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China steps into the sanctions trade hole to supply Russia
If we looked at the trade statistics, it is evident that unsanctioned goods continue to flow from Lithuania to Russia. And furthermore, trade with Russia continues to grow. Formally, it is legal but hugely amoral. Interestingly, the names of firms doing business with Russia cannot be made public due to the data protection provisions. It is preposterous,” Sigitas Besagirskas, president of the Vilnius Association of Industry and Business (VAIB), told bne IntelliNews.

Baltic companies have continued to trade extensively in unsanctioned goods with their giant neighbour Russia since President Vladimir Putin’s invasion of Ukraine, despite their governments’ staunch opposition to the Russian aggression.

But they are far from the worst performers in Europe. The Baltic states at least have the excuse of geography and deep trade ties dating from their time as part of the Soviet Union. Some European states far from Russia and without their historic links have actually increased trade with Russia since the invasion.

Only slightly more than half of the Lithuanian companies that export to Russia have cut their business ties there since Putin’s invasion of Ukraine, while some 260 continue exporting, according to Lithuanian public broadcaster LRT. The situation in Estonia and Latvia – which have also taken a very hawkish line on Moscow’s aggression – is similar.

In Lithuania trade turnover with Russia between January and November 2022 decreased by 31% year on year, exports shrank by 26.2% and imports plunged by 35.1%.

“If we looked at the trade statistics, it is evident that unsanctioned goods continue to flow from Lithuania to Russia. And furthermore, trade with Russia continues to grow”
Exports to Russia in January-October 2022 included substantially decreased exports of electrical appliances and equipment – by €42mn or 37%; decreased exports of machinery and appliances by €16mn or 10%. Meanwhile, exports of vegetable products rose significantly by €23mn, or doubled; exports of pharmaceutical products increased significantly by €21mn, or 28%; and there were higher exports of rubber and articles of rubber by €10mn, or 87%.

The Latvian ministry said that imports from Russia grew by €45mn in January-October 2022, or by 5% y/y.

By product group, the changes in import volumes from Russia in January-October 2022 included imports of mineral products by €324mn, or 61%; increased feed imports by €59mn, or 20 times; greater vegetable imports by €29mn, or 4 times. Meanwhile, there were significantly decreased imports of iron and steel by €319mn, or 73%, and decreased imports of iron and steel products by €27mn, or 54%.

In all, 55% of all imports from Russia in January-October 2022 were composed of mineral products, 8% iron and steel, 6% wood and its products, 4% feed and animal and vegetable fats, 4% for fertilisers and cereals, the ministry said.

Estonia’s Ministry of Economic Affairs and Communications did not respond to bne IntelliNews’ questions.

In terms of other countries, Besagirskas says in some cases their trade has actually increased since the Russian invasion.

“Slovenia clearly stands out in the picture – its trade with Russia, specifically imports, went up 350% in 2022 y/y; that of Luxembourg up by 250%. Really crazy. The Baltics are clearly in [the] minority of European nations in which imports and exports with Russia decreased last year,” the analyst underscored.

“I do not think Slovenia, all of a sudden, needs the massive amount of Russian goods. It is reselling them at a higher price to the other European Union nations...To me, the biggest price is moral, but it seems that few care about it,” Besagirskas added.

He says that, acting through intermediaries in these countries, increases the cost of goods by 10-15%.

Besagirskas told bne IntelliNews how he was approached last year by an Estonian company. “It proposed to bring sanctioned Belarusian granules into Lithuania. When I asked them straight if they intend to haul forbidden goods to Vilnius, the company representative replied: “Do not worry about it. Invoice will be issued by an Estonian company. This is the practice we have with many EU clients now,” Besagirskas said.

The Lithuanian Ministry of the Economy and Innovation told bne IntelliNews that trade or other business relations with Russia and Belarus are primarily a decision made by business companies themselves.

“It is up to them to assess their reputational and other risks associated with these countries. We believe that businesses should be conscious and willing to terminate such relationships themselves. We would support the idea of making a list of such companies public, as long as this does not conflict with data confidentiality and other legislative requirements, as this would bring more clarity to all,” the ministry’s public relations department said in a written reply, adding: “The ministry does not possess data on specific companies.”

For Latvia, the Public Relations Division of the Ministry of Economics said that the “economic impact of hostilities on Latvia is greater than average in the EU, as Latvia borders Russia and has historical links in economic co-operation”.

Exports to Russia decreased in January-October 2022 by €17mn, or 1.7% y/y.

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The economies of Central, Eastern, and Southeast Europe (CESEE) are showing resilience despite the conflict in Ukraine that caused a significant slowdown in economic activity, said the Vienna Institute for International Economic Studies (wiiw) in its Winter Forecast.

Across 23 countries from Central, Eastern, and Southeast Europe assessed by the institute, growth is expected to come in at just 0.1% this year.

However, wiiw noted that while growth will be significantly lower than in 2022 in almost all countries, only Russia, where GDP is expected to shrink by 3%, and Hungary (-1%), will experience a full-year contraction.

“While high inflation poses major problems for households and businesses, not for the first time we are seeing impressive resilience in the region,” said Richard Grieveson, deputy director of wiiw and lead author of the Winter Forecast.

“Putin’s strategy of using energy as a weapon has failed, not least because the Eastern Europeans have also been able to significantly reduce their gas consumption,” Grieveson argued.

wiiw believes that most countries of the region have “probably already digested” most of the economic shock caused by the Ukraine war, provided Russia does not escalate the conflict further.

“Provided that does not happen, growth in Eastern Europe should pick up again from the second half of the year ... But the biggest factor of uncertainty remains the war in Ukraine,” said Grieveson, according to a press release from wiiw on January 30.

The report also forecasts that inflation has most likely already peaked for most countries after inflation rates reached their highest levels in around 15 years — or in some cases since the 1990s — in 2022.

The institute forecasts average growth of 1% for the EU member states in the region. This growth is 0.8% higher compared to the euro area, which is expected to have a growth rate of only 0.2%.

There is a north-south divide among the EU members in the region, points out wiiw, as the economies of the Southeast European EU members are “proving quite resilient”, while the Visegrad countries will have an average growth of 0.6%.

Outside the EU, the Western Balkans will grow by 1.8%, while Turkey’s economy will have a stronger growth rate of 3%.

Ukraine’s economy is expected to recover slightly and grow by a modest 3% after the 30% contraction in 2022. Despite the improvement, the country still faces significant challenges and uncertainties due to the ongoing war and destruction of critical infrastructure, warns wiiw.

Russia’s bombing campaign has caused widespread damage and power cuts, raising production costs and affecting economic activity in the last quarter of 2022. As a result, Ukraine’s financing needs are expected to increase, with a projected budget deficit of 20% of GDP, said wiiw. This will require significant financial support from the West.

In Russia, wiiw believes that oil sanctions are working. The economic downturn in Russia gained momentum in the last quarter of 2022, though for the full year there was a GDP decline of only 2.5%, lower than the forecast of -3.5%.

Wiiw expects only Russia and Hungary (pictured) to experience an economic contraction in 2023.
In 2023, GDP is expected to decline further, mainly as a result of the partial mobilisation and reduced gas exports to Europe, along with new oil sanctions imposed by the West.

The EU oil embargo and price cap on Russian oil have forced the country to sell its oil at a huge discount. The price of Urals, Russia’s most important crude oil grade, dropped to USD 47 per barrel in the first four weeks after the measures took effect, representing a discount of 43% compared to North Sea Brent. This reduction in oil prices significantly lowers tax revenues, with 40% of the revenue coming from the energy sector where export duties on oil play a major role.

The sanctions put in place on 5 December are the most effective imposed so far,’ says Vasily Astrov, Russia expert at wiw, though he added that he believes they will have little impact on Putin’s ability to finance the war for now, as the gap will be financed through higher – but still bearable – budget deficits.

Wiw’s forecast contrasts with the latest update from the International Monetary Fund (IMF), which improved Russia’s GDP outlook for 2023 from 2.1% recession previously to 0.3% growth. ●

Wolt couriers in Tbilisi go on strike

Mack Tubridy in Tbilisi

On a typical Sunday afternoon, relative calm resides over Chavchavadze avenue in Tbilisi’s elite Vake neighbourhood, as people stroll along the wide, tree-lined sidewalks and pop in and out of boutique shops.

But on Sunday, February 5, the main street was flooded by a long convoy of honking scooters and motorcycles driven by Wolt couriers, who are highly visible because of their electric blue jackets and cube-shaped backpacks.

Just days earlier, Georgian couriers for the Helsinki-based food delivery company declared a strike. They demand higher wages and changes to how Wolt measures delivery distance. But another source of workers’ ire was the recent announcement by the company of a new remuneration system, which the couriers insist will lead to decreased earnings.

Striking couriers first gathered across from Rustaveli metro station in the city centre. Then they rode to Tbilisi State University’s library to show solidarity with taxi drivers, who on the same day were also protesting for better work conditions. Their final rallying point was outside Wolt Georgia’s headquarters in the Vake neighbourhood.

In front of the company’s local office the striking couriers stood scattered in groups, laughing, smoking, and some played games on their phones. A throng amassed next to a nearby convenience store, where couriers bought coffee and sandwiches.

Wolt delivery workers are not unionised. Those involved in the strike said they coordinated their action through a closed Facebook group.

Among the couriers present at the Sunday action was Vazili Demetradze, who told bne IntelliNews that he started delivering for Wolt after the bar where he used to work was closed because of COVID-19 restrictions.

“My wages at Wolt were fine before. It was also nice to choose my own work schedule. But last year my wages never went up, and rent prices have doubled,” said Demetradze.

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The cost of living in Tbilisi has risen dramatically over the past year, largely due to an influx of around 100,000 Russians fleeing the effects of war and mobilisation. Rent prices in Georgia's capital city were up more than 103% y/y as of December 2022, according to an analysis by TBC Capital.

Demetradze said he earns on average GEL 2.50 per order, or just under one dollar. With these kinds of wages, he barely manages to cover his monthly living expenses. Demetradze added that he would unlikely be able to afford the cost of fixing the scooter he uses for making deliveries were it to need repairs.

As with many gig economy workers, the couriers are not directly employed by Wolt. Instead, they are self-employed “partners,” as the company calls them. This means they do not receive the same kind of labour protections usually granted to workers in Georgia. It also means there are no formal channels through which to collectively negotiate better work conditions with Wolt.

The Tbilisi strike came less than a week after hundreds of Wolt couriers in Prague launched a one-day strike in response to the recent changes in how the company calculates payment for deliveries. According to those workers, the changes will lead to a 20% reduction in wages.

So far this year, Wolt couriers in Finland and Israel have also organised strikes. In 2022, similar actions were organised in Azerbaijan, Cyprus, Denmark, and Malta.

The February 5 strike is not the first of its kind in Georgia. Around 100 couriers for the delivery service Glovo launched a strike in March 2021 after the company abolished reimbursement for the distance couriers travel to reach a restaurant or store. At the time, the striking couriers pledged to form a union for gig economy workers.

Demetradze remembered past talks of organising a union, an idea that never materialised.

“I’m not sure what happened with all of that. People were interested. But today I see that there’s solidarity among us. That’s for sure,” he said.

Wolt Georgia said in a statement sent to bne IntelliNews that the company “respects the right of partner couriers to peacefully express their protest. However, the aggressive and offensive form that yesterday’s protest turned into is completely unacceptable to us.”

The company added that only “a small group of partner couriers” participated in the strike, claiming they used “physical and psychological pressure” against workers who did not want to participate.

“We encourage everyone to have a constructive dialogue, and the management is ready to listen to all the issues that concern our partner couriers in a dialogue format,” said the company.

Wolt did not specify what behaviour exhibited by striking couriers on February 5 it considered “aggressive” and “offensive.”

Regarding workers’ demands for better pay, Wolt argued that the new remuneration system “will more fairly calculate the amount of delivery compensation based on performance efforts, which will positively affect the earnings of partner couriers.”

In response, workers announced another strike for February 15, to take place in front of Georgia’s Public Defender’s office in Tbilisi. They are also threatening Wolt with legal action.

Wolt was founded in 2014 in Finland and today operates in 27 countries. Last year, the U.S. food delivery company DoorDash acquired Wolt for $3.5bn.
Kazakhstan, UK company in legal fight over asset transfer from ex-president Nazarbayev’s foundation

bne IntelliNews

Kazakh prosecutors have initiated legal proceedings to cancel the transfer of the ownership of First Heartland Jusan Bank, the sixth-largest bank in Kazakhstan, from a non-profit foundation established by former president Nursultan Nazarbayev to British company Jusan Technologies.

The prosecutors allege that the transfer endangers the public interest. In response, Jusan Technologies’ parent company, Jysan Holding, has filed a lawsuit in a US federal district court against the Kazakh government, accusing it of intimidation and attempting to take control of the company’s assets in Kazakhstan worth over $1.5bn for its own benefit and that of associated individuals.

The lawsuit claims that Kazakhstan has tried to wrongfully seize the assets of Jysan Holding, New Generation Foundation and its direct and indirect subsidiaries by means of threats, intimidation, investigations, litigation, asset freezes and the blocking of $387mn in dividends. The suit details an alleged history of corruption and intimidation mounted by Kazakh government agencies against Nevada and English entities, further alleging that the conduct against the Jusan Group represents a timeworn tactic used against the international investor community. The lawsuit seeks injunctive and declaratory relief, as well as compensatory and punitive damages for the defendants’ illegal conduct.

The move to stop the transfer of Jusan Bank will be represented by the Kazakh government as the latest step in President Kassym-Jomart Tokayev’s campaign to root out crony capitalism, as explained by Eurasianet.

The Nazarbayev Foundation acquired Jusan Bank in 2019 following a bailout by the state. Prosecutors said the foundation asked them to investigate the case this month, describing the transfer to Jusan Technologies as a result of illegal actions by several entities.

Last year, six members of the Kazakh parliament, including four from the ruling Amanat party, challenged the government on how it plans to return billions of dollars given to Jusan Bank, the Organised Crime and Corruption Reporting Project (OCCRP) reported.

Based on financial statements of Jusan Bank, the lawmakers concluded that the bank received around $3.9bn from the state budget between 2017-2019 on “preferential terms” and then modified its obligations to the state. The lawmakers wrote in a request submitted to the prime minister that the bank converted about $907mn from “highly profitable deposits” to “long-term obligations with meagre profitability”.

As such, the bank was said to have profited by around $275mn and paid $250mn in dividends to shareholders. The lawmakers asked the prime minister to analyse the efficiency of the state aid provided to Jusan Bank within the past five years and to develop a plan on returning the money to the state budget.

Jusan Bank’s then PR director Olegzhan Beketayev has claimed that the bank’s profits go to Nazarbayev University and the Nazarbayev Intellectual Schools. Beketayev’s claims cannot be independently confirmed due to the university, the schools and the Nazarbayev Foundation, run by former education minister Aslan Sarinjipov, never having published their financial statements and reports.

Former president Nursultan Nazarbayev’s foundation acquired Jusan Bank in 2019 following a bailout by the state. / cc
Russia’s war in Ukraine has distorted global trade routes

Russia’s invasion of Ukraine and related sanctions have distorted trade routes across Europe and Asia. Ukraine was forced to find new export routes for its grain after its Black Sea ports were blockaded. China and other Far Eastern exporters that previously sent goods via Russia’s railways to Europe are looking for alternative routes not compromised by sanctions. European countries are importing gas from Azerbaijan and North Africa, and liquefied natural gas (LNG) from the US, as they seek to fully free themselves from dependence on Russia.

For Russia itself, sanctions have necessitated finding new sources of imports, especially those critical for its manufacturing industries, as well as a pivot to Asia, in particular China, after European sanctions restricted its Westward oil and gas exports.

Ukraine finds new grain export routes
Right at the start of the invasion, alongside the movement of troops overland into Ukraine, Russia dispatched its navy to blockade Odesa and other Ukrainian Black Sea ports. That prevented the transport of grain from Ukraine, in normal years one of the world’s top grain exporters, not only restricting Ukraine’s ability to earn export revenues but also sparking fears of food shortages, especially in the Middle East and North Africa.

Sympathetic to Ukraine’s plight, friendly nations in Central and Southeast Europe were quick to offer their own ports to get Ukraine’s grain to international markets, a lifeline for Kyiv until the Black Sea Grain Initiative that allowed maritime exports was brokered by Turkey and the UN.

By last summer it was reported that the flow of merchandise through Romania’s Port of Constanta had tripled since the war in Ukraine started. Steps taken to facilitate exports from Ukraine included repairing a railway line compatible with the wider-gauge trains used in Moldova and Ukraine from the Moldovan port of Giurgiulesti to the Romanian port of Galati on the Danube. That has meant freight trains coming from Ukraine through Moldova no longer have to be reloaded at the border between Moldova and Romania.

However, while the Romanian government sought to help Ukraine’s exporters access international markets, local exporters complained that opening Romanian ports to Ukrainian companies was causing problems for them, by putting pressure on the capacity of the ports. In mid-2022, trucks were reportedly waiting in queues of over 30 km to unload their containers at Constanta.

Further north there were also reports of trucks backed up for miles at border checkpoints between Ukraine and Poland and other Central European countries. In response, Poland doubled the number of access points for trucks on its border with Ukraine in June. Michał Dworczyk, the Polish prime minister’s chief of staff, told a press conference in June this was intended both to help Ukraine and to benefit Poland by increasing transit trade. New rail terminals have also been added.

Road freight transportation between Slovakia and Ukraine used to be modest, as the two countries have only a short shared border with a small number of crossings. “The Russian aggression in Ukraine caused a significant increase in the transported volumes and a change in the composition of traded categories,” says a recent comment from think-tank GlobSec. “As the threat of attack from the east continues to loom and Ukraine becomes more integrated with the European market, the exchange of goods between Slovakia and Ukraine will continue to grow.” Now Slovakia wants to build a motorway connection with Ukraine in anticipation of future trade.

Meanwhile, the EU is building up the Paths of Solidarity initiative, which has allowed the export of 15mn tonnes of agricultural products as well as non-agricultural Ukrainian goods, and enabled the war-torn country to import what it needs, such as fuel and humanitarian assistance. The European Commission has described the initiative as “the lifeline of Ukraine’s economy”, bringing in more than €15bn of much-needed income to Ukrainian farmers and businesses.

Russia turns East
Russia’s trade has shifted dramatically Eastwards after Western countries imposed sanctions.

Amid confusion over the impact of sanctions, trade with China briefly dipped in the spring, but has since rapidly
bounced back. In 2022, China overtook Europe to become Russia’s top trading partner. Russia’s bilateral trade with China in 2021 reached $141bn, of which Russian exports to China amounted to $68bn, but trade volumes are believed to have grown sharply during 2022.

Russia had already been working on reorienting its hydrocarbons exports eastwards, as demand for gas and oil from East Asia was expected to continue to grow in the coming decades, while the green revolution will eventually lead to an end to Europe’s dependence on fossil fuels. As early as 2014, Russia and China signed a contract on the delivery of 38bn cubic metres of gas per year via the Power of Siberia pipeline.

The sanctions accelerated that process. Following its invasion of Ukraine, Russia slashed pipeline deliveries of natural gas to the European Union by more than half – cutting off some countries such as Bulgaria entirely – and the International Energy Agency (IEA) warned in a recent report that Russia could send as little as 25 bcm this year.

Conversely, China is critical to Russia’s plan to increase gas shipments to Asia following the loss of most of its market share in Europe. In January, Russia and China signed an intergovernmental agreement on pipeline gas deliveries via the Far East. The agreement sets out the key parameters for a 10 bcm per year gas supply contract that they clinched in February 2022.

Moscow and Beijing are also discussing a 50 bcm per year contract to underpin the construction of Power of Siberia 2, which would run from the Russian Arctic to China through Mongolia. It would supply gas from fields that until recently served the European market. The Far Eastern supplies would come from Gazprom-operated fields off the coast of Sakhalin Island.

Parallel imports
Russia also worked hard to secure new sources of imports after being cut off from European exporters for a wide variety of goods. Russian firms have found new suppliers in Asia, or alternatively have managed to get around the sanctions by using parallel import schemes, as bne IntelliNews reported in November.

Back in April 2022 Russia approved so-called “parallel imports” or “grey imports” to maintain supply chains. That means importing products without the permission of the copyright owner.

China became the main contributor to the recovery in Russian imports, increasing its deliveries by 21% year on year as of September, but other suppliers such as Turkey, Azerbaijan and Belarus also came to the fore. Many of the more sophisticated products like semiconductors and high-quality machinery are still missing, but consumer goods and basic agricultural and industrial inputs have mostly reappeared.

Meanwhile, Russia’s partners in the Eurasian Economic Union (EAEU) hiked exports to Russia by 70% y/y in the first seven months of 2022, according to BCS GM. There are reports that some of Russia’s trade partners in the bloc – Armenia, Belarus, Kazakhstan and Kyrgyzstan – are simply rerouting supplies through these countries or local traders are taking advantage of the parallel import schemes to send hard to find goods to Russia. By end 2022, Russia-EAEU trade is anticipated to reach $127.2bn, up by $54.59bn y/y.

Kyrgyzstan, for example, has more than doubled its exports to Russia since the start of the war, while its imports from China have almost tripled, reported RFE/RL. While the data is incomplete, the hike in trade appears to be linked to re-exporting. Temir Shabdanaliev, head of the Association of Carriers and Logisticians of the Kyrgyz Republic, told RFE/RL that goods from Europe that were previously sent to Russia are now registered as deliveries to Kyrgyzstan and Kazakhstan, but immediately dispatched to Russia after unloading. This could, however, be problematic for Kyrgyzstan, which risks being targeted by secondary sanctions.

European politicians are already getting suspicious. Krisjanis Karins, Prime Minister of noted Russia-hawk Latvia, warned on February 4 that traders were using Turkey, Kazakhstan and Armenia to evade EU sanctions on Russia. The three countries’ sanctions-busting trade is breaching their compliance with EU trade embargoes on Russia, said Karins.

“IT seems quite clear that traders are finding ways to legally trade goods, say with Turkey, Kazakhstan or Armenia, which are then resent to Russia, because these countries are not adhering to the sanctions regime”, Karins told reporters in the Estonian capital Tallinn, as reported by Reuters.

Turkey the big winner
Turkey, in particular, has been a big winner from the sanction’s regime. Bilateral trade with Russia in 2021 amounted to about $90bn, with around $23bn of this being Russian exports to Turkey. As well as the high level of energy trade between the two countries, Russia’s need for parallel imports is also driving up bilateral trade.
Few countries have a more advantageous geographical position in geopolitical affairs than Turkey. And few leaders know how to exploit the inherent opportunities better than the country’s leader of two decades, Recep Tayyip Erdogan.

Since Russia invaded Ukraine, Erdogan has hardly missed a beat in exploiting the opportunities offered by both the West and the Kremlin, knowing that with Turkey located at the crossroads of Europe, Asia and the Middle East, none of the major powers dare lose Ankara as an ally.

Nevertheless, there has been at least some pushback from Europe and the US at some of Erdogan’s more flagrant breaches of the spirit and letter of the economic backlash against Russia’s waging of war. Senior US officials visited Turkey in both October last year and late January to turn the screw on Erdogan over Ankara’s growing trade co-operation with Moscow, in both imports and exports. It’s clear the Erdogan administration is busting numerous sanctions, but Washington remains too polite to say it out loud.

The latest suspect scheme put forward by Vladimir Putin and Erdogan is to turn Turkey – linked by several pipeline strands to Russia – into a regional gas hub. How will Europe know that the gas it gets out of this hub is not Russian in origin rather than, for instance, Azerbaijani or Qatari LNG?

Another winner from the sanctions is Azerbaijan, which has also been playing both sides of the field, signing new gas deals with European Commission President Ursula von der Leyen on the one hand but boosting exports to Russia on the other.

Meanwhile, countries like Iran, China and India are seeking to strengthen trade turnover by pushing the International North-South Transport Corridor (INSTC) project for a better connection via a multimodal transport network that spans rail, road and sea. International experts say this project could become an alternative to the Mediterranean-Suez Canal route that would allow Russia to bypass waters dominated by its Western rivals.

The Middle Corridor

With China-Europe cargo forwarders looking to offer businesses the option of freight routes that avoid Russia, Turkey and other countries in the region are keen to help equip and build up the Middle Corridor, officially the Trans-Caspian International Transport Route (TITR) – connecting East Asia to Europe via Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and Turkey.

For non-combatants, the challenge has been getting trade around Russia, the biggest country in the world, and with railways linking Europe and Asia. This has benefited countries in Central Asia (chiefly Kazakhstan) and the South Caucasus that have long held ambitions to create a complementary route across their territory with much talk of a new Silk Road.

As reported by bne IntelliNews in 2022, cargo dispatchers in China faced with sending goods to Europe via either Russian or Kazakh territory are increasingly opting for the latter. Volumes dispatched via Kazakh railways are booming, as is transport via Aktau and other Caspian seaports. The head of the Aktau Sea commercial port, Abai Turikpenbayev, forecast in mid-2022 that the volume on the TITR would increase sixfold during the year to up to 3.2mn tonnes.

Moreover, there is a new impetus to develop long-discussed routes westwards out of China, including the China-Kyrgyzstan-Uzbekistan (CKU) railway.

From fertiliser to coal at the Baltic ports

As trade between the EU and Russia slumps, there has been a dramatic fall in the cargo transported to and from Russia and Belarus via the main Baltic ports. Yet data provided by the main ports – Riga in Latvia, Klaipeda in Lithuania and Tallinn in Estonia – shows this has to a great extent been compensated for by other traffic.

Algis Latakas, CEO of the Klaipeda State Seaport Authority that manages the Port of Klaipeda, said in November that although the Klaipeda port was predicting a gloomy 2022 with a drop of up to 35% in cargo turnover, the year turned out much better: the general cargo handling volumes in the Port of Klaipeda in 2022 fell by only 19.7% during 10 months of 2022 y/y, to 30.02mn tonnes.

For many years, Belarusian fertiliser cargoes have made up a significant part of the port’s cargo turnover. In 2021, Belarusian fertiliser cargo accounted for 32% of total transport by volume, while Russian, Ukrainian and Chinese cargoes accounted for around 8% more. In 2022, however, Belarusian cargoes comprised just a mere 11-12% of the total cargo transported through the port. With the start of the war in Ukraine in late February 2022 and the subsequent sanction packages against Russia, those transit cargoes just disappeared.

The Port of Riga recorded an increased container cargo volume with 460,700 TEUs in 2022, a record-high cargo turnover rate, exceeding the previous year’s result by 16%, and transshipped 326,000 TEUs, which is the highest annual turnover in its history.

Importantly, in 2022, coal transportation returned to the port of Riga, and with a turnover of 5.2mn tonnes, it formed the second-largest group of handled cargo. Compared to the previous year, when coal transshipment in the port of Riga had practically stopped, in 2022 the flow of coal increased 4.6 times. Instead of Russian coal transit, coal from Kazakhstan, Africa, Australia, Indonesia and other coal-mining countries is currently being handled at the port.

In 2022, the Port of Tallinn saw 18mn tonnes of cargo pass through the port, a 21% decrease y/y, due to the implementation of sanctions on Russian and Belarusian cargo. However, the decline in liquid bulk and dry bulk
volumes due to sanctions was somewhat offset by growth in all other cargo types, the port said.

**New natural gas routes**
Sanctions and fears of a Russian decision to sever supplies have led Central and Southeast European countries to intensify their search for alternative suppliers of natural gas, with many alighting on Azerbaijan. The country had long been seen as an important supplier via the Southern Gas Corridor (SGC), an ambitious project launched long before the war began to diversify Europe’s gas supply away from Russia.

Azerbaijan already supplies some of Southern Europe through the Trans-Adriatic Pipeline (TAP), but since the start of the war, several Southeast European countries have started investing into new interconnections with their neighbours to enable them to tap into supplies of gas from Azerbaijan. Most recently, Bulgaria started the construction of a new gas link with Serbia with capacity of up to 1.8 bcm a year will help increase energy security and diversify gas supplies, while North Macedonia is working on plans for a gas interconnector with Greece.

At the same time, in 2022 EU became the world leader in LNG imports, overtaking China, Japan and South Korea, according to data from consultancy Refinitiv.

During the year, EU countries expanded LNG purchases by 58%, up to 101mn tonnes, equivalent to 137 bcm of natural gas, slightly less than the 155 bcm Russia delivered to the EU in 2021.

Earlier the IEA reported that Russian sent slightly more than 100 bcm of gas to the EU in 2022, and after the explosions appeared to have caused leaks in the two main Nord Stream gas pipelines on September 26 last year, the total piped gas deliveries to the EU are anticipated to fall to between 50 bcm and 60 bcm, almost exclusively via Turkey and Ukraine.

Germany remains the largest market for natural gas in Europe and until recently had Russia as its largest supplier. This position is now held by Norway, which has ramped up pipe gas supply to the country over recent months. Germany has rushed into operation five floating LNG (FLNG) terminals and is currently building its first onshore terminal, which could come into operation by this coming winter.

**Battle over Ukrainian grain terminal demonstrates challenges post-war foreign investors will face**

**Dominic Culverwell in London**

A vicious corporate dispute has erupted in Ukraine between Argentem Creek Partners (ACP), a US hedge fund, and the Ukrainian GNT Group, which operates a grain port terminal in Odesa participating in Ukraine’s critical Grain Corridor Initiative.

At the heart of the dispute are thousands of tonnes of missing grain that Argentem believes was liquidated without any notice to investors by Serhii Hroza and Volodymyr Naumenko, the co-owners of GNT and terminal operator Olimpex Coupe.

In addition, Argentem claims that GNT owes it more than $117mn with interest after more than 12 months of not servicing a loan, as well as $20mn to US-based creditor Innovatus Structured Trade Finance.

