Danila Bochkarev,

Associate researcher, ISPOLE, UCLouvain

The European Green Deal – proposed by the European Commission in 2019 – aims to turn Europe into the first “climate-neutral” continent by reducing Europe’s greenhouse gas (GHG) emissions to net zero by 2050. This climate initiative was met with fierce resistance from coal-dependent countries. Warsaw with its coal-dominated power sector is until present the only European country has not formally endorsed the EU’s 2050 climate neutrality goal. Poland’s coal-fired power station Belchatow (covering 20 % of the country’s electricity demand) is the EU’s [“single largest greenhouse gas emitter”](https://www.euractiv.com/section/energy-environment/news/poland-eyes-hard-split-with-coal/). Nevertheless, political pressure from Brussels as well as EU’s financial assistance will be gradually “greening” Warsaw’s energy policy. A compromise reached by the EU leaders in December 2020 to unblock EU budget package resulted in 56 billion euro allocated for Poland’s green transition in 2021-27. Earlier, in September 2020, Warsaw [updated](http://seo.org.pl/en/aktualizacja-rzadowej-strategii-energetycznej-polityka-energetyczna-polski-do-roku-2040-pep2040-2/) “Poland’s energy policy until 2040” to drastically reduce coal usage in power generation.

The EU wants to put a carbon price on all energy-intensive imports including energy and raw materials and the Commission already **announced creation of a** Carbon Border Adjustment Mechanism (CBA). This is an attempt to create a level playing field for European and foreign producers by reducing risk of carbon leakage which happens when the high production cost related to the strict EU environmental policies forces European industry to transfer production units to the countries with less strict climate standards.

The EU is Russia’s largest trading partner and the carbon footprint of its’ exports to the EU (primarily energy, steel, fertilizers) is second only to China and estimated at 150-200 million tonnes of CO2 equivalent. According to the [estimates](https://www.rbc.ru/business/07/07/2020/5f0339a39a79470b2fdb51be) released by KPMG in July 2020, in 2022-2030 EU CBA might cost Russian exporters – depending on scenario - between 6 and 50.6 billion euro. Alternative calculations made by BCG [evaluate](https://www.bcg.com/ru-ru/press/29july2020-carbon-challenge-to-russian-exporters) the cost for the Russian exporters at US$3-US$4.8 billion per annum. Undoubtedly, the EU’s CBA mechanism would not be welcomed in Moscow. This is a "hidden protectionism under a plausible pretext" that will prevent the access of Russian goods to the European market, said Security Council Deputy Head and former Russian Prime [Dmitry Medvedev](http://www.ved.gov.ru/eng/general/news/19/27561.html). The reaction of Moscow will however depend on the practical implementation of **a** Carbon Border Adjustment Mechanism. Introduction of a carbon tax – clearly seen under [WTO rules](https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm) as a protectionist measure – will allow Moscow to legally challenge these measures. However, the European Commission already [confirmed](https://ec.europa.eu/taxation_customs/commission-priorities-2019-24/european-green-deal-what-role-can-taxation-play_en) that the CBA mechanism will be designed to take full consideration of the WTO rules and other international obligations of the EU. It is therefore likely that the EU CBA mechanism will be a continuation of the European Emission Trading System (ETS). According to [Pascal Canfin](https://www.euractiv.com/section/energy-environment/interview/mep-canfin-eus-carbon-border-adjustment-mechanism-is-not-a-tax/) – a French MEP heading the European Parliament’s environment committee (ENVI) – this move will be easy to approve (a qualified majority is needed, while a tax would have to be approved by unanimity) and will also reduce the risk being rejected by the WTO as a protectionist measure.

In this context, the response of the Russian Government and the private companies will have to be more complex and nuanced. The EU climate policies has further polarized the debate in Russia on what model is right for the country. On the one hand, a group of experts *de facto* proposes to copy the EU policies regardless of whether these are economically feasible, efficient and fit for the domestic market. On the other hand, other group of experts questions the necessity for Russia to develop its’ own climate and carbon policy. The EU-Russia Climate Conference [reflected](https://www.skolkovo.ru/programmes/eu-russia-climate-conference/) these different approaches to Russia’s climate policy.

The truth lies somewhere in the middle and both private sector and the government start to take this issue seriously. In January 2021, vice prime minister Viktoria Abramchenko [approved](https://www.rbc.ru/business/19/01/2021/6006b13e9a79471535e92a12) a pilot programme for carbon trading for Sakhalin, a major oil & gas province. As a result, Sakhalin is expected to become a net carbon neutral region by 2025. Earlier, in October 2020 Russian government adopted a roadmap for hydrogen – a carbon neutral gas with a bright future in transport, power generation and heating -- envisaging new incentives for the consumers and exporters of hydrogen starting in 2021. Hydrogen is important for the Russian economy due to its’ potential to decrease the carbon intensity of national economy and reduce negative impact from the EU CBA mechanism. Gazprom among other Russian energy companies also [adopted](https://www.gazprom.com/f/posts/72/802627/gazprom-environmental-report-2019-en.pdf) mid- and long-term targets for greenhouse gas emissions reduction. Additionally, both Gazprom and Rosatom expected to launch hydrogen production plants by 2024. Furthermore, Russian nuclear company plans to produce hydrogen-powered trains after 2024. “Greening” of Russia’s economy is inevitable but it will be gradual and will be conditioned upon an adequate implementation of government’s regulations. Last but not least, carbon management can be an additional source of unpredictability in relations between Brussels and Moscow and will require tedious export and policy work.