

Russia energy stocks get a boost from Biden's green push



Bloomberg /Moscow

US President Joe Biden's push to slash carbon emissions may inadvertently give a short-term boost to energy companies in one of the world's biggest polluters.

Investors are betting that Russian oil giants such as Lukoil PJSC, Rosneft PJSC and Tatneft PJSC will rally as they mop up market share from rivals in the US and other countries seeking to switch to clean energy. An index of Russian energy stocks has returned 8% in dollar terms so far this year as crude prices rallied, compared with 2% for European oil and gas companies.

"Governments will likely limit global companies' capacities to drill and extract resources," said Eduard Kharin, who helps oversee \$1bn of assets at Alfa Capital Asset Management in Moscow. "The global majors are entering a new market, a new industry where there are a lot of unknowns, and the return on capital is unclear."

Russia is the world's fourth-biggest carbon emitter, but

unlike other major polluters, the government doesn't have a plan to transition away from fossil fuels. Instead, its state-owned energy companies benefit from some of the world's lowest production costs and tax breaks, making them well placed to gain in the short term.

Global oil companies will stop investing in exploration and shift to clean energy, "but somebody still needs to produce oil," said Ekaterina Iliouchenko, a money manager at Union Investment Privatfonds GmbH in Frankfurt, who increased exposure to Russian oil stocks last year. "That'll be the Russians and Saudi Aramco".

Rosneft and Lukoil have been among the best performers in Russia's benchmark equity index so far this year, handing investors total returns of 15% and 12% in dollar terms. They've also outperformed an index of global energy stocks.

Of course, any benefits will be short lived if major economies are serious about speeding up the shift to clean energy to limit global warming. Biden is planning to set a net-zero target for the US for 2050, meaning that 70% of the world economy will soon have made commitments to be carbon neutral by the middle of the century.

Many international funds are also coming under increasing pressure to cut companies that contribute to global warming from their portfolios. President Vladimir Putin was quizzed at an online investment forum late last year over how his country plans to cut emissions, and Swedbank Robur subsequently excluded oil and gas companies from its Russia and Eastern Europe funds.

Rosneft this month signed an agreement with BP Plc to cooperate to produce "low-carbon solutions," but critics pointed out that the plan is at odds with the Russian company's focus on expanding hydrocarbon production.

Biden signed an executive order late last month suspending new oil and gas leases on public lands, directing federal agencies to purchase electric cars by the thousands and seeking to end fossil-fuel subsidies.

The move could hurt US shale producers, whose output helped

put a cap on gains in global oil prices in recent years.
A raft of European oil companies have recently set climate targets, with BP stunning investors by promising to eliminate emissions from its operations by 2050.