

THE POLITICAL AND ECONOMIC RESULTS OF JULY 2015

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In July 2015, the SCO and BRICS held their simultaneous summits in Ufa. The main result of those summits was the conclusion of agreements on the creation of the BRICS contingent reserve and the establishment of the New Development Bank. Another major event of July was the so-called Iran Nuclear Deal which opened the way for Iran to return to the international oil market in 2016. The lifting of oil sanctions imposed on Iran is expected to put new downward pressure on oil prices. In a separate development, the Constitutional Court of the Russian Federation ruled that the initiative to hold the next parliamentary elections three months early (in September 2016 instead of December 2016) did not violate the RF Constitution. Also, the RF Constitutional Court ruled that decisions of the European Court of Human Rights should be upheld only when they do not contradict Russia's basic law, thus making itself the final arbiter on whether or not such decisions should be upheld in Russia. Also in July, Russia abolished the Ministry for Crimean Affairs and the Federal Tariff Service. The Ministry was transformed into a government commission, while the Tariff Service was made part of the Federal Antimonopoly Service (FAS).

As regards the field of international relations and diplomacy, July 2015 saw three noteworthy events: the row over Finland's refusal to grant an entry visa to Russian State Duma Speaker Sergei Naryshkin, who was to attend a session of the Parliamentary Assembly of the OSCE; the simultaneous summits of SCO and the BRICS held in Ufa; and the conclusion of the so-called Iran Nuclear Deal.

Although included on the EU sanctions-related blacklist, Sergei Naryshkin did attend some of the EU events, when he was officially invited to participate. This time, the government of Finland (which certainly cannot be ranked among the countries most hostile to Russia: for example, Finland participates in a joint nuclear venture with Russia's *Rosatom*, which is building a nuclear power plant in her territory) had decided to bar the entry into Finland of several members of Russia's delegation, including Naryshkin, citing EU sanctions. As a tit for tat, the rest of Russia's delegation skipped the event, and the Secretary of Russia's Security Council, Nikolai Patrushev, threatened a ban on timber exports to Finland (however, this threat has so far failed to materialize). This diplomatic row has clearly indicated that, in spite of the current lull in fighting in Ukraine, political tensions between the EU and Russia remain high. As far as Russia's presence in EU structures is concerned, it should be said that her attempts at blackmailing the EU by Russia's possible withdrawal from the Council of Europe, the OSCE and other European structures are doomed to fail, because Russia is no longer seen as a fully-fledged participant there, and her presence in these European bodies is rudimentary at best.

In the course of the simultaneous summits held by the BRICS group and the SCO in the Russian city of

Ufa, their participants signed the constituent agreements on the creation of the BRICS contingent reserve (a crisis lending fund) in the amount of \$ 100bn (Russia would contribute \$ 18bn) and BRICS's New Development Bank that would start with \$ 10bn in cash (Russia would contribute \$ 2bn in initial capital for the BRICS Bank over 7 years). Russian Minister of Finance Anton Siluanov said that one of the top priority projects to be financed by the New Development Bank would be the high-speed Moscow-Kazan rail route (currently in the engineering survey phase). The previously announced plans of expanding the BRICS group (e.g. by the inclusion of Argentina) were mothballed for the time being. And the summit brought yet another disappointment: against all expectations, Russia and China did not sign any binding agreements on the construction of the Western Route gas pipeline to China, which would have been advantageous to Russia because the Western Route, unlike the Eastern Route, would be directly linked with the existing pipeline system, thus making it possible to redirect gas supplies initially intended for Europe. On the other hand, Saudi Arabia caused a noticeable geopolitical stir by sending its Crown Prince and Defense Minister Mohammed bin Salman to the Ufa Summit. Head of the Russian Direct Investment Fund (RDIF) Kirill Dmitriev announced that Saudi Arabia had agreed to invest up to \$ 10bn in the RDIF, and that 'the RDIF expects to close 10 deals before the end of the year'. However, it remains unclear whether or not the corresponding agreements have already been signed. Thus, the practical results of the Ufa Summit were rather modest at best. Russia's desire to intensify her cooperation with China apparently

