


Developments in Russia toward
Ratification of the Kyoto Protocol
Japan's options in view of the current
situations in Russia



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Contents

- # Basic information about Russia
(Politics/Economics/Industrial structure)
- # Reasons why Russia's ratification of the Kyoto Protocol attracted so much attention
- # Developments in Russia toward the ratification of the Protocol
- # Stakeholders' interests and issues
- # Russia's state of preparations for Emission Trading (ET) and Joint Implementation (JI)
- # Conclusion: Current situations in Russia
- # Implications for the Japanese government

Characteristics of Russian politics

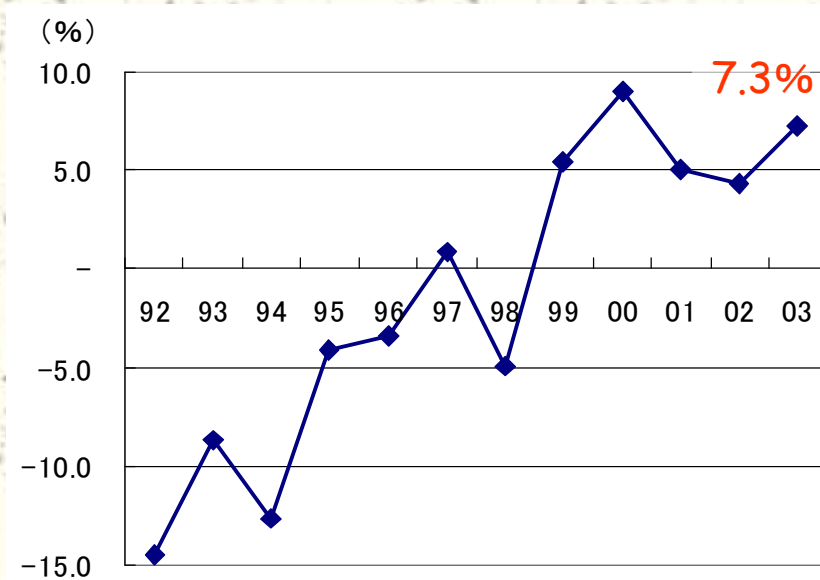
President Vladimir Putin (in his second term from May 2004)

Objective: Construction of a “strong country”

- Russia divided itself into seven federal districts and appointed a Presidential Plenipotentiary in each district. (Centralization)
- The Russian government was reorganized in early March 2004.
The appointment of a new prime minister and new cabinet members and the organizational reform of the federal government (The number of cabinet members was reduced from 30 to 17 through streamlining.)
- The ruling United Russia Party has taken more than two thirds of the seats of the Russian Lower House.

