Russia and the United States: A Comparison of Governance Practices, Compensation, and Sustainability

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Executive Summary

The first part of this paper will examine executive compensation in both the United States and Russia. We will discuss the fact that in the United States, CEOs' salaries are exponentially greater than the salaries of employees, regardless of performance. We will also address the idea that certain CEOs' salaries are high due solely to the fact that other CEOs' salaries are high. The paper will then highlight the fact that Russian executives do not receive incentives and benefits based on performance. Also in Russia, CEOs of public companies have a much higher salary that drastically increases yearly, while the salary of private companies remains quite consistent. This comparison will demonstrate the differences in executive compensation between the two countries.

The second area of focus within this paper discusses the issues that surround the board of directors in Russia and the United States. We will address the differences in governance structures, board structure and composition, and duality. Within the board structure, we also focus on the different committees that comprise boards in both countries. We also discuss the impact of Russia's strong central state government and its involvement with public companies. This will help illustrate the distinct differences the government plays in each country's economies, and how the board of directors plays a role in corporate governance.

The third section of this paper will discuss the recent scholarly findings in regards to executive compensation and sustainability. Research was focused on executive compensation comparison between state-owned businesses and private sectors, compensation differences between industries, and a brief discussion on the biggest Russian CEO payout in history. This section also illustrates the roots of Russia's sustainability problems, and the difficulties private sector businesses face in the effort to implement successful sustainability legislation and its enforcement.

Executive Compensation

Many aspects contribute to executive compensation in the United States. One of the most important things to note is that executives of all companies have some of the highest salaries in the United States, but the salaries vary from company to company and take into consideration the length of service and types, sizes, and locations of companies (Kihn 1). All companies have one thing in common in that their executives make the most money in the company. Although these high salaries vary based on company, at times these high salaries have no strong tie to company or executive performance. This is not to say that there is no link between performance and salary, or that CEOs are not deserving of this money, but it tends to be difficult to determine a CEO's worth. In the media industry, all of the CEO's are very highly paid, even when comparing them to other CEOs, but the correlation between how much money each CEO makes is very hard to understand. Leslie Moonves, the CEO of CBS, has twice the salary of Philippe Dauman, the CEO of Viacom, even though CBS is ranked only two spots ahead of Viacom on the revenue rank order (Yglesias 1). The only consistency is that both CEOs are making over $30 million, which is significantly more money than people in other industries. Although these CEOs make more money, they may or may not be deserving of this compensation. Based on information available, there is no way of knowing how the compensation for both of these CEOs was determined.

Executive compensation of American companies also stems from the idea that US companies tend to mimic each other. As Matthew Yglesias states in his article Outsource the CEO, "America's CEOs are paid a lot largely because other American CEOs are also paid a lot" (1). American executives believe that their compensation should be compared to the salaries of other American executives. Since American boards and big American investment management firms are primarily made up of American corporate executives, they find these requests to be reasonable (Yglesias 3). This further goes to show that CEOs' salaries tend to not have a direct link to how well they perform, but have more to do with holding up the prestigious title of CEO and getting paid for holding that title.

This excess compensation for CEOs is further demonstrated when looking at the salary of CEOs in Standard & Poor's (S&P) 500 Index of companies. Unfortunately, the actual CEO pay has yet to be released, despite the Security and Exchange Commissions (SEC) efforts with Congress to make it a requirement for the numbers to be revealed. However, these numbers are based on estimates from the analysis by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). The average S&P Index company CEO received $12.3 million in total compensation for 2012, while rank-and-file workers, or the average worker that was not a leader in the company, made about $34,645 on average. This means that the CEOs made 354 times the average salary of rank-and-file workers ("Trends in CEO Pay" 1). Although it is true that CEOs have more responsibilities than the average worker, the fact that their salary is over 350 times higher does not seem to be based on any substantial reasoning. The CEOs of these companies most likely do not do 350 times the amount of work that rank-and-file workers do, and therefore it seems as if the major salary difference is solely based on the fact that CEOs of all American companies expect to make a large sum of money. To further demonstrate this point, according to the Huffington Post, CEO-to-worker pay has increased 1000 percent since 1950. The ratio of pay increased from 20-to-1 in 1950 to 204-to-1 in 2014 (Berman 1). This goes to show that although companies are making a larger profit than in the past, the only people that are benefitting from it are the CEOs, not the rank-and-file workers.