hit a bunch of snags, including disagreements over prices, China's relatively low demand for Russian natural gas (in China, the most widespread type of fuel is coal, as it accounts for the lion's share of that country's primary energy consumption), and the traditional conservatism of China's overseas investment policy aimed at investing in projects concerned with raw material exports to China or in promoting Chinese exports. As regards Saudi Arabia's overtures to Russia, they should apparently be seen within the context of that kingdom's large-scale search for a comprehensive solution to the crisis involving Syria, Iraq, Yemen, and the terrorist Islamic State organization which has established its control over densely populated swaths of territory in Iraq and Syria. The opponents of Islamic State suffer from a lack of adequately trained manpower and materiel: the anti-ISIS Coalition and Turkey have limited their struggle against IS to airstrikes, while the Iraqi and Syrian armies are acting mostly on the defensive, trying to maintain control only over the enclaves populated by their 'co-religionists'. Iran's participation in the anti-ISIS struggle is very limited in terms of manpower sent to the battlefields, and is by no means univocally approved in Sunni areas. The war in Yemen has revealed the weakness of the Saudi ground forces even vis-à-vis the poorly armed Yemeni irregulars. It is evident that the provision of Russian military assistance to Saudi Arabia (in the form of military equipment or even some paramilitary structures) would be very helpful. If such a scenario indeed comes true, Saudi Arabia could become a huge source of foreign investment into Russia. However, it should be added that the longstanding and deeply ingrained distrust between the elites of Russia and Saudi Arabia and the barely existing trade relations between the two countries pose a major stumbling block to the conclusion of any such agreements between Moscow and Riyadh.

On 15 July 2015, having blown through three self-imposed deadlines, negotiators reached a historic accord to limit Iran's nuclear ability in return for lifting international oil and financial sanctions. The pre-history of the Iran Nuclear Deal is as follows. During his second term in office, Iran's previous president Mahmoud Ahmadinejad made a number of various bellicose statements (for example, threatening Israel with annihilation). At the same time, Tehran refused to cooperate fully with the IAEA's investigation of the Iranian uranium-enrichment program. Although the Iranian authorities always insisted that their nuclear program had entirely peaceful aims, their critics repeatedly accused them of actively pursuing a nuclear weapons program. As a result, the United Nations slammed Iran with a number of sanctions (including an

export and import ban on weapons and military technologies), while the EU introduced a ban on imports of crude oil, petroleum products and natural gas from Iran. Japan and South Korea followed suit and slapped unilateral sanctions on Iran, including a ban on imports of Iranian crude oil, while the USA had long ago halted oil imports from Iran. As a consequence of those bans and restrictions, Iran's oil exports had dwindled from 2.5 million barrels per day in late 2011 to less than 1 million barrels per day by the end of 2012, and the economic situation in the country had worsened dramatically. Then, in 2013, Ahmadinejad was replaced as President by Hassan Rouhani who was in favor of rapidly resolving the conflict over Iran's nuclear program. However, reaching compromise with the West was a difficult task indeed, because all the parties involved in that conflict were afraid, among other things, of losing their face. Finally, despite all odds, the Iran Nuclear Deal was concluded. Under this deal, Iran must keep its level of uranium enrichment at 3.67% and abstain from building new enrichment facilities for at least the next 15 years, reduce the number of its centrifuges from the current 19 thousand to 6 thousand for the next 10 years, and permit International Atomic Energy Agency inspectors to continuously monitor its nuclear facilities. If the IAEA confirms that Iran has followed through with its end of the deal, the UN Security Council and the European Union will lift their sanctions, which have limited sales of Iranian oil and banned technology exports to Iran, as early as the first quarter of 2016. The UN arms embargo imposed on Iran will continue for up to 5 years, although it may be lifted, partly or its entirety, if the UN Security Council passes a corresponding resolution. The sanctions imposed on Iran for its human rights violations will remain in force. It is widely believed that once the sanctions are lifted, Iran will be able to double its crude oil exports by increasing them by 1 million barrels per day within 12 months of sanctions being lifted (Russia's crude oil exports amount to approximately 6 million bpd). Moreover, Iran will be able to start selling the huge amount of oil it has currently stored in vast floating tankers off its coast. From an economic point of view, the Iran Nuclear Deal (or the Joint Comprehensive Plan of Action as it is officially titled) is disadvantageous to Russia because it means the reappearance of Iran on the highly competitive international oil market (this does not contradict the fact that the JCPA may bring Russia some geopolitical benefits). Over the course of July 2015, the price of Brent crude oil dropped from 62 to 53 USD per barrel, while the US dollar's exchange rate against the Russian ruble grew from less than 56 rubles to almost 59 rubles, temporarily surpassing the psychologically important barrier of 60 rubles. It

should be said that no additional volumes of Iranian crude oil have so far emerged on the market. Experts expect this to happen in the middle of next year.

