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Familia leads Russia’s off-price retailers with knock-down high fashion offering

Ben Aris in Berlin

What happens to last season’s clothing that big fashion retailers can’t sell? Landfill is not the only choice for sellers who overestimated demand. Enter off-price retailers, who buy the end-of-season surplus from fashion houses and sell it at knockdown prices. The sector is booming globally, but a combination of social and economic factors make it ideally suited to the Russian market.

Off-price retailers allow fashion houses to recoup some of what would be losses by buying the surplus for low prices and selling it to a hungry public that doesn’t mind wearing last season’s clothes. In an exclusive interview with bne IntelliNews, Svetlana Mozhaeva, CEO of off-price Familia, discussed why this model is such a good fit for Russia.

Familia is Russia’s pioneer and leading off-price player. It is often described as being similar to TK Maxx in the UK or TJ Maxx in the US, offering customers the chance to find unique branded items for up to 85% below their original price.

“We’re very different from other retailers here in Russia as well as our peers on the global market,” she explained. “We were founded in 2000, when we opened our first store in Moscow. In 2006 we started moving into the regions. Now we have over 370 stores across Russia. We are the only off-price retailer operating across Russia, and we don’t have any direct competitors on the federal level.”

Whereas the off-price share of the apparel market in the US is 10%, it is around 1% in Russia. The market in Russia is also highly fragmented, so there’s significant potential for growth, Mozhaeva explains. She considers Russia particularly suited to the off-price segment, because six years of falling real incomes have forced Russians to search for bargains, creating a niche, which the off-price sector caters for. “Here in Russia we have 145mn people, and about 75% of citizens have per capita incomes below RUB45,000 ($628) a month based on official statistics. This 75% of citizens is hence by definition value oriented.”

There are social factors behind the growing popularity of Russia’s off-price segment too. “I believe that many Russians are more brand-conscious than people in most other countries.” Mozhaeva commented. “That’s due to the history of the Soviet Union. I remember that in my childhood, we had nothing in terms of choice and variety of brands. That’s maybe why Russians now tend to be so brand-conscious.”

The result is a Russian off-price sector that is growing faster even than the global market. “We’re growing very fast.”
Another quirk of this sector is the reliance upon bricks and mortar. Russia’s e-commerce is booming, but Familia specifically has no online sales at all. Familia is investing heavily in stores, and the only thing it sells online is gift cards. Mozhaeva explains the phenomenon: “Firstly, we don’t want to go online because we don’t want to compete with our suppliers. We have a special discount price. When it’s offline, this merchandise doesn’t compete with sales from the brand. Also, when the season finishes, the brand needs space for the new collection, and we utilise the old collection through our chain. This is very convenient for the brands.”

The issue is that the discounts that Familia can offer are very big indeed. The high street top fashion companies have invested very heavily in their brands and use their brand strength to justify their high prices. If Familia offers the same brands at knockdown prices, the producers are afraid it could devalue their brand and hurt their primary sales. On the flip side Familia is happy to oblige, as a shopper who can find a famous brand at bargain-basement prices is delighted at their discovery. Putting Familia’s inventory online makes it altogether too easy to make side-by-side comparisons.

Familia’s potential hasn’t gone unnoticed by international investors and global peers – its shareholders include high-profile financial investors, such as Goldman Sachs and Baring Vostok, while American off-price giant TJX is a strategic investor. When asked whether an IPO was on the horizon, Mozhaeva demurred: “It may happen at some point, but it’s too early to say either way at the moment.”

“Svetlana Mozhaeva, CEO of off-price Familia

“This year, we’ve opened 53 stores since the beginning of the year. By the end of the year, we’ll have at least 390 stores, which is a growth of over 20% when compared with the end of 2020.”
Vodka drinking on the decline in Russia

Russians are famous for drinking vodka, but it’s falling out of fashion as a vogue for healthy lifestyle choices sweeps the country. As vodka becomes a luxury product, alcohol manufacturers have to be inventive.

One of the winners from the change is Beluga Group, which is now the largest alcohol producer in Russia.

Beluga Group produces 13% of Russian vodka in addition to other spirits and wine. It also imports alcohol brands from abroad, which are in high demand in Russia, and sells in over 200,000 retail outlets. In a report on the company, VTB Capital forecasts a compound annual growth (CAGR) of 20% for Beluga Group for the period 2021 to 2025.

“The group’s strategic objective is to double sales from RUB63bn ($880mn) in 2020 to RUB130bn by 2024, as per the management. The figure implies a sustainable CAGR of 20% and would imply one of the most rapid growth profiles in our consumer coverage,” VTB Capital (VTBC) said in a note.

Beluga Group’s brand portfolio is very diversified to meet the demands of a rapidly shifting alcohol market. It acquired retail chain Winelab in 2018, for example, and expects to see it become a key segment of the group’s business model as it plans to grow the proportion of its revenue generated by e-commerce from 3% to 10% in the next four years.

The retail segment is the main growth pillar for Beluga Group and the company guides for the store count to surge four-fold to 2,500 by 2024. As a result, retail advances with 33% CAGR in 2021-25 from a low base and delivers 85% of the total revenue uplift in next five years according to VTBC estimates.

Winelab will be all the more crucial to the group’s success given that wine is currently enjoying a surge in popularity in Russia. This is down to government incentives for domestic wine growers and changing consumer preferences. Wine is an emerging category, particularly trendy among young people as an alternative to the more traditional vodka. Beluga expects Winelab to expand four-fold by 2024, driving growth in the group.

Beluga’s vodka sales, meanwhile, are transitioning towards premium and export markets. This is in step with a wider pattern of decline in vodka drinking in Russia.

In 2000, Russians consumed a total of 215mn decilitres of vodka. Today, that figure is more than two and a half times lower. Vodka used to be sold with disposable metal lids on the assumption that the entire bottle would be consumed in one sitting, but that kind of binge drinking is now a thing of the past. The decline in vodka consumption has corresponded with increased life expectancy for Russians, which was just 65 years in 2005, is now 72.3, according to data from Gapminder.

Russia still has the highest vodka consumption level globally, but it now represents just 36% of alcohol consumed in the country, compared to 45% ten years ago.

Wine drinking, meanwhile, is up. This is partly down to government incentives for domestic production of wine, like tax breaks and reimbursing marketing costs for companies using local grapes. The shift is also down to a cultural change, though, as wine is in vogue among younger generations. It is now the only spirit, which is growing in popularity in Russia.

In fact, interest in alcohol in general dropped by 20% among young Russians in the ten years from 2008-2018, according to Russia Beyond. Alcohol continues to be the fourth largest spending category for Russian consumers, but it has taken a hit after President Vladimir Putin waged a 10-year campaign against alcohol abuse, which he described as a “national threat.” The introduction of higher taxes on alcohol, controls on promotion, and laws which restrict sales of alcohol at night have successfully lowered consumption of booze per capita by 35%, as has the promotion of healthy lifestyles, aimed at countering widespread binge drinking which is seen as a hangover from the Soviet Union.

The result is a radically shifting market, in which beer and wine have overtaken vodka and social drinking accounts for more consumption than binge drinking. Alcohol manufacturers and retailers will have to account for this shift, as well as the potential for further regulatory tightening, before toasting their own success.

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Alcohol market

Russia is a top ten global alcohol producer and has one of the highest vodka consumption levels globally: 3.5 litres per capita in 2020 of pure alcohol. But the shape of the market is also rapidly changing; the category was hit more than any other retail segment, contracting from 45% of total alcohol consumption to 36%.

But Russians still love to drink and alcohol remains the fourth largest spending category for Russian consumers, accounting for 7% of the total shopping basket by value in 2020.

To keep a lid on boozing the regulation of the alcohol sector in Russia has been tightened in the last ten years, specifically in higher excises and minimum retail prices, state control of production and retailing, and a downsized promotion mechanism. That has lead to a per capita consumption fall for pure alcohol of 35% over the last ten years, although 2020's 10 litres per capita places the country in the top ten in the world.

The Russian authorities have always been battling against alcoholism. Mikhail Gorbachev famously tried to ban vodka when he was Party Secretary, which only led to the workers drinking perfume instead, for its alcohol content. Russian President Vladimir Putin's campaign – Putin doesn't drink – has been more effective.

In 2011 the state rolled out a two-pronged attack that increased the price of hard liquor considerably and simply banned alcohol sales at night, particularly from the ubiquitous street corner kiosks. The ban has been strictly enforced and it really is impossible to buy booze after the sun goes down.

“The segment saw tough regulatory changes, with excises surging at a 25% CAGR in 2011-14 and stabilised thereafter, overall increasing its contribution to the blended retail price increase by over 40% in the last ten years. A minimum retail price for vodka was introduced in 2009 and since then grew with 10% CAGR to RUB243 ($3.39) per 0.5l bottle in 2021. Those measures have been vital for counterfeit production, which accounted for 27% of 2010 in retail sales and has been largely eliminated now,” VTBC reports. “But now the regulatory framework is stable and excises have been set until 2024F at a minimum retail price for vodka of 35% over the last ten years, although 2020's 10 litres per capita places the country in the top ten in the world.

Per capita wine consumption topped 7.3 litres in 2019, making Russia the seventh largest wine market in the world, although consumption is still at a low level – below even the 10 litres in the US, let alone the 28 litres for Western Europe. Growing volumes were covered by increased imports, which reached 63mn dals in 2019 and accounted for 58% of total, VTBC reports.

The state has been trying to promote domestic production but the vineyard area in Russia has been stagnating while the share of the domestic production declined from 53% in 2015 to 45% last year.

“In 2020, the wine market in Russia faced a number of difficulties. From June 2020, the new Wine Law banned the production of wine in Russia from imported bulk products. This had previously accounted for 10% of supply in 2019. Additionally, ruble depreciation of 15% vs. the euro lowered the wine-purchasing power of consumers. Furthermore, the pandemic limited on-trade consumption (it’s illegal to sell alcohol online), while adverse weather hit the Russian grape harvest. As a result, total wine consumption declined 10% y/y to 97mn dals in 2020, the lowest level in the last five years, and a favourable base for recovery,” VTBC reports.

“Nevertheless the new government regulations have created favourable conditions for increasing domestic production and analysts are expecting the sector to bounce back from its 2020 misadventure.

There are now tax benefits for vineyards and the use of local grapes, as well as the reimbursement of investments and marketing costs for producers. The Ministry of Agriculture targets the vineyard area to expand 30% to 125k ha by 2025.

“We expect the local supply of grapes and wine growth to increase 40% to 60mn dals by 2025F on improving efficiency. As a result, we forecast the share of domestically produced wine to rise from the current 45% of the market to 50%. We expect total wine consumption to increase with a 5% CAGR in our model in 2021-25F to 125mn dals, reflecting 7% for local production and flatterish imports,” VTBC said.
Sber becomes Europe’s most valuable bank

Sber (formerly known as Sberbank) became the most valuable bank in Europe on October 7. Previously the first place was held by the British HSBC, Russian media reported.

As bne IntelliNews reported, Russia’s stock market RTS index surged in the second week of October to break above the 1,800 mark for the first time in a decade. While the headline RTS index is up some 32% year to date, most of the investors’ attention has been focused on the banking sector, which was up over 70% as of October 8. Sber and TCS Group have been attracting the most attention and driving the sector’s valuation up.

The cost of Sberbank shares has renewed its historical maximum: one share was worth more than RUB366 ($5.10).

Market capitalisation exceeded RUB8.25 trillion ($113bn) against HSBC’s valuation, which was $30bn less as of October 7.

The vice-president of Sberbank, Vladislav Kreinin, noted in an interview that the growth of purely banking services, taking into account the new regulation, will be limited over the next ten years and all the growth will come from the bank’s turn to fintech and online services, as cited by Russia Business Today.

About a hundred of the bank’s 13,000 branches have already been transformed within the framework of the new ecosystem, and the plans are to open about 6,000 more, TV channel “Russia 24” reported.

Russian IT major Softline to hold IPO, use cash for M&As

Softline, an international digital transformation and cybersecurity solution and service provider with Russian roots, has announced it will hold an Initial Public Offering (IPO) on London Stock Exchange, the company said on September 30.

With half its business in Russia, the company has been rapidly expanding overseas and now styles itself as an international company with Russian roots.

“Russia still makes up about half our business, but we are a truly international company now,” Softline CEO Sergey Chernovolenko told bne IntelliNews in an exclusive interview. “We serve all the big markets but we have a focus on the emerging markets, as the growth potential in those markets is bigger.”

The listing will raise cash to continue that strategy that was developed in co-operation with the company’s key investor Da Vinci Capital, which bought a 20% stake in Softline four years ago.
“We are the only independent stakeholder and we helped to de-Russify it,” Da Vinci manager Denis Fuller told bne IntelliNews in a recent interview. “When we bought in about 80% of its business was Russian, but now it has fallen to around 60%. We helped them with M&A of international companies and now it operates in 55 countries. The company is getting ready for an IPO in October, a dual listing in London and Moscow.”

As followed by bne IntelliNews since 2018, Softline was among the Russian mid-caps slated for and expected to IPO in the next two-three years. Previously tech and digital Russian companies holding a successful IPO included HeadHunter job searching portal and Ozon Holdings e-commerce major.

Previously the company has tapped the debt market, being one of the few Russian tech names to issue bonds, placing exchange bonds in October and April 2020, and back in December 2017.

Softline has announced it aims to raise about $400mn in the offering, but bne IntelliNews sources close to the deal say the target is to raise a total of $500mn from new global depository receipts (GDRs) and “existing shares to be sold by certain existing shareholders”. The offering will be organised by Credit Suisse, JP Morgan and domestic VTB Capital (VTBC).

Notably, Softline is determined to use the proceeds from the IPO to fuel further growth, including via selective acquisitions in accordance with the group’s complimentary M&A strategy.

"Today the total IT market in emerging markets is worth about $250bn, but in five years’ time the business will be worth about $400bn,” said Chernovolenko.

The company’s strategy "combines organic expansion and complimentary M&A transactions, enabling us to continue to deliver a full range of IT services to a large and growing market of customers, while strengthening robust and long-standing relationships with an expanding universe of partner vendors,” the head and founder of Softline Igor Borovikov commented in the press release.

Borovikov founded the company in 1993. Softline started life as a software reseller. The Soviet Union had collapsed two years earlier and one of the first foreign products to arrive in the newly minted Russia was Western software.

For the next 17 years Softline built this business up but computing was changing rapidly and in 2000 Borovikov decided he needed to diversify. From being a local software reseller in Russia with 10 employees, the company has grown into a global IT solutions and services provider, with $1.8bn annual turnover and more than 5,000 employees operating in over 55 countries.

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"We can achieve this goal within five years thanks to three major factors. We have huge potential, and we are inspired by the example,” Vitrenko said.

Vitrenko noted that increasing biogas production is also an extremely important area of development for Ukraine.

Ukraine already produces 20 bcm of gas a year but consumes c.35 bcm. The head of Naftogaz says the country could become self-sufficient in five years by developing its existing resources as well as biogas.

Ukraine already produces some 20bn cubic metres of gas domestically from two medium-sized gas basins it has in the east and west of the country. Ukraine consumes approximately 35 bcm a year of gas, with the rest being imported from partners in the west. Ukraine stopped importing gas from Russia about four years ago.

However, almost all the existing gas fields were developed in Soviet times and most of them are close to the end of their useful lives. Since independence the country has not done much to develop the existing resources. The proven reserves could be sufficient for several decades and experts believe there is even bigger deposits that remain unfound that could be enough to make Ukraine self sufficient for even longer.
Earlier in September, daily Hospodarske Noviny speculated that PPF Group was considering either selling part of its telecommunications infrastructure company CETIN to an investor or listing it on the Amsterdam stock exchange.

Radim Dohnal, founder of Capitalinked.com, said that the transaction is proof that PPF Group sees this sector as close to its top or fears regulatory or tax intervention.

“Coming back to the bigger picture, in order to be self-sufficient, in addition to increasing natural gas production, we need to substantially increase production of biogas,” Vitrenko said. “It is sustainable and environment-friendly. Ukraine has huge potential for biogas production as the largest country in Europe by land area. Land here is much cheaper than in Western Europe. We have huge potential for solar farms or wind farms and for biomass production. We have a very developed agricultural sector, which is also important for biogas production,” he noted.

Additionally the government energy strategy to 2030 calls for a significant increase in renewable energy which is currently making up 12% of the energy mix, that will be increased to 25% and so spin out the gas resources even longer.

The Naftogaz CEO also highlighted that improvements in energy efficiency would help Ukraine achieve energy independence. Ukraine used to be the most wasteful user of energy in Europe but has made enormous progress in improving energy efficiency in the last decade, but still has a long way to go.

“Ukraine is two times less energy efficient that the average Eastern European country. Maybe some would say this is good for the energy industry because Ukrainians consume a lot of natural gas. However, in order to achieve energy independence, Ukraine must reduce inefficient energy costs. The cheapest and the most reliable energy is the energy that you don’t waste,” commented Vitrenko.

Czech financial group
PPF to sell 30% stake in CETIN to investment fund GIC

Czech investment group PPF Group is selling a 30% stake in telecom network operator CETIN Group to Singapore-based investment fund GIC. PPF will retain a 70% majority stake in CETIN Group, the company announced in its press release from October 18.

No financial details were released, but this spring Bloomberg reported that PPF valued CETIN at $8bn.

“As a long-term investor, we are confident that the digital infrastructure sector will continue to grow robustly and CETIN, as the leading telecom platform in Central Eastern Europe, is well positioned to capitalize on that growth,” said GIC’s Chief Investment Officer of Infrastructure Ang Eng Seng.

“Our partnership with GIC opens new possibilities for CETIN Group to draw upon the expertise of a leading global infrastructure fund and new prospects in our pursuit of business and growth opportunities in the telecommunications infrastructure market,” commented CETIN Group CEO Juraj Sedivy.

According to an analyst at J&T Bank Milan Vanicek, the new strategic partner in the CETIN Group means that the chances of the company doing an IPO in the near future have significantly decreased or almost disappeared.

Earlier in September, daily Hospodarske Noviny speculated that PPF Group was considering either selling part of its telecommunications infrastructure company CETIN to an investor or listing it on the Amsterdam stock exchange.

Radim Dohnal, founder of Capitalinked.com, said that the transaction is proof that PPF Group sees this sector as close to its top or fears regulatory or tax intervention.

"For such cases, it's good to have a government fund from a prominent country by your side, such as one of the 11 countries rated AAA by S&P. Whether the motive for PPF is the need to bring additional resources to Home Credit, I don't know, but it is possible," he told the Czech News Agency.

After buying telecommunications companies in the Czech Republic in 2014 and in Hungary, Bulgaria, Montenegro and Serbia in 2018, PPF spun off their fixed and mobile networks, combining them into Cetin Group last year.

According to Bloomberg, PPF Group is also reportedly considering changes for its consumer lending company Home Credit and is now in discussion with advisers about options on partnerships and selling stakes, particularly focused on Southeast Asia and India. Home Credit activity in Indonesia, Vietnam, the Philippines, and India could be valued at between $2 billion and $2.5 billion, Bloomberg said.

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Czech new car sales down by 16% in September as Skoda halts production because of chip shortage

bne IntelliNews

Sales of new passenger cars in Czechia in September saw a 16.23% drop in year-on-year terms, mainly as a result of a global shortage of chips and issues with logistics, according to data provided by the Association of Automobile Importers on October 5. Compared to 2019 figures, car sales were by 10.17% lower in September.

Due to a lack of chips, the segment of imported used cars is doing very well, up by 19.6% at the end of September, to 136,877 cars with the average age 10.5 years sold.

"Demand for used cars is strong, even record-breaking, clearly showing that there is still interest in buying passenger cars. … Hybrids and electric cars have grown to almost double the level of last year. Estimating the full year in this unclear situation is a question for [the oracle of] ancient Greek Delphi. However, I still believe that with at least some functioning production and deliveries, we could stay within the 5 to 10 percent growth range compared to last year," said EY partner Petr Knap to the Czech News Agency.

The best-selling brand is Czechia's biggest car producer Skoda Auto with 56,074 vehicles sold, down by 1% y/y, followed by Hyundai with a 26% growth to 15,002 cars sold, and Volkswagen with a 31% growth to 14,237 cars sold. Skoda represented 34.65% of all cars sold in Czechia.

The best-selling models were the Skoda Fabia (12,204 cars), Skoda Octavia (10,556) and Skoda Kamiq (8,921).

Skoda Auto just recently announced it would significantly reduce or completely halt its production at all three plants from Monday, October 18, until the end of this year, as a result of the shortage of chips used in the interior electronic system.

"The consequences have hit the entire automotive industry hard, with some competing brands already closing their plants completely by the end of 2021. Even Skoda Auto cannot avoid this global crisis. We will also have to significantly reduce or completely stop production from the 42nd calendar week until the end of the year," Skoda Auto communications head Tomas Kotera told the Czech News Agency.

According to Skoda, the shortage of chips is due to a reduction in production by manufacturers in Asia because of the coronavirus pandemic. The last time Skoda’s production lines were halted for a week was at the end of September.

Kotera noted the company will focus on completing a large number of cars in the pipeline. The number of unfinished cars is in the long term between 30,000 and 50,000. "We expect that semiconductor production will gradually start to ramp up again in the 2H22. The whole supply situation should subsequently calm down," Kotera said.

In 1Q21, sales of new passenger cars in Czechia rose by 9.1% y/y to 161,824 vehicles, down by 15% decline compared to figures from 2019. In 9M21, the total 161,824 new passenger cars were registered in the country, up from 148,319 last year. ●
How Taliban rule will either assure or doom the TAPI gas pipeline

Kanat Shaku in Almaty

The Taliban takeover in Afghanistan means that the fate of the Turkmen-led Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline has once again been plunged into the realm of speculation.

As things stand, the fortunes of Turkmenistan's battered economy almost entirely hinge on gas sales to China. The other customer, Russia, buys just small volumes. TAPI is a crucial element in Ashgabat's search for badly needed additional revenues.

When an agreement for the TAPI project was originally signed in 2015, work on Afghanistan's segment of the pipeline was scheduled to start in 2017. By 2019, however, the Ministry of Mines and Petroleum was announcing that construction work on the Afghan stretch would get going in earnest in 2020. Afghanistan, under the government that fled the advancing Taliban amid the US pullout, was looking to earn over $400mn in transit duties annually from a functioning TAPI pipeline.

The pipeline has been designed to provide up to 33bn cubic metres per year of gas from fields in eastern Turkmenistan. Gas flows would go to Afghanistan, Pakistan and India. The Turkmen pipeline section is expected to cost $1bn, while the whole project is projected to cost $10bn. Some estimates show the costs ballooning up to $22.5bn. Though Turkmenistan formally broke ground on the pipeline in December 2015, the actual state of the Turkmen stretch of the pipeline still remains shrouded in mystery.

Much of the project's future was put in question during the Afghan war due to the associated instability. The emergence of a potentially stable government, even led by the Taliban, may be seen as a game changer.

Why the project may work
To everyone's surprise, in 2018, the Taliban expressed their support for the project, promising to help make it a reality in Afghanistan in exchange for jobs. The enthusiasm appears to remain alive following the Taliban's re-emergence, after 20 years, as the ruling force in Afghanistan.

Taliban spokesperson Muhammad Suhail Shaheen, in an interview with Sky News, stressed that the TAPI pipeline and a proposed rail connection between Turkmenistan and Afghanistan were “long-term priority projects”.

The Taliban have also made encouraging noises as regards the proposed Turkmenistan-Afghanistan-Pakistan (TAP) high-voltage power transmission lines and railways that would run from Turkmenistan to Afghanistan if all went to plan.

That demonstrates the generally favourable attitude of the Taliban towards Turkmenistan. The Turkmen government held talks with the Taliban even prior to their takeover of the war-torn nation in anticipation of the US troop withdrawal.

Moreover, both Turkmenistan and Pakistan have shown support for Afghanistan's new Taliban-led government, placing the project's prospects in a favourable light from a geopolitical perspective.

"Gas flows would go to Afghanistan, Pakistan and India. The Turkmen pipeline section is expected to cost $1bn, while the whole project is projected to cost $10bn"

Turkmenistan, though, has committed to covering 85% of the project's costs, which is something of a problem as things stand right now as the remote nation appears to be going through chronic economic and budgetary issues, demonstrated by countless reports of Turkmen citizens plunging ever deeper into poverty.

Why the project may fail
Simon Pirani, senior research fellow at the Oxford Institute for Energy Studies (OIES), told New Europe in September that TAPI was already economically unfeasible even prior to the Taliban's rapid takeover of Afghanistan.

“Basically it's very hard to see how the economics of TAPI can work under any circumstances,” Pirani said. “Unless you
think the high gas prices will go on for 15 or 20 years, then this project does not work because then it is cheaper to bring LNG [liquefied natural gas] to India or to Pakistan and the difficulties of building the pipeline and the expense of building the pipeline mean that this project cannot work.”

TAPI was [the US’s] idea of nation building in Afghanistan in that it would not only help to create a non-Chinese export route for the gas in Turkmenistan, which is good from the United States’ strategic point of view, but also it would help with this nation building which is also part of the United States’ strategic view,” Pirani added. “This strategic prospective of the United States now no longer exists so I think that this reduces still further the likelihood that this TAPI pipeline will ever be built.”

An article published by the Atlantic Council in September suggested that the pipeline’s security is not the pivotal issue for TAPI’s success or otherwise. Rather, the article posited that the pipeline financing has always been the main obstacle. When the project’s price tag is combined with the various upstream costs of delivering 33bn cubic metres of gas per annum, TAPI’s costs would balloon to $40bn, the piece said.

Considering that Turkmenistan has pledged to fund most of the project on its own, the pipeline would only be viable with significant funds from international lenders – Turkmenistan, it seems, has not been able to secure any meaningful financing for the project from banks and private energy firms. Now, the necessity of dealing with the Taliban may further reduce any chances of Turkmenistan finding external funding.

Construction of the Afghan section officially began in February 2018, but more than three years later no significant progress has been reported. Further developments on the project are likely to remain on shaky ground for years to come.

Uranium: what the explosion in prices means for the nuclear industry

Edward Thomas Jones & Danial Hemmings, & Simon Middleburgh

It is a year since Horizon Nuclear Power, a company owned by Hitachi, confirmed it was pulling out of building the £2bn Wylfa nuclear power plant on Anglesey in north Wales. The Japanese industrial conglomerate cited the failure to reach a funding deal with the UK government over escalating costs, and the government is still in negotiations with other players to try and take the project forward.

Hitachi’s share price went up 10% when it announced its withdrawal, reflecting investors’ negative sentiment towards building complex, highly regulated large nuclear power plants. With governments reluctant to subsidise nuclear power because of the high costs, particularly since the 2011 Fukushima disaster, the market has undervalued the potential of this technology to tackle the climate emergency by providing abundant and reliable low-carbon electricity.

Uranium prices long reflected this reality. The primary fuel for nuclear plants was sliding for much of the 2010s, with no signs of a major turnaround. Yet since mid-August, prices have surged by around 60% as investors and speculators scramble to snap up the commodity. The price is around $48 per pound (453g), having been as cheap as $28.99 on August 16. So what lies behind this rally, and what does it mean for nuclear power?

The uranium market

The demand for uranium is limited to nuclear power production and medical equipment. Annual global demand is 150mn pounds, with nuclear power plants looking to secure contracts roughly two years ahead of use.
While uranium demand is not immune to economic downturns, it is less exposed than other industrial metals and commodities. The bulk of demand is distributed across some 445 nuclear power plants operating in 32 countries, with supply concentrated in a handful of mines. Kazakhstan is easily the largest producer with over 40% of output, followed by Australia (13%) and Namibia (11%).

Since most mined uranium is used as fuel by nuclear power plants, its intrinsic value is closely tied to both current demand and future potential from this industry. The market includes not only uranium consumers but also speculators, who buy when they think the price is cheap, potentially bidding up the price. One such long-term speculator is Toronto-based Sprott Physical Uranium Trust, which has bought nearly 6mn pounds (or $240mn worth) of uranium in recent weeks.

Why investor optimism may be rising
While it is widely believed that nuclear energy should play an integral role in the clean energy transition, the high costs have made it uncompetitive compared with other energy sources. But thanks to sharp rises in energy prices, nuclear’s competitiveness is improving. We are also seeing greater commitment to new nuclear power stations from China and elsewhere. Meanwhile, innovative nuclear technologies such as small modular reactors (SMRs), which are being developed in countries including China, the US, UK and Poland, promise to reduce upfront capital costs.

