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Navigating Un- charted Waters

Russia's Evolving Reactions
to the CBAM and the
European Green Deal

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Executive summary

For years, Russia paid limited attention to the emerging global energy transformation, convinced in the staying power of hydrocarbons in the world economy and viewing renewables as little more than a niche sector with significant technological challenges. Yet when the EU adopted the Green Deal in 2019 and announced it would introduce a Carbon Border Adjustment Mechanism (CBAM) that would directly apply to carbon-intensive imports, this sparked an astounding turnaround in the Russian debate on energy transition, decarbonization, and climate change.

Initially, Russia's reaction to the CBAM was strongly negative, as Russia accused the EU of protectionism and non-compliance with WTO principles and of using climate concerns for its own financial gain. While these misgivings are undoubtedly still present, Russia's discourse has shifted towards reluctant acceptance and identifying ways to adapt to the new realities, such as working on designing its own carbon regulation system. In its current shape, the EU's CBAM is not going to have a massive direct impact on Russia: in fact, only some 2% of Russia's total exports would be affected. Yet the broader ambitions of the EU Green Deal would, if implemented, significantly reduce the role of hydrocarbons, thus dealing a blow to fossil fuel exporters like Russia.

In what would have been unthinkable just a few years ago, Russia announced a 2060 carbon neutrality target. It has also adopted a taxonomy of green and transition projects, which draws heavily on the EU taxonomy, albeit with some differences, and is currently working on creating the foundation for a future carbon monitoring and regulation system. Importantly, however, Russia is pursuing decarbonization on its own terms: it is chiefly planning to build on its traditional advantages, such as the large share of hydro and nuclear power; putting a strong emphasis on nature-based solutions, and continuing to use natural gas but also investing massively in carbon capture, utilization and storage (CCUS) technologies. Wind and solar are to play a role too but, unlike in the EU, are not expected to be the backbone of energy transformation.

Finally, Russia is looking at the *low-hanging fruit* of increasing energy efficiency (this could have an outsized impact, for instance, in the highly inefficient residential heat sector), as well as reducing methane leaks and gas flaring. Russia is also planning to become a hydrogen producer, with both blue and green hydrogen projects in the pipeline. In addition, export-oriented industrial companies, especially in the metals sector, are intensifying their efforts at decarbonization, by greening their energy mix (through purchasing green certificates or concluding power purchase agreements), investing in CCUS, and increasing energy efficiency.

While the EU has not yet developed a strategy for engaging with fossil fuel producers like Russia on energy transition, there is much potential for cooperation. Some areas may

include developing a carbon regulation system in Russia that would be recognized in the framework of the CBAM; defining and harmonizing sustainability standards for clean hydrogen; decarbonizing heavy industry; decarbonizing the heat sector; and working on ways to increase Russian companies' access to climate finance.

Big changes underway

Over the past two years, Russia's discourse on energy transition and decarbonization has undergone dramatic change. Early drafts of the 2035 Energy Strategy were strongly based on a vision of the global economy dominated by hydrocarbons for decades to come. Top Russian officials repeatedly *expressed doubts* about the anthropogenic nature of climate change and often preferred to talk about the new opportunities that warmer temperatures would supposedly bring to Russia's Arctic regions. Scepticism about renewables was widespread; at best, wind and solar were seen as suitable for supplying remote settlements in the north of the country. Russia was one of the last countries to ratify the Paris Agreement, in September 2019. Not that it made much of a difference: by default, Russia had already largely fulfilled its obligations under the accord – to reduce emissions by 25-30% by 2030 compared to the 1990 level – due to the major industrial decline in the aftermath of the breakup of the Soviet Union.

Today, the situation is very different. Speaking at the Russian Energy Week in October 2021, President Putin announced that Russia would achieve carbon neutrality by 2060. This year alone, Russia has adopted a federal law on limiting greenhouse gas (GHG) emissions, an updated version of a low-carbon development strategy, a taxonomy of green projects, and selected the Sakhalin region as a pilot for testing an emissions trading mechanism. Currently, Russia is discussing the future parameters of its own system of carbon regulation. The factor that jolted all these developments into action was, without a doubt, the adoption of the EU Green Deal and especially the imminent introduction of a CBAM.