Unfortunately, not all of these CEOs are deserving of this large compensation. The previous CEO of J.C. Penney, Ron Johnson, received a salary that was 1,795 times the average salary

of a J.C. Penney worker. After working for the company for only 17 months, he ended up resigning from the company because he failed to turn around the company's performance while it was struggling (Berman 2). When a company is not doing well it depends on its CEO to come up with a plan to change the path of the company and somehow improve it. If the CEO cannot pull through, it is difficult to justify the enormous compensation that he or she is receiving. In the case of J.C. Penney, this is exactly what happened. With a salary that was almost 2000 times the average salary of the other workers, the expectations for the CEO to turn around the dying fate of the company were high, and Ron Johnson did not pull through. Johnson's short time with the company can be explained by the fact that while he served as CEO, J.C. Penney's shares fell 73% (Hiltzik 2). In a relatively short amount of time, he managed to almost destroy the company. Aside from losing his own job, 43,000 J.C. Penney workers lost their jobs while Johnson acted as CEO (Smith and Kuntz 8). Johnson did not just harm himself and his own future career, he also harmed the lives of thousands of people.

Several consequences have resulted due to the large CEO-to-worker pay gap in the United States. The first observation that has resulted is the fact that the highest-paid CEOs are often fired or fined. One article stated, "About 40 percent of the highest-paid CEOs in the United States over the past 20 years eventually ended up being fired, paying fraud-related fines or settlements, or accepting government bailout money" (Damouni 1). There is a lot of pressure put on a CEO to succeed. When being paid millions of dollars, CEOs feel that they have to do everything in their power to hold their company up. This tends to lead to fraud and other illegal acts because they feel that sometimes this is the only way to maintain the value of their company. Damouni also stated "the best-paying companies do not necessarily receive the best performance from their CEOs" (2). This supports the previously discussed article written by Yglesias, which stated that CEOs' salaries do not have a direct link to the performance of the CEO. It seems as though CEOs get paid for the brand they represent more so than for the efforts and skills that they put forth in bettering and strengthening their companies.

The illegal acts that CEOs partake in to sustain a company may be due in part to their efforts to compensate for the lack of effort by their employees. A high CEO-to-worker salary ratio can cause a negative impact on employee morale and productivity ("Why CEO-to-Worker Pay" 1). With a large CEO-to-worker pay ratio, employees may become unmotivated to work to their full potential because they feel that their efforts go unnoticed, and will only impact the salary of the CEO. Due to low motivation, employee turnover is increased and CEOs may have to take excessive or illegal risks to keep the company standing. Based on this information, if the CEO-to-worker salary ratio was disclosed, investors would have a better sense of which companies to invest in ("Why CEO-to-Worker Pay" 2). From an investor's standpoint it makes more sense to invest in companies with higher employee morale and productivity because they are the ones who will result in the more profitable companies.

A compensation package in Russia significantly differs from American standards in the level of remuneration and the structure of the payment. In the United States, a compensation package usually consists of a base salary, bonuses – both short-term and long-term incentive payments – and additional benefits. The annual bonuses and long-term programs depend on performance. In Russia, on the other hand, a compensation package consists of salary, quarterly or monthly premiums, and annual bonuses. Long-term benefits that motivate top management to increase shareholder value are not in practice. Quarterly and monthly premiums often do not tie with the performance and therefore are not an effective motivation tool. In general, the large new Russian companies are trying to implement the Western practice of forming the compensation packages, but a large number of organizations continue to use the wage system, preserved from the Soviet Union era. Sberbank, Russia's largest bank, is one of

the first companies in Russia that has decided to implement an incentives program for chief executives that links employees' salaries to performance. In the past, only rank-and-file employees working in state-owned companies received bonuses, while private-sector managers only saw bonuses at the very end of the year. In 2010, it was expected for 80-90% more managers to receive bonuses than in 2007 (Fedotova 2). In Russia, rank-and-file employees were used to receiving bonuses, and companies felt that they needed to extend these bonuses to CEOs as well to improve the performance of the companies. This contrasts the practices in the United States, where it seems that only the CEOs are getting bonuses.

