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The Political and Economic Results of October 2012

The October 2012 single day of voting produced approximately the same results for United Russia as were achieved by it in the 2011 parliamentary elections. The CPRF also had a good showing at the polls. The two other parliamentary parties – Fair Russia and the LDPR – did not manage to overcome the electoral threshold in most of the regions. The new parties created after the recent liberalization of the electoral law did not manage to achieve much success either. October saw the conclusion of the biggest transaction for years involving the Russian State. Rosneft bought out 100% of shares in TNK-BP from both the Russian shareholders and the British Petroleum. This transaction has indicated that, despite numerous official assurances to the contrary, the real course of the Russian government is not towards privatization of big-ticket properties but towards their nationalization.

In October 2012, Russia saw her single day of voting, in the course of which gubernatorial elections were held in five oblasts; deputies to regional legislative assemblies were elected in six subjects of the Federation; and a number of cities and towns held mayoral and municipal elections. All the incumbent governors running for reelection (of Belgorod, Bryansk, Ryazan, Amur and Novgorod oblasts) were soundly reelected, by winning more than 60% of the votes cast even in Bryansk and Ryazan oblasts, where electoral competition was exceptionally severe – Governor Nikolai Denin and Governor Oleg Kovalev gathered 65.2% and 64.4% of the votes cast there, respectively. However, it should be noted that gubernatorial elections were set to take place in those regions where positions of the existing governors were especially strong, while in the regions where their positions had been weak, governors had been replaced in the period from December to May 2012. Moreover, in Ryazan Oblast, a strong gubernatorial candidate, former State Duma member Igor Morozov, had quit the governor race in exchange for a seat on the Federation Council of the RF Federal Assembly, promised to him by the incumbent governor. As far as the gubernatorial candidates from the opposition parties are concerned, relatively high scores were earned only by the CPRF – in Ryazan Oblast (Vladimir Fedotkin with 21% of the votes cast) and Bryansk Oblast (Vadim Potomsky with 30% of the votes cast).

Regional legislative elections were different in some ways from the gubernatorial ones. Their results were in many respects comparable with those gained by *United Russia* in December 2011, but this time the ‘party of power’ owed a large part of its success to the low voter turnout typical of regional elections. In Saratov Oblast, *United Russia* gathered 77.9% of the vote – its best result in the October legislative elections. In the rest of the regions, *United Russia*’s success was more modest: 70.6% in Penza Oblast; 60.4% in Krasnodar Krai; 53.1% in Udmurtia; 50.1% in Sakhalin Oblast; and 46.2% in North Ossetia. The CPRF performed sufficiently strongly, gaining 18.9% of the vote in Krasnodar Krai; 18.3% in Sakhalin Oblast; 17.2% in Udmurtia; and more than 10% in each of the other contested regions (except for Saratov Oblast, a region plagued by vote fraud, where it gathered 8.2% of the vote). *Fair Russia* failed to overcome the 5-percent electoral threshold in Krasnodar Krai and Penza Oblast, while the LDPR failed to do so in Krasnodar Krai, Penza Oblast, Saratov Oblast, and North Ossetia. These two parties’ electoral efforts were hampered both by the insufficiency of funds for their election campaigns and by the

new parties, whose participation in the elections made voting for ‘a lesser evil’ (and not for *United Russia* or the Communists) simply illogical. By the time of the October elections, Vladimir Zhirinovskiy’s LDPR had been positioning itself as a radical supporter of Vladimir Putin and *United Russia*, whilst at the same time vehemently attacking the opposition for six months in a row, and therefore had lost its image of ‘independence’. As a result, Putin’s supporters quite reasonably preferred to cast their votes for *United Russia* and not for these brand-new fellow travelers.

However, the failure of *Fair Russia* and the LDPR did not mean a big success for non-parliamentary or new parties. They managed to enter legislatures practically nowhere. The only exception was North Ossetia, where the *Patriots of Russia* list headed by politician-cum-businessman Arsen Fadzeyev had gathered 26.5% of the vote. Nevertheless, it is crystal clear that, even in this case, the role of the *Patriots of Russia*’s brand is close to zero – if Fadzeyev had headed the list of the LDPR or that of *The Party of Social Networks*, the result would have been the same. Two to three percent each of the vote was collected by the projects that used the words ‘communist party’ in their names, while the rest of the newcomers got nothing. In the elections to the Barnaul City Council, the 5% electoral threshold was overcome by the *Republican Party of Russia* headed by Vladimir Ryzhkov, who is well known in Altai Krai. However, this achievement can hardly be called ‘victory’, because Ryzhkov had previously collected 25 to 35% of the vote in federal elections, when running for parliament in a single-member district. Moreover, according to his own estimates, the Republicans’ list gathered up to 12% of the vote, including the votes ‘stolen’ through fraud – not a very impressive showing for a party. Elena Chirikova, a prominent representative of the radical opposition, ran for the office of Mayor of Khimki (a town in the vicinity of Moscow). She managed to come second, with a modest result of 17% of the vote, while the official candidate Oleg Shakhov gathered 47.6% - and won. No violations were recorded at the majority of polling stations, and the voter turnout was 16% (during federal elections, the voter turnout usually stands at no less than 60%).

