



Although the production of fossil fuels has played a significant role in the Russian energy sector, Russia does not stand aside from global trends in the area of energy transition, development of renewable energy sources and GHG emissions reductions. As a result, environmental-social-governance (ESG) triad is becoming an increasingly topical issue in Russia. The pace of development in this sector is phenomenal. In recent months only, a considerable number of events have occurred that form the basis of ESG in Russia.

For you to be always up to date with the current trends, the Moscow Office of Herbert Smith Freehills launches regular publications of **ESG Updates**.

This update is a summary of the most essential regulatory/policy changes and market developments in the field of ESG in Russia.

Our firm has been advising on ESG issues for over 30 years and is deeply involved in this topic. Among other things, Herbert Smith Freehills maintains the [ESG Hub](#) to post ESG materials drawn up by our offices all over the world .

SEPTEMBER-NOVEMBER 2021 MOSCOW

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HYDROGEN ENERGY

Eastern Economic Forum

On 2 – 4 September 2021, the 6th Eastern Economic Forum (EEF) was held in Russia. More than 380 agreements valued over RUB 3.6 trillion were signed on the sidelines of the forum¹. A number of hydrogen-related agreements were reached, for instance:

PJSC Gazprom, the Government of the Sakhalin Region and Rosatom State Corporation signed an agreement on cooperation in the field of hydrogen energy. It concerns the proposed project for the production of “blue” hydrogen in the Sakhalin region. Rosatom will look into the possibility of developing the plant and the logistics infrastructure for supplies. The regional government is ready to facilitate a favourable investment landscape and consider its contribution to setting up the necessary infrastructure. In turn, Gazprom will explore the possibility of supplying gas as feedstock for this project².

The Ministry of Energy of the Russian Federation and the Ministry of Economy, Trade and Industry of Japan signed the [Joint Statement of Intent on Cooperation in the field of Sustainable Energy](#). Among other things, the document provides for collaboration in:

- exploring possibilities of joint studies, projects and ventures, in the field of hydrogen, CCS/CCU/Carbon Recycling;
- studying the technology of production, storage, use and transportation of hydrogen;
- analyzing possibilities of project financing in the field of hydrogen and attraction of investments.

Moreover, the statement proposes setting up a new working group on cooperation in the field of Hydrogen, Fuel Ammonia, and CCS/CCU/Carbon Recycling within the framework of the Japan-Russia Energy Partnership Council, to which the parties have agreed to rename the Japan-Russia Energy Initiative Council.

PJSC Novatek and the Ministry of Economy, Trade and Industry of Japan executed a memorandum of cooperation in the area of ammonia, hydrogen as well as CCS and CCU. Besides, the company agreed to cooperate with JBIC (Japanese bank for international cooperation) in implementation of projects on production of hydrogen and ammonia, including on Yamal. Please be reminded that Novatek intends to implement the Obsky Gas Chemical Complex (GCC) project on Yamal with the proposed capacity of 0.13 MT of “blue” hydrogen and 2.2 MT of ammonia. Novatek was reported to conduct negotiations with **Mitsui** regarding the company’s joining the project as a participant and purchaser of products. In the context of the PIEF-2021 (June 2021), **PJSC Novatek, PJSC Sberbank** and **JSC Gazprombank** signed an agreement of intent on cooperation for the Obsky GCC³ funding.

Volvo Group Russia executed a cooperation agreement with respect to creating a hydrogen park in the Sakhalin region. In addition to Volvo, the project also involves JSC Russian Far East and Arctic Development Corporation, JSC Rusatom Overseas and the Sakhalin Region Development Corporation⁴. Participation in the Sakhalin hydrogen park will be considered by **PJSC Kamaz** that entered into the relevant agreement late in September⁵.

OJSC Russian Railways, the Government of the Sakhalin Region, the Rosatom State Corporation and JSC Transmashholding executed a memorandum to recognise the railway project with the use of hydrogen fuelled trains on Sakhalin as viable and technically feasible⁶.

