

# Russia 2015



Total: 41.34

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## Political Freedom

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### Free and Fair Elections : 1.43

The outcome of regional elections in September 2014 confirmed the will of the ruling United Russia Party and of president Putin not to embark on democratic experiments. The candidates were fixed, the electoral process itself non-transparent, voters of other parties than the ruling party were harassed and the desired outcome was produced. Under immense external pressure due to Russia's annexation of the Crimea and tumbling crude oil prices, the incumbent governments try to strengthen their hold on all spheres of society through restrictive laws. Turning against the last remnants of the opposition and disposing them on "show trials", they make the chances for democratic improvement currently low.

### Absence of Unconstitutional Veto Players : 2.5

Unconstitutional veto players are as potent as described in the last year's comment. Secret service, tycoons in economy and the media even started to play a more significant role. Russia's international isolation, caused by the annexation of the Crimean peninsula and the war in eastern Ukraine led to more restrictions from the state vs. civil society. The parliament continues to play its figurative role.

### Freedom of Press : 1.7

With regards to dramatic changes in foreign policy – the annexation of the Crimean peninsula and the war in eastern Ukraine – press freedom has suffered. However low the ranking in Freedom Barometer's press freedom index were, one might ask about the limits of such downward trend. The general answer, which Reporters without Borders have indicated in their press index, is that Russia followed an overall bad trend, because two thirds of all countries considered were faring worse than in 2014. Russia ranks 152 out of 180 countries. This shows the degree to which authoritarian rulers give central place to the issue of (hindering) the access to free media. Although total control seems only possible in regions which Reporters without Borders listed as black holes, e.g. areas of civil war, a growing number of states try to impose their will on the last remains of possibly critical media – even in countries which are part of the EU (e.g. Hungary).

# Rule of Law

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## Independence of the Judiciary : 3.42

Ruling ideologies and political and religious elites of Russia openly reject the concept of rule of law as allegedly “alien” and replace it with less clear “justice”. Yet another liberal principle, the separation of power, rejected in Soviet era while reinstated by the 1993 Constitution, has been under threat during the last 15 years of autocratic rule of Vladimir Putin. The autonomy of the judiciary is shrinking, while political influence is obvious in all court cases that had any political relevance. The court reform of February 2014, which included a merger of commercial and general courts, allowed executive branch even more control, almost completing the establishment of a corporatist, clientele petro-state. Additionally, in October 2014, changes to the criminal procedure code blurred the division of responsibility between revenue authorities and police for investigating tax fraud, thus making it easier to the executive to use tax investigations as leverage against political opponents. Following the outbreak of the conflict in Ukraine, Russia’s judiciary has been misused for war ends. A number of Ukrainian citizens were illegally detained in Russia, often in cooperation with the pro-Russia rebel forces in eastern Ukraine. The most prominent of the detainees are a military pilot Nadiya Savchenko and a film director Igor Sentsov. By mid-2015 their trials were still on. Meanwhile, in July 2014, Russian government and state oil company Rosneft were ordered, via two separate rulings of the Hague-based Permanent Court of Arbitration and the Strasbourg-based European Court of Human Rights respectively, to compensate the shareholders of the oil company Yukos (seized by the government in 2004 upon a political dispute) the sums of 50 billion resp. 2.5 billion USD. Yukos case, with the adjacent misuse of judiciary for political ends, had been an important milestone on Putin’s road to absolute power, hence Russia’s adherence to international law would hereby be significantly tested.

## Corruption : 2.7

Corruption in Russia worsened as compared to 2013. The country fell from the place 127 of 177 to 136 of 175 in the Transparency International’s ranking, while its Corruption Perception Index fell from 28 to 27 points. Politicians, as well as those whose duty is to enforce the law, i.e. judiciary and police, are perceived as the most corrupt. The degree of merger of political and economic oligarchies is very high. With political influence on allegedly independent state bodies or on courts, plus with direct bribes in judiciary, serious implementation of the existing anti-corruption laws is impossible. Occasional campaigns make good marketing for the government, or merely reflect internal conflicts within the elite. Likewise, petty corruption in many areas of public life is pervasive. Least to say dubious - or perhaps cynical - answer to that problem by the government was a new law, signed in March 2015, which slashed fines and loosened regulation regarding punishment for giving or taking bribes. Taken in total, the sums misappropriated through corruption at all levels are so huge that they change the social fabric, create grand scale inequalities and hinder self-organization of the civil society.

## Protection of Human Rights : 4.05

On the entire European continent Russian Federation has the poorest record regarding human rights. The situation is worse even as compared to most other ex-Soviet republics. Arbitrary detentions, kidnappings (including of foreign nationals, on foreign soil), torture in custody and lack of democratic control over security sector resemble many of the old, Soviet-era ways. Present authoritarianism is thus on the verge of becoming an open dictatorship. Following a number of unexplained assassinations of journalists, NGO activists, dissident businesspeople, disobeying state officials or other mid-level opponents of the regime, that had happened during the last 15 years, on 27 February 2015 a high ranking opposition leader Boris Nemtsov was gunned down in Moscow, where upon the annihilation of human rights has entered into a new phase. As Freedom House noted, during 2014 civil liberties declined, media controls were further expanded, domestic and foreign civil society organizations were further pressurized, while new travel restrictions emerged, encompassing not just migrations within the country but also travelling abroad. Human rights activists are treated as enemies of the state, while LGBT people are labeled by the state (and church) propaganda as degenerates. Activities of their organizations are seriously restricted, under the pretext of child protection. Racism against people of Caucasian or Central Asian origin is widespread, even though the government recently tried sincerely to diminish it. Another one among rare relatively decent records of the government regarding human rights is their treatment of indigenous minorities, some members of which use to take high level positions in the government. An exception is the occupied and annexed Crimea, where local Tatars are discriminated by the new Russian authorities. Human rights situation in the peninsula is overall alarming. Similar case is in some of the Russia's autonomous republics.

