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Art is fast becoming a lucrative venture
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Cool place to be for festivities
RUSSIA AND GREATER CHINA

Year to remember

There was plenty of drama for the nation to look back on and ponder

February 21

‘Prayer’ leads to stiff punishment

The feminist punk rock band Pussy Riot held an impromptu “punk prayer” in the Cathedral of Christ the Saviour in the heart of Moscow that included chants such as “Mother Mary, put Putin away.” Three members of the band were arrested in March. The other participants of the “prayer” were wanted on charges of disorderly conduct motivated by religious hatred.

In August, Nadezhda Tolokonnikova and Yekaterina Samutsevich were found guilty by a Moscow court and sentenced to two years’ imprisonment. In October, the Samutsevich’s punishment was made condition- al. The case drew unprecedented attention inside and outside the country and led to a surge of accusations that Putin and the Russian Orthodox Church influenced the court case.

Opinion polls in Russia suggest a majority backs the sentence, however. A poll by the independent Levada research group showed only 6 per cent of respondents were sympathetic with the women, and 51 per cent said they found nothing good about them, or felt hostility towards them.

May 6

Clamping down on protests

A wave of protests that began after parliamentary elections in December 2011 continued after Vladimir Putin was elected president. A rally on May 6 ended with clashes between protesters and police. Over 400 were detained and 17 arrested and accused of rioting and attacking law-enforcement officers.

On November 9, businessman Maxim Luzyanin, 36, was sentenced to four-and-a-half-years in prison. Other investigations continue. The May 6 rally also led to a law that dramatically increases fines for those who participate in, or organise demonstrations that have not been approved by the authorities. Opposition leaders could face up to 10 years in prison if convicted.

June 16

Euro football failure

The national football team’s elimination at the group stage of the European Championship 2012 was one of the year’s biggest disappointments.

The team failed to progress beyond the weakest group in the tournament, losing to Greece. Captain Andrei Arshavin further angered fans saying: “Your expectations - it’s your problem.” Russia’s new coach, Fabio Capello, has not called up Arshavin for the World Cup 2014 qualifiers.

Prime Minister Vladimir Putin won the presidential election in the first round with more than 63 per cent of the vote. Gennady Zyuganov, the veteran communist leader, followed with 17 per cent.

A US$300 million network of webcams and as many as 500,000 independent observers were deployed to ensure electoral transparency following anger at voting violations in December’s parliamentary poll.

Still, observers from Russia and from the Organisation for Security and Co-operation in Europe reported irregularities at many polling stations.

Putin is now serving as president for another six-year term.

After his inauguration in May, President Putin fulfilled a “gentleman’s agreement” with his predecessor.

Ex-president Dmitry Medvedev was appointed prime minister.
July 1

Moscow doubles its territory

Moscow’s land area doubled on July 1, after being enlarged by 150,000 hectares from neighbouring territories along its southwestern borders. The expansion plan was brokered by then-president Dmitry Medvedev in 2011. “Big Moscow” includes the territory of the two cities in the Moscow region, Shcherbinka and Troitsk, and 19 smaller residential areas.

The city’s population density dropped from 10,700 people per square kilometre to 4,600 overnight. The aim of the move is to relieve traffic congestion and allow the urban area of 20 million people to develop harmoniously, said Moscow Mayor Sergei Sobyanin. Moscow is among the 10 largest cities in the world with a population of more than 16.5 million.

July 27 – August 12

Late surge at the Olympics

The national Olympic team was a major disappointment during the first half of the Olympic Games in London. However, the athletes recovered close to the end of the Games, winning several gold medals. Russia finished in fourth place behind the US, China and Britain.

The volleyball team became the nation’s heroes after Vladimir Alekno led his side to a 3-2 victory over Brazil. The London Paralympics were most successful for the Russians, however. The nation won a total of 102 medals and finished in second place behind China.

August 22

Accession to the WTO after 18 years

One of the economic highlights of 2012 was Russia’s accession to the World Trade Organisation after 18 years of talks. The main stumbling block was Russia’s reluctance to cut import duties and stop supporting its producers. Agreements on the majority of issues were reached over the course of a few years, except with regard to the vehicle industry, agriculture and agricultural machinery.

Now the government will cut auto import duties to 15 per cent over the next seven years.

The government also cut duties on agricultural machinery from 15 per cent to 10 per cent.

Russia is also cutting duties on just about every kind of agricultural product except beef.

September 7-9

Country takes Apec helm in Vladivostok

Russia became the president of Asia-Pacific Economic Co-operation for the first time in 2012.

The climax of the presidency was the Vladivostok summit in early September. The four key topics discussed were energy efficiency, exchange of technologies, food security, and logistics, which was particularly topical.

Vladivostok is Russia’s eastern gateway. Foreign ships started using the Northern Sea route for the first time after the summit, a route that was mostly ignored since the collapse of the Soviet Union, despite the fact that it shortens the journey from Asia to Europe by several days. Another logistical project is the Trans-Baikal railway, a track linking Western Europe to South-east Asia via Russian territory.

The main agreement reached would see regional development based on a communiqué signed in Vladivostok after the summit, however. Leaders recognised that the priorities of the world economy are gradually shifting towards Southeast Asia, which will soon be the focus of goods and cash flows.

September 18

Mathematician wins Shaw Prize

The Shaw Prize in Mathematical Science 2012 was awarded to Professor Maxim Kontsevich “for his pioneering works in algebra, geometry and mathematical physics and, in particular, deformation quantisation, motivic integration and mirror symmetry”.

Kontsevich, who was born in Russia in 1964, is a permanent professor at the Institut des Hautes Etudes Scientifiques near Paris.

“Mathematical physics is a science that uses mathematical language to describe and understand physical phenomena,” Shaw Prize council member Yang Chen-ning explained.

Kontsevich’s work is said to be “related to the fundamental mathematical structure of the universe”.

The Shaw Prize was established in 2002. It began honouring individuals every year in 2004. The prize is named after the 104-year-old Hong Kong media tycoon and philanthropist Run Run Shaw, and it is often referred to as the Nobel Prize of Asia, although it recognises scientists from across the globe.

October 14

Return to direct gubernatorial elections

Russia held its first gubernatorial vote in eight years in October. Direct elections of governors were abolished in 2004 at the behest of Vladimir Putin, who was president at the time.

After widespread protests across Russia earlier this year, the Kremlin promised to ease restrictive electoral laws and reintroduce elections for Russia’s 83 provincial governors. Candidates from the ruling United Russia Party won all five races, reaffirming the party’s dominance across the national political landscape. Independent and opposition candidates targeted Russia’s regional elections next year.

