

# Recent Developments in Russia in Connection with the Kyoto Protocol

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Russia's ratification of the Kyoto Protocol in November 2004 allowed the Protocol to take effect in February 2005. The ratification would not have been possible without EU persuasion. The 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. On the other hand, the Japanese government and companies did not take any particular stance toward Russia over the issue of the implementation of Kyoto Mechanisms. Before taking part in the Mechanisms, Russia has many technical and political problems to solve. To help Russia solve these problems, the EU has been playing a much more important role than Japan. Japan is nowhere near the EU in terms of the richness of experience, number of specialists, and level of techniques in the relevant fields. Under these circumstances, Japan should take the initiative in coordinating with other countries to jointly carry out CDM and JI projects. It is, therefore, important for Japan to establish good relationships with those countries.

## 1. Introduction

On November 18, 2004, the Russian government deposited its instrument of ratification of the Kyoto Protocol with the United Nations. Russia's ratification allowed the Protocol to take effect in 90 days (February 16, 2005). Given the certainty that the Protocol will take effect, Japan recognizes the absolute necessity to use the Kyoto Mechanisms to reduce emissions to 6% below its 1990 base-year level. Russia is expected to become an important partner for developed countries to conduct Emissions Trading (ET) and Joint Implementation (JI). Russia, however, still has some problem to solve, such as the establishment of internal systems and preparation of inventories. This report lists stakeholders in Russia, identifies issues for Russia to solve before participating in Kyoto Mechanisms, and considers how the Japanese government and companies should take part in Kyoto Mechanisms.

## 2. Why did Russia's ratification of the Kyoto Protocol attract attention?

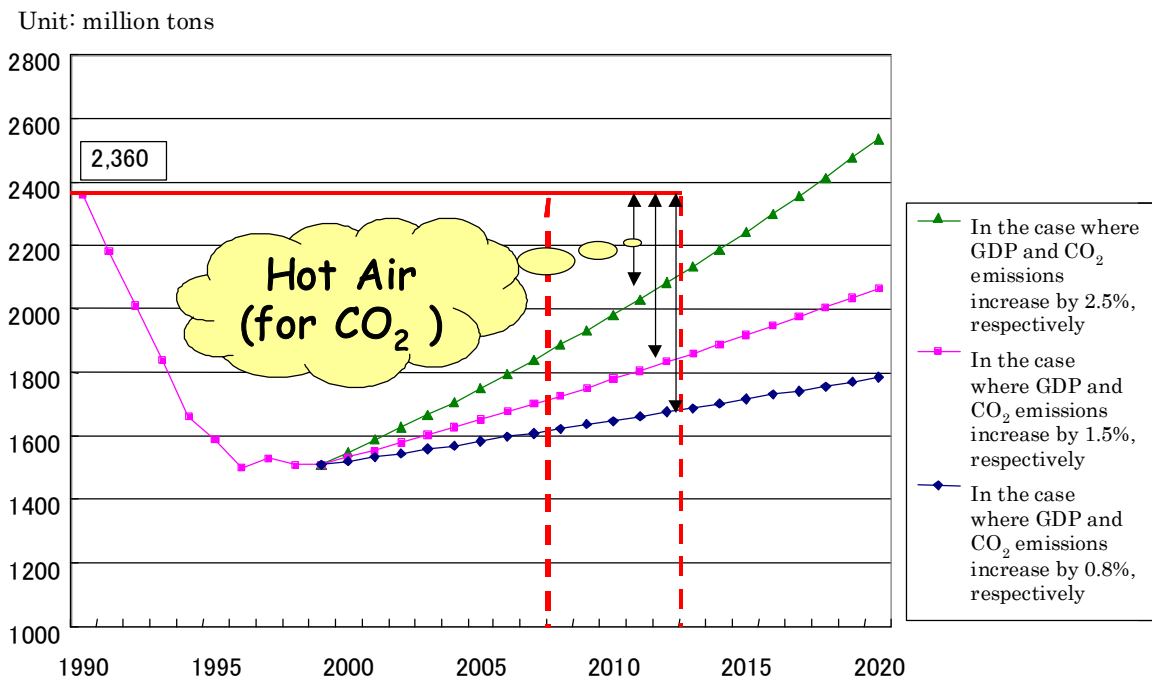
Russia's move toward the ratification of the Protocol was closely observed by developed countries in the world. This is because Russia's ratification had become crucial to the enforcement of the Protocol since the United States, the world's largest greenhouse gas emitter, withdrew from the Protocol. The Protocol could not take effect without the ratification of countries whose emissions collectively account for at least 55% of the total greenhouse gas emissions of developed countries.

