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National Framework for GHG Emission Trading in Russia

by

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FOREWORD

This paper was prepared by Vladimir Kotov and Elena Nikitina (Moskau) for the OECD Global Forum on Sustainable Development: Emissions Trading and Concerted Action on Tradeable Emissions Permits (CATEP) Country Forum, held at the OECD Headquarters in Paris on 17-18 March 2003. The aim of the Forum was to bring representatives from OECD and non-OECD country governments together with representatives from the research community, to identify and discuss key policy issues relating to greenhouse gas emissions trading and other project based mechanisms for GHG emission reduction, such as Joint Implementation and the Clean Development Mechanism. The Forum also aimed to promote dialogue between the various stakeholder groups, and discuss policy needs in the design and implementation of tradeable emissions schemes. Forum participants included representatives from OECD and non-OECD governments, as well as from the research community. Those from industry and other institutions involved with emissions trading, joint implementation and clean development mechanism projects such as the European Commission and the World Bank were also represented.

The OECD Global Forums are one of the two pillars of the new architecture of the Centre for Co-operation with Non-Members, agreed upon by the Committee on Co-operation with Non-Members. The Global Forum on Sustainable Development (GFSD) provides a mechanism for achieving the OECD Ministers' outreach objective and will complement other work on sustainable development. Within the organisational framework of OECD, the GFSD will aim to facilitate a constructive dialogue between non-member and OECD economies on key issues on the sustainable development agenda.

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1. INTRODUCTION

If Russia ratifies the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), domestic implementation of its international commitments under this international regime will require special national responses, i.e. institutional capacity building for application of its mechanisms. The Kyoto Protocol and its mechanisms, particularly, international emission trading (IET) and joint implementation (JI), mark a turning point, with opportunities for Russia to benefit from an economic and environmental standpoint from international cooperation. Russia might wish to sell to other parties a surplus in its assigned amount for the first commitment period in 2008-2012, as according to existing estimates its GHG emissions are expected to be below their 1990 base level. In order to participate in international emission trading, Russia has to meet several international requirements, including providing national inventory and reporting and establishing national registry compatible with the standard international format. It is to establish a domestic institutional regime defining laws and rules of behaviour for its participants, the administrative frameworks, and designing major schemes for domestic emission trading programme. Russia's emission trading system is not formed yet. This is a challenging innovation for Russia, as in its previous environmental management practices it did not have any experience in domestic emission trading with other air pollutants.

The paper examines the key elements suggested in a number of existing proposals, assessments, and approaches of the government, parliamentarians and non-governmental experts for its institutional design which is at the core of ongoing climate policy debates in the country. These approaches and practical suggestions define the current state-of-the-art in domestic emission trading regime formation and channel the paths of its institutional development in the future. This paper analyses peculiarities in the formation process, as they can define the design of a national regime; it tries to identify, where possible, specific features of particular elements in institutional design. Currently, to a high extent these national peculiarities are defined by specifics of both a transition period in Russia, and of national climate policy formation during the last decade. It identifies constraints for development of a domestic emission trading system in Russia, as well as the possible interests of participating groups of actors - an important driving force in shaping the institutional design of a domestic regime.

2. POSSIBLE OPTIONS FOR INSTITUTIONAL DESIGN OF DOMESTIC GHG EMISSION TRADING PROGRAMME

In the case that Russia ratifies the Kyoto protocol, it can participate in all three Kyoto mechanisms and take part in IET through generating AAUs, ERUs, CERs and RMUs. However, in order to participate in IET it has to meet international eligibility criteria of the Kyoto Protocol by (1) developing national greenhouse gas emissions (GHG) inventory and reporting to the UNFCCC compatible with the international format, and (2) establishing the national registry. The deadline for meeting these international requirements is 2007, and Russia might face certain difficulties in that respect.

Besides, in order to participate in IET Russia is to develop a domestic GHG emission trading regime and domestic emission trading (DET) programme and to build domestic institutional capacity for its implementation, including a broad variety of issues such as defining concepts and approaches towards emission trading in general, rules of behaviour for actors at all levels, selecting its design elements, administrative frameworks and mechanisms for its operationalisation. As it stands at the moment no emission trading regime has been formed. While institutional design for meeting eligibility criteria for participation in IET (national inventory, reporting and registry) is governed by the international regime requirements, participants of the Kyoto protocol are free to choose institutional design for their DET regime and its key elements, as well as time-frames for the introduction of such a system.

So, for Russia among the main future steps is elaboration of a DET regime, selecting its design and defining its key elements, as many of them have not been shaped yet and their schemes are quite unclear. We consider that the key elements of DET regime in Russia (discussed below) include: legislative and administrative schemes, modes of allocation of emission allowances, choosing the GHG gases to be covered by the programme, selection of participants and sources included into emission trading, treating the new entrants, banking and borrowing, and enforcement procedures.

There is a variety of DET programmes functioning and being established in other countries, and experts consider that Russia might choose elements of the EU system, or of the cap-and-trade model used in sulphur dioxide emission trading in the USA (Razrabotka, 2002, Safonov, 2000) to be used as a prototype for its DET with certain adjustments to the national specifics. However, it is important that a DET programme should be regarded in its complexity, with all elements of its design tightly fitting into each other. There is always a danger that proper assessment of some important elements is not made and the programme would not be functional. Currently, in Russia the major focus of debates on design of a DET regime is who is the owner of emission allowances, at the same time leaving in the shade really key design elements of an emission trading regime. Some extreme current opinions suggest that there is no need to establish DET even in case of the Kyoto ratification; it would be sufficient just to sell the national surplus on the international market during the first commitment period; in that case the RF government is supposed to participate in international trading as a player.

The existing domestic institutional framework for establishing a DET regime in Russia is quite undeveloped. This relates both to the legal rules for participants behaviour at the market, and to the required administrative arrangements. There are a number of reasons for this situation. One of them is that there is no domestic emission trading system with other gases in Russia¹, and there is no experience in constructing its market. However, as recent international practice indicates, DET systems were being rapidly built in the countries where there have been no domestic emission trading programmes before. The most important constraints in Russia are existing institutional uncertainties in national climate policy implementation, competition of government bodies for control in this sector, and a lack of a strong government institution to effectively develop and implement such policies. This reason significantly aggravates the weakness of institutional design.