The Ministry for the Development of the Russian Far East and Arctic, the Government of the Kamchatka Krai and H2 Pure Energy LLC signed an agreement for the creation of a hydrogen energy cluster on Kamchatka. The agreement sets forth the parties’ intentions to start the joint exploration and pre-examination of the project for the construction of the Penzhin Tidal Power Plant. Electricity generated by the tidal power plant is expected to be used for hydrogen production, which will gradually result in setting up a hydrogen cluster with the potential annual capacity of up to 5 MTA on Kamchatka⁷.

The agreements now in place attest to an intensive process of setting up the Eastern Hydrogen Cluster with a focus on exports to Asia, which is provided for by the [Framework of Hydrogen Energy Development in the Russian Federation](#) (the “**Hydrogen Strategy**”). Attention is paid not only to developing hydrogen production and exports but also to incentivising its domestic consumption (in particular, the creation of hydrogen-based transport), which will facilitate the attainment of ambitious climate goals set in the recently adopted [Strategy of Low Carbon Social and Economic Development of the Russian Federation until 2050](#).

Cooperation between governments

Russia is deeply involved in developing cooperation with other states in the hydrogen energy area pursuant to the Hydrogen Strategy, the [Action Plan “Development of Hydrogen Energy in the Russian Federation until 2024”](#) and the [Energy Strategy of the Russian Federation until 2035](#). Thus, according to the Vice-Premier, Russia intends to sign hydrogen energy cooperation agreements with **France, Australia and South Korea**⁸.

In **early November**, the meeting attended by the Russian Minister for the Development of the Russian Far East and Arctic and the 1st Vice Minister of Foreign Affairs of the **Republic of Korea** was held to discuss issues of collaboration regarding development of the Far East hydrogen cluster. The Russian party participated in the meeting devoted to hydrogen economy involving a dozen of Korean companies (H2KOREA, Hyosung Heavy Industry, Samsung C&T, Hyundai, Lotte Chemical, etc.)⁹.

On 17 November 2021, the Ministry of Industry and Trade of the Russian Federation and the Ministry of Industry and Advanced Technology of **UAE** signed a memorandum of understanding aimed at strengthening industrial cooperation in the area of developing hydrogen-based technologies¹⁰. It is worth reminding that in summer Russia and the UAE agreed, during joint consultations, to set up a joint working group to deal with hydrogen energy issues¹¹.

Atlas of hydrogen projects

On 15 October 2021, the Ministry of Industry and Trade of the Russian Federation introduced the [atlas](#) of Russian low-carbon and carbon-free hydrogen and ammonia production projects. The atlas provides brief details of more than 30 projects. Among other matters, it contains information regarding the project type, location, participants, target markets and implementation deadlines. The atlas will be helpful for investors, including foreign ones, in the first place. The document is available in several foreign languages, including [English](#).

PJSC Gazprom and hydrogen projects

On 23 November 2021, PJSC Gazprom articulated its intention to contribute to the implementation of pilot hydrogen energy projects in Russia. The company’s Management Committee was instructed to procure completion of the works aimed at the hydrogen energy development and decarbonisation based on natural gas¹².

In **October this year**, the Russian Government and PJSC Gazprom executed the [Agreement of Intent to Develop the High-Tech Area “Development of Hydrogen Energy and Decarbonisation of the Manufacturing Industry and Transport based on Natural Gas”](#). PJSC Gazprom and the relevant ministries are currently preparing the related roadmap. It is expected to be approved by the Russian Government as early as this December¹³.

EMISSIONS REDUCTIONS

Low Carbon Social and Economic Development Strategy for the Period until 2050

On 29 October 2021, the Russian Government adopted the [Low Carbon Social and Economic Development Strategy of the Russian Federation until 2050](#).

The strategy covers two scenarios: (i) “operations as usual”, and (ii) target-seeking (intensive).