Combined with recent optimistic releases about nuclear power from the World Nuclear Association and the International Atomic Energy Agency (the IAEA upped its projections for future nuclear-power use for the first time since Fukushima) this is all making investors more bullish about future uranium demand.

The effect on the price has also been multiplied by issues on the supply side. Due to the previously low prices, uranium mines around the world have been mothballed for several years. For example, Cameco, the world’s largest listed uranium company, suspended production at its McArthur River mine in Canada in 2018. Global supply was further hit by COVID-19, with production falling by 9.2% in 2020 as mining was disrupted. At the same time, since uranium has no direct substitute, and is involved with national security, several countries including China, India and the US have amassed large stockpiles – further limiting available supply.

Hang on tight
When you compare the cost of producing electricity over the lifetime of a power station, the cost of uranium has a much smaller impact on a nuclear plant than the equivalent effect of, say, gas or biomass: it’s 5% compared to around 80% in the others. As such, a big rise in the price of uranium will not massively affect the economics of nuclear power.

Yet there is certainly a risk of turbulence in this market over the months ahead. In 2021, markets for the likes of Gamestop and NFTs have become iconic examples of speculative interest and irrational exuberance – optimism driven by mania rather than a sober evaluation of the economic fundamentals.

The uranium price surge also appears to be catching the attention of transient investors. There are indications that shares in companies and funds (like Sprott) exposed to uranium are becoming meme stocks for the r/WallStreetBets community on Reddit. Irrational exuberance may not have explained the initial surge in uranium prices, but it may mean more volatility to come.

We could therefore see a bubble in the uranium market, and don’t be surprised if it is followed by an over-correction to the downside. Because of the growing view that the world will need significantly more uranium for more nuclear power, this will likely incentivise increased mining and the release of existing reserves to the market. In the same way as supply issues have exacerbated the effect of heightened demand on the price, the same thing could happen in the opposite direction when more supply becomes available.

You can think of all this as symptomatic of the current stage in the uranium production cycle: a glut of reserves has suppressed prices too low to justify extensive mining, and this is being followed by a price surge which will incentivise more mining. The current rally may therefore act as a vital step to ensuring the next phase of the nuclear power industry is adequately fuelled.

Amateur traders should be careful not to get caught on the wrong side of this shift. But for a metal with a half life of 700 million years, serious investors can perhaps afford to wait it out.

Edward Thomas Jones, Lecturer in Economics, Bangor University; Danial Hemmings, Lecturer in Finance, Bangor University, and Simon Middleburgh, Reader in Nuclear Materials, Nuclear Futures Institute, Bangor University.

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Serbia joins Clearstream, opening up domestic securities market to foreign investors

Eldar Dizdarevic in Sarajevo

Clearstream, the international central securities depository (ICSD) of Deutsche Börse Group, included the Serbian capital market in its global network on October 4, which will significantly facilitate the access of foreign investors to the domestic securities market.

Clearstream is the first international central register of securities that will enable foreign investors to directly settle government bonds denominated in dinars, as announced by Clearstream and the Serbian Ministry of Finance. The presence of Clearstream will contribute to a further increase in the participation of foreign investors and raise liquidity in the Serbian capital market.

Adding Serbia to the Clearstream network “aims to attract cross-border investments and thereby improve liquidity in the domestic capital market. Clearstream customers will benefit from an omnibus account structure, which increases operational efficiency, and its suite of ICSD services, including offshore (internal) settlement to other Clearstream Banking clients without the need to revisit the domestic market,” a press release from Clearstream said.

The Ministry of Finance said it expects that this step will create strong links with global systems that perform clearing and settlement operations and will significantly facilitate the access of foreign investors to the Serbian capital market.

The bonds of the Republic of Serbia were previously included in the J.P. Morgan Emerging Markets Bond Index, which significantly contributed to strengthening the liquidity of the secondary government bond market, as well as the arrival of new international foreign investment funds. The inclusion of Serbian bonds in the index was a consequence of a strong and stable domestic macroeconomic environment, as well as long-term efforts to develop the domestic financial market, said the ministry.

Clearstream is one of the world’s leading financial institutions for clearing and clearing domestic and international securities. It is part of the Deutsche Börse Group and provides post-trading infrastructure for the Eurobond market and 59 domestic government securities markets worldwide.

Other emerging Europe markets that joined Clearstream saw a strong upturn in investment into their domestic debt. As reported by bne IntelliNews, yield-hungry foreign investors piled into Ukraine’s domestic debt from almost the first day the local exchange was hooked up to Clearstream in summer 2019.

“Adding Serbia to the Clearstream network aims to attract cross-border investments and thereby improve liquidity in the domestic capital market”

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Raiffeisen Bank International will act as the exclusive local agent for Clearstream’s domestic business.

Harald Kreuzmair, division head global investor services within Raiffeisen Bank International, noted that Serbia is already one of the bank’s focus countries, where it intends to further grow its operations. “[W]e as well, believe in a bright future of the country and the market and together with Clearstream and its clients we will support this development,” he said.●
Russia’s RTS stock index breaks above 1,800 for the first time in 10 years

Ben Aris in Berlin

Russia’s dollar-denominated Russia Trading System (RTS) index broke above the 1,800 mark for the first time in over a decade on October 7 to end the day at 1,854.

Russia’s stock market has been enjoying a rally this year that has seen the overall market up by around a quarter. Banking stocks have been the preferred investment, used by investors as a proxy for exposure to the general economic recovery, which were up some 60% YTD as of last week of October.

The rally on the RTS comes in parallel with a general enthusiasm for Russian companies that has led to an IPO boom, as bne IntelliNews has recently reported. Russia has seen almost a dozen companies list in the last year, mostly from the tech and retail sectors, raising billions of dollars in the process. International portfolio investors are overweight Russian stocks at the moment, not because they have been buying the traditional blue chips, but because they have loaded up on all these debutants.

However, the market surged again, driven by easing political tensions and rising oil prices that crossed the $80 mark for the first time in years. At the same time investors have been buying into Russia’s national gas company Gazprom as gas prices have soared eight-fold since the start of the year.

In recent weeks portfolio investors have been taking profits in banks and reallocating their investments into oil and gas stocks, which gained 4pp this week to return 39% YTD and would have closed the gap with banking shares, except these soared as well to finish the week returning 70% YTD.

This is the second time the market has tried to rally. For most of the years since sanctions were imposed in 2014 following the annexation of the Crimea, and an oil shock that same year, the RTS has been range-bound between 900 and 1,300, but the best blue chips started to rally in 2018 when the Russian economy finally started to recover. Names like Russia’s biggest supermarket chain X5 Retail Group and the leading real estate developer PIK saw the value of their shares double that year. But in 2019 the rest of the market was being lifted as well and the RTS broke above 1,400 for the first time in five years at the end of the year.

2020 looked like the rally would continue, fuelled by Russian companies’ proclivity to pay out the highest dividends in the world – twice the MSCI EM benchmark average. However, after yet another oil price shock struck in March, quickly followed by the start of the coronacrisis, the index collapsed to around 800, before recovering some of the ground lost during the summer.

Moods improved as the autumn arrived. The tête-à-tête between Russian President Vladimir Putin and US President Joe Biden in Geneva on June 16 did a lot to alleviate increased sanctions fears and reduce political risk. Then the announcement of effective vaccines that arrived in the following months promised an economic recovery in 2021 that set a new rally off, or at least a return to the previous rally in 2019.

In addition to the return of enthusiasm for Russian shares has been the push given as Russians turn to the stock market for the first time after the traditional store of wealth – high-yielding bank deposit accounts – saw returns fall to next to nothing after a six-year-long string of rate cuts by the Central Bank of Russia (CBR). As bne IntelliNews reported, SPB Exchange has seen an explosion of retail investors investing in stocks, including a large share going into international stocks as Russians seek to protect themselves from the volatility of the ruble.

Retail investors are also helping to drive the current rally and now account for some 40% of the daily turnover on the Moscow Exchange (MOEX).

**International vs retail flows**

The surge in the market has been remarkable, say analysts. Investment flows tracker EPFR Global released its fund flows data through the week ending October 6 and found Russian assets saw net circa $50mn inflows from combined equity and bond fund flows in the reported week vs circa $80mn outflows during the previous week. Russian dedicated funds saw even more: inflows of circa $70mn, up from $30mn the week before – the best result since March.

“Global energy rally finally brought quality money into Russia traditional funds at a pace unseen since the start of the pandemic, while EM stocks also attracted new cash,” said
Slava Smolyaninov, head of strategy at BSC GM, in a note.

“Active Russia-dedicated funds enjoyed [their] best weekly inflows since pre-pandemic January 2020 as they registered a net weekly intake of $100mn,” Smolyaninov continued. “The largest inflows came into funds managed by Pictet followed by the VTB Russia fund and Sberbank fund focused on natural resources. These intakes easily outweighed outflows from ETFs led by $32mn out of the RSX ETF and even $5mn out of the levered Direxion Russia Bull 2x fund.”

Russia’s market is being lifted as well as inflows into global emerging market equity funds, which also saw a solid inflow of $1.5bn in the same week – the best since August – and have enjoyed positive inflows for nine weeks in a row now.

The retail investors are playing an increasingly important role in the ebb and flow of funds. MOEX published its retail investor statistics for September: retail inflow picked up to RUB35bn ($481mn), rising from the previous month’s RUB28bn and coming in line with the YTD monthly average, Sberbank reports. That is $120mn a week equivalent, on a par with the international inflows of the last week, giving the market added momentum.

BCS GM reports that while there was a correction as investors took some profits, especially from the banking sector stocks, Russian retail investors took advantage of the dip to buy into the weakness and start the ball rolling, only to be joined by international investors.

“Inspired by a powerful energy shortage in Europe, Retail bought into outflows from Russia and EM ETFs to propel the market higher. We see negative flow momentum building again, but we stay positive in the long run,” Smolyaninov said. “Retail en masse has been right to aggressively add to their net Long positions through September, enjoy the energy-driven rally and remain a buyer despite the market hitting new highs every other day and the worrisome technical picture signalling short-term overbought conditions. This differs from the more opportunistic behaviour typical of Retail in the past years, when they usually sold into such strong market upticks.”

Analysts are optimistic about the outlook for the rally to continue. October is when the traditional “Santa Rally” begins, as Russia’s equity market is prone to seasonal rallies caused by tax payments and fund allocations amongst major funds.

The Santa rally runs over the fourth and first quarters ahead of the dividend payment season in August and then sells off after the dividends are collected, only to start rallying again as the weather gets colder. New mandates issued at the start of the year by major funds also contribute to these rallies.

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**Russian car-sharing major Delimobil files for listing in New York**

East West Digital News in Moscow

Delimobil Holding SA, a Luxembourg-registered, Moscow-based car-sharing company, filed for listing on the New York Stock Exchange on October 8, reports East-West Digital News (EWDN).

BoFA Securities, Citigroup Global Markets and VTB Capital (VTBC) will act as joint lead book-running managers, while Banco Santander, Renaissance Securities and Sberbank CIB will be joint bookrunners, the company said, cited by Reuters.

A pioneer of the Russian car-sharing market since 2015, Delimobil now operates in Russia, as well as Czechia, Kazakhstan and Belarus, under the brands Delimobil, Anytime and Anytime Prime. Last year Delimobil’s Russian car-sharing business generated RUB5.3bn, with a net loss of RUB2.4bn (around $73mn and $33mn respectively at the average exchange rate of the year), according to Spark. Interfax data cited by the Russian media.

Delimobil has just become the car-sharing leader in Moscow city – ahead of traditional leader Yandex.Drive – with a market share estimated at 41.5% this month, according to city government data cited by Bank of America. Other companies operating in Moscow include BelkaCar and Citidrive (formerly YouDrive, which Mail.ru Group took control of in 2019).

In July this year VTBC, a division of the state bank VTB, paid $75mn to acquire a 15% stake in Delimobil, valuing the company at $500mn. Delimobil said it would use the fresh funding for further developments and a stronger position on the Russian market.

VTB Group had been a partner of Delimobil since 2019, providing leasing financing for the expansion of its vehicle fleet. Car-sharing (also spelt ‘carsharing’) consists in renting cars for short periods, often by the hour. The owner of the cars may be an operator or private individuals renting their own vehicle. Car-sharing should not be confused with ride-hailing (e.g. Uber) or car-pooling (e.g. BlaBlaCar).

This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.
Russian ruble enters 4Q21 on a strong note

Dmitry Dolgin chief economist Russia at ING in Moscow

Russia's exceptionally strong current account surplus helped the ruble outperform its peer currencies in 3Q21 and is likely to keep doing so in 4Q21. As a result, we see USD/RUB appreciating to 70.0-71.0 in the coming month. For the medium term, fast local capital outflow and global dollar strengthening should be a factor limiting ruble appreciation.

Current account fundamentals strengthened in 3Q21

Russia’s current account recorded the largest ever quarterly surplus of $40.8bn in 3Q21, exceeding our $32bn expectations and hitting the top of the consensus range. We take the headline print positively and have the following observations:

Non-fuel export growth accelerated to 55% y/y in 3Q21, despite a somewhat adverse base effect, as Russian exporters of metals, select fertilizers, and agriculture products enjoyed higher demand and stronger pricing environment.

Meanwhile, import growth was restrained on both the goods and services segments (Figure 1), reflecting still limited outward tourism and the moderation of merchandise imports after a very strong spike in 2Q21.

Still, despite the moderation, merchandise import growth at 30% year-on-year in 3Q21 appears elevated relative to the exchange rate performance: even though the ruble continued

Figure 1: 3Q21 current account exceeds expectations on strong exports and restrained imports

Source: Bank of Russia, ING

Figure 2: Merchandise import growth moderated but remained elevated relative to FX rate dynamic

Source: Bank of Russia, Refinitiv, ING

Figure 3: Fuel exports up thanks to prices and volumes

Source: Bank of Russia, Refinitiv, ING

Figure 4: Private capital outflow remains an issue

Source: Bank of Russia, Refinitiv, ING
strengthening to euros (EU accounts for 1/3 of Russia's imports) and USD, by 3Q21 EURRUB and USDRUB have only returned to levels seen in 3Q20 (Figure 2). One explanation to this dynamic is the substitution of foreign travel with consumption of imports, in addition to some recovery in local investment activity.

Finally, fuel (crude oil, natural gas, LNG, oil downstream), accounting for 48% of Russia's export proceeds in 9M21, benefitted in 3Q21 from both a better pricing environment and volumes (Figure 3). The likely seasonal increase in gas export volumes in 4Q21 combined with continued easing in OPEC+ restrictions allow for expecting further growth of Russian exports per $1/bbl in 4Q21.

Thanks to an increase in volumes and prices, natural gas exports increased from $16.7bn in 9M20 to $33.1bn in 9M21, reaching 20% of Russia's fuel exports. Assuming a further increase in volumes and moderation in prices, Russia's gas exports may reach $15.0-15.5bn in 4Q21.

Taking into account the trends in the non-fuel sector, expected $75/bbl Urals price for 4Q21 and assuming increase in export volumes, we see the 4Q21 current account surplus in the $40-45bn range, suggesting a full-year figure of c.$125bn, or c.7.5-8.0% of GDP.

Figure 5: Private capital outflow is driven by accumulation of foreign assets

Looking at the broader balance of payments picture, it appears that the current account surplus was the key driving force behind the ruble's positive performance in 3Q21 vs. $ (Figure 4) and peers (Figure 7).

FX interventions were not an issue, as they only sterilized 31% of the current account surplus in 3Q21 thanks to the non-fuel support factors to the latter. We believe, in 4Q21 FX purchases are also unlikely to exceed 30-35% of the current account surplus, leaving around $30bn of unsterilized surplus until the year-end.

3Q21 was also a successful quarter in terms of portfolio inflows into the local currency public debt market (OFZ), which were close to $6bn after negative $4bn in 1H21. This recovery was supported by the toning down of Russia's foreign policy tensions, hawkish central bank, and a generally calm mood on the global debt markets, which however proved fragile after the tightening in the Federal Reserve rhetoric caused a spike in UST yields and led to more bullish $ expectations.

Our biggest concern and a major drag on the ruble is the local private capital outflow, which picked up to $33.9bn in 3Q21 to $58.9bn for 9M21 ($69.5bn over 4 quarters). The foreign debt data, that allows a detailed analysis of the capital flow structure, will be released on 13 October, but the preliminary numbers show (Figure 5) that after a brief improvement in 2020, the capital outflow structure is back to its usual focus on accumulation of foreign assets.

Looking deeper into the foreign asset flows (Figure 6), one can see a return to standard outward FDI of around $30bn per year accompanied by a comparable accumulation of more liquid foreign assets. The latter may suggest a potential for reversal in case of more favourable conditions for the capital flows, but the catalysts for such a move remain uncertain.

The overall balance of payments picture supports our take that the private capital outflow remains a factor limiting ruble's appreciation in the medium term. The structure and dynamics of the capital account point at a low appetite for capital locally, which combined with external limitations (foreign policy, global

Figure 6: Outward FDI is back to US$30 bn a year, accumulation of other foreign assets is also noticeable

Figure 7: Ruble was stronger than its peers in 3Q21

Source: Bank of Russia, ING

Source: Bank of Russia, Refinitiv, ING
Companies & Markets

Non-oil exports driving Russia towards new all-time high current account balance this year

bne IntelliNews

Non-oil exports drove Russia’s current account balance to a historical quarterly high of $40.8bn in the third quarter, the CBR reported on October 11.

“The increase was primarily due to the improvement in the trade in goods and goes beyond oil & gas exports: non-O&G goods exports advanced to $73bn, up +$25bn year on year,” Alexander Isakov, chief economist at VTB Capital (VTBC), said in a note. “The upturn in non-O&G exports was mostly due to metals, aluminium and steel, in particular, screening both by the rise in metal prices and growing export volumes (the latter according to the monthly data).”

The turnaround in Russia’s trade regime has been dramatic. At the start of 2020 analysts were speculating that the current account would go into the red for the first time in almost two decades and indeed, it briefly dipped below the line for one month.

But now exports are booming and Russia has continued to reduce its dependence on oil and gas exports, although both those categories are doing very well at the moment on the back of sky-high prices for gas and $80-plus prices for oil. Oil and gas earned $61.9bn in exports in the third quarter of this year but that was slightly less than the $72.9bn earned by everything else.

“The $40.8bn current account surplus increased net foreign assets by $26bn (of mostly corporates in the form of direct investment and trade credits) and foreign reserves by $12.9bn (the rest is errors and omissions),” Isakov said. “Another $16.7bn of the increase in foreign reserves came through the [IMF’s] SDR allocation, which enlarged the CBR’s foreign liabilities accordingly.”

The rapidly improving state of Russia’s trade regime has already had a visible knock-on effect on the ruble, which has strengthened considerably and is one of the world’s best performing currencies this year.

“We believe the report shows that we can expect a notable revision of the balance of payments CBR’s July projections: from $88bn, it could shift up to $110bn-$120bn. We expect the current account strength to carry over into 4Q21 (supported by both commodities prices and growing export volumes), which we see as a positive development for the RUB,” said Isakov. “Our forecast for the full-year surplus is $115bn-$120bn, which, if our estimates are correct, would exceed the 2018 historical high (and adds to the similarities between 2021 and 2018).”

risk mode) keeps the ruble undervalued, making it continuously favourable for trade balance. A mirrored shrinking of the current account surplus and net capital outflow under more or less stable exchange rate would be a sign of a reversal in the trend.

Near-term ruble outlook improved, but ruble’s stabilisation at the lower bound of the USDRUB70-75 range in the medium-term remains an optimistic case requiring moderation in the private capital outflow and stabilisation of $ to major currencies, none of which is part of our base case at the moment.

An exceptionally strong 3Q21 current account prompts us to improve our full-year outlook by around $30bn to $125bn in 2021. Thanks to that, we now see a possibility of ruble appreciating to 70-71 in the coming 4 weeks and see potential room for improvement of our year-end target of 73.0. Taking into account partial sterilization of the current account via FX purchases, ruble fair value should be improved by USDRUB2.0, all else being equal. Nevertheless, ruble’s stabilisation at the lower bound of the USDRUB70-75 range in the medium-term remains an optimistic scenario, requiring moderation in the private capital outflow and stabilisation of $ to major currencies, none of which is part of our base case at the moment.

Dmitri Dolgin is the chief economist for Russia at ING. This note first appeared on ING’s THINK.ING portal.

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Non-oil exports driving Russia towards new all-time high current account balance this year

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Russia balance of payments ($bn)

Source: CBR, VTBC

www.bne.eu
**Turkish lira drops through 9**

**bne IntelliNews**

The Turkish lira (TRY) fell through the 9.00 per dollar threshold to its latest all-time low on October 11. The currency is enduring another bout of weakness with the markets concerned that Turkey’s central bank in late September cut interest rates despite high and rising inflation.

The TRY stumbled to 9.0123 against the USD, marking a 0.5% decline on the day. The currency fell 6.5% in September and has continued to fall in October. “TRY @ 9, big level. Over 12 against Sterling, insane but reflective of bad monetary policy settings and [Turkish President Recep Tayyip] Erdogan’s failure to accept economic gravity,” tweeted Timothy Ash at BlueBay Asset Management.

The move to below nine came with a stronger dollar leaning on emerging market currencies but heavy domestic factors are weighing on the lira’s fate.

“CBRT [Central Bank of Republic of Turkey] has made lira vulnerable with its narrative on low rates despite high inflation and caused another major sell-off in the lira,” Piotr Matys, senior currency analyst at InTouch Capital Markets, said.

**Syria hint**
Markets were also concerned at Turkish President Recep Tayyip Erdogan hinting at a possible military offensive into neighbouring Syria, where Turkey-backed rebels are lined up against forces loyal to Syrian President Bashar al-Assad.

But it is the widely-held belief that Erdogan is at the helm when it comes to Turkey’s monetary policy, and is again pushing for more stimulus despite stubborn inflation, which has been giving investors a particularly perplexing and growing headache. The central bank has been using the argument that core inflation is trailing annual inflation to justify monetary loosening. However, even though the regulator may have done the Turkish president’s bidding with the rate cut, there are reports that Erdogan is “cooling” on central bank chief since March Sahap Kavcioglu. Prior to his appointment of Kavcioglu, Erdogan fired three central bank chiefs in a period of around 20 months over policy disagreements [Editor’s note: Erdogan fired three more monetary policy committee members late on October 13].

Erdogan’s political fortunes also imply more instability may be ahead. With Erdogan and his AKP party in serious trouble in the opinion polls, six Turkish opposition parties are stepping up collaboration in their bid to topple the president and ruling coalition in elections due by June 2023. The parties said they plan weekly meetings to agree shared principles by year-end.

"The opposition in Turkey is trying something that has never been tried before: getting united to confront the government," political commentator Murat Yetkin was cited by Reuters as saying.

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**bneTech**

Russia’s top retail and tech companies join forces to hunt for innovations in the rest of the world

Ukrainian-founded tech startups reached $544mn in 2019, up 6% y/y in 2019

We have launched a new publication bneTech

A FREE newsletter covering technology, blockchain, ICOs, TMT and all aspects of the “new economy” in Emerging Europe, Central Asia and MENA.

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Russian internet major Yandex adds London to foodtech expansion

Russian tech giant Yandex has announced that its e-grocery service began operations in London.

Russia’s ultrafast grocery delivery service Yango Deli that can get goods to customers in under 15 minutes has launched in London, the company said in a press release on October 14.

The service already works with customers in Russia, France and Israel and has now added four dark stores in the UK capital that will cater to an 1.4mn potential customers, the company said.

Russian tech giant Yandex has announced that its ultrafast grocery deliver arm has begun operations in Bethnal Green, Battersea, Bermondsey and Acton, bringing everything from groceries and freshly baked pastries to houseware and personal care products direct to customers’ doorsteps. The company will also pilot the delivery of hot food, which it claims is a first for London’s ultrafast grocery sector. Over the coming months Yango plans to expand its service to cover other areas of London, too.

The international expansion is a daring move from Yango, which hopes that its experience in setting up networks (Yandex’s grocery delivery brand has 400 stores worldwide) and the support of a top tech company will give it the edge over new startups still seeking investment.

Evgeny Chernikov, general manager at Yango Deli UK, said “Our operations are tried and tested on a large scale and across multiple geographies, and we’re now excited to bring a new level of ultrafast grocery service to the UK’s bustling capital.”

London is well suited to the sector. It is densely populated, relatively wealthy, and full of young professionals who embrace tech solutions and have little time to spare. “Whether Londoners need to order a last-minute essential ingredient for a dinner recipe, fresh baked goods, or a flat white caffeine boost to start the day, Yango Deli is expertly configured to save precious time,” said Chernikov.

How it works
Ultrafast grocery companies deliver goods from hyperlocal warehouses located in residential areas, called dark stores. Each dark store has a complex logistics process based on stock keeping units (essentially barcodes) that allows each order to be put together in 2-3 minutes. Orders are then shipped off to customers on electric motorcycles or electric bicycles. The service will be available every day from seven o’clock in the morning until eleven in the evening, with no delivery fee or minimum order requirement.

Yandex’s model is designed to reduce waste, with an automated purchasing system driven by a self-learning algorithm, so that customer demand each day can be anticipated and the appropriate stocks ordered.

Maxim Avtukhov, head of international markets for Yango Deli, said: “We benefit from our own tech solutions, which facilitate our intelligent supply and demand planning, predictive assortment selection and effective picking and delivery routing.”

The company
NASDAQ-listed internet giant Yandex started in 1997 as a search engine. It is now the fifth-biggest search engine in the world. The company also offers over 70 internet-related products, from ride hailing and music streaming to e-commerce.

Yandex first launched its ultrafast grocery delivery operations in Russia in 2019. It benefitted from rapid digital uptake (which was accelerated by the coronavirus (COVID-19) pandemic) and quickly became a top e-grocery player in the country. It then launched in Tel-Aviv in November 2020 and Paris in August 2021. In Paris, the service is already available in 10 arrondissements, a testament to the company’s rapid expansion.

The secret sauce
In the second quarter of this year, the annualised gross merchandise value (GMV) run rate of Yandex’s e-grocery service was approximately GBP255mn ($351mn), up 2.3 times year on year. This metric is often used to measure the success of e-commerce companies. Now, though, Yango will be focusing on investment and international growth.

In a fragmented market with stiff competition, the key to beating peers will be rapid customer capture and expansion. Yango Deli’s first job in London is building brand recognition and reaching a broad customer base. Yango Deli already has an audience of around 50mn people.
Russian internet major Mail.ru rebrands to VK in ecosystem drive

Russia’s internet major Mail.ru Group announced its rebranding into VK, the name of the social network (former VKontakte) and the key asset of the group.

As followed by bne IntelliNews, most recently Mail.ru reiterated its commitment to maintaining social network VK leadership. Since 2020 the company has been more active in leveraging its VK user base to support growth of its other services.

Mail.ru sees the rebranding as being in line with its ecosystem development strategy, which featured VK as its central element. MAIL sees that the VK brand has 100% brand awareness among the Russian internet audience and is used by 70% of local internet users daily.

As a result of the rebranding Mail.ru also expects to see an increased association of about 200 products with the broader group, as well as deeper internal collaboration and less internal competition. The rebranding will not affect the operational structure.

Sova Capital sees the rebranding news as neutral for Mail.ru at this stage. "On the one hand, the new unified brand could indeed increase awareness of the company's services and facilitate their usage. On the other hand, we think it remains to be seen whether the rebranding goes smoothly and whether other business units such as Odnoklassniki and My.Games are happy with promoting VK as the flagship banner," the analysts argue.

"We understand the idea of rebranding – [it] might indeed add some integrity between assets in the eyes of the customer and investors. Yet, neutral for Mail.ru – confirms its focus on cross-integration of services and importance of VK," BCS Global Markets commented.

BCS GM maintained a Buy call on Mail.ru. Sova Capital maintained a Buy recommendation on the shares estimating the valuation at 2022 Enterprise Value/EBITDA of 7.3x and Price/Earnings of 20.8x.

Russian venture market reached $1bn in 1H21

East West Digital News in Moscow

DSight, a Moscow-based business intelligence company with a focus on investment, has just released the English version of its Russian venture report covering the first half of 2021, reports East-West Digital News (EWDN).

