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Environmental Ratings as a Market Instrument for Greening Economy and Management in Russia

2nd Preparatory Meeting/25th OSCE Economic and Environmental Forum, Astana

www.wwf.ru

 **Environmental responsibility: new global competition terms**

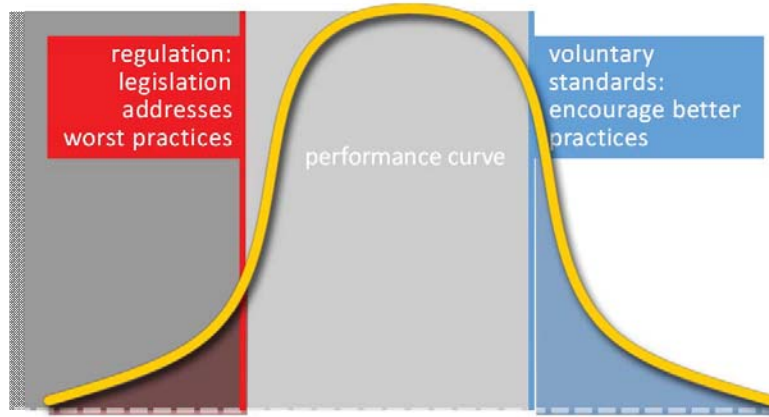
- Manufacturer environmental responsibility
- Environmental and energy efficient products
- Environmentally sensitive markets
- International environmental standards
- Best available technologies

Green economy mechanisms

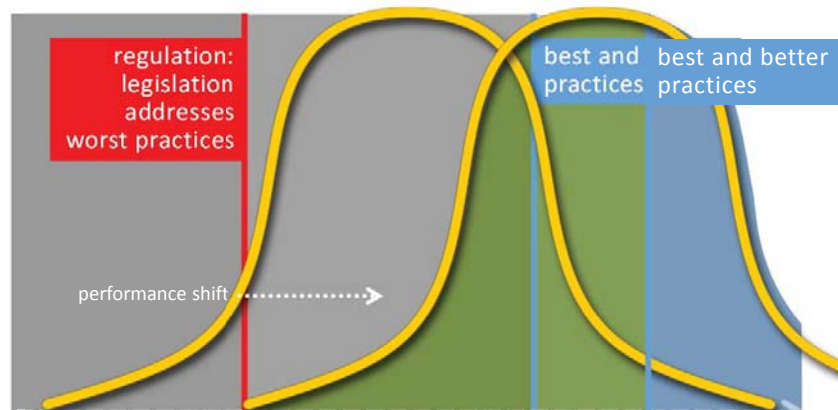
- Incorporating environmental responsibility into attractive investment ratings (Dow Jones Sustainability Indexes);
- Adopt public environmental and social responsibility policies and standards by international financial institutions ((WB/IFC, EBPP, ADB; Equator principles, UNEP FI etc.) and investors (PRI, CDP etc.);
- Develop voluntary environmental certification frameworks (FSC, MSC, ASC, International Council on Mining & Metals, Bettercoal, etc.)
- Develop voluntary reporting on sustainable development (Global Reporting Initiative – GRI, The International Association of Oil & Gas Producers
- Arrangements for legal product origin traceability



Mandatory standards plus voluntary standards, or could environmental regulations be non-corrupt and transparent?



How voluntary standards can help shift whole markets to a higher level of sustainability

