

# THE LAYERS OF THE DOLL

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# THE LAYERS OF THE DOLL

EXPLORING THE RUSSIAN POSITION FOR COPENHAGEN



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- Russia negotiating without a clearly articulated position may lead to blocking at last minute, and collapsing the Copenhagen deal. Currently, the Russian position remains largely a “black-box”. At the highest level of the Russian administration there is little motivation to actively engage in the Copenhagen talks. Hence it is a challenge to foresee how Russia will act in the end-game at Copenhagen.
- The current Russian position undermines the environmental integrity of the Copenhagen agreement: its target of a 10–15% reduction by 2020 will generate ‘a Copenhagen surplus’. The carry-over of Russia’s surplus allowances from the first commitment period could significantly undermine developed country reduction targets. In addition, the Russian position on forest sinks accounting would lead to more loopholes, and thus, further windfall emission allowances.
- Other countries need to define an acceptable minimum contribution for Russia. For example, either the Kyoto surplus must be cancelled, or its Copenhagen cap must be tightened to prevent the generation of a further surplus.
- Elements could be traded within the climate agreement in order to find a stronger balance. For example, maintaining the status of transition economies could be a high-stakes bargaining chip due to Russia’s desire to play a regional leadership role. ‘Soft swaps’ external to the agreement, for example, energy sector cooperation, could also be used.
- How to deal with a scenario in which Russia blocks depends on how far it has moved from the current position. If Russia has strengthened its position, it may be appropriate to bargain using elements external to the Copenhagen agreement, for instance, relaxing visa regime or longer-term gas contracts with the EU.
- Russian non-participation in the Copenhagen agreement could lead to exclusion of Moscow from global decision-making on climate issues, with consequences for the global energy market and future technology initiatives. This suggests that in the end-game Russia may shift position if presented with a united front.
- In order to involve Russia in taking decisions on the crunch issues in Copenhagen, it is necessary for high level officials, e.g. President Medvedev, to participate. Other world leaders may need to extend the invitation.

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As negotiations towards Copenhagen intensify, the position of the Russian Federation remains largely a “black-box”. A cabinet discussion planned for 22 October to discuss the Russian position was postponed. The lack of a clear position makes interaction between Russia and other parties difficult for both other governments and the Russian delegation. Russia negotiating without a clearly articulated position is also potentially risky for the Copenhagen talks.

It is necessary to understand the implied Russian position in more detail in order to prevent Russia from de facto applying its traditional ‘abstain-and-abduct’ tactic, i.e. a strategy of aloofness from the negotiations, coupled with last-minute demands. This paper analyses key issues of ‘ideological’ significance for Russia. Finally it offers scenarios on how to negotiate with Russia in Copenhagen.

### Emission reduction commitment

In June 2009 Russian President Dmitry Medvedev announced a 2020 emissions reduction target of 10–15% below 1990 levels. He continued by observing:

“...this would mean is that over the total period from 1990 through to 2020, that is, over a thirty-year

period, we would reduce our total emissions by 30 billion tons. This is a worthy position and a serious effort.”<sup>1</sup>