## Economic Freedom

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### **Security of Property Rights : 5.33**

Private property is not well secured in the Russian Federation. The main weak point is low judicial independence from political factors, vested interest groups and the executive power which can execute strong influence in the arbitration of justice. Courts are not impartial, and their decisions in similar cases differ, giving advantage to the party involved with political connections. Reliability of the police is also very low. Private property can be seized by the state with little, if any, compensation. Costs of businesses incurred by crime activities are still high, although at a lower level than in previous years. Another problem arises from extortions committed by state officials. However, legal enforcement of contracts is a good side of the overall legal system: although characterized by many lengthy procedures, it incurs low costs compared to the value of the claim. The insolvency process leads to relatively high recovery rate. Restrictions on the possession of real estate, and agriculture land especially, are still present for foreign nationals.

### **Size of Government: Expenditures, Taxes, and Enterprises : 7.2**

Government consumption in the Russian Federation is lower compared to the EU or OECD average, reaching 38.4% of GDP in 2014, an increase of 4 percentage points since the beginning

of the crisis. A sharp recession was recorded in 2009, but the growth rates rebounded. However, low prices of energy products, coupled with political tensions and international sanctions, have crippled economic growth, leading to economic stagnation in 2014. Lower levels of FDI and high capital outflows, as well as sharp decline in oil prices, made Russian economy prospect dim. High public revenues from oil and natural gas allow for high public expenditures and low level of taxes – in 2014 recorded budget deficit stood at 1.2%, but when oil revenues were excluded it reached 13% of GDP. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income tax is 13%, VAT 18%, while corporate tax varies from 15.5% to 20% due to regional tax deductions. Social contributions consist of 30% of the gross wage paid by the employer, which coupled with personal income tax gives a moderate tax wedge of 33% (moderately lower than 36% in OECD countries). The government's presence is widespread in many sectors via state-owned enterprises, not just in those that are legally considered to be of the strategic importance, such as public utilities, mining, energy and military equipment. Many of those companies enjoy large direct or indirect - usually inefficient - subsidies to maintain their operation, as well as protection from international competition on domestic market.

## **Regulation of Credit, Labour, and Business : 5.51**

Business regulation is one of the weak points of Russian economy. Although business regulation is overall favourable to conducting entrepreneurial activities, many problems are still present in the area. Substantial bureaucracy costs and complicated administrative requirements for conducting daily business activities remain. This environment is suitable for the flourishing of corruptive activities and partial approach by state officials towards business entities: one of them is discretionary power to interpret vague regulations. Obtaining a construction permit is not only a lengthy but also an expensive process, involving many procedures prone to corruption, and the costs of obtaining an electricity connection are also very high. However, licensing restrictions, although present, are not prevalent. Tax compliance costs are not exuberant. Starting a business is both easy and inexpensive. Flexible working hours and low redundancy costs, which do not increase with the number of years in tenure, make some strong points in labour regulations. However, firing regulations are complicated due to obligatory trade union (third party) notifications. Centralized collective bargaining is mostly encompassing public sector employees, while the minimum wage is low as compared to international standards, set at approximately 20% of the average wage. Obligatory military service, although shortened to 12 months, still poses a significant burden

## **Freedom to Trade Internationally : 7.5**

Russian economic policy does not have free trade high on its policy agenda. Joining the World Trade Organization (WTO) in 2012 did have a positive impact on trade liberalization, although tariffs remained high, especially on agriculture products. Establishment of the Eurasian Economic Union (EEU) in January 2015 will substantially lower the trade barriers between countries involved (the Russian Federation, Belarus, Kazakhstan, Kyrgyz Republic and Armenia). However, member countries do not have complementary economies, which will foster intra-industry trade, so the overall level of trade will not substantially increase. Protectionist measures are widely used as instruments of economic policy, in order to promote industrial production. For that matter, standardization requirements, which serve as non-tariff barriers, are burdensome and complicated. The Russian Federation has for long been experiencing surplus in trade due to the high energy export (oil and natural gas) with symptoms of the Dutch disease, with strong currency which discourages Russian exports. However, this may soon change due to sharp fall in oil prices. Due to the high capital outflows, low oil prices and international sanctions that were introduced due to

political tensions regarding the crisis in Ukraine, the rouble strongly devaluated, which decreased imports to Russia. Russia's counter-sanctions regarding the ban on import of foodstuffs from countries involved in original sanctions took a toll on Russia's international exchange (decreasing imports by 7% of their volume), hurting European producers as well as domestic consumers because of the increased prices of basic products, and fuelling inflation. Authorities also implemented several measures to counterbalance the lower imports of agriculture products: encouraging trade diversion (importing from countries other than those under sanctions) and supporting domestic supply, via production subsidies.