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## "Green Economy": Opportunities and Constraints for Russian Companies

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Peter Kiryushin

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- “Poputnyj neftianoj gas v Rossii: Szhigat' nel'zia, pererabatyvat'! Analicheskij doklad ob ekonomicheskikh i ekologicheskikh izderzhkakh czhigania poputnogo neftianogo gasa v Rossii [Associated Petroleum Gas in Russia: Stop Flaring, Process! An Analytical Report on the Economic and Environmental Costs of Flaring Associated Petroleum Gas in Russia], Moscow, World Wildlife Fund (WWF), 2013 (with A. Knizhnikov, K. Kochi, T. Puzanova, and S. Uvarov).
- “Analiz potentsiala innovatsionnogo ekologicheskij uctoichivogo razvitiia ekonomiki regiona (na primere Kaliningradskoj oblasti)” [Analysis of the Potential for Innovative Green Growth in Russia's Regional Economies (taking the Kaliningrad Region as a case study)], Moscow, TEIS, 2013 (with O. Kudryavtseva).

## Abstract

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The article explores the importance of a transition to a “green economy” for Russia, as well as the potential opportunities and constraints for its national businesses. Many countries across the world emphasize the significance of ecological concerns and have followed their evolution from sustainable development to a green economy. The Russian state, however, demonstrates little interest in promoting this “green transition”, while Russia companies only see constraints and few opportunities in it. However, public-private partnership could be developed in order to modernize the country and make the “green transition” possible. Such projects could be based on an economic and environmental “win-win situation” driven by both environmental innovation and technological modernization.

# Contents

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<b>INTRODUCTION .....</b>	<b>5</b>
<b>TOWARDS A GREEN ECONOMY: INTERNATIONAL AND RUSSIAN CONTEXTS .....</b>	<b>6</b>
<b>THE LEVELS OF TRANSITION TO A GREEN ECONOMY .....</b>	<b>10</b>
INTERNATIONAL LEVEL.....	10
STATE LEVEL .....	12
CONSUMER LEVEL.....	13
<b>GREEN ECONOMY AND BIG BUSINESS IN RUSSIA .....</b>	<b>15</b>
<b>ENERGY EFFICIENCY AND RENEWABLE ENERGIES.....</b>	<b>18</b>
<b>OTHER SECTORS FOR THE DEVELOPMENT OF A GREEN ECONOMY IN RUSSIA.....</b>	<b>21</b>
<b>CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>23</b>

# Introduction

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“Green economy” is one of innovation and resource efficiency that results in improved human well-being and reduced risks to the environment. The transition to a green economy is a topic becoming increasingly popular in the world and now reaching Russia. The implementation of a green transition strategy in Russia has in particular been championed by the country’s political leaders. For example, Russian Prime Minister Dmitry Medvedev, speaking in 2012 at the Rio+20 United Nations Conference on Sustainable Development, said “we must achieve innovative, energy efficient growth and a ‘green’ economy that will, undoubtedly, benefit all countries”.<sup>1</sup>

Statements made by government officials may not always reflect reality, especially in Russia, but these forward-looking statements suggest an appetite for public-private partnerships and give an important signal to the business community. Therefore, it is important to understand what a green economy means for business, and especially for business in Russia. This paper wishes to outline the contours of the green economy in Russia and its importance for domestic businesses, taking into account several case studies, including one from the energy sector.

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Translated from Russian by Katerina Pembroo.

<sup>1</sup> Speech by D. Medvedev at the third session of the plenary meeting of the Rio+20 UN Conference on Sustainable Development, 21 June 2012, <<http://archive.government.ru/stens/20349/print/>>.

# Towards a Green Economy: International and Russian Contexts

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A green economy is, in some way, a completely new type of economy and many countries have announced their transition towards it. The United Nations (UN) defines the green economy as an economy that promotes the welfare of the population while reducing risks to the environment. Its key characteristics include the effective and efficient use of natural resources, the reduction of greenhouse gas emissions and the introduction of new green technologies.<sup>2</sup>

However, the reasons and goals for this transition may differ depending on the national context.<sup>3</sup> For example, the transition to a green economy in Denmark may be associated with the export of green technologies, the international image of the country and the importance of the issue to voters. On the other hand, China's ongoing green Five-Year Plan is probably driven by the necessity of international cooperation and the pressure for the country to improve its environmental performance.<sup>4</sup> Likewise, there can be fundamental differences in the transition to a green economy between an oil-exporting Russia and an oil-importing Germany.

In their transition to a green economy, different countries will obviously have different public policy instruments, mechanisms and business environments. Public instruments usually include the public procurement of products that meet resource efficiency standards; environmental subsidies or taxes; and incentives for the development of innovative sectors, such as renewable energy or green building. The principal difference between a green economy and environmental regulation is that the former involves both limitations and opportunities. While environmental regulation is not dismissed,

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<sup>2</sup> S. Bobylev, V. Zakharov, "Zelionaia ekonomika i modernizatsia. Ekologo-ekonomicheskie osnovy ustojchivogo razvitiia" [Green Economy and Modernization. Economic and Environmental Outlines of Sustainable Development], *Biulleten' Instituta ustojchivogo razvitiia Obshchestvennoj palaty RF* [Bulletin of the Institute of Sustainable Development of the Civic Chamber of the Russian Federation], No. 60, 2012, <[www.ecopolicy.ru/upload/File/Bulletins/B\\_60.pdf](http://www.ecopolicy.ru/upload/File/Bulletins/B_60.pdf)>.