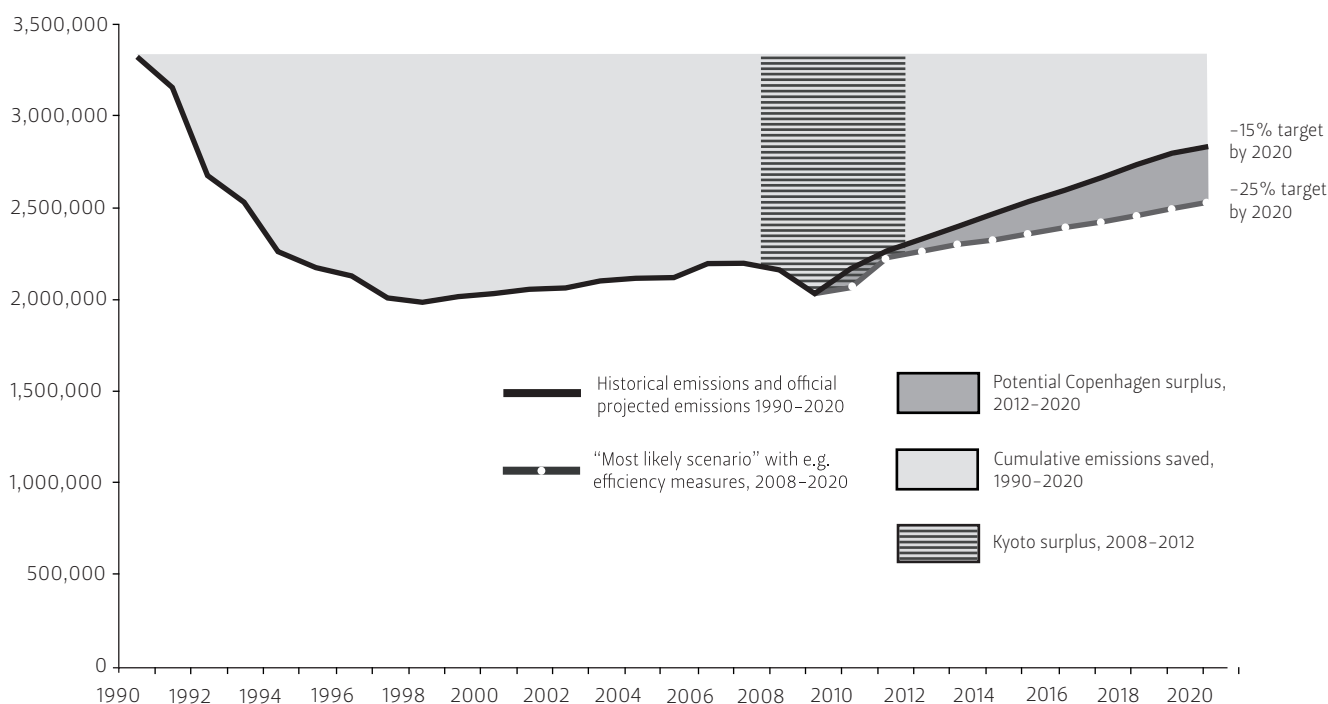
Assuming a very quick post-crisis recovery, and an annual emissions growth of 2.2% to 2020 (double that of the boom years 2000–2007), Russia’s emissions would indeed be roughly 15% below 1990 levels by 2020. The total amount of greenhouse gases (GHG’s) “saved” under this scenario would also equate to 30 Gt in the 30 year period between 1990 and 2020.

A more realistic 1% annual emissions growth from 2012 to 2020, in line with the 1.1% seen 2000–2007, would see Russia’s emissions at ca. 25% below 1990 levels. Russian modeling scenarios arrive at a similar “no-lose” target for Russia of around 25% below 1990 levels by 2020. With a nominal target of 15%, this could potentially generate a surplus of AAUs in the order of 1.7 Gt CO<sub>2</sub>e for the period 2013–2020, as is shown in Figure 1 below.

Various developments in the energy sector support these emission projections. Russia has a huge

<sup>1</sup> See, “Conversation between Dmitry Medvedev and Director of News Programmes at Russia’s Channel One, Kirill Kleimenov”, [http://www.kremlin.ru/eng/speeches/2009/06/18/1241\\_type82916\\_218210.shtml](http://www.kremlin.ru/eng/speeches/2009/06/18/1241_type82916_218210.shtml)

Figure 1. Source: Authors



potential to improve energy efficiency – ca. 45% of primary energy consumption. This would equate to annual GHG savings of ca. 793 Mt, and benefits to the economy of 120–180 billion USD per year.<sup>2</sup> New energy efficiency legislation envisages various concrete economic incentives to realize this potential. The law has recently passed its second Duma reading; to be adopted it needs to pass a third Duma reading and the Upper House and be signed by the President. The legislation is aimed at fulfilling the official target to improve energy efficiency by 40% during 2007–2020. Examining different model scenarios for Russia, IIASA concluded that “a strong and timely increase in the country’s energy efficiency improvement rate can radically improve its medium-term emission trajectories”<sup>3</sup>. Even ‘automatic’ energy efficiency improvements due to technological replacement have been estimated to be ca. 1% per annum. Passing energy efficiency legislation by Copenhagen and announcing this at the meeting could be a great chance for Russia to show its engagement.

