RUSSIA LEARNING TO LIVE WITH SANCTIONS

Central Europe 'very vulnerable' to economic impact of Ukraine conflict

EU vows to cut Russian gas supply by two thirds within a year

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Borrell says EU committed to launching accession talks with Albania and North Macedonia

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Oxford Economics says Central Europe is one of the most exposed regions to the economic impact of Russia’s invasion of Ukraine and it has cut its GDP forecasts for CEE by an average of 1 percentage point (pp) for this year and 0.5pp for 2023. Moreover, the forecaster says, risks are “tilted heavily to the downside”.

In a note on March 14, Oxford Economics says the impact on the four economies of Central Europe (Poland, Czechia, Hungary and Slovakia) will come mainly through the rise in commodity prices, particularly energy, which will push up inflation and hit real incomes and consumption. “Russian imports of oil, gas, coal, and nuclear material make CEE countries very vulnerable,” it points out.

Food price inflation is also likely to pick up throughout the year, it adds, as wholesale prices of grains and fertilisers are driven higher by sanctions and export/import bans.

It points out that double-digit inflation arrived in the Czech Republic in February, and other countries are likely to follow suit soon. It now expects CPI inflation in 2022 to approach double-digit levels in Poland (9.9%, up 2.2pppts from the pre-war forecast) and Czech Republic (9.1%, up 3.6pppts), with slightly lower readings for Hungary and Slovakia, at 7.1% and 7% respectively. It says Poland and Hungary are particularly vulnerable to inflation being pushed up by currency depreciation and commodity prices.

Companies will be hit by a shortage of key inputs such as nickel, palladium and neon, and a rise in their prices, as well as prices for energy. These shortages will drive up producer prices and cause further stoppages. Some car manufacturers limited or shut down production last week due to a shortage of cable harnesses.

There is also a smaller impact on companies through the loss of the Ukrainian and Russian markets, though this is more significant for certain sectors, particularly car-making, for which Russia is a relatively important export market at around 3% of total exports.

The region’s currencies have been hit by risk aversion, which will also boost inflation. Central banks have been intervening...
inflation expectations) continue to support fast nominal wage growth, keeping an upward pressure on core inflation,” it warns.

The biggest unknown, the forecaster says, is the impact of the huge refugee wave the region has taken in. It says about 85% of Ukrainian refugees (some 2.4mn out of 2.8mn) have sought refuge in the CEE, and given the geographical and cultural links, most will stay until the end of hostilities, if not beyond.

This will boost consumption and help ease the tight labour markets, but will also involve significantly higher fiscal spending, unless the EU comes to the region’s aid.

Oxford Economics expects the policymakers to maintain their hawkish stance – which will also affect domestic demand – “but sell-off pressures are likely to continue despite the rate differential to the Eurozone”.

“The outlined policy approach of CEE central banks could prove increasingly hard to maintain – especially if CEE currencies remain under pressure, fiscal policies remain overly loose, and tight labour markets (coupled with elevated

to prop up the currencies. It points out that the Czech koruna, the Hungarian forint and the Polish zloty all lost over 10% against the dollar after the news of the invasion before the respective central banks intervened in FX markets in support of their currencies.

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Sber cuts loose its European operations

Robert Anderson in Prague

Sber, Russia’s largest bank, is cutting loose its European operations after having been targeted by Western sanctions.

"In the current situation, Sberbank has decided to leave the European market," it said in a statement. "The group’s subsidiary banks have faced abnormal cash outflows and threats to the safety of its employees and branches."

Sberbank Europe was ordered to close its doors by the European Central Bank on Monday, February 28 amid a rush on deposits, and regulators are now making sure that its Central and Southeastern European operations are quickly sold to other banks or wound down.

Confidence in the bank has been shaken by the Russian invasion of Ukraine and the imposition of Western sanctions on parent Sber of Russia, which is now excluded from the SWIFT international payment system.

The authorities stepped in after warnings that Sberbank Europe was facing the risk of collapse after clients across Central and Southeast Europe rushed to withdraw their deposits.

“There are no available measures with a realistic chance of restoring this position at group level and in each of its subsidiaries within the banking union,” the ECB said on Monday.
Sberbank Europe AG had total assets of €13.64bn at the end of last year. It is present in Austria, Czechia, Serbia, Bosnia & Herzegovina, and Hungary. Sber also has two separate Croatian and Slovenian units.

The ECB placed a moratorium on the bank’s operations in the Eurozone, namely Austria, Croatia and Slovenia. The Single Resolution Board, which handles European lenders that run into trouble, said it has decided to transfer all shares in the bank’s Croatian and Slovenian subsidiaries to other firms in those countries.

The bank’s Austrian unit is now being liquidated. The ECB move does not cover Sberbank’s operations in Switzerland.

Sberbank’s operations in Hungary, which is not under the ECB, have also been placed under a moratorium by the Hungarian central bank and will wind it down. The Czech National Bank has launched steps to revoke the banking licence of Sberbank CZ and will wind it down.

Sber had already been in the middle of trying to sell its operations in Croatia, Slovenia, Hungary, Serbia and Bosnia.

Sberbank Europe said in November it had reached a deal to sell its subsidiaries in Croatia, Slovenia, Hungary, Serbia and Bosnia to a group including Serbia’s AIK Banka and Slovenia’s Gorenjska bank.

AIK Banka has finalised the acquisition of Sberbank Serbia, the two banks said on Monday. But Slovenian Gorenjska Banka had announced on February 28 that it is not possible to proceed with the acquisition of the Slovenian subsidiary, given the bank’s crisis.

The Slovenian central bank said on March 1 that Nova Ljubljanska banka (NLB) has decided to buy the Slovenian unit of Russian Sberbank to enable the bank to continue serving its customers. State-owned Hrvatska Postanska Banka in Croatia will acquire Sberbank’s business in that country.

ASA Bank Sarajevo bought Sberbank BH Sarajevo on March 1, after the Banking Agency of the Bosnian Federation took control of the bank two days earlier. Meanwhile, in Bosnia & Herzegovina’s other entity Republika Srpska, the government has taken over the ownership and management of Sberbank Banja Luka.

Czech billionaire Karel Komarek considering cutting links with Russia's Gazprom

Czech billionaire Karel Komarek, owner of the investment company KKCG group, said he is seeking to cut his links with Russian energy giant Gazprom due to Russia’s invasion of Ukraine, according to Bloomberg.

Komarek said he has been in discussions with the Czech government about how to remove Gazprom from the longstanding gas storage joint venture between his oil and gas production company MND (Moravske Naftove Doly) and Gazprom Germania.

According to one bne IntelliNews source, the government is examining whether it can somehow seize or at least freeze Gazprom’s shareholding. Gas storage has become an even more strategic business since the EU agreed this month that member states should bring gas storage levels up to 90% capacity by the start of this October to prepare for the coming winter, so that the bloc is not so dependent on flows of Russian gas.

The joint venture was created in 2013, to build an underground gas storage facility in Damborice, South Moravia for CZK2.5bn (€100mn).

"Gazprom is a strategic partner for us. We highly appreciate creating a joint venture with one of the largest companies in the world. In the future, we are planning further joint projects not only in the Czech Republic, but also in Europe and the Russian Federation," said Komarek back in 2013.

Now after the Russian attack on Ukraine he is considering his position: “There are very few options to fully divest from Russian gas in Eastern Europe … What we want to do is free ourselves from Russian involvement without putting ordinary Czech citizens at risk, in the middle of winter,” said Komarek, according to Bloomberg.

In an open letter, Komarek has also condemned Russia’s actions in Ukraine and listed his support for Ukrainian refugees.
"It is a senseless act of aggression that must be condemned in the strongest possible terms, and we are doing all we can to support the brave Ukrainians impacted by the barbarism of Vladimir Putin’s regime," Komarek was quoted by itv.com as saying. "I took the decision many years ago to divest and exit from Russian assets with the exception of a shareholding in a gas terminal which we have been trying to exit for a number of years and a 50/50 joint-venture with Gazprom on an underground gas storage facility in the Czech Republic," he added.

In spring 2021, Gazprom further strengthened its links with MND when its local affiliate Vemex agreed to buy most of the gas produced by MND. MND, which is co-owned by E.ON Ruhrgas, KKGC, Slovakia’s Slovensky Plynarensky Priemysel and Gaz de France, kept a few percent of the production it needed for its own operations.

Vemex supplies gas to 12 of the 35 largest Czech companies, including PKN’s Ceska Rafinerska, Vitkovice Steel, brewer Plzensky Prazdroj and Pilsen Steel. For Gazprom, this is a significant strengthening of its position on the market. In addition to supplying gas to Vemex, it also supplies RWE Transgas, which is the dominant supplier of natural gas in the Czech Republic.

For the whole of 2020, MND reported a net profit of CZK64mn and sales of CZK45.7bn (up from CZK227mn a year earlier).

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**Bulgaria to complete gas link with Greece as it seeks to end dependence on Russian gas**

**Denitsa Koseva in Sofia**

Bulgaria expects to complete the gas link with Greece by the end of June, aiming to end its energy dependence on Russia, Prime Minister Kiril Petkov said on March 21.

The completion of the Greece-Bulgaria interconnector has been delayed for years by Sofia but Petkov’s government is keen to complete it as soon as possible.

The €220mn gas link was supposed to be ready by the end of 2020 but was delayed at the time of the former government of Boyko Borissov due to administrative issues.

“At the end of June the Greece-Bulgaria link will become a fact. As of September, Azeri gas can run through it,” Petkov said in a statement.

Bulgaria has a contract with Azerbaijan for the import of 1bn cubic metres of gas from Azerbaijan out of the 3bn cubic metres of its annual consumption.

The government intends not to renew its contract with Russian Gazprom in 2023. The current contract expires at the end of 2022.

The 180km gas link that has an annual capacity of 3bn cubic metres is being built by a joint venture of Bulgaria’s state energy company BEH and Greece’s gas utility DEPA and Italy’s Edison (EDNn.MI).

Bulgaria has said that will not hold talks with Gazprom to renew its gas purchase deal and will be looking at alternative supplies. According to Ivan Topchijski, the chairman of the board of directors of state-owned gas supplier Bulgargaz, the country could cover all its energy consumption needs without importing Russian gas once its current contract with Gazprom expires at the end of 2022.

Topchijski said that the authorities plan to purchase all available gas volumes under an agreement with Azerbaijan after June 30, including by using alternative networks in case that the completion of the Greece-Bulgaria interconnector is delayed again.

Bulgargaz also plans to import liquefied natural gas from several sources so that it can further diversify the energy supply. Bulgaria can use two liquefied gas terminals in Greece and five in Turkey. ●

Ulaanbaatarians have got the hump with DBM.

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Bulgaria’s former PM Borissov released without charges despite gambling mogul’s blackmail testimony

Denitsa Koseva in Sofia

Bulgaria’s former prime minister Boyko Borissov was released from detention 24 hours after his arrest despite evidence gathered by the police that he blackmailed fugitive gambling mogul Vassil Bozhkov. The prosecution and the government have accused each other of not doing their jobs, with Prime Minister Kiril Petkov saying that in Bulgaria the prosecution is not independent.

Late on March 17, Borissov was arrested along with his spokeswoman Sevdelina Arnaudova and former finance minister Vladislav Goranov.

Early on March 18, the interior ministry said that Bozhkov had testified that he had been blackmailed and paid millions of euros to be able to continue to operate his business.

The case was reported to the Bulgarian prosecution in the morning of March 18. According to the interior minister, the prosecutor to whom the case was assigned refused to meet the police officers and accept the gathered evidence until the afternoon.

Subsequently, the meeting was held, but the prosecution said it would not have enough time to study the evidence in order to press charges, and Borissov was released. Independent investigative news portal Bird.bg distributed information about the prosecutor who refused to press charges, suggesting that her property declaration shows a luxurious lifestyle that cannot be achieved with a prosecutor’s salary.

At a press conference following Borissov’s release, Petkov and Interior Minister Boyko Rashkov accused the prosecution of not doing its job. Petkov said that testimonies from Bozhkov are being ignored, and that the prosecution is not allowing the police to do their job.

Bozhkov claimed to have given €30mn in bribes to Borissov and Goranov over three years in exchange for legal protection for his business. Bozhkov said he had given some of the bribes to Arnaudova.

Petkov accused the prosecution, headed by Ivan Geshev – a Borissov era appointee – of sabotage and of hiding documents requesting it to press charges.

“Information gathered by the individual who has been blackmailed is being covered up and hidden so that an investigation according to the law cannot be made,” Petkov said during a press briefing late on March 18.

He added that this information has been handed to the European Prosecution.

“The ability of everyone who is trying to work against corruption in our country is being impeded. In Bulgaria, there is no independent prosecution,” Petkov said.

Rashkov said that the prosecution is making conclusions on the result of a case that has just began.

Rashkov said his ministry has carried out a probe aiming to gather enough information to launch an investigation. He added that this information includes testimony by Bozhkov, though he clarified it cannot be treated as official evidence until the prosecution does a proper interrogation.

“Instead of informing the public that it will do anything possible to investigate, the prosecution said that the Ministry of Interior has not done anything and was not competent to undertake an elementary check,” Rashkov said.

He added that the police have been checking statements published by Bozhkov on social media a few years ago and accused the prosecution of not doing any investigation based on these.

Rashkov also said that the police have sent hundreds of documents to the prosecution but no investigations were launched.

The interior minister also accused the prosecution of lying that the police have not provided the necessary documents after Borissov’s arrest.

Meanwhile, Borissov declared he was a victim of political persecution and suggested that the authorities might assassinate him. He made this claim before, when the interior ministry was gathering evidence of his involvement in corruption.
Russian steel imports banned in EU's fourth sanctions package

bne IntelliNews

The European Union has approved and enacted a fourth sanction package against Russia for the military invasion of Ukraine, which includes an import ban on steel.

Several more oligarch names were also added to the EU’s sanctions list, including Chelsea owner and shareholder of metals major Evraz Roman Abramovich, Suleiman Kerimov of the country’s largest gold miner Polysus Gold, and internet major Yandex’s deputy CEO Tigran Khudaverdyan.

The ban on imports to the EU of some steel products will have the biggest effect. The highlights of the EU package consist of the following:

- A complete ban on transactions with numerous SOEs and companies from the shipping and arms industries, including Rosneft, Transneft, Gazprom Neft, Sovkomflot, United Shipbuilding Corporation, Oboronprom, United Aircraft Corporation, Uralvagonzavod, Almaz-Antey, Kamaz, Rostec and Sevmash.
- An import ban on iron and steel products, which could cost Russia an estimated €3.3bn per year. The quotas are to be distributed among non-EU countries.
- A ban on investments in Russia’s energy and refining industries. Exemptions were made for NPPs and "selected energy products" exported to the EU.
- A ban on exports of luxury goods to Russia, e.g. cars and jewelry. In particular, the EU banned exports of cars to Russia worth more than €50,000.
- EU rating agencies are not allowed to work with Russia or Russian companies, or to provide rating services to Russian clients.
- Russia can no longer benefit from favourable terms of trade, meaning that tariffs could be introduced.

bne IntelliNews published a guide to the sanctions on Russia last month.

Commodities closely watched as steel first banned by EU

A wide range of commodity prices have already jumped and are set to surge further amid supply disruptions as a result of Russian counter-sanctions on the West. As analysed in detail by bne IntelliNews, Russian metals are deeply embedded in global markets and would be hard to sanction. Yet a ban on Russian steel imports has been included in the sanctions.

"[The EU ban is] negative for steelmakers' financials, but that billets/slabs will still trade should partly offset the impact at least for NLMK – semis exports to EU represents c40-42% of all NLMK's ex-CIS steel exports (12-14% for Severstal, less than 2% for MMK)," BCS GM said in a note.

"Kallanish reported that the EU will now prohibit imports of those Russian steel products currently under safeguard measures – mostly finished long, flat and tubular materials. The trade of billet and slab will continue, unless with companies impacted by direct EU sanctions. The ban is estimated to affect around €3.3bn ($3.63bn) of Russia’s steel exports. Import quotas will be re-distributed among other countries."

Aton Equity argued on March 15 that the Russian metal majors most dependent on the European market are Novolipetsk Mining Kombinat (NLMK) and Severstal, while Severstal already announced halting European exports after the sanctions against its owner, Alexei Mordashov.

The share of European sales for NLMK is at about 18%, while other producers are less dependent on the market (Evraz and Magnitogorsk Iron and Steel Works (MMK) at about 7% of total exports each). At the same time, the steel producers are expected to come under pressure to cut prices at home.

Analysts warned that the ban on imports of Russian steel was likely to push up already sky-high prices.

"Following the recent increase in steel prices at YE21, the European steel market could be facing another price hike. Last year, higher costs (for iron ore in particular) drove steel prices (Global steel output slows in June, propping up current steel prices, 26 July 2021). This time, we see the shortage of Russian and Ukrainian slab and flat steel on European markets as the key driver, supported by the iron ore cost-push (commodities with the most significant share of..."
of supplies from Russia and Ukraine, 9 March)," Sova Capital commented on March 16.

Sova analysts estimate that the European market imported 6 mn tonnes, or 70% of its imported slab, from Russia and Ukraine. The shortage of re-rolling material is likely to push pricing sentiment upwards not only for slab but also for HRC plates, they expect.

"In an early sign of higher prices, HRC prices in Northern Europe have risen to $1,300 per tonne (EXW) since the beginning of 2022 vs. $930-960/t, according to Bloomberg. The restoration of logistical links, along with the re-routing and sourcing of volumes, should eventually slow the growth in steel prices, but these factors are likely to place additional costs on buyers", Sova Capital analysts warn.

While oligarch Alisher Usmanov has also been sanctioned, many of his companies in the Metalloinvest holding, one of Russia’s biggest iron producers, have been exempted from the US sanctions and has also been exempted by the new fourth package of EU sanctions.

The new EU ban also does not include iron ore and steel slab.

According to Bloomberg, the EU so far refrained from banning imports of non-ferrous metals and aluminium in particular, but it could be considered. Following the massive price spike in prices after a previous attempt to sanction Rusal, the aluminium company of oligarch Oleg Deripaska, in 2018, this company has also been exempted from the sanctions regime due to its importance to the global metals market. An aluminium exports ban would badly hurt Deripaska’s Rusal that sells 40% of its output to Europe.

EU sanctions 15 more oligarchs
The fourth sanctions package approved by the European Union against Russia for the military invasion of Ukraine includes oligarch Roman Abramovich, previously sanctioned by the UK.

