

Acute	Chronic	Legal and policy	Market	Technology	Reputational
Physical risk			Transition risk		

Chevron's Gulf of Mexico Plans Caught in Legal Battle Over Protecting Rare Whale

Legal challenges to oil and gas development in the Gulf of Mexico demonstrate the increasing risks faced by the sector as nature losses mount. A lawsuit filed by environmental groups to protect a newly discovered, critically endangered species – the Rice’s whale – delayed lease sales that are key to Chevron’s growth plans in the region. While no financial penalties have been imposed on the supermajor and the lease sales are now set to proceed, the case highlights the nature-related uncertainties that could impact future expansion opportunities.

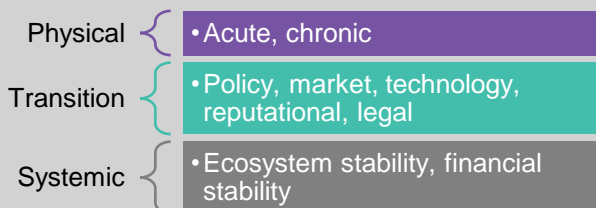
41% Share of gross value added in the oil and gas industry’s direct operations that is moderately or highly dependent on nature

23 Number of environmental lawsuits involving Chevron and its subsidiaries in the past three years

300,000 Number of barrels of oil equivalent per day Chevron is targeting in the Gulf of Mexico, home to the critically endangered Rice’s whale

Nature risk explained

Nature-related risks are the **physical**, **transition** and **systemic** threats posed to an organization as a result of its dependencies and impacts on the natural world. Each comprises specific risk types:



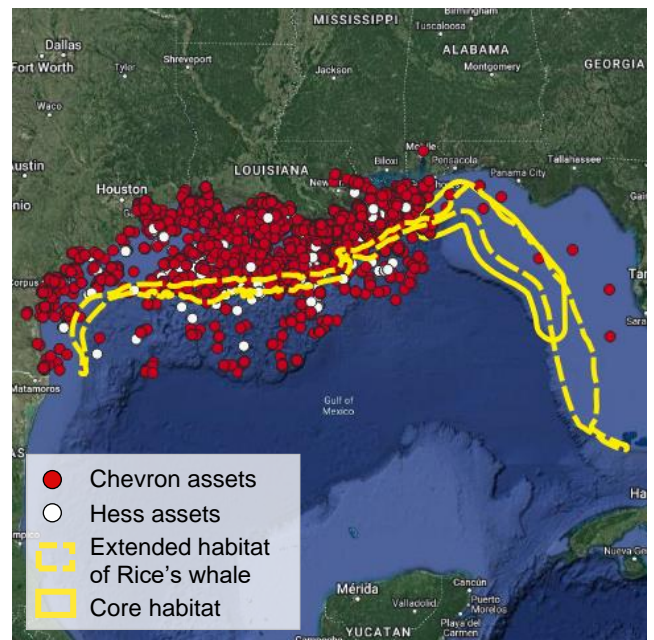
These dependencies and impacts are explored in depth in the accompanying report ([web](#) | [terminal](#)).

Manifestation of nature risk

Chevron Corporation ([NYSE: CVX](#)), a \$270 billion oil and gas company, has global operations across many major oil producing regions. In October 2023, it announced the buyout of Hess, an independent energy company in an all-stock, \$53 billion transaction, increasing its footprint in the Gulf of Mexico. Chevron plans to consolidate its operations in the region, having placed the highest number of bids in the most recent licensing round, at the end of 1Q 2023.

The Gulf of Mexico is also home to the Rice’s whale, a critically endangered species that was only formally identified as having diverged from other baleen species through isolation in the Gulf in 2021.

Proximity of Chevron and Hess’ upstream assets to Rice’s whale habitat areas in the Gulf of Mexico

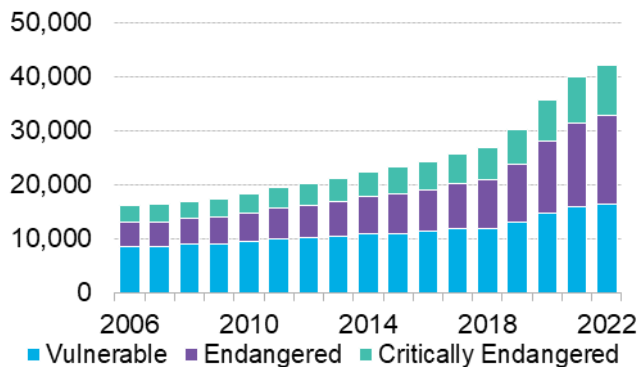


Source: BloombergNEF, US Bureau of Energy Ocean Management.

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The Rice's whale is one of a growing number of threatened species. As these species' numbers dwindle – and awareness of their threatened status grows – projects that interfere with them face increasing risk. By the end of 2022, over 42,000 species were listed as threatened, an [IUCN](#) category that covers critically endangered, endangered or vulnerable species.