October 22

Rosneft in deal of the year

Rosneft’s buyout of BP’s shares in TNK-BP was the biggest mergers and acquisitions deal of the year.

The state-owned oil company offered US$17.1 billion plus 12.86 per cent of Rosneft shares. The value of the deal was US$27 billion. Rosneft now wants to buy out Russian shareholders.

TNK-BP was one of the most controversial companies in Russia. It was set up in 2003 as a joint venture of the Tyumen Oil Company (TNK) and BP. Controversy erupted in 2008, when partners called for CEO Robert Dudley to quit.

November 6

Defence minister in shock dismissal

The sudden dismissal of defence minister Anatoly Serdyukov (seated, left) sent shock waves in Russia. He was fired after a corruption scandal erupted.

The minister’s dismissal triggered major corruption probes. The investigations also exposed high-level officials, such as former agricultural minister Yelena Skrynnik.

Meanwhile, new Defence Minister Sergei Shoigu (standing, left), the former emergency situations minister and governor of Moscow, started a major reshuffle in the top military circle, and introduced changes to Serdyukov’s army reform, which is still hugely unpopular in the Russian armed forces.
Trade between Russia and China continues to reach new heights, but differences between the two nations have seemingly become more apparent in the past year.

In March, Vladimir Putin was elected president of the Russian Federation, and will rule the country for the next six years; the Chinese Communist Party’s 18th Congress chose the country’s new leadership.

What will be this year’s legacy for these two nations?

More than anything else, the past 12 months have strengthened China’s status as Russia’s principal trade partner. Last year, Russia’s trade with China totalled US$83.5 billion.

This year, that figure may well break US$90 billion, implying that the target of hitting US$100 billion by 2015 might be achieved early.

The second piece of news is that Moscow and Beijing have started to move towards trade diversification.

Russia has long grumbled about the dip in its share of hi-tech exports to China. It now looks as if the leadership is stumbling towards a solution. As President Putin wrote in the People’s Daily, “We need to be talking about a technological alliance between [the] two countries.”

As part of this new initiative, the Skolkovo innovation city signed a framework agreement with Zhongguancun, China’s hi-tech hub.

The joint development of long-range aircraft is slated to be a major project for the two nations.

The third successful outcome is the intention to significantly increase investments. During Putin’s June visit, the Chinese Investment Corporation and the Russian Foundation for Direct Investment signed an agreement for the launch of a joint US$4 billion fund, with the company’s offices in Hong Kong.

However, there are lingering disputes over energy.

The Skavodino-Daqing pipeline, launched in 2010, turned into a symbol of controversy last year due to pricing arguments between Russia’s Rosneft and Transneft, and the China National Petroleum Corporation.

Early this year, the conflict wiped out US$3 billion for the Russian side, to Moscow’s chagrin.

Russia and China should realise that it would be better to scrap the pipeline and stick to trade by oil tanker, sell liquefied natural gas.

The second area of concern is the disagreement over investment activity.

Despite the launch of the fund, and regional co-operation projects being signed in 2009, there have been few tangible results.

Moscow and Beijing should prepare documents better, while the bureaucrats get on with implementing projects, rather than organising official visits that result in a stack of signed, but dormant documents.

There is a desperate need to take action on protecting intellectual property. This issue scuppered last year’s planned US$1 billion purchase of Russian Sukhoi Su-35 fighter jets by China.

The same stumbling block could plague other hi-tech projects.

Moscow and Beijing need to use this window of opportunity to solve these difficulties.

Premier Wen Jiabao said Russia would remain a priority for China.

Relations between Moscow and Beijing are the best ever, Prime Minister Dmitry Medvedev said this month.

Russian and Chinese tourism officials are delighted with a surge in visitor numbers between the two countries.

Russia hosted 870,000 Chinese tourists this year, a 40 per cent jump that “exceeded all expectations”, says Alexander Radkov, head of the Russian federal agency for tourism, Rostourism.

More than 100 events, promoting Russian tourism, were staged in China this year.

“It is no secret that the Chinese leadership urged the regions to encourage trips to Russia and send more people there, so this is a joint triumph,” says Ivan Vvedensky, chairman of non-profit-making organisation World Without Borders.

Chinese tourism officials say Russia attracts many older tourists nostalgic for Soviet-Chinese friendship.

“About 70 to 80 per cent of the tourist groups that go to Russia are people older than 50,” says a China Youth Travel Service spokesman.

Despite Russia being the centre of attraction at a tourism forum in Shanghai last month, young people showed greater interest in going to the United States and Europe.

Russian officials are keen to see Chinese companies contribute to the federal programme, “Development of Inland and Inbound Travel in Russia”, which lasts until 2018. Rostourism’s deputy head Evgeny Pisarevsky has proposed the establishment of a working group to select, monitor and evaluate investment projects that could be spurred by public-private partnerships, credit guarantees and personal supervision.

Only a few projects have actually materialised. There was much ado last summer when two Chinese corporations announced plans to invest US$3 billion in a resort in the north Caucasus. The head of the Northern Caucasus Hotel Resorts company, Akhmed Bilalov, started to expand his construction plans, despite warnings that it was premature from one of the investors, the head of the Dalian Wanda Group and China’s third-richest man, Wang Jianlin.

Nothing substantial is likely to emerge from the agreement. The Chinese are not short of investment destinations – from Australia to Brazil, the United Arab Emirates to Kazakhstan and Africa. Russia may be way down the list. Even so, six agreements were signed at the tourism forum. The Yaroslavl Region signed agreements with the Jiangsu and Guangdong provinces. Vladinvesttour Group signed one deal to assemble Chinese buses, and World Without Borders partnersh signed a deal with China UnionPay. Hopefully, these agreements will result in something tangible.

**Moscow and Beijing hope to learn from past successes and failures, writes Alexandr Gabuev**
Chinese investors bankroll western Siberian coal mine

Anton Olschannikov  RBC Daily

Chinese investors are to finance their first coal mine in Russia at the Karakan-skoe deposit in Kuznetsk Basin, western Siberia. The project gained approval at the ninth round of the Russia-China Energy Dialogue.

Russia’s Karakan-Invest company plans to build an open-pit coal mining facility with China Coal Mine Construction Group and its subsidiary Kitayuglleshakhststro-i-Sibir in the Karakan-West area in the Belovsky district of Kemerovo.

The company is developing the Karakan coal and energy cluster, and operates a coal pit yielding almost 3 million tonnes a year and containing reserves of 305 million tonnes. The mine, which is scheduled for completion by mid-2015, will produce 3 to 4 million tonnes a year.

Two more reactors will help China increase the role of nuclear power in its energy undertakings

"Chinese industry and engineers have accumulated considerable expertise in building nuclear power plants in recent years. That’s why the Chinese negotiators insisted that the share and role of their specialists and industry in nuclear projects should be considerably expanded."

