

Future of Carbon Pricing in Russia: Evidence from the Sakhalin's Emissions Trading System

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Russia and Global Low-carbon Transition

RISKS

Carbon border adjustment: EU CBAM: 3-7% loss in Russian exports to EU by 2035 compared to no-CBAM baseline. Most exposed: chemical products, mineral products, electricity. Loss in GDP – rather negligible.

Reduction in fossil-fuel exports: Under the NDC scenario, climate policies outside Russia would lower Russia's GDP growth rate during the period 2020-2030 by 0.2-0.3 of a p.p.. If global mitigation ambition increases in line with the 2°C trajectory after 2030, this would add almost a half of a percentage point to the decline in Russia's GDP growth rate during the period 2035-2050

Technological + financial risks

OPPORTUNITIES

- Renewable energy generation
- Other low-carbon energy technologies
- Climate-smart mining
- Climate-smart forestry

**CONDITIONAL ON CREATION OF A
SYSTEM OF ECONOMIC
INCENTIVES TO STIMULATE LOW-
CARBON DEVELOPMENT**



State and Trends of Climate Policy in Russia

- 2019 г. – adoption of the Paris Agreement; 2020 – First draft of the strategy for low-carbon development, 2021 – Federal Law on GhG emissions reporting and regulation
- 2021: Strategy for the long-term Development with low level of GhG emissions until 2050
 - Goal is to reduce net emissions by 79% by the year of 2050 and achieve carbon neutrality by 2060.
- The law on the carbon pricing “Experiment in selected regions”: a regional emissions trading system in Sakhalin oblast to help achieve carbon neutrality of the region by 2025



State and Trends of Climate Policy in Russia: Sakhalin oblast

- Sakhalin set a target to achieve carbon neutrality by the year of 2025. Starting from 2022 an ETS is due to be launched
- Oil and gas accounts for 64% of the gross regional product
- Emissions: 12,3 mn ton CO₂-eq. (11,1 mn ton CO₂-eq absorbed by forests)
- ETS will cover around 20 emitters (with more than 20K ton CO₂-eq.). Only 4 companies which emit more than 1 mn ton CO₂-eq. The Sakhalin's ETS will be the second smallest in the world



Key Limitations of the Sakhalin's ETS

- 90% of carbon neutrality will come from accounting the existing absorption capacities of forests. The rest will come from state financing of the gasification programmes
- Emissions allowances will be distributed for free
- Emissions reduction will come from gasification, development of renewable energy capacities, later – the development of a hydrogen complex
- **Ambiguity of goals and instruments.** No need in ETS after carbon neutrality in 2025?



Challenges and “SOFTER” Options of Carbon Pricing in FFEC

- **Possible adverse effects of carbon pricing:** (a) Decreased competitiveness of some vulnerable and carbon-intensive industries, (b) Regressive (in fiscal terms) redistribution of wealth between social groups, etc.
- “Softer” options of carbon pricing:
 - Compensatory measures
 - System of carbon offsets
 - Free allocations & different exceptions from regulation

Introduction of a carbon price not on top of the existing taxes but rather instead some of them



Thank you.

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