Number of threatened species continues to grow



Source: International Union for the Conservation of Nature, BloombergNEF. Note: Threatened species include those that are critically endangered, endangered or vulnerable.

The Rice's whale is endemic to the Gulf of Mexico; only 51 individuals are believed to now exist. Oil and gas extraction has a major impact on Rice's whales, exemplified by a 20% decline in the population following the BP Deepwater Horizon spill. Effects of the spill itself on the species include reproductive failure and disease. Vessel collisions also negatively impact the marine mammals, as they rest at night in the shallowest surface waters, and noise from industry interferes with their communication.

Some 5% of the wells currently operated by Chevron fall directly within the whale's habitat area, while 8% require traversal of this area as they are located in the deep and ultradeep parts of the Gulf. All of the areas Chevron is targeting for growing its Gulf portfolio are also in these deep and ultradeep regions – those with water depths greater than 1,000 feet (305 meters) and 5,000 feet, respectively – with associated vessel movements likely to impact whale habitats. Chevron is aiming to reach production of 300,000 barrels of oil

equivalent per day (boe/d) by 2026 in the Gulf, a 50% increase from its current output levels.

Managing nature risk

Regulators have long been aware of the environmental impacts of oil and gas development. To analyze the impacts of new activity in the Gulf of Mexico, the National Marine Fisheries Service (NMFS), a US federal agency, [released a biological opinion](#) in 2020 concluding that development of new oil rigs would threaten endangered whales given the risk of collision, and proposed recommendations to mitigate this risk. Several environmental groups [sued NMFS](#) in 2020 as they deemed the study did not properly assess the environmental impact. They reached a [settlement](#) with the agency in August 2023, following which the US government implemented a variety of measures to protect the whales, including withdrawing acreage from the license area, a vessel speed limit of 10 knots and a requirement to maintain a minimum 500 meters distance from any sighted Rice's whale.

In response to these changes, Chevron, Shell, the state of Louisiana and the American Petroleum Institute (API) sued the Department of the Interior and were granted an injunction that would allow the lease auction to take place on November 8. Later, the court granted an order indefinitely staying the injunction, but a hearing on November 13 [determined](#) that the sale could proceed without added the protections for the Rice's whale, such as vessel traffic restrictions. Lease Sale 261 is scheduled to take place on December 20.

Financial impacts on Chevron

With the sale now set to proceed, Chevron is unlikely to incur any immediate financial losses aside from court fees and costs from delays. But the economic impact of vessel restrictions could have led to a potential drop of 620,000 boe/d in the entire region's supply on average between now and 2040, according to industry [analyses](#). Depending on commodity prices, this supply shortage could have translated into reduced revenue of \$31 million to \$49.6 million (assuming \$50 per barrel for the low case and \$80 for

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the high case) for the oil and gas industry, as those volumes would have otherwise been produced and sold by operators. Chevron accounts for almost half of this total.

In the long term, Chevron’s assets in the Gulf of Mexico may be at risk of becoming impaired or incurring costs if environmental laws to protect the critically endangered whale are strengthened. This could be instigated by an increase in litigation around climate change and biodiversity. Gulf of Mexico primary lease terms can range from at least five to 10 years based on water depth, and offshore projects usually have lifespans of 20 to 30 years before being decommissioned. Were Chevron’s project to become uneconomical due to environmental restrictions, the company may decide to relinquish its licenses, leading to tens of millions of dollars in additional losses.

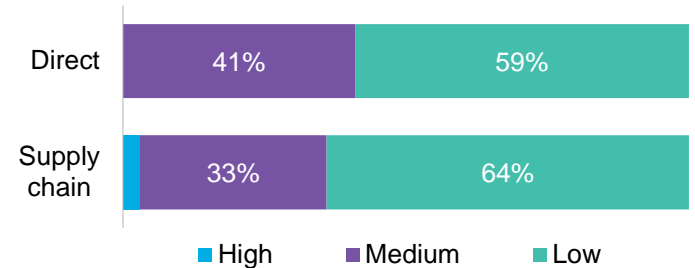
Chevron declined to comment on this case study.

Nature risk across the oil and gas sector

The extractive operations and global footprint of the oil and gas sector expose companies to significant nature risks. These risks are physical (such as oil spills), transition (non-compliance with shifting environmental regulation) or systemic (macroeconomic changes tied to nature moving global demand away from fossil fuels). According to the World Economic Forum, 41% of the sector’s gross value added through direct operations – and 36% through its supply chain – is moderately or highly dependent on nature.

The ENCORE nature materiality matrix highlights 10 ecosystem services on which production processes are dependent, with three deemed to be of very high materiality and covering direct physical inputs, water quality, and flood and storm protection. ENCORE further classifies the sector as having one of the largest impacts on nature – 10 impact drivers are deemed to be of at least moderate materiality, with eight considered high or very high. Careful management of these impacts and dependencies is needed to contain nature risk for the sector.

