



QUARTERLY REPORT OCTOBER- DECEMBER 2009

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1. INTRODUCTION

The main event in EU-Russia relations was the Stockholm summit which, contrary to initial fears, took place in an extremely positive atmosphere, noted achievements related to the energy early warning mechanism and to convergent positions on climate change, and produced an agreement that both sides would work together on a “Partnership for Modernisation” based on a proposal by President Barroso.

Domestically regional and local elections held in October represented a low point in the democratic system in Russia with significant protests against abuse. High profile speeches by President Medvedev and Prime Minister Putin underlined differences of approach if not in substance: Medvedev emphasised the need for a modernisation agenda (later taken up at the EU/Russia summit) and respect for the rule of law in order to improve the climate for attracting investment to Russia; Putin, while not directly addressing the themes mentioned by Medvedev, placed more emphasis on a conservative agenda for protecting the Russian economy.

The situation with regard to human rights and democracy continued to give cause for concern. In the North Caucasus killings continued, particularly in Ingushetia and Dagestan, leading to problems in the delivery of humanitarian aid; in Chechnya the authoritarian regime of Ramzan Kadyrov maintained firm control. The lawyer Sergey Magnitskiy died in prison apparently as a result of lack of satisfactory medical care. A number of incidents involving rough treatment by police officers were reported. The “Memorial” human rights organization was awarded the Sakharov Prize by the European Parliament. On the other hand limited reforms were introduced to the penitentiary and trial systems linked to EC-funded projects. The moratorium on the implementation of the death penalty was confirmed.

The economic situation showed modest signs of improvement; despite the overall contraction of GDP of around 8 % growth began to return based on increased gas production and machine-building and notably the increase in oil prices. The situation with regard to inflation as well as the exchange rate also improved. Anti-crisis measures were introduced in the form of support to the car industry and construction.

The EU-Russia energy early warning mechanism was signed. A crisis was avoided on the transit of Russian gas to the EU through Ukraine. Russia continued to give priority to the development of the Nord Stream and South Stream pipelines.

The Russian position on climate change evolved positively with a view to the Copenhagen Conference with a commitment being taken to curb greenhouse gas emissions by 25% by 2020; this followed strong lobbying by the EU.

In line with President Medvedev’s modernisation agenda there were a number of developments to promote the role of scientific and technological innovation in the economy.

2. POLITICAL DEVELOPMENTS

2.1. Domestic politics

On 11 October 2009 6,696 various elections for local and municipal legislatures of all levels were held in 75 constituent territories of the Russian Federation (out of 83), including the North Caucasus republics of Chechnya and Ingushetia, which held their first municipal elections.

Deputies were elected in three constituent territories, namely Moscow City Duma, the Duma of the Tula region and the State Assembly of the Republic of Mariy-El. Mayors were chosen in the Chechen capital, Grozny, Ingush capital, Magas, southern Russian city of Astrakhan and Far Eastern city of Yuzhno-Sakhalinsk.

United Russia scored a landslide with its highest score of 91.48% in Grozny. All other parties but the Communist party suffered a strong defeat. The ruling party called its triumph fated and expected. Spokesmen for the opposition, however, said that the authorities badly frightened by the crisis had ensured United Russia's triumph by an unprecedented violation of election norms and standards. All parties stated that formal complaints as towards the conduct and outcome of the elections will be prepared. The Russian NGO *Golos*, specialized in election monitoring all over Russia, is of the view that the 11 October elections were not held according to Russian and International standards of fair, free and competitive elections. In one polling station the Moscow district court annulled the election results.

Following the elections members of the Duma's factions of the Communist Party, *Fair Russia* and the Liberal Democratic Party (LDPR) walked out of the Duma session in protest against the election results. After a requested meeting with the President Medvedev the three factions returned to the Duma.

In the reporting period there were some reshuffles in the Presidential Administration. In October 2009, President Medvedev has appointed Eva Vasilevskaya as his main speechwriter to replace Dzakhan Pollyeva, who has occupied this post since 1997. Pollyeva will supervise the work of speechwriters. Vasilevskaya was an aide to Medvedev when he was First Deputy PM. Generally, this move is seen in framework of the modernisation and opening-up process of the Presidential Administration.

In November 2009, President Medvedev has fired one of his top advisors for abuse of office in one of the biggest changes to his Kremlin administration since taking power. Mikhail Lesin, media advisor to Medvedev, "was relieved of his duties at his own request", the Kremlin said. Lesin allegedly departed his job due to "failure to observe the rules and ethical behaviour of state service". Lesin's departure is the first resignation from the administration of President Medvedev.

The Presidential website published in December 2009 a list of 500 people who are part of the "Presidential Administrative Reserve" was published. These people should form according to the Russian President the new Russian elite. The new list includes members of the Duma's *United Russia* faction Andrey Vorobyov, Alexander Khinshtein, Andrey Isayev, Sergey Neverov and Irina Yarovaya, the head of the Duma's LDPR faction Igor Lebedev and others. *Vedomosti* mentions the names of "scandalous" Duma member Sergey Abeltsev (LDPR faction) and Communist Party member Vadim Solovyov who are also mentioned on the list.

On 12 November 2009, President Medvedev addressed for the second time the Federal Assembly. The main thrust was the imperative need for Russia's economic and societal modernisation, with a marked emphasis on science and technology. He took an outspokenly critical position on the current state of economic and social affairs, on the country's Soviet past, and on what he identifies as hitherto insufficient policy emphasis on innovation, economic diversification and technological development. Medvedev stressed that the country can no longer delay a comprehensive modernization effort, as the Soviet legacy on which the

country continues to rely - Soviet-era technology and infrastructure - is drastically obsolete. Medvedev speaks of the need for a conceptual shift: the primitive oil-dependent economy and 'archaic model of society' must give way to a new, knowledge-based economy in Russia, driven by popular demand for unique ideas, novel products and cutting-edge technology in a society of intelligent, free and responsible citizens.

On 21 November 2009, Russian Prime Minister Putin addressed the 11th United Russia Congress, Russia's main political force, in his hometown of St. Petersburg. Reflecting Medvedev's earlier address to the Federal Assembly of 12 November 2009, Putin stressed the need to diversify and modernise Russia's economy, noting however that the Party had already taken significant steps in this direction under his two terms as President. Putin's speech differed both in tone and content from Medvedev's – he did not reply directly to Medvedev's address nor did he address the need of Russia to engage in political reform – with the Congress seeming to confirm Putin's position as the leading figure of Russia's ruling elite and its main political outlet, the United Russia Party. The Congress was noteworthy in particular for the effective adoption of a new ideology of 'Russian Conservatism' to underpin the United Russia programme

On 1 December 2009 the 3rd World Congress of Russian Compatriots has been addressed by President Dmitry Medvedev. In his speech he pledged state support of Russians living abroad and called on Russian compatriots to return to Russia to participate in the country's modernisation. Following recent statistics about 17,000 people have resettled to Russia. Medvedev also stressed that Russia would protect the rights of the Russian-speaking population abroad, adding that the creation of a “foundation for assistance and rights protection for compatriots living abroad is being considered”. Delegates from 90 countries were taking part in the congress.

On 27 November 2009 the Moscow- St. Petersburg express train, the Nevski express, derailed in the Tver province some 350 km. from Moscow. 27 people have been killed and more than 100 injured. The train was carrying more than 650 passengers and 29 crew members. The dead include the Head of the Russian Federal Road Agency (Rosavtodor), Sergei Tarasov, and the Head of the Russian Agency for State Reserves (Rosrezerv), Boris Yevstratikov, as well as a former St Petersburg senator, Sergei Tarasov.

On 5 December 2009 the Lame Horse nightclub in Perm burnt and 141 people died in this incident. A court has seized the property of co-owner of the Perm nightclub, Anatoly Zak, who has been arrested in connection with the blaze. At a Government Presidium meeting on Thursday, PM Vladimir Putin demanded that criminal liability for officials who violate state control and supervision rules should be increased.

In a highly publicised trial a Moscow district court in November 2009 turned down a libel lawsuit filed by Soviet leader Josef Stalin's grandson, Yevgeny Dzhugashvili, against *Novaya Gazeta* over a publication in the newspaper. Yevgeny Dzhugashvili claimed that the publication insulted his grandfather's honour and dignity and sought RUR10 million in damages.

Northern Caucasus

The Northern Caucasus remained Russia's most volatile region, particularly in terms of respect for rule of law, human rights and hard security. In October 2009, the Parliamentary Assembly of the Council of Europe (PACE) criticised Russia for its inability to ensure security in the Northern Caucasus. This statement followed a series of murders, attempts of murders, abductions and terrorist attacks. Killings took place in the reporting period in Chechnya, Dagestan and Ingushetia, but also in Kabardino-Balkaria. Target groups of these killings include civil society activists (such as former Ingush opposition activist Maksharip Aushev), journalists, public authorities (including police, prosecutors and the opposition). It

was therefore decided in November 2009 that in the future the Federal Security Service (FSB) will assume the functions of heading the fight against terrorism in the Chechen republic.

On the political level the situation also remained volatile. Ingushetia's Government was dismissed by President Yunus-Bek Yevkurov in October 2009 for 'unsatisfactory work' and corruption. Ingush Security Council Secretary Alexei Vorobyov has been appointed acting Ingush Prime Minister. Some observers voiced concern that the appointment of an ethnic Russian as Ingush PM could spark resentment in local clans. The President and new government declared to address as a first priority the issues of corruption and unemployment.

The human rights situation in the Northern Caucasus did not improve. Tatyana Lokshina, representative of Human Rights Watch, says there is 'an atmosphere of impunity'. On 25 October 2009, the former Ingush opposition activist Maksharip Aushev was killed in Kabardino-Balkaria. Aushev took over *Ingushetia.org* opposition web site after Ingush opposition journalist and owner of the web site Magomed Yevloyev died while in police custody in August 2008. However, Aushev resigned after Ingush President Murat Zyazikov was dismissed. Ingush President Yunus-Bek Yevkurov said in a statement that the killing of Aushev aimed to destabilise the situation in Ingushetia.

In the libel suit of Chechen President Ramzan Kadyrov against the head of Memorial, Oleg Orlov, the Moscow district court ordered on 6 October 2009 that Orlov retracts his statement that Chechen President Ramzan Kadyrov was responsible for the murder of Chechen rights activist Natalia Estemirova. In his lawsuit, Kadyrov sought RUR 10 million in libel damages, but the court ruled that Memorial and Orlov should pay a total of RUR 70,000. In the appeal, the Moscow City Court decided on 21 January 2010 to uphold completely the decision of the Moscow Tverskoy District Court which confirmed the slander by Orlov against Kadyrov. Memorial should make publicly a rebuttal.

2.2 Justice and Home Affairs

Anti-corruption

In a report presented at a Moscow press conference in November 2009 Transparency International has estimated Russia's annual corruption market at \$300 billion. In its press release Transparency International said Russia has climbed the Corruption Perception Index (CPI) to 146, compared to last year's position 147 (180 participating countries). Transparency International sees a contradiction in Russia's score; the President claiming that the fight against corruption is one of the main priorities of his presidency, and, on the other hand, Russian citizens remarking an increase in corruption.

In the reporting period there were a number of high-level corruption cases at the Russian court:

- The deputy head of the Serpukhov district administration (the Moscow region), Yelena Bazayeva, has been detained in her office on suspicion of extorting a RUR11 million bribe.
- The mayor of Karabash (Chelyabinsk region), Musa Dzugayev, has been arrested for extorting almost RUR1 million from a local businessman.
- The Interior Minister of the Republic of Buryatia Viktor Syusyura has been detained as part of a smuggling probe.

Law enforcement agencies did not provide further details. (The media does not rule out that the probe could be linked to Syusyura's previous post when he worked in a transport police department in the Krasnodar territory.)

- A new case was opened against the mayor of the town of Korolyov (the Moscow region), Alexander Morozenko, on suspicion of misusing funds from the municipal budget. The case is

the second against Morozenko: earlier this year, he was targeted by investigators for snubbing auditors. Last month, Morozenko was suspended as mayor.

- The Saratov regional court has sentenced to four years imprisonment former mayor of Saratov, Yury Aksenenko, who was found guilty of abuse of office and bribe-taking. The court also fined Aksenenko RUR 700,000.

Judiciary

Two judges of the Russian Constitutional Court – Vladimir Yaroslavtsev and Anatoly Kononov- are stepping down from their senior position after giving interviews which denounced the country's failing judicial system. Judge Kononov will resign as of 1 January 2010 while judge Yaroslavtsev handed in his resignation as a member of the country's Council of Judges. Yaroslavtsev however remains in his function as Constitutional Court judge. Constitutional Court Chairman Valery Zorkin dismissed allegations on Wednesday that the two judges' resignations are linked to their criticism of the country's judicial system in the interviews with the media.