Several factors contribute to the amount of compensation for top executives in Russia. Some of these include industry type, type of company (state-owned vs. private sector), company size, company location, company performance, length of service, peer group comparison, risk level, professionalism and talent. Industry type plays an important role in executive compensation. In Russia, commodity companies that produce oil, natural gas, and metals receive the highest bonuses, closely followed by banks and large financial institutions. These are then followed by real estate developers and major retail chains making the next largest bonuses, with transport and IT companies making the least in bonuses (Fedotova 1). In general, top-executives of resource companies whose activities are related to the primary processing of raw materials are the remuneration leaders. There is also a high level of compensation in the banking sector, while the Fast Moving Consumer Goods (FMCG) sector receives significantly less remuneration. However, differences in compensation packages of senior management are not directly related to the type of industry -- they are much more influenced by the type of company (state-owned vs. private sector), its size, scope of activities, and the level of the head office. For example, in a large IT company, top manager compensation is likely to be higher than in a small metallurgical plant.

The salaries of CEOs in public sector companies are rising while those of private sector companies have remained overall steady. The highest paid executive in Russia is Igor Sechin, who is the president of the Russian oil company Rosneft. He is followed by the president of VTB Bank, Andrei Kostin, and then head of state-run gas giant Gazprom, Alexei Miller ("Forbes Names Rosneft" 1). What all of these companies have in common is that they are all public sector companies. According to *Forbes*, in 2012, 11 CEOs of state-owned companies earned a total of $147 million, which rose to 13 state-owned companies' CEOs earning $226 million in 2013. In the meantime, CEOs of private sector companies went from a total salary of $99 million in 2012 to a total of $97 million in 2013 ("Forbes Names Rosneft" 1). While the salaries of public companies are rising, the salaries of private companies are remaining constant or slightly declining overall. There is no consistent increase between all companies from year to year, which demonstrates the divide between public sector and private sector companies. In addition to public CEOs being more well-off than private CEOs, according to *Forbes*, "the 25 highest-paid CEOs in Russia earned a combined $325 million a year [in 2013, which is] a third more than the same group in 2012" ("*Forbes* Names Rosneft" 1). The higher paid companies are drastically increasing in value from year-to-year. According to *Forbes*, the top dozen executive officers from the USA and Russia make a combined total of $400,000,000,000 a year.

Issues Related to Board of Directors

The corporate governance system in Russia has some distinct differences as compared to the United States. The Law on Joint-Stock Companies (Law on JSC) allows Russian firms to choose between a single-tier board system and a multi-tier board system. In this system, there is a tiered governing body system as illustrated in Figure 1. The first governing body is the board of directors known in Russian as *sovet direktorov*. This board of directors supervises the

general business operations and serves to protect the interests of the shareholders. The second governing body comes in the form of a single executive board (*edinolichnyi ispolnichel'nyi organ*), or as a collective or collegiate executive board (*kollegial'nyi ispolnichel'nyi organ*). The decision on whether to create a single or collective executive board is the choice of the firm. Duality in Russia is non-existent, as the Law on JSC states that the person leading the executive body as CEO may not serve as the Chairman of the board concurrently. Conversely, the United States allows duality and still has over half of its companies practicing duality. While it can be argued that duality makes decision making faster or foster conflicts of interests, there is no evidence to support duality being beneficial or harmful to the governance of a company.