In contrast with last year’s disappointing numbers, the market showed signs of renewed growth earlier this year, with total deal value exceeding $1bn for the first semester.

This is an all-time record, notes Dsight: “Over the last few months we have been watching the Russian market grow continuously, and cruise along to Europe’s top 10 venture regions,” writes the agency’s founder, Arseny Dabbakh.

The period was marked by the $250mn capital injection into ivi.ru, Russia’s leading online video platform, which involved state-owned financial institutions as well as Russian billionaires.

“This was not only the largest deal in H1 2021; it also beat everything the Russian venture market had seen” so far, notes DSight.

The first half of the year also saw many Russian tech entrepreneurs raise funds to develop their projects abroad – “not only crossing the Atlantic but also landing in Europe, Southeast Asia and Africa.” Several sectors are concerned, from food deliveries, to edtech, to medtech, to femtech.

Russian venture investment volume by semester, 2016-2021

Source: DSight
Russian or not Russian?

“I believe our guys’ success abroad has the potential to markedly improve the situation in Russia, and to fuel growth in the domestic market,” writes Dabbakh, with a touch of optimism.

These international successes also pose a methodological issue: can the amounts amassed abroad by companies registered outside Russia be included in Russian venture data just because their founders are or were Russian and, in certain cases, because these companies are keeping an R&D team in Russia?

For example, Acronis’s $250mn round in May this year is included in Dsight’s stats, even though the company is headquartered in Switzerland and has its executive team located outside Russia – which is arguably safer for a cybersecurity company these days – while its founder, Russian-born Serguei Beloussov, has long been presenting himself as being a Singaporean, not Russian, citizen. The round itself was led by CVC, a major international private equity firm based in Luxembourg with little if any connections with Russia.

The emergence of angel networks

Among the interesting trends observed by Dsight is the growing share of early-stage business angel investments in Russia. Individual investors were not after numbers, concede the analysts, who identified only 31 deals involving them in H1 2021 – but they were after volumes, with total deal value doubling to $49mn and average deal value reaching some $2mn (+160% y/y).

“Angel clubs in Russia and investment volumes are only growing,” confirmed Alexey Solovyov, a figure of the Russian VC scene, in an exchange with East-West Digital News. He cited the example of AngelsDeck, the biggest BA community in the Russian-speaking space, which was involved in more than 70 deals this year.

“Russian angels invest collectively together with tier-one international funds. The emergence of business angel networks is perhaps the most significant trend this year in Russia,” Solovyov said.

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Facebook and Google exposed to record fines for not removing unlawful content in Russia

East West Digital News in Moscow

Russia could impose record fines on Facebook and Google (held responsible for YouTube) for not removing prohibited content. Since these companies are accused of repeated violations, fines could be in the range of 1/20 to 1/10 of the yearly revenues they generate in Russia, reports East-West Digital News (EWDN).

Thus Facebook, which makes around RUB1bn ($138mn) per year in the country, according to an expert estimate cited by Vedomosti, could have to pay anything between RUB500mn ($6.9mn) and RUB1bn ($13.7mn). A court decision is still required to enact the fines.

In an exchange with the business daily, a representative of Roskomnadzor, the internet and telecom regulator, described the violations as follows:

“YouTube systematically fails to comply with the requirements to remove prohibited content. Since 2014, more than 3,000 illegal materials containing child pornography, suicidal, drug-related, fake, extremist and other content that are dangerous for Russian citizens have not been removed.”

“Facebook Instagram and Facebook have not removed over 2,000 illegal materials, including those containing child pornography, suicidal, drug-related, extremist content.”

“Extremist” is how the authorities now tend to refer to any anti-Kremlin content. They have engaged in a power struggle with Apple and Google, in particular, to have them remove a sensitive app produced by their opponents in the run-up to the September parliamentary election.

Growing pressure

Since the beginning of this year, Russian courts have been actively fining international online giants – from Facebook, to Google, to TikTok, to Twitter – for failing to remove unlawful content or to store personal data inside the country. However, the amounts have been rather modest so far, in the range of a few dozens of thousand US dollars.

www.bne.eu
Ten years after start in Ukraine, GitLab lands on Nasdaq at $11bn valuation

East West Digital News in Moscow

GitLab (‘GTLB’), a San Francisco-based open-source software startup founded by Ukrainian entrepreneur Dmitry Zaporozhets and Dutch-born Sid Sijbrandij, made its debut on the Nasdaq at a valuation of $11bn on October 14, reports East-West Digital News (EWDN).

Priced at $77 late the day before, the stock started trading on the 14 at $94.25, pushing GitLab’s market cap to $13.5bn, reports CNBC. This is about 58 times annualized revenue, which would put the company at the fifth place among 58 companies in the Bessemer Cloud Index.

GitLab raised some $650mn in the offering. Over $150mn of additional stock were purchased from an entity affiliated with Sijbrandij.

Using the DevOps application software development methodology, the GitLab platform is designed to “maximize the overall return on software development” within organizations. It delivers software “faster and efficiently, while strengthening security and compliance.”

“With GitLab, every team in your organization can collaboratively plan, build, secure, and deploy software to drive business outcomes faster with complete transparency, consistency and traceability,” the company claims.

GitLab’s revenue in the second quarter of 2021 jumped to $58mn, up 69% from a year earlier. A net loss of $40.2mn was recorded in the latest quarter, as the company spends around 75% of its revenue on sales and marketing, according to CNBC.

GitLab started as open source project in Ukraine in 2011. Two years later, Zaporozhets and Sijbrandij started bootstrapping GitLab as a company.

Incorporated in 2014, the company went through Y Combinator in early 2015. It secured several rounds of funding in the following years, including a $100mn capital infusion in 2018 and a $268mn Series E round in 2019, which valued the company at $2.75bn.

In November 2020 GitLab saw its valuation jump to $6bn as it organized a $195mn secondary sale.

This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.

“With GitLab, every team in your organization can collaboratively plan, build, secure, and deploy software to drive business outcomes faster with complete transparency, consistency and traceability”
Mail.ru Group pursues gaming acquisitions across Russia and Belarus

Mail.ru Group’s appetite for acquisitions in the gaming space was confirmed again as My.Games Venture Capital (MGVC), the investment arm of its subsidiary My.Games, announced minority investments in three game studios. These are Tworogue Games and VOX, based in Moscow, and Wideview Games from Minsk, Belarus.

MGVC put on the table $3mn in total for these deals, which include options to purchase control stakes at a later stage, reports East-West Digital News (EWDN).

“We look at the market as a whole and invest in studios that work in genres with high reach and revenue potential. At the same time, we specifically focus on genres that we do not yet have in the MY.GAMES portfolio, which could significantly expand our expertise,” stated MGVC Executive Producer Nikita Matsokin.

“One of our development goals is to diversify the gaming portfolio to the fullest with the possibility of further integrating the partner studios’ products into the group’s single ecosystem,” he added.

$90mn invested over four years

A Mail.ru Group executive revealed the total amount MGVC has invested in the gaming space since its launch four years ago: 6bn rubles, or around $90mn at the average exchange rate over the period.

A thousand Russian and foreign companies were screened, of which 45 received funding. Only seven portfolio companies have thus far achieved the targeted results, conceded Vladimir Nikolsky, co-founder of My.Games and operating director of Mail.ru Group, in a media interview.

The firm’s largest deal – 2bn rubles – turned out successfully. This funding went to Novosibirsk developer Deus Craft, which further released Grand Hotel Mania. In August 2020, just weeks after launch, the game took second place in terms of revenue among mobile games in the time management category on iOS and Android. MGVC went further in October 2020, acquiring a majority stake in Deus Craft.

MGVC’s investment in Swag Masha was more modest ($150,000), but successful as well. The capital injection allowed this Belarusian studio to launch its flagship game, Love Sick: Interactive Stories, and quickly repay its new shareholder.

In late September My.Games announced it purchased a majority stake in Mamboo Games, nearly one year after a minority investment. Headquartered in Minsk, Belarus, and employing 35 people, this company develops own and third-party hyper casual and hybrid casual titles. My.Games paid “more than $2mn” at close of the latest deal. A deferred payment will depend on further business performance.

Vibrant industry

The past few months saw a series of other deals in the vibrant Russian gaming industry. Here are the most notable ones:

- In July Moscow-based GEM Capital, the investment vehicle of oil industry executive Anatoliy Paliy, backed Gameram with a $500,000 check. This video gamer social app was developed by Terraform Games, a Cyprus-based company co-founded by Russian gaming veteran Philipp Gladkov
- Green Grey, a Russian-founded publisher of mobile games and apps, invested $2.5mn in Infusion Games. Based in Estonia, this mobile games developer was founded in 2020 by two Russian IT veterans, Sergey Belyaev and Nikolay Shubin. The move came in August, just weeks after Green Gray announced the launch of NGU Games, a casual games studio and investment vehicle.
- Nexters, one of the most successful Russian-founded game development companies, went public through a merger with SPAC company Kismet. Under their merger agreement in February 2021, Nexters’ enterprise value was placed at $1.9bn.
- In late September Embracer Group AB, a major Swedish developer and publisher of PC, console and mobile games for the global market, announced the acquisition of Russian Bitex. Founded in 2004 and based in Saransk (650 km east of Moscow), Bitex is a quality assurance (QA) studio focusing on games and B2B web portals. It employs around 240 people, including 190 engineers.

On its side The Games Fund – a vehicle launched in Moscow earlier this year to invest in Russia and neighbouring countries – reportedly attracted, in August, $17mn from American and South Korean mobile gaming majors Scopely and Com2us. ●
Kazakhstan to restrict crypto miners amid power shortages

Almaz Kumenov for Eurasianet

Kazakhstan’s national grid operator has begun rationing electricity to the country’s biggest consumers, likely targeting cryptocurrency mining farms. Facing a sudden energy shortage, officials must be regretting their recent embrace of the crypto industry.

Nur-Sultan has struggled to land on a consistent policy toward cryptocurrencies and mining – the series of electricity-hungry calculations made by networked computers to verify and record cryptocurrency transactions.

Only three years ago, the National Bank called for a ban on trading cryptocurrencies and mining them.

Then, in 2020, parliament passed a law legalising mining and creating welcoming conditions for the industry. The bill introduced the concept of a “digital asset” and laid the groundwork for licensed cryptocurrency brokers to set up shop. The legislation also established rates for taxes to be collected from miners and new, increased electricity tariffs to begin next January.

Speaking shortly after the bill passed, Digital Development Minister Bagdat Musin told a government meeting that 13 mining farms had already begun operating in Kazakhstan with investments totalling 80bn tenge ($188mn). By 2025, mining investments would reach 500bn tenge ($1.2bn), he said.

Then China offered a reality check this summer when it banned cryptocurrency use and mining on its territory. Many farmers simply moved operations across the border, turning Kazakhstan into the world’s second-largest crypto miner. The country’s share of global mining soared from 1.4% in September 2019 to over 18%, according to data collected by Cambridge University.

The Blockchain and Data Center Industry Association, a lobby group, estimates that as many as 250,000 mining devices are hosted in Kazakhstan today.

Those computers demand vast amounts of power.

"We have seen that our [country’s] electricity consumption has literally increased by 7 percent in one year. That’s a very big increase," Energy Minister Magzum Mirzagaliyev said on September 30, noting that consumption usually grows by about 2% per annum.

Mirzagaliyev linked the demand to mining and proposed the government limit supplies of electricity to 1 MW per mining farm and to 100 MW for the whole sector.

That suggestion drew criticism from miners. The Blockchain and Data Center Industry Association argued that the government should crack down on illegal miners instead of restricting companies that pay taxes.

On October 15, the national grid operator, KEGOC, announced electricity rationing after three major coal-fired power plants shut down. KEGOC did not directly blame miners, but it used language similar to the energy minister’s and said it was cutting off customers who “over-consume.”

Almaz Kumenov is an Almaty-based journalist. This article originally appeared on Eurasianet.

Top four crypto miners (% global share)
Russia to become carbon neutral by 2060

Ben Aris in Berlin

Russian President Vladimir Putin set the goal of carbon neutrality by 2060 during comments in his speech at the plenary session of Russia's Energy Week on October 13.

"Russia in practice will strive for carbon neutrality of its economy," he told delegates. "And we set a benchmark for this – no later than 2060."

"The planet needs informed, responsible actions by all market participants – both producers and consumers – focused on the long term, in the interests of the sustainable development of all our countries," Putin said.

"Russia is ready for such constructive and close co-operation," he added, as cited by the Moscow Times.

Putin's announcement brings to an end considerable confusion and contradictory statements coming out of the Kremlin in recent months on just how tough the Kremlin was going to be in the climate fight, as bne IntelliNews has been reporting.

Russia has introduced a new long-term energy strategy and is taking the problem of climate change increasingly seriously after the country was plagued by floods and massive forest fires this summer. The temperatures are rising two and half times faster in Russia, the president noted, and even faster in the Arctic. As bne IntelliNews reported, Russia's permafrost is melting and could do a trillion dollars of damage to cities and energy infrastructure in those regions that cover a third of the country's territory.

The new energy strategy takes account of the shift towards renewable energy and "the role of oil and coal will decrease," Putin observed.

Criticised for being slow to grasp the nettle, Russia set itself easy targets after it adopted the Paris Accords in 2019, as bne IntelliNews reported in an overview of Russia's emissions, and plans to reduce them.

With abundant oil and gas reserves Russia has been slow to invest into renewable energy. Moreover, with abundant nuclear and hydropower resources, neither of which emit CO2, there has been even less interest in investing into wind and solar.

But the government ratcheted up its game in June when Putin ordered it to come up with plans to emit less CO2 than the Europe by 2050, when the EU aims to become carbon-neutral under its Green Deal.

Putin's call to become carbon neutral by 2060 is new, as the previous plans were for Russia's emissions to increase modestly before dropping to net zero some 80 years from now, according to Katie Ross at the World Resources Institute, as cited by the Moscow Times.

And Russia's upping its game is important for the global drive to contain emissions growth. Analysis by climate science website Carbon Brief named Russia as one of the countries most responsible for global warming. The research shows that Russia has contributed 6.9% of the world's CO2 emissions since 1850. When pre-industrial emissions are factored in, that makes Russia the third-biggest producer of CO2 historically, behind the US and China.

Putin's comments represent a significant hardening of Russia's position on emissions, as only a week ago the Ministry of Economy was flip-flopping on neutrality and said it was not under consideration.

As part of the new plan the share of renewables is set to increase greatly. Part of the plan is also to reduce emissions through absorbing CO2 by doubling the area of forest density through planting. Russia is already home to the world's biggest forests.

The Paris Accords suggest that countries cut CO2 emissions by 30% from the levels of 2005. In Russia's case it was emitting 1,734mn tonnes of CO2 emissions per year (mtCO2/yr) in 2005, however, the Kremlin has set 1990 as the base when it was emitting 2,397 mtCO2/yr – a much higher bar and way above what Russia is emitting today.

A 30% reduction from the 1990 level would allow Russia to produce 1,678 mtCO2/yr, which is only slightly less than the 1,765 mtCO2/yr it was producing in 2017. However, if 2005 were set as the benchmark year then Russia would have to reduce its CO2 emissions by a third from the current levels, or by a hefty 550 mtCO2/yr.
Russia’s forests offset its CO2 emissions and absorb approximately 635 mtCO2/yr. Russia accounts for 70% of the world’s boreal forests and 25% of the world’s entire forest resources. The area of Russian forests has increased by 4.3mn hectares over the past 10 years – equivalent to the size of Denmark – after falling for years due to two decades of illegal and unregulated logging operations.

Deputy Minister of Energy Evgeny Grabchak said that the Ministry of Energy forecasts that under Russia’s increasingly serious green deal the updated energy strategy predicts that electricity demand will grow 24% by 2035 compared to 2020, and 43% by 2050.

In 2035 the electricity generation split is expected to be 19.8% hydropower, 23% nuclear power, 4.5% renewables and 40% gas (with a 9.5% contribution from coal), according to Grabchak. By 2050, this is to be 19% for HPP, 24% for NPP, 12.5% for renewables, 43% for gas and 4.5% for coal.

“The generation split expectations provided by MinEnergo are similar to those that the Ministry for Economic Development has in its target (intensive) scenario in the latest low-carbon strategy draft,” VTB Capital (VTBC) said in a note. “The outlook thus suggests a further reduction in renewables costs, coal decommissioning (to only 4.4.5% in electricity generation by 2050) and decarbonisation mode being activated. This supports our anticipated growth in renewables (to 12.5% by 2050 in both scenarios) in the energy balance, which is a natural process in our view.”

Russian utilities have been starting to change their profile, but only slowly. The most advanced is the Italian Enel Russia, which has gone emissions-free after it sold its coal-fired Refinskaya thermal power plant (TPP) in October 2019 and has been investing heavily into renewables.

Other big polluters like metallurgical giants Norilsk Nickel and RusAl have also been cleaning up their act and closing down high-emissions facilities as part of a drive to improve their environmental, social and governance (ESG) profiles that have affected their stock prices.

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**Changing European energy market**

In wide-ranging comments Putin went on to describe the changing energy environment in Europe. Specifically he lambasted Europe’s energy policies, saying that the EU had become over-reliant on wind power, which had underperformed this summer due to a “wind drought.”

He went on to stress that Russia was a reliable energy supply and had strictly been adhering to its gas new transit deal signed at the last minute with Ukraine in December 2019 that commits Russia to send 40bn cubic metres of gas via Ukraine’s Druzhba pipeline until 2024.

However, he reiterated the increasingly prominent Kremlin talking point that if Europe wants more gas it has to sign new long-term supply contracts with Gazprom. “We have to know how much gas our customers want,” Putin said. Even without these new contracts Gazprom is expected to ship a record amount of gas to Europe this year that is being sold on the spot markets on the St Petersburg commodity exchange.

The previous record exports of gas to Europe reached 200.7 bcm in 2018. In September Gazprom guided for 183 bcm of exports this year, but analysts say these exports will reach 190 bcm for this year and could easily be higher.

At the same time, Europe has seen a decrease in imports of gas from other source. Specifically he said that US LNG exports to Europe have fallen by some 14 bcm – approximately the amount that is anticipated to be Europe’s gas deficit this year – drawn off to Asia by even higher prices than in Europe.

Putin added that Russia plans to export 10% more than the contract level via Ukraine to Europe (approximately 44 bcm in total). Russia has already increased supplies to Europe by 15% in 9M21, Bloomberg reported.

Gazprom has been rushing to fill Russia’s own gas storage tanks as it faces the same shortages as the rest of Europe. However, BCS GM reported on October 13 that Gazprom had resumed offering gas on the St Petersburg exchange, suggesting that the Russian tanks are now almost full. Gas
trading on the St Petersburg exchange rose to 8mn cubic metres per day. This is up from less than 1 mcm per day recently, with the extra gas coming from Gazprom.

“A sign that Russian storage fill may be approaching completion. Gazprom largely withdrew gas from SPIMEX in August due to the fire in its gas condensate processing plant at Urengoy, with demand for an unusually large refill of depleted Russian storage and an atypically early start to the Russian heating season occurring in early September,” BCS GM said in a note. “However, in recent days, the weather in the European part of Russia has been pleasant, while Gazprom’s management has signalled that domestic storage should reach planned fill levels in the coming days. If the weather remains reasonably warm – no cooler than typical seasonal levels – then Gazprom should be able to offer larger amounts for domestic or international deliveries relatively soon.”

The increase in gas prices in Europe has been driven by the electricity deficit, as renewables capacity was suppressed, while after the end of the previous heating season gas levels in storage were not properly restored, Putin argued. Russia is not using energy as a weapon against Europe and stands ready to help the region as its energy crisis continues.

Putin repeated that the gas crisis in Europe could be quickly ended if Nord Stream 2 gas pipeline were put into operation. Gazprom has already loaded the pipeline, that was completed in September, with technical gas and in theory it could be put into operation tomorrow.

“The Nord Stream 1 and Nord Stream 2 pipelines are set to ensure the sustainability of gas supplies to Europe and reduce GHG emissions,” Putin said. “Nord Stream 2 AG continues to resolve the issues related to the certification with the German regulators, but the administrative barriers to the launch of Nord Stream 2 are not being removed. The gas pipeline would reduce tensions and prices.”

VTBC comments that despite the easing of tensions in the gas market the elevated current gas price of $1,123 per 1,000 cubic metres is indicative of continuing shortages that could amount to a gas deficit of 10-15 bcm for the upcoming heating season on the continent.

“We believe that in such a case, Gazprom would be able to draw additional (so-called emergency) capacity into production, providing more gas to Europe if requested by its European counterparties,” Sova Capital said in a note. “We therefore think that such an elevated gas price level is not sustainable and is set to adjust downward.”

However, Turkey's current pledge under the Paris Agreement allows for the country's emissions to increase to as high as 929mn tonnes in 2030.

Ekosfer observed that Turkey has not made any declarations about a possible coal phase-out. It thus concluded that "there are doubts as to whether the target set for the year 2053 is real or not."

Ekosfer Association executive board member Ozgur Gurbuz was reported as saying that "as long as the increase in emissions continues, it will be harder to reduce them," adding: "We do not know based on what study or report the 2053 net zero target has been set."
'Net dream'
Gurbuz was further quoted as saying: "If we are to take this target seriously, we need to schedule the coal phase-out, put an end to the policies of transportation based on highway and airway and transfer the resources spent for nuclear energy to renewable energy and energy efficiency without losing time." He warned that "otherwise, the 'net zero' target will turn into a 'net dream' target in a few years and be forgotten."

Turkey's carbon sink capacity was 84mn tonnes by the end of 2019, thus its net greenhouse gas emissions were 422mn tonnes, the association calculated.

On the one hand, the total sink capacity of the country may be expected to gain to 100mn tonnes in 2053, given it increased to 100mn tonnes in 2015 and 2017; but on the other hand, even if that happened, Turkey would need to cut its emissions by over 400mn tonnes in 30 years, Ecosfer also noted.

Turkey's greenhouse gas emissions were 220mn tonnes in 1990. ●

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**Energy supplier**  
**Bohemia Energy to leave Czech market as prices soar**

Bohemia Energy, the largest group of alternative energy suppliers in Czechia, has around 900,000 customers.

"It was the hardest decision we had to make. We founded Bohemia Energy more than 15 years ago and our mission has always been to be a reliable and profitable energy supplier," commented Jiri Pisarik, owner of Bohemia Energy.

"A new contract with any supplier must be concluded within six months. Any consumption of electricity or gas after this period is considered unauthorised and risks cutting off the energy supply," said the Energy Regulatory Office on its website.

According to ENA analyst Jiri Gavor, the situation might be further complicated by the fact that some energy suppliers are currently not recruiting new customers due to high energy prices.

"If the customer is already in the protection regime, it is quite logical that he will receive an offer from the supplier of last resort. Generally speaking, in these emergency situations, this is an opportunity for traditional, strong suppliers," Gavor said.

The Chamber of Commerce proposes the immediate establishment of a crisis council to address the current situation on the energy market, whose price is rapidly rising.

Prime Minister Andrej Babis suggested temporarily cancelling VAT on energy bills during a TV debate before the election. The EU Commission is unlikely to permit that, unless it is restricted to low-income households. ●
UZBEKISTAN RISING

Ben Aris in Berlin
Uzbekistan’s economy is taking off. President Shavkat Mirziyoyev, who was just re-elected for another five years, took over five years ago and launched a radical reform programme. He re-opened the country to the rest of the world. The government started frenetically working to modernise and put the country on a market footing. At the same time, the president launched a diplomatic effort to better integrate Uzbekistan in the region and further afield, as well as try to create something like a common market with his neighbours in the region. Now all that work is starting to bear fruit.

A tour of the country in October revealed extraordinary progress. In an unsung success the entire cotton sector – long the backbone of the country’s economy to the extent that cotton plants are part of the nation’s symbol – has been completely privatised and the entire sector put into privately owned commercial hands. The wheat sector, also strategically important and also part of the national emblem, is currently undergoing the same transformation, which will be completed next year.

A string of banks are being prepared for privatisation and the first big bank, the mortgage specialist Ipoteka Bank, has already been sold to Hungarian investors, with another nine banks from the total of 12 to be put under the gavel soon.

But more impressive is that every factory and kombinat visited on the tour is in the midst of, or has already completed, investment projects to expand and modernise their production to meet burgeoning demand and rapidly growing exports.

The lifting of currency controls in 2017 that transformed the foreign trade regime means Uzbekistan’s biggest and best enterprises have seized the opportunity to start exports, which have ballooned. Initially only involving the country’s immediate neighbours in the first round, foreign trade has since expanded and exports are now going to the whole of the Commonwealth of Independent States (CIS), China, Turkey and even the African market, which has recently been opened to made-in-Uzbekistan goods. The country was awarded the sought-after general preferential trade status for textile exports to the EU in April; this allows it to sell cotton fabric and fibre without duties or quota restrictions. Textile exports have already more than doubled this year, and privately owned white goods manufacture Artel has become the biggest maker of consumer gizmos in the whole CIS. Its factory, located in the wastes of the Kyzyl-Kum desert, is becoming a truly international business.

The sense of optimism is palpable. The lives of the ordinary people have improved materially. Mirziyoyev’s re-election on October 24 was criticised for the total lack of any real opposition candidates, but according to voters it hadn’t been for the open-air markets and Uzbekistan’s legendary agricultural output the situation for its citizens would have been impossible.

The lifeline that kept the country afloat was cotton. A major producer in Soviet times, cotton exports remained the newly independent Uzbekistan’s main source of hard currency earnings, of about $3bn a year.

Nevertheless, investors were flooding in because it is the largest and most populous of the five so-called Stans (Tajikistan, Turkmenistan, Kyrgyzstan, Kazakhstan and Uzbekistan) and had so much to offer. A large and largely young population of 35mn makes it by far the biggest retail market in Central Asia. As the only country to share a border with all the other Stans – Uzbekistan is also one of only two double-landlocked countries in the world – makes it the natural production and distribution centre for the rest of the region. And its lack of massive hydrocarbon resources means that it already had a relatively diversified economy based on textiles, manufacturing, gold mining, food processing and other industries.

It should have taken off. But when the country’s former president Islam Karimov got the bill for the opening of trade in the form of a $1bn trade deficit he lost his cool. “We are not going to spend our hard-earned foreign currency on importing chewing gum,” he said in a famous speech. He clamped down and introduced strict exchange controls that killed business off dead.

The next 20 years are a story of stagnation and autarky, where Karimov tried to make the hobbled republic work by reaching for the tools most
familiar to him: a state-dominated centrally planned command economy. To give him credit, the economy did make progress. Industry was rescued and a sophisticated automotive sector built up that exported its UzDaewoo cars all over the CIS, now rebranded UzAvto after Daewoo collapsed several years ago. Rising gold prices added another source of revenue and Karimov introduced some market reforms such as special economic zones, but they were not enough. Uzbekistan fell far behind its local rival Kazakhstan, even if it didn’t turn into a complete basket case like Tajikistan and Turkmenistan.

Many people interviewed for this article were appreciative of the stability and improved living conditions they enjoyed under Karimov and he is not widely seen as the dictator that he is viewed as in the West. Certainly the new administration has in no way demonised or heavily criticised Karimov, but then Mirziyoyev served as his prime minister for several years, so the current administration prefers to emphasise the continuity.

Change of guard
The first stop of the tour was the far western town of Nukus, a lost settlement in the midst of the Qizilqum (aka Kyzyl-Kum) desert and the capital of Karakalpakstan, the birthplace of the Turkic people.

When I first visited Nukus over 20 years ago I went with a Turkish friend who was running a UN programme that gave chickens to women so they could support themselves by selling eggs and at the same time add some protein to their diet. The city was an ecological disaster, as over-irrigation had seen the water table rise to the surface and the fields were caked with salt that lay like snow on the ground. The local firms had no money and were paying their workers with sacks of pasta so that at least they had something to eat.

The white goods manufacturer Artel set up a hoover assembly plant in Nukus in 2011 during Karimov’s time under licence from Korean consumer electronics giant Samsung, but since then has expanded production to include several of its own branded items that are now best sellers not only in Uzbekistan but throughout Central Asia and in the CIS. After a stop-off in the ancient Silk Road way station of Khiva where the legendary 1,001 Nights stories are set, we travelled on to the industrial mining town of Navoi that is home to Muruntau, the largest open-cast gold mine in the world, as well as NavoiAzot, a large petrochemicals plant, and Qizilqumsement, the biggest cement plant in the country.

