

HK+ National Strategies Research Project Agency, Center for
International Area Studies, Hankuk University of Foreign Studies
Seminar Series

Border and Environment

Supra-National Cooperation and Communication
for Reaching Carbon Neutrality

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Border and Environment

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Edited by HK+ National Strategies Research Project Agency,
Center for International Area Studies,
Hankuk University of Foreign Studies



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This volume is the compilation of the papers submitted by scholars who presented at the international conference co-hosted by the Korea Environment Institute (KEI) and the HK+ National Strategies Research Project Agency in Center for International Area Studies at Hankuk University of Foreign Studies, titled “Border and Environment: Supra-National Cooperation and Communication for Reaching Carbon Neutrality,” held in Seoul, South Korea in November 12, 2021. Amid the ongoing COVID-19 pandemic, the conference was devoted to the critical issue of addressing the climate change in the Korean Peninsula with the special focus on how to make possible cooperation between South Korea and North Korea beyond the inter-Korean border, or DMZ. The eight scholars, consisting of four Koreans, an American, a Chinese, a Russian, and a German residing in Japan, discussed various issues on border and environment as well as carbon neutrality. Subsequently, they all agreed to develop their ideas to take the form of research papers, which came to be published in this book.

HK+ National Strategies Research Project Agency was established in the

Center for International Area Studies(CIAS) at Hankuk University of Foreign Studies(HUFS) in 2020 with the approval of the National Research Foundation of Korea. HK+ CIAS has set the agenda as follows: “Searching for the Supra-National Cooperation and Communication: Identifying the Cultural Connections with the Northern Region and Building a Cultural Hub for the Creation of Unification Friendly Circumstances.” Aimed at turning into a world-class think-tank dedicated to expertise on North Korea and the “Northern Region,” defined as the Caucasus region, Central Asia, Far Eastern Europe, Mongolia, Northern-east China, and Russia. HK+ CIAS has the advantage of utilizing CIAS and HUFS’s year long experience on area studies. HUFS is undoubtedly the top university in South Korea for language education and international studies. Since its establishment, HUFS has focused on teaching and training young generations. As one of the main research institution of HUFS, CIAS has been devoted to research and other academic activities with 14 area research institutes under its supervision.

The co-sponsor Korea Environment Institute (KEI) was originally founded in January 1993 as the Korea Environmental Technology Research Institute (KETRI) as the Korean government affiliated research agency on environmental issues. The organization was reformed and expanded in 1997 to become the Korea Environment Institute. KEI is dedicated to research and policy making regarding the environmental related issues, particularly such crucial topics as sustainable development and carbon neutrality.

Although the COVID-19 pandemic is still going on, the year of 2022

will become a turning point for the worldwide effort to stop climate change and achieve carbon neutrality. In addition, we look forward to seeing the strengthening of inter-Korean relations based on their mutual interest in carrying out cooperation to address climate change. We sincerely hope that this volume would contribute to that effort toward the net-zero and carbon neutral Korean Peninsula.

I would like to thank again every participant of the conference and the authors of the papers presented in this volume. I also hope that the discussion on the issues surrounding border and environment in the Korean Peninsula will lead to better cooperation and communication, eventually allowing us to reach carbon neutrality.

Kang, Jun Young

Head, HK+ National Strategies Research Project Agency &
Director, Center for International Area Studies,
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Environmental Agenda and Practice of Using ESG Criteria in Russia

I. Introduction

Environmental agenda and the practice of using ESG criteria have been perceived as an important issue in Russia. This paper will examine the current trend in Russia with the analysis of international agreements that Russia has made, Russia's national legislations, obligations, and interim results as well as its implementation of ESG criteria.

