
ENFORCEMENT OF ECONOMIC INSTRUMENTS IN RUSSIA

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SUMMARY

One of the newest developments in Russian environmental policy is the movement from command-and-control to market-based regulatory strategies. Payments for emission and discharge of pollutants into the environment and waste storage, granting of tax breaks, credits and other benefits to enterprises and private citizens who introduce into use low-waste and resource-conserving technologies and carry out other effective environmental protection measures are becoming the main tools for environmental protection enforcement.

1 INTRODUCTION

Economic instruments are relatively new means of environmental protection enforcement in the Russian Federation. In January 1988 The Central Committee of the Communist Party of the Soviet Union and the Union's Cabinet of Ministers issued a decree "On the Basic Restructuring of Environmental Protection Activities in the Nation", that has provided for "a decisive transition from mainly administrative to mainly economic methods of environmental protection".

The existing economic mechanism of environmental protection in Russia is regulated mainly by the comprehensive RSFSR Law on Protection of the Natural Environment, adopted on December 19,1991 (1). As the main instruments of economic mechanism of environmental protection the Law regulates financing of environmental protection measures; establishment of standards for the payment and amount of payment for emission and discharge of pollutants into the environment, waste storage and other types of adverse influences; granting of tax breaks, credits and other benefits to enterprises and private citizens who introduce into use low-waste and resource-conserving technologies, and non-traditional energy sources and carry out other effective environmental protection measures (art.15).

2 FINANCING OF ENVIRONMENTAL PROTECTION MEASURES

Financing is a crucial matter for environmental protection. According to the Law financing for environmental protection measures in Russia comes from:

- The Russian Federation's republic budget, the budgets of the subjects of the Federation.
- Funding from enterprises.
- Federal and territorial environmental funds.
- Environmental insurance funds.
- Bank loans.
- Voluntary contributions from the public and other sources.

The Law requires that financing of environmental programs and environmental protection measures is to be designated as a separate item in federal, republic and other budgets. This is an

important provision of the law. At least it is assumed that questions of financing of environmental protection are to be discussed in the Government and Parliament.

In the middle of 80's, state investments in the environmental protection in the economically developed countries varied from 0.8 to 1.5 percent of the gross national product. In the USSR expenditures for the environment at that time were less than 1%.

Deep economic crisis in Russia, destabilization of the financial system, nonsolvency of enterprises, growth of inflation in the country - all these factors are doing their negative influence on implementation of legal environmental protection requirements. According to the National paper on the state of the natural environment in the Russian Federation in 1992 the volume of capital investments in environmental protection in 1992 were 20 % less than in 1991(2). In spite of the legal provision to designate financing of environmental protection measures as a separate item in the state budget the Law on the Russian Federation state budget for 1992 even does not mention this kind of activities. So the Russian public does not even know how much the state invested in the environment 1992, and 1993 as well. As estimated by economists, monies budgeted for the environmental protection in 1993 will be hardly enough for payment of the state environmental protection bodies' activities (3).

The Government which is obliged to implement the environmental protection legislation is mainly responsible for this situation. Priority of the ecological problems in the state's activities is very low at the present stage. The Government invests money first of all for solution of some economic and social problems but not ecological.

Meanwhile as estimated by the Russian Ministry of the protection of environment and natural resources the state of the environment in the country is critical and it is changing to worse. Only to stabilize the ecological situation 1760 billions of rubles was required in 1992. This sum is compared to the gross national product of Russia. Neither the state nor industry has this money now. It is evident that from year to year this sum has been increasing.

Taking into consideration the fact that improvement of the environment has become a factor of survival of the Russian people, despite the present economic difficulties the Parliament should determine in the law a certain percentage of the gross national product to be used for protection of the environment, stabilization and improvement of its state.

3 ENVIRONMENTAL FUNDS

Concurrent with the budgetary money, additional financing of environmental protection in Russia is expected to provide a means of establishment of special environmental funds. In accordance with the Law on protection of the natural environment a unified system of non-budgetary state environmental funds is to be established for the purpose of performing urgent environmental protection tasks, restoring environmental losses, providing compensation for damages caused and other environmental protection tasks. Environmental funds are established at the federal level as well as at the level of republics, districts and local level. All the funds are combined in one system.

