



Association
of European
Businesses

AEB North-Western Regional Committee

**Nordic business breakfast:
“The known unknowns –
opportunities in uncertain times”**

12 February, 2019

St. Petersburg,

Consulate of Finland in St. Petersburg



Andreas Bitzi,

Quality Partners

Chair of the AEB North-Western Regional Committee

Opening Remarks



Anne Lammila,

Consul General of Finland in St. Petersburg

Welcome speech



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Vladimir Gelman,

Professor,

European University of St. Petersburg

Russia in 2019: The Art of Muddling Through?

Vladimir Gel'man

(European University at St.Petersburg / University of
Helsinki)

Nordic Business Breakfast, 12 February 2019

Russia in 2019: The Art of Muddling Through?

- Russian economic development in 2019 – sluggishness amid uncertain prospects;
- Russian political development in 2019 – reactionary turn amid growing public dissatisfaction;
- No grounds to expect major political and economic crises and collapse, similar to the 1990s, yet no grounds to expect major advancements, too

Russia in 2019: The Art of Muddling Through?

- Russia until 2014 – agenda of growth and socio-economic development as priority of the government (“modernization”);
- 2014 – geopolitical turn, annexation of Crimea, major international tensions with the West over Ukraine, foreign sanctions;
- Overall trend of decade after 2008 crisis – slow economic growth (1-2% per year), not enough for “catch-up”, increasing isolationism (import substitution, counter-sanctions, etc.) and authoritarianism

Russia in 2019: The Art of Muddling Through?

- Good news:
- Solid currency reserves (\$477700 million, Feb.2019);
- Relatively low inflation (4.3% official data for 2018);

- Bad news:
- Still sluggish economic growth (2.3% official data for 2018 – hard to believe!), no rise of real incomes of Russians;
- The rise of tax burden (VAT increased from 18% to 20%), increase of retirement age for Russians, ongoing over-regulation and creeping nationalization of assets;
- Bad governance (corruption, lack of the rule of law) – no progress at all

Russia in 2019: The Art of Muddling Through?

- Domestic political landscape – challenges to Kremlin's monopoly:
- Decline of public support of political status-quo (dissatisfaction): Levada-Center survey - 45% of respondents in Jan.2019 agreed that Russia is moving to a wrong direction (compare with 23% in Oct. 2014)
- Gradual decline of Putin's approval rate (64/33% in Jan.2019 – compare with 88/11% in Oct.2014);
- September 2018 regional elections: Kremlin-appointed governors lost in three out of twelve provinces (Vladimir oblast, Khakassia, Primorskii krai)
- The rise of public protests (mostly environmental, economic, social and other issues – localized by the government to some extent)

Russia in 2019: The Art of Muddling Through?

- Challenges lies ahead:
- Next wave of regional elections set up for September 2019, including St.Petersburg gubernatorial elections;
- Coming 2021 State Duma elections and expiring of Putin's fourth term by 2024 – various solutions?

- Responses by the Kremlin:
- Propaganda does not work anymore (“the battle of TV against the fridge”);
- Increasing use of “politics of fear”, more reliance upon coercion and repressions

Russia in 2019: The Art of Muddling Through?

- What are the possible drivers of changes to economic and political status quo?
- Exogenous shocks (falling oil prices, international conflicts, leadership changes, etc.)?
- If no shocks like that, then the Kremlin may adjust to challenges in a manner of "muddling through", solving ongoing problems "here and now", but increasing their scope and magnitude for the future...

Russia in 2019: The Art of Muddling Through?

Thanks for your interest!
(vladimir.gelman@helsinki.fi)



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Fredrik Svensson,

Mannheimer Swartling



MANNHEIMER SWARTLING

AEB - Nordic Business Breakfast

A 20 minute sanctions up-date

St Petersburg, 12 February 2019

Effect of (EU and US) sanctions today and tomorrow

- Gun-boat diplomacy
- What is the alternative?
- What effect will today's EU and US sanctions have on tomorrow's Russian business climate?

EU sanctions today and tomorrow

- Individual sanctions and sectoral sanctions
- Latest renewal of sanctions
- Likely to end any time soon?
- New EU sanctions on the horizon?
- EU continues to be sceptical against US secondary sanctions

US sanctions today and tomorrow

- The US kept track with the EU in terms of sanctions until CAATSA was introduced
- CAATSA
 - Threat of secondary sanctions
 - “Facilitated a significant transaction [...]”
 - To date only one case of secondary sanctions under CAATSA
 - Sanctions removed from Rusal, En+ and EuroSibEnergo
 - GAZ next in line to be removed?
 - More CAATSA sanctions to come?

US sanctions today and tomorrow

- CBW Act / Novichok
 - First batch: 27 August 2018
 - Second batch: 90 days after 27 August 2018, but we are still waiting
- DETER, DASKAA (the “bill from hell”) etc.

Sanctions á la carte for tomorrow

State debt

Ban on the purchase of new state debt by US investors

Banks

Ban on operations with Russian state banks VEB, Sberbank, VTB, PSB, Rosselhosbank, Gazprombank (correspondence accounts, use of USD etc)

Energy projects

Ban on participation in Russian Energy projects, ban or restrictions on participation in Nord Stream 2

Sanctions á la carte for tomorrow

Individual sanctions

Sanctions on individuals connected to the Russian Federation and involved in cybercrimes against the US and politicians and oligarchs who “facilitate illicit and corrupt activities on behalf of Russian President Putin”

Other sanctions

Termination of the diplomatic cooperation, restrictions on aviation (no Aeroflot flights to the US) etc

Trade sanctions

Embargo on imports of uranium from Russia or embargo on all trade between US and Russia

What to do in this environment?

- Continue to monitor the counterparties and owners
- Tricky situation with GAZ - the hammer will fall one day
- Nord Stream 2 – energy companies is one thing, but what about suppliers?
- Keep a watchful eye on what is happening in the US
- Russian counter-sanctions?

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Questions & Answers



Discussion session

“Bright sides of uncertainties”



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Jussi Kuutsa

Itella



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Per Sonden,

SEB Bank Russia



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THANK YOU!

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