Russia and the Kyoto Protocol: Political Challenges

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Summary

- Russia has yet to come to a decision on ratification of the Kyoto Protocol. With uncertain, and lower than anticipated, economic gains, internal and political factors will be of critical importance.

- Opinion on ratification is divided in Russia. Dominant scientific opinion is deeply sceptical over the treaty. Support comes from big business and some regions. A key issue is who would gain.

- The US’s position undoubtedly influences Russia, but there is no evidence of pressure on Russia not to ratify.

- Diplomatic efforts by the EU and others to persuade Russia to ratify on global environmental grounds alone are more likely to alienate than engage Russia.

- Russia is seeking guarantees of income through sales of emissions allowances and investment through joint projects and concessions in unrelated areas, such as entry into the WTO.

- Any decision will reflect the implications for wider foreign policy issues, such as, multilateral versus unilateral approaches, EU expansion and the rise of China and India.

- A co-ordinated approach backed by concrete proposals could encourage Russia to ratify. But, Russia also needs to be aware that a prolonged delay could mean it misses out on any potential gain.

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**Introduction**

With the withdrawal of the US from the Kyoto Protocol, the fate of the treaty now hinges on ratification by the Russian Federation. At the World Summit on Sustainable Development on 3 September 2002, the then Prime Minister, Mikhail Kasyanov, announced Russia’s hope to ratify in the near future\(^1\). Since then signals have been mixed and increasingly negative, leaving commentators questioning not just *when* Russia will ratify, but *if* they intend to do so at all and, more particularly, *why* are they prevaricating?

Part of the answer is undoubtedly in the economics of the Protocol which means that Russia can no longer expect ‘windfall’ profits from sales of surplus emissions (AAUs) and faces greater competition for Joint Implementation (JI) projects\(^2\). But a further key factor in explaining the delay in ratification is politics - internal and external. This paper examines both the internal forces with Russia and international pressures both for and against ratification. It closes with some broad observations of what these suggest for how to move the process of ratification forward.

**Internal Political Forces**

Last December’s parliamentary election gave near total control of the Duma and its committees to the pro-Kremlin United Russia party. This, together with Putin’s landslide victory in the Presidential elections on 14 March means that ratification of Kyoto is in Putin’s gift.

Putin will not make the decision over ratification in a vacuum - like any world leader, he will absorb information and take advice from a range of sources. The Kyoto Protocol remains a controversial issue among the political forces within Russia and is subject to intense debate. Coming to a decision over ratification in such circumstances presents a particular challenge and the outcome will depend on the balance of forces.

**The Duma**

Opinions in the Duma itself on the merits of ratification are currently divided. A WWF assessment following last December’s election suggests that less than a quarter of the Duma positively support ratification, over half consider it possible and just over a quarter are against\(^3\). Even so, Putin’s grip on power virtually guarantees a smooth passage of the ratification bill through parliament. Once Putin has ordered the submission of the relevant documents, the ratification process itself could take days to months depending on political will.

In January, the Chairman of the State Duma’s international affairs committee announced that the Lower House may hold parliamentary hearings on ratification during the spring\(^4\). While such hearings may enhance understanding of the issues involved within the Duma, their main role could be to air differing views on ratification to the outside world and

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1 Reuters, 3 September 2002. China, Russia back greenhouse gas pact.
2 Under the Kyoto Protocol, countries can engage in international emissions trading (IET) whereby one country can sell emissions quotas (Assigned Amount Units, AAUs) to another country. In addition, Annex 1 Parties can gain credit for investments in emissions reductions projects in another Annex 1 Party country through joint implementation. In the case of developing countries, project activities come under the Clean Development Mechanism (CDM).
4 Tass, 1 January 2003. State Duma may hold hearings on Kyoto Protocol shortly.
establish the terms of agreement. Indeed, such a tactic was used post-September 11 when Putin was able to position Russia as an unconditional ally of the US, while allowing the Duma to spell out what Russia expected in return5.

**Government departments**

In the past, serious debate over ratification in Russia has been dogged by apparent antagonism within and between departments6. While a public show of debate between different officials is normal, the disparate positions reflected in statements to the press have tended to reflect the deeply embedded interest of departments concerns and vested interests of the individuals involved7. On 9 March this year, Putin significantly reformed the government’s departmental structure, cutting back the number of Ministries while stripping single issue ministries of their independence8. He also rearranged reporting lines so that, not only the security ministers, but heads of finance, economic development and trade, agriculture and energy and industry report directly to him. The effect of these reforms on departmental perspectives on the Kyoto Protocol is not yet apparent, but could mean a more coherent approach to the issue.

Under the March reforms, the Ministry of Energy is merged with the Ministry of Industry, Science and Technology as part of a wider policy objective aimed at diversification of the economy. In the past, the Ministry of Energy has consistently supported ratification, seeing JI as an opportunity to modernise Russia’s ageing infrastructure and to improve energy conservation and the reliability of the energy delivery. It is unclear how the merger may influence this position. The Head of the new department, former deputy prime minister Viktor Khristenko has been vocal in pushing for more time to make a decision9 but also recognised that Kyoto could stimulate Russian growth10.