It should be recognized from the outset that Russia's decarbonization agenda remains a top-down undertaking triggered by external pressures rather than broad-based popular sentiment demanding greater climate ambition. While the general awareness of the impacts of climate change is undisputedly growing in Russia, it is not yet a top concern, in comparison, for example, with more localized air and soil pollution issues, especially linked to environmentally harmful waste disposal practices. Furthermore, far from subscribing to the idea of leaving fossil fuels in the ground, Russia is betting on capturing more of the value added from producing oil and gas – be it by aiming to become a major clean hydrogen producer (focusing in particular on blue hydrogen from natural gas) or by investing heavily in the petrochemical industry. All in all, Russia's attitudes towards decarbonization and the global energy transition remain deeply ambivalent.

From rejection to reluctant acceptance

In 2019, the EU adopted the Green Deal package and soon thereafter announced it was working on a set of measures to control carbon leakage that came to be known as the CBAM, but no details on its stringency and scope were available. Stakeholders in Russia became increasingly alarmed, fearing that the mechanism would be introduced swiftly and cover hydrocarbons as well. An oft-cited [KPMG report](#) published in July 2020 added to these worries, estimating the CBAM-related costs to the Russian economy in its worst-case scenario at 50.6 billion EUR by 2030. In October 2020, the powerful industrial lobby group, the Russian Union of Industrialists and Entrepreneurs (RSPP), created a committee on climate policy and carbon regulation, uniting representatives of 30 leading companies in Russia. The committee followed the developments around the CBAM with a great deal of concern and sought to shape government policy so as to protect themselves from the upcoming «EU carbon tax.» They also debated whether such a mechanism could be challenged under the WTO rules.

Popular sentiment echoed these attitudes. [In a 2020 survey conducted by VTSIOM](#), a leading Russian polling organisation, 68% of the respondents voiced the opinion that the EU was introducing a carbon tax in order to secure an additional financing source for its infrastructure, rather than to genuinely combat climate change.

With the adoption of the Fit for 55 package by the EU in July 2021, the key characteristics of the CBAM finally became clear: it would, initially, target only such carbon-intensive sectors as iron and steel, aluminium, fertilizers, cement, and electricity; mandatory reporting would be required starting in 2023 and payments would not commence until 2026. At this news, there was a palpable sigh of relief in Russia – even though of all EU trade partners, Russia is in absolute terms still the country most exposed to the CBAM's impact. Yet the target sectors are important, but not decisive, in the structure of Russian exports to the EU. According to an estimate provided by the Russian Ministry of Economic Development, the total value of Russia's exports to the EU affected would be about [7.6 billion USD annually](#), accounting for some 5% of Russia's total exports to the EU, or 2% of Russia's total exports. (Another [estimate](#) provided by the UNCTAD calculated the total value of affected exports closer to nine billion EUR). The amount is not a game changer, but there are expectations that the CBAM will eventually target other, more critical exports such as oil and gas.

The frequently voiced criticism in Russia remains that the CBAM is protectionist at its core, WTO-incompatible, overly confining, and prescriptive, whereas the Paris Agreement allows countries freedom in choosing ways to decarbonize. It is designed to bolster the EU's geoeconomic standing and technology leadership, rather than to fight climate change. Admittedly, Russia was not alone in criticizing the CBAM. China and the US initially also raised objections. In addition, there has been an open discussion regarding its WTO

compatibility. However, the drafters of the CBAM went to great lengths to design the mechanism in such a way so as to protect it from being challenged under WTO rules. In any case, a WTO challenge appears very unlikely at the moment: the appellate body of the WTO, a standing body that hears disputes, has been rendered non-functional by the ex-President Trump's refusal to appoint new members. As a result, due to the unfilled vacancies, the appellate body has been *unable to review any appeals* since November 2020.