Japan specified five targets in each measure for greenhouse gas emissions and absorption in the New Climate Change Policy Programme: (1) CO<sub>2</sub> emissions from energy use ( $\pm 0\%$ ), (2) CO<sub>2</sub>

emissions from non-energy use, methane emissions, carbon monoxide emissions (-0.5%), (3) Innovative technological developments and national energy conservation efforts (-2%), (4) Use of chlorofluorocarbon-replacing materials ( $\pm 2\%$ ), and (5) Increase of carbon sinks (-3.9%). It is also stated in the Program that only 1.6% (19.664 million CO<sub>2</sub> tons), at most, will be subject to Kyoto Mechanisms. Despite these measures, Japan's emissions in 2010 are prospected to be about 1.32 billion CO<sub>2</sub> tons, about 7% above the base-year level.

After the enforcement of the Kyoto Protocol in the wake of Russia's ratification thereof, any developed country that fails to meet its emission reduction target through its internal efforts will have to purchase emission quotas from other countries, such as Russia. Russia is expected to easily meet its reduction target of 0% change from the base-year level, because its greenhouse gas emissions decreased significantly during the post-Soviet turmoil period due to stagnation of the economy from 1990, which is designated as the base year in the Protocol. As a result, a part of Russia's quotas will be left unused. Russia's emissions in 1999 were 38% below the 1990 base-year level. The difference between the 1990 base-year level and the level during the first commitment period is called Hot Air. As Russia has a lot of Hot Air to sell to other countries, developed countries with bleak prospects for achieving their respective reduction targets have kept a close eye on the developments in Russia (Fig. 1).

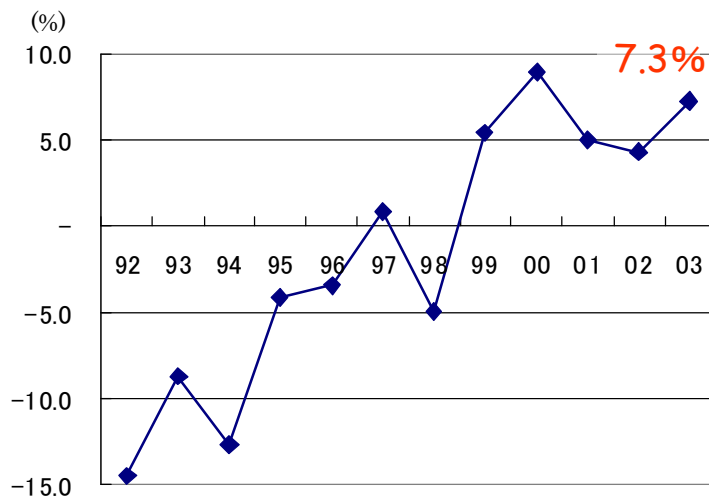
**Fig. 1 Estimates for Russia's Emissions of Carbon Dioxide and Hot Air**



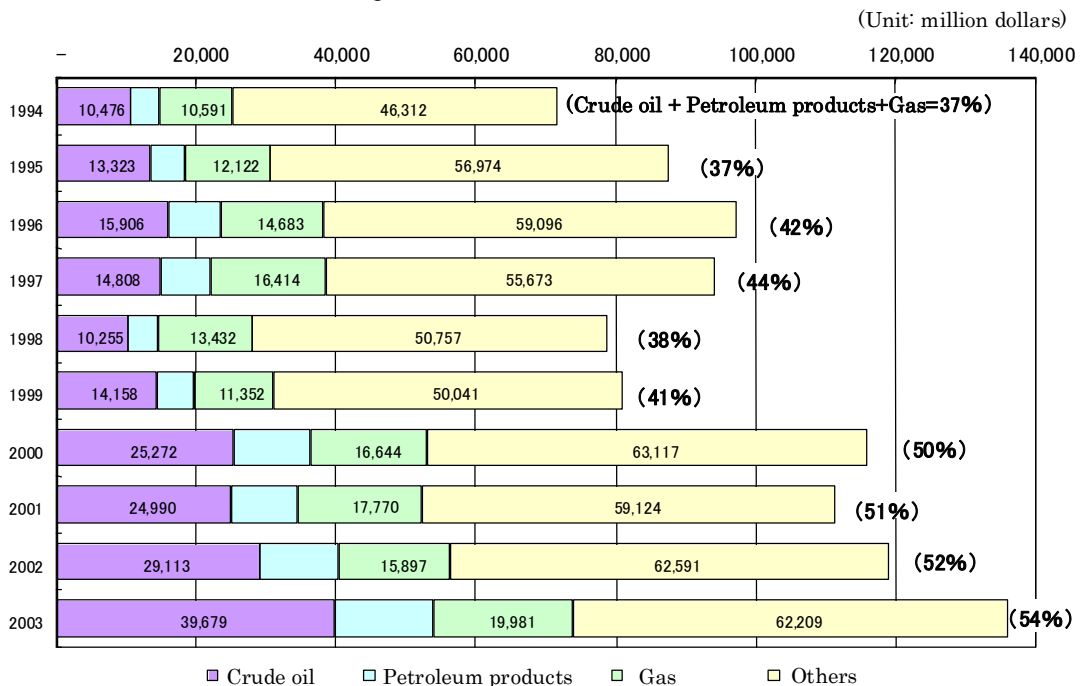
Source: Third national report by the Russian Federation