The Ministry for Foreign Affairs is headed by Sergei Lavrov. Previously Russia’s Ambassador to the UN, Lavrov is likely to favour a multilateral approach – but a question must be whether he requires the US to be part of any such approach. His predecessor, Igor Ivanov, initially neutral on the issue, came out in support of ratification last May. But Ivanov’s more recent positions tended to highlight the position of other major countries (read the US and, possibly, China) outside of the process11. Lavrov has recently outlined his general approach to foreign policy in which he stressed the need for continuity12 – if he applies this to Kyoto, then this would suggest continued ambiguity over ratification.

The Ministry of Natural Resources historically opposed ratification, viewing the agreement as a restriction on exploitation of nature, but more positive noises have been heard since spring 2003 when two deputy ministers of Natural Resources expressed their support to ratification.13 How things will change under the new Minister for Natural Resources, Yuri Trutnev, is not clear. Previously governor of Perm Oblast in the Urals – a region generally

8 The Russia Journal, 16 March 2004. Putin’s innovative cabinet line up.
9 For instance Khristienko’s comments in RIA NOVOSTI 26/06/03 that economic examination of pros and cons will take time.
10 Ria Novosti, 14 July 2003. Kyoto Protocol will stimulate Russia’s economic growth, vice premier says.
11 See for example: ABC News Online, 24 January 2004. Russia says pressure over Kyoto delay is unfair.
supportive of ratification (see below) – this might suggest a positive approach. But, equally, Trutnev is likely to be conscious of the potential effects on extractive industries with which that region is well-endowed. Roshydromet\(^\text{14}\) is subsumed into the Ministry of Natural Resources and has generally voiced support for ratification, but lobbied hard for further funding to implement the Protocol.

The most serious opposition to ratification comes from the Ministry officially nominated to lead the ratification process – the Ministry of Economic Development and Trade (MEDT). The Minister for MEDT continues to be German Gref. MEDT was an early supporter of ratification but turned against it in early 2002 as it became clear that major emissions reductions projects would go to the Ministry of Energy. Gref is suspected of holding back moves to ratify the Protocol last summer. After pressure from the President’s Office last year, MEDT toed the official line and Muhamed Tsikhanov has been at the forefront of highlighting that the decision on ratification is still to be made.

**Russia’s regions**

Russia’s regions generally view the Kyoto Protocol as an important new source of investment in energy efficiency and in its ageing energy infrastructure and are actively lobbying the Kremlin to ratify. In June 2003, the Advisory State Council to the Kremlin - on which sit the governors of the country’s 89 regions - called on Russia to ratify the treaty by that September\(^\text{15}\). Even so, levels of support vary across Russia. A recent WWF survey shows that support in the provinces for ratification is strongest in Volga, Ural and the Northwest, with only partial support in Siberia and Central provinces and minor support or low awareness in the South and Far East\(^\text{16}\).

Some, like Archangelsk in North-West Russia, are already preparing for participation in Kyoto by, for instance, implementing greenhouse gas inventories\(^\text{17}\). As a net importer of coal and oil for its energy-intensive coal and oil industry, Archangelsk is seeking to attract investment in energy saving and renewable energy (biomass). Non-commercial organisations such as the National Carbon Sequestration Foundation are also playing an important role in supporting regional initiatives.

While the regions have little influence on foreign policy under Putin, their support and cooperation will be crucial to implementation - not only do they account for a significant share of greenhouse gas emissions and are thus owners of potential projects but they are also important in the data collection and development of inventories. A potential source of controversy is that of property rights which the federal government view as their prerogative, but which the regions feel should belong to them. A further complication could be Putin’s efforts to recentralise state administration.

**Business**

Big business probably has the greatest influence on Russian foreign policy and priorities of all the non-government players through its political access and the profit motive. After some initial scepticism, big business has come out strongly in favour of ratification,

\(^{14}\) The Russian Federal Service for Hydrometeorology and Environmental Monitoring.

\(^{15}\) CAN Europe (2003), *Ratification Calendar*. http://www.climnet.org/EUenergy/ratification/calender.htm

\(^{16}\) As of November 2003. WWF Russia analysis of publications and personal communications 2003. Presented to side event at UNFCCC COP9, 8 December 2003.

motivated largely by the need for huge investment in the power and energy sectors and the opportunities offered by JI. Further ancillary benefits are also anticipated to include: access to advanced technologies, improved accounting and financial management; fair prices; and liquidity and reliability of investment.

