THE POLITICAL AND ECONOMIC RESULTS OF AUGUST 2015

S.Zhavoronkov

In August 2015, oil prices continued to slide, and the RF Ministry of Economic Development cut Russia's economic outlook for 2015. JSC Russian Railways head Vladimir Yakunin handed in his resignation; best seen in conjunction with recent developments in Russia's big state-owned companies, this event indicated that the RF government had embarked upon a course of cutting the expenditures of such companies. The RF Ministry of Agriculture announced a number of rather alarming restrictive initiatives (fortunately left dormant at least for the time being).

In August, Russian society's attention was focused on the increasing volatility of the ruble, the climbing oil prices and the heated discussions within government circles as to how to find a way out of the current volatile situation. It should be reminded that on 1 August the ruble stood at 60.3 to the dollar, while the price of Brent crude oil was $ 51.8 per barrel; then the price of Brent gradually declined to $ 44 per barrel as of 24 August, when the ruble dropped to 70.8 to the dollar; during the last week of August the price of Brent began to recover and reached $ 52.9 per barrel as of 31 August, when the ruble stood at 65 to the dollar. Thus, August saw a continuation of the distinctive downward trend of the Russian ruble. The RF Ministry of Economic Development downgraded its outlook for the decline of Russia's GDP in 2015 from 2.8 to 3.3% of GDP, and Minister of Economic Development Aleksey Ulyukaev expressed his opinion that oil prices would continue to hover around $ 50 per barrel, the level of oil prices envisioned by Russia's budget for 2015. Previously, many Russian officials had believed that oil prices would continue their rapid recovery that had been observed in the spring of 2015. However, the subsequent slump in oil prices during the summer made the reliability of such forecasts doubtful. It should also be noted that, on 31 July, the Bank of Russia reduced its refinancing rate from 11.5% to 11%. At present, many government experts insist that the refinancing rate should not be further reduced, and some of them even insist that it should be increased.

In August, *Russian Railways* head Vladimir Yakunin handed in his resignation on the pretext of having been registered as a candidate to be appointed by Kaliningrad Oblast's incoming governor as one of the region's two senators in the Federation Council. Yakunin, who had headed the company for 10 years, was replaced as *Russian Railways* head by First Deputy Transport Minister Oleg Belozerov who had previously worked at JSC *Lenenergo* and at some Arkady Rotenberg's structures, and had led the Federal Road Agency (*Rosavtodor)*. Vladimir Yakunin is justly considered to be one of the closest allies of President Putin. During his decade-long chairmanship of the company, *Russian Railways* launched high-speed trains to St Petersburg and Nizhny Novgorod, as well as high-speed trains from the airports of Moscow, Vladivostok, Kazan and Sochi (the latter project was implemented in partnership with *Transmashholding*, the largest manufacturer of locomotives and rail equipment in Russia, which has long since become *Russian Railways*' strategic partner). However, during Yakunin's chairmanship of *Russian Railways*, Russia did not notably increase the length of her national railway network, while the volume of long-distance and commuter rail traffic dropped by 25-30%. On many railway routes, prices for long-distance train tickets became higher than those for airline tickets. In some Russian regions, the number of commuter rail routes was significantly reduced. When several of the regions made an attempt to completely abolish such routes in early 2015, many commuter trains were abolished, and a loud political scandal ensued. Yakunin's activities began to be frequently mentioned in the anti-corruption investigations carried out by opposition politicians and Kremlin critics, while he himself began to make statements utterly incongruous with his official status. Thus, Yakunin made it clear that he would resign if he were to be forced to make his income public. Moreover, Yakunin clashed ever more vehemently with the RF Ministry of Finance supported by Prime Minister Dmitry Medvedev, who considered *Russian Railways*' financial appetites, including its intention to 'borrow' almost 1 trillion rubles from the National Welfare Fund in order to finance the construction of the Moscow-Kazan High-speed Railway Line, to be 'exorbitant'. When introducing the new head of Russian Railways, Dmitry Medvedev drew Belozerov's attention to some of the company's current problems: 'There are many complaints. People are not happy that journeys are being cancelled. But on the other hand, the railway should be making money and not be posting losses'. In point of fact, Oleg Belozerov was told to find the right balance between customer satisfaction and need for profit. We can only hope that the recent highest-level personnel change in JSC *Russian Railways* will send a strong signal to Russia's state-owned companies that they should rein in spending in times of crisis like the current one. In August 2015, having served as CEO of state-owned *RusHydro* for many years (since 2009), Evgeny Dod also stepped down to be replaced as Chairman of the Management Board of that company by First Deputy Chairman of the Management Board of JSC *System Operator of the Unified Energy System* Nikolai Shulginov. Under Dod, *RusHydro*, a Russian generating company comprising most of Russia's hydroelectric power plants, JSC RAO ES of the East and a number of other assets, had barely eked out a profit; in 2012 it had beaten off a takeover attempt by *Rosneftegaz,* an affiliate of *Rosneft*. As a result, *RusHydro*'s additional capitalization had been carried out at the expense of the state budget and not through *Rosneftegaz*'s investment in the share capital of *RusHydro*. It should be said that *Rosneftegaz* is a rather unique establishment: formally a mere asset manager of the state-owned block of shares in *Rosneft*, it has in fact been granted a special status by being vested with the right either not to transfer its dividends to the state at all, or to transfer only part of them thereto. In August 2015, *Rosneftegaz* also became the focus of attention of various government agencies. On 24 August, Minister of Economic Development Aleksey Ulyukaev stated that *Rosneftegaz* would have to pay only 16.4% (Rb 30bn) of its net profit in dividends for 2014 instead of 25% prescribed earlier by the RF Government, in order to have money for investment. According to Mr. Ulyukaev, the Government would consider giving state aid from the National Wealth Fund only for shipyard *Zvezda* (Star) in the Russian Far East, belonging to *Rosnef*t, part of *Rosneftegaz*, while the other four projects of the company would remain without state investment.

