RUSSIAN CLIMATE POLITICS: LIGHT AT THE END OF THE TUNNEL?

By Anna Korppoo and Arild Moe

Russian climate politics were certainly a talking point a few years ago due to the country’s decisive role in the entry into force of the Kyoto Protocol. The views of various potentially influential officials were reported by the world media almost on a daily basis. Since the ratification of the Kyoto Protocol by Russia in 2004, and its entry into force, Russian climate politics have received less attention.

In this paper we update our previous analyses of Russian climate politics and policies, and report the latest developments, including material from the discussions in the ‘JI in Russia’ workshop 26 March 2007 organised by Oxford Climate Policy in co-operation with Climate Strategies.

The main tasks of this paper are to review:

- the readiness of Russia to implement the Kyoto mechanisms
- the fulfilment of the compliance requirements of the Kyoto Protocol
- the current political debate about climate policy by various key players
- the emerging discussion on the post-2012 positions of Russia.

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Background

In Russia the climate change issue has not gained a high profile on the national political agenda. This contrasts with the country’s crucial role in the entry into force of the Kyoto Protocol; in the absence of the US, the Russian participation was necessary in bringing together countries accounting for 55% of the emissions of the industrialised world. Russia took advantage of this powerful negotiating position to secure a better deal under the Protocol (Korppoo 2002, p.388). The ratification discussion itself was prolonged, and Russian policy-makers openly called for guaranteed benefits (Bureau of Economic Analysis 2002). In the end, the political benefit of European Union support for Russian accession to the World Trade Organisation, together with presenting Russia as the principal facilitator of the Protocol, were sufficient enough benefits to merit ratification (Korppoo et al 2006, p.20).

This process characterises the Russian approach to international climate politics; direct benefits related to climate change pacts play a key role encouraging Russia to cooperate. One of the explaining factors is the fact that climate change is still regarded by many as not being a serious environmental problem. Russia has more immediate environmental problems on its territory than those posed by climate change, and it is not uncommonly argued that climate change could even benefit the country (Kotov 2004, pp.3, 6-7). This corresponds with the common Russian attitude that humankind is rather the ‘ruler’ than the ‘carer’ of nature (Helanterä & Tynkkynen 2002, p.134). Many leading figures in the Russian scientific world working on climate change are known as climate sceptics (Moe & Tangen 2000, pp. 13-14) as shown for instance by the recent views of Academician Yuri Izrael (until recently co-chair of the Russian delegation to the COPs) who is arguing that there is no serious threat to the climate (Izrael 2007). They had a significant influence on the national debate during the ratification discussion (Karas 2004, p.5; Müller 2004a, p.1). For many actors indifferent to or sceptical of climate change, the climate regime is mainly regarded as a system for wealth redistribution.
Russia’s commitment under the Kyoto Protocol is to maintain emissions on the 1990 level. But as the Russian economy contracted and later restructured, emissions fell dramatically as shown in Figure 1. Thus, Russia has surplus, or unused, emission allowances and could receive revenues by selling them in the international emissions trading market. Since purchase of these quotas will not mean permanent emission reductions anywhere they have often been termed ‘Hot air’. (See for instance Mastepanov et al. 2001, p.128 or Moe et al 2001, pp. 5-6).

Due to the Soviet legacy of inefficient energy production, transportation and consumption infrastructure, Russia has a huge potential to host Joint Implementation (JI) projects as well as embarking on emissions trading. However, the Kyoto mechanisms have not gained as strong support in Russia as expected by Western governments and experts. Kyoto was regarded as a great opportunity for Russia by the latter while many voices in Russia consider the potential benefits related to the Kyoto mechanisms as insignificant and the rules too bureaucratic. This attitude is reinforced by rapid economic growth and high export incomes for the government as well as large energy companies in later years. Another factor explaining the government’s ambiguous attitude to JI is that the benefits mainly would accrue in the private sector, and therefore, outside the control of the government.\(^3\)

\(^3\) In the past the Russian government, and especially president Putin, have demonstrated that they want to control the private sector, even to the point of renationalisation in order to regain control. Against this background, the Russian government handing over AAUs - which are
The energy sector is very important to the Russian economy. The cooperation of this sector is needed in order to implement the Kyoto mechanisms since a very large share of the JI project potential is owned by actors producing and transporting energy.

**Russian compliance under Kyoto**

Russian GHG emissions were some 33% below the Kyoto commitment in 2004 and the quantitative compliance with the Kyoto emissions limitation target during 2008-2012 is expected to be easily achievable without further domestic measures (Russian government 2006, p.74). But in addition, countries have to satisfy a set of institutional criteria to be eligible to participate in the Kyoto mechanisms.

