

"Greening of Policies": Perspectives in Russia

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ABSTRACT

During several years when the KP entry into force became dependent on its ratification by Russia, its prospects became more and more dismal. The gloomy situation can be changed through the compromise reached at the EU-Russia summit (Moscow, May 2004). The Russian press perceived its results as "a deal": the EU supports Russia's joining WTO in exchange for the KP ratification. The mechanism that the EU and Russia found turned out to be efficient, and it helped to achieve the key environmental goals. These goals were achieved through integration of instruments of foreign economic (trade) policy and environmental policy. A question arises whether this mechanism could be used for the solution of other environmental problems, both domestic and international. The ratification of KP is only one item in the long list of problems of Russia's environmental policy. Currently, the high priority of the Russian state is acceleration of economic growth, and environmental policy becomes subordinate to this goal. When the efforts of the most politicians are focused on economic growth, while they perceive environmental institutions (especially in the situation of the flourishing corruption) as obstacles to this growth, it is essential to figure out: (1) to what extent the *greening of policies* could be efficient in terms of rehabilitation of Russia's environmental policy; (2) in what sectors of environmental policy does it have chances for an efficient application, and (3) how the cooperation with the world community (with the EU) could provide to the solution of these problems.

1. The KP Ratification: a Success of the "Greening of Policies"?

During several years when the KP entry into force became dependent on its ratification by Russia, its prospects became more and more dismal. The gloomy situation can be changed through the compromise reached at the EU-Russia summit (Moscow, May 2004). The Russian press perceived its results as "a deal": the EU supports Russia's joining WTO in exchange for the Kyoto Protocol ratification. And, indeed, first, the lower, and after that the upper chamber of Russia's Federal Assembly ratified the Kyoto Protocol. On November 5, 2004, President Putin signed the Federal Law "On Ratifying the Kyoto Protocol to the UN Framework Convention on Climate Change"². Thus, the long history of the KP ratification in Russia came to an end and now the way was paved for its enforcement.

It is possible to put a full stop here and never return to the complex and convoluted story of the KP ratification in Russia that was so rich in unexpected twists and events. However, in this case it makes sense to return to it. The mechanism that the EU and Russia found turned out to be efficient, and it helped to achieve the key environmental goals. Moreover, these goals were achieved through integration of instruments of foreign economic (trade) policy and environmental policy. Thus, the problem of the KP ratification that many believed to be insoluble was resolved. A question arises whether this mechanism

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² Kommersant 2004, November 6

could be used for the solution of other environmental problems, both domestic and international. To this end it is necessary to answer a whole series of questions:

- what is the essence of this mechanism?
- what is the basis of its efficiency?
- what are its advantages and disadvantages?
- what is the structure of mechanisms for coordinating the parties' interests?
- what are the compliance and confidence mechanisms?

2. Agreements Structure

Conjunction. From the very beginning each party linked the benefits obtained by another party to the ensuring of its own benefit: Russia's ratification of the KP was changed for Russia's membership in WTO. This link permitting each party to achieve its desirable goal is the crucial element of the agreement. Meanwhile, the results, which each party seeks, do not coincide. These are totally different goals, but the implementation of one of them is a condition for achieving another since they are combined in a single package. The "greening of policies" objective was not as easy to achieve in this case as it seemed at first glance. First, it envisaged incorporation in this package (with approval of another party) of a very important environmental goal which implementation until now was impossible without the consent of the partner to the agreement. Second, it was necessary to find a goal to be incorporated into this package which implementation would be highly desirable for the partner to the agreement. Third, it was necessary to make the implementation of this goal completely dependent on the solution of the environmental problem by the partner that was not particularly inclined to do so up to now. Certainly, this mutual play on environmental and, simultaneously, economic interests required considerable diplomatic finesse from the parties, negotiating and bluffing skills, as well as patience and self-control before it could result in a compromise and "goal swap".

