Companies comprising the Petroleum (Producing) Industry are published in this Issue.

Although both European and American oil companies agree that climate change is a threat, the urgency with which they are planning to transform their businesses couldn't be more different.

For the first time in a century, there are no rigs searching for oil in Venezuela. The collapse in oil prices has left this country's economy in tatters.

M&A activity in the oil patch is increasing. Acquirers, however, are being very picky about what they buy.

This sector is one of the lowest ranked industries for Timeliness in our Survey. Selecting potential winners for the long term has become increasingly difficult.

INDUSTRY TIMELINESS: 93 (of 96)

The Climate Change Threat

The disparity between how Europe and America view the threat of climate change couldn't be more stark. European leaders have made tackling the effects of climate change a top priority, while the United States has dismantled environmental regulations to encourage the exploitation of fossil fuels. This polarization is reflected by the actions of the continent's respective oil and gas companies. While *Exxon Mobil* and Chevron are betting on a long term future for oil and gas, BP, Elf Aquitane, Royal Dutch Shell, Eni of Italy, Total of France, Repsol of Spain, and Equinor of Norway are all gambling on a future as electricity providers, using renewable fuel sources such as wind, solar, and hydro. American oil executives state that it would be folly for them to switch to renewables, arguing that it is a low-profit business that utilities and alternative-energy companies can pursue more effectively. They say that it is only a matter of time before oil and gas prices recover as the pandemic recedes. Indeed, they are doubling down on production by increasing their M&A activity (see below). After all, someone has to produce oil and gas if many of their European counterparts are shying away from it. At the same time, the U.S. conglomerates are also trying to reduce methane emissions via increased carbon capture technology. Indeed, Chevron's venture technology arm, Chevron Technology Ventures, is investing in new-energy start ups like Zap Energy, which is developing modular fusion nuclear reactors that release no greenhouse gases and limit radioactive waste. Meantime, Exxon is developing technologies that reduce emissions. One such project is directing carbon emitted from industrial activity to a new fuel cell that can generate power. In reality, oil and gas will probably be around for at least another 25 years. It will take decades to replace the more than one billion internal combustion engines on the road, as well as the fleets of trucks, airplanes, and ships that run on fossil fuels.

Venezuela's Collapse

The country's colossal oil sector, which shaped the nation and the international energy market for a century, has come to a near halt. Production has been reduced to a trickle due to gross mismanagement as a result of political corruption and the subsequent American sanctions. A decade ago, Venezuela was the largest oil producer in Latin America, pulling in about $90 billion a year. This year, it will be lucky if it nets $2.3 billion. Once a founding member of OPEC, a combination of low oil prices and corrupt political leadership have led the country to the brink of bankruptcy. A full recovery is highly unlikely, in an era of stagnating global demand, and growing environmental concerns, particularly since Venezuela's extra heavy crude is expensive to produce and highly polluting.

M&A Activity Is Likely To Increase

The prospect of tepid worldwide demand for oil and gas for some time to come is forcing many of the constituent companies in this industry to team up to survive, Chevron recently acquired Noble, and Devon Energy said it would buy WPX for $2.56 billion. Now, it looks as if ConocoPhillips will be buying Concho Resources, and Pioneer Natural Resources has agreed to buy Parsley Energy. More such amalgamations are sure to follow. However, the white knights are going to be very selective. Many of them don't want to place themselves in greater indebtedness by taking on a target's already bloated balance sheet. Smaller E&P entities, struggling to survive, are trying to make themselves look as alluring as possible (by paying down debt), in the hopes that they will attract the attention of the stronger, bigger players. Complementary asset bases, along with management teams that get along with each other are also important criteria when evaluating potential mergers.

Conclusion

WTI oil prices will have to average at least $46 a barrel before many of the companies in this sector will be able to thrive. This is unlikely to occur until some time next year, when pandemic concerns (hopefully) recede and economies around the world recover to prepandemic levels. Until then, we forsee a slew of companies in this sector struggling to survive. Already this year we have seen Whiting Petroleum, Chesapeake Energy, and Oasis Petroleum go into bankruptcy. Lastly, the outome of the Presidential election will probably be meaningful. Should Joe Biden win, the oil and gas sector can expect to see greater regulations regarding environmental safety and greenhouse gas emissions placed upon it.

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