One of the key preconditions for the establishment of DET is adoption of a legal regime. So far, there is no national legislation governing domestic and international GHG emission trading. Currently, a variety of legal acts and regulations for emission trading is proposed by representatives of the government, of the Duma and by independent experts.

¹ Pollution charges for air emissions of SO₂, NO_x, CO and solid particles is the major economic instrument of environmental management in Russia which was introduced in a course of environmental reform at the beginning of the 1990s; however, the practice of the last decade indicated that it does not function effectively and their institutional design was significantly deformed during implementation. There is no carbon tax in Russia (Kotov V., Nikitina E., 2001).

There is no specific organisational framework to administer GHG emission trading. Currently, according to existing legislation, the RF Interagency Commission of Climate Change (ICCC) is responsible for all aspects of domestic implementation of the climate change international regime. The ICCC is a weak institution within the governmental hierarchy, and it is unlikely that it can effectively administer the DET programme. Recently, there has been a suggestion of the RF government to elevate its status, and “to reorganise the Interagency Commission on Climate Change into the Governmental commission on climate change headed by the deputy prime-minister, in order to promote adequate coordination between ministries and governmental agencies” (Meeting, 2002), but it has not been accomplished yet. Some experts suggest that a special coordination organ responsible for management of emission trading should be formed. Its functions will include: defining national DET programmes and policies on participation in IET, institutional capacity building, including elaboration of legislative framework; control over initial allocation of emission allowances; selection and control over stock exchanges to be participating in emission trading; preparation of bilateral and multilateral agreements on IET; and coordination of national registry activities (Bureau 2002, p.129).

3. NATIONAL INVENTORY

According to articles 4 and 12 of the UNFCCC, Russia has compiled national inventories of domestic anthropogenic GHG emissions and sinks and submitted them to the UNFCCC secretariat in three national communications (the first was submitted in 1995, the second in 1998, and the third in 2002). The last communication contains an inventory of emissions and sinks for the years 1990-1999. It includes much thorough data on emissions and sinks, and the IPCC guidelines are followed to a greater extent than in the previous ones. However, there are a number of specific features in national inventory compilation. They relate mainly to some problems with transparency, verification and data quality, and with coverage of sectors. The inventory compilation process faces various technical problems of correlating the domestic statistical format with the international requirements (Kotov et al, 1996). It was conducted mainly on a top-down basis, and the quality of some data used is quite low. The latter problem also has negative practical implications for selecting and operating the domestic emission trading schemes, as poor inventory emission data from the entities is a significant barrier, for example, in allowances allocation, in selection of participants of the market, etc. Information provided in the national communication on strategies, policies and measures is quite modest, it is of a general character, and sometimes it is difficult to understand the logic. The information on the types of policy instruments used, status of their implementation and future measures and on effects of policies and measures achieved so far, is poor; more professional economic expertise is needed by the team of experts developing the inventory.

ICCC delegates the responsibility for compilation of national communications to Hydromet and its Institute on global climate and ecology headed by Y. Izrael² The expert team compiling the inventory includes representatives from a number of governmental organisations and research institutes.

² Academician Yuri Izrael is a prominent Russian climatologist, Director of the Institute on global climate and ecology under Hydromet/Russian Academy of Sciences.

4. NATIONAL REGISTRY

To participate in international GHG emission trading, each country of Annex B of the Kyoto Protocol has to establish the standardised national registry to track the transactions with AAUs, ERUs, CERs and RMUs according to articles 6, 12 and 17 of the Kyoto protocol; functioning of national registries is to be controlled and verified by the international body established under the Kyoto regime. Their national designs are defined by the international format in order to make them compatible within the international system, and they should be established not later than 2007. Information on national registry institutional design should be supplied in the national communication to the UNFCCC.

Currently, practical activities are underway in Russia in developing the design of the national registry for GHG emission and sinks. In 2002, a special project to develop recommendations for design of the national registry of Russia compatible with the international requirements was initiated by the Russian Regional Environmental Centre. The first report "Development of the basic elements for registry of GHG emissions and sinks in Russia" has been compiled (Razrabotka 2002). It develops standard structural elements and control functions for the national registry, as well as administrative procedures for its maintenance and major principles that ensure its operationalisation and transparency.

There are several specific features in the suggested national registry design. They relate, firstly, to the administrative procedures for national registry maintenance, and secondly, to the components to be established in the regions of Russia. These peculiarities are not predetermined by the international format, so Russia is able to choose possible schemes reflecting its national peculiarities. One of the important items in its design is who will administer the registry system domestically, and several options are considered. It is suggested that the government can transfer the administrative functions either to a specially established body, or already existing institutions – either at governmental, or non-governmental levels. This process might be accompanied by strong competition between governmental bodies to acquire such functions. Another peculiarity, which is currently being debated, is the possibility of establishing regional registries to be linked to the national registry. In this case the entities will be account holders not in the national registry but in the regional registries, linked, in their turn to the unified national registry. This issue needs additional assessment, but such design might significantly 'overload' and administratively complicate the registry system in Russia.

5. ALLOCATION

5.1 National specifics in allowances allocation

Choosing the initial mode of emission allowances allocation among the participants of emission trading is regarded by the experts as one of the most complex issues in the whole design of emission trading systems (Baron 2002). In Russia, it appears to be not only the most complex issue, but also quite controversial due to the national specifics of economic and political processes. Both selection of particular schemes and

future negotiations with participants are expected to be accompanied by a variety of conflicts. Particularly, it relates to negotiating concrete allocated amount of emission allowances that will fix the emission target for an entity to which it would be accountable.