In July 2015, Russia's parliament passed a number of long-expected laws, including the *Law on the Establishment of the State Corporation Roskosmos*, the *Law on the Introduction of a Three-Year Moratorium on Scheduled Inspections of Small Businesses* (the ban does not concern businesses that have gravely violated Russian Federation law over the three-year period in question; Russia's business community is displeased by the moratorium being limited to scheduled inspections, which leaves the authorities free to carry out nonscheduled inspections for an extremely wide range of reasons) and the *Law on the Establishment of a Free Economic Zone in Vladivostok, Nakhodka and Adjacent Areas*.

Russia's parliament also approved two important 'political' draft laws. The State Duma passed a number of amendments to the *Law on Information, Information Technologies and Information Protection*. These amendments essentially establish that, beginning from 1 January 2016, a search engine operator, upon an individual's (applicant's) request, should be obliged to stop providing links giving access to the applicant's information that is disseminated in violation of Russia Federation law, or is 'false' or 'outdated' (that is, more than 3 years old). When pushing the amendments through the State Duma, their promoters justified their stand by pointing to existing European policies and practices. However, in spite of all these allusions, the new Russian law has some very important specific features. First, unlike its European analogues, the Russian law does not differentiate between private persons and politicians. Second, search engine operators will be obliged to remove information in compliance not with a relevant court ruling, as it is done in the EU, but with an applicant's statement, which thus should be considered *a priori* to be justified. If one or other operator refuses to satisfy an applicant's claim, the applicant has the right to file a suit, at the place of his or her residence, demanding that the provision of links to the information indicated in the claim is stopped. As far as the operator is concerned, the litigation can be costly and the fine heavy (up to Rb 3m). Moreover, under the new law, an individual's request that 'false' or 'outdated' information be removed can be addressed not only to search engine operators but to any individuals as well. Bearing in mind the impending election campaign, the purpose of this draft law is obvious – to create a mechanism for concealing negative information about Russia's top officials and mainstream politicians. It should be said that the practical feasibility of the new law is open to ques-

tion, because the Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (*Roskomnadzor*) has already been vested with the right to arbitrarily (that is, without any court ruling) demand that any information be removed. On the other hand, experience has shown that, in resonant cases, search engine operators do not hurry to meet *Roskomnadzor's* demands, while *Roskomnadzor* itself is reluctant to block major operators¹.

On 1 July 2015, the RF Constitutional Court passed a ruling to the effect that that the initiative to reduce the term of the current legislature by two months and to hold the next parliamentary elections three months early (in September 2016 instead of December 2016), on the 2016 Single Voting Day, did not violate the RF Constitution. In due course, the State Duma passed a corresponding law. Russia's authorities clearly expect that the shifting of the 2016 poll from December to September will decrease voter turnout (because the election campaign will coincide with the traditional summer holiday season), which will improve *United Russia's* electoral performance. At the same time, as far as the Russian authorities are concerned, the decision to hold early parliamentary elections also has some drawbacks: the penchant for tourism is typical not of Russia's entire population, but only of the residents of larger cities; moreover, September has much better weather than December, and it should be remembered that the elections will be held soon after the traditional increase in utilities tariffs on 1 July.

In July 2015, the general outline of the ongoing election campaigns for the next regional parliamentary elections to be held in Russia's regions in September 2015 became more or less clear. Although the list of persons allowed to stand for election will be completed only in August after all the appeals filed by disqualified candidates have been considered, the preliminary results of these campaigns reveal the trends typical of the 2014 elections to the Moscow City Duma – for example, the exclusion from participation in the elections of any noteworthy politicians (not necessarily belonging to the radical opposition) by arbitrarily declaring the signatures collected by them to be invalid. Thus, the *Fatherland* political party patronized by Dmitry Rogozin was denied registration in Novosibirsk in spite of having a very strong regional branch there. However, under the existing proportional representation electoral system, the authorities cannot completely eliminate competition, because the 5 political parties (the 4 parliamentary parties and *Yabloko*) that

¹ Even if *Roskomnadzor* were to block them, it would have been easy for the user to get around this filtering and view blocked web-sites.

have the right to nominate candidates for election without collecting signatures, are all the same interested in running active election campaigns at least in some of the regions (where they are constantly prodded by their sponsors and regional branches). It should be said that as far as single-member districts are concerned, there has emerged a trend of them being 'divided' between the 'systemic' parties and *United Russia*. Therefore it is expected that in single-member districts actual competition between political parties in single-member districts will be much weaker than in multi-member ones.

