POLITICO-ECONOMIC RESULTS IN JULY 2014

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In July 2014, against the backdrop of an escalating conflict in Ukraine and the crash of a civilian passenger airliner in the active combat zone there, the OECD's sanctions against Russia were severely toughened. A ban was imposed on the issuance of long-term loans (for periods over 90 days) to Russian public and private companies, along with an embargo on any new military contracts and supplies of dual-use products. However, these sanctions of the European Union are only temporary – for a period of three months – and they may be lifted if the situation in Ukraine returns to normal. The results of candidates' registration in preparation for the forthcoming single voting day in September 2014 point to dramatically reduced opportunities for candidates from the opposition to participate in the elections, which is true not only for representatives of the radical opposition, but also for some systemic parties.

In July 2014, once again, the most important news came from abroad. In Ukraine's Donetsk and Lugansk Oblasts, the short lull and a brief period of negotiations gave way, in late June, to renewed hostilities between the Ukrainian Army and the Donbass People's Militia. The Ukrainian Army launched an active attack, and within a month the picture changed: if previously the People's Militia had kept two-thirds of the territory under their control, now it is the Ukrainian military that exercise their control over two-thirds of the territory, while the People's Militia have retained the zone between Donetsk, Lugansk and a short stretch of the Russo- Ukrainian border. On 18 July, a Malaysian airliner that was making a scheduled international passenger flight from Amsterdam to Kuala Lumpur was shot down over the territory controlled by the People's Militia. Nearly 300 people were killed, most of them being citizens of the Netherlands. Ukraine's and Donbass' authorities each blamed the other side for this manmade disaster. The investigation is still underway, no final conclusion has been arrived at yet, but the foreign public opinion of Russia and the 'people's republics', which the politicians cannot altogether ignore, has seriously deteriorated.

As a result, the USA and the European Union member countries launched a new round of sanctions against Russia, demanding that Russia's military support for the rebels should be discontinued (while Russia is refusing to recognize the truth of these accusations and insists that the People's Militia are armed with weapons seized from the Ukrainian Army). US authorities have imposed a ban on the issuance of loans for periods longer than 90 days to three Russian state banks – *VTB*, *Bank of Moscow* and *Rosselkhozbank* (Russian Agricultural Bank), as well as to State Corporation 'Bank for Development and Foreign Economic Affairs' (*Vnesheconombank*), state-owned company *Rosneft*, and private companies *Gazprombank* and *Novatek* (where big stakes are held by Vladimir Putin's friends Yuri Kovalchuk and Gennady Timchenko). It is also forbidden to buy any new shares issued by these companies. Besides, a ban is imposed on any new supplies to Russia of military and dual-use products, and generally on any cooperation with the key producers of Russia's military-industrial complex – Open-end Joint Stock Company 'Research and Production Corporation *Uralvagonzavod*', Open-end Joint Stock Company *Almaz-Antey*, *United Shipbuilding Company*, and some other entities. The final list of EU sanctions, ultimately agreed upon after nearly week-long negotiations, is still unpublished, but evidently it will be similar to that of US sanctions – restrictions on loans issued to *Gazprombank*, *Bank of Moscow*, *VTB*, and *Vnesheconombank;* in addition, this list includes Sberbank, Russia's biggest bank, and some public and private companies. The 'embargo on weapons' will be imposed, however, only on new contracts (so the amphibious assault ship 'Mistral', already built by France and paid for by Russia, will be supplied to this country). The EU will also limit its exports to Russia of technologies and equipment for the petroleum industry – in particular, those for deepwater drilling, shale oil extraction, and arctic shelf development (these exports will need to be licensed). EU sanctions differ from those introduced by the USA in that they are limited to a period of three months, and so after 31 October 2014 they may be lifted. Besides, the EU denied entry to its member countries for several Russia's key figures and heads of government departments – Arkady Rotenberg, Gennady Timchenko, and some others (by the way, the first visa-related sanctions introduced in March 2014 were for a period of only six months, so in principle there is a possibility that these may also be lifted in autumn).

By way of retaliatory measures, Russia for her part imposed a complete ban on any agricultural imports from Ukraine, and began to restrict imports of vegetables and fruits from the EU (earlier, in March, some restrictions on meat supplies from Europe had been introduced); besides, some faults have been found in the performance of the McDonald's Corporation, the chain of fast-food restaurants operating in Russia. In this connection it can be added that, while foreign supplies of fruits and vegetables are easily replaceable by Russian domestic products, the supplies of pork and beef is another matter, Russia is currently experiencing a deficit of these products, and so she is effectively introducing self-imposed sanctions against the Russian people. Another noteworthy fact is that the OECD countries, by means of their sanctions, do not destroy the businesses operating in their respective territories, even when those businesses are owned by Russian companies. On the whole, Russia's potential (2.8% of world GDP) for waging trade wars with the OECD (approximately 60% of world GDP) is of course limited.