One notable development has been the formation of the National Carbon Union (NCU) in July 2003 which aims for both ratification of the Kyoto Protocol and its effective implementation\(^\text{18}\). The significance of this is that not only does the NCU include major energy and industrial producers in Russia, but that together they emit eight per cent of global greenhouse emissions. RAO UES is the largest greenhouse gas emitter in the world. Their views count both domestically and internationally. The Union of Russian Industrialisers and Entrepreneurs (RSPP) says it is in favour of ratification, but suggests there is little point without the US\(^\text{19}\).

Overall, business is trying to move the debate away from politics towards practical implementation. Gazprom already has a JI pilot project with RuhrGas aimed at converting an old coal power station to gas. Russian companies also submitted several JI projects under the Netherlands' ERUPT 3 tender programme\(^\text{20}\). These were turned down as they were not accompanied by the necessary Letter or Approval from the Russian government\(^\text{21}\). Russian Projects submitted under ERUPT 4 are anticipated to face similar problems.

The lack of Letters of Approval may be indicative of Russian caution over signing anything that could be regarded as a political commitment to deliver ratification but it may also reflect government resistance to business JI initiatives at this stage. Not only is the federal government more interested in the sale of AAUs for which they may get the revenue than early JI but, more generally, Putin is wary of the political influence of big business and is actively seeking to put a distance between government and business. Thus, he is likely to be cautious over anything which may further enrich and empower business – particularly if the federal government may lose out.

**Individuals**

Putin is reliant on individuals rather than institutions for advice on - and the implementation of - foreign policy. Of the many players, two stand out for their influence both on Putin and on wider opinion: Yuri Izrael and Andrei Illarionov.

Yuri Izrael is Director of the Institute of Global Climate and Ecology of Roshydromet and Vice Chair of the Intergovernmental Panel on Climate Change (IPCC) and probably has had the greatest influence on Russian perceptions of climate change. Izrael is renowned for his scepticism over the causes of climate change and declarations that warming would be beneficial to Russia. In the case of the former, most of his comments are covered in the

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20 The Emission Reduction Unit Procurement Tender (ERUPT) is mandated by the Netherlands Ministry of Economic Affairs as an instrument for the Dutch government to buy carbon credits for joint implementation projects.
IPCC’s work and thus do not change their conclusions. His remarks on impacts are, at best one-sided\textsuperscript{22}.

With the decline in science in Russia during the 1990s, most climate work is now concentrated around Izrael. Izrael’s influence was evident in high profile papers given to sceptics at the UN World Climate Change Conference (WCCC) held in Moscow last September. The event was initiated by Putin but Izrael chaired the international organising committee. Putin’s wry observation at the conference that some say that global warming means “we could spend less on warm coats” suggests some scepticism – but this is balanced by Putin’s less widely reported follow-up remarks on the risks to people face from droughts and floods\textsuperscript{23}.

Putin’s economic advisor Andrei Illarionov is the most outspoken and, arguably, most powerful of Kyoto’s critics in Russia. Putin’s own lack of economic background means that on economic questions he is reliant on sources of information he cannot necessarily verify. Having established his reputation as a commentator on economic policy during the Yeltsin years, Illarionov is viewed as a credible source of independent advice on the external economic affairs\textsuperscript{24}.

Illarionov argues that the Protocol: unfairly discriminates against Russia; would hamper economic growth; that Russia won’t be able to sell it surplus allowances and will ultimately be compelled to be a buyer not seller of emissions; and in any case is based on flawed science and won’t achieve its own objectives. While Illarionov’s views may be rooted in genuine concerns, many of his assertions amount to either a deep misunderstanding of the facts or wilful distortion of them.

Of the prominent figures expressing more positive positions, Deputy Economy Minister, Muhammed Tsikhanov, seems to act as a counterbalance to Illarionov. Nowhere was this more evident than when Illarionov’s assertion that Russia would reject the Kyoto Protocol on 2 December 2003, was directly contradicted the next day by Tsikhanov who stressed that no decision had been made. Putin has also implicitly contradicted Illarionov’s proclamations that the Protocol will not solve the climate change problem, stating that “The Europeans are right … it is a step in the right direction”\textsuperscript{25}.

This public display of different opinions may simply be political muscle showing between powerful individuals rather than reflecting genuine concerns on the issue. But it may be designed to “slow down” the ratification process while Putin assesses the costs and benefits of ratification and/or be intended to up the pressure on Europe, Canada and Japan to provide incentives for ratification. In any case, the closeness of Izrael and Illarionov to

\textsuperscript{22} Some areas may indeed benefit through increased growing seasons, extensions to the shipping season or reduced heating costs, but thawing of permafrost is already damaging buildings, airfields and pipelines in Siberia. The yearly cost of damages to Alaskan infrastructure due to warming could be as high as $35 million or 1.4 per cent of the total state budget. Costs to the Russian economy could be much higher given the large number of settlements, industry and oil and gas activity in permafrost regions. \textit{Sources:} Alaska Regional Assessment Group (1999), \textit{The Potential Consequences of Climate Variability and Change.} Alaska. Fairbanks: Center for Global Change and Arctic Systems Research, University of Alaska. Cole, H. and others (1999), \textit{The economic impact and consequences of global climate change on Alaska’s infrastructure.} In: Weller, G. and Anderson, P. \textit{Assessing the Consequences of Climate Change for Alaska and the Bering Sea Region. Proceedings of a Workshop on the Consequences of Global Change for Alaska and Bering Sea Region, 29–30 October 1998.} Fairbanks: University of Alaska.


