

Russia waking up to climate change



Traffic jam on a Moscow bridge. Photo: Lystseva Marina/ITAR-TASS/Corbis

Environmental issues have not been high on the agenda in Russia, but attitudes in the business community are beginning to change. With leadership in the fight against climate change unlikely to be provided by the two largest emitters, the US and China, could this be a role for the third largest - Russia?

| by Brook Horowitz

Some large Russian corporations are becoming aware that there are major economic benefits for them - and significant political advantages for the Russian government - in engaging in the global environmental and climate change debate.

At first glance, the prospects for Russia's role as a defender of the global environment do not look encouraging. While there is a strong tradition of environmental regulation dating back to Soviet times, there is also a long history of environmental mismanagement. Three Russian cities, Dzerzhinsk, Norilsk and Rudnaya Pristan, were rated last year by the Blacksmith Institute amongst the world's ten most polluted cities. Anyone driving in Moscow will know that there is little or no control over car emissions. Furthermore, with relatively low domestic gas and electricity prices, consumers lack

incentive for Russian companies or the Russian government to reduce emissions, which are still well below the Kyoto quotas. These were based on Russia's 1990 industrial production levels, which were very high compared to the ensuing years of post-Soviet decline. Russia is not using its surplus emission allowances and there are no carbon trading facilities in place locally. Furthermore, there is scant scientific research of the possible effects of global warming on the Russian economy. Indeed one popular view (one suspects, or hopes, uttered in jest) holds that an increase of 2-3 degrees would do wonders for the Russian climate.

Attitudes in the Russian government mirror the indifference of society at large. At best, there is little taste for international collaboration on environmental issues. At worst, the environmental

companies, confronted by the multiple challenges of managing rapid growth, ensuring stability and security of energy supplies and attracting foreign investment, have had to reconsider their approach to the environment. This may in time generate some change in social attitudes and governmental policy, opening some exciting opportunities for Russia to reap the benefits of protecting the environment and helping to manage climate change.

Take flaring of the associated gas resulting from oil production - one of the least attractive features of the Russian oil industry and one of the biggest contributors to Russian emissions. The Russian government has admitted that at least 20 billion cubic metres of associated gas are flared every year. If this gas were sold to the European market, it would net Russia \$5 billion. According to independent estimates, the actual amount of flaring is even much higher, up to 60 billion cubic metres annually. Companies are now taking on the challenge of capturing the gas and selling it into the gas system. Motivated by its desire to live up to its international image as an environmentally conscious corporate citizen but also to develop a profitable new line of business, TNK-BP is planning to invest over \$1.5 billion over the next 5 years to develop associated gas production.

United Energy Systems of Russia (UES), the quasi monopolistic electrical producer and distributor, whose privatization and

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motivation to save energy. Although there is a nascent environmental movement, it is relatively weak and there is little public debate on environmental issues.

As far as global warming is concerned, Moscow ratified the Kyoto Protocol, but enabling legislation has not yet fully come into force. There is thus little

licensing system has sometimes been used as a means to restructure the ownership of international investments. Environmental regulation often seems to be more a tool to achieve ulterior motives than an end in itself.

However, under the surface, there is evidence that attitudes are changing. Russian



Melted aluminum is poured in moulds at Rusal's Bratsk aluminum smelter. Photo: Rusal



A hydroelectric power station on the Yenisey river near to Krasnojarsk, Siberia, Russia. Photo: Wolfgang Kaehler/Corbis.



Gas flaring at Russian oil field in West Siberia. Photo: Bojan Brecelj/Corbis

devolution will culminate in July 2008 with the appearance of dozens of independent power utilities, is another example of a company which is taking its environmental obligations seriously. Indeed the process of UES's privatization has led to a spate of IPOs and sell-offs which have been an important catalyst for improving both productivity and environmental performance. UES has a poor environmental legacy. With its Soviet era coal-fired energy plants and antiquated technology, it is, by its own admission, responsible for 14% of all emissions and 21% of all greenhouse gases produced by Russian industry. However, under the guidance of its president Anatoly Chubais, who has placed environmental management towards the top of his agenda, the company has a clear strategy for reducing emissions to the year 2020. This includes codifying and measuring corporate behaviour, conducting environmental audits and introducing

If UES and its constituent companies have understood that energy-saving is a way to make money rather than lose it, for major clients of UES energy-saving is a question of survival – a major solution to guaranteeing sufficient energy supplies in a tight market. It is no surprise that energy-intensive industries such as aluminium production are taking energy-saving seriously. RusAL, the world's largest aluminium producer, is investing in energy-saving technologies at a new aluminium plant in Taishet near Irkutsk, as has Alcoa in its plants in Samara and Belaya Kalita.