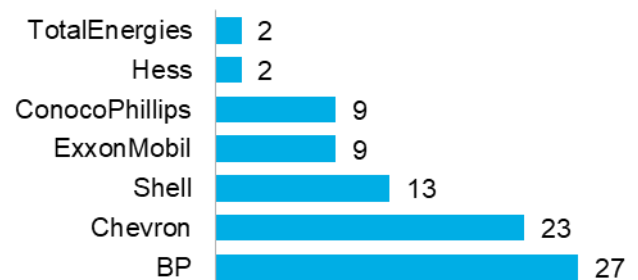
Nature dependency of gross value added across oil and gas sector’s direct operations and supply chain



Source: World Economic Forum, BloombergNEF.

The legal wrangling Chevron was involved in over oil extraction in the Gulf of Mexico is not an anomaly. Other oil and gas majors have likewise been subject to recent environmental lawsuits, with BP and Shell among the most frequently involved. Such cases are more likely to occur in offshore licensing instances rather than onshore exploration – except in environmentally sensitive areas such as the Arctic – but are nonetheless highly location-specific. It is likely that environmental groups will continue pursuing lawsuits against operators in the Gulf, amplifying litigation risk for the sector.

Environmental lawsuits involving oil majors in the last three years



Source: BloombergNEF. Note: Includes subsidiaries.

The US Bureau of Ocean Energy Management has considered options for 10 further potential lease sales by 2029 in its proposed program, as well as one in Alaska’s Cook Inlet region, where compounds from fossil-fuel production have been found to be an underlying cause of a decline in the Beluga whale population. The growing legal risk to the sector is in spite of regulatory attempts to minimize ecological

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damage: for decades, the industry has had to undertake environmental assessments prior to the development of new projects. The cases of BP, Shell and ConocoPhillips demonstrate the legal risks and the deficiency of these assessments to account for nature loss.

Risks and opportunities for adjacent firms

Company	Risk type	Description
BP	Legal, physical, and reputational	BP's Deepwater Horizon spill released 3.19 million barrels of oil into the Gulf of Mexico and was subject to a Clean Water Act penalty. The company paid \$63.4 billion in clean-up costs and legal fees linked to the spill.
Shell	Legal and reputational	In September 2023, the state of California sued several oil majors, including Shell, on the grounds of downplaying fossil-fuel-induced climate risks and biodiversity loss. The company said that it does not believe the courtroom is the right venue to address climate change.
ConocoPhillips	Legal and systemic	Conoco's \$8 billion oil and gas Willow Project in Alaska was imperiled by a lawsuit brought by environmental groups over its potential climate and biodiversity impact. The company stood to lose the \$100 million it had invested into project development, before the lawsuit was dismissed by a federal judge in November 2023. Environmental groups are considering a potential appeal, which could cause further delays.

Source: BloombergNEF.











Biodiversity is starting to be factored into oil and gas company strategies, though large US players, such as ExxonMobil, ConocoPhillips and Chevron, lag their peers in terms of target-setting, managing oil spills and forgoing footprint expansion.

Colombia's Ecopetrol, a TNFD Taskforce member, was the first to indicate it will start disclosing against the TNFD recommendations.

Petrobras, TotalEnergies and Repsol are leading majors, establishing short- and long-term nature targets and providing better disclosure of biodiversity

metrics. Petrobras discloses metrics of capital allocated to biodiversity projects.

Major oil companies' biodiversity strategies and risk exposure metrics

	Year for biodiversity targets*	Spills	Assets/area affected	Mining expansion
 PETROBRAS	2025	9	114km ²	No
 TotalEnergies	2025	49	282	Yes
 Shell	2025	129	14	No
 ExxonMobil	-	171	30%	Yes
 equinor	2030	111	27	Yes
 eni	2026	280	155	No
 REPSOL	2050	24	13	Yes
 bp	2025	108	9	Yes
 ConocoPhillips	-	178	8	No
 Chevron	-	71	-	Yes

Source: BloombergNEF, company reports. Note: Colors represent BNEF assessment of metrics. *Includes water targets. Assets/area affected refers to number of sites of area coverage located in nature-sensitive areas or intersecting conservation units.

Oil majors will likely continue exploring and drilling in sensitive environmental areas. As they do, an awareness around integrating biodiversity and ecosystem services management to better manage and mitigate the impacts on biodiversity could prove to be expedient.

More from BNEF:

BNEF Oil and Gas Transition Scores 2023: Results and Analysis ([web](#) | [terminal](#))

Theme: Decarbonizing Oil Refineries ([web](#))

Theme: Fossil Fuels Flourish Despite Energy Transition Push ([web](#))

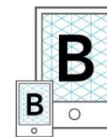
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