Putin certainly raises serious questions over the range and quality of advice available to the President.

**Other: academic, NGO, public, media**

Opinion within the Russian Academy of Sciences (RAS) is divided. Some senior academics, including Izrael, are deeply critical of the findings of the International Panel on Climate Change and have supported the views of western climate sceptics. Some officials have argued that the science is too uncertain to spend money on the Kyoto Protocol and that this money would be better spent on further investigations. In the impoverished world of climate science in Russia, such attacks may be as much to do with funding as the science itself. On a deeper political level, some scientists may feel that ratification of Kyoto would recognise western science over domestic science which would undermine the great past (and potentially future as well) of the Russian scientific community.

Against the sceptics, 250 members of the Russian Academy of Sciences signed an NGO petition in favour of ratification last year. However, the academic and think-tank community’s influence on Putin remains largely on the level of key individuals, so while the sceptics are closest to Putin, this does not bode well for ratification.

Scientific views have a major influence on public opinion on climate change. Most people believe that climate change exists and could be a problem even for a northern country like Russia, but remain deeply sceptical as to whether or not human activities are the cause of climate change. Many are also suspicious of the Kyoto Protocol itself which is typically viewed as a bureaucratic tool to sell Russian natural resources – clean air.

The wider public is generally more concerned with domestic problems than international affairs. Although the environment has long been an area of permissible dissent, environment is low on the general public’s list of priorities after health, food, security and crime. Special interest groups such as the Russian Orthodox Church and WWF Russia do prioritise the environment more highly but have little direct influence on the government.

The tightly controlled media tends to be a tool of the foreign policy rather than an influence on it. The Russian English language media continues to send out mixed - and increasingly negative - messages over ratification. While apparently signalling intense internal debate, by raising the possibility of non-ratification it may well be a ploy to up the stakes on ratification.

**Kyoto Diplomacy**

From a Russian perspective, the ratification decision is not about the global environment – but about economic and political gain. Putin has made it clear that any decision on ratification will be based on meticulous study of the complex issues linked with it and, “of course it will take into account the national interests of the Russian Federation”. In line with its general approach to foreign policy, Russia is endeavouring to use its pivotal

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position to more general economic and political advantage and is seeking guarantees of income under the Kyoto mechanisms and concessions on unrelated foreign policy issues.

**Key players**

**US**

There is no evidence that the US is exerting pressure on Russia not to ratify the Kyoto Protocol, but this does not mean that the US has no influence on Russia’s decision. Russia’s relationship with the US is complex. On the one hand Russia resents the US’s hegemony and is suspicious of its unilateralist approach, while on the other hand, Russia seeks greater cooperation on security and foreign investment. Moreover, US goodwill is important to Russia in a number of important energy projects, including the hydrocarbon exports from Sakhalin.

There can be little doubt that Russia would like the US to ratify the Kyoto Protocol, as its very design could bring economic rewards to Russia. But, realistically, there is little prospect of US ratification of the treaty as it now stands even with a change in the Administration. For its part, the Bush Administration does not want the Kyoto Protocol to enter into force as this would weaken their assertion that the Protocol is flawed and increase pressure for their re-engagement with international efforts to tackle climate change.

The mere fact of US withdrawal has already influenced Russia’s perceptions of its interests. As Alexey Kuraev of the Russian Regional Ecological Centre recognises, “after the US withdrew from Kyoto, some influential Russian politicians started to say that Kyoto has lost its economic interest for Russia”.

Both the US and Russia share a degree of scepticism over the science of climate change and concerns over the potential economic impacts of the Kyoto Protocol. In this sense, it is little surprise that the US actively supported Russia in the organisation of the Moscow conference.

Russia also finds the US relatively straightforward to deal with relative to the EU and would almost certainly be their preferred partner on climate change. The US and Russia signed a joint agreement on climate science and technology in January 2003. This agreement need not stop Russia ratifying the Protocol – other countries have both ratified the Protocol and signed similar technology agreements with the US. But, a real concern is the corrosive effect of the US emphasis on bilateral agreements as an alternative to multilateral agreements. In any case, the US-Russia agreement upped the stakes required for Russian ratification, with Russia pressurising the EU for greater technological collaboration and to recognise Russia as a privileged partner on energy and environment.