<sup>3</sup> B. Porfiryev, "Zelionaia ekonomika: realii, perspektivy i predely rosta" [Green Economy: Realities, Perspectives and Limits to Growth], Carnegie Moscow Center, Working Materials, 4 April 2013.

<sup>4</sup> *Energy and Climate Goals of China's 12<sup>th</sup> Five-Year Plan*, Center for Climate and Energy Solutions, March 2011, <[www.c2es.org/international/key-country-policies/china/energy-climate-goals-twelfth-five-year-plan](http://www.c2es.org/international/key-country-policies/china/energy-climate-goals-twelfth-five-year-plan)>.



the green economy brings ecology and social development to a new level, resulting in a positive economic and political agenda.

Though only embodied in documents and policies in the last ten years, the concept of “green economy” has been developed in Western countries for quite some time. Various trends can be identified, starting from the mid-1950s, when the discourse first focused on ecology and resource efficiency, and then advanced to include sustainable development, climate change, modernization and population welfare. However, while the conditions for a “green” national agenda evolved over the course of decades in a number of Western countries, the scenario played out very differently in the Soviet Union (and later in Russia). The global energy crisis in the 1970s did not thwart the Soviet Union’s plans to export fossil fuels, enabling the country to embark on an extensive, i.e. resource-driven, economic development. Grassroots eco-activism—combating urban pollution and the government’s sweeping projects that endangered entire ecosystems—has only become possible in the mid-1980s, during the era of economic and political restructuring known as *perestroika*.<sup>5</sup>

Environmental regulations were first introduced into broad federal policy in the late 1980s. While it enjoyed a brief upswing in the mid-1990s, progress on implementing environmental regulations sharply dropped after 2000. Key factors for this regression included: the simplification and in some cases elimination of obligatory environmental impact assessments; the adoption of newer and much simpler standards for business under the Federal Law “On Environmental Protection”, and the subsequent placement of Russia’s environmental watchdog, RosPrirodNadzor (which until then had been independent) under the jurisdiction of the Minister of Natural Resources, responsible for subsoil licensing.<sup>6</sup> As a matter of fact, it is in the 2000s that the policy of “environmental dumping” was introduced as a way to reduce the “environmental costs” for businesses.

Ecological concerns’ and marginalization in Russia’s public policy agenda was concordant with the turn of the economy towards developing raw materials for export and with the growth of economy indicators on the back of high energy prices. In 2006, the oil and gas consortium Sakhalin Energy, an international public-private partnership, was found in violation of environmental regulations following inspections carried out by RosPrirodNadzor. However, the results of this state environmental review actually allowed the Russian state-owned company Gazprom to obtain a controlling stake

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<sup>5</sup> V. Larin, R. Mnatsakanya, I. Chestin, E. Shvarts, *Okhrana prirody Rossii: ot Gorbachiova do Putina [Nature Conservancy in Russia: from Gorbachev to Putin]*, Moscow, KMK, 2003 <[www.wwf.ru/pic/docdb/publ/okhrana\\_ot\\_i\\_do.pdf](http://www.wwf.ru/pic/docdb/publ/okhrana_ot_i_do.pdf)>.

<sup>6</sup> *Ibidem*.

of the Sakhalin-1 assets at a substantial discount.<sup>7</sup> Thus, Russian state's environmental policy has not always been about environmental objectives.

The green economy began to gain traction in the global economic agenda when environmental concerns were integrated with economic and social development, thereby transitioning to sustainable development. Sustainable development, as defined by the UN World Commission on Environment and Development, is development that caters for the needs of the current generation without jeopardizing the ability of future generations to meet their own needs.<sup>8</sup> Taken in this sense, by the late 1980s, sustainable development became a new narrative of international cooperation. But the concept was still far from meeting economic reality and the specific interests of governments and businesses.

The green economy that appeared in the political agenda of a number of countries in the 2000s is basically sustainable development put on “economic rails”. It is supposed to fulfill the following interests:

- strategic national interests—as a means to increase resource efficiency and energy security, enable the modernization and introduction of new technologies, and prevent financial, economic, environmental and social crises;
- the political and administration elite interests—as a means to obtain the support of the electorate, create new possibilities for public-private partnerships, and receive legitimization as a public figure at the international level;
- the population interests—as a means to increase human welfare and combat ecological problems such as landfills, air pollution and traffic issues;
- business interests—as a means to support the introduction of new technologies, the development of new sectors and new competitive opportunities.