In an exclusive interview with bne IntelliNews, John Patton, Managing Director and Portfolio Manager at Argentem, said that Ukraine’s reputation could be damaged if ACP fails to win the case. With investors eyeing up Ukraine as the embattled country attempts to secure funding for post-war reconstruction, the government’s reaction to the lawsuit could affect future financial support, he argues.
GNT has not responded to bne IntelliNews’ request for comment.

Back in December 2019, GNT took out a $75mn loan from Argentem and a $20mn loan from Innovatus. Patton said he admired the hard-working entrepreneurs who established the business during Ukraine’s turbulent mid-90s and he was happy to invest.

But by December 2021, GNT said they were unable to pay back the loan due to the fallout from the COVID-19 pandemic, leading to discussions with Argentem about restructuring.

Following Russia's full-scale invasion of Ukraine in February 2022, GNT was once again unable to pay its debts, with Argentem agreeing to extend payments.

In August 2022, GNT revealed to Argentem that the pre-war inventory previously worth $130m was now down to a negative $7mn. ACP was suspicious, claiming that no credible reason was given for the gargantuan losses.

Following concerns over lack of transparency and misgovernance, Argentum sued Hroza and Naumenko in the UK's High Court, which ordered the seizure of assets worth $118mn held by the co-owners.

The UK court granted a worldwide freezing order in favour of Madison Pacific as security trustee, which took control of the shares of the top holding company, GN Terminals Ltd, based in Cyprus, under the direction of Argentem and Innovatus.

Madison Pacific installed directors in GNT as well as its subsidiaries in the UAE (GNT Trade DMCC and Black Sea Commodities) and in Switzerland (Omega Terminals SA). However, despite taking control of the shares and the board, Argentum and Innovatus have yet to take over operational control of the terminal itself.

GNT have denounced the accusations and claim it is willing to repay the loan to both ACP and Innovatus in “any civilised manner”. They fired back at Argentem, accusing Patton of initiating a “hostile takeover”, even going so far as to say that the company is damaging Ukraine’s international reputation and disrupting grain shipments under the grain corridor, as the terminal is responsible for transporting 8.5% of Ukraine’s total agricultural exports.

“An attempt to block the grain terminal’s operations in the port threatens the grain corridor’s operation and, accordingly, Ukraine’s performance of its international food security commitments,” Volodymyr Naumenko said in an interview with Ukrainian news outlet Censor.net.

Patton batted away GNT’s allegations as a “disinformation campaign” and noted that the company had not blocked the directorship changes, despite undertaking several “aggressive steps”. He argues that GNT is “illegally occupying the terminal and inland silos”, saying that “the dispute will last until they hand over operational control”, or “repay the loan facilities”.

His main grievance with the company is what he perceives as lack of transparency coupled with serious failings in governance. Despite requests for information regarding finances in 2021 and 2022, he says GNT hasn’t provided anything verifiable.

“The problem here is that GNT ultimately decided to dispose of a huge amount of inventory in a period of time without reference to the board and without discussing it with the people that some of that inventory was pledged to. They didn’t ask and they didn’t approach. They didn’t even allow them to inspect their inventory,” Patton stated.

“After 14 months of this kind of treatment, we reached a point where we had no information and no transparency. There’s no governance; that’s just not a situation we can continue with,” he added.

In his defence, Hroza claims that Olimpex, which manages the terminal, notified Innovatus on February 25 that it would be impossible to store grain securely and ensure quality due to the lack of capacity for long-term grain storage and the inability to rotate cargo due to missile strikes.

At the same time, access to the storage facilities was prohibited due to war. Once restrictions were lifted, Naumenko said there were no inspection requests from Innovatus.

“All the rest are unsubstantiated claims that the creditors’ inspectors cannot gain access to storage facilities,” Naumenko told Censor.Net.

“We invite creditors and all stakeholders to come in person to make sure that the grain is available at the terminal’s storage facilities at all times,” he added.
Concerns over clarity and transparency

Patton said he noticed problems with the group early on. Difficulties arose when the group allegedly refused to enact agreements, including transferring the CEO to chairman and appointing a new professional CEO instead.

Moreover, he claims the board of directors wasn’t given enough information and was often asked simply to validate decisions rather than making them, leading Argentem to hire third-party consultants on several occasions to provide information to enable better decision making.

Although operations seemed to run smoothly during the first half of the second year, there were soon concerns over clarity and transparency.

“As we approached maturity, it became less and less clear, and after the war started there was no transparency,” Patton said.

Argentem and GNT discussed an extension, but the Ukrainian company allegedly refused to follow the credit fund’s guidelines and disregarded the implementation of a business plan and an audit. According to Patton, GNT felt they didn’t need to follow any of the typical checks due to the war.

GNT argues on its website that it has been transparent all along and was “audited by international firms regularly”, with Ziff-Ivin Associates Ltd conducting quarterly reports since 2020 on the demand of Argentem. Over the summer, the board of directors, made up of Argentem’s appointees, invited Ziff-Ivin Associates to conduct an annual audit, which GNT claims was not necessary on top of the quarterly audits.

“They apparently cleaned out thousands of tonnes of grain when there was a military lockdown of the port. There’s a lot of pieces that don’t quite fit together”

“All [ACP’s] statements for the media are vague phrases about our lack of transparency. The creditors do not offer sound arguments. Their aggressive modus operandi took us by surprise because it was absolutely unnecessary,” Hroza told Censor.net.

However, Ziff-Ivin emailed bne IntelliNews after this article was first published to say that they only provided financial analyses to the creditors. It added that: “GNT’s management have not provided audited statements for 2021 or later periods, it refused timely access to creditors-appointed grain inspectors and never provided documentary evidence showing what happened to the $130 million of lost inventory.”
Patton said that GNT also tried to push through a report in the October board meeting, which was created by a third party Argentem had paid for, but there was no information to back it up. At that point, Patton said Argentem knew it was not going to get any information.

“We know they were trading in 2022 when they were telling creditors they weren’t,” Patton said. “They sold sunflower seeds at a $41mn loss to a company called Sunolta, and soon after we can see that Sunolta begins trading with GNT in sunflower oil.”

“In terms of asset dissipation, after enforcement proceedings began in December, we detected they were dissipating assets. For example, the ownership of silos inside Ukraine were transferred to an entity in Switzerland, controlled by GNT Group’s CFO, Dusan Denic,” he added.

Reputational risks
Argentem will continue with the enforcement process and Patton says the firm will take over and operate the terminal in a “transparent and high-governance way”. He stressed that Argentem is “absolutely not impacting” the grain deal, and insisted that ACP has been given little choice but to take action.

“We’re a professional investment firm investing third party funds. We weren’t in a position to allow these guys to pilfer the inventory if that is what was happening,” he said.

When it comes to Ukraine’s international reputation, Argentem says it has received support from the government, despite GNT Group’s employees sending a letter to Ukrainian President Volodymyr Zelenskiy warning of “reputational risks”.

“What damages Ukraine is when owners act with impunity and without regard for all stakeholders. What doesn’t damage Ukraine is enforcing in those situations,” he stated. “I think it will be damaging to Ukraine if those things prevail and we don’t prevail,” he added.

According to GNT, state authorities want to mediate the conflict. The company says they are willing to participate, although have fired out claims that ACP and Innovatus have not shown the same level of willingness.

Patton believes Argentem will succeed in the case and stated that the company will continue to invest in Ukraine. If the government is in their favour, he foresees other investors also continuing to invest in the war-torn country, which is desperately seeking funds to help its $700bn reconstruction process.

Certainly, investors have been eagerly eyeballing Ukraine’s post-war potential, with BlackRock CEO Larry Fink telling the World Economic Forum in Davos that Ukraine “can be a beacon to the rest of the world about the power of capitalism”.

The European Union is conscious that lack of transparency will hinder the reconstruction process and has made sure that transparency and judicial reforms are part of the requirements Ukraine must meet in order to achieve EU accession. Kyiv seems to be trying to follow this path, eager to prove to the bloc that it’s taking these issues seriously, with Zelenskiy cracking down on dubious government figures over the past few weeks.

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Business group expects earthquakes to cost Turkey $84bn and wipe $10bn from GDP

Akin Nazli in Belgrade

Turkey’s earthquake disaster looks set to cost the country’s economy $84bn and cause the nation a death toll in excess of 72,000, according to the assessments of a business group, the Turkish Enterprise and Business Confederation (Turkonfed), which represents more than 50,000 companies. Turkonfed made the predictions on the impact of the February 6 earthquakes in a report released on February 12. By the evening of February 12, 29,605 earthquake deaths had been recorded in southern Turkey and 3,574 in northern Syria. Experts say the survival rate of people trapped after an earthquake is 74% within 24 hours but just 6% by the fifth day.

As regards the Turkonfed estimates, two warnings: firstly, bne IntelliNews has often maintained that Turkey’s statistical bodies have long been producing macro data sets that are totally inaccurate, and, secondly, there has to be real concern that given the scale of the disaster, the dead bodies of many people killed by the quakes will be just swept away with the debris. They will be recorded as “missing.” Unregistered migrants in the region are an even more complicated case.

There are far too many observers, including news services that need to focus harder on what the “G” in “GDP” refers to, who take Turkey’s macro data much too seriously. So much enthusiasm for highly dubious figures that make it on to paper and into headlines, perhaps not enough attention to the real costs, the realities people face, out there.

Turfonfed’s report holds that Turkey’s August 17, 1999 Izmit earthquake cost 18,373 lives and economic damage of $17bn, based on the exchange rates at that time.

www.bne.eu
For what they’re worth, the figures on the consequences of last week’s disaster come via comparisons with the August 17 quake. So they take us to the conclusion that the catastrophe will hit Turkey’s economy to the tune of $84bn, with $74mn of that attributed to building losses and $10bn of GDP losses.

Turkey reported GDP of around $800bn for 2021. It is expected to report a figure of around $800-850bn for 2023. Thus, based on the Turkonfed figures, the earthquakes will erase somewhere between 1% to 2% from GDP.

Another conclusion of Turkonfed is that the exports of the 10 provinces hit by the earthquakes will fall to below $15bn due to the wrecked Iskenderun port, which was on fire for several days after the disaster struck.

The region exported $22bn of goods in 2022. A loss of around $7bn is consequently expected, representing a 3% share of Turkey’s overall exports of $254bn in 2022.

Export revenues of the provinces hit by earthquakes, 2022

<table>
<thead>
<tr>
<th>USD thousand</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>254,171,899 100%</td>
</tr>
<tr>
<td>Earthquake region</td>
<td>21,570,652 8.49%</td>
</tr>
<tr>
<td>Gaziantep</td>
<td>11,196,596 4.41%</td>
</tr>
<tr>
<td>Hatay</td>
<td>4,067,430 1.60%</td>
</tr>
<tr>
<td>Adana</td>
<td>3,116,961 1.23%</td>
</tr>
<tr>
<td>Kahramanmaras</td>
<td>1,411,709 0.56%</td>
</tr>
<tr>
<td>Malatya</td>
<td>456,234 0.18%</td>
</tr>
<tr>
<td>Diyarbakir</td>
<td>422,054 0.17%</td>
</tr>
<tr>
<td>Elazig</td>
<td>366,888 0.14%</td>
</tr>
<tr>
<td>Sanliurfa</td>
<td>313,082 0.12%</td>
</tr>
<tr>
<td>Kilis</td>
<td>122,433 0.05%</td>
</tr>
<tr>
<td>Adiyaman</td>
<td>97,263 0.04%</td>
</tr>
</tbody>
</table>

TURKONFED expects Turkey’s budget deficit will rise to 5.4% of GDP. The government has been targeting a 2023 deficit of Turkish lira (TRY) 660bn, equal to around 3.4% of the TRY 18 trillion GDP target.

With Bloomberg HT suggesting that earthquake expenditures will equal 5.5% of GDP, Turkonfed, as a result, expects a 5.4% budget deficit.

Perhaps more meaningful are the earthquake-damaged infrastructure items listed by Turkonfed:

**Transport**
- Hatay Airport
- Hatay – Reyhanli road
- Gaziantep road
- Hatay road
- Gaziantep – Osmaniye road
- Adiyaman – Celikhan road
- Many roads to towns and villages

**Electricity**
- Collapsed power distribution units.
- Grids totally destroyed in some localities.
- Main distribution facilities and lines partly repaired but intracity lines in towns and cities remain wiped out.

**Natural gas**
- Pipelines exploded.
- Gas flows to Antep, Hatay and Maras were cut.
- Main lines were damaged or split. Repaired parts were split again by aftershocks.

**Oil pipeline**
- Ceyhan terminal, which loads oil that flows through the Baku-Tbilisi-Ceyhan and Kirkuk-Yumurtalik pipeline into vessels, was shut down for an audit of any possible damages. No damage was observed.

**Communication**
- Communication services in the region, which hosts a total of 12mn mobile subscribers, were not totally shut down but very serious disruptions were experienced.
- A total of 2,451 base stations collapsed.
- Very serious disruptions continue.

**Hospitals**
- Iskenderun State Hospital, which received a negative report on its earthquake resistance in 2012, collapsed.
- Hatay City Hospital collapsed along with many private hospitals.
- No exact figures have been reported on the number of collapsed hospitals.

**Schools**
- No official information has been released on the number of collapsed schools.

![Image of a fire at a port with smoke rising into the sky.](image-url)
Geopolitics overshadows Western Balkan nearshoring ambitions

Clare Nuttall in Glasgow

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during the pandemic the Western Balkans was pegged as having the potential to become an important destination for nearshoring as people rethought and shortened their supply chains. Two years on, the war in Ukraine and not the pandemic dominates headlines and has caused a whole new set of disruptions to global trade as well as a global economic downturn.

So where does this leave the Western Balkan states longing for a boost to foreign direct investment (FDI)? The region’s economies, like others in Europe and worldwide, have been damaged by the war, sanctions and rampant inflation. Yet data so far shows there was an increase in investment in the region in 2022 — with the glaring exception of Serbia, which has refused to join international sanctions on Russia, with negative consequences for its reputation in the West and its EU accession prospects.

Nearhoring dreams

After the pandemic revealed the vulnerability of international supply chains, companies in Europe started rethinking their strategies to look at manufacturing destinations closer to home, rather than relying on far-flung suppliers in East Asia. With the start of the pandemic, links in international supply chains were abruptly severed, and this followed on from the protectionist policies in some key world economies in the years before the pandemic that appeared to signal a slowdown or even a reversal in the longstanding globalisation trend.

This was seen as creating opportunities for the Western Balkans: the six EU-aspiring states are geographically and culturally close to the Central and West European countries but with considerably lower costs, as pointed out in two separate studies from 2021. (Both studies did, however, stress that to attract potentially billions of euros in FDI, the Western Balkans needs to make reforms.)

This was a welcome development for the region, where countries such as Bosnia & Herzegovina, North Macedonia and Serbia in particular had received a series of investments in sectors such as textiles and car parts production, strongly encouraged with subsidies and other incentives.

A year and a half later, full data from 2022 isn’t available yet, but data for the first three quarters of the year from most countries indicates a rebound in investment. Branimir Jovanovic, economist at the Vienna Institute for International Economic Studies (wiiw), says that the data gives “very strong indications that some nearshoring is going on in the region”.

North Macedonia, for instance, saw investments double in the first three quarters of 2022 compared to the same period in 2021, while in several other countries it has risen by around 30-50%. That comes on top of the very strong inflows in 2021.

Jovanovic does, however, say it’s rather early to say to what extent this is nearshoring or just pent-up investment from the pandemic years. After barely three years since the pandemic began, companies have had little time to make and carry out investment decisions. And as he points out, companies are more likely to enter the region for greenfield investments rather than relocate existing production facilities.

“We won’t see many companies moving factories because it’s costly; they have fixed investments, sunk costs,” comments Jovanovic. “We do expect to see in future Western companies deciding to invest more in the Western Balkans, North Africa and Eastern Europe, rather than in East Asia.”

Yesterday’s buzzword

Despite these encouraging figures, the invasion of Ukraine shifted the emphasis from investing in nearby countries to investing into friendly countries with shared values. “Nearshoring is the story of the past. Friendshoring is the new trend,” says Jovanovic.

The Ukraine war has not only had a massive impact on international trade and investment, with the related sanctions, commodity shortages and inflation now causing economies to slow, but also on international geopolitics. Natalia Otel Belan, regional director for Europe and Eurasia at the Center for International Private Enterprise (CIPE), says investment destinations are now viewed in the context of the “global fight between autocracy and democracy”.

“We do expect to see in future Western companies deciding to invest more in the Western Balkans, North Africa and Eastern Europe, rather than in East Asia”
optimism globally, including in the Western Balkans, that economies were coming back to normal speed and there would be a pick-up in economic growth. But the war in Ukraine changed everything. It’s made everybody’s calculations for politics, economics and trade completely different,” says Belan.

She believes that going forward, the Western Balkan region risks being sidelined as Ukraine has become the top priority for the West, with the “attention of EU policymakers and investors away from the Western Balkans”.

“Priorities have absolutely changed. It’s now all about Ukraine, so it is much harder for this region to make a case for why the Western Balkans matters,” she says.

This is despite an awareness among EU policymakers that if they don’t pay enough attention to the Western Balkans, the region could “fall prey to malign forces – Russia continues to meddle all around through its proxies,” says Belan.

A rare positive from the war has been the increased awareness of the importance of European integration, which led to the long-awaited start of accession negotiations with Albania and North Macedonia, and candidate status for Bosnia, Moldova and Ukraine.

**Serbia the loser**

Serbia has been the clear loser from this new way of thinking. Belgrade has long been criticised by frustrated Western politicians for “sitting on two chairs”, a commonly cited proverb. In fact it has been four chairs – or rather four pillars, according to the official line from Belgrade, which for a long time successfully balanced relations with the EU, the US, Russia and China. That stood it in good stead, as it was able to attract investment (and during the pandemic vaccines) from multiple sources, but it collapsed when Russia’s invasion of Ukraine suddenly polarised the world and made sitting on two chairs untenable, despite the government’s best efforts.

While almost all of the region is expected to receive much stronger FDI inflows in 2022, Serbia is the exception, as in nominal terms it saw a stagnation (for the data available so far), and FDI declined as a share of GDP. This is a big change, as Jovanovic notes that until now, “Serbia was considered to be the success story for FDI in the region”.

Specifically, investment from EU countries dropped sharply in 2022, accounting from only around one-third of the total compared with around 60% in previous years. By contrast, Chinese FDI increased a lot, and in 2022 China will be the biggest investor, overtaking the EU for the first time. According to wiiw, data from the first three quarters show Chinese FDI at around €1bn, or 36% of the total, while from EU countries it is around €900mn, or 32%.

“For the same reasons as some companies left Russia, they are not investing in Serbia now. They don’t consider Serbia to be friendly to the West, to the EU. And because of that they are saying we don’t want to invest in this country which is a friend of Russia,” says Jovanovic.

North Macedonia, a recent Nato entrant and longstanding EU accession candidate, has seen a hike in foreign investment.
He cites company executives from Germany and other countries who disclosed they are having second thoughts about investing in Serbia because of the political uncertainty. “So far, they are postponing decisions to invest in Serbia, but if things do not improve they might also cancel investments. It seems Serbia is [paying the] price for its uncertain position re the Russia and Ukraine war.”

The winners
By contrast to Serbia, 2022 was a very good year for North Macedonia, and to some extent for Bosnia too. Both countries have attracted large amounts of investments into manufacturing over the years, while Montenegro, and to some extent Albania, has seen more investment into tourism and real estate.

North Macedonia has been a strong performer for years; even during the political turmoil towards the end of former prime minister Nikola Gruevski’s rule it consistently performed well on the World Bank’s annual Doing Business ranking. Now investments into manufacturing are growing strongly, especially in the automotive sector.

While Serbia has suffered for its politics, the opposite appears to be true of North Macedonia. Jovanovic says he believes the resolution of the name dispute and North Macedonia’s entry to Nato have paid a dividend.

“North Macedonia has been a strong performer for years; even during the political turmoil towards the end of former prime minister Nikola Gruevski’s rule it consistently performed well on the World Bank’s annual Doing Business ranking.”

Bosnia suffers from endemic political turmoil but that conceals an economy that is quietly growing, with the benefits of a relatively skilled workforce and transport links to neighbouring EU member Croatia.

Another positive development in the region has been the gradual increase into investments into higher value activities. This looks like the start of the trend long seen in Central Europe – now a major destination for the electric vehicle (EV) industry and other higher value sectors.

Undoubtedly, the Western Balkans’ large pool of cheap labour remains a selling point. With a population of around 20mn people, Jovanovic estimates there are up to 1mn people unemployed. “In terms of numbers, [I] think they have capacity at last for attracting companies for another decade or so,” he says.

While output per worker remains lower than in the EU, the region retains some of the legacy of the socialist era, when the region had a highly skilled workforce – some employers from Germany still arrive with a positive image of Yugoslav workers from the Gastarbeiter era.

Still, there is a strong need for investment into the region’s labour force, along with infrastructure, which also still lags behind the EU countries in the region.

When the war ends
When the war eventually ends, there will be a massive reconstruction effort in nearby Ukraine. Figures already being estimated for the cost of rebuilding the damage done by almost a year of fighting are in the range of $500bn-$750bn.

Belan believes it will be more difficult for the Western Balkans to attract nearshoring investments when attention turns to post-war Ukraine, with its much larger economy and inflows of billions in reconstruction funds.

“The selling point of region before war to investors was to focus on labour costs, cost savings … now it will be much harder for the Western Balkans to make that pitch. They need to focus on new competitive factors: not only on labour costs and short distances, they need to think about the quality of the labour and better infrastructure,” she argues. “Ukraine is a bigger market, and the Western Balkans is still small and fragmented.”

She argues that rather than competing with post-war Ukraine for investment, the Western Balkan countries “need to gear themselves to what Ukraine might need for reconstruction”.

Another factor that will make the region of small and fragmented economies more attractive is regional integration.

“First and foremost, the region needs a harmonisation of the markets, of the business climate, rules and regulations … so they do not see each other as competitors but as complementary, and work together to scale up production, access to resources, innovations, technology and infrastructure,” Belan says.

However, this is not easy, as the experiences of the last 20 years have shown. Initiatives like Open Balkan, set up to create common market for goods and labour in the region, target this goal, but typically become bogged down in the divisions between the countries in the region; so far Open Balkan’s three founders have failed to persuade the other three countries to join.

The Western Balkans has advantages that it is using to attract growing amounts of investment, but it also has many legacies of the past to overcome. ●
Stocks of Polish banks fell on February 16 after an adviser to the Court of Justice of the European Union said in a non-binding opinion that banks can’t claim payments beyond reimbursement of the loan principal on controversial Swiss franc mortgage contracts.

Consumers, meanwhile, could pursue claims against banks that go “beyond reimbursement of monetary consideration” – meaning going further than just returning the cash and default interest on it – the CJEU’s Advocate General Michael Collins said in a statement.

That said, it will ultimately be up to the Polish courts to “determine, by reference to national law, whether consumers have the right to assert such claims and, if so, to rule on their merits”, Collins said.

His opinion is derived from the EU’s directive on unfair terms in consumer contracts, which aims at providing consumers with a “high level of protection”.

“The contractual term held to be unfair does not produce binding effects on the consumer and, consequently, he or she ought to be restored to the factual and legal position he or she would have been in had that term not been included in the contract in the first place,” Collins said in the opinion.

Banks, on the other hand, “ought not to derive any economic advantage from a situation [they have] created by [their] own unlawful conduct”, the advocate general added.

The Association of Polish Banks (ZBP), a banking lobby, said in reaction that the CJEU does not have to follow the opinion of the advocate general.

The ZBP also said that other CJEU’s verdicts contravened the advocate general’s opinion that banks cannot seek claims against customers.

Bank shares on the Warsaw Stock Exchange fell in reaction to the opinion, which is not binding to the CJEU but tends to indicate fairly accurately the court’s final decision, which is expected later this year.

The WSE’s blue-chip index – WIG20 – fell 0.82% in afternoon trading, the fall led by the stocks of major lenders PKO BP falling 3% and mBank falling 2.68%.

The bourse’s banking stocks index, WIGBanki, was trailing 1.5%, with Bank Millennium’s share price falling 6.32% and BNP Paribas Polska falling 1.63%.

The issue taken up by the CJEU goes to the very heart of the long-festering problem that the Polish banks have with hundreds of thousands of mortgages denominated in foreign currencies, chiefly the Swiss franc.

Polish lenders face a barrage of lawsuits over the CHF-denominated mortgages, which they granted liberally in the mid-00s when the franc was at an all-time low against the Polish zloty.

Banks and financial intermediaries highlighted the attractiveness of the loans’ lower repayments to customers who could not afford them in zlotys at a time of a massive property boom in Poland.

But when the Swiss central bank unpegged the franc from the euro, the zloty weakened considerably nearly overnight, causing the repayments to skyrocket. The franc today is still worth over twice as much in zloty terms than it was during the heyday of the CHF-denominated mortgage market.

Not only did borrowers have to pay much bigger repayments, but the loan-to-value of their properties worsened considerably, making it difficult for them to move property.

The Swiss National Bank’s raising of its policy rate to from 0.25% to 1% in recent months only gave the borrowers more problems.
The borrowers have long said now that the banks lured them into the mortgages by not highlighting the currency risk enough and using a number of so-called abusive clauses, for example in calculating their CHF-PLN spread.

Thousands of Poles have taken their banks to court, looking to annul the loans or clear the loan contracts of abusive clauses – with courts tending to side with the claimants.

The banks responded with counter-claims, which Collins’ opinion has just made more difficult to pursue. They appear likely to be all but impossible, should the CJEU’s ruling be in line with the opinion.

However, some observers said that since the matter is ultimately up to the courts, it may be years before there is an established line of legal practice with regard to FX loans.

Moody’s places quake-hit Iskenderun Port operator’s eurobonds on review for downgrade

Akin Nazli in Belgrade

Moody’s Investors Service has placed the eurobonds sold by Limak Iskenderun Uluslararası Liman İşletmeciliği (LimakPort) on review for a downgrade, the ratings agency said on February 13.

Moody’s review for a downgrade reflects the uncertainty around the damage caused to the port’s infrastructure caused by the huge February 6 earthquakes that hit southern Turkey and the timeline for resuming operations at the port.

LimakPort has a B/Negative rating, five notches below investment grade, from Fitch Ratings and a B3/RFD, six notches below investment grade, from Moody’s. LimakPort’s ratings are in line with Turkey’s sovereign ratings.

In 2011, LimakPort was granted a 36-year concession for Iskenderun Port.

In 2012, Limak Holding sold a 20% stake in LimakPort to InfraMed, a fund launched by the European Investment Bank (EIB), Italy’s development finance institution Cassa Depositi e Prestiti SpA (CDP), Morocco’s state-owned Caisse de Depot et de Gestion (CDG), France’s Caisse des Depots et Consignations (CDC) and Egypt-based investment bank EFG Hermes.

Turkey’s main opposition Republican People’s Party (CHP) leader Kemal Kilicdaroglu dubs the Erdogan-regime-affiliated leading group of Turkish contractors the “Gang of five”. The five he refers to are Cengiz Holding (owned by Mehmet Cengiz), Limak Holding, Kolin Insaat, Mapa Group (owned by MNG Group) and Kalyon Holding.

There are actually more than five Erdogan-affiliated contractors but Kilicdaroglu’s “Gang of five” term has become a common idiom in Turkey to refer to all such “businesspeople.”

In May 2021, during the buoyant times of COVID-19-related unprecedented monetary easing around the world, LimakPort sold $360mn of 15-year eurobonds (XS2339789732) with a 9.50% coupon.

In 2021, LimakPort’s revenues amounted to $80mn.

The fire that broke out at Iskenderun port as a consequence of the earthquakes was extinguished as of February 10 but cooling down operations were continuing.

The full extent of the damage to the port’s infrastructure is currently unknown. It will require detailed assessments. The port’s operations have been suspended, although RoRo vessels have been calling at the port for humanitarian purposes.

The port’s service area includes the main industrial centres in the southeast of Turkey, including Gaziantep, Hatay, Kahramanmaras, Adana and Osmaniye. All of these locations have been severely affected by the earthquakes.

“The full extent of the damage to the port’s infrastructure is currently unknown. It will require detailed assessments”.

There are a huge number of casualties and the region’s infrastructure has been badly damaged. There are material uncertainties regarding the potential long-term impact of the earthquakes on the local economy and infrastructure linking customers’ production facilities with the port.

It is currently unknown what mitigation could be provided by any insurance claims.

LimakPort maintains insurance including for property

www.bne.eu
Separately, the company's concession agreement includes a force majeure clause, which provides for the extension of the concession for the duration of the force majeure. A force majeure period of at least eight months could lead to the termination of the concession agreement.

Moody's review will consider (1) the port of Iskenderun's ability to restore damaged infrastructure and resume its operations; (2) the costs associated with the port's revitalisation; (3) the potential loss of customers including in relation to damage beyond the port, but also the potential for the port to benefit from reconstruction efforts; and (4) the potential for any insurance proceeds and any other mitigating factors. Any rating downgrade could be more than one notch.

Damage and business interruption. The company's insurance policies are fronted by Turkish insurers as per regulation and re-insured by international insurance companies.

LimakPort has cash of $51mn. This amount includes pre-funded reserve accounts, including a six-month debt service reserve of $19mn, as required by the terms of the eurobonds.

The debt service obligation of LimakPort are mainly related to interest payments. Scheduled debt repayments will increase gradually but are limited this year.

Under the terms of the eurobonds, LimakPort is obliged to deliver to the Trustee a notice of any event that qualifies as a force majeure event. The company delivered this notice on February 10.

M&A in Emerging Europe fell by 20% to €32.93bn in 2022

The number of deals rose by 5.6% to 1,229 but the value fell by 20% to €32.93bn in 2022.