The Supreme Court of Russia ruled on 23 December 2009 that the arrest in 2003 of Platon Lebedev was illegal. The SC confirmed the 2007 ECtHR ruling that also determined that Mr Lebedev's arrest was illegal.

As a result of President Medvedev's reform initiative and following the work under an EU funded project with the Russian Federal Penitentiary Service, changes to the legislation have been made. The first amendment in this direction was related to the introduction of "house arrest" for convicted persons. The State Duma adopted a Federal law introducing these changes to the Penal Code and to the Code on Execution of Sentences on 16 December 2009, while the Federation Council confirmed the law on 25 December 2009. The amendments entered into force on 10 January 2010. This punishment will be used only for less serious crimes, and as an additional penalty to those who have committed more serious offences. According to the calculations of the Russian Federal Penitentiary Service these changes could considerably reduce the population in the prisons. The new alternative punishment could be applied yearly to around 113 000 convicted persons while the prison population is around 1 million in Russia.

In addition to these enacted amendments, at the end of December 2009 the Minister of Justice and the Prosecutor General have submitted to the State Legal Department of the Russian Presidential Administration draft changes to the penal legislation related to the pre-trial restraint measures that are aimed at stimulating the remand on bail while reducing the application of arrests. Moreover the Ministry of Justice is currently working on a package of law-changes aimed at reducing the criminal offences by transforming some of them into administrative violations for which no criminal liability would be foreseen.

The changes in the penitentiary legislation coincide with the changes in the highest ranks of the Russian Federal Penitentiary Service. Already on 4 August the Russian President appointed a new Head of the Federal Penitentiary Service – Mr Raimer. Later on 4 December 2009 the Russian President issued another order following which he changed around 20 important figures at different levels in the federal penitentiary system. These changes were presented as part of the comprehensive reforms for making the penitentiary more humane and limiting the breach of rules associated with corruption and torture in prisons. The death of Sergey Magnitski [see 2.3.] in a pre-trial detention centre in a Moscow Prison (Moscow Butyrkal) on 16 November 2009 is perceived to be an intensifying factor for the numerous personnel changes in the penitentiary. In the same time some observers point to the fact that many of the new appointees come from the ranks of the Ministry of the Interior. To that end it is commented that the penitentiary is now again under a stronger influence from the police

structures, despite the substantial efforts that led to formal transformation of the penitentiary from the Ministry of Interior to the Ministry of Justice of some years ago.

On 20 December 2009 by decree signed by Deputy Prosecutor General Alexander Buksman the head of the Investigative Committee's Moscow branch Anatoly Bagmet was dismissed for violating his oath of office. Bagmet, however, refused to step aside and argued that only the head of the Investigative Committee Alexander Bastrykin has the right to dismiss him. The Prosecutor General Yury Chaika invalidated this decree and ordered the head of the Investigative Committee Alexander Bastrykin to consider the question of "Bagmet's further service at his post".

In November 2009 President Medvedev signed into law a bill toughening punishment for gangster leaders. These amendments to the Criminal Code envisaged up to life imprisonment for gangster ringleaders and increased prison terms for people convicted of participating in criminal groups.

Interior Ministry

Police reform is now high on the agenda of the Russian society and widely covered by the media.

In November 2009, police Major Alexei Dymovsky from Novorossiysk (the Krasnodar territory) posted on his website a personal appeal to PM Vladimir Putin complaining of corruption and being ordered to arrest innocent people. He also complained of bad working conditions and low pay. He was fired after this posting. Interior Minister Rashid Nurgaliyev ordered an investigation of the Novorossiysk police department. In the mean time Mr Dymovsky was dismissed from office and in mid January 2010 he was charged with fraud and corruption and arrested on 22 January 2010.

In the reporting period the number of reported incidents between police officers and citizens again increased. Experts, including from government and civil society, stress that the latest incident involving police officers proves the need for an urgent reform of Russia's law enforcement agencies. Even Interior Minister Rashid Nurgaliyev stated in December 2009 that ordinary Russian citizens have the right to defend themselves against police officers who illegally attack them. "If there is an attack, there should be a necessary self-defence", he said.

On 24 December 2009 President Medvedev signed a decree on measures to improve the work of the Russian Interior Ministry. Under the decree, the Interior Ministry's personnel should be cut by 20% by 2012. The Interior Minister was ordered to review personnel selection procedures in the police force. The decree provides for the funding of Russia's public security police exclusively from the federal budget starting from 1 January 2012. Under the decree, two departments (out of 15) of the Interior Ministry should be abolished.

So far only discussions among the executive and parliament are taking place. Proposals are put forward for reducing the staff of the police (Russia has the highest number of policemen per 100 inhabitants – 4 times more than in the US and 10 times more than in the EU); to increase the pay and to introduce changes of staff following an assessment, internal and external control.

Passports

In November 2009 the Duma passed a first reading of a draft bill which would extend the term of validity of passports to a maximum of 10 years for travelling abroad. The decision will concern only passports containing biometric identifiers.

2.3 Democracy and Human Rights

Russia has introduced to the European Court of Human Rights a new judge Andrey Bushev, who may take part in the consideration of a corporate lawsuit filed by Yukos against the Russian Government. Bushev studied together with President Medvedev at St. Petersburg State University.

The Russian *human rights organisation* Memorial and its three activists, Oleg Orlov, Lyudmila Alekseyeva and Sergey Kovalyov, were awarded by the European Parliament the Sakharov Prize for Freedom of Thought. Orlov dedicated the award to the memory of Chechen human rights activist Natalia Estemirova who was abducted and killed in July.

On 16 November 2009, the lawyer of Hermitage Capital Management, Sergey Magnitsky died at the Moscow Butyrka jail. Despite multiple complaints about his health and requests for medical examination, Mr Magnitsky died of cardiac insufficiency. He had been charged with tax evasion in excess of RUR 500 million and was in detention since November 2008. One day after he met the Human Right Activists, President Medvedev instructed the Prosecutor General and the Justice Minister to launch an enquiry into his death. The Investigative Committee within the Prosecutor General's Office said it had opened a criminal case on negligence charges over prison officials' failure to provide medical aid to Magnitsky. Following this announcement the Federal Prison Service has admitted that it was partly guilty for the death in custody. The Ministry of Justice confirmed that it had fired 20 senior officials, including a deputy Minister, and the Director of Butyrka prison, where Magnitsky died.

In November 2009, the Moscow City Hall asked the Moscow Arbitration Court to evict the Moscow Helsinki Group and Goryachaya Linia, the Moscow branch of the For Human Rights group after City Hall refused initially to extend a lease contract with Goryachaya Linia. The lease contracts were later in December prolonged.

As regards *freedom of expression*, in November 2009 the European Court of Human Rights ruled in favour of Saratov-based journalist Alexander Krutov who had filed a lawsuit against Russia arguing that his right for freedom of expression and information was violated. In 2003, the Saratov regional prosecutor Anatoly Bondar complained that an article, published by Krutov in a local newspaper, damaged his honour and dignity. A Russian court ruled in favour of Bondar. The Strasbourg Court found that Article 10 of the European Convention on Human Rights was violated in relation to Krutov, and ordered the Russian Government to pay a total of €1,150 to Krutov.

As regards *religious freedom*, the European Court of Human Rights ruled in October 2009 that Russia's ban on the Church of Scientology is illegal and awarded each of the two Russian Scientology regional branches €5,000 in damages. The branches together also received €10,000 for costs.

Following the 2004 Moscow ban on the activities of the Jehovah's Witnesses (JHW), the first ever ban on the activities of another JHW Local Religious Centre, in Taganrog, was endorsed by the Supreme Court (SC) on 8 December 2009.

As regards the *death penalty*, Russia's Constitutional Court has extended in November 2009 a 13-year old Moratorium just weeks before it was due to expire. The Court prolonged the Moratorium indefinitely 'until the ratification of 6th Protocol to the European Convention of Human Rights'. For the death penalty to be abolished outright, the lower house of the Russian Parliament, the Duma, would have to ratify Protocol 6 to the European Convention on Human Rights which Russia signed in 1997. Public opinion remains in favour of bringing back capital punishment and Russia has yet to ratify the Protocol.

As regards *freedom of assembly*, in October 2009 more than 50 people, including one of the leaders of the Other Russia opposition coalition Eduard Limonov, were detained by the police

during an unauthorised rally in Moscow in support of Article 31 of the Russian Constitution on freedom of assembly. Police reportedly barred entry to the rally site to the head of the Moscow Helsinki Group Lyudmila Alekseyeva. Police later released all the detainees. On 31 December 2009, police detained more than forty anti-government protesters in Moscow, including eighty-two year-old Lyudmila Alekseyeva. The demonstrators gathered in central Moscow in support of their constitutional right (article 31) to freedom of assembly. The police stated that it would interfere with New Year's festivities.

Regarding the *NGO law*, new amendments to the law on NGOs have been approved in its first reading in the Duma in January 2010. In November 2009, President Medvedev submitted a bill to support "socially-oriented NGOs" which means NGOs that are beneficial to the Russian society. The list of "socially-oriented NGOs" in the bill includes organizations working in various fields: from charity, environmental control and the protection of Russia's historical and cultural heritage, to those providing assistance, such as education and legal advice, for the vulnerable or underprivileged. Human rights organizations finally included in the list of NGOs eligible to receive government support. If the new bill is approved in the final reading, more than 200,000 NGOs in Russia can receive government support. According to the draft, NGOs are eligible for grants and other kinds of financial help, tax remissions and free consultations. They will be able to use state or municipal property as well.

As far as the *fight against racism and xenophobia*, in November 2009 a 26-year-old campaigner against hate crimes was killed at the entrance of his apartment building in eastern Moscow in a contract-style killing. The Investigative Committee said it was investigating whether the campaigner, Ivan Khutorskoi, might have been killed for his activities. It said he was attacked twice in 2005 for his involvement with an "anti-fascist movement".

As regards the *rights of the child*, the first Federal Russian Ombudsman on Children's rights, Mr Golovan, the Special Representative of the Russian Federation on Children's rights, remained in office only for four months. Mr Golovan was dismissed by the Russian President on 29 December and a new Special Representative was appointed – Mr Pavel Astakhov. Golovan's dismissal was not expected. Some observers relate it to the controversy around the juvenile justice, strongly opposed by the powerful Russian Orthodox Church as in their view separate juvenile courts could undermine the role of the family in bringing up the children, and also to a public statement Mr Golovan did in mid December 2009 where he openly spoke about deterioration of children's rights in the past (when Putin was President). Mr Golovan seemed to have taken seriously his job and initiated a series of initiatives including a debate on the child pornography, the need for establishing local Children's Ombudsman offices in every federal region and others. A few weeks before his dismissal, Golovan further agreed to take the beneficiary role in two EU funded project related to the fight against child pornography and juvenile justice. Mr Astakhov, 43, has not been linked publicly with human rights in the past.

Following the EIDHR-Country-based support scheme Call for proposals launched on 17 February 2009 the selection of project proposals was finalised and the new contracts signed in December 2009. Considering the quantity and quality of proposals received, the Delegation had requested and obtained reallocations of funds from other Delegations, which allowed increasing the overall budget of the call by 560,000 €.

The projects selected involve fourteen Russian human rights organisations, including five from Russian regions. Projects address a wide range of human rights issues: torture prevention and legal assistance to victims of torture, human rights' training of policemen, reform of the police, electoral education in rural areas, promotion of reform of electoral legislation, peace-building in North Ossetia, promotion of human rights in the army, civil society capacity building, strengthening the freedom of press and freedom of assembly,

promotion of social and labour rights, defence of the rights of people with mental disorders, of indigenous people's rights and environmental rights. One of the projects will support the Stalker Human Rights film festival promoting a culture of human rights through cinema. All projects will last one or two years and their budgets range from 30,000 € to 190,000 €. An EIDHR kick-off conference to present these projects is due to take place in March 2010.

2.4 Foreign Policy

Visit of Tajik President

On 22-23 October 2009, Tajik President, Emomali Rakhmon, paid an official visit to Russia. The visit was a follow-up to President Medvedev's July 2009 visit to Dushanbe and included meetings with the Russian President. Both Presidents adopted a Joint Communiqué covering several issues of bilateral relations. Rakhmon's visit saw the maintenance of the status quo surrounding the presence of the Russian 201st military base in Tajikistan. Russia and Tajikistan will form a working group to discuss the further presence of the base following the end of the current agreement in 2014. Russia and Tajikistan regulated the question of Tajikistan's outstanding debt from the Sangtuda-1 hydropower station. The Russian MFA stated that Russia remains committed, under certain conditions, to assist in the construction of middle-sized hydroelectric power stations on Tajik rivers. At the same time, however, the question of Russian participation in the Rogun power plant has been shelved.