II. International agreements

Russia has joined almost all major international documents defining the global environmental agenda. Among them:

- United Nations Framework Convention on Climate Change of 1992 – Russia ratified it in 1994;¹
- Kyoto Protocol to the United Nations Framework Convention on Climate Change of 1997 – Russia ratified it in 2004;²
- The Paris Agreement of 2015 – Russia, like other participating countries, signed it in 2016 and ratified in 2019;³
- and the Declaration on forests and land use proposed at the 26th United Nations Climate Change Conference in November 2021.⁴

Russia also participates in a number of multilateral treaties and agreements in the field of environmental protection within the framework of the Shanghai Cooperation Organization, the Eurasian Economic Union and the Commonwealth of Independent States. For example, within the framework of the Eurasian Economic Union there is the Agreement on the Transboundary movement of Hazardous Waste through the Customs Territory of the Eurasian Economic Union,⁵ etc. Within the Commonwealth of Independent States – it is the Agreement on cooperation in the field of environmental protection,⁶ the Agreement on information cooperation in the field of ecology and environmental protection,⁷ etc.

There are also a number of bilateral agreements, for example:

- with South Korea – Agreement on the protection of migratory birds, as well as a framework Agreement on cooperation in the field of environmental protection;
- with China – Agreement on joint Protection of Forests from Fires, Agreement on Cooperation in the Joint Development of Forest

Resources, Agreement on Cooperation in the Field of Research and Use of the World Ocean;

- with Germany – a framework Agreement on cooperation in the field of environmental protection, as well as a Memorandum of Understanding on cooperation between the Committee of the Russian Federation for Geology and the Use of Subsurface Resources and the Federal Institute for Geological Sciences and Natural Resources of Germany;
- with the USA – framework Agreement on cooperation in the field of environmental protection and natural resources.⁸

Similar treaties, agreements, protocols and memoranda have been concluded between Russia and the United Kingdom, Belgium, Finland, Sweden and other countries.

On the basis of supranational organizations, within the framework of international agreements, Russia also participates in the implementation of international environmental projects, for example, in the program for the conservation of Arctic flora and fauna of the Arctic Council.

III. National legislation

The basic Russian national document in the field of environmental protection is the Federal Law “On Environmental Protection”.⁹ Its main terms are further specified by federal laws “On the protection of atmospheric

air”;¹⁰ “On production waste”;¹¹ “On Environmental expertise”;¹² “On specially protected natural territories”;¹³ etc.

In addition, Russia’s strategy on the field of the environment is explained in Environmental Safety Strategy of the Russian Federation for the period up to 2025,¹⁴ which involves the following tasks:

- reducing the level of air pollution;
- increasing the level of waste disposal;
- preventing water pollution and improving water quality in polluted facilities;
- introducing innovative environmental technologies in production;
- as well as preserving the biological diversity of terrestrial and marine ecosystems.

Recently on November 1st, 2021, the Russian government approved a Strategy for the socio-economic development of Russia with low greenhouse gas emissions until 2050.¹⁵ The priority of that Strategy is to reduce the accumulated volume of net greenhouse gas emissions in the Russia during the period from 2021 to 2050 to lower values in comparison with the same indicators of the European Union. It is assumed that further implementation of the Strategy will allow achieving carbon neutrality by 2060, but a final plan of specific measures for the implementation of that Strategy is still being developed.

There are also several projects implementing in Russia now: the national project “Ecology”¹⁶ and the part of it – two federal projects “Clean Air”¹⁷ and “Best Available Technologies”. The federal project was completed ahead

of schedule on 31st of December 2020. Some activities were transferred to the federal projects “Clean Air” and “Volga Health Improvement.”¹⁸

The national project “Ecology” is aimed at the effective management of production and consumption waste, the elimination of unauthorized landfills, reducing the level of pollutants into the atmosphere, improving the quality of drinking water, preserving the unique water systems of Lake Baikal and Lake Teletskoye, etc.

All subprojects are designed until 2024 and assumes total financing in the amount 4 trln RUB (about 50 bln USD).¹⁹ In projects involved various ministries and departments, for example, the Ministry of Natural Resources, the Ministry of Industry and Trade, the Ministry of Construction, Russian State Atomic Energy Corporation Rosatom, etc.

In general, these projects provide for the reduction of greenhouse gas emissions, stimulate Russian business to introduce the best green technologies, and also develop regulation of emission quotas.

Considering the above, Russia officially supports the main global initiatives aimed at protecting the environment and is quite deeply integrated into the emerging global environmental legal regime.