Characteristics of the Russian economy

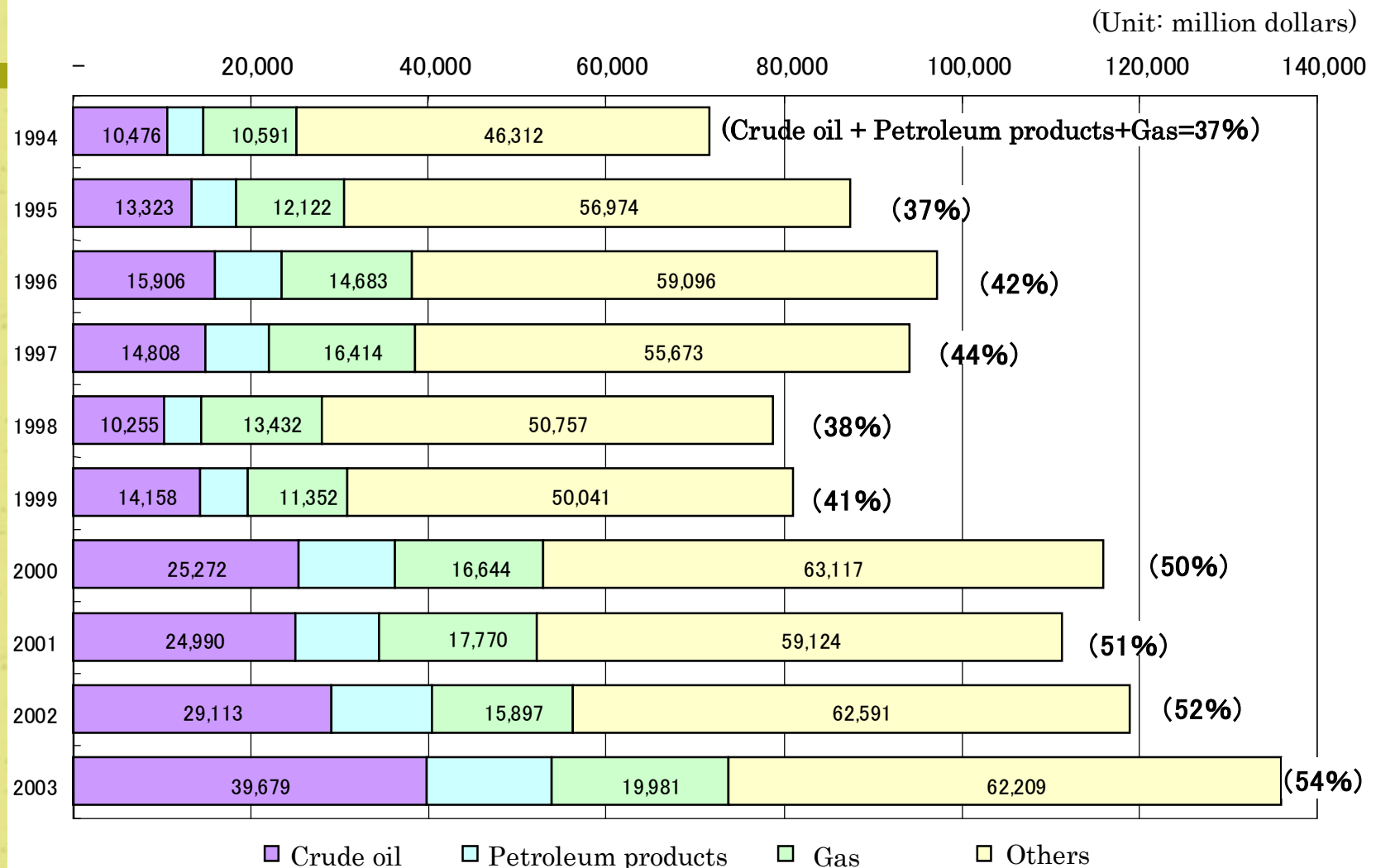
- # In response to the financial crisis in August 1998, the government depreciated the ruble by up to 24.7%.
 - The depreciation activated the domestic export industries.
- # The international crude oil price has been rising since 1999.
 - Drastic reduction in production costs in dollar volume
Russia's revenue rose as a result of an increase in production and exports.
- # High economic growth rate since 2000
- # Russia aims to double its GDP within 10 years.



Source: Each issue of the Monthly Bulletin on Trade with Russia & East Europe published by the Japan Association for Trade with Russia & Central-Eastern Europe.

Characteristics of Russia's Industrial Structure

Oil and gas industries account for about 50% of total exports.