In the Russian context, with the coming into office of Dmitry Medvedev in 2008 came the government's interest in “going green” that brought environment and energy efficiency issues back into the political agenda. President Medvedev quickly adopted a number of legislative documents, which included on 4 June 2008 the Presidential Decree n. 889 “On Certain Measures to Improve the Energy and Environmental Performance of the Russian Economy”. This decree calls for a reduction of the country's energy intensity

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<sup>7</sup> P. Kiryushin, “‘Ekologicheskij taran’ i cakhalinaikaia neft’”, [Ecological ‘Battering Rams’ and Sakhalin Oil], *Mejdunarodnye protsessy [International Processes]*, n. 3, 2008, p. 107–111.

<sup>8</sup> “Our Common Future”, Report of the United Nations World Commission on Environment and Development, Oxford, Oxford University Press, 1987, <<http://www.un-documents.net/our-common-future.pdf>>.

(calculated per unit of GDP) by 40% by 2020 as compared to 2007 levels. There were also increased demands for resource efficiency, as evidenced by the adoption of the stringent requirement for companies to recycle up to 95% of gases associated with petroleum extraction (associated petroleum gas or APG), which put many Russian and foreign oil producers in a difficult position. Likewise, legislative initiatives to promote renewable energy began to gain momentum.

According to official documents, Russia's current state priorities in terms of energy, industry and socio-economic development are generally consistent with the objectives of implementing a green economy. The development of a green economy is also in line with the objectives set forth by current President Vladimir Putin in the Presidential Decree of 7 May 2012, as well as with the "Concepts for the long-term socio-economic development of Russia until 2020" (adopted in November 2008), and with innovation and energy development strategies. Furthermore, a low-carbon agenda has been drawn up: according to the Presidential Decree of 30 September 2013, by 2020 Russia would cut its greenhouse gas emissions to 75 percent of the 1990 level.<sup>9</sup> In December 2012, an interagency working group was established to address issues related to climate change and sustainable development, headed by Advisor to the President of the Russian Federation and Special Envoy for Climate Change, Alexander Bedritskiy.<sup>10</sup>

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<sup>9</sup> "Presidential Decree of the Russian Federation from 30 September 2013, No. 752", *Rossiyskaya Gazeta*, 4 October 2013, <[www.rg.ru/2013/10/04/eco-dok.html](http://www.rg.ru/2013/10/04/eco-dok.html)>.

<sup>10</sup> Order from 13 December 2012 n. 563-rp, "On the Interagency Working Group under the Administration of the President of the Russian Federation on Issues Related to Climate Change and Sustainable Development", <<http://state.kremlin.ru/administration/group>>.

# The Levels of Transition to a Green Economy

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The transition to a green economy needs to take place on different levels. Worldwide, the global green agenda for economy and international mechanisms form low-carbon markets and create business opportunities. Domestically, the transition depends on national strategic interests and their integration into public policy, making public-private partnerships possible. On the consumer level, the transition requires a demand for eco-friendly goods and services, an accurate environmental policy and the presence of grassroots eco-activism to defend and promote this green transition.

## *International Level*

The transition to a green economy at the international level entails specific international and supranational instruments, as well as the creation of a global agenda for business. At the UN Conference on Sustainable Development in Rio de Janeiro in 2012, calls were made for the transition to a green economy. Likewise, the Organization for Economic Cooperation and Development (OECD) and the Asia-Pacific Economic Cooperation (APEC) are developing and supporting a policy of green growth. In the European Union, green standards mandatory for all Member States are adopted, like the “20-20-20” target which calls for a reduction of greenhouse gas emissions by 20% compared to 1990, an increase in the share of EU energy consumption produced from renewable resources to 20% and a 20% increase in energy efficiency by 2020. Russia's BRICS partners—Brazil, India, China and South Africa—are also showing interest in the development of a green economy.

As such, the political and economic directives associated with a transition to a green economy will undoubtedly affect Russia's interactions with a number of countries. This could happen through the regulation of imports and exports on the basis of sustainability requirements, or through the development of “green investments”. Russia's participation in the World Trade Organization (WTO) might also be affected, as the WTO can enact rules regarding environmental protection, resource efficiency and low-carbon products. Likewise, “environmental dumping” or the high carbon

intensity of Russian production can lead to trade restrictions under the new emerging international rules of economic interaction, consistent with the principles of the green economy.

International cooperation in the green economy sphere creates new international markets and new business realities. For example, the UN Framework Convention on Climate Change in 1992 and the Kyoto Protocol in 1997 defined targets for reducing greenhouse gas emissions for various countries. Thus, not only did they create international trading mechanisms for greenhouse gas emissions, but also determined the political agenda of many countries. Businesses then had to adapt to the various policy mechanisms and new business rules created, and to new lines of industry related to low-carbon services.

The critical factor distinguishing Russia from foreign countries actively developing a green economy is the lack of real support in Russia, be it from the government, the public or the experts. In many foreign countries, manmade emissions of greenhouse gases are considered to be a key factor in climate change, which in itself is considered a real global threat. In 2013, the Intergovernmental Panel on Climate Change (IPCC), which was first established by the World Meteorological Organization (WMO) and the United Nations Environment Program (UNEP), released a report arguing that humans are the "dominant cause" of global warming.