As it stands at the moment no particular design for allowances allocation has been selected in Russia. Russia is in an initial stage of considering possible modes by the experts, and developing allocation criteria. Currently, the domestic discussion is focused more on generalities of DET design, with representatives of the government, regional administrations, parliament, business and independent experts participating. A provisional outcome of the discussions indicates that several major options are crystallising, and they envisage application of both grandfathering and auctioning of emission allowances, or their combination. But, the final design is still to be determined.

An important specific feature of the current stage in DET regime formation in Russia is a vivid debate about property rights on emission quotas. Today, it is at the core of the DET concept. It has strong political accents on who owns emission quotas. So, according to the proponents of ownership over emission quota, the Russian state is considered to be the owner of all emission rights and is to decide how to allocate them among entities (Orlova 1998; Kosarikov 2002). This ownership approach is also supported by some representatives of business community indicating that “an entity is to be sure that it has a property right over emission reduction units and is able to sell them at the market” (Martynova 2002). Others suggest, however, that it is not correct to define property rights over GHG emission quotas: it can be regarded as a permit of the government given to a source to emit a particular amount of GHG and, thus, “such permit imposes certain limits on activities of the owner of this source along with its responsibilities to reduce emissions” (Bureau 2002). A variety of interest groups are participating in lobbying for their interests to be reflected in the ultimate DET allocation design, and the majority of them, including federal government, regions, business and parliamentarians are actively participating in decision-making on property rights over emission quotas (Grachev 2002). However, the ultimate outcome is not clear.

DET design in Russia might have its important national specifics. The state might decide to initially allocate allowances not only directly to entities/sources, but to the regional governments for further dissemination among entities in the regions. Such a scheme is not broadly applied in national practices in other countries, and it might result in significant bureaucratisation (along with corruption) and an increase in administrative costs of emission trading market, as well as to problems with establishing linkages between regional systems that might have different designs. So, in the Russian case, the complexity relates not only to selecting institutional design for initial allocation, coverage of sources and participants, and other modes, but also to who would be responsible for grandfathering of emission allowances to the entities, i.e. federal organs, or regional bodies of the government.

Some Russian experts consider that in order to adopt legislation, to elaborate national approaches and to select the modes for emission allowances allocations in Russia, it might be useful to benefit from already existing domestic practices and legal norms in force in this country. They propose that experiences and norms of production-sharing agreements, on allocation of export quota, of fisheries quota, and quota in ethyl spirits production, and regulation of securities market should be widely applied. There are serious doubts in that respect, as existing practices of quota allocation in many sectors are severely distorted by corruption, bureaucratisation, non-transparency, and do not meet equity criteria.

Banking to the next commitment period is widely supported by Russian experts (Bureau 1998, Golub, 2001). There is also a possibility that RF government will set-aside certain amount of emission allowances in order to allow for the possibility of higher economic growth, and thus, higher GHG emissions. As to modes of initial allowances allocation, most likely the future DET institutional design is to include a combination of grandfathering and auctions.

5.2 Grandfathering

Grandfathering of GHG emissions allowances is supposed to be the most likely mode of initial emissions allowances allocation in Russia. It envisages that the RF government initially transfer emission quotas free of charge to the entities/sources of emissions on the basis of past emissions³, or fuel use. They are authorised to further transactions and operations with tradable units at the market. It is expected that the federal law is to establish a regime for grandfathering, defining its major principles and procedures. Usually, it is considered that grandfathering is more favourable economically to sources than auctioning.

It is assumed that a responsible government organ would allocate GHG emission permits (certificates) to particular sources. The total amount of allowances allocated to entities should not exceed the Kyoto Protocol assigned amount for Russia for the first commitment period. At the same time it is possible that only a certain portion of allowances is allocated to the entities, with the rest put into a reserve account. On the basis of application of an entity, the government is to allocate to this source a particular amount of emission quota calculated according to methodologies recommended by international experts.

It is important that future regulations for grandfathering of emission allowances by the government to the entities in Russia should incorporate mechanisms to ensure real emission reductions by the entities after they received allowances from the state. Indeed, there is a possibility that entities might choose to formally meet their obligations and perform 'compliance without implementation', i.e. to act without undertaking concrete measures resulting in emission reductions. One of the modes might be to link it to the mechanisms being elaborated under the Green Investment Scheme initiative (see Tangen et al., 2002, Moe et al., 2001).

In the Russian case, one of the possible important negative implications from grandfathering of emission allowances are the social costs to society incurred through higher prices for products from particular sources participating in emission trading. Although this problem is not approached in Russia at all, in the future it might have an extremely negative reaction from the public, as recently many social problems and equity issues have aggravated significantly, creating a potential for social conflicts⁴.

According to some options suggested for grandfathering of emission allowances in Russia there might be certain national specifics in a DET institutional scheme relating to the design of the grandfathering chain. The federal government might allocate them not only to (or, directly to) the entities, but disseminate them among the federation subjects (89 federation subjects), i.e. administration of the regions. The later, in their turn, would transfer them to the entities/sources in the regions. The regions are free to select the mode of allowances allocation, i.e. grandfathering or auctioning. Initial allocations by the federal government to the regions would be performed on the basis of regional GHG inventories; as it was mentioned above 6 regions of Russia had compiled their inventories. However, there is still not much clarity on the viability of this option. For example, in the case where the participation of the regions in the initial allowances allocation is approved, there is no certainty whether the federal coordinating organ will be involved (and to what extent) in grandfathering to entities, or whether it would be governed by the regional administration. This might result in a great deal of administrative mess and extra complexities of institutional design for allowances allocation, and problems with control and verification. Excessive bureaucratic barriers at grandfathering stage might result in corruption. The heavy administrative structure that might evolve in the case of regional administrations participating in emission trading also increases the possibility of

³ The level of allowances allocated can be determined either by choosing the base year, or by calculating the average emissions over a number of years.