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30 AFP, 26 September 2003.
31 Democrat Presidential Candidate Kerry is more positive on international action on climate change than President Bush but is still highly unlikely to ratify the Kyoto Protocol. It is virtually impossible for the US to meet its commitments under the Kyoto Protocol domestically in the time available and to meet its targets through international trading would require transfers of wealth that would be politically unacceptable, particularly in light of the country’s soaring deficit.
32 Wired, 8 February 2003.
33 In a marked parallel with the US’s strategy to undermine the International Criminal Court, the US has been seeking bilateral agreements on climate change with as many countries as possible in an apparent attempt to subvert the Kyoto Protocol. Indeed, some have already suggested that a similar US-India bilateral influenced proceedings at the eighth Conference of Parties in Delhi in 2002. Ott, H.E. (2003) Warning Signs from Delhi. Troubled waters ahead for global climate policy. To be published under the title ‘Global Climate’ in: *Yearbook of International Environmental Law* Vol 13 (2002), Oxford University Press.
34 Translation of ANSA Newswire, 19 July 2003.
Some Russian observers are worried that Russia’s ratification may further isolate the US from international cooperation and the activities of the UN. At the same time, the US is regarded as the only potential main partner for Russia in foreign policy, and consequently, it is unlikely that this partnership would be endangered by ratifying Kyoto if no other major issues are linked into this decision.

**EU**

The EU is overtly trying to influence Russia’s decision through appeals to the global good. The EU is not only committed to precautionary action on climate change but it has invested heavily in the Kyoto process being at forefront of efforts to rescue the treaty after America withdrew. Approaches by the EU to Russia in the lead up to the Moscow conference generally elicited positive noises, but since then both Parties have become increasingly frustrated with each other.

The EU’s irritation stems from both a genuine desire to see the Kyoto Protocol enter into force and, perhaps, a more immediate need to bring its own wavering Member States in line. For its part, Russia is increasingly irritated by the pressure from the EU. A recent suggestion in the Commission that the EU should give a final deadline for deciding on ratification is likely to alienate rather than engage Russia - another example of other countries promoting their own interests while disregarding those of Russia. From the Russian perspective, it is the EU and other Kyoto Parties that need Russia, not the other way around. Russia is likely to meet its Kyoto emissions commitments domestically – it is others which need/want the treaty to come into force.

Russia is seeking tangible incentives from the EU (and Canada and Japan), in terms of guarantees on income and/or markets for natural gas and/or concessions in other important policy areas, such as entry into the WTO (see below). The Commission has offered €2 million to Russia in technical aid under the TACIS programme to help ratification. Russia considers this as wholly inadequate. One government official has suggested that Moscow is looking to Europe, Japan and Canada for no less than €3 billion a year invested in JI projects with Russian companies. While the EU’s offer is intended as a measure of good faith, even the concept of technical aid is viewed with suspicion by Russia as a hidden subsidy for donor country businesses and would rather conditional aid than guaranteed benefit.

Russian experts are also sceptical over potential demand from Europe for Russian AAUs and projects. Not only do they anticipate small demand, but many also expect that the EU will prioritise accession and developing countries as their main suppliers. Part of the EU’s difficulties in persuading Russia of the likely benefits of ratification is that contacts are primarily conducted through the Commission. Not only is this frustrating for Russia due to a lack of coordination between Member States, but the Commission is not in a position to give the required assurances over any AAU purchases or JI investments. Such decisions are the prerogative of Member States or individual companies – not the EU. Assuming the EU adopts the proposed Linking Directive to the EU emissions trading scheme (EU ETS)

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36 Putin is reported to have said that Russia will not ratify without guarantees of income. [*BBC News*], 29 September 2003. Kyoto Treaty in the balance.

37 Energy Argus, October 2003. Russia nears crucial Kyoto decision.

38 Personal communication, Anna Korppoo, Imperial College, January 2004.

39 The Linking Directive would enable participants in the EU emissions trading scheme to gain credit for project activities
then the Commission will probably have done has much as it can by at least ensuring the market is open to Russia.

Both Member States and businesses will exercise buyer sovereignty over emissions trading and credits. European perceptions of Russian surplus emissions as ‘hot air’ mean that any demand for AAUs is likely to be strictly tied to green investments. National and company decisions over JI will take into account a range of factors, of which a key one will be the perceived riskiness of investment. Russia’s non-ratification of the Kyoto Protocol, limited progress on developing the required infrastructure, and lack of accredited projects as well as more general factors such as corruption all add to investment risk.

A number of Member States (including, Denmark, Finland, Italy, The Netherlands and Sweden) have expressed interest in JI with Russia - and/or are discussing Memorandums of Understanding. But, Russia has already missed the opportunity of making perhaps €30 million on projects under the Netherlands ERUPT 3 tender programme through its failure to provide Letters of Approval. This money may be just a tenth of their aspirations, but if Russia truly wants to be part of an emerging global market in emissions, then it needs to wake up to the piecemeal nature of the market.

A more deep-rooted problem is the general poor state of relations between the EU. The EU and Russia openly disagree on major political issues such as supporting Bush on the war on Iraq. While Russia has said that the Kyoto Protocol does not determine relations between the two countries, the way in which the EU has chosen to implement its climate change commitments plays on existing fears of exclusion from EU markets. Moreover, Russia generally resents their lack of involvement in EU decisions that affect its own interests.

