Working towards a global responsible coal supply chain

Bettercoal Assessment Public Report: Kuzbassrazrezugol Coal Company OJSC

Kuzbassrazrezugol, a Bettercoal Supplier since 2015, is committed to a continuous improvement path for their operations in Russia. Their mine sites have been independently assessed against the Bettercoal Code.

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Disclaimer

This report is a summary of the Bettercoal Assessment. The full document is confidential and available only to Bettercoal Members. This is a live document and the latest version can be found on Bettercoal.org

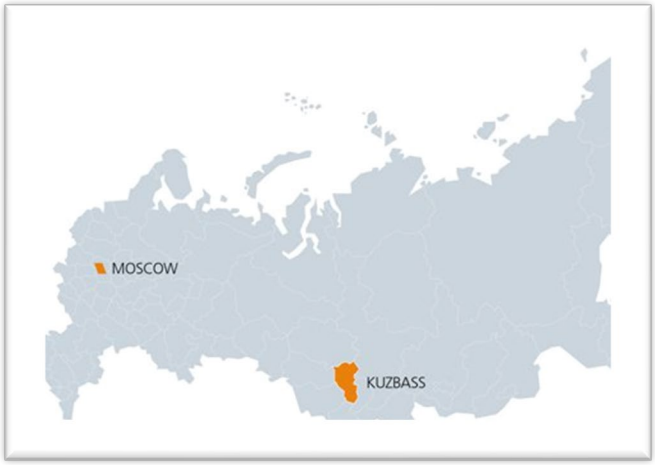
A. Company Description

Kuzbassrazrezugol (KRU) is an enterprise of the raw materials division of the Ural Mining and Metallurgical Company (UMMC), specializing in open-pit coal mining. The company's enterprises produce power and coking coal. Since 2008, KRU has reached a production level of over 40 million tons of coal per year, and in 2018, their annual output was measured at 48 million tons. In the last 50 years, the miners of KRU have produced 1.6 Billion tons of coal. This number is expected to continue to increase, as the current strategy of the organisation is aimed at increasing production volumes to 60 million tons of coal per year by 2035. Currently, around 70% of the coal mined is exported. Due to this large production and export, KRU represents about one fifth of overall exports of coal from Russia.

B. Context

Coal industry

The coal mining industry has always been important for the Russian economy. In January 2019, 166 coal mining companies were active in Russia. This includes 57 underground mines and 109 open pits, with a total production capacity of 470 million tons.[1] The major coal basins are the Donetsk, Pechorsk, Kuznetsk, Kansk-Achinsk, Irkutsk and South Yakutsk.



The main export region is Western-Siberia. Over 79.6% of exports from the region come from the Siberian federal district, where the main coal basin Kuzbass produced over 255 million tonnes of coal in 2019.

With the collapse of the Soviet Union, the coal industry suffered a major crisis. During the 1990s most of the underground coal mines and open pits were not operating due to a significant decrease in demand and limited supply of necessary equipment. This resulted in partial destruction of the mines, lost infrastructure of the mines-based towns, and gaps in the education of mining professionals. The coal mining industry in Russia requires investments to develop new technologies, equipment, education of personnel, as well as development of the cities that supply the workforce for the industry.

[1] Ministry of Energy of Russia https://minenergo.gov.ru/node/433

Risks

The most recent report from the Heritage Foundation's Index of Economic Freedom ranked Russia 107th and the World Bank ranked Russia 35th out of 190 countries in terms of ease of doing business. Russia is considered a high-risk country. Bettercoal rates the risk of countries following a number of publicly available indexes. Russia performs poorly on both the Corruption Perception Index and Freedom in the World Index, reflecting ongoing issues including corruption and downward pressure on civil liberties, political rights and the independent media in the country.