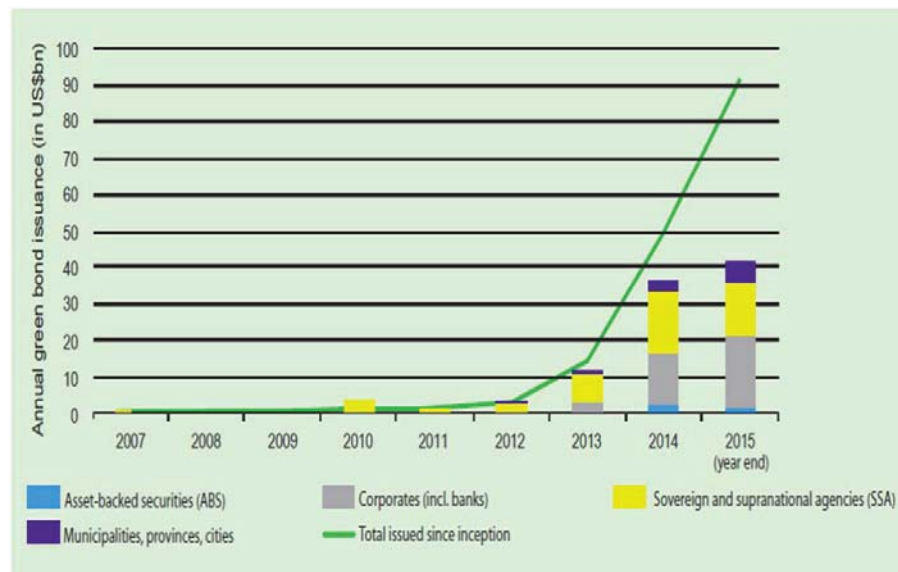




Asset growth managed by responsible investors (UN) Principles for Responsible Investment



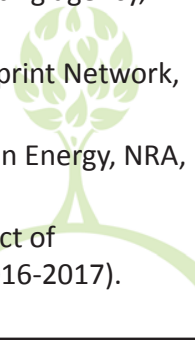
Green bond issuance



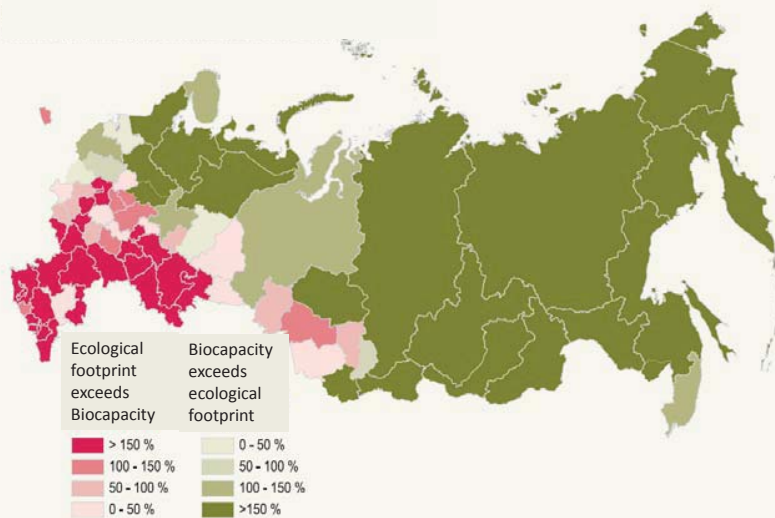


WWF industrial and regional ratings for Russia

- Environmental ratings for Russia's timber industry (WWF, RA Expert, 2004-2006)
- Regional forest management rating (WWF, National Rating Agency, 2010-2013).
- Regional environmental and economic index (WWF, Russian Geographic Society, RIA Novosti news agency, RIA-Rating agency, 2012)
- Regional environmental footprint (WWF, Global Footprint Network, 2012, 2016)
- Oil&gas companies environmental rating (WWF, Creon Energy, NRA, 2014-2017)
- Mining companies environmental rating (WWF, Project of UNDP/GEF-Ministry of Natural Resources RF, NRA, 2016-2017).



Regional ecological reserve and deficit in the Russian Federation

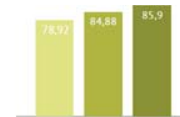




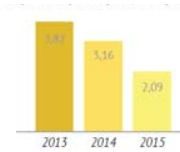
Company ratings in Russia

- Russia ranks 2nd in the world in voluntary certification promotion (Forest Stewardship Council - FSC), with 43.3 MM ha, or 25% of its total territory covered.
- The 3rd oil&gas company environmental rating campaign has shown environmental performance rising on average to become a new competitive edge for the industry leaders. 15 companies out of 21 have entered into a dialogue with NRA.
- LUKoil, Salyng Petroleum Development, Exxon Neftegaz Ltd., Novatek, and Gazprom Neft also have climbed tangibly in the rating, i.e. 4 to 8 places.
- In 2013–2015, the mean values of unit hazardous substance emissions have decreased from 3.82 to 2.09 kg/t of oil equivalent, with 2.03 to 1.85 cum for unit water consumption. The associated petroleum gas utilization ratio has surged by 7%.

