

Waste reform in Russia poses challenges and opportunities for investors

Russia · 11.09.2020

Available languages: [DE](#) [RU](#)

Starting from 1 January 2019, Russia has been implementing a programme of “waste reform” to radically change its municipal waste-management system across the country. Many of the scheduled preparation and organisational arrangements have already been implemented or are in the pipeline.

Reform is lagging behind the declared targets, however, especially concerning the creation of necessary infrastructure.

In this situation, it is of paramount importance for Russia to adopt foreign solutions, in particular the European practice of solving such problems. In our opinion, these challenges open great opportunities for potential investors to implement projects in this field.

This article provides a general overview of ongoing Russian municipal waste management reform with more specific topics discussed in future articles. Our aim is to outline the legal and practical framework for players interested in entering the Russian waste market.

Background

During the almost 20 years that [Federal Law No. 89-FZ “On Production and Consumption Waste” dated 24 June 1998*](#) has been in force, landfills have remained the most common means of disposing of solid household municipal waste (“MSW”). The share of disposable (including recyclable) MSW from the total generated MSW, however, was small.

Moreover, the process of collecting, transporting and deploying MSW was poorly organised and insufficiently controlled by the state.

As a result, existing landfills have become critically overfilled, the number of unauthorised dumps has increased, and the overall situation with MSW management has deteriorated, especially in the Moscow Region and other major cities. In fact, the entire country is facing an environmental crisis.

Measures taken

In 2017 and 2018, the federal government adopted a number of organisational and legal measures aimed at resolving the situation.

As a result, at the end of 2017 [Federal Law No. 503-FZ “On Amending the Federal Law “On Production and Consumption Waste” and Certain Legislative Acts of the Russian Federation” dated 31 December 2017*](#) was adopted to initiate reform.

In 2018, pursuant to [Executive Order of the Russian President No. 204 “On National Goals and Strategic Objectives of the Russian Federation through to 2024” dated 7 May 2018*](#), the Presidential Council for Strategic Development and Priority Projects and the Government of the Russian Federation developed an “Environment” national project introducing a federal “Comprehensive MSW Management System” for implementation by the end of 2024.

The main targets of this federal project include:

- an annual increase in the share of processed MSW from 3% (base value as of 1 September 2018) to 60% of the total generated MSW by 2024;
- an annual increase in the share of recycled MSW from 1% (base value as of 1 September 2018) to 36% of the total generated MSW by 2024; and
- the commissioning of 37.1m tons of MSW processing capacity by 2024.

Plans are in place to build 95 waste processing, recycling and neutralisation facilities, 150 MSW sorting facilities and 40 multi-purpose sorting facilities by 2025.

Main directions of the reform

The implementation of the main arrangements for the reform programme started on 1 January 2019 with the objective of arranging the MSW disposal process (including recycling) and separating the collection of waste in order to significantly reduce landfill waste.

To achieve these goals, each region (i.e. constituent entity of the Russian Federation), except for Moscow, St. Petersburg and Sevastopol where “waste reform” was postponed until 1 January 2022, is required to implement the following measures:

- prepare and approve a territorial waste (including MSW) management scheme, including the description of how waste management should be organised and conducted in each relevant constituent entity;
- select a regional operator, which will serve as the company responsible for MSW management process in the relevant region;
- approve regional MSW management tariffs for legal entities and individuals;
- build waste sorting and waste recycling facilities; and
- introduce a separate waste collection or accumulation system.

In connection with the initiation of this reform programme, powers have also been reallocated among regional and municipal authorities. For instance, administration of MSW management has been shifted from the municipal to the regional level. At the same time, municipalities have been authorised to set up and maintain MSW collection (i.e. accumulation) sites, to organise environmental education and form an environmental culture related to MSW management.

By contrast, federal authorities are responsible for prescribing the procedures for developing and approving territorial schemes of waste (including MSW) management, and for approving investment and production programmes in relation to MSW management.

Today, most regions of Russia have already approved their territorial waste management schemes, selected their regional operators and set relevant tariffs. Many regions are gradually introducing the system of separate (i.e. two-container) collection of waste. As a result, the key organisational arrangements are in a high degree of readiness.

The required regulations have been enacted at the federal level, and a federal scheme of waste (including MSW) management has been drafted. The draft is currently being finalised by experts and is being reviewed by regional authorities for approval by the end of this year.

Challenges and prospects

Despite the organisational and legal arrangements already in place, the problem of insufficient funding for the activities of regional operators remains the main obstacle in implementing “waste reform”.

It was initially intended that MSW management services would be paid through the approved tariffs, which will be charged to citizens and legal entities. In practice, the rates of such tariffs have been higher than payers had expected, resulting in regional operators regularly facing the problem of non-payment. During the current pandemic, the situation has only worsened. As a result, the Russian government has been forced to provide financial support to the most affected operators.

The lack of adequate funding also affects the investment part of the reform programme and, above all, projects for the construction of waste sorting and recycling facilities and related infrastructure projects.

In 2019, the Russian Environmental Operator was established as a special public company to coordinate the activities of regional operators and to ensure the implementation of MSW management measures. An important part of the company's activities is financing investment projects in this area and attracting private investors.

In addition, existing projects are partially financed by federal and regional budgets. For example, seven of the planned thirteen waste recycling plants have already been built in the Moscow Region. A foreign investor in the Kaliningrad Region is implementing another project: a multi-purpose waste sorting plant and a waste landfill. In addition, the planned construction of four waste recycling plants in the Leningrad Region has been announced in connection with the approval of a territorial waste management scheme.

The current pace of construction, however, is not rapid enough to achieve the federal programme's objectives as mentioned above.

Consequently, this creates an opportunity for potential investors to implement projects in this area, especially in the creation of waste sorting and recycling plants and related infrastructure, and the supply and installation of

necessary equipment.

Obviously, an investor's guaranteed returns remain an important prerequisite for investing in such projects. In this respect, involving a reliable public partner and a financing party in the project is of particular importance. We also believe that a concession agreement or a public private partnership agreement would best serve the interests of investors.

For more information on opportunities in waste management in Russia, please contact CMS Russia experts [Dr. Thomas Heidemann](#), [Dmitry Bogdanov](#) or your regular contact at CMS Russia.

** In Russian*

KEY CONTACTS



Dr. Thomas Heidemann

Partner | Environmental law, Moscow, Düsseldorf



Dmitry Bogdanov

Senior Associate | Real Estate & Construction, Moscow

