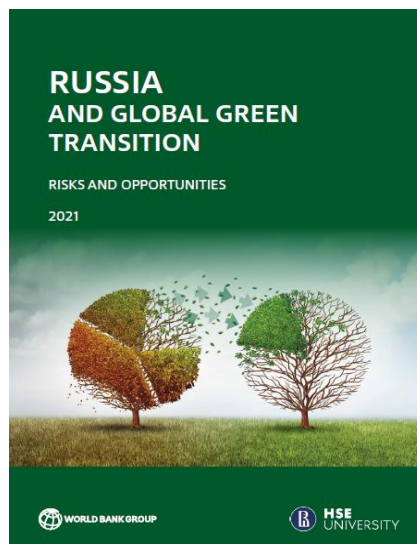


# ***HOW CAN RUSSIA SUCCESSFULLY NAVIGATE GLOBAL GREEN TRANSITION?***



**WORLD BANK GROUP**

Grzegorz Peszko, Lead Economist, ENB World Bank



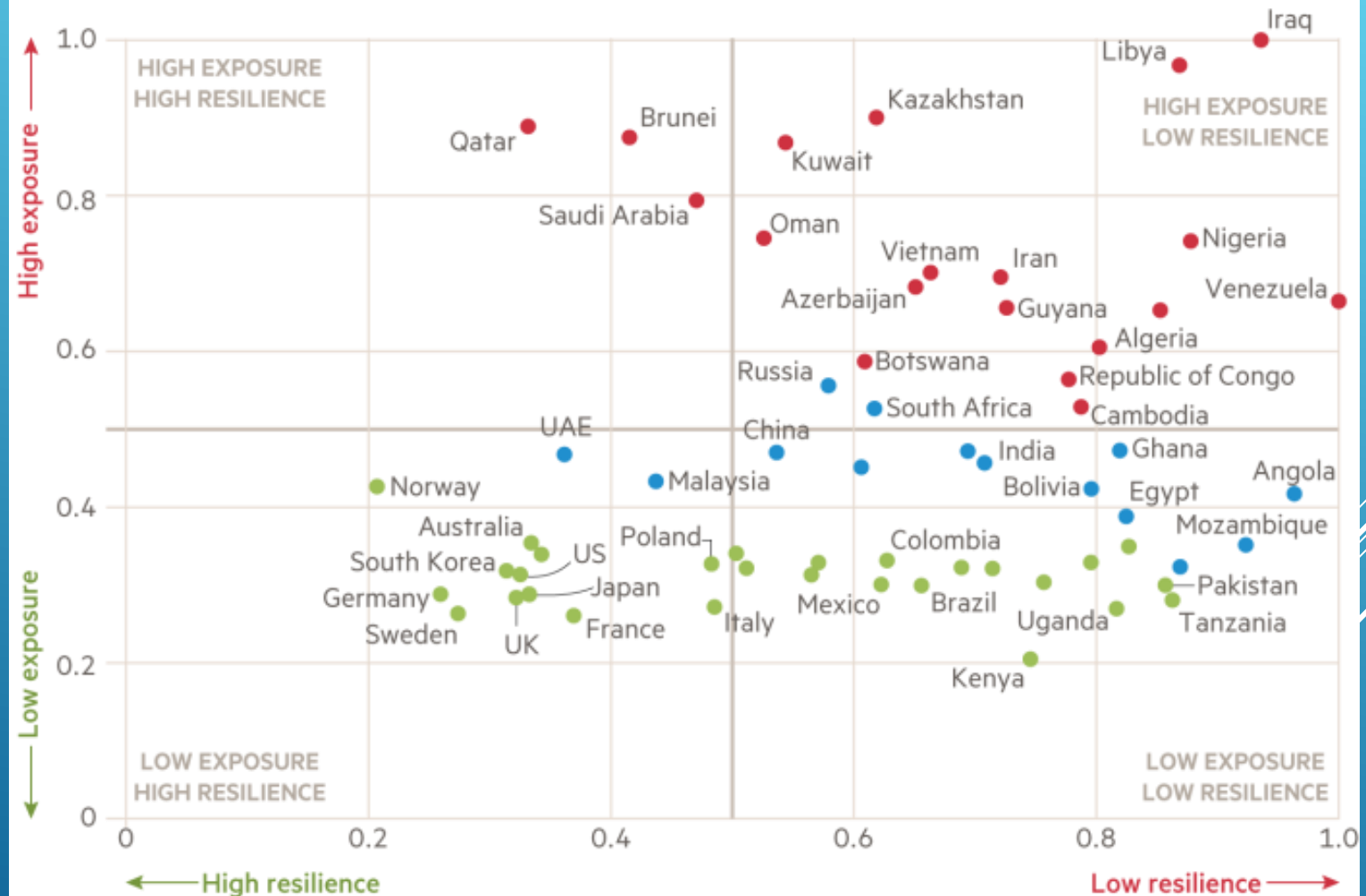
**HSE**  
UNIVERSITY

December 11, 2021

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# RUSSIA IS LESS PREPARED TO MANAGE LOW-CARBON TRANSITION RISKS THAN FUEL IMPORTERS, BUT BETTER THAN MANY EXPORTERS

How prepared are fossil fuel economies for the energy transition?



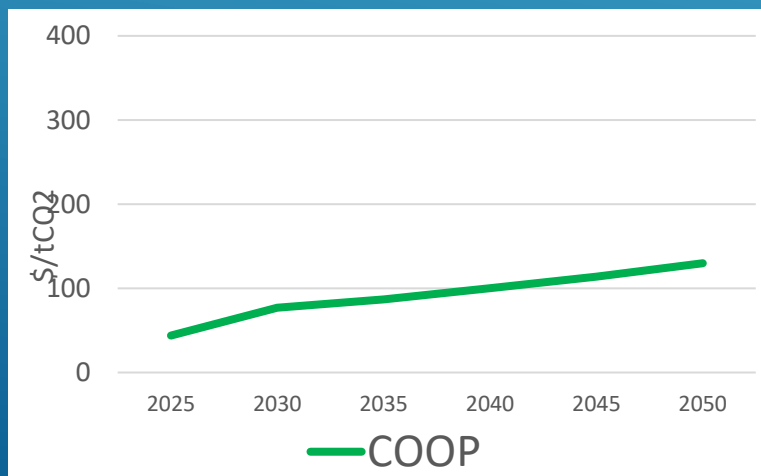
# LONG-TERM STRATEGIES OF CLIMATE CLUBS

## WHAT-IF EXPLORATORY SCENARIOS TO NAVIGATE DEEP UNCERTAINTY

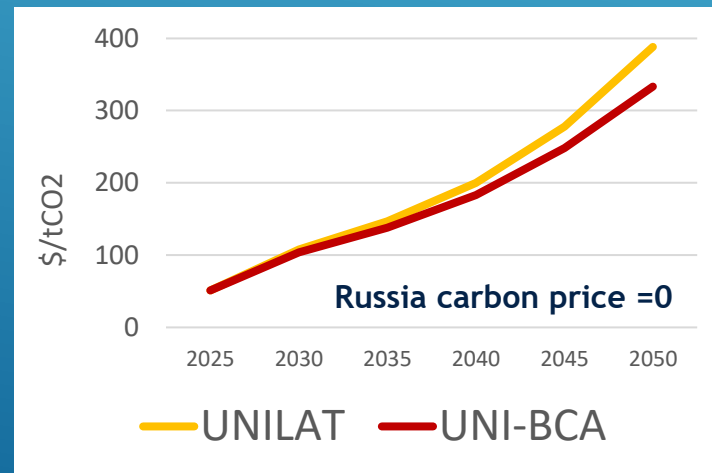
ENVISAGE model version with endogenous oil, gas and coal extraction module

Scenario	Climate policies	Trade policies
<b>BAU (NDC)</b>	BAU with unconditional NDCs	No carbon border adjustment taxes (CBAT)
<b>COOP</b>	Global cooperative carbon taxes	No carbon border adjustment taxes (CBAT)
<b>UNILAT</b>	<ul style="list-style-type: none"><li>Unilateral carbon taxes by climate policy leaders;</li><li>FFDCs freeride</li></ul>	No carbon border adjustment taxes (CBAT)
<b>UNI-BCAT</b>		CBAT on carbon content of import from fossil fuel dependent countries