In 2022 telecoms and IT was once again the number one sector for M&A activity in terms of numbers, with 336 deals (compared with 278 in 2021) but there was a 77% plunge to €3.78bn in value (€16.4bn). Real estate was the second busiest, with 205 deals (215) but with a 34% rise in volume to €7.82bn (€5.8bn).

Ranked by deal values, mining, including oil and gas, was above real estate at €7.98bn because of the €7.9bn acquisition of Polish state-owned oil and gas company PGNiG by state-owned energy group PKN Orlen.

Despite turmoil on the energy markets, the energy and utilities sector still saw 69 transactions, including notable activity in renewables, with a total value of €4.03bn.

According to the report, the weak macroeconomic backdrop and the spectre of possible recession are likely to stifle M&A in the coming months, but the region’s strong fundamentals will continue to underpin activity in the medium term.

One hopeful sign is that private equity and venture capital firms are said to be sitting on €1.23 trillion and €547bn of dry powder respectively, which is yet to be put to work. PE executives believe a downturn will ultimately spur M&A, according to a survey of more than 200 dealmakers EMIS carried out last autumn.

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Poland was once again the top M&A market this year with 250 deals (down 7%) but with a value of €15.97bn, up by a third. Croatia was second, with €3.16bn in deals, up 69%, with deal numbers rising 16% to a new peak of 80. Romania was the third strongest market, with 234 deals, up 20%, with a value of €2.9bn, up by a fifth.

The biggest deals after the PKN Orlen-PGNiG merger were Czech property group CPI’s €1.8bn acquisition of a 25% stake in Austria’s Immofinanz, and Polish energy group PGE’s €1.3bn acquisition of PKP Energetyka.

The number of listings plunged from 60 to just 13, with IPO values falling from €8.6bn to just €40mn, with the largest listing – Telematic Interactive Bulgaria on the Bulgarian Stock Exchange – at only €8.2mn.

The report estimates that there are now an estimated 34 unicorns in the region, up from just six in 2015.

Private equity deal volumes edged up 32 to a new five-year high of 289. In contrast, deal values were at their lowest level in five years, at €9.99bn, down from €13bn in 2021. Private equity investors were involved in half the top 10 deals.

US investors were once again the most active foreign investor from outside the region, as the number of US deals rose from 103 in 2021 to 126. The US was also the leading source of foreign investment, with €3.49bn of deals, though that was down from the previous year’s high of €8.67bn.

This year the CMS annual M&A report did not include Russia or Turkey.

Bulgaria abandons January 2024 euro adoption target

Kreso Beljak, the leader of the Croatian Peasant Party, has admitted he now crosses the border into neighbouring Slovenia to do his shopping to avoid “shameful” price rises following Croatia’s adoption of the euro.

Many Croatians complain that retailers are rounding up prices in breach of the guidelines issued by the central bank after the switch to the euro on January 1. Price increases were seen in earlier entrants to the eurozone too, but in Croatia they follow months of steep inflation.

The government has said that it will introduce measures to stop the unreasonable price hikes, including blacklisting retailers who don’t follow the rules.

Beljak said the price hikes were not surprising. “Prices of items are determined by the market, and I am not surprised that they have risen. Obviously, it is determined by the demand. It is a simple rule of the market economy – the higher the demand for something is, the higher the price for it would be,” Beljak said in an interview with N1.

However, he added that the differences in prices of goods between Croatia and neighbouring Slovenia are “shameful” for his country. “For me or the people in Samobor [a small town between Zagreb and the Slovenian border] there is no difference whether we go to Zagreb or Slovenia to do our shopping [in terms of distance]. In Slovenia, instead of €100, I spent 70. My wife was on the phone back in Samobor comparing the prices. It is shameful,” Beljak said.

He argued that it was not the government’s job to intervene on the market in the current situation as the market would self-regulate based on demand.

“The market forms the prices, not the state. The state is there to ensure a higher salary, to make so people able to buy more in such cases. The state needs to reduce the taxes and levies so that net wages rise, increasing the purchasing power of people,” Beljak said.
The Council of Europe's anti-money laundering committee, Moneyval, has expressed deep concerns over Estonia's e-residency programme, ERR.ee, the website of Estonian national broadcaster ERR, reported on January 27.

According to the head of the Estonian Financial Intelligence Unit (FIU), Matis Maeker, the main issues concerned background checks conducted when granting e-resident status, and risk mitigation relating to companies established in Estonia but operating in other countries.

“We have received complaints over permission given to individuals who perhaps should not have been granted e-residency,” Maeker said.

For instance, two North Korean residents who reside in the EU passed the checks system and became e-residents.

Maeker said Estonia had been criticised for inadequate checks, particularly when requests came from countries with which Estonia has reciprocal cooperation at judicial level.

The largest complaint was that e-residents can obtain much easier access to the Estonian business environment and the creation of companies, Maeker went on.

“If an e-resident now sets up a company [in Estonia] then travels to another country to launder money via that company, while this is no longer an Estonian problem as such, it does become a problem for those other countries where the private company is in use,” he went on.

“At the FIU, we have also stated on several occasions that the e-residency programme brings with it money laundering and terror financing risks. The first step would be to better understand these risks; what they constitute, in essence, and then manage these risks accordingly, and develop corresponding procedures,” Maeker continued.

Olavi Lepp, head of the largest private lender in Estonia, Swedbank, also noted the e-residency programme issues highlighted in the Moneyval report.

Appearing on ETV politics show Esimene stuudio Wednesday, he said: “This constitutes a report of over 300 pages, and our e-residency programme is mentioned more than a hundred times, but not in a positive way.”

“Things have improved, but there are problems remaining. If I tap my conscience, while we always like to talk about opportunities, the risks must also be assessed, on various things we carry out, as a state,” he went on.

The legal and risk manager at the e-residency programme, Oscar Oun, told ERR that only around half of overseas entrepreneurs operating in Estonia are e-residents.

Oun said: “The risk-based application system, comprehensive control and digital footprint ensure that e-residents are under significantly greater supervision than other [non-e-resident] foreign citizens, when doing business in Estonia.”

“The Police and Border Guard Board (PPA) rules on issuing an e-resident’s digital ID,” he added, in response to the two North Korean citizens who have reportedly obtained e-residency. “So far as we are aware, no North Korean citizen currently has a valid e-resident digi-id,” he added.

Oun said that for some time now, applicants from countries which Estonia has cooperative relations with at judicial, security and law enforcement levels have been given preference as e-residency recipients. “In addition, a legal amendment is being developed in cooperation with the Ministry of the Interior, which would limit access to e-residency in some countries – above all, those where the risks of money laundering and terrorist financing are becoming more and more relevant.”

Last summer, the PPA adopted an automated follow-up IT solution, which enables regular mass queries to be sent
to national and international databases, in order to verify for example, whether an e-resident has been convicted of a criminal act in any country’s jurisdiction since obtaining e-residency, or if there are any another important circumstances which might require the invalidation of that e-resident’s digital ID.

From January 2023, Estonian digital ID applicants face a new e-resident digital ID application environment, which allows the collection of more detailed information on a foreign citizen’s background and intentions.

Oun said that a rise in e-residency application refusals and of annulments of existing digital IDs was evidence of this tightened-up screening process. Whereas in 2018, 2% of e-residency applications were rejected, that figure had risen to 8% as of last year.

As of January 23 this year, there were 63,074 valid Estonian e-resident cards in circulation. Since the programme was rolled out in 2014, 99,205 people have received e-resident status, ERR.ee said.

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**Russian social media giant VK prepares to move back to Russia**

Russian social networking site VK has announced that its board of directors (BoD) has approved the possibility of re-domiciliation from the British Virgin Islands to Russia, the company reported on February 13.

The move is subject to the company meeting all relevant legal and regulatory requirements. If the re-domiciliation goes ahead, VK will become an International Public Company under Russian law. It is expected to improve the company’s operational efficiency, although there are no details as yet regarding the timing or mechanics of the process, Renaissance Capital reported in a note.

The potential move should benefit local investors due to the reduced risks associated with a foreign domicile in the current geopolitical environment. It may also enable VK to distribute cash, which is not unrealistic given recent asset sales that have reduced leverage and improved cash generation, Rencap said.

“It is unclear what options will be given to international shareholders, including those who cannot hold local stock. However, management is likely to be incentivised to enable conversion for all investors should the re-domiciliation and local listing take place,” Rencap added.

Overall, the potential re-domiciliation, combined with an increase in management’s economic interest and the stock’s undemanding valuation, increases the chances of VK shares’ re-rating in the near to medium term. On current estimates, VK trades on 3.7x EV/EBITDA 2023, Rencap reports.

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**VK – shareholder structure**

![VK - shareholder structure](source: Company data, Renaissance Capital)
North Macedonia steps up security after cyber attacks and bomb hoaxes linked to Ukraine war

Valentina Dimitrevska in Skopje

The government of North Macedonia has pledged on February 21 to enhance its cyber security in response to a series of fake bomb threats and cyber attacks that have caused significant disruptions in the country since last October.

On February 21, more than 30 locations were evacuated in Skopje and one in the town of Prilep after authorities received fake bomb threats. The threats targeted a wide range of locations, including the presidential palace for the first time, but also schools, public institutions, TV stations, courts, shopping malls, residential buildings, museums and hotels.

North Macedonia’s authorities have stated that the senders of the fake bomb threats are difficult to detect and that the attacks represent a form of hybrid warfare. Several countries from the region faced similar developments in the past year.

In aim to address the threats, the government has adopted a set of high-priority measures aimed at improving the security of information systems in public sector institutions. The measures will be implemented as quickly as possible.

In the direction of increasing the online security, the government tasked the bodies of the state administration to appoint a person responsible for information security in order to timely report any incidents to the National Computer Incident Response Centre, MKD-CIRT.

As part of the measures, the authorities are now required to organise cyber security training for their employees in the state administration.

The government also recommended the MKD-CIRT to file reports on external cyber-security checks of web applications of the registered institutions.

North Macedonia’s PM Dimitar Kovacevski said that the cyber attacks and false bomb threats that the country is facing lately are linked to the ongoing Russian war in Ukraine.

On February 8, North Macedonia experienced a significant cyber attack targeting the state-run Health Insurance Fund. The attack caused a system collapse, which left insured people without access to medicine and health workers without salaries.

The attack had a significant impact on the healthcare system, highlighting the importance of cyber security in critical infrastructure such as healthcare. IT experts worked extensively to restore the system, and it was successfully restored on February 20.

This incident underscored the need for the public sector in the country to take measures to improve their cyber security posture, including measures to prevent and respond to cyber attacks.

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Romania’s eMAG building largest logistics hub in CEE, expands credit facility

bne IntelliNews

Romanian online retailer eMAG is developing a 100,000-120,000 square metre logistics hub near Budapest – the largest of this type in Central and Eastern Europe (CEE), according to a company’s press release.

eMAG has operations in Romania, Bulgaria and Hungary and a marketplace hosting 40,000 sellers.

The investment is estimated at €100mn and the company already used a €30mn bridge loan to start it.

Greek Alpha Bank, which has developed a broader collaboration with eMAG, will extend a €70mn loan to finance the project.
In developing the project, eMAG is committed to BREEAM Excellent certification standards for green buildings, to optimise energy consumption and limit greenhouse gas emissions.

"As a leader in business lending in Greece, Alpha Bank's financing of eMAG's first logistics hub project in Central and Eastern Europe reiterates our bank's commitment to finance value-added projects that accelerate the formation of regional players and contribute to supporting sustainable economic growth", said Yannis Emiris, general director wholesale banking of Alpha Bank.

eMAG also announced plans to extend the credit facility made available to its customers to RON8,000-10,000 (€1,600-2000) from the current RON3,000-4,000 and will extend the payback period from a maximum of four months now to 12 months, company officials announced. One year after this facility was launched, it has been extended to 1mn customers and some 6% of the sales volume is financed under this instrument.

Under this facility, the products can be purchased either from eMAG or from the sellers active on the marketplace, if the value of the purchase exceeds RON100.

"I think we are close to a percentage of 6% of all sales that are financed through My Wallet. There are over a million people who have credit limits granted at the moment, I think it is a good area of growth for the future," said Tudor Manea, CEO of eMAG, in an interview.

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**Croatain government launches price tracking app after euro-adoptiion price hikes**

**bne IntelliNews**

Croatian Minister of Economy and Sustainable Development Davor Filipovic presented the Kretanje cijena (Price trends) app to citizens on February 17.

The app gives citizens information about price movements at retailers in the country, an important issue for Croatians following months of high inflation and concerns that some retailers used the country's adoption of the euro in January as a pretext to hike prices.

The app, launched by the Ministry of Economy and Sustainable Development, is available on mobile phones and other online devices, a ministry statement said.

He added: “All those who sent the data sent a message of transparency, that they have nothing to hide from the public and citizens,”

Three retail chains have been placed on the ministry's 'white list': Konzum, Tommy and KTC, that together have a market share of 38%.

According to Filipovic, the three retailers submitted all requested data to the Ministry of Economy and Sustainable Development, namely the prices of around 350 items, whose prices citizens will be able to compare every 15 days.

“The goal is to influence possible price increases and the trend of inflation, because when citizens see who is correct, they will know how to appreciate it,” said Filipovic.

He added that additional discussions were held with the retail chains that did not submit the prices, but said “it is clear that they do not want to provide the requested information, do not want to be transparent and do not want to enable citizens to have complete information about prices”.

“We have no illusions that we can limit all prices in the country. We are not doing this on a whim, we are not intervening in the market because we want to, but because we live in times of crisis. And this way will allow citizens to see who is fair and who is not,” said Filipovic.
The energy crisis in Central and Eastern Europe (CEE) has lost some of its bite after a mild winter and record LNG imports led to a slump in natural gas prices. The EU has made good progress in replacing Russian energy supplies. But the crisis will have long-term consequences as countries rush to remake their energy systems. CEE is amongst the most vulnerable, as it is landlocked and deeply integrated into the Russian energy complex.

CEE has three options to break its dependency on Russian energy: solar, wind and nuclear. Most of the countries in the region have largely ignored all three until now.

The challenge facing CEE is how it can overhaul its infrastructure and tackle energy security. The war in Ukraine exposed the region’s dependence on Russia as the dominant energy supplier and the need not just to develop a more diversified energy mix but also to reduce import dependence and boost domestic energy sources. That needs to be balanced with the long-term objectives of decarbonisation and the phasing out of coal.

The task ahead is huge. CEE countries have limited domestic reserves of hydrocarbons, excluding coal, and have relied on energy imports since the 1990s. Energy infrastructure in the region is centred around Russia, including pipelines and refineries designed to use Russia’s oil blend, Urals. Modifying such infrastructure, as in the case of Hungary, will cost billions and take years.

Wind energy presents a different challenge for CEE. Coastal countries have large potential for offshore wind, but landlocked countries must settle for onshore wind development.

Modelling from the EU’s Research Institute in 2019 showed that, under standard assumptions, Czechia, Hungary, Romania and Bulgaria have among the largest potential for onshore wind capacity in Europe over the next few decades, Capital Economics said in a report.

“In coastal countries such as Germany, Poland and the Baltic States, wind accounts for at least 25% of electricity generation.

Energy Imports (% of Total Energy Supply)  
Share of Electricity Generated by Wind (% of Total, Nov. 2021 to Oct. 2022)

Sources: UN, Capital Economics  
Sources: Eurostat, Capital Economics
But in Czechia, Hungary and Slovakia wind accounts for less than 2%, Capital Economics reports. “Governments in these countries have set targets for increased wind power capacity by 2030 and new infrastructure is being built. But in most cases the targets are unambitious. In Czechia, for example, wind power is only expected to generate 3% of electricity by 2030, compared to 0.5% now.”

Factors such as wind speed, the landscape, and the electricity grid will determine the amount of wind energy each country can generate.

Solar energy is also progressing slowly in CEE. While some countries, like Hungary, are utilising solar power to generate electricity, it remains a minor part of the energy mix in others. Despite a promising start, investment in solar energy is progressing slowly.

Going nuclear
Wind and solar are often seen as the most desirable solutions but the reality is that they cannot solve the energy security problems alone. Nuclear energy has gained significant attention as a way to address security problems and phase out fossil fuels.

“Poland’s first nuclear power plant (NPP) is set to start in the near future, and by 2035, it is expected to provide 20% of the country’s electricity”

However, in other countries, such as Poland and the Baltic States, the use of nuclear energy is virtually non-existent.

CEE countries are looking to expand their nuclear capabilities over the next decade. For instance, construction of Poland’s first nuclear power plant (NPP) is set to start in the near future, and by 2035, it is expected to provide 20% of the country’s electricity. In Czechia, Hungary and Romania, the share of electricity generated from nuclear sources is expected to increase by 10-30 percentage points. The Estonian government is also evaluating the feasibility of nuclear power.

Despite the many benefits of nuclear energy, including reliability and low emissions, it also comes with its own set of challenges. The investments required to expand nuclear capabilities are significant and can take an average of ten years. There can also be public opposition to nuclear power, and securing uranium supplies, which is a market dominated by Russia, will be a significant challenge.

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<th>National Nuclear Energy Objectives</th>
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Sources: National Governments, Various Sources, Capital Economics
Most growth in power generation by 2050 will be solar and wind – BP

Roberta Harrington in London

Most growth in global power generation by 2050 will be solar and wind, according to oil supermajor BP’s annual benchmark report, the 2023 Energy Outlook.

This lead of wind and solar in global decarbonising will be because of “continuing cost competitiveness and an increasing ability to integrate high proportions of these variable power sources into power systems,” said BP.

Renewables will need to expand by a factor of about 15 by 2050 to limit global warming, said the report. As much as 600 GW of new renewables capacity will be needed yearly until 2035 to keep to the Paris Agreement target of 1.5°C of temperature rise, says the report.

This is about 2.5 times faster than the highest rate of increase seen in the past, said BP. Much of the new capacity will be in the developed world and China.

The growth in wind and solar requires a significant acceleration in the financing and building of new capacity, it said. Greater support for renewables is required, such as quicker permitting and approval of low-carbon energy and infrastructure, said BP.

The use of modern biofuels – modern solid biomass, biofuels and biomethane – will grow rapidly, helping to decarbonise hard-to-abate sectors and processes, said BP.

The report flagged the Russia-Ukraine war and the passing of the Inflation Reduction Act (IRA) in the US as major changes. The IRA, passed in August, offers generous 10-year tax credits for renewable and other low-carbon electricity as well as for domestic manufacturing plants of major renewable energy components.

The Russia-Ukraine war underscores the energy trilemma – secure, affordable and lower carbon, said the report. The heightened focus on energy security increases demand for domestically produced renewables and other non-fossil fuels helping to accelerate the energy transition, said BP.

Additionally, Russia’s war in Ukraine has long-lasting effects on the global energy system. The war will decrease global economic activity by 2035 by around 3% compared to BP’s 2022 forecast, issued just before Moscow invaded Ukraine in February. Globally, Russia is a major exporter of fossil-fuel products.

“The events of the past year have highlighted the complexity and interconnectedness of the global energy system,” said BP’s chief economist, Spencer Dale. “The increased focus on energy security as a result of the Russia-Ukraine war has the potential to accelerate the energy transition as countries seek to increase access to domestically produced energy, much of which is likely to come from renewables and other non-fossil fuels.”

He added: “But the events also show how relatively small disruptions to energy supplies can lead to severe economic and social costs, highlighting the importance that the transition away from hydrocarbons is orderly, such that the demand for hydrocarbons falls in line with available supplies.”

BP, which has a goal of net zero by 2050, is getting involved increasingly in renewable energy. This is in line with other European oil and gas companies, but less so the non-European oil and gas sector.

The report stresses that the carbon budget is running out. Despite the marked rise in government ambitions, CO2 emissions have increased every year since the Paris COP in 2015 except for 2020. The longer the delay in taking decisive action to reduce greenhouse gas (GHG) emissions on a sustained basis, the greater are the likely resulting economic and social costs, said BP.

In all three scenarios studied, the structure of energy demand changes with the importance of fossil fuels declining, replaced by a growing share for renewable energy and by increasing electrification. The transition to a low-carbon world requires a range of other energy sources and technologies, including low-carbon hydrogen, modern bioenergy and carbon capture use and storage,” said BP.

Through 2050, oil demand declines over the outlook, driven by falling use in road transport as the efficiency of the vehicle fleet improves and the electrification of road vehicles accelerates.

Even so, oil will continue to play a major role in the global energy system for the next 15-20 years across all three scenarios, said BP, though demand will start decreasing after 2030 in all three of the report’s scenarios. Demand today is about 100mn barrels per day, and that will drop to 70mn to 80mn bpd by 2035.

The prospects for natural gas depend on the speed of the energy transition, with increasing demand in emerging economies as they grow and industrialise offset by the transition to lower-carbon energy sources led by the developed world. ●
RUSSIA ABANDONS DECEPTIVELY DEEP BALTIC DISCOUNTED PRICES FOR MARKET PRICES IN ASIA

Ben Aris in Berlin
The discounts Russia is being forced to offer on its oil exports after a comprehensive embargo and oil price cap scheme was imposed on crude on December 5, and oil products on February 5, are deceptively big. Nearly half of Russia's oil exports used to go to Europe, shipped through the Baltic Sea. That trade has almost stopped now. But Russia is still exporting as much oil as it used to but sending it half way around the planet to new customers in Asia. The problem is the deep headline discounts of up to 50% or more are based on Baltic prices, whereas economists say Asian customers pay much smaller discounts, or none at all.

The EU embargo is enforced by sanctioning EU shipping companies that accept cargoes of oil priced at $60 per barrel or more. As bne IntelliNews reported, there are three markets in Europe: piped deliveries via the Soviet-era Druzhba pipeline where prices are set by long-term contract; Russian oil companies delivering their own oil to their own refineries in Europe; and European customers still willing to buy Russian crude on the open market. It is only the last group that is receiving the deep discounts and the volume of these sales is dwindling fast.

The headline price for Russia's Urals blend in January was $46 a barrel against the $75 Brent was trading at on February 27, and well below the maximum allowed $60 threshold set by the oil price cap scheme.

Economists have been looking for evidence of these whopping discounts in national accounts, companies' profit reporting and customs data – but they can't find them.

"We do not find crude oil discounts as large as those reflected in Urals prices towards the end of 2022. In particular, prices in market segments that are unaffected by lower Europe and demand, e.g., exports from Russia's Pacific"
Ocean ports, have not dropped in a meaningful way and shipments do not appear to comply with the price cap. What the EU embargo and G7 price cap have, thus, triggered is a fundamental fragmentation of the market for Russian crude oil,” a paper from a team of top economists from the Social Sciences Research Network (SSRN) – Tania Babina, Benjamin Hilgenstock, Oleg Itskhoki, Maxim Mironov and Elina Ribakova – assessing the impact of the oil sanctions found.

The SSRN paper is based on its calculations using high frequency and customs data, and they discovered there is a gap between the price inferred from customs data and the reported “discounted” price. SSRN found the actual average price of Urals since December oil was not the reported $52 but $74 per barrel. Brent was trading between a high of $81 and a low of $71 in December, suggesting that for most of the month there was no discount on Russian oil exports at all, or at least only a few dollars’ worth.

Discounted embargo dogleg

The price of Russia’s oil depends on where it is sent. China, India and many of the countries of the Global South are not participating in the West’s sanctions regime on Russia. And they are willing to pay market rates for its oil as a result.

Russia has exported 6.1mn barrels per day (bpd) since the embargos were introduced and has obtained an average of $73.3 per barrel taking all markets into account, with the EU piped oil paying the least ($62.98) and China the most ($88.12), according to SSRN survey.

That doesn’t mean the missing money is ending up in the Kremlin’s coffers. The Russian budget did tumble in January to a RUB1.8 trillion deficit and Ministry of Finance (MinFin) reported that oil and gas revenues were down 46% year on year in January, but what appears to be happening is Russia’s oil companies are reporting lower Urals prices, which reduce their tax burden, but are making back the discount through various scams. Money is being siphoned off into dark company-controlled offshore accounts in, what is in effect, a new transfer pricing scheme. MinFin is well aware of what is happening and is already working to tap into this dark flow of profit.

“In the past [Russian oil companies] may have wanted to boast that they were successful in selling their crude at the top of the market in order to impress their international shareholders and keep their debt holders happy and content. Now they have nobody to impress. It is far more profitable to maintain the illusion that they are selling their oil cheaply, which greatly reduces their tax burden,” Sergey Vakulenko, an independent energy analyst, consultant to a number of Russian and international global oil and gas companies, said in a separate paper, adding that this money would make an ideal “slush fund” for Putin to use in his war against the West.

Cashing in on a distorted market

A key point to note with the sanctions is they are specifically designed to allow Russia to sell its oil. The Western architects were worried about causing an oil shortage that could spike prices. The goal of the oil price cap was to allow the oil to flow but limit the price Russia could charge. The upshot the scheme has been for Russia to simply switch all its deliveries away from Europe and turn to the Global South, where it continues to receive market rates. Asia has been able to absorb all the crude Russia used to send to Europe. Whether it can absorb all the oil products covered by the February embargo remains an open question.

If the goal of the sanctions was to cut the Kremlin off from its biggest revenue earner, so far they have completely failed. Russia’s goods exports reached a record $532bn in 2022, resulting in an all-time high trade surplus of $316bn. The export of oil and gas reached $333bn in 2022, representing 63% of total goods exports, with crude oil accounting for $142bn, oil products for $83bn and natural gas for $108bn.

In 2021, Russia produced 540mn tonnes of crude oil, accounting for 13% of global production. Of this, 260mn tonnes were exported directly as crude oil, comprising 13% of global exports. Domestically, Russia refined the remaining 290mn tonnes, of which 140mn tonnes were exported as refined products (11% of global refined exports) and 150mn tonnes were consumed domestically, according to BP.

The two major routes for exporting crude oil are by pipeline and by oil tanker at sea. The Druzhba pipeline system carries oil to the EU, while the ESPO pipeline carries oil to China. The remaining Russian crude oil has historically been exported by sea to the EU, China and other countries to a lesser extent.

The ESPO oil is not included in the sanctions regime and the SSRN paper found that the average price of oil since December on this route out of Russia is $82 per barrel, with half of it exported via the ESPO pipeline to China and another half of it on ships owned by Russian shipping company Sovcomflot, which also operates outside the sanctions regime.

Historically, seaborne EU crude oil imports from Russia originated from Urals fields and travelled via western ports in the Baltic and Black Sea. This is where the largest impacts of the embargoes and price caps are being felt.

“SSRN the found actual average price of Urals since December oil was not the reported $52 but $74 per barrel”
In the fourth quarter of last year, China and India, together with Turkey, accounted for two-thirds of total Russian crude oil exports, being sold at prices over $80, as against roughly 30% of the total volume in the first quarter of last year.

Russia also exports oil via the Druzhba pipeline (chart), which has not been sanctioned at the EU level. The origin of this oil is also from the Urals fields serving western ports. Pipeline oil to Europe consists of 60% flows through Druzhba’s northern branch (to Germany and Poland) and 40% through its southern branch (to the Czech Republic, Hungary and Slovakia). Over the course of 2022 both Germany and Poland cut their imports of oil via Druzhba to zero, but at an average price of $63 per barrel, according to SSRN.

Russian exports of discounted crude and fuel oil to China jumped to record levels in January as the re-opening of the world’s biggest energy importer gathers pace after the dismantling of Covid Zero restrictions. The buying spree was likely underpinned by private refiners, but state-owned processors are now showing more interest in Russian crude after concerns around potential blowback from the US and allies kept them on the sidelines. Russia’s overall crude and fuel oil exports to China reached 1.66mn bpd last month, according to Kpler data as of February 20. That’s more than the previous record set in April 2020, when the Asian nation was emerging from its initial virus restrictions. Deliveries to India are also running at record levels of about 1.5mn bpd.

“At first glance, it seems as though the price cap on Russian oil at $60 per barrel is working like a charm. The market is well-supplied, and there does not seem to be a market deficit that many were fearful of. Russia has not curtailed its production in an attempt to force an increase in prices; it has indeed increased supplies,” said Vakulenko in a note. “However, this picture may be misleading, as it suggests that Russia as a whole has lost a substantial portion of its revenues. In reality, the situation is much more nuanced.”

FOB shenanigans

The price of Urals is key, as the twin oil sanctions are key to the FOB (free on board) price of Urals when it is delivered to the tanker that is supposed to deliver it to the customer. However, that gives Russia a lot of leeway to play games with the price of Urals to keep it below the $60 cut-off, after which the oil price cap mechanism kicks in. The reported Urals price is increasingly becoming a guess.

“The Urals price, according to official Russian statistics, and reiterated in the press, is a notional value. Extremely little oil, if any, is sold at this price. This figure is an average of FOB Primorsk and FOB Novorossiysk price assessments, calculated according to methodology, which is irrelevant to the current market environment,” says Vakulenko.

There are many problems with the FOB price, the price that is quoted when the oil is delivered to the tanker. This is not the price that the customer pays, as they also have to pick up all the services like shipping and insurance when the oil is finally delivered at its destination.

Over the last year Russia has been increasingly setting up these services as a way to bring the price it is paid for providing oil without increasing the cost of Urals. For example, it has been widely reported that Russia is operating a “ghost fleet” of tankers for which it can charge (chart). According to recent reports there could now be more than 600 ships in this fleet – enough to carry all of Russia crude and oil production to non-aligned markets.

In the chart (left) the number of ships registered to “unknown” has sharply risen since the sanctions came into force. And as bne IntelliNews reported last year, the Central Bank of Russia (CBR) has also recapitalised Russian maritime insurance companies so they can take over the role of providing insurance and adds more fees at the same time.

