

## MAIN POLITICAL AND ECONOMIC EVENTS OF DECEMBER 2015

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*In December, President of Russia Vladimir Putin delivered the Annual Presidential Address to the Federal Assembly. During the traditional press conference he expressed his approval of the policies pursued by the RF Government and the Bank of Russia, noting that the current situation was complicated but by no means critical. Oil prices continued their plunge, and so some officials declared that, among other things, events may develop in accordance with the 'worst case scenarios', where the price of oil may decline to \$ 30–35 per barrel. By way of attracting additional funding, SIBUR and NOVATEK sold minority stakes to Chinese state corporations; however, any further sale would mean that the Russian shareholders will no longer be able to hold their controlling stakes. The controversy between Rosneft and Gazprom continues, the former having asked the government to end Gazprom's decade-long exclusive right to export pipeline gas.*

On 3 December, President of Russia Vladimir Putin delivered the Annual Presidential Address to the Federal Assembly. He began with an overview of Russia's foreign politics, speaking about the the fight against terrorism in Syria, pointing out that Turkey had been providing aid to terrorists in Syria, and saying that he did not understand why the Turkish authorities had ordered the shooting down of a Russian bomber. Then the President promised that Russians would respond adequately (but without becoming 'a danger to ourselves as much as to the world'), suggesting that 'probably, Allah has decided to punish the ruling clique in Turkey by making them loose their minds'.

Putin promised that certain amendments to the RF Criminal Code would be introduced, whereby some minor criminal offences would be reclassified as administrative offences, with one important reservation – that a repeated offence must be classified as a criminal act (given that previously, many warnings had been voiced that this idea, while being good in principle, would be compromised by including in this category premeditated crimes against human lives). Besides, the President suggested strengthening the role of juries (which had been gradually undermined over recent years) and expanding the list of crimes that can be submitted to them (without specifying the crime types).

In the sphere of economics, the current situation was described as 'complicated but not critical'. One of the measures designed to reverse that situation was to provide support to efficient companies operating outside of the fuel and energy complex (especially those industries that are now at risk, including primarily the construction, automotive, and light industries, as well as railway engineering); it was imperative to adopt fair principles of providing social assistance to those who really need it (it should be remembered that in December, parliament had passed the decision that the retirement age for civil servants would be gradually raised to 65 years), to achieve a balanced budget and keep its deficit capped at 3% of GDP, and to improve the investment climate. Putin noted that only 15 percent of all cases on so-called

economic crimes ended with a conviction, but that at the same time the vast majority of entrepreneurs who had faced criminal charges fully or partially lost their business, so he believed that suspects in economic cases should be detained only as a last resort measure. However, the Presidential Address contains no specific legislative proposals, and it should be borne in mind that, quite recently, Putin had expanded the powers granted to investigators, enabling them to re-institute criminal proceedings in tax-related cases without relying on a relevant statement submitted by a tax inspectorate. Then the President of Russia proceeded to say that it was necessary to introduce mechanisms such as the special investment contract, thus granting the regions the right to reduce profit tax to zero under such contracts (similar experiments, when small-sized businesses had been granted the right to minimize their taxes, had shown that the regions were not interested in such practices), while the government would be granted the right to purchase, on a non-competitive basis, up to 30% of the products manufactured under special investment contracts. Besides, it would be necessary to allocate funding to purchases of patents and licenses in the domestic and foreign markets. The agriculture sector was praised as a positive example, its growth rate for many years having been above the average for Russia's economy as a whole. However, then the President voiced the controversial suggestion that the misused agricultural land should be withdrawn from questionable owners and sold at an auction to those who can and want to cultivate the land. As far as the demographic policy was concerned, the President said that the maternity capital program should be extended for at least two more years (its implementation had indeed helped to significantly increase Russia's birth rate). In the healthcare sphere, the President expressed his regret that the number of schools and hospitals had declined, although it is a well-known fact that the large-scale 'enlargement campaign' had been a long-planned and premeditated act.