Medvedev's Draft Treaty on European Security

On 29 November 2009, President Medvedev revealed the first proposal for a Draft Treaty on a future European Security architecture. The Draft Treaty, containing 14 Articles, was released in Russian on the presidential website. As such, the document represents the most tangible expression of Russia's vision on such a treaty since being put forward by President Medvedev in Berlin on 05 June 2008. Medvedev noted that the Draft Treaty had additionally been forwarded to the Governments of the Euro-Atlantic Zone as well as relevant international organisations, including the EU, NATO, the Collective Security Treaty Organisation (CSTO), the CIS and the OSCE. The central element of the Draft Treaty is the establishment of legally binding "equality of security" whereby no Participant would be able to strengthen its security at the expense of another. As such, it envisions the creation of an overarching security platform to address concrete security concerns of the Treaty Participants through the taking of legally binding decisions. The draft foresees the convocation of three mechanisms, depending on the severity of the actual or perceived security threat. Medvedev underlined that Russia is open to suggestions on the substance of the proposed Draft Treaty. The Russian President also highlighted his country's hope that this paper would mark the start of discussions on the Treaty's concrete elements.

Visit of US Special Representative Holbrooke

On 15-18 November 2009, the US Special Representative on Afghanistan and Pakistan Richard Holbrooke, visited Moscow. The Russian MFA underlined the importance of the visit as the first on the working/expert level on the issue of Afghanistan. Holbrooke provided the Russian government with a sincere portrayal of Washington's assessment of the current situation in Afghanistan, detailing the outline of Obama's Afghan strategy. The US underlined the need to improve training efforts for the Afghan police force. The Russians underlined the interest in participating in economic rehabilitation projects together with the US at the invitation of the Afghan government. Russia and the US diverged on strategies designed to

combat opium production in Afghanistan, but agreed on the necessity of achieving effective regional co-operation. Consultations on US military transit were also held. The Russian MFA stated that regular contact will continue between Holbrooke and the Director of the Second Asian Department of the Russian MFA, Ambassador Zamir Kabulov.

Meeting of the High Council of the Union State of the RF and Belarus

On 10 December 2009, a session of the High Council of the Union State of Russia and Belarus was convened in Moscow. This session marked the 10 year anniversary of the foundation of the Union State and lengthy consultations between Belarusian President, Alexandr Lukashenko, with his Russian counterpart, Dmitri Medvedev, and Russian Prime Minister, Vladimir Putin. The session of the High Council lasted over 8 hours, with Medvedev himself describing the negotiations as "emotional". Energy issues figured high on the agenda, with the MFA noting Russia's commitment to stick with existing contracts entailing a switch to European prices for Belarus in 2011. Discussions also focused on the need to establish a new mechanism for the export of Russian oil to Belarus following the creation of the Customs Union in January 2010. Belarus made 2 requests for credit from the Russian government, yet Moscow deemed them as unrealistic given the ongoing economic crisis. Russia also noted its reluctance to subsidise individual Belarusian industries exporting to Russia. A military agreement was also signed between Moscow and Minsk. While Russia seems to be committed to restructuring the bilateral relationship with Belarus, thereby ending its continued subsidisation of its Union partner, it remains to be seen how such a change would effect Belarus' willingness to take part in integration projects with Russia.

Russian-Indian Summit

Indian Prime Minister, Manmohan Singh, paid a 3-day working visit to Russia that culminated in the 2009 annual Russian-Indian Summit on 8 December 2009. Prime Minister Singh held meetings with Russian President, Dmitri Medvedev, and Prime Minister, Vladimir Putin. The Russian MFA underlined Russia's deepening ties with India and mutual commitment to the construction of a multi-polar world. Russia noted that, despite the economic crisis, Russian exports to India continued to steadily grow over 2009. The Summit witnessed the signing of an agreement to construct new nuclear reactors in the Kudankulam site, as well as power plants in the West Bengal area. Negotiations are underway to expand Russia's role in India's nuclear market by the 2010 Russian-Indian Summit. Military-technical co-operation still plays a large role in the bilateral relationship, with Moscow and Delhi agreeing on the handover parameters for the Russian aircraft carrier "Admiral Gorshkov" to the Indian Navy. This removes a substantial irritant in the bilateral relationship. A new military co-operation programme for 2011-2010 is currently being prepared. Russia and India continue to negotiate Visa Facilitation and Readmission Agreements that both sides hope to have ready for signature by 2010. Major international issues, including Afghanistan, were also discussed. While remaining far from 'strategic partners', the 2009 Russian-Indian Summit reflected the growing economic links between Moscow and Delhi.

Humanitarian developments in Northern Caucasus

- Security

The security situation in the North Caucasus improved in relation to the third quarter but attacks on Law Enforcement Agents (LEAs), clerics and local authorities, attributed to the Islamist insurgency, are still happening on a daily basis. The number of violent incidents

continues on an upward in Dagestan and Ingushetia while decreasing in Chechnya. LEAs seem to be increasingly effective in the detention of insurgents. In 2009 as many as 120 people were arrested on terrorism charges.

- Internally Displaced Persons

The decrease in the number of IDPs was significant in the third quarter, although according to UNHCR the data should be interpreted cautiously because the return may be related to pressure by the authorities on closing down the Temporary Settlements (TSs) in Ingushetia and Temporary Accommodation Centres (TACs) in Grozny rather than to an improvement of the living conditions in Chechnya. After April 2009 the IDPs are not considered as such any longer but as "Forced Migrants", under the responsibility of the Federal Migrations Services and therefore do not enjoy the same protection and are obliged to pay for rent and utilities of TSs and TACs. On 31 December 2009 the number of IDPs registered in Ingushetia was 8,938 of whom only 1,721 are living in TSs. In Azerbaijan the number of Chechen refugees registered by UNHCR at the end of 2009 was 1,354.

UNHCR through its implementing partners and the Danish Refugee Council (DRC) are closely following the closure of TSs and TACs in coordination with the authorities. The main problem for those leaving (or evicted) is shelter. UNHCR is brokering a negotiation between the Presidents of Ingushetia and Chechnya to avoid forced return and provide land plots for those IDPs who have no house to go back to. As a last resort solution UNHCR and DRC, with ECHO support, have provided 156 box-tents for IDPs returning or integrating, of whom 60 families were moved out in coordination with the government of Chechnya for the provision of land plots.

The prospects for a peaceful settlement of the territorial conflict over Pirigorodny district (traditionally Ingush but given to North Ossetia-Alania by Stalin) look a bit more encouraging following the statements of goodwill from the presidents of both republics; meaning the facilitation of return to Pirigorodny or the allocation of land in Ingushetia for those IDPs who want to stay. For the first 100 families DRC provided as much box-tents that, unfortunately, are still empty because the government has not fulfilled its commitment of providing electricity and water yet.

- Human Rights

On Human Rights the news coming from the North Caucasus continues to be bad. As shown by the last report from CoE HR Commissioner, Thomas Hammarberg, after his latest trip to Chechnya and Ingushetia from 2 to 11 September, HR violations such as kidnappings, abductions, extrajudicial executions and illegal detentions are very common. In addition, collective punishment against people with suspected rebel ties became a pronounced trend: Memorial and Human Rights Watch documented at least 30 cases in which such individuals' homes were deliberately burned, apparently by Chechen law enforcement personnel. No one has been held responsible for the house burnings. High-level Chechen officials, including President Kadyrov, made public statements stressing that insurgents' families should expect to be punished unless they convince their relatives among the insurgents to surrender.

- ECHO partners

On October 31st, Zarema Gaisanova, Logistics and Procurement officer of DRC, one of the main ECHO partners in the NC, was detained with no charges in the course of a special operation commanded by President Kadyrov himself. Since then, there is no reassuring news about her in spite of the efforts by DRC to establish contact through all possible ways.

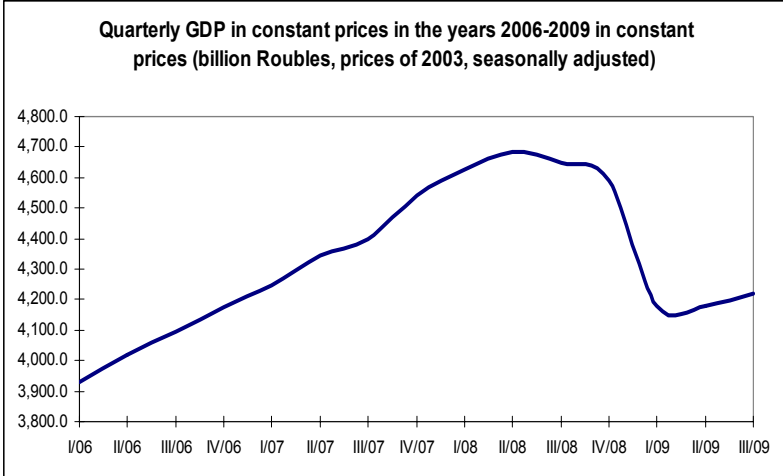
Following a request from the MID, UN should close all Country Programmes by end 2010 and those UN agencies remaining will have to negotiate new ways of cooperation with the Government. Even WFP will close the donor liaison office in Moscow by March 2010. UNHCR is not affected because the Russian government recognizes the applicability of its mandate to deal with Refugees and Stateless persons.

3. ECONOMY

3.1 Macroeconomic performance

Russia’s GDP contracted by 8.5% (y-o-y) in 2009, according to preliminary government estimates. Industrial output fell by 11.5% (y-o-y) in 2009.

However, the recent trends suggest that the economy has entered a phase of recovery. The economy has been expanding, m-o-m, since May 2009. The pace of economic decline in the autumn 2008 was very steep, but the economy started recovering since the second quarter of 2009. The chart below illustrates the trend of quarterly GDP dynamics for the period 2006-2009.



(Data of Rosstat)

The level of output remains far below the pre-crisis level reached in the first half of 2008, but grew in absolute terms in the second half of 2009. Most economists refer to this trend as a stage of economic recovery.

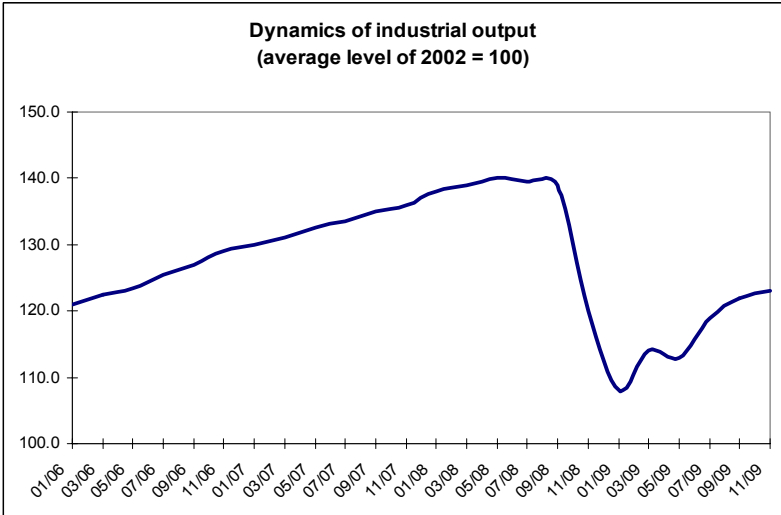
The manufacturing and construction sectors have severely suffered from the crisis as these two sectors were highly dependent on the growth in credit. These sectors have been expanding more rapidly before the crisis than other sectors, but they contracted faster during the crisis compared to other sectors. The rest of the economy declined more slowly.

The manufacturing sector showed robust m-o-m growth in the second half of 2009. The average pace of industrial output growth was 1.6% (m-o-m) in the third quarter of 2009. In November 2009, industrial output expanded by 1.1% compared to the previous month and by 1.5% compared to November 2008. Statistical data for December 2009 are still not available.

On the sectoral level, the rebound of industrial output could be attributed to a quite intensive growth in the production of natural gas in the second half of 2009 and increase in the

production of the machine-building sector (machinery and equipment, transportation vehicles). The production of consumer goods such as textiles and shoes rose in the second half of 2009. The oil sector made its contribution to economic growth as well. Production of crude did not increase in physical terms in the second half of 2009, but growth in oil prices certainly induced growth in other sectors of the Russian economy.