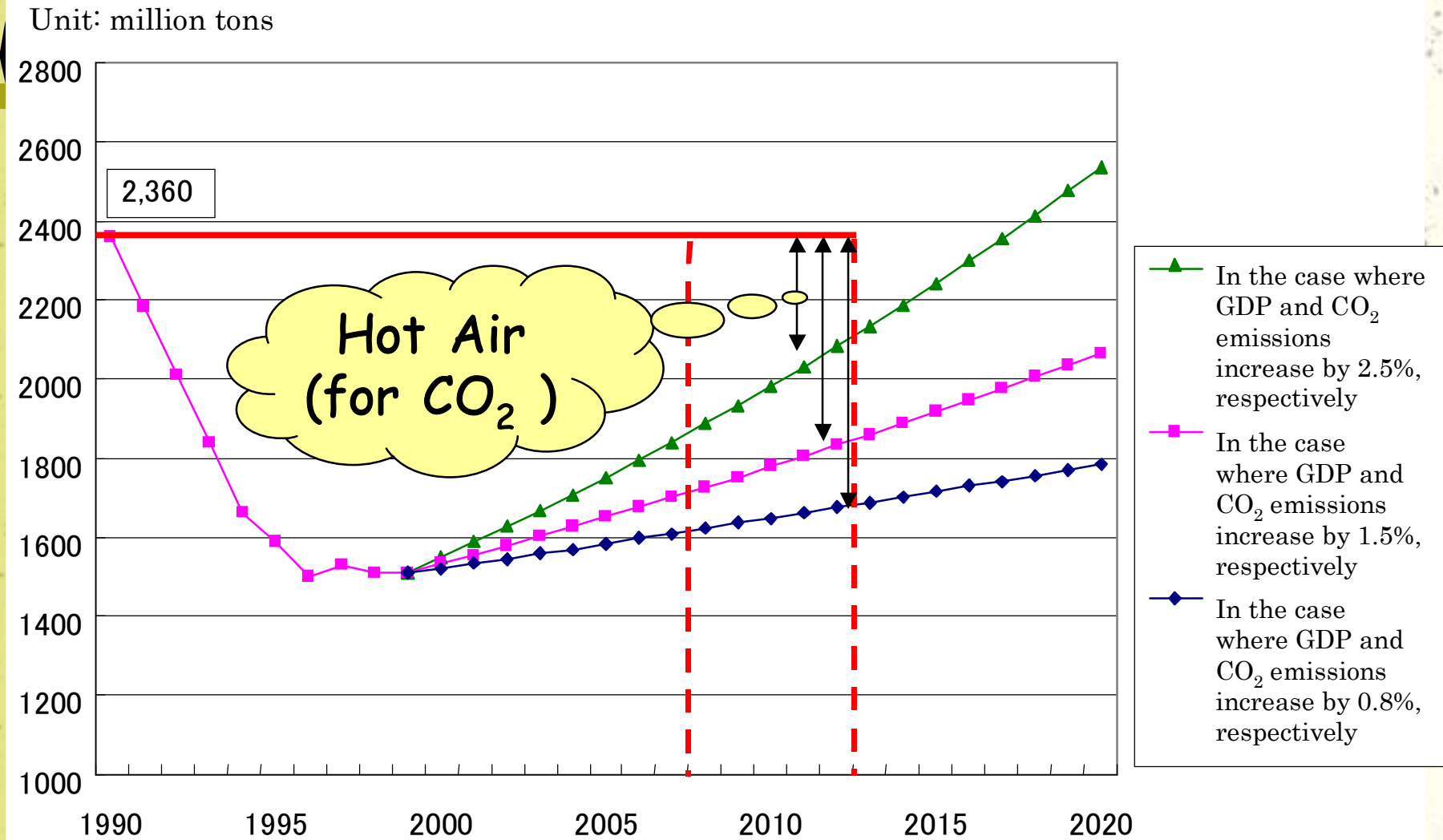


Source: Website of The Central Bank of the Russian Federation (<http://www.cbr.ru/>)

Reasons why Russia's ratification of the Kyoto Protocol attracted so much attention

- # Russia's ratification would satisfy the conditions for the enforcement of the Protocol.
- # Any country that fails to achieve its reduction targets is required to obtain emission quotas.
- # Russia's reduction targets is 0% change from the base-year level. → **Hot Air to sell**
- # Effects on the CO₂ price applicable to Emission Trading
- # Can Russia prepare inventories and a national registry?