As CBAM introduction is approaching and ever more countries set carbon neutrality goals, the prevailing opinion in Russia has gradually moved away from trying to identify measures to actively challenge or counteract the CBAM to finding ways to adapt and possibly even use it as an impulse for development. The emerging consensus in Russia seems to be that if cross-border carbon regulation is inevitable, then it would be preferable to create a system in which Russian companies would pay taxes and invest in green technologies at home, rather than contribute to filling the EU's coffers (or suffer loss of the market share.)

To make this possible, several things are needed. First, Russia needs to introduce a functional and verifiable carbon regulation system, and secondly, and indispensably, it needs to have its trade partners like the EU recognize this system in order to exempt Russia's relevant exports from CBAM payments. As announced by the Economy Minister Maksim Reshetnikov, the ministry is aiming at securing the recognition of Russia's emerging carbon regulation system internationally by the end of 2023. Negotiating the terms of such an agreement will be difficult, but not impossible. After all, the EU has stated that it would: «explore possibilities for concluding agreements (with third countries) to take into account their carbon pricing mechanism. Agreements with third countries could be considered as an alternative to the *application of CBAM* in case they ensure a higher degree of effectiveness and ambition to achieve decarbonisation of a sector.»

However, the EU has so far been mainly interested in promoting emission trading and carbon pricing schemes in other countries and appears unlikely to take into account climate projects aimed at increasing the absorptive capacity of forests, which is expected to be a major part of Russia's decarbonization efforts.

Uncertain place in energy transition

The CBAM, of course, is only one of many elements of the EU Green Deal and the Fit for 55 package. The ambitious decarbonization efforts of the EU and other leading economies will create much greater challenges for Russia, necessitating a deep restructuring of its economy. Increasingly, ever more voices in Russia call for a major rethinking of Russia's future place in a decarbonizing world economy, pointing out both risks and challenges, as well as new opportunities.

When questioned about the most important implications of global decarbonization for Russia at the Sixth Eastern Economic Forum in Vladivostok in September 2021, German Gref, the CEO of Sber and former economy minister, sounded alarmed. His long list included a fall in export revenues, job losses, the uncertain future of monotowns, Russia's declining role in the global energy system, a fall in budget revenues, and problems for energy companies leading, in the worst case, to bankruptcy. He also noted, however, that the energy transition may offer new opportunities to Russia. In a recent [interview](#), however, Gref said that although Russia's transition to the green economy would require enormous investment on the order of 650 billion to one trillion USD in the next decades, it would also create a large number of new jobs and a momentum for growth. In addition, Gref said, developing ESG financing and introducing carbon pricing (at the level of 62 USD per ton of CO₂ equivalent) would help finance nearly half of the national decarbonization program.

Two other important voices on the global energy transition and its implications for Russia are Anatoly Chubais, former head of RAO UES and later of Rusnano and currently special presidential envoy for liaisons with international organizations in the area of sustainable development, and Andrey Belousov, the first deputy prime minister and a recognized advocate of diversification and technological development in Russia.

Anatoly Chubais, who is known as the key figure behind renewable energy development in Russia, has warned about Russia's need to follow the decarbonization agenda for years. Today, he advocates developing a hydrogen economy, creating a future for the oil and gas industry by moving up the value chain and investing in the petrochemical industry, and exploring nature-based carbon sinks in Russia. Unlike many others, Chubais also believes that wind and solar would develop far more actively in Russia than currently anticipated.

A similar viewpoint was presented by Andrey Belousov in a detailed [interview](#) with *Kommersant* in October 2021. Belousov argued forcefully that Russia needs not only to react to the climate agenda set by the EU, but strive for leadership in the global energy transition and use this momentum to foster its own technological development and domestic structural change. One task would be to modernize the energy system, paying special attention to the carbon-intensive municipal heat sector and its gasification. Belousov is a believer in drawing on Russia's technological advantages and know-how in such areas as nuclear and

hydrogen technologies, where Russia can benefit from its vast gas transport infrastructure and an abundance of geological sites for carbon capture and storage. He also emphasized the importance of developing appropriate regulatory instruments in close cooperation with the business community, including introducing some version of a cap-and-trade system and tax incentives to stimulate the deployment of clean technologies in the energy sector. Finally, he stressed the importance of implementing climate projects related to carbon sinks, such as forests, swamps, and reducing forest fires, and increasing their absorptive capacity.

