

# Border carbon adjustment mechanism: implications for Russia



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# CBAM: Uncertainties

- For what?
  - coping with carbon leakage (protectionism)
  - promoting green development in other countries
- When?
  - probably, in 2022-2023 (pilot sectors)
- What?
  - Sectors (sectors with the largest carbon leakage intensity (trade intensity\*emissions intensity): iron and steel, non-ferrous metals, cement?)
  - Countries (“all third countries which are not yet part of an effective carbon pricing scheme, or equivalent measures with similar goals and costs to those of the EU ETS”)
  - Form (buying allowances at the EU ETS?)
  - Emissions scope (Scope 1?)
  - Part of carbon footprint covered (full emissions or excess over benchmark?)
  - Calculation (for each product or based on the average?)

# CBAM: difficulties

- Real carbon leakage is very small
- There are many opportunities to protect industries affected by carbon leakage
- In order to make CBAM WTO-compatible, it would be necessary to link it with the EU ETS and reform it significantly
- What would be the reaction of other countries? Wouldn't the new trade war start?
- There has been already an attempt to regulate emissions from international aviation – it failed

# Is it protectionism?

- From the perspective of the EU, it's leveling the playing field and coping with free-riding
- Russian official perspective is that it is protectionism and/or political weapon
  
- CBAM would be applied to “all third countries which are not yet part of an effective carbon pricing scheme, or equivalent measures with similar goals and costs to those of the EU ETS”
- Important question in this respect is what would be recognized as “similar goals and costs”

# Estimates of damage to Russian exporters

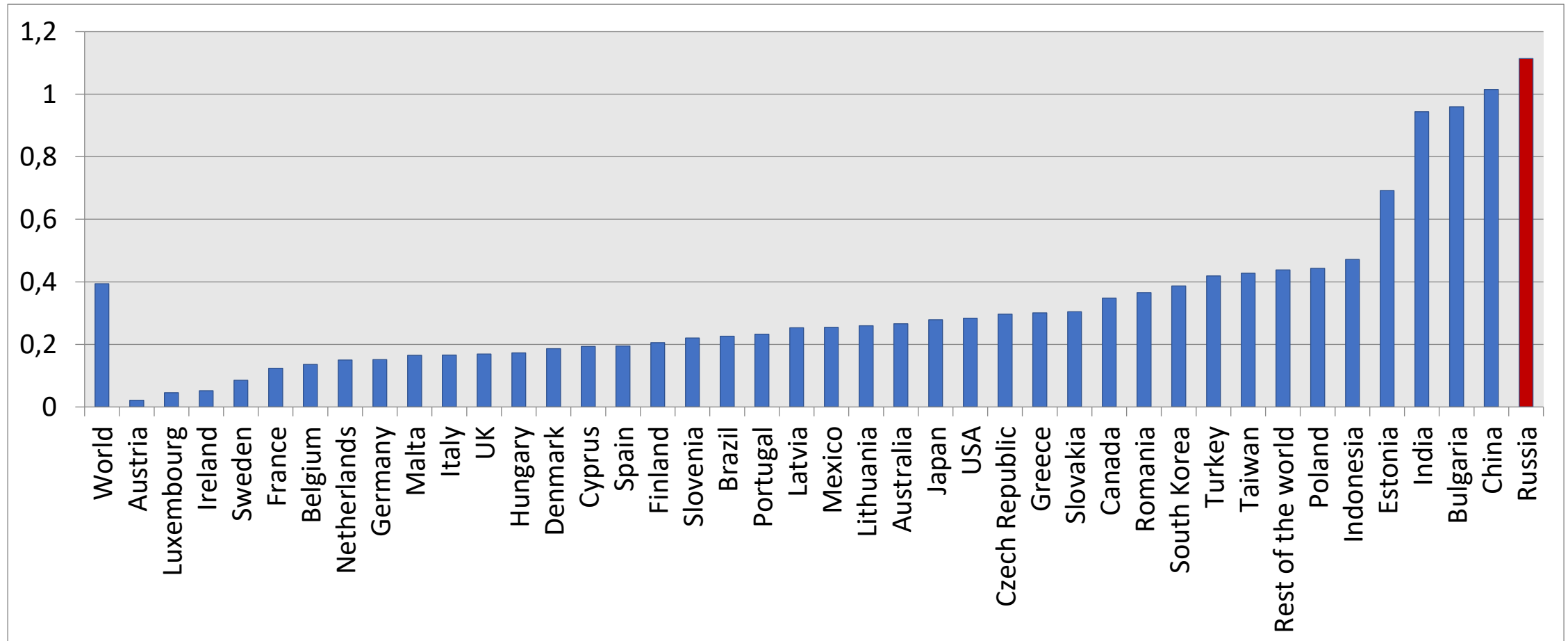
- KPMG:
  - 3 scenarios:
    - pessimistic: 50.6 bn euro in 2022-2030
    - baseline: 33.3 bn euro in 2025-2030
    - optimistic: 6 bn euro in 2028-2030
- BCG:
  - 3-4.8 bn dollars/year, incl.:
    - oil and gas: 1.4-2.5 bn dollars/year
    - metals: 0.4-0.6 bn dollars/year
- Institute of Economic Forecasting of RAS:
  - 3.6 bn euro/year