The latest EU sanctions also include gold tycoon Suleiman Kerimov of Polyus Gold, the CEO of Russia’s internet major Yandex Tigran Khudaverdyan, partners of billionaire Mikhail Fridman of Alfa Group German Khan and Alexey Kuzmichev, and steel tycoon Viktor Rashnikov of Magnitogorsk Iron and Steel Works (MMK). The board chairman of Russian petrochemical major Sibur Dmitry Kulikov, as well as the CEO of the fertiliser major EuroChem Vladimir Rashevsky, have also been sanctioned by the EU.

The latest EU sanctions also include the head of the Russian military exports agency Rosoboronexport, Alexander Mikheev, the head of the Russian Union of Industrialists and Entrepreneurs, Alexander Shokhin, chairman of the Russian Grids grids utility Andrey Ryumin.

Among the 15 individuals of the fourth sanction package are also Marina Sechina, the ex-spouse of sanctioned head of Rosneft oil major Igor Sechin, the long-time head of the state-run First TV Channel Konstantin Ernst, and prominent journalist at the state-controlled First TV Channel Artem Sheynin.

bne IntelliNews has long followed the relationship between the Kremlin and oligarchs, or “stoligarchs”, the class that was created in the post-Soviet economic chaos in the 1990s and transformed since.

The sanctioned legal entities include Rosneft, Rosoboronexport state military exports agency, NPO High Precision Systems, Russian Helicopters, United Aircraft Corporation, United Shipbuilding Corporation and others.

Following the sanctions on German Khan, German Wintershall Dea already announced that Khan was stepping down from its board. The oil and gas producer is a joint venture of German chemicals giant BASF and LetterOne, the holding company controlled by Russian oligarch Mikail Fridman.

Last week the EU already added 14 more Russian top executives and billionaires to the sanctions list in addition to initial sanctions against six Russian oligarchs. The US Department of Treasury followed the EU by releasing a new list of oligarchs that are sanctioned as of March 3, the list being very similar to a list of businesspeople put under sanction by the EU.

Credit ratings, crypto, and trade conditions to be targetted
As part of the fourth sanction package the EU also banned European credit rating agencies from assigning ratings to Russia and Russian issuers. The EU also expanded a number of sanctioned individuals linked to the military industrial complex, while also banning investment and equipment supplies for Russia’s energy sector. The EU also joined the US in the recent ban on exports of luxury goods to Russia.

The EU, together with other World Trade Organisation (WTO) members, also agreed to deny Russian products and services “most favoured nation” status in EU markets. This follows an announcement on Friday, March 11 by the US and G7 members and will significantly hurt Russia’s trade with the West as it re-introduces regulations and removes preferential tariff regimes.

"This will suspend the significant benefits that Russia enjoys as a WTO member. These actions against Russia protect the essential security interests of the EU and its partners in light of Russia’s unprovoked, premeditated and unjustified aggression against Ukraine, assisted by Belarus. They are fully justified under WTO law," the EU statement read.

In addition, a separate statement by the European Commission President Ursula von der Leyen said that the EU was “making sure that the Russian state and its elites cannot use crypto assets to circumvent the sanctions. We will stop the group close to [Russia’s President Vladimir] Putin and the architects of his war from using these assets to grow and transfer their wealth.”

Von der Leyen also pledged to continue “pressuring Russian elites close to Putin as well as their families and enablers,” with a meeting by the G7 Finance, Justice and Home Affairs Ministers planned for next week "to co-ordinate the task force we set up targeting Putin’s cronies".●
Goldman Sachs becomes first Wall Street bank to leave Russia

Investment bank Goldman Sachs will close operations in Russia following the invasion of Ukraine and subsequent sanctions, the bank told clients in an email statement on March 11.

“Goldman Sachs is winding down its business in Russia in compliance with regulatory and licensing requirements. We are focused on supporting our clients across the globe in managing or closing out pre-existing obligations in the market and ensuring the well-being of our people,” the statement said.

However, the bank will continue to act as a platform for clients to trade Russian corporate debt.

The various businesses of Goldman Sachs have had an active presence in the Russian market recently. It is the biggest bank for M&A and ECM underwriting, for example, according to research by financial markets platform Dealogic.

Earlier this year, the firm revealed that it had a credit exposure to Russia of around $650mn.

This follows news that the “Big Four” accountancy firms – EY, KPMG, PwC, and Deloitte – will cut ties with their Russian and Belarusian arms, disassociating themselves from a cumulative 15,000 employees.

Goldman Sachs cited regulatory and compliance difficulties for its exit, meaning it is likely that other Wall Street banks will follow suit. The scale of western companies quitting Russia since the start of the war in Ukraine is unprecedented: it is little short of a de-coupling of Russia’s market from the global economy. Bloomberg Economics estimates that the Russian economy will shrink by 9% in 2022, but that figure is likely to increase as the exodus from Russian markets continues.

EU vows to cut Russian gas supply by two thirds within a year

The EU has announced plans to cut Russian gas imports by two thirds within a single year in response to Moscow’s actions in Ukraine.

Russia is the bloc’s largest gas supplier, meeting around 40% of its gas consumption. In light of the Ukrainian conflict, however, the European Commission has published a plan to replace 100bn cubic metres of annual Russian supply, which reached 155 bcm in 2021. Furthermore, it is seeking the EU’s reliance on Russian gas completely “well before 2030.”

“The answer to this concern for our security lies in renewable energy and diversification of supply,” EU climate policy head Frans Timmermans said in a statement. “It’s hard, bloody hard. But it’s possible.”

Gas supplies from countries like the US and Qatar could replace more than a third, or 60 bcm, of Russian supply. New wind and solar projects could replace a further 20 bcm of gas demand this year, and by tripling capacity by 2030, adding an extra 480 GW of wind and 420 GW of solar, the commission believes a reduction of 170 bcm of annual consumption could be achieved.

The Commission adds that if consumers turn down thermostats by just one degree Celsius, that could save
in retaliation for Western sanctions, including gas volumes via the Nord Stream 1 pipeline.

Regarding oil, Europe can more easily find alternatives to Russian supply, though its vulnerability is much greater when it comes to natural gas. North Macedonia, Bosnia and Moldova are the most dependent on Russia for gas, relying on Gazprom for close to 100% of their supply. But given that these countries are outside the EU and have not backed sanctions against Moscow, they are unlikely to be cut off.

But others that have turned against Russia over Ukraine, such as Germany, are vulnerable. Germany gets almost half of its gas from Gazprom, and without any LNG import capacity, it could not easily replace this supply. It may be able to tap extra supply from the Netherlands, however, but only if the Dutch government allowed more production from the earthquake-causing Groningen field. Then there is Italy, which gets 46%, Slovakia, which gets 70%, Bulgaria 77% and Finland 94%, which have alternative sources of supply at hand, but again, would struggle to find replacements for all the lost Russian volumes.

A further 10 bcm, and by 2030, replacing gas boilers with 30mn heat pumps could save an extra 35 bcm.

The proposals follow mounting calls from European governments for embargoes to be placed on imports of Russian energy. But these calls come at a time when Europe is already in the grip of an acute energy crisis, as a result of robust demand, global supply constraints and low levels of gas in storage.

Data published by Gas Infrastructure Europe shows that EU gas storage facilities are now less than 27% full. There is usually more gas in stock at this time of the year, but Europe entered the heating season last year with much fewer reserves than usual, as the impact of the coronavirus (COVID-19) pandemic on markets meant that there was less incentive over last summer for governments and companies to inject supplies into storage.

Russian threats
While Europe looks to wean itself off Russian energy, Russia has meanwhile signalled it might restrict oil and gas exports plans that help them maintain operations in the areas that are not directly hit by the fighting. Ironically, the experience of personnel working remotely during the COVID-19 lockdown proved particularly valuable for banks.

Two local banks (out of 71) ultimately owned by Russian government (subsidiaries of Sberbank and VEB) were immediately sent into liquidation after the outbreak of the war. Those entities accounted for 2% of banking-sector assets, and their closure did not have any material impact on the stability of the financial sector.

So far, liquidity challenges to banks have been minimal due to the hefty stock of high-quality liquid assets and limited deposit outflows. However, risks may increase as inflows of new funds to banks are expected to decline.

Profitability and solvency risks will be the key mid-term risks to the banking sector. We expect the vast majority of banks will end up with negative capital in 2022, due to war-related effects. Regulatory forbearance is thus going to be the only viable approach for the NBU this year and next.

The banking sector successfully managed to adjust its operations to war conditions and continues to function relatively well. Banks have efficient contingency and recovery plans that help them maintain operations in the areas that are not directly hit by the fighting. Ironically, the experience of personnel working remotely during the COVID-19 lockdown proved particularly valuable for banks.

In regions where the Russian army has invaded or threatens to invade, most bank retail outlets are closed. However, as of the beginning of this week, in about half of all Ukraine’s regions (predominantly western and central) more than 90% of all outlets of systemically important banks were open. In Kyiv roughly 1 in 10 outlets were open as of start of the week.

The war prompted the National Bank of Ukraine (NBU) to introduce limits on cash withdrawals, which are currently...
UAH100,000 per day for hryvnia accounts and UAH30,000 per day for FX accounts (roughly an equivalent of $1,000).

No limits on non-cash internal payments were imposed by the NBU; companies and individuals are free to make any transfers within Ukraine without limitations.

All payment systems are operating properly; supermarkets, gas stations, and pharmacies accept payment by cards. Non-cash payments are the only practical means of payments in the regions where cash delivery is impossible due to safety concerns. Cash is still the preferred option for many SMEs.

ATMs are replenished with cash where safe and practical. However, banks usually establish very low limits (an equivalent of about $100 or less) for daily cash withdrawal from ATMs.

To enhance protection of bank data, the NBU expeditiously allowed local banks to move/duplicate all information onto cloud facilities located in the EU / US / UK / Canada. This option helps alleviate the risk of information losses if there is physical damage done to the data storage capacities in Ukraine.

The banking sector has stayed fully liquid in both UAH and FX so far. The funding base has been robust. NBU officials indicated that between 24 February and 15 March, retail deposits in hryvnia increased 16% as individuals received salaries and social payments, while spending and cash withdrawals by households declined significantly. Business accounts in both UAH and FX declined 5%.

Banks apparently are benefiting from the extremely high stock of high-quality liquid assets (HQLA) that they accumulated before the war. Only two banks had a liquidity coverage ratio (LCR) of less than 150% (vs the regulatory minimum of 100%), and the vast majority of banks had an LCR of more than 200% before the war started.

However, looking forward, we cannot rule out that net outflows may increase. Inflows of money into accounts are likely to decline due to a material drop in business activities and growing unemployment. Banks are free to tap standard refinancing facilities of the NBU (loans collateralized with government securities) to cover possible outflows. In addition, the NBU introduced a blank refinancing facility with a cap of 30% of the pre-war retail deposits for each bank.

Nearly all banks have offered credit holidays to their customers. The holidays were not imposed by the law, but, rather, were a voluntary choice of banks. They are free to offer the schemes that best fit their clients’ needs. The most common approach was to grant an extension for principal repayment and a significant reduction in interest payments until the end of May. Some banks reduced rates on consumer loans to a symbolic 0.1% p.a. or less.

Many large banks (but not all) kept credit lines open to their retail customers. While individuals significantly increased the use of credit in the first couple of days of the war, the total retail corporate portfolio has been declining gradually in March. The corporate loan portfolio has stayed largely flat since the start of the war.

Banks claim they are ready to provide new loans to companies and within sectors that are critical for the economy in times of war. In particular, they are ready to meet the demand of farmers for loans to ensure a smooth spring sowing campaign. In addition, government decided to step in with partial loan guarantees so that banks’ potential credit losses are limited. Government also continues to maintain its policy of partial compensation of interest payments for SMEs.

P&L-wise, banks will be facing significant challenges. The volume of fees and commissions plummeted due to declining business activity. Interest income is set to plunge as banks temporarily reset interest rates on outstanding loans to nearly zero. But the greatest challenge of all is the expected deterioration in loan quality and a surge in loan-loss provisions. When credit-payment holidays are over in June, banks are likely to face a significant share of clients asking for restructuring or claiming inability to pay due to the damage done to their business.

“It is nearly certain that even if the war is over in the near future, banks are still set to face substantial losses due to the damage to their physical assets”

It is nearly certain that even if the war is over in the near future, banks are still set to face substantial losses due to the damage to their physical assets and due to having to recognize adverse credit events. Those losses will erase banks’ capital. We expect the majority of Ukrainian banks, including the majority of systemically important banks, will end the current year with negative capital. Looking forward, reorganizations or other payments from Russia may become one of the sources of capital for local banks.

The NBU has no choice but to resort to the regulatory forbearance approach and let banks operate even if they violate standard liquidity and solvency ratios. The legislative changes that permit the NBU to keep undercapitalized banks in the market were recently passed. When peace is restored, the NBU will likely employ the approach it used in 2015-16, whereby banks will be given a reasonable period of time to comply with minimum prudential ratios.
Engine of Uzbekistan’s capital markets reform is purring strongly

Scott Osheroff of AFC Capital in Tashkent

While the broad sentiment in Uzbekistan’s stock market can best be described as neutral in terms of the past few months, its moderate weakness was likely due to sellers taking profits after significant run-ups in the market, though doing so in a light volume environment. That weighed on prices.

Pullbacks, however, are simply part of the ebbs and flows of a secular bull market and provide opportunities for investors to accumulate shares at recently discounted prices. In some recent cases, at more than 20% off their highs of only a few months ago. This correction is an opportunity to acquire shares at good prices, in anticipation of the next leg higher, while earnings multiples compress, making them cheaper yet.

To provide some figures on just how far some blue-chip equities have rallied since the inception of the AFC Uzbekistan Fund on 29th March 2019, the share price of the Uzbek Commodity Exchange (TSE: URTS) is up 1,340%, Biokimyo (TSE: BIOK) +400%, Uzmetkombinat (TSE: UZMK) +416%, Qizilqum Cement (TSE: QZSM) +178%, Quvasoy Cement (TSE: KSCM) +154%, and Toshkent Vino (OTC listed) +137%, excluding dividends, which in several cases yielded an additional 15% to 20% return.

Beyond muted activity in the stock market, under the “hood”, the engine of reform is purring strongly via the presidential decree to develop Uzbekistan’s capital markets, with 2022 set to be an exciting year with many progressive developments.

January certainly didn’t disappoint as the year started off with a “bang!” in the form of a presidential resolution announced on 17th January outlining significant positives on both privatisations and tax news related to the capital markets. Some of the more prominent highlights of the resolution include:

From 1st April until 31st December 2024, there will be zero dividend tax on shares held in personal accounts (local and foreign individuals), while dividend tax for accounts held by non-resident legal entities will drop from 10% to 5%, in line with the dividend tax on local legal entities.

Interest income on corporate bonds will be tax-free for both local and non-resident persons and legal entities.

From 1st July, a stamp duty of 0.3% will apply to all transactions on the Elsis Savdo OTC platform, aligning its fee structure with that of the Tashkent Stock Exchange (previously, the Elsis Savdo platform charged a 20% duty on gross proceeds of a sale regardless of whether a profit or loss was made). Additionally, when a stock is demoted to the OTC market, minority shareholders will be able to request a mandatory buyback of their shares at the market price.

Foreign stock brokers will now be able to operate as underwriters in Uzbekistan, together with locally licensed brokers with at least UZS 500mn in equity (equivalent to around $46,200).

Local Uzbek entities will have to IPO locally before they can list abroad, or do both simultaneously.

These developments are long overdue and frankly we would be sceptical of them ever happening if it was not for the outstanding team including Deputy Prime Minister and Minister of Economic Development and Poverty Reduction Jamshid Kuchkarov, Minister of Finance Timur Ishmetov, Deputy Minister of Finance Odilbek Isakov and Director of the Capital Market Development Department Sarvar Akhmedov, all of whom clearly understand what needs to be executed on to bring Uzbekistan’s capital markets into the 21st Century so-to-speak.

In addition to the aforementioned items, UzAvto Motors (the largest automobile producer in Uzbekistan), UzAvto Motors Powertrain, O’zbekgeoofizika (the state-owned geological company), Öztémiryulkonteiner (a state-owned dry port and container terminal operator) and Dori-Darmon (the largest pharmacy chain in Uzbekistan) have all been approved for IPO.

A further four companies were approved for secondary market offerings including Uzbekistan Post, (the national post office), Universal Sugurta (an insurance company), and Alskom (the third-largest private insurer in Uzbekistan).
It is not in Russia's best interests to disconnect its internet segment from the global internet. This would damage the state's ability to receive and pay overseas loans, trade and access external information. Instead, we are likely to see a continuation of the current trend: targeting and banning specific sites which are deemed dangerous.

If Russia's internet goes down entirely, it is more likely to be the result of a choice by Western companies and governments. Ukrainian Deputy Prime Minister Mykhailo Fedorov called for Russia's access to the internet to be severely limited as early as February 28.

Although Ukraine's request has not been met by western governments, Russia has already been disconnected by one internet backbone carrier: American service provider Cogent. On March 4, Cogent announced that it would disconnect Russia's servers, leading to a reduction in bandwidth available for overall connectivity. This only affects 3-4% of traffic, but slows down some sites in particular. It could also potentially be a precedent for other service providers considering cutting Russia off. In theory, if enough western providers decided to disconnect their Russian servers, it would critically slow down Russia's internet access, all but taking it offline.

"If we are switched off completely, services will begin to drop, and devices will fail. In addition, no one can guarantee that the systems managing road traffic, factories, security and other areas of activity do not depend on external resources," Kazarian from the Internet Research Institute told The Bell. In an extreme scenario, all smartphone applications could stop working entirely.

China has been working on its Great Firewall for 20 years already, and has ploughed enormous resources and money into the project. Russia, by contrast, only introduced legislation for the centralised management of internet within Russia in November 2019. It would not be prepared for the disconnection of its internet, which would surely wreak havoc on infrastructure and business across the country.
Putin’s war triggers Russian tech brain drain

bne IntelliNews

Since Russia invaded Ukraine on February 24, many Russians have fled the country, fearing increasing repression, rumours of martial law, and the economic ruin of Russia as a result of sanctions.

One particularly populous group emigrating from Russia is tech experts. Before the war, Russia’s remarkably tech-literate human capital and resource-rich territory made it a global technology powerhouse. Russia’s IT market grew by 7% to a total $25bn in 2019 alone, and employed millions.

But with the imposition of sanctions on chips, semiconductors and other critical technology components by the likes of Japan, the EU and the US, precious few prospects remain for this booming sector.

This has been compounded by the exit of major tech players like Microsoft and Oracle from Russia. With Visa and Mastercard also suspending all operations in Russia, it is unclear how Russian businesses will even pay for the components and services they need.