Russia is finally taking the global energy transition seriously but this does not necessarily mean it is embracing the EU's approach to it. Russia's motto is, rather, decarbonization on its own terms; that is, drawing on Russia's existing natural and technological endowments. For one, this means a strong belief in the importance of natural gas as a transition fuel. Technological neutrality is another buzzword. To put it simply, Russia, unlike the EU, is not prioritizing renewables ahead of all other energy sources but will continue to rely on its traditional low-carbon generation sources – large hydro and especially nuclear. On the latter, Russia is interested in allying with the ten *EU member states* who also advocate for nuclear as an important low-carbon technology (these include France, Finland, and Central Eastern European countries). Russia is planning to invest massively in the CCUS technologies, both in producing hydrogen and in decarbonizing the industry. Finally, in achieving carbon neutrality, Russia puts a great emphasis not only on reductions in CO₂ emissions, but also on the absorptive capacity of its natural ecosystems, primarily forests, and pushing for this capacity to be recognized and accounted for internationally.

Russia's strategies to adapt

Over the past year, both the Russian authorities and Russian businesses (especially in the export-oriented sectors such as the metals industry and the oil and gas industry) have introduced a number of initiatives to adapt to the global climate agenda and in particular the EU Green Deal and the impending introduction of the CBAM.

On the government level, there has been a flurry of legislative activity. In July 2021, Russia adopted the federal law «On Limiting GHG emissions,» which will enter into force on 30 December 2021. It introduces a legal basis for a future state monitoring system of GHG emissions, «climate projects» (i.e. projects aimed at reducing GHG emissions or investing in carbon sinks), a nationwide registry of GHG emissions, as well as the concept of «carbon units» (углеродные единицы), which are generated as a result of the successful implementation of climate projects, and trade in carbon units. The law introduces mandatory annual reporting requirements on GHG emissions for companies emitting over 150,000 tons of CO₂ equivalent per year starting in January 2023, lowering this threshold to emitters of 50,000 tons of CO₂ per year starting in January 2025. In October 2021, the government also adopted a list of gas emissions that are to be part of the emissions inventory, including CO₂ and methane.

Sakhalin, an island in the Russian Far East, has emerged as a climate ambition frontrunner. Sakhalin has set a 2025 carbon neutrality goal, is primed as Russia's first region to test carbon trading mechanisms, and is also the site for a major planned hydrogen cluster. The economy ministry is expecting a draft law on the «[carbon regulation experiment](#)» (the so-called Sakhalin experiment) to be submitted by the end of 2021. Several other regions have indicated their interest in joining the experiment too.

Importantly, the government has reportedly begun work on developing a carbon pricing system, which should emerge in the next few years. However, as discussed in the Skolkovo Energy Center's recent [report](#) on the CBAM's implications for Russia, its exact shape remains open: it might be an emissions trading system similar to the one in the EU, a carbon tax, or some combination of the two. It is also unclear whether it would target only export-oriented industries (in order to protect domestic consumers) or the entire economy. Also, some research has begun to look into the potential implications of a carbon price for the economy. In a [forecast](#) published by the Market Council (Sovet Rynka), the regulator of the Russian wholesale electricity market, the introduction of an emissions trading system with prices similar to the EU levels and covering the entire volume of emissions would increase the cost of energy generated by a coal power plant 5.3-fold, and by a gas power plant, 2.7-fold.

On 29 October 2021, following President Putin's announcement of Russia's 2060 carbon neutrality target at the Russian Energy Week, the government adopted the Low-Emissions Strategy of Socio-Economic Development 2050. Unlike its earlier drafts (such as the one

published in March 2020, where even the most climate friendly scenario foresaw an absolute rise in emissions) the updated target scenario in the strategy aims at a reduction of net GHG emissions by 60 percent as compared to 2019 (and by 80 percent compared to the 1990 level), with a view to achieving carbon neutrality by 2060. This is supposed to be achieved by increasing the share of nuclear power, a strong focus on energy efficiency, reducing methane leaks, massively developing CCUS, switching coal-fired thermal generation for gas, and drastically increasing the absorptive capacity of forests.