A Party included in Annex I with an emission reduction or limitation commitment during the first commitment period is eligible to transfer and/or acquire Emission Reduction Units (ERUs) if it is in compliance with the following eligibility requirements:

(a) It is a Party to the Kyoto Protocol;
(b) Its Assigned Amount has been calculated and recorded;
(c) It has in place a national system for the estimation of anthropogenic emissions by sources and anthropogenic removals by sinks of all greenhouse gases not controlled by the Montreal Protocol;
(d) It has in place a national registry;
(e) It has submitted annually the most recent required inventory, including the national inventory report and the common reporting format.
(f) It submits the supplementary information on assigned amount (FCCC/CP/2001/13/Add.2).

For a long time development of Russian compliance institutions was extremely slow (see for instance Korppoo 2004). But in 2006 positive signs started to show.
- Responsibilities between governmental agencies were divided.
- In 2007, Russia submitted its GHG inventory for years 1990-2004 in the Common Reporting Format and the National Inventory Report.
- In its National Report on the Kyoto commitments, Russia calculated its Assigned Amount and described the process as required, including information on the selection of sinks to be included and the national GHG inventory and registry systems.
- A GHG registry is expected to be launched during the first half of 2007. The administrator of the registry will be the Federal Center of Geocological Systems, attached to the Ministry of Natural Resources (MPR). (Russian government 2007.)

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state property – in return to investments to the private sector seems politically problematic.
Based on this list it seems possible that Russia could achieve full compliance by the end of 2007 or early 2008, depending on the UN FCCC procedure and the International Expert Review. This would be a major development facilitating Russia as a supplier of ERUs and AAUs.

**JI in Russia**

Eligibility to host JI projects also requires a designated focal point and publication of national guidelines for JI. Russia is yet to submit these details to the JISC. A draft national procedure on JI approval exists but it still needs to be accepted by the governmental administration and signed by either the Prime Minister or a Deputy Prime Minister.

The relevant ministries have officially agreed on a draft text after a prolonged debate on their respective roles. It seems clear that the Ministry of Industry and Energy and the Ministry of Natural Resources still want to secure a role for themselves in project approval. In the current draft of the JI procedures these ministries will be conducting a first selection of projects while the Ministry of Economic Development and Trade (MEDT) remains the leading agency and the focal point for project investors.

The Ministry of Foreign Affairs (MID) has expressed concerns over how to deal with the foreign affairs aspect such as establishment of bilateral arrangements with investor countries as Memoranda of Understanding and reducing the risk for the Russian Federation should private JI projects fail.

The roles of ministries other than the MEDT may add to the bureaucracy of project approval as project developers will want to ensure support to their projects, and therefore, are likely to lobby the relevant ministries directly. MEDT has been pushing for a one-stop-shop solution in order to avoid such a situation which could even undermine the credibility of Russian JI projects should the competitive ministries choose projects based on economic benefits received rather than the established criteria. Also private Russian companies may be uncomfortable having to lobby government agencies. The more successful private companies have by now got used to dealing directly with foreign partners without much government interference.

There are still uncertainties regarding transfer of ERUs by the Russian government, which is connected to the property rights for emission allowances. If uncertainty remains it could seriously undermine the attractiveness of JI in Russia, and in order to become a credible JI host the Russian government will have to solve this issue. The problem can be considered as potentially more serious in
the case of Russia than many other governments given the current uncertainties with the definition and enforcement of property rights in the country in general.

The legislative basis for JI procedures is likely to be linked to the Federal Law on Capital Investments (adopted 1999, amended 2000 and 2004). The Russian government is planning to run all JI projects through the JI Supervisory Committee as Track 2 projects. This would contribute to the transparency of Russian projects which has been questioned by many project investors. Even though doubts about the Russian project selection procedure – and potential corruption influencing the quality of projects – remain, it is indeed reassuring that Russia has chosen to focus on the Track 2 approval.

According to a MEDT official, there are no plans to introduce preferential project types, specific requirements on additionality or project finance. However, efficiency criteria for projects have been suggested by the Ministry of Industry and Energy. At the time of writing these criteria have not been available to the public. In the absence of the JI procedures it remains unclear what these criteria consist of, and they might potentially limit the types of JI projects that can be approved.

Emissions trading and GIS in Russia

A domestic emissions trading system is unlikely to be established during the first commitment period. Establishing the EU Emissions Trading Scheme showed how complicated and politically difficult establishing such a system can be. In Russia, additional complexities associated with ownership rights and underdeveloped market structures prevail. A Green Investment Scheme (GIS), an arrangement to recycle revenues from emissions trading to further emission reduction projects, was originally a Russian initiative (Tangen et al 2002; Moe et al 2003). No practical steps have been taken to establish a GIS in Russia, and according to MEDT the arrangement is not a priority. However, the same ministry has accepted a grant from Japan through the World Bank for studying a GIS arrangement in the country (PointCarbon 31 January 2007).