Academic sources identify the accident rate in the Kuzbass coal mining industry as significantly higher than that in western European operations with similar production volumes [2]. In interviews, trade union representatives in Kuzbass identified worker health and safety as a key focal area in which improvement is needed. Although, since 1992, the industry has gone through a major restructuring and a number of government bodies play important roles in oversight of the coal mining sector:

- The Ministry of Natural Resources and Environment of the Russian Federation maintains public records and registers of mining activities.
- The Federal Agency for Subsoil Use (RosNedra) issues tenders for the right to use subsoil resources.
- The Federal Agency for Ecological, Technological and Nuclear Supervision (RosTechNadzor) supervises the safety of mining operations and environmental management aspects.
- The Federal Supervisory Service for Nature Management (RosPrirodNadzor) supervises the use of natural resources, including subsoil mineral resources.
- The Federal Service for Supervision of Consumer Rights Protection and Human Well-Being (RosPotrebNadzor) is responsible for carrying out the federal state sanitary and epidemiological surveillance.
- The Federal Service for Labour and Employment (RosTrud) performs the functions of control and supervision over labour, employment, special assessment of workplace conditions and social protection issues.

Law

The main permit to start a mining business in Russia is the license to extract natural resources (Subsoil Law of Russian Federation (1992), Art. 11). In accordance with the Subsoil Law of Russian Federation (1992), natural resources in Russia are a national property and in order to extract and sell them, it is necessary to receive the license for a certain piece of land. The license does not only allow for extraction of the natural resources, but also stipulates the conditions under which it can be carried out and determines the borders of the land on which it can be conducted. The conditions include relocation of villages that are located within the borders of the licensed territory to post

[2] https://www.e3s-conferences.org/articles/e3sconf/pdf/2017/09/e3sconf_2iims2017_04020.pdf

operation re-cultivation work. To obtain a license, companies have to provide a detailed plan of the development of the work on the given piece of land including the description of the resources allocated for the closure of the mine and/or open pit.

Mining activities require:

- An environmental impact assessment;
- Permitting or licensing to allow a specific negative impact on the environment (for example, an air pollution permit);
- Limits to the acceptable negative impact on environment / emission of pollution;
- 'Pay-to-pollute' payments where the project owner pays for the 'right' to emit / discharge to the environment in accordance with its permits; and
- Liabilities if the above environmental requirements are not met.

Upon termination or expiration of a subsoil licence, the licence holder must decommission the operation and comply with environmental protection and industrial safety requirements. This means that planning for closure typically only begins late in the mining lifecycle.

Mining operations are considered by Russian law to be hazardous industrial operations and are regulated by Federal Law "On Industrial Safety at Hazardous Industrial Facilities" (21 July 1997), which establishes a number of legal requirements relating to permitting and licensing, certification of equipment, training of specialists and ongoing compliance health and industrial safety requirements.

The Labour Code of the Russian Federation (2001) is the main legal act regulating working conditions of employees. In addition, there are numerous laws and regulations on specific areas such as minimum wage, social benefits, occupational health and safety, freedom of association, etc.

Currently, Russia is undergoing an overhaul of legal and regulatory framework and is creating separate programmes and projects in the field of ecology. From 2019, comprehensive environmental permits covering all types of adverse impacts will be introduced for 'category 1 facilities' defined as having a substantial adverse effect on the environment. Coal mines are among this list of facilities and it is expected that more substantial improvements will be made to environmental protections for the future under this review.

It is worth noting that Russia is not a member of the Extractive Industries Transparency Initiative (EITI), the global standard for promoting open and accountable management of oil, gas and mineral resources.