Mechanisms of interests balancing. Both Russia and the EU demonstrated that they had not only different, but common interests as well, and that they were capable of finding ways to realize them. One of the elements of the balancing mechanism is that the interests of the parties participating in this kind of deal are not of equal importance to each of them. By taking part in such a deal each participant exchanges less important interests for more important ones (of course in his own priorities scale), and thus both parties benefit. Hence, the ratification deal was not a zero-sum game where one participant gains a benefit at the expense of the other. Differences in the list of priorities between the EC and Russia are not surprising. An asymmetry in the evaluation of interests is rooted in the fact that Russia finds itself in a completely different situation than the EC. Its institutional structures are not yet completely reformed, the

country is still at the stage of transition, and it lags far behind the EC in terms of its level of development. Therefore, while pursuing its own interests in the deal, each party did not intrude upon the interests of its counterpart.

Russia's interests. Russia agreed to ratify the Kyoto Protocol not for environmental considerations, and not for considerations of economic benefits connected with the use of the flexibility mechanisms. Therefore, it is hardly possible to claim that the KP ratification is an organic element of Russia's climate policy.³ The ratification decision was a political, rather than an environmental decision and it was adopted primarily for the following reasons: (1) WTO membership will ensure a significant acceleration of economic growth in Russia⁴. Acceleration of economic growth and fight with poverty are the key priorities of the contemporary Russia's economic and social policy. (2) The membership in the WTO will entrench the transformation of institutions that were established in the 1990s-2000s. The entry would allow to embed these economic structures into a competitive space provided by the WTO, and to oust the corrupt and monopolistic structures from domestic economic sectors. Therefore, Russia's leadership ties in the solution of the country's crucial problems with the WTO membership, and, therefore, benefits generated by the WTO membership, in its view, outweigh by far possible costs connected with the KP implementation. Here, the subjective assessment of the WTO membership by the Russian partners is important at the stage of signing the informal agreement, though ultimately this step might result in consequences that it did not forecast.

An informal agreement. The Summit documents do not contain any formal obligations for Russia to ratify the KP. President Putin mentioned that there were no links between conditions for Russia's entry into the WTO and its promise to ratify the protocol: "We do not tie up the WTO and the Kyoto Protocol"⁵. According to the press the EU was insisting upon including ratification of the KP in the official Summit agenda, but Russia objected. Nevertheless, the signal on ratifying the KP linked with WTO entry for Russia came just from Russia's president: "The EU has met us halfway in talks over the WTO and that cannot but affect positively our position on the Kyoto Protocol."⁶

While the EC-Russia agreement was informal, it did not leave the behavior of the partners completely at their own discretion. It placed the ratification process within the institutional framework in terms of the achievement of the positive result by linking Russia's WTO membership to a completely clear condition, i.e. the KP ratification (and *vice versa*). It largely predetermined, in particular, the energetic dynamics of the KP ratification process afterwards.

³ V.Kotov. Policy in Transition: New Framework for Russia's Climate Policy. Fondazione Eni Enrico Mattei. Economics Energy Environment. Nota di lavoro 58.2002

⁴ According to the recommendations of Russia's economists, the integration into a wider economic space could be the main way of speeding up economic growth.

⁵ Vremja Novoste ,2004, May 24; Kommersant,2004, May 22.

⁶ Izvestia 2004, May 22.

Compliance. The issue of the actual compliance with commitments still remains unclear up to now since an outside observer does not have a full awareness of their volume assumed by each party. Though, as far as Russia is concerned, it is possible to state with a large degree of certainty that it fulfilled its obligations under the informal agreement with the EU by ratifying the KP. As far as the EU's compliance with its commitments towards Russia is concerned, everything depends on what they envisaged under the informal agreement. It is one thing if they were limited only by the issues that were outlined in the protocol on coordination of the conditions for Russia's accession to the WTO that was signed during the May Summit. If these commitments were broader and concerned a wider range of issues then the problem of compliance assumes a different context. Russia has not yet joined the WTO and it has to overcome numerous obstacles on its way. In particular, according to Russia's mass media, one of the countries that recently joined the EC stated that it would never permit Russia to become member of the WTO⁷. In this context, the issue of the mechanisms ensuring compliance with commitments of the parties to the agreement assumes particular significance.