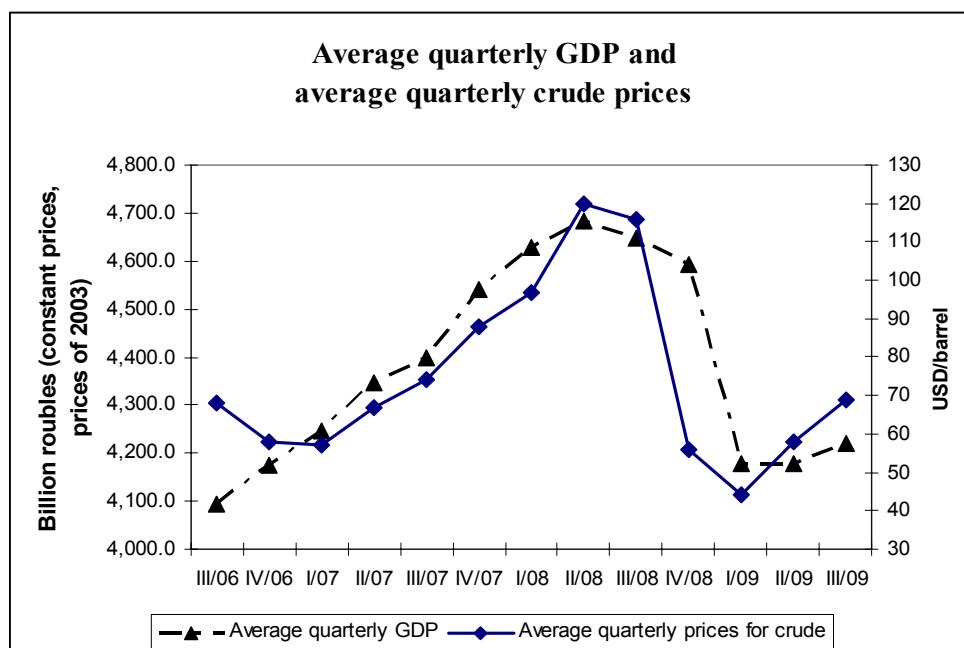
The chart below shows the dynamics of monthly industrial output (trend line) since January 2006 until November 2009. The chart shows a quite strong after-crisis recovery in recent months, even though the level of output remains far below the pre-crisis level.



Retail sales also confirm that the economy is on a path of recovery. After a short correction period, retail sales have been growing on a month- by-month basis for most of 2009.

Meanwhile, the recovery of the global economy is expected to drive export recovery in Russia (oil, gas, metals). The slowdown of inflation and gradual decline in interest rates could support domestic demand in 2010. The government expects a 3% growth in 2010, while a number of investment banks foresee an economic growth rate of more than 4% in 2010.

The chart below depicts the levels of average quarterly GDP (in constant prices) and average quarterly prices for crude.



The correlation coefficient between quarterly GDP and quarterly oil prices (see the table) is 0.77, which shows quite a high degree of correlation between economic growth and oil prices.

Year	2006	2006	2007	2007	2007	2007	2008	2008	2008	2008	2009	2009	2009
Quarter	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
GDP in constant prices	4,094	4,174	4,245	4,345	4,398	4,539	4,627	4,682	4,648	4,591	4,178	4,177	4,220
Average oil price	68	58	56	67	74	87	96	120	115	56	44	57	68

(data from Rosstat on GDP and the International Energy Agency about oil prices)

3.2 Monetary and exchange rate policy

3.2.1 Monetary

After a sharp decline in money supply in the beginning of the year, monetary aggregates started growing in the second half of 2009. In y-o-y terms, M2 increased by 7.5% at the end of November which corresponds to an uptrend in economic activity in the second half of the year.

Also the inflation environment improved dramatically in the second half of 2009. In the first quarter of 2009 consumer price inflation rose by 5.4%, but in the period between August and October 2009 the rate of consumer price inflation (m-o-m) declined to almost zero. As a result the annual rate of consumer price inflation in 2009 was around 9%. There are grounds to expect that inflation could slow down further in 2010.

The Central Bank has cut base interest rates by 0.25%. Thus, the minimum repo overnight rate is now 6.00% (compared with a previous 6.25%), while the refinancing interest rate is 8.75% (compared to 9.00% between November 25 and December 27).

The rouble exchange rate was very volatile in 2009. The rouble lost almost 17% against the bi-currency basket in January 2009. However, the rouble started appreciating since March due to higher oil prices. By the end of 2009 the rouble was traded at around 36 against the bi-currency basket. The Central Bank announced that it would adopt a free-floating regime for the rouble and limit its interventions in the forex market.

The Central Bank revealed its preliminary assessment of the balance of payments in 2009; the structure is shown below:

<i>Current account</i>	<i>billion USD</i>
Of which	
Exports	303.3
Imports	-192.7
Current account balance	47.5
<i>Capital account</i>	
Liabilities	6.3
Assets	-39.8
Capital account balance	-33.5
<i>Change in forex reserves</i>	-3.4
<i>Errors and omissions</i>	1.1

The Central Bank's gold and forex reserves declined in the first quarter of 2009, but the change in the reserves for the whole year was quite small (\$3.4 billion). By January 2010 the Central Bank's reserves reached \$439 billion.

Net private capital outflows from Russia amounted to \$52.4 billion in 2009, but in the fourth quarter of 2009 net private capital inflows of \$11.6 billion were recorded. Foreign capital was attracted to Russia by the rouble appreciation and improved macroeconomic fundamentals.

3.2.2 Fiscal policy

The federal budget revenues in 2009 totalled 7.3 trillion roubles, an increase of 9.3% compared to the original estimates; budget expenditures amounted to 9.7 trillion roubles. The federal budget deficit was 5.9% of GDP, while the government originally predicted a deficit of 8.3% of GDP.

Troika Dialog projects a federal budget deficit in 2010 of 3.6% of GDP at an average oil price of \$70 per barrel. If oil prices hover in the range \$75-80 per barrel, the federal budget would be balanced in 2010.

In December 2009, President Medvedev approved the federal budget for 2010 and budget projections for 2011-2012 - see major parameters below:

Major budget parameters

	<i>Budget implementation</i>				<i>2009</i>	<i>draft</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>		<i>2010</i>	<i>2011</i>	<i>2012</i>
Revenues, billion roubles	5 127,2	6 278,9	7 781,1	9 275,9	6 713,8	6 950,0	7 455,7	8 069,6
<i>% of GDP</i>	<i>23,7</i>	<i>23,3</i>	<i>23,5</i>	<i>22,3</i>	<i>17,2</i>	<i>16,1</i>	<i>15,5</i>	<i>15,0</i>
Oil and gas revenues	2 162,1	2 943,5	2 897,4	4 389,4	2 797,6	3 194,7	3 311,8	3 503,1
<i>% of GDP</i>	<i>10,0</i>	<i>10,9</i>	<i>8,8</i>	<i>10,5</i>	<i>7,2</i>	<i>7,4</i>	<i>6,9</i>	<i>6,5</i>
Revenues without oil and gas revenues, billion roubles	2 965,1	3 335,3	4 883,7	4 886,5	3 916,2	3 755,3	4 143,9	4 566,5
<i>% of GDP</i>	<i>13,7</i>	<i>12,4</i>	<i>14,7</i>	<i>11,7</i>	<i>10,0</i>	<i>8,7</i>	<i>8,6</i>	<i>8,5</i>
Oil and gas transfer				2 135,0	2 531,1	1 943,4	1 778,7	1 987,3
<i>% of GDP</i>				<i>5,1</i>	<i>6,5</i>	<i>4,5</i>	<i>3,7</i>	<i>3,7</i>
Expenditures, billion roubles	3 514,3	4 284,8	5 986,6	7 570,9	9 931,4	9 886,9	9 389,8	9 681,0
<i>% of GDP</i>	<i>16,3</i>	<i>15,9</i>	<i>18,1</i>	<i>18,2</i>	<i>25,5</i>	<i>22,9</i>	<i>19,5</i>	<i>18,0</i>
Deficit/surplus, billion roubles	1 612,9	1 994,1	1 794,6	1 705,1	-3 217,6	-2 936,9	-1 934,1	-1 611,4
<i>% of GDP</i>	<i>7,5</i>	<i>7,4</i>	<i>5,4</i>	<i>4,1</i>	<i>-8,3</i>	<i>-6,8</i>	<i>-4,0</i>	<i>-3,0</i>

According to federal budget projections for 2010-2012, the Reserve Fund would be depleted by the end of 2010. About 70% of money accumulated in the Reserve Fund was spent in 2009, and future oil and gas revenues are planned to be spent on covering the budget deficit.

The National Welfare Fund accumulated 2,600 billion roubles at the beginning of 2009, but its size is projected to shrink to 1,100 billion roubles by the end of 2012.

3.3 External trade

According to Rosstat, Russia's trade turnover amounted to \$439.8 billion between January-November 2009, down 38.1% y-o-y. Exports during the same period declined to \$269.6 billion (down 39.1%, y-o-y), while imports amounted to \$170.2 billion (down 36.4%, y-o-y) in the same period. The trade surplus was positive and amounted to \$99.4 billion in the first eleven months of the year versus the surplus of \$175.1 billion in the same period last year.

Mineral fuels accounted for 66.7% of total exports in the period, ferrous and non-ferrous metals – 11.3% of total exports, chemicals – 6.2%, machinery, equipment and transportation vehicles – 5.7% of total exports. Machinery, equipment and transportation vehicles accounted for 43.3% of total imports in January-November 2009, food products and agricultural commodities – 17.9% of total imports, chemical products – 16.6% of total imports.

The EU remained Russia's largest trade partner, accounting for 50.4% of Russia's total trade turnover in January-November 2009.

Among the EU Member States, the largest trade partners were Germany and the Netherlands (8.5% each of Russia's total trade turnover), followed by Italy (7.1%), France (3.7%), Poland (3.6%), Finland (2.8%) and the UK (2.7%). The shares of all these countries, except France, in Russia's trade turnover declined in 2009. Germany had the most noticeable decrease in its share of Russia's trade (from 9.1% to 8.5%).

In the period January-November 2009 the EU share in Russia's trade declined from 52.2% to 50.4%. The share of EURASEC increased from 8.2% to 8.8% (y-o-y), while the share of CIS countries as a whole remained flat at 14.6%. The share of Ukraine in Russia's trade declined from 5.6% in January-November 2008 to 4.8% in the corresponding period of 2009.

Russia's trade turnover with major partners (mio. USD), January - November 2009

	Turnover (mio USD)	In percentage points vs total turnover in Jan-Nov 2008	In percentage points vs total turnover in Jan-Nov 2009, %
Whole world	416,006	60.7%	100%
EU-27	209,826	58.7%	50.4%
USA	16,262	65.8%	3.9%
Japan	12,883	48.2%	3.1%
CIS	60,897	60.7%	14.6%
EURASEC	36,720	65.3%	8.8%
China	34,971	67.3%	8.4%

According to the Central Bank's estimates, FDI inflows into Russia amounted to \$38.3 billion in 2009, down from \$62.8 billion in 2008.

SME Development

The Closing Seminar for the *project Internationalisation of Russian SMEs through the Chamber of Commerce Network* was held on 22 December 2009 in the Federal Russian Chamber of Commerce and Industry (RF-CCI). The seminar was attended by the EU Delegation, representatives from Russian regional Chambers of Commerce and Eurochambers, the EU counterpart in this project. The project has given regional Russian Chambers the opportunity to exchange experiences with Chambers of Commerce in EU Member States on SME internationalisation. The cooperation initiated by the project between Russian and EU Chambers of Commerce is attracting funding from national and regional authorities in EU Member States, as well as from the Ministry of Economic Development.

Border Crossings

The Chernyshevskoye border crossing point (Kaliningrad - close to the Lithuanian border) funded by the TACIS programme for € 8 Million was officially opened on 20 October 2009 and is now fully operational. The construction works were successfully completed in December 2009 and the subsequent provisional acceptance certificate issued for the Mamonovo border crossing point (Kaliningrad - close to the Polish border), EU-funded project for € 13,3 Million).

3.4 Anti-crisis programme and industrial policy

3.4.1 Anti-crisis programme

Anti-crisis measures in 2010. The government will continue to implement anti-crisis measures in 2010 as evidenced by the anti-crisis guidelines published at the end of December 2009. The budget for 2010 includes 195 billion roubles to be spent on anti-crisis measures. According to Economy Minister Nabiullina, the measures are intended to support economic recovery and serve the modernization agenda, in particular, technological modernization and structural reforms. Priority sectors are the car industry and construction, which suffered heavily from the crisis. The government will continue to extend state guarantees on loans to systemic companies in 2010. About 180 billion roubles are allocated to support the SME sector.

Support to the car industry. PM Putin signed a decree establishing the “cash-for-clunkers” programme (see also 4.2). The implementation of the programme will start in March and will last until 1 November 2010. Under the programme a car produced before 1999 could be exchanged for a 50,000 rouble voucher which could be used to buy a new car assembled in Russia. The budget for 2010 allocates 11 billion roubles for the programme. The Ministry of Industry and Trade published a list of 66 models of cars assembled in Russia eligible to participate in the programme. Total direct support to the car industry will amount to 33.5 billion roubles in 2010, including public procurement costs and subsidies to cover interest rate payments on car loans.

3.4.1 Industrial Policy

In July 2009 the project *Approximation of EU and RF technical regulation, standardisation and certification systems* started with a budget of Euro 2.5 million with major EU Member State bodies. This project has been much delayed due to initial lack of cooperation from the side of the Ministry of Trade and Industry over the last two years. This attitude however changed more recently, possibly due to the interest at the highest level of the government to modernise the RF system on this topic.