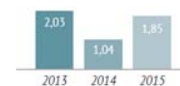
APG utilization ratio, %



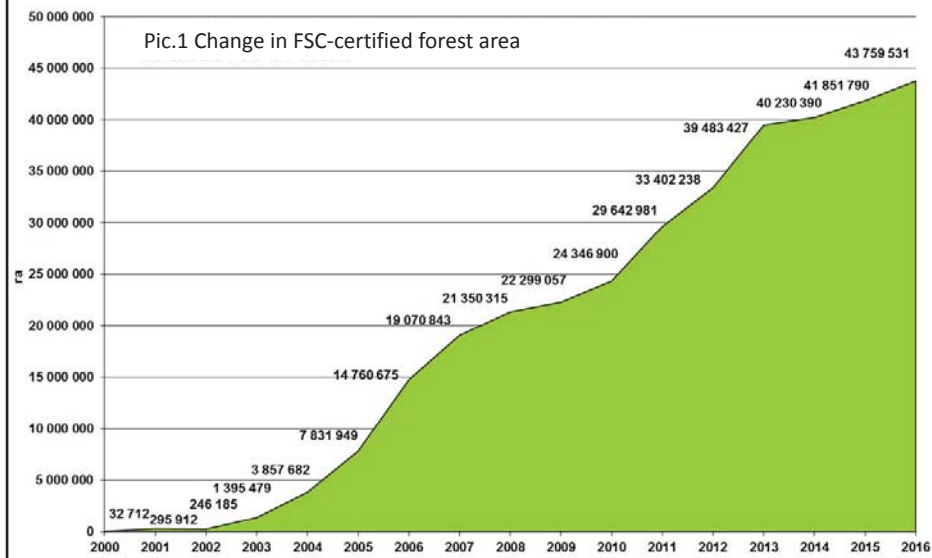
Specific emissions of pollutants (kg/toe)

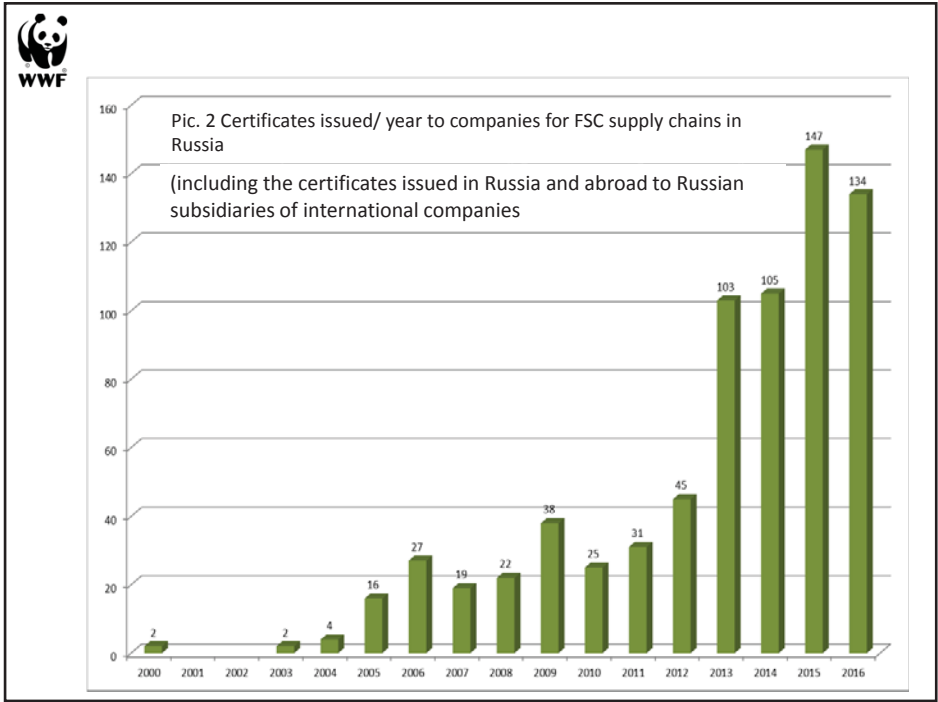


Specific water consumption, m³/toe



Over 25% of all forest leases are managed following top global environmental sustainability standards





Presidential decrees, resulting from December 27, 2016 State Council meeting on Environmental Development for Future Generations in the Russian Federation

Executive Order-14SCM,
on disclosure by state-owned companies, government agencies, and public companies of the **non-financial environmental reports and environmental security**, following relevant international standards



On Approval of Public Non-Financial Reporting Promotion Concept

<http://government.ru/docs/27645/>

Decree 876-r of May 5, 2017

The approved Concept requires promoting public non-financial reporting on a phased basis and defines its purpose and contents, including data quality control and assurance.