Figure 1

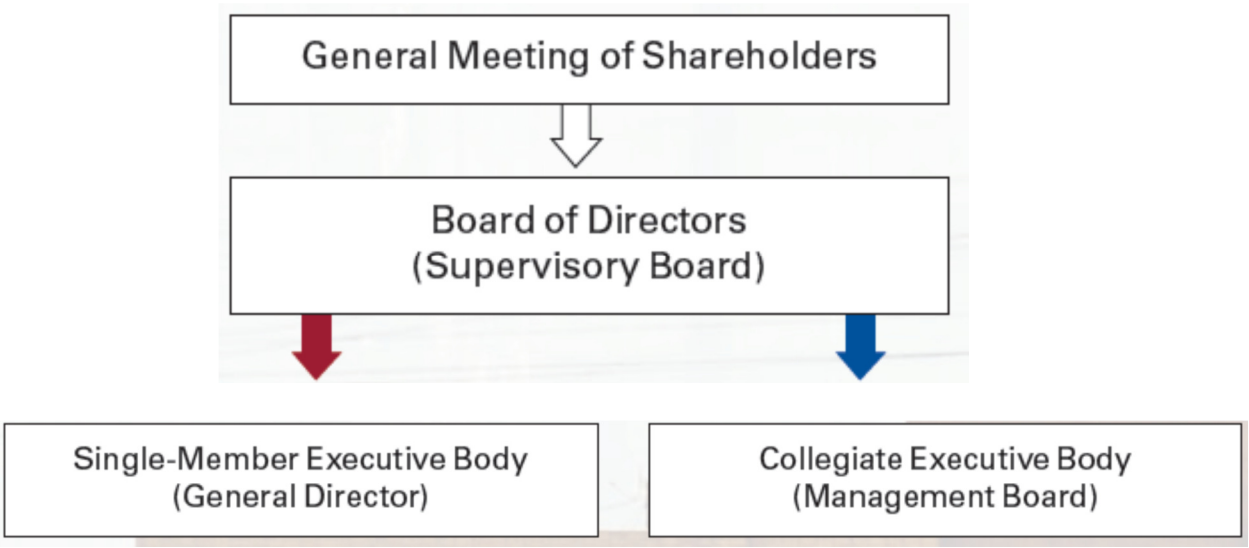

Diagram referenced from "The World of Corporate Governance: Russia" by KPMG
http://www.kpmg.com/CH/en/auditcommittee/newsletter/Documents/pub-20130916-ac-news-43-article-09-en.pdf

United States law requires that companies have a board of directors, but gives little to no guidance as to what the board is supposed to do. Generally speaking, the board of directors can have a little or as much responsibility and authority as the company wants or needs. Although not all of the following duties are required of the board, they are all possibilities. Boards can play a role in setting direction, but only to the extent allowed by corporate management. For example, the board can order strategic reviews, approve management strategy plans, or decide to raise capital or give money back to shareholders. The board may also be in charge of resource marshalling in general, or in times of need. Usually the board will approve a budget annually, but they may be asked to approve things more frequently as needed. Perhaps the more important duty the board would have is controlling and reporting. Boards are accountable to shareholders, but they are also accountable to the company's creditors. As such, the board may end up serving as an ethical decision making team for the company. Finally, boards are responsible for reviewing the actions over the past year and

determining what actions need to be taken in order to provide a more efficient and improved performance over the next year (Nordberg 126-7).

In Russia, the responsibilities of the Board of Directors are outlined in the Law on JSC. Similar to the United States, Russian boards serve to set the direction and define areas of priority for the company. The challenge for Russian companies has been determining whose priorities should drive those decisions – shareholder interests or the state's political goals. Due to the large blocks of state ownership in Russian firms, the state's interests often trump the shareholders and even the long-term sustainability of the firm. The second predominant role of the board in Russia is to schedule the annual shareholders meeting and establish the agenda of the meeting. While this task sounds rather straightforward, there have been issues in the shareholders being provided transparent and timely company information in advance of the shareholders meeting, thus reducing the effectiveness of the shareholder's voice as they have not had adequate time to prepare their own agenda for the meeting (Shevchuk 9). Russian boards are also responsible for a variety of fiduciary duties such as managing capital demands, issuing bonds and other securities, and recommending dividend payments and procedures. Another important board responsibility in many firms is that the board shall establish and terminate the executive boards, whether it be single or collegiate in structure. Although this is typically the board's responsibility, it can vary depending on the company's charter. Russian boards are also required to address recommendations on remuneration and compensation of internal auditors.