Such factors suggest: first, that bilateral discussions between Member States and Russia over specific purchases and projects could be more effective in reassuring Russia over demand for its emissions surplus or credits than discussions at EU level – although a more coordinated approach by the EU could help. Second, Russia needs to work to create an attractive climate for investment in JI projects if it is to benefit under the Kyoto Protocol – ratification of the Kyoto Protocol would be a good first step.

**Japan**

Japan has been active in urging Russia to ratify the Kyoto Protocol. Japan has significant prestige tied up in an international agreement reached in Japan, but is deeply concerned over the potential economic costs of meeting its target domestically. Easy efficiency gains were made in wake of the 1970s oil crisis - and in many areas standards are already higher.

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41 From a Russian perspective, this hurts as the steep drop in emissions in the 1990s was the result of painful economic decline. It does not matter how the reductions are made – only that they are. This point is recognised in guidance on the demonstrable progress reports due in 2005 if the Protocol goes into force (Vertic, *Annual Year book 2003*). Nobody calls emission reductions associated with the UK’s ‘dash for gas’ or Germany’s reunification and economic restructuring ‘hot air’. But, then again, these countries are not currently planning to sell any surplus.
42 *Point Carbon*, 5 March 2004. Large interest in ERUs.
43 Estimate based on: i) The Netherlands’ willingness to by 6 million tonnes of CO2 if Russia and the projects comply with the rules; and ii) the average price of €5.46/tonne for projects approved under the tender scheme. *Sources: Letter from W.J. Wijn, Minister of Trade of The Netherlands to I. Yoespov, Russian Minister of Energy, 18 May 2003. Point Carbon, 16 December 2003. The Netherlands do JI project in New Zealand.*
than in Europe. Last summer, Japan also faced problems with nuclear stations with only 3 of a total of 17 running due to concerns over safety after cover ups.\textsuperscript{46}

Japan is actively seeking ways of meeting its commitments through the Kyoto mechanisms. In doing so, it is likely to exercise buyer sovereignty over where and with whom it invests. NGO pressure will ensure that it seeks to ensure that trading is tied to environmental achievement and thus constrain Japan’s ability to purchase surplus allowances.

Japan’s demonstrated its interest in cooperation with Russia over JI as far back as 1998 when MITI announced 20 ‘AIJ’\textsuperscript{47} pre-feasibility studies.\textsuperscript{48} This was something of a breakthrough at the time as Russia-Japan relations are generally poorly developed and are hampered by tensions associated with ongoing disputes over the Kurile Islands (although they share a common interest over Russian oil exports). The failure of these projects to materialise has left Japan frustrated and sceptical as to Russia’s reliability as source of credits. Japan’s focus is now on projects under the Clean Development Mechanism (CDM) in Southeast Asia and other developing countries to meet its need for credits.\textsuperscript{49} Any Japan-Russia deals in the near-term are likely to centre on small scale pilot projects, designed to build trust. Russia’s image as a potential partner – and thus projects for JI - could improve if agreement is reached over the proposal for an oil pipeline from Siberia to Japan.

**Canada**

Canada is important to Russia as a potential purchaser of both AAUs and as a potential partner for JI projects. Canada probably faces even more problems meeting its commitments domestically than Japan (in percentage terms) and is ideologically inclined towards emissions trading. Even so, Canada is likely to be limited in what it can offer both because of public opposition to the idea of giving Russia money ‘for doing nothing’ and mixed industry interests.\textsuperscript{50}

Any government trades are likely to focus on ‘greened AAUs’ and/or expenditure on projects which would benefit Canadian industry. The latter plays into Russian concerns that Kyoto could simply be a way of others making money. But, it could also work to Russia’s advantage as a similar range of climatic conditions means that Canadian expertise could be very valuable to Russia as they seek to modernise their ageing infrastructure. Moreover, there could be mutual interest in linking trading schemes between Russia and Alberta.

**Carbon competitors**

**Accession Countries and the Ukraine**

Most of the EU Accession Countries are potential competitors in both the AAU market and for JI projects. This is a particularly sensitive issue for Russia as 7 out of the 10 Accession Countries are former satellite States. Russia is concerned that they will get preferential

\textsuperscript{46} *The Economist*, July 2003.

\textsuperscript{47} Activities Implemented Jointly.


treatment through their participation in the EU ETS – an option not available to Russia and that simply through Membership of the EU, they will become preferred partners for JI. In addition to fears over trading, is that EU climate policy will drive up efficiency standards and thus effectively exclude Russia from its former markets.

Russia’s relationship with the Ukraine is important as they are the two countries with the potentially largest volume of surplus allowances to sell. The Ukraine is dependent on Russian energy and is indebted to Moscow - a fact that Russia is able to exploit to ensure that the Ukraine takes into account Russian foreign and strategic priorities. The relationship is fraught with disputes over gas supplies and payments.

