

Briefing Note

Main Expected Changes in Legislative Regulation of Environmental Protection for Environmentally Hazardous Facilities in the Russian Arctic

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According to the main documents on Russian Arctic development, the Arctic is considered as the strategic resource base of Russia. Under the conditions of increasing economic activities and global climate changes, preservation and protection of the Arctic environment, and also elimination of ecological consequences of economic activities, are the main goals of Russian state policy in the field of ensuring environmental safety of the Arctic. For minimization of negative impact on the Arctic environment, an increase in enterprises' responsibility for environmental pollution is required. At the same time, in order to implement the state policy in the field of socio-economic development of the Russian Arctic, state support is provided to economic agents, which are carrying out their activities in the Arctic Zone, primarily in the field of development of hydrocarbon resources, other minerals and water biological resources.

The Main Expected Changes in Environmental Regulation

Currently, Russia is in the process of reforming its environmental and use of nature governance. One of the objectives of the reform is to differentiate economic agents at the level of potential environmental pollution and (or) of impact on human health and to apply to them proportionate measures of state regulation. The differentiated approach is provided for the separation of objects that have a negative impact on the environment in four categories (Figure 1).

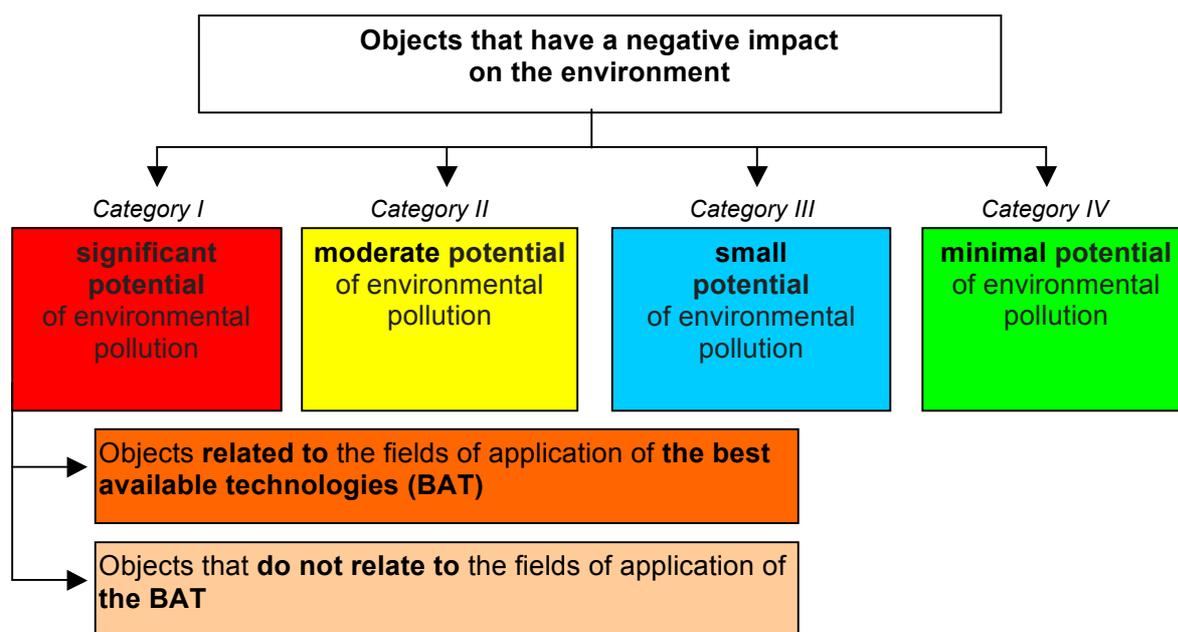


Figure 1: Differentiation of economic agents at the level of potential environmental pollution

For objects in Category IV, measures of state regulation in the field of environmental protection will not be applied. The main measures of state regulation for the other objects are shown in Table 1.

| Categories of economic agents | Quantity of economic agents (objects) | Measures of state regulation |
|--|---------------------------------------|---|
| 1. Agents with significant potential of environmental pollution (Environmentally hazardous facilities - 99 % of negative impact on the Russian environment), including: | 11445 | <ul style="list-style-type: none"> - The establishment of standards for permissible emissions, discharges (the technological standards) by integrated permitting; - The implementation of the state environmental control at the federal level; - Carrying out the state ecological expertise. |
| - a negative impact <i>on air</i> ; | 4772 | |
| - a negative impact <i>on water bodies</i> . | 6073 | |
| 2. Agents with moderate potential of environmental pollution | ~290000 | - Submission of a declaration of the planned emissions, discharges volume |
| 3. Agents with small potential of environmental pollution | ~700000 | - Submission of a report about the volumes of actually made emissions, discharges in the notification procedure |

Table 1: Government regulation of economic agents based on their category in the field of environmental protection

Under the technological standards there will be understood the norms (standards) of permissible emissions, discharges, wastes, water and electricity consumptions, and levels of physical impacts, which are set for the main technological processes and equipment of the best available technologies (BAT) using their technological indicators. Setting these technological indicators is assumed by normative documents after the development of information and technical reference books based on European BREF catalogs, adapted to economic and geographic Russian conditions. It should be noted that for the process of equipment reconstruction, impact on the environment which does not exceed the technological indicators of BAT, is also recognized as the implementation of BAT. Thus achieving technological standards will allow the environmentally hazardous enterprises to have the minimal pressure on the environment at the present stage of development.