Cooperative Domestic Carbon Taxes



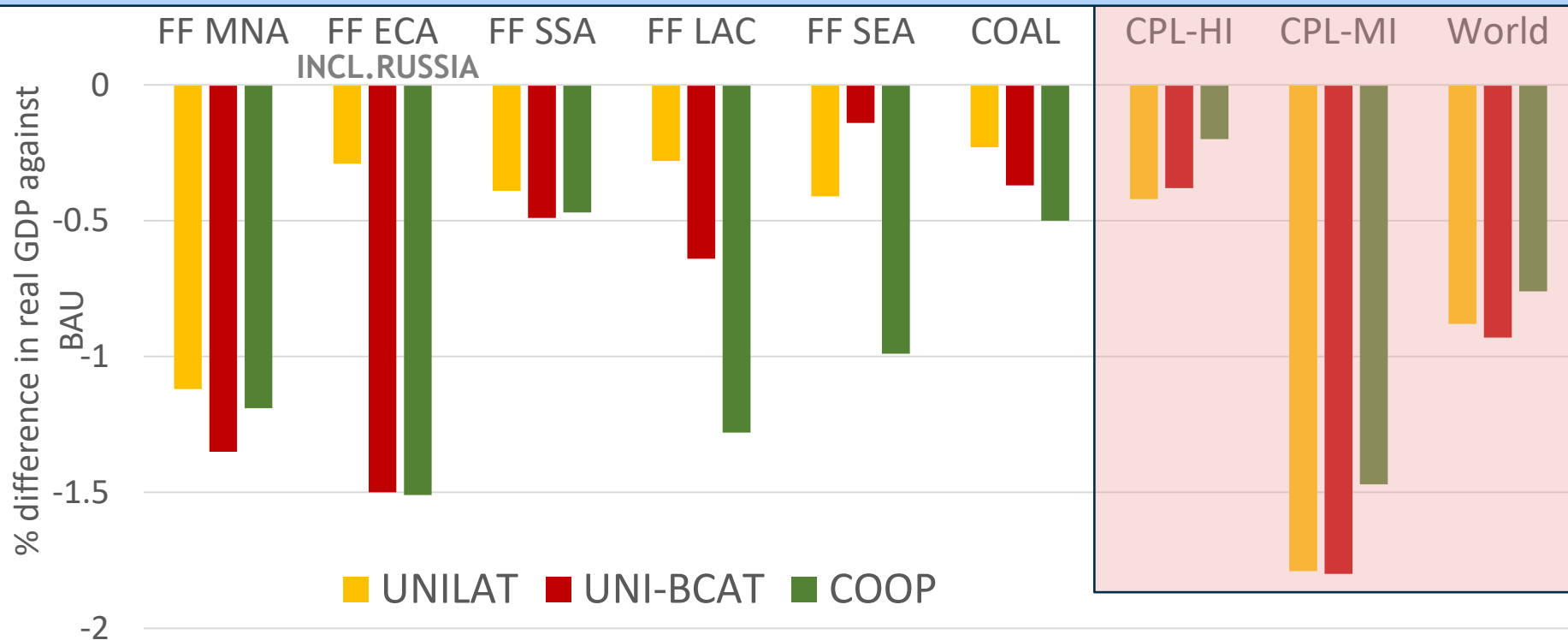
Unilateral Carbon Taxes by CPLs



# CPL CLUB HAS STRATEGIC INCENTIVES TO LEAD ON CLIMATE ACTION AND USE CBAT

MNA, ECA (inc. Russia) and Sub-Saharan Africa most vulnerable to border carbon taxes