Basic rating rules

- **The methodology is discussed with stakeholders to be updated annually.** *In 2016, oil&gas companies filed over 50 update proposals. In 2015-2016 held 3 meetings, with over 30 proposals submitted.*
- **Calculations are done by an independent rating agency using publicly available data** *(sustainability reports, company web-sites, official interviews).*
- **Following the preliminary estimate, companies may disclose the missing data.**
- **Ratings are awarded to major companies annually** *(O&G majors with over 96% of total industry output)*
- **All segments of industry are subject to estimate** *(development, production, processing, waste disposal)*



Oil&gas company environmental rating is a tool of public-private partnership



Rating criteria

- NGO common environmental requirements to the oil&gas sector

<http://www.wwf.ru/resources/publ/book/109>

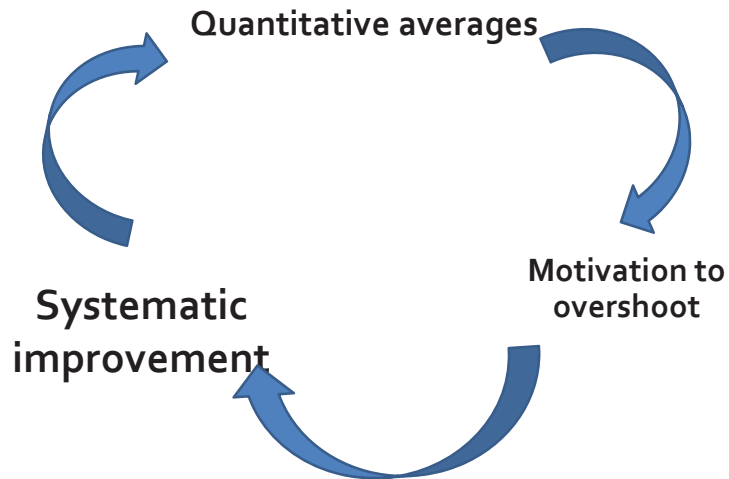
COMMON ENVIRONMENTAL REQUIREMENTS TO OIL&GAS COMPANIES

Criterion	n criteria, 2014/15/16
1. Environmental management: Quality of management	7/9/7
2. Environmental impact: Mostly unit indicators	13/11/12
3. Transparency: Availability for environmental impact data disclosure	7/9/9




Section 2. Environmental impacts

Oil&gas industry averages: environmental effect



Results of rating in terms of quantitative criteria

Criteria	The first rating (based on the values for 2013):		The second rating (based on 2014 values):	
	Number of companies that disclosed related data	Average value for rated companies	Number of companies that disclosed related data	Average value for rated companies
Average specific emissions into the atmosphere	10	3,82 kg/toe	13	3,16 kg/toe
Average APG utilization rate	11	78,92%	14	84,88%
Average specific water consumption	11	2,03 m ³ / toe	13	1,04 m ³ / toe
Average specific pipeline leaks	7	25,14 PC. / Thousand km	10	41,46 PC. / Thousand km

More companies disclose data 
Average values of the sample become more accurate



Average Quantified Values based on 2015 data

<i>Criteria</i>	Number of companies that disclosed related data	Average value for rated companies
Specific gross emissions of air pollutants (kg/toe)	14	2,09
Specific gross emissions of greenhouse gases (kg/toe)	11	48,14
APG utilization rate (%)	14	85,9
Specific volume of polluted water discharged to surface water bodies (m ³ / toe)	13	0,05
Specific water withdrawal for own company needs (m ³ / toe)	14	1,85
Ratio of utilized and decontaminated waste of total waste turnover	13	0,84