The Ukraine, like Russia, insisted on a right to return emissions to 1990 levels under the Kyoto Protocol and is expected to have the largest national emissions surplus after Russia, making them competitors in both AAU and JI markets. The Ukraine’s recent ratification of the Kyoto Protocol means it is in a position to host JI projects. This puts Russia at a disadvantage in the carbon market so long as Russia puts off ratification. Even Kyoto coming into force could be viewed as a threat to Russia’s dominance in the region.

**China and India**

Russia’s position on the Kyoto Protocol reflects in part complex fears over their position *vis a vis* China and India and that Russia may lose out relative to newly industrialising countries. This was highlighted in a recent article in the government’s newspaper, *Russian Gazette*. In this, Vladimir Potapov, the Deputy Secretary of Russia’s Security Council, expressed concern that the Protocol might put Russia at a competitive disadvantage with its ‘potential economic competitors’, China and India.

Both India and China have ratified the Kyoto Protocol but, unlike Russia, they are not bound to keep emissions within certain limits. This is reasonable as the treaty was specifically designed to meet the Convention requirement that industrialised countries take the lead during the first commitment period. Moreover, despite changing economic circumstances, Russia’s emissions per capita and per unit GDP (exchange rate and purchasing power parity, PPP) remain well above those of China and India.

Russia’s sensitivity is particularly acute in the case of its powerful neighbour, China. While a decade ago China lagged behind Russia in economic terms, World Bank estimates now show that China’s GDP far surpasses that of Russia in terms of PPP. Moreover, the gap between the two is likely to continue to grow. While Russia’s GDP grew 5.7 per cent over the last year, China’s grew by 9.9 per cent. To the extent that Russia views emissions limits as a constraint on economic growth, this plays to the notion that the existing Protocol puts Russia at an economic disadvantage relative to its prospering neighbour. This is something of a non-argument for the first commitment period, as it appears that Russia can meet its growth objectives and keep its Kyoto commitments. However, it will undoubtedly be an issue in any negotiations over commitments beyond 2012.

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A more immediate issue is potential competition over emissions reduction projects. Several Russian actors have expressed hostility towards the CDM on a number of occasions over the years. Now, both China and Russia hope to attract investment and to gain access to cleaner or more efficient technologies through the Kyoto mechanisms. While they have a clear parallel interest in this regard, they would be competitors for a limited number of potential investors. The agreed early start to CDM relative to JI aggravates Russia’s existing concerns about falling behind, not least given that China has already been accepted into the WTO and Russian industry is losing out as China looks to other countries for industrial services. Thus, it is not surprising that Russia has sought assurances that it will attract projects and access to the emissions markets and tried to tie ratification to accession to the WTO.

Other foreign policy issues

Multilateralism versus unilateralism

In a geopolitical sense, the key issue is less about whether or not to ally with the EU or US – Russia is deeply suspicious of both – than about Russia’s own world vision and, in particular, whether, Russia favours unilateral or multilateral approaches. On the face of it, Russia’s commitment to multilateralism should be clear. Russia is one of 5 permanent Members of the UN Security Council and opposed the use of force in Iraq without UN authorisation. Moreover, Putin has recently stressed the unique role of the UN as a mechanism for solving international problems. In this sense, non-ratification by Russia would be perverse as it would imply support for the USA’s unilateralist approach, while ratification would deliver an implicit snub.

The choice of multilateralism versus unilateralism may be false – a key issue being Russia’s own pragmatic version of international cooperation. In practice, Russia works with others when it is in their interests and on conditions acceptable to them - hence, Putin’s willingness to work with President Bush to advance non-proliferation of nuclear weapons. Similarly, Russia’s approach to international agreements like the WTO has focused more on gaining concessions in exchange for its assistance than on cooperation and likemindness as an end in itself. At some point, Russia needs to decide whether it really sees its self as part of ‘world civilisation’ or not.

Some Russians have questioned the value of a multilateral agreement that excludes the US, or even that the Kyoto Protocol could endanger the prestige of the UN through its isolation of the US. While nobody would doubt the importance of re-engaging the US in the international climate regime, the absence of the US should not be a reason to dismiss the views of the 121 countries already committed to Kyoto or to discard a decade of diplomatic effort. Moreover, Kyoto coming into force may spur the US into further negotiations.

56 The Russia Journal, 5 April 2004. Putin says there is no alternative to the UN as a mechanism for solving international problems.
57 Ibid. Lo, Bobo (2003), p.120.
**World Trade Organisation, strategic energy dialogues**

Russia is endeavouring to use its pivotal position on Kyoto, to gain concessions on other foreign policy issues, particularly in relation to accelerated entry into the World Trade Organization (WTO), EU energy agreements and visa access to the EU. Such linking of unrelated issues and associated horse-trading is a standard Russia negotiation tactic. Its application in this case is unsurprising, given the limited near-term economic gains anticipated and multiplicity of other more immediate foreign and economic policy challenges faced by Russia.

