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Industry Forecast: Regulatory easing, with the threat of tariffs

The forecast for the oil & gas industry is bright, but brace for some short-term uncertainty.

Each March, the annual seminal event that is CERAWeek occurs in Houston, bringing together industry executives, policy influencers, and thought leaders to discuss the state of the global Energy industry.

In January, I published a piece for Maine Pointe on LinkedIn entitled, “Forecasting Energy and Oil & Gas in 2025: Harnessing Trends & Cultivating Opportunities.” The key takeaways were that global energy demand continues to increase (with no signs of slowing), the new administration in the United States seems intent on delivering on their promise to drive deregulation (and also possibly impose tariffs), and companies must remain hyper-vigilant on cost and supply chain resiliency to remain competitive.

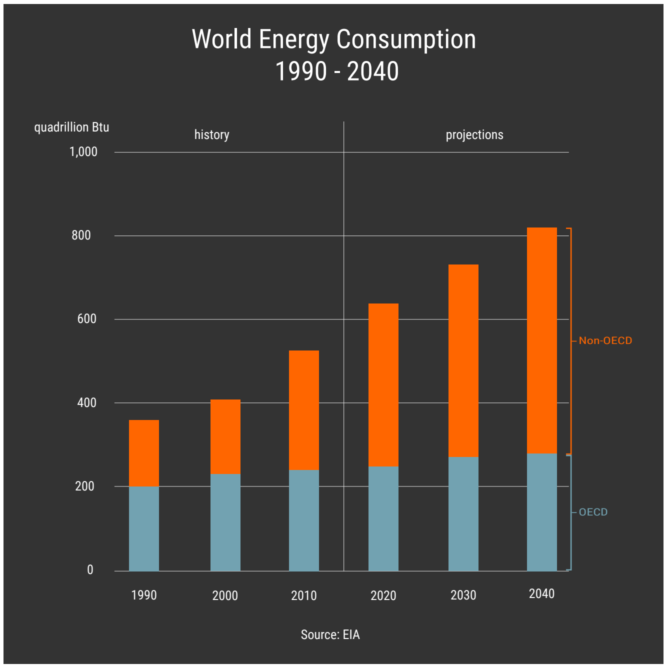
In the spirit of CERAWeek, I wanted to dive into a bit more detail about what companies need to be aware of in 2025, and where to focus your efforts to navigate industry headwinds and take advantage of tailwinds.

Industry-Friendly Administration, Growing Demand, and Tariffs

The new administration appears committed to keeping the U.S. oil & gas industry growing. As Chris Wright, President Trump's recently confirmed Secretary of Energy (and a keynote speaker at CERAWeek) has said, his first priority will be to "unleash American energy at home and abroad to restore energy dominance." Treasury Secretary Scott Bessent has also made it clear that keeping American oil & gas flowing is a key part of the Trump economic strategy.

To support that aim, the administration has pledged to cut a variety of regulations. Changes on the Trump wish list include reform to rules regarding permitting on federal lands, rollback of federal emissions regulations, and the expansion of leasing programs. Additionally, looser interpretation of antitrust rules may also encourage more M&A deals.

Global demand for oil & gas continues to increase, especially in fast-growing developing countries. Added to that, data centers that support digital storage, artificial intelligence, and cloud computing, are expected to drive energy demand upwards. Goldman Sachs estimates that global data center energy demand will rise from 59 gigawatts of electricity in 2025 to 84 GW by 2027. Overall, Goldman estimates that data-related power consumption could rise 50% by 2027 and as much as 165% by the end of the decade. This is a dramatic increase in demand in a short period. The power required by data centers may lead to spikes in electricity prices, which should in turn drive greater demand – and higher prices -- for natural gas.



Natural gas producers had other good news recently as well. On Jan. 20, his first day in office, President Trump issued an executive order lifting a pre-existing freeze on new liquified natural gas exports. The new LNG processing and export facilities now moving forward as a result will provide producers in the U.S. with access to lucrative foreign markets, particularly in Asia.

