

RUSSIAN JI PROCEDURES: MORE PROBLEMS THAN SOLUTIONS?

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The Prime Minister of Russia Mikhail Fradkov approved the long awaited procedures for approving Joint Implementation (JI) projects in Russia 28 May 2007. It has been a long road as the process was initiated already in the National Action Plan in September 2004, and since the JI Supervisory Committee launched the Track 2 JI procedure in October 2006 a pipeline of Russian projects has been building up and waiting for the Russian administration to be ready for their approval.

This paper is based on the Governmental Order #332 (Russian government 2007) and aims at outlining:

- the Russian JI project cycle and the related project level timelines;
- the tasks left before the procedures can be implemented; and
- prospects for JI in Russia based on the newly established regulations.

Russian JI project cycle

The Governmental Order #332 (Russian government 2007) (further: regulations) established the documentation required for submitting a project, and the basic steps of a JI project cycle. The Russian project cycle starts by the project developer submitting the project proposal to the Russian JI Coordination Centre which is based at the

Ministry of Economic Development and Trade (MEDT). The regulations outline in detail what 1) project proposal including 2) project documentation and 3) project passport should consist of. Tables 1-3 list the items to be included in these documents. The information included in the project proposal is mostly straight-forward.

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Project proposal

- Name, organisational form and location of companies involved/ name, place of residence, proof of identity of individuals involved
- **Project documentation (see Table 2)**
- Report on the project by independent experts
- **Project passport (see Table 3)**
- Copy of the constitutive documents, and documents confirming the entry in the government registry of Russian juridical persons
- Copy of the documents providing evidence of the registration or constitutive documents of a foreign juridical persons
- Copy of the evidence of civil registration of an individual in the capacity of a private entrepreneur for private entrepreneurs
- Copy of an official ID for individuals
- Copy of a documentation of tax record of the applicant in the country where he is registered
- Documentation to prove the ability of the applicant or his arrangements to fulfil the project implementation task
- Certificate of timely tax payments by the tax authorities for persons registered in Russia
- Proof of the consent of the project owner or the contractor implementing the project
- Contact and other information on persons managing the project including the contractor
- Step-by-step plan on project implementation including main purchases and installation of main equipment

Table 1 Items to be included in the project proposal
Source: Russian government (2007), Clause 3.

However, instead of accepting the verification report by the Accredited Independent Entities (AIEs) established by the JI guidelines (9/CMP.1), the Russian regulations require a review by independent

experts included on the list established by the Coordination Centre.
The project documentation included in the project proposal seems like a fairly clear list of documents.

Project documentation

- Name of project, goals, tasks and term of realisation
- Project type in terms of emission reductions or emission absorption
- Sector / category of the source and/or the identified absorbent
- Characteristics of the project which allow unambiguous assessment of the source with the category / sector or the absorbent including the address of the site
- Baseline for the project for the whole period of implementation
- Planned reductions or absorption of greenhouse gases occurring as a result of the project during the total period of implementation
- Description of measures at place to secure that the goals of the project are met
- Description of the technologies, products and therefore the measures relevant to the project
- Short description of the assessment of environmental impacts of the project
- Description of the potential risks to project implementation, and the measures taken to minimize them
- Monitoring plan and methodology

Table 2 Items to be included in the project documentation to be included in the project proposal
Source: Russian government (2007). Clause 4.

Project passport

- Name of project, goals, tasks and term of realisation
- Project type in terms of emission reductions or emission absorption
- Sector / category of the source and/or the identified absorbent
- Characteristics of the project which allow unambiguous assessment of the source with the category / sector or the absorbent including the address of the site
- Planned specific indicators of project efficiency and their significance in comparison to the standard specific indicators of project efficiency and their maximum values as approved by the Coordination Centre in cooperation with the relevant federal implementing authorities and published at the website of the Coordination Centre
- Planned reductions or absorption of greenhouse gases occurring as a result of the project during the total period of implementation
- Name, organisational format and location of Russian and foreign juridical persons
- Name, place of residence of natural persons or private entrepreneurs

Table 3 Items to be included in the project passport to be included in the project proposal
Source: Russian government (2007). Clause 5.

The project passport largely collects items from the project documentation, however, it includes the indicators of project efficiency which are required but not defined at the time of writing, and remain under preparation by the MEDT. The format of the project passport remains unclear as the regulations give the task of formulating the document to the MEDT.

Once the project documents have been submitted in three copies in Russian language, the Coordination Centre will have ten days to register the project and forward it to the other relevant implementing federal governmental actors (further: other governmental actors) for a review. This review can take up to 30 days and will focus on the methodological issues related to their expertise. The governmental actors will return a positive or negative review of the proposal including an expression of interest.

The other governmental actors together with the leading agency MEDT form a Commission which takes a decision on which projects should be approved. No timeline has been

established to this work. The commission will base its evaluation of the proposal based on expert review, the comments from governmental actors and details in the application itself.

The official approval of the projects will be taken by the Russian government within ten days from the Commission decision, however, not more often than once a quarter. This timeline remains unclear. After the final approval, the Coordination Centre will reserve the allowances required for the project in the Russian registry.

The project documentation will be made available at the Coordination Centre website for a public review which is taken into account in project approval decision-making.

The regulations limit the competence of the MEDT to the first commitment period. This ends the speculations on potential early or late crediting of JI projects.

The project investor is required to report annually to the Coordination Centre of the progress of the project. These reports are presented to the Russian government by the MEDT.

What still needs to be done?

Standards of project efficiency will be required for project approval as they must be included in the project passport to be submitted within the project proposal. MEDT is starting the work on the standards in June 2007, and it is likely that they will only be available by the end of the summer 2007.