⁴ The level of poverty in Russia is rapidly increasing, as in the course of reforms about one third of society appeared to be below the minimum subsistence level. In addition a 14-fold difference between the poor and rich has been registered and this gap is growing.

bureaucratisation. It seems that by agreeing to a decentralised design of DET, federal organs tend to get rid of the possible 'extra headache' to deal directly with the entities of such a big country as Russia; instead, they would prefer to delegate responsibilities to the regions, which willingly accept such control functions. To a certain extent it is also a political decision rooted in current specifics of federation-regional interactions. Anyway, it is among the most debated items within the formation of a DET regime in Russia.

5.3 Auctioning

There is no particular decision of the Russian government regarding incorporation of auctioning in a DET programme as a method for emissions allowances allocation. In the case where auctioning is adopted, it is most likely that the DET design would be a mixed system with partial grandfathering and partial auctioning. For example, some experts suggest that the major part of allowances for a particular entity would be allocated through grandfathering, while the rest can be bought at the auction (Bureau, 2002). Under an auctioning system the RF government will sell permits through the auctions. It can also sell at the auction the emission allowances that are not distributed among the entities through grandfathering. While getting allowances at the auction the entities can keep them for future use, or sell them at the market.

So far, several options have been suggested on allowances allocation through the application of auctioning procedures. One of the schemes has been proposed recently by representatives of the government (RF Ministry on Trade and Economic Development and the RF Ministry of Energy). It suggests that as soon as the necessary legal auction procedures for GHG emission allowances are adopted, the government would be able to issue state securities (via the governmental issuer, and guaranteed by the RF Ministry of finance) and sell them to accountable entities and other interested parties through an auction. It is envisaged that foreign participants would be able to participate in such auctions either directly, after the foreign entity gets the necessary authorisation from its government, or through its Russian partner involved in a JI project in Russia. The authors of this scheme indicate the possibility of auctioning a small amount of emission units in the initial stages, and this would allow some delay in having to undertake a final decision of how to deal with the whole amount of the national reserve; they also point at the transparency and friendliness of such a design for business companies. Especially, rapidly developing industrial companies that might have difficulties in negotiating the base-year with the government to determine the level of initially allocated allowances might be interested in it (Popov, 2002). Thus, auctions allow complex negotiations of the government with sources on allowances allocation to be avoided.

At the same time, the recent practice of auctions and tenders organised in Russia in other sectors has indicated the lack of transparency, and a variety of problems associated with competitiveness and access of broad range of participants; organisers at the last moment limited the number of companies to those who lobbied their interests most strongly, thus creating favourable conditions for corruption. Similarly, there is potential for distortions in the auctioning procedures while organising emission allowances auctions in the future. Another problem is that there is always a danger that small sources with limited financial resources would not be able to get the necessary quotas in case the only opportunity to get them is through the auctions. An institutional scheme for initial allowances allocation should be constructed to avoid the strengthening of monopolies at this market.

6. COVERAGE OF PARTICIPANTS AND SOURCES

There is no final decision on coverage of sources/categories of emitters and gases that are to be included into DET in Russia. Part of the reason is not adequate inventory of GHG compiled. Especially poor is the bottom-up inventory of GHG. A proper inventory of emissions at sources has not been held so far, except for several energy companies (for example, RAO UES, SEDANCO) and several regions which performed inventories at their regional facilities.

Most likely the DET scheme will cover the emission sources, but not fuel users. Because the sources from the energy sector contribute to the major portion of GHG emissions in Russia, they are supposed to be the 'first in the line' to be included into the DET programme and to enter the emission trading market. Including only the energy sector in the scheme might capture a significant portion of emissions. It is not supposed to be a big problem and an obstacle for IET as, for example, there is a significant difference in the coverage of sectors in existing European trading programmes (compare UK and Denmark). Also, sources in the Russian energy sector might be more advanced in compiling their inventories in comparison with emission sources in other sectors.

There is also a discussion on the coverage of some ferrous facilities, and cement producers. But, they are not advanced in their GHG inventory, and that might be a serious obstacle for DET in general, and, particularly, for the initial allocation of allowances and for entities' participation in emission trading. Maybe, many of them are willing to participate in the programme, but they have not prepared themselves properly, and unless they have compiled the necessary inventory, they are not eligible to participate in trading. Accountability and credibility of their inventories might be the stumbling block in their participation in emission trading. At the same time, emission inventories done in some regions cover not only the energy sector, and do not limit themselves to carbon dioxide emissions. For example, the inventory performed in Novgorod oblast covered the energy sector, facilities of the chemical industries, construction materials production; it was performed for a number of GHG gases (carbon dioxide, methane, nitrous oxide). This practical consideration should be also taken into account while designing the scheme for coverage of sources by DET.

As to the gases covered by DET there is no consensus so far. Some experts suggested incorporating only CO₂ in the initial stages, but others maintain that all major GHG should be included. Indeed, it is possible, that at initial stages only CO₂ will be covered by the DET regime, which might be similar to many other European programmes. Sulphur dioxide and nitrous oxides are already covered by the pollution charges national programme which commenced in the beginning of the 1990s. Thus, it is unlikely that these gases should be included into emission trading schemes at initial stages.

It is also important that Russian experts involved in developing the DET system acknowledge that new entrants (new and pre-existing sources) should have access to allowances allocation (Bureau 2002). New entrants can get allowances either at the market, or through the auctions. Also, the government can set aside a certain number of allowances and allocate them to new entrants for free. But, it is not clear, so far, what modes should be used to deal with the new entrants and how to facilitate the entry of new sources.

7. VERIFICATION AND ENFORCEMENT

Verification and enforcement procedures are particularly important for Russia in order to avoid possible deformations in the original design of its DET scheme due to current national specifics, including increased bureaucratisation and corruption. Especially, it relates to the process of allowances allocation and negotiations between the government organs and potential participants in the market. National legal rules defining, for example, grandfathering, or auctioning regimes should incorporate procedures ensuring verification against any possibility of corruption when allocating allowances. Performance of these two possible allocation modes should be highly transparent, and the major part of the information and results should be made public. At the same time, it is important that commercial confidentiality is preserved as well, and also be governed by detailed regulations.

