

# CLIMATE REPORT 2017

## PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

### ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and CO<sub>2</sub> emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

### RUSSIA

In Russia, interest in the issue of CO<sub>2</sub> emissions grew between 2010 and 2012 when Russian businesses were given the opportunity to invest in reducing emissions as part of the Joint Implementation set out in the Kyoto Protocol. But unlike many developed nations where the private sector is becoming increasingly actively involved in solutions to protect the climate and reduce greenhouse gas emissions, Russia's private sector sees these matters as merely ancillary.



*A wind farm in Zelenogradsk. Source: © vvicca, AdobeStock*

## JOINT IMPLEMENTATION AS AN INCENTIVE

The most popular areas of investment were the disposal of associated gas and the reduction of gases with intense greenhouse gas effects. Russia was second only to Ukraine in the number of emission reduction units achieved as part of the Joint Implementation (JI). There could have been more projects if the process for registering and executing the JI in Russia had been quicker and less complicated for potential investors.

While JI projects have helped reduce emissions, this contribution should not be overestimated. It is very likely that many of the registered projects would have gone ahead even without climate financing. It is believed some companies probably “inflated” emission values on purpose to show greater reductions in the project results.

During the second period of the Kyoto Protocol from 2013 onwards, Russia no longer participated in the JI through quantitative obligations. Unlike the Kyoto Protocol, the Paris Climate Agreement does not include any quantitative obligations for countries as the basis for JI projects. There is, however, the option of selling the reduction units to foreign partners on voluntary carbon markets, though very few companies across the country have experience in this.

## PASSIVE CLIMATE POLICY IMPEDES ENTREPRENEURIAL COMMITMENT

Most entrepreneurs do not take measures to reduce greenhouse gas emissions, nor do they determine the volume of their own emissions. There are two main reasons for this:

The first reason revolves around the habit of seeing environmental awareness as the opposite of economic productivity. The conflict between profit and environmental protection is, however, artificial, insofar as it primarily reflects the conflict

between many businesses’ short-term and long-term interests. The weak institutions in Russia are creating a great degree of uncertainty and reducing the planning horizon, meaning short-term interests are inevitably given preference over long-term ones. This is particularly true during recessions and political tensions, due to the confrontation with Western nations.

The second reason is that of a completely passive state climate policy. In recent decades, Russia has become a leader in absolute emission reduction. In 2015, this was at 29.6 percent of the 1990 level. But it was not the result of any special measures; it was the product of a transition economy crisis and subsequent economic restructuring. This enabled Russia to vastly exceed its obligations from the Kyoto Protocol (which consisted of not exceeding the 1990 emission levels), and took away Moscow’s incentive to drive the economy in a green direction.

It was not until 2013 that a target for reducing greenhouse gas emissions was legislatively established in Russia. According to the president’s decree, emissions are not to exceed 75 percent of the 1990 level by 2020. This target is not just a way of increasing emissions compared to the present-day levels; given the current economic recession, it also means it practically cannot be exceeded. Yet as part of its Intended Nationally Determined Contribution, submitted during preparations for the Paris Agreement, Russia once again endorsed a weaker target – 70 to 75 percent of the 1990 emissions –, albeit “on condition forest absorption capacity is taken into account as much as possible” (INDC of Russia, 2015). It is highly likely that this target will be achieved without any additional effort.

Russia has not yet ratified the Paris Agreement, and probably will not do so before 2019. An action plan for ratification has, however, already been prepared and is set to include a point regarding the drafting of a law on state emission regulation. This plan is due to be completed by 2019 and a regulation model proposed by the end of 2017. From this point onwards,

major companies will have to start reporting annually on their emissions. Preliminary discussions have repeatedly touched on the possibility of using market mechanisms in Russia (carbon tax or emissions trading scheme). Taking into account the fact that the only targets to be officially set can be executed without additional measures – both for 2020 and for 2030 –, it is difficult to imagine such a mechanism at present.

### INITIATIVES OF THE PRIVATE SECTOR

Despite the high level of uncertainty and passive state climate policy, debates over the issue of private climate financing have somewhat intensified in recent years, especially after the conclusion of the Paris Agreement in December 2015. Oleg Deripaska, owner of Rusal, the country's largest aluminium company, played a key role in promoting the climate agenda in Russia. Together with leading Russian banks and insurance companies, as well as some other major businesses, Rusal founded the Russian Partnership for Climate Protection. Most of the members have a commercial interest in developing the climate agenda. Rusal, for example, believes using the clean hydroelectric power from Siberia and the Far East gives it an advantage over Chinese competitors, who use coal. The members of this partnership are currently the biggest supporters of the notion of introducing a carbon regulation system in Russia as quickly as possible.

Such initiatives can hardly be seen as adequately prepared, and it is not surprising that they have met with resistance from another section of the economy. Those opposing carbon regulation, including coal and steel companies, have criticised such initiatives and even warn that ratifying the Paris Agreement will threaten the Russian energy sector and thus the entire economy.