For the realization of economic activities, objects with a significant potential for pollution (category I) will be required to contact a territorial agency of the federal executive authority with the application for an integrated environmental permit. The federal executive authority will approve the list of category I objects that need to get the integrated environmental permit between 01/01/2019 and 31/12/2022. This list will include up to 300 objects that have a negative impact on the environment, whose contribution to the total emissions, discharges of pollutants in the Russian Federation is not less than 60 percent. The remaining category I objects must get the integrated environmental permit before 01/01/2025.

For agents with a significant potential for environmental pollution (so-called environmentally hazardous facilities) related to the fields of application of a best available technology (BAT) there is a transition phase provided for technological standartization that creates economic incentives for modernization, including environmental ones. This will have a direct impact on the financial and economic activity of the environmentally hazardous enterprises.

The main legal act, on the basis of which there will be carried out changes in environmental regulation and management in Russia, is the Federal Law of 21 July 2014 N 219-FZ “On Amending the Federal Law ‘On environment protection’ and some legislative acts of the Russian Federation”, which comes into force on January 1, 2015, except for certain provisions (hereinafter – Federal Law N 219-FZ). This act proposes to intensify the economic sanctions on businesses exceeding limits of permissible impact due to increasing coefficients on the rates of payment for the negative impact on the environment (Table 2).

| Coefficient from 01.01.2016 | | Types of negative impacts |
|--------------------------------|---------------------|--|
| before 31.12.2019 | after 31.12.2019 | |
| - | 0 | For emissions / discharges within technological standards after the implementation of BAT |
| 1 | 1 | For emissions / discharges within acceptable standards and for waste of production and consumption within the limits |

| | | |
|----|-----|--|
| 0 | 0 | For wastes to be temporary accumulated and actually used (recycled) in own production in accordance with the technological regulations or transferred for use within the prescribed period |
| 5 | 25 | For emissions/discharges of pollutants within the temporarily permissible emissions/discharges for the period of realization of the environment protection plan or the program to improve the eco-efficiency |
| 5 | 25 | For wastes placed above the established limits |
| 25 | 100 | For emissions / discharges of pollutants exceeding temporarily permissible emissions / discharges |

Table 2: The change of the coefficients to the rates of payment for negative impact on the environment

Within the framework of the reform, it is expected to reduce the list of regulated pollutants, and define a list of substances banned for emissions or discharges by March 31, 2016; and at the same time increase the base rates for negative impact on the environment. It is supposed to keep the system of temporary permissible emissions/discharges for a seven-year period provided that the reduction plans of negative impact on the environment or the BAT implementation programs (eco-efficiency programs) will be carried out. In the case of failure to comply with reduction of emissions, discharges within 6 months after the due date specified in the plan or the program, the calculated payment shall be recalculated applying the coefficient 100.

So the fees for emissions/discharges of pollutants could increase up to 5 times compared with the present period.¹

The Forms and Conditions of State Support for BAT Implementation

State support for BAT implementation in the form of tax incentives; benefits in respect of payments for negative impact on the environment; and state capital investments is provided for in the reforms. These incentives will be given to enterprises if they realize such measures as:

- 1) Implementation of BAT;
- 2) Design, construction, reconstruction of:
 - recycling and wastewater free water supply systems;
 - centralized water disposal systems, sewer systems, local structures and equipment for wastewater treatment, including drainage water, for treatment of liquid waste and sewage sludge;
 - constructions and installations for the capture and utilization of emitted pollutants, heat treatment and cleaning of gases before their emission in the atmosphere, for the beneficial use of associated petroleum gas;
- 3) Installation of:
 - equipment to improve fuel combustion modes;

- equipment for the use, transportation, neutralization of the production and consumption waste;
- automated systems, laboratories for the control of the composition, the volume or weight of waste water;
- automated systems, laboratories (stationary and mobile) to control the composition of the pollutants and the volume or weight of their air emissions;
- automated systems, laboratories (stationary and mobile) to monitor the state of the environment, including natural environment components.

At the same time Federal laws and regional laws may establish other measures of state support, at the expense of federal and regional budgets.

Reducing sum of payments for negative impact on the environment on the sum of costs for financing the above measures can be regarded as benefit for the enterprises. It is necessary to consider that these payments affect the enterprise profit indicators, as they are included in production costs if the economic agent's impact on the environment is within the permissible standards, and when the economic agent exceeds the permitted standards, the fees are levied from the profit.

As a result of reforming the environmental standardization system and introducing incentive coefficients, fees for negative impact on the environment will be around 2% of the cost structure of environmentally hazardous enterprises.