**Difference in Real GDP against the BAU Scenario**

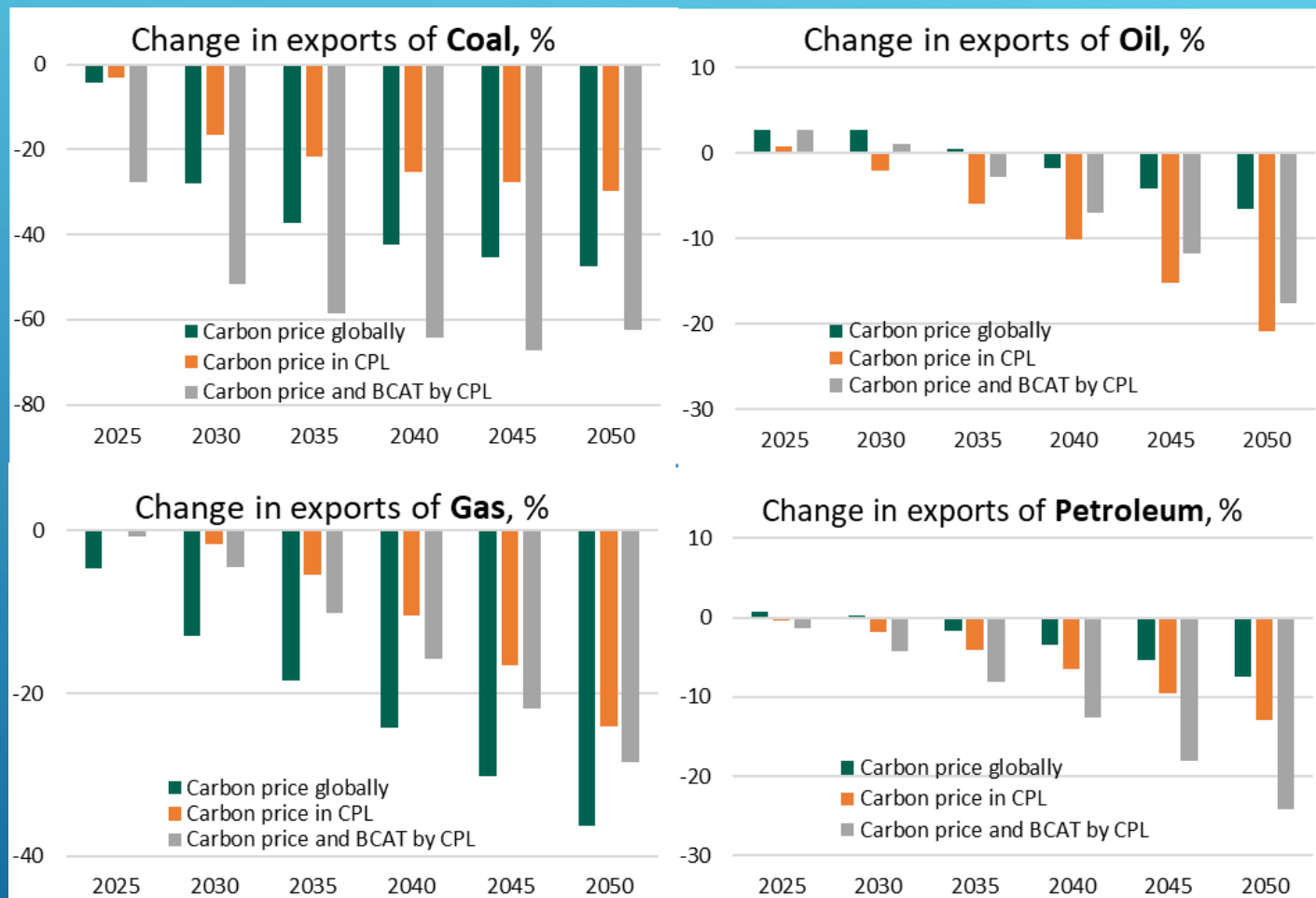


Source: results of World Bank modeling for Low-Carbon Transition, Stranded Fossil Fuel Assets, Border Carbon Adjustments, and International Cooperation, in Changing Wealth of Nations. Forthcoming 2021

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# MEDIUM-TERM RISKS OF GLOBAL DECARBONIZATION: IMPACTS ON RUSSIA'S ENERGY EXPORTS TO 2050

- Reduced global fossil-fuel demand and prices lead to reduced fossil-fuel exports and adversely impact terms of trade.
- Oil producers benefit from cooperative action by Russia, gas & coal could prefer no domestic carbon price.
- Border carbon adjustment (BCAT) by "climate policy leaders" (CPL) increases negative effects.