The Russian state-controlled Russian National Reinsurance Company (RNRC) has become the main reinsurer of Russian ships, including the state-owned national shipping company Sovcomflot’s fleet. RNRC is controlled by the CBR, which has recently recapitalised the company to RUB300bn ($6bn) from RUB71bn and hiked its guaranteed capital to RUB750bn so the firm has adequate resources to

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Country origin of tanker insurance carrying Russian crude oil by departure month

Source: Bruegel analysis of CREA Russian Oil API
provide reinsurance under international maritime law.

These various add-on services and charges can amount to as much as an extra $25 per barrel, bringing the “discounted” Urals price per barrel up to close to the cost of a barrel of Brent.

Taking these extras into account Vakulenko estimates that the actual cost of a barrel of Urals is closer to $75 than $50.

At the same time, the combination of selling to “friend countries” such as India or the Kingdom of Saudi Arabia (KSA) that are ignoring the sanctions or schemes like ship-to-ship transfers that create non-sanctioned brands means that 70% of Russia’s seaborne exported oil, some 800,000 bpd is sold at market rates of $70 or more on a FOB basis, openly defying the oil price cap scheme.

**Baltic exchange**

Prior to the war Russia could sell Urals at Primorsk, its biggest oil port in the Gulf of Finland, on a FOB basis, or the customer could buy it in Rotterdam in the Netherlands, a major European oil terminus, on a CIF basis.

Cost, insurance and freight (CIF) is an international shipping agreement, which represents the charges paid by a seller to cover the costs, insurance and freight of a buyer’s order while the cargo is in transit via a waterway.

Much of this trade was handled by the Baltic Exchange, a London-based commodity exchange, that also collected data from members on deals to form prices.

“It is important to remember that Urals FOB Primorsk or Novorossiysk, quoted by Argus and Platts, have never been the proper market prices, derived from

**Graph: Oil prices, March-November 2022, $ / BBL**

*Source: Ministry of Commerce and Industry of India*
the actual deals. They were always assessments, estimates made by the agencies, calculated from the three elements – Brent Dated price, Brent-Urals spread estimate and shipping,” says Vakulenko.

At the same time up to 1.6-1.8mn bpd leave Russia via the Far Eastern route, partially via ESOP pipeline to China, and partially via the port of Kozmino – deliveries that also operate outside the sanctions regime. The price of the ESOP blend is steadily above the $60 threshold on a FOB basis.

In late 2022 the Baltic trade between Primorsk and Rotterdam came to stop and the Baltic Exchange no longer has any data to form prices, but despite this the exchange is still quoting prices based on survey of traders and producers.

Since the European embargo, most Russian crude, loaded in the Baltics and the Black Sea, goes to India, predominantly to west coast refineries in the states of Gujarat and Kerala, and India doesn’t share its price information with the Baltic Exchange. Moreover, since January the number of tankers travelling to “Other Asia” has soared as the market increasingly goes into dark mode, but many of these have also ended up in India, says Vakulenko.

Coincidentally, one of the largest refineries in India, Nayara Energy with 400,000 bpd capacity, is controlled by Rosneft. As bne IntelliNews reported, the economics of Russian oil producers sending oil to their own foreign refineries is very different to selling oil on the open market, as the FOB price of exported crude is irrelevant. It is the profits earned by the company’s trading arm in the country of the refinery from the sale of refined products that make the profits, not the cost of the company’s own crude shipped there as feedstock.

“Anecdotal evidence from traders suggests that Urals sells to other Indian refineries at a $6-$10 discount to Brent, dependent largely on the prices of Dubai and Oman crude, which are the benchmark types in that part of the world,” says Vakulenko. Indeed, Russia’s Ministry of Finance (MinFin) is talking about abandoning the Urals price completely when calculating taxes and using the Dubai prices instead to improve its revenue collection.

More recently, reports show that the discount India was enjoying had fallen to zero in November, according to Indian customs data. Russian Deputy Foreign Minister Andrei Rudenko said on February 16 that India is still paying the full market price for oil. Rudenko said that Russian energy companies are working to fulfil orders as fast as possible and that India has not joined the price ceiling scheme. Deputy Prime Minister Alexander Novak said in February that India is still not getting a discount to Brent prices. (chart)

“Despite popular belief that China is getting large discounts on its purchases of Russian crude oil, this appears to be incorrect. In fact, we calculate an average price of $84 per barrel based on transactions reported to Russia’s customs service – with pipeline oil slightly cheaper at $81/barrel vs. seaborne crude from Kozmino at $84/barrel. While India receives a discount for Pacific Ocean shipments – as Russia is trying to gain alternative customers through all available export channels – it is significantly smaller (by $10-11/barrel),” SSRN reports.

The picture will not be clear until the January-to-March new customs data is released; as it takes a month for a tanker to steam from Russia those will be the first months that are affected by the EU embargos in December and February.

Abandoning the Baltic means to abandon a well establish market that used to provide a lot of information on prices and volumes.

“They are able to pretend they are selling the crude below the price cap, gain access to insurance services from the Western markets, and collect additional revenues on the shipping leg, thus compensating them for the shortfall created by the formally low oil sale price,” Vakulenko says.●
Sanctions had a very limited effect on Russia's economy in 2022

Ben Aris in Berlin

RosStat reported an even milder contraction in Russia’s GDP in 2022 than the most optimistic forecasts from all the economists that follow Russia on February 20. In the six big crises Russia has suffered since the collapse of the Soviet Union, this crisis has been the least damaging.

Russia’s economy shrank by only 2.1% year on year, well below the 2.5%-3.5% contraction many professional economists were predicting. For example, the Central Bank of Russia (CBR) was expecting a 2% contraction and the EBRD just improved its economic forecast for the year-end result for 2022 to a still painful -3.5% only a week ago, but left its outlook for this year at 3%. The EBRD’s previous prediction for 2022, given in September 2022, anticipated a 5% drop in Russian economic growth in 2022.

Economists in general have been left scrambling to work out what happened to the Russian economy in 2022, as it was battered by multiple major shocks. It is now emerging that Russian President Vladimir Putin's Fiscal Fortress has proved to be even more robust than even the most optimistic forecasters expected.

The result also suggests that the contraction this year will also be even milder than anticipated, despite the

Russia GDP y/y%
two new rounds of oil embargos and the oil price cap schemes that were introduced on December 5 and February 5, targeting crude and oil product exports respectively. While the EBRD kept its forecast for a 3% contraction in 2023, the IMF’s prediction that Russia's economy would grow by 0.3% this year, considered to be a wildly optimistic outlier, now looks a lot more likely.

The 2.1% result is surprising on several levels. First, it is way below the 15% contraction most economists predicted a year ago at the start of the war, when the “massive package” of CBR sanctions and SWIFT sanctions were imposed only days after Russia’s invasion of Ukraine. Those both came out left field and were expected to be devastating.

It is also a full percentage point less than the 3.1% contraction in 2020 that was a result of the lockdown of the economy during the coronavirus pandemic. It was also much smaller than the falls in GDP during the financial crises of 1998 and 2009. Indeed, of the last five really big crises in Russia over the last three decades, as detailed by bne IntelliNews in a feature on the history of crises, the war-induced crisis is by far the most mild Russia has experienced.

The Ministry of Economic Development has begun developing scenario conditions for the forecast of Russia's socio-economic development until 2026. A number of indicators of the current forecast (prepared in September 2022) will be improved, according to sources inside the ministry. The revised document will be submitted to the government in April. According to Macro Advisory, the current forecasts include:

- The economy will contract by 0.8% in 2023 and grow by 2.6% in 2024
- Inflation at the end of this year is predicted at 5.5%, and the government expects it to return to the target of 4% in 2024
- Investments in fixed assets will decrease by 1% in 2023
- Real disposable income will increase by 1.6%
- The main factors for economic recovery will be consumer demand and high investment activity.

“When preparing the document, we will take into account the positive results of 2022 achieved through the implementation of the Plan of Priority Actions in the Conditions of Sanctions,” the Ministry of Economic Development said in February.

But unlike all the other big crises in 1991, 1998, 2009, 2014 and 2020, in each of those cases Russia remained an open market economy that still produced raw materials and was able to bounce back. In this crisis Russia has become a closed, non-market economy with sanctions on its major money earners, and the chances of it bouncing back are very low; even CBR Governor Elvia Nabiullina estimates that Russia's long-term growth potential for the foreseeable future is a mere 1.5%. Russia will very likely stagnate for the next decade.

However, in a word of caution, the government has been restricting much of its economic reporting, which previously has been very good, and some analysts worry the picture is being distorted by the government on purpose. Large categories of data on things like trade and the bank sector performance have simply disappeared.

“Who are the winners? Any factory that is connected to the military or had to retool to supply the military. But I don’t believe in the second-quarter big investment figures”

being weakened due to a sharp rise in inflation, a tightening in credit conditions, and a preference for higher savings in the face of greater uncertainty,” said Peach.

Inflation has also been doing well. In the first week of the war the CBR put though an emergency 100bp hike that immediately stopped a meltdown of the ruble that had gone into free fall. That in turn prevented a devaluation spike
inflation and unlike almost all the other countries in the region inflation began to fall steadily to the point where CBR Governor Nabiullina was able to quickly start cutting rates, switching her attention from fighting inflation to bolstering growth, although by September with the prime rate at 7.5% her easing of rates seems to have come to an end.

Unemployment also usually spikes during a crisis, as illustrated by bne IntelliNews’ despair index, but in 2022 it remained at close to its post-Soviet all-time low of 3.9%, partly constrained by the lack of labour after 300,000 men were conscripted during Russia’s partial mobilisation that started on September 21.

Russia’s PMI manufacturing index that surveys business activity also had fully recovered by the autumn and went back in the black with a strong finish to the year of 53 (any result above 50 is expansion), while industrial production in 2022 was resilient, declining by only 0.6% thanks to the war spending by the government.

Russia’s trade turnover has been hurt too, but the trade with “friendly countries” has softened the blow. Following the start of the war the government immediately passed a law allowing parallel imports – in effect legalising piracy and abandoning respect for intellectual property rights. Trade with the West collapsed, but trade with Turkey, China and the other countries of the Global South soared. This trade has been significantly undermining the effectiveness of sanctions.

“There has been rerouting of goods through other countries, both friendly and not, but it’s not clear. There is this import substitution. China has stepped in significantly to substitute goods that Russia used to get from West. Whether it’s substitution or just rerouting from the West is not clear yet. There is some anecdotal evidence that chips and drones are getting through. Russia is getting access to what it needs. Maybe at higher prices or imperfectly, but it is an important part of undermining the sanctions,” say IIF’s Ribakova, who adds that the financial sanctions have been more effective.

Russia’s shop shelves quickly refilled with all the goods that disappeared after Western multinationals brought down the shutters on their direct participation in the Russian economy in the first months of the war.

And its not just Russia’s friends outside the West that have been helping hold the economy together. After the initial reports that over 1,000 Western companies worth “40% of GDP”, according to Yale, were pulling out of the market it turns out that only 9% have left – and only 4% of German companies have gone. Russia remains too big a consumer market for many of the largest retailers to simply abandon it. Even those that have gone, many have sold to their local management in a deal that includes a buy-back option a few years down the road.

In the latest scandal, not only has French supermarket chain Auchan, that has a multibillion business in Russia, not left, but it has been caught supplying the Russian army in Ukraine.

A few sectors like mining, energy and construction have held up well because of the war but others that were heavily dependent on imports, like automotive, have been decimated. Russia normally manufactures about 100,000 cars per month, but at its low in July, Russia’s carmakers produced a total of 3,400 cars in the entire country. However, by the end of the year as new parts began to arrive from China and Iran production had recovered somewhat, but remains 60% down on the previous year.
Construction has done particularly well as Putin insisted that the mortgage subsidy programme was extended that has supported development, especially in the residential sector, against the CBR’s advice, which is worried about a bubble forming. Mortgages is one of the ways the Kremlin is stimulating the economy, as they are one of the three big drivers of economic growth and have multiple beneficial knock-on effects on other sectors and to employment as well.

But other sectors have been caught between the gaps.

“Pharmaceutical production has grown by 25% y/y, as it was one of the big winners from import substitution,” RBC’s economics editor, Ivan Tkachev said in a bne IntelliNews podcast on the impact of sanctions on Russia’s economy. “It is deceptive too, as the pharmaceutical sector was one of the most dependent on imports for equipment and inputs, so it has also suffered.”

**War economy**

Energy exports and extraordinary earnings thanks to soaring oil and gas prices obviously played a big role in propping up Russia’s economy. The economy finished 2022 with a current account surplus of an extraordinary $227bn – more than twice as much as 2021, which was itself an all-time high at $120bn. Russia’s economy earned more money than at any time since the fall of the Soviet Union in 2022, largely because of, not in spite of, sanctions.

In another quirk that leaves Russia with more money, the decision to freeze $300bn of the CBR’s money at the start of the war was considered to be a crushing blow to Putin’s fiscal fortress. The only problem is one year on, and EU officials can’t find most of it. Of the $258bn that the Bank of Russia held in Europe, according to its own reports, the European Union’s legal service has only been able to identify €33.8bn ($36.4bn), which was impounded. The other $221.6bn is simply missing and presumably still under the control of Moscow.

Even if this money is found, it remains highly unlikely that the EU can grab it and give it to Ukraine. The money has been frozen, but technically it still belongs to Russia. Governments can only seize another government’s assets if they declare war on it – something that the West has made very clear it has no intention of doing, which leaves the frozen CBR money in limbo.

President Putin’s move to put the economy on a war footing also helped, as did industry’s scramble to retool to take account of the sudden disappearance of many essential inputs due to sanctions and self-sanctioning by suppliers. Companies chose to accelerate investments rather than delay them, and there was a mad rush to find new international partners. In one survey only 20% of companies said they were totally unable to replace banned technology imports from the West.

“Fixed investment expanded by 5.2% and government expenditure by 2.8%. Export and import data have been withheld, but RosStat reported that net trade accounted for 12.8% of GDP, up from 9.3% in 2021,” reports Peach.

However, there was a lot of pain too. On the production side, wholesale and retail trade collapsed by 12.3%, professional services fell by 5.1% and manufacturing declined 2.4%, reports Capital Economics.

“Beyond these sectors, output held up quite well. Construction expanded by 5%, mining by 0.4%, financial services by 2.8%, and most other services sectors by 2% or so. This shows how the hit from sanctions was in specific sectors, and much of Russia’s economy was able to adapt,” says Peach, adding latest activity data point to a very small recovery in industry and retail trade at the end of last year.

Looking ahead, 2023 is likely to remain difficult as the outlook is beset with large unknowns. Russia’s energy sector adapted remarkably fast to the imposition of self-sanctioning of oil and successfully redirected all the crude exports from Europe to India and China. The working assumption of most professional analysts is that it will repeat the same trick in 2023 so that the impact on budget revenues will be much milder than the collapse in oil and gas revenues seen in December and January, to prevent another large fall in GDP. While the IMF remains upbeat and expects some small growth, most of the other forecasters are more cautious. The CBR is keeping its options open, predicting GDP change in the range of -1% to +1%, up from its previously pessimistic range of -1% to -4%, while Capital Economics’ current working forecast is for a decline of around 2%, “which will be revised in due course,” says Peach.

“The biggest risk for Russia and Europe comes from the war in Ukraine,” says Isakov. “We are trying to understand what is going to happen in the next four, five six months and take it from there.”

**Budget revenues collapse**

But Russia has not come off unscathed from the sanctions. After putting 11 months of federal budget surpluses, revenues collapsed in December thanks to the first of the oil embargos. November’s budget would have been in deficit if it hadn’t been for a one-off payment of RUB416bn by Gazprom that kept it in the black, but nevertheless it was an impressive budget performance.

And then it all went wrong. Russia’s budget lost a whopping RUB3.9 trillion ($52bn) in a month in December – as much as the budget is expected to lose in the whole of 2023 – leaving the budget deeply in the red for the year with a 2.3% deficit.

January was no better, as the second round of oil products sanctions loomed. Usually the budget starts the year flat as most of the federal spending happens in December, but this year the government started with a RUB1.8 trillion deficit – half the total expected for the full year in 2023 – its worst result since the 1990s.

The ministry said the preliminary January deficit estimates included a
spending spike of 59% on the year to RUB3.1 trillion that was compounded by a crash in revenue of 35% to RUB1.356 trillion, opening up a wide hole. Oil and gas revenue were the main culprits for the gap after they plunged by 46% in January y/y to RUB426bn mainly because of lower prices for the Urals oil blend and lower exports of natural gas.

Russian Finance Minister Anton Siluanov played the collapse down, blaming it on new accounting methods and the government’s decision to pre-pay some obligations to smooth out payments over the year. However, economists said that if the trends continued for the full year Russia would end 2023 with a deficit of not RUB3.3 trillion ($47bn) as per the plan, but

revenues are linked to the Urals price but that has fallen, but the price is not clear any more, as now the prices are more of a surrey than a report of the real prices. Then we also had a lot of unseasonal spending in January, when usually there is not a lot of spending, which could have been military spending,” says Ribakova. “So I wouldn’t fully write off the budget with a RUB6 trillion, RUB9 trillion, for this year just because they are capable of removing all spending on babushki and investing it all into military spending.”

Oddly, the revenues fell sharply in December and January, but oil production did not. Russia was producing 11mn barrels a day (bpd) on the eve of the war and production has fallen in 2022, but Russia was still producing 9.8–9.9mn bpd of oil in January, unchanged from December, according to Deputy Prime Minister Alexander Novak. That is still far above the 6mn bpd that was predicted by the Yale report in last summer. For the full year, Russia produced as much oil in 2022 as it did in 2021. The following week the Kremlin announced it would cut production by 500,000 bpd, but it is not clear why. Some analysts have speculated that it has to, as it can sell everything it is making, while others say the Kremlin is simply hoping to drive prices up. The fact that shipborne exports soared in January suggests that the production cut has more to do with price than the lack of demand. On February 21 the government announced the production cut would be for the month of March only, further suggesting a lack of demand is not the problem.

Despite the volatility on the energy markets MinFin maintains its forecast for the 2023 budget deficit at 2% of GDP — and that the production cut has more to do with price than the lack of demand. On February 21 the government announced the production cut would be for the month of March only, further suggesting a lack of demand is not the problem.

“The most important thing is to look at the budget balance that we will have at the end of the year. Our plan is to have 2% of GDP at the end of the year, no one cancelled the plan, and we will adhere to these parameters,” he said during a televised interview.

The federal budget law stipulates that Russia’s budget deficit should amount to 2% of GDP in 2023, to 1.4% in 2024, and to 0.7% in 2025.

If, however, things do go catastrophically wrong, together the NWF and OFZ issues can still cover even the worst case RUB9 trillion deficit scenario – the most extreme forecast amongst economists – and that would set Russia up for yet another crisis in 2024. Few expect this to happen.

But MinFin is not taking any chances and has already started talks with Russia’s largest companies on ways to increase its tax take. The mineral extraction tax (MET) has already been increased and in January MinFin started talks with the Russian Union of Industrialists and Entrepreneurs (RSPP), a big business lobbying group, on voluntary contributions to raise an addition RUB200bn.

In another preparatory move the budget rule was changed in January. Previously excess oil and gas revenues above $42 per barrel of Urals oil were siphoned off into the NWF. At the same time, the oil price cap is specifically tied to the price of Urals blend barrels and that are determined by the Baltic oil exchange. But since the embargo the amount of oil that travels via the Primorsk-Rotterdam route has fallen dramatically and those prices are becoming increasingly meaningless. Russia has other blends and, for example, has boosted the amount of oil sent via its Black Sea ports by a quarter in the last year.

Under the new budget rule, the Urals price has been abandoned completely and now the cut-off is predicated directly from the oil and gas revenues
earned by budget from all oil exports to decide if money should be siphoned off into the NWF or to simply pumped straight into the budget.

Much will depend on how the oil and gas revenues story plays over the rest of the year.

**Oil and gas revenues**
There is a great deal of uncertainty over what will happen this year. The government’s revenues got off to a really bad start in January, but it remains to be seen if the oil price cap schemes can be made to work and if Russia can continue to reorientate its exports to Asia. And it is already becoming clear that the oil sanctions are very leaky.

Isakova said: “The updated current account forecasts are a bit confusing: the average oil price for 2023 was down by -$15 per barrel, but the exports of oil was almost unchanged at about RUB 0.5 trillion for the year, but should have been down about 10%. One hypothesis for this is the Bank of Russia believes Urals benchmark price is flawed and understates export price.”

The Kremlin already has multiple schemes to dodge sanctions. The most obvious is that it has bought up old tankers and is operating a “ghost fleet” of anywhere between 150 and 600 tankers that are not subject to the oil price cap restrictions.

Greek shipping companies have also been helping by increasing the amount of Russian crude they ship, much to the ire of the EU, and with the reported deep discounts Russia is offering on its oil, far below the $60 cut-off, after which restrictions apply to shipping Russian oil, even these EU member-owned ships can legally transport Russian oil to anyone that wants to buy it.

At the same time, scams like ship-to-ship transfers, one of the easiest ways to dodge sanctions and disguise the origin of Russian oil, have exploded. They are most visible off the Spanish North African city of Ceuta and off the Greek coast near Kalamata. At least 30 cargoes have been transferred between ships in those two locations since the start of the year, according to Bloomberg based on a study of ship destination and cargo data. Twelve more Aframax tankers that loaded in the Baltic since late January also appear to be transferring their cargoes to other vessels at sea in the Mediterranean, the newswire reports.

And Russia’s friends in the Global South are coming to its rescue. India continues to import large amount of Russian crude, but as the oil products embargo loomed, African nations boosted the import of Russian oil products, including the all-important diesel exports, in January as the market races to remake itself in the face of the new realities. Turkey, Morocco and Senegal in West Africa all became big customers of Russian diesel. Turkey imported 213,000 bpd of Russian diesel in December, reaching its highest level since 2016, according to Vortexa Ltd. A similar trend was seen in Morocco, which has also noticeably stepped up imports of diesel from Russia.

Analysts at oil consultants Kpler speculated that African nations, many of which support Russia or at least remain neutral, will consume more Russian diesel or export it back to the EU. In the same game of musical chairs, the EU will also start sourcing diesel from further away, from the likes of the India, which is using Russian crude in its refineries to make “Indian” diesel.

Finally, it appears that Russia is playing...
games with the prices assigned to a barrel of its Urals blend of crude. The price of a barrel loaded onto a ship (the FOB, or “free on board” price) at Russia’s biggest Baltic port of Primorsk has fallen to below $50 compared with the $80-plus price of Brent in recent weeks. However, according to reports, Russia has begun to add services to buyers in India and elsewhere like insurance shipping and when these costs are included the end buyer of the oil can pay an addition $25 for a barrel of Urals. As the oil price cap scheme is tied to the FOB price, Russia can export oil unimpeded, but be paid around $75 at the end of the barrels journey – $15 more than the $60 price cap and only a $5 discount to the current price of Brent, slightly more than the traditional $2 discount Urals used to have against Brent before the war.

This assessment is supported by the fact that India reported that the discount between Urals and Brent paid for the Russian oil it was importing in November fell to nothing in November and remained zero in December. As it takes a month for oil to travel to India the effect of the oil price cap introduced that month will not be visible until January but the previous narrowing of the discount India was getting earlier in the year suggests the discounts won’t be large.

All of this means the outlook for Russia’s oil and gas revenues remains very uncertain. While few economists expect Russia to earn the same $227bn current account surplus as it did in 2022, oil and gas revenues are also unlikely to collapse either. Elina Ribakova, deputy chief economists at IIF, who has been studying the oil business for years, estimates the current account surplus will come in at around $100bn, less than half of this year but still close to all-time highs compared to the average of the last five years.

Russia’s slide towards dictatorship drags down global democracy index

Clare Nuttall in Glasgow

Hopes that the world’s emergence from coronavirus pandemic-related restrictions would lead to a rebound on the Economist Intelligence Unit’s (EIU’s) latest Democracy Index failed to materialise, with the index of 165 independent states and two territories primarily dragged down by Russia’s slide towards dictatorship over the past year.

The Democracy Index measures the state of democracy by assigning scores based on five categories: electoral process and pluralism, functioning of government, political participation, political culture and civil liberties.

Countries are divided into “full democracy”, “flawed democracy”, “hybrid regime” or “authoritarian regime”.

The global state of democracy was relatively unchanged compared to 2021, with the global average score remaining virtually flat at 5.29 on a 0-10 scale, compared with 5.28 in 2021. While 75 countries improved their score in 2022 – up from just 47 in 2021 – the scores of 92 countries either stagnated or declined.

Joan Hoey, editor of the Democracy Index, expressed disappointment about the overall result for the year. “There was an expectation that the index score might rebound in 2022 because of the ending of the pandemic-related restrictions on individual liberties,” said Hoey told a webinar on February 23.

“We did see a lifting more or less everywhere, and there were improved scores in several categories – including civil liberties and functioning of government – but unfortunately we did not return to the position and score of 2019. Other negative developments cancelled out improvements resulting from the lifting of restrictions.”
Russia’s democracy deteriorates

Russia, which invaded Ukraine in February 2022, saw the biggest decline in score of any country in the world in 2022. It had a score of just 2.28, ranking it in 146th place. “[Russia’s] invasion of Ukraine was accompanied by all-out repression and censorship at home. Russia has been on a trajectory away from democracy for a long time and is now acquiring many of the features of a dictatorship,” the EIU report said.

Delving into the reasons behind this, Hoey blamed a combination of historical and institutional legacies. She described an “empire state of mind” in Russia that the country’s leader had found hard to abandon after the collapse of the Soviet Union, and which has informed Russia’s relations with neighbours and ultimately with the West as well.

Hoey also noted the “visceral experience of the Soviet Union’s breakup and the trauma of the economic transition”, which “had a very big impact on the attitudes of ordinary Russians to democracy, the market and capitalism”.

“What we see from the late 90s onwards is an increasing turning away from democracy in Russia, parallel with an increasingly anti-Western turn, and a more aggressive foreign policy of which Ukraine was the main victim,” Hoey told the webinar.

Hoey said she did not believe it would have been impossible to build democracy in Russia, but added: “Building and sustaining democracy is very difficult, under the circumstances of the collapse of the Soviet Union and what followed, with no prior history of democracy, it was always going to be a formidable challenge.”

Sovereignty and democracy

The Ukraine war, says the report, has highlighted the link between national sovereignty and democracy.

“Sovereignty and democracy are indivisible. Ukraine’s fight to defend its sovereignty has drawn attention to the importance of a principle that has been much denigrated,” said the report. “The idea that nation states and their borders do not matter in a globalised world has taken root in recent decades. In 2022 it became clear how important those things are for any country aspiring to determine its own future. Without having full control of its territory and borders, there would be no hope of freedom and democracy in Ukraine.”

However, as indicated in the report, two-thirds of the world population in countries either neutral or Russia leaning regarding the war in Ukraine – and this includes many developing economies in the Global South.

Explaining this phenomenon, Hoey told the webinar: “Many developing countries do not see things the same way as leading Western powers. They see this as Europe’s war and not necessarily their concern.” She also cited a reluctance to line up behind Western countries stemming from frustration with the current international order; resentment of perceived Western hypocrisy in light of previous Western interventions into other states’ affairs; dependency on Russian minerals and natural resources; and a prior history of close relations with the former Soviet Union from colonial times.

Winners and losers

Western Europe – and in particular the Nordic region led by Denmark – dominated the top of the index, accounting for eight of the top 10 places. It also saw the strongest post-pandemic rebound.

Two Western Balkan countries – Albania and Montenegro – improved their scores strongly in 2022, having had previously been promoted to the flawed democracy category.

“We think this reflects increased political pluralism in Montenegro despite government instability. Probably in Albania there has been a positive impact from judicial and other reforms, and from being able to open EU membership negotiations,” said Hoey. She noted that the changes are particularly welcome, “because what we often see in Eastern Europe is an improvement followed by regression”.

Globally, Thailand managed the biggest overall improvement in its score in 2022, with other big improvers being Angola and Niger.

Three countries, Chile, France and Spain, returned to the “full democracy” category, mainly because of a reversal of pandemic measures.

On the other hand, two countries, Papua New Guinea and Peru, were downgraded from flawed democracies to hybrid regimes.

As well as Russia and China, there were sharp declines in the scores of Burkina Faso, Haiti, El Salvador and Mexico.

By region, the Middle East and North Africa was both the worst-performing region in terms of its absolute score and its year-on-year decline. The EIU points to strong declines for Tunisia, Iraq and Jordan.
Hungary’s highest-profile corruption case lifts the veil on how Orban’s regime really operates

Tamas Csonka in Budapest

A landmark corruption trial has begun of top Hungarian justice ministry official Pal Volner and his alleged accomplices in a case that throws a rare glimpse of the rampant graft under Prime Minister Viktor Orban’s autocratic regime.

Volner and Gyorgy Schadl, the head of the Hungarian Chamber of Bailiffs (MBVK), are among 22 people charged with offences including corruption, property crimes, and money laundering. Volner and Schadl deny all the charges.

The documents and wiretapped conversations in the case unveil a country run in a mafia-style way, where state bodies collaborate with criminals and the justice system covers up any involvement of high-ranking officials.

The European Commission and opposition parties have long criticised Orban’s government for failing to investigate the country’s widespread corruption, and ignoring the frequent allegations made on independent media news sites.

The prevalence of corruption as a motivation for many top officials and as a grease for the wheels of the regime has turned Hungary into the EU’s most corrupt country, according to Transparency International. No country globally has fallen further in the ranking in the 12 years of Orban’s rule than Hungary. The former justice ministry state secretary is the highest ranking Fidesz official to be put on trial for corruption since Orban’s return to power in 2010.

Last year the EU demanded that Orban’s regime demonstrate more seriousness about tackling corruption or risk losing EU funds that are being put in peril. Hungary is still negotiating to release the funds.