These funds are formed using finances received from enterprises, institutions, organizations, private citizens, including:

- Payments for the emission or discharge of pollutants into the environment, waste storage and other types of pollution.
- Sums received on the basis of lawsuits seeking compensation for damages and fines for violations of environmental legislation.
- Funds from the sale of confiscated hunting and fishing gear and the fish and game illegally obtained through use of it.
- Money received in the form of dividends and interest on contributions, bank deposits and shareholder participation of the fund's own monies in the operations of enterprises and other corporate bodies.
- Foreign currency receipts from foreign corporate bodies and citizens.

The monies of environmental funds are to be paid into special accounts with banking institutions and distributed in the following proportion:

- 60 percent to realization of environmental protection measures at the local (city and rayon) level.
- 30 percent to realization of environmental protection measures at the republic, kray or oblast level.
- 10 percent to realization of environmental protection measures at the federal level.

The Law requires that environmental fund monies are to be spent for restoration of the environment and population, the conducting of environmental protection measures and programs, renewal of natural resources, scientific research, introduction of environmentally clean technologies, construction of air and water purification facilities, payment of compensation to citizens for damages caused to their health by pollution and other adverse effects on the environment, development of environmental training and education, and other purposes connected with environmental protection.

The Law forbids spending environmental fund monies on goals which are not connected with environmental protection (art.21).

Ecologists in Russia consider this provision of the Law as well as the decision of legislators to create a special non-budgetary environmental fund as progressive. At least there is a legal guarantee that the fund monies cannot be used for other purposes—though the Government tries to encroach upon the independent status of the environmental fund (3).

Such an attempt to liquidate the federal environmental fund was undertaken by the Government in its program "Reform development and stabilization of the Russian economy" for 1993-1995. The draft of the program suggests including the federal environmental fund in the state budget. This suggestion of the Government is an example of violation of the Law which directly says that the unified system of state environmental funds are non-budgetary.

4 FINANCING OF ENVIRONMENTAL PROTECTION AND PRIVATIZATION

Privatization of state and municipal enterprises can be considered in Russia as one of the largest source of financing of environmental protection activities. Although the privatization process in Russia is historically short - less than three years - applying to solution of ecological problems one can separate two its stages. At the first stage - from June 1991 to January 1993 - factors of environmental protection during privatization of enterprises were ignored.

Though the Russian Law on privatization of state and municipal enterprises, adopted on June 3, 1991(4), has promoted establishment within the National privatization program a special fund for restoration of the environment. But the Law have not created the legal mechanism for practical establishment of this fund. The provision concerning the environmental restoration fund was not developed as well in the first National privatization program (for 1992). So in reality this provision was not implemented.

The situation has been changed for better in 1993. Due to active position of the Ministry of protection of the environment and natural resources it agreed with the Committee on managing the state property to stipulate in a new National privatization program a number of important requirements concerning the environment. They include necessity of ecological auditing of enterprises to be privatized, elaboration of a program for environmental sanitation and establishment at the enterprise the fund for environmental sanitation.

According to a new National privatization program (which is not approved yet) ecologically dangerous enterprises can be privatized only under the condition of realization of environmental sanitation program.

These new provisions promise to contribute to improvement the ecological state of a great number of industrial enterprises. Thus privatization can serve as an important factor for engaging additional significant financing of environmental protection.

5 PAYMENTS FOR ENVIRONMENTAL POLLUTION

The central place in the economic mechanism for protection of the environment is given in the modern Russian environmental legislation to the polluter pays principle. According to the Law payment for environmental pollution and other types of effects are charged:

- For emission and discharge of pollutants, waste storage and other types of pollution within the bounds of established limits.
- For emission and discharge of pollutants, waste storage and other types of pollution beyond the bounds of established limits.

Payment for standard and above-standard emission or discharge of harmful substances and waste storage is to be paid by enterprises strictly according to the following procedure: 90 percent to special non-budget state environmental funds, and 10 percent to the republic budget of the Russian Federation for the purpose of financing the operations of regional state environmental protection organs.

The procedure for listing and application of standard payments for environmental pollution is to be determined by the Government of the Russian Federation.

The Law establishes the rule that payment for environmental pollution does not exempt the enterprise from performance of environmental protection measures or from compensation for damages caused by violations of environmental legislation (art.20).

The procedure for determining payments and their limit values for pollution of the environment, waste storage and other types of pollution was approved by the governmental decree on August 28,1992. According to the decision of the Government payment for the pollution of the environment on the territory of Russia is to be charged:

- For emission of dangerous substances into the atmosphere from stationary and movable sources.
- For discharge of dangerous substances into surface and subterranean water bodies.
- For storage of wastes of production and consumption.

