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Illarionov Has a Good Point on Kyoto

By Konstantin Sonin

With each passing day, information about the plans of President Vladimir Putin and the government becomes scarcer. In the West, the almost-forgotten discipline of Kremlinology -- divining the contents of the president's next decree based on the running order of the evening news -- is enjoying a revival.

In this context, the efforts of a high-ranking official to raise public interest in an issue of importance to Russia appear genuinely out of the ordinary. And the fact that he is pitted against European Union officials who are trying to keep things under wraps makes it all the more remarkable.

The official's name is Andrei Illarionov, Putin's economic adviser, and the issue facing Russia is whether or not to ratify the Kyoto Protocol on climate change. With the United States refusing to ratify the protocol, Russia has the deciding vote: Without us, the international treaty limiting greenhouse gas emissions will not come into force.

The climatological debate on whether carbon dioxide emissions are harmless or the cause of global warming has become so convoluted that there's no seeing the forest for the trees. Both sides in the debate bolster their positions with compelling arguments from leading scientific journals and the qualified opinions of specialists in the field.

The economic aspects of Kyoto are less hazy, and Illarionov is right to point out the negative consequences of ratification for Russia. Data show that every country has its "energy U-turn" -- a graph in the shape of an inverted parabola; in other words, every country has a period in its history when energy consumption (i.e., carbon dioxide emission) per unit of GDP rises and a period when it falls.

In recent decades, industrially developed countries have been on the downward slope, while less developed and developing countries are on an upward incline -- Russia included, it would appear. After a certain period of time, energy consumption per unit of GDP will peak and begin to fall. The Kyoto Protocol, however, constrains this natural development. And it is no coincidence that rich European countries are the main and most energetic supporters of the protocol.

There is also another view on the Kyoto issue, one that has more to do with geopolitics. Given that a lot depends on Russia's ratification, Moscow has a major bargaining chip. Simply promising to try to accelerate the ratification process was sufficient to ensure considerable progress in WTO talks with the EU a couple of months ago. On the home front, if the protocol is ratified, then, no doubt, the bureaucracy will get to set up a new federal service or, at the very least, an agency for allotting carbon dioxide emission quotas.

Back to Illarionov, however: We witnessed something similar exactly six years ago, just a couple of months before the default and devaluation of August 1998. At the time, many economists argued that the ruble was seriously overvalued and that a sharp devaluation was inevitable, but only Illarionov actually said these things publicly and on television -- against an incessant chorus of Central Bank officials who assured the population that their current policy was absolutely correct.

Back then, few paid much attention to him, with the exception of a few bankers who managed to dispose of their treasury bills before it was too late. Maybe this time, before Russia ratifies the Kyoto Protocol and while there is still time to consider the consequences, it would be worth listening to Illarionov's arguments for a change.

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