C. Assessment Information

Assessment Scope & Country	Russia: ▪ Kedrovskiy coal strip mine, ▪ Mokhovskiy coal strip mine, ▪ Bachatskiy coal strip mine, ▪ Krasnobrodskiy coal strip mine, ▪ Taldinskiy coal strip mine, ▪ Kaltanskiy coal strip mine.
Site-Assessment Scope	▪ (November 2015) - Krasnobrodskiy Mine Site ▪ (May 2017) – Batchatsky Mine ▪ (May 2017) – Taldinsky Mine
Step 1: Supplier Commitment	Completed in November 2017*
Step 2: Desktop Review	Completed in April 2015
Step 3: Site-Assessment	Completed in November 2015 Reassessment visit in May 2017
Step 4: Continuous Improvement Plan	Agreed in November 2015
Step 5: Re-Assessment	Planned for first half of 2020
Assessment Team	James McNally and Yelena Borovikova (SLR consulting)

**Letter of Commitment only required after process review in 2017*

Stakeholders

The following stakeholders were interviewed as part of the Assessment:

- KRU Corporate Management team
- Chairman of a Trade Union
- Director of Geology of the Department of Geology and Licencing of Kemerovo oblast
- Doctor of the local in-and-out clinic
- Principal of the secondary school No. 70 and specialists of the local administration
- Department of labour protection and industrial safety

D. Supplier Performance

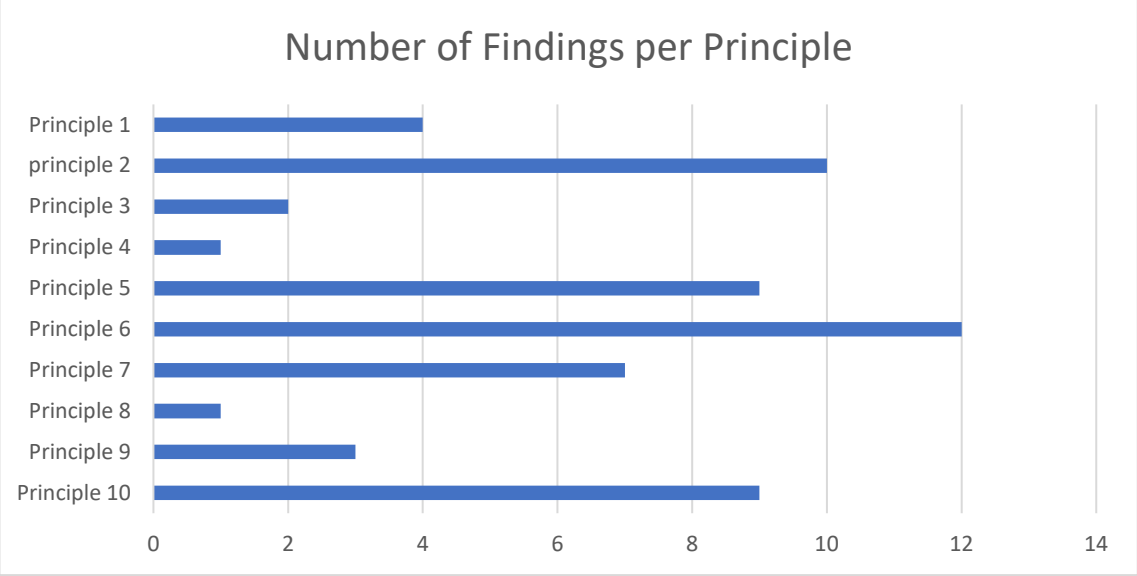
Supplier Performance is assessed against the 10 Principles of the Bettercoal Code and associated Provisions (1.1-10.7). It is important to note that Kuzbassrazrezugol had their main assessment in 2015 prior to changes being made to the Assessment Process in 2018 and prior to Continuous Improvement Plans being monitored every quarter. Bettercoal will be reassessing KRU in 2020 and is already confident they have made significant progress from the results outlined below. This is further evidenced by the significant closure of findings in '*figure b*'.

Continuous Improvement

For each Provision that the Assessors identify a need for improvement, the Supplier will be responsible for implementing the steps recommended by the Assessors to ensure that it is continuously improving its systems, processes, procedures, and practices with the goal of full alignment with the requirements of the Code.