These estimates are likely to overestimate the damage:

- oil and gas industries are unlikely to be included to CBAM
- re-orientation of exports to other countries would decrease the costs
- some of competing countries are also likely to be affected

# But CBAM is just a part of the story...

Carbon intensity of exports, kg CO<sub>2</sub> per USD



# Potential responses

- Doing nothing and waiting – dangerous
- Hoping for the WTO – irrational optimism and “window dressing”
- Introduction of its own emissions regulation scheme
  - if introduced just to exported goods, it would probably be interpreted as exports duty
  - if introduced to all the goods in affected industries, it would probably be more costly for Russian business than CBAM

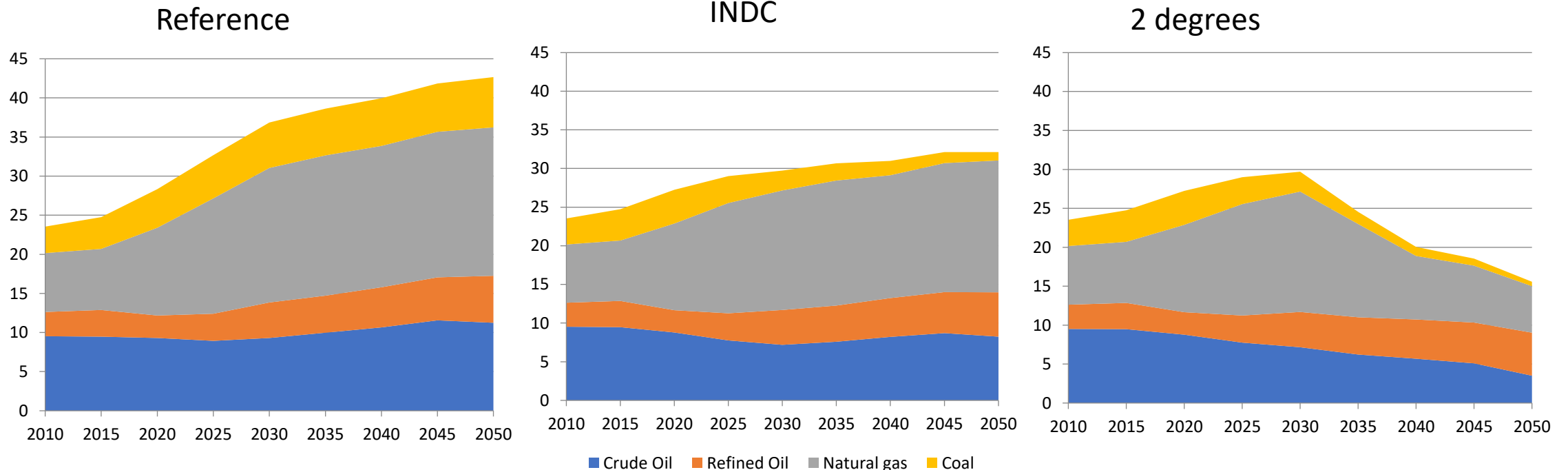
But...

- more costly for business doesn't mean worse for the national economy
- regulation may be introduced in fiscally neutral way
- carbon emissions regulation is much more important for Russian than just a response to CBAM

# Global green transition brings much more risks for Russia than just related to CBAM and these risks should be addressed

In any scenario taking into account Paris Agreement, Russian energy exports in 2030 are 20% lower (in energy terms) relative to the *Reference* scenario. By 2050 the corresponding reduction reaches 25% for *INDC* and 64% for *2 degrees*