The Tianwa nuclear power plant is believed to be China’s most advanced complex.

Russia will export 15 million tonnes of oil to China this year, 50 per cent more than last year.

"The discussion was mainly concerned with the degree to which Russian specialists, Russian technology and Chinese contractors would be involved in the project," says Anton Khlopov, director of the Centre for Energy and Security Studies in Moscow.

Gennady Shumal, president of the Russian Union of Oil and Gas Industrialists, says that another political signal is needed to ensure progress.

"Given huge gas reserves in Russia’s Yakutia and Sakhalin, it is possible to hope for a mutually beneficial compromise," Shumal says, touting China and the Asia-Pacific countries as possible sales markets.

"The Atlantic segment of Russia’s coal supplies to Europe will become increasingly limited by competing deliveries of LNG from Qatar and of thermal coal from the United States,“ Karakan-Invest chairman Georgiy Krasnyansky says.

Two more reactors at Tianwan will help China to increase the role of nuclear power in its energy undertakings

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**RUSSIA AND GREATER CHINA**

**Talks to resolve conflict**

**Pacific Andes** discusses options for deal, writes Svetlana Mentyukova

Hong Kong seafood processing giant Pacific Andes International Holdings, which is suspected of illegally owning Russian fishing companies, says it is in talks with Russkoye More – Dolbycha (RMD) to find “various options for potential fishing co-operation in Russia”.

The company did not specify details of its negotiations with RMD. A statement from the company and its subsidiary, China Fishery, says a joint venture with the Russian firm is a possibility, but adds that “negotiations are preliminary, and it’s still possible that a final agreement won’t be reached.”

The joint-venture option was reportedly approved at a meeting chaired by Russia’s First Deputy Prime Minister Igor Shuvalov. This would settle the conflict with Pacific Andes, which is suspected of poaching pollock in Russia’s exclusive economic zone.

The Federal Antimonopoly Service says the Russian side should be the controlling shareholder.

RMD has confirmed that negotiations are under way over the acquisition of two Russian fishing companies, Turnil and Intraros, thought to be affiliated to Pacific Andes. Pacific Andes International Holdings is the world’s largest producer of fish products. Last year, it reported HK$923 million profit from sales of HK$14.2 billion.

Pacific Andes caused an uproar last year when it claimed that it controlled 60 per cent of Russia’s pollock catch, prompting the Federal Fisheries Agency to ask law-enforcement agencies to deal with foreign companies fishing in Russia’s exclusive economic zone.

A government commission monitoring foreign investment in strategic companies decided that Pacific Andes and China Fishery should sell their Russian fleet to Russian companies. Although the names of these companies were not revealed, market players say they include members of the Pollock Catchers’ Association.

Analysts say Pacific Andes released a statement about the negotiations because of its importance to the company. They believe a protracted silence from the company has hurt its share price. The market capitalisation of Pacific Andes and China Fishery on the Singapore Stock Exchange has fallen 25 per cent and 40 per cent, respectively, since the start of the year.

There was a tepid response to the statement with prices rising fractionally. The company has denied allegations that it had violated laws governing foreign companies operating within Russia’s borders.

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**FIGHTER DEAL WITH BEIJING IS RISKY BUSINESS**

Ilya Kramnik - VOR

Beijing has reached a preliminary agreement with Moscow on the purchase of 24 advanced Sukhoi Su-35 fighter jets, according to media reports.

Although the deal could open doors to the global market for the Su-35, the agreement with China is fraught with risks.

The Su-35 fighter, or more precisely the Su-35BM, has become the latest and possibly the last repeat of the T-10S platform, whose first offspring was the famous Sukhoi Su-27 fighter. This machine and its modified version, the Sukhoi Su-30, brought world-wide fame to the Sukhoi name. T-10-based aircraft have become the best selling fighters of the past 20 years.

Remarkably, it was China that paved the way for the Su-27’s big break: the first contract for the delivery of 20 Su-27SK fighters was signed in 1991, followed by a contract for 16 more units in 1996.

Then followed an agreement to supply almost 100 kits for licensed assembly. After that, China started buying the Su-30MKK aircraft.

Contracts with China were followed by agreements with India, Malaysia, Vietnam, Algeria and others. But the success of the Russian fighters came at a price.

The licence to assemble the Russian fighter led to China copying it and eventually launching production of a “localised” plane code-named F-11. While the Chinese knock-off is noticeably inferior to the original – in the service life of the engines and avionics – the copying process has improved China’s military aircraft industry capabilities. This has accelerated the modernisation of China’s air force, which in the early 2000s had lots of ancient fighters, such as the J-6 – a copy of the Soviet MiG-19, dating back to the 1950s.

China has expressed interest in the Su-35, whose capabilities approach those of fifth-generation fighters, for some time. But the fate of the Su-27 in China is a cautionary tale for the Su-35. Nobody can guarantee there will be no attempts made to copy the Russian fighter. The potential damage could only be partially offset by a purchase of at least 50 planes, which would make copying pointless, while enabling the manufacturer to use the proceeds to develop more advanced aircraft.

A batch of 24 planes is insufficient to outweigh the risk of seeing another Chinese clone in the sky in 10 or 15 years’ time.

Another way is to supply China with a simplified version of the Su-35. Quite possibly this is what will be done: the reported price of US$1.5 billion for the 24 aircraft doesn’t seem out of line at all, as “top” versions of T-10-based fighters have been selling for more than US$100 million apiece.

Given that copying would take at least five to seven years, supplying a simplified version could be an acceptable option. In the case of China, the optimal course of action would be to curtail supplies of Russian military hi-tech production there as much as possible.

The military can be compensated for potential losses with domestic orders instead.
Passage can lead to profits

Gazprom tanker opens Arctic route, writes Sergei Ivanov

Companies can save US$3 million using the Arctic passage instead of the Suez route

Companies transporting gas from the North Sea to north Asia can save US$3 million using the Arctic passage instead of the Suez Canal. That was made possible after the tanker Ob River became the first ship to transport natural gas from Norway to Japan last month.

The journey from the Hammerfest Snøhvit liquefied natural gas (LNG) facility in Norway to the Japanese utility, Kyushu Electric Power, took 20 days to complete, three weeks faster than the traditional route across the Mediterranean Sea, the Suez Canal and around Asia. The tanker completed a test trip across the Arctic sea route without any gas. Last month, it did so with the gas supply.

“The trip was completed accident free and in accordance with the timetable”, Russian gas company Gazprom says. The company had been preparing for this trip for more than a year. Gazprom Marketing and Trading, a unit of Gazprom, chartered the ship from the Greek Dynagas company with an international crew of 40.