To make the mechanism of payments for environmental pollution more flexible, the Government decided to count expenditures of the enterprise for environmental protection measures as payments for pollution.

On the data of the Russian Ministry of protection of the environment and natural resources 46000 of enterprises charged payments for pollution of the environment in 1993.

In 1993 the Ministry determined standard payments for emissions of 217 widely distributed dangerous substances into the atmosphere and for discharge of 198 substances to water bodies. It is assumed that the list of pollutants for which enterprises are to pay in the course of time will widened and the standard payments will be determined taking into account the toxic characteristics of the substance.

Payments calculated for emissions and discharge of pollutants, and waste storage within the bounds of established limits can be included by the enterprise into the prime cost of the produced goods.

Payments determined for emissions and discharge of pollutants, and waste storage beyond the bounds of established limits are calculated in the following way. The payment for emission, discharge of pollutant or waste storage within the bounds of established limits is multiplied by the value of emission, discharge of corresponding pollutant, waste storage beyond the bounds of established limits and multiplied once more by five. This kind of payment is to be done at the expense of a profit of the enterprise.

According to the decree of the Government the territorial executive bodies in consultation with the territorial environmental protection and sanitary bodies can decrease the size of payments for environmental pollution or set some enterprises, financed from the state budget free from such payments. It is evident that by setting this provision the Government has exceeded its authorities in

regulating payments for pollution. Practice in the western states show that governments and regions can set stricter requirements for environmental protection but not weaker.

Besides the recommendations of this Ministry of protection of the environment and natural resources the executive bodies of the territories in 1991 and 1992 had the right to determine the size of payments depending on ecological situation in the region and economic possibilities of enterprises.

The Russian Federation was expected to receive in 1993 about 90 billions of rubles for pollution of the environment. One of the defects of the existing system of payments resides in the fact that payments are determined without taking into account the inflation processes in the country, which are rather high. Nevertheless payments of some enterprises are large. For example, Norilsk metallurgical plant was to pay for environmental pollution in 1993 about 4 billions of rubles.

In general payments are rather grievous for enterprises. A lot of enterprises try to avoid payments for environmental pollution. Arbitration (economic) courts had settled in Russia in 1992 about 6 000 disputes in this sphere.

6 ECONOMIC INCENTIVES FOR ENVIRONMENTAL PROTECTION

In the Russian Federation incentives for environmental protection are provided by means of:

- Establishment of tax breaks and other benefits for state-owned and other enterprises, institutions and organizations, including those engaged in environmental protection, which introduce into use low-waste and no-waste technologies and means of production, use secondary resources, and engage in other activities which serve to protect the environment.
- Tax exemptions for environmental funds.
- Transfer of a portion of funds from environmental funds to interest-bearing loans to enterprises and individual citizens to finance measures guaranteed to reduce pollutant emission or discharge.
- Establishment of higher amortization rates for fixed production capital belonging to environmental protection funds.
- Setting of special reduced prices and bonuses for use of environmentally sound products.
- Introduction of a special system of taxation on environmentally harmful products, as well as products produced using environmentally hazardous technologies.
- Granting of advantageous loans to enterprises which are implementing effective environmental protection measures, regardless of their form of ownership) (art. 24 of the Russian Federation Law on protection of the natural environment).

The Law of the Russian Federation on profit tax of enterprises and organizations (5) provides that the profit tax is reduced by the sum equal to 30% of capital investments in the environmental protection, including regeneration of natural resources, guaranteed reduction of the emission and discharge of pollutants, introduction of low waste technologies, the use of recycled resources and production of ecologically clean products.

The same Law also provides that taxable profits is reduced by the sum equal to the profits used for construction, reconstruction and renovation of buildings, equipment and machineries and introduction of new technologies. That means that enterprises have a tax stimulus to use a part of its profits for introduction of new technologies.

According to the RSFSR Law on income tax of enterprises (6) payments of an enterprise to environmental funds are not imposed by taxes.

In general the system of economic tools for environmental protection in Russia is at the stage of growth. We hope that the serious environmental situation in the country will be finally overcome in the course of gradual construction of the based-on-law and social state as it is foreseen by the new

Russian Constitution, elaboration of the modern environmental protection legislation and successive development and enforcement of economic means used in the optimal combination with administrative tools.

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