In Russia, it is very common for the state government to own large amounts of joint-stock companies either directly or indirectly. It was estimated that in 2004, the state owned full control of 160 companies, controlling stake in 540 companies, blocking stake in 1,200 companies, and smaller holdings in another 1,750 enterprises (Filatov, Tutkevich, Cherkaev 3). This presence of state ownership has led to issues of corruption involving board members of state-owned enterprises (SOEs). This is attributed largely to the inefficiency of the state in its corporate governance practices. The state historically has not done a good job of clearly defining objectives and expectations for its board members. State ownership has also impacted the composition of the board of directors. Companies that have a greater strategic significance to the state will contain a larger number of directors on their boards that represent the state's interest (Filatov, Tutkevich, Cherkaev 3). This state-centric approach to managing firms leads to the board making decisions that benefit the state and not all shareholders. For major companies in Russia, this should be a major concern, since the voice of the typical minority shareholder is virtually non-existent in state-owned enterprises.

Ownership structure of the board in the U.S. may have an important role in how the board sets its priorities. Since the board members themselves can own either a large or small amount of stock in a company, there is no set definition for how exactly it is owned. Unlike Russia, the United States doesn't routinely purchase joint-stock in publically traded companies. The amount of stocks owned by the board collectively may increase the individual members' interest in the wellbeing and success of the company.

The average number of board members in joint-stock companies in Russia is approximately 10 members ("Russian Boards" 6), which is consistent with the United States. The Law on JSC states that "the quantitative composition of a company's board of directors shall be determined by the charter of the company or by decision of a general meeting of shareholders, but may not be less than five members." There are no requirements on the minimum number of independent directors in the Law on JSC, however the Russian Corporate Governance Code recommends one-fourth of the board, or a minimum of 3 directors be independent ("Corporate Governance

Code" 28). In recent years many of the Top 50 Russian companies have established internal standards for the minimum number of independent directors on their board, which is usually between one and five independent directors, however only 4% of these firms require the board to contain a majority of independents, and 10% of the top companies reported having zero independent directors on their boards ("Russian Boards" 9). These statistics have led many to question the true benefits that Russian boards bring to their firms. One could argue that in Russia, Resource Dependency Theory is either not important or lacking in implementation as a result of the low number of outside directors providing knowledge into the firm. Perhaps this is a contributing reason for why many view Russian firms as lacking industry expertise, strong strategic planning skills, and sound risk management practices. Another area of board composition where Russia is different in comparison to the United States is in diversity. Diversity is often viewed as an important aspect of board effectiveness as it helps provide different perspectives into board discussions. In a recent study of the top firms in Russia, females comprise only 11% of all directors on their boards, while 43% have no females at all on the board ("Russian Boards" 16).

While the United States requires at least five members per Board of Directors, the average number is 9-10. There is no cap to the number of directors allowed; however, additional members will increase the amount of time it takes to make decisions, which may decrease efficacy of the board. For publically traded companies, most of the board should be made up of independent outsiders. Although having insiders promotes knowledge and expertise of the company, independent outsiders also help to diversify the board and bring additional areas of expertise to the table. A diversified board will also help prevent "groupthink," in which the board members begin thinking as one unit rather than individuals. Having members of different corporate and personal backgrounds influence how the board makes its decisions.

Russian boards are also advised to have a number of different committees identified in the company's corporate charter. Companies should have a strategic planning committee, which is responsible for the overall efficiency and strategic direction of the firm ("Corporate Governance Code" 34). Russian firms should also have an audit committee responsible for active participation by the directors in reviewing the company's financial viability (35). The third committee in Russian boards is the human resources and remuneration committee. This committee is responsible for talent management and development within the organization and also administering the compensation structure with managers, directors, and other executives. The Russian Code advised that this committee be comprised solely of independent directors (35-36). The final committee that Russian Code explicitly identifies is the corporate conflicts resolution committee which is responsible for settling conflicts between the company and its shareholders (36-37). There are other ad-hoc committees that the Code states can be created such as an ethics committee and a risk management committee; however the choice is left up to the company on the creation of these groups.