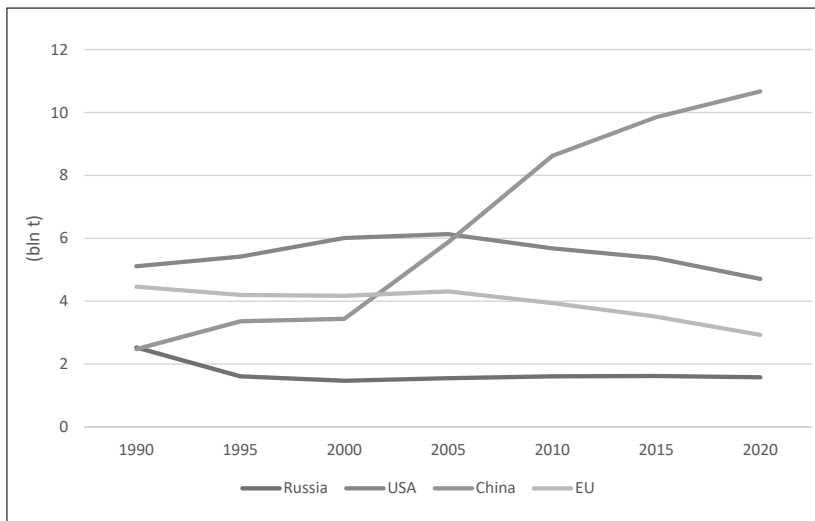
A broad environmental protection regime and a body of laws and regulations have also been formed within Russia, which establish the main directions of the Russian environmental strategy, its specific goals and indicators, as well as responsibility for violations of Russian environmental legislation.

IV. Obligations

Under the Kyoto Protocol, Russia has committed itself to reduce total annual greenhouse gas emissions in the period from 2008 to 2012 by an average of 5% compared to 1990 levels. According to the data of the Ministry of Economic Development of the Russian Federation from 1991 to 2015 Russia was the world leader in terms of reducing greenhouse gas emissions (Figure 1).²⁰

In 2015, Russia's greenhouse gas emissions from all sources were 44% lower than in 1990 – this is one of the highest reduction rates in the world. Greenhouse gas emissions from the energy sector in 2015 were

<Figure 1> Annual CO₂ emissions in Russia, USA, China and EU in 1990-2020 (bln t)*



* Carbon dioxide (CO₂) emissions from the burning of fossil fuels for energy and cement production. Land use change is not included. Source: <https://ourworldindata.org/co2/country/russia?country=~RUS>

29% lower than in 1990; from fuel combustion decreased by 39%; from industrial processes – by 28%; from agricultural activities – by 60%.²¹

Within the framework of the Paris Agreement, Russia has set a goal for itself to reduce greenhouse gas emissions by 2030 to 70% relative to 1990 indicators, including taking into account the absorption capacity of forests.²²

The structure of emissions by sector in Russia has remained relatively stable over the past decades. Most of the greenhouse gas emissions traditionally fall on the energy sector – its share in the total volume of emissions in 2018 was 78.9%, which is by 1.7 percentage points less than in 1990. The share of emissions from industry was 11.0% – by 2.1 percentage points higher than in 1990. And the share of emissions from agriculture was 5.7% – by 3.0 percentage points lower than in 1990.

In general, in 2018 the volume of greenhouse gas emissions from the Russian industrial sector decreased by 14.2% compared to 1990.²³ It means that at first sight Russia has exceeded its commitments under the Kyoto Protocol and, according to most indicators, successfully fulfills its obligations under the Paris Agreement.

V. Interim results

During 1990–1998, there was a significant decrease in greenhouse gas emissions in Russia due to the general deterioration of the economic situation after the collapse of the USSR, namely, the degradation of industry

and the disappearance of some of soviet industries.