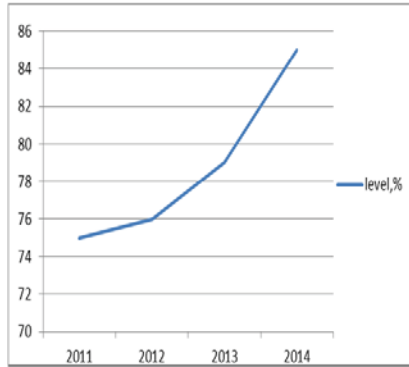


Average Quantified Values based on 2015 data

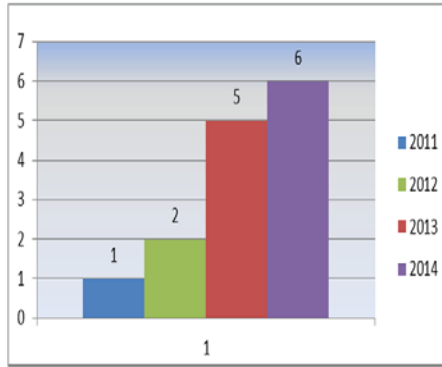
<i>Criteria</i>	Number of companies that disclosed related data	Average value for rated companies
Polluted land area ratio for end to start of the reporting year	12	0,17
Specific pipeline leaks (resulting in oil, condensate and oil products spilled) rate (ea/ 1k km of pipeline)	13	22,9
Specific amount of oil, condensate and oil products spilled as result of accidents and leaks (kg/toe)	14	0,06
Share of excess charges in total payments for adverse environmental impact (%)	8	25,94
Share of excess charges in total payments for adverse environmental impact (%)	10	99,24
RES share (% of total energy production)	10	0,53



Associated petroleum gas utilization ratio surged significantly in 2013-2014



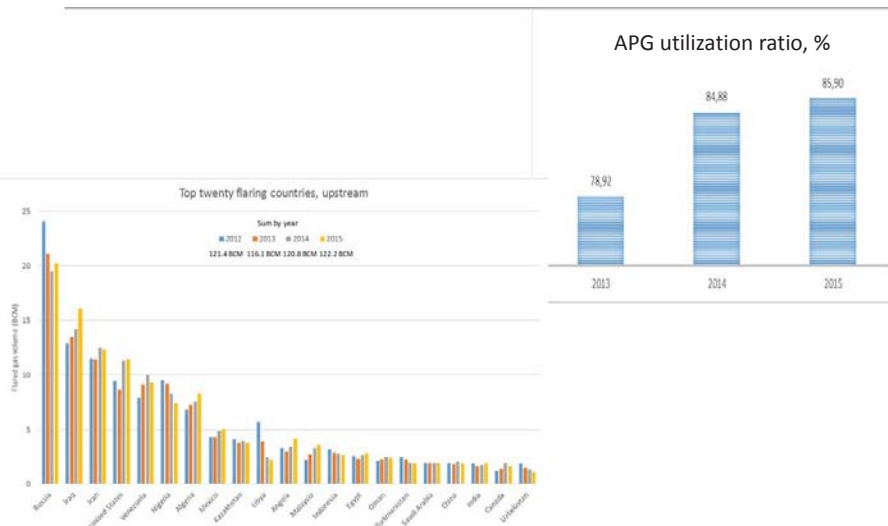
Level of Associated Petroleum Gas (APG) utilization in oil industry (average), WWF data



Number of oil companies, achieved 95% APG utilization level (own WWF data)



Robust data. Associated petroleum gas (case)





Environmental Responsibility Rating of Oil & Gas Companies in Russia 2016

RATING RESULTS

Final position	Company	Final rating point	Point change as compared to 2015 results	Rating 2015 final position
1	Sakhalin Energy (Sakhalin-2)	1,8595	+ 0,3371	▲ 3
2	Gazprom	1,7201	+ 0,1814	▲ 2
3	Surgutneftegaz	1,6830	+ 0,1005	▼ 1
4	LUKOIL	1,6527	+ 0,2790	▲ 5
5	Salyr Petroleum Development	1,6376	+ 0,2952	▲ 7
6	Exxon Neftegas Limited (Sakhalin-1)	1,6302	+ 0,5672	▲ 9
7	NOVATEK	1,4063	+ 0,4396	▲ 12
8	Gazprom Neft	1,3795	+ 0,3593	▲ 10
9	Rosneft	1,3555	- 0,0014	▼ 6
10	Zarubezhneft	1,2397	- 0,1825	▼ 4
11	Irkutsk Oil Company (INK)	1,2217	+ 0,3328	▲ 14
12	Total PPP	1,1851	+ 0,1905	▼ 11
13	Tatneft	1,0539	- 0,1953	▼ 8
14	Bashneft	0,8076	- 0,1082	▼ 13
15	Transneft	0,6386	+ 0,1571	15
16	Tomskneft VNK	0,4733	+ 0,0423	16
17	Slavneft	0,4627	+ 0,0688	17
18	Alliance-NNK	0,2934	+ 0,0106	18
19	Rusneft	0,2328	- 0,0265	19
20-21	Neftisa-Belkameft	0,1481	- 0,0371	20
20-21	Arcticgas	0,1481	0	21



