



HIGHLIGHTS

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Overview

- Russia and the United States reached agreement on coordinating military strikes against terrorist groups in Syria.
- President Putin effected major personnel changes in key posts.
- The Russian economy continued gingerly on its path to recovery.
- Prime Minister Modi and President Putin dedicated to the nation the first unit of the Kudankulam Nuclear Power Plant.
- India's exports of dairy products to Russia may commence shortly.

Political Developments

Russia-US: The United States and Russia announced on July 15 that they would coordinate air strikes against the Islamic State and the Al Nusra front in Syria. The US Secretary of State John Kerry and Russian Foreign Minister Sergey Lavrov reportedly agreed also on measures to restore the cease-fire in Syria and to create the space for a political transition. At the same time, the Cold War-like standoff between Russia and the West continued, manifested by allegations of Russian involvement in the hacking of US Democratic Party emails and messy controversies on Russian participation in the Rio Olympics over its alleged state-sponsored doping practices.

Major personnel changes: President Putin replaced a number of senior personnel in the federal and regional governments, including the powerful Head of Presidential Administration Sergey Ivanov. Many of those replaced had been considered long-time loyal allies, though some were tainted by charges of corruption and/or inefficiency. The replacements were younger officials, many from security agency backgrounds like their predecessors. It is not yet clear whether there is more to the changes than weeding out deadwood and bringing in efficiency and integrity (in addition to loyalty).

Economic Developments

Inflation falls: According to its central bank, Russia's trend inflation decreased from 9% in June to 8.7% in July, because of a seasonal decline in food prices and contraction of consumer demand. 2015 had seen an inflation level of 12.9%. The bank predicts a continuing declining trend in inflation, though the target of 4% by end-2017 might be difficult to attain without other favourable conditions, including increase in oil prices and lifting of Western sanctions. The stabilization of the rouble exchange rate (at 63-64 to the US\$) was another positive for the Russian economy, though oil prices remained at uncomfortable levels. The Russian budget for 2016 is based on an oil price of U.S. \$50 per barrel and a rouble rate of 63.3 against the dollar.

Oil exports increase: Russia's oil exports increased by 5.9% to 148.7 million tonnes in January-July 2016 against the same period. July figures showed a 5.6% year-on-year increase. The Russian Energy Minister was quoted as saying that Russia is consulting with Saudi Arabia and other producers to achieve oil market stability, including by freezing output levels if needed.

India-Russia Developments

Kudankulam Unit 1 dedicated to nation: Prime Minister Modi, President Putin and Tamil Nadu Chief Minister Jayalalithaa dedicated the first unit of the Kudankulam Nuclear Power Plant by video conference on August 10. The unit is already supplying to the national grid. Unit 2 has also achieved criticality and is expected to be connected to the grid shortly. Work on units 3 & 4 commenced in February this year and the General Framework Agreement for units 5 & 6 is expected to be concluded by the India-Russia Summit this year. The 1000 MW units are the highest capacity nuclear plants operating in India today. The next 6 units to be constructed with Russian collaboration are likely to be of 1200 MW each.

Indian dairy exports to Russia: It was reported that after several months of negotiations, India and Russia signed a protocol opening the door for dairy exports from India to Russia. The protocol was delayed because of a Russian stipulation that exporting companies should have captive farms with at least 1000 heads of cattle. Only two Indian companies meet this criterion, since Indian dairy farming is organized along different lines. The decision is now apparently to start the exports and then to seek expansion of the list of approved companies. Russia's agromarket of about \$40 billion (not only for dairy products) offers lucrative opportunities for India, particularly because of the continuing Russian ban on agro-imports from Europe. The problems are both stringent Russian phytosanitary standards and recurring cases of Indian exporters compromising on quality and/or renegeing on delivery schedules.

Russian company in Mumbai metro project: A joint venture between Russia's Mosmetrostroy and Hindustan Construction Company Ltd (HCC) was awarded a \$372 million (Rs 2,523 crore) contract to construct part of Mumbai's first underground metro line. The JV (HCC has 74% share and the Russian company, 26%) will construct a 4 km corridor, four underground stations and twin bored tunnels of a total length of 3 km. The project is to be completed in 55 months.

GAIL reconsiders Gazprom LNG deal: It was reported that Gas Authority of India Limited (GAIL) is seeking to renegotiate its LNG contract with Russia's Gazprom. A Singapore subsidiary of Gazprom signed a contract with GAIL in October 2012 for supply of 2.5 million tonnes of LNG per year (equivalent to 3.5 billion cubic metres) for 20 years commencing in 2018-19. According to reports, Gazprom's current LNG price of \$7 per million British thermal units is significantly above the spot price of \$5. GAIL's desire to reschedule the supply has also been attributed to its over-extended purchase commitments.

Russia & India's strategic uranium reserve: Russia could become a significant contributor to the Strategic Uranium Reserve that India has decided to establish – of 5000 MT initially and expected to rise to 15000 MT,

according to reports. In 2015-16, India imported from Russia about 345 MT of uranium (in different forms), up from about 300 MT in 2014-15. Kazakhstan (with which an agreement was recently concluded for import of 5000 MT over 5 years), Uzbekistan and Canada are other countries with which supply agreements have been concluded, according to a PIB press release.

Anti-dumping duties on Russian steel: India introduced a six-month anti-dumping duty on imports of hot-rolled sheet steel from Russia, China, Japan, South Korea, Brazil and Indonesia. Indian analysts have echoed the Russian contention that higher domestic prices are attributable less to dumping than to domestic factors—power tariffs, freight costs, coking coal import duties, etc.

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(The views expressed in this newsletter are personal)