Uncertainties and risks as a performance mechanism. There are some circumstances that might press the partners of the deal to artificially maintain some uncertainties. First of all there is no way to ensure 100 percent certainty in the outcome of performance process. The behavior of the partners is predefined by the technical specifics in the performance of the deal - within this game the cards being played by the partners remain valid and are able to be used only while a certain level of uncertainty in the actions of each is preserved. Application of such strategies can be clearly documented in the parties' behavior during recent years of negotiations on KP ratification. The EU had been repeatedly promising its support for Russia's entry into the WTO, along with exaggerated demands conditioning such entry. In turn, Russia has repeatedly promised to ratify the Kyoto Protocol in the near future, but simultaneously made public the results of scientific symposiums, where scholars of the Russian Academy of Sciences presented their arguments against ratification. It would not be correct, however, to assess playing such games by both parties as a desire to break the deal; rather, it can be regarded as technical means for realization of the agreement. It is important, to promote bilateral control over the performance process in order not to cause unnecessary turbulence and to exclude inadequate reactions from each party. Additional risks might be caused by a desire to attach a number of unresolved issues to the already agreed deal.⁸ It seems that after KP ratification Russia has lost the most effective instruments of compliance enforcement. At the same time, Russia has not yet completed its WTO negotiations with such partners as the United States, Brazil, and Japan. The prospect of remaining only in the KP but outside of the WTO can raise a question of confidence in the implementation mechanism for this agreement.

⁷ Izvestia 2004, September 6; Rossijskaja gazeta, 2004, July 17.

⁸ Indeed, some newspapers in Russia interpret the deal between the European Union and Russia as a package that also includes solving the transit problem in Kaliningrad, relaxation of the EU visa regime for Russian citizens, etc. The same situation might be developing within the unfinished negotiations on Russia's entry to the WTO. Более подробно смотри об этом "The EU – Russia Ratification Deal: The Risks and Advantages of an Informal Agreement". International Review for Environmental Strategies - IRES, Vol.5, N1 2004

3. "Greening of Policies": Further Prospects in Russia

Successful application of a particular instrument in the past is not a guarantee that its performance in the future would result in similar outcomes. The success with the Kyoto protocol ratification, undoubtedly, attracted a lot of attention and sympathies. However, it does not exclude, and on the contrary presupposes the scrupulous control over its adequate implementation in the future. As to Russia, where development of this mechanism has been so successful so far, its further application in this country would be highly dependent on those institutional, political and economic frameworks within which it would be realized. It will be defined by (1) those development strategies that would be applied by the Russian authorities within a mid-term perspective; (2) by the preferences of the Russian society; (3) by future formation of relations between the EU and Russia, by their general atmosphere and possibilities of confidence building; (4) by organizational context for establishing and realization of the new package agreement (in case the process develops up to such stage).⁹

3.1. Environmental Dimensions of Russia's Development Strategy

Russia's Development Strategy. The strategy of Russia's development that the administration of the President who was elected for his second term in 2004 boils down to the following:

1. The *acceleration of economic growth* has the top priority. More specifically, this objective was formulated as the goal of doubling GDP within 10 years. It proceeds from the assumption that the average annual growth rate during the decade should be at least 7%. Certain unclear aspects remain that regrettably were not officially clarified (for example, what year should be considered as the beginning of this decade).
2. The goal of accelerating economic growth in the development strategy does not exist by itself; it is linked to the solution of a specific social objective, i.e. *fight with poverty*. The task is to halve the proportion of the population, which lives below the subsistence level.
3. One of the key tasks of the economic policy formulated by Russia's leadership is the *radical change in economic structure* aimed at reducing its dependence on export of fuel and raw materials. Simultaneously, it is planned to increase the share of manufacturing industries and high technologies in both GDP and exports.
4. To this end, it is planned *to continue the radical reforms of Russia's tax system*, in particular, to drastically reduce taxation of high technology companies, and to shift the main fiscal burden to fuel and raw materials sectors that appropriate natural rent.
5. During the first round of fiscal reforms, a flat income tax rate, moreover, at a very low rate of 13%, was introduced in Russia. Currently, value-added tax and social tax of enterprises are being reduced. However, it is not possible to state that these measures were aimed at changing the

⁹ Данный анализ ограничен российскими рамками

sectoral structure of the economy. Their main objective was *to make the economy move out of the shade*, which is one of the key priorities of the current administration. The introduction of the flat income tax rate produced a significant result.

