The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Sakhalin Region Aims to Chart Russia's Climate Neutrality Course With Carbon Quotas

By Lana Koralova

October 26, 2023



The Aniva lighthouse on Sakhalin. **Yaroslav Shuraev (CC BY-SA 4.0)**

Russia's Sakhalin region has become the first in the country to set carbon quotas, the latest step in its goal of achieving climate neutrality by 2025.

In light of President Vladimir Putin's 2021 announcement of Russia's aim to reach climate neutrality by 2060, Sakhalin has emerged as a testing ground for mechanisms that could pave the way for a carbon-neutral economy — first locally and eventually nationwide.

"The quotas mark another step in establishing a carbon regulation framework in our country, albeit currently limited to one region," Milena Milich, the special representative of the Sakhalin region governor on climate and sustainable development, told The Moscow Times.

Milich has managed the Sakhalin climate experiment since 2022 and supervised the launch of

the quota system, which was announced in late September.

In Russia, long accused of insufficient climate action, Sakhalin's bid for climate neutrality has garnered significant attention since it became known in 2020. The region earned the top spot in a 2021 independent ranking of Russian regions' climate policies.

Sakhalin's 2025 climate action program consists of measures such as energy conservation, switching from coal to natural gas, improved waste management, development of solar, wind and geothermal power, and phasing out petrol and diesel transport in favor of electric, hydrogen and natural gas-powered alternatives.

"While the specific details may and will be improved in the future, we are on the path to enhancing the international competitiveness of our businesses, shaping new carbon market opportunities and following high environmental and socioeconomic standards for the benefit of our people and future generations," Milich said.

Sakhalin's carbon quotas, or greenhouse gas emissions quotas, are designed to put a limit on the amount of planet-warming gases that local enterprises are allowed to release. In doing so, Sakhalin authorities hope to encourage businesses to track and curb their carbon footprints and set a precedent for broader implementation across Russia.

The established quotas for 2024-2028 apply to 35 large regional companies emitting more than 20,000 tons of greenhouse gasses annually. For every ton of emissions above the quota, these enterprises must pay 1,000 rubles ($10.66).

By the end of 2025, the 35 companies involved in the scheme should cumulatively cut their emissions by approximately 2% compared to 2022 levels.

Meanwhile, to achieve climate neutrality, the region must reduce or absorb around 2 million tons of greenhouse gas emissions — which is the difference between anthropogenic emissions in the region and their capture by ecosystems. This volume is roughly comparable to the annual emissions of cities such as Venice or Athens, or a country like Malta.

The expected impact of the program and its corporate participation is significant given its short time frame of two years for corporate planning. In other countries, such a transformation could normally take up to a decade, including regulatory work, Milich said.

"If our plans are fully implemented, Sakhalin may even become carbon negative, which, along with the continued implementation of low-carbon policies, could potentially position the region as a national climate donor," Milich noted. "And we do believe we can achieve that."

While most of the 35 companies subject to the new regulations will have a slight tightening of quotas over the five-year period, four will see their carbon allowances increase, such as a Gazprom subsidiary developing natural gas on Sakhalin's shelf and Solntsevski Ugolny Razrez, which mines coal, a fossil fuel associated with the highest carbon emissions per unit of energy produced.

In line with guidance from Russia's Economic Development Ministry, the companies' plans for expansion were taken into account when calculating the quotas, Milich said.

She said that the novelty of the approaches in the Sakhalin experiment sparked resistance from some businesses unfamiliar with tracking greenhouse gas emissions or with doing business globally. But despite these challenges, she said the consultation process ended in a "mutually beneficial compromise."

Milich called the step to undertake the experiment "both a volitional decision of the country's leadership and a compromise from all stakeholders acknowledging their responsibility in addressing Russian issues in the global context."

Related article: Russia's Climate Epiphany May Be Greenwashing

While the penalty of $10.66 per ton of excess emissions is similar to the carbon price existing in some countries today, these numbers can be higher in more mature carbon regulation systems such as one in the European Union, where companies pay approximately 90 euros per ton, a climate economist who requested anonymity due to potential risks associated with speaking to English-language media told The Moscow Times.

However, in the EU, businesses are accountable for all their greenhouse gas emissions, not just those that exceed quotas.

"If you are giving away these quotas for free — and that's exactly the case [with the Sakhalin experiment] — then essentially, business does not pay any price, except for these 1,000 rubles per ton as a penalty for exceeding the quota," the expert said. "If they had to pay for the entire volume [they emit], that would be a different story, which immediately creates an incentive to save [money]."

Still, they said, every additional penny of expenditure is an inconvenience for any business. Whether this will be a genuine stimulus for reducing emissions is yet to be seen.

"Companies' environmental officers, who bear this responsibility, will definitely get a scolding if emissions exceed the quotas," the expert said.

"However, whether this will be a part of the company's modernization in order to reduce emissions, I am not sure, because the payment [of 1,000 rubles] is very low. And in the end, if they exceed the limits, they can draw up a report that everything is fine, since verification takes time and we [in Russia] don't have [experienced] verifiers yet."

Although the emission reductions themselves will be limited, the experiment's primary goal is to demonstrate that this mechanism can work, Igor Bashmakov, general director at the Center for Energy Efficiency-XXI consultancy, told The Moscow Times.

"No one can run like a world champion right away — firstly, small steps are needed," Bashmakov said. "Ten dollars is fine at the initial stage. Price shocks are not needed here, but a clear schedule of price increases in the future is necessary."

Despite the policy mechanisms and low-carbon measures enshrined in Sakhalin's climate plan, full decarbonization is not yet on the table.

Carbon absorption by forests, which are abundant in Sakhalin, will be among the measures

key to regional carbon neutrality efforts.

The anonymous climate economist said that increasing forests' carbon absorption is a viable strategy, but pointed to challenges including limited space for forest cultivation and the need to address issues like legal and illegal logging. Moreover, forests bear the consequences of climate change in the form of more frequent wildfires and the spread of pests which can reduce their carbon-sink potential.

"I agree that it might be possible [in the frame of the Sakhalin experiment] to work out some legal and methodological aspects," the expert said. "But why should this serve as an example for other regions? What if they do not have as many forests — say, some of our oil and gas regions in the north?"

Regions lacking in such large forest reserves as Sakhalin could consider ways to grow and preserve them, Milich suggested, while forest-rich territories can take away helpful lessons for refining their own carbon balance assessments from Sakhalin's experience.

"We will be able to demonstrate to the international community the real absorbing capacity of Russia's natural ecosystems and compile an accurate carbon balance on both national and regional scales," Milich said.

Originally intended to be stringent, Sakhalin's carbon quota system was gradually softened and ultimately turned out "quite mild," Michael Yulkin, a climate change expert and visiting lecturer at the Higher School of Economics and Moscow State Institute of International Relations, told The Moscow Times.

"It was a collective effort of many different interests, primarily major companies represented in Moscow and in close proximity to decision-making bodies," Yulkin said.

The expert added that getting a document through higher authorities in Moscow is a challenge, which Milich's team managed to do in the end — even at the cost of some compromises.

"[The Sakhalin team] mentioned that their main task was to make the quotas system work, at least. In the end, it worked somehow," Yulkin concluded. "It was difficult for them, but their efforts are certainly commendable."

Original url:
https://www.themoscowtimes.com/2023/10/26/sakhalin-region-aims-to-chart-russias-climate-neutrality-course-with-carbon-quotas-a82875