This case therefore offers the Orban government a chance to show its seriousness, though critics argue that much more senior figures in the case have been carefully kept out of the investigation by the regime-appointed prosecutors.

Opposition MPs say it is unlikely high-ranking cabinet ministers will be
indicted or even testify as witnesses as the prosecution closed down the investigation swiftly in circumstances that could have proven their connection to the case.

**Accidental discovery of the scheme**
The preliminary hearing kicked off on February 17 amid high security and massive media attention. The small Budapest courtroom was full of journalists and observers.

Schadl was escorted to the courtroom in handcuffs by prison guards in ski masks, sporting a sleek jacket, Louis Vutton tennis shoes and wearing a disposable medical mask.

The prosecution has proposed that Volner receive an eight-year prison term and a HUF25mn (€65,000) fine, while it is seeking a 10-year prison sentence and a HUF200mn fine for Schadl.

Hungary's National Defence Service launched the inquiry and the secret wiretapping of the suspects in 2017 after it learnt about the case as part of a separate investigation into corruption allegations against a senior official of the tax authority NAV.

The public first learned about the case in December 2021 when police arrested Schadl at Budapest Airport allegedly trying to flee to Dubai with his wife. He was travelling with a diplomatic passport granted by the foreign ministry.

For weeks authorities tried to keep the name of the “high-profile” politician involved in the case secret, but after pressure from independent media and opposition MPs, they eventually came out with a statement naming Volner.

The former state secretary resigned from his post in December 2021 and the Fidesz-led parliament lifted his immunity. Nevertheless, he held on to his job as a lawyer until October 2022 and remains at liberty.

Attempts by Hungarian opposition to have the government remove or even suspend Schadl from his post have failed. Fidesz lawmakers blocked proposals in November to replace Schadl, who has been in legal custody for more than a year.

The arrests came just five months before the April general election, but the case caused no repercussions in the campaign as Hungarian voters have become inured to corruption.

Leaked wiretapped telephone conversations then began to surface in Hungarian media in mid-2022 and documents from the investigation earlier this year, unveiling a system of favouritism entrenched in all levels and branches of government.

The trial could last years, given the number of people arraigned and the likely challenges as the cases progresses, observers noted. The documentation of the entire investigation is about 1,700 pages long, while the indictment has 72 pages.

Hungary's justice system, facing an acute labour shortage, is overwhelmed by cases and it is not rare to see legal proceedings drag on for as long as a decade.

**Bailiff licence goldmine**
Prosecutors allege that Schadl regularly bribed Volner until July 2021 and used his influence to secure the appointment of bailiffs of his choosing in exchange for kickbacks. Volner as state secretary was also in charge of overseeing bailiffs.

According to the indictment, Schadl paid Volner a total of at least HUF83mn (€217,000) in bribes between May 2018 and July 2021. Volner then exercised his influence as state secretary and deputy minister in Schadl's interest.

Holding licenses was a goldmine for bailiffs with hundreds of millions of forints of annual revenue. In six years, Schadl amassed a fortune estimated at HUF1.5bn, including some two dozen properties.

Ironically the licensing of bailiffs was part of a reform in 2015 to improve the transparency of the sector after many complaints of unjust evictions. The reform required a law degree for holding the position and curbed bailiffs’ autonomy. It also imposed tighter supervision by the justice ministry, which is responsible for the appointment of bailiffs based on the recommendation of the head of MBVK, led by Schadl from the start. This reform allegedly enabled the corrupt scheme to work.

At Friday’s preliminary hearing at the Budapest Municipal Court, prosecutor Gabor Boros said Volner, in exchange for the bribes, had moved to appoint bailiffs pushed by Schadl and obtain state support for one of Schadl’s companies. He said Schadl had obtained more than HUF924mn in kickbacks from the bailiffs he helped get appointed.

On the first day of the trial, four defendants confessed guilty, including a local government administrator, who helped Schadl get permission for a terrace at his lakeside summer residency in exchange for a HUF500,000 kickback.

Documents in the case show that neither Volner nor Schadl went about their business without any fear of being caught. On one occasion, Schadl allegedly handed over the regular monthly HUF3mn kickback at the entrance of the Ministry of Justice building.

“The trial could last years, given the number of people arraigned and the likely challenges as the cases progresses”

Schadl, 41, allegedly used his power to sell bailiff licenses for kickbacks and threatened people to withdraw their licenses if they had not paid him.

Volner also openly acquired a 300 sqm home in an auction, which he passed on a company owned by his son.
In a bid to improve transparency, the tax office moved the auctioning off of foreclosed homes to the internet. The auctions were often terminated early after the website was brought down by floods of requests (DDoS attacks). In that case, the last offer would stand valid, according to one of the many leaked investigative documents.

Schadl, as head of the MBVK with a bailiff office on his own, also made hefty gains from his own office, which was allegedly complemented by the kickbacks from people he got appointed to positions. His property portfolio swelled to nearly two dozen in a few years after taking office.

Schadl bought at least nineteen apartments, business premises, plots of land, or cellars, according to the prosecution. In one conversation with a friend, he is heard bragging about a new luxury seaside home in La Manga, Costa Calida, Spain, for which he had paid nearly half a million euros.

Around half of his residential property, seized by authorities, was previously owned by the Fidesz-led local district government in the Fifth District, many acquired when Antal Rogan was mayor of the affluent downtown district.

Fidesz cronies often received tips on foreclosed properties before they went for auction or in many cases it was the local government that sold off its stock at ludicrous prices in tenders only available to a closed circle of people.

Former MP Peter Juhasz unveiled shady dealings during Rogan’s term, after which he became a target of an unprecedented smear campaign by the government and its media. Juhasz eventually won more than 100 libel cases against a dozen pro-government outlets. Broadcaster TV2 in one case refused to release the full text of an apology after losing a string of defamation cases, saying it would take more than the entire length of its 45-minute-long news programme.

Authorities have seized assets of the former state secretary, which did not go down well with Volner’s wife. In a wiretapped conversation Volner’s wife is heard complaining: “They’re rotten bastards, they’re rotten rats, they are simply trying to make you say something about someone.” Volner then replies: “Maybe I will.”

While in detention Schadl wanted to contact “his associates to move forward” his case. He told his wife that if he did not receive help, he could turn in some 60-70 MPs.

Comments like these suggest that the operation of the scheme was more broad-based and organised at a higher level, according to local media.

Schadl’s wife is also being investigated in a separate case. Helga Baranyai, who had her own bailiff office is accused of forging documents involving the auction of property for just HUF38mn while the estimated market value was around HUF450mn.

Schadl has also allegedly used his influence in academia (being an associate professor at a university himself) to help politicians pass university exams. The list included a relative of Volner and a young politician Adam Nagy, the chief of staff of Rogan, who now heads the cabinet office and oversees Hungary’s intelligence services and communication at the same time.

The president of MBVK allegedly colluded with high-ranking judicial officials in a bid to remove a bailiff from his post. In one wiretapped conversation he is heard cursing and speaking in foul language against the judge who ruled against him.

Schadl even contacted the president of the National Office for Judiciary (OBH) Gyorgy Senyei, who arranged a meeting with Peter Tatar-Kis, president of the Metropolitan Court. In the wiretap, Tatar-Kis told Schadl that he can’t fire the judge, but can “make him feel uncomfortable at work”.

Senyei later confirmed to media that he spoke with Schadl on several occasions, but these had not “involved anything unlawful in purpose or content”. He has ordered an investigation into the meeting between Tatar-Kis and Schadl, but the report was classified as confidential.

The missing threads
At one time Schadl asked Volner to get legislation passed by the justice ministry and had initiated a meeting with Justice Minister Judit Varga. There is no evidence compiled during the investigation that Schadl actually met with Varga.

Independent MP Akos Hadhazy, who on his Facebook site uncovers corruption and the misuse of EU funds on a weekly basis, believes that one meeting took place, but says the investigation was closed prematurely in cases in which there was the possible involvement of high-ranking officials.

Schadl settled conflicts by initiating disciplinary proceedings against renegades, who were planning to mobilise their contacts against him, Hadhazy alleges, adding that he wanted to get ahead of this by asking Volner to arrange an appointment with the minister.

According to documents obtained by Hadhazy, Varga promised to “bounce the troublemakers”. If that was the case, Varga collaborated with Schadl, he says. The former MP of the green party LMP says that the prosecution is also to blame for not sending a subpoena for deposition to Varga to testify as a witness if not as a suspect.

The justice ministry does not comment on pending court proceedings, Volner’s successor, Robert Repassy, said in reply to inquiries by other opposition MPs.

According to independent media, there may have been closer ties than previously suspected between the jailed president of MVBK and Nagy.

According to the diary of Schadl’s driver, who is also one of the suspects in the case, he had to pick up a Mini Cabrio from a car dealership and drive it to Nagy. There is a note in the diary dated October 2021: “HUF1.2mn in the glove compartment.”
Schadl had earlier allegedly arranged the university exam of Nagy.

In one of the first wiretapped recordings, an associate of Schadl’s associates claims to have talked to “Toni, Barbi and Adam” about a 35-year concession tender. The government had announced a tender to hand over the management of about 2,000 km of motorways and public roads to a 35-year concession contract in mid-2021. The winning bidder was the consortium led by private equity fund Themis, linked to Orban’s childhood friend Lorinc Meszaros, Hungary’s most powerful oligarch.

Local media linked the surnames of the people in the short conversation to Rogan, his young wife Barbara and Adam Nagy.

Observers say it is very unlikely that the corruption case could be linked to people higher in the cabinet such as Rogan as the prosecution closed down the investigation in time.

It is also very unlikely that compromising material compiled by the National Defence Service that might implicate Rogan’s possible role could surface as it is Rogan who has overseen the operation of all secret services since May 2022.

The liberal Momentum party has turned to the police to investigate what they call selective and politically self-censoring practices of the prosecution.

Chief prosecutor Peter Polt, a former Fidesz MP, is widely accused of covering up corruption scandals close to the ruling party and its business elite.

Pavel wins landslide victory in Czech presidential election

Robert Anderson in Prague

Former Czech general Petr Pavel has won a landslide victory in the second round of the Czech presidential election over billionaire populist Andrej Babis.

The election of Pavel by 58.3% to 41.7% – a record margin – should bolster the country’s centre-right government, which had endorsed him. However, the election has also further polarised society as the government wrestles with the ongoing cost-of-living crisis and strongly backs Ukraine against the Russian invasion.

Pavel – whose slogan was “Let’s return order and peace to the Czech Republic” – is expected to work co-operatively with the government, rather than pursue his own agenda, as current President Milos Zeman has done in the past by forging close links with China and Russia.

The election of Pavel – the country’s first non-political president – will also mark a clean break with the country’s last two presidents, former premiers Vaclav Klaus and Milos Zeman, and a return to the liberal values of Vaclav Havel, the dissident who became president after the collapse of Communism.

In a symbolic move, Pavel’s victory celebration was attended by progressive President Zuzana Caputova of neighbouring Slovakia, who made a surprise trip for the occasion. The two presidents are already planning a joint trip to Kyiv shortly after Pavel’s inauguration.

In a tweet on January 28, Babis thanked his 2.4mn voters (in a country of 10.5mn people) for a “famous result”. But his crushing defeat by 960,000 votes is a severe blow for the 68-year-old opposition leader and agro-chemical tycoon, who also lost power at the October 2021 general election. It will raise questions whether he will stay in politics until the 2025 election.

Prime Minister Petr Fiala was quick to congratulate Pavel as well as to denounce Babis for the style of his campaign. “This is also Andrej Babiš’s third significant defeat. And it looks like we are witnessing the beginning of the end of his political era in our country. But let’s not be mistaken, it can still be long and unpleasant,” he said.
Pavel, 61, had narrowly won the first round on January 13-14 ahead of Babis, with 35.4%, with the other six candidates trailing far behind. Four of these candidates backed Pavel over Babis in the second round, with none backing the controversial tycoon, and the second round became a referendum on Babis, with many voters swinging behind the general to stop him winning.

In the second round, Babis fought an aggressive polarising campaign that tried to put off liberal voters for the other candidates by emphasising Pavel’s past as an ambitious officer who joined the Communist party and attended a “spy school”.

Babis’s attack is ironic, given that he also joined the party and is listed in the Czechoslovak secret police files as an informer, an allegation he denies. He was also backed by the hardline Communist party in this election.

Pavel – who will be the first Czech president to have held a Communist party card when the regime collapsed in 1989 – has apologised for his membership of the party, while denying that he had planned to become a spy.

“It was a mistake I can’t change,” Pavel told Czech daily echo24 in an interview. “But I am convinced that in 33 years of service to democracy at home and abroad, even at the risk of my own life, I have made up for this mistake.”

At the same time, Babis also reached out to disaffected and extremist voters by accusing his independent rival of being closely tied to the government, which he said was not doing enough to help people cope with the cost-of-living crisis.

Czech footballer’s coming out praised as courageous statement in region still marred by anti-LGBTQ+ violence

Albin Sybera

Czech international Jakub Jankto has become the highest-profile active footballer to come out as homosexual. Jankto’s powerful video clip shared on social media aroused praise and encouragement across Europe, and local human rights advocates pointed it out as an act of great personal bravery.

“Like everybody else, I want to live my life in freedom without fears, without prejudice, without violence but with love,” Jankto stated in a video before closing it off with a simple line, “I’m homosexual, and I no longer want to hide myself.”

Lawyer and activist Krystof Stupka shared Jankto’s video adding, “CZE is the 7th worst in the EU in LGBTQ+ rights according to Rainbow map. This is what bravery looks like!”

Minister of Foreign Affairs Jan Lipavsky (Pirate Party) thanked Jankto for coming out, saying that “it is something which represents us abroad and can give courage to others”.

Jankto’s message comes only some four months after a tragic shooting in Bratislava in neighbouring Slovakia carried out by a radicalised teen shooter targeting LGBTQ+ people and Jews. A hatred crime later classified as an act of terrorism left two men dead, Juraj Vankulic and Matus Horvath, and injured one woman standing in front of an LGBTQ+ friendly bar.

The shooting sparked rallies in support of the LGBTQ+ community in Slovakia as well as in Czechia, where there were calls for passing legislation giving equal rights to marriage to everyone.

Czechia allows same sex partnerships, as do Hungary, Estonia, Latvia, and Croatia among the EU countries in CEE, while Slovenia allows same sex marriages.

Sports Editor Tomas Macak from CNN Prima News pointed out that Jankto’s coming out is all the more courageous as it took place in the Czech football environment.

Both of the country’s best-known football clubs, Sparta and Slavia, have been embroiled in racist controversies and regularly penalised by UEFA for the racist behaviour of their fans. In 2021 Slavia Prague’s defender Ondrej Kudela was handed a 10-game ban for racially abusing Glasgow Rangers midfielder Glen Kamara during a knock-out stage at the Europa Liga match-up.
Babis even said during a TV debate on January 22 that he would not send Czech troops to defend Poland or the Baltic states in the event of a Russian invasion, a statement he later retracted.

Babis’ message was reinforced by Russian disinformation, including video footage circulating on social media that appeared to have been carefully edited so as to falsely depict Pavel advocating war against Russia.

The tension between Babis’ contrasting tactical approaches to the two mutually exclusive electorates eventually backfired, with liberal voters flocking to Pavel out of fear of Babis’ extremism, while the far-right SPD party still refused to back Babis. Turnout was a record 70.2%.

Pavel has had a distinguished military career, becoming the chief of the general staff and, from 2015 to 2018, the chairman of the Nato military committee, the highest Nato position reached by an officer from a former Warsaw Pact country.

Pavel was also the commander of the Czech unit on the UNPROFOR mission in the former Yugoslavia, during which in 1993 he led a unit that rescued 55 French soldiers who were under bombardment, for which he was awarded the Legion of Honour.

Pavel will mark a sharp break with Zeman, who could not stand again, when he takes over as president in March. Zeman, a strong ally of Babis, had endorsed his fellow populist in the election.

Yet Pavel has positioned himself slightly to the left of the government, criticising it for not doing enough to help ordinary people, and he has supported same-sex marriage, which is not in the coalition programme.

In foreign affairs, where the president has more powers, he will be a strong supporter of Nato as well as the EU, having backed adoption of the euro, while the government is still split on the issue.

**OBITUARY**

**Lubomir Strougal, longest serving Czechoslovak prime minister**

**Albin Sybera in Prague**

Lubomir Strougal, who spent over 18 years as prime minister during the so-called normalisation era of communist Czechoslovakia, has died aged 98. Despite being seen as a reform-oriented communist late in his career, Strougal also personified the stiff reactionary regime that replaced the “socialism with a human face” of the Prague Spring following the Soviet-led invasion of Czechoslovakia in August 1968.

Strougal managed to hold on to high-ranking positions in most of the different eras of communist rule in Czechoslovakia and was often described as a pragmatic technocrat of power.

After Czechoslovak Stalinism in the late 40s and early 50s, in spring 1968, the Communist party led by Alexandr Dubcek liberalised Czechoslovakia to the point that Moscow invaded the country and installed a loyalist regime. Under a process of so-called “normalisation”, this hardline regime held on to its hawkish positions even during the reform period of Soviet leader Mikhail Gorbachev, before it was eventually brought down by the Velvet Revolution in November 1989.

As prime minister from 1970, Strougal took a pragmatic approach to the all-encompassing reality of Czechoslovak society subjugated on all levels of public life to Russian orders. “Small allied countries are just another form of Russian gubernia [provincial unit],” Strougal wrote in his memoirs.

“What did people want? Simply put, they wanted [to choose from] an offer they knew from the ordinary catalogues in the West,” Strougal summed up the then state of society.

Strougal’s dry assessment serves well to depict the hollowness of normalisation-era politics. Voting was mandatory, but the presence of Soviet troops and loyalist elites dependent on Moscow for their careers rendered meaningful changes unrealistic. Just a couple of years after the political fervour of 1968, Czechoslovakia turned into the most conservative of the Central European communist regimes.

The then-dissident Michael Zantovsky recalled that when Strougal’s daughter Eva married journalist Jiri Janousek in 1977, guests were given fresh copies of James Joyce’s Ulysses while these were banned in ordinary book stores.
Kosovo will mark the 15th anniversary of its independence from Serbia on February 17, amid verbal scuffles with Belgrade but with rising hopes that a final resolution between the two foes may be imminent.

Europe’s youngest country, which unilaterally declared independence from Serbia in 2008, has been held back in its quest to join the UN, the EU and other international organisations as it has not yet secured recognition from all states, including influential permanent UN Security Council members Russia and China.

Serbia refuses to recognise Kosovo as independent — in fact it has been actively lobbying states to de-recognise Kosovo — and has relied on its old ally Russia to keep Kosovo out of the UN. However, as Russia’s invasion of Ukraine radically changed the geopolitical landscape of Europe last year, there is fresh pressure from the EU and US on both sides to reach a compromise.

Given the increased international pressure, the possibility of a compromise still exists, or else a more serious conflict may arise given the geopolitical circumstances and the war in Ukraine.

“Given the increased international pressure, the possibility of a compromise still exists, or else a more serious conflict may arise”

EU and US officials say they expect a solution to be found by the end of this year, a difficult assignment for both Serbia and Kosovo, given that both sides have to make painful concessions; Kosovo has to allow the formation of an Association of Serb Municipalities, while Serbia must allow Kosovo to join international institutions.

Lost autonomy
Kosovo was a former province of Serbia, which was one of the six republics in the former Socialist Federal Republic of Yugoslavia (SFRJ). In 1974, Kosovo was granted full autonomy within the Yugoslav Federation.

After the breakup of Yugoslavia in 1991, when Slovenia, Croatia and Macedonia declared independence, Kosovo...
remained part of the Federation, which consisted of Serbia and Montenegro.

Even before that, when Slobodan Milosevic became head of the Communist League of Serbia in the late 1980s, he initiated plans to trim down the autonomy of Kosovo and protect rights of the Serbs there by launching a campaign against Kosovan separatists.

In 1989, President Milosevic proposed a new constitution to strip Albanians in Kosovo of their rights. The move provoked violent protests, which in turn prompted Belgrade to declare a state of emergency and to impose direct rule over the province.

Dissatisfied with the move, the separatists’ activities in Kosovo were on the rise. Kosovo Albanians set up the guerrilla Kosovo Liberation Army (KLA), which sought independence from Serbia. The KLA was funded mainly by the Albanian diaspora, but also by Albanian businessmen, and according to estimates the militant group received up to $100mn for its paramilitary activities. The organisation was designated as terrorist by the Serbian authorities.

The Serbian police and military’s actions against KLA separatists escalated into armed conflict in 1998, which ended with Nato strikes on Serbia in 1999. The strikes forced Serbian forces to withdraw from the province and they were replaced by the Nato-led peacekeeping mission, KFOR, and other international organisations.

Legacy of conflict
Aside from thousands of deaths, the conflict left thousands of people displaced and missing from both sides. Today 90% of the population is Kosovo Albanians and only 5% or about 100,000 are Serbs, of which half live in the northern Kosovo, with very close ties with Belgrade.

That means they have Serbian IDs, passports, car number plates, health care, education, telecom services and other benefits.

Following the conflict, the KLA was transformed into the Kosovo Protection Corps.

Chaos inside and outside parliament in day of opposition protests in Albania

Protesters tried to force their way into Albania’s parliament during a demonstration on February 13, while inside the parliament there were angry exchanges as opposition MPs disrupted the session.

The Democratic Party, led by former president and prime minister Sali Berisha, has launched a series of protests against Prime Minister Edi Rama’s government. The opposition have accused the government of corruption and failing to alleviate the pain caused to the population by high inflation.

A large crowd of opposition supporters gathered outside the parliament on February 13, following a thousands-strong protest on February 11.

Faced by a police cordon around the parliament, protesters threw smoke bombs and tried to force their way inside the building.

The session started with one minute of silence to commemorate the victims of the earthquake in Turkey and Syria.

Shortly afterwards, protesters managed to set fire to equipment supplying energy to the hall where the parliament session was taking place. This plunged the session into darkness, but MPs continued to debate, lighting the hall with their mobile phones.

Berisha repeatedly interrupted the session to demand that the McGonigal case is investigated, and was rebuked by speaker Lindita Nikolla.

The opposition has criticised Rama over alleged links to former FBI agent Charles McGonigal. McGonigal has been charged with taking secret cash payments of more than $225,000 that he allegedly received from a New Jersey man employed decades ago by an Albanian intelligence agency. Rama has denied opposition accusations of corruption.

Another Democratic Party MP, Flamur Noka, blew a whistle continuously to prevent other MPs being heard.

Berisha also claimed to have a “erotic video” featuring Socialist Party officials and foreign ambassadors. He declined to publish the video, saying he would hand it over to law enforcers.

After the parliament session ended, Berisha joined the protesters outside. He pledged that further protests will take place in the coming days to keep up the pressure on the government.
On February 17, 2008, Kosovo’s parliament declared independence and Hashim Thaci, a former KLA political leader, became prime minister. Fatmir Sejdiu was the first president of independent Kosovo.

Serbia disputed the legality of the declaration of independence and asked the International Court of Justice (ICJ) to determine if it was legal. The ICJ concluded that the declaration did not violate international law and as a result the UN adopted a joint Serbia-EU resolution, which initiated an EU-mediated dialogue between Belgrade and Pristina.

Milošević was indicted in May 1999 by the UN’s International Criminal Tribunal for the Former Yugoslavia for crimes against humanity in Kosovo and other charges. On March 11, 2006, Milošević was found dead in his prison cell in The Hague detention centre.

More recently, high-ranking Kosovan politicians have also been called to account. Two decades after the war, Thaci faces trial in The Hague. In June 2020, the Kosovo Specialist Chambers and Specialist Prosecutor’s Office filed an ten-count indictment against Thaci and three former KLA commanders for crimes against humanity. As well as being the first prime minister of independent Kosovo, Thaci also served as Kosovo’s president in the period from April 2016 until November 2020, when he was sent to the detention centre.

**Escalation in 2022**

In 2013, the two sides reached the Brussels Agreement, intended as a foundation for future cooperation and a starting point for reaching a final agreement on the normalisation of their relations.

However, progress since then has been sporadic and 15 years after the declaration of independence, Kosovo and Serbia are still at odds.

The last time the situation escalated was in the summer of 2022 when Kosovo’s Prime Minister Albin Kurti decided not to recognise ID cards and car number plates issued by Serbian authorities for Serbs living in Kosovo. He asked Serbs to change their car number plates for Kosovan ones. The move sparked protests and rebellious Serbs in the north started erecting barricades, which was supported by the Serbian authorities.

Serbian President Aleksandar Vučić claimed the new rules meant that Kurti had plans to expel Serbs from Kosovo, and he said that Serbia would not allow this to happen.

The situation calmed down before the New Year holiday, when Vučić, under international pressure, ordered Kosovan Serbs to remove barricades from the roads.

**Maximum efforts**

With war now raging in Ukraine, EU and US officials are doing all they can to bring the two sides to the negotiation table to find a comprehensive solution to their dispute in order to avoid another conflict in Europe.

The latest French-German proposal for Belgrade and Pristina was accepted in principle by Kurti. Vučić seems ready to discuss the plan, but has been criticised by the opposition. The plan sparked divisions in Serbia and snap elections are not excluded.

One sticking point is the Association of Serb Municipalities. Belgrade wants Kosovo to allow the formation of the association in order to discuss the French-German plan further.

However, the authorities in Pristina fear that setting up such association would harm Kosovo’s national interests as it might resemble a mini-state, which would be under Serbian control.

The ultimate goal for the Kosovan side is recognition, but Belgrade still refuses to recognise Kosovo as a separate country. If the plan is accepted, Serbia should allow Kosovo’s entry into international institutions, such as the UN and the Council of Europe. Vucic says that recognition of Kosovo by Serbia was not mentioned in the plan.

Currently Kosovo is recognised by more than 100 countries, but five EU member countries, as well as Serbia’s allies Russia and China, still refuse to accept Kosovo’s independence.

Resolving the situation would allow both countries to progress towards EU accession, and would also improve Kosovo’s image in the eyes of international investors. At present, investors are reluctant to come to Kosovo as the situation there is still unstable.

The country of 1.8mn people has one of the highest jobless rates in Europe, and is also struggling with high corruption, a flagging economy and energy issues.

> “With war now raging in Ukraine, EU and US officials are doing all they can to bring the two sides to the negotiation table to find a comprehensive solution and avoid another conflict in Europe”

With the north still unstable, the Nato-led peacekeeping mission in Kosovo, KFOR is present with about 3,700 soldiers. Kosovo’s Security Force (KSF) is tasked to defend the territorial integrity of the country and is under the control of KFOR. Since 2018, KSF has been in the process of transformation into an army, which is expected to take 10 years.
Turkish minister tells US ambassador ‘Take your dirty hands off Turkey’ as sanctions sparks fly

Tensions between Ankara and Washington have flared up with the US warning Turkey about the export to Russia of chemicals, microchips and other products that can be used in Moscow’s war effort in Ukraine and Turkish interior minister Suleyman Soylu launching an attack on the American ambassador to his country, saying: “Take your dirty hands off of Turkey. I’m being very clear. I very well know how you would like to create strife in Turkey. Take your grinning face off from Turkey.”

Turkey's parliamentary and presidential elections scheduled for May 14 are fast approaching – angry rhetoric from the Erdogan regime, designed to nationally rouse its core vote, is no surprise. Nor are angry interventions from US politicians who dislike the unreliability of Turkey as a Nato ally, but at the same time stop short of anything that could irretrievably wreck relations with a country crucially located at the crossroads of Europe, Asia and the Middle East.

Nevertheless, sparks are flying

Brian Nelson, the US Treasury Department’s top sanctions official, visited Turkish government and private sector officials on February 2 to urge more cooperation in disrupting the flow of goods that Russia can put to use in persisting with its war on the Ukrainians.

In a speech to bankers, reported by Reuters, Nelson said a pronounced year-long rise in exports to Russia left Turkish entities “particularly vulnerable to reputational and sanctions risks”, or lost access to G7 markets.

They should, he said, “take extra precaution to avoid transactions related to potential dual-use technology transfers that could be used by the Russian military-industrial complex”. “There is no surprise ... that Russia is actively looking to leverage the historic economic ties it has in Turkey,” a senior US official, who requested anonymity, told Reuters, adding: “The question is what is the Turkish response going to be.”

In separate talks with Turkish firms, Nelson “urgently” flagged the way Russia is believed to be dodging Western controls to re-supply plastics, rubber and semi-conductors found in exported goods and used by the military, the official was also quoted as saying.

As reported at the end of last week, US officials are, meanwhile, tightening another sanctions noose that could leave Russian and Belarusan airlines flying US and European-made aircraft to Turkish airports without ground services.

Word of this move spread at the same time as interior minister Soylu started hitting out at Western countries for issuing security alerts about potential terrorist attacks in Turkey, saying these nations were waging “psychological warfare” on Turkey with the aim of wrecking the post-covid pandemic recovery of its tourism industry.

Whether Soylu – a known ardent critic of the US, whom he blames for the 2016 attempted coup against President Recep Tayyip Erdogan – had Nelson's trip to Turkey in mind as he let loose his latest invective is not known, but he was unspiring as he railed against US Ambassador to Ankara Jeffry Flake, saying during an address made at a ministerial event in Antalya: “Every US ambassador who arrives in Turkey is hurrying to find out how to make a coup possible in Turkey”.

“I address the US ambassador from here. I know the journalists you made write articles,” he added.

As Turkey continues to threaten an effective veto against Sweden’s bid to join Nato – protesting, among other things, that Stockholm is not doing enough to extradite Kurdish and Gulenist “terrorists” to Ankara or stop far-right activists from mounting protests in which the Qur’an holy book is burned – another
Not even a nosebleed – how Turkish town was successfully built to withstand 1999 earthquake

It’s not as if Turkey didn’t have ample evidence that buildings constructed in line with scientifically planned earthquake-resistance measures can be extremely effective in saving the lives of their occupants in the event of a catastrophic quake.