Russia's estimated CO₂ emissions



Source: Third national report by the Russian Federation

Other countries' approaches to Russia

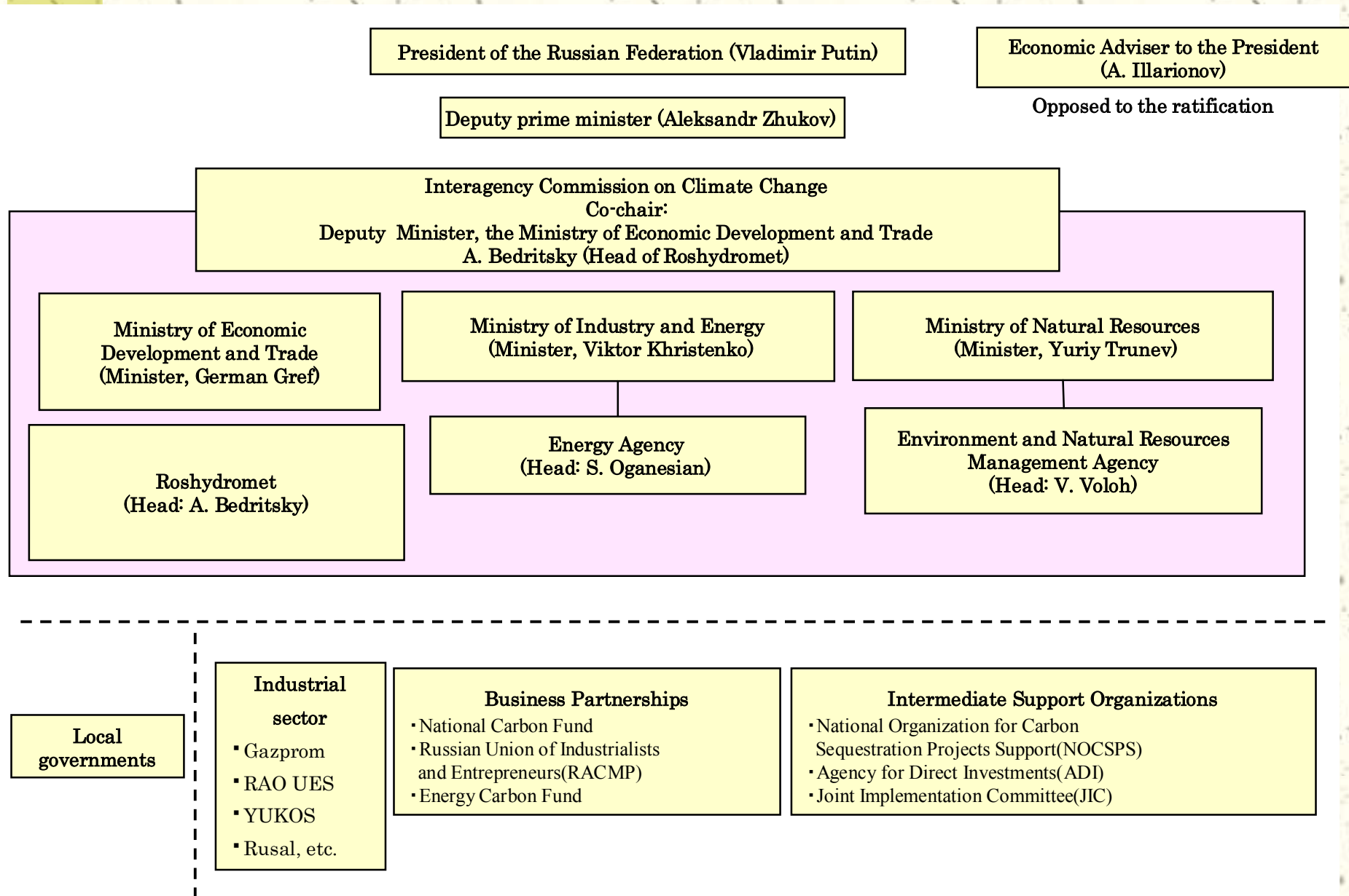
● EU member countries

- # EU offered its support for Russian WTO entry as a political bargaining chip in negotiations with Russia over Russia's ratification of the Kyoto Protocol.
- # The Netherlands concluded an Activities Implemented Jointly (AIJ) agreement with Russia.