Thus, it can be said that the autumn-2012 single day of voting witnessed the preservation of the status quo: in conditions of a low voter turnout, *United Russia* achieved better – but not much better – results than it did in parliamentary elections. In a number of places, including North Ossetia, where the authorities had not managed to prevent splitting of the elites, this party’s results even deteriorated (to 46% from 67% in December 2011). At the same time, the opposition, and especially the non-parliamentary opposition, was taught a good lesson: the electorate’s tiredness of *United Russia* does not necessarily herald victory for the opposition and especially for the new opposition groups. Despite being adequately financed and sufficiently recognizable, and also having led an active election campaign, Elena Chirikova gathered less than 20% of the vote – a good result for a party list but a rather weak one for a personified campaign aimed at capturing the office of mayor, especially bearing in mind that Chirikova’s competitor, who had been appointed acting mayor on the eve of the election, was by no means a formidable opponent. As any election campaign is a costly undertaking, in many regions the opposition did not have enough money to keep any poll observers at the polling stations at all. Unfortunately, some representatives of the radical opposition, including Aleksey Navalny, do not simply ignore all these problems, but openly object to participation in election procedures on the

pretext of their 'inherent dishonesty'. Maybe the actual reason for their intransigence in this matter is fear of real elections with unpredictable results.

In October 2012, Minister of Regional Development Oleg Govorun, former head of the Domestic Policy Department of the Presidential Administration under Vladislav Surkov, became the first cabinet member to quit the new Russian government of Dmitry Medvedev. A month earlier, he had been officially and quite surprisingly reprimanded by Vladimir Putin for having failed to properly elaborate Russia's draft budget. In the wake of the reprimand, he stopped attending office amidst rumors of his imminent retirement, which were later corroborated. Govorun was replaced by former Kostroma governor Igor Sliuniaev. Govorun's retirement is an ominous sign for his patron Vladislav Surkov, who currently holds the posts of Deputy Prime Minister and Head of the Government Apparatus.

October also saw some unexpected developments at the RF Ministry of Defense. The sequence of events was as follows: the RF Investigative Committee (Russia's top investigative agency) initiated a criminal case over the misappropriation of funds at *Oboronservice*, a state-controlled company subordinated to the RF Ministry of Defense; the police and investigators searched the apartment of Yevgenia Vasilieva, a close associate of Defense Minister Anatoly Serdiukov, and carried out the seizure of evidence; Vladimir Putin personally instructed the minister to 'fully cooperate with the investigation'. The civilian minister of defense, who had long been a cause of irritation for the army top brass, and whose sacking had been predicted since the formation of the new government and even earlier, once again felt ill at ease.

October saw the end of the controversy over the future of TNK-BP, which had begun this summer. President of Rosneft Igor Sechin managed at last to gain Vladimir Putin's support for his idea of purchasing 100% of shares in TNK-BP. This transaction was the largest buyout in Russia's contemporary history, far surpassing the previous records - *Gazprom's* purchase of *Sibneft* and *Rosneft's* purchase of *Uganskneftegaz*, the key asset of *Ukos*. As a result of this two-stage transaction BP, will get \$ 17.1bn in cash and 12.84% of shares in the new, enlarged *Rosneft*, and then will purchase from *Rosneftegaz*, the nominal owner of *Rosneft*, another 5.66% of shares in *Rosneft*, at the same price of \$ 8 per share. The private owners of TNK-BP will get approximately \$ 28bn. It should be added, however, that many details of the concluded transaction are not completely clear as yet. As a result, the State will spend on this transaction part of the dividends accumulated in *Rosneftegaz's* accounts, while the net debt of *Rosneft* will increase from about \$ 20bn to \$ 70bn. This transaction does not violate anybody's property rights – the shares belonging to BP and those owned by Alfa Group's shareholders will be bought at a premium to their market price. However, once the transaction is executed, the State will be in control of more than one half of Russia's oil production (vs. 36% as of today), and a lot of serious doubts have already been raised about whether this situation is going to be really beneficial or not. For example, *Rosneft's* dividend for 2011 amounted to less than \$ 1 per barrel (while TNK-BP, soon to be absorbed by *Rosneft*, paid 10 times more); its debt to income ratio was 25% even before the transaction increased its debt twofold (while the debt to income ratio norm for big oil companies is set at 10%), and its operating expenses amounted to more than \$ 40 per barrel, which was 1.5 times higher than the market norm. Absolutely no success has been achieved in developing the continental shelf – the field that has been monopolized by *Rosneft*

and *Gazprom* for five years already. Thus, as far as Russia is concerned, the economic effect of the transaction is extremely doubtful. Indirectly, this was acknowledged even by Vladimir Putin, who justified the transaction not by the State's interests but by BP's inability to come to terms with Russian shareholders.

It should be noted that the traditional speakers, who have been talking about privatization and the State's withdrawal from the economy for no less than five years in a row (e.g. Arcady Dvorkovich and Igor Shuvalov), have so far abstained from any comments on the transaction. However, it should be admitted that, in spite of Igor Sechin's yet another administrative victory, his capacity to influence the course of events has also been diminishing: Vladimir Putin cannot afford taking his side in all current commercial conflicts involving Rosneft. Although one of such conflicts has been resolved, many more remain smoldering – from conflicts related to the future of the continental shelf to those over the trading operations of *Rosneft*. Igor Sechin is fast approaching the stage of being actively opposed by the whole of the ruling elite.