TRADE & INDUSTRIAL POLICY STRATEGIES

COUNTRY BRIEF: RUSSIA

Climate change and trade risk: South Africa's trade with Russia

SUMMARY

South Africa chiefly exports agricultural products and metals to Russia. Exports to Russia account for 0.4% of South Africa's global exports. Russia is the world's fourth largest emitter of greenhouse gases (GHGs). Russia continues to invest in coal mining without any substantial climate change commitments. The country lacks a clear climate change mitigation plan and GHG emissions are monitored through light-touch laws, which are seldom enforced. The high-carbon intensity of South Africa's metals production and agriculture is unlikely to be penalised in the near future. This also provides an opportunity to divert metals exports from more stringently regulated markets into the Russian market. This brief is based on a comprehensive review of Russia's climate change policy framework in relation to industries, accessible here, as well as a review of South Africa's climate and trade risks, available here.

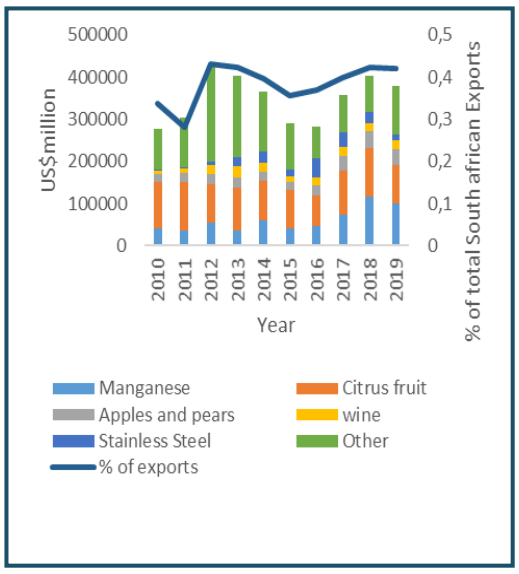
SOUTH AFRICA'S EXPORTS TO RUSSIA

In 2019, South Africa's exports to Russia totaled US$380 000 (R6.4 million), which represented 0.4% of South Africa's total global exports by value. South Africa's exports to Russia are concentrated on agricultural products and the metals value chain. Manganese composed 26% of total exports, followed by citrus fruits (24%), apples, pears and quinces (10%), wine (5%) and flat rolled products of stainless steel (3%). Manganese ores have been the most exported product only in 2018 and 2019.

Citrus fruits are historically South Africa's largest export product to Russia.

South Africa's exports to Russia are overall highly carbon intensive. This is particularly the case for mining products, metals and agricultural products, which are much more carbon intensive than exports from other countries.

Figure 1: South Africa's exports to Russia (left)
Figure 2: Mining export per country per carbon intensity, share of exports and export value (right)



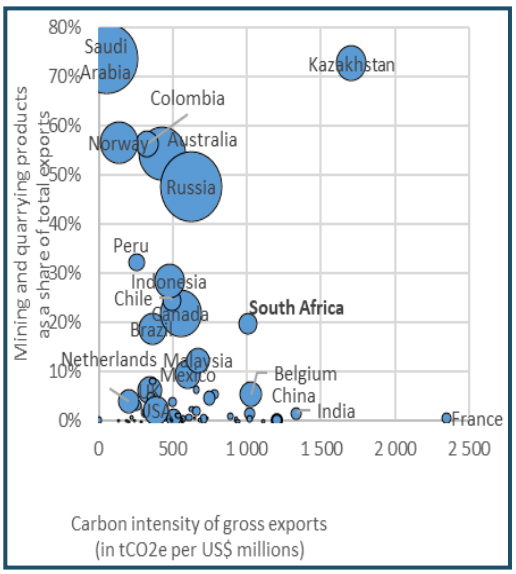


Figure 1 source: Author, based on data from Trade Map, dataset on bilateral trade between South Africa and Russia, downloaded from https://www.trademap.org in June 2020.
Figure 2 source: Montmasson-Clair, 2020, based on data from the OECD, dataset on carbon dioxide emissions embodied in international trade, downloaded from https://stats.oecd.org in March 2020.
Figure 2 note: bubbles indicate the relative value of countries' mining and quarrying export in US$.

Trade & Industrial Policy Strategies (TIPS) is a research organisation that facilitates policy development and dialogue across three focus areas: trade and industrial policy, inequality and economic inclusion, and sustainable growth

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Russia remains the world's largest primary energy exporter and the second largest combined oil and gas producer. In 2017, Russia's energy sector accounted for 79 percent of the country's greenhouse gas emissions.

CLIMATE CHANGE LEGISLATION IN RUSSIA

Russia has adopted an extremely light-touch approach to climate change regulation. Russia is the world's fourth largest emitter of GHGs. The country has the second largest coal reserves in the world, equaling 19% of the world's total deposits. The country remains the world's largest primary energy exporter and the second largest combined oil and gas producer. In 2017, Russia's energy sector accounted for 79% of the country's GHG emissions. While renewable energy investments in Russia have increased in recent years, there was no registered increase in renewable energy capacity over 2017 and 2018, meaning no new projects were commissioned in this period (Climate Action Tracker, 2020).