The blocking of Facebook and Twitter by Russian watchdog Roskomnadzor created further problems for tech specialists, as did the rapid devaluation of the ruble, limitations on withdrawing foreign currencies, and the cancellation of most flights out of Russia in response to sanctions.

The result has been an unprecedented exodus of technology talent from Russia since the start of the war. Many are heading for central Asia, others to Turkey. Those who can get visas are moving to Europe.

Shortly after the invasion of Ukraine, Kommersant estimated that 5,000 IT specialists were considering the option of leaving Russia. By day seven of the Russian invasion, that figure reached the tens of thousands.

The situation is reminiscent of September 2020, when local IT companies and professionals fled Belarus en masse due to a brutal crackdown on protesters following the rigged elections in August of that year. Belarus’ IT sector previously accounted for 5% of exports, but many companies re-located to the Baltics, as reported by bne IntelliNews.

One Telegram chat where Russian users discuss the challenges of relocating now has 30,000 members, according to The Bell.

“I can’t assess the exact scale of the phenomenon, but the breakdown in companies I know is as follows: on average, about 10% of employees have left or are leaving. But there are cases in which that number reaches 90%. This applies, for example, to AI developers, where the average age of a programmer is 25-27 years old,” an owner of several IT companies was quoted as saying by The Bell.

“One entrepreneur told The Bell that his business had lost 40% of new international clients after the start of the war, and existing clients are now technically unable to send money to Russia due to sanctions. “Revenue at the end of the year, according to my calculations, will collapse twice. Because of this, I will have to cut about 40% of the staff. This is a necessary measure, we simply do not have enough money to pay salaries to everyone. It’s ridiculous to even think about attracting new investments now,” he lamented.

Further complications arise as a result of western sanctions. “Right now, all I do is write letters to all regulators and partners, explaining our status and what will happen if some kind of sanctions are imposed against us,” one entrepreneur with a tech business registered in the UK told The Bell.

Reputational damage is yet another problem to contend with.

Yet while dozens of IT companies have re-located Russian staff and operations, the Russian IT market has not completely ground to a halt. Existing products from some providers like Apple and Microsoft will continue to function, and Russia’s government will no doubt use the opportunity to try to boost the domestic tech industry to meet the gap left by foreign players. For example, Russia’s State Ministry has encouraged Russians to replace iPhones with Russia’s Ayya T1 phone model.

Yet the long-term outlook for Russian tech remains bleak. The exit of telecom equipment provider Cisco could wreak havoc on Russia’s telecoms network, while the suspension of Google Pay and Apple Pay is already creating problems for the average Russian consumer. It’s hard to see how a domestic industry with precious little human or conventional capital can make up the shortfall any time soon.
Could cryptocurrencies help Russia overcome sanctions?

Theo Normanton in Moscow

After the West imposed severe sanctions on Russia, the country could turn to cryptocurrencies to provide economic stability in place of frozen foreign currency reserves.

Russia’s foreign currency reserves are estimated to stand at around $630bn, but the majority of that money is located outside the country. With the EU, US, UK, Japan and even Switzerland agreeing to freeze Russia’s access to its reserves, they can no longer be used to stabilise the course of the ruble.

Instead, the Central Bank of Russia (CBR) has deployed an arsenal of last-resort mechanisms – from hiking interest rates to 20% to forcing Russian companies to sell their foreign currencies. These two “shock-and-awe” measures had limited success in restraining the rocketing ruble, and it reached 115 to the dollar on Tuesday, March 1, marking the biggest slump since the meltdown of Russia’s financial sector in 1998.

With Russia’s foreign currency reserves out of action, and no other emergency measures seeming to work (no matter how drastic), the Central Bank is getting desperate. Russia is famous for its fiscal conservatism, and the current collapse will be a big blow to those who spent the last eight years trying to shore up the economy.

One avenue which commentators suggest the CBR might explore is crypto-currency. With vast reserves of hydrocarbons and an educated, tech-literate population, Russia has a strategic advantage in crypto mining.

This practice is already well established in Russia, and involves using high-powered computers to generate new tokens. It is a lucrative business – one bitcoin is worth $44,000 at time of writing. Russia is already the world’s third largest bitcoin miner.

With bitcoin and other reliable cryptocurrencies in Central Bank reserves, some have speculated that Russia could overcome its dependence on the dollar and equip itself to weather western sanctions.

However, the CBR pushed for a ban on both the mining and trade of cryptocurrencies in January. The suggestion was that the volatility of these currencies exposed the Russian economy to unnecessary risk.

The resulting conversation was an animated one. Defenders of cryptocurrencies cited Russia’s strategic advantage in their mining, while detractors pointed to their historic fluctuation on the markets relative to a stable currency like the US dollar. Vladimir Putin spoke of the benefits which could come from making Russia a global crypto leader. The Bell has reported that over one trillion rubles could be collected in taxes on the massive crypto pile held by Russians.

FinMin has estimated that Russians already hold around 12 million crypto wallets, with a total capacity equalling around $26.6bn.

Another key advantage of cryptocurrencies is that they are not linked to the global financial system in the same way that foreign currencies are. Whereas a dependence on dollars or euros can be weaponised through the threat of banning Russia’s financial institutions from using these currencies, bitcoin is not regulated by any one country.

Up until now, the only country to be disconnected from global payments messaging system SWIFT was Iran. Using its vast oil reserves, Iran has been able to set up a system allowing it to convert excess fuel into bitcoin using energy-intensive mining operations.

Now that Russian banks are also being cut off from SWIFT, it is conceivable that Russia would follow suit.

However, the CBR will most likely be reluctant to commit to such a move fully. Cryptocurrencies remain subject to big fluctuations, and are not as widely accepted as foreign currencies as a means of transaction (for imports, for example). They are also vulnerable to hacking.

But with Russia’s economy slowly de-coupling from global markets, it has precious few alternatives. The Central Bank is developing a digital ruble, but given the course of the existing ruble, prospects are bleak. Already the world’s third-largest bitcoin miner, we may be about to witness a huge Russian U-turn on cryptocurrencies.
How two Russian-founded startups in the US became collateral victims of Putin’s war on Ukraine

East West Digital News in Moscow

A
fter Russian entrepreneurs asserted themselves last year as chief disruptors in the global food delivery industry – fulfilling orders in around 15 minutes in a variety of Western cities – some of them are now falling as collateral victims of Putin’s war on Ukraine, reports East-West Digital News (EWDN).

In early March Buyk – a fresh food delivery service with sizeable operations in New York and Chicago – abruptly laid off 98% of its staff and was seeking short-term funding to avoid bankruptcy.

“We have made the tough decision to temporarily furlough our employees until we are able to secure more funding sources in the US,” Buyk’s CEO James Walker told the New York Post.

“Our founders Slava [Vyacheslav] Bocharov and Rodion Shishkov have been providing bridge financing to Buyk until we close our next investment round. However, the sanctions against Russian banks have now made this bridge financing setup untenable, despite neither of our founders being sanctioned,” the executive added.

Buyk was created less than a year ago, raising $46mn to launch its services on the US market. The new company uses a technology developed in Russia by Samokat, an affiliate of Mail.ru Group (now VK company) and Sber, the Russian state-controlled financial and digital giant.

Buyk’s investors include Fort Ross Ventures, Citius, CM Ventures and LVL1 Group – which all have Russian connections. Among Fort Ross’s backers is Sber, while LVL1 is the investment arm of Lev Leviev, an Israeli-Russian entrepreneur who co-founded Russia’s leading social network VK.com and the Selectel.ru data centre network.

“Last-second” deal cancellation
On the road to bankruptcy, Buyk was quickly followed by Fridge No More. Last week, this Russian-founded ultrafast delivery startup operating in New York and Boston stopped accepting orders and sent its 600 employees home.

“All of company’s investors refused to invest into the company,” a company manager wrote in a Slack channel on Wednesday evening, as reported by the New York Post.

According to the news outlet, US food delivery platform DoorDash had funded Fridge No More for more than a month while considering the acquisition of a stake in it – but “pulled out at the last second.”

This “important strategic partner […] unexpectedly cancelled the deal and stopped financing” without providing a specific reason, Fridge No More’s founder Pavel Danilov wrote to his employees.

Cited by the New York Post from various sources, these reasons might range from “operational issues” which arose in the due diligence process to the fact that Danilov and co-founder Anton Gladkoborodov are from Russia – “even though the source familiar said the founders did not support Vladimir Putin’s invasion of Ukraine,” notes the news outlet.

The sudden failure of Buyk and Fridge No More might also reflect a business issue. In an exchange with CNN Business, food supply chain consultant Brittain Ladd called rapid grocery delivery “the worst business model ever created.” These loss-making startups are entirely dependent upon capital injection, which are “the only reason [they're] able to exist,” he believes.

Russian oligarch next in sanction list?
Winter Capital, a Moscow-based international fund backed, in particular, by billionaire Vladimir Potanin, might also be caught in the turmoil. Earlier Turkish rapid grocer Getir, in which the fund invested an undisclosed amount last year, said that “adjustments” would be needed should Potanin be targeted by international sanctions.

As reported by UK industry publication The Grocer, Potanin was named as a “crony of Putin” and one of several oligarchs who were “propping [Putin] up and allowing him to create havoc in Europe”.

Getir told the media that Winter Capital was only one of the 17 investors that funded it with a 0.45% stake in the company.

The Turkish company told The Grocer it “undoubtedly support[ed] the people of Ukraine,” sending five truckloads of essential supplies to the Ukrainian Red Cross to help with relief efforts.

This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.
Russia’s invasion of Ukraine has pushed the questions of decarbonisation and energy security up to the top of the political agenda as governments scramble to find alternatives to Russian oil and gas.

The immediate reaction in the EU has been to accelerate the energy transition by strengthening and extending its commitment to the Green Deal and to turn away from Russian gas and oil in a rapid U-turn that could not have been expected before the war began on February 24.

The energy price shocks caused by the war – wholesale gas prices have risen by 10 times – have concentrated minds on how to secure alternative energy supplies and how to replace imports of Russian oil and gas.

The EU imports 90% of its gas consumption, with Russia providing around 45% of those imports, in varying levels across Member States. Russia also accounts for around 25% of oil imports and 45% of coal imports.

Although the EU has stepped up its commitments to its Green Deal targets, it has warned that these will come at considerable costs in terms of retail energy prices for consumers.

Meanwhile, the immediate move away from Russian gas has caused governments to look at nuclear power and LNG imports as one long-term solution alongside renewables. Yet some generators have not ruled out using coal as a short-term fix to fill energy gaps.

The race to find alternatives to Russian gas runs the risk of failing to meet, or delaying, the COP26 climate change goals, particularly net zero by 2050 and global warming limits.

Utter madness
UN Secretary-General António Guterres warned on March 21 that such short-term measures were “madness,” and could threaten the 1.5C target for global warming agreed at COP26, as governments scramble to secure energy supplies in the face of a 10-fold rise in gas prices and a doubling in oil prices.

The Paris Agreement’s commitment to limit global warming to 1.5C is on “life support,” he warned.

“As major economies pursue an ‘all-of-the-above’ strategy to replace Russian fossil fuels, short-term measures might create long-term fossil fuel dependence and close the window to 1.5C,” he said.

“Countries could become so consumed by the immediate fossil fuel supply gap that they neglect or knee-cap policies to cut fossil fuel use,” he went on. “This is madness. Addiction to fossil fuels is mutually assured destruction.”

The UN secretary-general said in a tweet that the war in Ukraine also showed how the global addiction to fossil fuels is placing energy security, climate action & the entire global economy at the mercy of geopolitics.

Global emissions rose by 6% in 2021 to a record high of 36.3bn, more than offsetting the pandemic-induced decline seen in 2020, the International Energy Agency (IEA) said.

Guterres warned: “If we continue with more of the same, we can kiss 1.5C goodbye. Even 2C may be out of reach. That would be catastrophe.”

Immediate concerns
As the war began on February 24, there were immediate concerns that it could derail the fight against global warming and climate change as energy prices soared.

Andrew Freedman of the think-tank Axios warned that the Paris Agreement temperature target was perilously close to slipping out of reach, as climate change was no longer top of the political agenda.

US climate envoy John Kerry also warned before war broke out that the world was losing focus on emissions and
mobilising green investment, suggesting that it would easily fail to keep up the pace required to meet 2050 targets.

**Coal's return**

There have been hints from governments and companies that coal could be the fuel to replace gas immediately.

The IEA admitted that coal could be used to displace large volumes of gas relatively quickly, even if it was costly.

Poland, for example, had banked on gas to replace coal as it advanced its coal phase-out. Poland plans to reduce coal’s share in the mix to no more than 28% by 2040 and zero by 2049. Any efforts to cut imports of gas would mean Poland would need to rethink its reliance on the fuel, with coal, nuclear and imported LNG and pipeline gas all possible replacements.

"If we want to do that in the short term, we’re going to have to reconsider the plans we forged in the past. Looking at Poland’s current legislative situation, it’s pushing us very clearly towards more consumption of gas," Polish Climate Minister Adam Guibourge-Czetwertynski told a meeting of EU environment ministers in Brussels, Reuters reported.

"We're looking at that again to see how we can reduce our dependence on gas during this transitional period."

Coal has strong advocates in Poland. “We have to start a real reactivation of coal extraction in Poland,” said former Polish Economy Minister Jerzy Markowski.

However, EU Green Deal Commissioner Frans Timmermans said earlier in March that although it might make sense for coal-dependent states such as like Poland and Germany to keep burning coal for longer, rather than switching to natural gas before converting to renewable energy, it would be “an incredibly stupid choice” to open new mines.

RWE has also warned that coal was still an option, and that coal generation could replace Russian gas

CEO Markus Krebber said that decommissioned coal plants could be upgraded to reserve status, worth a total of 3.5 GW, of in order to maintain security of energy supply in the winter of 2022-23 and in the following years.

Indeed, the state secretary at the German climate ministry, Patrick Graichen, said this week that Russian aggression on Ukraine has broken the narrative of gas as “a bridging technology,” which means that more coal could be burned in the short term.

Yet any role for coal would risk slowing down the pace of change required to boost renewables, reduce fossil fuel consumption and pare back emissions growth in the coming years.

Elsewhere, Belgium could extend the working lives of some its nuclear reactors by 10 years from 2025, alongside an increase in offshore wind and solar.

**Economic effect**

Emissions could also suffer as global attention moves from the green agenda towards stemming economic decline and dealing with geopolitics and security in a bid to end the war in Ukraine.

For example, Oxford Economics cut its GDP forecasts for CEE countries by an average of 1 percentage point (pp) for 2022 and 0.5pp for 2023.

Meanwhile, the OECD warned that the war will have major economic and social consequences on its members, although it offered hope by suggesting that boosting green energy and diversifying away from Russian fossil fuels was needed to soften the blow.

It added higher LNG imports and nuclear power to its list of alternative energy sources, alongside renewables and bioenergy, again spelling bad news for climate change and emissions reduction.

**EU targets**

The EU has moved more cautiously than governments, and has as yet failed to adopt any EU-wide energy sanctions on the US or UK model, instead setting targets to reduce imports via demand reduction. Member state themselves, especially in Central and Eastern Europe, are divided on sanctions.

Before the war, the EU had instead set a target of ending dependence on Russian gas by 2030 by reducing imports of Russian gas by 100bn cubic metres per year – or two thirds of current imports.

However, in response to the war the EU on March 8 that it would raise this figure to 155 bcm via its REPowerEU programme, with the first 100 bcm of this being achieved in 2022.

However, it is open to question whether the EU would able to meet these aspirations, with the IEA saying only 50 bcm of Russian gas can be replaced in 2022, rather than the EU’s 100 bcm.

Part of the EU’s plans are eminently achievable, while others are more ambitious, according to the Oxford Institute of Energy Studies (OEIS).

The LNG and pipeline to replace 63.5 bcm of Russian gas is available, the OIES said, with cargoes redirecting from Asia to Europe, although European prices would need to remain high to attract such cargoes.

However, proposed 38 bcm reductions in gas demand, although feasible on paper, would be challenging.

A long list of policy reforms, good availability of wind and hydro, a warm winter and more coal nuclear would all be needed for any target to be met.
In short, the EU’s proposals will give coal a short-term boost, although it will also promote the energy transition in the longer term.

Despite these fears, international bodies such as the IEA have stressed that the war, as well as volatile gas prices, could act as a catalyst to quicken the decarbonisation agenda and reduce the world’s exposure to Russian gas and oil.

**Russia’s options**

Looking ahead, US President Joe Biden’s visit to Europe on March 24 could also lead to stronger calls from some EU leaders, especially in Eastern Europe, for tougher sanctions on Russian oil and gas, following on from the US ban earlier in March.

Meanwhile, Russia has already made noises that it could find alternative buyers of its oil and gas in China and India.

However, China has its own green targets to meet as it aims to reach net zero by 2060. Beijing’s commitment to reach net zero by 2060 could reduce the potential for Moscow to redirect its gas and oil exports away from Europe towards China. It will be neither quick nor easy for Moscow to pivot its energy exports from west to east, according to Wood Mackenzie.

Although any detailed picture of future emissions targets has yet to emerge, the continued presence of coal in Europe’s generation sector weakens Brussels’ rhetoric about reducing Russian gas imports.

As such, Europe, which has so far been the best performing continent in terms of emissions reductions, faces the prospect of a slowdown in its progress towards net zero, while at the same time facing the high cost of restructuring energy systems away from Russian gas and oil.

Given the pace required to reach net zero by 2050, any delays in emissions reductions caused by the war will have their own ecological and economic impact.

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**Textron acquires Slovenian Pipistrel as it prepares for electric future**

bne IntelliNews

US multi industry company Textron said on March 17 it entered into agreement to acquire Slovenian maker of ultra-light aircraft Pipistrel.

Pipistrel’s two-seat Velis Electro plane was the first electric aircraft in the world to obtain certification from the European Union Aviation Safety Agency (EASA), in 2020.

Textron is the owner of the Beechcraft, Hawker, and Cessna aviation brands. Upon closing of the transaction, the company plans to form a new business segment, Textron eAviation, focused on the development of sustainable aircraft, which will include Pipistrel.

“With Textron, Pipistrel will have access to greater resources, technical and regulatory expertise and a global aircraft sales and support network, enabling it to accelerate its development and certification of electric and hybrid electric aircraft,” Textron said in the statement.

“Textron is committed to maintaining Pipistrel’s brand, headquarters, research and development, and manufacturing in Slovenia and Italy, while making additional investments in Pipistrel for the development and production of future products,” Textron’s chairman and CEO, Scott Donnelly, said.

He noted that Pipistrel has been "celebrated as one of the world’s most important and successful manufacturers of electric aircraft”.

Pipistrel founder and CEO Ivo Boscarol will remain a minority owner. The value of the deal has not been disclosed.