Additional measures to provide transparency of the emission trading market is crucial in the case of Russia, as it will ensure dismantling of possible bureaucratic barriers. During recent years there is a trend towards further bureaucratisation of procedures for getting public access to information and data controlled by the government officers who often use such opportunity for private purposes. So, domestic legislation in the field should contain strict provisions to exclude or reduce to the minimum extent possible bureaucratic barriers for data flows and for access to information. Simultaneously, such control mechanisms would prevent development of corruption around the emission trading market.

Some experts suggest that special control should be established over allowances allocation to the potentially important and powerful players in the market, such as large monopoly companies in the energy sector RAO UES, Gazprom, UKOS, and LukOil for example. They propose more stringent verification and accounting procedures to be applied towards monopolistic entities to exclude the possibility of allocation of over-stated level of allowances to them (Bureau 2002, Golub, 1999). In the case of new entrants, it is crucial to ensure that the emission trading regime excludes possible cheating, and receiving emission quotas even if they do not have definite plans for the construction of new emission sources in the near future.

Enforcement of compliance with emission commitments is considered to be important. A possible option is establishing certain sanctions and penalties to prevent violations of emission trading rules by market participants through domestic legislation. One of the suggested tools is a joint liability of sellers and buyers for sales of unqualified allowances. It means that unqualified quotas sold could be expropriated from the buyer independently of whether it was aware or not about their 'false origins'; thus the buyer would be responsible for double checking the quality of the quota purchased.

At the same time, establishing the Russian national registry system would serve for the purposes of verification and tracking transactions with emission quotas. Internationally, compatible procedures for control over transfers of tradable units between the account holders and over levels of trades ensure the enforcement of emission trading rules. On the other hand, development of a national emission monitoring system with strict procedures for accurate accounting of emissions by the entities is one of the top goals of the current government plans in climate policy.

8. PERSPECTIVES OF REGIME FORMATION: ACTORS, INTERESTS, CONFLICTS

Russia has already initiated the formation of an institutional framework for domestic implementation of the Kyoto Protocol. It also includes building institutions for emission trading. But still, this process is at its initial stage, it is developing very slowly, and is characterised by a number of specific features.

8.1 Formation of the regime and Kyoto ratification procedure: direct links

So far, Russia has not ratified the Kyoto Protocol. About a couple of years ago there was an impression that the Kyoto ratification process would face no serious barriers in Russia, and would not be time-consuming. However, these expectations did not come true. It appeared that Kyoto ratification had not only its supporters, but the opponents as well whose voices have been quite weak for a long time. Vivid discussion has been started on the issue. But the essence is not in the pluralism of discussion, but in the fact that the ratification process is at a halt. It is unlikely that discussion as such could lead to such serious delays. Discussion seems to be just a symptom that a number of other processes are underway which sometimes are difficult to be identified immediately with the naked eye.

Delays with Kyoto ratification affect the process of climate policy institutional capacity building in Russia. The atmosphere of uncertainty creates a relaxed framework (according to a Russian proverb there is nothing worse than to wait and to overtake). Institutional regime formation, including institutional schemes for emission trading remains still at its initial stage, at the design stage. Experts suggest their proposals for constructing some elements of the future emission trading system. Unfortunately, most of them can be regarded as sketches, they are not developed in detail, they are fragmented, and they often contradict to each other, while the integral design for the whole system is lacking. Thus, still, there is no comprehensive and systemic solution to be used for adoption of a non-controversial legal basis for the design of a domestic emission trading system.

A number of countries which already ratified the Kyoto Protocol still are at the design stage and have not thoroughly developed their domestic legal institutional frameworks. It might seem that Russia also has some time ahead to meet the challenge. But, particularly in a case of Russia, there is another important consideration. About a year ago, i.e. 11 April 2002, at meeting of the RF government the issue about passing to the State Duma of the Kyoto Protocol ratification draft law was discussed (according to the national legislation it is the first necessary step in the ratification procedure). The government has not made a decision on passing the draft despite broad expectations for the start of the ratification procedure. Instead the only decision of the government at that meeting has been on the preparation for undertaking the decision on ratification. "Elaborating the drafts of normative acts to be used as a legal basis for domestic implementation of the Kyoto Protocol" was determined as one of the obligatory steps of this preparatory process (Meeting, 2002). The government decision did not contain any indication of particular draft laws, but the preparatory materials for this government meeting proposed concrete legal acts to be introduced. They include:

- Law on governmental regulation of GHG emissions and sinks in Russia;
- Law on ownership on emission quota, certification of emission reduction and establishing of emission trading market; and,

- Governmental bill on national system for monitoring and registry of GHG emissions and sinks (Meeting, 2002).

According to the government decision the future legal institutional framework for domestic implementation of the Kyoto Protocol in Russia includes institutions to govern emission trading, and they are regarded by the government as a necessary element in the package to provide for ratification of the Kyoto Protocol. Thus, there is a dual linkage between Kyoto Protocol ratification and formation of an institutional framework for its domestic implementation in Russia. Elaboration of a number of laws, including those regulating emission trading, is the precondition for the start of the ratification process. On the other hand, ratification of the Kyoto Protocol by Russia is a condition for recognising this treaty as a part of RF domestic legal system (according to the RF Constitution ratified international treaties are becoming an integral part of the national legislation). Thus, with this decision the government established direct links between elaboration of the legal institutional framework for implementation of the KP and the ratification procedure.

8.2 Free space for interest groups in domestic regime formation

There are a number of interpretations attempting to explain the reasons for delays with Russian ratification of the Kyoto Protocol and elaboration of the legal framework for its implementation in this country. Most likely there is not a single reason, but several of them. One reason might be associated with difficulties faced in the course of drafting the laws defining a domestic institutional framework for Kyoto implementation in Russia. These barriers are defined not only by the deficit of qualified experts and financial resources. To a high extent they are attributed to the differences in interests of particular actors and their groups that are able to influence the process of institutional formation, and particularly its segments that are able to generate economic benefits, and particularly those from emission trading.