“It’s an extraordinarily interesting adventure,” Dynagas commercial director Tony Lauritzen told BBC News. “The people on board have been seeing polar bears on the route. We’ve had the plans for a long time and everything has gone well.”

Lauritzen said a key factor in the decision to use the northern route was the record on melting ice in the Arctic.

“We have studied lots of observation data – the icy conditions are becoming more and more favourable for transit this route. You are able to reach a highly profitable market by saving 40 per cent of the distance, that’s 40 per cent less fuel used as well.”

The Ob River can carry 150,000 cubic metres of gas, which is chilled under pressure and turned into a liquid.

Three Russian nuclear-powered icebreakers – 50 years of Victory, Rossya and Voigach – accompanied the tanker on its voyage.

“The two trips of the Ob River have fully proved the technical and economic viability of the Arctic route for international LNG supplies,” a Gazprom spokesman says.

“With high-quality icebreaker protection, shorter delivery times, increased volumes of supply and no risks of military conflicts and pirate assaults it could be attractive and a safer solution for international trade.”

Chartering an LNG tanker can cost US$150,000 per day. Companies transporting gas from the North Sea to north Asia can save up to US$3 million using the Arctic passage instead of the Suez route. Having icebreakers would cost more.

The Arctic route can be navigated for just a few months a year. But scientists say with climate change and a decreasing ice level, it is likely the length of the sailing season could be extended and traffic across the Arctic sea route could grow rapidly.

Scientists announced in September that Arctic sea ice had dropped to 3.4 million square kilometres – 50 per cent lower than the average recorded from 1979 to 2000.

They can understand what is really going on. Clashes between governments can lead to horrendous misunderstandings: for example, the situation in Lithuania where the government, which wanted to promote its nuclear power plants, accused neighbours of building unsafe power plants. As a result, a recent referendum voted against nuclear energy.

What will happen with Bulgaria, where there is so much confusion about this topic and its government appears to be coming under pressure from the United States and Brussels to reduce its energy reliance on the Russians.

Russia’s state nuclear energy corporation Rosatom, which signed a deal few years ago to build the Belene nuclear plant on the River Danube, is demanding compensation after Bulgaria pulled the plug on the project.

Bulgaria is a “complex country” for foreign investments and Rosatom is not the first international company to encounter such problems. Despite greater scepticism following the Fukushima disaster, the list of countries promoting nuclear energy is growing with Britain, Poland, the Czech Republic, Slovakia, India, Turkey, China, South Africa, Argentina, Saudi Arabia, Jordan and a handful of African countries. Rosatom is busy with 38 new projects.

French company Areva, Westinghouse from the US and the Russian-Czech alliance, Skoda-Rosatom, are the three bidders for a project to build two new reactors at the Temelin power station in the Czech Republic.

The Fukushima disaster marked the end of low cost nuclear energy. Nevertheless it reinforced the policy of safety and security levels for the different players.
Growth and Prosperity Fuels Spending Spree

Vladimir Ruvinsky

Despite the sluggish global economy, Russia is experiencing a shopping boom driven by soaring consumer credit. Russia’s major retail centres are enjoying high sales volumes, comparable to anywhere in the world. It seems that after 70 years of deprivation, Russians are taking advantage of growing prosperity to stock up on some of those luxuries that most in the West take for granted.

In October, Russia’s banking sector surprised once again when retail lending growth accelerated to 43 per cent year-on-year — well into what the Central Bank of Russia deems “overheating” territory.

Companies and banks were in the front line following the collapse of Lehman Brothers in 2008, but the Kremlin worked hard to shelter the population from the fallout, bailing out troubled banks and propping up state-owned companies. Wages have continued to rise throughout the crisis, while unemployment is at a 20-year low of 3.8 per cent.

The average Russian has no debt to speak of — everyone was simply given their apartment by the state in 1991 and such things as mortgages and credit cards have only just taken off — and the average Russian is free to borrow heavily, most of their income being disposable. Retail loan growth speeded up in October, surprising economists who were expecting it to slow in the second half of this year.

“Rising wealth levels over the past decade have turned Russia into a middle-class country,” says Clemens Grafe, managing director of new market economics for Goldman Sachs in Moscow. Focusing on retail trade in October and supports our expectation of an acceleration in retail trade growth from 4.4 per cent per-year-on-year in September to 5.0 per cent per-year-on-year in October,” says Evgeny Gavrilennkov, chief economist at Sberbank CIB.

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Growing prosperity fuels spending spree

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“This comes as a positive surprise for retail trade in October and supports our expectation of a acceleration in retail trade growth from 4.4 per cent per-year-on-year in September to 5.0 per cent per-year-on-year in October,” says Evgeny Gavrilennkov, chief economist at Sberbank CIB.

The consumer-borrowing binge is spilling over into other sectors of the economy directly connected to shopping. Supermarket chains are among the first to benefit. Spending on food is among the most resilient, even in tough times. Most leading supermarkets are reporting revenue growth of up to 33 per cent year-on-year for 2012.

Car sales have also been strong, increasing 13 per cent in the year to date, according to the Association of European Business. Russia is on track to become the largest car market in Europe in the next five years.

Spending is also driving investment into commercial real estate. Last month, Jones Lang LaSalle ranked Moscow the third most attractive investment destination in Europe for retailers.

“More than 30 per cent of the most popular European brands operate in the Russian market already, with the rest considering entry,” says James Brown, head of EMIA retail research and consulting at Jones Lang LaSalle. “Within the coming years, the high level of disposable income and the rapidly-growing middle class will make the Russian retail market one of the European leaders in terms of turnover.”

And because Russian consumers are buying increasing amounts of big-ticket items, the more traditional financial services have also started to take off. The potential of Russia’s mortgage market is unparalleled in Eastern Europe, say analysts at UralSib. The housing stock is among the lowest in the region, but so are the ratios of mortgage debt to GDP at only 3 per cent. This compares with 9 per cent in Ukraine, 12 per cent in Poland, 34 per cent in Latvia and 36 per cent in Estonia, UralSib points out.

Express loans made at the point of sale introduced most Russians to buying on credit. These loans account for about a third of domestic appliances and furniture purchases.

The use of credit cards has taken off during the past year. The Russian credit-card market increased 60.3 per cent during the first nine months of 2012, to 590 billion rubles (HK$148 billion), with no sign of slowing down.