The President's press conference largely took shape of a report on the successes achieved in implementing his socioeconomic policy. All problems were blamed on the oil price plunge. Vladimir Putin stated directly as follows: 'I support the policy that the Central Bank and the Government pursue to ensure macroeconomic stability', and he believed that the Bank of Russia's current refinancing rate was adequate. Meanwhile, he admitted that 35% of the initiatives listed in the Government's anti-crisis plan was yet to be implemented. The President spoke a lot, and very emphatically, of Russia's foreign policy. For the first time, but in line with the previous context, at this press conference Vladimir Putin admitted the existence of the Syrian anti-Assad non-terrorist opposition, and even declared the readiness to support it by the air force against the Islamic State terrorist organization. However, the general assessment of the situation was the same – the crisis in the Middle East had been triggered by the USA, but Russia is prepared for a dialogue with everybody.

Vladimir Putin either evaded direct answers to a number of critical questions (on the Platon tracking device; on the expansion of the paid parking area in the city of Moscow; on the role played by Pskov Oblast Governor Andrei Turchak in the beating of journalist Oleg Kashin; on the business activities of the relatives of CEOs of the Prosecutor General's Office) by saying that they have to be addressed to the law enforcement agencies or to a court of justice, or actively supported the official measures (in connection with Platon

or the paid parking areas). The only hopeful promise of Vladimir Putin was to look personally into the case of RBC's journalist Alexander Sokolov (who had been charged with extremism and arrested), noting however that he knew nothing about the situation.

December 2015 saw a notable plunge in the price of oil: while as of 1 December it amounted to \$ 44.3 per barrel, as of 25 December it was \$ 37.9 per barrel, sometimes getting even lower. The ruble-to-USD exchange rate rose above Rb 70 (as of 1 December – Rb 66.7), to its historic high of December 2014. The budget for 2016 is geared to the average annual oil price of \$ 50 per barrel. In this connection, Russian officials began to offer their estimates as to the further development of the situation. Speaking at a meeting in Kazan, RF Minister of Finance Anton Siluanov did not rule out the possibility that the oil price in 2016 may plummet to \$30 per barrel, while everything pointed to a situation where low oil prices would prevail over the course of the next year. Bank of Russia Governor Elvira Nabiullina disclosed the parameters set in the 'stress scenario' with oil trading at \$ 35 per barrel – if this should be the case, GDP decline will amount to 2–3% (so far, Russia's budget is oriented to GDP growth of 0.7%). On the one hand, the high volatility of oil prices (in 2015 it rose from \$ 44 per barrel in January 2015 to \$ 67 in May, then by December it had returned to its January level and continued its downfall) makes it impossible to conclude that this downward trend is indeed a long-term one. On the other, this is not an impossibility. If this indeed happens, the government will have to make urgent cuts on its expenditures (however, expenditure cuts will be necessary even with a view towards the planned budget target of \$ 50 per barrel, because so far the high expenditure level has been sustained by the reserve funds, which are not inexhaustible). And there is another regretful fact – we see no serious discussion going on concerning this issue (just as it had been in early 2015, when budget sequestration amounted to only a few per cent).

Also in December, a kind of consensus was achieved in the framework of several disputes that had been going on in Russia's oil and gas sector. Rosneft chose not to appeal against the court ruling, issued in November 2015, whereby the license granted by the Federal Agency for Mineral Resources (Rosnedra) to LUKOIL to develop an oil field in the eastern part of the Taimyr Peninsula in the north of Krasnoyarsk Krai was deemed to be lawful. Thus, the court ruling entered into force. However, RF Minister of Natural Resources and Environment Sergei Donskoi declared that the government would suspend its permission for a more liberal access to Russia's continental shelf (at present, the right to develop it is being enjoyed only by Gazprom and Rosneft, and private companies have been accusing the two oil giants of failing to proceed with their exploration work, while preventing other companies from getting access to that oil field), the government decision being motivated, among other things, also by the recent plunge of oil prices, which has made any such projects unprofitable. He also noted that the deadlines for the completion of Rosneft and Gazprom's current projects would be extended.