In the case of Russia, greenhouse gases consist mostly of CO<sub>2</sub>; the amount of Russia's CO<sub>2</sub> emissions, therefore, determines the volume of Hot Air. Russia seems to have increased its CO<sub>2</sub> emissions in tandem with its unprecedented economic growth. Its economy has grown continuously, as oil and gas industries have been exporting oil and gas overseas and using the earned foreign currencies to further expand production (Fig. 2 and Fig.3). Russian Hot Air has been a focus of attention, because the CO<sub>2</sub> trading price will be affected by the total amount of Russia's Hot Air, as well as by the scheduled sales amounts and sales dates.

**Fig. 2 Year-on-year Growth Rate of Russian GDP**



**Fig. 3 Breakdown of Russian GDP**



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

### **3. Global warming policies of Russia**

#### **3.1 Institutions, sections, and key persons related to global warming policies**

The key players in the formation of Russian global warming policies have changed over time with the organizational and structural reform in Russia. From the early 1990s through 2000, the most influential key player was the Interagency Commission on Climate Change Problems (ICCCP), whose members included the Ministry of Environmental Protection and Natural Resources. As a result of reorganization in 1996, it was divided into the Ministry of Natural Resources and the State Environment Protection Committee. In yet another reorganization in 2000, the State Environment Protection Committee was abolished, and its operations were taken over by the Ministry of Natural Resources.

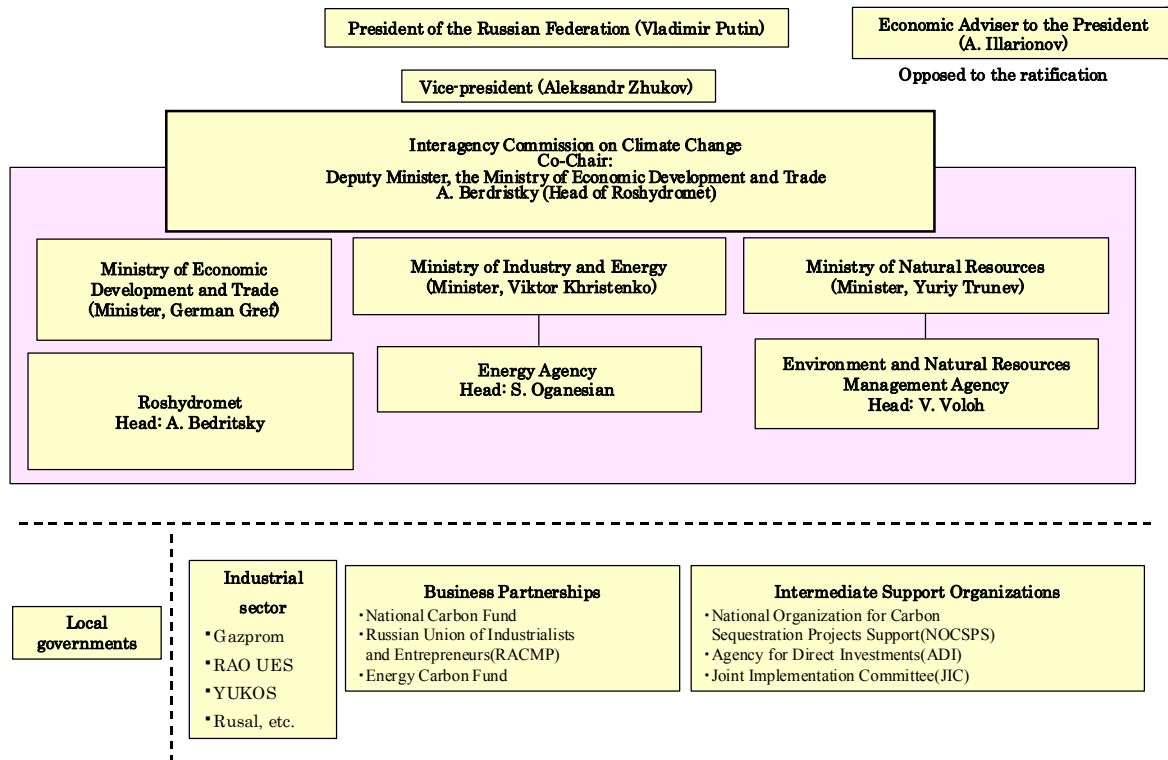
Currently, Deputy Minister, the Ministry of Economic Development and Trade, and Mr. A. Bedritsky (Head of Roshydromet) co-chair a commission consisting of the Ministry of Economic Development and Trade, the Ministry of Industry and Energy, the Ministry of Natural Resources, and Roshydromet, etc. (See the upper part of Fig.4)