35 environmental criteria for mining companies



Project of UNDP/GEF-Ministry of Natural Resources RF: Mainstreaming Biodiversity into Russia's Energy Sector Policies and Programmes



Principal provisions of miners' environmental and social responsibility

The criteria framework: NGO common environmental requirements to the mining sector, and GRI 4



Criterion	n criteria
1. Environmental management: quality of management.	9
2. Environmental impact: Mostly unit indicators.	16
3. Transparency: Availability for environmental impact data disclosure.	10



2015 ratings were set for 33 mining companies:

The sector leaders were recognized following the provisions of State Report: On the State and Use of Mineral Resources in the Russian Federation.

<http://www.mnr.gov.ru/regulatory/list.php?part=1935>

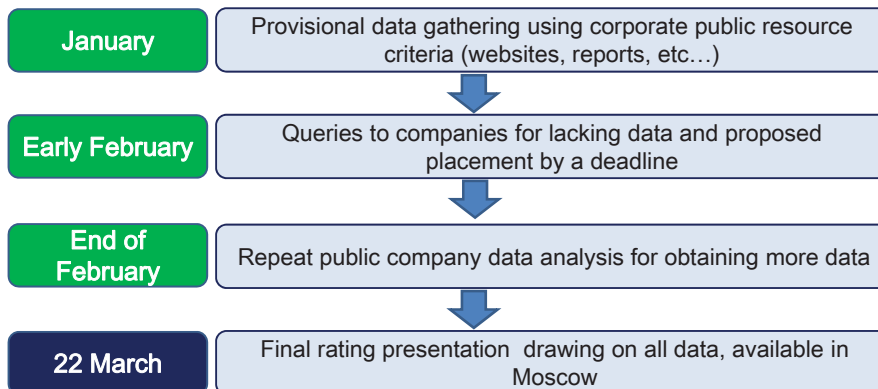
...also including WWF-ecoregion companies, prioritized for biodiversity conservation.

Ratings, set for multi-minerale companies:

- Gold (8 companies)
- Diamonds (2)
- Iron and non-ferrous metals/alloys (7)
- Non-ferrous ore mining and processing (10)
- Mining and chemical industry (4)
- Coal (5)