International private banks funding large projects in Russia that are adherents of the Equator Principles, such as ABN AMRO and Barclays, are playing their part in influencing Russian corporate behaviour by saying they might refuse to finance projects that present an

(one of UES's successor companies and producer of 10% of Russia's electricity needs).

The largest industrial concerns seeking funding on international stock exchanges (such as the newly privatising electrical utilities of UES) or making their own foreign direct investments abroad (such as the newly emerging Russian multinationals Rusal and Evraz), understand that a dual policy of good corporate citizenship outside Russia while at the same time continuing to pollute the environment back at home will eventually come under public scrutiny. Such double standards are unsustainable in the long run.

There are several other examples of Russian and international companies investing in environmental technologies and management systems. A recent survey of Russian companies by the World Wide Fund for Nature (WWF) showed considerable progress in attitudes amongst Russian executives from a wide range of industries. Environmental management systems and international standards such as ISO14001 are being introduced; company consultations with stakeholders and local communities are becoming more commonplace as United Energy Systems and Lukoil demonstrated during the preparation of their Social Reports last year. As part of the Business and Environment programme of the International Business Leader Forum (IBLF's) in Moscow this year, a high-level business dialogue will bring together

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management systems and standards. There is also a proactive programme for ensuring that the new practices are fully adopted by UES's successor companies. UES and its constituent companies have understood that energy-saving, to take but one aspect of environmental management, might make them money instead of costing them money.

environmental risk. By the same token, a publicly funded bank, the European Bank of Reconstruction and Development (EBRD), with its strategy to promote sustainable energy, has focused project finance on renewable energy sources. Last year the bank invested \$100 million in the reconstruction of the extensive hydroelectric facilities of Hydro OGC

President Putin has challenged the oil and gas companies to do something about flaring



Aluminium smelter at Bratsk. Photo: Rusal

companies to exchange best practices and policies in reducing emissions, recycling, waste and water management. Companies in Russia are in fact ready to take action on environmental issues even if the law and public opinion do not necessarily force them to. As elsewhere, they can exert far more influence by taking a position rather than by waiting for governments to decide for them or for an environmental disaster to happen.

To say that this change in attitude has completely bypassed the political establishment would be an exaggeration. Although there are major systemic and legal obstacles, the message about the importance of balancing economic growth and environmental protection does seem to be reaching the political leadership of the country. In August last year, President Putin challenged the oil and gas companies to do something about flaring; in December, he reminded Semyon Vainshtok, the head of the Olympic State Corporation, to be mindful of environmental issues surrounding the Sochi Olympics. Sceptics may argue that such declarations are precisely that - declarations, but in a country with a highly centralized power structure, the President's word can have a major and swift impact. This is best illustrated by his unexpected decision last year to reroute Transneft's pipeline away from Lake Baikal. Apparently environmental lobbying can sometimes work in Russia.

What has still not been fully taken on board by Russian government and

Russian business, is that for them climate change presents a host of untapped opportunities. Apart from the potential benefits of carbon trading and energy-saving, the country has a fine cohort of scientists capable of participating in the development of "clean" technologies. For example, there are centres working on hydrogen technology (which may be used in the automobiles of the future) and the Russian government has just backed a nanotechnology institute (whose innovations can potentially be used in solar energy panels). Nuclear power is a traditional mainstay of Russian energy and there is ground-breaking work being conducted by the Kurchatov Institute in producing nuclear energy more efficiently and safely than traditional methods. All these technologies are in fierce demand in the West, challenged by how to make clean energy cost-effective.

If business and governments, both in Russia and abroad, could encourage these new trends and make the most of the competitive advantages of Russian industry and science, there could be real benefits for Russia and the world. Inside Russia, such an approach would resurrect R&D which has been under-funded over the last fifteen years, would encourage diversification of the economy from its dependence on raw materials towards hi-tech industries and the development of new export opportunities. Public consciousness of the benefits of energy-saving and environmental protection would also be heightened in tandem with the domestic energy price hikes

which are set to continue apace as the local energy markets privatize.

On the international political stage, there are also real benefits to Russia engaging in the international coalition against climate change. In the new round of climate change negotiations just launched in Bali in December 2007, Russia, as the only member of the Group of Eight that is also a rapidly industrializing nation, could make a positive impact by leading the commitment to radically cut emissions post-2012. A Russia actively collaborating with the West on climate change would help diffuse many of the current tensions in the international energy dialogue and accelerate the long-term diversification of global energy sources and the introduction of energy-saving technologies - two critical components of global energy security. Russia would thereby position itself as a country both safeguarding its national interests while at the same time making a significant contribution to the sustainable development of the world for decades to come. ■

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