August saw a continuation of the long-lasting conflict between *Rosneft* and *Lukoil* over the issue of whether private companies should be granted access to Russia's shelf. After *Rosneft* filed a suit against the RF Federal Agency for Mineral Resources (*Rosnedra*)'s decision to grant Lukoil the right to develop the onshore section of the East Taimyr oil and gas field, Moscow's Commercial Court blocked the license to the aforesaid oil and gas field won by *Lukoil* in a license tender organized by *Rosnedra. Rosneft*'s representatives had affirmed that *Lukoil* would not develop the oil and gas field by itself, but would sublet it to foreign companies. It should be said that similar – and much more substantiated – accusations are constantly being made against *Rosneft*, which receives its licenses from the State free of charge and then attract foreign partners willing to participate in its projects.

In August, the critical situation at *Transaero*, Russia' second largest airline, finally came to an end. By that time, the airline's net debt had climbed to approximately Rb 250bn, and the state guarantee on a relatively small loan, issued to the company in late 2014, had totally failed to improve its fortunes: *Transaero*'s net debt continued to grow. As a result, the RF Government approved the *Transaero* takeover by the state-owned company *Aeroflot* by buying back, for a symbolic price of one ruble, the control block of shares in the company held by the Pleshakov family. On the one hand, this takeover has continued the rather alarming trend towards less competition in the air transport business (*Aeroflot*'s share of that business will now much exceed 50%), but, on the other hand, it should be admitted that neither the price nor the quality of the services provided by *Aeroflot* has so far attracted many serious complaint from its customers.

Head of Russia's Federal Antimonopoly Service (FAS) Igor Artemiev (who had recently been vested with authority to supervise the tariff sphere) launched a harsh volley of criticism against natural monopolies. Mr. Artemiev accused them of 'parasitizing on citizens' and of owning 'luxurious mansions, football teams and media outlets'. He also put forth a proposal that tariffs should be indexed below inflation. This proposal, alongside other similar initiatives, is a clear indication that Russia's authorities are beginning to seriously contemplate a long-due effort to rein in spending.