6. Changes in the fiscal system were supplemented by a series of measures aimed at *de-bureaucratization and deregulation*. This policy is still being pursued. In particular, the number of licensed types of activities is consistently being reduced; limitations are introduced in terms of the number of inspections that an enterprise can undergo during a certain period of time, etc.

7. This part of highly significant institutional changes is dictated by the necessity *to fight with corruption* that is one of the key concerns of the present administration. In addition to de-bureaucratization and deregulation measures, *administrative and judicial reforms* are the most important means of achieving this goal; however, their positive outcome is still in question.

8. If all the above-mentioned measures are successfully implemented Russia will be able *to improve its competitiveness*. Recently, the government has been particularly actively discussing the implementation of this goal. The solution of this objective assumes increasingly greater importance. However, an impression is frequently created that competitiveness is understood primarily as the ability to attract foreign direct investments that should simultaneously bring new technologies into the country.

Environmental Priorities. What is the role of environmental priorities within this strategy? What correcting impacts do they have both upon formulation of development goals and upon their realisation? The answer to these questions in the context of environmental interests performance looks as not comforting. Nowadays, in Russia, ecological goals are largely subordinated to realisation of other priorities, and particularly to the economic development goals. The reason is in a number of important circumstances. One of them is that the structure of the priorities formed within contemporary Russian society has some specific features that seem to be different from those typical in the West. Its key characteristics is the low ranking given to ecological concerns. The last elections to the State Duma¹⁰ once again highlighted the miserable situation with public awareness of environmental problems. The political parties that paid top-priority attention to environmental problems won a very small percentage of votes.¹¹ In contrast to the end of the Soviet era in the late 1980s - particularly right after the Chernobyl nuclear power plant disaster - the significance of environmental problems in the public mind has declined drastically. In the last election the problems of poverty and economic growth, rather than the environment, were the top-priority problems for the Russian public, although the state of the environment is very poor. President Putin's 2004 election platform focused on the fight against poverty and on economic growth, and his presidential address (already after he was elected) to the Federal Assembly focused again mainly on these same two issues.

¹⁰ December 2003

¹¹ The ecological party, named Kedr, received less than 0.5 percent of votes during the parliamentary elections and it failed to get elected into the Duma.

Targets Conflict. Thus, the fact that environmental mechanisms are not performing as instruments for correction and modification of economic interests and goals that environmental policy appeared to be subordinated to economic policy and to administrative policy, that it is not able today to interact with them at equal terms is a result of processes underway in parallel at two different levels. First, the development strategy has been designed in such a way that environmental component was excluded from a set of those fundamental factors which define the national development at the current period. Second, the population of Russia did not counteract to such approach: being primarily involved in problem-solving of its survival it did not pay adequate attention to ecological concerns which had been of the utmost importance

However, it might be unfair to blame in this particular case the Russian public and the government in their malicious intent against the Russian nature. This situation was rooted to a high extent in the conflict of goals: the population had to select between the ecological priorities and survival, while the government – between the counteraction to a shadow economy and corruption (under increase of administrative pressures on economy for reanimation of environmental protection mechanisms) and a course towards debureaucratisation and deregulation, which according to the governmental experts had to lead to the exit of national economy from shadow and to a decline of corruption. As it is known, the priority was given to dealing with corruption and shadow economy that appeared to be abundant, but at the same time the evil that could be suppressed. However, policy-makers were failing to seek the answer on how to reanimate the instruments of environmental governance and simultaneously not to turn this sector into a breeding-ground of corruption. It means, that today Russia is in a sharp need of new ideas and approaches, of new concepts for sustainable development.

