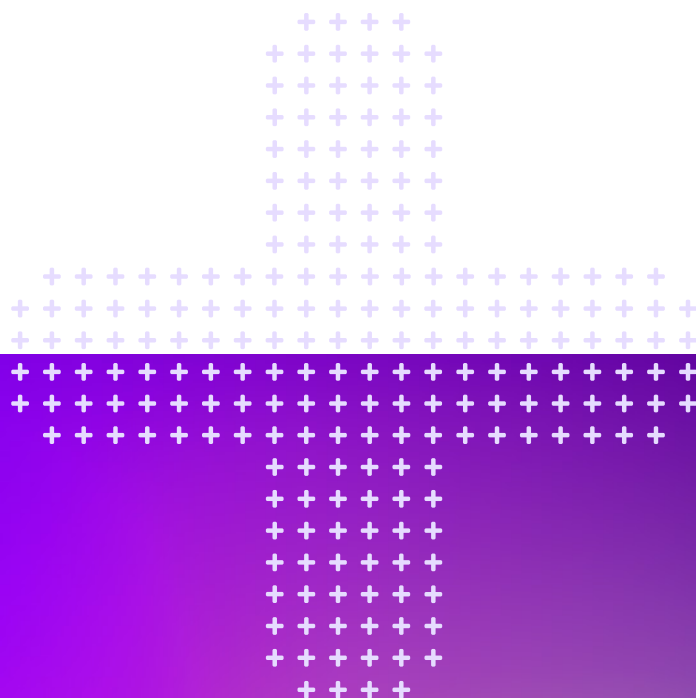


# Biden time

New US policy implications  
for the oil and gas industry



**US President Joe Biden, sworn into office on January 20, 2021, prioritized climate and clean energy issues during the election season. Now, just a few months in office, President Biden and his administration have started delivering on some of the promises made on the campaign trail. Their actions on climate change, clean energy and greenhouse gas (GHG) reduction will clearly have lasting implications for oil and gas (O&G) companies—and the larger energy transition.**

Accenture has analyzed the likely impact of the new administration's positions and policies on the energy industry—looking specifically at what the proposed policy changes will mean to the energy market as a whole and to the competitiveness and operating models of O&G players. While the consequences of some policy elements will be minimal, others will require companies to take bold and fast action. Those that correctly target their response to the new agenda will be the likely leaders in the energy transition—for the next four years and beyond.

# Brace for impact

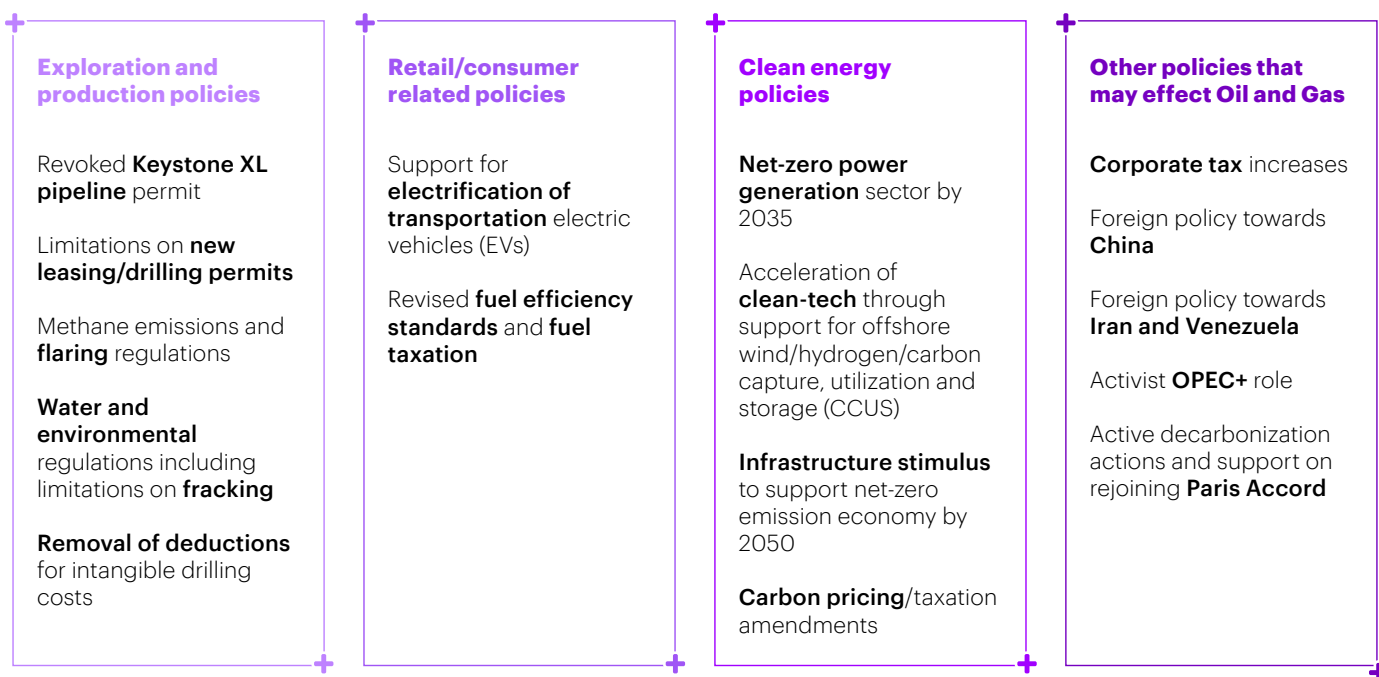
President Biden has made climate policy and GHG reduction a top priority for his administration.