The Interagency Commission on Climate Change Problems expressed, in the third national report, its support for Russia's ratification of the Kyoto Protocol<sup>1</sup>. This report was biased in favor of Russia's ratification of the Kyoto Protocol; although, it was supposed to provide an unbiased basis for discussions on this issue in Russia's Lower House (State Duma) and Upper House (Council of the Federation) of Parliament.

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<sup>1</sup> Prepared by the Ministry of Economic Development and Trade in collaboration with the Russian Regional Ecological Center based on the materials and documents published by Roshydromet, Ministry of Energy (in 2002), Ministry of Natural Resources, State Committee for Statistics, State Construction Committee, Ministry of Emergency Situations, Institute of Global Climate and Ecology (IGKE), Main Geophysical Observatory (GGO), Research Institute of Agricultural Microbiology (VNIISHM), Framework Convention on Climate Change (FCCC), COPs, and G8.

Fig.4 Key Players in Russia Concerning the Kyoto Protocol



Source: Prepared by the writer based on various materials.

### 3.2 Recent developments leading to the ratification of the Kyoto Protocol by Russia

On June 18, 2001, the Environment Committee of Russia's Lower House held a preparatory meeting concerning the Kyoto Protocol. In the meeting, the vast majority of the attendants supported the ratification. It seemed, however, the process toward ratification of the Kyoto Protocol had come to a halt in Russia, because Russia did not reveal its stance on ratification until 2002. Russia procrastinated because it learned that the CO<sub>2</sub> price would be lower than originally estimated, due to the US withdrawal from the Kyoto Protocol (Table 1). In August 2002, the Ministry of Economic Development and Trade and other governmental agencies expressed, in a National Report on Climate Change, their support for Russia's ratification, giving the international community the impression that the Russian government had a favorable view of ratification.

At the World Climate Conference held in Moscow in 2003, Russian President Vladimir Putin said that Russia's decision on the ratification of the Kyoto Protocol would be made in

consideration of its “national interests,”<sup>(1)</sup> indicating its intention to stop treating the issue as an environmental policy and start treating it as a national policy. The “national interest” mentioned by President Putin was interpreted as referring to both economic and political interests of Russia. Opposition was raised in Russia by Mr. A. Illarionov, the economic advisor to the president, and other scientists on the ground that the Kyoto Protocol lacked a sufficient scientific basis and would, therefore, hinder Russia’s economic development. People said that the advisor have voiced such opposition as a tactic to gain the upper hand in negotiations with the international community on such issue as Russia’s entry into the WTO.

In September 2004, President Putin ordered an earlier submission of a ratification bill to Parliament. In October 2004, the bill passed both the Lower and Upper Houses of Russia. On November 18 2004, the Russian government deposited its instrument of ratification of the Kyoto Protocol with the United Nations. Some newspapers said, this quick passage of the bill have been promoted by the EU, which took the opportunity of the Russia-EU Summit in May 2004 to request that Russia ratify the Kyoto Protocol in exchange for the EU’s support for Russia’s WTO entry<sup>(2)</sup>. In this sense, the EU played an important role in pressuring Russia into ratifying the Protocol. Russia seemed to have realized that the economic and political benefits of WTO entry would outweigh the economic losses caused by emission restrictions imposed under the Protocol.