August 2015, which marked the first anniversary of Western Sanctions on Russia and Russia's countersanctions, saw an alarming rise in agitation for toughening Russia's sanctions against her opponents. It should be said that, bearing in mind the smallness of Russia's share of the global economy, these 'countersanctions' will inevitably be more painful for Russia than for her 'foes'. Moreover, Russia's opponents have enough technical resources to strengthen their own sanctions imposed on her. Furthermore, there emerged a trend towards using patriotic rhetoric for lobbying a number of economically harmful ideas, including the granting of preferences to some producers at the expense of others, which can certainly be expected to cause, if implemented, a shortage of goods and a rise in prices. Thus, RF Minister of Agriculture Alexander Tkachev, himself the beneficiary of several big agricultural businesses, put forth a number of notorious initiatives, including the proposal that sanction-busting food imports seized by Russian authorities under trade sanctions should be destroyed, that the import of vine materials, base wine, chocolate and cocoa beans should be banned; he also proposed that foreigners should be barred from owning land in Russia. So far, only his first proposal has been approved and is now being implemented. The apotheosis of that vaudeville came on 3 August, at a telephone conference in Krasnodar, when Governor of Stavropol Krai Vladimir Vladimirov proposed that the number of livestock in private households should be no more than 5 heads of cattle and 20 sheep. In justification of his initiative, Vladimirov said that such measures should be taken in order 'to comply with health regulations and to ensure a safe epizootic and environmental conditions', and that 'some private households with thousands of heads of cattle are not registered as individual entrepreneurs, and thus do not pay taxes and insurance contributions'. The peasantry and the press immediately dubbed Vladimirov's initiative a throwback to Stalin's and Khrushchev's suppression of small livestock owners, which had resulted in a catastrophe for animal husbandry in Russia. At present, private households account for a very large share of Russia's total livestock herd – according to statistics, they account for about 45% of the total number of cattle, sheep and goats, and for almost 20% of the total number of pigs and poultry. According to some estimates, their share is even larger that the above figures. Thus, it is clear that the only beneficiary of the proposed measures will be the large-scale producer, while the consumer will undoubtedly be the ultimate loser. In the aftermath of the telephone conference at Krasnodar, Russia's authorities instructed relevant agencies to carefully analyze Vladimirov's initiative, and the Ministry of Agriculture confirmed the intention to limit the number of livestock in private households. However, several weeks later Prime Minister Dmitry Medvedev assured a *United Russia* conference that, despite all the speculations of the opposition, the RF Government would never put a cap on the number of livestock held by households.

August saw no significant changes regarding Russia's preparation to the Single Voting Day in September. The appeals and complaints filed to the Central Electoral Commission (CEC) and courts of justice by oppositions politicians dissatisfied with the activities of regional electoral commissions were mostly fruitless – the courts and the CEC upheld almost all of the contested decisions of regional electoral commissions, including the refusal to register the *Rodina* party which claims to be the party of Deputy Prime minister Dmitry Rogozin and generally supports Vladimir Putin's policies, and Konstantin Babkin's *Party of Deeds*, of approximately the same ideological orientation as *Rodina*. The liberal opposition coalition centering on the *PARNAS* party headed by Aleksey Navalny and Michael Kasyanov was refused registration in three regions but was unexpectedly registered in the forth one, Kostroma Oblast, where the urban poor and the peasantry make up the majority of the population. To a great extent, this break-through had been achieved by *PARNAS* due to its vigorous campaign aimed at depicting the authorities as weaklings and their popularity as a phantom, and accusing them of being afraid of the opposition's participation in the election. Thus, the oncoming elections have become a matter of its political reputation for *PARNAS.* The same is true of the liberal *YABLOKO* party, which has the right to nominate its electoral candidates without the process of collecting signatures. *YABLOKO* has put forth its lists of candidates in many Russia's regions, including Kostroma Oblast. The four parliamentary parties are also actively engaged in their electoral campaigns.

In August, Russia's Central Electoral Commission approved the pattern of single-member districts to be applied in the September 2016 elections. Its essential feature is the merger of urban and rural territories throughout the whole of Russia, except for Moscow, St Petersburg and Sebastopol. There will be no purely 'urban' anywhere apart from the aforesaid three regions. The approval of this pattern improves the position of the 'party of power', because the conduct of electoral campaigns and supervision over the voting process are much more complicated and expensive in rural areas than in the towns and cities. At the same time, the adoption of this pattern of single-member districts indicate that the authorities have begun to treat the future elections as a serious matter and do not consider their results to be predetermined.