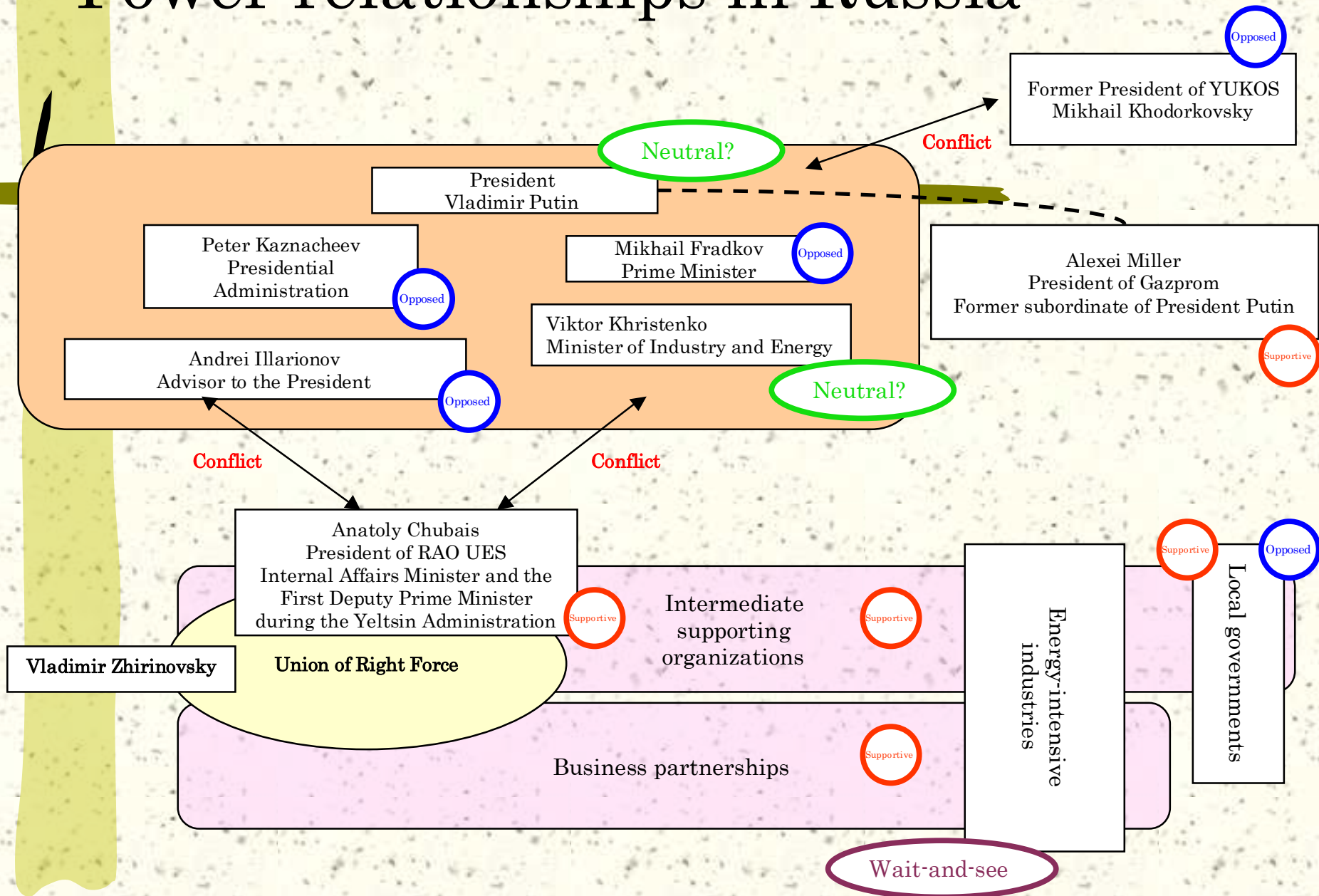
● Japan

- # NEDO carried out a search for candidate cases for JI projects in Russia.
- # Japan is not enthusiastic about the enforcement of the Kyoto Protocol because Japan will not be able to meet its reduction targets. → Japan has stood by and watched developments in Russia.

Key players in Russia concerning the Kyoto Protocol



Power relationships in Russia



Pros and cons voiced in the government over the ratification of the Kyoto Protocol

【Third national report 】

- # The Kyoto Mechanisms will contribute to Russia's economic development because it will bring funds and new technology to Russia.

