

**POLITICO-ECONOMIC RESULTS IN APRIL 2014**

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*The situation in Ukraine ratcheted up sharply in April 2014 in the Donesk and Lugansk Regions, where armed insurgents seized the regional administration buildings. Negotiations in Geneva between officials from Russia, Ukraine, the United States, and the European Union came to an agreement on April 17 on disarmament of the insurgents subject to their amnesty. However, not only did the insurgents defy the agreement, they also began to take hostages, OSCE diplomats. Russia keeps demanding to desist from the use of force against the insurgents, however it remains unclear what should be done under the circumstances. Again, Russia and Ukraine have found themselves on the verge of war, with Russia facing the threat of tougher individual and economic sanctions by OECD member states. In Russia, a law regarding the collection of signatures for elections at all levels (save for parties that have passed the 3% threshold at the federal election) was adopted on the second, most important, reading, as well as a law on the abolishment of direct voting for mayors and city council members passed the first reading – the law, however, is going to be amended so that it retains the possibility of direct voting for mayors with the consent of a regional legislative body. Substantial adjustments were made to the adopted in the first reading federal law On the Russian Citizenship whereby the eligibility for the Russian citizenship was toughened for dozens of millions of Central Asian nationals.*

Further escalation of the crisis in Ukraine, the likely commencement of sweeping combat operations and subsequent imposition of international sanctions against Russia made the headlines in April 2014. On April 5–6, opponents to the Kiev government seized the regional administration buildings in Donesk and Lugansk, a similar attempt failed in Kharkov. The police and secret service in Donesk and Lugansk ceased to perform their duties, and the insurgents also began to seize other buildings and build barricades around them, namely city halls, police stations and security service buildings, TV centers, etc. They are heavily armed, and all the attempts to wrest ground from them within the month failed, although this is not to say that they are controlling the entire regions. They have proclaimed so called “people’s republics” which are supposed to be legalized through referendums scheduled on May 11, a week before the upcoming presidential election in Ukraine. In fact, there are not many of them, just about 100 or 200 persons in each of the major cities, however, most of them are combat-capable and highly motivated. The situation in the Crimea, where the idea of holding a referendum and being accessed to Russia was supported by the overwhelming majority of the local council members and representatives of elite groups, differs from that in Donesk and Lugansk where totally unknown persons have been put in charge of “people’s republics”, namely the Head of Donesk People’s Republic, D. Pushilin, who made no secret of that he worked as team leader in a Ponzi scheme called MMM as early as the middle of March. The local elites represented by council mem-

bers, businessmen, mayors have taken a two-faced position. On the one hand, they claim that Ukraine must be united, on the other hand, they speak up for the need to undertake reforms, delegate more powers to the regions, finalize the Russian language status<sup>1</sup>, etc.

Quadripartite negotiations on de-escalation of the situation in Ukraine were held on April 17 in Geneva between officials from the United States, the European Union, Ukraine and Russia. The parties to the agreement formulated a fairly reasonable document focusing on the disarmament of all illegal armed groups and simultaneous adoption of an amnesty law, freeing the seized buildings, and commencement of a dialogue on undertaking a constitutional reform delegating more powers to the regions. An OSCE mission was assigned to supervise the agreement. However, it turned out instantly that the insurgents recognized no agreements, i.e. they regarded themselves legitimate, whereas the Kiev government was illegitimate for them. Russian diplomats began to actively support their stance, speaking about the need to disarm Right Sector and other armed groups. Furthermore, OSCE representatives were taken hostage in Slavyansk by the most aggressive group of insurgents. Russia, on the one hand, speaks against using force against the insurgents, on the other hand, it either has no control over them or no intention to give them any instructions whatsoever.

<sup>1</sup> The Russian language is presently considered a regional language in 12 Ukrainian regions, which means it may be used at state government bodies, in legal proceedings, for record-keeping. However, this status is established by an ordinary law and vulnerable to a simple majority decision in the parliament.

There is no secret about the possibility of sending Russian troops to Ukraine. Under the circumstances, the United States has called for other states, above all, European countries, Japan, Canada, Australia, etc. to impose more sweeping sanctions against Russia if the situation remains the same.

Should Russian troops appear in the continental Ukraine, such sanctions are likely to be imposed, and it will be painful enough for the country with 3% of the global GDP facing sanctions from the countries accounting for about 60% of the global GDP. What kind of sanctions could be imposed? The simplest way is to extend the list of individual and visa sanctions. However, it should be noted that the EU member states have so far imposed limited sanctions covering the persons who are holding no legal assets in the European Union. Sanctions against certain companies, banks and enterprises (similar to Y. Kovalchuk's Russia bank) controlled by President Putin's friends will be even more uncomfortable: such sanctions will hit the entire Russian economy, not just a small number of persons. Third, restrictions are likely to be imposed on lending to Russian companies whose debt, mostly short-term, totals \$650–700bn, according to different estimations. As a matter of fact, the recently downgraded Russia's ranking by the key ranking agencies already means appreciation of credit resources. Finally, for all the importance of Russia's supplies of natural gas and crude oil to Europe, a part of them can be substituted: through curtailment on demand, replacement with renewable energy sources and coal, further lifting the sanctions against Iran, lifting the ban on export of U.S. crude oil, further construction of regasification terminals, etc. Sanctions similar to those against Iran may be based on imposing limits through mathematical calculation of the quantity of resources which can hardly be substituted (Japan and South Korea were entitled to buy a certain amount of Iranian crude oil even during the crackdown period).