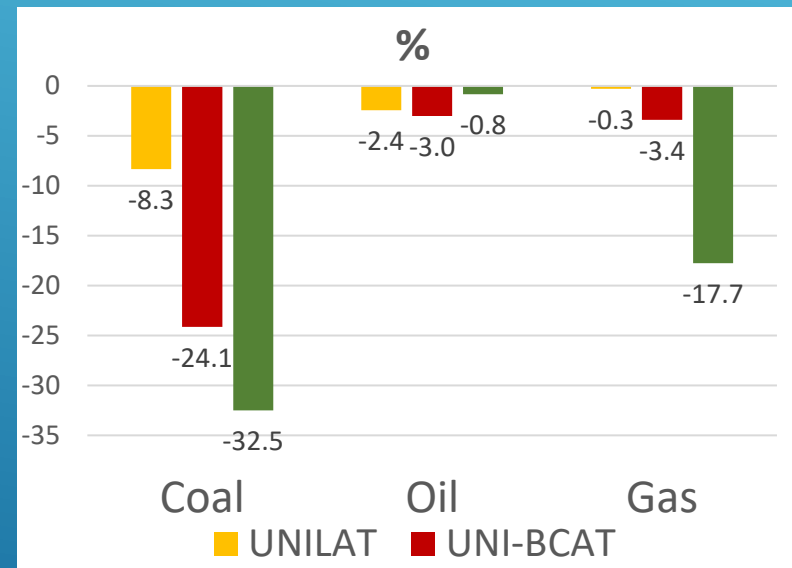
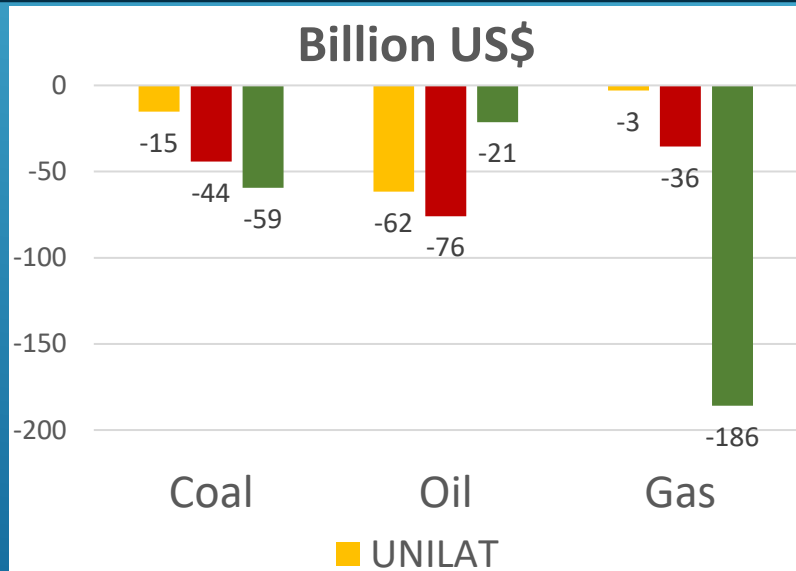


# RUSSIAN OIL RENTS HIGHER WITH DOMESTIC COOPERATIVE CARBON PRICES

## GAS AND COAL RENTS BENEFIT FROM NON-COOPERATION AND EMISSIONS LEAKAGE

- Lower CPL carbon prices in cooperative scenario prolong external demand and prices of Russian oil (no impact on CO<sub>2</sub>)
- External carbon prices lower export revenues, reverse Dutch disease and helps domestic heavy manufacturing
- Leakage of emissions to Russia compensate loss of export revenue by increase of domestic sales

Change in the value of fossil fuel RESERVES relative to reference scenarios, cumulative in 2018-2050