One issue the study is likely to look at is the possibility to administer GIS funds domestically as the present Russian budget code does not allow extra-budgetary funds i.e. earmarking money for certain uses. Under this practice it would be impossible to ensure the reinvestment required by a GIS. Views between Russian experts differ whether it would be possible to implement GIS in Russia due to this problem. It has been argued that in practice other extra-budgetary funds have
been allowed, and therefore, GIS could become another exception. It has also been argued that direct investment in GIS projects without the state budget as a middleman could solve the problem.

A portfolio of projects delivering an emission reduction of 50 MtCO2e has been planned to be developed under the World Bank study. But the capacity of the government to implement a GIS program seems to be limited at the moment.

Current debate in Russia

Numerous Russian private sector actors are active in the field, and a number of Russian experts working for international companies. For instance, the American investment bank Merrill Lynch invested in the Denmark based Russian Carbon Fund, and CAMCO International acquired MCF Finance and Consulting.

Two Russian members of the JISC ensure that there is domestic competence on the JI project approval procedures, and may have contributed to the decision to run Russian JI projects under Track 2.

To date 23 JI projects have been contracted and submitted to approval by the JISC. The general expectation is that the government will adopt the JI approval system soon to facilitate these projects. But the government has also been criticised for being slow by the private sector. The CEO of the electricity giant RAO UES, Anatoly Chubais, claims that Russia may have lost ‘thousands of millions of dollars in investment’ due to the failure to launch a domestic JI project approval system (PointCarbon 14 February 2007). However, it has been argued that the private sector actors benefiting from JI projects, which are mostly small companies, have no means to put pressure on the Russian government to fast-track the approval of the JI procedures. In large companies the top level management may not be interested in or aware of the potential to host JI projects as this is not directly linked to their core business and the scale seems small compared to the regular business activities.

Future politics

Russia is an important player in the post-2012 negotiations as the country is the third largest emitter of greenhouse gases in the world with 5.9% of total emissions. (UNDP 2006, pp. 353-354.)

The domestic debate on the Russian post-2012 position has not started yet. But the Russian Federal Service for Hydrometeorology and Environmental Monitoring - Roshydromet - initiated talks on future voluntary targets in COP-12 in Nairobi in 2006. This initiative is expected to be taken forward in the UN FCCC Subsidiary Bodies’ Meeting in Bonn in May 2007, focusing on the rights of Non-
Annex I Parties to get involved and receive assistance (Submission by the Russian Federation 2007). Other governmental organs have not reported any involvement in the initiative so far. Also the debate on the domestic JI approval process has kept the focus away from the post-2012 discussion.

According to some Russian experts, the role of the country could turn from a seller of AAUs to a buyer soon after the end of the first commitment period should the positive economic development continue. This perspective has already been flagged during the discussion on the ratification of the Kyoto Protocol and could be a major issue influencing positions in future negotiations. At the time, the presidential advisor Andrey Illarionov expressed fears that the Kyoto Protocol might limit economic growth (Karas 2004, p.5). However, these claims are controversial as the government emission scenarios predict that this could only happen beyond 2020 i.e. during the potential third commitment period (Russian government 2006, p.74), and some analyses show that economic growth to meet Putin’s target to double the GDP without improving energy efficiency would be practically impossible (see for instance Müller 2004b, p.2).

From an international perspective it seems unlikely that Russia, given the past political difficulties, would be allowed to have such a strong position in any future climate pact as it did with the Kyoto Protocol. This may entail that Russia can expect less co-benefits from any future climate regime. To secure continued Russian participation in the climate regime Russian public opinion will probably become more important, and therefore, awareness of the impacts of climate change on Russian territory could play a more significant role than in the past.

Conclusion

JI project implementation in Russia remains hampered by the lack of a domestic JI approval system which has been under development for over a year. The all too familiar infighting between the relevant ministries has been the main cause of the delay. JI does not seem to be a political priority regardless of its potential to provide financial resources for badly-needed modernisation of energy production, transport and consumption facilities.

The preparation of Russian compliance under the Kyoto Protocol is almost finalised. But the Russian submissions still need to be approved by the international expert team. The JI specific compliance requirements – appointment of a national focal point and publishing national JI guidelines – are yet to be fulfilled.
The Russian domestic debate on the Kyoto Protocol is inspiring more actors to get involved in climate projects. But the debate on the post-2012 options has not started yet in. Nevertheless, Russia initiated talks on voluntary targets in 2006.

Climate politics is still not a central issue in Russia. It is therefore not inconceivable that that the process of implementing JI can be derailed or delayed because of other concerns and priorities in other policy areas. Should this happen the potential for JI in Russia in the first commitment period will soon be lost. But at the time of writing it seems like there might be light at the end of the tunnel of Russian JI, as the compliance system is almost ready and the JI procedures could be approved soon.

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