The “**operations as usual**” scenario provides for the implementation of the already adopted decisions for achieving national goals and aims of industry-specific strategic planning documents. No additional measures resulting in any reduction of GHG emissions are covered by this scenario. Assuming that the current level of the absorbing capacity remains unchanged according to the “operations as usual” scenario, net GHG emissions will increase by 8% as compared to the present level by 2030 and by 25% by 2050. The “operations as usual” scenario disallows achieving carbon neutrality at the planning horizon and is exposed to such risks, as the exhaustion of the development model focusing on production and export of feedstock, lagging behind in terms of technological development, investments reduction and capital outflow. The “operations as usual” scenario is not intended to be the primary one.

In turn, the **target-seeking (intensive) scenario** entails additional measures for decarbonising economic sectors and increasing the absorbing capacity of managed ecosystems. Under this scenario, the global energy transition is regarded as one of the factors to secure the ability of Russia’s economy to compete globally. The implementation of the target-seeking scenario will enable Russia to achieve carbon neutrality by 2060 at the latest. On average, the aggregate investment in reducing GHG emissions will be 1% of the GDP in 2022–2030 and 1.5–2% of the GDP in 2031–2050.

The Ministry of Economic Development of the Russian Federation intends to draw up an action plan of strategy implementation within six months¹⁴.

GHG emissions reduction law – implementing regulations

To recap, [the Federal Law “On Limiting GHG Emissions”](#) (the “**GHG Law**”) was adopted in July this year and will take effect on 30 December 2021. The law requires enterprises with significant GHG emissions to submit reports on such emissions (carbon reporting). Moreover, it sets forth a legal basis for the voluntary implementation of projects aimed at reducing GHG emissions or increasing GHG absorption, as well as at the trading of carbon units being the verified outcome of such projects.

The GHG Law implies the adoption of a number of regulations thereunder to give effect to its provisions. Some of them are being drafted. For example:

- [on approving the criteria and procedure for qualification of the projects as climate ones, the form and procedure of submitting reports on implementation of such project](#), according to which the project will not, for example, be treated as a climate one, if achievement of results on reduction of GHG emissions, according to the project documentation, is planned later than 15 years from its start; and
- on [approving the criteria of classifying legal entities and individual entrepreneurs as regulated organisations](#) (being the organisations required to submit carbon reports), whose activity results in generating carbon dioxide emissions of over 150 KTA. GHG emissions will be calculated by the organisation on its own by multiplying the performance indicator (volume of fuel used, volume of products manufactured, etc.) by the relevant factor.

[The Regulation of the Government approving the list of GHGs subject to public accounting of GHG emissions and entry on the GHG cadastre](#) has already been adopted. The list contains carbon dioxide, methane, nitrogen oxide, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons, as well as nitrogen trifluoride.

In **September this year**, the Ministry of Economic Development of the Russian Federation prepared the [draft law](#) on making amendments to the GHG Law to specify the concept of climate project, verification and to introduce the concept of validation that, as opposed to verification, relates to the assessment of proposed activities.

In addition, Russia set up the first accredited body to verify the reporting on GHG emissions and climate projects. It is the Peoples’ Friendship University of Russia¹⁵.

Key COP 26 outcomes for Russia

The 26th UN Climate Change Conference (COP 26) took place between **01 and 14 November** in Glasgow. The key outcomes for Russia, among other things, are as follows:

Russia ESG update

- the Glasgow Climate Pact has been agreed which inter alia requests the parties to make revised and 1.5C-aligned 2030 emission pledges by the end of 2022;
- the Paris Rulebook was finally completed, in particular, the parties determined the rules which are essential for the development of international carbon market;
- Russia has joined over 100 countries in a deal to join efforts in order to halt and reverse deforestation by 2030; Russia, which is home to 20% of the world's forests, believes that the absorption capacity of this unique natural resource would allow it to accomplish its national aims towards GHG reduction.

On the other hand, Russia has not joined the global pledge on phasing out coal and cutting back on methane emissions. For more details on the COP 26 outcomes please see our [website](#).