The United States requires all companies to have three specific committees as a part of their boards. The Audit committee monitors the company's finances to make sure goals are being met (Nordberg 121). All members of this committee must be fully independent outsiders, and the chair of this committee should have some background in finance or accounting. The Remuneration committee looks at how senior managers are paid, and all members should be fully independent outsiders. Along with the company's CEO, the remuneration committee sets how much the CEO will be paid based on goals set and performance standards. The downside to this is obvious, in that the CEO has a role in his own compensation. Finally, the Nominations committee is dedicated to searching for new candidates for the board (122).

For board of director nominations and elections, the Russian Corporate Governance Code recommends that "election of the board of directors be conducted in accordance with a transparent procedure that takes into account the diverse opinions held by shareholders, ensures that the composition of the board of directors is in compliance with statutory requirements, and allows the election of independent directors" (26). This means that directors shall be elected by cumulative voting that is representative of all shareholders, including minority shareholders. Despite this guidance, many view the board nomination and election process as not being very transparent. This is illustrated by the fact that 37% of top companies in Russia indicated they have no formalized procedures in place for the director selection process ("Russian Boards" 17). Nominations in Russia have more to do with personal connections than professional qualification, especially in state-owned enterprises. This has led many to question the qualifications of directors who are elected.

The United States allows corporations to choose which state they will have a legal seat in. Many corporations choose to have their seat in Delaware due to laws specific to this state. One such law, the business judgment rule, states that decisions of the board are not subject to disapproval by the shareholders. Shareholders have the right to elect board members, but it is highly limited. The current board is in charge of nominees for the next board. Once someone has been nominated, shareholders cannot vote against the person. They may only vote in favor of a nominee or abstain from voting at all (Nordberg 78). To offset this, shareholders can attempt to sway all other shareholders to vote in favor of a particular nominee. If this doesn't work, the main voting power lies in the hands of the Top Management Team. Essentially this puts power into the CEO's hands. The CEO can then influence voting by supporting the board members who will support his or her future plans. While this system may be slightly less biased than the system seen in Russia, it still has a high potential for abuse from the Top Management Team.

Scholarly Review of Executive Compensation in Russia

Generally, in Russian culture the executives get paid more in state-controlled companies as compared to private sector companies. The compensation structure used in state-controlled companies helped shape workers' expectations, and reflected cultural norms in regards to the relationship between performance and rewards. This guided the way in which Russian companies developed a competitive pay structure (Puffer and Shekshnia 219). However, the pay structures differentiated between how important the country viewed the job in terms of benefiting of Russia. There were wide disparities between industries, particularly ones that associated with national security and the economy that forced Russian companies to increase their pay-scales for their executives. Incentive pay has been an integral component of compensation in Russia since it was mandated by Vladimir Lenin in the 1920s. Keep in mind that contrary to the government system in the United States, Russia is a recently developing economy, one that is still in the middle of transitioning governments.

One key function of Russian companies included increasing bonuses dramatically so they could attract the best employees to their respective companies. Russian executive compensation consists of a base salary and fringe benefits, with fringe benefits acting as the larger of the two parts (220). One of the key pieces to this plan was awarding the best fringe benefits to the most senior people, which involved things like chauffeured car, country house, and medical care, among other benefits (Puffer and Shekshnia 222). The key to using fringe benefits in the 1980s was making them seem like a great and beneficial opportunity for executives. Today times have changed such that many employees, including the executives in Russia, would rather see a higher base salary than a goods or services package (Puffer and Shekshnia 227).

Ideally, if a business was struggling and performance was in a downward spiral, the CEO of that company would resign. However, an event study conducted by Rachinsky formulated that out of 110 companies, only 19.5% of the CEOs that stepped down said it was related to poor performance, while the remaining percentage was mainly due to retirement, intervention by local governments, or even takeovers (Iwasaki 453). Another consideration is that due to organizational and cultural differences, Russian executives are able to get by with negative performance. The survey says that Russian CEOs are able to avoid punishment for poor performance, whereas CEOs of the United States cannot (Iwasaki 455).