Spending is also driving investment into commercial real estate, where Moscow is ranked the third most attractive city in Europe.
RUSSIA AND GREATER CHINA

Government needs to find solutions to get out of ‘trap’

It’s unlikely that the “middle-income trap” – a problem revealed by Renaissance Capital – surprised anybody in the Russian government. Economists have issued warnings about potential stumbling blocks to economic growth. The middle-income trap theory has been developed by Barry Eichengreen, professor of economics and political science at the University of California, Berkeley. The trap can be seen in emerging economies when gross domestic product (GDP) per capita tops US$16,000, measured on purchasing power parity.

Renaissance Capital's chief economist Ivan Tchakarov warned in February that Russia would hit a middle-income trap in 2014, and other BRICS (Brazil, Russia, India, China and South Africa) nations will follow suit. “Fast-growing economies eventually slow down,” Tchakarov said. “Fast-growing economies appear to start facing the middle-income trap when their GDP per capita levels reach around US$16,000, which Russia will reach in 2014. China will hit the middle-income trap only in 2020, Brazil in 2024 and India in 2038.”

Eichengreen says economic development slows or stops at that level because of various factors. The key is demographics. The economically active population in a “trapped” economy shrinks substantially or, at least, stops growing. At the same time, the share of consumption as a percentage of GDP and inflation stabilises or rises, and the economy’s share of global trade becomes limited.

The way out of this trap, Eichengreen says, is through considerable – even mandatory – increases in imports and exports. At the same time, economies need to abandon export stimulus through currency manipulation while limiting regulation.

With these factors in place, the middle-income trap can be overcome quite fast. However, a failure to act could cost the affected economy at least seven years of stagnation.

The Kremlin needs to look closely at the middle-income trap because of the problems it poses. The fascination with avoiding traps can also have its benefits. The Russian government, traditionally more conservative and left-leaning than macroeconomists, almost always works with liberal politicians to score points.

It’s not important whether the middle-income trap even exists, just as it is not important how conceptually correct the description of the “institutional trap” or the “resource curse” might be. What is important is that even these concepts encourage the Russian government to be more cautious and to follow a moderate course of reform. To paraphrase the late Chinese paramount leader Deng Xiaoping, it doesn’t matter whether a “trap” exists, as long as it makes the government more disciplined. This is largely why governments need macroeconomic experts who are not understood by all governments the way they would like to be understood.
Students start to shine

Boris Mezhuyev

December 5 marked the anniversary of the start of the “City Protests”. A year earlier, after a rally at Chistiye Prudy, a popular blogger and the future leader of the opposition Co-ordinating Council, Alexei Navalny, led a march of his supporters to Lubyanka Square to protest against violations during the Duma elections.

Navalny’s following was much larger than expected. After he was among a group of opposition members to be arrested, a spurt of political ferment ended in a 30,000-strong rally on Bolotnaya Square.

The “Bolotny movement” was supported and nurtured by the Moscow media, primarily the online media. Overnight, the opposition became fashionable and Navalny something of an icon. The authorities faced a “political awakening” among the capital’s middle class that drew on disenchantment with bleak economic conditions in the Russian hinterland.

But it is the pro-establishment journalists who are powering the opposition. Opposition members are keeping a low profile after a year that has taught nothing but disappointment.

It is common for pro-establishment commentators to accuse the opposition of being inward-looking and too focused on internal ideological differences. It is just as common for opposition commentators to suggest those in power have lost touch with traditional voters. So who are the winners and losers in this awakening?

OPINION

Oleg Fomichev

At this month’s Open Innovations Forum in Moscow, some of the world’s leaders in innovation and business – such as Sir Richard Branson – gathered to discuss what is necessary for a knowledge-based economy to thrive. This is something Russia’s leadership has invested considerable time and resources in creating.

While our country is at a formative stage in this sector, we can already see positive dynamics and competitive products coming out of the organisations tasked with its development, such as Skolkovo and Rosnano.

Russia’s economy is not yet at a stage where private enterprise has much demand for innovation. One reason is that our companies haven’t yet exhausted the potential of “slug-gish innovation”, whereby they simply import foreign technologies and rapidly improve their productivity. Another factor is that our business environment still leaves much to be desired. Until we optimise the basics such as customs legislation, taxes and social transfers, businesses will not have enough incentive to invest in innovation.

Innovation won’t happen in Russia without state involvement. Even in the United States, with its liberal economic policy, the government supports innovative development via various incentives and tax breaks. Our idea is to emulate these best practices while gradually handing over the initiative to private businesses.

The obvious question is over the role Russia’s energy sector, the major source of revenue and the backbone of its economy. At the energy cluster in Skolkovo, one of our home-grown companies is negotiating with global oil companies to develop its own method of refining oil into gasoline much more efficiently and cheaper than the traditional process.

There’s a great potential coming out of a synergy between our new economy, innovation and our traditional sectors in energy. Moreover, in this field, the demand actually exists as Gazprom and other energy companies need to be more competitive in the global market. New technologies allow them to tap into previously inaccessible oil fields, while shale gas has brought about a revolution. A smaller challenge comes from renewable energies, such as solar and biofuels, which have developed into drivers of economic growth elsewhere.

Russia’s leadership is taking every measure to guarantee our companies do not lose market share to more innovative players via state support for research and development. This will allow energy to remain a major driver of Russia’s economic modernisation as it provides upstream and downstream demand for other sectors.

It’s important to remember that the energy sector is not going anywhere; its role in Russia’s economy will simply shrink as consumer demand-driven production and services are localised here and businesses begin to invest in innovation.

Next year’s forum will focus on more global problems – namely, how a lack of investment into fundamental research in traditional “innovation” hotbeds such as South Korea and Singapore will affect the global knowledge economy in the future. Russia has a lot to offer in this sphere.

Oleg Fomichev is Russia’s Deputy Minister of Economic Development.
Research

Researchers from Irkutsk in Siberia and Hong Kong are working on the next generation of environmentally friendly display technology. Working as the Center for Green Display Technology, their goal is to drastically reduce power consumption in the display data.

The National Research Irkutsk State Technical University (NRISTU) and Hong Kong University of Science and Technology (HKUST) have joined forces in a competition to establish a research centre in Irkutsk that, among other things, will develop new and improved light-emitting diode (LED) displays with low power consumption and greater resolution.

“We have been collaborating with Hong Kong University for two years,” says Nikolai Ivanov, director of Irkutsk State Technical University’s Physics and Technology Institute. “In November, we jointly applied for a competition organised by the Skolkovo Foundation in Irkutsk for the right to establish a centre for scientific research, education and innovation.”

NRISTU has carried out research in laser technology and optics, and the university is developing a therapeutic medical laser, while a laser for photodynamic cancer treatment is ready for production.

“We are talking about using new types of liquid crystals and new methods of positioning them in order to display video signals using liquid crystal display (LCD) sensors and LCD photon elements for fibre-optic lines: switches, attenuators, filters, dispersion compensators, rotators and polarisation controllers,” Ivanov says.