And that evidence has been staring the authorities in the face for more than 23 years, ever since the 7.6-magnitude Marmara Earthquake hit Turkey on August 17, 1999.

The 37-second earthquake, also known as the Izmit Earthquake, struck near the city of Izmit in Kocaeli Province in the early hours, causing from 17,000 to 18,000 deaths. Yet, despite being close to the epicentre of the quake in Golcuk, on the Gulf of Izmit – and despite the natural disaster causing tens of thousands of buildings to collapse – there was one settlement that was hardly affected.

BBC Turkish went on to report how in Tavancil, a district of Kocaeli’s Dilovasi district, it was said that no-one “even had a nosebleed” caused by the quake. And it was not down to extraordinary luck or exceptional factors, it was simply the result of acting in line with the recommendations of scientists.

Focusing on the BBC investigation of Tavancil’s remarkable outcome, on the 23rd anniversary of the Marmara Earthquake last year, Diken recounted the role of Salih Gun, who in 1989 won the presidency of the newly-formed municipality that included the settlement.

Gun, who died with covid last year, consulted with scientists at Kocaeli University on a zoning plan for the locality after he was elected to office. His attention was drawn to how the town was located on the North Anatolian Fault Line.

In line with the conclusions underpinning the zoning plan, Gun, despite much local indignation, went on to refuse permission for the construction of any buildings higher than three floors. Locals told how even a permit applications for attics above this height were refused.

The rest is history.

Yet it’s a history, hideously ignored.

By the morning of February 14, it was known that around 38,000 deaths caused by the February 6 earthquakes that hit southern Turkey and northern Turkey were already confirmed, and there were fears that the final toll could be double that figure or even worse.

If Salih Gun were around today, he would not be impressed by the effort to investigate and prosecute those responsible. For the many officials who took bribes in return for regulatory amnesties that enabled builders to get around earthquake construction codes or for turning a blind eye to infringements of those codes, they need only need a trip to Tavancil and a mirror to hunt down their quarry.

Growing difficulty in Turkish-US relations is Turkey’s request to the US to acquire F-16 fighter jet aircraft.

A group of bipartisan US senators is proposing that any such sale should be tied to Turkey’s openness to accepting Sweden, and Finland, into Nato.

On February 2, Democrat Senator Jeanne Sheheen and Republican Senator Thom Tillis, who are co-chairs of the Senate Nato Observer Group, drafted a letter to President Joe Biden saying that “Congress cannot consider future support for Türkei, including the sale of F-16 fighter jets, until Türkei completes ratification of the accession protocols [for Sweden and Finland].” This letter was followed by 25 colleagues supporting this decision.

US Secretary of State for Political Affairs Victoria Nuland last week gave assurances to Congress that the Biden administration has made it clear to Turkey that if it does not budge on the Nato expansion then F-16 upgrades will not happen nor will any additional sales of F-16 fighter jets.

“We have made the same point to our Turkish allies ... that we need this Congress’s support moving forward for the security enhancements that we think that they need, as allies, F16s, some of them [aircraft] are old, but that this Congress is likely to look far more favourably on that after ratification,” said Nulan.

With the Nato expansion dispute dragging on, more and more voices in Western media opposed to Turkey’s strongman, Erdogan, are starting to make themselves heard.

Columnist for The Observer Simon Tisdall on February 5 attacked Erdogan under the heading: Turkey’s two-faced ‘sultan’ is no friend of the west. It’s time to play hardball.”

The BBC, looking at issues such as Turkey’s acute cost of living crisis, reported on February 5: “There is a lot at stake in the upcoming elections, with opposition figures arguing that it will be a choice between increasing autocracy or democracy.”
Russia's Foreign Minister Sergey Lavrov claimed the West “has got its sights” on Moldova.

Russian foreign minister speaks of Moldova as the “next Ukraine”

Russia's Foreign Minister Sergey Lavrov said in an interview with Russia Today that the West “has got its sights” on Moldova as a country that might “follow Ukraine's path” by turning into an “anti-Russia”.

Moldova, a small country on Ukraine’s western border, is seen as vulnerable to a potential escalation of the war in Ukraine. Part of its territory, the Transnistria region, has been controlled for decades by Russia-backed separatists.

Officials in Moscow were angered by recent comments from Moldovan President Maia Sandu hinting that the country might consider Nato membership. Two influential Russian lawmakers previously warned on January 24 that Moldova considering Nato membership “may lead to its destruction”. Moscow’s fierce opposition to Ukraine joining Nato was one of the reasons for Russia’s invasion of Ukraine last year.

“Now they [the West] are sizing up Moldova for this role [as the ‘next Ukraine’], primarily because they were able to place a president at the helm of the country, who is itching to join Nato, by way of quite specific methods that are far from being free or democratic in any way. She [Sandu] has Romanian citizenship, she is ready to unite with Romania and in general is ready for almost anything,” Lavrov said, Tass reported.

“Moldova: The country is on a high alert after MFA Lavrov stated in a interview that Nato/West would be interested in repeating “Ukrainian scenario” in Moldova,” Political commentator Dionis Cenusa wrote on Twitter on February 2.

“This statement coincides with the warnings from Ukraine that Russia might seek to extend the war to Moldova or use its influence in Transnistria to create internal unrest. So far this has not happened, as the authorities in both Chisinau and Tiraspol have sought to maintain calm.

Lavrov’s statement prompted a critical response from Moldova’s pro-EU authorities, with Minister of Foreign Affairs and European Integration Nicu Popescu calling it “unfriendly and incorrect”.

Popescu argued that Russia’s main unfriendly action towards Moldova is the maintenance of the separatist regime in Transnistria, and that the peaceful resolution of this problem is one of the main objectives of the authorities in Chisinau, which are fully committed to the European integration process.

“Our goal is to solve these problems, to obtain the withdrawal of Russian troops from the territory of our country. achieving this goal is done through peaceful and diplomatic methods. We are broadly supported by the international community,” Popescu said.

and Western countries have abandoned the ‘5+1’ format previously used to work towards a settlement of the frozen conflict. The format, which involved both Russia and Ukraine, became unworkable following the invasion.

“This format is considered unsuitable by the West, because it was needed when there were still authorities in Chisinau who were interested in maintaining [Moldova’s] territorial integrity and in an agreement with Transnistria,” Lavrov claimed.

There have been fears since the invasion of Ukraine that Russia might seek to extend the war to Moldova or use its influence in Transnistria to create internal unrest. So far this has not happened, as the authorities in both Chisinau and Tiraspol have sought to maintain calm.

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Russian President Vladimir Putin revoked a law that outlines Russia's main foreign policy goals on February 21, which sets the stage for more aggressive Cold War-like relations with the West.

Putin signed off on the foreign policy law himself in May 2012 during his third presidential term, which outlines Russia's major foreign policy goals.

The previous law contained specific instructions for cultivating “co-operative relations” with foreign countries, based on “respect for neighbouring countries’ sovereignty” and a promise to work with the various world regions.

A new decree, which came into effect on the same day, revises those goals and has abandoned any attempt to co-operate with the West as well as ditching the requirement to respect other country’s sovereignty. Meduza reports that the specific points that have been removed from the law include:

- establishing external conditions that favour Russia’s long-term development;
- affirming the fundamental principles of the UN Charter, which require co-operation between states, based on equality and respect for the member states’ sovereignty and territorial integrity;
- active work on resolving the situation in Transnistria based on respect for Moldova’s territorial integrity, sovereignty and neutrality;
- active co-operation with Belarus within the framework of the supranational Union State;
- active assistance in the strengthening of Abkhazia and South Ossetia as modern democratic states;
- promoting the creation of a single economic and civic space spanning from the Pacific to the Atlantic coast, including efforts to lift the EU short-term visa requirements for Russian nationals and collaboration in

Putin has cancelled Russia’s "co-operative" foreign policy law and replaced it with one that emphases Russia’s "national interests", setting the stage for a new Cold War. / bne IntelliNews

Putin revokes Russia’s foreign policy law and sets the stage for a new Cold War

Ben Aris in Berlin
• fostering a stable and predictable relationship with the US, based on the principles of equality, non-intervention and respect for mutual state interests, along with further efforts to relax reciprocal visa requirements;

• deepening trust and equal strategic partnership with China, as well as strategic partnerships with India and Vietnam and mutually profitable co-operation with Japan, South Korea, Australia and New Zealand;

• developing a relationship with Nato in proportion to the alliance’s willingness to consider Russia’s national interests.

Now the key goal of Russia’s foreign policy will be to pursue Russia’s “national interests” as defined by the Kremlin, in light of “deep changes taking place in international relations.”

One of the specific instructions in the 2012 decree was for Russia’s Foreign Ministry to consistently implement the new START missile treaty signed by Putin and US President Joe Biden in January 2021 just after the US president took office. The original treaty was signed in 2010 by Russia’s then-president, Dmitry Medvedev, and US President Barack Obama, when both Putin and Biden were serving as the number twos in their respective administrations.

Putin announced that Russia was suspending the treaty during his State of the Nation speech on February 21, but emphasised that Russia was not withdrawing from the deal. The Russian Ministry of Foreign Affairs later the same day clarified that the caps on missile numbers contained in the agreement would be respected and Russia would continue to inform Washington of any nuclear tests ahead of time, as was agreed in the deal.

What has changed is that the obligation to allow inspections at least twice a year of key nuclear sites will no longer happen. However, thanks to the coronavirus pandemic those inspections have not been happening anyway, so little has changed in practice.

The suspension of the treaty, the only Cold War-era arms control agreement still in place, is intended as a signal to the West that Russia is prepared to escalate further in its clash with the West. But at the same time, the fact the deal is suspended and that Russia has not withdrawn from the agreement can also be taken as a signal that the Kremlin remains open to restarting arms control talks.

Putin highlighted in his speech the fact that it was the US that unilaterally withdrew from the major arms controls deals over the last two decades, starting with former President George W Bush’s decision to cancel the ABM treaty (Anti-Ballistic Missile Treaty) in 2002 over loud protestations by the Kremlin at the time. Putin specifically mentioned the US withdrawal from the INF treaty (Intermediate-Range Nuclear Forces Treaty) in 2018 during Donald Trump’s presidency, exclaiming he didn’t know why the US pulled out.

Biden came into office with the promise of reversing this policy and signed off renewing the START treaty within days of entering the Oval Office. The decision was warmly received by the Kremlin, which immediately called for talks to begin on reinstating the INF treaty. However, relations decayed rapidly over the next months and those talks never happened.

Biden has shown himself to be a dove on arms controls with Russia. As a Senator in 2002, he argued strongly against pulling out of the ABM treaty, saying it would destabilise international relations, which it did. Later in January 2021 in the month of shuttle diplomacy to prevent the war in Ukraine, US Secretary of State Antony Blinken also made it clear to Russian Foreign Minister Sergei Lavrov that the US was keen to continue arms reduction talks, but the Kremlin rejected the offer out of hand unless the Kremlin’s demand that Ukraine could never be admitted to Nato was met first.

The revocation of the 2012 foreign policy law by Putin this week raises concerns about Russia’s future foreign policy objectives and how the country will pursue them. Putin’s decision to abandon the previous “co-operative” framework and replace it with a “national interests” framework suggests a shift towards a more assertive and confrontational foreign policy. This stance was already outlined by Lavrov in the prelude to the war with his “new rules of the game” speech in February 2020, where the veteran foreign minister said the Kremlin would no longer tolerate the Western “deals with one hand, sanctions with the other,” and threatened to break off diplomatic relations with the West. Now those sentiments have been codified.

It remains to be seen how this new foreign policy direction will play out. Commentators said that Putin’s speech was aggressive but at the same time it remained vague, as it didn’t lay out Putin’s war goals for Ukraine, nor did it carry many specific details. Even the announcement of the suspension of the START treaty was a fudge that leaves the door open to new talks. However, the revocation of the 2012 law signals a significant shift towards a new combative relation with the West similar to the policies that dominated the Cold War.

“Putin highlighted in his speech the fact that it was the US that unilaterally withdrew from the major arms controls deals over the last two decades”
Perhaps the most painful and expensive exit of Western companies from Russia has been that of Wintershall, Germany’s largest gas company and a subsidiary of the chemical giant BASF.

Over the previous 30 years BASF and Wintershall had built a deep partnership with Gazprom, which in many respects was the very symbol of the Russian-German entente of the post-Soviet era. As late as 2022, Wintershall was generating nearly 40% of its cash flow through three joint ventures with Russian companies affiliated with Gazprom. Half of Wintershall’s assets were held in Russia.

The parent company, BASF, was forced to write off €7.3bn in losses, stemming from Wintershall’s gas assets in Russia and its 15% share in the NordStream1 pipeline (the subject of my first post on Russian-German gas). It was not simply a financial disaster for Wintershall; it was the unwinding of a vision that had been at the core of the company’s business for three decades.

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The first blow came within weeks of the Russian invasion of Ukraine in February 2022, when Wintershall reported it had lost control of its operations in Siberia and the price of its Russian gas had been cut. By the end of the year, according to Mario Mehren, the CEO of Wintershall, Gazprom had emptied Wintershall’s account in Russia of some €2bn, which simply disappeared. As late as July, Mehren had vowed that he would not leave Russia. But finally, by the end of the year, Wintershall came under such acute public and financial pressure that it had no choice but to announce a complete withdrawal.

Thus ended an extraordinary odyssey. Wingas owed its origins to a joint rebellion by BASF (Germany’s largest gas consumer) and Gazprom, against the tight monopoly power then held by Ruhrgas (today part of the German utility giant E.ON) over the German gas transmission system. BASF was looking for cheaper transit prices; Gazprom was looking to penetrate the German gas midstream and access Germany’s municipal gas utilities. Ruhrgas stood in the way, and refused to budge.

The only solution was for both companies to bypass Ruhrgas, by building a new gas distribution and storage system of their own. In 2003 BASF and Gazprom founded Wingas, a joint venture between Gazprom and BASF’s subsidiary Wintershall. The two partners proceeded to build an entirely new network, at a cost of some €5bn.

It was a daring move: at the time they began, they had not a single customer; and they built the entire system “on spec,” essentially on a wish and a prayer. There followed an epic battle, as BASF/Gazprom and Ruhrgas fought tooth-and-nail to win contracts with gas buyers in Germany. Nothing like it had ever been done before. It took a decade of warfare, but it broke Ruhrgas’s monopoly forever. Indeed, Ruhrgas itself was soon acquired by the giant German utility E.ON, and today no longer exists as a brand name.

Simultaneously, in 2003 Wintershall and Gazprom founded a joint venture in what was then the largest gas field in Siberia, Urengoy. The joint venture, called “Achimgaz,” was intended to bring advanced technology to bear on the field’s deepest horizon, which was rich in both gas and in liquids, and where Gazprom had never worked before. The two partners jointly committed $700mn for the first phase, and each took a 50% stake. Wintershall invested $90mn up front.

The two partners spoke optimistically of the field producing for 43 years and yielding over $10bn. As the then-CEO of Wintershall, Reinier Zwitserloot, said proudly, “Just as we did once before, we are taking on the role of pioneers.”

The following year, in 2004, BASF and Gazprom deepened their partnership further. Gazprom increased its stake in Wingas to 50% minus one share;
in exchange it gave Wintershall a 35% stake in a new field called “Yuzhno-Russkoye,” in the northern part of West Siberia. This gasfield too was rich in liquids, and required advanced technology. At the same time, as part of the new deal, BASF and Gazprom began discussing a new “Northern European” gas pipeline, to bring the gas from Yuzhno-Russkoye to Germany.

The second round was blessed personally by Putin, who attended the official signing of the memorandum of understanding in a ceremony at the annual Hannover Trade Fair, together with then-PM Gerhardt Schroeder. Putin praised the BASF-Gazprom partnership as a historic development. “This is not a one-time event,” he said. “In essence, it marks a step toward the mutual penetration of the two economies.”

By the time the actual deal was concluded in Tomsk, Angela Merkel had replaced Schroeder at the signing ceremony, but the two sides’ enthusiasm was undiminished. Putin, indeed, was ebullient. Hailing the deal as a “first in contemporary history,” Putin said, “It is the best example of the fact that Russia and Russian companies are ready for a deep and all-embracing collaboration…”

The two deals were indeed historic. They were the first time that Gazprom had ever allowed a foreign partner into its fields. The decision spoke volumes about the strategic importance of the “Wingas” joint venture in Putin’s eyes, both as the key to Gazprom’s plans in Europe, as well as the solution to Gazprom’s growing needs for new capital and technology, as its Soviet-era legacy of gas and pipelines began to fade.

The deal for Yuzhno-Russkoye led straight on to the notorious Nord Stream pipelines. With over 600 bcm of proven reserves (which further exploration soon increased to over a trillion), the field was expected to begin producing in 2008, reaching an initial planned capacity of 25 bcm within three years. It was meant to be the centerpiece of the North European Pipeline, which by 2006 was renamed “Nord Stream.” By 2011 the first string of the new pipeline had been laid at the bottom of the Baltic Sea and the first gas from Yuzhno-Russkoye had begun to flow to Germany.

In retrospect, the elaborate partnership between Gazprom and BASF/Wintershall marked the high point of Russian-German friendship and optimism, and also of Russia’s gas ambitions in Europe. It would have been hard to imagine that, seventeen years later, Putin would preside over its destruction.

The partnership evolves, but the partners pull in different directions

For nearly a decade it was a happy marriage. The two companies got on well – their executives and workers played football together, exchanged visits, and even vacationed together. Their interests – cheap gas imports for one, an expanding gas market for the other, and a new export pipeline in-between – were comfortably aligned, and their joint company, Wingas, grew into one of Germany’s biggest gas businesses.

But the honeymoon did not last. In the wake of the 2008-9 financial crisis, European gas demand and prices dropped sharply. Unable to find buyers in Germany, Wintershall demanded that Gazprom cuts its prices. The Russians held out for the original agreement, and the result was a fight. Gazprom was ultimately forced to yield, but at the cost of considerable loss of good will on both sides.

Despite this, Gazprom continued to see a strong future for its pipeline-gas market in Europe; indeed, as the new West Siberian fields came online and the NordStream1 pipeline reached its targeted capacity of 55 bcm, a second pipeline, NordStream2 was already being planned. Germany, and especially Wingas, remained the key to Gazprom’s plans for further expansion into European gas distribution and sales, which soon included the UK. In 2013, Gazprom bought the remaining half of Wingas from BASE, thus taking 100% control of the gas-trading function. But Wintershall remained a central part of the consortium of Western investors backing the NordStream2 pipeline, as well.

In short, by the time of the Ukrainian invasion, Gazprom and Wintershall remained as closely tied to one another as the proverbial Siamese twins. But what followed only adds to the deep mystery of the Kremlin’s self-destructive response, described in my previous post, “Putin’s Gas Suicide.” Not only has Moscow discarded its ownership of Wingas – built after such sustained joint effort over the previous three decades of partnership – but it has now dropped a bomb on its upstream partnership with Wintershall in Siberia, an important key to its plan for the next generation of Russian gas and liquids in Europe, and the direct source of supply for the Nord Stream export system. Truly a case of gas suicide – just one of the many casualties of Putin’s invasion of Ukraine.

“Putin said, “It is the best example of the fact that Russia and Russian companies are ready for a deep and all-embracing collaboration…”

Thane Gustafson is the author and co-author of eight books on Russian affairs, including most recently Wheel of Fortune: The Battle for Oil and Power in Russia (2012), The Bridge: Natural Gas in a Redivided Europe(2020), and Klimat: Russia in the Age of Climate Change (2021), all with Harvard University Press.
One of Ukraine’s most famous oligarchs is under investigation in Kyiv’s latest anti-corruption crackdown.

Law enforcement raided the house of Ihor Kolomoisky on February 1. A former ally of Ukrainian President Volodymyr Zelenskiy, the influential billionaire is suspected of embezzling oil products worth UAH40bn ($1.08bn) and evading customs payments, Ukrainian Pravda reported. He has always denied any wrongdoing.

In addition, searches were also conducted at the properties of the former interior minister Arsen Avako, pro-Kremlin lawmaker Vadym Stolar and Oksana Datiy, acting head of the State Tax Service’s branch in Kyiv.

Investigations into the oligarch have been ongoing for months, concerning his close relationship with the oil companies Ukrtatnafta and Ukrnafta, in which Kolomoisky’s companies have significant shares. The National Anti-Corruption Bureau of Ukraine (NABU) searched one of Kolomoisky’s homes in mid-September, 2022, seizing documents and downloading contents from a gadget. He was then questioned by NABU in October.

Despite funding Zelenskiy’s presidential campaign, the pressure for Kyiv to crack down on corruption led to the president stripping his former friend of his Ukrainian citizenship in July. Moreover, the government seized Ukrtatnafta and Ukrnafta in November under provisions put in place by martial law.

This is not the first time the billionaire has found himself in hot water, with the US sanctioning Kolomoisky in 2021 due to alleged corruption. Back in 2016, the government also seized Kolomoisky’s PrivatBank following near bankruptcy, accusing him and his business partner, Hennadiy Boholyubov, of “large-scale and co-ordinated fraud” relating to $5.5bn missing from the bank’s accounts.

Ukraine is ardently trying to prove to its Western allies that it is taking corruption seriously in a bid to ensure further funding as well as EU and possible Nato membership. The last month has seen the largest government reshuffles since the full-scale invasion, with numerous officials fired over scandals.

In addition to Kolomoisky, the latest crackdown targeted Avakov as part of an investigation into the tragic helicopter crash last month in Brovary that killed his successor Denys Monastyrsky. According to the Kyiv Independent, investigators looked into Avakov’s six-year-old-contracts with Airbus, the French company that manufactured the helicopter that crashed. Avakov claims that the investigation found “nothing”.

Ukraine’s Security Service searched pro-Kremlin politician Vadym Stolar, a member of the Opposition Platform – For Life Party, who fled Ukraine hours before Russia launched its invasion. He returned to maintain his post until the end of his term, but was blocked from leaving the country again in late January.

Meanwhile, the State Investigation Bureau raided the head of Kyiv’s State Tax Service’s branch, Oksana Datiy, over suspicions that her opulent lifestyle didn’t match her official income, as well as for allegedly organising a $800mn corruption scheme at the tax office. Datiy’s assets amounted to $1.4mn, including three apartments in Kyiv worth $1mn and a $200,000 house near Kyiv.

However, some critics are wary that Zelenskiy isn’t being even handed in the way he is targeting officials, and is turning a blind eye to some of his closest colleagues. His Deputy Chief of Staff Oleh Tatarov, accused of bribery in 2020, has avoided the crackdown and has since seen his case dropped by law enforcement.

Investigations into Kolomoisky have been ongoing for months, concerning his close relationship with the oil companies Ukrtatnafta and Ukrnafta. / bne IntelliNews
Ukraine was already suffering from a demographic crisis that will take Emerging Europe population levels back to the early 20th century before the war started, but battlefield death, emigration and low birth rates due to the war will make it far worse.

Thanks to three decades of mismanagement Ukraine was already the poorest country in Europe before the war, with a per capita GDP of only $13,860 in 2021, according to the World Bank in PPP (purchase power parity) terms. That has surely collapsed since the war started.

Low wages led to massive economic migration. At the same time without much of a future to look forward to birth rates had collapsed to a mere 1.22 births per woman in 2020, according to the World Bank, one of the lowest rates in Europe. The current birth rate for Ukraine in 2023 is 8.618 births per 1000 people, a 2.25% decline from 2022.

“The ever-present proximity of death or Russian occupation, family separation, and financial as well as physical insecurity is having a dire effect on Ukraine’s already-declining birth rate,” the World Bank said.

All these trends have become worse since the war started. The United Nations reports that over 8mn Ukrainians have relocated to other countries as a result of the ongoing war, or approximately one fifth of Ukraine’s pre-war population. Most of these refugees are currently residing in Europe (5mn) or Russia (3mn), with another quarter million in North America, according to the UN.

Due to restrictions on “fighting age” men (those under 60) leaving the country, the majority (85%) of Ukrainian adults who have migrated are female. This means that women outnumber men in this refugee group by almost 6 to 1, which is a further hit to fertility rates.

Before the war, Ukraine had a female-skewed population, but this was mostly seen in older age groups. In the crucial 18-34 age group for family formation, there were over six times more women who have left compared to men. As a result, Ukraine now has a deficit of young and middle-aged women.

Ukrainian refugees are also highly educated, with three quarters (76%) having received a tertiary education, compared to only just under a third (30%) of the pre-war population. This is reflected in the refugee communities in Krakow and Vienna, where two thirds (66%) and eight out of ten (83%) respectively had a tertiary education.

Additionally, these refugees are the country’s most productive as only 4% were unemployed before they left the country – significantly lower than Ukraine’s pre-war unemployment rate of almost 9%.

The war has not only sent millions of people over the border, but it has largely sent some of the most industrious and well educated members of society, and the nucleus of future families.

While pre-war most economic migrants, especially those to Poland, said they intended to only stay three months to make some money before returning home, a more recent post-war survey found that a third of the Ukrainians in Germany had no intention of leaving again once the war is over.

The demographic shifts are likely to have a huge impact on Ukraine’s future growth prospects once peace returns that will significantly slow growth and extend the recovery period by years. The ongoing war in Ukraine has led to a massive migration of its population, with a significant portion being women and highly educated individuals. This migration has resulted in imbalances in the age and gender structure of the country, as well as a shortage of young and middle-aged women.

The war is an unmitigated disaster for Ukraine’s long-term outlook.

As bne IntelliNews reported, six years after the Euromaidan revolution it appeared that Ukraine was finally starting to enjoy some of the benefits of the catch-up growth that most countries in the region finished a decade ago. And in a feature comparing side-by-side the Russia and Ukraine’s economies before the war Ukraine was starting to close the gap with Russia and wages, among other things, and was on course to overtake Russia as Ukrainian President Volodymyr Zelenskiy’s reforms started to make an impact, whereas Russian President Vladimir Putin’s austerity had hobbled Russia’s development.

Thanks to the war Ukraine’s economy shrank by some 30% in 2022 and a large part of its energy infrastructure has been destroyed. While poverty levels were low before the war, despite the low wages, now the World Bank estimates that poverty could rise to 50% of the population this year.
by the time Russia invaded Ukraine a year ago, Iran over many years had gotten well used to being the world’s most sanctioned nation. The invasion, of course, sparked a Western economic backlash against Moscow, the extent of which was unprecedented, meaning Iran now found itself the second most sanctioned country.

The onslaught of sanctions against Iran’s maritime neighbour over the Caspian Sea called for some quick, evasive action from the Kremlin. Officials under Vladimir Putin, who found a sympathetic ear when he visited Tehran in July last year, were not slow in consulting with Iranian counterparts on methods and schemes for working around sanctions, and sanctions evasion was very much the focus of the Russia-Iran relationship for the first few months of the Ukraine War. But as the year progressed, it became menacingly clear to the Ukrainians and their allies that Iran was also supporting Russia in another way – it was providing the Russian Army with kamikaze and other military drones that were taking a toll on Ukrainian civilian as well as military targets.

By last week, it was reported that G7 member states were discussing whether to sanction companies in Iran – as well as in China and North Korea – for providing Russia with parts and technology, such as microchips, that have dual-technology military purposes.

Analysts at the US Defense Intelligence Agency, meanwhile, were making the case that Iran was emerging as a global leader in the production of cheap and lethal military drones and was using the war in Ukraine as a shop window for its technologies. Iran was no longer just a regional drone player in the Middle East – it should, they said, be seen as Moscow’s most significant military backer in the war. The extent of Iran’s potential weapon provision was also indicated by a recent Al-Monitor report that quoted an Iranian military intelligence official as saying: “Our power has grown to levels where China is waiting in line to buy 15,000 of our drones.”

Iran is thought by US intelligence officials to have supplied three models of drone to Russia, namely the Shahed-131 and 136 single-use kamikaze drones, used by Moscow as a cheaper alternative to cruise missiles, and the Mohajer-6 multi-role drone, which can be used for intelligence gathering and can carry a missile payload. The US Defense Intelligence Agency has made it clear that Iran appears to be “committed to resupplying” Russia with drones, though Tehran denies claims it is building a military drone production facility in Russia, in Tatarstan.

How Russia and Iran are in cahoots

bne IntelliNews
There are indications that so pleased is Moscow with the Iran military cooperation that it is prepared to deliver Tehran Su-35 fighter jets by the end of March. The provision of Russian military helicopters is also widely expected.

Could Iranian ballistic missiles already be going the other way? An analysis by Can Kasapoglu – a non-resident senior fellow at the Hudson Institute and director of the Security & Defense Research Program at EDAM – published by National Interest on January 6 cautioned: “Taking advantage of Russia’s growing reliance on low-cost Iranian weapons amidst its stumbling campaign in Ukraine, Iran is now set to procure dozens of Russian Su-35 aircraft. While some Western assessments tend to downplay the gravity of the acquisition, claiming that it would not drastically alter the airpower balance in the Gulf, the Su-35 would give an unprecedented boost to Tehran’s control over the Iranian airspace. Such a capability development effort is particularly dangerous as the regime is moving closer to a nuclear bomb.

“More importantly, the ambitious barter of Russian Su-35 fighters in return for Iranian drones, and probably ballistic missiles, manifests a grim calculus for the West. Contemporary military transactions between Tehran and Moscow have unveiled a new geopolitical episode. Washington and its allies are now facing a more aggressive and hostile axis than ever.”

As two ‘pariah’ regimes that are not for bending, Iran and Russia have in the past year backed each other politically, with the regular refrain that foreign powers should not interfere in a country’s internal affairs. With major unrest spreading across Iran’s towns and cities following the September death of 22-year-old Mahsa Amini while in the custody of Tehran’s morality police, the White House even served a warning that there were signs Russia was training Iran in how to suppress demonstrations, drawing on the Putin administration’s years of experience in brutally crushing all opposition that manifests on the streets.

