Climate agenda and ESG principles’ application to Russian realities

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Abstract. The global economy has been in a state of turbulence for the past three years, caused by a number of external and internal factors, and has been the source of energy, food and financial crises. Under these conditions of instability, the global trend - the movement of humanity towards the Sustainable Development Goals, of which combating climate change is an important element - takes on particular significance. However, the solution to these problems is only possible through close cooperation between the state, with its regulatory institutions and control instruments, and businesses that are prepared to follow ESG principles. The aim of the study is to analyse the global and Russian situation with regard to the implementation of the climate agenda, to show that, despite the complex geopolitical environment and the new challenges facing the Russian state and business circles, business understands the need for transition to ESG principles and is taking certain steps in this direction. The authors conclude that this area of activity will receive additional impetus in the near future, including through the introduction of new international trade regulations.

1 Introduction

The world of today is going through a difficult period. Countries and nations that have not had time to recover from the effects of COVID-19 are facing the negative effects of the 2022 special operation that has directly or indirectly affected the economy and the prioritization of the international agenda. Nobel laureate Paul Krugman has defined the prevailing mood in the world as "the triumph of pessimism", and in unison with him experts of the American consulting company Edelman have defined the situation in the global economy as "the vicious circle of distrust" - the result of the financial, energy and food crises [1]. UNCTAD estimates that 1.7 billion people in 107 countries have become hostages of the new reality [2].

Confronting these negative processes is unfolding against the backdrop of humanity's struggle against global warming, which is to a large extent related to anthropogenic influence. The United Nations Climate Summit - COP (Conference of the Parties), held in November 2022 reaffirmed the commitment of developed and developing countries to achieve 'carbon neutrality' by the middle of the 21st century, which should be facilitated by a strengthening of their national climate objectives. Developed countries and many developing countries are

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not only supporting but also taking practical steps to implement the climate change agenda and the green economy. These include the transition to renewable energies, especially wind and solar power, combating pollution of ocean waters, deforestation and desertification, and much more.

In practice, these objectives can only be achieved through close cooperation between the state, with its regulatory institutions and control instruments, and businesses that are prepared to follow the principles of responsible investment - to make investment decisions taking into account environmental, social and corporate governance factors (ESG - environmental, social, governance). Despite the unfavourable general background, the concept of responsible investment as expressed in ESG principles has become increasingly widespread in recent years. For businesses, participation in this initiative is becoming a kind of "business card" and international rating agencies now focus on the information about their social and environmental responsibility and management principles when characterising a company [3].

It can be said that, for the first time in human history, government and corporate strategies are not based on profit but on the principles of economic development, based on human capacity to use effectively the resources that nature has endowed to mankind and that have been created by human intelligence.

The scale of responsible investing globally is growing rapidly, with the amount of capital under the concept increasing by a third every two years since 2014. UNCTAD estimates that the value of sustainable investment products (UNCTAD includes sustainable funds and sustainable bonds, including green, social and mixed sustainable bonds) in global financial markets was $5.2 trillion in 2021, up 63% from 2020. The number of sustainable funds stood at 5,932 by the end of 2021, up 61% from 2020. The total assets under management (AUM) of these funds reached $2.7 trillion, up 53% year-on-year. Most of the funds ($2,231bn in assets) are concentrated in Europe, US funds accounted for $357bn, Chinese funds accumulate $50bn and US funds $8bn. Sustainable bond issuance globally was $1 trillion and the total value of bonds outstanding in 2021 was estimated to be $2.5 trillion. [4]. These figures demonstrate the intentions of government and business to build sustainability into development programmes.

2 Background

The United Nations Framework Convention on Climate Change (UNFCCC), which dates back to 1992, can be regarded as the starting point for the climate change response. The Kyoto Protocol to the UNFCCC was a practical step in the global effort to advance the climate agenda.

But the term ESG itself was first used in the report Investing for Long-Term Value at the Who Cares Wins conference held by the United Nations in cooperation with the Swiss government in 2005. ESG was then supported by 20 financial institutions from 9 countries, with combined assets of $6 trillion. The future has shown the need for this idea. ESG principles have been developed in several important international documents. These include the UN Environment Programme’s UNEP FI (UNEP FI) Financial Initiative, which has been joined by several hundred organisations from the banking, investment and insurance sectors from various countries; the International Finance Corporation (IFC) project called the Equator Principles; the FAO Sustainable Principles, which aim to increase income, reduce poverty, reduce food losses and waste, increase market efficiency and fairness, take account of small landowners; the UN Global Compact principle. Also of note is the long-term strategic plan for 2021-24 adopted by the UN - the UN PRI [6], which identifies three key areas of activity: engagement with responsible investors, ensuring sustainable markets, and achieving a prosperous world for all. In addition to international organizations, informal coalitions are formed around the climate agenda, with their own specific sets of interests and

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3 Main part

Russia does not stand aside from the international climate change agenda and participates in all international environmental initiatives. The Russian business community has declared its readiness to adopt the principles of responsible investment, although the achievements of the state and business community in this area are clearly modest and not comparable with those of other countries. It is clear, however, that the achievements of both government and business circles in this area are small and not comparable to those in Europe, the USA or even China. In general, environmental issues, as well as other ESG principles, are not yet seen as a priority by domestic business.