During this presidential campaign, he proposed an infrastructure and clean energy investment program that has two primary goals:

- Driving a sustainable economic recovery through equitable job creation
- Achieving a 100 percent clean energy economy with net-zero emissions by 2050

We anticipate the Biden administration will take that campaign blueprint and produce a bold plan that will consist of both executive and legislative actions, which we have decomposed into 16 key elements as seen in **Figure 1**.

**Figure 1. Components of Biden action plan likely to impact oil and gas companies**

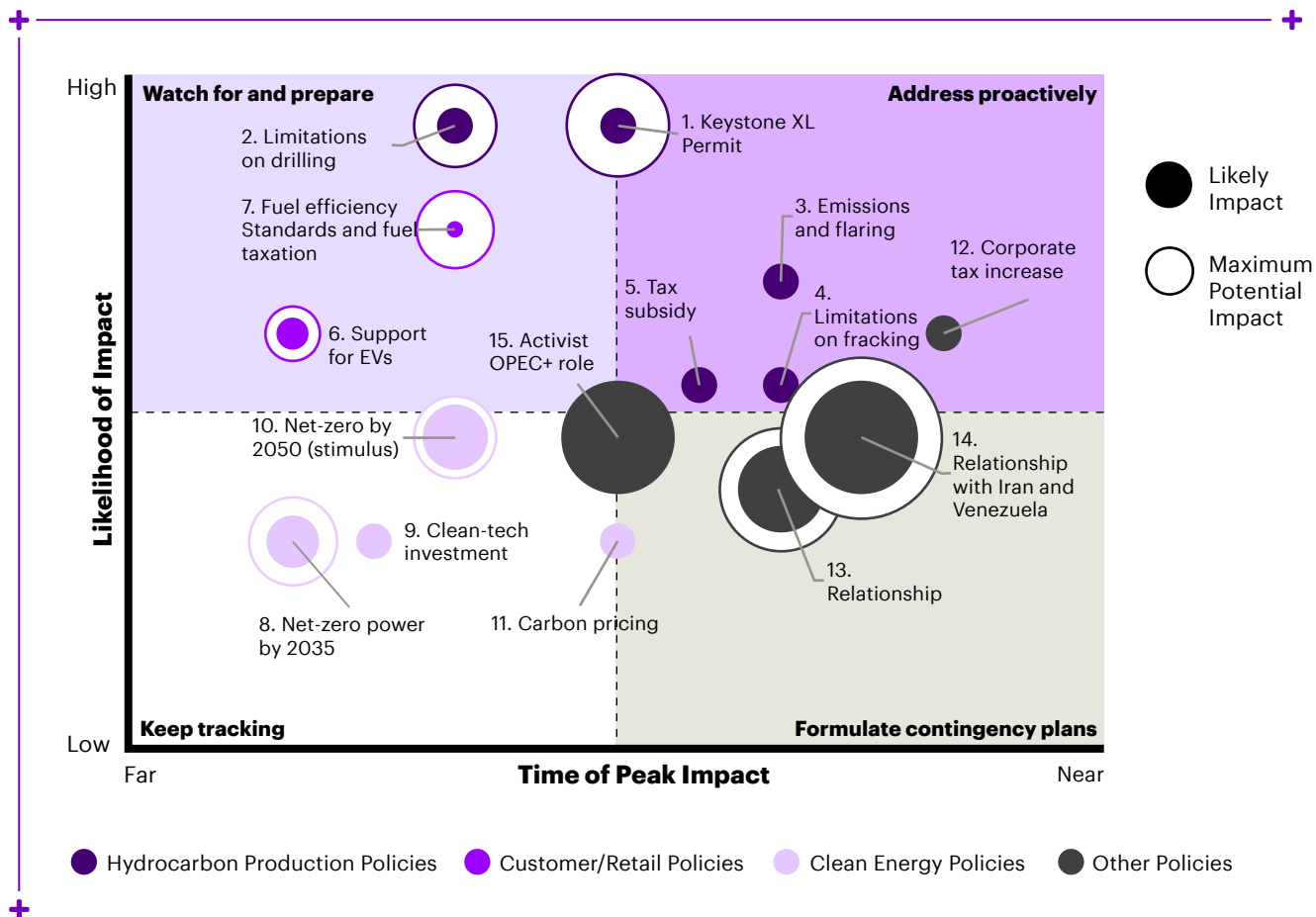


# Impact on markets

The administration's comprehensive plan will have a direct bearing on oil and gas markets.

The magnitude of the impact of the plan's elements will vary, as will the time that peak impact is expected to occur. For O&G companies, understanding the likelihood and timing of each is critical for an effective response as seen in **Figure 2**.

**Figure 2. Accenture's analysis predicts that the Biden administration's energy policies will generally have less of an impact on markets than many oil and gas players fear**





A handful of policies have already been initiated through executive action. These include the revocation of the Keystone XL Pipeline permit, restrictions on new leasing and drilling permits on federal acreage, new regulations for managing methane emissions and flaring and rejoining the Paris Accord. Another change that is expected to be introduced soon involves revising vehicle fuel efficiency standards.

While the effects of these early actions on O&G supply and demand is likely to be relatively low, they will clear the way for passage of clean energy policies. Yet, these policies—such as those focused on accelerating regulations, clean-tech investments and the decarbonization of power—are also expected to only have a low-to-moderate impact on global O&G markets in the medium term. That is because it is unlikely that they will be as aggressive or ambitious as many players believe. What these policies will do, however, is significantly accelerate the expansion of markets for clean energy solutions. With new regulations and government investments on the one hand and cross-sector support on the other, both the supply of and demand for clean energy and related services and products may likely soar.