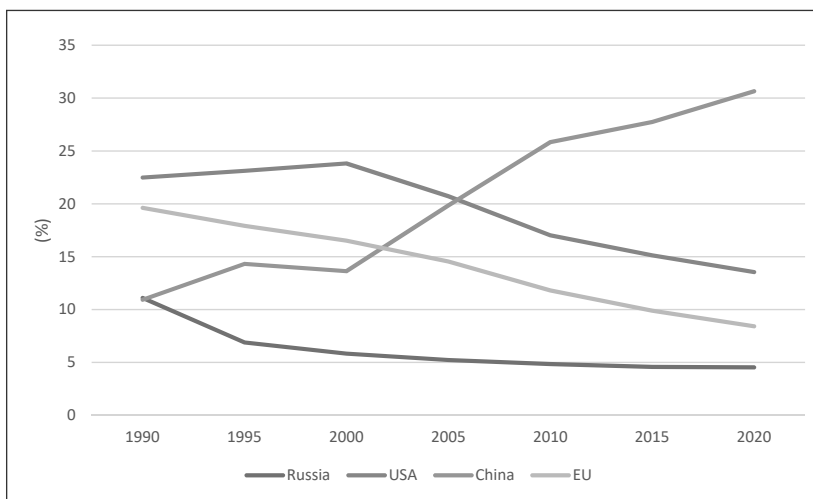
In 1999–2008, during the period of economic recovery, which took place in both production and consumption, emissions showed steady growth, but the increase in emissions during this period was significantly lower than their reduction in the 1990s after USSR collapse. In 2009, there was a decline in emissions associated with the 2008 global economic crisis affecting the Russian Federation. In 2010–2012, during the post-crisis economic recovery, emissions began to increase again,²⁴ In 2013–2014, total greenhouse gas emissions decreased somewhat again due to the negative economic situation including associated with the Ukrainian crisis and the subsequent anti-Russian sanctions.²⁵

In recent years the total greenhouse gas emissions increased slightly. But in 2019–2020 Russia has reduced greenhouse gas emissions by 4% – this is above the global average and slightly below the level of the G7 countries.

In general, in the period from 2000 by 2020 the Russian Federation reduced CO₂ emissions faster than many countries – by an average of 2.7% per year against 1.5% of the global average ((Figure 2)).²⁶

However, the rate of reduction has decreased – if before the Paris Agreement in 2010–2015 they were 3.6% per year, then after it – an average of 1.9%.²⁷ This was partly due to the launch of the import substitution program – that is, the development of certain types of industries on the territory of Russia.

<Figure 2> Annual share of global CO₂ emissions by Russia, USA, China and EU*



Source: <https://ourworldindata.org/co2/country/russia?country=~RUS>

VI. General conclusions

On the one hand, Russia has made significant progress in reducing greenhouse gas emissions, has formed an environmentally friendly energy balance, dominated by natural gas, has joined to almost all international agreements aimed at preserving the environment, has developed and is implementing an ecology strategy, and also developed and implemented broad national environmental legislation.

On the other hand, Russia's environmental policy is still not active enough and is in the process of rethinking due to the global energy transition, primarily in the countries that are the main consumers of Russian energy resources.

Since the 1990s environmental policy has been perceived in Russia rather as a burden, and sometimes as a threat to economic development. This is most obviously shown in the National Security Strategy of the Russian Federation, where the development of “green technologies” is ranked among the main challenges and threats to the economic security of the country.²⁸ Primarily because that these technologies reduce the demand for raw materials exported by Russia.

Yes, Russia is a one of the world leaders in terms of reducing many types of pollution, as well as CO₂ emissions over the past three decades. However, this happened, rather, not because of the state environmental policy, but because of the USSR collapse: firstly, the territory of the country decreased, secondly, production chains were broken, and thirdly, some types of industry ceased to exist. All this has led to a reduction in harmful emissions, both statistically and in practice.

Russia’s industrial potential has not yet recovered. Therefore, there is the statistical contradiction: even if Russia slightly increases the rate of greenhouse gas emissions in the coming years, statistically the general volume of greenhouse gas emissions will still be lower than in 1990 and Russia will still be able to fulfill its obligations under the Paris Agreement for example.

Of course, as stated above, some successes also were reached due to restructuring in the Russian electric power industry. A relatively favorable energy balance has been formed: with the dominance of natural gas (46%) and a high proportion of low-carbon nuclear (19%) and hydropower (18%).²⁹

This energy balance is more preferable than in most developed countries, including Germany and the United States, which now consider themselves as leaders of low-carbon transformation, not to mention China and India, whose energy is traditionally based on coal.