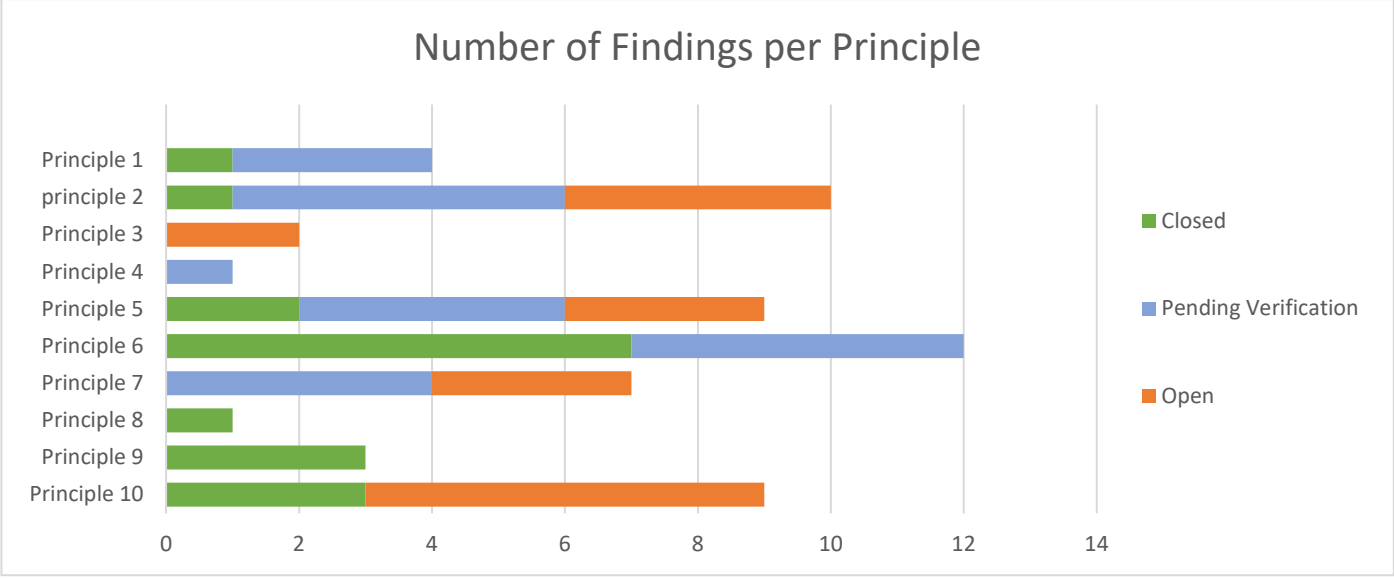
KRU's Continuous Improvement Plan identified a number of findings against each Principle of the Bettercoal Code.

a. Number of Findings identified per Principle



b. Supplier progress against the findings

Progress is monitored at least on a bi-annual basis. This section of the document will be updated as KRU report on their progress. The graph below shows the latest status report.



Assessment Results

Below are Kuzbassrazrezugol's ratings against the Bettercoal Code. Because this Assessment was undertaken in 2015, the rating is identified using the previous systems, so only feature the ratings 'excellent', 'satisfactory', 'requires improvement', and 'unsatisfactory'. Since this assessment, the Bettercoal Assurance System has undergone a review, with improvements made to areas such as scoring.

2015

	Excellent	Satisfactory	Needs Improvement	Unsatisfactory
General Implementation Expectations				
Principle 1			1.1	
Principle 2		2.3	2.1, 2.2	
Business Ethics				
Principle 3			3.1	
Principle 4	4.1			
Human Rights and Social Performance				
Principle 5	5.3, 5.4		5.1	5.2
Principle 6	6.1-6.4, 6.7, 6.8	6.5, 6.6, 6.9		
Principle 7				7.1
Environment				
Principle 8	8.1			
Principle 9	9.1-9.3			
Principle 10	10.3, 10.6, 10.7	10.2	10.1, 10.4, 10.5	