All this is not to say that the Biden administration’s policies won’t have an effect on O&G supply and demand. They will. But it is not the policies that are directly related to clean energy or the industry’s exploration, production and retail activities that will drive sea-change this decade. It likely would be the new administration’s foreign policies towards China, Iran, Venezuela, Russia and OPEC. Expected improved relationships will translate into higher global supplies of liquid hydrocarbons. Over the medium term, we expect the Middle East and OPEC nations to gain share, although the United States will remain the leading O&G producer.



# Impact on competitiveness

Renewed focus on decarbonization across industry sectors—including energy.

To remain competitive in the lower-carbon world, O&G companies will have little choice but to accelerate their efforts to reduce the carbon intensity of their operations and simultaneously scale low-carbon energy services and products. Policies in four distinct areas are driving the need for change across the value chain.

The administration's policies pertaining to **hydrocarbon production** will introduce new regulations on emissions, limitations on new drilling on federal lands, and a possible rollback of drilling cost subsidies. These changes will increase the cost of production and make hydrocarbon-based sources of energy less economically viable. In the short term, O&G companies will need to respond by rebalancing their portfolios to lower-emission assets and collaborating with others to address new regulatory hurdles. Supply chain resource sharing or co-investing in carbon capture infrastructure are possibilities. In the medium term, production costs for US companies may rise even more, making more wells uneconomical. Increased oil imports, especially from OPEC+ nations, will further squeeze profitability. In this environment, we can expect to see more aggressive portfolio rebalancing, greater market consolidation among today's players, as well as a greater risk of bankruptcies for smaller independents and upstream service companies.

