Utility prices surge across Russia

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Utility prices are surging across Russia, even as the population struggles to cope with skyrocketing food costs. With the beginning of the New Year, residents of cities and towns around the country are experiencing rate hikes across a wide range of what are referred to as "communal living" services, including heat, electricity, gas, telephone service, water and residential repairs and maintenance.

In Moscow, where utility prices have traditionally been lower than the rest of the country, residents are seeing their bills increase from 10 to 20 percent. This comes on top of an average increase of 26 percent last year for the city's 12 million residents.

In St. Petersburg, Russia's second largest city, residents were hit with a 13 percent hike in utility rates on January 1 in addition to an average 14 percent increase in the cost of public transportation. Beginning in February, the cost of telephone service will also rise.

Similar scenarios are occurring in nearly every part of the country. In the region of Tyumen, utility rates have risen 15 percent; in Irkutsk, 12 percent; in Tatarstan, 7 to 18 percent; and in the area surrounding Moscow, by 13.9 percent.

As prices have risen, the deplorable state of Russia's utility services has been fully on display. In St. Petersburg, for example, there is growing anger over the inability of both the city government and private management companies to properly clean streets and sweep snow off roofs. Several weeks of heavy snowfall have made many side streets and some major arteries virtually impassable to foot traffic, with conditions particularly difficult for the elderly and disabled. There have been numerous cases of individuals killed by icicles falling from rooftops that have not been cleaned.

Families are being persecuted for their inability to pay their utility bills. News reports have emerged of children being seized and placed in orphanages because their parents were unable to pay off debts on communal living services. *Novii Region* reports that, according to human rights specialists, utility companies see this as profitable for themselves because "one orphanage spends between 100,000 and 1,000,000 rubles, a large portion of which goes to pay for utilities."

The news agency tells the story of the Kuznetsov family in Moscow. In the fall of 2008, at the onset of the economic crisis, the father lost his job. A few months later, he found another position making one quarter of his previous wage.

On this miserly wage he had to support a wife and five children. Over the course of two years, he racked up a $6,666 utility bill. The service company asked that the child welfare agency take Kuznetsov's children out of the home until he is able to pay his bill. If he is unable to meet his obligations within five months, he will permanently lose all parental rights over his children.

Food prices have also risen significantly since the summer due to drought and speculation on world food markets. According to official state statistics, over the course of 2010 the cost of buckwheat increased by 193 percent, potatoes by 110 percent, cabbage by 108 percent, and millet by 77 percent. These items are staples in the Russian diet and basic sources of nutrition for working people and the poor.

Since January 1, food prices have continued to rise, with experts predicting a further 1.1 percent increase by the end of the month.

In a January 19 article, the liberal newspaper *Nezvasimaia Gazeta* reports that some economic experts anticipate an overall inflation rate of 12.7 to 13 percent for 2011. Such a high level of inflation would mean a significant reduction in real wages, despite repeated government claims that Russia has weathered the economic crisis and its citizens are en route to higher living standards.

Nervousness over the political consequences of the

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rising cost of utilities and other essentials prompted Prime Minister Vladimir Putin to hold a much-publicized meeting with representatives from the ruling United Russia (ER) party. Grandstanding for the benefit of the public, he announced that any party member serving in the government at the regional or local level who authorized utility rate hikes in excess of 15 percent would be kicked out of ER. Noting that 30 percent of all complaints sent to the government deal with the issue of communal living services, Putin sought to portray this move as tough action by the Kremlin to protect ordinary citizens.

Given that the majority of the utility rate hikes already announced this year are below 15 percent, Putin's threat is of little consequence. Furthermore, while the Kremlin has insisted the 15 percent limit is the policy of United Russia, it has not been officially implemented and no measures have been taken to make the ceiling legally binding. While local politicians might lose favor with the Kremlin and be used as scapegoats in the event of popular outrage over further utility rate hikes, prices can still rise.

As *Nezavisiamaia Gazeta* noted, many of the private management companies that charge for communal living services are closely tied to "municipal administrations, effectively serving as feeding troughs for local bureaucrats." Rate hikes are, in essence, a form of kickback to local utility providers in exchange for financial and political support.

At the same time that Putin announced his 15 percent "ceiling," the official government newspaper *Rossiskaia Gazeta* carried an interview with Moscow's new deputy for economic policy, Andrei Shronov, in which it was made clear that in the coming period the city will move to reduce subsidies for utility services.

Currently, residents pay for 77 percent of the total cost of communal living services in Moscow, while the city covers the rest. "If you subsidize everyone, the wealthiest win," said Shronov, insisting that shifting to a situation where 100 percent of utility costs are borne by residents is more just.

He maintained that only Moscow's better-off inhabitants would be forced, in future years, to shoulder the full burden of communal living services, indicating that subsidies would remain in place for the less fortunate.

There is no reason, however, that such claims should be believed, as a significant section of Russia's ruling elite is pushing for the scaling back of whatever remains of social spending in the name of fiscal discipline. Shronov's interview was intended as a trial balloon to gauge the public response to future rate hikes in the capital city.

Utility rate policy is a highly contentious political and economic issue in Russia. Despite the continual raising of rates over the course of several years, relative to world market prices Russians pay less than residents of other countries in Europe. Up to now, the energy sector has used its control over natural gas pipelines to purchase supplies cheaply from Central Asia, where key gas-producing states lack an alternate route to ship their supplies to market. This has allowed Russia to sell gas to local utility providers at below-market rates, while reselling the remainder to foreign countries at a higher price.

The government has relied on cheap natural gas to keep the cost of heat and electricity relatively low for Russian industry and ordinary citizens. If the utilities sector were to charge world market rates for energy, prices would skyrocket and likely provoke popular outrage.

Thus far, the Kremlin has avoided such a development. However, it is facing increasing pressure from global capital to reverse course. In particular, the World Trade Organization (WTO), which Russia is seeking to join, has objected to the subsidization of the domestic energy market. Moscow has thus far insisted that WTO rules on subsidies do not apply to this sector of the economy, but it may be forced to backtrack on the issue. Earlier this week, the Kremlin cut farm subsidies in half in order to meet the WTO demands.

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