase was easy for the public to understand as part of a transition. Even so, electric vehicles (EVs) were yet to hold significant market share, growing slowly, mostly in USA, China & Europe.

2 YEARS AGO. The energy transition was clearly not going to be smooth or simple. Many countries or regions were moving at a different pace depending on their own economic circumstances and resource availability. A lot of energy geopolitics was emerging; a global cause had become fragmented; there were fast movers, slow movers & non-movers; economic survival and energy security were forefront.

Big disruptions had appeared, for example huge demand swings in energy due to the Covid pandemic. Demand quickly collapsed as the pandemic and lockdowns quickly took hold, later seeing a steady recovery and high inflation as economic activity restarted. Oil prices surged to US\$ 80 per barrel as Covid petered out, and oil & gas companies reported large corporate profits. A much-enlarged Russia/Ukraine conflict led to supply concerns. Russian oil was frozen out of European markets through sanctions; it quickly found new markets at knock-down prices in India & China, who saw an opportunity to run their fast-developing economies with cheap oil.

UK/Europe pressed ahead with an energy transition emboldened with large government subsidies and handouts; elsewhere the USA swung towards renewables with its Inflation Reduction Act. Rapid rollouts of solar, onshore and offshore wind saw power generation capacity rapidly increasing. Chinese EVs began to expand globally finding new markets. With EVs gaining market share, there was widespread talk of a tipping point in uptake.

Many big oil & gas companies shifted strategy to invest more in renewables, with a business model to use swelling oil & gas profits to develop an array of renewables projects ranging from green power through hydrogen, biofuels and EV charging. Many introduced huge targets to produce power, particularly the European supermajors. This was accompanied by extensive green media to promote their strategic shifts.

But still, coal was king in the energy world despite all the talk of coal phase-down and phase-out, and consigning coal to history books. Demand continued to grow, and coal-fired power plants continued to be built leading many to wonder if the energy transition was real. OPEC transformed to the much larger OPEC+ but struggled for identity and relevance. The highly respected International Energy Agency (IEA) launched a bold mantra that there should be 'no new oil & gas developments' to be able to reach Net Zero by 2050. Even so, numerous COP meetings delivered little consensus and real action on implementing an energy transition.

Technologies advanced at different paces – CCUS & hydrogen projects struggled to get out of the planning phase and into the project construction stage. Elsewhere battery technology accelerated, and AI advanced at pace, both offering fundamental changes to the ways energy is produced, traded, and used.

Extreme weather events, so-called 'billion \$ disasters', received widespread coverage. Media could now transfer pictures and videos at warp-speed creating a sense of panic, while adding pressure for an energy transition. This included summer heatwaves that killed thousands, floods inundating vast areas sweeping away towns and inhabitants, and ferocious forest fires often spreading into towns and cities.

Many high-impact elections were looming, in both significant energy producers and consumer markets. A sense of nervousness emerged; these elections had the potential to change the energy transition forever and included, for example, the UK, European Union, Russia, India, Canada, Australia and USA. Elsewhere, elections in Ecuador, Venezuela, Guyana, Trinidad, Mexico, Azerbaijan, Algeria, Indonesia, and Namibia could result in large-scale changes to energy policies and regional energy trade.

TODAY. We are now living the consequences of the elections, and a great divergence in the path of energy transition is appearing. Complex new geopolitics has taken hold, with countries pulling in different directions. Global consensus on reducing emissions has disappeared and the public are often confused by what is happening.

For example, the UK has shut-down coal, subsidises massive solar and wind projects, whilst taxing its North Sea oil & gas sector to the edge of oblivion with massive job losses, it now imports much hydrocarbons from a high emissions footprint. Across the water, Norway has replaced a large part of Russian gas supply that went into Europe, it continues to pump and sell much oil, receives cargoes of CO2 from other countries who pay to store it in offshore reservoirs, whilst electrifying its country and boasts 95% EV new car sales. Chinese EVs meanwhile are expanding rapidly in markets, for example across Europe and Mexico, with lower manufacturing costs and increasing numbers of fast charging centres helping sales. Globally, renewables are now responsible for most of the growth in new electricity supply. In China and Vietnam, explosive growth in roof top solar has transformed new power generation beyond all predictions. The USA has put the brakes on renewables and is now pro-oil & gas with its 'drill baby drill' mantra. India & China fuel large parts of their economies with cheap Russian oil imports that are embargoed elsewhere. Mexico has switched from an oil-focussed strategy central to their energy economy, to new solar and wind driven growth in power generation and plans to begin fracking for natural gas to reduce import dependence on the USA. Brazil meanwhile is delivering both big renewables onshore, including biofuels, and giant offshore oil production from deepwater fields.