In Russia, however, the issue of climate change remains ambiguous and controversial. The thesis that greenhouse gases are a primary cause of climate change has little support in the Russian academic community, while the issue of climate change is not broadly understood by Russian society. As for the country's leadership, climate change is only relevant insofar as it falls within the scope of international cooperation. Accordingly, a low-carbon economy will matter to Russian businesses only if pressure comes from international partners abroad.

Russia has been engaged and is still engaging in climate negotiations. However, during the Kyoto commitment period of 2008-2012, projects existed that could have used foreign investments—such as those to reduce emissions through energy efficiency and retrofitting—but little progress was achieved. By some estimates, the capital raised by carbon projects could have reached billions of dollars. Despite the potential benefits, the creation of infrastructure for the implementation of carbon projects was constantly delayed. Russia signed the Kyoto Protocol in 1999 and ratified it in 2004, while implementation began only in 2007—i.e. right before the start of the commitment period. By then the world had already gone full steam ahead with the development of a carbon market.

Procrastination with the Kyoto Protocol, as many experts argue, was due to the lack of interest among political circles, unclear benefits for key economic groups, as well as difficulties in meeting international standards of transparency. Support and anticipation for

the commercial opportunities associated with the Kyoto Protocol initially came from small and medium-sized businesses and environmental organizations. The Kyoto market mechanisms could have contributed to the creation of a strong carbon business segment and of new financial and technology companies focused on the introduction of low-carbon technologies. However it should be noted that, in general, the attitude of the Russian state towards low-carbon initiatives in that period was ambivalent—and still is. Active opponents of the Kyoto Protocol among public administrators and academics argued that it will have negative economic consequences for Russia.<sup>11</sup> In 2013, Russia stated its refusal to participate in the second period (2013-2020) of the Kyoto Protocol.<sup>12</sup>

## State Level

The state's role as a vector for the green economy, by creating an enabling environment and outlining the rules for business, largely depends on the specific interests of the political elite. These interests can be largely defined by the international agenda. Since many countries are moving towards a green economy, Russia's leadership may be interested in keeping up and being part of international cooperation efforts to promote low-carbon development and reduce greenhouse gas emissions.

International cooperation seems to be a key factor for Russia—or at least it was until recently. Russia's geopolitical interests being intertwined with the current dynamics of international relations, they would benefit from a positive international agenda in terms of green economy, especially as this green economy is on the agenda of not only Western countries, but also of Russia's other partners, such as China and Kazakhstan. Russia has already defined national objectives and indicators for the environment, relating to energy efficiency, development of renewable energy, reduction of greenhouse gas emissions and the increasingly important issue of waste recycling. If achieved, these objectives would count as a transition to a green economy: but this agenda is neither comprehensive, nor a priority. Russian political and administrative

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<sup>11</sup> "Akademik U. Izrael': 'Kiotskij protokol možno rassmatrivat' kak predvaritel'nyj dokument' [Academic Yu. Izrael: 'The Kyoto Protocol Can Be Seen as a Preliminary Document'], *IA Regnum*, 11 May 2005 <[www.regnum.ru/news/452007.html](http://www.regnum.ru/news/452007.html)>; "A. Illarionov: Kiotskij protokol - tot zhe totalitarizm" [A. Illarionov: "The Kyoto Protocol is a Form of Totalitarizm"], *RBC Economics*, 19 May 2004 <<http://top.rbc.ru/economics/19/05/2004/79380.shtml>>.

<sup>12</sup> "Storony Kiotoskogo protokola utverdili vtoroj period soglashenij" [Parties to the Kyoto Protocol Approve the Second Period of Agreements], *RIA Novosti*, 8 December 2012, <<http://ria.ru/science/20121208/913970317.html>>.

elite mainly continues to conceptualize the topic of “ecology” in terms of (high) cost and thereby underestimates long-term benefits.

As to specific economic instruments for Russia's transition to a green economy, despite some political projects—such as the development of energy efficiency or the increase of companies' environmental responsibility—no concrete steps have been taken by the government. For example, the introduction of environmental and resource requirements for government procurements could be a strong impulse. New sectors for the green economy could be created if government contracts and procurements had to be based on sustainability standards. That is how it works in a number of European countries. However, there are currently significant barriers to “greening” government procurement, including the lack of political support, misconceptions about the high cost of green products and the lack of legal precedent in the enforcement of environmental standards.<sup>13</sup> On the other hand, the development of green industries can occur through the public market of innovative products, for which 5% of Moscow's budget is allocated, that is tens of billions of rubles. Due to the important role of government in the Russian business environment and the state's vertical power, governmental resources could quickly promote the development of a green economy and green technologies.