While Russia formally ratified the Paris Agreement in October 2019, this has been regarded as symbolic, given the lack of improvement to its weak emissions reduction target, and the lack of new climate policies. The country continues to use a 1990 baseline level, rather than a more up-to-date baseline, which allows Russia to increase its emissions over the coming 15 years and still hit the 2030 target set out in its Nationally Determined Contribution (EIA 2004).

At the core of the country's climate change regime for industry is the Federal Law on Environmental Protection. The law establishes economic incentives for industrial facilities to integrate best available technologies into their production processes and reduce emissions of polluting substances (Russian Federation, 2002).

In March 2019, Russia's Ministry of Economic Development tabled a Bill that was the first attempt to regulate GHG emissions directly. The law provided a mandate for the state to set GHG emission targets for companies, and penalties for those companies that exceeded them. Revenues from penalties could potentially fund carbon-mitigation projects. The Russian Parliament subsequently failed to pass the Bill in October 2019, under pressure from the Ministry of Energy, Ministry of Industry and Trade and the Russian Union of Industrialists and Entrepreneurs. This points to strong political tensions that are averse to climate change mitigation (Sauer and Collett-White, 2019).

Table 1: Russia's key climate change policy instruments

POLICY NAME	CORE GOAL(S) OF THE POLICY	COSTS OF POLICY ADAPTATION	PENALTIES FOR LACK OF CONFORMANCE TO POLICY
Federal Law No. 219-FZ on Environmental Protection	Energy efficiency: The law establishes economic incentives for industrial facilities to integrate best available technologies into their production processes and reduce emissions of polluting substances. The incentives offered are, however, limited. A secondary goal is to mandate the monitoring of industrial emissions.	High GHG emitters face onerous obligations. These emitters are required to obtain permits and invest in measurement systems to transfer emissions data to the state. These operators are also legally obliged to use the best available technologies when possible.	Non-compliance results in administrative fines of up to RUB100 000 (US$1 744).
Federal Law No. 96-FZ on the Protection of the Atmos-pheric Air	The protection of atmospheric air quality: This mandatory regulation is aimed at realising the constitutional rights of citizens to a clean environment and access to reliable information on the state of the environment.	Emissions of pollutants require authorised permits. The authorisation sets maximum permissible limits and other terms and conditions. Environmental fees are charged for emissions.	Guilty parties in violation of the legislation face criminal and administrative consequences. No minimum thresholds have been set on the applicable penalty, and each case is adjudicated on its own merits.

Source: Author, based on FAOLEX and FAOLEX Database, n.d. (Federal Law on Environmental Protection and Federal Law on the Protection of the Atmospheric Air).

Russia is a low-risk export destination for South Africa. There is an opportunity for trade diversion into this market from more stringently carbon-regulated markets.

DEVELOPMENTS IN RUSSIA'S ENERGY SECTOR

Excluding hydro, only 0.2% of Russia's electricity was generated from renewable sources in 2019. While Russia stands fourth in the world for overall electricity generation, it is ranked 109th for renewable energy. According to the Association for the Development of Renewable Energy (RREDA), the country does not have specific plans to support investment in carbon-free technologies. Further, while Russia officially targets to generate 4.5% of the country's electricity from renewable energy sources by 2024, RREDA indicates that an objective of 1% is realistically the best-case scenario. Russia's latest energy strategy, for the 2020-2035 period, makes further provisions for coal investments and does not indicate a significant shift to renewable energy (Cordell, 2020). Policy references to energy diversification and energy transitions generally concern balancing export markets for Russian oil and gas exports.

RISKS FOR SOUTH AFRICA'S EXPORTS TO RUSSIA

South Africa's main exports to Russia comprise metals and agricultural products. Russia has demonstrated no real commitment of reducing its own domestic consumption or export of fossil fuels. Russia has not adopted an overarching climate change national strategy. The two leading pieces of legislation addressing GHG emissions by domestic producers are poorly monitored and enforced. As a result, Russia is a low-risk export destination for South Africa. There is an opportunity for trade diversion into this market from more stringently carbon-regulated markets. The agricultural sector is a notable opportunity for South African producers, as the industry is yet to fall under the ambit of the South African carbon tax. Russia's recent investments in new fossil fuel projects, in conjunction with the country's conservative international climate change commitments, further emphasise South Africa's low risk in the Russian market from a climate policy perspective. However, this market represented only about 0.4% of South African exports over the 2017-2019 period.

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This Country Brief forms part of a research project for the Department of Trade, Industry and Competition examining the vulnerability of South African trade to evolving climate change legislation. The research comprises a main report on *The global climate change regime and its impacts on South Africa's trade and competitiveness: A data note on South Africa's exports;* case studies on various sectors; detailed briefs that explore South Africa's trade risks with different countries; and key data in Excel format. The reports, country briefs and excel sheets are available on the TIPS website (see link).

Climate change and trade risks