When I visited the gold mine 20 years ago the city was a grimy run-down place with few shops and little life on the...
streets, populated by mainly Russians and Ukrainians that knew the mining business well from their homelands. The US company Newmont had opened a gold processing plant that was working the thousands of tonnes of tailings from decades of Soviet gold mining that were still rich with the yellow ore in a simple process to turn the rocks into gold. A fortified shed next to the plant was stacked from floor to ceiling with bars of gold.

Today the mine is flourishing. Newmont is long gone following a dispute with Karimov over tax payments, but the mine is still working the tailings, but is expanding its open-cast operations and is on track to increase output by 30% in the next five years. However, the main event will be its 100% privatisation, where shares will be sold on the open market. The gold mine will be ready to be privatised from January 1, its ebullient director told bne IntelliNews.

“We are 90% ready!” chief engineer Nikolai Snitka told bne IntelliNews in an interview. “It could happen from January 1. The company has been restructured and transformed into a joint stock company [JSC]. International consultants like McKinsey are currently auditing the assets. We want to be transparent and have everything to international standard!”

Currently international consultants McKinsey are auditing the assets and valuing the works, but the corporate restructuring has already been completed and the sale of the company is awaiting a government decision.

NavoiAzot has been investing in several new product lines and has just launched the production of PVC plastics that have never been produced in Uzbekistan before. The demand has been so great that the company has already launched a second project to more than double the production together with some Chinese investors. Previously the company borrowed money for its expansion, but business has been growing so fast that now the company is investing its own funds, borrowing using commercial credits or inviting investors to participate.

The plant is of Soviet vintage, set up in 1977, and is the biggest cement maker in Central Asia. If construction is one of the main drivers of economy growth, then the frenetic activity at the cement plant is perhaps a good indicator of the changes in the Uzbek economy. The beaten huge silos of the original production stand at the back of the territory and continue to churn out some 3mn tonnes of cement a year entirely for the domestic market, as domestic demand is currently outstripping domestic supply by 6mn tonnes, forcing Uzbekistan to import cement.

Qizilqumsement is investing $112mn to add a fourth production line, the first significant investment made since 1986. The grounds of Qizilqumsement are littered with material and equipment as a new silo soars overhead and is already more than half completed. The company is funding 81% of the investment from its retained earnings and the rest has been taken as commercial loans from Uzbek banks.

“In 1994 we had to close down one of the three lines, as there was no demand,” says Abduqahhor Salomov, the general director of Qizilqumsement. “Today we can’t produce enough and even after the new line goes into action we will be working at full capacity. You can feel the difference in the country.”
Uzbekistan privatises its entire cotton sector in its most radical reform yet

Ben Aris in Berlin

In the most radical of all reforms made since Uzbek President Shavkat Mirziyoyev took over in 2016, the entire cotton sector has been privatised and production of this vital crop is now entirely owned by private companies.

Cotton has been intimately associated with cotton since Soviet days to the extent that the country’s national emblem features cotton buds on one side and wheat on the other – and wheat production is in the midst of privatisation on the same lines, which is due to be completed next year.

“There used to be a state company Uzpaxtasanoat that owned everything. Today that company has been closed down. It doesn’t exist anymore! It’s an extremely radical reform. In my personal opinion [it] may be too radical,” Alisher Sukurov, Deputy Minister for Agriculture, bluntly told bne IntelliNews in an exclusive interview. “But we decided there was no other way and now it’s finished.”

Uzbekistan doesn’t boast the hydrocarbon resources that its neighbours Kazakhstan and Turkmenistan enjoy, and after independence in 1991 the country’s main hard currency earner was cotton exports. The sector was tightly controlled by former president Islam Karimov, earning the country some $3bn a year.

Farms were state-controlled and the Karimov administration was constantly tinkering with the forms of financing and production targets, but Mirziyoyev has abandoned the old system entirely and simply sold everything off.

**Cotton clusters**

Mirziyoyev kicked the process off in 2019 with a decree that launched the sale of the cotton assets, which took less than two years to complete. The sector was broken up into “clusters” that united the farmers and the cotton
processing facilities, and two forms of privatisation were adopted.

In the first, private investors – almost entirely domestic companies, many of which were moving into agriculture for the first time – bought the cotton mills and the farmers in their catchment area were forced to sell to the local mill in order to preserve jobs and output levels.

“We were concerned not to disrupt the cotton production,” said Sukurov. “Cotton remains an important strategic sector and a priority. We don’t want to de-emphasise the sector. But the approach as to how it should be managed has completely changed. The government doesn’t want to be involved in regulation, quotas or setting prices. All of that has been transferred to the private sector.”

The government has been adopting a suck-it-and-see approach, as Sukurov explained that the first challenge was how to value the assets. “I would not have bought some of the mills, as the equipment was very old and worn out,” Sukurov said in his characteristically direct way, but sold they were. “It was done on a “first come, first served” basis.”

The ministry reports there was no lack of investors. The sector was broken up into around 100 clusters, all owned by different companies. Uzbekistan seems to have avoided the trap that Ukraine fell into, where a few very large agricultural companies snapped up the lion’s share of access to the land leases and built up a few oligarch-controlled agro-industrial concerns that concentrated the business in a few hands.

During the transformation process about 10% of the privatisations have already failed because the inexperienced new owners could make the business work. But the government does not seem unduly concerned, as a bit of “creative destruction” was to be expected.

“In the old days everyone in the Ministry would follow the cotton-picking campaign closely. There was a newsletter that reported exactly how much had been brought in in each region and even the security guards at the front door knew the numbers of each region,” Sukurov said excitedly. “But this year we honestly had very little idea. It just is not relevant any more. We have other things to do now.”

The second method of privatisation was introduced more recently. Once the groundwork was laid, the government decided to adopt an even more radical method with a new presidential decree that has put the sector entire on a market basis: since February this year farmers have been free to sell to anyone they liked based purely on price. This has introduced competition between the clusters and created a domestic market price for raw cotton.

“There was some resentment amongst farms who were tied to a certain mill,” said Sukurov. “We didn’t want to go down the road where the sector was regulated and prices controlled by the government, or the farmers forced to work at fixed prices. So they were given the freedom to sell to anyone.”

Land sales eventually
The government has retained the ownership of the land and Sukurov says the discussion of selling the land is “on the agenda to be on the agenda” but not for the foreseeable future, as there are still many other reforms to be done. But farmers have been given long-term leases, and amendments to the law are in the works to protect their rights better so as to encourage investments.

The government has also helped with the financing of agricultural production, as farming is a seasonal business and needs sophisticated funding by the largely state-owned banks.

“The government is still providing funding to the clusters at low rates. But next year that will also start to be put on commercial terms,” said Sukurov.

The ministry is now turning to developing the rest of the sector. With the success of the cotton privatisation, next up is wheat production, which will be finished next year and will use the cotton sector’s privatisation as a template. Here there is also a state holding that owns everything, Uzdonmahsulot, but it should cease to exist sometime next year.

Connected to these reforms are also some restrictions on buying equipment – Uzbekistan is a big producer of tractors, among other things, and farms were forced to buy the made-in-Uzbekistan equipment to support the local industry, but those restrictions are also in the process of being removed.

Sukurov says that the Agriculture Ministry is working hand in glove with the Finance and Economics Ministries to reform the agriculture sector, which remains the backbone of the economy. Sukurov says the Ministry’s focus is shifting to improving nutrition and it is working closely with the Ministry of Health, with special attention being paid to women’s and youth health issues connected to diet, using the EU’s Agricultural Knowledge and Innovation Systems (AKIS) as a blueprint.

“For us, what is important is the transparency of the system, to create an enabling environment. Not everything is perfect. There are still a lot of problems to work out. It’s still a highly subsidised sector. This is a new initiative to respect the value chain,” said Sukurov. “The whole thing will be complete by 2022. The entire Uzbek agro sector will be entirely in private hands. There is no other way.”

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From Dutch earthquakes to a UK fracking ban: how declining European gas supply has contributed to the current crisis

bne IntelliNews

There are many underlying causes behind the current gas supply crisis unfolding in Europe. A “V” shaped market has seen global gas demand surge on the back of the post-coronavirus (COVID-19) economic recovery, driven by growth in LNG imports in China and other Asian markets. Gas producers have been slow to ramp up output in response, while Russia’s Gazprom has faced criticism for keeping some supply back – whether simply to drive up prices or to put pressure on European regulators to clear the way for the launch of the controversial Nord Stream 2 gas pipeline.

However, there is another factor that many EU politicians are keen to dismiss as a cause: years of underinvestment in domestic gas supply. Gas production in Europe has been falling for decades. In 2020, European output excluding contributions from Russia and other CIS states amounted to just 218.6bn cubic metres, according to BP’s statistical review, down nearly 30% from the level in 2010.

Demand for gas has spiked this year as the business has been hit by a multiple whammy: Europe began 2021 with low storage levels after the collapse in demand and prices in 2020; LNG has been largely drawn off to Asia by even higher prices; the demand rebound caused by a recovery from the coronavirus was far stronger than anyone anticipated; and Russia’s Gazprom is running up against its production and export constraints. That created the conditions for prices to spike in the summer when it became clear the glut of 2020 was rapidly turning. And all this was made even worse by the sharp decline in the EU’s indigenous gas production. The fact that last year was the year the EU decided to go over from long-term contracts to trading gas on a spot market only removed a built-in cap on prices and freed gas prices to soar into the stratosphere. In short, the last two years have created a perfect storm for the gas market.

All of Europe’s biggest gas fields are in decline. North Sea fields that were first developed in 1990s or even earlier are now mature, yielding less gas at an increasingly high cost. But many in the gas industry point instead to insufficient investment in new production, largely on account of environmental concerns. The EU’s new Green Deal has only made a new problem much worse. The EU is eager to phase out the use of gas and other fossil fuels over the coming decades as it strives towards net-zero emissions by 2050. But as the current crisis has shown, for the time being consumption remains robust. But curtail-
ments in local gas production over the years have left Europe more dependent on imports than ever before. In the EU’s case, 90% of the bloc’s gas now comes from overseas.

**Dutch earthquakes**

For many decades, the Groningen field off the coast of the Netherlands was Europe’s largest gas producer. Its output hit a peak of 88 bcm in 1976, but production activities led to earthquakes, causing damage to property in the area.

That was why the Dutch government in 2014 ordered Groningen’s operators, Royal Dutch Shell and ExxonMobil, to start reining in supplies. Originally, the field’s full closure was anticipated in 2030, but this was brought forward in 2019 to 2022.

While the Netherlands ordered Groningen’s closure on account of the earthquakes, broader climate concerns influenced the government’s 2019 decision to fast-track the process. What is more, despite the current crisis, the government has insisted that Groningen’s closure will go ahead as planned.

The Netherlands has stifled upstream investment in other ways. Notably in 2019, a Dutch court ruled that the Netherlands’ previous standards for issuing construction permits violated EU laws protecting the environment from nitrogen oxides, putting billions of dollars of projects in many industrial sectors, including natural gas, on hold. Several operators have cited the nitrogen ruling as the main reason for cancelling investments, including German-Russian joint venture Wintershall Noordzee, which in November last year axed a plan to develop two oilfields. Meanwhile, the government has also delayed introducing new incentives to encourage investment in fields.

Dutch gas output slumped to an historic low of 20 bcm in 2020, down from over 75 bcm a decade earlier.

**Years of UK decline**

UK gas output has similarly been on a downward trajectory since the early 2000s. With an output of only 40 bcm last year, the UK now relies on imports to cover around half of its demand. In 2004, in comparison, the country was self-sufficient in gas.

Arguably, successive governments could have done more to incentivise offshore gas development over the years, but were discouraged from doing so because of climate concerns and the shift in priorities towards offshore wind power development. But the UK North Sea is also a mature region, and so to an extent the decline has been inevitable. What is more, its production is increasingly high-cost, making it vulnerable to market downturns like those that occurred in 2014 and last year.

The UK has considerable onshore shale gas reserves, estimated by the British Geological Survey at nearly 40 trillion cubic metres. But amid strong local opposition to the use of hydraulic fracturing, these unconventional resources remain locked in the ground. The UK’s Conservative government, which has long advocated shale gas extraction, imposed a temporary moratorium on the use of hydraulic fracturing in November 2019, in order to shore up support ahead of general elections that year. This was largely seen as the death knell for the sector.

It is difficult to say exactly how much of an impact large-scale shale gas development would have had for the UK’s energy mix. But in 2013, then Prime Minister David Cameron estimated that if even 10% of known reserves were extracted, the UK would be able to cover its gas needs for over 50 years.

Moving forward, the UK government looks set to take a more aggressive stance against gas development. Under a revised policy, upstream regulator Oil and Gas Authority (OGA) has said it will scrutinise new projects more over their environmental impact. And earlier this month, the Offshore Petroleum Regulator for Environment and Decommissioning refused to approve Shell’s plan to develop the Jackdaw field, expected to supply a substantial share of UK production in the late 2020s.

OGUK, a lobby group for the UK gas and gas industry, warned on October 6 that without continued investment in gas...
supply, production could fall by a further 75% within the next decade, leaving the country dangerously reliant on energy imports.

“We will need gas to power us through this green transition,” OGUK CEO Deirdre Michie said in a statement. “It would be far better to get as much of that gas as possible from sources we can control rather than rely on other countries.”

**Denmark ends exploration**

Gas supply in Denmark has also been falling for years, as a result of natural decline and, more recently, the closure of its largest field for redevelopment work. From 8.5 bcm in 2010, the country’s output was only 1.4 bcm last year.

The offshore Tyra gas field operated by France’s TotalEnergies was by far Denmark’s biggest source of production until its closure in September 2019, so that a redevelopment programme could take place. This programme involved the replacement of the topsides at Tyra’s platforms, which over many years of production had subsided, as well as the installation of new jacket extensions.

The work had been due to wrap up in July 2020, although there were delays as a result of coronavirus restrictions imposed at fabrication yards in Asia. The field still has not resumed gas supply. As a result, Danish authorities now predict that national gas output will never again reach the level of 4 bcm per year that it was prior to Tyra’s closure, and will instead re-peak at only 3 bcm in 2027.

Further dimming prospects for Danish gas supply, the country became the latest to end all oil and gas exploration in December last year under an agreement between the government and Parliament. Denmark is the largest oil and gas producer to have taken such a step.

**Romanian Black Sea delays**

Contributing to the current tightness of the European gas market, Romania’s ambitious plan to develop a series of gas fields in the Black Sea has largely not materialised. Rather than an environmental policy, the industry has blamed the lack of investment in offshore discoveries to radical changes to the country’s offshore law that were introduced by the government in late 2018. Among other things, the revised law imposed restrictions on where operators could sell their gas as well as introducing caps on prices.

OMV Petrom and ExxonMobil have repeatedly delayed taking a final investment decision (FID) on the largest of Romania’s offshore discoveries, Neptun Deep, citing the regulatory changes. The centre-right minority government of Prime Minister Florin Citu wants to reverse the changes to the offshore law, but opposition parties have tried to prevent this. The country is now in the midst of a political crisis, with Romanian lawmakers voting overwhelmingly to topple Citu’s government in a no-confidence vote on October 5. As such, it seems unlikely there will be any improvements to the law any time soon.

**The Norwegian bright spot**

The notable exception to declining gas supply rates in Europe is Norway, which has kept its output stable in recent years. It produced 111.5 bcm of gas last year, much of which went to Europe, making it the continent’s second-biggest supplier after Russia.

And indeed, Norway shows no sign of following other European countries in imposing restrictions on oil and gas development. The former centre-right government announced in June a new energy strategy that would see the country continue to hold regular licensing rounds for oil and gas exploration for decades to come, although a 65% natural decline in production is envisaged by 2050. Norway’s Labour and Centre parties are due to form a new minority government following elections in September, although both are eager to protect the Norwegian economy and jobs, making a tougher stance against gas development unlikely.

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**It isn’t the ‘Usual Suspect’ who is really ‘weaponising gas’**

Mark Galeotti

That naughty Vladimir Putin is up to his tricks again. Not weaponising football hooligans or COVID vaccines this time, but apparently gas. From US National Security Advisor Jake Sullivan to British Defence Secretary Ben Wallace, politicians are queuing up to blame Russia for the current global gas crisis. The trouble is that not only is this bad analysis, it is also bad politics.

**The economics**

As has been documented on this site and elsewhere, the current gas crisis has numerous causes, which have combined in a singularly problematic way. A year of coronavirus (COVID-19) which saw reserves scaled down in a “gas glut”; a hard winter and a hot summer, both of which meant greater consumption; accidents interrupting supply lines. All this is exacerbated by a heightened demand from Asia, which is essentially monopolising the liquid natural gas (LNG) which otherwise represents the fungible supply often relied on to make up for shortfalls in piped gas. And, of course, European buyers who had not wanted to commit themselves to long-term contracts as a result ended up paying spot prices.

But where does Russia fit? Moscow has been fulfilling its contract commitments...
“Moscow has been fulfilling its contract commitments and, far from somehow “choking off” the gas as British sources have been claiming, is supplying close to record levels”

and, far from somehow “choking off” the gas as British sources have been claiming, is supplying close to record levels. Of course, Gazprom will be looking to maximise its profits, just as the Kremlin is inevitably trying to use the situation to push German regulators into giving the final OK to the Nord Stream 2 pipeline.

The morality
What, though, is the sin here? First of all, Russia has no moral duty to provide more gas whenever the West wants it. So long as they observe their contractual obligations, the rest is simple market economics. To be sure, it would be very convenient for everyone else if Moscow were willing and able to increase the supply, but consider-

Besides, how far could Putin help, so long as Nord Stream 2 remains locked in regulatory limbo? It is clear that there is more capacity in the pipelines which cross Ukraine. However, Moscow is understandably reluctant to pay Kyiv more transit fees. More to the point, those pipelines largely connect to legacy gas fields in the Nadym-Pur-Taz (NPT) region in West Siberia, whose capacity is in decline and which must prioritise local needs.

Nord Stream 1 and 2 are fed by the new Yamal fields, but with the latter pipeline still closed, then the Russians are constrained in how much extra supply they could provide. Although there are interconnectors between the systems, even if Moscow wanted to send Yamal gas through the Central Route across Ukraine, it is unclear if they could, given that these capillaries are being used for domestic supply.

In other words, it’s complex.

The politics
But no problem is ever so complex that politicians cannot distil it into banal simplifications and crude rhetoric. Especially when public opinion is becoming increasingly demanding, a scapegoat is always a good distraction, and these days there is no scapegoat better than a Russian one. (A scapebear?)

There seem to be three main reasons for the unusually crude “analysis” being deployed over the gas crisis, each of which has a particularly problematic impact on policy, which is why this is more than just a jeremiad against crass Western political headline-chasing.

Nonetheless, that lazy and self-interested search for an external excuse is certainly one of those factors. The particular problem with lazy explanations is that they often lead to lazy – and that means expensive and/or fruitless – policy responses. Talk of creating a European strategic gas reserve, for example, would be expensive and politically complex, and take years, all of which mean it would have no impact on the current situation. However, it can get much more political traction by being securitised, presented as a way of “defending” Europe against Putin’s “energy weapon.”

The second is that the Nord Stream 2 issue has become about much more than the pipeline but a tribal divide over the place of Russia in the world. Whether or not some of the pipelines’ foes were also motivated by interests in LNG, whether selling it or receiving it, this has assumed a significance out of all proportion to the actual pipeline. Those who claim that it would somehow make Europe more dependent on Russia’s “energy weapon” fail to explain quite how. Yes, it would allow Gazprom to send as little as it could through the Ukrainian pipes and thus minimise payments to Kyiv, which is undoubtedly (and no doubt intentionally) bad for the Ukrainians, but it would hardly affect how much Russian gas Europe consumes.

If anything, it might actually increase the EU’s energy security. Although the days of Moscow turning off the gas are likely gone – the Russians cannot afford to go without the income – when Europe has suffered in the past, it was essentially as collateral, caught by the Kremlin’s dispute with Kyiv. Yet while Putin might be willing to play hardball with Ukraine, he would likely think twice before try-
ing to do the same with Germany. It is worth noting that Angela Markel has been very bullish that further sanctions would result from any Russian efforts to “weaponise” the pipeline.

Thus an essentially emotional campaign against Nord Stream 2 limits Europe’s energy options and keeps prices high, in a last-ditch bid to punish Gazprom and the Kremlin (and, implicitly, Germany). Quite who is weaponising gas here?

Thirdly, the easy assumption that whenever Russia is involved “hybrid war” and “malign influence” come in its wake, while understandable, always risks spiralling into a vicious circle. Touchy, acutely aware of its relative weaknesses and forever seeing subtle plots in Western blunders, the Kremlin tends to respond badly to overheated political rhetoric. One of the great virtues of Joe Biden’s handling of Putin at the Geneva summit was to keep the tough talking to the private session, while treating Russia with respect in public. This may sound trivial, but policies are decided by people, and the ageing lords of the Kremlin take language seriously.

Meanwhile, the risk is that at home, such rhetoric locks Western governments into futile and counter-productive gestures. Already I am aware of at least a couple of European foreign ministries brainstorming how to “punish Moscow for creating the gas crisis” just in case their political masters demand it. I asked one of those involved if the team actually believed Russia was to blame. Of course not, came the reply, but you know how politicians are…

The wicked problem
None of this is to exonerate Moscow for all the destructive and antagonistic things it does do, from poisonings in Britain to trolling in the infosphere. Indeed, to a considerable extent, it is simply reaping the fruits of years of such activities, such that too many, too easily believe too much that goes wrong is somehow down to Russia’s unseen and unfriendly hand.

However, there are many – analysts, experts, policymakers – who do know better or should know better. In many ways, the gas crisis is a fitting metaphor for the challenges of the modern world: complex, global, hard to fix and likely to have long and unpredictable impacts. The policies of particular countries may exacerbate it a little here, alleviate a little there. Certainly were Germany to approve Nord Stream 2 and other countries then buy gas from Russia – especially on the longer-term contracts it craves – that would help. It wouldn’t magically make the underlying issues disappear, though.

The answer to problems of wicked complexity is not to pretend they are simple, not to look for a “usual suspect” to blame. It is to look for solutions of appropriate complexity. At present, for the West, this looks like a fail.

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Ukraine claims Gazprom gas deal with Hungary is “use of gas as a weapon”, demands sanctions

Ben Aris in Berlin

Ukrainian’s national gas company Naftogaz and the pipeline operator Gas Transmission System Operator of Ukraine (GTSOU) claimed on October 1 that a recent deal by Russia’s Gazprom to supply Hungary and reduce gas supplies to Ukraine was the “use of gas as a weapon”, and have demanded the US and EU impose sanctions as promised.

“Whether Germany acknowledges it or not, Russia has aimed its energy weapon at all of the EU. The threats to punish Russia at some future date no longer suffice. The very credibility of the Western deterrents is on the line and the time to respond is now,” Ukraine’s national gas transport company said in tweet from its corporate account the same day.

The controversial deal with Hungary will see Gazprom supply Hungary with 4.5bn cubic metres of gas per year, but it will be delivered via the newly opened TurkStream southern pipeline route that went live in January. Previously Russia’s delivery of gas to Hungary had been sent through the Ukrainian pipeline network.

Earlier this year US President Joe Biden backed off sanctions on the Nord Stream 2 gas pipeline, which he admitted was a fait accompli, provided Russia refrained from using “gas as a weapon.”

For its part Gazprom says it has been sticking scrupulously to the terms of its new transit deal signed at the last minute with Ukraine in December 2019 that commits the Russian gas giant to send 40 bcm via Ukraine’s Druzhba pipeline until 2024. Gazprom says it is free to deliver gas to Hungary via any route it wants.

The US and EU have yet to respond to the Ukraine’s demands; however, last week EU officials called for an investigation into Gazprom as gas prices soared over $1,200 per thousand cubic metres, breaking all previous records.

Gazprom may be sticking to its transit deal with Ukraine, but it has not been buying extra capacity offered by GTSOU and Europe is facing possible fuel shortages if
this winter is a cold one. Pundits have claimed that Gazprom is deliberately restricting gas deliveries to Europe, despite the record prices and demand, as a way of exerting pressure on the EU to accelerate the process of granting an operating permit for Nord Stream 2, which was completed in September but still doesn’t have permission to operate.

The EU governing authority said last month that the permits may be issued as late as January. Amongst the issues on the table are Europe’s third energy package rules, which may force Gazprom to share half the pipeline’s capacity with other “independent” operators. Russian oil major Rosneft has already said it is willing to be that other operator. Currently under Russian law Gazprom has a monopoly over gas exports from Russia.

The row comes in the context of a growing crisis as EU countries prepare for the looming heating season. Although there is already enough gas in storage to get through the winter, there is little marginal extra gas, which is making governments nervous. As bne IntelliNews recently featured, analysts say that without Nord Stream 2 Gazprom’s ability to increase production and exports is already running up against its maximum; Nord Stream 2 connects Russian gas in the Yamal fields to Europe, but that gas cannot be sent via Ukraine because the interconnecting pipelines are already at full capacity.

Gazprom had planned to send 5.6 bcm of gas to Europe via its newly built Nord Stream 2, which was supposed to come online over a year ago.

Gas prices took another step up on October 1 to $1,200 per thousand cubic metres after supplies in the Yamal-Europe pipeline, which traverses Poland, fell by 77% from the day before. Gazprom said the fall was due to one large customer taking the gas. Gas prices are up 400% year to date (ytd).

The Kremlin reiterated the same day that Gazprom, whose gas exports outside the former Soviet Union rose 15.3% y/y in the first nine months of 2021, was meeting all its contract obligations in full.

"Gazprom is supplying gas in accordance with customers’ requests under contract obligations," the company said in emailed comments to Reuters.

In her last month in office German Chancellor Angela Merkel has trying to cut an almost impossible energy deal that will allow Germany to receive gas from Russia’s new Nord Stream 2 but keep some gas flowing through Ukraine’s Druzhba gas pipelines. During a meeting in Moscow last month Russian President Vladimir Putin told Merkel that Russia was open to sending gas via Ukraine, provided the EU was prepared to sign off on long-term supply contracts, something that Europe is reluctant to do, but Hungary was less hesitant over.

Ukrainian protests
Under the terms of a long-term supply deal with Budapest that kicked in on October 1, Gazprom halted gas supplies to Hungary via Ukraine and started to send them via Serbia and Austria instead using the new TurkStream pipeline. Previously the Ukrainian transit route would have typically transported 24.6mn cubic metres of natural gas per day.

“Supplies via this route have become possible thanks to the construction of a new trunk gas pipeline of the company FGSZ Ltd on the territory of Hungary and completion of an expansion of the national gas transportation systems in Bulgaria and Serbia, where the operators Bulgartransgaz EAD and GASTRANS d.o.o. Novi Sad have commissioned compressor stations,” Gazprom said in a statement announcing the change of route.

The new deal will further deprive Ukraine of transit revenues and also means it can no longer import reverse flow gas via Hungary, which it has been doing since 2015 when Ukraine stopped importing gas for its own use from Russia.

The Hungarian deal makes use of the new TurkStream pipeline to the south that went live in January. Ukraine has already lost $1bn from the circa $3bn it used to make in transit fees as more gas to Europe that used to transit via Ukraine is now being sent through the new southern spur to Gazprom’s trident of pipeline networks serving customers in Europe.

On the same day the head of Ukraine’s Naftogaz, Yuriy Vitrenko, called on Washington and Germany to honour what he said were pledges to impose sanctions on Gazprom if gas was used as a weapon against Ukraine. Vitrenko has also been warning that if Nord Stream 2 is put into operation there is a chance that Russia will invade Ukraine.

The Kremlin is doing this on purpose. It’s not even sabre rattling; it’s the obvious use of gas as a weapon,” Vitrenko said on Facebook. ●
Winter is coming... and so is further volatility for energy markets

Warren Patterson Head of Commodities Strategy at ING in Holland

Energy prices have seen significant strength recently. European gas prices have rallied 94% during September, taking them to record levels. Oil and coal have also strengthened, as concerns grow that tightness in energy markets will persist throughout the winter. Higher energy prices also have implications for the rest of the commodities complex.