Vladimir Strzhalkovsky, CEO of Norilsk, was a part of the largest golden parachute payout in Russian history due to a shareholder disagreement. When the board agreed to let Vladimir step down after 4 years of acting as CEO, he was awarded $100 million. This case came about due to, in large part, shareholder differences involving Oleg Deripaska and Strzhalkovsky that was focused on dividend payments (Kramer 3). While his severance was said to be beneficial to the company, previous executives issued questions as to why the spokesperson had not spoken publically about service this payout made to the company. This payout is comparable to some packages offered to CEOs in American business in the past, however it is not the norm in Russia. While many packages in American business are paid in stock or deferred payments, this particular payment was made in cash -- $50 million of which was paid immediately, and the remainder scheduled to be paid within the next year.

Overview to the Sustainability in Russia

As of 2012, Russia was still more comfortable with the term 'corporate social responsibility' unlike, its western counterparts that have moved on to sustainable development (Avshalumova 1). This was not due to the lack of interest from Russian businesses, rather their lack of resources and information on how to move towards sustainable development. In fact, such was the interest of Russian businesses in sustainable development that they had an outline of crucial aspects to implement it: responsibility towards the quality of goods and services; employer responsibility; corporate governance; business ethics and anti-corruption; public relations, environmental protection; efficiency and rehabilitation; supplier network ("Sustainable Development: Role" 8). They believed that these aspects would cover the interest of both shareholders and stakeholders for a sustainable business practice.

However, as 2013 rolled in, the Russian population was still paying minimal regard to sustainability issues. Despite the acknowledgement that sustainable practices can increase profitability and overall development of business, Russia's population is too sparse, slowing down the cultural awareness of the issue (Davydova 1). Russia's wealth in natural resources gives the sense of false security that Russia's natural resources are unlimited. Unfortunately, despite by non-governmental organizations, creating awareness of this growing problem remains difficult due to the fact that natural resources are important to the economics of the country (Davydova 5). Therefore it is crucial that sustainability development lies in businesses that are more aware of the issue.

The RSPP works at finding the right balance of interest between the society, government, and businesses. In its effort to create a sustainable business environment, the RSPP, with the help of Congress, established a new version of The Social Charter of Russian Business. As of 2013, the charter is made up of 246 total members, who have come up with a plan to apply and implement a business culture standard that is favorable to the stakeholders ("Sustainable Development: Role" 8). In the effort to drive sustainable business practices, businesses that are members of the Charter provide voluntary reports of their company which includes information

on their responsible business practices ("Sustainable Development: Role" 9). The analytical surveys obtained from the collection of these reports will hopefully provide a recommendation to improve sustainability.

Sustainability in the Energy Sector

A large part of Russia's economic development comes from its hydrocarbon-based fuel and energy complex; 6% of global oil reserves and 24% of natural gas deposits are owned by Russia ("Sustainable Development in Russia" 39). This exploitation of Russia's oil and gas reserves has greatly impacted the country's natural environment, with current offshore development projects creating additional new risks. Climate plays a crucial role in the likelihood of industry accidents as well as the intensity of cleanup efforts ("Sustainable Development in Russia" 39). However, offshore development has been placed on hold for the time being due to both the 2008 economic crisis and the fluctuation of world oil prices ("Sustainable Development in Russia" 40). Unfortunately, by shutting down offshore development, companies turned towards land exploitation that led to more energy waste.

The energy sector has since concentrated on the exploitation of land-based oil and gas fields. This, of course, carries its own risk, and adds on to the pre-existing burden of offshore exploitation. Land-based exploitation accidents cause flaring of associated petroleum gases (APG), and the damage exceeds the rest of the world in terms of environmental damage and energy waste. Dynamics of APG production have been growing steadily over recent years. Index of rational utilization of APG remains at 75%, with no signs of improvement ("Sustainable Development in Russia" 40).