Nevertheless, Russia lags significantly behind in terms of the carbon intensity of the economy from leading countries: firstly, because of the high share of heat generation (this is due to the harsh climate), and secondly, because of the low energy efficiency of the economy.

Some positive effect can be found in the transformation of the Russian economy in 1999–2007, when new, more high-tech and less harmful industries appeared. There was also a renewal of such industries as metallurgy and chemical industry, the development of nuclear and hydropower, the spread of modern gas electricity and heat generation.³⁰

But today, the environmental situation in Russia is ambiguous. On the one hand, against the global background, Russia by some indicators remains a relatively environmentally prosperous country, for example, by the area of forests or by the structure of the balance of electricity production.

However, on the other hand, in a number of regions and cities, environmental problems reach a critical level. According to the Russian Federal Service for Supervision of Natural Resources, as of October 2021, Norilsk, Cherepovets and Novokuznetsk are recognized as the most polluting cities in Russia.³¹ In May 2020, a diesel fuel spill occurred on the territory of one of the subsidiaries of the Russian company Norilsk Nickel. The total area of pollution, according to the Krasnoyarsk prosecutor's office,

amounted to 180 thousand square meters.³² This accident could become the largest known oil spill in the Russian Arctic. The largest such accident in the world is considered to be the catastrophe of the Exxon Valdez tanker in Alaska, during which, according to official data, about 36 thousand tons of oil leaked into the sea.³³

Russia is a party of all major environmental agreements, including the Paris Agreement, and is developing cooperation on environmental issues with partners within the EAEU, BRICS, SCO, as well as with the countries of the European Union.

At the same time Russia is not trying to play a leading role in these processes and does not approach environmental issues as one of the real foreign policy priorities.

Passivity characterizes Russia's approach to the environmental and climate agenda both in relations with its BRICS and SCO partners and in relations with Western countries. Russia's chairmanship in BRICS and SCO in 2020 showed that Moscow does not consider ecological agenda as one of the priorities.

However, the situation is gradually changing and there is already an understanding in Russia that it is impossible to ignore the global trend of decarbonization, which directly affects Russian economic interests.

A decrease in demand for oil and gas will lead to a decrease in Russia's political and economic role in the world, since oil and gas remain the main Russian export positions. This is especially actual against the background of statements by the EU and China, the main importers of Russian energy

carriers, about the creation of a green economy.

Russia relies on the development of nuclear (the possibility of recognizing the nuclear power industry as carbon neutral is currently being discussed), hydro- and hydrogen electric power, as well as on the expansion of the forest area. Currently, Russian Rosatom and Gazprom are studying various possibilities of exporting or producing green or blue hydrogen based on Russian gas to the EU.

The expansion of the area of Russian forests will increase their absorption capacity, and on that basis, it is possible to form some kind of “green” financial instruments and trading by emissions quotas.

There is little concrete information in this area yet, because there are many technical limitation. Russia is at the initial stage of forming its environmental, socio-economic policy.

In September 2021, the Russian Government began preparing a plan for adapting the Russian economy to the global energy transition. As part of the plan, special working groups were created under the leadership of vice premiers. Six ministries are also involved in the work: the Ministry of Economic Development, the Ministry of Industry and Trade, the Ministry of Energy, the Ministry of Natural Resources, the Ministry of Education and Science and the Ministry of Foreign Affairs.³⁴

The Russian Government is also planning to launch a series of carbon neutrality experiments. In December 2021, a draft law on conducting the first experiment on the territory of the Sakhalin Region was submitted to the State Duma (Russian parliament) for consideration. It is assumed that carbon

neutrality in this region will be achieved by 2025.³⁵

The draft law establishes greenhouse gas emission quotas, introduces stricter and more mandatory reporting, and establishes penalties for violation of greenhouse gas emission quotas. The draft law also provides incentives for companies to achieve carbon neutrality: tax deductions and subsidies related to the reimbursement of production costs. In case of success, other regions may join the experiments.