Natural gas tightness
The European winter gas season officially started on 1 October and the region has entered it with the lowest natural gas storage levels in over a decade. Gas storage, as of 30 September, was 75% full compared with a five-year average of 89% for this stage of the year. Lower flows of Russian gas, along with a heavy maintenance season in Norway, have led to this tightness, while recovering demand post-COVID-19 has only added to this. The LNG market has provided little relief to the European market, with higher prices in Asia ensuring that spot cargoes have gone there rather than to Europe.

While the market is already tight, high prices also reflect fears over tightness in the months ahead, particularly if we see a colder-than-usual winter. If Europe experiences a normal or mild winter, there is the potential for a downward correction.

In addition, if there is a quick ramp-up of gas flows along the 55bn cubic metre Nord Stream 2 pipeline, this could take some of the pressure off the market. However, realistically it is unlikely that the now-complete pipeline will receive all the necessary regulatory approvals in time to make a meaningful difference to the European market this year. LNG inflows could also help to improve the supply situation, but as we have seen for much of the year, Europe will need to compete with Asia for these cargoes.

Given the amount of uncertainty heading into winter, we suspect natural gas prices will remain elevated and volatile. It is only as we move towards the end of winter that we see significantly weaker prices.

China coal shortages provide further support
We have all seen the headlines of power rationing in China in recent weeks. Power consumption in China has reached record levels this year, and over the first eight months is up almost 14% year on year. However, coal, which still makes up the bulk of the power mix, has seen its output grow by only 4.4% y/y over the same period. In addition, imports are limited partly as a result of the continued unofficial ban on Australian coal imports, while flows from Mongolia have been under pressure due to COVID-19 restrictions.
This has seen the domestic coal market tighten up and so China has had to rely on other fuels. This has helped to support the strong growth in LNG imports this year, which have grown by 24% y/y over the first eight months of the year. Recent reports that China has urged domestic energy companies to ensure adequate supply going into the winter suggest that coal and LNG markets will remain well bid by Chinese buyers in the short term.

**Oil demand set to benefit**

The significant strength that we have seen in the gas market has meant that it is trading at a large premium to oil. TTF gas prices in Europe are trading at an oil equivalent of more than $250 per barrel, well above current oil prices of around $82/bbl. This should incentivise switching from gas to oil when it comes to power generation. We are already seeing this happen in several countries where there is capacity. This will provide a boost to oil demand for the remainder of the year. As a result, the oil market is looking tighter in the short term, which suggests that prices will remain well supported until the end of the year.

This has led us to revise higher our ICE Brent forecast for the final quarter of this year to an average of $77/bbl, up from a previous forecast of $70/bbl. The reason we are not comfortable revising the forecast to an even higher level is because if prices trade above $80/bbl for a sustained period, there is a greater risk of OPEC+ easing its supply cuts.

As for 2022, we continue to expect that oil prices will trade lower from current levels and are forecasting that ICE Brent will average $70/bbl over the year. The market is expected to be much more balanced next year due to the expectation of strong non-OPEC supply growth. In fact, there could be periods next year when OPEC+ may need to delay further easing, with the market in surplus in some months.

**Impact on the rest of the commodities complex**

Higher energy prices are also having an impact on other parts of the commodities complex. In Europe, we have also seen several industrial players reducing operations due to rising electricity costs. For example, a zinc smelter in the Netherlands has already curtailed operations during peak times.

It may be easy to think that the impact of power rationing in China would be constructive for several other commodities. For example, we have seen several metals industries forced to curtail operations due to power shortages. The aluminium and steel industries receive the most attention with regard to this. While this will certainly have an impact on supply, government orders to reduce power consumption go all the way down the supply chain and thus affect downstream consumers as well. Therefore it becomes a little bit more difficult to fully judge, at least in the short term, if these power issues are overall bullish or bearish for some metal markets.

In addition, some soybean crushing plants in China have also had to shut, and while this may be supportive for soybean meal and soybean oil prices in China, it certainly is not a constructive development for soybean demand and prices.

Ultimately, the longer this higher energy price environment persists, the more likely it is that we see these higher prices feeding through to higher production costs for other commodities. As a result, this should raise the floor for commodity prices more widely. However, our base case assumes a downward correction in energy prices as we near the end of the 2021/22 winter, which should help ease some of the cost pressures for other commodities.

**“While the market is already tight, high prices also reflect fears over tightness in the months ahead, particularly if we see a colder-than-usual winter”**

Warren Patterson is the head of Commodities Strategy at ING in The Netherlands. This note first appeared on ING’s THINK. ING portal.

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**Key Asian LNG importers (m tonnes)**

![Graph showing Key Asian LNG importers](https://example.com/graph.png)

Source: China Customs, METI, Korea Customs
Poles rally against ‘Polexit’ as prospect of pandemic recovery funds fade

Hundreds of thousands of people took to the streets in Warsaw and across Poland on October 10 in rallies against the government, which they said wants to push Poland out of the EU.

The rallies were the result of a ruling by the government-controlled Constitutional Tribunal on October 7 that said some articles of the Treaty of the European Union – the bloc’s fundamental law – contravene the Polish Constitution.

The ruling once again led the raising of the spectre of ‘Polexit’, or Poland leaving the European Union, which it joined in 2004.

“I call on all those who want to defend European Poland to the Castle Square in Warsaw, on Sunday, 6pm. Only together can we stop them,” Donald Tusk, former President of the European Council and onetime Polish PM, tweeted on the day of the Tribunal’s ruling.

Tusk thus referred to the government-engineered line-up of the tribunal, widely considered as servile to the political will of Poland’s ruling party, Law and Justice (PiS), and the party’s chairman, Jaroslaw Kaczynski.

A group of pro-government nationalists staged a concurrent rally, trying to drown out speeches by Tusk and other opposition figures, including the 94-year old Wanda Traczyk-Stawska, a veteran of the Warsaw Uprising against the Nazis in 1944.

“Be quiet, you dimwit. This is our Europe and no one will lead us out.

Making the courts dependent on the ruling party enables Jaroslaw Kaczynski’s PiS to ignore unfavourable rulings from domestic judges or the CJEU.

Poles listened and flocked to Warsaw’s historic centre in thousands. Huge crowds also turned out in over 100 locations countrywide.

“The pseudo-tribunal by order of the president of the ruling party and in violation of the constitution decided to lead our homeland out of the European Union”
of it,” Traczyk-Stawska told the nationalists’ leader Robert Bakiewicz.

The background to the tribunal’s ruling is the long-standing spat between the PiS government and the EU over the former’s overhaul of the judiciary. Brussels says that the reforms are violating the EU’s principles of rule of law, because they damage judicial independence.

Making the courts dependent on the ruling party enables PiS to ignore unfavourable rulings from domestic judges or the CJEU. It also destroys the confidence of foreign investors that European law will be implemented in a uniform way across the EU.

Particular elements of the changes have been challenged by several rulings of the Court of Justice of the EU (CJEU), which Poland ignored. The Commission has even asked the CJEU to impose a daily penalty on Poland for ignoring its ruling on suspending the disciplinary chamber of the Supreme Court.

The PiS government insists it has no intention of leaving the bloc but is only concerned by the trend of the EU “usurping” more and more competencies that should belong exclusively to the member states.

The EU, predictably, takes an opposite view, a harbinger of tension only to grow between the two sides.

The tribunal’s ruling is also going to complicate Poland’s standing in terms of receiving tens of billions from the EU’s pandemic recovery fund, which Brussels had decided recently will be conditional on member states’ meeting the rule of law criteria.

Poland’s fund money is already being held up because of what the EU sees as its violation of the key principles of rule of law.

“I cannot imagine that Poland would receive money from the [recovery fund] in this situation,” the European Parliament’s Vice President Katarina Barley told the opposition newspaper Gazeta Wyborcza on October 10.

Poland extends state of emergency on border with Belarus until end of November

Wojciech Kosc in Warsaw

The Polish parliament voted late on September 30 to extend the state of emergency along the border with Belarus until the end of November.

Poland has been dealing with a steep spike in the number of people trying to cross from Belarus. In September alone, Poland’s Border Guard recorded some 6,000 attempts to cross the border, 60 times the figure from the entire 2020.

Poland says the influx of migrants, who are chiefly from the Middle East and South Asia, is a premeditated action by Belarusian President Alexander Lukashenka to sow chaos on the eastern flank of the EU. Lithuania and Latvia have also been trying to stem the inflow of migrants.

The parliament okayed a motion from President Andrzej Duda 237 to 179 with 31 abstentions. A state of emergency can only be extended once by no more than 60 days.

Poland’s government claims that the state of emergency is necessary to contain the inflow of migrants, who could pose a danger to the Polish state and its citizens.

“In one of the phones [intercepted from migrants], [we] found the number to a person arrested in one of the EU countries on August 22. According to our allies’ databases, that person was involved in preparing a terrorist attack in the EU and is a fighter for the Islamic state,” Home Affairs Minister Mariusz Kaminski told the parliament.

Earlier this week, Kaminski led a press conference, which attempted to depict migrants as dangerous by showing pictures – allegedly found on migrants’ phones – of a man having an intercourse with a horse and another man groping seemingly underage girls. Other pictures were also shown to suggest migrants’ ties to the Islamic State or the Taliban.

The government’s allegations have proved difficult to confirm, as the media and NGOs are banned from the border area on the grounds of the state of emergency regulations.

Opposition parties, some media, and NGOs claim that Poland is violating international law by not allowing migrants to file for protection once intercepted on Polish territory. The Polish Border Guard, aided by the military, is also accused of pushing the migrants back to Belarus, where they are stuck right at the border, as the Belarusian servicemen do not allow them to go back any further.

The temperature in the area has dropped to below 10°C at night. At least five migrants have died in the border area due to exposure and it has been unclear how Poland had handled them after they crossed from Belarus. The government claims that it helps all who require medical care.

Poland is refusing help from the EU’s border protection agency Frontex, based in Poland, which could shed more light on the situation.
Cee/See countries unite in defence of nuclear power

bne IntelliNews

Nuclear energy is an affordable and reliable source of energy, which the EU must recognize on a par with other low-carbon sources, a group of the EU’s nuclear power states and nuclear wannabe Poland said in a letter to the bloc’s leaders, published in a number of leading newspapers on October 11.

The status of nuclear power in the EU’s decarbonisation drive remains subject to a fierce debate centering on whether the technology should be given support within the so-called “green taxonomy,” a legal framework facilitating environmentally and climate-friendly investment.

“While renewables play a key role in our energy transition, we also need other carbon-free energy sources to meet our needs sufficiently and on a consistent basis,” reads the letter, signed by officials from Poland, Bulgaria, Czechia, Croatia, France, Finland, Romania, Slovenia, and Hungary.

The reliability of energy supplies abruptly became the number one challenge for the EU in the autumn after fickle weather reduced output from wind and solar power installations while gas prices surged due to demand and low storage levels.

“[Nuclear power] prevents European consumers from being exposed to price fluctuations,” the pro-nuclear power countries said in the letter.

All the signatory countries operate nuclear power plants except Poland, which aims at putting its first reactor online by 2033, according to the government’s long-term energy strategy. Slovenia and Croatia co-own the Krsko nuclear power plant built when the two countries were part of Yugoslavia.

The EU’s pro-nuclear member states are making efforts to include nuclear energy in the green taxonomy, which is meeting opposition from Germany and Austria. Germany has a programme to decommission all nuclear power by the end of 2022.

The programme has been subject to increased criticism of late after the necessarily oversized – due to their intermittent character – sectors of wind and solar power require boosting of gas capacity to ensure the stability of supply.

Recent periods of low wind also resulted in increased use of coal and lignite in Germany, lowering the credibility of using renewables for decarbonizing energy sector.

The European Commission’s Joint Research Centre, a scientific advice body, said recently that nuclear power should be included in the green taxonomy as a useful tool to help attain the goals of the bloc’s climate policy.

The Czech Republic plans to expand its nuclear power station at Dukovany.
Slovak central bank governor Peter Kazimir has been charged with bribery, his lawyer confirmed to Reuters, adding that he denies the charges.

Kazimir, who also sits on the European Central Bank governing council, is the most high-profile figure from the former centre-left Smer government targeted by the current populist and right-wing-dominated government’s anti-corruption drive.

"I do not feel guilty of any crime," Kazimir, who served as finance minister before taking the eurozone country’s top central bank post in 2019, said in an emailed statement seen by Reuters.

"The state of facts in the resolution is untrue and the reasoning itself lacks confirming evidence," Kazimir said. "I do not have any information nor I am aware of breaking the law, nor did I ever have any interest in influencing any proceedings."

Slovak news website www.aktuality.sk reported that Kazimir was charged in a case related to an alleged bribe for the country’s former tax administration chief, who has been charged in several cases and is now cooperating with investigators.

The news website said Kazimir was accused of being a "courier" who carried a bribe of some €50,000 related to unspecified tax proceedings, to the tax chief. The tax chief was appointed by Kazimir in 2012 and remained in office until 2018.

The new government’s anti-corruption drive has had some success making suspects turn informant on others in return for more lenient treatment. However, the opposition Smer and Hlas parties, led by former premier Robert Fico and former premier Peter Pellegrini, have accused the authorities of using unduly harsh isolation methods that have pushed some suspects to suicide.

Kazimir’s lawyer, Ondrej Mularcik, told Reuters Kazimir was accused of the lowest of three severities of crime in Slovakia’s penal code that is punishable by up to five years in prison.

Kazimir was finance minister in the Smer governments from 2012 until 2019, when he earned a reputation as one of the harshest critics of Greece during its debt crisis. Afterwards he was appointed to a six-year term at the helm of the central bank.

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Balkan Stream countries hope to avoid worst of international gas crisis

Clare Nuttall in Zagreb

While the debate rages over the Nord Stream 2 pipeline, a separate pipeline system carrying Russian gas to Southeast Europe has been quietly opened over the last few years, and is now enabling the countries along its route to avoid the worst of the energy crisis.

Like Nord Stream and Nord Stream 2, Balkan Stream, an extension of Gazprom’s Turkish Stream pipeline that runs via Southeast Europe to Hungary, bypasses Ukraine. Yet in comparison to its northern counterpart that has sparked an international debate and criticisms of Russian gas diplomacy, Balkan Stream has generated relatively little comment.

Balkan Stream is an extension of Turkish Stream (or TurkStream) that runs from Russia under the Black Sea to Turkey. It has a capacity of 31.5bn cubic metres (bcm) of gas per year, part of which is earmarked for several Southeast European countries.

The route links in many of the countries that would have been served by the aborted South Stream project that would have delivered Russian gas to Bulgaria then on to other countries in the region, but was scrapped when it was found not to comply with EU legislation. As pointed out by Russia hawks, the two pipelines are suspiciously similar and questions have been raised about the financing for various legs of Balkan Stream.

With international gas prices rising, government officials from states along the pipeline network – which most recently linked in Croatia and Hungary – have sought to reassure their populations that they will face neither gas shortages nor exorbitant price hikes.

As bne IntelliNews has reported the crisis in Europe was caused by a “V” shaped market; a combination of factors including the reopening of industrial capacity as the coronacrisis eases, a hard winter and a hot summer, accidents to supply infrastructure and higher demand for liquefied natural gas (LNG) from Asia. While Russia has been blamed in some quarters for the crisis, as bne IntelliNews columnist Mark Galeotti argues, Moscow has been fulfilling its contract commitments and is supplying close to record levels of gas.

Diversified supply
In addition to Turk Stream, Turkey has several other import options, as outlined by Energy and Natural Resources Minister Fatih Donmez on October 8, when he forecast that the country would not face energy shortages this winter. This is despite an expected rise in consumption this year as the economy revives and the recent drought cut production of hydropower.
“We have pipelines coming from the Black Sea, the Blue Stream, another one from Azerbaijan and a pipeline from Iran. We have added two floating LNG [liquefied natural gas] terminals, called FSRUs [floating storage and regasification units],” Donmez told private broadcaster NTV. He also noted that the country has increased its underground storage capacity.

From Turkey, Balkan Stream runs to Bulgaria where, despite the Energy and Water Regulatory Commission (KEVR) approving increases in the price of natural gas recently, the country still expects users to pay a relatively low price, thanks to Bulgaria’s sourcing of gas from both Gazprom and Azerbaijan’s Socar. In particular, Bulgaria has the scope to increase the gas it is importing from Azerbaijan, Bulgargaz CEO Nikolay Pavlov said according to Reuters.

Meanwhile, the Russian Ambassador to Bulgaria Elena Mitrofanova proposed that Bulgaria sign a new long-term gas supply contract with Gazprom in the context of rising spot prices, Mitrofanova said as reported by RIA Novosti.

Cheap gas in Serbia
Gas started to flow to both Serbia and Bosnia & Herzegovina’s Republika Srpska at the beginning of this year – the same time as Turkish Stream went on line that have seen Russian deliveries of gas to Turkey rise 200% y/y. Serbia’s President Aleksanda Vucic has taken a bullish tone recently, promising citizens the “cheapest gas in Europe” and homes warm enough to walk around in t-shirts this winter.

Vucic told local media on October 8 that Serbian citizens don’t have to worry about gas or electricity supplies, and that prices will not rise. “Serbian citizens will have warm rooms so that they can walk around in T-shirts. There are no problems, we don’t even intend to increase the price of gas and electricity, we can endure everything if we raise the capacities of the electrical system,” he said, TV N1 reported.

Saying that he will personally ask his Russian counterpart Vladimir Putin to help Serbia through the energy crisis, Vucic blamed the energy crisis in Europe on European countries not having signed long-term agreements with Russia, reported TASS.

He called Serbia’s decision to build the Balkan Stream gas pipeline “very smart”, saying it supplies the country with natural gas at an affordable price.

Hungary’s Gazprom deal angers Ukraine
From Serbia, the pipeline continues to Hungary, and the interconnector between the two countries was officially opened on September 30. The first commercial deliveries of gas to Hungary through the line began the following day, the first day of the new gas year and the day Hungary’s new, long-term gas delivery contract with Russia came into effect.

The deal incensed Kyiv as this is exactly what Ukraine was afraid of: previously gas delivered to Hungary from Russia went via Ukraine, but now it was entirely cut out of the loop.

Ukraine’s national gas company Naftogaz and the pipeline operator Gas Transmission System Operator of Ukraine (GTSOU) claimed on October 1 that the deal by Russia’s Gazprom to supply Hungary and reduce gas supplies to Ukraine was the “use of gas as a weapon”, and demanded the US and EU impose sanctions as promised.

“Whether Germany acknowledges it or not, Russia has aimed its energy weapon Under the agreement, Gazprom will deliver 3.5bcm of the 4.5bcm of gas it gets from Russia annually under the contract through the Hungarian-Serbian interconnector. The total annual delivery capacity of the pipeline is 8.5bcm. 32% of the first year’s supply has been already booked.

Ukraine complained to the European Commission about Hungary’s new Russian gas contract; previously Hungary’s Russian gas was delivered through the Friendship pipeline passing through Ukraine. However, this got short shrift from Hungarian Minister of Foreign Affairs Peter Szijjarto who said Hungary considers the move an “attack on its sovereignty”.

"Neither Ukraine nor any other country has any business concerning with whom, on what and in which manner Hungary reaches agreements,” he added.

Croatia started receiving gas supplies via the pipeline the same day, after four years earlier, in September 2017, it signed a 10-year gas delivery contract with Gazprom, under which the Russian company will deliver 1bcm a year to Croatia’s Prvo Plinarsko Drustvo.

Left off-stream
Other countries in the region, especially those without long-term supply agreements, are struggling.

Moldova, for example, has yet to agree to a new long-term contract with Russia after the previous long-term contract expired on September 30. The country’s natural gas transport system and the power generation sector came under extreme pressure after Gazprom agreed to temporarily deliver only two-thirds of the gas needed by the country that is negotiating a new multi-annual contract.
Moldova’s Commission for Exceptional Situations (CSE) declared a state of alert related to the natural gas market on October 13 and the government mandated the country’s centralised electricity supply company Energocom to negotiate natural gas imports from Ukraine and Romania, Deputy PM Andrei Spinu announced.

Romana came to the rescue a week later, started limited exports of gas to Moldovad, Moldovan prime minister Natalia Gavrilita announced in a press conference on the state of alert triggered by the crisis on the natural gas market.

Negotiating the new contract with Gazprom has been the first major test for the new western-leaning government headed by Moldovan president Maia Sandu, who was elected early this year on a pro-west, anti-corruption platform.

Under the bridge arrangement with Gazprom, while talks on a new long-term contract continue, valid for only October, Moldova receives 54mn cubic metres of gas, which is only 67% of the 80mn cubic metres the country, not including separatist Transnistria, needs, announced Moldova’s incumbent natural gas transport and distribution company Moldovagaz, controlled by Gazprom, with the state as a major shareholder.

Supplies falling below consumption resulted in lower pressure in the gas transport system, the company said.

Furthermore, the price paid by Moldova in October will be $790 per 1,000 cubic metres – six times more than in Q1 this year.

Moldovagaz invited its consumers to take measures to cut their consumption, specifically by switching to alternative resources (such as heating oil) or deferring industrial operations such as refining sugar beet.

Moldova’s main power generation unit, controlled by the separatists in Transnistria and typically burning natural gas (which it does not pay for), is partly burning coal these days. The smaller units, on the Moldova proper territory (Termoelectrica and CET Nord) are considering switching to heating oil but such a move takes time.

Officials from Chisinau are understood to have appealed to both Moscow and Brussels for support to help Europe’s poorest country through the energy crisis.

Meanwhile, states in the region are diversifying their gas supply routes, thereby reducing their dependence on Russia as a supplier. On the same day as Serbia opened its section of Balkan Stream, Bulgaria started receiving gas from Azerbaijan via the Trans-Adriatic Pipeline that also runs through Greece and Albania before crossing the Adriatic to Italy. Also around the turn of the year, Croatia put its floating liquefied gas (LNG) terminal near the island of Krk into operation. As well as diversifying its own sources, Croatia also aims to become a hub to distribute LNG to the region. Romania is also seeking to establish itself as a supplier to the region, once new capacity in the offshore Black Sea comes online.

Rooting out corruption proves a tough job in North Macedonia

Valentina Dimitrievska in Skopje

The Social Democrat-led government in Skopje came to power in 2017 pledging to carry out a vigorous and transparent fight against corruption. Despite its efforts, North Macedonia has continued to fall on Transparency International’s annual Corruption Perceptions Index (CPI), highlighting how tough it is to root out entrenched corruption.

In the latest initiative, the government launched a nationwide campaign to raise awareness and support the fight against corruption in September.

The government said it will use various PR activities, including social media and billboards and will also create an interactive website to promote the anti-corruption campaign activities, to promote a campaign dubbed ‘Now everything is public – Corruption does not pay off’.

"With the campaign we send the message that this government is maximally committed to pursue a policy of transparency, which is the basis of the fight against corruption," deputy prime minister in charge of the fight against crime and corruption, Ljupco Nikolovski, said while promoting the campaign.

Prime Minister Zoran Zaev said that the campaign is part of a broad front to fight corruption, and stems from the clear political will to completely eradicate corruption.

"The campaign aims to mobilise citizens and the state administration in providing protective mechanisms and resistance to corruption," Zaev said.

In another move to prove that the fight against corruption is strong as the ruling SDSM prepares to face voters in the October 17 local elections, Nikolovski presented a new draft bill under which anyone who fails to prove the origin of property worth more than €30,000 acquired in the previous year would face having it confiscated.

www.bne.eu
Skopje stepped up its efforts to fight corruption after the country dropped a further five spots on the latest CPI to 111th place, making it one of the lowest ranked countries in Europe, having already fallen 13 places from the 2018 ranking.

“[M]uch more needs to be done in that direction [of fighting corruption],” head of the State Commission for Prevention of Corruption, Biljana Ivanovska, told bne IntelliNews in a phone conversation.

“[W]e send the message that this government is maximally committed to pursue a policy of transparency, which is the basis of the fight against corruption”

The country still suffers from a low level of political culture and awareness and needs to open more space for professionalism in all spheres, Ivanovska said.

On the other hand, Ivanovska confirmed that North Macedonia has made positive steps in the fight against corruption lately, including in increased transparency, which is a key factor in the fight against corruption.

“There are also positive steps taken in the implementation of the EU recommendations,” she said.

Corruption and the Colourful Revolution

The Social Democrats came to power following mass protests, dubbed the Colourful Revolution, and a prolonged political crisis. The demonstrations against the former administration under the conservative VMRO-DPMNE were triggered by a dossier released by Zaev, then opposition leader, detailing top-level corruption obtained from wiretapped conversations that were leaked to the opposition party.

Since then, the public prosecutor’s office launched a series of high-level corruption cases, taking over from the previous special prosecutor’s office (SPO), which was dismantled in 2019 due to corruption in its own ranks.

Many of them ended with the arrest of prominent figures mostly from VMRO-DPMNE, including ex-chief of the secret police Saso Mijalkov and businessman Orce Kamcev. There are several court cases against Mijalkov. In one of them, he was sentenced for illegally purchasing wiretapping equipment, while Kamcev is accused of money laundering, among other things.

Even the country’s long-serving former prime minister Nikola Gruevski was sentenced in absentia in a case concerning a luxury armoured Mercedes bought with public money. Gruevski fled to Hungary and sought asylum there to avoid serving his sentence.

In the latest country report on North Macedonia for 2020, the European Commission praised the state anti-corruption body, for being “particularly proactive in preventing corruption and opened a high number of cases, including those involving high-level officials from across the political spectrum, in line with last year’s recommendation.”

“The State Commission for Prevention of Corruption continued to address allegations of nepotism, cronyism and political influence in the process of recruitment of public sector employees,” according to the report.

The European Commission said that as regards the fight against corruption the country, an EU candidate since 2005, is moderately prepared.

“Good progress was made through consolidating its track record on investigating, prosecuting and trying high level corruption cases,” according to the report.

Political appointments

Despite the positive steps, Ivanovska noted that on the downside, there is still a low level of political awareness in the country.

The state administration and state controlled enterprises remain the domain of political appointees. Directors and board members in the state-run companies and institutions usually come from the ruling parties’ structures, regardless of their experience in the related field. Even lower-level
appointments in schools and hospitals have to pass ruling parties’ filters.

“The political culture and awareness should increase and there is a need for fair competition and professionalism to come in the first place. Lack of professionalism is the reason why people emigrate,” the head of the anti-corruption commission told bne IntelliNews.

The preliminary figures from the latest census, which ended on September 30, showed that over 1.8mn people live in the country, nearly 200,000 fewer than in the previous census in 2002. It is estimated that several hundred people emigrated mostly to Western European countries in search of a better life.

The anti-corruption body most often acts on complaints about party-influenced employments and appointments of directors, nepotism, public procurements as well as violation in election activities.

Head of TI Macedonia Slagjana Taseva said in February that the government needs to take a clear stand and demonstrate political will to effectively address long-standing problems of politicisation and corruption in public employment procedures.

In a comment on the NGO’s website, Taseva cited the chair of Transparency International, Delia Ferreira Rubio, as saying that the CPI results should be taken seriously and the reality of corruption can be changed by establishing strong political will to change attitudes and corrupt behaviour, which creates uncertainty for business, threatens rule of law and weakens protections of human rights.

The recently launched initiative is not the first time the Social Democrat-led government has tried to reinvigorate its efforts to fight corruption and make the state administration more effective. Back in 2019 the government discharged nearly 70 directors and members of management and supervisory boards as part of the “Operation Broom” launched to eliminate weaknesses in the government, the SDSM, public companies, agencies and institutions.

However, the launch of Operation Broom was marred by a drug scandal involving an MP from the governing coalition, Pavle Bogoevski, who resigned in May 2019 after an audio recording appeared to show him ordering cocaine.

Local election campaign
Good intentions are often trumped by political expediency as elections approach. As Ivanovska pointed out, in the run-up to the local elections there has been disrespect for election rules and government undertakings have been timed to coincide with the pre-election period, among them the launch of tenders and advertising new jobs in the public sector.

“This undermines the election process,” she said.

The latest surprising move by the government confirms Ivanovska’s warning; just before the election the ministry of administration proposed a draft bill to reduce the weekly working hours of the public administration’s employees from 40 to 36, which means they will work only four hours on Fridays.

While civil servants cheered the proposal, the civil organisation United Workers expressed concerns over the circumstances related to the new draft in terms of its content and timing.

“Such changes will contribute to enormous differences in the status of employees in the public and the private sector, promoting the privileged status of the state administration that has been held captive by the ruling parties for many years,” the organisation said.