4. SECTORS

4.1. Energy

President Medvedev signed on 23.11.2009 the new law on energy saving and energy efficiency in Russia. The law, inter alia, introduces an obligation to equip buildings, houses and apartments with meters for water, gas, heating and electricity and an obligation to take them into use. The law also contains a provision for goods to have an indication and marking of energy-efficiency class. The law prohibits the circulation in Russia of incandescent light bulbs of 100W or more as from 2011. State orders of any incandescent light bulbs would be prohibited at the same time.

Early Warning Mechanism

Commissioner Piebalgs and Russian Energy Minister Shmatko signed a Memorandum on the Early Warning Mechanism on 16.11.2009 in Moscow. They also signed the 10th Progress

Report of the EU-Russia Energy Dialogue. The Russian government activated parts of the foreseen mechanisms on 27/28 December in order to warn the EU of possible oil supply disruptions through Ukraine which did not materialise.

Russian Energy Strategy until 2030

The Russian Government approved, on 13.11.2009, the Russian energy strategy until 2030. The strategy foresees a total investment of \$2.4-2.8 trillion into the energy sector by 2030.

Foreign investments

The State Commission on foreign investments in strategic sectors accepted some energy-related acquisitions, such as Itera's purchase of 49% of Sibneftegaz and Volga Resources' possible purchase of an additional 18, 42% in the independent gas company Novatek.

Energy Security Treaty

President Medvedev continued to press his proposal to draft an international treaty on energy security along the lines of the conceptual paper that he presented in April 2009.

Gas

Despite frequent announcements of financial difficulties, Naftogaz Ukrainy paid in full and on time for gas deliveries in September-November 2009. Naftogaz announced that it had sufficient volumes of gas in the underground storages to provide gas supply and transit during the autumn and winter periods.

Negotiations on a new intergovernmental agreement on cooperation in the gas sphere started between Russia and Ukraine to update the 2004 agreement.

Following a political agreement reached between PM Putin and Ukraine's PM Tymoshenko in November in Yalta, Gazprom and Naftogaz Ukrainy announced that addenda to the purchase-sale contract of 19.1.2009 were agreed and signed between the companies on 24.11.2009. The annual contractual volume of gas for 2010 was set at 33, 75 bcm. The documents also confirmed that there would be no sanctions on Ukraine's decreased gas intake for 2009. Ukraine later appeared to be asking for a further volume reduction for 2010.

PM Putin stated at the end of September 2009 that the gas export monopoly would be retained in Russia for the time being "but not forever" and confirmed that the government aimed at liberalising the Russian domestic gas market, including non-discriminatory third-party access to the gas transportation system.

Gazprom's new investment plan for 2009 entails delaying the Bovanenkovo field (Yamal) and gas pipeline Bovanenkovo-Ukhta from the 3rd quarter 2011 to the 3rd quarter 2012. Funds for the development of production, refinery and underground storage capacities were reduced while certain priority projects received more funds, such as the construction of the gas pipeline Sakhalin-Khabarovsk-Vladivostok. Gazprom's investment programme for 2010 was approved at € 19 bln with priority on developing the Bovanenkovo and Shtokman fields. For transportation, the priorities were put on the pipelines Bovanenkovo-Ukhta, Gryazovech-Vyborg and Drubga-Lazarevskoe-Sochi. Long-term investments would foresee the development of the Shtokman and Prirazlom fields and the gas pipelines Nord Stream and South Stream.

Gazprom announced that it planned starting production at the Sakhalin-3 project's Kirinsky field in 2011 or 2012, two years earlier than previously planned.

Gazprom presented the company's "strategy in the environment of reduced gas consumption abroad". The company's export supplies would be led by 1) sale of gas on the basis of long-term agreements, 2) fulfilment of "take or pay" obligations, and 3) maintenance of a link between gas price and the "oil basket".

Gazprom and E.On concluded a deal on a swap of assets relating to the Yuzhno-Russkoe oil and gas field. Gazprom received 49% of ZAO Gerosgaz which owned 2,93% of Gazprom (Gerosgaz now became 100% owned by Gazprom structures). E.On, on the other hand, received 25% of ownership capital of OAO Severneftegazprom (licence-holder of the Yuzhno-Russkoe field). E.On remains the largest foreign shareholder of Gazprom with 3,5%.

Negotiations were pursued between Gazprom and European gas companies on the application of the take-or-pay clause in the gas sale-purchase contracts due to the lower consumption and intake of gas in 2009.

In December 2009, the Gas Exporting Countries' Forum appointed Russian Leonid Bokhanovsky (Vice-President of Sroytransgaz) as Secretary General for a 2-year period.

Russia and Turkmenistan agreed to resume Gazprom's purchases of Turkmen gas as of 1.1.2010 at a volume of up to 30bcm a year, and a price based on a European formula. The supply of Turkmen gas to Russia had been cut since April 2009 when an accident took place on the pipeline connecting the two countries.

Negotiations on the gas price for Belarus were pursued. At Presidential level it seemed that an agreement "in principle" had been reached not to change the price of Russian gas supplied to Belarus in 2010 but a few years later.

Gazprom signed a contract with SOCAR (State Oil Company of the Azerbaijan Republic) in October 2009 to buy at least 500 mcm of Azerbaijani gas starting from January 2010.

The Nord Stream pipeline project received almost all approvals from the relevant countries, but the Finnish approval process was not completed yet. The pipeline company considered that construction could start in spring 2010. Gazprom expressed concerns about the indirect influence on Nord Stream of the new German regulations concerning the rates of return on new investments on infrastructure projects within Germany. GDF Suez was in discussions with the Nord Stream consortium on getting a share of the project.

Turkey granted the permissions for exploratory works to be carried out in its territorial waters with a view to laying the South Stream gas pipeline. Serbijagas and Gazprom signed an agreement on the creation of Joint Ventures for the construction of the Serbian branch of South Stream. Discussions were pursued to include French Electricité de France in the project. Russia and Slovenia announced that they would sign an intergovernmental agreement

concerning the construction of the South Stream pipeline in the territory of Slovenia through a joint venture. Russia and Austria were discussing a special intergovernmental agreement to cooperate under the South Stream project. Russia and Slovenia signed an agreement concerning Slovenia's participation in South Stream. The MoU on Croatia's participation in the project was not yet signed. Bulgaria and Russia were in discussions on the project. Gazprom announced that the decision had been taken to double the capacity of the South Stream gas pipeline to 63 bcm and the feasibility study was under way.

Poland and Russia took a political decision to increase the share of Gazprom in EuroPolGaz from 48% to 50%. EuroPolGaz operates the Polish part of the Yamal-Europe gas pipeline. Gazprom and Polish PGNiG reached an agreement - to be confirmed at governmental level - about increasing the gas supply volumes to Poland and prolonging the existing contract between the parties until 2037. The intergovernmental agreement remained to be signed.

Oil

Russia activated the Early Warning Mechanism on 27 December in order to warn the EU of a possible disruption of oil supplies from Russia through Ukrainian territory. On 28 December Deputy PM Sechin wrote to the European Commission that a supply disruption to Hungary, Slovakia and the Czech Republic as well as the port of Yuzhny could not be excluded due to unacceptable new transit tariffs and other conditions raised by the Ukrainian pipeline operator Ukrtransnafty. On 29 December, the companies seemed to have found an agreement, and no disruption occurred.

The Board of Directors of TNK-BP nominated, in November, Maxim Barsky as CEO of TNK-BP. Until Mr Barsky takes the lead after a period of "training", Mikhail Friedman, co-owner of TNK-BP, would continue to act as CEO.

Lukoil bought BP's 46% stake in the LukArco project thereby completing BP's departure from the Caspian Pipeline Consortium.

The court decision of 30.11.2009 in The Hague on the YUKOS case was reported in the Russian media.

A Russian decree exempted 13 oil fields in East Siberia from oil export duty as of 1.12.2009.

The general export duty for crude oil was set at \$271 a tonne as of 1.12.2009 (from the \$231,2 in November 2009).

French Total signed an agreement with Zarubezhneft on production sharing in the Kharyaga oil field, stipulating that the share of Zarubezhneft would reach 20% in the project as of 1.1.2010 (10% from Total and 10% from Norwegian Statoil).

Nuclear

PM Putin signed a decree concerning the construction of the Baltic nuclear power plant in the Kaliningrad region.

Rosatom's daughter company Atomstroyexport bought Nukem Technologies from American investors, its first European asset.

Russian energy activities abroad

Gazprom and China National Petroleum Company (CNPC) signed a framework agreement on gas supply to China. Gazprom and Petrovietnam signed a strategic partnership agreement, and founded a joint company (Gazprom Viet) whose objective is to develop joint gas production projects. In Vienna a gas exchange project partially owned by Gazprom was officially launched. Gazprom failed in its bid for a share in the construction of the Bergermeer gas storage in the Netherlands.

Russian Zarubezhneft signed four contracts, each for a period of 25 years, with state-owned Cuba Petroleos on searching for oil in four blocks (two offshore and two onshore) in the Gulf of Mexico east of the Varadero oil field. Eni, Calik Holding, Rosneft and Transneft signed a MoU on the inclusion of the two state-owned Russian companies in the construction of the Samsun-Ceyhan oil pipeline project. Rosneft agreed with China National Petroleum Company on a joint project to construct an oil refinery and a network of petrol stations in China. The first Russian investment payment was due in November to the \$6.4 bln Russian-Venezuelan joint fund to pay for new oil projects in Venezuela. Zarubezhneft, Petrovietnam and Japanese Idemitsu oil companies signed an agreement on joint operational activities. Gazprom Neft signed a framework MoU with Iran's National Petroleum Company on cooperation on developing two oil fields in Iran. A consortium composed of Lukoil and Norway's Statoil secured the right to develop the second phase of Iraq's West Qurna field. Gazprom Neft together with three international partners won a tender for the oil field Badrah.

Russia and India initialled an intergovernmental agreement on cooperation in the field of civil nuclear power. The agreement could open the way for Rosatom to construct four additional reactors at the nuclear power station Kudankulam. Reactors could also be constructed at Haripur in west Bengal. Russia's Atomstroyexport signed a protocol with China on Russian participation in the second phase of the Tianwan nuclear power plant.

4.2. Environment

The final conference of the € 2.5-Million EU-funded project “Harmonisation of Environmental Standards” took place on 4 December 2009 in Moscow. The main goal of the project, successfully implemented, was to increase the effectiveness of Russia’s system of environmental management through the implementation of a National Environmental Harmonisation Strategy.

President Medvedev noted at the Copenhagen **Climate Change** Conference that Russia is ready to cut its greenhouse gas emissions by 25% by 2020 in comparison to 1990 (equivalent of 30bn tonnes). Banking of surplus emission credits (AAU) must be possible after 2012. In November PM Putin formulated Russia’s conditions: all countries must join a new agreement and the capacity of Russian forests to absorb GHG emissions must be recognized. On 16 December the President signed the Climate Doctrine prepared by Roshydromet. The President appointed the former head of Roshydromet (Russia’s Hydro Meteorological Agency), Alexander Bedritsky, as Presidential Advisor on climate change issues.

On 15 December the Russian Institute of Economic Analysis (IEA) released a report claiming that the British Hadley Centre for Climate Prediction and Research and the Climate Centre of the University of East Anglia (HadCRUT) had falsified data on climate in Russia because Russian climate trends did not comply with the “anthropogenic global warming theory”.

HadCRUT's assessment results for 1870-1990 differ from the Russian Federal Service for Hydrometeorology and Environmental Monitoring by 0.64 degrees.

On 9 December Mr Ovsyanikov, the top polar bear expert at the Russian Academy of Sciences, said the polar bear population that stretches from Eastern Russia to Alaska had decreased from an estimated 4,000 to about 1,500. The polar bears' survival depends on catching seals on ice.

On 3 December the Ministry of Economic Development approved new regulations for the joint implementation (JI) projects. According to the regulations, participation is open to Russian companies only, in six different areas (energy, agriculture, forestry, waste, dissolvent and other products' utilisation, and industrial processes). There is a 30 mln tonnes of CO₂ equivalent limitation; gains from JI trade are only to be used for production modernisation. Under a decree of October, state-controlled Sberbank is appointed as the "operator of carbon units", an intermediary for emissions deals under Kyoto between Russian and foreign firms. There is a pipeline of more than 100 JI projects pending, with a potential to cut over 200 million tons of CO₂ by 2012, according to UN data.

On 20 November Greenpeace released the results of a study conducted in the Northern regions of the RF, confirming that for the past 30 years the speed of **permafrost thawing** has been increasing. Permafrost soils comprise 60% of Russia's territory. 93% of natural gas and 75% of oil - 90% of total export volume, are extracted there.

On 24 October at least 10 Russian cities among which are Moscow, St. Petersburg, Irkutsk, participated in the **International Day of Climate Action** by showing documentaries on climate change, organising art exhibitions, clean-ups and tree planting.