## Consumer- and retail-related policies

namely, the administration's support for transport electrification and revised fuel efficiency standards—will have a relatively modest impact on O&G companies' competitiveness in the short term. Over the medium term, however, a different story emerges. A sharp fall in battery prices, coupled with a drop in fuel demand as more Corporate Average Fuel Economy (CAFE)-compliant vehicles become the norm, may reduce demand for liquid fuels by up to 10 percent. Companies should rethink their biofuels strategies and/or create differentiated and innovative retail offerings to cater to new customer preferences to be better positioned to weather the medium-term disruption.

## Clean energy policies

will likely have the most impact on O&G companies' competitiveness.

The goal for net-zero power generation by 2035 means, in the short term, US gas demand will likely rise to offset the diminished role for coal. At the same time, a reduction in liquid natural gas (LNG) exports increases the likelihood that Russia and the Middle East will dominate global gas markets. In the medium term, the prospects for US gas dim as power plants increasingly rely on renewable sources of energy. Other clean energy policies related to carbon pricing and taxation amendments could eventually lead to a big shift in global industry economics. Mergers and acquisitions, along with bankruptcies among smaller players, will likely become more prevalent.

But clean energy policies also present a host of opportunities for today's O&G companies to recast their competitive advantage. The accelerated investment in clean tech in the short term, along with medium-term infrastructure stimulus spending to support a net-zero emission economy by 2050, will encourage companies to change their portfolio strategies to incorporate renewable assets and commercialize scalable clean-tech, CCUS, and blue and green hydrogen solutions.

## Other policies not directly targeted at the oil and gas industry or clean energy

also could potentially change the competitive game for today's players.

A corporate tax increase to 28 percent, for example, would likely lead to a long-term negative impact on upstream profitability. The impact on mid- and downstream players would be lessened by these companies' likelihood of passing on their additional costs to customers.

Then there are the foreign policy proposals. The potential of an improved relationship with China would likely result in a \$25 billion boost in US energy consumption and LNG exports through the implementation of the US-China Phase 1 trade deal. More stable and transparent relationships with Iran would likely lead to increased supply and lower global oil prices and impact OPEC+ efforts to rebalance the market, at least without increased economic pain. These market impacts will pose particular risks to smaller upstream players still navigating their COVID recoveries.

# Impact on oil and gas operations

Energy and foreign policies will resonate across the energy industry.

There are three actions that all O&G companies should consider, regardless of their role in the hydrocarbon value chain

**Increase collaboration.** To offset the pending rise in operating costs and tariffs, all players should look for opportunities to come together to reduce expenses. Sharing assets or supply chain infrastructures may be the logical place to start. At the same time, companies should consider joining forces to commercialize new solutions and services. Beyond sharing insights and innovations, they might co-invest in carbon capture and other decarbonization infrastructure and technologies.