Russian companies' feedback on CBAM

The Russian Union of Industrialists and Entrepreneurs ([RUIE](#)) and some Russian companies (including [NLMK](#) and [Rusal](#)) submitted proposals to the European Commission in respect of the carbon border adjustment mechanism (CBAM) which is proposed to be introduced in the EU.

The proposals, inter alia, point out to the fact that the CBAM provisions potentially contradict the WTO principles, and that all types of direct and indirect regulation aimed at reduction of the carbon footprint in the country of goods origin should be taken into consideration.

By way of recap, the CBAM is a measure which aims to protect the competitiveness of certain domestic EU carbon-intensive sectors and avoid the risk of carbon leakage. EU importers of in-scope products will be liable under the proposal to buy CBAM allowances proportionate to the embedded emissions of the products subject to import from the third countries (including Russia).

GREEN FINANCING

Taxonomy of green projects

On 21 September 2021 [Regulation of the Government was adopted “On approval of the criteria for the sustainable \(including green\) development in the Russian Federation and requirements to the system for verification of the sustainable \(including green\) development in the Russian Federation”](#) was adopted.

The Regulation introduces the national taxonomy for the sustainable development projects, encompassing both the “green” projects, and the “adaptation” (i.e. essentially, the transitional) projects. By way of an illustration, the following projects may be considered as “green”:

- establishment and upgrading of solar, wind, geothermal energy generation facilities;
- construction of green energy transport infrastructure;
- reforestation and afforestation with full perennial care for the created forest stands on the forestry fund lands.

In turn, the following may fall under the “adaptation” projects category:

- upgrading of coal conversion plants if the end-products help reduce pollutants or greenhouse gases emission rates by at least 20%;
- implementation of APG disposal projects; and
- transmission of coal mining equipment to coalmine methane.

In addition to establishing taxonomy, the document constitutes a methodological guidance to recognise financial instruments as sustainability instruments and determines the requirements to the system of verifying sustainability projects in Russia to the relevant extent and the procedure for using financial sustainability instruments for the purposes of boosting investment activity in Russia.

The regulation was drawn up for implementing [the goals and key areas of sustainable \(including green\) development of the Russian Federation](#) approved by the Government in this summer.

Benefits to encourage green financing have not been established yet but are actively discussed. For example, according to public sources, the subsidising of coupon payments for issuers of “green” bonds and interest on “green” loans is under consideration, and the Central Bank is exploring the introduction of benefits for banks developing the ESG sphere¹⁶. Besides, the President [instructed](#) the Government jointly with the Central Bank to develop and implement a set of measures aimed at attracting and incentivising private investments in the projects with positive environmental and social effects including, inter alia, tax incentives, subsidies and government guarantees for enterprises and investors.

Updated rules for issuing 'green' securities

On 1 October 2021, the Central Bank introduced [changes](#) to the standards of issuing securities related to “green” securities. Issuers may classify their bonds as “green” ones, if they are intended for the financing of projects being “green” not only pursuant to international principles but also to the Russian taxonomy.

ENVIRONMENTAL PROTECTION

Draft law on the elimination of environmental harm

The State Duma has adopted the [draft law](#) on elimination of accumulated harm to the environment in the first reading. The draft law was triggered by the situation in Usolye-Sibirskoye of the Irkutsk region, where Usolyekhimprom, an isolated and gradually disintegrating chemical enterprise, is located. Its site is polluted with mercury and contains reservoirs with chemical substances, while its buildings, soil and underground waters are saturated with toxins and heavy metals¹⁷. In total, hundreds of millions of public funds were allocated to remedy the situation¹⁸.

The draft law provides for the obligation of the owners of certain hazardous manufacturing facilities and waste disposal sites to take steps for the prevention and elimination of environmental pollution. For example, five years prior to the end of service life, the owners of such facilities shall submit to the relevant governmental authority an action plan for the prevention and elimination of environmental pollution along with a state environmental expertise conclusion, cost estimate and documents attesting to the financial support for its implementation. Those failing to comply with this duty shall make a compensation payment. The state shall exercise control over the proper carrying out of scheduled activities.