### INTERNATIONAL MARKETS AS A DRIVING FORCE

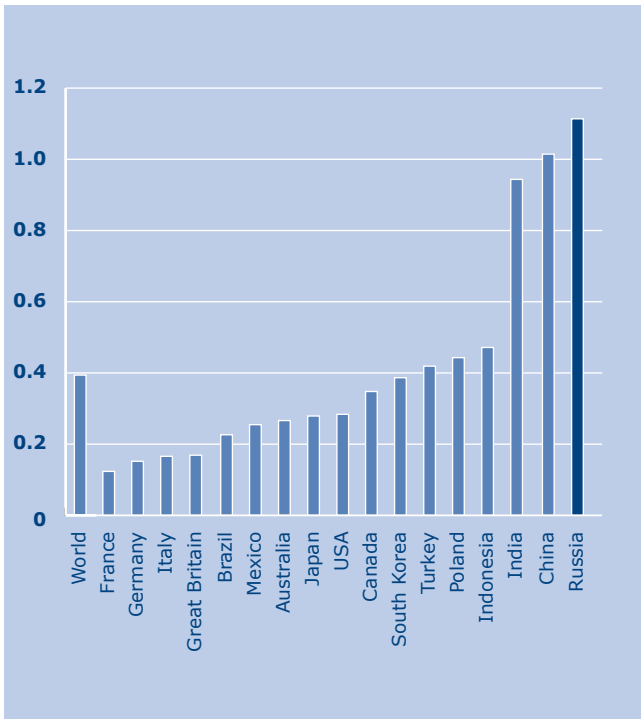
Private climate financing in Russia will probably expand gradually over the next few years. If companies in leading nations take note of the emissions in the various stages of the value chain, they will be forced to be more exacting with their partners. In recent years, Russian businesses have been increasingly receiving requests from their foreign customers and investors to disclose information on their GHG emissions. In response to this trend, around ten Russian businesses participate annually in the Carbon Disclosure Project (CDP), which seeks to rank companies in the area of climate reporting. This not only includes the traditional, pro-conservation ArchangelskyTSBK, but also giant firms such as Gazprom, Novatek and Lukoil.

It won't just be the disclosure of information on emissions that gradually becomes a criterion for partners as the basis for deciding on future co-operations. The volume of emissions as such will also be increasingly assessed as a benchmark for potential partnerships. Prospective business partners similarly assess the current pollution level, and use this as a factor in their decision-making.

Coupled with this are the numerous rankings of companies in terms of CO<sub>2</sub> emissions, which present all necessary information on emissions in systematic and comparative form. Moreover, throughout the world, thousands of investment funds, pension funds, businesses and private investors are joining the carbon divestment initiative, pulling their investments out of fossil-fuel companies.

We may also start seeing the gradual introduction of border carbon adjustment, particularly for countries which have no state regulations on greenhouse gas emissions and thus practice "environmental dumping". Russian businesses would be particularly affected if these sorts of mechanisms were to take effect.

**CO<sub>2</sub>-INTENSITY OF EXPORTS 2011  
(IN TONS OF CO<sub>2</sub> PER US DOLLAR)**



Source: author's compilation, data resources: UNFCCC, WIOD (The World Input-output Database)

**INTERNATIONAL CLIMATE PROTECTION PROJECTS AS A CATALYST?**

International economic partnerships may be one of the major driving forces behind the climate-financing developments in Russia. The high potential for emissions reduction on the Russian market may be attractive for international organisations or private companies looking to finance green projects. In addition to the unfavourable investment climate, the sanctions

and crisis in the relations between Russia and the West are also playing a negative role. A number of international organisations, including the Global Environment Facility, International Financial Corporation and European Bank for Reconstruction and Development, have stopped financing green projects in Russia.

Unless these confrontations are settled and the financial sanctions removed, it will be difficult for Russia to capitalise on international partnership opportunities to develop private climate financing. The G20, for example, is currently disregarded by the Russian political elite and Russian climate experts. The Arctic Council, on the other hand, offers more hope, giving priority to addressing climate policy. The supporting of green projects in Russia as part of BRICS appears more promising over the short and medium term because the New Development Bank is treating this as one of the key focuses of its work.

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## FURTHER READING

- Arabella Advisors 2016: The Global Fossil Fuel Divestment and Clean Energy Investment Movement, in: <http://bit.ly/2vdEyvx> [4 Jul 2017].
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- Korppoo, Anna/Kokorin Alexey 2015: Russia's 2020 GHG Emissions Target: Emission Trends and Implementation, in: <http://bit.ly/2tf1N6R> [4 Jul 2017].
- United Nations Framework Convention on Climate Change (UNFCCC): Intended Nationally Determined Contribution (INDC) of Russia, in: <http://bit.ly/2ualscG> [4 Jul 2017].