The transaction is expected to close during the second quarter of 2022.

Based in Slovenia and Italy, Pipistrel is a world-leading small aircraft designer and manufacturer, specialised in energy-efficient and affordable high-performance aircraft. With more than 30 years of experience, Pipistrel has produced more than 2,200 aircraft to date.

Among them is the Velis Electro that is intended primarily for pilot training, but which paves the way for the future of environmentally sustainable, emission-free aviation.

Boscarol said on obtaining the EASA certification that it represented the “first step towards the commercial use of electric aircraft, which is needed to make emission-free aviation feasible”.

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RUSSIA LEARNING TO LIVE WITH SANCTIONS
A financial collapse was avoided, but was left of their savings out of the banks. Ordinary Russians raced to get what had available. The ruble crashed and scrambled to impose capital controls system into turmoil. The regulator immediately threw Russia’s financial bank’s money is still not clear but it The impact of freezing the central money it had accumulated in Putin’s frozen some $300bn – half of all the frozen some $300bn – half of all the annexation of Crimea in 2014. And the sanctions were harsh. Indeed, they were even harsher than anyone, including the Kremlin, had expected. If Putin was banking on the EU staying true to form and dithering over details while interest groups within the Union lobbied to protect their special interests, that didn’t happen. The day after the invasion both sanctions were imposed first, not last. However, it was the sanctions on the Central Bank of Russia’s gross international reserves (GIR) on February 27 that really came out of left field. This idea had never been suggested at any time since the sanction regime appeared following Russia’s annexation of Crimea in 2014. And the Kremlin seems to have been caught totally unawares by the move that has frozen some $300bn – half of all the money it had accumulated in Putin’s fiscal fortress that was designed to sanction-proof Russia. The impact of freezing the central bank’s money is still not clear but it immediately threw Russia’s financial system into turmoil. The regulator scrambled to impose capital controls and husband what resources it still had available. The ruble crashed and long lines appeared outside banks as ordinary Russians raced to get what was left of their savings out of the banks. A financial collapse was avoided, but only narrowly.

In effect the West has declared economic war on Russia. EU President Ursula Von der Leyen specifically said in the last days of February that the sanctions were designed to “degrade the Russian economy.” They are not a diplomatic tool to be used in negotiations to persuade Russia to change its ways. They are designed to do as much damage to the Russia economy as the West is able to do. And Brussels still will be, how leaky the sanctions are, and to what extent can Russia re-orientate its economy away from the West and make a new life in the company of the Emerging Markets (EMs).

Limits on the sanctions regime
An easing of large-scale economic sanctions is possible, but unlikely in the short term, the programme director of the Russian International Affairs Council

“We up to the last day before the invasion Germany was extremely reluctant to say that the Nord Stream 2 gas pipeline would be included in the package”

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A second problem with the current regime is that while they have struck at Russia’s money and business they remain limited. For example, while Russia’s two biggest banks, Sber (formerly known as Sberbank) and VTB Bank, were immediately banned from the SWIFT system and together account for about half the Russian banking sector by assets, only a total of seven from Russia’s 374 banks have been banned from using SWIFT.

In particular, the financial arm of Russia’s gas champion, Gazprombank, has been specifically excluded from the ban so that it can accept payments for gas exports to Europe. This has left a huge hole in the financial sector and gas trade sanctions that sees billions of dollars a week pour into Russia’s coffers and long-term will leave a very serviceable conduit into the global financial system that the Kremlin can use more of less unfettered.

Moreover, at the end of March Russian President Vladimir Putin announced a rubles-only-for-gas scheme where EU customers would be forced to pay for their gas imports using Russia’s national currency. While at first glance this appears to be a pure accounting trick that makes little difference to Russia’s economy or the value of the ruble, it actually blows a hole in the sanctions regime by making it impossible to sanction Gazprombank or freeze the gas payment funds.

A third problem is that not everyone has signed up to the sanctions regime. It remains an almost exclusively G7 affair, championed by the US, UK and EU. During the UN General Assembly vote on March 3 to condemn Russia’s invasion of Ukraine 141 countries voted for the motion but 35 notably abstained. Most of Africa and all of Central Asia, India and China all sat on the sidelines. The Middle East voted to condemn Russia, but their sovereign wealth funds working in Russia have only “suspended” business while the war continues. Latin America, where Russia has many friends thanks to both the BRIC organisation and its open support of Venezuela in its show down with the US, can also be relied on for help.

Russia has been working actively to develop deeper ties with the EM world and won much goodwill and kudos during the coronavirus (COVID-19) pandemic by being generous with its Sputnik V deliveries, while the developed world hoarded their own vaccines for their own use before releasing them to the rest of the world in what has been dubbed “vaccine apartheid.”

How bad will sanctions be?
The jury is still out on how bad the effects of the sanctions will be. The economic impact is just starting to make itself felt in Russia with mixed results.

The immediate impact on the economy has been hard as the war and the financial sanctions have already impacted business with new supply
The Central Bank of Russia (CBR) has done an impressively good job at managing what is the biggest shock to the economy since 2008 and 1998.

Unemployment is bound to rise. During the coronacrisis unemployment soared to a maximum of 6.3% in August 2020 from a post-Soviet low of 4.3%, but fell quickly back to its previous low after the vaccines appeared. This time round unemployment is forecast to rise to 7.1%-7.8% and stay there. The government is working hard to mitigate the rising in joblessness with a RUB1 trillion social spending package – basically the same package it used to cope with the coronacrisis – and hopes to keep this number down.

Inflation is going to be a problem too and was already a problem before the war started. The PMI panellists reported the rise in selling prices in March were the steepest since the series began in January 2003 and sentiment, that had been buoyant in October before the tensions appeared, dropped to its lowest in 22 months.

However, the Central Bank of Russia (CBR) has done an impressively good job at managing what is the biggest shock to the economy since 2008 and 1998, the last two really big crises.

The CBR immediately brought in a 10.5% rate hike after war started and closed the currency exchange, bond and stock markets. The ruble exchange rate blew out from around RUB80 to the dollar pre-war to a peak of RUB134, its weakest level ever, but in the weeks that followed with strict capital controls, an 80% surrender requirement on exporters earning foreign exchange and a bit of judicious intervention, the CBR managed to engineer the ruble’s recovery to back under RUB90 and pre-war levels.

The upshot was to persuade the population to stop withdrawing their money from Russia’s banks and even return it to long-term deposits accounts, thus stabilising both the currency and the banking sector. Similar operations were carried out with the domestic bond market and then the stock market where a combination of restrictions on trade, a ban on short selling and some liberal spending of funds have also stabilised both those assets markets. These were temporary measures and it remains to be seen where the markets will settle once all the restrictions are removed and foreign investors are allowed to participate in the markets again, but CBR Governor Elvira Nabiullina has certainly considerably limited the damage.

There is also relatively good news on the inflation front, where the recovery in the ruble exchange rate will take off the inflationary pressure and at the same time the emergency rate hike to 20% is also having an effect. On March 31 Rosstat released its weekly inflation figures that suggest that inflation has fallen back from 20% to 15% on an annualised basis, leaving a 5% real return on the CBR rate that is also coaxing Russians to return money to the banking system.

Nabiullina must be one of the most experienced central bankers in the world when it comes to coping with financial crises and has done a sterling job, but the 20% prime rates are a growth killer and it took the CBR some seven years to unwind the last emergency rate hike to 17% in the 2014 oil price shock and it should take equally long to unwind this one.
However, the real damage to the Russian economy is the shackling of Russia’s growth potential. Since Putin started preparing for the current war in 2012 when he diverted every spare kopek to modernising the army and building up the CBR’s reserves, the long-term economy growth potential of Russia fell to a mere 2%. Now with the added drag of high interest rates and more punishing sanctions that will be extremely difficult to shake off, that growth potential has fallen again to around 1%. Over the coming years Russia’s economic growth will be well below that of the global economy and it will simply fall further and further behind the rest of the world.

Russia’s ability to strike back
The final complicating factor is this is the first time the developed world has imposed sanctions on such a large country that is so deeply integrated into the global market and able to hit back.

The sanctions regime is full of holes as a result of the boomerang effect: many sanctions on Russian industry affect markets so badly that they do as much if not more damage to western businesses as they do to Russia.

As bne IntelliNews reported, even before the war started commodity prices started to spike as tensions rose, but they went through the roof once the fighting began. Nickel trading on the London Metals Exchange (LME) had to be shut down after prices rocket to over $100,000 per tonne from the normal levels of just under $30,000 per tonne.

The exchange ended up cancelling all the super high trades and suspended trading for several days until the prices settled at $48,000 per tonne, still almost twice the regular levels.

Aluminium, steel, iron, copper and a slew of other commodities, all produced in Russia, have similar, if not quite so dramatic, stories to tell.

Indeed, although Russia doesn’t hold monopolies in any of these metals (it comes closest to having a monopoly in titanium production, a key component in the aviation industry), it has significant market shares that cause sanctions to rapidly inflate prices and make all the metal exports very hard to sanction without doing significant damage to western economies.

As a result, many of Russia’s biggest companies have been exempted or passed over when it comes to sanctions. Norilsk Nickel that belongs to oligarch Vladimir Potanin is one company that has yet to be sanctioned. Oleg Deripaska’s aluminium producer Rusal is another one that has not been included in the lists. The last time Rusal was sanctioned in 2014 the price of aluminium soared 40% in a day and the US Treasury Department (USTD) had to delay imposing the sanctions before eventually withdrawing them – the only sanctions to be nixed since the regime was introduced in 2014.

A more recent example was Alisher Usmanov, a metals and tech tycoon, who was included in the personal sanctions list, but many of his companies, especially Metalloinvest that is a major iron producer, were given special exemptions by the US authorities thanks to the impact their exclusion would have on metal prices and the chaos it would cause in the markets.

Wheat is another market where the west is very dependent on Russia. Prices for wheat in the global grain market have already soared to decade-long highs as the war in Ukraine shuts down ports and threatens to disrupt this year’s grain harvest. Between them Russia and Ukraine account for a quarter of global wheat exports and an estimated 7mn tonnes of Ukrainian wheat will be taken out of circulation as a result of the war.

Actually the problem is not quiet as bad as it first seems as the total global wheat production in 2021 was 779mn tonnes as most wheat is eaten at home, so the missing Ukrainian wheat this year accounts for only 0.9% of total production. Farmers anticipating problems in Ukraine planted more wheat than usual four months ago so much of the Ukrainian shortfall will be cover by increases in domestic production.

What problems there are in food distribution will be regional not global and North African is particularly exposed as it relies heavily on Ukraine for its supplies. Egypt is the biggest importer and has been unable to find sellers at at least two tenders held since the war started. Governments in the region and international organisations need...
to ensure that the conflict in Ukraine does not worsen an already existent food crisis, Human Rights Watch (HRW) said on at the end of March.

The West is now hunting for alternative suppliers, but given the global nature of the commodities markets Russia will have ample opportunity to find backdoor channels to sell its products to its old customers.

At the same time, Russia will actively seek new customers in the developing world. While the sanctions are mostly imposed by the G7 markets, which represent 80% of global GDP, they also make up less than a seventh of the world’s population. Russia is already actively trading with the rest of the world and will actively seek to boost this trade. India has already taken advantage of the buyers’ market and cut deals to buy Russian oil and metals at deeply discounted prices. Just how this trend plays out remains to be seen, but Russia is bound to find willing partners in the rest of the world.

The fact that the rest of the world is so dependent on Russian commodities in itself is a huge hole in the sanctions regime and the sanctions on Russia will change the nature of international trade. EM markets have already been moving away from the dollar slowly, but one of the upshots of the current conflicts is that commodities will play a larger role in country’s reserves and in international trade.

Zoltan Pozsar, a well-known Credit Suisse analyst and former US Treasury official, said in a recent paper: “We are [now] witnessing the birth of Bretton Woods III – a new world monetary order centred on commodity-based currencies in the East that will probably weaken the Eurodollar system and contribute to inflationary forces in the West…It used to be as simple as “our currency, your problem.” Now it’s “our commodity, your problem”.

The first signs of this have already appeared. As part of Putin’s rubles-for-gas scheme is the CBR said it would also accept payment for gas in gold and quoted a price of RUB5,000 per gram, effectively linking the value of the ruble, gold and gas. More of these sorts of deals are likely to appear in Russia’s commodity trades.

The final irony of the conflict is that Russia is likely to make a lot of money from the spike in tensions. The super-high commodity prices will lead to a huge current record account surplus for Russia this year. According to the Institute of International Finance the surplus could reach $240bn this year – double the record $120bn Russia earned in 2021 and 80% of all the CBR money frozen in EU accounts.

The calculus may change entirely in the coming months. As the West wakes up to the fact that the extreme sanction regime will not cripple the Russia economy, but actually make it money, an effort will begin to put in place new secondary sanctions that prevent the Kremlin use what are bound to become increasingly complicated and sophisticated schemes to avoid the same sanctions. The West will in effect start to play whack-a-mole with Russia’s trade regime. For example, if the West can successfully close down Russian oil exports that will cost the Kremlin about 40% of last year’s budget revenues.

How this game plays out will depend in large part on how willing the rest of the world, and the G20 in particular, is willing to adhere to the West’s sanctions regime. On the one hand India has already done deals to buy Russian oil, gas and other commodities at a deep discount. On the other Chinese banks have refused to issue Russian oil companies letters of credit that underpin oil exports.
Former Czech premier Andrej Babis finally charged with fraud in Stork's Nest case

Czechia's former premier Andrej Babis has finally been charged with fraud over the six-year-old Stork's Nest case, in which he is accused of illegally claiming EU subsidies for a conference centre project. The populist leader, who is expected to launch his bid this year to become president, denies the charges, which he says are politically motivated.

Babis bitterly fought against the investigation while finance minister and premier and is now only facing charges after losing power in October's general election. Opposition politicians, now in power, claim that he helped block the prosecution of the case, in which he outlasted several of his party's justice ministers, as well as the public prosecutors in charge of the file.

If the case goes to trial this year it could complicate Babis' plans to stand for the presidency early next year, though, given the sluggish prosecution of the case, this looks unlikely. If Babis were to become president he would gain immunity from prosecution, something that critics say is one of the main motivations for him to seek the post.

Public Prosecutor Jaroslav Saroch has filed charges against Babis and his advisor Jana Nagyova over the alleged fraud, Prague State Prosecutor's Office spokesperson Ales Cimbala confirmed on March 21.

"On March 21 the public prosecutor of the Municipal State Prosecutor's Office in Prague filed indictments against two individuals in a case referred to in the media as the Capi Hnizdo [Stork Nest] case," Cimbala said, according to the Czech News Agency, adding that one of the charged persons is accused of committing subsidy fraud and damaging the EU financial interests, while the actions of the other person are qualified as aiding and abetting the crime of subsidy fraud.
Both Babis and Nagyova are accused of claiming an EU subsidy of CZK50mn (€2mn) designed to support small and medium-sized businesses for the PM’s Stork’s Nest conference centre. Stork’s Nest was originally begun by Babis’ Agrofert agro-chemical conglomerate, then transferred to a small company allegedly connected to the ex-premier in 2007 to apply for the EU subsidy, and then afterwards taken back over by Agrofert. The former PM has already repaid the EU subsidy.

Babis was handed over for prosecution by the Czech Chamber of Deputies earlier this month when they removed his immunity. MPs have already handed the ex-PM over for prosecution twice, first in September 2017 and then in January 2018 after the elections in which Babis was re-elected.

Initially, 11 people, including Babis’ family members, were charged in the case. However, gradually Saroch dropped charges against them. Later in December 2019, Czech Supreme State Attorney Pavel Zeman ruled that the Stork’s Nest case will be reopened again and returned the fraud investigation into Babis and Nagyova back to the Prague State Attorney.

“Shortcomings in the factual and legal evaluation have been found. At the factual level, this is a lack of reflection on the established evidence and at the same time an insufficient finding of facts,” said Zeman for iRozhlas in 2019.

In June 2021, the Czech Police proposed indicting the ex-PM and his advisor in the Stork’s Nest case. Later in September 2021, Saroch returned the case to the police for further investigation, due to the uncovering of new information, and thus kicked the case into touch until after the October general election.

Babis denies any wrongdoing. According to him, the case is “an artificially created and purposeful attempt to criminalise him and to drive him out of politics”. “It is kept in the media to this day in case I decide to run in the presidential election,” he said after he was deprived of immunity at the beginning of March.

Czech Interior Minister Vit Rakusan said he considers the indictment of the former PM “the first step to a final decision in the Stork’s Nest case”, stressing that the Chamber of Deputies has already sent a clear signal that the court should decide on guilt and innocence.

“Andrej Babis will get a chance to explain the case to the court. It will no longer be enough to kick around and say that we should go there [Stork Nest conference facility] to see the money. If [Babis] had self-reflection, he would resign from all positions and would not run for office until a decision is made,” said the Chamber of Deputies Chair Marketa Pekarova Adamova.

"Finally, a breath of settling the business environment, as the ex-MP dreamed of when he happened to sleep!” said Pirates chief and Minister of Regional Development (which is in charge of EU subsidies) Ivan Bartos, referring to Babis’ earlier book “What I Dream About When I Happen to Sleep”. Babis published the book as a pre-election PR initiative before the parliamentary elections in 2017.

Czech Television pointed out that the 2011 Code of Conduct for Representatives of Babis’ ANO party states that a person against whom an indictment is filed for a deliberate or negligent crime committed in connection with and related to the performance of a public post shall immediately resign his or her elected mandate, office, and membership in the party.

However, ANO Vice-Chair and Moravian-Silesian Mayor Ivo Vondrák commented that Babis was not performing any public post at the time the case started and therefore his political work is not in a conflict, adding that the most important thing is, however, how Babis himself will respond.

Also, on March 21, after receiving documents from the EU proving that the project was insufficently innovative, the Ministry of Industry and Trade also decided to withdraw a CZK100mn (€4mn) subsidy from the Babis’ Agrofert Group’s Penam company for a production line on toasted bread.

"The assessment, which is key to the decision on the eligibility of the subsidy for the Zelena Louka Bakery, was provided by the [European] Commission in response to my letter. The documents have convinced us that it is appropriate to withdraw the subsidy for this project,” said Minister of Industry and Trade Josef Sikela.

The EC had earlier decided not to reimburse CZK100mn paid to Czechia. "The newly submitted documents include a professional evaluation of the project and can be considered valid and relevant. However, it is worth noting that the process of withdrawing the subsidy will be long and complicated and court proceedings cannot be ruled out," added Marian Piecha, Deputy Minister of Industry and Trade for EU Funds.