The new display technology will reduce power consumption, while improving display resolution and contrast, and help create flexible displays and electronic paper.

NRISTU is one of 320 universities applying for a grant to create a research centre, each in their particular field. Selected applications will be presented to the Skolkovo Foundation in the third round of the competition next March before final decisions are made.

Skolkovo is being established as Russia’s first university to combine engineering and business education. It will have 15 research centres in five science and technology areas. The centres will combine education, research and practical applications based on this research.

Workle creates employment opportunities

Tatyana Shchenkova

Until recently, the issue of flexible working hours was clear: either give up the prospect of a pension and a decent salary and go freelance, or put on a suit and toil in the office from dawn until dusk.

A group of young Russian entrepreneurs decided to tackle this issue. Welcome to Workle, the world’s first online employment and workforce planning company. The portal makes freelance work official, and provides opportunities to people who may not have the necessary experience to get on the employment ladder.

According to its creators, the pioneering start-up is implementing a new e-work format that offers online jobs.

“E-work is a very large sector, and freelance is just a part of it,” says Workle’s mastermind Vladimir Gorbunov. “We are creating jobs in finance, insurance and tourism, as well as jobs in sales. We are doing this because we want to give people without relevant experience a chance to work.”

“We want to equip them with the same tools that employees of, say, insurance companies have when they work in an office. The only difference is it’s now online.”

Getting started with Workle is easy. It takes 10 minutes to register, after which you can try your hand as a sales manager of insurance or banking products, or even a travel agent for one of 40 Workle clients. I chose to be a travel agent.

Every user has to sign an employment contract with the company, which essentially acts as lawyer and tax agent, taking on the task of drawing up employment records, calculating and paying taxes and issuing employee earnings certificates.

Workle applies individual commission fees, which average 15 to 20 per cent of the total sales of each agent deducted from the amount due to the employer, a Workle client. Working conditions are so good that the number of Workle’s virtual consultants is increasing every day, with more than 77,500 users registered on its website.

Workle even offers free training, with a Workle certificate confirming the person’s competencies issued on completion. The training period depends on the employee’s abilities. A beginner’s course for travel agents may be completed in 10 days.

Each travel agent has his own online office linked up to various online tools, including those for travel package searches, booking and maintaining a client database. So how do you go about looking for clients? Workle provides the necessary tools and it also answers such questions. New sales managers usually offer their services to their friends and family first. I sold my first travel package to Turkey to my parents and received my first commission of 5,000 roubles (HK$1,250) within three days. Encouraged, I tapped my contact list from the VKontakte social network and sent my friends a notice that I was now employed as a travel agent.

Quite soon, a client from Penza contacted me via the social network, asking to find a trip to Spain. I got them a good deal. Off they went on a lovely holiday. And I got my well-earned fee.

Flexible work can help younger people get experience.

Freelance in Russia

Monthly wages, USD

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Source: Higher School of Economics and the website freelance.ru
Time for Father Frost

Once banned, Christmas is celebrated on January 7, after the bigger new year celebration, writes Inna Leonova

In early December, Moscow’s streets are lavishly decorated with Christmas trees and lights. The season lasts until early January, as most Russians celebrate Christmas Day on January 7.

Celebrations begin on December 24, when the official Ded Moroz (Father Frost), a legendary Father Christmas-type character, arrives with his granddaughter Snegurochka (the Snow Maiden), from their residence in the old city of Veliky Ustyug, 152km north of Moscow. Their arrival is celebrated at Gorky Park.

The event was introduced when former Moscow mayor Yury Luzhkov was in power. Accompanying this new tradition, special postboxes are placed in Moscow parks so children can send a letter to Ded Moroz. If they provide an address, they will get an answer.

Ded Moroz has long been part of the holiday tradition, bringing gifts to children on New Year’s Eve. About 300 years ago, Peter the Great returned from a trip to Europe and brought a Christmas tree with him. Other holiday traditions – such as giving presents – were also adopted.

For two centuries, Christmas is celebrated as in the rest of Europe, but the October Revolution changed things. The Bolsheviks, who came to power in 1917, banned open celebrations of the birth of Jesus Christ and the decoration of fir trees.

Believers had to celebrate secretly. Members of the Communist Party could be expelled for attending Christmas services.

A few years later, party officials realised the country would not do without its main winter holiday. They decided to allow celebrations again, but on New Year’s Day – a day that had no association with Christianity. They allowed some of the traditions associated with Christmas, such as decorating the tree and giving presents, to take place on New Year’s Day. Ded Moroz, a pagan character from Russian folk tales, was introduced.

The first official Soviet New Year celebration was held in 1937. Ded Moroz appeared as the hero of the celebrations, putting presents under New Year trees.

In the 1940s, New Year’s Day became a public holiday.

When the Soviet regime collapsed, five decades later, the New Year’s Day celebrations were well-established.

On this day each year, families gather round a festive table and, after the clock strikes midnight, drink champagne and exchange gifts. The renewed popularity of Christmas has not seriously affected the tradition.

In 1918, the Council of People’s Commissars decreed that the Gregorian calendar, in use throughout Europe, would replace the Julian calendar, which led to a 13-day shift in dates.

However, the Russian Orthodox Church remained true to the Julian calendar, which meant that it celebrated Christmas Eve on January 6 and Christmas Day on January 7. January 7 was declared a public holiday in 1991. Since 2005, Russians have enjoyed a lengthy Christmas holiday – from New Year’s Day through to January 10.

Orthodox churches hold Christmas services on Christmas Eve, the most impressive of which is at the Cathedral of Christ the Saviour in Moscow. Conducted by Kirill, the Patriarch of Moscow and All Russia, and head of the Russian Orthodox Church, it is attended by the country’s leading officials and the broadcast live on television. The Christian and the secular holidays complement each other. The only problem with having Christmas Day after New Year’s Day is that a growing number of Orthodox believers maintain a 40-day nativity fast before Christmas, when dairy and meat products are prohibited and fish is allowed only on specific dates.

Happy new year

The celebrations at Moscow’s Red Square will be the centre of attention during new year festivities. The Kremlin bells will ring out 12 times, meaning the new year has started. About 150,000 Muscovites and guests gathered at Red Square last year to ring in the new year.

Road warriors ignore weather warnings

An unusually heavy snowstorm trapped thousands of motorists in a 200km-long traffic jam on the Moscow to St Petersburg highway for three days at the start of this month.

In Moscow, drivers ignored snow warnings, and went out into a storm that paralysed the capital’s streets for hours. A snowstorm at this time of the year is not unusual in Russia.

The city’s inhabitants also had to endure 30cm of snow and freezing rain in this period.