Joining the WTO has been a high priority for Russia for over a decade as part of their ambition for integration with world economy. China’s entry into the WTO in 2001 notched up the pressure as it left Russia as the only major industrial country outside of the ‘club’. Russian accession is widely seen as mutually beneficial and, perhaps, only a question of time. Even so, opposition in Russia exists particularly within the monopoly or near-monopoly businesses which will struggle to remain competitive in a free-trade world. This in turn gives rise to concerns over jobs. Negotiations over Russian accession have stalled over Gazprom’s state monopoly, price differences between domestic and exported gas, and transition periods for particular industries.

Russia may also be trying to exercise its leverage over the EU on Kyoto in negotiations over the Transit Protocol to the Energy Charter Treaty. The Transit Protocol is related to the WTO in that provisions under the Charter obliges signatories to facilitate transit on a non-discriminatory basis in accordance with the GATT/WTO principles. The Transit Protocol aims to strengthen these provisions, particularly in light of the specific problems created by the collapse of the USSR. Key issues include: the unlawful taking of energy in transit, access to transit capacity, transparent criteria for tariffs and dispute settlement procedures.

Russia has yet to ratify the Charter and talks over the Transit Protocol broke down in December 2003 due to differences between the EU and Russia. According to the Chair, “this outcome was largely determined by factors unrelated to the substance of the proposed text of the Protocol Itself.” It is unclear whether the Kyoto Protocol was one such factor.

The EU’s support will be crucial to Russia as it is one of the most important power-brokers in the WTO and Energy Charter and Russia’s main trading partner. A precedent for such deals lies in the US and China’s facilitation of Russia’s accession to Asia-Pacific Economic Cooperation (APEC) despite a lack of economic credentials and the opposition of some other member countries. In the past, EU officials have argued that ‘politics

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59 The appointments of economic liberals to key ministries in Russia’s newly restructured government increases the likelihood of progress on key issues such as the reform of Gazprom The Economist, 13 March 2004, p.40. Russia’s presidential election. Sliding to victory.
60 The Energy Charter Treaty is an EU initiative aimed at promoting east-west cooperation on energy investment, transport and trade through establishing legal safeguards on such activities. In doing so, the hope is to stimulate recovery in eastern Europe and the former Soviet Union while also ensuring security of supply to the west. The Energy Charter Transit Protocol aims to establish legal principles for energy flows across two or more national boundaries.
61 General Agreement on Tariffs and Trade.
63 The EU accounts for about one-third of the Russia’s total trade – a figure that could increase to 50 or 60 per cent with the EU’s enlargement. Ibid. Lo, Bobo (2003).
cannot shortcut economics\textsuperscript{65}, but the EU’s approach may be softening on the WTO at least. In January, European enlargement commissioner, Guenter Verheugen, said “In political contacts it has been noted that one could see it as a package and I’m quite confident that on both issues we will see movement” in the first half of 2004\textsuperscript{66}.

How much scope is there for concessions? The EU cannot guarantee Russia’s accession to the WTO as all 144 members will need to agree to it. In any case, the room for manoeuvre is limited - the WTO is at heart a rule based agreement and there are limits to which the rules can be finessed. Moreover, there are areas where the various agreements are mutually reinforcing and concessions may prove counterproductive. For example, rules aimed at improving transparency and investment climate could help improve investor confidence in emissions trading with Russia and \textit{visa versa}.

**Conclusions**

Within Russia, there is clearly intense debate going around the costs and benefits of ratification. The high profile of climate and Kyoto sceptics does not bode well for ratification, although much of the media play may be a stalling strategy designed to lever guarantees on financial rewards under the Kyoto mechanisms and concessions in wider policy areas.

Some of the most powerful advocates of the Kyoto Protocol need to be patient and allow Russia space to make up its own mind on ratification - intense public pressure is more likely to alienate than engage Russia. Any negotiations should focus on what Russia wants and needs to progress ratification, rather than simply appeals to the greater good. Key positive actions which may encourage ratification, include:

- Countering misunderstanding and misinformation on the science and economics of climate change through enhanced communication;

- Co-ordinated assurances and commitments to investments in Russia through the Kyoto mechanisms, together with an improved investment climate; and

- Potentially, concessions in higher priority areas, such as the WTO or Energy Transit Protocol.

But equally, Russia needs to be realistic over its expectations on up-front commitments, particularly with regard to the piecemeal nature of the market. Moreover, Russia needs to realise that the extent to which it benefits from the Kyoto Protocol is also in their own hands. Prevarication also carries costs. Not only is Russia already missing out on projects, but even if it fails to ratify its competitors could still benefit.

\textsuperscript{65} Ibid., Lo, B. (2003), p.58.

\textsuperscript{66} Reuters, 28 January 2004. EU Links Russia’s WTO entry to Kyoto.
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