The Kyoto Protocol and the rules and regulations envisaged by the Marrakesh Accords, only partially define the future design of an emission trading regime. The formation of many elements of DET is left at the choice of the parties of the Protocol. International rules regulate establishing institutional frameworks for national registries, national inventories and reporting. As to such important elements of institutional design as allocation modes, including auctioning, grandfathering, updating as well as coverage of sources, coverage of gases, incentives and penalties, the determining decision is up to the country-members. So, the international agreement leaves significant flexibility to the members, and it can be used by the actors in these countries, if they wish, who possess enough power to influence domestic regime formation. In Russia, even at the initial design stage, it became apparent that such powerful actors exist, and their interests can be identified in the presented designs of emission trading. Since the interests of these actors do not always correlate, but sometimes are quite different, the projects for DET schemes suggested by the experts reflect these interests, and, as a result, often appear to be poorly compatible with each other. As a consequence, the difficulties emerge in the formation of the legal institutional framework which is to define the design of domestic emission trading regime. It is slightly possible to predict today whether any compromise would be achieved, or whether one of the suggested options wins.

8.3 Major actors

In theory, in Russia, the actors who could influence the formation of DET schemes (but, maybe they would not necessarily use this opportunity), as well as actors who would wish to influence its formation (but, maybe they do not always possess enough power to realise their interests) are the following groups:

1. high-level policy makers;
2. mid-level policy makers;

3. high-level officials in federal ministries;
4. regional policy-makers and bureaucrats;
5. business representatives;
6. NGOs; and,
7. non-residents (Korppoo, 2002).⁵

Behaviour of these actors towards the Kyoto Protocol, towards its ratification, and towards such a practical issue as emission trading design is defined by the structure of the interests of particular actors, or their groups in particular periods of time.

8.4 Peculiarities in interests of Russia's society

The structure of interests within the Russian society as a whole, which are relevant to climate policy and its institutional framework formation, has a number of specific features. It seems to be quite different from the structure of interests typical today in the developed countries of the West. One of the key characteristics is the low ranking of ecological concerns in the system of current priorities of the Russian society. The role of the problem of climate change in public perceptions in Russia during the nineties was extremely low. Global warming and climate change mitigation appeared to be at the bottom of the public agenda in Russia while taking in account the public attitudes to this problem and the place of this issue in the programs of political parties, and in political competition. Under these conditions climate policy can be easily put under pressure and influence from various interest groups. In this case, the climate policy would be performed not for the sake of environmental goals, but for realisation of economic benefits, including those associated with the application of the Kyoto mechanisms (Kotov 2002).

8.5 Interests of major actors

As to the interests of particular actors, within climate policy frameworks they might look as follows:

High level policy-makers

During this year and at the beginning of next year this group of actors will be concentrating particularly on the up-coming elections into the State Duma and presidential elections. As climate policy goals would not be of a priority in the preferences of the electorate, the interest of this group of actors to institutional capacity building in the sector of climate policy would be minimal. Moreover, the electorate might reproach these actors for expected increases in tariffs for electricity, gas, and heating. Many families in Russia are not able to withstand such a growth in prices and could be threatened to be pushed out from their apartments due to debts. Meanwhile, until recently, the climate policy in Russia was linking the GHG emission reduction and an increase in emission trading potential with an increase in energy prices. So, this group of actors is likely to prefer during the near-future period to step aside from the policies operating with such 'dangerous' tools as an increase in energy prices before the elections. But, as soon as the elections will take place they might turn back to the issues that will stop to be so dangerous for them.

⁵ In the recently published article, A. Korppoo identifies four groups of actors (Korppoo 2002, p. 390).

Mid-level policy-makers

The members of the State Duma and of the Federation Council are included into this group. They have to take a decision in the Federal Sobranie of the Russian Federation (two-chamber parliament) on ratification of the Kyoto Protocol, and on adoption of laws defining the domestic institutional framework for its implementation in Russia. They also have to think about prospects of their re-election. However there is an important characteristic for this group of policy-makers: many of them would be elected not through the lists of political parties, but directly, through competition in electoral districts. It means in this case that they are highly dependent on support from regional authorities, governors and regional elites. The latter ones intend to spread their control over emission allowances allocation in order to get significant economic benefits. Thus, the members of the Federal Sobranie have to take part in the struggle between the federation and the regions for this type of natural resource. As decision-making on the adoption of laws on Kyoto ratification and formation of a domestic basis for implementation of this international regime in Russia is not possible without the consent of the Federation Council where the interest of the regions are represented, there is a possibility that these laws can be shaped in such a way to reflect the interests of regional elites. In this case, the RF president can serve as arbiter who would provide the compromise and establish the final balance of interests, since this law cannot enter into force without his signature.

High-level officials in federal ministries

Members of the federal government are not directly dependent on the results of the parliamentary elections (Russia is a presidential republic). However there are a number of indirect linkages to the 2003 elections for them. Usually, the presidential and parliamentary elections are the convenient reason for reorganisation of the government, and for replacing the members of the cabinet that make the president unhappy. So, during this year the federal ministries and their staff would have enough reason to worry about their personal prospects. Also, recently, significant deviations in approaches of the president and the government regarding such important issues as rates of economic growth were registered. Several times the president blamed the government for its non-ambitious position on this issue. The government was already proud of resumed economic growth in Russia after a severe crisis, as well as of the 4%-4.5% annual growth rates. On the contrary, the president considered them to be low, and required their increase, and what is the most important, to find practical means for their growth, and for the speeding-up economic reforms.