On 8 October at the Conference on Climate and Environmental Systems Monitoring in Tomsk scientists presented information that the **Great Vasyugansky swamp**, located in the heart of the West-Siberian plain, absorbs large amounts of carbon from the atmosphere and accumulates it in the form of peat (it contains over 1 bln tonnes of peat along with gas and oil deposits). This contributes to reducing greenhouse warming and cooling the atmosphere.

On 5 November the PM called upon the government to accelerate formalisation of measures to improve environmental conditions of the **Baltic Sea**, in particular the construction of sewage facilities in the Kaliningrad Region. This followed the signing of the Working Plan of the Government.

The government launched a pilot **civil protection** project in Kaluzhskaya Oblast to create a Unified **Emergency Call Service number 112**. 4 more regions or experimental zones are to be involved in the project, at a total estimated cost of 581 mln euro.

On 21 October at a State Council session the Minister of Natural Resources reported that since 2004 emission levels have remained unchanged except for a slight decrease of **water pollution**. 48% of pollution is caused by industry, 52% by transport. The Minister emphasized the need for comprehensive legislation, setting fixed maximum permitted emissions, regulating environmental audits, by strengthening responsibility and introducing incentives for modernization.

Baikal cellulose and paper mill stopped producing bleached pulp, having been unable to switch to a closed **water** cycle system as required by the Ministry of Natural Resources.

On 23 December Duma adopted an amendment to the **Forestry** Code that allows cutting down trees in the area of Sochi National Park, including endangered trees.

A **car recycling** mechanism prepared by the Ministry of Industry and Trade was made public. It delegates responsibility to apply for the 50 000 roubles (1200 euro) payout for old cars The

budget foresees 10 bln roubles (2.3 bln euro) in 2010 for recycling 200 000 old cars in 19 pilot regions.

Supervision responsibilities over **hunting** activities are to be transferred from the Ministry of Agriculture to the Ministry of Natural Resources. WWF strongly approves because this centralises control over hunting and endangered/protected species in one ministry.

On 13 November the Government said the joint railroad and highway connecting Adler and Krasnaya Polyana (**Sochi** area) are to be redirected to preserve pristine forest. The cost of the project increases by 183 mln roubles (4.2 mln euro) or 10 times. On 16 October environmentalists protested against road construction, including a Gazprom road project, within the borders of the Caucasus State Biosphere Reserve, listed under the UNESCO World Heritage Convention.

The Moscow city government announced plans to save 160 mln roubles (4 mln euro) on snow removal each winter by blasting clouds with a new ionizer-based technology (“Chizhov lamp”). The Moscow Region expressed concern over climate impact for the region. The technology remains controversial, and implementation is postponed.

State officials announced completion of the third stage of a **chemical weapons** destruction programme ahead of schedule (45% of a total of 18 000 tons).

On 5 October the Russian-Belorussian Commission on Environment, Natural Resources Management and Rectification of the Consequences of Accidents discussed the results of the joint programme 2007-2011 and reported on progress of joint efforts to mitigate consequences of the **Chernobyl accident** of 1986. Radiation level monitoring continues. In 2009 almost 300 Russians from parts of the Tula Region with high radiation levels stayed in Belorussian health resorts under Russian-Belorussian Union financing. According to the Russian Federation Council, almost 1mln citizens of the Tula Region live in dangerous areas. The parties also agreed to continue joint efforts aimed at environmental monitoring, including hydrological monitoring of the Neman River.

On 7 December a Greenpeace activist stopped a used **nuclear fuel** delivery from France to Russia through the port of Le Havre. In October Russian environmentalists demanded that the French company Areva which processes nuclear fuel for Electricite de France (EDF) stop a delivery of used uranium to Seversk (Tomsk-7), 108 tonnes of which allegedly are stored there since 1990 in containers without appropriate safety precautions.

4.3 Science & Technology, Education, Space

Science & Technology, Education, Space

October-December 2009 were marked by a vigorous attempt of the Russian President to give new impetus to the country’s innovative development & technological modernization, assigning science and technology a central role. The President focused on the existing instruments of the country's innovation system in his effort to increase the efficiency of its elements (e.g. state corporations, special economic zones, Russian Academy of Science) and the overall coordination of the system using the ad hoc Council for Modernization. While the government seems to be very active with numerous stimulus packages, the private sector remains uninterested and detached from the national R&D sector.

E-government

After a phase of project preparation and the tendering procedure on support to e-Government with the Ministry of Economic Development and the Ministry of Communication, a contract with the consulting company was successfully signed in July. The overall objective of this € 2 million EU-funded project is to contribute to the efforts of the Russian government to improve transparency, administrative efficiency, and accountability of the Russian public administration due to (a) improved inter- and intra-agency cooperation, and (b) improved state-citizen relations. The kick-off meeting took place on 17 December in Moscow. Pilot regions have been selected: Karelia, Kaliningrad and Vologda

Research & Development

The President's "modernization plan" focuses on S&T: the leitmotiv of President Medvedev's second annual address to the Russian Parliament was the imperative need for Russia's economic and societal modernisation, with a marked emphasis on science and technology. The President urged more effective policy action on innovation, economic diversification and technological development in order to shift Russia towards a knowledge-based economy. Medvedev outlined **five priorities for technologically-led modernization**, namely (i) **new medical technologies**; (ii) **new energy technologies** (biomass, superconductors, nuclear power reactors and new generation fuels, thermonuclear fusion); (iii) **space and telecommunication systems** (broadband Internet, digital television, 4G communication, high-speed optical networks, global navigation satellite system, atomic spacecraft); (iv) **new information technologies** (supercomputers & interconnected supercomputing systems); (v) **energy efficiency and rational use of environment**. The President called for closer cooperation with foreign R&D entities and a better environment for top R&D in Russia. In particular, measures to simplify visa, employment and diploma recognition procedures for highly-qualified foreigners as well as the involvement of foreign experts and representatives of the Russian scientific "diaspora" in the review of Russian R&D projects are expected to help attract foreign researchers and entrepreneurs and to retain talented human resources. Attractive working conditions would be offered to specialists at a prominent multidisciplinary R&D centre to be set up in Russia "along the lines of Silicon Valley".

To prepare his annual address, the President had used a broad public consultation in which researchers played a particularly active role. Forty scientists wrote an open letter to Medvedev calling for an increase in funding and transparency in Russian science. Another letter was sent by a group of Russian scientists working abroad criticizing the state of affairs in Russia's R&D sector and the Government's science and technology policies.

State budget for research 2010: 159bln roubles (~€ 3.6 bln) are earmarked in the 2010 federal budget for fundamental research, applied S&T and innovation programmes in the areas of aeronautics, shipping, nanotechnology, electronics and components, space and nuclear complexes. The Russian Academy of Science is to receive 53.7 bln roubles out of 76 bln roubles foreseen for fundamental research. Although in absolute terms the state 2010 R&D budget would grow, it has been cut by approximately 15-20% compared to the initial provisions of November 2008. Experts believe that the planned public R&D allocations will not be sufficient for the successful implementation of the President's ambitious modernization agenda.

Closer cooperation with the Russian "scientific diaspora" abroad was discussed during the visit of Education and Science Minister Fursenko to Israel in November and at several dedicated events supported by the Federal Agency for Science & Innovation (Rosnauka) in Russia. Rosnauka presented the results of a call for proposals launched under the Federal

Targeted Programme for Scientific and Pedagogical Human Resources for an Innovative Russia aiming to initiate projects with the participation of Russian scientists living and working abroad. 110 such projects have been selected for support and funding in 2009 (~200 mln roubles or € 4.5 mln). More than 60 selected projects involve Russian scientists who are currently in the US, Germany and France. EU experiences with research diasporas were amongst others studied by Russian policy makers.

There is a growing interest in scientific mobility in Russia, which until recently had been discussed almost exclusively in terms of “brain drain” rather than “brain circulation”. The government starts cautiously - given the criticism of the “domestic” research community – to explore the potential of Russian scientists living abroad in the hope to help the country tap into "global science assets" and to make up for the increasing shortage of talented academic and pedagogical staff domestically.

Prior to his trip to the Copenhagen Climate Change Summit, President Medvedev met members of the Russian Academy of Sciences (RAS) to discuss climate change, the Academy's role in innovation and modernization, state priority areas of research and support to young scientists. The Academy presented 169 projects aiming to encourage the country's technological modernization and innovative development.

Medvedev's visit to the RAS was remarkable in that it was held in the spirit of a “constructive partnership” rather than antagonistically which had marked the dialogue between the Government and the RAS of late. The President sought the support and advice of Russia's scientific community on the country's official stance on the impending climate change negotiations in Copenhagen and he explored ways for the Academy to be more actively involved in his proclaimed “modernization agenda”.

During President Medvedev's visit to the Russian Research Centre Kurchatov Institute, where he chaired a meeting of the State Commission on Innovation & Technological Modernization, the Institute's change of status was announced. As “the most important Russian research entity”, the Kurchatov Institute was taken out of Rosnauka's purview to report directly to the Russian government. It will thus become a fully fledged independent public budget actor with its own line in Russia's federal budget. (NB: In November, the Government approved the Programme for Support and Development of S&T and Engineering Infrastructure of the Kurchatov Institute with 2.5 bln roubles (~€ 55 mln) foreseen in the federal budget 2010). In addition, the Centre's institutional network was expanded with the integration of three research entities formerly supervised by the Rosatom state corporation and the Russian Academy of Science. The aim of this integration is to enhance the interdisciplinary potential of top nuclear physics centres by bringing them “under one roof”, to enhance the work related to Russia's participation in major international and pan-European research infrastructure projects, and to develop a new national programme for unique research facilities and the upgrade of existing mega-installations in Russia.

The Government continues to pay serious attention to the activities of the Kurchatov Institute by further strengthening both its research capacity and decision-making powers. These recent developments are seen as a major "victory" for the Kurchatov Institute, and in particular its Director Prof. Mikhail Kovalchuk, in their "rivalry" with the Russian Academy of Sciences.

Sector overviews

Biotechnology: (i) A draft strategy for biotechnology development in Russia until 2025 has been developed by the Russian Ovchinnikov Biotechnology Society to set up priorities and to work out action plans for biopharmaceutical, bio fuel, agricultural and other biotech-related sectors and will be submitted to the Cabinet in January 2010. (ii) The Moscow-based Human Stem Cell Institute, one of the largest Russian companies working with human stem cells and

developing technology-related pharmaceuticals, went for the first ever Russian IPO in the biotech sector.

Nuclear energy: (i) the government allocated to the Rosatom state corporation 14.2 bln roubles (~€ 0.35 bln) for the purchase of foreign assets and 800 mln roubles (~€ 18 mln) to build a technology park outside the restricted-access federal nuclear centre in Sarov. The Nizhny Novgorod regional government and the Sistema holding company, which will run several production units in the park to make equipment for the Glonass navigation system and to develop state-of-the-art software, would also invest in the project. The aim is to move out of the restricted area and to commercialize high-tech, innovative ideas of the federal nuclear centre by employing its specialists and using the supercomputer centre that is being set up in Sarov for nuclear research. (ii) A new Federal Targeted Programme on Nuclear Technologies until 2015 will start in 2010.

ICT/supercomputers: (i) At the meeting of the State Commission on Innovation and Technological Modernization at the Moscow State University, President Medvedev inaugurated Russia's most powerful supercomputer, built by T-Platforms and named "Lomonosov", which has peak productivity of 420 teraflops and ranks among the world's top 12 most powerful machines. (ii) Presidential IT Council (led by ex-Communications Minister, Presidential Advisor Leonid Reiman) ruled out granting state social security tax preferences for Russian software exporters as of 1 January 2009.

Nanotechnologies: (i) President Medvedev opened the second International Nanotechnology Forum in Moscow, claiming that nanotechnology would rival oil as a powerhouse industry, reconfirming the country's objective to reach a 900 bln roubles turnover by 2015 (given the size of Russia's nanotechnology funding programme (up to 318 bln roubles (\$ 3.95 billion) earmarked until 2015), but criticizing the sector's management. (ii) Rusnano state corporation plans to invest 5.8 bln roubles (~\$ 200 mln) in the development of nanotechnology centres in Russia in 2010, to set up a \$ 1 bln international nanotechnology fund to invest in high-tech nanotechnology businesses, technology transfer and the set-up of production facilities in Russia. (iii) Rusnano and EBRD agreed to jointly fund energy efficiency & energy conservation, health, micro- and nanoelectronics projects. (iv) The International Convention for the European XFEL facility in Hamburg was signed on 30 November in Hamburg by the participating countries, including Russian Science Minister Andrei Fursenko on behalf of the Russian Federation. Russia's contribution will be € 250 million. Russia's scientific work in this initiative will be coordinated by the Kurchatov Institute.