Meanwhile, the acute debate as to Gazprom's currently established monopoly on natural gas exports, which forces all the other natural gas producers to sell their products to the state giant at a monopoly price, is far from being over. The RF Supreme Court, on 13 December, rejected the appeals filed by Gazprom and Sakhalin Energy against the decisions of the lower courts whereby Rosneft had been granted access to Sakhalin-II gas pipeline.

Sakhalin Energy's Chief Executive Officer Roman Dashkov, however, does not rule out the possibility of further appeals (meaning, probably, an appeal to the Presidium of the Supreme Court of the Russian Federation). Approximately at the same time, Deputy Chairman of Gazprom's Management Committee Valery Golubev said that Gazprom may indeed allow independent gas producers to gain access to gas exports, on condition that they assume certain obligations to ensure proper gasification process and secure reliable gas supplies. This was the first declaration in this line voiced by a representative of Gazprom, which had previously been firmly against any such deals. This idea, however, was not shared by Russia's Minister of Energy Alexander Novak, who spoke in favor of a 'single channel for exports'.

In December, two major deals with China were completed in Russia's oil and gas sector. It had long been planned that China should get involved in a number of projects (for example, the purchase of shares in the Vankor Field owned by Rosneft; Minister of Finance Anton Siluanov spoke even of the sale of a big stake in Rosneft), but the parties could not agree on the prices. December saw Russian Prime Minister Dmitry Medvedev's several-day visit to China, where evidently many economic cooperation issues were settled. Later in December, the RF government commission on foreign investment approved the acquisition, by China Petroleum & Chemical Corporation (Sinopec), of a 20% stake in gas processing petrochemical company SIBUR (its main shareholders are Leonid Mikhelson and Kirill Shamalov). 10% of that stake is valued to be \$ 1.3bn, the deal of purchase has been completed, while the final price of another 10% of shares, to be sold in the next few years, is not yet determined. YAMAL LNG (its majority shareholder is NOVATEK, with a total stake of 20%) sold 9.9% of its shares to the value of \$ 1.4bn to the Chinese Silk Road Fund. Given that China's CNPC already holds 20% of its shares, it can be said that the Chinese government has come to own a blocking stake in this project, which is indeed extraordinary both in terms of its scale and value, as well as in terms of tax exemptions granted by the government. It has also been announced that the new shareholder will provide loans to the company. Borrowed funding, while being a positive fact per se, nevertheless is fraught with certain constraints. In both projects, the stumbling block was the ownership of a controlling stake, presently held by the Russian shareholders; no further sale of shares can now be possible without losing that stake.

As expected, Russia declared the suspension, from 1 January 2016, of the free trade agreement with Ukraine due to lack of any progress in the trilateral talks with Ukraine and the EU concerning the EU-Ukraine free trade zone deal. A ban is to be imposed on exports of agricultural products from Ukraine (these, however, now amount to only 2% of Ukraine's exports, as much of the ban had already been imposed earlier by the sanitary control agencies). Ukraine's response was the announcement of a similar embargo and plans of a further reduction of the volume of purchases of Russia's natural gas, which had already dwindled to one-third of their initial volume. At the same time, the cease-fire regime is still maintained in eastern Ukraine, which theoretically can serve as a basis for implementing the provisions of the Minsk agreement. It is noteworthy that, in December 2015, Italy for the first time voted against the prolongation of economic sanctions introduced against Russia (these may be imposed at various levels of EU government, but only by a unanimous vote), and then, a few days later, it agreed that the sanctions can

be extended until 31 July 2016. Also in December, the USA expanded its list of sanctions on individuals and entities to include, in the main, the affiliations of those Russian banks and state companies that had already been placed on that list.

Some important administrative structure reshuffles took place in Russia's Ministry of Internal Affairs. By President Vladimir Putin's Executive Order, Dmitry Mironov was appointed to the position of Deputy Minister of Internal Affairs; previously, he had worked at the Federal Protective Service (FSO), and then headed the General Administration of Economic Security and Combating the Corruption of the RF Ministry of Internal Affairs. His successor in the post of the General Administration of Economic Security became his former deputy Andrei Kurnosenko. ●