VII. ESG

ESG criteria are not widely used in Russia yet. Their implementation is only at the initial stage, and the legal environment is in the process of formation. Individual companies are trying to implement ESG practices, however, their number is small and until recently, the use of these criteria was more about image than efficiency. For example, according to a Deloitte CIS study conducted in 2021, the share of Russian banks applying any ESG practices in their activities is only about 10% of their total number in Russia.³⁶

Most experts agree that there is no systematic approach to the implementation of ESG principles in banking practice yet. The Central Bank of Russia confirms that so far, the main focus of attention of banking sector regulators is not ESG practices in general, but proper assessment of financial risks.³⁷

Any deals linked to ESG indicators are not very common, but there are examples – the interest rate on Russian bank “Sberbank” credit line for the Russian corporation “Sistema” for 10 bln RUB (about 130 mln US dollars) is tied to conditions such as the company’s approval of environmental policy and the integration of ESG principles into the investment process and business model.³⁸ Currently, Citibank is working on a number of Russian deals containing ESG indicators.

In 2020, the Russian “Moscow Credit Bank” attracted a 20 mln US dollars loan tied to ESG indicators from German Landesbank Baden-Wuerttemberg.³⁹ In early 2021 Russian bank “Sovcombank” placed social Eurobonds for 300 mln euros also linked to ESG criteria.⁴⁰ Shares of five ESG mutual funds with assets of about 8 bln RUB (102 mln US dollars) are traded on the Russian capital market.⁴¹ Russian companies “VEB”, “Rosbank”, “Russian Railways” and “GTLK”, as well as the Moscow government have already announced their plans for green bonds. Russian company MTS plans to issue social bonds connected to ESG criteria in 2022.⁴²

One of the Russian rating agencies evaluates Russian companies for the use of ESG practices and assigns a rating – now there are more than 150 such companies from 24 different industries.⁴³ Since February 2021, the Central Bank of Russia has started recruiting employees to a new division that will deal with sustainable development issues, including in accordance with ESG practices.⁴⁴

In general, as of November 2021, the volume of issuance of bonds that

take into account ESG criteria reached more than 125 bln RUB (about 1,6 bln US dollars), but 100 billion rubles fell on the securities of only one Russian company – “Russian Railways”.⁴⁵

At the same time, it is too early to talk about the sustainability of demand for ESG strategies. Risk and profitability remain the basis of decision-making for Russian companies. Many investors remain cautious, because bigger part of them traditionally associate ESG exclusively only with environmental initiatives, green startups, etc.

But Russian companies see for themselves new market niches opening up in connection with the “green” transformation of the world economy. For example, Russian company “Rusal” has offered a brand of the world’s lowest-carbon aluminum.⁴⁶

In general, Russian business began to actively show interest in the ESG criteria only in 2018, after the refusal of the Norwegian state Pension Fund to invest in Russian business due to poor ESG indicators. This pushed Russian business to increase investments in environmental and social projects. Russian companies are still lagging behind their global counterparts in achieving the Sustainable Development Goals. However, there are exceptions.

The greatest contribution to the formation of ESG principles is made by exporters of raw materials. The environmental friendliness of the production cycle increases profitability: consumers pay an additional premium for low-carbon raw materials. In particular, the premium for “green” aluminum today reaches 50 US dollars per ton.⁴⁷ According to the most authoritative

ESG rating of ESG Morgan Stanley Capital International, only a few companies are leaders in implementing ESG practices in Russia: “Polymetal”, “Polyus” and “Novatek” and others.⁴⁸

South Korea is one of the world leaders in building a green economy and in everything related to it. It is obvious that Russia lags far behind South Korea, both in the field of green development methodology and in the field of green technologies. And here there are broad potential prospects for cooperation between our countries. For example, these prospects can be realized within the framework of South Korean North Policy. Russia is also extremely interested in this in order to balance the growing economic and technological influence of China and avoid over-dependence on it.

Part 1. The Border Wall on the Korean Peninsula in Global Context

_____ Reece Jones

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Part 3. Environmental Agenda and Practice of Using ESG Criteria in Russia

_____ Sergey Lukonin

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