Some Strategic Documents and the Main Tasks in the Field of Environmental Development

Several strategic documents in the field of environmental development of our country were accepted in 2012 and 2014.

First of all, the Russian President approved "Basics of state policy in the field of environmental development of the Russian Federation for the period up to 2030" (hereinafter – "Basics..."). According to the "Basics..." the strategic goal of the state policy in the field of environmental development is to solve social and economic tasks, providing for an environmentally-oriented economic growth, preservation of a favorable environment, biodiversity and natural resources to meet the needs of present and future generations, their human right to a favorable environment, the strengthening of law enforcement in the field of environmental protection and environmental safety. On December 18, 2012 the Action Plan for the implementation of "Basics..." was endorsed by the order of the government of the Russian Federation № 2423-p. Among the main tasks of the state environmental policy are: providing environmentally oriented economic growth and introduction of eco-efficient innovative technologies, and also preventing and reducing the negative current impact on the environment. The mechanisms of these tasks realization are:

- Registration of absolute and specific indicators of the efficiency of natural resources and energy use and the negative impact on the environment;
- Environmental regulation based on the technological standards, under the condition of acceptable risk to the environment and human health;

- Step-by-step elimination of the practice of setting the temporary above permitted standard emissions and discharges.

Secondly, on the 15th of April, 2014, the State Program of the Russian Federation “Environment 2012 to 2020” was approved by the RF Government Decree № 326. Taking into account the priorities of the state policy in the field of environmental protection the objective of the Program is to improve environmental safety and preservation of natural systems. It includes financing for a subprogram named “Regulation of Environmental Quality” which consists of over 70 billion rubles from the federal budget.

The transition to the new state regulation system in the field of environmental protection will take about 10 years. The main tasks of the transition to this system are presented in the Table 3.

| Period | Main tasks |
|-----------|---|
| 2013-2017 | <ul style="list-style-type: none"> - Put all objects of economic activity on the state records; - Differentiation of enterprises according to the degree of impact - Adaptation of sectoral BREFs to the Russian conditions; - Enterprises must prepare the action plans to reduce the negative impact on the environment. |
| From 2019 | <ul style="list-style-type: none"> - A ban on putting into operation new facilities whose emissions / discharges do not correspond to the BAT, except for those companies that received a building permit before 01.01.2019 - Implementation of the transition to integrated environmental permits and declaring of the negative impact on the environment. |
| From 2020 | <ul style="list-style-type: none"> - Increase in the coefficients to the rates of payments for emissions / discharges of harmful substances (pollutants) within the temporarily permissible emissions / discharges carried out with their excess |
| From 2025 | <ul style="list-style-type: none"> - Administrative restrictions will address the existing businesses |

Table 3: Main tasks of the transition to the new system of state regulation in the field of environmental protection

In accordance with the “Plan of the Ministry of Natural Resources and Ecology of the Russian Federation for 2013 to 2018”, by the fourth quarter of 2017, the normative legal acts necessary for the implementation of the Federal Law N 219-FZ must be approved, Russian sectoral BREFs published and organizational measures for the functioning of a new system of integrated environmental permits implemented.

It is expected that not less than 30 major companies will have integrated environmental permits by the fourth quarter 2018 and will have begun to realize ecological modernization programs.

In order to provide reliable information about the level of impact on the environment, objects category I, stationary sources, the list of which is established by the Government of the Russian Federation, will have to equip their stationary sources with automated tools measuring and

accounting emissions and discharges as well as technical communication to the state fund of the state environmental monitoring data.

The Important Environmental Protection Measures at the Current Stage

Thus, in the context of the transition to technological standardization for environmentally hazardous facilities in the Russian Arctic, environmental protection measures such as the following become important:

- Creation and implementation of automatic control system for the composition and volume of wastewater discharges;
- Creation of automatic control systems for air pollution, equipping emission stationary sources of control devices, construction, purchase and equipment of laboratories for air pollution control;
- Construction of facilities and manufactories of raw materials production or finished products from production wastes;
- Research and project works aimed at the environmental safety of production.

Now, companies can finance the implementation of these measures within the accrued sum of payments for negative impacts on the environment, by reducing this sum on incurred expenses.

Conclusions

Stricter requirements in the field of environmental protection will have a major impact on the enterprises that could potentially become significant polluters. Such companies need to use methods of strategic environmental planning to receive economic benefits from the state.

Not only environmental quality of products will be critical in the competitive struggle in the long term, but also the mode of production with use of the BAT, which combine minimal negative impact on the environment, and the rational use of nature and economic efficiency.

There is the economic possibility and practicability of using regulatory mechanisms to reduce fees for negative impact on the environment as the instrument to stimulate the transition of enterprises to the best available technologies.

Notes

1. The History of the development and use of environmental policy instruments in the Russian Federation, including the system of payments for negative impact on the environment, is considered in detail in the publication *Environmental Policy and Regulation in Russia. The implementation challenge*. OECD. (2006) Available at <http://www.oecd.org/environment/outreach/38118149.pdf>

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