These contradictions regarding macro-economic policies have direct links with Kyoto ratification, and with the emission trading potential of Russia. As GHG emission dynamics depends on GDP rates and energy-efficiency, during the preliminary discussion of ratification in the State Duma Ecological Committee in 2001, the government representatives assured that Russia would not face any problems regarding its compliance with the Kyoto targets during 2008-2012. It is expected to have a surplus in emission quotas accounting for about 3000 MtCO₂ during this period, which can be offered to the market. These forecasts were based on GDP growth rates envisaged by the governmental macroeconomic programme. The government denied any guess that during this period there might be a conflict between the goals of climate policy and of economic growth, being aware about the dangers along such path. The Russian public support the target of the RF president towards economic growth as a priority for governmental policy as it is tired of deep poverty. Recently, under the pressure of the president the government had to incorporate significant changes in its programme: the new goal of 7-8% GDP growth rates for 2007-2015 is introduced (Srednesrochnaya, 2003). Simultaneously, the detailed plan for institutional reforms is developed in order to support implementation of higher rates of economic growth. The RF Ministry of Energy is to elaborate the new Energy programme up to 2020, and it is possible that other parameters (i.e. energy intensity and energy balance), defining the Russian potential in emission trading might be changed as well.

Regional policy-makers and bureaucrats

Today this group of actors seems to be most interested in Russia's participation in emission trading, and, thus, in ratification of the Kyoto Protocol. This group possesses significant influence to support the passage through the Parliament of the laws that it can personally benefit from, and even stronger powers to block the laws that do not correspond to their interests. There are indications that some lobbyists for Kyoto ratification have already put high stakes on the possibilities of this group of actors. But, activities of this group of actors can bring not only positive results for application of the Kyoto mechanisms in Russia, but negative outcomes as well. As this group is interested in economic benefits from emission trading regime formation, its primary task is to put under its control allocation mechanisms. In order to achieve this goal regional authorities try to spread ownership of the regions over such type of natural resources as the possibility to admit GHG emissions. Because the federal organs intend to secure this type of natural resource in the federal property, there might be inevitable conflicts between them in a process of formation of a legal institutional framework. The suggested future institutional designs reveal that directly opposite proposals are put forward, and serious differences and contradictions in the interests of federal and regional authorities exist. The issue of property rights over emission quotas appears to be in the centre of the current debates on emission trading regime formation in Russia. Proponents of declaring this natural resource federal property argue that GHG emissions do not affect negatively the environment directly in the region where the source is located; its negative impacts are realised through the global mechanisms and negative impacts of global warming are indicated not necessarily in the regions with the highest level of GHG emissions. In support of their claims over this natural resource the regions make a reference to the RF Law on Environmental Protection; it considers the environmental regulations to be in the joint competence of the federation and the regions. They also refer to the RF Constitution according to which the state property belongs both to the federation and the regions, as the state in the Russian Federation consists not only from federal authorities, but from the regional authorities as well. Both sides in this dispute possess the blocking possibilities: the regions are able to block the passage of laws in the Federation Council, while the federal authorities, for example, can delay the introduction in the Parliament of the law on Kyoto ratification.

Regions (89 subjects of the federation) are starting to play an increasingly important role in climate policy. This might have significant impacts on the institutional design of a emissions trading regime in Russia. Regions are particularly interested in participation in IET and JI activities, and started to prepare themselves for regional implementation of these international mechanisms. In 2000-2002 six regions of Russia compiled bottom-up GHG inventory (about 15% of national GHG emissions) according to the IPCC format (Bashmakov 2002) which is a necessary condition for participation in emission trading. Some regions are undertaking initial steps to develop the regional institutional framework and rules to participate in the application of this tool.⁶ Others are considering the design for establishing the regional registers for GHG emission and sinks. The federal government might oppose active attempts by the regions to establish broader climate related authority, particularly in emission trading⁷. Adoption of a cumbersome administrative mechanism to regulate emission trading in Russia might 'overload' the institutional design for a domestic emission trading programme, impose additional bureaucratic barriers and result in difficulties in performance. According to many experts, during recent years the level of corruption has been much higher in the regions than in the centre (Political, 2002), and it might seriously deform the domestic institutional design for emission trading. However, in order to avoid potential conflicts between the federation and the regions that are willing to participate in IET, there is a need to find an effective means for cooperation in the future.

⁶ A suggested institutional framework in the Archangelsk region includes: elaboration of regional legislation, setting-up a regional intra-departmental commission on climate change to certify emission quotas allocated to the region and register JI projects, adoption of regional climate change programme and a portfolio of JI projects (Samorodov 2001).

⁷ However, comparatively higher roles will possibly be allocated to the regions in hosting JI projects.

Business

Business is the most vulnerable to the ambitions of the federal and regional bureaucrats to establish control over emission trading. It has its own interests: they are defined by the desire to get maximum freedom and minimise possible control of the state in emission trading. In that respect the federal control might appear for business to be less stringent than regional controls. Federal authorities are constantly pushed by the president towards de-bureaucratisation; in comparison with the regions their activities are more transparent, and it is much more difficult to find out about actions of the regional authorities in the 89 federation subjects. At least, not much was heard about de-bureaucratisation there. However since the end of the 1990s business is becoming a new active actor in climate policy formation. Today, many Russian companies actively express their willingness to participate both in emission trading and in joint implementation. Some of the companies have already made the initial steps towards taking part in international emission trading. In 1999-2000 the electricity company RAO UES performed GHG emission inventory on its major 360 power plants which cover about 30% of total domestic emissions. This company has established the Carbon Fund for facilitating inventory compilation, for the elaboration of corporate emission reduction and climate mitigation strategy, as well as a programme for international emission trading and attracting foreign investments for emission reduction projects and can be regarded as an effective private institution in the field. However, apart from their desire many of the entities in Russia do not have any experience and are not aware of what practical steps should be undertaken to enter the market. Recently, the Russian union of industrialists and entrepreneurs initiated a programme to coordinate and facilitate application of the Kyoto mechanisms by industrial facilities.

NGOs

Recently, there has been certain activation of NGOs; but, according to many experts the activities of NGOs in Russia, unfortunately, are still of a decorative character, and the public does not take a real part in their efforts which are mostly limited to activities of a narrow group of functionaries. The reasons to such state-of-the-art are on the surface: the public polls indicated that the population of Russia was primarily involved in solving the problem of survival, and it was first of all interested in solving the problem of extremely low salaries and pensions (which have been below the living minimum), of growing level of unemployment, criminalisation, and insecurity. Recently these actors are supporting a campaign in favour of Kyoto ratification by Russia. However, their opponents indicate that the Kyoto Protocol is not able to prevent increase in global emissions, and emissions in developing countries are growing, while the USA had withdrawn from the regime in order not to limit its economic development. Under these conditions, say the opponents, the Protocol brings more harm than benefits as it only creates the impression of problem-solving without real solutions.