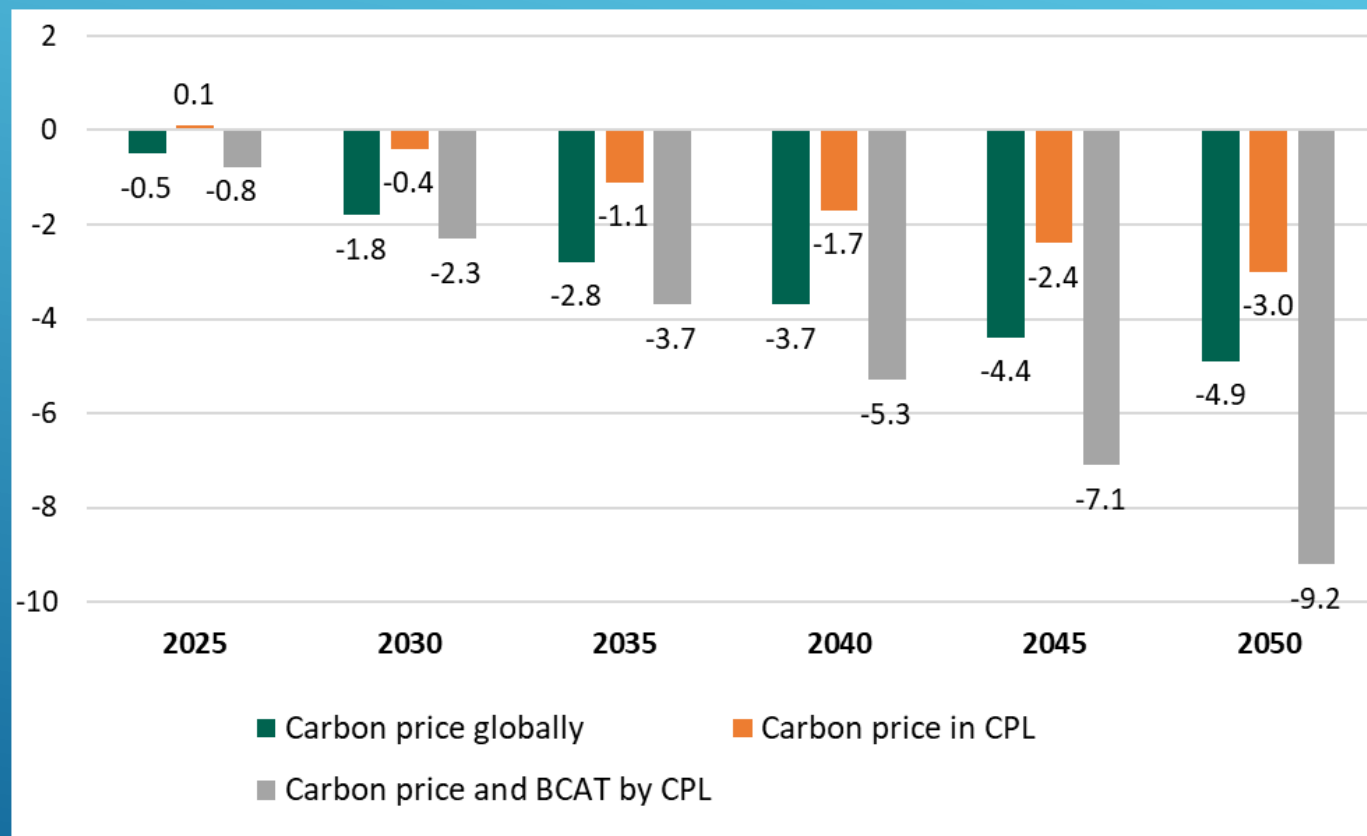
*\*Value of Assets: Discounted sum of expected resource rents (revenues - costs +/- taxes/subsidies) from commercially recoverable reserves over the lifetime of an asset*

# MEDIUM-TERM RISKS OF GLOBAL DECARBONIZATION: BENEFITS OF COOPERATION SCENARIOS FOR RUSSIA

Change in welfare by scenarios, % relative to the baseline level



Given the impacts of BCAT, a better strategy for Russia is to join global climate mitigation efforts to reduce the negative impacts on welfare and GDP.