Hundreds of thousands of drivers set off for work in the morning as if they were in Miami, despite forecasts of heavy snow.

The right to drive is the most cherished civil liberty for many Muscovites.

The city maintains 30,000 employees and 15,000 snow ploughs in its arsenal and dedicates a US$22 million annual budget to the battle against snow.

Yet, every year when it snows, the city is brought to a standstill in great, serpentine traffic jams.

Thousands of snow ploughs removed 1.1 million cubic metres of snow. A single machine is capable of cleaning 12km of road surfaces per hour.

The specialist vehicle pushes snow to the side of the road, where the piles are loaded into dump trucks and taken to one of 200 snow-melting units.

Car owners brace themselves for the cold season.

All winter tyres are equipped with spikes, and up to five litres of windshield-washing fluid a day is used by each motorist to enable smooth driving in the city.
How to keep warm and fashionable in winter

Phoebe Taplin

Russians and expatriates suggest some of the things you will need in the cold of Moscow

Clothes

Removable layers are essential, since it is often as hot inside as it is cold outside. Barbara Valtre Corrias, a veteran of six Moscow winters, suggests: "No heavy sweaters and a change of shoes for indoors." Russians are elegant, making choices more complicated. Danielle Eversdijk from the Netherlands notes: "Definitely heels, [with winter profile, of course] or you’ll be snubbed at bars and clubs."

Winter gear includes hats, gloves, long coats and boots. Shaun Walker, Moscow correspondent for The Independent in London, includes cold weather wear in his report on a trip to Yakutsk, Siberia’s coldest city. He writes: "I’m wearing: a pair of cotton socks, with a pair of thermal socks over them; a pair of ankle-high Gore-Tex boots." The list goes on up through thermal underwear, a padded coat and hat and a thin pair of woolen gloves, "so that when I take the outer pair off ... I won’t expose naked flesh!" And he lasted just 13 minutes outdoors. In Moscow, "a good, solid winter coat" is usually fine.

Equipment

Useful items such as a fully-charged mobile phone can be doubly important. Student Seva Ardov remembers a visiting friend from Spain: "His eyelashes were completely covered in frost after a short walk in minus 30 degrees Celsius and he forgot to recharge his phone, so at 7 o’clock he couldn’t call me to ask for directions."

You can buy or rent ice skates and skis all over the city, but for those who want to explore on foot, icy surfaces can be a problem. Two pieces of kit that help walkers are Yaktrax spiked attachments for boots or shoes, and Nordic walking poles, neither of which are readily available in Moscow. If you’re planning to go into the forest, a hypersonic dog whistle can help ward off stray canines.

British photographer and long-term Moscow resident Henrietta Challinor wryly observes: "A reliable watch is important, so you can be sure you have the right time when it’s still dark at 10am ... and a camera that is well-sealed to cope with temperatures below minus 25 degrees Celsius."

Food, drink and mental attitude

Nearly all culinary delights are available in the upmarket grocery shops of Moscow. Former Muscovite, Sarah Morris-Jordan recalls "horseradish vodka – it keeps you warm, from the inside out", and recommends following it with dark chocolate to take away the taste. A sense of fun and adventure are your biggest assets on a trip to Moscow. Be prepared to explore, keep an open mind and have a sense of humour.

degrees of coldness grip nation

Say "Russia" and it triggers images of thick Siberian frosts. Indeed, it sometimes gets extremely cold in Russia, even though the climate ranges from polar to subtropical on the Black Sea shore in Sochi, which is located on the same latitude as the French city of Nice.

Apart from freezing temperatures, the other winter phenomena to reckon with are icy roads and pavements, forcing drivers and pedestrians to take extra care while making their way.

Another hallmark of winter is icy rain – ice pellets formed when it rains at temperatures below freezing. Winter yields little sunlight in much of Russia, and this often makes people depressed.

Layers of clothes are vital as it is as hot inside as it is cold outside.

Annual average temperature map

Sochi is one of Russia’s southernmost cities. It has a humid subtropical climate with mild winters (average 11 °C (52 °F)) and warm summers (average 24 °C (75 °F)).

Oymyakon is a rural locality of the Sakha Republic (Yakutia, Eastern Siberia) located along the Indigirka River. It is the coldest permanently inhabited area on earth. The lowest temperature registered at Oymyakon’s weather station is −71.2 °C (−96.2 °F).

Oymyakon is usually in mid-January. It is customary for the first snow in Moscow and St Petersburg to fall in late November and to stay until early April. Winter colours all aspects of lives, but the locals have grown accustomed to frost and snow. There’s no such thing as bad weather, there’s only bad clothes, they say.

Sochi is one of Russia’s southernmost cities. It has a humid subtropical climate with mild winters (average 11 °C (52 °F)) and warm summers (average 24 °C (75 °F)).
Artistic investment

Paintings have gained considerable value over the years, writes Anastasia Rafal

Art critic and collector Sergey Podstanitsky is known in the Russian art market for being able to discover a master-piece at a garage sale. Pieces from Podstanitsky’s gallery are displayed in the State Pushkin Museum of Fine Arts and the Tretyakov Gallery. It all started in 1998, when the new college graduate, who was just finishing an internship in the evaluation division of the State Research Institute of Restoration, bought a picture in Arbat Street.

“I saw an interesting watercolour painting signed ‘Polivanov’ – he was an amateur artist, friend and colleague of the poet Mikhail Lermontov,” Podstanitsky says. “There was another signature on the back of the painting – the piece was dedicated to one of the battles of the Crimean War of 1853. That was a very interesting piece, more so because Polivanov’s works are well-known. Many of them are in museums, but there are almost none in private collections. It cost me virtually nothing. That was my first discovery and it encouraged me. I understood there were interesting things that could be acquired easily.”

His searches often produce valuable and unexpected finds. In the early 2000s, he bought 15 pieces by Roerich at a small Finnish auction for just €1,500 (HK$15,000), judging by the description of the lots, the auctioneers thought they were peculiar caricatures.

“They were perfectly recognisable as [Nicholas] Roerich’s theatrical sketches and had his personal signatures on the obverse side,” Podstanitsky says.

Art is increasingly regarded as an investment opportunity.

“Art has ceased to be an object of adoration,” says Egor Molchanov, an investment expert at Elysium Gallery. “Before the 2000s, a painting bought at auction would be put up for a new auction in about three years, but this time frame has been cut to six months and often to 30 to 60 days. What we’re seeing now is a speculative market. Up to 30 per cent of market players acquire paintings to sell them at a premium.”

Molchanov deals in antiques and offers advice to others. “Antiques will never get cheaper. Their place in history is already defined. The number of works cannot grow [because their creators are long dead]. We have calculated that Russian art has gained in value 20 to 30 times since the 1990s.”