Russian officials' assessments of sanctions differ vertically: for example, unlike President Vladimir Putin and Prime Minister Dmitry Medvedev who sprightly say that Russia may well benefit from sanctions, for example, Director of Finance Ministry's Long-Term Strategic Planning Department Maxim Oreshkin estimates Rb 1 trillion of potential losses for the federal budget in 2014, including revenues from privatization, internal and external loans, profit tax, etc., while the Ministry of Economic Development of Russia has downgraded by four times, from 2.5% to 0.6%, its economic growth projection.

Furthermore, it's not quite clear what for Russia should sustain such losses. The groups of insurgents in eastern Ukraine are regarded as assaulters, not de-

fenders who need projection, besides they defy negotiations. Unlike the Crimea, the local government authorities (mayors, regional and municipal councils) don't support them, and they are not legitimate. The idea of proclaiming "buffer" republics (this is what the insurgents have demanded so far, not accession to Russia) doesn't look promising at all for the local population: since most of the products of steel works and coal mines are exported to the European Union, the respective revenues would be lost. And speaking of Russia's subsidies, they have to be much bigger than in the Crimea: the Donesk and Lugansk Regions alone have about 7 million population (against 2 million in the Crimea). Therefore, meeting the Geneva agreements would be the best option indeed. However, the situation has been developing the other way round.

Amendments to the Federal Law On the Russian Citizenship initiated by the Russian Government early in March were finally made in April. As a reminder, the law originally provided for making any successor, a "Russian native speaker", of those who lived not only in the U.S.S.R. but also the Russian Empire (!) eligible for the Russian citizenship – the "nativeness" itself was supposed to be simply identified during an interview rather than through a formal examination. An essential amendment narrowing the coverage of the law to the current borders of the Russian Federation (i.e. including the Crimea) was made to the law prior to the key second reading, whereby the main threat was eliminated indeed – the eligibility for the Russian citizenship was tightened for dozens of millions of nationals from the Central Asia.

Amendments to the Federal Law On Regional Elections weren't good enough too. As a reminder, a law was adopted in March in the first reading which requires the collection of signatures from at least 0.5% of voters to be able to run for elections based on party lists and at least 3% of signatures to run for elections at single-mandate constituencies for all political parties but those who passed the 3% threshold during the federal elections (i.e. the four parliamentary parties and Yabloko) or have a faction in at least a single constituent entity of the Russian Federation (now, seven more parties). Previously, parties were entitled to nominate their candidates without having to collect signatures. Drastic adverse amendments were made to the law on the second reading – first, parties collected more than 3% of votes retained the right to run for election across Russia, while parties represented in the legislative body of the constituent entities of Russia may nominate candidates, without having to collect signatures, only in the constituent entity they are represented, second, municipal elections are subject to the same regulations – considering that many re-

gions including Moscow or St. Petersburg never held local elections based on party lists, it appears that all but the four parliamentary parties plus Yabloko will have to collect signatures.

Furthermore, an explicitly repressive Federal Law On the Abolishment of Mayoral Elections and Direct Elections of Municipal Council Members submitted by a group of State Duma members, most of which are members of the political party United Russia, was adopted in the first reading. Under the law, direct elections must be abolished anywhere except rural settlements and replaced with an unprecedented in the modern world framework of indirect election of council members: regional duma (council) members are first to be elected, then they are to elect among themselves municipal council members who in turn select a mayor among themselves. Furthermore, the law establishes the unified number of candidates from each district irrespective of its population size, thereby a huge district with an electorate comprising hundreds of thousands persons may turn out to have a representation similar to that of a small suburb area with 2,000 to 3,000 electorate. Additionally, it is worth recalling that Vladimir Putin promised in his February 2012 pre-election article to introduce nationwide direct mayoral elections, if he wins. Considering the opposition's recent success at the mayoral elections in Novosibirsk and Yekaterinburg,

the third and fourth largest cities in Russia, the law can be regarded as pure mockery, especially in terms of the requirements for a "federalization" in neighboring Ukraine. This time the law has been strongly opposed not only by minor political parties, but also the Communist Party of Russia (KPRF) and Just Russia, because the law seriously undermines the concept of the existence of their regional branches which could attract resources from candidates at local elections. Head of Internal Policy Department of the Presidential Executive Office Morozov O. stated in his report at a forum of the All-Russia People's Front (ARPF) that it would be reasonable to retain the possibility of direct elections. However, first, this is left to the discretion of the regions themselves (governors have little interest in direct elections), second, a mandatory system of appointing city managers is to be introduced, under which city managers will exercise basic powers, not the elected mayor, if the mayoral election system remains intact. Moreover, a city manager is appointed by a governor: the governor delegates a half, not one third, of the contest committee. In terms of electoral consequences, the law may play a nasty trick with its initiators at federal rather than local elections, as was the case with the countrywide replacement of elected governors in 2008–2011 with unpopular appointees which had an adverse effect on the United Russia's results. ●