What’s known for sure is that Iran is working with Russia in space technologies – a Russian rocket has already been used to put an Iranian satellite into orbit, prompting claims Moscow was leasing it to spy on the battlefield in Ukraine – the automotive industry, aviation, petrochemicals, pharmaceuticals and the interlinking of their electricity grids, while the two countries in January hooked up and integrated their interbank communication and financial transfer systems.

In January, it was reported that Russia has overtaken China as the top foreign investor in Iran, thanks to $2.7bn of spending on two oil projects in the western Ilam province. But all is not going smoothly in hydrocarbons when it comes to Iranian and Russia cooperation – there are reports that sanctions on Russia are hindering and stalling a flagship Iranian gas development project, namely South Pars Phase 11.

Another difficulty for Iran is that as it grows closer to Moscow and refuses overtures designed to tempt it back into relaunching the 2015 nuclear deal, or JCPOA, with the Western and other major powers – a JCPOA revival would provide Iran with waivers on sanctions in return for a guaranteed curbing of Tehran’s nuclear development programme – economic sentiment on its markets sours and there are painful consequences. On February 20, the Iranian rial (IRR) for the first time ever crashed through the 500,000/s barrier. Last August, it was trading at around 300,000/s.

In trade, turnover between Russia and Iran in 10M22 hit $4bn, surpassing the turnover posted for full year-2021, according to figures provided by the Federal Customs Service (FCS) of Russia. Russian exports to Iran were up 27% y/y, while imports from Iran moved up by 10% y/y. So, trade is not massive, but there is fair potential for a substantial expansion given how Russia, in many ways barred from Western markets, has turned so very much to the South and East. A full-fledged free trade agreement between Iran and the Moscow-led Eurasian Economic Union (the EEU trade bloc groups Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan) might not be far away.

A big challenge for Russia is developing trade routes via which it could efficiently reach many of those Eastern and Southern markets that Putin sees as a major part of Russia’s economic future.

Last November brought an interesting small news item when it was announced that Russia’s United Shipbuilding Corporation (USC) is to build four sea-river container/MPP (multipurpose) ships, or “boxships” that will travel between Russian inland ports along the Volga River and the Volga–Baltic Waterway in the north, and Iran’s Caspian Sea ports in the south, steaming distances of up to 4,500 kilometres.

That, however, is just a segment of a far bigger picture – the grand ambition is for Russia to be linked to the Middle East, India and other far-flung markets via rail links that would traverse Azerbaijan and Iran to reach the latter’s Persian Gulf ports and sole oceanic port – Chabahar on the Sea of Oman (Indian Ocean) – under the International North South Transport Corridor (INSTC) project. It could also link to other routes connecting to Russia via Central Asia.

A big test of how committed Russia is to INSTC will be how fast on its feet it turns out to be in providing financing and perhaps engineering to address the weakest link in the corridor, namely the lack of a railroad to negotiate swampy and rocky terrain between Astara, Azerbaijan, and Rasht near the southern coast of the Caspian Sea in northern Iran.

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Uzbekistan’s relations with Taliban start to fray

Bruce Pannier

Of the five Central Asian countries, Uzbekistan has the best relationship with the Taliban. Recent events, however, demonstrate the Uzbeks’ difficulties in dealing with the current rulers of Afghanistan.

Uzbek authorities and the Taliban leadership quickly came to a business arrangement after the militant group returned to power in August 2021 and pledged that Afghan territory would never be used to launch an attack on a neighbouring country.

Uzbekistan had prepared for the possibility of the Taliban seizing control of Afghanistan. In March 2019, then-Uzbek foreign minister Abdulaziz Kamilov held talks in Doha with Taliban representatives. The following August, a Taliban delegation visited Uzbekistan.

Uzbek and Taliban officials continued to meet in the months before foreign forces concluded their Afghanistan exit.

When the Taliban entered Kabul on August 15, 2021, the Uzbek embassy remained open. While the crossings along the 144-kilometre (89-mile) Uzbek-Afghan border – including the key Dustlik (Friendship) Bridge – closed, bridge traffic resumed within weeks.

The secular Uzbek government – the top officials of which grew up when Uzbekistan was part of the Soviet Union – have little in common with the Taliban. In fact, during the Taliban’s late 1990s reign in Afghanistan, the Uzbek government provided aid to anti-Taliban forces. But infrastructure projects built during the 20 years when foreign forces propped up the Hamid Karzai and Ashraf Ghani governments were lucrative for Uzbekistan and became indispensable for Afghanistan.

Asian Development Bank (ADB) helped fund the construction of power transmission lines between Uzbekistan and Afghanistan. Uzbekistan now accounts for 60% of Afghanistan’s electricity imports. Some unfinished projects from years back, if completed, could significantly boost that figure.

On January 2, Tashkent and Kabul prolonged the Uzbek electricity supply agreement to cover 2023, but on January 13, Uzbekistan halted electricity exports to Afghanistan, citing technical problems. By January 22, with supplies still suspended and temperatures around Central Asia plunging, the Taliban seemed to be losing patience.

Taliban Acting Foreign Minister Amir Khan Muttaqi said that day: “Uzbekistan cut off electricity supplies; now people are facing problems. Neighbours and friends should help each other in difficult moments.”

Supplies were restored on January 24, but remaining tensions over the power outage were clear. Then on February 1, Uzbekistan’s state railway company Uzbekiston Temir Yollari announced a temporary suspension of Uzbekistan-Afghanistan railway traffic “due to the fact that the Afghanistan Railroad Authority is not able to implement agreed measures in time…”

The railway line is important for both countries. It connects to railway lines from China (the first China to Afghanistan goods train arrived in 2016) and to other Central Asian rail routes, linking through to Russia.

Some disagreements appeared to have been rumbling since early December.

Afghanistan’s Tolo News reported on December 5 that Afghanistan Railway Authority acting chief Bakht Rahman Sharafat said Afghanistan had signed a contract with Kazakh company Mansour Fatih on maintaining the railway from the Uzbek border to the northern Afghan city Mazar-i-Sharif.

The Dustlik Bridge connecting Uzbekistan and Afghanistan was completed in 1982. It is a vehicle and railway bridge, with train tracks laid down the middle. The railway route was meant to bring supplies to Soviet troops in Afghanistan. But it ended just a few kilometres inside the country.

Funding from international organisations saw it extended to Mazar-i-Sharif, 75 kilometres from the Uzbek border.

Taliban Acting Defence Minister Muhammad Yaqoob has twice demanded Uzbekistan hand over warplanes and helicopters it seized from Afghan government troops who fled Afghanistan while the militants were marching on Kabul. / Afghan state TV, screengrab.

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The extension opened in 2011 and ever since that time, Sogdiana Trans, an Uzbekiston Temir Yollari subsidiary, has managed it.

In the Tolo News report, Sharafat said Sogdiana Trans was “only providing us service for 22 kilometres, only to Hairaton port” and that the Kazakh company pledged to maintain the line as far as Mazar-i-Sharif.

Sharafat also said Afghanistan would only pay the Kazakh company $4.1 million annually, while “we were paying $15 million to Sogdiana Trans....”

A search for more information about Mansour Fatih revealed nothing prior to Sharafat’s mention of the company, so it is unclear what its experience is in railway system management.

Tolo News reported that “deputy head of the Fatih company, Bish Bai Makhanov, said that they would increase the number of employees based on capacity.”

On December 7, Uzbekiston Temir Yollari referred to “distorted information” from some media outlets about the railway line.

It also mentioned that Sharafat was just present in the Uzbek border town of Termez, connected by Dustlik Bridge to Afghanistan, and denied making remarks about Sogdiana Trans losing the contract with Afghanistan.

At a meeting in Termez over February 8-10, a new protocol for Sogdiana Trans to manage the line to Mazar-i-Sharif for another two years was signed. Rail service resumed.

Uzbekistan’s Foreign Ministry, meaning while, on January 5 had stated that Uzbekistan “received with deep concern the news about the introduction in Afghanistan of a ban on the study of women and girls in public and private higher educational institutions.” It continued that Uzbekistan “look[s] forward to reconsideration of this decision as a sign of determination to support the aspirations of the Afghan people to build a peaceful and prosperous future.”

The Taliban leadership has been shrugging off similar criticism from various quarters of the international community but it surely noticed Uzbekistan’s comments.

On February 16, Akhror Burkhanov, the Uzbek Foreign Ministry’s press secretary, tweeted: “We’re saddened to learn about the damaged monuments of the great poet Alisher Navoi in #Afghanistan.”

Alisher Navoi is a revered Uzbek poet who wrote in Chagatai, an earlier form of a language that became modern Uzbek. When he was writing, most writing and poetry in areas now part of Uzbekistan and Afghanistan was written in Persian.

Navoi was born in, and is buried, in Herat, Afghanistan.

Burkhanov noted “Afghan Gov reps.” said the vandalism of the monuments in Balkh Province did not reflect government policy, but he added that “the incident, which is an unauthorised & thoughtless action of unknown people, can damage our common historical & cultural heritage”.

Importantly, there are other parties connected to Afghanistan seeking to drive wedges in the Uzbek-Taliban partnership.

The terrorist Islamic State of Khorasan Province (ISKP) has twice fired rockets from Afghanistan towards Uzbekistan. Both occurrences were near Termez, seemingly to prove Dustlik Bridge is not secure.

None of the rockets fired in mid-April 2022 made it across the river to Uzbek territory, but a couple of rockets fired in July hit a residential area near Termez, damaging homes but causing no casualties.

In propaganda posted online, the ISKP has increasingly criticised Uzbekistan for its relationship with the Taliban.

More recently, ethnic Uzbek Afghan commander Abdul Rashid Dostum, a veteran of Afghan conflicts going back to the 1980s Soviet occupation (Dostum fought on the Soviet side), called on Tashkent to give seized Afghan government warplanes and helicopters to the National Resistance Front (NRF) that is still battling the Taliban in areas of northeastern Afghanistan.

Afghan government troops flew several dozen planes and helicopters to Uzbekistan as the Taliban were marching on Kabul in mid-August 2021.

The Taliban’s acting defence minister, Mullah Yakoob (former Taliban leader Mullah Omar’s son), has twice demanded that Uzbekistan hand over the aircraft.

Uzbekistan supported Dostum’s forces in the late 1990s when they were located in areas bordering the country. But there is little chance Tashkent would give the aircraft to NRF forces, who have no base for them anyway. Dostum’s appeal to Uzbekistan will, however, remind the Taliban of the existence of the military assets they claim as Afghan property.

Given Uzbekistan’s close past association with Dostum, some Taliban officials are probably suspicious that some of the aircraft could go to their enemies inside Afghanistan.

The arrangement between the Uzbek government and the Taliban is holding – for now. ●
Uzbekistan’s relations with Taliban start to fray

bne IntelliNews

Some 4,000 Islamic State – Khorasan Province (ISIS-K) fighters are now stationed near Afghanistan’s border with Tajikistan, according to a Russian colonel-general.

The warning served by Anatoly Sidorov, Chief of the Joint Chiefs of Staff of the Moscow-led Collective Security Treaty Organization (CSTO), was reported by Afghanistan’s The Khaam Press News Agency.

Sidorov was cited as saying that the militant group poses threats to the security of Central and South Asia. Both Russian and Iranian officials have lately stepped up briefings to media that they believe the US is in favour of breeding instability in Afghanistan, a backyard country to both Russia and Iran. Washington denies having any such strategy. Should Russia face a challenge to regional security to its south from Islamic militant infiltration, it could conceivably tie up military resources that could otherwise be called up for the war in Ukraine. The CSTO is supposed to provide security for Russia, Belarus, Tajikistan, Kyrgyzstan, Kazakhstan and Armenia.

In a February 15 article published by Voice of America (VoA), the Taliban regime’s chief diplomat Amir Khan Muttaqi was reported as refuting Sidorov’s claims as baseless, saying: “How come thousands of such people are concentrated in one place and still no one can see them or is aware of them?”

Since the return of the Taliban to power in Afghanistan, ISIS-K militants have carried out brutal attacks in Kabul and various provinces of Afghanistan, claiming the lives of hundreds of innocent civilians and foreign diplomats.

Tajikistan has experienced cross-border rocket attacks from the militant group over the past year. There have been reports of Tajikistan press-ganging an army to defend its long, often porous, border with Afghanistan. Uzbekistan, meanwhile, which also shares a border with Afghanistan, last summer had difficulties with possibly rogue Taliban groups and in the late spring also appeared to suffer a cross-border rocket attack mounted by ISIS-K.

In March last year, bne IntelliNews reported on concerns that Afghanistan-based terrorist groups could destabilise Tajikistan and Central Asia in the wake of the US exit from Afghanistan that took place the previous August. And as the US completed that exit, this publication explored how Afghanistan was set to attract jihadists from far and wide, with the development also a threat to China. China’s Xinjiang Province has a 92-kilometre-long mountainous border with Afghanistan at the end of the Wakhan Corridor, a narrow strip of territory in Badakhshan Province of Afghanistan that also separates Tajikistan from Pakistan.

“Instability in the regions is directly linked to the Taliban’s policy to repress religious and ethnic minorities, increasing level of violence and lack of unity. The Taliban-run administration is currently plagued with a serious economic and humanitarian crisis,” Sidorov, who said he believed there were around 6,000 ISIS-K fighters in Afghanistan in all, was further quoted as saying by Khaam Press.

After the US departure from Afghanistan, the Kremlin responded to the Taliban takeover of the country by beefing up the largest permanent military base it has abroad, namely its base in post-Soviet Tajikistan. It has made some efforts to negotiate understandings with the Taliban – a Taliban delegation to Moscow was last year allowed to form an official presence there, for instance – but it is not clear much progress in building relations has been made.

Also since the US packed up and left Afghanistan, Tajik President Emomali Rahmon has given several warnings that thousands of militants were located near his country’s border with Afghanistan, stating in January last year: “Overall, according to the intelligence of Tajikistan, there are over 40 camps and terrorist training centres in Afghanistan’s northeastern provinces, which house over 6,000 militants.”

Rahmon has gone so far as to call for security “ring of steel” to be formed around Afghanistan, saying the country is more and more a nest of terrorists.

Persian-speaking, officially secular Tajikistan and the Islamic fundamentalist, primarily Pashtun Taliban are essentially foes, though, like Uzbekistan and Turkmenistan, Tajikistan continues to provide Afghanistan with electricity.
Could casinos be a jackpot for Mongolia’s struggling economy?

Michael Kohn in Ulaanbaatar

Mongolia has rolled the dice before on establishing casinos but without much luck. A renewed attempt to open the country’s first casino in more than two decades is now underway as Mongolia looks for new avenues of economic growth.

A bill to legalise casinos, betting, lotteries and horse racing was submitted to Parliament in December and is making its way through various Parliamentary committees, according to the State Great Khural website.

The hope is that foreign visitors can be encouraged to make bets on slot machines and at poker tables after visits to the open steppes of the Mongolian countryside. Largely dependent on mining, Mongolia is looking for ways to diversify its economy and boost growth as it faces headwinds. Its currency has lost 22% of its value over the past 12 months and GDP has fallen to 2.5% after being in double digits a decade ago.

The casino concept is being pushed by the government after it declared the years 2023-2025 as the “years to visit” Mongolia. The bill in Parliament also provisions building horse racetracks and legalising lotteries.

Casinos have been opening across Asia over the past two decades, mainly catering to Chinese holidaymakers. The Philippines, Singapore, Cambodia and Malaysia are a few of the countries that have made a bet on casinos to boost revenue.

But as Mongolia heads down the path of casinos, some remain wary of gambling. In 2019 authorities banned civil servants from gambling in casinos in other countries amid reports that officials were spending an inordinate amount of time in casinos whilst on official trips abroad.

One quirk in the bill submitted to the Great Khural states that Mongolian citizens won’t actually be allowed to gamble in the casinos on their own soil. While banning citizens from entering casinos in their own country is unusual, Mongolia would not be the first to enforce such a law. A similar restriction also exists in Monaco. South Korea also bans its citizens from all but one of its 23 casinos. This provision could prove controversial if lawmakers consider it not to be in line with the country’s democratic values, said Bolortuya Ulziibat, managing partner at Ulaanbaatar-based Tsogt & Nandin law firm.

“The government asserts that such a restriction does not violate human rights and only aims to prevent negative impacts on locals, such as gambling addiction,” said Bolortuya. “I personally can’t agree, because there may be some legal issues such as a conflict with the constitution and discrimination.”

But such a provision may not be too controversial among Mongolians, said Bolortuya.

“Casinos are still a very sensitive and negative subject in Mongolia, almost like guns or drugs,” she said. “So if the government makes casinos open to Mongolians then people might protest against such a draft law. Personally, I think most Mongolians may like such a legal restriction.” Casinos have had a poor reputation in Mongolia since the late 1990s, when a casino located in the basement of the Chinggis Khaan Hotel was shut down after two years in business amid allegations of corruption and money laundering.

Some speculated that the casino was connected to the murder of prominent politician Zorig Sanjaasuren, who was assassinated in October 1998. Zorig, infrastructure minister at the time of his death and in line to succeed an outgoing prime minister, was reportedly against the business.

Later administrations attempted several times without success to re-establish a casino business, all of them withering in the face of public scepticism over legalised gambling.

If passed, the new law would permit authorities to issue casino operating licences valid for 30 years. Upon expiry of the licence, half the casino shares must be transferred to the government. The operator’s licence can then be extended an additional 10 years. Another provision would prohibit the transfer of a casino licence to another company after it has been issued.
The minimum investment required by the government is $300mn. The last time Mongolia saw an investment in tourism on that scale occurred in 2015, when Shangri-La opened up a $500mn hotel, office and shopping complex in Ulaanbaatar.

As for Mongolia’s take, a tax rate of 40% on profits would apply, equal to what is currently required of casinos in Macau. A portion of the revenues would go back into tourism development. The legislation would also require the operator to make all transactions through local banks.

“The aim was to create a real investment that would be adapted to the specifics of our country,” Nyambaatar Khishgee, Mongolia’s Minister for Justice, said during a briefing to Parliament members last month. “Three hundred million is the threshold needed to make a real investment from scratch, not just to rent a ready-made building and start operations.” Casinos would be permitted within a 1,000-hectare free trade zone in Khushigt Valley, near the New Ulaanbaatar International Airport. The zone, set up last year and approved by Parliament, is located 50 km south of the capital. The law protects whoever jumps in first, allowing that operator a five-year monopoly before licences would be made available to companies.

A majority of members in the Standing Committee that heard the first reading supported the motion to continue discussions of the law in Parliament.

Zolbayar Enkhaatar, editor-in-chief of the financial newsletter Inside Mongolia, says casinos could help boost the economy and previous failures to pass a casino law shouldn’t deter legislators.

“It’s a good step that we’re even discussing this topic, because casinos used to be kind of a banned topic in Mongolia,” said Zolbayar.

But Zolbayar sees the rule that bans Mongolian citizens, along with the high entry cost for investors, as major impediments to development. “Because of those reasons, very few investors might be interested, if any,” he said.

While there are no currently no physical casinos in Mongolia, a number of online gaming platforms have emerged, although most of them are unauthorised. Several have been blocked in recent weeks by the Communications Regulatory Commission of Mongolia, according to News.mn, a local news portal.

While gambling in casinos would be outlawed under the law under review, the law would not ban gambling at short-track horse-racing events. Mongolia already has a culture of horse racing but those events are long-distance riding, and until now betting has been informal and usually between friends.

“The adoption of these laws has the potential to open space for new kinds of businesses, including horse stable facilities, betting software and rider training,” said Zolbayar.

One change from the norm is that the new law would require that jockeys are certified professional riders. This rule would prevent children – who serve as jockeys during summer festival races – from entering professional races.

Michael Kohn has covered Mongolia since 1998, reporting on social, political and economic changes in the country during its transition and growth. He has written travel guidebooks on Mongolia and two books: Dateline Mongolia and Lama of the Gobi.

Hopelessness grows as Azerbaijan’s blockade of Nagorno-Karabakh enters third month

Neil Hauer in Goris

The sleepy southern Armenian city of Goris rarely finds itself at the centre of events. Nestled amid high mountains in Armenia’s southernmost province of Syunik, its elegant stone houses and broad central square have the relaxed air of a place where there is rarely much of importance taking place.

But these days, the town attracts a menagerie of foreign visitors: EU and UN cars drive by in small convoys, flags waving in the wind; Russian peacekeepers in their camouflage uniforms and enormous Kamaz trucks are omnipresent; alongside them are several hundred other civilians whose lilting, accented Armenian sets them slightly apart from the locals – Karabakh Armenians, trapped here for more than two months as Azerbaijan’s blockade of Nagorno-Karabakh grinds on.

Following its victory in the 2020 Second Karabakh War, in which it recaptured three-quarters of the territory held by the unrecognised Republic of Artsakh (also known as Nagorno-Karabakh), Azerbaijan has continued to seek control over the rump remainder of Karabakh.

These efforts have only intensified since Russia, whose peacekeepers in Karabakh guarantee the 2020 ceasefire agreement, invaded Ukraine a year ago, a move which has sapped Moscow’s strength and influence.

While most of Azerbaijan’s moves have come in the form of military offensives, Baku hit upon a new tactic in December,
one less brazen and less likely to draw international ire. On December 11, a group of Azerbaijani ‘eco-activists’ set up a protest camp outside Nagorno-Karabakh’s capital Stepanakert, blocking the one road connecting the enclave with Armenia and the outside world.

The protesters, who have been linked to the Azerbaijani government, have stopped all traffic into and out of Karabakh, save for a handful of Russian peacekeeping and Red Cross vehicles. The result has been food shortages, power cuts and mass unemployment in Karabakh, as life comes to a halt for the 100,000 residents of the territory. Despite growing international pressure to reopen the road, Azerbaijan and its leader, Ilham Aliyev, have shown little sign they will end the blockade soon.

Goris, as the last major settlement in Armenia before the border and the road to Karabakh, has become the primary witness to this drama. Numerous hotels in the city are filled with Karabakh Armenians who were in Armenia at the time of the road closure and have been unable to get home ever since. The local government, supported by Yerevan, is putting them up as best they can.

“We have more than 300 people from Karabakh in Goris right now,” says Karen Zhabagiryan, an advisor to the city’s mayor. “Of these people, 60 are children. They are attending school [in Goris] now, because no one knows how long they will have to be here for,” he says.

The government has paid for the stranded Karabakhtsis to stay in local hotels for as long as they need, Zhabagiryan says. But while they are surviving, the psychological pressure of their situation is getting worse all the time.

“There are new problems arising constantly,” Zhabagiryan says. “People get sick, they miss their loved ones. They can’t even contact them [in Karabakh] very often, because of the power and communications cuts there. They can’t live like this forever,” he says.

Scenes at the blockade itself border on farce. While bne IntelliNews’ correspondent, like all others in Armenia, was unable to visit the protest camp itself, the photos and videos of the so-called protesters make it look more like a party than any sort of grassroots action.

The ‘demonstrators’ revel in comfortable conditions, with plentiful hot food and supplies brought from nearby Shusha, under Azerbaijan’s control; during the recent football World Cup, enormous viewing screens were erected for the Azerbaijani activists to enjoy the matches. All the while, tens of thousands of Karabakh Armenian civilians are shivering in the darkened streets of Stepanakert, just a few kilometres away.

Centre of displacement
The present situation as a displaced persons centre is a sadly familiar one for Goris. During the 2020 war, the city was overrun with Karabakh civilians fleeing the fighting there – “at least 10,000 people [from Karabakh],” according to Zhabagiryan, a startling figure given that Goris’s population is only 20,000. “We have already become professionals [at hosting them] as a result,” he says with a sad smile.

Venera and Oksana are two of them. Both in their mid-40s, they are now indefinite tenants at the Mina hotel, which has become a mini-Stepanakert at the northern end of Goris. Both were caught in Armenia when the blockade began.

“I came to Yerevan for a thyroid operation on December 12,” says Oksana, pointing to a recent scar on her neck. “By the time it was finished, the road was already closed. We drove down to see if it would clear, but it became obvious once we got near [the border] that we wouldn’t get to Stepanakert,” she says.

Venera had a similar experience, having gone to the Armenian capital to visit relatives. She now spends her days idling away at the hotel, waiting for the rare moments of steady internet and electricity in Karabakh to speak with her family there.

“We speak almost every day,” Venera says. “My nine-year old son is in our village, Berdashen [east of Stepanakert], and my daughter is in Stepanakert – she studies at university there. The stress is already unimaginable – the shops are empty, they have no fruit or vegetables for almost two months now. My son says to me, ‘mom, I’m tired of eating just grechka [buckwheat].’ What can I say to him?” she says.

There is another factor on everyone’s mind as well: Russia. While it is Azerbaijani protesters that have set up camp on the road itself, Russia’s 2,000 peacekeepers have made no attempt to remove them. Despite being obligated by the 2020 ceasefire agreement to ensure free passage of people and cargo along the road, Moscow’s servicemen have instead served as tacit enforcers of the blockade, establishing barriers separating the Azerbaijanis from any possible contact with the besieged inhabitants of Karabakh on the other side.

“We all understand that Russia is not fulfilling its mandate [as a guarantor of the road staying open],” says Zhabagiryan, the advisor to Goris’s mayor. “The road is supposed to be open, but it stays closed,” he says.

The two women are similarly torn over Russia’s role.
Russia is down, but not out, in Central Asia

Maximilian Hess

Russian President Vladimir Putin has long seen Central Asia as Russia’s “most stable region”. He has regularly exerted influence and political pressure over its leaders. However, after decades of stability, the last year has seen Russia’s influence in Central Asia deteriorate at an unprecedented pace.

Putin’s view of Central Asia as part of Russia’s sphere of influence was not unjustified. During his first 21 years in power, Russian relations remained relatively unchanged with all five of the former Soviet Central Asian states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. While the period was not without times of tension – for instance, Kyrgyzstan’s 2005 Tulip Revolution that the Kremlin denounced as a Western-backed “colour revolution,” Turkmenistan’s replacing of Russia as its major gas export route with the China-Central Asia pipeline and repeated spats with late Uzbek dictator Islam Karimov before his passing in 2016 foremost amongst them – at the beginning of 2022 the Kremlin could be confident that it was the pre-eminent power in the region.

Russia’s position was solidified by Kazakhstan’s rapid descent into tumult last January. Protests in Kazakhstan over the cost of living were co-opted by officials disgruntled at their loss of influence two-and-a-half years into the transition from long-ruling former president Nursultan Nazarbayev to his handpicked successor, Kassym-Jomart Tokayev. The crisis ended only after Tokayev called on the Kremlin-controlled Collective Security Treaty Organization (CSTO) to intervene. It did so successfully, with Russian forces helping their Kazakh counterparts to crack down on the unrest. China endorsed Putin’s actions and the West hardly objected.

A year later, however, the situation has been recast entirely. Russia has gone from being the dominant power in Central Asia to one whose influence is clearly on the wane. The change has not been wrought by events within Central Asia itself, but rather by Putin’s decision to vastly expand his long-running war against Ukraine on February 24, 2022. The attack laid bare Putin’s militarism and precipitated the most wide-ranging sanctions regime against a large economy since World War II. Putin’s desire for a swift and triumphant march across Ukraine into Kyiv and seizure of its territory east of the Dnieper proved a costly fantasy.

Yet a year later Putin has shown no willingness to abandon
his desired conquest, even after Ukrainian forces retook significant swathes of territory in the second half of 2022. The full impacts of the war on Russia’s geopolitical position have yet to be fully felt. Fighting continues and sanctions will further constrain Russian state capacity the longer they remain in place.

However, certain conclusions can already be drawn.

In Central Asia, Russia is no longer a regional hegemon. China’s rise had already displaced it as the premier economic power in the region, but as the January 2022 events in Kazakhstan showed, Beijing was happy to let Russia remain the preeminent political actor. Yet just 13 months on from his effectively unchallenged intervention in Kazakhstan – an event that Putin cast as the death knell for alleged pro-Western colour revolutions – Russian influence has diminished dramatically.

Nowhere is this more evident than in Kazakhstan itself. Although Tokayev praised Putin for intervening to save his administration in January 2022, just six months later Tokayev rebuked him, and refused a decoration Putin had planned to award him. The Kazakh government has spent the last year actively reaching out to the West, keen to put a line between itself and the Kremlin. Tokayev also openly welcomed Russians fleeing Putin’s September 2022 conscription, while his government also pressured broadcasters to limit the distribution of Russian state media channels.

The most significant changes in Kazakhstan’s relationship with Russia have, however, been economic. The country is the second largest member of the Russian-led Eurasian Economic Union (EEU), far larger than any of its constituent members other than Russia. But the Kremlin’s longstanding tool of using trade relations to push Kazakhstan to pursue its desired course of action is no longer effective. In response to Kazakhstan’s unwillingness to openly support its invasion of Ukraine, Russia in 2022 repeatedly cut supplies on the Caspian Pipeline Consortium (CPC) – the key export route for Kazakh oil to international markets. Tokayev’s government, however, was not swayed. It moved to increase exports via Azerbaijan, shipping oil over the Caspian Sea for distribution to Turkish ports via the Baku-Tbilisi-Ceyhan (BTC) pipeline.

Although that route cannot replace the capacity of the CPC, Astana recognised that Moscow’s ability to pressure it was limited. Sanctions on Russian crude exports in the form of the G7 price cap that came into effect in December 2022 meant Russia had to find new markets for its own exports, primarily India and China, which also received record discounts on the sanctions-tainted Russian crude.