Besides, The Hague Arbitration Court passed a ruling obliging Russia to pay $ 50bn in compensation to former shareholders of the now defunct oil company *Yukos* (the original claim being $ 114bn), thus having recognized that the Russian authorities had effectively nationalized the company in question. The Russian authorities, for their part, had acted rather strangely when they agreed to take part in the proceedings with rather doubtful prospects of winning the case, while they could have refused to recognize the authority of the arbitration court in The Hague to consider the case, which can arise either on the basis of mutual agreement of the parties, or on the basis of their direct agreement to appeal to that particular court. After Mikhail Khodorkovsky's release from prison in December 2013 it was felt that the case could be ended with an amicable agreement, but this did not happen. Although it is not going to be an easy task to actually collect the money – Russia owns few commercial properties abroad that are not protected by diplomatic immunity, while Russian public companies were not parties to the legal dispute, and so the legal grounds for bringing them to responsibility are by no means evident – the only evident thing is that such an outcome has only added some more problems to the number of those already faced by Russian authorities.

July saw the threat of bankruptcy looming for *Mechel,* a coal-to-steel group operating in Russia. One of its biggest creditors – State Corporation *Vnesheconombank* – declared its reluctance to extend any further crediting to the company, which had found itself in financial trouble as a result of borrowing against long-term investment projects and then being faced with plummeting market prices of ferrous metals. Russia's Prime Minister Dmitry Medvedev has ordered the government to promptly work out the options available for settling the existing situation, which will mean that *Mechel*'s majority shareholder Igor Zyuzin is going to lose his stake used as a pledge to secure the loan, and then be dismissed from his CEO post. Should this actually happen, such an outcome will be by far not the worst possible scenario – it will signal to Russia's business community, and first of all to big businesses, that the government is not obliged to assume the responsibility of protecting companies from going bankrupt, and to carry on doing so for many years; while bankruptcy *per se,* followed by the bankrupt company being transferred to new owners, is by no means a disaster – it is simply one of possible the risks associated with taking a loan.

Another, more sinister signal was the interrogation of Vladimir Yevtushenkov, Chairman of the Board of Directors of *AFK Sistema*, a large Russian conglomerate company, by the RF Investigation Committee in connection with the long-standing stock embezzlement case involving fuel-and-energy companies in the Republic of Bashkortostan. The so-called '*Bashneft* case' has been dragging on for many years, and recently seemed to be drawn to an end. In the early 2000s, the controlling stakes in a number of companies (primarily *Bashneft*) held by the Republic of Bashkortostan were transferred first to the charity fund set up by Ural Rakhimov, the son of the then head of the Republic of Bashkortostan, and then sold to *AFK Sistema*. By the late 2000s, a compromise had been achieved, the essence of which was that *AFK Sistema* was to be recognized as an honest buyer, and that the money held in the bank accounts of Ural Rakhimov's charity fund were to be spent in the Republic's interests. This was by no means the first problem faced by *Bashneft*, which had previously already encountered some serious difficulties when applying for a formal license to develop the Trebs and Titov oil fields. In fact, this may be a continuation of the government policy aimed at takeover of private fuel-and-energy companies by public companies – a course that can offer no bright prospects for the Russian economy, since the oil production growth rate, as demonstrated by last year's results, has hit its record low of 0.9%.

July was also the month that saw the completion of candidate registration for the forthcoming single voting day in September 2014. Gubernatorial elections will be held in 30 regions (the city of St. Petersburg being among them), simultaneously with municipal elections and numerous legislative elections, including the election to Moscow City Duma. Last spring, some dramatic alterations were introduced in electoral legislation, with the result that the situation now resembles that existing prior to December 2011. All parties, except those that managed to overcome the 3% electoral threshold (four parliamentary parties and *Yabloko*), have lost the right to nominate their candidates without gathering voter signatures, and the number of voter signatures required in order to get registered for an election has been increased six-fold – from 0.5% to 3% of voters in their constituency, which is an absolute record high in Russia's electoral history. The collection of voter signatures in Moscow has shown that, in fact, no members of the opposition can be capable of jumping that threshold (which, evidently, would have also been true for the majority of systemic parties; thus, for example, five years ago in a similar election to Moscow City Duma, *Yabloko* – which now has registered its candidates in every constituency – was unable to nominate more than one candidate, and even that one candidate failed to gather the required number of voter signatures). This can effectively be described as a forceful conservation of the party system in this country in the same form as it had emerged in the 1990s. At the same time in Moscow, a city with the best-developed party system, party lists were completely abolished, while at the same time being often preserved in small villages in order to avoid the strategy of voting against *United Russia* – many official candidates now do not belong to any party. In St. Petersburg, the well-known local politician from *Fair Russia* Oksana Dmitrieva, who during the last parliamentary election had taken 23% of the vote, now failed to pass the so-called 'municipal' filter (the required consent of 10% of municipal deputies at least in three-fourths of municipalities), while the registered gubernatorial candidates turned out to be figurants unknown to anybody, and approximately half of candidates in municipal elections were rejected – including candidates from the 'systemic' parties. In a majority of regions, competition was possible only in elections to municipalities; certain backstage dealings against registered candidates from the opposition are still evident in Kirov Oblast and Astrakhan Oblast.

So, it can be stated that the opposition has been deprived of many formerly available opportunities for participating in elections where previously – at least at the level of mayor of a big city – the opposition could sometimes even win (as it happened, say, in Novosibirsk or Yekaterinburg). This puts a big question mark over the officially published ratings of the present authority, which are compatible neither with the electoral results, nor with the current policy: if the rating is indeed so high, why curb political competition? Still, it can be expected that in September 2014 we will learn the final results, and especially interesting will be the percentages of the party list vote gained by *United Russia*.