The Commission for project approval needs to be formed, however, this should be an easy task as the Commission is planned to be small. The chairman is likely to be one of the ministers, and the Commission is a new entity rather than the existing Inter-Agency Commission on Climate Change. Also the website of the Coordination Centre remains to be publicized.

MEDT together with the Ministry of Foreign Affairs will have to draft a standard international agreement to establish a procedure to sign a Memorandum of Understanding between the Russian government and a foreign government by 1 September 2007. The Russian regulations do not require a Memorandum of Understanding to be signed but a procedure will be provided to fulfil the regulations of other governments.

The procedures declare that the amount of allowances to be allocated to JI projects will have to be limited. This task has been given to the MEDT. The regulations refer to these

limitations as sectoral limits, and it remains unclear whether this will apply in practice. This may reflect the earlier expectations of a vast amount of project proposals, and the fact that according to some administrative principles the benefits must be divided between sectors. However, an overall limit of allowances earmarked for JI established by MEDT may fulfil this Clause.

There is no list of independent expert available to date, and the regulations do not establish a timeline for their selection by the Coordination Centre.

Potential pitfalls

The Russian JI procedures may have caused a disappointment to some project developers as they still do not provide firm mechanisms for how to approve a JI project and timeline of when the Russian procedure will be functional remains unclear. One could argue that the regulations themselves actually lead to more questions than answers. The fact that many issues remain unresolved by the regulations, and that further work is required will inevitably cause more delays for JI project approval.

The experience of the work of Russian inter-agency commissions, especially if on high level, is discouraging. There are also examples of this also in climate policy, as the previous Russian inter-agency commissions have been dysfunctional, mainly due to political infighting inside the government (Moe & Tangen 2000, pp 60-62; Korppoo et al. 2006, p. 141). In addition, the regulations do not state which organisations should be involved. That could

lead to another inter-agency negotiation process.

The regulations reserve the right for the Russian government to dismiss approved projects. Even though this clause is at place for *force majeure* type problems, it leaves the door open for not transferring the ERUs to projects at the end of the first commitment period. The reasons listed as legitimate to remove an approved project from the list are as follows:

- The project developer misses more than once the 30-days-deadline to annually report to the Coordination Centre on the progress of the project;
- Revelation of specific indicators of project efficiency that the project investor had not detected;
- Failure by the investor-side government to approve the project within 12 months from the approval of the Russian government;
- Abolition of the decision to approve the project by the investor government;
- Liquidation of the juridical person, discontinuation of the activities of a private entrepreneur or the death of the natural person who is the project investor; and
- Other cases which require a decision by the Russian government.

In practice, these rules retain the right for the Russian government to disapprove any approved project at any time. Even though this is unlikely to be in the interest of the government, the clause adds to the uncertainty created by the regulations.

The fact that various other governmental organisations will be involved in project approval in addition to the Coordination Centre may lead to lobbying the involved

organisations. As a result, the idea of a one-stop-shop which these regulations aim at establishing might not work in practice. The regulations also leave the role of the other governmental implementing organisations vague which adds to the speculations of their decision-making power, and indeed, which organisations may be involved.

The sectoral limits on emission reductions might seem to be an impediment to project development. But the regulations state that the Commission may reshuffle the limits between sectors once every quarter if necessary, (if there are many proposals in one sector and no or few in another sector). It is difficult to see what purpose such a rule serves as its implementation has been left completely open to the decision of the Commission, and it may add to the bureaucracy. Currently, given the late start of JI in Russia a flow of proposals to exceed a limit seems unlikely, however, we are yet learn more about the level of the limits.

In addition to all this, the regulations do not include the process of providing a Letter of Approval which is required to be included in the Project Design Document to demonstrate the willingness of the involved Parties for project approval by the JISC (9/CMP.1). Also the originally mentioned requirement to run the projects through the JISC is not included in the regulations which may potentially reduce the strength of the application of the additionality rule established by the Kyoto Protocol as it is only up to the Parties involved to enforce these rules outside the Track 2 procedure. However, the standard indicators for project efficiency may address this issue.

Conclusion: Implications for the Russian JI potential

The National Action Plan published in September 2004 outlined the task of establishing domestic JI procedures to be finalised by mid-2005. This deadline was clearly not met. The regulations are characterised by bureaucracy, vagueness and duplicating work in the case of independent expert review and project documentation, and they fail to promptly establish a transparent JI approval system.

The window of opportunity for the Russian JI projects is clearly closing as the beginning of the first commitment period is only some months away, and the lead time for project implementation can be long. Further delays with the preparation of the project approval system may discourage project investors choosing Russia as the location for their projects, especially as the project cycle includes potential institutional barriers. To function they require good working relations between Russian governmental actors.

The newly established regulations reflect a strong focus on controlling projects, rather than attracting them. On the higher levels in the Russian government the understanding on the substance of the issue to be regulated is limited. As a result, the Russian regulations opt for retaining the right to terminate the approved projects any time and ignore the impact this Clause may have to the attractiveness of investing in JI projects in Russia. Based on this one could conclude that the Russian authorities expect the line of potential JI investors to be very long.

Given the remaining tasks established by the regulations, the earliest possible start for JI project approval in Russia that can be foreseen is towards the end of the summer 2007, or potentially much later should another inter-agency struggle break out during the final steps of the preparations of the approval procedures. However, the fact that the regulations have now been published is a positive sign, and many of the problems and associated risks discussed above may never materialise in practice. An important factor, as always in Russian policy implementation, is also the interest and signals from the highest levels of government.

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