Forests as carbon sinks are a major component of Russia's plans for decarbonizing its economy. However, this would require a major reform of the national system of forest management and monitoring, which currently suffers from the lack of oversight and reliable data. There has been much hype in Russia around «carbon polygons,» i.e. a network of specially selected environmental sites (such as forests and marshes) that can be used for testing the methods of measuring net carbon emissions, and «carbon farms,» experimental areas for testing the most effective carbon absorption methods and technologies. However, [according to Anna Romanovskaya](#), Head of the Global Climate and Environment Institute of the Roshydromet and a recognized authority on forests, measures that need to be prioritized are rather to secure the financing for forest fire protection and for sustainable logging practices, as well as creating a reliable and well-funded monitoring system.

Furthermore, the green transition can be viewed as an impulse for technological development in Russia. As in other leading economies, the state has an important role to play in using industrial policy tools to support green economic restructuring. As with solar and wind development previously, the Russian government is considering providing support for the deployment of clean technologies tied to fulfilling local content requirements. This can already be observed in the case of clean hydrogen, where Russia is likely to [use special investment contracts \(СПИК\)](#) to promote technology transfer and localization.

A prominent area of work, led by the State Development Corporation VEB.RF and the Ministry of Economy, is green and sustainable finance. In September 2021, the Government adopted the [criteria](#) for categorizing projects as «green» or «adaptation» (transition) ones, establishing, in essence, a taxonomy for green and sustainable investment. The document also sets forth requirements for the verification of financing instruments and for verifiers themselves. The Russian taxonomy draws heavily on the EU's taxonomy and distinguishes between green and transition projects. One particularity of the Russian document, however, is that it treats waste incineration as a clean technology.

Some of the practical implications of the green taxonomy would include subsidies for interest rates on «green loans» that can cover between 60 and 90% of the interest rate. Currently, a discussion is underway in the government regarding the best support measures for stimulating ESG financing. These could be tax exemptions for green bonds (currently, the tax rate is 13%), reimbursement of expenses for verification up to 1 million RUB, and so forth. As reported by [Vedomosti](#), the final decision is expected by the end of 2021. For

Russia, where the costs of capital are high and are seen as a major obstacle to sustainable development, these measures can help increase investors' interest in green and sustainable projects. Russia is also intent on negotiating ways to make climate investment projects exempt from international sanctions, which is one of its key requests at the COP 26.

The finance sector's awareness of the need for a climate strategy is also highlighted in [the Strategy for the Finance Market Development](#), published by the Ministry of Finance and the Bank of Russia in September 2021. The document states, in no unclear terms, that it is necessary to launch by 2030 a national climate strategy mapping out Russia's transition to carbon neutrality. The necessary elements are a system of carbon regulation (including the monitoring of GHG emissions), climate projects, and the trade in carbon units. As always, the document stresses the absolute necessity to achieve the international recognition of the Russian approach to calculating and verifying the carbon footprint, with a view towards cross-border carbon regulation, with the possibility of recognizing carbon sinks.

As for identifying new opportunities in the global energy transition, Russia has announced the [ambition to become a major hydrogen exporter](#), with companies like Rosatom, Gazprom, and Novatek playing a major role in shaping these plans. In the [Hydrogen Development Concept](#) adopted in August 2021, Russia set the first numerical hydrogen export targets: 0.2 million tons by 2024, at least 2 million tons (and in the «optimistic scenario», up to 12 million tons) by 2035, and between 15 and 50 million tons by 2050. The emphasis is on producing hydrogen from natural gas with CCUS. However, other types of hydrogen production (from renewables or nuclear) are envisioned too. In fact, the [Atlas of Low-Carbon Hydrogen and Ammonia Projects](#) published by the Ministry of Industry and Trade in October 2021 lists more green hydrogen projects than those of any other type (however, it remains an open question how many of those projects will be implemented). Finally, while exporting hydrogen appears a straightforward way to preserve one's status as an energy supplier in a decarbonized world, Russia is also aiming at stimulating clean hydrogen demand and technology development at home – first and foremost in the transport sector.