## Consumer Level

Companies' interactions with their customers can be transformed by the green economy. On the one hand, an improvement in the welfare of the population can lead to higher demands for the quality and sustainability of consumer goods and products. On the other hand, consumers may be willing to pay a higher price for products that are environmentally friendly and healthy. Consumers may also make demands on businesses to have green products and services, ones that do not cause any harm to the environment, to the population's health (including outside their own country) or to future generations. Consumers can “vote” with their wallets, preferring, for example, eco-certified products. In Sweden, Germany and the United States, labels have been developed for environmentally-certified products, such as EU EcoLabel, Nordic Swan, FSC or Rainforest alliance. Eco-consumerism in Europe has become quite fashionable and is a sign

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<sup>13</sup> E. Kazakova, E. Bogorad, I. Kuznetsova, “Vnedrenie kontseptsii ekologicheskii chistykh gosudarstvennykh zakupok v Federal'noi kontraktnoi sistemu Rossii” [Introduction of Sustainability Standards for Public Procurement in the Federal Contract System in Russia], Academic Supplement of *Goszakaz: upravlenie, razmeshchenie, obespechenie* [Procurement Contracts: Management, Distribution, Provision], No. 7, 2012, pp. 34-46, <<http://publications.hse.ru/articles/59435369>>.

of a certain way of life and prosperity, belonging to the upper-middle class.

In Russia, the demand for goods and services that meet environmental standards has mainly developed in large cities with growing prosperity. However, while consumer preference for eco products has already gained critical mass abroad, it remains a niche market in Russia. Moreover, the overuse or misuse of sustainability labels and standards is a growing issue: ecologic certification is often found to be “greenwashing”, i.e. green marketing without actual green practices. For example, in Moscow, the prefix “eco” is found on various products and services ranging from garbage collection to countryside real estate. As such, due to the lack of sustainability standards at the administrative and institutional levels, consumer confidence and brand association for green labels in Russia are eroding. For instance, in Russia there is only one respected eco-label—the St. Petersburg Ecological Union. Still, it should be noted that the demand for environmental products and services is gradually increasing, though not as massively as it is in Europe.

A possible flip side is eco-activism—citizens can become more vocal and demanding when they feel that the conduct of companies infringe on their interests. This can result in active opposition by residents of a particular region against the actions of a company that they believe to be environmentally unfriendly. This is what is happening, for example, in the Voronezh region, where the Ural Mining and Metallurgical Company is planning to develop nickel. There are well-known cases of international activists protesting the activities of national companies, as it happened with the seizure of the Prirazlomnaya oil platform by Greenpeace activists. Citizens can also vote for political parties promoting a green economic agenda. Russia has several “green” parties, such as the Alliance of Greens and Social Democrats; however, their political influence is negligible. It can also be noted that the current ruling party United Russia has large environmental projects. Nevertheless, in general, a purely environmental agenda, compared to other issues of socio-economic development, is not that important to the electorate. As such, the establishment of an integrated agenda on socio-economic and environmental development based on innovation—i.e. the green economy—can have real political potential.



# Green Economy and Big Business in Russia

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Are there elements of green economy in the Russian business environment? Do Russian companies use sustainable business strategies? Are there any green business models allowing to create fundamentally new eco-friendly businesses? How do the green industry sectors develop?

In recent years, large Russian companies have increasingly put emphasis on corporate social responsibility (CSR), which has become standard business practice. Russian businesses with foreign participation are dedicating much greater resources to create and develop sustainability reports. Indeed, it is, amongst other things, a necessary condition for the placement of shares on foreign stock exchanges. Besides, a new industry of services for sustainable development has developed in Russia and associations have been created to support the introduction of CSR in large companies operating in the international market. The Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (RSPP)<sup>14</sup> is one of them. However, in Russia, meeting CSR requirements can be seen as a formality rather than an opportunity. Some Russian companies focus their reports on how much money was spent on CSR and not on the results thus achieved.<sup>15</sup> Likewise, while many multinationals have adopted a green agenda as part of their operations and started to use it as a competitive tool, Russian companies operating in the international market have yet to adopt similar practices.<sup>16</sup>

One of the points of confrontation between Russia's big business interests and strategic national interests is the transition to sustainable practices known as "best available technology".<sup>17</sup> Actively

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<sup>14</sup> RSPP Council on Non-financial Reporting: <http://xn--o1aabe.xn--p1ai/simplepage/138> (accessed 28 April 2014).

<sup>15</sup> Public Chamber of the Russian Federation, "Public Hearing on Green Investments: the Role of Government and Business Priorities—Presentation by Kseniya Leshchinskaya (Ernst & Young)", 11 March 2014, [www.youtube.com/watch?v=juniq3X9vEQ#t=104](http://www.youtube.com/watch?v=juniq3X9vEQ#t=104) (in Russian).

<sup>16</sup> For example, the Anglo-Dutch multinational Unilever has launched a Sustainable Living Plan in 2010, [www.unilever.com/sustainable-living/](http://www.unilever.com/sustainable-living/) (accessed 28 April 2014).

<sup>17</sup> Best Available Technology is a term referring to sustainable practices in any type of industry—for example, the oil industry. Such practices are drawn up by

supported by the proponents of a green economy, their introduction is a widespread practice in the European Union. However, in Russia the Russian Union of Industrialists and Entrepreneurs (RSPP) opposes these green practices, arguing that such measures are inadequate in the current economic reality. According to the deputy chairman of RSPP's Committee on Ecology and Natural Resource Use, Yuri Maksimenko, new requirements for the adoption of "best available technology" may face a financial resources shortage from companies, especially with the economic decline. At the same time, according to the Director of Conservation Policy of the World Wildlife Fund (WWF), Evgeny Schwartz, the introduction of these practices could in the contrary not only reduce harmful effects on environment but also improve the economy by increasing the economic efficiency of competitive enterprises.<sup>18</sup> From the standpoint of economic theory, limited financial resources can actually facilitate the introduction of innovative technologies.