It should be noted that Russia’s ratification bill is accompanied by the provision that Russia agrees to obey the Protocol during the First Commitment Period, but will later decide whether to participate in the Second Commitment Period, or any period thereafter through discussions with other countries. Mr. Konstantin Kosachov, the chairman of the foreign policy committee of the Lower House of Russian Parliament, said to the press that Russia had not decided whether to participate in the Second Commitment Period, or any period thereafter<sup>(3)</sup>.

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<sup>(1)</sup> Izvestia, 2003.10.04

<sup>(2)</sup> [http://www.english.Pravda.ru/printed.html?news\\_id=14495](http://www.english.Pravda.ru/printed.html?news_id=14495)(Accessed on October 30, 2004)

<sup>(3)</sup> <http://www.mainichi-msn.co.jp/kagaku/env/archive/news/2004/10/23/20041023dde001040048000c.html>(Accessed on October 30, 2004)

**Table 1. Developments Leading to Russia's 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 prepararions for the ratification of the Kyoto Protocol.	
June 2003	President Putin commented that Russia gave favorable consideration to the Kyoto Protocol.	<b>Stagnated</b>
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.	<b>Mixed reactions</b>
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.	<b>Accelerated</b>
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.	

Source: Prepared by the writer based on various materials.

Since the election for the Lower House in December 2003, the ruling party has taken two thirds of the seats. This indicates that President Putin wielded considerable influence over the passage of the ratification bill for the Kyoto Protocol. The president strengthened his political base for the second term by announcing new cabinet members. He also carried out a series of reforms, such as reinforced control over Yukos, a large private oil company, and an announcement of the merger between Gazprom, a state-owned gas company, and Rosneft, the only state-owned oil company. His policies will greatly affect the way Russia takes part in Kyoto Mechanisms.

#### **4. Major stakeholders in Russia**

In Russia, there are three major stakeholders, the Federal government, local governments,

and companies, trying to protect their respective interests in connection with the use of Kyoto Mechanisms.

#### **4.1 Central government**

The Russian Federal government has been a tactful negotiator in the international issues. In an effort to keep a good balance between national interests and diplomacy, Russia offered the ratification of the Kyoto Protocol as a political bargaining chip in negotiations with the EU over Russian WTO entry. The federal government hopes to have a firm grip on Russia's quotas of greenhouse gas emissions in order to exert a strong influence over local governments and companies in Russia.

#### **4.2 Local governments**

Local governments have a latent demand for improvement and modernization of the old facilities, which are currently used in the energy sector and the forest industry, in order to enhance energy efficiency and energy conservation. Local governments hope to use Kyoto Mechanisms to attract foreign capital to the related fields and use the proceeds from Emissions Trading (ET) to supplement their financial revenues.

#### **4.3 Energy-intensive industries**

Most Russian companies were not sure whether they should support the ratification of the Kyoto Protocol. As an exception, two energy monopolies, RAO UES and Gazprom, had been active at home and abroad in support of the ratification even before the ratification became certain. These companies, like local governments, hope to use Kyoto Mechanisms to improve and modernize their facilities in order to enhance energy efficiency.

##### **(1) RAO UES**

RAO UES is a state-owned company generating about 70% of the total electricity produced in Russia and about 30% of the total domestic greenhouse gas emissions (accounting for 2% of the world's emissions). Interested in using Kyoto Mechanisms in global warming prevention projects, the company has been actively persuading developed countries to take part in those projects. The company prepared its own greenhouse gas inventories and established the Energy Carbon Fund, which is designed to manage and adjust its carbon dioxide emissions.

##### **(2) Gazprom**

Gazprom is a gas monopoly very closed to the government. The president of Gazprom is Mr. Alexey B. Miller, who used to work under President Putin when Putin was the deputy mayor of



St. Petersburg. Gazprom believes that the use of Kyoto Mechanisms could minimize the facilities modernization costs, estimated to be around \$8 billion without the use of the Mechanisms. The company has conducted a joint project with Ruhrgas, a German gas company. The project aims at optimizing gas transportation networks.

## **5. Domestic issues faced by Russia regarding its participation in Kyoto Mechanisms**

In Russia, the above-mentioned stakeholders hope to take charge of national quotas for greenhouse gas emissions and to participate in and benefit from Kyoto Mechanisms. In reality, however, Russia has many technical and political issues to solve before taking part in the Mechanisms<sup>(4)</sup>.