Actors – non-residents

Due to the severe deficit of finance to support the measures of climate policy, the attraction of finance from foreign sources has been initiated in Russia. Compilation of a GHG emission inventory and preparation of the National Communications to the UNFCCC were performed with financial support from abroad. Maybe it was one of the reasons for passive behaviour of the Russian delegation at the international climate negotiations, for one-sided orientation of the Russian climate policy in the nineties. After the US quit from Kyoto there have been fears that Russia might follow this example. The impetus for ratification has declined as the most important buyer has withdrawn from the market. However, after the US decision the RF government declared about its intention to ratify the protocol and form the legal framework for its domestic implementation. During the recent visit of the 'environmental troyka' to Russia at the beginning of March 2003 in order to "promote ratification of the Kyoto Protocol by Russia", Ms. M. Walstrom was persuading Russia that the Protocol would bring benefits to the country, and that "the EU has an interest to buy emission quotas from Russia". However, inside Russia an opposite opinion was also expressed: the EU

countries would tend to buy permits in the EU region from the countries with their surplus amounts instead of purchasing them in Russia at lower prices⁸. As to relations with the US, it was announced that the first meeting of the Russian-American intergovernmental working group looking into climatic changes will take place in Moscow, in April 2003 (Climate-List News #8, 19 January 2003).

9. CONCLUSIONS

Ratification of the Kyoto Protocol by Russia and its entry into force is one of the major prerequisites for Russia's participation in GHG emission trading. It is unlikely that domestic emission trading regime would be introduced in this country if the protocol is not operationalised.

In the event that the Kyoto Protocol enters into force Russia has to meet several international requirements in order to participate in international emission trading, including undertaking a national GHG inventory, and reporting and establishing of a national registry that is compatible with the international format. It has to establish a domestic institutional regime for emission trading, defining laws and rules of behaviour for actors at all levels, the administrative frameworks, major concepts and designing major schemes for a DET programme. Russian GHG emission trading system is not formed yet, and it has no DET programmes with other air pollutants. Introduction of such regime is supposed to be a challenging innovation, and a lot of debates are underway on the issue. Currently they are centred around *who* is the owner of emission allowances, for the meanwhile leaving aside other key design elements of the emission trading regime. While the eligibility criteria are predefined internationally, Russia is free to choose the domestic design of emission trading regime and time-frame for its introduction. Some extreme opinions suggest that there is no need to establish DET even in case of the Kyoto ratification, and it would be sufficient just to sell the national surplus on the international market during the first commitment period in 2008-2012.

As the DET regime is in the very initial stages of formation, there are a great number of uncertainties and variations in approaches to design of its key elements, including legislative and administrative frameworks, modes of emission allowances allocation, choosing the GHG gases to be covered, selection of participants and sources, treatment of new entrants, banking and borrowing, enforcement procedures and others. But, the process is expected to progress more rapidly once the decision on the ratification of the Kyoto Protocol is undertaken.

Another national peculiarity of DET regime formation is that its design might be impacted by ongoing debates between the federal and regional administrations on possible schemes for control and access to economic benefits and potential financial flows from the application of the Kyoto tools. It might have implications, for instance, for the design of emission allowances allocation and the grandfathering chain if the government decides to allocate allowances not only to (or, directly to) the entities, but disseminate them among the regional administrations (89 federation subjects in Russia), which will decide in their turn about further allocation modes. It might result in extra complexities and 'overloading' of institutional design; heavy administrative structures might lead to unnecessary bureaucratic barriers for participants, corruption, problems with control and verification.

⁸ This assumption was discussed at the meeting of the RF government, 11 April, 2002 (Meeting 2002).

The most important constraints for developing an emission trading regime in Russia include existing uncertainties in institutional frameworks for national climate policy implementation, lack of strong government institutions to perform such policies, competition of government bodies for control in this sector, bureaucratisation and corruption in the government, controversies between the centre and the regions, and lobbying by powerful energy producers.

So far, Russia has not ratified the Kyoto Protocol, although a couple of years ago there had been an impression that initiating the ratification process would face no serious barriers; it appeared, however, that it had not only supporters, but opponents as well. Delays with ratification affect climate policy institutional capacity building in general, and refining the approaches and developing institutional schemes for GHG emission trading, in particular. The decision on future institutions to govern a domestic regime on emission trading is regarded by the government as a necessary element in the package of items that are necessary for a decision on ratification. So, there are direct links between Kyoto ratification and domestic design of emission trading regime in Russia.

The flexibility of choice allowed through the international regime for Russia (and, similarly, to its other members) to select particular domestic schemes for emission trading institutions and their key design elements, allows domestic actors who possess enough power, if they wish, to influence the formation of a domestic regime. In Russia, it became apparent even at the initial stages of regime formation that such powerful actors exist, and their interests can be identified in emission trading designs already suggested. Since the interests of these actors do not always correlate with each other, the variation in suggested DET schemes are significant and, often, they are poorly compatible. As a result, difficulties emerge in the formation of a legal institutional framework defining, in its turn, the design of domestic regime for emission trading. Today, it is slightly possible to predict whether any compromise would be achieved, or whether one of the suggested options wins.

In Russia, among the actors who could influence the formation of a DET regime (but, maybe they would not necessarily use the opportunity), as well as actors who would wish to influence the formation process (but, maybe they do not always possess enough power to realise their interests) are the following groups: high level policy makers, mid-level policy makers, high level officials in the federal ministries, regional policy makers and bureaucrats, business, NGOs and non-residents. Behaviour of these actors towards the Kyoto Protocol, towards its ratification, and towards such a practical issue as the domestic design of an emission trading regime is defined by the structure of the interests of particular actors, or their groups in particular periods of time.

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