The absence of improvement is due to several factors such as the continued growth of oil production in East Siberian fields despite the lack of necessary infrastructure, the growth of Russian oil fields' gas factor, and commercial production at the Vankor field – the largest of Eastern Siberian newly developed fields.

Table 1. Growth of APG production amongst oil cmpanies working in Russia, 2006-2011 (billions of cubic metres). Based on oil company figures and publically available data.

Company	Associated gas production (billions of cubic metres)						Associated gas utilization (as a percentage of volume produced)					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Rosneft	8,600*	10,100*	10,900*	11,700*	13,800*	15,300*	59,0*	60,3*	63,2*	67,0*	56,2*	53,6*
TNK-BP	11,300*	12,400*	12,200*	12,500*	13,100*	13,997*	79,8*	68,4*	79,6*	84,4*	84,6*	82,8*
Surgutneftegaz	15,630*	14,990*	14,780*	14,030*	13,930*	13,229*	93,5*	94,3*	95,4*	96,9*	95,9*	97,8*
Lukoil	6,700*	7,600*	7,400*	8,200*	8,600*	7,941*	75,0*	70,0*	70,4	71,1	76,8	79,3*
Gazprom Neft	4,532*	4,885*	4,569*	4,282*	4,736*	4,716*	45,0*	35,7*	46,8*	48,1*	55,2*	60,4*
Slavneft	0,925	0,928	0,899	0,905	0,851	0,845*	62,5	68,1	69,5	71,1	71,9	75,0*
Tatneft	0,739*	0,738*	0,762*	0,757*	0,770*	0,833*	95,1*	94,0*	94,6*	93,7*	94,7*	94,9*
Bashneft	0,389	0,370	0,362	0,377	0,436	**	78,2	82,1	84,5	85,7	83,1	81,9
Russneft	1,634	1,546	1,488	**	1,461*	**	71,0	70,3	61,0	68,9	70,0*	**

* Data provided by companies on request
** Data unavailable

The table above provides a list of oil companies and compares the gas production of each to the gas utilization. During the period of 2006 to 2011, almost all private sector businesses have

improved on their utilization rates. The worst performing company, Rosneft, is a state-owned company ("Sustainable Development in Russia" 41). This is a typical situation as state-owned businesses tend to prioritize their own interests above those of the nation. They are held to a lower standard compared to private businesses, which are expected to adhere to the law. Since most companies have some state ownership, this puts private and publically owned companies at a disadvantage.

Gas flaring issues in Russia have yet to be resolved, especially with Russian legislation being outdated ("Sustainable Development in Russia" 41). Despite former President Dmitry Medvedev's demand of decisive and quick action, the problem of energy waste due to flaring APG still remains. This is partially due pressure from lobbyists on the Ministry of Energy, which resulted in postponing the implementation of achieving 95% utilization by 2012 back two years to 2014 ("Sustainable Development in Russia" 41). Without a firm decision to implement the new legislation, energy waste continues to be a problem among oil companies, which causes the nation huge losses in annual GDP.

Problems to State Policy Practical Implementation

The lack of coordination and consistency in lower-level legislations creates a problem when trying to implement new policies ("Sustainable Development in Russia" 44). Problems arise because state policies were designed for regional authorities and municipalities rather than for businesses ("Sustainable Development in Russia" 44). Anything below the regional level does not show any monitoring or analysis of energy efficiency in industry nor do they have any data, instruments for collecting data, or attempts to influence the situation.

The energy auditing in place meant to encourage an increase in energy efficiency or a more practical energy service also failed. The campaign only increased the number of facilities being certified, but again, there was no effort to implement the certification ("Sustainable Development in Russia" 45). Instead of producing beneficial results, the audit ended up wasting both time and money for everyone involved.

State policy in Russia is in need of organization before legislation implementation ("Sustainable Development in Russia" 47). Creating a procedure that is divided into levels would encourage the success of implementation. The implementation would be divided into small steps that could be achieved at each level before moving to the next step. While this may simplify the process of implementation, is not enough. There still needs to be education and training provided in order to spread the adoption of sustainability practices, especially when referring to the size of the country and population spread.

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