【Opinion of Mr. Illarionov, Economic Advisor to the President 】

- # The Kyoto Protocol lacks scientific grounds.
- # The Protocol will hinder Russia's economic development.
- # Russia will have to start buying quotas for CO₂ emissions at some point in the future.

Developments toward the ratification of the Kyoto Protocol

June 2002	A national plan was prepared to make legal preparations for the ratification of the Kyoto Protocol.	
September 2002	Prime Minister Kasjyanov said that Russia was making preparations for the ratification of the Kyoto Protocol.	
June 2003	President Putin commented that Russia gave favorable consideration to the Kyoto Protocol.	Stagnated
August 2003	The government comprehensively determined the role of each ministry and governmental agency in preparation for the ratification of the Kyoto Protocol.	
October 2003	President Putin mentioned that Russia's decision on the ratification of the Kyoto Protocol would be made in consideration of its national interests .	Mixed reactions
October 2003	Mr. Illarionov, the Economic Advisor to the President, pointed out that the ratification of the Kyoto Protocol would hinder Russia's economic development.	
May 2004	President Putin said that he would agree to support the Protocol if Europe supports Russia's WTO entry, and also, that he is not in a position to settle the issue of the ratification of the Kyoto Protocol but the Parliament is.	
September 11, 2004	At a meeting of the Russian Security Council, President Putin ordered the submission of a ratification bill to Parliament as soon as possible.	Accelerated
September 23, 2004	Foreign Minister Sergei Lavrov said, in his speech at a UN General Assembly meeting, that Russia was seriously considering the ratification of the Kyoto Protocol based on the president's decision.	
September 30, 2004	The Russian Cabinet adopted a resolution to submit a bill to ratify the Kyoto Protocol to the Lower House.	
October 22, 2004	The Russian Lower House approved the ratification bill.	
October 27, 2004	The Russian Upper House approved the ratification bill.	
November 5, 2004	President Putin signed the ratification bill.	
November 18, 2004	The Russian government deposited its instrument of ratification of the Kyoto Protocol with the United Nations.	
February 16, 2005	The Kyoto Protocol is scheduled to take effect.	

Interests of local governments (1)

【Latent demands】

- # Local governments hope to enhance energy efficiency and energy conservation by renovating and modernizing aging facilities.
- # Local governments also hope to reduce air pollution by decreasing greenhouse gas emissions.

【Use of the Kyoto Mechanisms】

- # Local governments hope to attract foreign capital to their respective regions in such sectors as energy, industry, forestry, and administration.

Interests of local governments (2)

【Emission Trading】

- # Local governments hope to obtain the rights to initial quotas.
- # Local governments hope to share, with the federal government, the authority to trade emissions and use the proceeds to supplement their revenues.

【Joint Implementation】

- # Local governments hope to use the Kyoto Mechanisms to attract foreign capital to their respective regions in such sectors as industry and administration.

Issues faced by local governments

- # Local governments desire to manage and supervise fund transfers in order to promote investments in projects.
- # Local governments need to determine the priorities of JI projects and establish relevant rules.
- # Local governments have to establish GHG-related regional laws consistent with federal laws.
- # Local governments need to create an institutional framework with regard to restrictions and supervision.
- # Local governments will have technical and financial difficulties in preparing inventories from the bottom up.

Interests of energy-intensive industries

- # Energy-intensive industries hope to modernize facilities through maintenance and renovation in order to increase their efficiency. Those facilities include large-scale coal fired thermal power plants, regional thermoelectric generation plants, iron works, cement factories, aluminum plants, and gas PL.
- # Energy-intensive industries hope to attract foreign investment in projects that are feasible even without JI.

【Stance of individual companies】

- Many Russian companies have not decided whether to support the ratification of the Kyoto Protocol or the introduction of the Kyoto Mechanisms.
- Yukos opposes to the ratification because its assessment of the implication of the Protocol has revealed that global warming prevention is costly.