### **Effort sharing**

Russia has made it very clear that it will only join an agreement that includes all major emitters. According to President Medvedev: “The problem of climate change has to be addressed by everyone or not at all”. The US is expected to adopt an absolute, legally-binding target, while the required levels of commitment for China and India have not been specified beyond that they must be legally binding internationally.

Russia opposes the term ‘historical responsibility’ as a basis for effort sharing and instead advocates ‘national circumstances’ and ‘real capabilities’. This reflects Russia’s the key interest to preserve space for economic growth; with regard to emissions reduction goals, Russia’s G8 Sherpa Dvorkovich has stated that ‘we will not cut off our development potential’. Due to the high dependence on oil and gas exports, Moscow also wants to take its carbon

intensive exports into account as a criterion for effort sharing. Further, restrictions on international trade due to climate policy, for instance border taxes, have been deemed unacceptable and could lead to blocking.

It irks Russia to see richer non-Annex 1 countries exempted from commitments. Russian head of delegation Alexander Pankin stated bluntly: “What kind of ambitious commitments can there be when some highly well-off countries try to position themselves as needy and try to ‘snatch the cash’?”. Russia also questions the bubble-based effort sharing system of the EU. Allowing some member states headroom for emission growth to support their economic development is deemed unfair, as transition economies outside the EU seem not to have similar flexibility.

Russia’s pledge is unlikely to be sufficient for the other parties either. Trade-offs between carrying over the first commitment surplus are yet to be officially linked to the depth of the Russian commitment beyond 2012 in Moscow. It has even been argued by the delegation that the carry-over of the surplus should only be discussed at the end of the first commitment period (i.e. in 2014) together with compliance. Within the EU, the surplus issue has gained heightened attention, and the recent Council Conclusions explicitly extends the debate to non-European countries:

“This issue must be addressed, in a non-discriminatory manner treating European and non-European countries equally, and so that the handling of the AAU surplus does not affect the environmental integrity of the Copenhagen agreement”.

### **Legal architecture**

Concerning the regime’s legal nature, Russia is caught between conflicting interests. On the one hand, for Russia it is essential that the climate regime be expanded to include all major emitters. In this regard, Russia has declared the Kyoto Protocol “dead” and is expecting a single legal instrument to emerge from the Copenhagen process. On the other hand, Russia’s clear interest is in preserving elements of the Kyoto Protocol, especially the 1990 base year and its surplus of AAUs.

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2 Gevorg Sargsyan and Yana Gorbatenko (2008), “Energy Efficiency in Russia: Untapped Reserves”, The World Bank and the International Finance Group, pp. 6.

3 Boris Digas et al (2009), “On Costs and Benefits of Russia’s Participation in the Kyoto Protocol”, IIASA, pp. 24.

Russia has stated that it would only join a comprehensive legally binding outcome in Copenhagen, but the Russian definition of 'legally binding' remains very unclear. In its October 2008 submission, Moscow suggested that the regime should not be punitive and enforceable, and allow for the adjustment of the commitments in the course of their implementation. In the event of a two-track outcome in Copenhagen, whether Russia would be willing to stick to the Kyoto Protocol, and accept a separate regime for the US and developing countries, remains a key, open question. It should be a priority to clarify the Russian position on a two-track outcome.

Moscow argues that targets should be established on the national level, and that aggregate targets should be based on a bottom-up approach. Indeed, the Russian government is apparently planning to adopt the 10-15% reduction target unilaterally, and thus, unconditional to the outcome of the Copenhagen negotiations.

Russia is especially concerned to preserve the treatment of transition economies i.e. non-Annex II parties, and opposes the merging Annexes I and II. In June 2009, Russia argued that the needs of this country group, including access to technology, must be addressed in the final text. This reflects Russia's foreign policy approach to act as a regional leader and perhaps to strengthen its position in its "near abroad", as Moscow itself is unlikely to gain from the transition economy status.

## Finance

Russia has argued that contributions to financing developing country action must be voluntary for economies in transition in order to remain consistent with Article 4.2 of the Kyoto Protocol. In addition, a mechanism to ensure the fair distribution and accountability is considered necessary. Russia has also argued that developed countries should be able to draw on international climate funds. Russia is not expecting to receive contributions itself, but attempting to support other Former Soviet Union countries, who might be beneficiaries.