However, Russia does have a certain legal and regulatory framework for the country's development within the framework of the climate change agenda and the responsible investment format. The Federal Law "On Environmental Protection" has been in force since 2002. This Act (Chapter 4 "Economic regulation in the field of environmental protection") fixes the obligation of economic entities to pay for emissions of pollutants and storage of industrial waste, confirms the intention of the state to support initiatives in the field of environmental protection. A number of other legal documents were subsequently adopted as a follow-up to this Act. In particular, the Government Decree "On Approval of the Goals and Main Directions of Sustainable (Including Green) Development of the Russian Federation" confirmed Russia's commitment to the Paris Agreement and the SDGs, primarily in terms of maintaining the ecological balance, reducing pollutant emissions, greenhouse gases and energy conservation, and highlighted "green" projects as priority investment targets. In 2021, Law No. 296-FZ "On Limiting Greenhouse Gas Emissions" was issued, which provides for the adoption of emission reduction targets in major sectors of the economy, including the oil and gas sector. Also, Law No. 89-FZ "On Production and Consumption Waste" was adopted, which introduced the concepts of "secondary resources" and "secondary material".
raw materials”, established requirements for the management of secondary resources and a ban on their disposal. In furtherance of the law, it has been announced that industrial waste processing complexes will be able to obtain the status of eco-technoparks and eco-industrial parks, which will enable them to qualify for state support measures. Decree of the Government of the Russian Federation No. 1587 (ed. on 11.03.2023) ‘On Approval of the Criteria for Sustainable (Including Green) Development Projects in the Russian Federation and Requirements for the System of Verification of Sustainable Development Financing Instruments in the Russian Federation’. [12] defined the procedure for issuing green bonds.

The national project “Ecology”, which includes 10 federal projects, is in operation. The work is carried out in five areas: waste, water, air, biodiversity, technology. The term of implementation of the national project is until December 31, 2024.

However, it must be recognised that the provisions of the regulations are mostly of a general nature, allowing both business and government agencies to circumvent many of the requirements. While in 2022, “due to changes in market conditions,” as stated in the document, temporary relaxations in environmental regulation were introduced: the deadlines for compulsory comprehensive environmental permits for the most significant objects of category I negative environmental impact (EIA) and mandatory introduction of automatic control systems for emissions and/or discharges at objects of category I EIA were postponed by two years; also planned control (supervision) activities, planned inspections of legal entities were abolished.

The lack of enforcement and weak oversight means that environmental issues are not among the priorities of Russian companies. According to Sberbank’s survey of 1,200 Russian companies from 20 industries (including agriculture, chemicals, construction materials, oil and gas, metals, transport, etc.), only 4% of companies have adopted ESG policies, 11% of respondents set environmental goals, and 6% insure their environmental risks. 12% of the respondents are engaged in waste management in the amount of more than half of the produced waste, while 66% of the respondents recycle less than 10% of waste, only 8% of the number of respondents are certified according to ISO14001, etc. [14].

In general, according to the conclusions of the Sber document, which can be well agreed with: the principles of sustainable development are reflected mainly in the activities of large companies, which is associated with the availability of resources for transformation, as well as the attention of the state and society, and the requirements of foreign trade partners. In other words, the drivers of transformation remain companies involved in international relations. The application of sustainable development principles is uneven depending on the sector: companies in the metallurgical and oil and gas sectors are more affected by the concept due to their environmental requirements and stricter legislation in the importing countries of the sectors’ products. The national ESG ranking of Russian companies proves this (Table 1). But in general, the majority of enterprises and regions do not yet fully understand the essence of the ESG agenda, and 50% of the surveyed companies remain sceptical about this kind of ratings. However, sustainability policy is gradually gaining acceptance among Russian entrepreneurs.