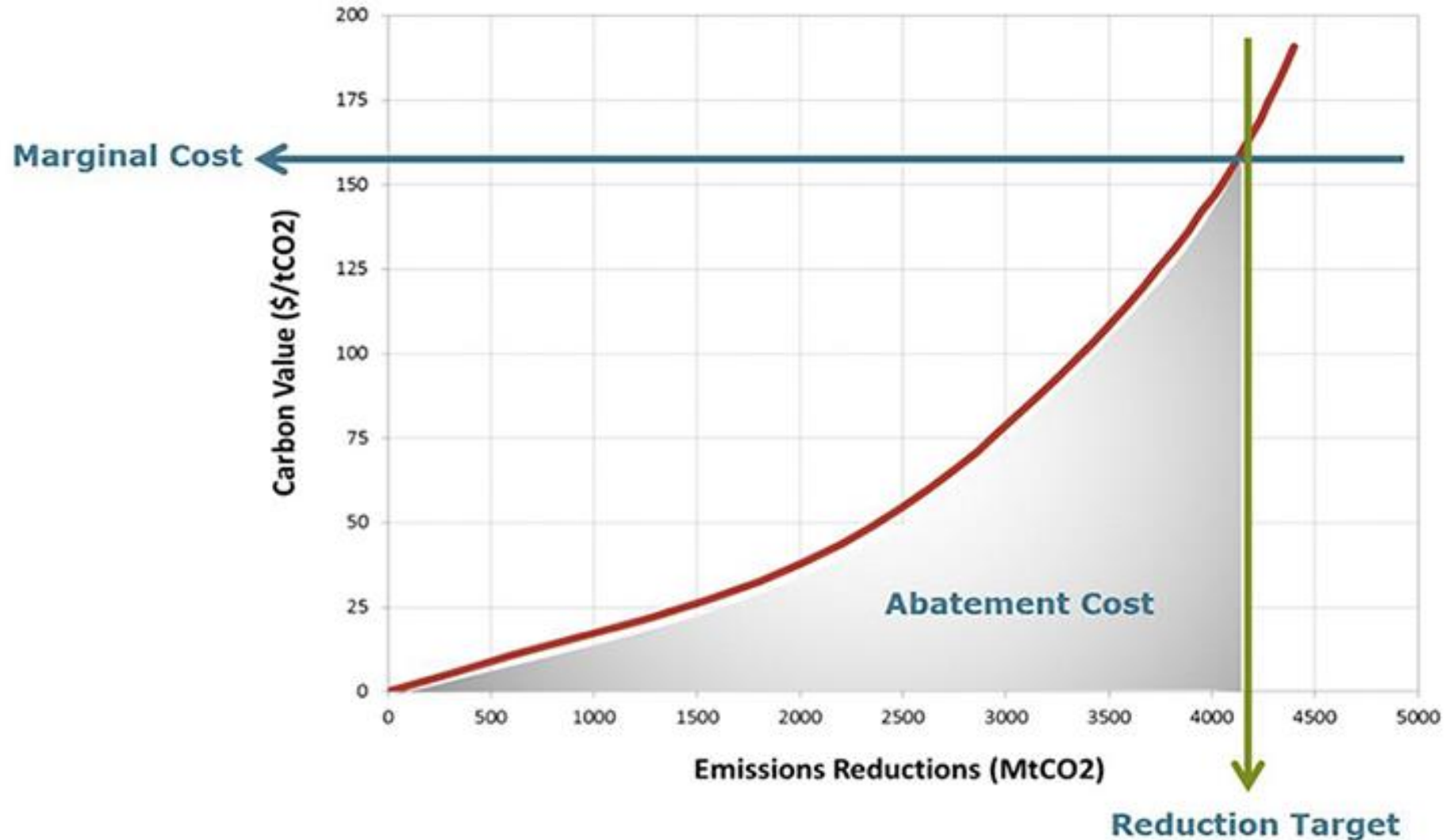
Russia's exports of fossil fuels, EJ



Source: Makarov et al., 2020



Opportunities related to EGD: it is cheaper to reduce emissions in Russia than in the EU



# Opportunities related to EGD: OECD vs BRICS: importers and exporters of emissions embodied in trade

Consumption- and production-based emissions in OECD and BRICS countries in 2015

Country	Production-based emissions		Consumption-based emissions		Net exports of emissions	
	Mt	% of world	Mt	% of world	Mt	% of national emissions
<b>OECD, total</b>	12 204	37.8%	13 781	42.7%	-1 581	-13.0%
<b>Canada</b>	556	1.7%	548	1.7%	10	1.8%
<b>France</b>	312	1.0%	445	1.4%	-132	-42.2%
<b>Germany</b>	766	2.4%	853	2.6%	-85	-11.0%
<b>Italy</b>	347	1.1%	423	1.3%	-76	-21.9%
<b>Japan</b>	1 202	3.7%	1 361	4.2%	-158	-13.2%
<b>Spain</b>	263	0.8%	294	0.9%	-32	-12.2%
<b>Sweden</b>	44	0.1%	70	0.2%	-26	-59.9%
<b>United Kingdom</b>	431	1.3%	576	1.8%	-143	-33.1%
<b>United States</b>	5 020	15.6%	5 795	18.0%	-785	-15.6%

Country	Production-based emissions		Consumption-based emissions		Net exports of emissions	
	Mt	% of world	Mt	% of world	Mt	% of national emissions
<b>BRICS, total</b>	13 688	42.4%	11 853	36.7%	1 841	13.5%
<b>Brazil</b>	461	1.4%	475	1.5%	-13	-2.9%
<b>China</b>	9 281	28.8%	7 978	24.7%	1 309	14.1%
<b>India</b>	2 043	6.3%	1 919	5.9%	124	6.1%
<b>Russia</b>	1 488	4.6%	1 168	3.6%	321	21.6%
<b>South Africa</b>	415	1.3%	314	1.0%	101	24.3%

Source: OECD

# From deal of the century to EU-Russia Green Deal?



1970



2020s?

Thanks for your attention!