3.2. The EU-Russia Joint Organizational Framework for “Greening of Policies”?

EU-Russia interests. The analysis of the factors that could fundamentally affect the use of “greening of policies” mechanisms in the EU-Russia relations indicates that these instruments could find the application to the mutual advantage of both parties. It became clear 20-30 years ago that without Russia's involvement it would be impossible to resolve many environmental problems of Europe and worldwide environmental problems as well. Both the UN FCCC and the Kyoto Protocol are not the only international environmental agreements in which Russia is currently involved. Already in the 20th century, Russia's participation in the agreement on transboundary air pollution, in Montreal protocol on ozone, in London Dumping Convention, in Convention on Biodiversity, etc. was important for Europe. But at that time Russia was still located at a considerable distance from the EU. Today, the EU directly borders on Russia. Presumably, the interest of the EU in the positive solution of the numerous environmental problems that Russia currently faces did not become any weaker because of it. And “Greening of policies” might become the mechanisms, which is able to solve some of these problems.

“Common European Areas”. The Summit EU-Russia had to be held in November 2004. However, it was postponed.¹² It was expected that agreements which would activate the so-called “four common areas” would be signed at this Summit, and it would “signify initiation of the new stage in development of relations between parties”.¹³ But, the Summit did not take place and transition “to a new phase of relations” was postponed again. Shift from mega-projects to “small focused projects with a clear structure and well defined implementation timelines” was expected as well.¹⁴ Environmental projects aimed at transboundary air pollution mitigation could be among them (in the northern latitudes the East-West air flows prevail and the EU northern states suffer from SO₂ transborder flows originating at Norilsk Nickel plants). Expectations are also linked to cooperation prospects between the EU and Russia in forest protection, in biodiversity conservation, in environmental protection technologies, in the Kyoto protocol implementation, and in water protection.

In the 1990s Russia had imported from the EU the models of environmental institutions to be implemented in this country. Thus, continuation of joint efforts in this domain will be logical. However, in 2000s stronger accents could be made on adaptation of imported models to the Russian conditions. Achieving through the joint efforts of such important goal as ratification of the Kyoto protocol indicated at significant potential of “greening of policies” mechanisms in Russia. Currently, one of the important targets is release of the Russian environmental policy from the press of economic policy and shifting to equal interaction between these two types of policies. “Greening of policies” mechanism has a potential to solve this problem.

Barriers in Russia. Opponents of the greening of policies and WTO in Russia have been emphasizing that they lead to economic disadvantages for the country and thus should be rejected. The “Greening” and the WTO opposition, particularly from potential sectoral losers - including, for example, automobile manufacturing, which involves a huge number of workers, and the insurance sector with its considerable capital - and especially if supplemented by a consolidation of efforts of entrepreneurs, regions, and trade unions, might try to block Russia’s entry into the WTO, its cooperation with EU and greening performance. In this case the entry into WTO and the “greening of policies” might be not “a problem of today”. However, if by rejecting of greening they block at the same time Russia’s cooperation with the EU along with its economic benefits, they also can turn into opponents of the position of Putin. If they enter into a conflict on the issue, which is of high importance on the president’s priorities scale, it might result in them losing most of their influence. For bureaucrats in the government service such tactics become risky. Hence, cooperation with the EU in the framework of “greening of policies” is able to consolidate the positions of supporters of the more effective role of environmental policy in Russia.

Administrative reform and a number of political reforms that are now being elaborated have created uncertainties in environmental governance in Russia. Certainly, that resulted in a number of inconveniences for Russia’s partners in the EU. However, it was counterbalanced by the EU enlargement,

¹² Till December 2004

¹³ “Rossijskaja Gazeta”, 20.10.2004

¹⁴ “Rossijskaja Gazeta”, 02.09.2004

which was accompanied by quite turbulent processes similarly creating inconveniences to Russia's partners.