Oversupply of oil and weak growth in many economies, has seen oil prices slip back down to around US\$ 60 per barrel. Company mergers and shedding of staff is common. The signals point to a time of lower prices (barring new military conflicts), which may slow the energy transition. Still, oil demand has clearly not peaked, something which many economists clearly got badly wrong. Indeed, oil & gas are now seen as a mainstay of the energy sector for decades. A new term 'resilient hydrocarbons' has appeared. The concern is currently of insufficient investment for future oil & gas needs.

Realignment of oil company strategies compared to just two years ago has been dramatic, with a swift return to more hydrocarbons and less renewables in their portfolios. The IEA reversed its previous position of 'no more oil & gas investment' now replaced as seeing investment in hydrocarbons as essential; this has left many countries and companies totally confused as to what to expect.

The energy conversation has shifted to be about energy security, affordability, and a 'just transition'. There is increasing concern around 'hard to abate' emissions – ships, planes, cement – and the inability to find solutions and global agreement on actions. The most recent talks on solutions for global shipping & ports have collapsed with countries pulling in different directions, and meaningful decisions now postponed.

Whilst electrifying everything continues at pace, and renewables adoption continues, there is a weak point with insufficient investment in power grids and transmission infrastructure. To partly counteract this, the rise of batteries as a key element of the transition has astonished many. Giant batteries are now used to stabilise distribution grids increasingly fed by solar and wind. Adoption of household batteries suitable to feed homes and charged by solar is soaring. Technology now exists to hook your EV car battery up for home power consumption and then recharge it when off-peak rates are lowest, ready for motoring the next day.

The explosion in construction of AI/datacentres is starting to suck in huge new power and cooling requirements, each typically needing 200-500MW of power permanently available, and in a few large centres, 1GW. Back-up power solutions such as diesel generators are an essential part too. There is a scramble to cover the demand surge with nuclear power seeing a resurgence, and possibilities such as geothermal offering a 24/7/365 baseload in certain locations. Meanwhile a race to secure rare earth elements is fully underway, as well as other key elements of batteries and power systems, such as cobalt, lithium, copper, and tin.

The pace of energy transition has become very variable, and somewhat patchy. There is no doubt we are in the midst of an energy transition. For many, it is not simple as they expected; the complexity and scale of challenges was poorly explained and still is. The reality that we need all energy types was glossed over. Global issues, wars, and politics can, and have, thrown the transition off course. It is clear it will not be simple, smooth or straightforward; as The Beatles sang, it is a 'long and winding road'. As the song says, we need perseverance. It will take longer than many thought, and the targets to limit temperature are unlikely to ever be met. More adaptation to a changing climate will be needed. But the transition is happening.

Let's hope COP30 can make some sensible decisions and agree actions to deliver a pace of transition that is achievable.

About the author:

Chris writes an occasional series of topical articles on energy for ANZMEX. Between 2019 and 2024 he authored a series of 50 widely read ANZMEX 'Energy Matters' op-eds that tackled big energy issues using real-life personal experiences, and extensive research. Chris runs an award-winning advisory service, Reconnoitre Energies, offering insights to inform, shape a decision, policy & regulation, and guide the next steps for energy ventures; he is also a non-resident fellow at the Institute of Americas. Chris has worked in over 40 countries and published extensively over five decades.

Chris has an energy career of over 40 years, living in Mexico (2001-2018), Russia, Vietnam, Mongolia, China & UK. His contributions to the energy and education sectors have been recognised by the UK Government with both an MBE and CBE, and also the Aztec Eagle from the Mexican Government – the first foreigner in the energy sector to achieve this award. Chris' articles for ANZMEX reflect his experience and enthusiasm and are often also later published to a global audience in the USA, UK and Singapore. They are not paid for in any way.

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