Source: *Russia and Global Green Transition: Risks and Opportunities*. © World Bank

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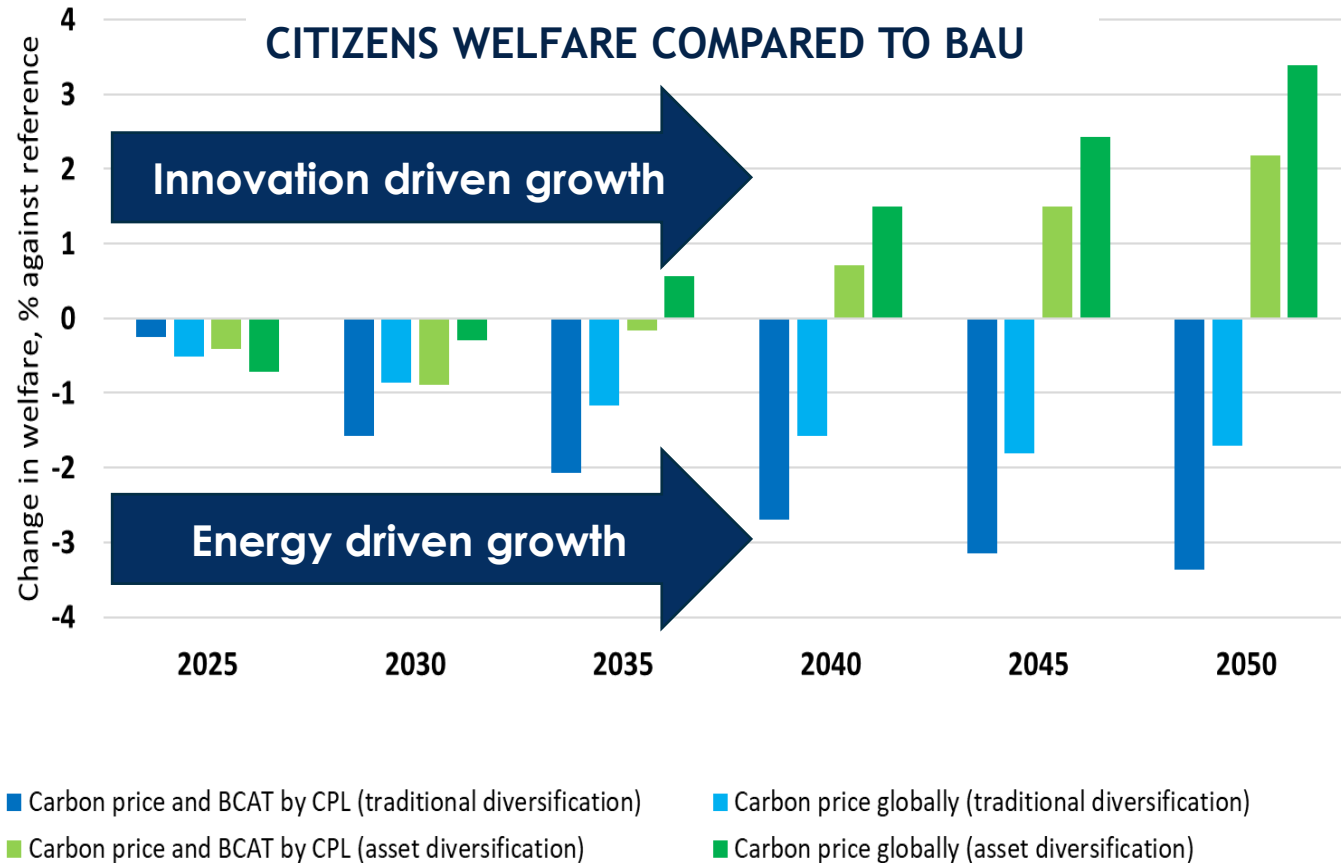
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# ASSET DIVERSIFICATION THROUGH INNOVATION AND HUMAN CAPITAL UNLOCKS PRODUCTIVITY-DRIVEN GROWTH AND IMPROVED WELFARE

...but the social cost of initial transition will need to be addressed

Diversification with fossil fuel subsidies (1% of GDP to subsidize energy-intensive industrial sectors)

Diversification through innovation and knowledge (1% of GDP invested in education, R&D)



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# GREEN TRANSITION POLICIES CAN BE A DRIVER FOR ECONOMIC DIVERSIFICATION AND LONGER-TERM COMPETITIVENESS

Deeper diversification: Beyond hydrocarbon revenues AND beyond carbon-intensive industry and fuel-intensive value chains.

Comprehensive climate policy, with fiscal and pricing reforms at the core to create incentives for firms to invest in green innovation and households to change behavior.

Participation in global efforts to decarbonize economies and reduce GHG emissions – not necessarily carbon markets.

