

Russia has approved its first Joint Implementation projects and, despite some quirks in the approval process, it marks a pivotal moment in the growth of the financing mechanism, says ASH SHARMA

The end of the tunnel

Russia's Ministry of Economic Development approved the country's first emissions reduction projects for Joint Implementation (JI) under Article 6 of the Kyoto Protocol on 23 July. This was the culmination of more than five years of slow progress in the largest of the potential JI markets and represents a beacon of hope for the beleaguered mechanism.

Following several false dawns, the government adopted decree No 843 on measures to implement JI on 28 October 2009. This superseded a previous resolution from May 2007.

The decree appointed Sberbank, the largest Russian bank, as the "carbon units operator" which was charged with receiving, reviewing and processing applications for the approval of JI projects. A series of selection rules were later issued against which projects would be judged by an expert council convened by Sberbank.

The objective of the expert review is a comparative evaluation of the accepted applications according to three selection criteria (see box). Each application is awarded a number of points by multiplying (not adding) the scores.

The criteria had drawn some criticism from JI stakeholders as not being objective enough. Some of these concerns appear to have been justified.

A call for proposals was made in February this year. The submissions needed to be supported by an expert opinion and 'determination' report (checking that projects meet the guidelines) from an accredited independent entity – a verification company approved by the JI Supervisory Committee (JISC). Sberbank took four months to review and consult with the interested parties,

SELECTION CRITERIA FOR JI PROJECTS IN RUSSIA

1. **Energy and ecology efficiency, reduction of energy resource consumption and environmental impact, with reference also to best available technology: 1 to 5 points;**
2. **Technical and financial potential to implement the project: 1 to 5 points**
3. **Economic and social relevance to governmental decisions in the field of innovation, social responsibility, modernisation of the economy and technological development: 0 to 3 points.**

yet received the required determination documentation and expert opinions, or were insufficiently developed to participate. Therefore, we can expect strong interest in subsequent rounds.

The results of this assessment were announced by the Ministry of Economic Development of the Russian Federation by its Order No 326 of 23 July, just before the Russian holiday season. Fifteen projects were given the green light, out of 40 submissions (see table). In total, the projects exceeded the 30 million ERUs allowed by the tender; but it is understood that some projects may have had their approved volumes trimmed.

It is expected that the first ERUs will be issued by the end of 2010 or, more likely, early 2011 for emission reductions generated in 2008 and 2009.

There were some surprises, with two large projects destroying HFC23 gas being approved. These two account for about 8 million ERUs, but there are several arguably more worthy projects in the round which appear to meet the selection criteria more closely.

The major industrial actors in Russia were well represented in the submissions and, as could well be expected, also in the approval list. These included state-owned entities and large, private sector corporations known to be close to the Kremlin. However, given the concentrated structure of much of Russian industry, in particular in the hydrocarbon, metallurgical and extractive sectors, this should not be surprising.

It is tempting to conclude that there is a preference for fugitive emissions and industrial processes. However, it would be premature to draw too many firm conclusions from the first tender; as it is likely to be the first of many. It is too early to use this round as a proxy for Russian climate policy or even its JI policy. Nevertheless, some commentators have already begun to do so, citing a higher prioritisation for oil and gas sector projects at the expense of energy efficiency, for example. However, these sectors dominate the JI portfolio in Russia, and are significant more generally in the global JI pipeline.

The approval of the first 15 projects is a significant and historical step for JI in Russia and globally. Despite flaws in the process, it potentially opens the floodgates for a significant volume of ERUs from Russia. There were some surprises, and bureaucratic processes are always far from predictable in Russia. But the procedures for approval finally appear to be working. Many potential carbon market participants and investors in Russia have

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although the regulation only gives Sberbank 45 days to assess the projects and submit the list of preselected projects to the Ministry of Economic Development for approval.

The call restricted the volume of available emission reduction units (ERUs) to 30 million in the first bidding round, out of a possible 100 million–300 million¹ but received 40 applications accounting for more than 75 million ERUs (as per the projects' design documents). Hence, there were always going to be winners and losers.

It is also important to note that the submitted projects were only a third of the total volume that could be expected from Russian projects – 230 million according to the UNEP Risø pipeline, which as of August 2010 counts 104 projects from both Track 1 (a simplified approval process where the host government grants approval) and Track 2 (where the project is approved by the JISC).