However, there have been examples in Russia where national strategic interests combined with (and supported by) big business interests have generated sufficient political will to develop green sectors. Such was the case in the reduction of the flaring of associated petroleum gas and the increase of its recycling. Currently Russia is the world's "leader" for gas flaring. In 2012, the estimated flared volume was 17.1 billion m<sup>3</sup>. Back in 2007, President Vladimir Putin had declared the inadmissibility of such waste. Government Resolutions were subsequently passed in 2009 (No. 7) and 2012 (n. 1148) requiring that up to 95% of associated petroleum gas be used, with a penalty of sanctions or fines for excessive flaring (the first resolution was found to be so strict that a second, less stringent, resolution had to be created). The implementation of the new requirements put the national oil giants, including Rosneft and Gazprom Neft, in a difficult position and forced them to find ways to meet new standards. On the one hand, support for the issue of associated petroleum gas processing might be linked to national strategic interests: the development of petrochemical industries on the basis of associated petroleum gas may provide an opportunity to achieve some national strategic objectives in terms of environmental conservation, import substitution, domestic production of plastics and rubbers, and energy efficiency.<sup>19</sup> On the other hand, the development

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organizations like the Organisation for Economic Cooperation and Development (OECD), or the International Finance Corporation (IFC).

<sup>18</sup> Findings of the Roundtable of the Supreme Environmental Council Committee for Natural Resources, Environment and Ecology of the State Duma of the Russian Federation, held at the Faculty of Economics, Moscow State University, Moscow, 28 March 2014, <[www.econ.msu.ru/science/bioeco/News.20140416120440\\_4006/](http://www.econ.msu.ru/science/bioeco/News.20140416120440_4006/)>.

<sup>19</sup> P. Kiryushin, A. Knizhnikov, K. Kochi, T. Puzanova and S. Uvarov, "Poputnyj neftianoj gas v Rossii: Szhigat' nel'zia, pererabatyvat'! Analicheskij doklad ob ekonomicheskikh i ekologicheskikh izderzhkakh czhigania poputnogo neftianogo gasa v Rossii" [Associated Petroleum Gas in Russia: Stop Flaring, Recycle! An Analytical Report on the Economic and Environmental Costs of Flaring Associated

of petrochemical industries also plays to the interests of some companies in the petrochemical market, such as one of its largest players, government-affiliated SIBUR.

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Petroleum Gas in Russia], Moscow, World Wildlife Fund (WWF), 2013, <[www.wwf.ru/resources/publ/book/837](http://www.wwf.ru/resources/publ/book/837)>.

# Energy Efficiency and Renewable Energies

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Energy efficiency and renewable energy development are critical elements for a green economy and open new opportunities for businesses. The Russian economy has enormous potential for reducing energy consumption through energy efficiency measures. The country's energy intensity (energy consumption per unit of gross domestic product) is 2-3 times higher than that of Europe, which is colossal even if you discount Russia's vast territory and cold winters. Energy efficiency policies first gained some momentum in the 1980s during Soviet times, as part of USSR's comprehensive programs for scientific and technical progress. However, until the 2008 Decree on energy efficiency, the systematization and efficiency of the measures implemented were limited.

Admittedly, some companies—those for which the energy intensity of production is an important factor for competitiveness—introduced energy efficiency measures. However, a range of factors hardly contributed to the development of the energy efficiency sector in the rest of country. Among them are the availability of cheap energy, the assumption of liabilities under the guarantee of international energy security, the leadership in terms of production, political targets for the development of rich offshore fields in the Arctic... Besides, improving energy efficiency was not overly consistent with the interests of energy companies, whose priority is to carry through with investment projects. Today, new business horizons opened up the possibility of creating a market of energy service contracts. Energy service companies (ESCOs) introduce energy efficiency technologies in businesses and profit from the savings made. At the same time, the implementation of such a system runs up against legal barriers and the lack of sufficient public support.

Another key sector of the green economy is renewable energy. Russia not only has great traditional energy resources in oil, gas and coal, but also an enormous potential for renewable energy sources (RES). The effective use of renewable energy—solar energy, wind energy, small hydroelectric plant, geothermal and biomass—could represent no less than 30% of Russia's annual energy consumption. Nevertheless, today, the share of renewable energy does not exceed 1%, with some estimates putting this figure as low as 0.5%.

Despite the significant potential of renewable energy in Russia, interest in its implementation at the state level is relatively recent, and specific policy measures are just beginning to emerge. A Government Order from 8 January 2009 mandated that by 2020, the volume of production and consumption of electricity from renewable energy sources should reach 4.5%. New regulations were passed in May 2013: the target was reduced to 2.9%, but for the first time a mechanism for stimulating the production of electricity from renewable sources was designed at the federal level.