Business strategies

In the recent past, the Russian private sector was reluctant to embrace tighter carbon regulation. This attitude led to the watering down of the draft law on GHG emissions. For instance, earlier versions of the law featured plans to introduce «carbon payments» for companies emitting more than 150,000 tons of CO₂ equivalent per year; this was later scrapped. Yet the growing external pressure is changing the situation.

In export-oriented sectors such as oil and gas or metals, companies, such as [Tatneft](#) or [Lukoil, for example](#), are now increasingly aware of the need to reduce their carbon footprint and are beginning to issue their own climate strategies or even set zero-emissions targets. NLMK Group, a leading steel producer, is partnering with companies like AirLiquide to

work on decarbonizing steel production. OMK, another holding, is constructing a new steel plant that will use the direct iron reduction (DRI) method in producing steel, which allows, when using green hydrogen, to make steel with significantly reduced carbon emissions.

Rusal, Russia's aluminium giant, has been applying an internal carbon price since 2017 and proactively launched its low-carbon aluminium brand, ALLOW, which is produced with the energy of large hydropower plants that are owned by the holding; the demand for such aluminium is expected to grow. Gazprom Neft has expressed its interest in producing hydrogen and developing CCUS technologies. Suitable CO₂ storage sites may include salt caverns or depleted oil and gas fields.

One relatively simple option for decarbonizing business is to purchase green certificates. The market for I-REC certificates in Russia is growing fast, and the Ministry of Economy is planning to launch its own low-carbon certificates soon. In addition, a growing number of large companies are concluding a Russian version of corporate PPAs, свободные двусторонние договора, with wind and solar producers, such as, for example, Fortum Russia. Some other notable examples include Sber, ShchekinoAzot (a fertilizer producer), and subsidiaries of large international companies such as UniLever. In addition, a growing segment of the market is the construction of corporate generation capacity, including solar and wind, not connected to the national grid. According to the chairman of the Russian Wind Industry Association (RAWI), Igor Bryzgunov, for the next few years there are projects in the pipeline to construct up to one GW of wind capacity based on such corporate demand. Importantly, such generation assets are not subject to Russia's stringent local content requirements that apply to wind and solar capacity for the wholesale electricity market, making them cheaper to implement.

Those Russian exporters who rely on Russia's comparatively low-carbon electricity mix and are already investing in cleaner technologies, are insisting on the possibility to have the carbon footprint of their exports to the EU assessed individually, rather than applying the default EU benchmarks, which are set equivalent to the worst 10% of EU performers. As a result, they have been pushing the government to negotiate these terms with the EU.

However, there is also much room for greenwashing. As repeatedly pointed out by Igor Makarov of the Higher School of Economics, one risk is that Russian companies will engage in reshuffling: namely reorganizing their assets to export low-carbon products to the EU and reorient the most carbon-intensive products to the internal market. This is a strategy, for example, pursued by Russia's holding Rusal, which is planning to separate its low-carbon assets into a separate company, AL+, to produce green aluminium, while more carbon-intensive assets will be united in a different structure targeting the domestic market. Another Russian company, EVRAZ, is also *planning a demerger* of its coal assets into a different entity. Similarly, in the rush for securing certificates for low-carbon energy, it is likely that exporting companies would scoop up the largest share available, while Russian companies producing for the local market will be left to rely on the rest of the power mix.

EU options for engaging with Russia

While the EU has been working on strengthening the climate dimension of its foreign policy, on the whole, it still has to develop a clear position on how to accompany its trade partners – in particular fossil fuel producers – in the context of the CBAM and energy transition more generally. For now, in line with the principles of the Just Transition, most attention has been given to assisting Global South countries with adaptation to climate change and the use of green technologies. As for fossil fuel exporters, the EU does not yet have a clear policy. In the case of Russia, the situation is even more complicated, as the EU and Russia do not have an active energy partnership, political relations are strained, and the international sanctions on Russia make European investors reluctant to invest in Russia.