### **(1) Technical issues**

- Difficulty in preparing inventories with the level of precision required by UNFCCC by using national and regional statistics<sup>2</sup>
- Absence of experts on inventories
- Lack of detailed information on the breakdowns of emissions and the emission amount of each greenhouse gas, because Russia's statistics on greenhouse gas emissions lack consistency.

Institute of Climate Change and Ecology is in charge of preparing inventories with the help of the Interagency Commission on Climate Change in making necessary adjustments between ministries and agencies. It will be very difficult for Russia, both technically and financially, to prepare its inventories and national registry by 2007 in such forms as specified by UNFCCC. With an aware of these difficulties faced by Russia, the EU has been assisting Russia in preparing inventories and making other necessary preparations. The Netherlands has already concluded an agreement concerning AIJ (Activities Implemented Jointly) with Russia. On the other hand, Japan has not conducted any JI project with Russia; although, NEDO carried out a large-scale search for candidate cases for such projects in Russia.

### **(2) Political issues**

- Difficulty in maintaining consistency between regional and federal laws concerning greenhouse gas emissions

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<sup>(4)</sup> "Study on the Appropriateness of Kyoto Mechanisms in Countries in the Process of Transition to a Market Economy", UFJ Institute, March 2003

<sup>2</sup> The "UNFCCC guidelines on reporting and review" requires each participating country to use uniform forms to prepare national inventories and submit the inventories containing detailed information including the emission factor, activity data, and uncertainty analysis results.

- Need for a legal framework to restrict and monitor greenhouse gas emissions
- Necessity for appropriate prioritization of JI projects and the establishment of rules applicable to the implementation of those projects
- Lack of a governmental department or agency that serves as a single contact point for all matters related to Kyoto Mechanisms; The Interdepartmental Climate Commission is currently in charge of all those issues.

Russia can not engage in ET and JI projects until it meets the requirements for participation in Kyoto Mechanisms. Russia's capability or incapability to prepare inventories of acceptable accuracy will, therefore, largely determine whether developed countries are able to attain emission reduction targets. It is widely believed that Russia is unable to solve these issues by itself and that foreign countries need to provide Russia with financial and personnel assistance.

## **6. Implications for Japan**

In Japan, the Ministry of Economy, Trade and Industry and the Ministry of the Environment are respectively identifying the issues to be covered by global warming countermeasures and devising future measures. In August 2004, those ministries publicized interim reports on their achievements and findings. "The Global Environmental Sub-Committee under the Industrial Structure Council's Environment Commission" of the Ministry of Economy, Trade and Industry commented that Japan should further promote the use of Clean Development Mechanism (CDM) and Joint Implementation (JI), while opposing to any measure that could adversely affect the international competitiveness of Japanese industries. On the other hand, "the Global Environment Council, under the Central Environment Council" of the Ministry of the Environment, mentioned that 1.6% should be the maximum amount that is applicable to Kyoto Mechanisms as specified in the New Climate Change Policy Programme. Although these two ministries differ in the level of enthusiasm for the use of Kyoto Mechanisms, they agree that domestic efforts toward energy conservation and technical innovation will not be sufficient to achieve Japan's emission reduction targets.

In this situation, the Japanese government and companies should carefully consider now to support Kyoto Mechanisms. Japan is unlikely to give enthusiastic support to Russia's Emissions Trading (ET), because there has been criticism that ET doesn't continue to reduce global greenhouse gas emissions but brings about international monetary transactions. It is also unlikely for the Japanese government and companies to assist Russia in solving technical problems because of the current shortage of ET experts in Japan. Japan is, therefore, expected to engage in JI projects and carry out CDM projects with developing countries.

The following are specific measures the Japanese government and companies should take.

The Japanese government needs to exchange information with foreign governmental agencies in charge of global warming issues. The Japanese government can assist those countries create institutions that function as a single contact point for the issues related to global warming and establish necessary systems in those respective countries. Japan can also provide financial assistance to promote capacity building. The Japanese government needs to continuously gather and carefully study information to what extent other countries prepare for operating Kyoto Mechanism, so that it can provide Japanese companies with comprehensive information. Such information will be useful for companies to assess risks and benefits of conducting business in those countries in the field of global warming issues. In order to strengthen relationships with candidate countries where projects will be carried out, Japan needs to hold international global warming meetings with those countries and take other measures.

Any Japanese company interested in engaging in JI projects in Russia, needs to conduct a risk assessment properly. Japanese companies should not limit their options to ET and JI projects with Russia, but should consider other options as well, such as CDM projects with developing countries, in order to avoid too much dependence on JI projects with Russia.