Russia is strongly opposed to historical responsibility and per capita emissions as criteria for financing

contributions, since these would lead to a higher burden for Russia. According to the G20 BRIC communiqué on financing which Russia has signed, the UNFCCC should remain the main instrument for negotiations on finance. Whether this also pertains to the governance of the financial mechanism is unclear.

Russia is expected to oppose the AAU auctioning proposal, as it argues that this contravenes Russian budgetary law. Also Russia opposes the extension of the share of proceeds from the CDM to the other Kyoto mechanisms, although it could possibly support a low figure for the share of proceeds, i.e. 2%. The Mexican proposal, establishing a fund under the UN with contributions by both developed and developing countries, is considered as a possible option for Russia, as is the US proposal. As a useful way to engage on this issue, Russia could possibly suggest 'dynamic early action' as a criteria for the financing key.

## Sinks

Russia's vast forests are a key refrain in Russia's self-image and national pride. The Minister for Natural Resources stated:

"...for some reason, sequestrations by Russian forests weren't accounted for. According to the documents of the Kyoto Protocol, newly planted forests, and countries who have cleared their forests and will replant them, turn out to be in a more advantageous position than those countries who have protected their forest riches".<sup>4</sup>

Russia is strongly opposed to the use of caps and/or discounts in the land-use, land-use change and forestry (LULUCF) sector. Given the G77 and China's push for caps on LULUCF, and the high-level Russian interest in this topic, this issue could potentially shape as a make-or-break issue for Russia in Copenhagen.

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4 «В "посткиотской" договоренности должны участвовать все страны - МПП», РИА Новости, 23.04.09. See also, «Россия должна занять более активную позицию на переговорах по посткиотскому периоду», ИТАР-ТАСС, 21.10.09.