Environment: (i) PM Vladimir Putin headed the Russian Geographical Society's Board of Trustees and Emergency Situations Minister Sergei Shoigu became the chairman of the 20,000-member strong society, created in 1845 for geographical expansion and exploration of natural resources. Putin promised amongst others to allocate an extra 50 mln roubles (~€ 1 mln) for new research projects. (ii) The government plans to create a new state geological holding "Rosgeologia" in order to integrate / coordinate the country's geological assets. Rosgeologia will unite scientific institutes, industrial firms and information resources, including organizations researching the Arctic shelf. (iii) Roshydromet will set up jointly with the Russian Academy of Science the first Russian Arctic Research Centre on the Russian part of Spitsbergen. 80 mln roubles (~€ 1.8 mln) will be spent to equip the research labs of the centre to be based at the Barentsburg observatory and to conduct hydrometeorology, geology & geophysics research. The Arctic will also be explored with a high elliptical space group of research satellites Meteor and Arctica-M and Arctic research vessels in a series of missions in 2010-2013.

Aeronautics: (i) Boris Alyoshin, former president of AvtoVAZ, was appointed Director-General of the Central Aerohydrodynamic Institute (TsAGI), while Sergei Chernyshev was nominated TsAGI's Chief Executive Officer. (ii) Roscosmos licensed TsAGI to conduct space-related activities including space design and R&D of spacecraft, materials, technologies and infrastructure allowing the Institute to extend the scope of its aerospace activities. (iii)

Sukhoi Civil Aircraft postponed the first delivery of its Superjet 100 to Aeroflot until 2010, reportedly due to a delay in certification of the plane's engines.

Innovation

Based on a review of Russia's state corporations which had been ordered by the President and which revealed their inefficiency and misuses of funds, the Government is to prepare a draft law transforming the state corporations into joint-stock companies. The auctioning of Rostekhnologii, Rusnano and, possibly, Vneshekonombank would start in 2010; two other state corporations are to be liquidated after having completed their mission, while Rosatom and the Personal Deposit Insurance Agency are expected to continue to act as state corporations for the time being.

In October, President Medvedev signed a decree abolishing the Federal Agency for Special Economic Zones (SEZ) and transferring its duties to the Agency's former supervisor, the Ministry of Economic Development, which will exercise control over SEZs in Russia. Regions will be asked to play a more active role in developing SEZs. The Parliament suggested to substantially reduce the threshold for investment projects in SEZ and to expand the scope of allowed activities. Two more SEZs for logistics & transportation will be set up in Ulyanovsk and Khabarovsk region.

The assessment of special economic zones in Russia is controversial. Experts believe only one industrial SEZ out of 13 existing ones which were hoped to become "poles of economic growth", namely the one in Tatarstan, can be considered successful. ~US\$ 1.5 bln was allocated by the state for the development of SEZ in 2006-2009.

The Lower House of Parliament, the State Duma has approved amendments to the law "On technical standards" that extend the possibilities to apply foreign technical standards and regulations in Russia, thus facilitating the import of foreign technical devices and equipment. President Medvedev at a meeting of the State Modernisation Commission criticized the innovation activities of state corporations and development funds for not paying proper attention to priority sectors and a lack of coordination. The Presidential Administration, the United Russia Party and the Russian Academy of Science are preparing a package of laws to set up innovation stimulating conditions. Two drafts are to be submitted to Parliament in January 2010, while the rest of the package (some 15 draft laws) aimed to provide financial incentives for innovations is to be agreed with the Finance Ministry. Improvements to IPR-related legislation, including the Civil Code's Part IV, may also be adopted, as well as a law obliging high-ranking officials to report on their Ministries' innovation-related activities. (NB: 10 bln roubles (~€ 220 mln) are allocated for innovations in the 2010 federal budget (including ~RUR 2 bln for developing supercomputers and software, and 800 mln roubles for information and education technologies).

Education

New federal universities: President Medvedev signed a decree establishing five new federal universities: The Arctic Federal University (on the basis of the Arkhangelsk State Technical University) to focus on the environment of the European arctic region, Kazan federal University (Volga region), Ural Federal University, Far East and North-West Federal Universities. [NB: federal universities created by integrating several regional education entities into a cluster university to fulfil region-based socio-economic tasks represent one of the pillars of the renewed system of higher education.]

A draft strategy on the export of higher education services was developed at Minister Fursenko's request and presented in November. The aim is to increase Russia's global education market share from the current 2% to 7% by 2020. The draft is to be submitted to the Cabinet in early 2010.

Amid a heated public debate on the new Unified State Exam, the major final secondary education exam in Russia introduced in 2009, President Medvedev admitted the imperfection of the exam, but called this system of knowledge assessment efficient and threw his weight behind it at a dedicated government meeting.

A new call for Russian universities to participate in 5 EU-funded programmes was launched in December 2009. The new call concerns participation of Russian universities in Tempus IV, Erasmus Mundus individual mobility (Action 1), Erasmus Mundus Partnership (Action 2), Erasmus Mundus promoting higher education (Action 3) and the Jean Monnet Programme.

A new Governing Board meeting of the European Studies Institute (ESI) was held on 26 October 2009. The meeting was focussed on discussing the results achieved between 2006 and 2009 and the development of the ESI for 2010-2013 period. The next Board meeting will take place on 22 April 2010 and be devoted to the ESI budget 2010-2013.

Space

Three Glonass satellites were successfully launched into orbit in December, extending the orbit grouping to 19 operational devices. Roscosmos plans to launch nine satellites in 2010 to increase the orbital grouping to 24 exploitable devices required for global coverage. The federal operator of navigation services - the Navigation Information Systems (a JVC of Sitronics/Sistema and the Roscosmos Space Engineering R&D Institute) is to invest \$ 100 mln in developing the ground infrastructure for Glonass in 2010 to use Glonass for road safety and emergency, transport corridors and urban mobility. The system continues to face delays and operational difficulties in space and on the ground. Experts believe another 2-3 years are needed for the system to become fully operational.

The first phase of integrating ten space industry companies into a large space holding, created on the basis of Russia's top satellite system producer, JVC Information Satellite Systems n.a. Reshetnev, has been completed. It is part of the aerospace industry's development plan until 2015. Nine companies from Moscow, Rostov-on-Don, Tomsk and Zheleznogorsk transferred their assets to Reshetnev's JVC in 2009. The integrated unit will focus on R&D, production and exploitation of multipurpose space information and coordination systems, complexes and spacecraft, and may be further expanded in the future.

According to the Head of Roscosmos Anatoly Perminov, Russia will start R&D of nuclear engines for spacecraft in 2010 which may be used for flights to Mars and other planets. The participation of foreign space agencies in the project, mentioned by President Medvedev in his annual address to the Parliament, is not under consideration for the time being.

In November, a launch from Baikonur of a Russian Proton rocket carrying the European satellite Eutelsat W7 was postponed. Reportedly, Russia and Kazakhstan continue to disagree on the rent that Russia pays for the use of the spacepad Baikonur. Since 1999, Russia has paid a total of \$ 1.265 bn for the use of Baikonur.

4.4. Transport

Air

On 11 November the Ministry of Transport sent a letter to the Austrian aviation authorities asking to clarify the ownership of Austrian Airlines. The Ministry claims that Austrian Airlines, recently taken over by Lufthansa, does not have the right to organize flights to Russia under the bilateral intergovernmental agreement. Austrian Airlines' planes currently fly to Russia on a temporary permission. Similar queries were addressed to SN Brussels and Swiss Airlines.

On 16 November Rosaviatsia, published a safety rating of Russian airlines after checks conducted by the European Aviation Safety Agency. Russia's safest airline is Uralskiye Avialinii, Sibir is ranked second and Aeroflot third. There are a total of 35 airlines in the list.

The Russian aviation sector concluded the year with results that were less bad than expected, mostly thanks to cheaper kerosene. On average, sales and profits were down 10% from 2008. Tickets had to be offered 30-40% cheaper than in 2008. Rosaviatsia released statistics according to which Transaero leads the domestic market in passenger transportation volume (1.4% increase, total 4.65 mln). Sibir transported 4.3 mln passengers. As compared to 2008 Russian airlines' passenger transportation decreased by 12.7%: Aeroflot 7.8%, Transaero 0.4%, Sibir 27.4%. On 2 December former top-managers of KD-Avia were detained for premeditated bankruptcy. The Sukhoi Superjet 100 suffered new delays. The certification process for the engines is now expected to be completed by May/June 2010.

While experts criticised the persistently high number of operators and hoped the crisis would lead to some market consolidation, the Government approved a 3.9 bln roubles (90.5 mln euro) budget allocation to support Rossiya, one of the 5 largest airlines, controlled by state corporation Russian Technologies, reported to be on the verge of bankruptcy with 6 bln roubles (140 mln euro) debt. The company may be transferred to St.Petersburg Administration, which may mean the end of Rostekhnologii's ambitious plan to create Rosavia Holding, a new state structure in the aviation.

The Deputy Minister of Transport stated that attempts to create low-cost airlines had failed. Low-cost carriers (SkyExpress, Red Wings, Vladivostok Avia, Avianova) said their prices were challenged by regular carriers' price reduction made possible through state support.

Aeroflot's Tender Board approved the sale of a controlling stake (49%) of its subsidiary CJSC Aeroflot-Plus charter operator to Austrian Jet Alliance for an estimated 2 mln USD. The Russian Central Bank purchased 11.79% of OJSC Aeroflot shares.

Rosaviatsia (Russian Aviation Agency) stated that from 17 March 2009, when the Government's Decree No 231 "On Adopting Regulations for Subsidies Provision to the Operators Flying between the Far East and the European Part of the Country in 2009" was adopted, over 163.000 people participated in a reduced-fare programme between 15 May and 31 October, subsidised by 1.7 bln roubles (39.5 mln euro) of state money. In 2010 the subsidy is to reach 2.5 bln roubles (58 mln euro). 7 airlines plan to participate.

Rail

On 27 November 26 were killed, more than 90 injured after a bomb derailed the Nevsky Express train from Moscow to St. Petersburg. Among those killed was the Head of Russia's Federal Road Agency Sergey Tarasov. Nevsky Express had already been attacked on 13 August 2007.

Russian Railways (RZD)'s board submitted to the Government a decision to create the Federal Passenger Company on 1 January 2010 transferring to it 24 500 wagons and 100 000 employees.

RZD submitted to the Government its Target Model of Rail Freight Transportation Markets Development until 2015 elaborated with McKinsey. The Model provides for up to 3% market share for micro monopolies, while RZD remains the owner of infrastructures; the state becomes the main contractor in charge of pricing and investment policy. In exchange for their cars, private operators might get up to 25% plus one share of the Second Freight Company.

RZD announced that 2009 profit was 11 bln roubles (256 mln euro), almost as much as in 2008 (13.4 bln roubles). Contributing factors were **state subsidies** (41.7 bln roubles or 969 mln euro), cost reductions (193 bln roubles or 4.5 bln euro) and loan restructuring. State subsidies to RZD in the 2010 budget equal 50 bln roubles (1.2 bln euro). According to the draft 2010-2012 budgetary plan, RZD is to get 2.3 bln roubles (53 mln euro) as Government contribution to its statute capital for purchasing new trains. The company is also to receive \$1 bln in subsidies for the transportation of domestically produced cars to Russia's Far East, as well as 50bln roubles (1.1mln euro) to compensate it for lost profits resulting from 'insufficient increases' in its tariff rates. RZD says its investment programme does not receive sufficient financing.

RZD proposed to the Government to put an end to cross-subsidizing, whereby the transportation by rail of some goods is subsidised at the expense of the transportation by rail of other goods. According to McKinsey, which prepared an economic rationale for it, implementation should permit RZD to make money on all cargo operations. Experts note that the transportation of coal would become loss-making, while metal manufacturers would benefit. The Federal Anti-Monopoly Service ordered RZD to pay a fine of 2.54bln roubles (\$88 mln) for anti-monopoly law violation, i.e. its refusal to sign an agreement for cargo shipments with a penal colony in the Belgorod Region.

Road

On 20 October a new border crossing at Chernyshevskoye, Kaliningrad Oblast, officially opened at the Russian-Lithuanian border. It will have the capacity to cater for a 1500 vehicle traffic flow (1150 cars, 50 buses and 350 trucks) per day. The corresponding crossing on the Lithuanian side is Kybartai. An EU project contributed €8 mio to this project implemented by Budimex SA (Poland). The project covered construction of buildings, site roads, parking lots and service infrastructure for improving traffic flow capacity on the Pan-European Corridor IX.

November was the worst month for **car sales** in 2009. The sales of new passenger cars barely exceeded 100,000 cars, 46% down from November 2008. Market participants forecast that annual sales of new cars in Russia will total 1.4 million. Imports of cars to Russia plunged by 75.2% (y-o-y) to 433,600 cars in the period January-October 2009. Imports of cars from Japan amounted to 143,500 (down by 79.3%, y-o-y), while imports from the EU totalled 123,900 (down by 76.3%). Imports of trucks fell by 84.7% (y-o-y) in the period to 19,370.