Procurement scandal looms
Another controversial move by the government concerns its decision to appoint a strategic partner, the consortium Bechtel-Enka, to build several motorway sections, as part of Corridor VIII, without a competitive tender.

The anti-corruption commission urged President Stevo Pendarovski not to sign the law, but he rejected the appeal.

The commission then referred the case to the Constitutional Court. However, even before the court came out with an opinion, Zaev met representatives of Bechtel-Enka on September 29, explaining that they are using the time before the court decision to work on details of the future agreement, suggesting that this is a done deal.

The tie-up of Bechtel-Enka has been criticised previously for being involved in non-transparent and expensive projects in Albania, Kosovo and Serbia.
The consortium was responsible for the construction of the Albania-Kosovo motorway project, selected in a fast-track procurement process back in 2006. The costs of the project escalated several times during the construction and in total the 137-km motorway linking Tirana and Pristina cost about €2bn from the state budgets of the two countries. The method of awarding the contract for the motorway section from Tirana to the Kosovan border was criticised at home and also by the World Bank, which financed the project.

**A political hot topic**
The corruption issue in North Macedonia, as well as across the Western Balkans, has consistently been a hot topic and a subject of cross-party accusations.

During a debate with the leader of VMRO-DPMNE on Kanal 5 ahead of the local elections, Zaev said that his government has a clear anti-corruption policy, in contrast to the opposition party.

“Now anyone in our country can be held criminally liable if involved in illicit activities, regardless of their position,” Zaev said.

He also said that the government asked for assistance from Transparency International and the anti-corruption body on how to deal with corruption.

During the debate, opposition leader Hristijan Mickoski recalled that the country fell drastically in the TI ranking from 62nd in 2012 to 111th in 2020.

“North Macedonia ranked 67th in 2013, 64th in 2014, 93rd in 2018, 106th in 2019 and 111th in 2021. These are the numbers about corruption. Everything else is philosophy,” Mickoski said.

“We are working to improve the rating,” Zaev replied.

Mickoski also linked the government’s record on fighting corruption to the stalled EU accession process. Bulgaria vetoed the start of North Macedonia’s EU negotiations at the end of 2020 over language and historical issues, which also blocked Albania on its EU path, as the two countries’ progress is linked. But for Mickoski, not only Bulgaria, but also the country’s corruption is an obstacle to its EU accession progress.

Criticisms were also levelled at the government by former president of North Macedonia and ex-SDSM leader Branko Crvenkovski. In his first public appearance in a long time, Crvenkovski strongly criticised the situation in the country, pointing out to three main factors: explicit corruption, deep divisions in society and high indebtedness.

"North Macedonia is a corrupt country, and in a corrupt country there is no equality before the law, no fair market economy, no quality education and health care system," Crvenkovski said in his speech at the Macedonian Academy of Science and Arts (MANU) in late September.

Crvenkovski also pointed out that North Macedonia is an internally deeply conflicted and divided country, in which the political parties do not see each other as competitors, but as enemies unable to reach consensus on any important issue.

“When third, North Macedonia is a country that lives on loans, and who lives on loans, dies in installments. The fact is that a large part of this borrowed money was spent not for infrastructure projects, but for totally unproductive things,” Crvenkovski said.

His speech was criticised because he was prime minister when illegal privatisations took place following Macedonia’s independence from former Yugoslavia back in 1991.

**International support**
Despite criticism at home, the EU commended North Macedonia’s efforts to fight corruption and the US increased the financial support in this regard.

On September 28, the government in Skopje announced that USAID increased its planned grant for North Macedonia from over $8.2mn to $56.6mn for projects aimed mainly to reduce corruption in the next four to five years.

This came after in July, the US Department of State said in its 2021 Investment Climate Statement that corruption is a consistent issue in North Macedonia. It underlined that the government generally enforces laws, but there are numerous reports that some officials remain engaged in corrupt activities.

Also on September 26, the European Commission President Ursula von der Leyen, during her visit to Skopje, praised North Macedonia for progress made in the EU-related reforms, in particular on the rule of law, the fight against corruption and organised crime.

Von der Leyen also said that North Macedonia met all conditions to launch the EU talks and that the EU’s common goal is that to happen, together with Albania, by the end of the year.

“I fully support, from the bottom of my heart, the formal opening of the accession negotiations…and I want these accession negotiations opened with North Macedonia and Albania as soon as possible” von der Leyen said at a news conference in Skopje.
Protests took place in the Albanian cities of Shkoder and Tirana after a warning from Prime Minister Edi Rama about an impending energy crisis this winter sparked a political backlash.

Politicians in other parts of the Western Balkans, a group of countries which comprises some of the poorest countries in Europe, are also looking at ways to ease the burden of inflation, in particular soaring energy costs, on their populations.

In Tirana, several thousand people protested outside the prime minister’s office on October 6 against the higher prices of energy and fuel, and staple foods such as flour, bread and coffee.

“Bread costs more than hashish” and “Down with dictatorship” read some of the placards, as reported by Albanian Daily News.

Reportedly, one Democratic Party supporter at the protest was asked to take down his party flag to keep the protest non-political.

The main demands from protesters were for VAT to be abolished on food in the basic consumer basket, and reductions in taxes for energy and oil. Protesters said that if their demands aren’t met they will take to the streets again on Monday October 11.

The Tirana protest followed another in the northern city of Shkoder attended by a mix of pensioners, students, small home-owners and others earlier in the week.

They were organised over social media after Rama warned on October 3 that energy prices will continue to rise for Albanians well into 2022.

As outlined by Rama at a press conference, Albania, like other countries, is experiencing sharp increases in energy prices as the global economy recovers from the coronavirus (COVID-19) pandemic, and demand for electricity and oil increases.

Rama called the situation a “natural misfortune”, likening it to the earthquake of November 2019 and the pandemic itself.

“The high rate of recovery after the pandemic and the amplified need for energy have led to results like the rise in the price of gas by around 250%, the rise in fuel prices, from $60 a barrel in August to $80 now and according to projections, the price is expected to reach $100 per barrel by the end of this year,” the prime minister said.

“For Albania, the average annual price for buying energy from imports has almost tripled compared to last year,” he added.

Rama cited experts as saying that the situation is likely to continue through to the first half of 2022, and said his administration will do whatever is needed to minimise the effects of this crisis.

However, opposition leader Lulzim Basha responded, calling the energy crisis a “disaster prepared by the government”. He told journalists on October 4 that corruption, not developments on global markets, was the cause of the shortages.

Basha said his Democratic Party will endorse all forms of civil resistance, and will make direct contact with citizens to organise resistance efforts.

“[T]he price of energy and the price of fuel burdens mostly households and businesses, in particular small and medium business, but also large manufacturing business,” Basha said on October 4, according to a Democratic Party statement.

“We all know that increases in the price of energy and fuel have a direct effect on the price of everything else we consume, from the bread we eat to the services that citizens receive. I want to remind you here that Edi Rama promised to reduce the price of energy, when in fact he increased it for both families and businesses.”

Albania’s annual inflation has accelerated for the last couple of months, in line with the general trend across emerging Europe as the post-coronacrisis recovery gets underway. The consumer price index (CPI) showed year-on-year growth of 2.4% in August, up from a low of just 0.4% in January.
The problem is a global one. As noted in an International Monetary Fund (IMF) blog: “The economic recovery has fuelled a rapid acceleration in inflation this year for advanced and emerging market economies, driven by firming demand, supply shortages and rapidly rising commodity prices."

The fund noted large price movements in some sectors, notably food, transportation, clothing and communications, and it expects several more months of higher inflation, especially in emerging economies, before it returns to pre-pandemic levels by mid-2022.

“Food prices around the world jumped by about 40% during the pandemic, an especially acute challenge for low-income countries where such purchases make up a big share of consumer spending,” added the IMF blog.

The Western Balkans remains one of the poorest areas of Europe. As a recent report from the Vienna Institute for International Economic Studies (wiiw) and Bertelsmann Stiftung shows, economic convergence with Germany over the past 20 years has been very slow, while the gap with the new EU members in Eastern Europe has widened.

Food and non-alcoholic beverages accounted for the largest share of Albanians’ average monthly expenditure at ALL34,713, or 41.6% of the overall household budget, according to recent data from the state statistics office, Instat.

The average monthly consumption expenditures of an Albanian household stood at ALL83,475 (€675) in 2020, with the average household numbering 3.6 people.

While Albania is so far the only Southeast European country to have erupted into protests, others are struggling with the same price increases, and warn of more to come.

In North Macedonia, manufacturers said that a dramatic increase in food prices, in some sectors by as much as 40-50%, is expected, as farmers’ basic production costs have risen by 70-80%. Direct costs in the dairy industry have surged by 11%, Nezavisiste reported on October 5.

This was announced at a news conference at the Chamber of Commerce, where businesses called for the launch of a campaign to encourage people to buy domestic products.

PM Zoran Zaev said that it is “an exaggeration” to say that prices will increase by 50%, as inflation is controlled at the level of up to 2.7%.

“It can be a problem if inflation exceeds 10%. As an open market and dependent on European market, we cannot be isolated from the world. The price of electricity is also a major indicator of rising prices,” Zaev said.

In Bosnia, pensioners in the Bosnian Federation have threatened to protest unless pensions are raised, reported the Sarajevo Times in late September. They cited the increase in the price of essential foodstuffs. 60% of pensioners in the Federation get a minimum pension of BAM380 a month.

In Serbia, the government has been trying to reassure the population over rising energy costs, and Serbian President Aleksandar Vucic said he will ask his Russian counterpart Vladimir Putin to help Serbia through the energy crisis.

Both parliamentary and presidential elections are approaching in Serbia in spring 2022, meaning Vucic’s ruling Serbian Progressive Party (SNS) is under pressure to reassure the population and stop rising costs from leading to a fall in living standards. The government plans to make a one-off payment of €20 to all adult citizens of Serbia in December.
The Romanian Social Democrats’ leader Marcel Ciolacu said that his party would press criminal complaints against acting Prime Minister Florin Citu over the way he spent RON1bn (€200mn) out of the reserve fund at his disposal, accusing him of using the money to “bribe” the Liberal mayors who voted him in as head of the National Liberal Party (PNL).

While the case may not result in an indictment, it didn’t help the ongoing negotiations on the formation of a new coalition.

In fact, the move indicates that the Liberals and President Iohannis are actually not seeking to form such a coalition – but expect to somehow squeeze a minority government through parliament the way they did last year at the beginning of the pandemic, using the difficult health situation as justification. From this perspective – given the record number of COVID-19 infections, very low vaccination rate and rising death toll – such a strategy makes sense.

Romania’s interim government on October 6 disbursed RON1bn from the special reserve to local administration entities, for helping villages, towns, cities and counties cover their expenditures with investment projects or simply their current expenditures.

Of the €200mn distributed by the acting executive, the biggest share (around 60%) went to villages. No breakdown by projects or type of expenditures was provided.

The move prompted criticism from the opposition Social Democrats (PSD) and reformist USR, who claim that the funds were arbitrarily distributed by prime minister Florin Citu to local representatives of the PNL in exchange for their votes in the September 25 internal leadership elections held by the party. Citu defeated former PNL leader Ludovic Orban with 60% to 40% of the votes after Iohannis vocally backed the head of the government.

In a reaction to the government handing out €200mn with no specific procedures, Ciolacu said that he would file a criminal complaint against Citu.

Citu “bought” his position with public money, Ciolacu claimed.

Mayors and other local representatives of the PNL and its partner the Democratic Alliance of Hungarians in Romania (UDMR) received 80% of the money, he claimed.

In response, Citu said that 25-30% of the money went to Social Democrat mayors.

The mayors of Timisoara (USR), Alba Iulia (USR), Craiova (PSD) and Galati (PSD) confirmed that they received no funds from the RON1bn. In Sibiu county, 95.95% of the money distributed by the Government from the reserve fund ended in the hands of the PNL mayors, according to a G4media survey.

Despite broad public criticism of the decision, Iohannis defended Citu in a public statement and said that those who complain “are simply frustrated for they are not where the money is”.

He said that he is sure that Citu distributed the money “in full compliance with the law” to those in need ahead of the winter season. Mayors from the opposition claim accused political bias, though.

Apart from defending the allocation of public money (which should be an exception operated on a case-by-case basis), the president’s aggressive statements against the opposition do not bode well for the coming consultations on the formation of a new government.

“Citu was accused of using the money to “bribe” the Liberal mayors who voted him in as head of the National Liberal Party (PNL)”
Von der Leyen says EU has to deliver on enlargement

Valentina Dimitrievska in Skopje

The European Commission will continue to do its utmost to advance the enlargement process, because the bloc is not complete without the Western Balkans, President of the European Commission Ursula von der Leyen said on October 6 following the EU-Western Balkans summit held in Slovenia.

The summit in Brdo pri Kranju was an opportunity for the EU and Western Balkan leaders to discuss the stalled EU enlargement process. EU leaders reaffirmed their support for enlargement, but they did not set any firm timeline.

In September Slovenia, as the current holder of the rotating EU Council presidency, proposed that enlargement with the Western Balkans countries finish by 2030, but it was not taken seriously by other member countries.

“We want the Western Balkans in the European Union. There cannot be any doubt that our goal is enlargement,” von der Leyen said.

"But, in the meantime, the EU has to deliver. And in particular, the lack of a decision for opening the negotiations with North Macedonia and Albania is jeopardising our standing and our leverage in the region," she said.

“Our credibility as a partner is at stake,” the European Commission’s head said.

Sofia and Skopje at odds

Regarding Bulgaria’s veto on the start of accession talks with North Macedonia, von der Leyen underlined that the Commission is doing “intensive work” to find the key issues in the bilateral issues between Sofia and Skopje that will lead to practical steps to finding a solution.

Bulgaria vetoed the launch of EU accession talks with North Macedonia at the end of 2020 over historical and language issues. This also blocked Albania's EU path, as the two countries were coupled in the process.

On the sidelines of the summit, North Macedonia’s Prime Minister Zoran Zaev and Bulgarian President Rumen Radev held a meeting with German Chancellor Angela Merkel and French President Emmanuel Macron.

Zaev said that if the EU declarations are not translated into action, irreparable damage will be done to the European idea.

Radev asked Skopje to meet three key conditions for Sofia to unblock the EU integration process.

One is Bulgarians to be listed in North Macedonia’s constitution alongside with other minorities. In the previous census in 2002, only 0.07% of the population declared themselves to be Bulgarians.

Bulgaria claims that there are around 120,000 Bulgarians living in North Macedonia, but most are Macedonians who took Bulgarian passports to be able to work in EU countries.

Radev also asked North Macedonia to recognise the “historical truth” and change its history textbooks in relation to Bulgaria.

Zaev said the steps Radev is taking on behalf of Bulgaria are an insult to Macedonian citizens.

Ahead of the meeting, Albanian Prime Minister Edi Rama blamed the EU’s internal fights for the stalled enlargement process.

"We have learned not to expect anything," Rama said.

Meanwhile, von der Leyen praised last week’s EU-mediated agreement between Kosovo and Serbia, which ended a crisis between the two sides, saying it is an “excellent message” to the region that it is possible to find solutions by sitting down at the negotiating table.

So far, only Serbia and Montenegro have launched EU accession talks. Bosnia & Herzegovina is a potential candidate and Kosovo is still not recognised by five EU member states.

Economic and Investment Plan

Regarding the Economic and Investment Plan for the Western Balkans, von der Leyen said that it is at the core of EU engagement along with the region and common regional market. €9bn has been put on the table in grants, and the EU says it can leverage up to €30bn.

She praised reforms undertaken by the Western Balkan countries, but added that it is important to stay the course on reforms in key areas such as justice, the fight against corruption and organised crime, media freedom and economic reforms.

In response to the pandemic, von der Leyen said that the EU provided €3.3bn to the region to address the emergency and to secure 2.9mn COVID-19 vaccines.

During the summit, the European Investment Bank (EIB) president Werner Hoyer underlined the support for the EU integration of the Western Balkan region, sustainable recovery from the COVID-19 pandemic and as well as for green and digital transformation.
Financial results from the first half of 2021 show that Russian retailers are chipping away at the market share of international rivals within the Russian Federation. This comes as a domestic and global retail boom is reshaping the sector.

Retail in Russia is undergoing a transformation as the local market accelerates out of the COVID-19 pandemic. The Russian sector is outpacing even the booming global retail sector as real wages increase and consumer behaviour begins to change. Whereas the longstanding leaders of the Russian market are international companies, this shift is playing to the advantage of Russian retailers, who are fast catching up.

Auchan and Metro – two European hypermarket giants – have dropped off the list of the top ten largest retailers in Russia at the end of 1H21, writes daily newspaper Kommersant. In their places, Russian retail giants Ozon and Svetofor have broken into the top ten, according to data from analytical firm Infoline.

As a result, nine out of the top ten retailers are now Russian companies. The exception is French home and gardening retailer Leroy Merlin, which currently sits at eighth place on the list.

### Income of the top ten biggest retailers in the first half of 2021

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Sector</th>
<th>Revenue (RUB billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>X5 Retail Group</td>
<td>supermarkets</td>
<td>1,050 ($141bn)</td>
</tr>
<tr>
<td>Magnit</td>
<td>supermarkets</td>
<td>801.6</td>
</tr>
<tr>
<td>Bristol and Krasnoe &amp; Beloe</td>
<td>retail</td>
<td>330</td>
</tr>
<tr>
<td>Wildberries</td>
<td>e-commerce</td>
<td>241.3</td>
</tr>
<tr>
<td>DNS</td>
<td>retail</td>
<td>227.2</td>
</tr>
<tr>
<td>Lenta</td>
<td>supermarkets</td>
<td>214.9</td>
</tr>
<tr>
<td>M.Video Eldorado</td>
<td>consumer electronics</td>
<td>212.8</td>
</tr>
<tr>
<td>Leroy Merlin</td>
<td>DIY</td>
<td>207.9</td>
</tr>
<tr>
<td>Ozon</td>
<td>e-commerce</td>
<td>141.9</td>
</tr>
<tr>
<td>Svetofor</td>
<td>discount retail</td>
<td>120.5</td>
</tr>
</tbody>
</table>

Source: Infoline
One of the main beneficiaries of the change is e-commerce. As the coronacrisis pushed more consumption online, the sector expanded five times faster than the real economy. Ozon is a case in point. Often likened to e-commerce giant Amazon, the company is in fact a much younger player with more growing to do. Ozon’s IPO last year raised $1.2bn, and its appearance on the prestigious list of top ten retailers testifies to its rapid growth since then. Q2 results showed that orders placed with the company have jumped from 14.6mn to 40.9mn year-on-year. Revenue has correspondingly grown by 108.4% in the same period.

Food retail is another winner. Online sales of food products in Russia tripled in the first half of this year, reaching RUB149bn ($2bn). X5, a food retail group which maintained its position as Russia’s largest retailer, recently announced that total sales for Q3 were up 11.6% year-on-year, with 353 new stores opened in the quarter, as reported by bne IntelliNews.

The Auchan network, meanwhile, saw its Russian income shrink by 17.3% in the first half of the year according to Infoline, while Metro’s stayed the same. For Auchan, this is the sixth year in a row that sales have fallen. The CEO of Auchan in Russia, Ivan Martinovich, disputed Kommersant’s evaluation, telling the newspaper that the company’s overall profit was up 3% this year, with EBITDA up 66%.

Nonetheless, as consumption soars in a market undergoing a rapid shift in dynamics, Russian retailers are indisputably outperforming their cohort. Some will put this down to their ability to quickly interpret and adapt to changing demands. X5, for example, has put particular emphasis on the success of its digital business, which grew by 157% year-on-year in 3Q21. Ozon, meanwhile, has touted the rapid expansion of its Express service, with the opening of its first dark store in St Petersburg earlier this year. It is clear that the key to growth in this highly competitive sector is to capture a large customer base as quickly as possible. Expect international retailers to try out ever more inventive services and products in an effort to win back their slice of the pirog.

Russia facing fourth coronavirus wave as infection rates rise to fresh highs

**FPRI BMB Russia**

Infection rates in Russia have reached their highest level since January. There were 25,781 new cases on October 4, the highest the figure has been since there were 26,301 infections on January 2. October 4 also saw 883 deaths, making it the first time in several days that the number of daily deaths did not break the all-time record. October 3 now holds that record after 890 people died. Moscow is particularly hard hit: the number of hospitalisations of coronavirus (COVID-19) patients has increased by 20% over the past week, according to Mayor Sergei Sobyanin.

Measures are being taken to stop the spread. In many regions, a QR code that verifies vaccination status will be required to attend large events, while in other regions events are banned entirely. Deputy Prime Minister Tatyana Golikova warned that a difficult period is coming, saying: “I want to ask you to be careful, observe all restrictive measures, take care of yourself and your loved ones.” Infectious disease specialist Evgeny Timakov predicts that cases will begin to decrease in November and the situation will be stable from mid-December until spring.

Vaccine reluctance remains a primary concern. Health Minister Mikhail Murashko said a vaccination rate of 60% is necessary to achieve herd immunity and stop the spread, but only 36% of Russian adults are currently vaccinated. Prime Minister Mikhail Mishustin said that “the vaccination level is insufficient to stop the spread of infection,” and Presidential Press Secretary Dmitry Peskov suggested a more “active” vaccination campaign is needed. To this end, Russians may soon be able to receive imported vaccines like Pfizer and Moderna. A proposal by the Health Ministry would grant the Moscow International Medical Cluster (MIMIC) the right to import vaccines.

Murashko says Sputnik V is back on track for WHO approval. The Russian Direct Investment Fund (RDIF) applied to the WHO for accelerated registration of Sputnik V in October 2020. On September 15, the WHO suspended consideration of Sputnik V after auditing a factory in Bashkiria and finding it lacked “good manufacturing practices.” On October 2, Murashko met with the head of the WHO, Tedros Ghebreyesus, in Geneva. Murashko said all issues related to the registration of Sputnik V have been resolved, and claimed that, after proper documentation had been provided to the WHO, “all the disagreements that arose have been removed.”

**New coronavirus deaths in Russia**

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Russia breaks off diplomatic ties with Nato

Russia broke off diplomatic ties with Nato on October 18, expelling Nato’s diplomats at a liaison and communication office in Moscow and also ordering its representatives at Nato’s HQ home by the end of the month.

Russia said it would halt the activities of its diplomatic mission to Nato after the Western military alliance expelled eight Russians on October 6 from its headquarters, claiming they were spies.

Foreign Minister Sergei Lavrov also said staff at Nato’s military mission in Moscow would be stripped of their accreditation from November 1, and the alliance’s information office in the Russian capital would be closed.

"If Nato members have any urgent matters, they can contact our ambassador in Belgium on these questions," Lavrov told a news conference as cited by Reuters.

The policy was launched by humiliating European Union’s top diplomat Josep Borrell during his visit to Moscow in February when three European diplomats were expelled while Lavrov was in a meeting with him.

Lavrov went on to say Russia was willing to break off diplomatic relations with the EU if it persisted in trying to interfere in Russia’s domestic affairs.

The break with Nato comes after there were hopes of some sort of rapprochement after Russian President Vladimir Putin and US President Joe Biden met in Geneva on June 16 and appeared to strike a pragmatic compromise where Russia and the US could become “frienemies”, co-operating on issues of mutual interest like arms controls and the fight against international terrorism, but would agree to disagree on things like Russia’s authoritarian regime.

**Roots of the split**

The breakdown in diplomatic ties comes as no real surprise, as relations with Nato have been in terminal decline for years.

While tension between Nato and Russia escalated dramatically following Russia’s annexation of the Crimea in 2014 and the outbreak of an undeclared war in the Ukraine’s western Donbas region, the Russian side has long complained that Russia broke promises made to Mikhail Gorbachev in the last years of the Soviet Union that Nato would not expand “one inch” to the east.

Putin reiterated these claims at his famous speech at the Munich Security Conference in 2007 and has been more recently vindicated by declassified embassy cables and other Western documents that confirm the promises were made verbally to Gorbachev by multiple Western leaders, including US Secretary of State James Baker and German chancellor Helmut Kohl, although nothing was ever put in writing.

From the Russian perspective the show-down with the West started even earlier in 2003, when the US unilaterally withdrew from the ABM missile treaty, a key Cold War security agreement that limits the deployment of short-range missiles.

Putin highlighted the US decision to pull out of the ABM treaty as a key problem only last week while being interviewed by a US journalist during the Russian Energy Week, which Putin said had set off an arms race between the US and Russia.

"The arms race is on the march, unfortunately. And it has started after the US withdrawal from the ABM Treaty," the Russian president said as cited by Tass.

Putin said in 2003 that he had urged the US not to withdraw from the ABM Treaty. "This is a fundamental thing, the cornerstone of global security. What is the ABM Treaty? This is not just protection, it is an attempt to gain strategic advantages by de-energising the nuclear potential of a probable opponent, that is, ours," the Russian leader pointed out.

That was followed by the US-led “missile shield” in Europe to protect the EU from
attacks by “rogue states” with North Korean long-range missiles being named as one threat. However, missiles were then deployed in Romania and Poland just across the border from Russia's western military district.

Military analysts have argued that Russia’s decision to take control of the Crimea was partly to ensure the western-leaning Ukraine would not fall under the influence of Nato and to secure the large naval and troop bases in Crimea that Russia has long rented from Ukraine that also secures the southern flank of the western military district, now threatened by Nato missiles in Romania and Poland. As bne IntelliNews has reported, Russia has already been re-establishing itself in the Mediterranean after being almost entirely absent for two decades.

It was hoped that the Geneva summit could cap the gradual military escalation. Putin also announced last week that Russia’s new class of hypersonic missiles that can evade tradition anti-missile defences have just gone into service with Russia’s military, and China also stunned the US intelligence community by testing a similar hypersonic missile that circled the globe once before homing in on its target.

Biden made the gesture by agreeing to renew the START III treaty during his first week in office, another key Cold War missile security agreement, and said from the outset that he was willing to discuss restarting some of the other agreements.

Now relations have gone sour again.

S.2.2bn from the IMF last summer, but two tranches of $700mn and $2.2bn are still outstanding. The six month extension makes it possible for Kyiv to also receive the final tranche of $2.2bn, which may arrive early next year. After an online review of the government’s progress, the Washington-based fund said Monday, 18 October that it had concluded a staff-level agreement to unfreeze the financing, which has been inaccessible for more than a year because its terms weren't met. A sign-off by the IMF’s board, planned for November, is still left to do.

“This IMF mission team and Ukraine’s authorities have reached a staff-level agreement on an updated set of economic, financial and structural policies to help address the economic and health crisis caused by COVID-19, while maintaining macroeconomic and financial stability, reducing vulnerabilities and tackling key obstacles to private investment,” the fund said in a statement.

As Ukraine’s excruciatingly slow pace of vaccination continues to hinder its fight against the pandemic and subsequent economic recovery, the IMF has downgraded Ukraine’s growth outlook for 2021. Following this new agreement, however, Kyiv stands to get a disbursement of about $700mn, having so far only received one tranche from the loan, which was sealed in mid-2020.

The IMF has stated that the extended programme’s objectives include sustainable fiscal policy, safeguarding central bank independence, tackling corruption and “reducing the role of the state and vested interests in the economy to improve the business environment, strengthen corporate governance, attract investment and raise the economy’s potential.”

The central bank is at the forefront of these objectives, following last year’s sudden departure of its governor, who had consistently accused the government of interference. President Volodymyr Zelenskiy has chosen a successor and has provoked controversy for offending members of the team he inherited, which caused various waves of departures.

IMF reaches staff level agreement on $5bn loan to Ukraine

Cameron Jones in Kyiv

The government in Kyiv has convinced the International Monetary Fund (IMF) that is is serious about reforms and persuaded the fund to unfreeze its $5bn Stand By Agreement (SBA), the fund said on October 18.

The decision clears the way for the release of the next $700mn tranche to be release that has been delayed by the IMF due to foot dragging on reforms by Kyiv. The programme was suspended after Ukraine’s Constitutional Court struck down many of the key laws put in place at the IMF’s insistence to fight corruption.

Under the terms of the new deal the SBA will also be extended by six months, which had been due to expire in December. Ukraine has already received $2.1bn from the IMF last summer, but two tranches of $700mn and $2.2bn are still outstanding. The six month extension makes it possible for Kyiv to also receive the final tranche of $2.2bn, which may arrive early next year.