The EC is also still in dispute with Czechia over the way that the country continued to grant subsidies to Babis’ Agrofert conglomerate, even though he was in a conflict of interest as finance minister and then prime minister. Babis denies that he has any control over the holding since he was forced to put it into a trust in 2017, but the EC has ruled that he still maintains control and benefits from the business.

Brussels has threatened to hold up reimbursement of EU subsidies to the government for payments made to companies owned by trusts until it makes changes to the system. Following the EC decision, Prague has not asked for repayment of subsidies paid to Agrofert since the company was put into trust.
EU’s top court opens legal avenue to hold up funding to Poland and Hungary

Wojciech Kosc in Warsaw

A mechanism tying payouts of EU funds to member states’ adherence to the rule of law is legal and within the bloc’s powers, the Court of Justice of the European Union (CJEU) ruled on February 16.

The ruling is a tectonic move that puts Poland and Hungary up against the wall in their spat with Brussels over how far member states can change their domestic legal orders without respecting EU laws.

The CJEU dismissed their claims in their entirety, eliciting fury in Warsaw and Budapest.

It opens a way for the Commission to stop payouts to member states where disregard for rule of law, as set out in the Treaty of the European Union (TEU), the bloc’s founding document, might impinge on sound spending of EU funds.

For Poland and Hungary – which are at loggerheads with Brussels exactly over problems in adhering to the rule of law – the ruling could mean that billions from the EU’s budget might become unavailable.

Poland and Hungary are both ruled by populist and Eurosceptic parties with a track record of infringing upon basic rights and freedoms. At the same time, Warsaw and Budapest are keen to make use of billions in funding from the bloc’s common budget, as that could be instrumental in winning the next election.

There is a general election in Hungary as soon as April 3. Poland’s ruling Law and Justice (PiS) party will stand to a test at the polling stations in the autumn of 2023.

The CJEU ruling tops a series of its recent rulings, as well as those by the European Court of Human Rights (ECHR), that pointed to Polish and Hungarian governments’ democratic backsliding.

In Poland, the spat has centred around the government’s judicial reforms, which the EU says are compromising courts’ independence and impartiality by handing over the process to appoint judges to the parliament.
In Hungary, the list of concerns includes academic freedom, migration and asylum laws, as well as discrimination against the LGBT community. The EU also has concerns about corruption and media freedom.

“The sound financial management of the Union budget and the financial interests of the Union may be seriously compromised by breaches of the principles of the rule of law committed in a member state,” the CJEU said in the ruling.

Poland and Hungary argued that the rule of law mechanism had no legal basis in the TEU and the bloc’s other rudimentary document, the Treaty on the Functioning of the EU.

The two countries also said that the mechanism constituted overstepping of EU powers and breached the principle of legal certainty.

The CJEU dismissed those claims in their entirety, eliciting fury in Warsaw and Budapest.

“This is a historic moment that shows changes in the European Union. From the area of freedom, the EU is changing into an area where it will be possible to use unlawful violence in order to take this freedom away from member states and limit their sovereignty,” said Poland’s Justice Minister Zbigniew Ziobro.

“The decision is living proof that Brussels is abusing its power. This is another pressure against our country only because we adopted our law on child protection last summer,” Hungary’s Justice Minister Judith Varga said, referring to a law that many see as conflating sexual diversity with paedophilia.

The option to challenge the rule of law mechanism in the CJEU was written into the compromise deal reached during an EU summit in December that overcame Polish and Hungarian opposition to adopting the bloc’s €1.1tn long-term budget for 2021-2027 as well as the coronavirus recovery fund, worth €750bn.

### Funeral home of Vilnius Archdiocese suspected of switching coffins before cremations

**Linas Jegelevicius in Vilnius**

A funeral home under the management of the Curia of the Archdiocese of Vilnius has reportedly been caught red-handed selling recycled coffins.

The undertaker has reportedly been swapping the coffins before cremation for years, moving the deceased from the €1,000-worth ones into cheap cardboard ones costing a mere €16.

The switch and the cremation would take place in Poland, and the expensive coffins would then be swiftly transported to Lithuania and resold for the initial price, LRT.lt, the website of the Lithuanian national broadcaster LRT, reported.

Some of the employers of the funeral company admitted they were compelled to do the disgusting job of cleaning up the used coffins. Furthermore, they said they were forced by the company heads to keep their eyes closed to what was happening.

It is estimated “Laidøjim paslaugų centras”, the funeral home, has raked in at least €45,000 from the macabre practice. The Vilnius Archdiocese is the sole shareholder of the company.

The Vilnius police have launched an investigation.

The reported scam netted the funeral home more than €45,000.
Borrell says EU committed to launching accession talks with Albania and North Macedonia

Valentina Dimitrievska in Skopje

The EU’s High Commissioner Josep Borrell said on March 14 in Skopje that the EU should launch accession negotiations with North Macedonia and Albania as soon as possible to strengthen security in the Western Balkans, but underlined he cannot promise a date.

Borrell underlined that the Russian invasion of Ukraine should be a turning point to reinvigorate the EU enlargement process.

Skopje, where Borrell arrived a day earlier, is the first leg of his Balkan tour, during which he will also visit Albania and Bosnia & Herzegovina.

“North Macedonia has clear expectations to start EU negotiations, and rightly so. We welcome the new impetus between Sofia and Skopje for a mutually acceptable solution. It is high time to resolve long standing bilateral issues,” Borrell said in a tweet, following a meeting with Prime Minister Dimitar Kovacevski.

Sofia vetoed the launch of EU accession talks with Skopje for two years over language and history issues, and later expanded its list of conditions. The veto automatically blocked the launch of the accession talks with Tirana as the two countries are coupled in the process.

Borrell added that North Macedonia and the Western Balkans are a strategic priority for the EU.

“The fact that North Macedonia is completely in line with European values is a proof that its place is in the European family. Promise, I cannot promise anything, but I assure you that we are doing everything to start negotiations with North Macedonia and Albania,” Borrell said.

In Skopje, EU foreign policy’s chief discussed the wider implications of the war against Ukraine for the region, and how to best support stepping up its resilience.

Borrell praised North Macedonia for condemning Russian aggression in Ukraine and for fully aligning to EU sanctions.

Borrell also said that the EU will propose enhancing the security and defence of the Western Balkans region due to threats from Russia, following the invasion of Ukraine.
Immediately after Russia invaded Ukraine, the EU stepped up its policing presence in Bosnia & Herzegovina as the deteriorating international security situation raised fears that the Western Balkans were at risk of destabilisation. Deep-seated ethnic conflicts and a small but vocal pro-Russian far-right movement make the Western Balkans, on top of a threat to living standards from fast-rising inflation, particularly vulnerable to Russian influence.

This goes beyond the two most dangerous situations in the region: the secessionist efforts by Bosnian Serb politicians and the tensions between Serbia and Kosovo, whose independence is not recognised by Belgrade. The region has long been the subject of a struggle for influence between Russia and the West – with China also an important player. The West has been largely in the ascendancy recently as all the countries want to join the EU, and most are either Nato members or aspiring members. Still, Russia retains significant influence in the region, especially in Serbia and Bosnia’s Republika Srpska.

Even before the current crisis, the decision by MPs in Bosnia’s Republika Srpska to withdraw the entity from the Bosnian army and other state-level institutions was a worrying step towards the breakup of the country and a potential new conflict. The security situation in northern Kosovo, which is mainly populated by ethnic Serbs, meanwhile, deteriorated to the worst level in a decade in September amid a dispute over car number plates.

Moscow’s view of the region as still part of its sphere of influence was bluntly reinforced by the Russian ambassador to Bosnia, who warned in mid-March of Russia’s right to “respond” should Bosnia join Nato, and warned Bosnian politicians to look at the example of Ukraine. Within Serbia, protests were already anticipated around the general and presidential elections on April 3, but the potential for unrest has risen sharply as the government is torn between its quest for EU accession and historic ties with Russia. Far-right groups have already staged protests in support of the Russian invasion in both Serbia and Montenegro.

The Balkans will be a “battlefield for ideas” as Russia steps up propaganda and “systematic lies” in the region, EU foreign policy chief Josep Borrell warned during a visit to the Albanian capital Tirana on March 15. While the situation is calmer in Albania and North Macedonia, both Nato members, Borrell warned that the entire region is vulnerable to Russian disinformation. “Certainly, the Russian influence in the Western Balkans is nothing new, nothing new. But Russian disinformation – which is the word that we use today to talk about propaganda – and systematic lies, it is increasing,” Borrell said at a press conference in Tirana.

 “[W]e will have to face Russian influence in the Balkans, wherever it takes place, in some countries more than in others. We are very much aware that the Balkans will be a battlefield for ideas, a battlefield for the prospects, a battlefield for the path that the Balkan countries will follow in the future,” he added.

On a more positive note, leaders across the Western Balkans have stressed the importance of regional co-operation, as seen at an EBRD event at the end of February.

Bosnia

Days before the Russia invasion, Borrell warned that Bosnia, along with Ukraine, is one of two hotspots in Europe. Members of the Republika Srpska parliament voted at the end of 2021 to quit the Bosnian army and other state-level institutions, which was seen by the international community as a step towards the breakup of the country.

EUFOR is boosting its presence in Bosnia as a precautionary measure.
The Serb member of Bosnia’s tripartite presidency, Milorad Dodik – who has publicly spoken of the support he receives from Russia – has repeatedly called for a referendum on Republika Srpska’s secession from Bosnia over the years. He was revealed to have tried to prevent Bosnia’s ambassador to the UN from voting in favour of a resolution condemning the invasion.

The day Russia forces entered Ukraine, the European Union Force Bosnia and Herzegovina (EUFOR) announced it was boosting its presence in Bosnia as a precautionary measure. “The deterioration of the security situation internationally has the potential to spread instability to Bosnia & Herzegovina,” said EUFOR in a statement.

On March 16, Russia’s ambassador to Bosnia, Igor Kalabukhov, threatened to the country, making it clear that Moscow won’t tolerate Bosnia joining Nato. Speaking to FTV, Kalabukhov said the example of Ukraine “shows what we expect”.

Kosovo

Along with Bosnia, northern Kosovo, which is mainly populated by Serbs, is seen as the other main flashpoint in the Western Balkans. Accordingly, the EU rule of law mission (EULEX) in Kosovo said on March 14 it will strengthen its presence in the country by temporarily deploying a reserve unit of 92 members of the European Gendarmerie Force (EUROGENDFOR). A spokesperson for EULEX said, as quoted by Reuters, that the Russian invasion of Ukraine “puts everything in a different light”.

There were already periodic flare-ups in tensions, as Serbia has refused to recognise Kosovo as independent, and its position is backed by Russia. Just six months ago, in September 2021, the situation between Serbia and Kosovo reached what politicians said was its most dangerous point in 10 years amid a dispute between the two sides over car licence plates.

Since the invasion, Kosovo’s Prime Minister Albin Kurti has pressed

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**Bulgarian far-right MEP accused of giving Nazi salute in European Parliament**

*Denitsa Koseva in Sofia*

Angel Dzhambazki, far-right Bulgarian MEP, angered his colleagues by giving what appeared to be a Nazi salute in the plenary chamber after speaking during a debate on the rule of law in Poland and Hungary.

The European Parliament will check its cameras to confirm whether or not Dzhambazki gave a Nazi salute, which the MEP has denied. If it is proven that Dzhambazki did indeed give a Nazi salute, he will be severely sanctioned.

A video showing the salute was posted on Twitter by Rennaisance, a group of French MEPs, late on February 16. As of the afternoon of Febrary 17 it had racked up a million views on the microblogging site.

“We will never allow you to tell us what to say and do. Long live Bulgaria, Hungary, [Hungarian Prime Minister Viktor] Orbán, [Hungarian ruling party] Fidesz and the Europe of nation states,” Dzhambazki, of the far-right Bulgarian VMRO party, said during the plenary session prior to the salute as quoted by Euractiv.

He added that the decision adopted by the European Parliament following a ruling of the European Court of Justice that funds can be blocked to countries where the rule of law has been violated was an “abomination”. The mechanism was fiercely opposed by Hungary and Poland, which were backed by Bulgarian far-right MEPs.

European Parliament president Roberta Metsola commented that a fascist salute is unacceptable.

“A fascist salute in the European Parliament is unacceptable to me — always and everywhere. It offends me and everyone else in Europe. We stand for the opposite. We are the house of democracy. That gesture is from the darkest chapter of our history and must be left there,” she wrote on Twitter.

The gesture was also condemned by the leader of the European People’s Party, Manfred Weber.

“During today’s debate on the rule of law, MEP Dzhambazki showed a “Hitler salute” in plenary. On behalf of the EPP group we condemn this in the harshest possible terms. It is the opposite of what the European Parliament stands for and we call for immediate sanctioning,” he wrote on Twitter.

Dzhambazki has denied giving a Nazi salute, saying it was an “innocent wave”.

“When you mistake a simple wave with a Nazi salute you have a real Godwin’s law problem. The fact that one disagrees with you does not mean he is a Nazi. I apologise if my innocent wave [meant as an excuse] has insulted anyone but this is some serious case of Reductio ad absurdum,” he wrote as a comment on Twitter.

The controversial MEP, now one of VMRO’s three newly-elected leaders, is well known for his scandalous behaviour. In 2019, he had to apologise for xenophobic remarks during a parliamentary debate, when he called MEP Karima Delli “a Frenchwoman of Algerian origin”, and MEP Ismail Ertug “a German of Turkish origin”.

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Since the invasion, Kosovo’s Prime Minister Albin Kurti has pressed
his country’s case for EU and Nato membership. Kurti told AFP that Russian President Vladimir Putin is unpredictable and “will use the factors and actors he controls also in the Western Balkans”. Speaking to The Independent, Kurti argued that the Western Balkans is in “even greater danger than the Baltic countries and Moldova”.

Kosovo has already established a security fund to raise money for the Kosovan army amid the new reality following the Russian invasion of Ukraine, Kurti announced on March 3.

Serbia
Even before the invasion, there were warnings that Serbia’s April 3 election day – when both President Aleksandar Vucic and his Serbian Progressive Party (SNS) are seeking re-election – will be a turbulent one.

After years in power, the party is deeply entrenched in Serbia and has been criticised for eroding democracy. Mass protests over environmental issues in the autumn of 2020 were followed by threats to disrupt the election if the government doesn’t entirely ban lithium mining in the country. In recent years, elections have been followed by protests, some of them turning violent, as opposition supporters no longer see a way of achieving a change of government via the ballot boxes.

Things have changed radically since the invasion, which put Vucic, who has sought to balance Serbia’s quest for EU accession with good relations with fellow big powers Russia, China and the US, in an impossible position. Now he has condemned the invasion but declined to join sanctions on Russia – an attempt at a solution that didn’t please either EU leaders, who say he should commit to sanctions, or the large pro-Russian segment of the population.

While the Serbian government has sought to maintain its balanced position, many media outlets in Serbia take a strongly pro-Russian line, which has coloured popular sentiment on the war and the government’s response. On March 4, several thousand people joined a far-right, pro-Russian march in Belgrade.

Montenegro
Parliament speaker Strahinja Bulajic, a member of the pro-Russia Democratic front, has blocked the formation of a new government by refusing to call a parliamentary session to vote on the proposed cabinet. His comments to local media outlets indicate he plans to keep the country in political limbo for months.

Prime Minister Edi Rama has slammed the protests as “shameful” and pointed out that Albania is the only Nato country where people are protesting over price rises. He has also called them an attempt to destabilise the country. Nonetheless, he was quick to step in to offer a package of support for pensioners and other low-income households, followed by additional measures for farmers.

Albania
There has been a series of protests and road blockades in Albania over rising food and fuel prices, as rapid inflation in autumn 2021 was exacerbated by the spikes in international commodity prices since the Russian invasion of Ukraine. Although the numbers are not huge, there are signs of discontent across the country, and among a variety of different groups, from students to farmers.

“On March 16, Russia’s ambassador to Bosnia, Igor Kalabukhov, threatened to the country, making it clear that Moscow won’t tolerate Bosnia joining Nato”
Armenian businesses see both opportunity and threat from opening of Turkish border

Arshaluis Mgdesyan for Eurasianet

As Armenia and Turkey progress on normalising relations and opening their shared border, businesses in Armenia are watching the process with a mixture of fear and anticipation.

While some businesspeople see the opening of the Turkish border as a step toward gaining access to foreign markets, others worry that they will drown in a flood of cheap, relatively high-quality Turkish products.

Armenia’s National Security Council recently commissioned a study, “Opportunities and Challenges for Turkey’s Lifting of the Blockade of Armenia,” from the Amberd Research Center of the Armenian State Economic University. The study has not yet been published but some of its conclusions were made available to Eurasianet.

According to the report’s projections, opening the border could increase Turkish exports to Armenia by 65%, and increase Armenian exports the other way by up to 42%. While the report notes that opening would reduce logistics costs and enable access to new markets, it concludes that the risks to Armenian industry are “very high” and that competition with cheaper Turkish goods is “a matter of national security for us.”

Turkish products have long been widely available in Armenia, but they must be imported via a third country, usually Georgia. The border between Turkey and Armenia has been closed since 1993, when, during the first Armenia-Azerbaijan war, Turkey unilaterally shut it to protest Armenians’ capture of Azerbaijani territory outside Nagorno-Karabakh.

The talks now are aimed at reopening that border, which would greatly facilitate bilateral trade and lead to even lower costs for Turkish goods. While Armenian consumers would benefit, business stands to suffer from the heightened competition.

Armenia-Turkey trade is already heavily one-sided – in 2019, bilateral trade amounted to $270mn, all but $2mn of which was Turkish imports to Armenia. But the Amberd report found that Armenia does have export opportunities in the other direction. Armenia now exports raw fur, leather and scrap metal to Turkey, and could export more products, including animals and freshwater fish.

“However, when building economic relations with the neighbouring country, the main risk concerns Turkey’s cheap and high-quality agricultural and industrial products, which may flood the Armenian market. In this regard, it is very important to take into account the issue of Armenia’s food security,” the report says.

Also complicating decision-making are the heightened emotions associated with Turkey, and the deep political polarisation in Armenia. In 2020, Armenia suffered a devastating military defeat to Azerbaijan, which was heavily backed by Turkey. That exacerbated Armenians’ longstanding fears of Turkey – which committed genocide against ethnic Armenians in 1915, something which Ankara continues to officially deny – which Armenia’s political opposition exploits, painting any direct contact with Turkey as treason.

A recent survey found that 90% of Armenians see Turkey as their country’s greatest political threat, and 68% as its greatest economic threat. Asked about how they saw the possibility of open borders and renewed transport ties with Turkey, 35% saw it as definitely or somewhat positive, while 53% perceived it was definitely or somewhat negative.