AvtoVAZ reported sales had halved and amounted to 269,500 cars in January-September 2009. Net losses of AvtoVAZ reached 19.7bln roubles (465.000 euro). Renault, AvtoVAZ, Rostechnologii and Troika Dialog signed an MoU on restructuring AvtoVAZ during PM Putin's visit to France. The Government agreed to grant 50bln roubles assistance to AvtoVAZ. Renault agreed to provide €240m of technologies and equipment. Nissan may invest €60m into AvtoVAZ. Renault-Nissan and AvtoVAZ agreed to start producing cars together in 2012. The venture would annually make 300.000 cars starting in 2015. Renault-Nissan would contribute 75% of the project's cost. The Ministry of Energy requested Russian oil and gas companies with rotation employment systems to consider employing up to 12.000 AvtoVAZ' staff made redundant.

KamAZ truck maker adopted a Programme for Strategic Development 2010-2013 based on a forecast increase of sales, aiming at 50% of the Russian and 20% of the foreign market. It plans to develop a new modern truck. KamAZ and Daimler Chrysler created two new joint ventures: FUSO KamAZ Trucks Rus and Mercedes-Benz Trucks Vostok, each gets 50% and invests €4.1m and €5.9m into each respectively. Daimler owns a 10% stake in KamAZ. KamAZ signed an agreement with Case New Holland for a joint venture to produce agricultural and construction equipment, doing semi-knocked down assembly first, but will later localise production by 18 to 35 percent.

“Sollers-Far East” car factory was launched in Vladivostok. The plant will produce Korean off-rovers, Isuzu trucks and specialized Fiat Ducato vehicles.

Maritime

PM Putin said that the current state of the shipbuilding industry was “not bad” with a 74% production increase in January-September. He called for a Programme for Development of the Industry until 2040. The Commission on Strategic Sector Investment by foreigners, chaired by PM Putin, approved nine deals including the purchase of a blocking stake in Tuapse sea port by Dutch-registered Universal Cargo holding (beneficiaries of the company are Russian citizens).

4.5 Agriculture, Veterinary and Phytosanitary, Fisheries, Forestry, Public Health

Agriculture

- Commissioner Marianne Fischer Boel met with Russian Agriculture Minister Elena Skrynnik on 26 October 2009 in Moscow. She raised a number of issues:
- Future challenges for agriculture, in particular in the milk sector: discussion on the situation and measures
- Strengthening the EU-Russia Agricultural Dialogue
- Effects of the Customs Union (RF, BY, KAZ) in agriculture: issue of food security and participation to FAO Food Security Summit in Rome in November
- SPS issues affecting agriculture/trade: in particular on export of fruits and vegetables as regards pesticides residues, conditions for bovine meat certificates and exports of live animals, dairy exports

Agriculture Minister Skrynnik participated in the FAO Food Summit in Rome, 16-18 November. Her intervention focused on the Russian contribution to food security.

The 3rd meeting of the EU-Russia Agriculture Dialogue took place in Brussels on 15 December 2009, co-chaired by DG AGRI Deputy Director General Jerzy Plewa and State Secretary Deputy Agriculture minister A. Petrikov. Among the topics discussed were rural development policies, agriculture modernization, quality policies and research in agriculture.

On 4 December 2009, the Security Council of the Russian Federation adopted a draft of Russia's Food Security Doctrine, elaborated at the end of last year by the Agriculture Academy for the Ministry of Agriculture. The Doctrine sets targets for Russia's self-sufficiency in agriculture and food production ranging from 80% to 95% depending on the sector.

In his intervention at the Food Security Doctrine meeting, President Medvedev focused on:

- the link between the Food Security Doctrine and Russia's National Security Strategy
- problems of the agro-industrial sector in Russia
- main actions under the Doctrine including monitoring of food security levels, norms for healthy diet, reform of land tenure and the land register, develop the food processing industry, use of the levers of customs and tariff regulations, market interventions and credits.

- Russian government Decree N 1021 of 16 December 2009 established specific allocations for EU and US under the import tariff rate quotas (TRQs) for beef, pork and poultry for 2010-2012, which had been decided by the Customs Union on 27 November 2009.

Statistical overview of the latest trends in agriculture

Output in the agricultural sector was unchanged in January-November 2009 compared with the same period last year. Production of meat in the cattle farming sector increased by 3.9% (y-o-y), but the production of crops declined by 3.2% (y-o-y) due to a drought in a number of Russia's regions.

Crop production

The Russia's grain harvest in 2009 amounted to 101 million tonnes in bunker weight. The wheat harvest amounted to 63.4 million tonnes. According to the Ministry of Agriculture's projections, Russia could export 19 million tonnes of grain during the current agricultural year. Last year Russia exported 23 million tonnes of grain. The Ministry of Agriculture foresees that the exports of grain could increase to 30-40 million tonnes a year by 2015.

The harvest of corn totalled 3.1 million tonnes and the sunflower harvest – 5.8 million tonnes.

The harvest of sugar beet was 23.6 million tonnes compared to 28.3 million tonnes in 2008.

Cattle farming

According to the Ministry of Agriculture, the production of cattle and poultry (live weight) for slaughtering increased by 7% (y-o-y) in 2009 and totalled 7.3 million tonnes. The production of pork increased by 10% (y-o-y), sheep and goats by 2.8% (y-o-y) and poultry by 13.4% (y-o-y). The production of cattle declined by 2.5% (y-o-y).

The production of milk increased by 0.2% (y-o-y) and amounted to 28.3 million tonnes. The production of eggs amounted to 33.2 billion, 4% y-o-y.

As of 1st November 2009 the number of cattle totalled 21.4 million (97.7% compared to the same date in 2008), including 9.1 million cows (97.6%), 18.7 million pigs (106%), 23.5 million sheep and goats (103.2%).

State support to agriculture

State support to agriculture includes budget subsidies amounting to 90.4 billion roubles in 2009. This amount includes the subsidies covering interest rate payments and investment loans to agricultural producers (35.5 billion roubles), subsidies to develop SMEs in the agricultural sector – 4.72 billion roubles, subsidies to cover interest payments on short-term loans (up to 1 year) – 12.3 billion roubles, subsidies to the fisheries sector – 12.85 billion roubles, subsidies for crop production – 3.32 billion roubles, subsidies to cattle farming sector – 5.27 billion roubles, subsidies to regional programmes – 3.8 billion roubles, subsidies for the purchases of pesticides – 7.1 billion roubles, etc.

About 3.58 billion roubles were allocated for the programme “Rural development until the year 2012”. About 4.52 billion roubles were allocated for the programme to provide housing to rural residents.

The government increased the charter capital of Rosselkhozbank by 45 billion roubles.

Food industry

According to Rosstat, the index of production in the food industry declined by 2% (y-o-y).

The production of pork meat increased 20% (y-o-y) and poultry – by 13.1% (y-o-y). Meanwhile the production of beef declined by 14.3% (y-o-y). The production of dairy products remained flat.

External trade in agricultural commodities and food products

Total imports of agricultural commodities and food products totalled \$26,580 million in January-November 2009.

Import of major agricultural commodities and food products (January-November 2009)

	Thousand tonnes	In percentage points vs. January-November 2008
Fresh and frozen meat	1,253	81.1%
Fresh and frozen poultry	851	79.4%
Fresh and frozen fish	705	91.1%
Milk and dairy products	418	92.7%
Including		
Powdered milk	57.5	68.6%
Butter	93	82.1%
Cheeses and cream cheese	261	107.1%
Vegetables	2,364	88.8%
Sunflower oil	41.2	37.7%
Raw sugar	1,218	53.3%

(data of Rosstat)

Russia's exports of agricultural commodities and food products amounted to \$9,052 million in January-November 2009, up 8.8% compared with the same period last year. Cereals and sunflower seeds accounted for a major share of the exports.

Veterinary and Phytosanitary issues

The very intense correspondence and contacts between DG SANCO and the Russian Veterinary and Phytosanitary Service (Rosselkhoznadzor), as well as the Russian Consumer Protection Service (Rospotrebnadzor) continued. Bilateral meetings were held with the head of Rospotrebnadzor and Rosselkhoznadzor on SPS issues (P Testori Coggi, G Onishchenko, S Dankvert) in Moscow on 12-13 November 2009. MS participated in the meeting with Rosselkhoznadzor. Dr Onishchenko confirmed the will to continue cooperation on antibiotics maximum residue levels (MRLs), although not announcing any changes in the near future in the zero tolerance for certain residues of antibiotics foreseen in the current legislation. He announced significant progress in the harmonisation of pesticides MRLs and handed over a detailed letter on the issue.

S. Dankvert refused to continue discussing an implementing protocol to the EU-Russia MoU of 2008 on pesticides residues and withdrew the proposals made so far. Instead, he asked to be provided with information on the monitoring of exports of food plant products according to Russian MRLs as well as guarantees on the respect of the Russian norms. On EU meat exports to Russia, he requested that the EU provide guarantees of the respect of Russian requirements based on checks of establishments.

A videoconference with Rosselkhoznadzor took place on the pesticides residues in fruits and vegetables exports to RF (P Van Geldorp, V Popovitch) on 4 December 2009 with the participation of MS.

Negotiations of veterinary export certificates took place in Moscow 14-15 December 2009 with the participation of MS. A number of veterinary export certificates were agreed upon and initialled later during the Green Week in Berlin in January 2010.

Health

The first meeting of the Dialogue on Public health working group foreseen for November 2009 had to be postponed by Russia for practical reasons, except for the food safety subgroup which took place in Brussels on 16 November.

Fisheries

The Fisheries Agency unexpectedly asked DG MARE by letter dated 24 December 2009 for the postponement of the application of the new EU IUU Regulation vis a vis the Russian Federation, given Russia's inability to notify to the EU the competent authority responsible for certification of the legality of fish catches before 1.1.2010. Such a postponement cannot be granted and Russia needs to proceed with the notification of the certifying authority in order to resume direct and indirect fish exports to the EU in 2010.

Forestry

The meeting of the EU-Russia FLEGC Sub-Group was held in Brussels on 29 September, between DG ENV and the Russian Forestry Agency and Ministry of Agriculture. Among the issues discussed were developments in the EU to combat the placing of illegal timber and timber products on the EU market, in particular the recent legislative proposal, recent developments in forest legislation in the Russian Federation, the EC funded ENA FLEG project, forest monitoring, particularly in view of prevention and the fight against illegal logging and forest fires.

Russian government decree N. 1071 of 23 December 2009 increases from 1.1.2011 export duties for round wood – with the exclusion of birch – to the prohibitive level of 80% but no less than €50 per cubic metre. For 2010 the rates of export duty for round wood are set at 25%, but not less than €15 per cubic metre.

5. TRENDS IN PUBLIC OPINION

The main EU-related topics in the Russian media were related to energy and in particular North Stream project, as well as the EU-Russia Summit, which was unexpectedly efficient in reversing some negative trends appearing in public opinion on the EU. The conclusion of the ratification process of the Lisbon Treaty was also covered with many articles explaining the new institutional framework and arrangements as well as their impact on EU-Russia relations. The arrival of the new Head of Delegation was accompanied by a full media programme to provide necessary visibility.

The EU Film Festival in Kaliningrad ran from 20 October to 11 November 2009. The programme featured over 70 films from 24 Member States. The festival was opened by the Delegation, Swedish Consulate General, and the Kaliningrad Ministry of Culture as well as by Claude Pinoteau, the President of the Festival and famous French director. Alongside new films, the public saw 6 retrospectives and a special programme for children. Side events included thematic photo exhibitions, music, theatre and modern art installations.

A group of 14 Russian regional journalists visited Brussels and Stockholm on 14-20 November 2009. In addition to meetings in the Commission and EP, the journalists attended the EU-Russia summit on 18 November in Stockholm and covered the informal EU summit

on 19 November in Brussels. Feedback from the participants has been excellent and the journalists published a large number of articles on their impressions.

The annual Education Fair took place on 12-14 November in Moscow. Overall, the commonly-branded 'Study in Europe' area featured 59 participants from 16 MS, and the Delegation. About 4500 people visited the Delegation stand where they were offered consultations by staff and Erasmus Mundus alumni. The visitors also received new editions of the *Your scholarship in Europe*, *Erasmus Mundus*, and *Erasmus Mundus Open Window* guidebooks and took part in the 'Wheel of Fortune' quizzes.

A newspaper supplement "Russia and the European Union" was published in the *Kommersant* daily newspaper on 18 November, the day of the EU-Russia summit in Stockholm. It included interviews with the new Head of Delegation and the Head of the European Cooperation Department of the Russian MFA. Attention was further paid to the setting up of a European External Action Service and potential Commissioner candidates.