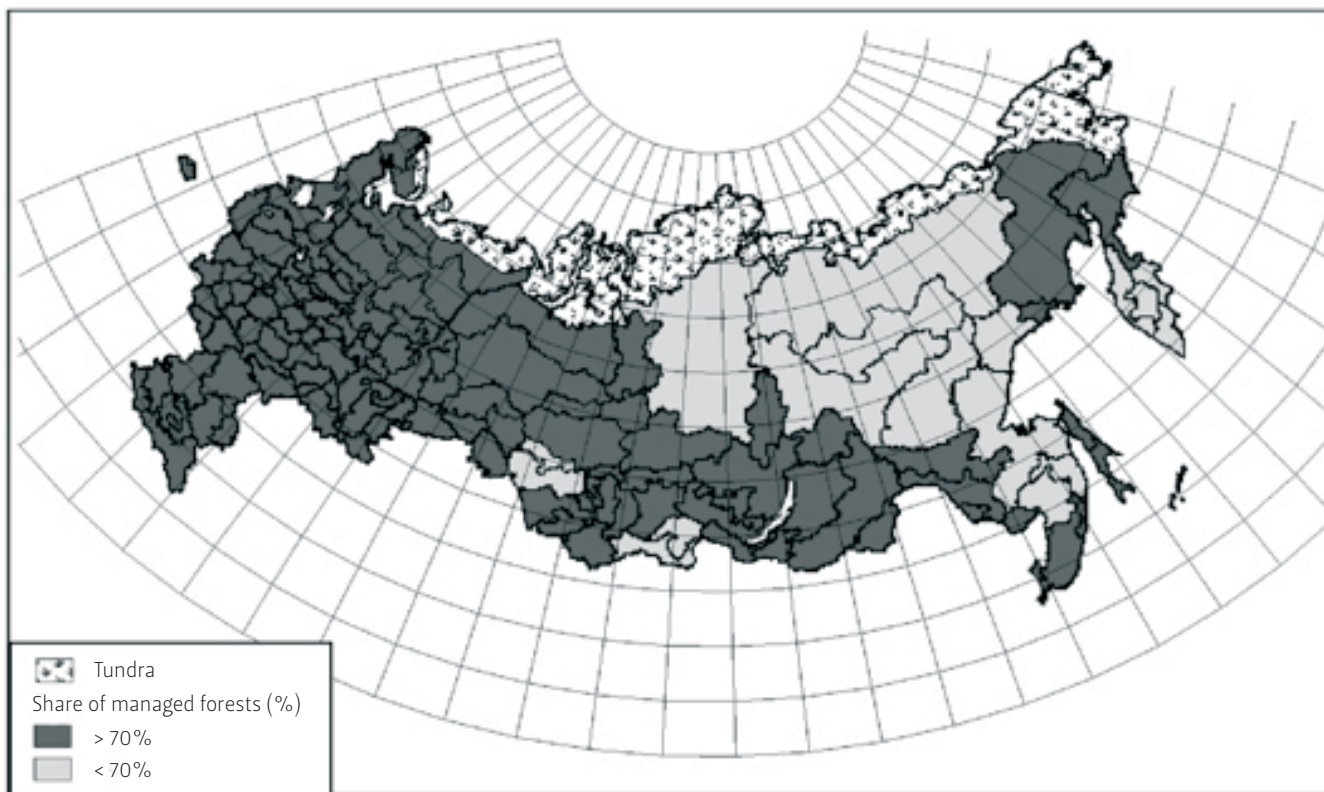


Figure 2. Managed forests on the territory of the Russian Federation

Source: The Russian Federation (2009), 'Natsionalnij Doklad a Kadastro Antropogennih Vybrosov iz Istotsnikov i Absorbtsii Poglotiteljami Parnikovih Gazov ne Reguliruemyh Montrealskim Protokolom za 1990–2007', pp. 181.

Accounting in the Russian LULUCF sector is characterized by very high uncertainty. For example, the most recent inventory estimates accounting uncertainty for 2007 at 17%, using the lowest, tier 1 methodology for calculating uncertainty. Russia does not use satellite data; rather data is collected from around 7500 district forest areas of an average size of 14 000 ha., and around 1700 forest areas and forest parks of an average size of 600 000 ha<sup>5</sup>. Rather than using regional statistics aggregated to the national level (Tier 1 methodology), the 2007–2008 expert review of Russia’s national inventory suggest developing an inventory system based on disaggregated (i.e. region and biome specific) data. The current data fails to account for the wide variation of forest types and growing conditions. Finally, 70% of Russia’s forest area is considered managed. Such a broad application of the Article 3.4 activity “forest management” most likely includes significant, non-anthropogenic fluxes. The

distribution of managed forest lands in Russia can be seen in Figure 2 above.

In coming years, Russia planning to increase the rate of harvest compared to the relatively stable harvest rate over the last 10 years, and lower than the 1990 level due to the economic decline post-1990. For this reason, Russia supports the **bar-to-zero** approach to accounting for emissions from forest management, which would allow countries to not account for emissions from forest management until this sector switches into a net source of emissions. Further, Russia supports the **projected baseline option**, which would allow Russia to factor more intensive management into its baseline, not seen in the purely historical baseline.

It is questionable whether the planned increase in the harvest will actually take place. Moreover, the natural variation in growing rates and fires (and the non-exactness of monitoring) have the greatest impact on the annual, reported emissions and sequestrations, rather than human activities. However, the growth of economic activity in the

5 See Figure 7.5, “Национальный Доклад”, submitted 14.05.09, pp. 182.

forest sector is a central position of the government and the Premier, and for this reason Russia can be expected to insist on accounting approaches which would allow them to “hide” the expected increased emissions.

It must be made clear that caps and discounts are a factor of the uncertainty of measuring, reporting and verifying emissions from the LULUCF sector. Though there is some ground to give Russia a degree of flexibility in choosing its LULUCF base period, projected baselines and the “bar-to-zero” represent large potential loopholes, and should be avoided. Countries should be aware of the very high-level attention to the sinks issue; in November, Putin labeled this issue one of the two key demands of the Russian position, stating ‘Russia will insist on full accounting for the ability of Russia, Russian forests to sequester carbon dioxide, which wasn’t done, in our view, to the necessary extent in the framework of the Kyoto Protocol’.

### **Recent developments and domestic debate**

Given the slow development of the position, it seems there is very limited interest in the climate issue in the top Russian leadership. Prime Minister Putin seems reluctant to discuss climate change due to the negative experience with the unofficial deal to swap Kyoto ratification in return for support for Russian WTO membership. Vice premiers are reluctant to cross Putin and also some of them were involved in the WTO swap; they are hence reluctant to return to the climate issue.

