OIL COMPANIES' STRATEGIES IN CONTEXT OF ENERGY TRANSITION

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Prior to the beginning of the 21st century, the dominating oil market paradigm was based on the 'peak oil' theory. Oil prices were expected to rise for the reasons of inevitable resource depletion. However, recent trends reveal the shift of the market paradigm from the context of resource constraint towards resource abundance. While increasing efficiency of energy use leads to a slowdown of oil consumption [9], technological progress allows to expand the resource frontier as demonstrated by the shale revolution in the U.S. The entry in force of the Paris climate agreement adds supplementary constraints on traditional fossil fuel industries. The greenhouse gas emissions reduction implies the "unburnable carbon" problem. As demonstrated in McGlade & Ekins [4], about 33-35 percent of word oil reserves should not be developed in perspective to 2050 to limit the global temperature rise. Besides regulatory norms fostering the adoption of renewable energy technologies and more efficient energy use, numerous bottom-up and voluntary initiatives (i.e. carbon divestments campaign) negatively affect fossil fuel consumption and investment attractiveness of the oil industry.

Emergent strand of literature investigates impacts of energy transition pathways on oil companies' strategies [2, 6]. However, the relevance of this issue has not been thoroughly assessed with a specific focus on Russian companies. The present paper aims to highlight the importance of this issue and to provide a step towards qualitative assessment of climate challenges for Russian oil companies. The research questions are the following:

(1) What are the relative advantages and disadvantages of Russian companies in context of long-term constraints on world oil demand?

(2) How could Russian companies adapt to new market conditions?

The research is based on multiple case analysis. Information is gathered from open sources (international statistics, companies' reports and press releases).

Firstly, the long-term market trends are discussed. In the coming decades, the envisaged decline of oil consumption in OECD countries will be compensated by the expansion of demand in emerging economies, in particular in China and in India [3]. In perspective after 2030-2040s, a stabilization or decline of global oil consumption in expected [8], thus raising the question of necessary adaptation of oil companies' strategies. Possible options may range from denial of changes to a radical shift of business from oil to renewables [2]. More specifically, possible options include implementing cost savings, more mega-mergers, optimizing portfolio of assets, diversification, developing in-house technologies or downscaling operations to OECD countries [6].

Russian companies are vulnerable to the shift of the world oil market paradigm given the high dependency on foreign markets. Internal consumption in Russia stands for only 26 percent of production volumes [1]. Nevertheless, we argue that Russian companies dispose of significant advantages, which are primarily based on low upstream costs. As reported by Rosneft [5], company's lifting costs are about 6.5 times lower in comparison to ExxonMobil, Shell or Chevron. Moreover, implementation of a more flexible taxation system in Russian oil upstream could foster price competitiveness of Russian oil and therefore a more efficient use of reserves [7].

Cost advantage provides grounds for forward vertical integration strategies allowing to secure final demand through acquiring stakes in the downstream segment. Rosneft operations in refining segment in Germany testify to the relevance of this strategy.

Another opportunity for Russian companies is their strategic positioning in the fast growing emerging economies, in particular in China and in India. Several long-term export contracts and joint projects in downstream segment with Chinese companies demonstrate this trend. It is noteworthy that Russia outperformed Saudi Arabia as a major supplier of oil to China in 2016. Recent acquisition by Rosneft of a 49 percent stake in Essar Oil – the owner of India's second largest Vadinar refinery – allows for synergies and further expansion in fastest growing Asian consumption centres. High-level political contacts create favourable institutional context for commercial operations.

Cost savings also find their place in the case of Russian companies. We argue that uncertainty of the external economic environment (also due to the economic sanctions) implies that several high-cost complex projects are postponed while the efforts are intensified on enhancing recovery from brownfields.

Technological sanctions stimulate the import substitution policy in the oil service industry, although the cost of capital may restrain the development of in-house technologies.

Finally, to a very limited extent, Russian companies invest into alternative energies (Lukoil) to acquire a stand in high-potential business segments.

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