2017

	Excellent	Satisfactory	Needs Improvement	Unsatisfactory
General Implementation Expectations				
Principle 1			1.1	
Principle 2			2.1, 2.2, 2.3	
Business Ethics				
Principle 3			3.1	
Principle 4	4.1			
Human Rights and Social Performance				
Principle 5	5.3, 5.4		5.1, 5.2	
Principle 6	6.1-6.4, 6.7, 6.8	6.9	6.5, 6.6	
Principle 7				7.1
Environment				
Principle 8	8.1			
Principle 9	9.1, 9.2	9.3		
Principle 10	10.3-10.5, 10.7	10.2	10.6	10.1

Immediate Resolutions

An 'Immediate Resolution' is an action taken to address such eventualities and are different from other improvements identified by the Bettercoal Assessment Process as they are prioritised for completion in the Continuous Improvement Plan.

There were no immediate resolutions found during the Assessment of Kuzbassrazrezugol.

A. Additional Supplier Information

Examples of good practice

Resource management: KRU have set clear targets for reducing consumption of water and energy and have implemented efficiency improvements on their use of these resources. In 2015, the Company launched a new three-year program of energy conservation and efficiency. Within this program, the Company expects to save 32.4 million kWh and 8.3 million Gcal annually.

Environmental remediation: KRU spends up to 200 million roubles each year on nature conservation activities. For many years, the Company has been implementing a program to reclaim disturbed land, building modern treatment facilities, and planting trees both onsite and offsite. In 2013, the Company's workers planted over 374,000 trees as part of bio-remediation efforts.

Embracing employee rights: The management of the Company initiates and maintains an active relationship with the trade unions and engages over employee rights. For example:
The Company is a part of the Russian Union of Industrialists and Entrepreneurs (RSPP); is a member of the Board of the All-Russian Industrial Association of Employers of the coal industry (OOORUP); and is the coordinator of the party, representing employers in the Kemerovo regional tripartite Commission on Regulation of Social and Labour Relations.

Examples of areas for improvement

Grievances and stakeholder engagement: KRU have a procedure for engaging stakeholders and managing their grievance mechanism, and have developed a stakeholder register, but this lacks the details of how to contact those stakeholders and does not analyse the method of communication with each stakeholder for improvements.

Sustainability Reporting: KRU has an annual report but it is not formatted or written to the GRI Standard of sustainability reporting. Environmental and social issues are only briefly discussed in the report. A sustainability report which details progress KRU has made in these areas and published annually with easy access from a website would be a positive improvement.

International best practice: While KRU are complying with Russian legislation, they have not demonstrated that they have identified the international best practice requirements and performed a gap analysis to determine improvement areas.

Kuzbassrazrezugol is certified against: ISO 14001:2015, ISO 9001:2015, and ISO 50001:2011.

Annex 1: Bettercoal Assessment Process

Step 1: Supplier Commitment
The coal mining company signs the Letter of Commitment and becomes a Bettercoal Supplier.

Step 2: Desktop Review
An Approved Lead Assessor is allocated to the Bettercoal Supplier. The Supplier completes the Self-Assessment Questionnaire, which is reviewed by the Lead Assessor. The Assessment Scope is finalised and an Assessment Plan for the Site-Visit is developed and shared with Members.

Step 3: Site-Assessment
A Site-Visit is planned at the Supplier's mine site(s). A detailed Assessment Report is developed and once finalised, in consultation with the Supplier, is then shared with Bettercoal Members.

Step 4: Continuous Improvement
The Continuous Improvement Plan (CIP) is finalised and shared with Members. Monitoring the CIP takes place according to timelines identified in the CIP. Verification methods include Desktop Review and Site-Visit. A public report will be uploaded on the Bettercoal website.

Re-Assessment
A full Re-Assessment is due within maximum five years from the coal mining company becoming a Bettercoal Supplier. The process starts from the beginning.

For more detailed information, see the Assessment Manual.