Kazakhstan is by no means abandoning Russia. Its pipelines have helped ship additional Russian crude to China. But with Russia’s own pipelines to Europe constrained by the oil price cap, the Kremlin had to turn to Astana to help keep them filled. By January 2023, the Kremlin abandoned its strategy of throttling Kazakh CPC exports, and granted Kazakhstan’s Kaztransoil permission to use its Druzhba pipeline to deliver oil to Germany and Poland. Kazakh Energy Minister Bolat Akchulakov claimed that such deliveries could reach 1.5mn tonnes this year – and eventually reach 7mn tonnes per annum, more than a third of Russia’s pre-February 2022 annual exports to Berlin. While Kazakhstan’s oil exports via non-Russian routes grew 50% to 1.8mn tonnes in 2022, the reality is that its geography and China’s ability to buy more discounted Russian crude mean that its prospects for further such growth are limited. But the balance of power in the relationship is far less tilted in Russia’s favour as a consequence of Putin’s invasion of Ukraine.

Russia’s influence is also waning in Uzbekistan, Central Asia’s most populous state. Led by Shavkat Mirziyoyev since the death of Islam Karimov in 2016, Tashkent had spent the years preceding the invasion of Ukraine turning the country from a hermit state into one with a more liberal economy, welcoming foreign investors from Russia but also the West. Uzbekistan experienced its own surprise unrest last year when Mirziyoyev’s effort to overhaul the constitution in order to extend his own time in power sparked mass protests in its western Karakalpakstan region over proposed changes that would have removed its nominal autonomy. Rumours spread locally that Russia may have played a role in stoking the unrest after appeals for its help to intervene appeared online. But Mirziyoyev’s crackdown proceeded without Russian action (unlike Kazakhstan, Uzbekistan is not a member of the CSTO). And although Uzbekistan is still happy to welcome Russian investment, it has used its observer status in the EEU to rebuke Putin’s own attempts to use energy leverage in the region. In December 2022, Uzbek Energy Minister Zhurabek Mirzamakmudov said that Uzbekistan would “never agree to political conditions in exchange for gas” in response to Russian proposals to create a Kazakh-Uzbek-Russian gas “alliance”.

Russia has also faced new limits to its influence in Tajikistan and Kyrgyzstan, traditionally the two countries in the region most dependent on Moscow. The economies of both countries rely on remittances from Russia and while Kyrgyzstan in the past has sought to balance Russian influence by developing ties with the West, it was very much on a course for closer Russian alignment before Putin’s February 2022 escalation in Ukraine. The rise to power of

“The most significant changes in Kazakhstan’s relationship with Russia have, however, been economic. The country is the second largest member of the Russian-led Eurasian Economic Union (EEU)”
Sadyr Japarov from a jail cell to the presidency in 2021 saw Kyrgyz institutions taken over by a populist nationalist with little appetite for Western democracy promotion, and an affinity for the strong-man image of Putinist politics. Tajikistan was dominated by President Emomali Rahmon, who was long closely aligned with Moscow but whose position was shifted even further in Russia’s favour by the 2021 withdrawal of US forces from Afghanistan. Russia deployed reinforcements to Tajikistan in December 2021.

However, Tajikistan and Kyrgyzstan clashed repeatedly throughout 2022 amid a dispute over their shared and poorly demarcated border. But Russia – which has bases in both countries – was preoccupied with Putin’s war in Ukraine and made no meaningful intervention. Its major base in Tajikistan also reportedly saw troops drained for the fight in Ukraine. By October 2022, Rahmon himself publicly rebuked Putin, demanding more “respect” for Central Asian countries. Kyrgyzstan called on the CSTO to undertake a monitoring mission along the border. While the organisation has said it would be willing to do so, Tajikistan refused the offer. Russia’s war in Ukraine has limited its ability to police even the parts of Central Asia most dependent on Russian power.

Turkmenistan stands as a case apart. Nominally neutral, it is not a member of any of the Russian-led blocs in the region. Russia pursued a policy in the two years before 2022 of resuming some Turkmen gas purchases to try and provide a new economic basis to their relations after purchases fell precipitously following a mysterious explosion in 2009 and ended completely in 2016. But with Russia now facing a surplus of its own gas, there is little hope Moscow will be buying much gas from Ashgabat any time soon.

Instead, Turkmenistan has turned to re-engaging with the idea of building a trans-Caspian link bringing its gas to the West via Azerbaijan, Georgia and Turkey. Turkish President Recep Tayyip Erdogan – whose strategic position vis-à-vis Russia has also greatly increased as a result of Putin’s attacks on Ukraine – even endorsed the idea in December. While that is no guarantee the pipeline will ever materialise – Russia retains a veto under the 2018 Convention on the Legal Status of the Caspian Sea – it does indicate that even leaders willing to work with Russia, like Erdogan, recognise that Russia’s position in Central Asia has diminished. Nevertheless, it remains doubtful Turkmenistan’s government will go far enough in reaching out to the West, as it prefers to deal with a fellow repressive and kleptocratic regime in Moscow.

Last year marked the beginning of the end of Russia’s near-total dominance in Central Asia. The longer Putin’s war on Ukraine continues and the more stringent the international sanctions regime becomes, the greater its impact will be. The geography of the region means that its countries cannot move away from Russia entirely, of course, and some suspect that Central Asian trade has helped Moscow evade sanctions. The region may still be Russia’s backyard, but the gardener is absent – and it increasingly appears that there is little desire for him to return. A new era for Central Asia has begun, and the absence of a regional hegemon means that it is much more likely to be turbulent and possibly deadly.

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The article originally appeared on the FPRI website (www.fpri.org). The views expressed in this article are those of the author alone and do not necessarily reflect the position of the FPRI, a non-partisan organisation that seeks to publish well-argued, policy-oriented articles on American foreign policy and national security priorities.

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Ukrainian President Volodymyr Zelenskiy has been travelling to London, France and Brussels in recent days to plead with the west to give him more weapons, specifically to give him jet fighters now that a battalion of modern main battle tanks (MBTs) has been promised.

Unless the West agrees and also speeds up the delivery of the tanks, Ukraine is in danger of losing the war against Russia this summer – “losing” in the sense that Russia is expected to surge its military efforts with a fresh call up and threatens to overwhelm Ukraine’s heroic forces, complete it capture of greater Donbas region, when Russian President Vladimir Putin can declare a victory and freeze the conflict. Ukraine is already running low on the critically important ammunition,
especially 155mm artillery shells, and a potential ammunition crisis is looming.

More help needs to be delivered right now. Ukraine has a window of opportunity in these next two months to strike a hammer blow against Russia’s forces, which are currently of poor quality, undersupplied and undermanned at the front, as it has taken a six month defensive stand as it trains its new recruits and waits for its factories to manufacture more arms.

“Ukraine has a window of opportunity in these next two months to strike a hammer blow against Russia’s forces, which are currently of poor quality, undersupplied and undermanned at the front”

Tanks and planes could break lines and possibly repeat the rout in Kharkiv last September. If Ukraine waits until summer to launch a counteroffensive it will almost certainly face a much bigger, better trained and supplied Russian army. Tanks, planes and modern offensive missiles could make all the difference.

After a year of fighting both sides are becoming exhausted, but Russia has already brought an extra 300,000 conscripts to the fight with a partial mobilisation that started on September 21 and could add an additional half a million men, or more, in the widely anticipated mass mobilisation that all signs suggest will start sometime in March.

Manpower is going to make a big difference. Without the powerful modern western offensive weapons, the war in Ukraine increasingly looks like something out of WWII; troops cower in trenches as artillery pounds both sides’ positions causing a steady stream of deaths. There is little footage of high tech “bunker busters” that filled screens during the Iraq war. In this set up another half a million men, even of low fighting quality, could prove decisive.

To add to the problems, while Russia has already long since started to put its economy on a war footing, as bne IntelliNews reported, Ukraine is running out of ammunition, as the West has yet to invest into expanding its munitions production. The US has donated around one million of the crucial 155mm artillery shells, but it can only produce 100,000 a year, according to a recent study. Ukraine is currently firing off in a day what the US can produce in a month.

An ammunition shortage is looming and reports from the frontline by bne IntelliNews’ reporters and others is that Ukraine is already being forced to ration its shells. While more shells are available from the likes of US allies in South Korea and Israel, probably enough to get to the end of this year, the lack of ammunition is already starting to tell on Ukraine’s ability to resist a Russian onslaught.

Igor Zhovkva, Deputy Head of Ukrainian President Vladimir Zelenskiy’s office, told Bloomberg the country’s stocks are “almost zero” in an interview on February 10. Intense fighting in Ukraine means that its military is running out of ammunition, with stocks not being replenished in time, Zhovkva said.

Zhovkva lamented that “now we are having like almost zero ammunition,” a situation that makes it harder for the Ukrainian military to respond to Russian shelling. “We are running [out] of the ammunition very quickly because the fights are intensive,” he said, adding that Russia has more firepower.

He also said the West needs to send more arms, including long-range missiles to “de-occupy Ukrainian territory,” as opposed to hitting targets inside Russia.

According to Zhovkva, this type of weaponry would be crucial to launch a counteroffensive against Moscow’s forces. Commenting on the military aid already provided by the West, Zhovkva said that it was “too late, too little, and too slow.”

Jet lack
Zelenskiy made little progress on this European tour to get more planes. Indeed, despite the promise of MBTs, the West remains extremely reluctant to send Ukraine offensive weapons. The refusal to follow up with jets means that the war goals of the west remain: avoid a direct confrontation between Nato and Russia at all costs and ensure Ukraine doesn’t lose to Russia in second place. Ensuring Ukraine wins the war is not a Western war goal, but it would be nice if it happened.

The Kremlin’s military planning and the performance of the Russian army have been a disaster, but the sheer number of men it can field and its overwhelming advantage in artillery mean that if it surges its forces this summer, Putin could conquer the Donbas, declare victory and freeze the conflict. / bne IntelliNews
Zelenskiy has been asking for tanks and planes since the first weeks of the war. Shortly after Russia’s invasion a year ago Zelenskiy raged against Nato in a video address at its refusal to close the skies to Russian planes. “All the people who will die starting from this day will die because of you. Because of your weakness. Because of your disunity,” Zelenskiy said in a video address to the Alliance. In another video made in the third week of the war, he demanded the West supply him with “1% of its 20,000 tanks” as well as planes. “We didn’t ask for this war... We just want to survive.”

He gave a much more polished address in Brussels this week as Ukraine has received an enormous amount of military aid since then, but his basic demands, that he has been making since the start of the war a full year ago, have not been met. The West has refused all requests for offensive weapons that could change the tide of the war, while sending huge quantities of defence weapons.

Not a single tank has actually arrived – one Leopard has arrived from Canada and is sitting in Poland – and half of the total of 421 that have been promised could take up to a year to be delivered. According to reports a total of 28 Leopards are supposed to arrive by the end of February and another 28 will probably arrive in March. Those will be more than welcome, but they cannot change the tide of the war by themselves, according to a recent note by economist Adam Tooze. At least a whole brigade would be needed to make a significant impact, about 400 tanks.

Nevertheless, the promise of tanks was a breakthrough and is another token of a slow escalation. Zelenskiy immediately followed up with demands for jets, but those have largely fallen on deaf ears.

Poland is amongst the few countries willing to supply the US-made F-16 fighters and was instrumental in forcing the tank deal through by threatening to send its own Leopard 2 tanks to Ukraine unilaterally, ignoring its obligation to seek German permission. However, Polish Prime Minister Mateusz Morawiecki recently told reporters that the transfer of any aircraft to Ukraine could happen “only in agreement with Nato countries” and Poland “will act in full coordination” with its allies.

Since then, US President Joe Biden said the US won’t send F-16 jets to Ukraine, even though the US is ramping up military assistance in the form of artillery and tanks.

EU foreign policy chief Josep Borrell likewise said in recent days sending fighter jets to Ukraine not on EU’s agenda and dismissed the idea as a “highly controversial” issue, according to El Pais.

French President Emmanuel Macron earlier said he did not rule out sending fighter jets to Ukraine but followed up on February 9 by saying it is not on the agenda for the moment.

Ukraine has gone as far as formally applying to the Netherlands for fighter jets, according to Dutch Defence Minister Kajsa Ollongren. “And we have to look seriously at the consequences, it can’t just happen overnight. We have to be honest about that,” Ollongren told the local media in response.

Even the UK government, Ukraine’s staunchest military ally in Europe, has ruled out sending fighter jets to Ukraine for now, although it has started training Ukrainian pilots on Nato jets. Defence Secretary Ben Wallace told the BBC on February 9 that there won’t be an immediate transfer of fighter jets to Ukraine but did not exclude the possibility of supplying them.

**Windows of opportunity**

Zelenskiy must be very frustrated and increasingly worried about what the rest of the year holds. Even the analysts in Washington worry that “time might be on Russia’s side,” according to a report in the Wall Street Journal, which has added to the impetus to provide Ukraine with tanks.

Confidence that EU unity and the crushing pressure of sanctions would force the Kremlin to seek an off ramp have faded as it becomes increasingly clear that they have failed to put any significant pressure on the Russian economy. Indeed, the current downturn has been less painful than the drop caused by the coronavirus pandemic, as far as the main macroeconomic indicators show. The Kremlin will not be forced to the negotiating table by economic problems and the newest rounds of sanctions have less and less bite, increasingly hurting Europe more than they hurt Russia. Russia’s economy will “grow” faster this year than both the German and British economies, according to the World Bank.

It seems pretty clear that Russia is planning a surge in the spring. Russia has a window of opportunity between now and April before the first companies of Nato MBTs arrive in the fields of Ukraine. And as the tanks will be dribbled into the fight over the following year that window will be closed pretty slowly. The western tanks are not expected to reach brigade strength until 2024, long after the worst of the fighting, which will probably happen this summer, is over.
Ukraine also has a window of opportunity, but a much smaller one that will close much faster – and soon.

Tanks are a game changer as they are the first offensive weapons to be sent to Ukraine. Javelins, HIMARS and Patriots missiles are all deadly and very sophisticated systems, but they are not good at killing lots of infantry. Russia doesn’t have many smart missiles left but what it does have in spades is dumb artillery that is good at killing infantry.

And it is using it to good effect. Ukrainian forces on-the-ground are of high quality and easily killing the Russian ex-convicts they meet on the streets of Bakhmut, according to reports, but they are sitting under a barrage of Russian shelling that is slowly killing them off.

Manpower
The war has become a grinding war of attrition, fought for the most part with 155mm artillery shells, grenades dropped from toy drones and Kalashnikovs, as well as some Soviet era tanks that are being used as artillery and the occasional high precision HIMAR rocket that takes out a Russian command post or large bomb dropped by Russia on schools and apartment buildings full of refugees. Amongst Russia’s most effective tactics has been to blow up power stations and flatten towns with its artillery. It doesn’t have many other alternatives in its playbook and has shown itself unable to even capture relatively unimportant towns.

It’s become a brutal fight. And it’s ground down to a stalemate. Russia has been assaulting Bakhmut for about six months and in that time its gains can be measured in the metres.

Without the West’s sophisticated powerful weapons raw manpower is a key factor in winning the war.

Both sides are keeping the number of dead a closely guarded secret. The official count from both sides is not to be believed. However, from the various reported leaks, including a slip up in a speech by European Commission President Ursula von der Leyen, Ukraine seems to have lost 100,000-150,000 men whereas the toll on Russia is probably around 150,000 according to some reports.

That improves Russia’s hand, says military analyst Michal Kofman in a recent thread, as Russia has at least three times the population Ukraine does. Even if Ukraine kills two Russians for every one Ukrainian, that strengthens Russia’s hand as Ukraine will run out of men before Russia does. A long war plays to Russia’s manpower advantage, even if that is offset by the poor quality of its fighters. Russia won the war against the Nazis with similar tactics: 25mn Soviet citizens died vs about 10mn German, while the US and the UK lost about half a million men each.

Russia started the war with some 300,000 soldiers but has lost about half that number. Since then thanks to the partial mobilisation that started on September 21 it has replaced the fallen and brought its forces up to some 450,000 that has stabilised its frontline.

Russian General Sergey Surovikin decision in September to abandon Kherson has also improved Russia’s position as it has shortened the line, allowed Russia to withdraw the 20-30 BTGs bottled up in the city and retreated behind the easier to defend Dnipro river. At the same time Surovikin ordered his men to dig in and set up multi-layered defences and has given up the costly assaults, according to Kofman. The battle for Bakhmut is being fought almost exclusively by the expendable Wagner PMC ex-convicts. Russia is preserving its manpower for the widely anticipated big push in the spring.

Ukraine has a similar number of men in the field. It started out with some 250,000 professional soldiers, according to various reports, but since then the ranks have swollen to as many as one million soldiers, according to reports, but like Russia, the majority of these are green fighters and of less use in an assault. Indeed, Politico recently reported that there are discipline issues in the Ukrainian army after Zelenskiy increased the severity of punishments for desertion after inexperienced soldiers fled the battlefield in fear of their lives. Reports from Bakhmut say the soldiers there are being worn down physically and mentally. The lack of effective manpower and supplies mean that unlike the Russian soldiers defending the frontline, they can be rotated less often and Russia’s tactic in Bakhmut increasing appears to be not to take the city per se, but simply to wear down the Ukrainian resistance and force it to use up its ammo.

By the summer the issue of how long Ukraine can keep this up without game changing armament will increasingly become an issue, especially if Russia becomes even more organised and starts a regular flow of fresh men and materiel into the battle.

Few have faith in Russia’s ability to organise this major long-term campaign, as it began the war so disastrously. However, we should be cautious as WWII started the same way when Stalin went into meltdown after Hitler invaded the Soviet Union during Operation Barbarossa. Stalin went into shock and simply locked himself away for the first few crucial days as hundreds of thousands of Russian troops were easily captured and the Nazi tore through Soviet lands.

However, eventually the Soviets reorganised themselves, moved their military production to beyond the Ural mountains and Marshal Gregory Zhukov was put in charge who turned the campaign around. Surovikin may not be a Zhukov, but if he is half competent and makes use of Russia’s superior manpower he could still at least achieve Putin’s minimalist war goal of capturing the Donbas. Without western modern weapons Ukraine will have its work cut out for it to prevent that even if the Russian military is poorly led simply because of the number of men it can throw into the field and its ongoing overwhelming advantage in artillery.
Serbian far-right groups and pro-Russian extremists held a protest around the presidency in Belgrade on February 15. The protest almost turned violent on several occasions, especially when fake news started to circulate among the gathered crowd that a pregnant woman had been arrested. Some of the extremists even tried to storm to the building but they were prevented by the police.

The protest was organised by the pro-Russian People’s Patrols that is close to Russia’s paramilitary Wagner Group, and banned neo-fascist organisation Obraz and parliamentary party Dveri (Doors) called on their supporters to join the protest too.

The main reason for the protest was Serbia’s distancing from Russia, but also a potential agreement with Kosovo, which unilaterally declared independence from Serbia in 2008.

Serbia is under huge pressure from the West and specifically as an EU candidate to put sanctions on Russia. It is considered to be a historic ally of Moscow in the Balkans, while Russia has exploited the issue of Kosovo and used its role on the UN Security Council to style itself as a protector of Serbian interests.

Another grievance is that Serbian President Aleksandar Vucic stated that he is ready to talk about the French-German plan for Kosovo that was supported by the US. Moreover, Serbia has suspended all of its military exercises with Russia, while continuing to do them with Nato.

On February 16, police stated that three people were arrested in connection with the protest, and on the Telegram channel of People’s Patrols it was confirmed that their leader Damjan Knezevic, alongside two more members, was arrested. Knezevic and other members of the Peoples Patrols do not hide their connections with notorious Russian private army Wagner.

Despite the protests against Vucic and the deal with Kosovo, most analysts and journalists in Belgrade claim that far-right organisations in Serbia were formed while successive governments turned a blind eye or even gave their support.

In contrast to the extremists within Serbia, Vucic can portray himself and his government as moderates, despite backsliding on democracy in the country. This gives Belgrade more leverage in international negotiations over the Kosovo issue and an excuse to avoid making concessions, as officials cite the need to placate the aggressive rightwing within the country.

Editor in chief of the weekly Vreme (Time), Filip Svarm, told Voice of America that far-right groups have been formed under the influence of the current government, claiming recent events were “a show for the West”.

“Editor in chief of the weekly Vreme (Time), Filip Svarm, told Voice of America that far-right groups have been formed under the influence of the current government, claiming recent events were “a show for the West”.

“The president was nourishing the new extreme right wing. I think that without that support from the top of the state it cannot even survive and I do not think he lost control over them. This is just a show for the West to present them how much opposition he has in Serbia and he [can] use that extremism in the negotiations,” said Svarm.

Vucic did address the public on February 15 after a meeting with officials from security sector, and accused all of the opposition for violence.
These people today, they called for violence. What is that idea about the violence, who do you want to kill? When we spoke in the parliament that the violence is their [the opposition's] only argument, when it becomes clear that they don't have ideas or arguments, then they "spilled" the violence to the streets," said Vucic in his address.

He added that citizens should not worry and that the "state will secure peace, security and safety for everyone".

Although the extremists were shouting insults at Vucic during the protest, Aleksandar Popov from the Centre for Regionalism NGO, also speaking to Voice of America, said that the authorities have not lost control over the far right, and speculated that the protest would only have gone ahead with official endorsement. He also gave the example of the Pride parades that have gone ahead in the country for several years.

"Since President Vucic came to power, Gay Pride parades started to be organised with much less security since the hooligans and far-right stopped making problems, at least significant ones.

"One of the Gay Pride parades, that was 'blessed' by the state, was like we are in Holland. It was totally peaceful without extremists. So, obviously someone told them: stay at home; don't make problems. Are they powerful enough to do this protest on February 15 by themselves? I sincerely doubt that," concluded Popov.

 Beware the fair-weather friend. Recent weeks saw Uzbekistan plunge large parts of Afghanistan into darkness as, faced by its coldest winter weather in 50 years and suffering energy shortages and disruptions, Tashkent opted to put its own citizens first and pull the plug on electricity supplies to the Afghans.

Afghanistan too suffered the severe cold snap and, with its power provision gone, crippling outages led to the deaths of at least 160 people left without heating, including babies, as well as the hospitalisation of hundreds of others.

Nobody can have been taken aback by Tashkent's decision to declare force majeure and look after its own first. And there's also the rather pertinent fact that the Taliban militants, who once more rule Afghanistan, became known for attacking vital infrastructure during their two-decade-long insurgency, preventing the completion of big power generation projects. Afghans reap what they sow.

The blackout situation was, though, even more galling for Kabul given that it was only very recently that the Taliban proclaimed a new electricity supply agreement signed with the Uzbekhs.

Some credit where credit is due. Since the US pulled out of Afghanistan in August 2021, leaving behind a country that has since remained perilously close to an out and out humanitarian and economic catastrophe, it has in fact been Uzbekistan, of all Afghanistan's neighbours, that has appealed to the world to recognise that working with the Taliban is the only existing option for stabilizing the country and giving its imperiled people some kind of workable future.

The 450-megawatt power deal between Tashkent and Kabul – specifically with Afghanistan's power utility Da Afghanistan Breshna Shirkat (DABS) – was announced after the Taliban's Acting Energy and Water Minister, Mullah Abdul Latif Mansour, at the start of January paid an official visit to Uzbekistan. With Tashkent a rare voice declaring significant commitment to intraregional cooperation involving Taliban-ruled Afghanistan, the time was ripe to strike a new energy deal.
And strike a deal they did. The acting minister returned to Kabul with an agreement on Uzbekistan electricity exports for Afghanistan. That was seen in some quarters as generous given that a year earlier, Uzbekistan resorted to stopping power exports to Afghanistan due to Kabul's inability to pay outstanding energy debts of around $70mn. Another $30mn in unpaid power bills was owed to Tajikistan.

**Chronic dependence**

Uzbekistan’s subsequent switching off of the deal in January in the face of ‘big freeze’ energy troubles at home means the agreement, ironically, has served to highlight the Taliban-led government’s mismanagement of Afghanistan’s energy sector and the country’s chronic dependence on power imports.

In fact, not much seems to be going right for the fundamentalist militants. On February 1, Uzbekistan suspended rail transport to Afghanistan due to the Taliban administration’s failure to fulfil its obligations on technical maintenance works.

Amid the distressing difficulties caused by the energy shutdown, inhabitants of Afghanistan were receiving only one hour of electricity every two days. “Even one hour of electricity helped warm our home,” Karima Rahimyar, a teacher in Kabul, told Radio Azadi, adding that most Afghans do not have the money to buy coal or wood for heating.

On January 25, Uzbekistan resumed some electricity exports to Afghanistan, while it was almost simultaneously announced that Turkmenistan has renewed an annual electricity supply agreement with the Taliban.

So things are looking up. But landlocked Afghanistan imports more than 70% of the electricity it needs from Uzbekistan, Tajikistan, Turkmenistan and Iran (in fact 73% of Afghan power supply is imported – 22% of that from Iran, 4% from Tajikistan, 17% from Turkmenistan, and 57% from Uzbekistan).

And the supply of surplus hydroelectric power from these countries is unreliable, to put it mildly. The outlook for Afghanistan’s future power supplies with such a high dependence on imports is all too precarious.

The chances of the Taliban’s unrecognised and internationally isolated government – lately facing increasingly regular protests about the oppression it imposes on Afghan citizens – righting the critical situation seem next to nil. Attracting the required donor funding and technical support even to complete existing hydroelectric projects in Afghanistan remains a steep uphill task for such an administration.

As for the billions of dollars of Afghanistan’s own central bank funds frozen by the US, there’s some good news in that Washington has established the Switzerland-based Afghan Fund, which is meant to help stabilise the Afghan economy by paying for imports like electricity – without benefiting the Taliban. But the only sure way out of the economic hole for Afghanistan has to include the building of its own infrastructure.

The country may be sitting on estimated natural resources – including natural gas, copper and rare earths – worth more than $1 trillion and it can boast of one recent foreign investment breakthrough – on January 5, Kabul and Beijing signed a $540mn deal to develop an oil and gas field – but unless the Taliban start showing rather more realism in working with outside partners to address their failing state, Afghans won’t be feeling secure in the face of a forecast blizzard any time soon.

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Russia will increase grain exports to 55-60mn tonnes by the end of the current agricultural year, President Vladimir Putin said during his State of the Nation Address to the Federal Assembly on February 21. Russia harvested an all-time record 153.8mn tonnes of grain in 2022, smashing the previous record of 135.4 set in 2018. With storage silos full to bursting, the farmers are in trouble unless they can sell more grain abroad, but sanctions and logistical supply chain disruptions are preventing exports.

Polish GDP expanded a seasonally adjusted 0.3% y/y in the fourth quarter, coming nearly to a halt after a gain of 4.5% y/y in the preceding three months, the Central Statistical Office (GUS) said in a flash estimate on February 14.

The slowdown is no surprise due to the Ukraine war shocks. Data suggest that private consumption declined 1.7% y/y compared to a gain of 0.9% y/y in Q3, while the pace of investment growth unexpectedly increased to 5.2% y/y compared to growth of 2.0% y/y in the preceding three months,” according to PKO BP.

Europe’s gas storage tanks are 68.8% full, a record high in the last decade, with a little more than one month left of the heating season. After the weather turned colder in recent weeks, withdrawals from the gas tanks stepped up but remained on a par with previous years. The levels of gas in storage are tracking those of 2021, the previous record year, and slightly higher than the 68.5% full tanks were on the same day in 2021.

Turkey’s official consumer price index (CPI) inflation was recorded at 58% y/y in January, the Turkish Statistical Institute (TUIK, or TurkStat) said on February 3.

The official rate peaked in October at 86%, the highest headline rate posted by Turkey since the 91% registered in June 1998. With the advent of December, the base effect from a year ago came into effect, pulling inflation down. At 58%, Turkey remains in seventh place in the world inflation league.
China was already Russia’s biggest individual trade partner before the war in Ukraine started, but since then it has expanded its role and stepped into the gap created by sanctions, especially in providing Russia with crucial access to microchips, the Institute of International Finance (IIF) reported in a note.

The sanctions were supposed to cut off Russia’s access to revenues used to fund its war machine. However, because of massive leakage, the opposite happened: Russia earned twice as much cash in 2022 than in 2021, already an all-time-record year. Russia’s current account rose to an unprecedented $227bn in 2022, more than doubling the previous record of $120bn.

The strong expansion of exports, including oil and gas and other commodities, was the main driver of this growth. Despite a contraction of 16% in imports in 2022, this marks a recovery after a decline of 35% was seen in the early weeks of the war following the imposition of a “massive package” of sanctions.

Russia stopped reporting trade data after the war started, but IIF looked at mirror customers data of Russia’s leading partners and validated this data by comparing the pre-war Russian data with the partners customs data. The correlation was good and if anything the partners data probably underestimates the level of imports to Russia since, says IIF.

China’s trade with Russia has seen significant growth since Russia’s full-scale invasion of Ukraine. Sino-Russia trade has been growing explosively since the $5bn of mutual trade the two had in 1991. Trade between Russia and China reached a new all-time high in 2022, with a 29.3% increase compared to the previous year, totalling $190.27bn, according to the General Administration of Customs [GAC] of China. China’s exports to Russia saw a 12.8% increase, totalling $76.12bn. Meanwhile, Russia’s imports from China climbed by 43.4% to $114.15bn.

Russia’s surplus in the trade relationship with China amounted to $38bn, a three-fold increase from 2021. The trade turnover between the two countries equalled $17.8bn in December 2022, which is a decrease of 3% compared to November.

China is now Russia’s most significant trade partner, as Russia increasingly relies on China to supply goods banned by sanctions. Despite export controls, Russia has increased its imports of semiconductors and electronic circuits. The total value of chip imports rose from $1.8bn recorded for January-September 2021 to $2.45bn over the same period in 2022.
Someone bombed Saudi Arabia’s biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to $100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

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