Some works have soared in value. In the early 1990s, pieces by Boris Kustodiev (1878-1927) were available at US$700 to US$800. Some are now selling for US$100,000.

Irina Kolosova, director of the Institute of Art Business and Antiques, also recommends investing in the “good, valuable and eternal”. She says: “Serious antique dealers have a rule – you can return anything you buy from them at any time, and they will give you a refund. Why? Because antiques will never lose their value.”

But Podstanitsky warns that it is all more difficult than it seems at first glance. He often consults collectors on whether they should buy a piece and whether it is authentic.

“But I don’t work with the ‘buy us something worth a million and sell it in a few years at 10 million’ sort of orders,” he says. “Take [Andy] Warhol. You can be sure that his works will increase in value. First, he was doing his best to make his works sell during his lifetime, and second, more than 50 years have passed. Yet, it was impossible to foresee that sort of price increase. We can be pretty sure that paintings by all of the old, top-quality artists will see their prices grow, but we can’t be sure by how much exactly they will grow.”

Potential art dealers should be aware of other specifics. A collection is always more precious than a set of old items, but it is important to have expert verification of the provenance of each piece before selling it and such verification can cost at least US$1,000.

In many locations, art prices are often inflated. To make money on art, you must become an expert and constantly mingle in the art market. You don’t have to have millions, but you must have patience because you may have to wait a decade to make a decent return on an investment. “The price is based on auction statistics. If works by an artist do not come up at auction, we need to consider the significance of the artist and his contribution to the history of art. We need to analyse the prices,” Molchanov says. Valuers also take into account the integrity of the canvas, the origin of the painting and the period when it was created.

“Russian art of the 1930s and 1940s will become more valuable, including works by Alexander Labas, Yuri Pimenov, Alexander Deineka, the artists of the 1960s. Some Russian artists lived abroad – Sergei Polyakov, Andre Lansky – and their paintings are actively traded, many of their works are available.”

“Worthy works”

“Natalia Goncharova is the most expensive female painter in the world. Her paintings are worth millions, but her graphic works are available for US$5,000 to US$7,000. However, investments in modern art are risky. If you take Sotheby’s and Christie’s catalogues of the late 1980s – only 15 to 20 per cent of the artists, then considered modern, are known and valued now.”

EGOR MOLCHANOV
INVESTMENT EXPERT AT ELYSIUM GALLERY

“We should be looking for unappreciated artists. For instance, George Savitsky, an interesting Soviet painter. His paintings are quite cheap, priced between US$2,000 and US$20,000. But in about five years... prices will go up. However, if we consider art a financial asset, we should be looking at the Western art market, which... shows consistent growth.”

SERGEY PODSTANITSKY
ART CRITIC AND COLLECTOR
Republic’s new golden era

Visitors to Altai region can travel through spectacular terrain, writes James Brooke

Lost for centuries in a mountainous cleft between Kazakhstan, China and Mongolia, the Altai features Siberia’s tallest mountain, Mount Belukha.

To Buddhist visitors, Belukha’s twin, snow-capped peaks form the gateway to Shambhala, a mythical “Pure Land” of peace, tranquility and happiness.

With its 4,500 metre high peaks and steep valleys, the Altai has always been the end of the road. Absorbed by tsarist Russia 250 years ago to define an imperial border with China, Altai’s mountain people were largely left alone.

The Altai Republic is one of a handful of Russia’s 83 regions that have never been penetrated by a railway.

The isolation of “Russia’s Tibet” ended this year when engineers doubled the runway at the airport of Gorno-Altaysk, the capital of 60,000 people, and S7 Airlines started direct flights from Moscow.

Workers also finished paving the 600km “Chuisky Track”. A smooth ribbon of asphalt now links the capital to the Mongolian border. The road threads its way through the rugged Altai-Sayan Mountains. In Turkic and Mongolian languages, Altai means Golden Mountains.

In mid-September, larch trees explode like yellow flares against a dark green backdrop of cedar trees. The Golden Mountains are one of Russia’s nine natural Unesco World Heritage Sites.

The higher elevations are home to the Argali sheep, the world’s largest mountain sheep that weigh as much as 182kg. At the top of the food chain are snow leopards. Both of these large mammals are endangered, but in the Altai, they stand a chance of survival.

Park protect about a quarter of the republic, largely the mountainous forested parts. The Altai Republic is the size of Hungary, but has only 286,000 inhabitants, 2 per cent of Hungary’s population.

In January 2009, a group of Moscow tourists was ambushed in the Altai by a mixed party of poachers, including hunters, and a horde of local politicians. The group was returning from a shoot with the Altai chairman of the committee for the Protection of Fauna, the Kremlin’s envoy to the State Duma and a senior member of Russia’s Presidential Administration.

The three surviving passengers escaped prosecution for poaching by blaming all illegal activities on the dead men. There was such a huge local, national and international furor that poaching parties now find it difficult to rent helicopters in the Altai. Local outrage heralded a sea change in the republic.

Ethnic Russians and ethnic Altai increasingly see their economic future tied to upmarket eco-tourism. There is also a demographic change under way. As in many areas on the fringe of Russia’s Slavic heartland, the Altai’s native peoples are on the path to regaining majority status in their ancestral homeland.

Under Stalin, the Altai, like many distant points of the Soviet empire, was a dumping ground for internal exiles. Ethnic Russians took on the role of colonists and, by 1939, Altai and other native people comprised only 29 per cent of the population.

The 2010 census suggests the ethnic Russian population has remained constant in the intervening six decades at 115,000, while the Altai and other Turkic-speaking native groups now make up 44 per cent of the population. They are projected to become the majority during the next decade.

An Altai cultural renaissance can be seen in mountain villages. My travelling party was entertained twice by throat singers, traditional bards of epic poetry. As in Mongolia, throat singers have regained popularity and social status in the post-Soviet era.

In programmes supported by the World Wildlife Fund for Nature and the Citi Foundation, villagers are opening their houses to tourists, greeting them with bowls of mare’s milk, offering horseback tours and selling souvenirs crafted from felt matted from the wool of local sheep. Toy felt snow leopards were a big hit with our group.

On mountain roads, a resurgence can be seen in Ak-Ish, the White Faith. Repressed first by the tsars, then by the Soviets, this shamanistic belief system was intertwined in the 20th century with Altai ethnic identity. Revolving around nature, mountains, water springs, the sky, fire and ancestors, White Faith has grown in popularity in the 20 years since the collapse of the Soviet system.

James Brooke is the Moscow bureau chief for Voice of America.
The Sedov will visit 30 ports.