The RF Constitutional Court also passed a ruling that no international treaty or convention should have precedence over national sovereignty, and decisions by the European Court of Human Rights (ECHR) should be upheld only when they do not contradict basic Russian law. This court ruling was a reply to a group of State Duma deputies who had requested clarification of whether or not some decisions of the ECHR contradicted the RF Constitution. Prior to the July 2015 ruling of the RF Constitutional Court, the ECHR's jurisdiction had been recognized as binding due to the mere fact of Russia's accession to the Council of Europe (ratified in 1998). Recently, the ECHR has passed a number of rulings that are very unpleasant to Russia's authorities – first of all, the ruling that former *Yukos* shareholders should receive a huge compensation. In accordance with the July 2015 ruling of the RF Constitutional Court, the defendant (that is, Russia's authorities) who is dissatisfied with the above ruling of the ECHR should require the RF Constitutional Court to determine whether or not the ECHR's ruling contradicts the Constitution of the Russian Federation. Thus the Russian authorities have demonstrated their unwillingness to abide by those of the rulings of the ECHR that they may deem to be unacceptable for Russia. It is clear that, as the number of such 'contentious' cases will apparently be very small, there will be no rush of applications to the RF Constitutional Court, disputing the 'constitutionality' of ECHR rulings.

July 2015 saw a continuation of intra-government discussions on a number of important issues, including pension reform. Both Prime Minister Dmitry Medvedev and President Putin's press secretary Dmitry Peskov made statements to the effect that pension reform is absolutely necessary and unavoidable. Although no final decision on that issue has been taken as yet, it is clear that the most important elements of the forthcoming reform will be an increase in the retirement age of civil servants and a possible gradual increase in the retirement ages of both men and women.

President Vladimir Putin announced that he had abolished the Ministry for Crimean Affairs (created last

year) 'because it had fulfilled its task'. Former Minister for Crimean Affairs Oleg Saveliev was appointed Secretary of the newly established Governmental Commission for the Crimea and Sevastopol. The Crimea itself is continued to be rocked by administrative turbulence, caused by the arraignment, by the RF Federal Security Service, of several Crimean ministers on charges of administrative offenses. Their arrests have indicated that, as far as the Crimea's regional leaders are concerned, the 'post-absorption' period of their immunity from prosecution is over. Also, the Russian authorities abolished the Federal Tariff Service (FTS) and included it into the Federal Antimonopoly Service (FAS). This decision is questionable, because the functions of these two services are totally different: the original task of the FAS was to prevent the emergence of monopolies and various illegal schemes, while the task of the FTS was to regulate the tariffs set by the already existing structures (both state-owned and private, e.g. structures in the field of electrical power production and distribution) deemed by the State to be in need of such regulation.

In July, Leonid Melamed, the former head of the state corporation *Rosnanotekh*, was arraigned and put under house arrest on embezzlement charges. Both the defendant and *Rosnanotekh* insist that the money was spent absolutely legally, and that all the decisions to that effect were taken on a collegiate basis and in accordance with the established procedures.

The noteworthy corporate events of July 2015 were as follows. The holding company *Metalloinvest* attracted a large syndicated loan amounting to \$ 750m from Deutsche Bank, Bank of America, Merrill Lynch, and China Construction Bank. So far, very few Russian companies have managed to attract equally large loans from foreign banks since the beginning of 2015. The group of SUMMA companies announced the termination of the contract for the construction of an oil terminal in Rotterdam. Russia's financial authorities withdrew the banking licenses of the large Russian bank *Rossiiskii Kredit* and several affiliated banks. The RF Central Bank said in a statement that *Rossiiskii Kredit* Bank had hidden grounds for bankruptcy proceedings by providing inaccurate information about the state of its finances. According the RF Central Bank, that bank had squandered no less than Rb 50bn (while the insured deposits of its clients – physical persons amounted to Rb 70bn). At the time of the banking licenses' withdrawal, the banks were functioning. This scandalous case means that bank inspection problems remain unresolved, and that the criteria of bank efficiency continue to be vague – otherwise how can a recently respectable, sound and even prosperous bank suddenly become bankrupt overnight? ●