“The border between Turkey and Armenia has been closed since 1993, since the first Armenia-Azerbaijan war”
Some Armenian economists look warily to their north, where Turkish products dominate the Georgian market. In 2019, Turkey exported approximately $1.5bn in goods to Georgia, but imported only $300mn, according to official Turkish statistics.

Armenian business owners fear a repeat of that scenario, said Alexandr Grigoryan, an economist at the American University of Armenia and part of a group of scholars that has been carrying out research into Armenian businesspeople’s expectations vis-a-vis trade with Turkey.

Armenian business fears “the threat of economic expansion from Turkey if the Turkish state begins to purposefully apply such an economic policy,” Grigoryan told Eurasianet. “In the case of such developments, the Armenian businessmen we interviewed expect the support of the Armenian state.”

Given the comparatively small size of Armenia’s economy, its importance to Turkey is likely to be local rather than national, said Guven Sak, the managing director of the Turkish think tank TEPAV. Armenia “is not a place that can be a source of growth for the Turkish economy on a national scale” but it could be “extremely beneficial” as a regional development project for border cities, Sak told Turkey’s Anadolu Agency.

The Armenian government has not yet announced any plans to protect the country’s businesses in the event the Turkish border opens, and an Economy Ministry spokesperson told Eurasianet that it had not carried out any projections of possible impacts.

Following the 2020 war, Armenia imposed a ban on Turkish imports of consumer goods in protest at Turkey’s heavy backing of Azerbaijan.

The import ban was lifted at the beginning of 2021, as Yerevan and Ankara began to take steps toward normalising relations, appointing envoys and carrying out their first bilateral meetings in more than a decade.

Direct flights between the two countries began on February 2, carried out by both FlyOne Armenia and Turkey’s Pegasus Air. There had been no direct flights since 2020 when AtlasGlobal, the last airline to fly the route, went bankrupt.

The envoys met in Moscow in January and are scheduled to meet a second time in Vienna on February 26. Diplomatic progress is sure to be slow and there is no timetable for when, or even if, the border will open.

Armenian officials have generally tried to accentuate the potential gains from freer cross-border trade.

“These maybe in a particular segment of the economy some goods will lose their competitiveness, but it will make you think about what new opportunities appear after the opening of the border,” Prime Minister Nikol Pashinyan said during an online press conference on January 24.

A member of parliament from the ruling Civil Contract Party and close Pashinyan associate Khachatur Sukiasyan told reporters that Armenia could gain medical tourism from eastern Turkey.

“I have already called on the medical centres of Yerevan and the city of Gyumri to improve their technologies and medical services, which, when the border is opened, will be used by Turkish citizens living at a distance of up to 200 kilometres from the Armenian border, because these services are not developed there,” Sukiasyan told reporters on January 17.

Sukiasyan’s family is in fact already benefiting: His brother is a co-founder and board member of FlyOne Armenia, one of the carriers that started flying the Yerevan-Istanbul route.

Arshaluis Mgdesyan is a journalist based in Yerevan.

This article originally appeared on Eurasianet.
In 2021, as well as the last month, the Belarusian potash industry has taken some heavy blows. Last year, the EU and the US imposed heavy sanctions on Belarusian potash exports, with the EU banning several of the product codes for Belarusian potash being exported to EU countries. The US for its part completely banned trade with several major Belarusian potash companies.

Lithuania was in the forefront of the sanctions implementation, as most of Belarus’ potash exports went through its port of Klaipeda; it is also one of the Belarusian regime’s strongest political opponents on the international arena. However, there was no easy way for Lithuanian railways to stop the transit of Belarusian potash and adhere to the US sanctions, since it had already signed a contract stretching until 2023 with Belarusian potash giant Belaruskali. The Lithuanian government solved this by breaking the contract, citing national security concerns while also declining attempts from other Belarusian companies to sign a new one.

On Tuesday, 15 February reports came in about Ukraine banning the transit of Belarusian potash through its ports and the sale of it to Ukraine’s very large agricultural sector. However, it’s worth noting that the Ukrainian trade restrictions for Belarusian potash only apply to products sold by Belaruskali or Belarusian Potash Company. By the wording of the restrictions, it therefore seems as if these companies could solve this problem by establishing subsidiaries who could get access to the Ukrainian market and its ports. Nevertheless, it severely complicates things for Belarus’ potash industry, one of the country’s most important income sources of foreign currency.

The Russian direction
It has long been speculated that Belaruskali together with Russian oligarch Dmitry Mazepin. Now Belaruskali has become increasingly pressed since being cut off from its shipping routes to both the west and the east, making it hard for it to reach main export destinations such as Morocco and India.

Instead, Belaruskali’s only option seems to be trade through Russian ports. However, neither these ports nor the transport routes from Belarus’ to them have the capacity to handle Belarus’ large quantities of potash. Besides, these are already full of Russian export products. If Belaruskali wants a piece of the cake it will have to invest enormous amounts into developing Russian port capacities or strike some kind of deal with the Russian companies, which makes Belaruskali vulnerable to Russian business interests.

However, the head of the Uralhim Group, Dmitry Koniayev, told Reuters on Wednesday that “We are not considering the development of potash assets outside
of Perm Krai. Our interests in potash are concentrated exclusively in this region.” Moreover, he added that if Uralkali received purchase offers from Belaruskali, it would not consider them.

The Chinese direction

Amid increasing isolation on the international arena and being left out to Russia’s grace, Minsk has turned to China, which is its traditional major partner for balancing out Russian dependence. Only this month, President Xi Jinping has praised bilateral co-operation between the countries twice in honour of the 30-year anniversary of establishing diplomatic relations.

Belarus in its turn has made several public announcements praising the development of the countries’ bilateral relations, mostly in trade and investments, which is the main focus for the Belarusian regime.

However, the real benefits of Chinese-Belarus co-operation are questionable, as Belarus has an immense trade deficit with China (totalling nearly $1,223,500,000 in 2020 according to UN COMTRADE). Previous major Chinese investments in Belarus have also turned out to be disappointing for the Belarusian regime. Last year’s worsening relations between Belarus and the West was also a concern for Chinese investors, and no new major loans were given to Belarus from Chinese banks.

In fact, in August last year, China suspended the payment of the remaining $580mn for a loan to the construction of the Nezhinsky mining and processing plant for potash in Belarus, an investment guaranteed by the Belarusian government. The suspension is thought by some to have been made due to the fact that the owner, Russian billionaire Mikhail Gutseriev, and the Belarusian bank holding the loans, Belarusbank, came under Western sanctions. However, some analysts suspect that the credit freeze was a Chinese attempt at exerting leverage over Belarus in order to drive down costs.

During last year’s migrant crisis at the Belarus-Poland border, there were pronouncements from both sides of completely shutting down the trade routes between the countries. Moreover, the state Belarusian media recently reported that over 5,000 trucks are waiting to pass from Belarus into Lithuania. Throughout last year, Minsk accused Vilnius of deliberately slowing down the major truck transport routes between the countries for political reasons.

In January this year, Belarusian Ambassador to China Yuri Senko assured Chinese state news agency Global Time that any rumours of the rail link between Belarus and Poland being shut down are false and promised that Belarus would ensure the “smooth transit” of Chinese goods. Moreover, Senko added that “we hope that Belarus will boost bilateral trade with China and use its geographical advantages to become a hub.”

The last 12 months haven’t been calm for the Chinese silk road, as projects are being delayed in the Caucasus, Kazakhstan has experienced political unrest, diplomatic ties have worsened between China and Lithuania and now recently, war is looming between Russia and Ukraine. Since Belarus is a vital transit country for Chinese products to the West, worsening Belarus-EU relationships are not in Beijing’s interest. At a time when such large geopolitical issues as a possible war are developing, Senko’s statement is undoubtedly a reassurance to Chinese investors.

Although, one should question Senko’s statement on making Belarus a hub for the Silk Road trade. With an increasing number of sanctions and halted truck flows between Belarus and the EU, Chinese companies will definitely see fewer possibilities to reach western markets from Belarus.

Furthermore, since Ukraine’s conflict with Russia since 2014 made the Ukraine-Russia border a non-viable alternative to reach the Ukrainian market, Belarus quickly became important for the BRI project due to its proximity to and close trade ties with Ukraine. But lately these trade ties have also become sour due to Belarus’ participation in Russia’s military build-up along Ukraine’s northern, eastern and southern borders. Most recently, Ukraine heavily increased border checks for Belarusian citizens, probably due to heightened fears of Belarusian espionage after the Ukrainian special services claimed it had arrested a spy and provocateur of the Belarusian KGB.

With Belarus’ increasing international diplomatic and trade isolation, though, Russia clearly isn’t the only one winning Belarusian market shares. For instance, in January, state Belarusian state news service BelTA announced that the state-owned logistics operator Beltamozhservice would start co-operation with Chinese Taitong International Transport Company, so more transport co-operation is definitely under way.

The past two months’ heavy praise for bilateral trade between the countries and for Chinese investments from Belarusian state officials could be interpreted as a "During last year’s migrant crisis at the Belarus-Poland border, there were pronouncements from both sides of completely shutting down the trade routes with between the countries"
Sanctions keep taking their toll on the Belarusian economy, making it more and more isolated from global value chains. The Belarusian government is trying out new policies to ease the effects of sanctions. However, in the coming years we’ll see a Belarus with either very low or negative growth.

Sanctions effects on Belarus’ economy

Last week, Switzerland, Norway, Canada and Japan tightened their sanctions on Belarus. The pace, width and extent to which the Belarusian economy is currently being isolated is unprecedented.

In total, over 100 companies have left Belarus since the war started; another way to look at this is to note the fact that nearly 6,000 apps were removed from App Store in Belarus between February 24 and March 14 this year. Companies’ divestments in Belarus are increasingly rapidly, striking a heavy blow to the regime’s attempts at becoming an entrepreneurial hub.

The exodus of IT specialists from Belarus has been increasing, hitting the one sector which has been diversifying the Belarusian economy and the only sector which was actually helping the Belarusian economy to improve its resilience to macro-economic shocks.

Even the state flagship company park “Great Stone” is being affected, as the German Port of Duisburg pulled out its investments from the Great Stone park last week. The Great Stone park has been vital for the regime’s image as a manufacturing and logistical hub for trade between China and Europe.

Furthermore, this threatens Chinese investments in Belarus, as the latter’s importance along the “Belt and Road Initiative” is further diminished by increasing tensions with the West. While last year’s sanctions certainly slowed down Belarus’ GDP growth, they were not a major hindrance to it and throughout last year Belarus’ GDP kept increasing. This was fuelled mostly by rapidly increasing export revenues from higher raw material prices.

However, now the Belarusian GDP growth is seriously losing steam. In January this year, Belarus GDP gained 2.7% compared to January 2020; but in February the year-on-year rise was only 1.2%. After the massive number of new sanctions during March, this month’s y/y development is unlikely to be any higher.

One could assume that Belarus’ two oil refineries Mozyr and Naftan would benefit from the higher prices on petrochemical products. The only problem is that they’ve lost one of their biggest markets, Ukraine, due to Russia’s war. What’s more, Mozyr and Naftan lost one of their major export routes through Estonia in February.

Together with the exodus of IT companies and its crumbling financial system, the reduced oil exports will most likely cause an even further slump in GDP growth this year.

Since the oil is traded in dollars, it’s also an important source of foreign currency revenues for the Belarusian economy; and its export hindrances are definitely not helping the Belarusian banking sector’s lack of hard currency.

All major Belarusian banks have, since the war, imposed tough limits of how much foreign currency can be withdrawn, as people have rushed to ATMs and bank offices to secure their savings in the more stable euros or dollars rather than the more volatile Belarusian ruble.

The Belarusian regime is probably looking into new ways of getting more loans, or restructuring old ones with other countries than Russia. On Friday, 18 March, Prime Minister Golovchenko and Lukashenko’s son Viktor Lukashenko returned from the UAE, from what is believed to have been loan negotiations.

Today, Russia announced that it will give Belarus a deferral of 5-6 years on its state loans going to Russia, which owns more than 50% of Belarusian state debt. This gives Belarus time to focus on paying back the rest of this year’s loans; Belarus also gains significant time to restructure its economy and achieve a balance under the new hard sanctions, so that it can confidently pay back future loans.

Belarus’ latest measures

The Belarusian finance ministry has imposed measures which will help its...
Russian e-commerce keeps growing fast: market leaders doubled sales in 2021

East West Digital News in Moscow

In January several top Russian e-commerce companies announced impressive results for 2021, even though brick-and-mortar retail fully reopened in the country. Market leader Wildberries, Nasdaq-listed Ozon, and international platform AliExpress Russia significantly outperformed the market, which grew by at least 40% according to preliminary estimates (InfoLine), reports East-West Digital News (EWDN).

Wildberries: +93%

Wildberries announced that the turnover of its marketplace increased by 93% to RUB844bn (around $11.5bn), including a record RUB304.8bn in Q4 2021 alone. The marketplace has preliminarily estimated its yearly profit at around RUB18bn ($245mn) before taxation.

In 2021, Wildberries customers placed 808.6mn orders, up 146% on the previous year. Some 410,000 new merchants – essentially small businesses and self-employed – got involved in the marketplace, up from 91,000 new ones in 2020.

Wildberries plans to invest further in new logistics capacities, service quality improvements and additional assortment.

The limited transport routes for potash and oil will have further effects on production; but there are also signs of slowed growth in the real economy in other sectors.

Last week, a major housing project was stopped in central Minsk and according to construction workers, there is not even a single worker on site. According to the company responsible, A-100 Development, work was ceased due to “the reconfiguration and improvement of supply chains” and “adaptation of changes and cost management.”

The sanctions have already begun to affect the real economy, and the government has been forced to take rather drastic measures to ensure budget stability. In the end, these measures will damage the stability of the private banking sector and raise the economic burdens of the country’s citizens.

What’s positive for Lukashenko is that Belarus isn’t as sanctioned as Russia is, yet. The Belarusian economy’s sectors’ relationships to western markets are not irreparable, and in the long run Belarus could stabilise its trade, state budget incomes and loan repayments.

Ozon: +125%

According to preliminary unaudited results, Ozon saw its gross merchandise value (GMV) exceed RUB445bn (more than $6bn), up from RUB197bn in 2020 (+125%). The company delivered more
than 220mn orders – around three times more than in 2020 – to dozens of millions of consumers.

By the end of 2021, Ozon was attracting more than 25mn of customers on a monthly basis. This is around 38% of Russia’s population aged 15-64.

Assortment expanded more than sevenfold year on year, exceeding 80mn SKUs by the end of the year (compared with 11mn as of December 31, 2020). This performance was “driven by substantial growth in the merchant base,” says the company, whose marketplace accounted for 65% of GMV, up from 48% in 2020 and just 17% in 2019.

Having raised recently considerable amounts on the international markets ($1.2bn Nasdaq IPO in November 2020, $750mn bond issuance in early 2021), Ozon continued expanding its logistics capacities.

These consist of a large fulfilment, sorting and dark store network as well as pickup points, lockers and courier services across the country. Having tripled in 2021, Ozon’s warehouse capacity is now close to 1mn sq. metres in operation, says the company.

Commenting on these “fantastic results,” Ozon CEO Alexander Shulgin boasted “incredible progress in cultivating the high-frequency shopping habits”, while pledging to develop further sustainability initiatives.

AliExpress Russia: + 124%

The international marketplace claims to have generated last year RUB306bn (around $4.2bn) in turnover, excluding services, up 46% y/y.

Initially dedicated to cross-border sales from China, the company continued developing domestic (Russia-to-Russia) sales. These accounted for 30% of its total transaction volume, reaching RUB110bn, up 124% from 2020.

During last year, AliExpress accumulated an audience of more than 80mn unique users and 28.7mn unique customers. Some 13mn unique users visited the AliExpress app via social networks VK and OK, which are owned by AliExpress shareholder VK Company (formerly Mail.ru Group).

The marketplace now involves more than 400,000 merchants, including 102,500 from Russia. It has 3.2bn SKUs, or 211mn SPU’s in total, including 16.5mn SPU’s provided by Russian merchants (+184%).

AliExpress Russia is co-owned by VK Company, Alibaba, USM and RDIF.

In August 2021, MegaFon sold its stake to USM, the holding of Russian billionaire Alisher Usmanov, while VK Company injected $60mn into the joint venture.

In 2022, AliExpress plans to “increase its logistic capacities, create its own, stable infrastructure and improve customer experience.” The company will continue expanding the network of sellers and goods based in Russia while “significantly reducing” delivery time for goods shipped from China.

Russia expelled from Council of Europe

As a result of its invasion of Ukraine, Russia has been removed from the Council of Europe. The body, created following WWII to protect human rights and peace in Europe, drew up the European Convention on Human Rights.

MPs from the 46 member countries of the Council of Europe passed a resolution stating that “In the common European home, there is no place for an aggressor”. Russia’s expulsion is more symbolic than practical, because it had already declared that it wanted to leave the body earlier on March 15.

Russia will now no longer be a party to the convention on human rights, nor will it be subject to the verdicts of the European Court of Human Rights. In the past, Russia has regularly breached the rules of the convention and ignored the judgements of the Court.

Russia has passed legislation allowing people to be imprisoned for up to 15 years for spreading what the state considers to be “fake news” about the Ukraine war. This includes describing the war as a “war” or “invasion”.

Russia has also cracked down on protests against the war, threatening demonstrators with prison time.

Russia’s government argues that the Council of Europe has become a western stooge, guilty of propagating “russophobic hysteria” at the bidding of Washington and Nato.

A draft of the declaration passed by the Council says: “The Assembly deplores that, despite the many appeals to cease the hostilities and to comply with international law, the Russian leadership has persisted in its aggression, escalating the violence in Ukraine and making threats should other States interfere. Through its attitude and actions, the leadership of the Russian Federation poses an open menace to security in Europe.”
KEEP YOUR EYES ON THE BALL

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Sanctions on Russia are sidetracking China’s Silk Road Rail Corridor – disrupting freight traffic and creating losses for China – while forcing Beijing to rethink regional trade, development and security strategies. But the most severe long-term consequences may be felt in Kazakhstan.

Boosting rail traffic running from China to the European Union via a web of routes through Kazakhstan, Russia and Belarus is a key element in the Belt and Road Initiative (BRI), a $1 trillion vision unveiled by Chinese leader Xi Jinping in 2013 to project Beijing’s economic and political influence around the world. Rail traffic through Russian territory ran on schedule during the first few weeks after Russia’s invasion of Ukraine, as orders initiated prior to the war completed their transcontinental journeys. But while transit via the sanctioned Russian Railways is still technically possible, a growing number of logistics companies have effectively halted BRI-related operations through Russia.