Developments in individual companies (1)

(RAO UES, Unified Energy System of Russia)

The company:

- generates about 30% of the total domestic greenhouse gas emissions (2% of the world's total);
- produces about 70% of the total domestic electricity production;
- has been slow to carry out organizational reform (privatization of the electricity department);

- is interested in international cooperation projects against global warming;
- prepared its own greenhouse gas inventories;
- established the Energy Carbon Fund;
- enthusiastically supports the early ratification of the Kyoto Protocol; and
- is trying to independently prepare and propose a comprehensive bill regarding governmental regulations about greenhouse gas emission reduction, national registry, and emission trading.

Developments in individual companies (2) (Gazprom)

The company:

- is a Russian state-owned company;
 - is run by President Miller, who used to work under President Putin when Putin was the deputy mayor of Saint Petersburg;
 - needs to reform its organization and reduce domestic gas prices;
 - is willing to engage in emission trading and joint implementation (JI);
 - JI will allow the company to minimize their facilities modernization costs estimated to be around \$8 billion without JI;
- commenced a new program in 2001 to increase energy efficiency in an effort to reduce greenhouse gas emissions; and
 - has carried out a joint project with Ruhrgas of Germany to optimize gas transportation networks.

New players (1)

✦ Business partnerships

■ National Carbon Union

This union was established to promote the participation of Russian companies in international emission trading and attract investment in their modernization. Its members include RAO UES, RUSAL, and AFK System.

■ Association of Carbon Market Participants

This association was established, mainly, by Russian industrial capitalists, entrepreneur associations, and the environmental party, “The Greens.” In preparation for the establishment of the system for domestic emission trading, the Association hopes to attract government funds and investment in Russian companies.

■ Energy Carbon Fund

This fund was established as an internal fund of RAO UES designed to raise funds for measures to reduce emissions from its facilities scattered throughout Russia.

New players (2)

- # Around October 2003, a rapid increase was observed in the number of organizations that provide intermediary services and consultation services to companies.
- # They engage in diverse activities.
 - Some of them introduce western companies interested in Russia to Russian companies.
 - Others provide companies with opportunities to take part in climate-related projects in Russia.

Those organizations include the Russian Carbon Sequestration Project Support Organization, National Direct Investment Agency, Joint Implementation Committee, and the Russian Regional Environment Center.

Current state of preparations for the establishment of a national emission trading market (1)

- # Russia has not designed a national emission restriction mechanism or an emission trading mechanism.
- # Russia has not established domestic laws governing national and international emission trading of greenhouse gases.
- # Russia has not created an organization in charge of managing greenhouse gas emission trading.

Current state of preparations for the establishment of a national emission trading market (2)

Inventories

- The format of national data lacks compatibility with that of international data.
- National data lacks accuracy because it is prepared by the top-down method.

National registry

- It has not been determined who should manage the national registry in Russia.
- The introduction of regional registries would complicate the registry system.

Emission quotas

- No quota assignment method has been established.

Conclusion: Current situations in Russia

- # Russia claims its right to withdraw from the Protocol if it is obliged to reduce emissions during the Second Commitment Period.
- # Russia desires to keep Hot Air for its future economic development rather than selling it in an emission trading market.
- # Russia has not created an organization managing JI and ET.
- # Russia has not decided who owns emission quotas.
- # Russia has technical difficulties in preparing inventories.
- # The Russian central government, local governments, and companies have different interests.
- # Russia has latent demands for investment projects conducted through JI.

Implications for the Japanese government

- # The preparation of Russia's national registry requires technical and financial foreign assistance.
→Japan can provide financial assistance.
- # Japan should carefully analyze the risks related to JI in Russia.
→Japan needs to watch every move of the Russian government.
- # Japan needs to take a balanced approach to Russia. For example, Japan should not restrict itself to emission trading and joint implementation with Russia but should also consider other options such as CDM with developing countries.
- # Japan should exchange information with foreign institutions in charge of global warming prevention and assist them in creating an organization that serves as a single contact point and also in establishing necessary systems.
- # In order to strengthen relationships with other countries where projects are scheduled to be carried out, Japan needs to hold natural environment meetings with those countries and take other measures.