The EU [Council Conclusions](#) on the external dimensions of the European Green Deal published in January 2021 acknowledge the potential «adverse impact» of the energy transition on fossil fuel exporters. The document also states:

«EU and member state foreign policy and external action will need to anticipate such geopolitical and security challenges, by promoting as well as supporting the development of socially just economic and energy diversification plans, and providing, where necessary, targeted support to the most affected in order to support the transformation of their economies.»

In the strained political climate between the EU and Russia, decarbonization and energy transition are one of the few promising fields of engagement. After all, no global climate action can afford to exclude Russia, a major global CO₂ emitter, and one should take advantage of the fact that the Russian discourse on the issue has significantly opened up in comparison to just a few years ago. The first step would be a better communication of the essence of the Green Deal and the CBAM to Russian partners – and internationally – since misconceptions abound.

The EU is interested in bringing Russia around to join the Global Methane Pledge, which was launched at COP26 in Glasgow in November 2021. Given the new information on the ubiquity and severity of methane leaks in Russia's gas fields and its transportation network, its participation in the pledge would be a big win. The countries joining the pledge promise to reduce their methane emissions by 30% by 2030 (compared to the 2020 baseline), as well as to introduce «[best available inventory methodologies to quantify methane emissions, with a particular focus on high emission sources.](#)» While Russia has not joined the pledge yet, methane leaks are low hanging fruit that can be addressed promptly, especially with new satellite tracking technologies. Pavel Sorokin of the energy Ministry of Energy,

too, has identified methane leaks and gas flaring as an important area for lowering emissions and working towards carbon neutrality.

Secondly, given the importance Russia attaches to its natural carbon sinks such as forests – and to having the EU recognize them as such – it is crucial to develop cooperation mechanisms where the role of forests could be addressed in a science-based and transparent way. While Russia's forest reserves are enormous, in some cases, they can serve as net sources of CO₂ emissions (in cases of large-area forest fires, uncontrolled logging, and so on). Better forest management practices in Russia would be a win for everybody and most importantly for the global climate.

Thirdly, hydrogen development could become an important area of cooperation between the EU and Russia. Russia and other gas producing countries could participate in the debate on developing international certification and sustainability standards for clean hydrogen. The EU, on the other hand, could provide more clarity as to its vision of hydrogen partnerships with fossil-fuel rich states, including Russia. The EU hydrogen and gas market decarbonization package, expected to be adopted by the end of 2021, should introduce greater clarity on these issues.

Fourth, the EU, as a world leader in industrial decarbonization, can offer assistance to its trade partners in helping decarbonize their carbon-intensive industrial sectors, such as the steel and chemical industries.

Finally, greening Russia's economy will require huge amounts of investment, and the cost of capital is a big concern. The EU and Russia could cooperate on aligning their green taxonomies and on facilitating access to climate finance for companies investing in clean technologies. Given that the EU will likely grant nuclear and natural gas a conditional status under its green taxonomy, there might be more commonalities than initially expected.

Conclusion

The prospect of the CBAM introduction has spurred an unprecedented debate in Russia on decarbonization and climate change. In 2021, Russia set a carbon neutrality goal and has begun work on its own carbon regulation system. However, Russia is choosing to decarbonize on its own terms, using its existing natural resource endowments and technological advantages rather than strictly prioritizing renewables. Even though Russia's initial reaction to the CBAM was strongly negative, this has given way to a reluctant acceptance and, increasingly, to a more forward-looking attitude focusing on the ways in which the green transition may benefit Russia's economy. Given that the EU remains Russia's most important trade partner, there are a number of promising areas for cooperation, such as developing a carbon regulation system in Russia and aligning it with the EU's; securing better access to climate finance; reducing methane emissions; developing and harmonizing hydrogen sustainability standards; and decarbonizing the industry and the residential heat sector, to name just a few.

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