Moscow said that Nato’s decision to expel its diplomats from Nato earlier this month undermined hopes that relations with the US-led alliance could normalise.

"NATO is not interested in equitable dialogue and joint work," Lavrov said on October 18, announcing the closure of the Russian mission. "If that's the case, then we don't see the need to keep pretending that changes in the foreseeable future are possible.”

German Foreign Minister Heiko Maas said Russia no longer seemed willing to talk to the West.

"It's more than just regrettable, this decision taken in Moscow," he said. "It will seriously damage the relationship.”
China looks to Kazakh coal amid energy crisis

Almaz Kumenov for Eurasianet

China is the world’s biggest coal consumer. Neighbouring Kazakhstan sits on some of the world’s biggest coal reserves. Yet they have never done much business trading the stuff, largely because it is expensive to move by rail.

That may be about to change.

Rolling blackouts caused by a coal shortage are threatening China’s economy. Gummed-up supply chains, the post-COVID consumption boom and emissions-reduction targets are all to blame. But Beijing also miscalculated last year, imposing an informal ban on products from Australia, one of its largest coal suppliers, when Canberra called for an independent investigation into the origins of COVID-19.

Coal prices have risen almost fourfold over the last 12 months, the Wall Street Journal reported, reaching record highs.

Now China is looking for new sources, willing to brave even the most indirect import channels.

The eastern Chinese province of Zhejiang received its first shipment of Kazakh thermal coal (the kind used in power plants) recently.

The delivery route was anything but optimal. Landlocked Kazakhstan first sent the coal at least a thousand kilometres in the wrong direction, overland to a Black Sea port in Russia. There a bulk carrier took on 136,000 tonnes for a 30-day, 15,000-kilometre odyssey to Zhejiang, Bloomberg reported.

“The China as a whole has been buying more thermal and coking coal from Kazakhstan since the start of the year, as power cuts have become more frequent and coal supplies dwindle,” the South China Morning Post reported on October 5.

But how much coal China buys from Kazakhstan is something of a mystery. Figures the two sides provide to the UN’s international trade statistics database do not match.

Whereas Kazakhstan reported shipping 28.5mn kilos of coal to China in 2016, China reported receiving only 10.5mn. In 2019, the last year for which complete data is available, Kazakhstan told the UN that it had sold China 39mn kilos; China said it bought 150mn kilos.

Political scientist and sometime opposition leader Petr Svoik is inclined to believe the higher figures, explaining...
that Kazakh customs officials have been playing with data on commodity sales to China for years.

"There are several reasons" for the inconsistencies, Svoik told Eurasianet. “On the one hand, they have different methods of accounting for commodity groups. On the other hand, there is corruption and smuggling.”

Transparency Kazakhstan, the local branch of the international anti-corruption watchdog, has reported on such data discrepancies with other countries as well, also blaming graft in the customs agency.

There is one thing the data agree on: Kazakh coal is a drop in the bucket for China, which imported 308mn tonnes in 2019, according to the IAE, three times Kazakhstan’s total production. (China is also the world’s largest coal producer.)

But for Kazakhstan, which is struggling to wean itself off the climate-warming fuel, its neighbour’s crisis creates new opportunities. For now, 90% of coal mined in Kazakhstan is used locally, where it is sold at state-regulated prices, which are one-third lower than export prices.

As Kazakhstan switches from coal to gas and some renewables to meet its emissions targets, it will free up coal supplies to sell abroad, the Association of Mining and Metallurgical Enterprises, a lobby group, told the Kursiv business newspaper on October 4.

With higher coal prices, sending this dirtiest of fuels straight across the border by rail becomes more economical, even if the net warming effects on the global climate remain the same.

Almaz Kumenov is an Almaty-based journalist.

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Taliban and Tajikistan engage in sabre-rattling

**Eurasianet**

While it is trying to burnish its legitimacy in the eyes of the global community, the Taliban is engaging in an open battle of words with a neighbour to the north: Tajikistan.

Over a handful of days, representatives of the new regime in Afghanistan have made public statements condemning the Tajik government over what it has described as meddling in internal Afghan affairs.

The verbal barbs are in part a response to repeated demands from Dushanbe that a future Afghan government include more ethnic Tajiks in its ranks.

Tajik President Emomali Rahmon doubled down on his criticism of the Taliban in an address to the UN General Assembly on September 23, warning that “various terrorist groups are actively using the unstable military-political situation in Afghanistan in order to strengthen their positions.”

“We are seriously concerned and regret that Afghanistan is once again on its way to becoming a platform for international terrorism,” he said.

Taliban patience has been strained by those asides and also, most likely, a steady trickle of reports about Tajikistan offering a haven and assistance to exiled Afghan groups opposed to the new government in Kabul.

In an interview with Qatar-based broadcaster Al-Jazeera, acting Afghan deputy prime minister Abdul Salaam Hanafi at the start of this week warned Tajikistan not to meddle in Afghanistan’s affairs.

“We will not allow any neighbouring nation to interfere in the internal matters of Afghanistan,” he said.

The exact same message reportedly came this week from another deputy head of the Taliban government, Abdul Ghani Baradar.

A more junior Taliban figure, Inamullah Samangani, who has been described as a cultural envoy for the group, took an even cruder swipe at Rahmon on Twitter on September 29.

“He’s been president for 27 years, maybe he will be so for another six, or even more,” Samangani said, using the observation to note that Afghanistan would not take lessons on democracy from Tajikistan.

Tajikistan and its security partners have been mounting demonstrative military exercises since even before the Taliban marched into Kabul on August 15. There has been no let-up on that front.

Russia’s Central Military District on September 30 declared that troops from its 201st base had been conducting yet more drills in the mountains of Tajikistan to simulate an incursion by an “unlawful armed formation moving along a mountain serpentine towards a village.”
The plight of Mongolia’s young herders

Antonio Graceffo & Munkhbat Norovjamts

"In the rest of the world, the livestock follows the people. In Mongolia, the people follow the livestock."
Munkhbat Norovjamts

In Mongolia, 40% of the population still live as herders, while the rest modernize at an incredible pace. Among those who engage in herding, “only a small percentage are true nomads, moving as many as eight times per year”. So explains Munkhbat Norovjamts, who teaches sociology at Ulaanbaatar State University.

Born in Arkhangai, he grew up herding. When he was 18 years-old, he moved to Ulaanbaatar to attend university. Today, a PhD candidate, he has been researching Mongolian herders for most of his adult life.

“The seasons are changing now." said Munkhbat. “We used to move about eight times per year. Today, we only have summer and winter, and many families only move twice.”

A herder couple, originally from Uvs Province, recounts: “We move once per season, four times per year. There aren’t that many places fit to move to. Otherwise, we would like to move every 10 days or so.”

In winter, the herders tend to stay closer to the mountains, for the protection they afford, whereas, in warmer weather, they tend to follow the river. “That’s why we do not have neighbours anymore, like we used to,” reflects Munkhbat, adding that the herds are so spread out now that the herders are extremely far away from their neighbours. They will meet for holidays and celebrations, but in general, they do not provide each other the support system they did when he was young. “You have friends, but you do not have companions. And you do not see them every day,” he said. “They might call you on the phone and say, ‘Can you see my herd from where you are? Could you maybe start driving them back toward my house now?’"

Munkhbat is a typical ex-herder in that he still loves animals and loves the countryside, although he needs to be in the city to earn a living. It seems that a core percentage of herders are reluctant to give up their traditional lifestyle, in spite of there being a pervasive trend of herders moving to the city. “Twenty years ago, you could move to the city and still maintain your herds. Today, it is impossible. The city is too big, and the herds too far away.”

A herder from the 1980s would not recognise the herder of today, says Munkhbat. “Herders have cellphones. They have TV in their gers [yurts, or tent houses]. Some of them don’t even ride horses anymore, they drive motorcycles or trucks.”

The couple from Uvs confirmed how herding has changed. “When we were in Uvs, we used to load the kids and our ger and possessions on camels and move. We’d leave in early December, and return in February. But today, we use cars, and we move much less frequently.”

Although still herding and migrating, the couple explains that several years ago, they moved to a circuit near a small city, so that they would be closer to markets, where they could sell their meat, milk and wool, and the children could have better educational opportunities. As for possessions, the couple recalls that they did not have a refrigerator,
a garden, or a cellphone, but they did have a landline and solar electricity for their ger. They also had a TV. The couple have always of course gathered their own herbs for cooking, while picking berries for preserves. They make their own vodka and their own rope. They also make their own Mongolian deel, or traditional clothing.

According to Munkhbat, about 200 small animals, meaning goats or sheep, would be considered a subsistence level of animals. Richer families, those with 500-1,000 small animals or with large numbers of horses and camels, may be able to hire an assistant herder to care for their animals, while they move to the city.

The couple from Uvs tell how they have over 40 horses, 50 cattle, 800 sheep and 200 goats. Plus, the father is 57-years old, so he receives a small pension from the government. “Our home situation is just so-so. We have a few animals, but then again we have seven children, nine people in our family, and some of them have gone independent and some are attending universities so... it’s difficult.”

“Right now, we’re selling a litre of milk directly from outside our home at 300 tughrik [about 10 US cents]. And when us herders walk into the store, what can we buy with 300 tughrik?”

Generally speaking, herders do not have a lot of cash. This couple say that between the milk and meat from their animals, supplemented with flour they buy in town, their family has enough to eat. When asked if they have enough money, the father jokes: “Money is sometimes there when needed, and sometimes not there when needed.”

He then broke down their annual cash income. They receive large sums of cash about twice a year when they sell animals. An adult sheep can fetch between 170,000 to 250,000 tughrik ($60 to $88) at retail. Out in the countryside, selling through a middleman, herders may only receive around 60,000 tughrik (about $20), for a completely skinned, gutted, and dressed out animal. If the couple sell 100 sheep each year, they will take in a maximum of about $2,000. Additionally, they say they earn about two million tughrik ($700) per year from wool. But they had to spend money to buy and raise the sheep and money from the sale has to be used to buy replacement animals. The pension they receive used to be 230,000 tughrik per month, but was recently increased to a monthly 250,000. So, all together, the family has an annual cash income of around $3,600, which, again, is not all profit and has to be stretched to support nine family members.

Enkhee, a former herder, now living as more of a stationary rancher, 70 kilometres from Ulaanbaatar, explains how camels and horses have much higher earning potential than lambs and goats, particularly for those, like himself, living near a city. Among other uses, camels and horses can be used to take tourists on trips, which can earn as much as $150 per day, per tourist. That means, he can earn from a horse in a single day what he can earn from raising and selling two or three sheep.

As lucrative as tourism is, horseracing is by far the most profitable use of livestock. A horse, bred for racing, which has not even won a single race as yet, can be as valuable as a whole flock of sheep. Once a horse wins, it can be worth dramatically more.

“Those horses cost more to keep than a human,” says Enkhee. “Between food, medical, training...they eat wheat, not grass, and they have to be kept in doors at night and in winter.” It is all but impossible for regular herders to raise racing horses. “They cannot be earning money unless the horse wins, and the horse cannot win unless all of this money is spent on their upkeep.”

Munkhbat relates how wealthier herders buy an apartment in the city. Some family members stay behind, to care for the herd, while the others move to the city to work and go to school. If things turn out badly, out on the steppes, and the family has to quit herding, they have the security of knowing they own an apartment in the city. So, they have that to fall back on. For small herders, however, the move to the city may be a one-way trip. It could cost them their entire herd to move to the city, get set up and begin looking for work.

“The main reason herders come to the city is for economic opportunities.” Munkhbat says. Out on the steppes, large, commercial herds are getting larger, while small herders are being squeezed out. Also, herders face natural calamities, such as sandstorms or dzud, a cyclical disaster of extreme weather. Dzud kill millions of Mongolian livestock every few years. If a small herder loses all of their animals, they have no choice but to move to the city and find a job.

“There is a lifestyle change occurring among young people.” said Munkhbat, describing why so many are leaving
the steppes. “They are looking far more into the future, and want to be able to count and control their own financial conditions.” If they continue herding, their income will be extremely variable and uncertain.

The herder’s income is seasonal. Families with a majority of male goats have consistent income from April to June, selling goat fur. If the majority are female goats, then from May 10 onwards they start selling the fur. During April to June, they are happy and have steady income. Then through June, July, and August, they have very little income. In September, they can start selling sheep fur.

In January, demand drops. It picks up again in February, when families celebrate Sagan Tsar, Mongolian New Year. Afterwards, the herders are poor again, until April.

Rather than endure the harsh lifestyle, hard work, and inconsistent income, “young herders easily give up, because there is another option, come to the city and work and receive a regular income,” says Munkhbat. “Most of their friends are in the city. Most of the things they want to do are in the city, and they cannot find a marriage partner in the countryside.”

For others, the decision is made by the parents. It is common for herders to send their children to live with a relative in a town, so that they can attend school. If the parents are not far away, the kids will go home on weekends and help out with the herd. Herding families often send their girls to the city to attend education, but will keep one or more sons behind, to help the father. As a result, there is a gender imbalance on the steppes. The girls who graduate university do not wish to return to the steppes, and so the boys in the countryside cannot find a wife.

From families Munkhbat interviewed, “there might be two or three boys of marriage age, but they don’t have wives. So, their best options might be a divorced woman who is left alone on the steppes. Most girls leave the steppes, get educated and do not return. So, they are not available for those boys to marry. So, there is a shortage of girls on the steppes. In the whole of Mongolia, there are also more girls in higher education than boys. Nationwide there is a difference in gender, but not that big a difference. But among herders, it is much larger. They want girls to get educated before they get pregnant, but the boys are going to stay behind and take over the herd from the dad.”

Some boys come to the city for education as well. Others may come out of economic necessity, seeking work. “When boys come to the city, it depends on whether they are educated or not,” says Munkhbat. “There is an increasing number of educated herders with university degrees. If they don’t have education, they will be doing manual labour, but with education they can get white collar jobs.” The educated ones can even get a job in the small towns, be in the countryside during the day, and still see after their herds or, split the work with a partner who sees after the herds most of the time.

“Families with a majority of male goats have consistent income from April to June, selling goat fur”
get married”. She explains that often, after the baby came, the father just disappeared. “So, the girls would send the baby back to the countryside, to live with the grandparents and the girls would remain in the city working. When summer came, they would quit their job and disappear to the countryside.” To prevent them from leaving and not returning, Sara would have the teachers sign a one-year contract, and she would withhold a week’s salary. But even forfeiting their wages did not dissuade them from disappearing back to the countryside in summer.

Other herder children, in her estimation, were spoiled. “They come to the city and live off of their parents’ money, while studying. After graduating, they continue to live off of the parents’ money, rejecting job offers, allegedly holding out for the best one.” Meanwhile, they were living a comfortable lifestyle that did not motivate them to find work. “From time to time, they would take jobs, for a while, then quit, then remain unemployed for a while, then find a job…They would fall into a cycle of working a few months, with a few months of unemployment in between.”

Sara goes so far as to say: “Over a period of years, I have known people with five jobs and six periods of unemployment.” And of course, in summer, she says, these people did not even look for work. They just headed back to the steppes. “They really want to be in the countryside in summer, but want to be here in Ulaanbaatar in winter because it’s easier.”

Munkhbat confirms that the herders’ relationship with money is difficult to understand. “Herders do not know much about economics or markets. So, they think only of increasing the number of animals in their herd. It is hard to get them to form a union together to import and export from the city to save money or to make higher profits. They don’t think like that.” So, they sell their cashmere, wool, milk, and meat to low-bidding middlemen, always believing the only way to increase their income is by increasing the number of animals.

Debt is a problem in Mongolia, in general. There are multiple pawnshops on every block and roughly 80-90% of the population is living in some sort of debt. “Herders live debt to debt,” says Munkhbat. He remembers a typical herder family he interviewed. “The family had 100 sheep, 20 horses, 20 cows, three school-age children and a grandmother who received a small pension, which went to support the animals. School fees had to be paid, school uniforms and winter clothing bought…” The family was constantly borrowing money to pay interest on previous loans.

“A European woman told me that she was opening a holiday camp in the countryside and had hired several herders to work for her,” says Munkhbat. “The moment they received their pay, they took off. Most did not come back until they needed money again, at which point, she told them that it was too late and their jobs were gone.”

“They don’t have bills, so they really have no idea about budgeting,” adds Munkhbat. “When we get paid in city, we need to pay rent and bills. We learn to budget. In the city, a family buys one or two lambs and eats for the whole winter. In the countryside, they will slaughter a lamb today, and feast on it, devouring the whole thing in one day, and have nothing to eat tomorrow.”

When your correspondent stayed with a family in the countryside, they slaughtered an animal in the morning and we ate till we were sick. Then, that night, they said: “Sorry there is nothing for dinner.”

“When they come into the city to sell their stuff, they have very specific ideas about what to spend the money on,” says Munkhbat. “But, in the countryside, they have no idea. The father has a better understanding because he has to sell the animals and buy things for the family. But the sons need to learn. Young people don’t understand about money.”

A report, prepared by a large, international non-governmental organisation, claimed that financial illiteracy was one of the leading threats to health in Mongolia, right after heart disease and cancer. “There are government programmes to teach economics and finance to the herders but they aren’t interested in that. They only care about their animals,” concludes Munkhbat.

Faced with economic and lifestyle hardships, many herders are drawn to the city. Those who remain on the steppes typically find it hard to marry and continue their traditions. Meanwhile, a certain percentage of herders love the life, seeing it as an integral component of the Mongol identity. They will never give it up, no matter what happens. As the couple from Uvs said: “Herders don’t require anything from anyone. By raising our children as herders, we will make it so that they will be self-sufficient.” The couple felt that herders were the freest people, not beholden to anyone. They end by saying: “I think the herders are the real Mongolians.”

Some herders that love the life will never give it up no matter what happens.
Saakashvili’s return: more shrewd than it seemed?

Neil Hauer in Tbilisi

There’s rarely a dull moment in Georgian politics, but even by those lofty standards, October is already a month to remember.

As with so many events in Georgia, the past few weeks in the South Caucasus republic have centred on one man: Mikheil Saakashvili. The larger-than-life former president who headed the country from 2003 to 2012 has spent the past eight years in exile in Ukraine, during which time he both gave up his Georgian citizenship and was convicted in absentia of abuse of power.

Ever since, Saakashvili (or simply Misha, as he’s commonly known) has promised time and again to return to Georgia, always failing to follow through. Despite maintaining control of his United National Movement (UNM) – Georgia’s primary opposition party and the main challenger to the ruling Georgian Dream (GD) – Saakashvili had been forced to operate from abroad.

All that changed on October 1, when the ex-president abruptly posted a video from Georgia’s coastal city of Batumi, announcing he had at long last arrived in the country ahead of nationwide local elections the following day. A cat-and-mouse game with the ruling authorities ensued over the next hours, until a beaming Prime Minister Irakli Gharibashvili, head of the present GD administration, announced that Saakashvili had been arrested. A smiling Saakashvili was marched into a prison near the capital and the vote went ahead the following day.

Momentum then built slowly. Saakashvili announced a hunger strike, while several thousand supporters – a sizable, yet not overwhelming number – came out to protest for his release on October 4. The next week and a half passed calmly, until October 14. That day, UNM organizers gathered a truly massive crowd on Tbilisi’s Freedom Square. Tens of thousands of demonstrators, their numbers bolstered by provincial arrivals from other parts of Georgia, stretched out for kilometres down the capital’s Rustaveli Avenue, calling for Saakashvili’s release.

The largest demonstration in at least a decade in Georgia has set the scene for what should be a highly contested runoff vote on October 30 – but how much has it really changed the game?

For Georgian observers, the October 14 demonstration was far beyond expectations.

“[The protest] was the largest I have ever seen myself,” said Shota Utiashvili, a senior fellow at the Tbilisi-based Georgian Foundation for Strategic and International Studies. “Some people who were around in April 1989 [during the largest anti-Soviet demonstrations] told me it reminded them of back then,” he added.

“I would say there were 40,000, maybe even 50,000 people,” said Iago Kachkachishvili, director of the Institute of Social Studies and Analysis, a Tbilisi-based think tank. “It was certainly very different from past [UNM protests].”

The exact timing of Saakashvili’s return initially seems a bit surprising: at an election, but not one where he himself was on the ballot, as was the case most recently with the 2020 national election, when he was nominated by the UNM-led Strength in Unity bloc as their choice for prime minister.

Analysts see a weakening grip by the former president on Georgia’s political scene as the primary motivation. They argue the need to refocus the opposition around both the UNM and – perhaps more importantly – himself, played a major role in Saakashvili’s return.

“I was somewhat surprised by his return, but it had to happen eventually,” said Utiashvili. “As a politician, [Saakashvili] understood that the time where he could lead the Georgian opposition from abroad was ending. He had to either leave Georgian politics or come back,” he said.

“[Saakashvili’s] resources in Georgian politics were dwindling,” Kachkachishvili agreed. “He knew that his arrival would result in prison, but he could not do more from abroad than the current results,” where the UNM has traditionally received about 25% of the vote and rarely more.

“He needed his supporters to see him in Georgia itself,” Kachkachishvili said.

“Perhaps most crucially, the comeback has changed the perception of Saakashvili in some corners of Georgian society: from an exiled playboy to a political prisoner.”

“Misha’s mode of political existence has changed now,” said Kachkachishvili. “He
is the victim now, and Georgian society has a loyal attitude towards political victims. I think some people have started to shift their opinion of him from a violator [of human rights] to being the reformer, the creator of modern Georgia. People have started to respect him more for coming back to Georgia knowing that he would suffer, rather than continuing to live abroad in luxury,” Kachkachishvili explained.

By his return, Saakashvili has also posed a severe challenge to other opposition parties in Georgia, from the UNM-breakaway European Georgia to the upset Lelo party and the For Georgia bloc of defected GD leader Giorgi Gakharia.

“Loyalty to Saakashvili has seemingly grown, not only among UNM supporters but also among those from other parties,” said Kachkachishvili. “It has further polarized society, which poses the largest challenge yet to GD’s rule but also makes it more difficult for other parties to survive. They have to tread carefully on the Misha issue now with so much support for him coming out, and their share of votes will likely diminish in favour of UNM,” he explained.

Saakashvili’s endgame, meanwhile, remains unclear. While his party now stands a strong chance of winning the mayoralties of most of Georgia’s largest cities (Kutaisi, Batumi, Rustavi and Zugdidi) and perhaps even Tbilisi itself in the second round of the local elections on October 30, it seems very unlikely at the moment that the UNM leader himself will walk free in Georgia anytime soon.

One likely possibility is that Saakashvili will be extradited to Ukraine, where he holds citizenship. Ukrainian officials have visited him in prison several times, and Ukrainian President Volodymyr Zelensky himself has lobbied for Saakashvili’s release.

“Decisive role”

TASS reported Lavrov as referring at a press conference to how Russia played a decisive role in halting the Karabakh war, with a trilateral agreement leading to the deployment of Russian peacekeeping troops.

Lavrov was reported as saying that the agreement “contained principles that determine the joint steps to advance the [post-war] settlement, including work to unblock all transport communications and economic ties in the region, which will be to the benefit of not only Armenia and Azerbaijan, but Georgia as well”.

He added: “Iran, Russia and Turkey will also benefit from this as the closest neighbours’ of these three republics.”

According to Lavrov, the Iranian side expressed a positive attitude towards the “3+3” idea, while the same attitude was observed in Azerbaijan and Turkey.

But Russia and Georgia, which fought the 12-day Russo-Georgia War in 2008, have still not settled disputes over breakaway territories South Ossetia and Abkhazia. ●

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Russia proposes “3+3” format to unlock economic and transport communications in Caucasus

bne IntelliNews

Russia has introduced the idea of a “3+3” format – the three South Caucasus countries of Armenia, Azerbaijan and Georgia plus their three big neighbours, namely Russia, Turkey and Iran – to focus on unlocking economic and transport communications in the South Caucasus region.

Russian Foreign Minister Sergey Lavrov discussed the proposed initiative with his Iranian counterpart Hossein Amir Abdollahian in Moscow on October 6.

Lavrov’s move follows major Iranian military exercises, widely seen as an expression of Tehran’s unhappiness at Azerbaijan’s territorial ambitions assisted by Turkey and big arms buys from Israel, which have been countered by joint Turkish and Azerbaijani war games. Armenia, meanwhile, has been loathe to move towards agreeing to any land trade corridors with Azerbaijan while disagreements over borders remain unsettled. However, as part of the Russian-brokered ceasefire that ended the Second Nagorno-Karabakh War between Armenia and Azerbaijan last year, Yerevan and Baku agreed to explore opening up transport links that would boost trade.

There have been concerns in Tehran, meanwhile, that a land grab by Azerbaijan backed by Turkey could hinder or cut off Iran’s trade route northwards to Armenia, Georgia, Russia and beyond.

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Opinion

Sanctions and oil fear force stability first in Russia

Chris Weafer of Macro-Advisory in Moscow

Several years ago, a young deputy minister started his description of the Russian economy by saying: “The good news about the economy is that it is stable.” After a brief pause, he added: “The bad news about the economy is that it is stable”. He perfectly summarised what was wrong with the economy over the previous two decades: the government endorsed a stability first policy and allowed the volatility in natural resource receipts to drive, or fund, the boom-and-bust cycles.

That approach appeared to be changing in the aftermath of the start of the sanctions regime and yet another oil price collapse (2014-15). The combination of these external hits forced the government into taking some long talked about, and even longer overdue, measures to protect the economy from external pressures – the Fiscal (or Budget) Rule being chief amongst them. It aimed to cut the breakeven price of oil in the federal budget from $113 per barrel (p/bbl) in 2013 to $45 p/bbl by 2022 or 2023; an ambition helped largely thanks to the ruble devaluation, although by no means exclusively.

The government was also forced into a long discussion about future growth drivers and what type of economy Russia should have by the end of this decade. From this discussion emerged the National Projects Program (NPP). A near $400bn spending plan, to be spread over thirteen separate economic and social categories, over a five year, later nine years, timeline. And thanks to the Fiscal Rule, the OPEC+ deal and conservative fiscal management, the country could afford to fund a large part of the NPP without reliance on private sector co-investment.

But today, because of the cabinet’s adopting the draft of the 2022-24 federal budget, the optimism that the government had turned 180 degrees to a looser fiscal stance, has been badly dented.

The draft budget is very conservative. It assumes a declining average oil price from $66mp/bbl this year to $55.7 p/bbl in 2024. The budget assumes a surplus in 2022 (1.1% of GDP) and 2023 (0.3% of GDP), as it will have this year (at least 1% of GDP), rather than a deficit to be funded out of the $191bn National Welfare Fund (NWF). This is the fund boosted by the high average oil price in recent years and which was intended as the source of funding for NPPs and other budget spending. The draft budget targets the fund to rise to 10% of GDP, from
7%, and a total value of $323bn by 2024. In other words, sticking with the previous stability first stance and a reduction in the money to be made available for investment.

Building up the NWF from $191bn to $323bn at a time when the economy needs more investment and growth incentives hardly makes a lot of sense. The IMF and other international financial agencies were critical of this policy pre-COVID and stressed the need for investment rather than a bigger financial cushion. Even after the extra COVID support spending last year and this year, Russia’s total national debt is less than 19% of GDP and the draft budget sees this rising to only 20.8% of GDP by 2024. That is the sixth lowest level of national debt in the world.

So, why the change of direction again? There are several factors, which appear to have reinforced President Putin’s well-known debt phobia and his preference for “cash in the bank”.

**Sanctions.** One can certainly argue that the western sanctions applied to Russia since 2014 have forced many positive changes, both directly and indirectly. The Fiscal Rule and the NPP, even in a reduced version, are in the former category while the boost to domestic economic and export competitiveness from the devalued ruble, is in the latter. But the other side of that coin are the two sanctions that block US investors, and because of the secondary sanctions threat (CAATSA in 2017), EU investors from buying new Russian sovereign debt, whether issued in Eurobonds or rubles. That limits the government’s ability to raise new debt, especially if the budget was in deficit due to another oil price collapse. That would be Putin’s worst nightmare scenario.

**Oil.** To paraphrase Oscar Wilde, “one oil collapse (2008-09) was unfortunate but a second (2014-15) looks like carelessness”. Both had a major impact on the economy and clearly President Putin does not want to be again in the situation of having to cut social spending or scramble for debt to cover a budget deficit.