<table>
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Table 1. Ranking: ESG ranking of Russian companies (December 2022)
February 2022 completely changed the situation in Russia, which logically pushed the ESG agenda out of the priorities of domestic businesses. According to a survey conducted by Mikhailov & Partners among 17,000 respondents, 40% of those surveyed said that their ESG budget would be reduced in 2022. Only 50% of the companies surveyed have developed key sustainability documents, while only a third of this number have adopted specific targets. The companies which intended to prepare such documents in 2023-2024 have postponed this work for two years [16].

At the same time, many enterprises increased their activity in implementing the ESG agenda by 2023, explaining that, in the changed environment, they should use all possible tools to strengthen their position in the external markets available to Russian businesses. And as we have seen, Asian countries, especially China - Russia's main trading partner at the moment - are rather quickly rearranging their economies in a "green" way, relying on ICMA (International Capital Markets Association) regulations and imposing higher environmental requirements on their trading partners.

The relevance of the ESG agenda for the corporate sector companies surveyed by Expert RA is rated at seven out of 10. The regions, on average, evaluate the degree of SDG integration in their strategies as six points out of 10, i.e., in principle, not such a bad result [16].

Russian business, represented by the RUIE, has unambiguously declared its intentions to adjust its activities to the new challenges. On January 25, 2023, the Bureau of the RSPP Board adopted the Recommendations on Maintaining and Promoting the Sustainable Development Agenda in Modern Russian Practice [17]. The adopted document highlighted priority objectives on environmental, social and governance aspects of the activities. In particular, resource and waste recycling, environmental safety and climate agenda, labour potential development and efficient workplaces, formation of new sustainable supply chains and support of local communities, as well as development of an efficient corporate governance system and an adequate professional training system, i.e. areas in line with the generally accepted understanding of the ESG agenda, were voiced.

On 19 January 2023, Moscow Exchange launched an updated version of the ESG Practices Guide, "An Issuer's Guide: How to Comply with Best Sustainability Practices". The guide is aimed at companies that seek to follow sustainability principles and be transparent to customers, counterparties and investors [18]. The document also highlights the carbon trading market which will be launched in Russia in 2022. The guide provides detailed instructions on how to prepare for the issuance of ESG instruments. The Moscow Exchange has become a major element of the domestic responsible investment infrastructure. It is the main distribution platform for various types of green bonds, the issuance of which is generally increasing.

In 2022, for example, the market for traded ESG debt securities grew by 27%, to 385 billion roubles. According to forecasts by Expert RA, the market volume, taking into account the impact of upcoming placements (8 placements are expected) and redemptions, will be around RUB 400 billion (Figure 1). At the same time, companies continue to use recognised international standards and Western best practices, which will allow them to gain international recognition in the future. But in general, experts note a strong cautiousness in the face of general uncertainty. More than 70% of companies and regions surveyed do not intend to issue ESG bonds or loans.
Fig. 1. Sustainable Finance Market Dynamics in Russia, RUB bln. Source: [16].

4 Conclusions

Global climate change is one of the major challenges for humanity in the 21st century and one of the most important elements of the international agenda. Sustainable development issues involving the application of ESG principles will remain a key topic for the entire international community for years, if not decades. Multilateral cooperation in this area will expand, drawing more and more countries, companies and informal organisations into its orbit. The main stimulus for the transition to a green economy and responsible investing will be state regulation, which, through taxes, fines on the one hand, and benefits and incentives on the other, will force businesses to change their policies.

Russia has found itself in a vulnerable position due to the prevailing circumstances. For example, its membership in the Umbrella Coalition has been suspended by the participants, and membership in other groups may be in question. Meanwhile, participation in the work of informal coalitions allows the country to promote its priority climate policy issues, provides access to the most up-to-date information on the activities of other participants-partners and competitors, and additional information resources.

In this regard, we believe it is important not to cease international cooperation on our own initiative and to continue to express our readiness to participate in the work of international organizations and expert groups on the climate agenda. We share RSPP's position and agree with their conclusion that the participation of representatives of Russian business in the work of UN bodies associated with the implementation of the Agenda, including the UN Global Compact initiative, should be continued.

As far as Russian government bodies are concerned, they should continue their efforts to improve climate change legislation and make it more practical. Businesses should step up their efforts to adapt their activities to ESG principles. In the context of shrinking resources, including financial and human resources, complications in foreign economic activity, ESG in many ways becomes an important advantage in the competition for markets and resources. At the same time, companies should pay special attention to the social component—protection of workers' rights, whose position in the face of...
of the new reality often becomes excessively vulnerable. They should focus on upgrading the skills and retraining of workers for whom robots and artificial intelligence are emerging as competitors on the labour market.

At the same time, we must refrain from ESG becoming a marketing manipulation tool, a kind of “green” camouflage, when there is no real action behind the declarations. ESG should be transformed from a corporate vanity fair into an everyday activity.

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