Many projects, notably those that reduce leakage from natural gas pipelines, were held back from the first round. Others have not

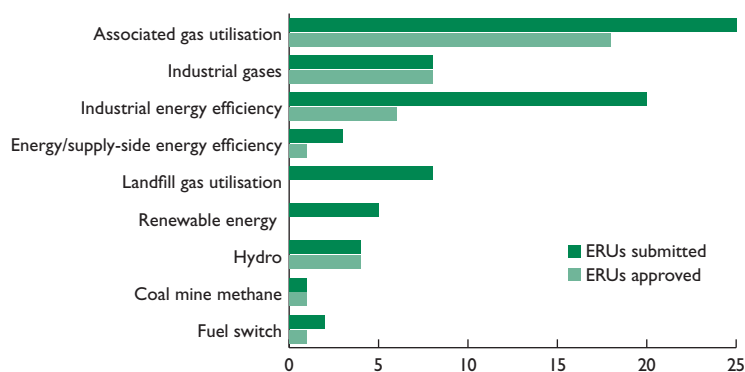
¹ The final version of Decree 843 has no quantitative limits, although limits are alluded to. But the previous version has stated 100 million, and the original Decree 332 referred to a limit of 300 million ERUs.

Jl projects approved by Russian designated focal point, July 2010

Project	Volume of ERUs (2008–12)	Project company	Carbon buyer	Carbon consultant
Associated gas recovery project for the Komsomolskoye oil field	4,000,000	Rosneft	World Bank	EcoSecurities
JSC Samotlorneftegaz gas gathering	846,246	Samotlorneftegaz/TNK-BP	–	Carbon Limits
Utilisation of associated petroleum gas (APG) at Sredne-Khulymensk oil field, western Siberia	526,114	Ritek/Lukoil	–	Sigma
Utilisation of APG at Vostochno-Perevalnoye oil field, western Siberia	311,610	Ritek/Lukoil	–	Sigma
APG recovery and utilisation at Ety-Purovskoe oil field	3,109,867	Gazprom Neft	Nippon Oil Corporation Mitsubishi Corporation	Nippon Oil Corporation
APG recovery at South Balyksky gas processing plant	9,640,842	Sibur	JP Morgan	ERM
Reconstruction of OJSC Nizhniy Tagil Iron and Steel Works blast furnaces 5 and 6	2,121,155	Evrz	–	Camco
Implementation of resource-saving technologies at JSC Ural Steel	3,195,854	Ural Steel/Metalloinvest	–	NCSF
Installation of CCGT-400 at Shaturskaya TPP, OGG-4	1,128,924	OGK-4/E.ON	E.ON Carbon Sourcing	Global Carbon
Increase in efficiency of water resource use at Bratsk HPP, Irkutsk region	4,009,995	Irkutskenergo/EN+	–	NCSF
Evaporation system modernisation at OJSC Ilim Group branch in Koryazhma	879,939	Ilim Group	–	CCGS
Utilisation of coal mine methane from mines of OJSC SUEK-Kuzbass	1,100,000	SUEK	–	Emissions-Trader
Amur CHP-1 coal to natural gas conversion	963,000	Far Eastern Generating Company	Denmark	Energy Carbon Fund
Co-destruction of HFC23 and SF ₆ at KCKK Polimer Plant	4,978,675	KCKK Polimer Plant/ Halopolymer	–	Camco
HFC23 destruction at JSC Halogen, Perm	2,644,614	Halogen/Halopolymer	–	Camco

Source: Nefco; various sources

Volume of ERUs submitted and approved by sector million tonnes CO₂e



Source: Nefco; various sources

come and gone, but those who have stayed are now likely to be rewarded. The market should welcome this leap forward, but the real celebrations should be on issuance.

Moreover, it is important to see this in the context of the larger market. This first tranche of 30 million ERUs approved by the Russian designated focal point is significant given that the JI market in 2009 transacted 26.5 million ERUs worth \$354 million, according to the World Bank. Analysis firm Point Carbon expects

that delivered ERUs over the period 2008–12 would be in the order of 150 million, although the volumes could be higher if Russia were to fulfil even a fraction of its technical potential. By any measure, July's announcement was a breakthrough for JI.

The ministry's actions should be regarded as an important first step, and will boost investor confidence in Russian JI projects. There may give some encouragement for new projects, but the real window of opportunity has closed as we are so far into the Kyoto Protocol's 2008–12 commitment period. Further tenders are expected, possible as early as this month, and could be sector specific.

There should be more opportunity for project scopes such as renewable energies (principally biomass) and waste management, which were unsuccessful in the first round. Sberbank should benefit from experience gained in the first tender, and increase the speed and transparency of its decision-making. Upgrading the country's energy infrastructure and promoting energy efficiency is one of the five priority areas for modernisation established by President Dmitry Medvedev in June 2009. The Russian government should in further tender rounds pay more heed to its own policy priorities relating to energy efficiency, using JI wherever possible.

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