But those gains may be at least partially undone by potential trade wars. Wood Mackenzie, the energy analytics service, estimates that even if just some of the President's threatened tariffs are implemented, they could slow the global economy significantly. In their model, with a 60% general tariff against China and 10% against the rest of the world, Wood Mac predicts there would be a 50-basis point hit to global GDP. This could reduce daily oil consumption by as much as 0.5 million barrels and shave off USD$5 to USD$7 per barrel.

Tariffs that encourage U.S. metals production could actually lead to even greater electrical demand – at the same time as the National Renewable Energy Laboratory estimates that 55% of power transformers are ending their natural life.

Interestingly, at the moment, investors don't seem overly concerned about the tariff threat. Robert Armstrong of the Financial Times noted recently that the world's stock markets haven't budged before, during, or after any of Trump's tariff dramas, suggesting that the market has either already priced in the impact of tariffs, or that investors are skeptical that they will be applied. Within the industry, however, we do expect to see companies continuing to incorporate nearshoring of their supply chains as a strategic tactic to reduce exposure to potential tariffs and other geopolitical risk.

Continued M&A Activity

Of course, changes in Washington don't determine everything that happens in the industry, as a variety of pre-existing structural factors will drive continued elevated M&A activity.

Upstream companies have maintained an ethos of capital discipline over the past 5+ years and have increasingly focused on buying proven assets to reduce the need for expensive organic exploration & development, or assets that can be rapidly integrated with strongly accretive synergy opportunities.

Within the oil field services space, the spending discipline of upstream companies has resulted in a challenging environment for many smaller oil field service companies. This situation has the potential to drive a number of deals, as healthy larger, integrated oil field services majors roll up smaller, cash-strapped firms.

There is also a large (and growing) amount of private equity and institutional money on the sidelines, looking to be put to work.

In 2019, many major funds backed away from oil & gas, which was perceived to be a dying and dirty industry. But oil & gas has proven its ability to deliver consistent returns, political / social pressure to divest from the industry has softened, and some of these large investors have started to come back. Although companies looking to grow scale and efficiency continue to drive most M&A deals, we expect that institutional investors in search of profitable, long-term investments will play a bigger role in 2025.

Upstream operators with cash to spend, financially challenged oil field service companies, returning institutional capital, and continually increasing demand for energy will continue to fuel the merger and acquisition market, which has been historically active over the past couple of years. Some industry observers have suggested that M&A may die down in 2025. In fact, overall deal value seems likely to remain at an elevated level, with one possible tweak being a change in the average size of the transactions, as smaller deals take the place of the mega-deals of recent years.

Getting ready

A healthy oil & gas industry, primed by deregulation, accelerated oil & gas permitting, swifter approvals for M&A transactions and new infrastructure (such as natural gas pipelines and LNG facilities), are likely to push many companies to act this year. To be prepared for the opportunities that come your way in 2025:

- Make sure your finances are solid. Financial stability is paramount, whether you see yourself as an M&A suitor or a target.
- Undertake strategic improvements to optimize your materials, labor, and logistics costs. Cost control is no longer just a nice-to-have — it's expected.
- Build supply chain resiliency by reducing your supply chain's exposure to borders. Lowest landed cost used to be everyone's mantra. Now reliable delivery and security of supply should take higher priority.

Getting ready

For decades, people have talked about "the end of oil" and made predictions about "peak oil," yet the future still looks very bright for the oil & gas industry. Global energy demand is expected to reach 800 quadrillion BTUs by 2040, roughly 25% percent more than the world currently produces, according to estimates by the International Energy Agency. People need energy today, they will need even more energy tomorrow, and the oil & gas industry is well-positioned to help supply it.

Sheehan Gallagher
Managing Director, Energy Services
Co-Head, Natural Resources
sgallagher@mainepointe.com
Contact Us | Maine Pointe

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