In addition, the draft law sets forth a number of steps aimed at preventing any attempted evasion of statutory duties by disposing of the relevant facilities (as a result of their sale or reorganisation of the owner). Thus, the financial strength of the person acquiring the relevant manufacturing facilities being disposed of earlier than five years before the end of their service life shall be checked.

RENEWABLES

Sakhalin wind park

During the **6th EEF**, the East Mining Company, the regional administration and the Russian Far East and Arctic Development Corporation signed the agreement for the development of a wind park on Sakhalin. It refers to the Ulegorsk wind farm that is expected to be the most powerful one in the Russian Far East. It will be composed of 16 wind turbines located on land plots with a challenging terrain and a high wind potential¹⁹.

HSF MOSCOW RECENT ACTIVITY

On **28 September 2021** partner **Olga Revzina** took part in the key Russian event – [Russian PPP Week](#) (28 September – 1 October 2021) and moderated the session “Sustainable development and ESG principles:

why Russian regions are changing approaches to the implementation of infrastructure projects?” Key state-owned banks, construction companies and representatives of the ministries were among speakers.

On **21 October 2021** partner **Olga Revzina** spoke at the International conference “[Hydrogen: Russia and CIS](#)” (20-21 October 2021) on Hydrogen Energetics and Investment: National Support and Boosting Mechanisms. Among the conference participants were such companies as Siemens Energy, Gazprombank, Jorgmec, Gazprom, Total Energies, Rosatom, Brunel, Rosen, as well as representatives of the public side (Ministry of Industry and Trade of the Russian Federation and others).

On **22 October 2021** partner **Evgeny Yuriev** and associate **Victoria Korotkova** spoke at the Forbes conference “[Best Antimonopoly Practices](#)” on climate change issues and impact of CBAM on activities of Russian companies in the EU. Among the speakers were employees of the Russian antitrust regulator (FAS), major Russian companies and international law firms.

On **6 December 2021** **Olga Revzina** participated at the session arranged by VEB.RF and the National PPP Center “[Towards a High-Quality and Sustainable Infrastructure](#)”, which was devoted to improving the quality of infrastructure projects and minimizing economic, social and environmental risks (ESG risks) during implementation, as well as results in this area in 2021.

On **8 December 2021**, with participation of Herbert Smith Freehills and support of the Ministry of Energy, the conference “[The Future of Renewable Energy in Russia](#)” was held by Vedomosti. Within the section “The Green Demand: Growth Factors and Support Tools”, partner **Evgeny Yuriev** spoke about the ways to minimize CBAM burden for Russian companies and shared his views on the possibilities that IREC, national green certificates and PPAs will be taken into account to determine embedded GHG emissions for CBAM purposes.

ABOUT US

International law firm **Herbert Smith Freehills** has over 30 years of vast experience in advising clients on ESG matters on a global scale. We deal with various ESG aspects, including cross-border transactions, green and sustainable finance, regulatory issues, disputes over current projects, climate change-related litigation, ESG-related reporting and disclosures, establishment of ESG and "green" funds, shareholder, employee and NGO activism, corporate governance and director duties, impact investment, human rights, and the development of ESG-related legislation. With over 400 lawyers in our energy team, we have advised on some of the most important energy and RES projects, disputes and transactions around the world. We have assisted clients in implementing the world's first RES projects in almost all jurisdictions, including those entering the RES market for the first time. We have worked with companies as well as with governments and regulatory authorities, helping to form the best market practices

Herbert Smith Freehills is included in the **Band 1 of Chambers** rating in the direction of **Environmental, Social & Governance Risk worldwide** as well as **Band 1 of Legal 500, Chambers и Pravo.Ru-300 ratings** in the direction of **Energy and Natural Resources in Russia**

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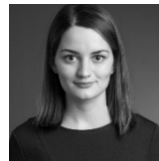
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