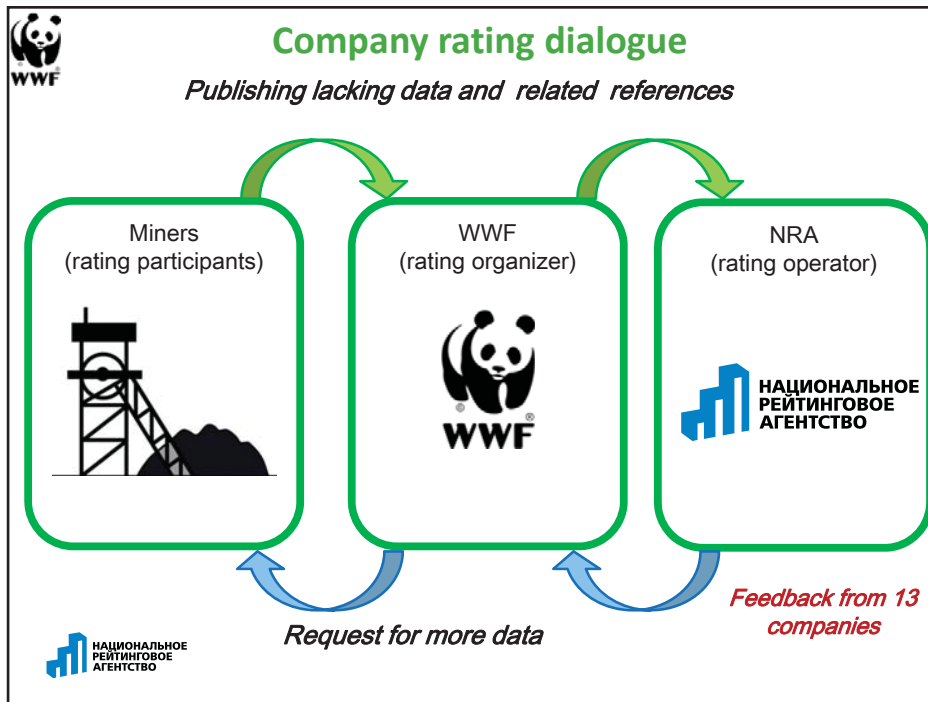


2017 Rating Setting Phases



НАЦИОНАЛЬНОЕ
РЕЙТИНГОВОЕ
АГЕНТСТВО

*National Rating
Agency (NRA)



Miner data transparency

Sufficient transparency

20 out of the 33 rating participants who publish environmental reports and disclose environmental management data and impacts to mass media and relevant official websites

Companies: ArkhangelsGeolDobycha, Akron, ALROSA, EVRAZ, Eurokhim, Metallinvest, MMK, Norilskiy Nickel, Polymetall, Polyus Zolota, Priargunskoye Mining and Chemical Association, RUSAL, Severstal, SUEK, Uralkaliy, Fosagro, Nordgold, Kincross Gold, Corp. and Petropavlovsk.

Insufficient data transparency

13 out of the 33 rating participants who do not publish financial statements to confine themselves to minimal environmental data disclosure on their official websites without quantitative environmental impact data.

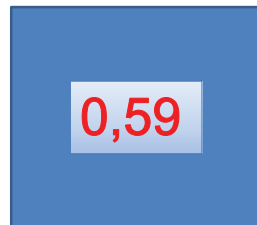
Companies: Zoloto Kamchatki, KMA Ruda, Lovoserskiy Mining Combinat, Luncin, Mechel, .ussdragmet (HighlandGoldMining), Russkaya Mednaya Kompaniya (copper), Russkaya Platina, Russkiy Ugol (coal), SDS-Ugol, Siberian Mining and Metallurgy Alliance, and SoyuzMetallResource (SMR), and UGMK.

НАЦИОНАЛЬНОЕ РЕЙТИНГОВОЕ АГЕНТСТВО



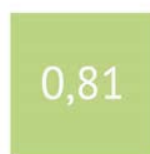
1ST Miner Rating Summary

Rating value	Company	Score
1	ArchangelskGeolDobycha	1,2545
2	Kinross Gold	1,2433
3	ALROSA	1,2214
4	Noriiskiy Nickel (mining and metallurgy company)	1,0609
5	Polyus Zoloto	1,0598
6	RUSAL	1,0436
7	Polymetall	1,0379
8	SUEK	1,0224
9	EVRAZ	0,9810
10	Nordgold	0,8926
11	Severstal	0,8637
12	Priargunskoye Mining and Chemical Company	0,7923
13	Metalloinvest	0,7681
14	Russkaya Mednaya Company (copper)	0,7275
15	Magnitogorsk Metallurgical Combinat (complex) (MMC)	0,5919
16	Uralkaliy	0,5663
17	Fosagro (mining company)	0,5300
18	Eurochim	0,5190
19	Akron	0,4788
20	Novolipetsk Metallurgical Combinat (complex)	0,3571
21	Petropavlovsk Group	0,3148
22	UGMK	0,2583
23-24	Zoloto Kamchatki (Kamgold closed-end LLC, Kamchatskoye Zoloto closed-end LLC)	0,2407
23-24	Rusdragmet (Highland Gold Mining)	0,2407
25	SDS-Ugol	0,2286
26-27	Russkaya Platina	0,2037
26-27	Siberian Mining and Metallurgy Alliance (SigGMA)	0,2037
28-31	KMA-Ruda	0,1667
28-31	Lovozerkiy Mining Combinat (complex)	0,1667
28-31	Russkiy Ugol	0,1667
28-31	SoyuzMetallResource (SMR)	0,1667
32	Mechel	0,1333
33	Luncin	0,0667



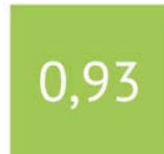
Average score/ first miner environmental rating participants (2017 based on 2015) vs dynamics of oil companies environmental rating

Average score/ miners



2014

2013 data



2015

2014 data



2016

2015 data

Average score/ oil and gas

Next rating campaign in December 2017 (2016 data)