The Ministry of Foreign Affairs deals with the climate issue at the international level, and the lack of a well-developed mandate hinders their task. The ministry is currently drafting a decision for the government to discuss at late date. The Ministry of Economic Development is involved in developing the position as well as mitigation measures; it is, however, waiting for top-level interest. The recent approval of new Russian Joint Implementation procedures led by this ministry is perhaps a positive signal from Prime Minister Putin. The Ministry of Natural Resources has called for a more detailed position for Russia, but is not directly involved in the preparation of the draft position. The Presidential administration is yet to directly participate in the

recent debate.

Recently, vice minister of economy Andrey Klepaz stated in the press that the costs of the Kyoto Protocol to the Russian economy would reach 2% of GDP. This statement is very similar to those of the former presidential advisor Andrey Illarionov during the heated Russian debate on the ratification of the Kyoto Protocol. Some Russian experts consider such developments as signs of a potential new campaign against the climate issue; others, however, disagree that this could be concerted campaign by factions within the government.

### **Conclusion and recommendations**

At the highest level of the Russian administration there is little motivation to actively engage in the Copenhagen talks; these may be high-stakes for the global community, but it is difficult to see whether this international focus will trigger more interest in Russia too. Hence it is a challenge to foresee how the Russian position will develop, and how Russia will act in the end-game at Copenhagen.

#### *Scenario 1: The Unacceptable Status Quo*

Russia’s current target is likely to generate a further surplus of AAUs. This, potentially coupled with the carry-over of the Kyoto surplus and unlimited windfall credits from the forest sector, would give Russia a free ride and undermine the environmental integrity of the Copenhagen deal. For this reason, countries should engage Russia for a stronger position on 1) Russia’s target and the ‘Copenhagen surplus’ it would generate; 2) the Kyoto surplus and 3) LULUCF accounting rules.

#### *Scenario 2: Engagement and Trading*

In order to have a bottom line to negotiate from, countries need to define an acceptable minimum contribution for Russia. For example, Russia should not benefit from two loose caps in succession: either the Kyoto surplus must be cancelled, or the Copenhagen cap must be tightened. Within the climate agreement, elements could be traded in order to find a stronger balance. For example, maintaining the status of transition economies is a key Russian position, especially given its desire to play a

regional leadership role. This could be a high-stakes bargaining chip, as losing this distinction would mean a loss of face for Russia. 'Soft swaps' external to the Copenhagen agreement could also be important; links could be formed, for example, to energy sector cooperation, for instance on energy efficiency. Prompt engagement on President Medvedev's proposal for an energy treaty between Russia and the EU, instead of the Energy Charter, which Russia will not ratify, could also be a potential trade. This issue may erupt again given the risk of the Ukraine again deferring on gas payments in January next year, as Putin has warned. Given the lack of negotiating mandate, it is necessary for high level officials, e.g. President Medvedev, to travel to Copenhagen to take decisions on the crunch issues. Other world leaders may need to extend the invitation.

### *Scenario 3: Blocking and Swapping*

Russia's starting point is not to link issues strategically, but rather to assert influence and confirm positions of principle. This could make it hard to 'trade' elements within the deal, as each has its own, almost 'ideological' significance for Russia.

How to deal with a scenario in which Russia blocks depends on how far it has moved from the status quo. If Russia has strengthened its position, it may be appropriate to bargain using elements external to the Copenhagen agreement. However, this is potentially a risky approach, given the painful memories of the 'unreciprocated' Kyoto-WTO swap in the Kremlin. Options could include for instance longer-term gas contracts between Russia and the EU, or relaxed visa procedures for the Russian citizens to enter the EU.

It is understood in Moscow that non-participation in the Copenhagen agreement could lead to exclusion from global decision-making on climate issues, with consequences for the global energy market. Furthermore, Russia may miss future opportunities to participate and benefit from joint technology development, as already initiated, for example, by the MEF. Russia's very strong desire not to be marginalized on the world stage suggests that countries could adopt a hard-line stance vis-à-vis Russia if it has not moved from an unacceptable status quo position which threatens the strength of the post-2012 regime. Given Russia's huge surplus of emissions allowances and the likelihood that BAU emissions will be lower than Moscow's 2020

pledge in any case, this time round there may be little environmental reason to weaken the regime in order to secure Russian participation. Concerning, for example, the carry-over of Kyoto units, if Copenhagen talks have to be extended beyond 2009, the interim decision in December should recognize the need to address such issues at a later date.

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