On March 10, for example, DB Schenker, a prominent German third-party logistics provider announced it was temporarily suspending “land, air and ocean transport” to and from Russia. A day earlier, another logistics giant, Hapag-Lloyd, confirmed it is no longer accepting bookings involving Russia, Belarus and Ukraine. Also on March 9, a statement issued by the inland Port of Duisburg in Germany, a key hub for BRI shipments, noted that international insurers are likely to stop offering coverage for shipments transiting Russia and Belarus.

The financial fallout from the Silk Road rail breakdown is affecting China in a variety of ways. Not only is the war starting to cost Beijing lost trade revenue, it is also turning infrastructure investments into white elephants. One such project is the Great Stone Industrial Park situated about 15 miles outside the Belarusian capital, Minsk. The $2 billion, Chinese-financed complex was billed as a trade and IT hub but was mostly a goodwill gesture to induce BRI cooperation from Belarus. This investment may now prove a total loss for China.

The economic hit is relatively minor when compared to the social, economic and geopolitical headache that Russia’s attack on Ukraine is creating for Xi’s government. China’s “no limits” strategic partnership with Russia has turned into a liability for Beijing. Russian leader Vladimir Putin’s
are leaving Russia and returning to their homelands, where dismal job prospects await. The combination of rapid inflation, economic stagnation and rising unemployment in Central Asia raises the risk of regional unrest. Already in January, before the start of the war, discontent boiled over into deadly street protests in Kazakhstan. Worse could be looming just over the horizon.

Kazakhstan is the Central Asian nation with the most to lose from BRI disruption. BRI transit trade had been a bright spot in Kazakhstan’s otherwise bleak economic landscape in recent years. Kazakhstan also tailored its development strategy around its role as a trade corridor. Even while the COVID pandemic was raging, trans-Eurasian rail corridors experienced growth; in 2021, the BRI network, of which Kazakhstan is a major hub, handled about 15,000 trains, ferrying almost 1.5mn containers. The massive new inland port of Khorgos, on the Kazakhstani-Chinese border, often portrayed by Kazakhstani officials as a nice revenue flow into state coffers,

Internal, the prospect of a prolonged interruption of BRI trade has significant ramifications for Beijing. A major strategic BRI objective is facilitating the pacification of China’s restive Xinjiang Province, the scene of an ongoing crackdown on Muslim minorities. Xi has consistently presented the BRI as an instrument capable of bringing peace through trade and economic development. The specific vision for Xinjiang was laid out in China’s 13th five-year plan, which pledged to “strengthen infrastructure development along major routes and at major ports of entry” and “work to develop Xinjiang as the core region for the Silk Road Economic Belt.” China’s strategy also emphasised greater economic integration with Central Asian states, in particular Kazakhstan, thus promoting a greater level of stability along China’s western border. With many BRI rail routes hamstrung, China will be hard-pressed to come up with strategic alternatives. Beyond the short-term impacts on trade, Russia’s invasion severely undermines the BRI’s “peace through commerce” strategic rationale.

Central Asia’s stability is fast-emerging as a source of concern for China, given that the sanctions imposed on Russia are also punishing Central Asian economies, and are causing labour migration patterns to shift. Remittances sent back home by Central Asian labour migrants have long been an important source of income for many families in the region. But this crucial income stream is now in danger of rapidly drying up.

For a variety of reasons, including fears of impression into the Russian army, legions of Central Asian labour migrants have imposed limits on foreign currency and gold exports. It’s uncertain whether the post-invasion spike in global energy prices can help offset the financial turbulence by providing added revenue for energy-rich Kazakhstan.

With BRI routes traversing Russia now seemingly on hold, southern routes via the Caspian Basin, avoiding Russian territory, are receiving more attention. On March 16, Xi moved to shore up diplomatic ties along the southern route, discussing trade and transit with the leaders of Turkmenistan, Gurbanguly Berdimuhamedov and his son and heir, Serdar. While growth in transit volume along southern BRI routes is possible, alternative routings that avoid Russian territory have their own logistical complications, possibly including Russia’s continuing assertion of a “sphere of influence” in the greater Caspian Basin.

War-induced destabilisation is one factor behind Kazakh President Kassym-Jomart Tokayev’s offer to serve as a mediator to end the fighting. The offer, however, has fallen on deaf ears. It

“The economic hit is relatively minor when compared to the social, economic and geopolitical headache that Russia’s attack on Ukraine is creating for Xi’s government”
The recent Russian invasion of Ukraine is having a disruptive impact on the MENA region. Aside from its geopolitical consequences, the war will have an economic impact on the region in various ways.

Russia and Ukraine are two of the world’s top grain exporters. The escalation of the war will certainly affect wheat production and exports. The Russian invasion is expected to drive up global wheat prices, which will impose yet more financial burdens on an already cash-strapped Egypt, which is the world’s biggest wheat importer. This will potentially have repercussions on low-income households and social stability.

Some countries, such as Qatar, could on the other hand benefit from cuts in Russian gas supplies to Europe, increasing gas exports. However, the Qatars said they currently do not have the capacity to increase their gas production.

The consequences of the war are very complicated and have pushed most MENA countries to refrain from clarifying their position until very recently, when the UN General Assembly voted on whether to condemn the Russian invasion of Ukraine on March 3. The MENA countries’ hesitant stance, especially before the UN General Assembly resolution, stems not from bets placed on either camp, but stems rather from striking a balance between, on the one hand, an expected Russian military victory (despite fierce Ukrainian resistance) and, on the other, an expected Western economic and financial victory (despite Russia’s capabilities and manoeuvres).

Regardless of the (non-binding) UN resolution, it is clear that the war has brought strategic shifts for many MENA countries. The GCC countries, for example, have been redefining US engagement in the area. Egypt and Israel have favoured not fully condemning the attack, keeping the door partially open for future cooperation with Russia on energy, food, military equipment trade and other projects. The same applies for North African countries including Algeria, Libya, Morocco and Tunisia. On the other hand, Syria is standing firmly with Moscow, basically on geopolitical calculations; the same calculations that prompted Russia to prevent the Syrian regime from falling in the Western-backed Arab Spring uprising.

**Turkey**

Turkey voted to condemn the Russian invasion of Ukraine in the UN General Assembly. The geographically sensitive position of Turkey between East and West, its long ties with both camps and especially with its economic cooperation with Moscow, have pushed Ankara to carefully balance its different interests and to avoid angering the Russians with any sort of escalation. Russia is Turkey’s main gas supplier, covering 33% of its total imports. The gas cut will represent a problem for Ankara, which will have to search for more expensive options. But at the same time, the country is aware that it must present its stance within the consensus of NATO, in which Turkey is a member. In order to avoid playing an influential part in the US and EU sanctions against Russia, it chose to close the Bosporus and the Dardanelles Straits to warships and said that such a move was not intended to be against Russia but rather designed to preserve the security of the Black Sea region. It is also true that Ankara is in desperate need of Western economic assistance to help the recovery of its ailing economy.

**UAE**

The United Arab Emirates voted to condemn the Russian invasion of Ukraine in the UN General Assembly. The country has been pursuing a non-aligned posture in the crisis, a position explained by the country’s attempt to preserve economic bonds and diversified alliances with partners including the US, Russia, China, and India. The vote for the non-binding UN General Assembly resolution will not affect the UAE strategy of keeping its cooperation with all parties, but it is not clear whether this strategy can remain intact when economic sanctions on Russia begin to affect the entire GCC region.

Despite the UAE desire to keep its relations with Russia to at least an “acceptable” level, the US defence of the Gulf country against recent attacks by the Yemeni Houthi group (together with Russian silence on the matter) has also played a role in the UAE decision not to escalate tensions with the US and to vote against the Russian invasion of Ukraine in the General Assembly.
Saudi Arabia

After days of silence, Saudi Arabia voted to condemn the Russian invasion of Ukraine in the UN General Assembly. The Saudi position is so important given its large oil capacities amid a potential crisis in energy markets that will affect almost every country, especially those of Europe.

Riyadh has been trying to strike a balance between its political interests and the benefits it is currently enjoying from record-high oil prices. The Saudis welcome the OPEC+ decision that targets increases of 400,000 barrels per day (bpd) each month.

Despite the Saudi vote in the UN General Assembly, it is clear that the Saudis would prefer not to show a hostile attitude towards Moscow and would prefer to end the crisis as soon as possible to preserve their trade and military stakes in both camps. This was obvious when Saudi Crown Prince Mohamed Bin Salman showed the readiness of his country to act as a mediator in the Russian-Ukrainian crisis after he received phone calls from both leaders on Thursday.

Israel

The Israelis voted to condemn the Russian invasion of Ukraine in the UN General Assembly. The move was expected as Tel Aviv is keen to preserve its deep alliance with the US and the West, which is also linked to ideology and liberal Western values. On the other hand, the Israelis do not want to escalate their position to show aggressiveness toward Russian interests in the region, especially in Syria where both Israel and Iran depend on Moscow to enhance their power. It won't be a surprise if the Israelis actively engage in mediation attempts between the two adversaries, but the question will be the extent to which the Russians can accept such attempts, given the long strategic partnership between Tel Aviv and Washington.

Egypt

Egypt voted to condemn the Russian aggression on Ukraine. The position raises challenging questions on the

Georgia to apply for EU candidate status

bne IntelliNews

Georgia is preparing an application for EU candidate status, which the Georgian authorities will send to Brussels on March 3, said Irakli Kobakhidze, chairman of the ruling Georgian Dream party.

The move follows Ukraine’s application for fast-track membership. Both countries had previously been seen as outside candidates because of Russian occupation of part of their territory, but following the Russian invasion of Ukraine the issue of that country’s membership is being seriously considered by the EU. Several EU member states from Central and Eastern Europe have backed fast-track membership for Ukraine, though Western European members are more cautious.

Kobakhidze said at a briefing at the party’s central office that the ruling team made the decision “taking into account the overall political context and the new reality” based on consultations with the party’s political council and Prime Minister Irakli Garibashvili.

“Our dream and the political goal is for Georgia to become an economically strong and secure European country. Every step of our government, including our decision today, serves this purpose,” he said. Kobakhidze noted that the Georgian government is already preparing an application and called on “EU structures to consider our application in an emergency mode and make a decision on granting Georgia the status of an EU candidate”.

Emphasising the “impressive achievements” of the current government on the path to EU integration, as well as the steps taken in the field of economy and security, the leader of the ruling party said that this is the path that will lead the country to overcome poverty and de-occupation. “Each step of the Georgian Dream authorities will be permeated with this goal and responsibility to our country and population,” said Irakli Kobakhidze at the end of his speech.

Curiously enough, it was Kobakhidze who said Georgia won’t apply to EU membership until 2024 on March 1: “A hasty initiative could be counterproductive because we have to satisfy certain terms over the [next] two years,” he said.

On March 2 the European Parliament backed EU membership for Ukraine. EU President Ursula von der Leyen has said that Ukraine belonged to the “European family” and shared EU values and that the country “belonged in the EU” but stopped short of saying the country would be admitted any time soon.

Countries willing to join the bloc usually face a long and complicated process, often involving major reforms that must be implemented to achieve EU standards.
country’s food security. Egypt is the world’s largest importer of wheat while Russia and Ukraine are the world’s largest exporters. Cairo imports more than 80% of its wheat needs from the two countries. Russian and Ukrainian tourists also represent a considerable percentage of foreign tourists visiting Egypt, especially in the Red Sea area. When Russia suspended its flights to the North African country over a plane crash in South Sinai a couple of years ago, the tourism industry in Egypt was almost stagnant.

Egypt is also depending on Russia to construct a peaceful nuclear power plant in the Dabaa region to generate electricity and awarded the Russians a multi-billion dollar contract for that purpose a few years back.

On the other hand, political and economic stakes with the West are dominant in the Egyptian decision. The country depends heavily on Western financial assistance and purchases large amounts of Western arms, especially from the US, Germany and France.

It is clear that the Egyptian choice to vote in favour of the Western position against Russia had considered negative consequences that would have followed if Cairo had showed full support of Russia, given the many issues which the Egyptians need Western support to resolve, including a war on terror and a struggle for their share of Nile water after the construction of the Grand Renaissance Dam in Ethiopia, which Egypt says it threatens its share of historical water rights.

But the Egyptians do not, at the same time, want to lose Moscow, since the two countries have a remarkable history of economic and political partnership. In an attempt to reduce the impact of the Egyptian vote on relations with the Russians, Cairo affirmed its rejection of employing economic sanctions outside the framework of the mechanisms of the multilateral international system.

Egypt was eager to cancel two wheat tenders in the past few days due to high prices and uncertainty of supply.

The Egyptian government is currently considering alternative wheat suppliers following the outbreak of war between Russia and Ukraine – two countries on which Egypt relies heavily to secure the grain needed for its population of 103mn. The options include some countries outside Europe, including India, Argentina, Paraguay and Brazil.

The Ukrainian crisis is expected to drive up global wheat prices, which will impose yet more financial burdens on an already cash-strapped Egypt, which is the world’s biggest wheat importer.

The direct effect of cuts in wheat supply from Russia and Ukraine will thus not be felt in the coming months, but the long-term impact on the Egyptian budget and economy will be much harder if the military operations escalate further, as global grain prices are expected to soar.

Syria
Syria voted against the UN General Assembly resolution, preferring to stand with its partner Russia. The move was expected and comes as a “reward” for Russian support of the Assad regime in its intense war against Western-backed forces. However, the consequences of such a decision will be harsh on Syria if the economic sanctions against its military ally distract or weaken the Russians. Black Sea trade will be disrupted and the Syrians will have to pick more expensive options to buy the grain they need – purchases that are vital to avoid any humanitarian crisis in the war-torn country.

Iran
Iran abstained from the vote on the Russian aggression on Ukraine in the UN General Assembly. Tehran has always preferred to strengthen its ties with Russia in the past, mainly to evade Western sanctions. It was clear on this occasions that the Iranian wanted to show support for Russia, but at the same time not to anger the West, with which it has been rebuilding trust lately. The US and its allies could have reactivated sanctions on Tehran if the latter had chosen to support Russia openly and vote against the resolution. The Iranian decision to abstain from the vote took into consideration the future of economic cooperation with Russia in renewable energy projects.

Qatar
Qatar voted against the Russians. The GCC country weighed up its interests and preferred to stand with the US and its allies. The energy crisis in Europe resulting from the war could potentially allow the Qataris to increase their LNG exports. However, it is unclear until now whether this could in practice take place, as the Qataris had announced earlier that their production and export capacity could not currently be extended to meet Europeans’ growing needs.

However, Doha might be looking for an opportunity to mediate between Russia and Ukraine, drawing upon its good relations with Western partners while maintaining a window of opportunity for containing Russian anger, which could harm the small country’s national security given the strong relationship between Russia and Qatar’s neighbour Iran.

Libya
Libya voted to condemn the Russian aggression on Ukraine. The war-torn country preferred to send a message that foreign military intervention – something which it has already suffered for years – is against any law. The country’s grain market will not be affected by the Russian-Ukrainian crisis in the short term, as its wheat reserves are sufficient for more than a year.

Wheat imports from Ukraine represent only 20% of Libya’s total grain imports. The North African country consumes 1mn tonnes of wheat annually, and imports only 200,000 tonnes per year (tpy) from Ukraine. The country could approach other options if the crisis in Ukraine continues and its government proposed to establish a grain bureau to provide a strategic stock of wheat in the country.
Algeria
Algeria abstained from the vote on the Russian aggression on Ukraine in the UN General Assembly. The North African country wanted to balance its interests. It believes it won the Western camp by showing its readiness to supply the EU with extra gas through the Transmed pipeline amid the Ukraine crisis, but it also does not want to lose the Russian side. Algeria is Russia’s ally in Africa, and Moscow is the first provider of arms and military equipment to Algiers.

Algeria accounts for about 11% of Europe's gas imports. Algerian LNG can also be transported via tankers. Existing liquefaction plants are only operating at 50-60% of capacity.

Sudan
Sudan abstained from the vote on Russian aggression on Ukraine in the UN General Assembly. Sudan preferred not to lose the Russians, as the two countries have signed cooperation agreements, especially on military and economic projects.

In recent years, Russia has sought a geopolitical return to Africa through Sudan, especially in the military field, and through energy projects. Two years ago, the two countries signed a seven-year military cooperation agreement. Moscow is also an arms supplier for the Sudanese security forces, which have been in confrontation with a number of liberal forces recently.

Russia has also showed support for Sudan when Khartoum was still under US sanctions for state-sponsored terrorism.

Russia agrees final points of nuclear deal with Iran

Iran and Russia have agreed on the final points of the Iran nuclear deal as part of last ditch efforts to get it over the finishing line, Russian news agency Tass reported on March 15.

Foreign Minister Hossein Amir Abdollahian and his Russian counterpart Sergei Lavrov met in Moscow on March 15 to discuss the Joint Comprehensive Plan of Action (JCPOA) and a “new inter-state agreement” as a way to clinch the deal. For Iran, the nuclear deal will remove the country from ongoing sanctions in exchange for sending spent nuclear fuel to Russia. Russia’s last-minute demands were that Moscow not be cut out of the deal it had been negotiating for the past several months.

Moscow has now confirmed the US has agreed to allow the country to stay within the deal, meaning the deal can now be concluded and sanctions will be removed from Iranian oil sales.

“We received written guarantees [from the US]. They are included in the text of the agreement itself on the resumption of the Joint Comprehensive Plan of Action (JCPOA) on the Iranian nuclear programme,” Russian Foreign Minister Sergei Lavrov said in the meeting with his Iranian counterpart.

Lavrov called accusations of the American side that Moscow is slowing down negotiations on JCPOA a lie. “In fact, the reason for the delay is that the agreement has not yet been finally approved in some capitals, and the Russian capital of Moscow is not among them.”

“Of course, we touched on the situation in Ukraine and around it. We thanked our Iranian colleagues for their objective, balanced position, for understanding Russian security concerns that arose as a result of the destabilising actions of the US and its Nato allies,” the Russian foreign minister added.

Following the announcement by Russia, an unnamed US State Department spokesman said to Israeli reporter Barak Ravid, "We would of course not sanction Russian participation in nuclear projects that are part of resuming full implementation of the JCPOA. We cannot provide assurances beyond that to Russia"

The head of the Russian foreign ministry noted that the agreement between the EEU and Iran will positively affect the dynamics of relations between the countries and trade. Lavrov also said that he accepted the invitation of the Iranian foreign minister to visit Tehran.

Sergei Lavrov added the new partnership with Iran, including the growth of trade will benefit the two nations.