A fundamental component of this mechanism is the competitive selection of RES projects for state funding. Among the selection criteria are low capital costs and the share of local production for generation equipment. This stipulation for locally manufactured equipment has caused controversy among experts, consumers and other market stakeholders: the possibility for large-scale renewable production equipment, such as wind turbines, is very limited in Russia. Nevertheless, as experts claim, this “growth problem” can be resolved in the foreseeable future.

It should be noted that the relatively low level of RES use is associated with several factors, beginning with the legacy of the Soviet Union. Already in the 1960s, the USSR began to develop as an energy superpower with an excess production of conventional energy resources, primarily oil and gas, and the possibility to export them. While the global energy crisis of 1970 prompted other countries dependent on energy imports to lay the foundation for renewable energy development, the Soviet Union did not pay much attention. Today, renewable energy remains underdeveloped in Russia due to several factors: first, the relatively low prices for energy and electricity, which remained flat, at least until recent years; second, the priority of oil and gas as a key energy “resource” in domestic and foreign policy; third, the lack of sufficient public pressure on state leadership, and last and perhaps most important, the lack of political interest and economic support for the development of renewable energy groups. As experience shows, particularly in the United States and Germany, the development of renewable energy requires strong support from politicians, businesses and society.

It is also worth underlining that renewable energy entails several infrastructure and legal problems which have not yet been resolved in Russia. The integration of distributed renewable energy sources on the central electric grid is one of them. Considering that 10% of the country's population has no access to centralized sources of electricity and heat, renewable development can be relevant to state interests because of its potential benefits for the socio-economic development of Russia's most remote regions. For instance, installing wind power systems in Chukotka or solar energy systems in the Altai region could be more economic than delivering fuel or developing grid infrastructure in these regions. However, the implementation of such projects can be complicated by the usual Russian “red tape” and corruption problems. In one known case, a

region was able to become energy independent thanks to the construction of wind power plants; however, as a result, government subsidies that used to be granted to that region to cover the cost of fuel imports were cut. After a while, the wind power plants in the region “broke” and the grants were reinstated.

At the same time, some Russian companies show more interest than ever before in the development of renewable energy. For example, RusHydro, Renova and Rusnano are setting up renewable energy facilities in Russia. Particularly well-known is the “Hevel” project, a joint-venture of Renova and Rusnano for the production of solar panels. Some say that the creation of incentives to support renewable energy in 2013 was the result of lobbying efforts undertaken by these companies.

## Other Sectors for the Development of a Green Economy in Russia

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Recycling is one of the other key sectors of the "green" economy. In Russia, this issue is especially relevant in large cities: for example, Moscow has virtually no waste disposal facilities left for the removal of the city's bulky waste. Such a situation can either spur the development of illegal waste disposal—an always fertile ground for criminal and anti-environmental business schemes—or open opportunities for new, innovative, recycling projects. Since 2005, laws have made the separate collection of waste compulsory in Moscow, and any failure to do so subject to a fine, but in reality the rules are largely disregarded and offenders are never charged. Besides, the lack of a developed system for waste recycling is due not only to government regulation, but also to social and cultural factors. Russians have neither the habit nor the motivation to separate their trash. Nevertheless, the topic of recycling is becoming increasingly important for Russia and has gained momentum. For instance, a new legislation on recycling is currently being drafted, the state company Rostech is accumulating assets in the sphere of waste management<sup>20</sup> and innovative projects are popping up.<sup>21</sup>

"Green building" design and construction also constitutes a new business opportunity. Green construction involves fewer resources and less waste, both in terms of energy and water, and requires less servicing infrastructure. At the same time, green building design creates a comfortable and pleasant environment that benefits physical and psychological wellbeing. The cost of green certified buildings may be a little higher, but variable costs and utility costs are reduced by one-third due to the lower consumption in electricity, heat and water of such buildings. Moreover, studies have shown that labor productivity in green work spaces is higher because these spaces reduce illness rates among employees. Various "green" construction associations exist in Russia and major construction companies are beginning to subscribe to green building design and technologies.

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<sup>20</sup> "Na musornom rynke nachalas' konsolidatsia" [Consolidation Begins on the 'Garbage' Market], *Vedomosti*, 10 June 2013 <[www.vedomosti.ru/companies/news/12937481/musornyj\\_partner](http://www.vedomosti.ru/companies/news/12937481/musornyj_partner)>.

<sup>21</sup> "Vo Vladivostoke budut proizvodit' stroitel'nye materialy po innovatsionnoj tekhnologii" [Vladivostok to Produce Construction Materials for Innovative Technology], Official Site of Vladivostok City Administration, 24 April 2014 <<http://vfc.ru/news/2014/93250/>>.