**Energy transition.** While there is a debate over how long the demand for oil will stay strong, with optimists suggesting mid next decade and pessimists suggesting later this decade, there is no real debate over the fact that the age of oil is coming to an end. The Kremlin is now very much awake to that fact and is starting to look at longer-term low oil scenarios. The Finance Ministry recently published a report with scenarios of oil averaging $35 p/bbl by 2030 and averaging $25 per barrel in 2050.

Sticking with the stability first policy suggests that headline growth is more likely to remain in the 2% to 3% range over the next half decade. And that appears to be an acceptable, albeit not perfect, backdrop to political succession, or continuity, in mid-decade.

**What does it mean for business in Russia?**

The headline number is less relevant in Russia than in developed economies. Sector growth in Russia is much less uniform than elsewhere. It means that the headline growth indicator may be 2% but some areas can show growth in high double digits. We have seen this many times in Russia and will continue to.

Some of these potential high growth sectors include:
- Consumer, especially in marketplace sectors;
- Support services such as logistics and fintech.

**Healthcare, including pharma.** The pandemic showed the effect of years of under-investment in the sector and this now needs to be, and will be, addressed. Indicators from the government show that they plan to make these opportunities available for foreign companies as much as for local investors.

**Infrastructure.** Infrastructure spending remains a key part of NPPs. Some incentives have been put in place and others, to attract more private sector investment, are expected.

**Technology and digitalisation.** Spending in these areas did ease back last year and this year but both also remain as key parts of the NPP.

Localization is an evolving but still critical theme. The focus on machinery and equipment making is increasing both for the export market as much as for import substitution.

**Value added investment in natural resources, especially in chemicals**

The environment and climate management areas are starting to gain in importance for investment. Clearly this is a huge topic and one that will need equally huge investment. The government says that the opportunities will also be open for foreign investors, and very likely similarly structured to that established in the so-called strategic sectors.

Agriculture and food processing sectors have already benefited from state support, localisation and climate change. This will continue and more investment opportunities will open, both for export and domestic markets.

Other areas, especially related to social areas, such as housing, and education and training.

What does it mean? The Kremlin’s fear of being caught in another economic crisis, unable to attract enough private sector co-investment and without sufficient financial resources to maintain stability is greater than the concern about under achieving the goals of the NPP. Russia has never been an economy in which to blindly invest, and it will not be in the future. There will continue to be big discrepancies in growth rates and in profitability. The need for both risk and opportunity due-diligence is chapter one in any handbook about investing in Russia. And it always will be.
Leonid Razgozin in Latvia

In 1993, Mikhail Gorbachev spent a small portion of the money from his Nobel Prize for Peace, awarded three years prior, on eight computers requested by a modest journalistic startup. The latter grew to become Novaya Gazeta – a flagship of Russian independent journalism, whose long-time editor Dmitry Muratov has just become the third Russian, after Gorbachev and Andrey Sakharov, to receive the world's most prestigious award. He will share it with Filipino journalist Maria Ressa. The Norwegian Nobel Committee said in a statement that the pair represented all journalists who are fighting for freedom of expression “in a world in which democracy and freedom of press face increasingly adverse conditions”.

The prize feels well deserved, given Novaya Gazeta’s dogged dedication to the subject of human rights, especially during the first decade of Putin’s rule, when most Russian reporters moved into the relative comfort of business journalism and infotainment.

But with it, Muratov also seems to have inherited the controversy which surrounded Gorbachev – lionised in the West, but getting a cold reception at home, including from liberals. For many Russians, the decision betrayed the West’s tone-deafness and intellectual laziness that has long been dogging Russia discourse.

In Muratov’s case, the news about him getting the prize triggered outrage in the camp of opposition leader Aleksey Navalny. Having survived a near-lethal poisoning and jailed after his audacious return to Russia, Navalny had been seen as one of Nobel Prize frontrunners this year.

On the surface, this reaction stems from a rather mundane spat pertaining to personal loyalties. But in reality it reflects more fundamental issues of ethics and compromise with an authoritarian regime as well as the conflict of generations in the Russian opposition.

In the days preceding the Nobel Committee’s announcement, Muratov threw his weight behind his friend – the editor of Echo Moskvy radio, Aleksey Venediktov – who was blamed by Navalny for complicity in election fraud during the Duma elections last month.

Venediktov had become the public face of the Kremlin’s highly controversial e-voting project, which is seen by Navalny’s supporters as the main tool of falsification, especially in Moscow, where it overturned the results at the last minute in favour of Kremlin candidates.

In a rude op-ed, Muratov blasted Navalny’s camp for criticising Venediktov and accused them of nothing less than promoting Stalinism, because many of the candidates backed by Navalny’s strategic voting initiative, known as Smart Voting, represented the Communist Party. Smart Voting boils down to supporting candidates who are most likely to derail those backed by the Kremlin, in a situation when any real opposition is barred from elections.

Navalny’s chief strategist, Leonid Volkov, responded to it by saying that he “puked” upon reading the article. Muratov replied in kind: “As an advocate of human freedoms, I endorse your unalienable right to puke.” As a result, the very first reaction to Muratov’s award that came from Navalny’s camp was Volkov tweeting this very quote with no further comments.

While more diplomatic, other statements made by Navalny’s close allies betrayed disappointment. Lyubov Sobol congratulated Muratov while posting Navalny’s photo saying she believed the latter was “the main fighter for peace in our country and beyond”. Ruslan Shaveddinov said instead of “pompous speeches about freedom”, the Nobel Committee could have defended “a man who survived assassination and who is now being held hostage by the assassins”.

Upon receiving the award, Muratov made a graceful gesture by saying that he would have voted for Navalny, had he been on the Nobel Prize Committee.

Navalny returned the compliment following the weekend in
a tweet posted on his account: “I sincerely congratulate Dmitry Muratov and @novaya_gazeta with the Nobel Peace Prize. This is a well-deserved reward, and the symbolism of the date suggests itself.”

But Muratov returned to making rude statements about his critics soon enough, including in an interview with the Kremlin’s Channel One.

The Kremlin reacted to the news that Muratov rather than Navalny had received the award with a sense of relief and a thinly disguised glee. Putin’s press secretary Dmitry Peskov congratulated him, but on the same day the Kremlin designated another batch of Russian journalists as foreign agents – in a gesture mocking Nobel Committee’s best intentions.

“Navalny’s chief strategist, Leonid Volkov, responded to it by saying that he “puked’ upon reading the article”

Ironically, Novaya Gazeta stands out in Russia’s present media landscape as the only prominent independent news outlet that has so far avoided getting foreign agent status. By giving preferential treatment to Novaya Gazeta, the Kremlin is driving a wedge between two generations of journalists and political activists.

Novaya Gazeta’s heyday fell on the first decade of Putin’s rule. Russia was much freer than now, but journalists were more likely to become victims of criminal violence rather than repression by the government law enforcement agencies.

It was between 2000 and 2009 that Novaya Gazeta lost six of its contributors, who were assassinated or perished in suspicious circumstances. To a varying extent, all of these murders pertained to the atmosphere of lawlessness perpetuated by Putin. Upon hearing the news about the award, Muratov was quick to dedicate it to them.

During the much more repressive second decade of Putin’s rule, the paper continued to produce hard-hitting materials. Some made global headlines, like the investigation into extrajudicial killings of gays in Chechnya.

But the news agenda in Russia was now being driven by a new generation of media outlets and activist investigators. The focus of attention shifted from symptoms to the fundamental causes of the disease Russia has been suffering since the collapse of the USSR.

Ground-breaking investigations into the mind-blowing corruption of Putin’s entourage helped to explain why the authorities are perpetuating human rights abuses, which Novaya Gazeta has been focusing on all those years. They also reached an infinitely wider audience than Muratov’s newspaper.

This shift was led by Navalny and his investigative outfit. Apart from digging deeper than most journalists, Navalny’s team also revolutionised presentation, turning investigations into gripping videos spiced up with Generation Z humour. His team became the country’s most prolific meme machine.

Released in 2017, a video about Dmitry Medvedev had 44mn views at the time of writing. But that’s overshadowed by the video about Putin’s Black Sea palace, posted at the beginning of 2021, which has been watched 119mn times. A plethora of small independent journalistic outfits, which emerged as the regime was destroying or capturing well-established independent news organisations, followed in Navalny’s footsteps.

The generational gap is even more obvious on the political side. Muratov is a member of Yabloko, once a highly respectable, but now an extremely controversial liberal force. Yabloko is tied in a bitter conflict with Navalny’s movement, which is accusing it of playing on Kremlin’s side. In a ridiculously self-defeating act, Yabloko leader Grigory Yavlinsky even called on Navalny’s supporters not to vote for his party in the last Duma election.

Navalny himself happens to be a Yabloko dropout. After flirting with the far right over ten years ago, he drifted towards creating a broad populist movement which strives to break out of the liberal ghetto and unite everyone who is opposed Putin’s mafia state.

Muratov’s generation tends to hold a pessimistic view regarding Russia’s prospects of building a democratic society. In an August interview with znak.com, Muratov said that majority of Russians have no desire for freedom.
That kind of thinking prods them towards seeking compromise with the authorities in order to carve out a niche, within which they could operate freely, sowing the seeds that—as they see it—will sprout many years from now. They tend to ignore fundamental cultural changes the country and society underwent in recent years and the fact that those seeds are indeed already sprouting.

Navalny, on the other hand, exudes optimism, which he made the main feature of his public persona. It shines through his social media posts even now that he has a good chance of spending much of his life in jail. Many of his supporters are in their twenties or even teens. They don’t remember a Russia other than Putin’s, which is a major reason why they want him to go. Navalny gives them hope instead of Muratov’s seen-it-all cynicism.

Now the Norwegian Nobel Committee is not supposed to follow all those nuances and petty conflicts in Russian politics. What it is supposed to do is think big, in global and epochal terms. But this is exactly where it failed this year.

By preventing a democratic transition of power, Putin is driving Russia, a nuclear superpower, towards civil conflict, which will have grave consequences for Europe and the rest of the world. Navalny’s exemplary peaceful and law-abiding movement provides a chance that it could be avoided. There may not be another one. Something to ponder when one weighs up the contribution of various personalities to the cause of peace. ●

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**Ukraine has more politicians in Pandora Papers than any other country in the world**

FPRI BMB Ukraine

Thirty-eight Ukrainian politicians are named in the Pandora Papers, including President Zelenskiy himself. In fact, Ukraine had more politicians pop up in the leak than any other country in the world (Russia took second place with 19).

For many, these revelations are at odds with the anti-corruption platform that brought Zelenskiy and his team power. That said, not all of the financial activities outlined in the Pandora Papers are necessarily illegal. Indeed, the ability to capitalise on legal loopholes is what makes the offshore service industry the booming business it is today.

During a press briefing on October 4, White House Press Secretary Jen Psaki said the Pandora Papers won’t change the dialogue between Washington and strategic partners like Kyiv. At the same time, she stressed that the revelations make the issue of financial transparency “even more important on the international agenda.” And financial transparency will presumably be a key topic of discussion at the EU-Ukraine Summit set to take place in Kyiv on October 12.

Here’s what some of Ukraine’s experts and analysts had to say about what the Pandora Papers revelations mean for Zelenskiy and his team:

- **The Anti-Corruption Action Center (AntAC) on Serhiy Shefir:** “It is difficult to understand why the number one aide to the president [Serhiy Shefir], who seems to have his office on Bankova [Street] and goes there as if to work, does not submit an electronic declaration of his income and expenses. […] Shefir is not a civil servant, but he has more influence on decision-making in the state than hundreds of thousands of civil servants who file declarations. We are sure that society has the right to know what wealth and expenses the president’s number one aide has.”

- **Policy analyst Viktor Bobyrenko on the fallout for Zelenskiy himself:** “Zelenskiy’s rating will go down. But not critically. It will not fall below 20%, because Volodymyr Oleksandrovych has already formed a stable electoral core of 15-17%, which will be with him steadfastly for a long time. […] However, for the opposition this is a chance to level up. Perhaps, to consolidate.”

- **Think-tank director Kostiantyn Yelisieiev on the upcoming EU-Ukraine summit:** “Sitting in front of the EU leaders in Kyiv will not be the Zelenskiy of 2019, but the Zelenskiy from Pandora’s box. The Bankova’s anti-corruption trump card, seemingly a key virtue of the authorities, is null after the high-profile publication of the Pandora Papers. While other countries announced the start of investigations into the figures in the revelations, the Bankova, through the mouths of pocket agencies and irresponsible speakers, immediately rushed to ‘whitewash’ the offshore schemes of Zelenskiy’s and his team. This approach is at odds with the EU’s position.”

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Energy lobby dominates Czech climate change debate

Albin Sybera

The Czech election campaign, has largely ignored vital issues such as how the heavily industrial Central European country will cope with climate change, instead focusing on phantom threats such as an Afghan refugee influx.

Prime Minister Andrej Babis has set this agenda, in a successful drive to mobilise his supporters and steal votes from the far-right SPD party. Opposition parties have been forced into a defensive posture, sideling key issues such as climate change or the European Commission’s criticism of the billionaire populist’s conflicts of interest in handling EU funds.

When Babis has raised climate change in the election campaign, it has been only to criticise the EU’s “green madness”, which he argues is “imposed” on the country. Both climate scepticism and euroscepticism are hot button topics for rightwing and extremist voters, and a potential point of agreement between the premiers’ ANO party and the rightwing opposition Civic Democrats (ODS) in a future coalition.

Babis, who had tried to block the EU’s target of going carbon-neutral by 2050, has pledged to return to fight against it all over again after the election.

The neglect of the vital topic of Czechia’s need to step up its measures to ameliorate climate change and to reorientate its industry towards a carbon-neutral future is very handy for the majority state-owned energy utility CEZ – which some Czech journalists describe as more powerful than the government – along with the EPH and Sev.en Energy companies, owned respectively by two of the country’s wealthiest tycoons, Daniel Kretinsky (No.4 on the Forbes ranking) and Pavel Tykac (ranked 9th). Both private energy companies have a record of doing deals with CEZ, usually ones in which the dominant state-owned utility seems to benefit least.

CEZ, EPH and Sev.en Energy want a slow transition to a carbon-neutral future, with CEZ and EPH setting a company target of as late as 2050 for going carbon-neutral, while Sev-en Energy has yet to set a date.

In fact Sev.en Energy’s and EPH’s business model of buying coal mines and coal-burning power stations in fire sales by other energy companies is based on a slow shift to renewable energy; a quick switch through more expensive carbon credits could render many of their investments unviable.

The ignoring of the climate change issue in the election campaign reflects the dominance of this energy lobby in the country’s meagre debate on these future challenges, and in particular this industry’s close links with the dominant political parties and its control of influential media.

If Babis wins re-election this weekend, the risk is that this energy lobby will continue to dominate the climate change debate in the country, slowing down the necessary readjustment to a carbon-neutral future.

“Yellow Baron”

Czechia is one of the worst greenhouse gas polluters per capita in the EU, with some 40% of its energy coming from coal, plus an industrial sector that is very energy-intensive. Babes’ outgoing cabinet plans extensive investments into the enhancement of the country’s nuclear facilities as the country’s path to decarbonisation, rather than promoting renewable energy (though it has recently improved legislation that had held the sector back). The government’s targets for renewable energy and reducing greenhouse gases have been regularly criticised by the EU for lacking ambition.

The one area of green energy where incentives are particularly generous is in biofuels, where the premier’s agro-chemical conglomerate Agrofert is the biggest player.

Agrofert’s subsidiary Preol is the country’s key supplier of biofuel ingredients used by the state-run oil utility CEPRO, and effectively the only domestic producer, according to an analysis by news website Hlidacipes.org.

In 2019 Babes’ government passed legislation supporting the production of biofuels, leading to Denik Referendum christening him the “Yellow Baron” because of his ownership of many of the country’s ubiquitous fields of rape, used as a biofuel input.
The huge and blatant conflicts of interest between Babis’s political power and his business empire (he ranks 6th on the Forbes ranking) have drawn criticism from the EU, which has halted project payments to Agrofert until the government tackles the problem.

Agrofert’s ownership of the Mafra publishing house has also been criticized for effectively serving as an extended media platform for Babis and his ANO party. During the current election, Lidové noviny, the country’s oldest daily, now owned by Babis, has provided loyal coverage of ANO’s campaign, even headlining its front page with Andrej Babis’ election promises. Babis denies any conflict of interest or using his media to help his political party.

The energy lobby also has great influence in both politics and the media. State-owned CEZ, headed by Daniel Benes for the past decade, has always had the ear of governments, whether of the left or right, and has also been a big player through advertising in the country’s media. In the past, it was also accused of being a source of corrupt payments to political parties and politicians, allegations it has always denied.

Benes, who is close to President Milos Zeman, is so powerful he was even able to dictate to Babis that the state must fund CEZ’s investment in its nuclear programme, despite the premier’s initial refusal to do so.

“Greenpiss”

But CEZ has now been superseded by the EPH conglomerate of companies, owned by Daniel Kretinsky and his old-new Slovak business partner Patrik Tkac, as the country’s no. 1 energy business, after its 2020 turnover outsized CEZ for the first time since the formation of EPH in 2009. EPH owns extensive gas infrastructure in the CEE region and has invested widely in coal mines and power plants in Germany and the UK.

The other big Czech player is Pavel Tykac and Jan Dienstl’s Sev.en Energy, which controls one of the country’s largest portfolio of assets in lignite and coal mining and carbon-based power plants, with a strong presence in traditional mining regions in Northern Bohemia.

EPH and Sev.en Energy also have the ear of government, and EPH in particular can influence public opinion through its media holdings.

Kretinsky’s Czech News Center can match or even surpass the media influence of the prime minister’s Mafra. CNC boasts one of the largest collection of media outlets and its outlet Info.cz’s narratives are frequently echoed by its tabloid Blesk, the country’s best selling daily.

Daniel Kretinsky and Patrik Tkac have always denied that they try to influence CNC’s editorial line, a spokesman telling me this summer: “I can assure you that shareholders of EPH and CNC do not find it appropriate to recommend journalists what themes to focus on.”

But according to environmental campaigner Josef Patocka, “the methods of both conglomerates are extremely unscrupulous” in pursuing their business goals and they engage in “manipulating public opinion so that it does not endanger the interests of fossil companies”.

He highlights Aktualne.cz’s investigations into the administration of online environmental parody websites “Greenpiss” and “Hnuti DUCHA” [the Ghost Movement], which smear the country’s environmental NGOs.

Aktualne.cz claims “Greenpiss” website was linked to Sev.en Energy companies through a PR company. Sev.en Energy told bne IntelliNews in an emailed answer that it was not involved with the administration of the sites and did not try to manipulate public opinion against decarbonisation.

Patocka also argues that Czech News Center and its outlet Info.cz operate by “disseminating disinformation about climate or renewable resources”.

“Aktualne.cz claims “Greenpiss” website was linked to Sev.en Energy companies through a PR company”

Info.cz certainly has a record of questionable reporting. It published a story about a Swedish teenager allegedly bullied into joining climate strikes against his will. The story turned out to be disinformation, as an investigation into its sources showed.

Vojtech Bohac, author of the investigation and currently the chief editor at Voxpot, told bne IntelliNews that “the problem with Info.cz is that for a long time it has effectively functioned also as a PR agency”.

Bohac thinks that the story “can be a case of a sloppy journalism looking for sensational headline or it can be a case of an editorial room tacitly letting its reporters do such sloppy journalism”. It is difficult to prove orchestrated manipulation, he admits, but he says such reporting is “an enormous problem for Czech journalism as a whole”.

“We know that Kretinsky wants a conservative editorial room [at Info.cz], but we do not know whether this is also in pursuit of further political goals”, says Bohac.

Info.cz’s then editor Tomas Jirsa was one of the key figures involved in the nationwide PR push in favour of China, covertly financed by Home Credit of the late oligarch Petr Kellner’s PPF Group, one of the largest providers of small consumer loans in China. PPF representatives maintained the goal of these activities was to “rationalise” public debate about China.
The 2019 investigation by Aktualne.cz established the involvement of payments from Home Credit in the PR push, but as Lukas Valasek, lead author of the investigation and editor with Aktualne.cz, pointed out to bne IntelliNews, “Info.cz regularly published unmarked PR articles”. The extent of political goals behind this is difficult to measure.

Kretinsky’s remarkable rise has occurred against the backdrop of ODS-led cabinets. One of Info.cz’s podcasts is hosted by Mirek Topolanek, a former ODS prime minister brought down by a corruption scandal who then served subsequently in EPH’s management. He frequently targets the EU and its green policies, referring to the EU as the “green Taliban” in one of his latest episodes.

Depiction of the EU as having unrealistic green policies or even totalitarian tendencies is where the Eurosceptic narratives popularised by Info.cz conflate with the more aggressive statements towards the EU made by Andrej Babis or his populist ally, President Zeman.

“It comes as no surprise that Topolanek now works for Kretinsky – I call it the syndrome of revolving doors”, says Patocka, pointing to the days when CEZ management, lobbyist Vladimir Johanes and Topolanek vacationed together in Tuscany.

**Kiss the ring**

The ODS – whose last three governments all collapsed in corruption scandals – is now under the leadership of Petr Fiala, who has pledged to drive the shadowy lobbyists out of the party. The ODS is part of the centre-right SPOLU formation, bringing together Christian Democrats and TOP09 as one of the main challengers to the ANO-led hegemony of Czech politics.

Though the ODS remains hostile to green ideas, TOP09 as well as the Pirate party have moved to embrace them. The Pirates are leaders of the second opposition coalition, and they sit with the Green group in the European Parliament and have a big following among young people.

If the two opposition coalitions – which have pledged to govern together – win this weekend’s election, there is a chance that this cozy consensus between politicians and the energy lobby will end.

However, politicians such as Radek Vondracek (ANO) and Alexandr Vondra (ODS) have publicly raised the prospect of post-election arrangements between ANO and SPOLU. It is also rumored in the circles close to SPOLU that informal talks with ANO have already taken place, something which leaders of SPOLU and ANO deny.

Such an arrangement would not only suit President Zeman’s long-term stance of supporting ANO, but it would effectively marry ANO’s open anti-EU populism with the ODS’s more subtle Euroscepticism.

An ANO-ODS configuration has already been evident in they way the two parties voted together on some key legislation in the past year. These include tax cuts last December and the blocking of more substantial reforms to the insolvency system.

It is also rumoured that Kretinsky’s media has been backing Babis as part of a behind-the-scenes deal between the two oligarchs. Babis reputedly enjoys making his fellow oligarchs come on bended knee to “kiss the ring”. As revealed when news website Seznam Zpravy got hold of his diary, Babis’ consigliere Jaroslav Faltynek – former Agrofert CEO and currently leader of the ANO party in the lower house – is kept very busy holding secret meetings with businessmen.

Opposition parties and NGOs have criticised Babis for allegedly permitting the creeping “oligarchisation” of the state, a process they argue will only accelerate if he is re-elected.

ANO-led state institutions such as the Ministry of Finance and the Ministry of Environment have been lenient, to say the least, in collecting pollution fees from EP Industries’ waste management business AVE.

Caslav municipality took AVE to court for allegedly providing false data about the landfill AVE operates near Caslav, which it claimed caused the municipality a loss of nearly CZK1bn in pollution fees, and a further CZK4 billion CZK for the State Environmental Fund. Currently police are investigating AVE CZ in connection with these claims.

This case allegedly prompted legislative amendments that absolve landfill operators of similar claims. Kretinsky is reported to have lobbied to make the waste collection bill weaker and ANO and CSSD MPs then helped push the changes through. bne IntelliNews approached EPH for a comment on this article but received no response by deadline time.

Coincidentally, Kretinsky’s media has swung behind Babis. On the Monday before the election Blesk released a major interview with Babis that gave him a chance to praise his government and avoided any criticism of its mismanagement of the COVID-19 pandemic. The soft interview also allowed the prime minister to present an unchallenged account of why he failed to declare his property acquisitions on the French Riviera through offshore structures, as the Pandora Papers revealed.

With the prime minister’s Mafra media loudly backing him, and the quiet support of Kretinsky’s CNC media, it is not surprising that Babis has been able to dominate this election campaign. Whether the energy lobby will continue to dominate the country’s climate policy will only be seen after the post-election negotiations have been completed.

Albin Sybera is a Czech freelance journalist based in Slovenia specialising in Czech media discourse, business and politics.
Poland’s central bank unexpectedly hikes rates by 40 bps to 0.5%

The National Bank of Poland (NBP) hiked its reference rate by 40 bps to 0.5% on October 6. The move comes as a surprise as the market had predicted a hike in November that would coincide with the central bank’s new projections of inflation and economic growth. But fast-accelerating consumer prices, which climbed to 5.8% y/y in September – a 20-year high – has pushed the rate setters to ending their dovish stance earlier than expected.

Poland has now followed Hungary and the Czech Republic – after a lag of four months – in reacting to rising inflation in Central Europe caused by higher energy prices and a rebound from the COVID-19 induced recession.

Russian corporate profits soar in July to $38.6bn

The profits of Russian corporate profits soared in July, the last month of available data, rising to RUB2,767bn ($38.6bn), more than twice as much as the RUB1,061bn that companies earned in the same month a year earlier, but also more than twice as much as the RUB1,070bn they earned in July 2019, the last year of strong growth. This July’s result was by far the best result of any month this year as well as the best monthly result in the last five years, putting Russian companies on course for a banner year.

On a cumulative basis companies earned a total of RUB14,368bn ($197.6bn) in the first seven months of this year. That was almost triple the RUB5,370bn they earned in 2020 and a third more than the RUB9,111bn they earned in 2020.

Hungary’s inflation jumps to near nine-year high

Hungary’s inflation accelerated to an annual 5.5% in September, a near nine-year high, from 4.9% the previous month, in line with analysts’ forecasts.

On a monthly basis, prices edged up 0.2%. Core inflation rose from 3.6% in August to 4%, the highest since August 2020. Fuel prices jumped 21.6% y/y in September.

Romania is mostly reinvested profits

Foreign direct investors in Romania derived €9bn net profits and €2.74bn losses, resulting in a combined figure of €6.26bn (nearly 2.9% of GDP) in 2020, according to a survey conducted by the National Bank of Romania (BNR) in cooperation with the National Institute of Statistics (INS).

The foreign direct investors also derived €0.59bn in net interest derived from loans extended to local subsidiaries. This results in a total of €6.85bn (nearly 3.2% of GDP) net revenues derived by FDI investors from their Romanian subsidiaries.
Romania's and Latvia's car ownership rates among lowest in Europe

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Romania has the lowest and Latvia has the second-lowest rate of registered cars in the European Union, according to data published by EU statistics agency Eurostat on September 22.

For at least 30 years, Luxembourg has recorded the highest motorisation rate among the EU member states. In 2019, there were 681 passenger cars per thousand inhabitants in that country.

“This figure may be influenced by cross-border workers (i.e. not inhabitants) using company cars registered in the country,” said Eurostat.

The famously motor-mad Italians were in second place, with 663 cars per thousand inhabitants. Next on the list were Cyprus (645 cars), Finland and Poland (both with 642 cars).

In contrast, the lowest motorisation rates were found in Romania (357 cars), Latvia (381 cars) and Hungary (390 cars).

Latvia’s cars are also among the oldest in the EU. Of roughly 727,000 cars registered, the majority (411,000) are between 10 and 20 years old. More than 20% of the car stock is more than 20 years old.

The member states with the highest shares of ‘old’ passenger cars (20 years or older) were Poland (37.9%), Estonia (31.5%), Finland (26.9%), Lithuania (22.6%), Romania (22.1%) and Malta (21.4%). By contrast, the shares of the ‘youngest’ passenger cars (less than two years old) were highest in Ireland (28.8%), Luxembourg (23.7%), Belgium (22.9%) and Denmark (22.6%).

In 2019, the highest number of registered passenger cars was recorded in Germany with almost 48 million cars, followed by Italy (40 million) and France (32 million).

Between 2015 and 2019, the highest increase in the number of registered passenger cars was recorded in Romania (+34%), followed by Lithuania (+20%), Hungary (+19%), Slovakia and Poland (both +18%).

The only member state that recorded a decline in the number of registered passenger cars over this period was Bulgaria [-11%].

EU Member States with the highest and lowest number of passenger cars per thousand inhabitants, 2019

Source: Eurostat
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