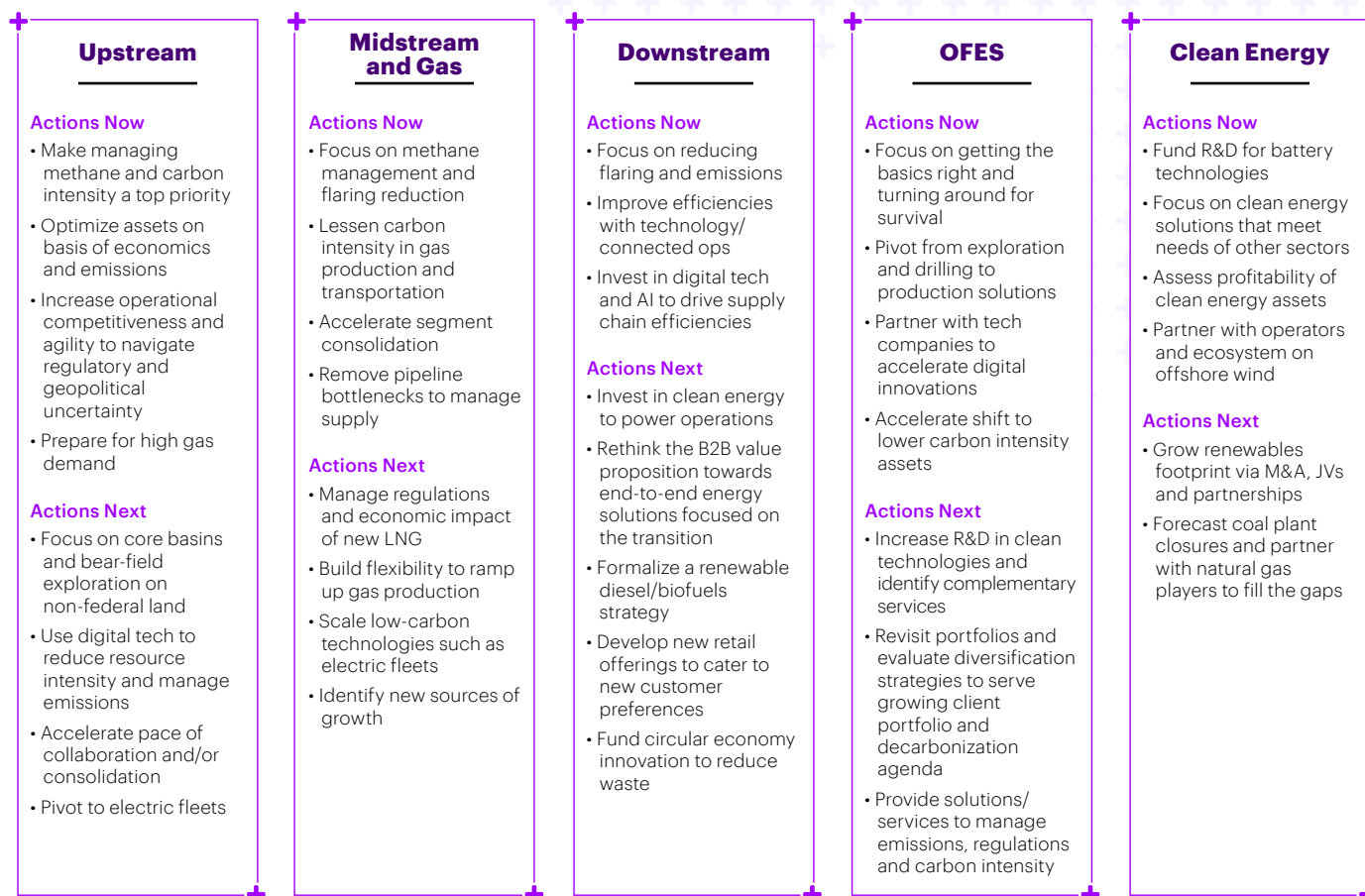
**Rebalance portfolios.** Success in O&G will be measured by value created—not by the volumes of O&G produced. The Biden administration's policies will accelerate the need for companies to move towards lower-emission and more economically viable assets.

**Boost digital investments.** To offset some of the industry costs associated with the Biden administration's policies, companies should accelerate their investments in digital technologies and AI. These technologies not only help to streamline processes, but also enable the agility and connected decision-making, automation and remote operations that will characterize tomorrow's winners.



Beyond these no-regret actions, we believe companies in the various value chain segments should carry out specific activities to address the respective challenges and opportunities that the new US policies present as seen in **Figure 3**. The implications of new policies will differ for each type of player. So should these players' responses. Their strategies, as well as their near-term and medium-term actions, will determine not only how well they navigate the changes that will materialize over the next four years and beyond, but also their role in the accelerated energy transition.

**Figure 3. Policy implications for oil and gas players across the value chain require decisive near- and medium-term actions**



# Meet the moment

The Biden presidency has made energy policy and emissions reductions top priorities. Several early executive actions—chief among them the revocation of the Keystone XL pipeline permit and limitations on new leasing and drilling—have already been issued. More ambitious policy changes will require legislative action.

Some of the pending policy changes will disrupt traditional players' business and operating models. But others will provide funding and incentives to companies looking to reimagine their roles in the new energy system.

Winners in the energy future will not simply bide their time for the next four years. They will address the financial, operational and environmental challenges that have been simmering for years. They will effectively brace for the impact of the Biden administration's policy changes. And they will boldly seize the opportunities these new policies hold.

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