

RUSSIA MAKES FURTHER STEPS TOWARDS GHG EMISSIONS REDUCTION

17 August 2021 | Moscow
Legal Briefings

At a glance:

- **Russia is a leading hydrocarbon exporter and is now catching up with the global trend towards decarbonisation.**
- **Recently the first Russian law on reduction of greenhouse gas (GHG) emissions has been passed. In line with that the Russian government is considering the launch of a pilot project in Sakhalin to achieve carbon neutrality of the region by 2025.**
- **Though the new law has taken a soft approach and, together with regional initiatives, it shows that GHG reduction is one of the issues on the Russian government's agenda and the industry may expect further changes in the regulatory landscape.**

In one of our [previous articles](#) we provided an update on greenhouse gas ("GHG") regulation in Russia covering, among other matters, the draft Russian law on reduction of GHG emissions. With active discussions regarding the EU carbon border adjustment mechanism ("CBAM") in the background,¹ the revised draft finally became law on 2 June 2021² (the "**Law**").

The Law comes into force on 30 December 2021, introducing a very basic framework for the reduction of GHG emissions in Russia.

The Law provides for mandatory state accounting of GHG emissions produced by companies with significant GHG emissions. The enterprises will be required to submit annual reports in respect of such emissions to an authorized governmental body: companies with the emissions level of 150 KTA and more starting from 1 January 2023 and companies with the emissions level of 50 KTA and more starting from 1 January 2025. Other GHG emitters may join reporting voluntarily. The reports will be used to populate the state register of GHG emissions.

The Law does not set out any limits or targets for GHG emissions. At the same time, it empowers the Russian government to adopt national targets for the reduction of GHG emissions and implement additional measures if the target is not achieved. The types of such measures are not yet specified. The Law encourages (but does not require) enterprises to implement climate projects which are aimed at reducing GHG emissions or increasing GHG absorption. Verified results of climate projects will serve as the basis for accrual of carbon units which according to the provisions of the Law may be bought, sold and offset to reduce carbon footprint. Climate project initiatives are supposed to be encouraged by state incentives which are yet to be determined.

The Law avoids imposing any measures which may be too burdensome for business and is generally welcomed by the industry. Although as of now the Law does not provide for the payment of carbon price in Russia entitling CBAM declarants to a reduction in the number of CBAM certificates to be surrendered, it is likely that the information submitted under the Law to a certain extent may be used for calculation of embedded emission for the purposes of CBAM.

This initial soft approach taken by the Law is accompanied by initiatives to launch regional projects, for example a GHG emissions pilot scheme in the Sakhalin region. The pilot would seek to achieve carbon neutrality of the region by 2025 by setting up the inventory of GHG emissions, mandatory carbon reporting and, most importantly, emission quotas. Emitters will be charged a fee if the quota is exceeded, and will be able to earn credits by keeping emissions lower than quoted. The credits may be either used to comply with emission quotas or sold, and are expected to be traded alongside the carbon units introduced by the Law. The proposed regulation in Sakhalin will only apply to large-scale emitters. According to public sources, a few other regions expressed their willingness to join this pilot.

Recent changes and initiatives show that GHG reduction is one of the issues on the Russian government's agenda and the industry may expect further changes in the regulatory landscape. Many Russian energy companies have caught up with this trend and are voluntarily taking steps towards decarbonisation:

- PJSC Tatneft joined the Science Based Targets initiative (SBTi) developed by CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. The company will develop and adopt science-based targets with regard to reducing GHG emissions and decarbonisation in terms of SBTi criteria within 24 months and plans to achieve carbon neutrality in 2050 by gradually reducing its emissions.
- According to Rosneft's Plan for Carbon Management, by 2035, the company intends *inter alia* to prevent GHG emissions in the amount of 20 million tons of CO₂-equivalent, cut upstream emissions intensity by 30% and stop routine APG flaring.
- Gazprom reported reduction of GHG emissions by 14% in 2020 compared to the previous year.

- LUKOIL has included an index of carbon footprint reduction into key performance indicators (KPIs) for its top management.
-

1. In principle, CBAM is a measure which aims to protect the competitiveness of certain domestic EU carbon-intensive sectors and avoid the risk of carbon leakage. EU importers of in-scope products will be liable under the proposal to buy CBAM allowances proportionate to the embedded emissions of the products subject to import from certain third countries including the Russian Federation. For further details please see our [Energy notes](#).
2. Federal Law No. 296-FZ "On Limiting GHG Emissions"

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



DANILO LOGOFET
PARTNER, DUBAI

+971 4 428 6301
Danila.Logofet@hsf.com

LEGAL NOTICE

The contents of this publication are for reference purposes only and may not be current as at the date of accessing this publication. They do not constitute legal advice and should not be relied upon as such. Specific legal advice about your specific circumstances should always be sought separately before taking any action based on this publication.

© Herbert Smith Freehills 2022

SUBSCRIBE TO STAY UP-TO-DATE WITH INSIGHTS, LEGAL UPDATES, EVENTS, AND MORE

Close

© HERBERT SMITH FREEHILLS LLP 2022