However, again, the required institutional environment does not exist yet. Training for green building specialists is in its formative stage and much is still to be done to promote the use of environmental building certifications. To date, only a few buildings in Moscow are certified "green", by programs such as the LEED one.<sup>22</sup>

Both in the world and in Russia today, questions surrounding modern industrialization increase in significance. For example, on 15 April 2014, Russian authorities approved a new government program that promotes the development and competitiveness of its industrial sector. It aims at "creating in Russia a competitive, sustainable and structurally balanced industry that is in line with advanced industrial technologies, promotes the development of new markets for innovative products, and contributes to the country's economic development and defense capacities".<sup>23</sup> Therefore, the integration of green economic parameters can provide opportunities for green growth and innovation, and can help to avoid the errors of the 20<sup>th</sup> century's industrialization, when economic growth often came at the cost of the population's wellbeing and the deterioration of the quality of life in general. From this perspective, environmental innovations have significant potential. Thus, the Russian Venture Company is already developing in this direction.<sup>24</sup>

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<sup>22</sup> "Perspektivy razvitiya 'zelenogo' stroitel'stva v Rossii", [Perspectives for the Development of Green Buildings in Russia], *Stroitel'naia orbita*, 22 September 2013, <[www.stroyorbita.ru/index.php/zeljonoje-stroitelstvo/item/1276-perspektivy-razvitiya-zelenogo--stroitelstva-v-rossii](http://www.stroyorbita.ru/index.php/zeljonoje-stroitelstvo/item/1276-perspektivy-razvitiya-zelenogo--stroitelstva-v-rossii)>.

<sup>23</sup> "Ob utverzhdenii novoj redaktsii gosudarstvennoj programmy 'Razvitie promyshlennosti i povyshenie eio konkurentosposobnosti'", [On the Approval of the Amended State Program on the 'Development of Industry and Increase of its Competiveness], Government of Russia, 24 April 2014, <<http://government.ru/docs/11912>>.

<sup>24</sup> E. Gogolev, "Za klintekh v Rossii nikto ne otvachaet" [Clean Technologies in Russia: No One is in Charge], <[polit.ru](http://polit.ru)>, 12 April 2012, <[http://polit.ru/article/2014/04/12/ps\\_cleantech/](http://polit.ru/article/2014/04/12/ps_cleantech/)>.



# Conclusions and Recommendations

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If some progress has been made, Russia still lacks a number of important elements to implement a large-scale green economy policy. For instance, there is a need for political elites' interest and for a positive green economy narrative, which would frame it as an opportunity rather than a constraint. Certain sectors have been identified as priorities and specific targets were set. However, insufficient political will, a lack of interest among powerful business leaders, the weakness of the policy framework and the absence of state incentives for green growth are inhibiting the transition.

The international economic and political cooperation could support the turn to a green economy, making it a main pillar of the modernization of Russia. The latter could rest on an economic and environmental “win-win” situation, driven by both environmental innovation and technological modernization. The implementation of green technologies can be achieved in part through public-private collaboration, a partnership between government and business that would use Russia's research & development potential and encourage the training of “green” specialists in universities. The creation of such mechanisms corresponds to the country's strategic goals to promote the development of industry and innovation.

The following are recommendations for the development of a green economy in Russia in the context of public-private partnerships:

1. Develop a state program to create regional hubs for green growth and regional innovation centers based on public-private partnership in the areas of energy efficiency, waste recycling, green buildings, renewable energy, sustainable urban development, sustainable transport and eco-tourism. Pilot programs could be implemented in several regions, such as the Kaliningrad region and the Primorsky *krai*.

2. Implement adequate “smart” regulation. Stimulate innovation and increase public-private investment in resource efficient technologies, systems and skills in small and medium-sized businesses. Ensure that government spending and public procurement are in line with resource efficiency. Abolish subsidies that are harmful to the environment, and tax breaks for enterprises that are using outdated operating procedures, while at the same time

taking steps to ensure that this does not affect the affordability of products and services for low-income persons.<sup>25</sup>

3. Ensure favorable market conditions for products and services that have the lowest possible impact on the environment during their life cycle, that have a long lifetime and can be repaired and recycled. Gradually withdraw products with the worst performance indicators from the market. Promote environmentally-sound and sustainable methods for resource extraction and the re-use of waste as secondary raw materials (e.g. returning waste into circulation). Draw upon international experience in the use of payments for ecosystem services.

4. To stimulate the development of energy efficiency, create a State fund. That fund will support investments in energy service contracts and guarantee that new projects are being financed in the framework of energy service contracts.

5. Ensure that the innovation capacity of universities is fully realized through collaboration between businesses and government agencies. Provide specialized “green” training in universities, including across disciplinary lines. Introduce new requirements in school curriculums that support environmental awareness among students. Develop a national standard for “green” universities, which could serve as models for a green economy on a small scale.

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<sup>25</sup> Paragraphs 2 and 3 are based on proposals by Irina Bakhtina, Director of Corporate Affairs and Member of the Board of Directors of the company Unilever in Russia, Ukraine and Belarus, for the roundtable of Supreme Environmental Council Committee on Natural Resources, Environment and Ecology of the State Duma, which was held on 28 March 2014 at the Faculty of Economics of Moscow State University (MGU, Moscow), <[www.econ.msu.ru/science/bioeco/News.20140416120440\\_4006/](http://www.econ.msu.ru/science/bioeco/News.20140416120440_4006/)>.