“In 2021, it [trade] increased by almost 80%, exceeding $4bn,” the foreign minister noted. “Russia and Iran are waiting for even more impressive prospects,” he added.

The inter-state agreement between Iran and Russia is likely the accession of Iran into the Eurasian Economic Union (EEU), solidifying the country’s economic interests in Iran. Iran has been in an a preferential trade agreement with Russia since 2018, which has increased bilateral trade.

Iran’s Arak nuclear complex.
A simple message: Ukraine and Georgia can never be members of Nato

History may well say that President Putin was an authoritarian bully, a dictator, even a tyrant, but it will also record that he viewed Ukraine (and/or Georgia) joining Nato as a “Clear and Present Danger” to the security of Russia. For the last fifteen years, he has consistently warned that he will not tolerate either of them joining the Alliance and will never countenance a situation where US missiles and US troops could be based in either country. It may seem an odd question, but through his words and actions, how much clearer could he have been?

2008: Nato states that Ukraine and Georgia will join Nato

Let’s go back to 2008 when on the eve of the Nato summit in Bucharest in April, President Bush publicly stated “we support [a Nato] MAP for Ukraine and Georgia” – MAP, or the Membership Action Plan, is the final stage on the road to full

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Richard Chetwode in London

It’s easy now to claim Putin was always going to invade Ukraine and that unless the West stood up to him, this would simply be the first step in rebuilding the Soviet empire. But maybe it’s much simpler than that; maybe, having ignored his security concerns for so long, we (the West), chose to call his bluff, and he wasn’t bluffing. Maybe we are at least partly responsible for this mess.

Vladimir Putin will know that very rarely in history has the invader won… think Germany in WWI & WWII; North Korea invading South Korea; the Yom Kippur War; Russia (and later Nato) in Afghanistan; Israel in Lebanon; Iraq in Iran; Argentina in the Falklands; Iraq in Kuwait; the UK and US in Iraq… to name but a few. In all cases the invader lost. If history clearly shows that the country which invades another country doesn’t win, then de facto, invading another country is an irrational act. So why did he do it?

“Ukraine will never join Nato”. Five simple words we refused to say. Are we now about to double down on our mistake?
membership of the Alliance. Russian Deputy Foreign Minister Grigory Karasin immediately warned… "Ukraine's accession to Nato would cause a deep crisis in Russian-Ukrainian relations that would affect all European security. Therefore, the West must also make a choice as to what kind of relationship with Russia is in its interests". Sergei Ryabkov (head of the Foreign Ministry's department for European co-operation) let rip with both barrels… "we are in a situation where a very serious, powerful and modern machine is moving closer and closer to those areas that we simply cannot help but consider a sphere of our own serious interests".

**Europe forces Nato to compromise**

The message could not have been clearer, and someone must have been listening because despite heavy lobbying by President George Bush, and despite Nato stating that both countries “will” become members, some European Nato members declined to agree a date of either country's accession. French Prime Minister Francois Fillon made it clear that France was "opposed to the entry of Georgia and Ukraine because we think that it is not a good answer to the balance of power within Europe and between Europe and Russia. "German Foreign Minister Frank-Walter Steinmeier was completely in agreement and warned that Nato must respect certain "limits" in its dealings with Russia. In case anyone hadn't got the right message, President Putin, already furious with Nato's support for Bush's controversial anti-missile system, made it very clear how he felt… "Georgia and Ukraine becoming part of Nato is a direct threat to Russia".

**Georgia ignores the message and taunts Russia... and gets squashed**

That didn't work. Georgia interpreted the supportive words and her new friendship with the West and Nato as a sign that she no longer had to worry about her once-powerful Russian neighbour. Georgian President Saakashvili immediately sent troops into the now Russian-backed self-proclaimed independent Republic of South Ossetia, which sits on the Russian border and was really part of Georgia in name only (all its citizens had been offered Russian passports – sound familiar?). Russian President Medvedev reacted instantly, ordering in the Russian military, which smashed the Georgia forces, but although in the perfect position to, held back from conquering the entire country. Nato didn’t come to her aid and Georgia lost control of both South Ossetia and another separatist region, Abkhazia (also on the Russian border). Following the implementation of a peace brokered by French President Sarkozy, President Medvedev signed an order recognising the independence of the two republics (once again – sound familiar?).

**The basis for Russian foreign policy: The Medvedev Doctrine**

Afterwards, President Medvedev explained the five principles which guided his Russian foreign policy (later known as the Medvedev Doctrine); including that the domination of the world by any single power, even the United States, created instability and conflict; that Russia, as a matter of the highest priority, would protect the rights of its citizens, wherever they might be, and lastly, but by no means least, “As is the case of other countries, there are regions in which Russia has privileged interests”. You don't have to be a rocket scientist to see the names Ukraine and Georgia hung up in lights.

**The Ukraine Crisis of 2014: Russia annexes Crimea**

The causes of the current Ukrainian crisis really originated with trade talks (association level, not full) between the EU and Ukraine in November 2013. Those talks foundered when Russia intervened and said it was unacceptable for Russia to be excluded but suggested that of course a deal which involved the EU… and the IMF and Russia, was a different matter. Indeed, Putin then offered Ukraine exceptional terms (ignoring the inherent corruption in Ukraine which so worried the EU) and the pro-Russian President Viktor Yanukovych turned down the EU-only deal… and the protests began, the Government overreacted, fascists elements got involved, President Yanukovitch flees and a pro-western Government takes power (what America hailed as a democratic change, Putin saw as pro-America regime change – a US-backed coup). Parliament repealed the minority (Russian) language laws and the rest, as they say is history. Russia annexed the Crimea and supported separatists in Russian-speaking Donetsk and Luhansk.

It’s not difficult to interpret the two messages; “Crimea will never become a Nato base”… And “if you, the West aren’t going to back off in Ukraine, I will wreck it so it’s no use to you and you can’t use it against me. That is how important it is to me not to have you on my border.” (my italics… my words).

Some people thought that was impressive – in 2016 a certain Donald Trump tweeted “You look at what he’s doing. And so smart. When you see the riots in a country because they’re hurting the Russians, okay, ‘We’ll go and take it over.’ And he really goes step by step by step, and you have to give him a lot of credit."

Russia continues to warn the West: Ukraine and Georgia cannot join Nato

On the tenth anniversary of the Georgian war, the former Russian President (and now Prime Minister) Medvedev repeated the warning: should the West make the mistake of offering Nato membership to Georgia, it would be “absolutely irresponsible” and a “threat to peace”… it would trigger a “horrible” conflict.

And what has been the response of the West? To ignore Russia's increasingly stringent warnings as we reached the end of last year. The West was willing to talk about anything, except what Russia wanted to talk about. For those of you who want to paint this invasion as an attempt to rebuild the Soviet Empire, I cannot find any evidence that Vladimir Putin has ever threatened to re-absorb the Baltic countries or to claim any of their territories. Maybe it’s worth remembering Putin’s own words… “Anyone who doesn’t regret the passing of the Soviet Union has no heart. Anyone who wants it restored has no brains.”
We (the West) drew a line in the sand. Ukraine must have the right to join Nato as a matter of principle

There is a simple rule in life; if you can’t see the problem, you have no chance of finding a solution, which is why it’s so important to look at our own culpability. We (the West) were willing to put Ukraine’s very existence in mortal danger to protect their right to join Nato. Really? To quote the words of the British Prime Minister, “The sovereign right of the Ukrainian people to join Nato cannot be traded away”. Of course, it can. Unfortunately, we will now never know if the five simple words “Ukraine will never join Nato”, could have stopped this war from ever starting in the first place. Five simple words which could have changed everything. Or let’s put that question another way: if you ask any Ukrainian today whether they would prefer to return to the status quo in early February but with a guarantee they would remain non-aligned, I suspect most would say yes.

The hypocrisy of America (and the rest of us)

America is possibly as guilty as anyone. Back in 1959, Nato placed missiles in Turkey, and in 1962, the Soviet Union, perceiving American weakness as well as fearing that her ally Cuba would be invaded (again), placed missiles in Cuba. America was willing to go to war to remove those missiles (The Cuban Missile Crisis). How many times over the last fifty years has the United States interfered politically, militarily or covertly in countries in Central and South America because it is in its area of influence? It’s called the Monroe Doctrine, which says in effect that any political intervention in the Americas by a foreign power could be seen as a hostile act against the United States. Indeed, Trump quoted the Monroe doctrine in the United Nations in 2019 as a veiled warning to China and Russia not to get involved in Venezuela, Cuba or Nicaragua. Why is it okay for the US to protect its core strategic interests, but not for Russia to protect hers (and let’s not get into a discussion about America and Britain invading Iraq)? It doesn’t make Russia right, on the contrary, but it doesn’t make us right either.

Western arrogance paid for with Ukrainian blood

The people of Ukraine have an irrefutable right to live in a free country, but given the obvious Realpolitik, since when should they be allowed to join Nato? Put simply: they shouldn’t. Can democratic Taiwan apply for (or are we going to offer it) membership of a military alliance like Nato? Of course, not – China would see it as an act of war and probably invade the next day. Ukraine could have chosen to be non-aligned, like 120 other countries around the world, or even neutral, like Ireland and Finland. But it was we in the West who shouted loudest that Ukraine must be free to decide on Nato membership and it is the people of Ukraine who are now paying the price – we are not actually sacrificing anything.

The western democracies warned Putin that if he invaded, he would be hit with a wall of sanctions – entirely sensible. The sanctions that have been implemented – can’t fault them. Initially sending planes filled with lethal defensive (has anyone checked that the Russians agree with this designation?) armaments to the Ukrainian people to deter that invasion – laudable. But knowing we would never send our own troops or planes, to have let this war happen merely on the principle that it was Ukraine’s right to join Nato wasn’t courageous, or brave; it was a miscalculation caused by arrogance. Where were the pragmatic politicians who could have made a difference, because the one thing the West refused to contemplate was compromise? Maybe our leaders should remember the words of US General Normal Schwartzkopf: “It doesn’t take a hero to order men into battle. It takes a hero to be one of those men who goes into battle”.

As for Russia, to borrow the words of French Statesman Charles Maurice de Talleyrand “C’est pire qu’un crime; c’est une faute” (It’s worse than a crime; it’s a mistake). This is an utter disaster, and it will just get worse. Putin, with the losses he is taking in Ukraine and the destructive impact of sanctions at home, can’t afford to negotiate until he has achieved some sort of victory; Ukraine, which has paid such a high price itself, won’t negotiate unless Russia is evicted. Neither will likely get their victory, but both can still lose. What happens when desperate men realise they have failed and those desperate men have control of atomic weapons? Peace is about compromise, because total victory doesn’t exist in a nuclear world as Putin reminded us: “To anyone who would consider interfering from the outside – if you do, you will face consequences greater than any you have faced in history.”

Are we trying to find a peaceful solution or is the West now using this war to achieve regime change in Moscow?

French President Macron or China are amongst the few who could help win a negotiated peace. Any peace will likely involve Ukraine not joining Nato and leaving Russia with a southern corridor to the Crimea; Russia to immediately evacuate the rest of the country and pay reparations; and Russia would probably jump at the chance to stop this war.

You aren’t going to get war trials – no US or UK politician was ever held accountable for Iraq, nor Assad for Syria; it doesn’t work that way. But the West wants to humiliate Putin and economically destroy Russia to enact Regime Change in Moscow. Regime Change has a particularly bad record in. If you don’t accept that Putin has to be part of the solution, then you don’t have a solution. Corner a tiger and it will strike out.

Was not saying those five words really worth this price?

The war may send the global economy into recession, rising prices hurting everyone, not least the rising price of wheat (one of the major causes of the Arab Spring). Was the West’s insistence that Ukraine must have the right to Nato membership really worth the price?

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The world has changed, it’s time for EU enlargement to change, too

Clare Nuttall in Glasgow

The Russian invasion of Ukraine has concentrated the minds of political leaders on the southeast fringes of Europe, convincing them that they must embed themselves urgently into Western institutions for their own protection. The choice made by Ukraine, Moldova, Georgia and most of the Western Balkans is clear, but for this to happen the institutions they hope to join need to change too.

On February 28, just four days after the invasion, Ukrainian President Volodymyr Zelenskiy appealed to the EU for urgent accession under special procedures, and signed Ukraine’s application to the EU shortly afterwards. This was swiftly followed by applications from Georgia and Moldova. At the same time, several EU aspirant states from the Western Balkans sought a speeding up of their accession to the bloc, a process that has dragged on for many years.

What all of these states have in common is that they are seen as being vulnerable to potential Russian destabilisation in the context of the new geopolitical conditions. This has encouraged them to make a definite choice in favour of Western integration.

Admitting them to the EU is party a matter of protection – EU High Commissioner Josep Borrell said on his visit to Skopje on March 14 that the start of accession talks with Albania and North Macedonia will strengthen security in the region – but also a sign of where they choose to stand in the world.

“The world has changed dramatically since the EU integration process was designed more than two decades ago. With Russia’s invasion of Ukraine, the world is split right in the middle: those who uphold democratic values and freedoms and those who seek to destroy them and create total societal submission to authoritarian leaders, a very Orwellian scenario. In other words, the war in Ukraine has shown that the world is split into white and black with very little space for grey in the middle. Countries must choose where they belong, because Russia and China are knocking at their doors. Staying in the middle, or being neutral, is not a safe option,” commented Natalia Otel Belan, regional director, Europe and Eurasia at the Center for International Private Enterprise, in an interview with bne IntelliNews.

No fast track

The Ukrainian application got immediate backing from eight presidents from EU member states in Central and Eastern Europe, who signed an open letter on February 28 supporting Ukraine’s accession to the bloc, while others followed with supportive statements on social media. It also received resounding support when put to a vote in the European Parliament.

However, at the informal summit of EU leaders in Versalles on March 10 and 11, there was no agreement on fast-track membership for Ukraine, with the leaders of France and the Netherlands – long recognised as sceptics when it comes to the accession of some of the Western Balkans countries – voicing their objections. President Emmanuel Macron of France, which holds the EU’s rotating presidency for the first half of 2022, talked of the need to be “vigilant” and said that he did not think it was possible to “open an accession procedure with a country at war”.

Dutch Prime Minister Mark Rutte said that there is “no such thing as a fast track” for accession. “I want to focus on what can we do for Volodymyr Zelenskiy tonight, tomorrow, and EU accession of Ukraine is something for the long-term – if at all,” he added.

The statement adopted by EU leaders and released on March 11 invited the European Commission to submit its opinion on Ukraine’s application for membership. “Pending this and without delay, we will further strengthen our bonds and deepen our partnership to support Ukraine in pursuing its European path. Ukraine belongs to our European family,” the statement said.

It was clear that the agreement didn’t live up to the hopes of some leaders present, who had hoped for more urgent support for Ukraine. Slovenian Prime Minister Janez Jansa, who has
emerged as a staunch advocate for Ukraine's application, said that the EU should provide guarantees for Ukraine's membership as soon as possible. "If we talk about it in 10 years, it means nothing to Ukrainians," he said.

**Lengthy accession processes**
The applications from Ukraine, Georgia and Moldova were dispatched after aspiring EU members from the Western Balkans had been working towards accession for many years. North Macedonia has been a candidate country for more than 16 years, having been accepted as a candidate country back in December 2005, but has yet to open accession negotiations. Montenegro, the closest state to accession, achieved candidate status over 11 years ago, in December 2010. Kosovo has so far been unable to apply as it is not recognised by five EU member states.

“This is something that has very quickly gone beyond Ukraine. Georgia and Moldova have submitted applications formally and there is also an impact on EU neighbourhood policy more generally, so there would be implications for the Western Balkans,” said Marcus How, head of analysis at Vienna-based political risk advisory VE Insight, on a panel organised by the Vienna Institute for International Economic Studies (wiiw) on March 8.

As the accession process drags on, the bloc’s credibility in the Western Balkans has already been undermined by the repeated delays in progress, some of which are a product of internal political issues in existing members – the Bulgarian veto on North Macedonia’s accession talks being just the most obvious example.

No state has joined the EU since Croatia, nearly a decade ago in 2013. The accession process has slowed since the wave of enlargement in the early 2000s, due to a combination of the Western Balkans countries’ relative poverty compared to even the poorest EU member states, and the preoccupation of EU members with other issues such as the migrant crisis and Brexit. With the prospect of EU accession arguably the most important incentive for reform in Central and Southeast Europe regions, there have been repeated warnings of backsliding on democracy and the fight against corruption as the process has slowed.

North Macedonia’s Foreign Minister Bujar Osmani said on February 28 that the European Union should urgently unblock the EU integration process with Skopje and Tirana in the light of the situation in Ukraine following the Russian invasion. Osmani underlined in a TV show on 24mk that the EU should now understand the consequences of the possible destabilisation of the region, or the danger of ‘third forces’ entering the Balkans, if the EU accession process is delayed.

Kosovo’s Prime Minister Albin Kurti said on March 3 that Pristina will accelerate the application process for EU membership and that he wants the country to become a Nato member as soon as possible. Speaking to AFP, he argued that Russian President Vladimir Putin “will use the factors and actors he controls also in the Western Balkans”.

In Bosnia, Zeljko Komšić, chairman of the three-member presidency of Bosnia, has sent an official request to EU officials to consider granting candidate status to the country. Komšić argued that more than ever Bosnia needs European unity and a clear signal that the Western Balkans is a part of Europe.

During his tour of three Western Balkan countries on March 14-16, Borrell commented that it is “high time to reinvigorate [the enlargement] process and integrate the Western Balkans in an irreversible manner into the European Union.” In Tirana, he said that Albania has met the conditions for opening accession negotiations and that he would “strongly support” an opening of talks during the current French presidency of the EU Council. However, as this requires unanimous support from EU members, he was unable to commit to a date.

**New imperatives in a changed world**
The complex and lengthy process of entering the EU means that a political gesture of welcoming Ukraine’s application to join the bloc doesn’t amount to much more than a pledge that the county can start working towards joining at some indefinite point in the future.

However, as Belan argues, “now is not the right historic time for a symbolic gesture”. “The outcomes of the Russia invasion of Ukraine will determine the future of the entire global liberal-democratic order; it is imperative that the EU takes a firm stand on where Ukraine MUST belong: among the community of democracies or a victim of a dangerous authoritarian regime at the very border of the EU. My sincere hope is that the EU would rather welcome a wounded Ukraine as a member (even if imperfect in many ways) and help it reform while it is under the EU embrace and protection, than not,” Belan said.

Belan argues that the world has changed dramatically since the EU integration process was designed and the Western Balkan countries started the accession processes. There is now a war on the border of the EU (Ukraine borders EU members Hungary, Poland, Romania and Slovakia), and there are fears fighting could spread to other parts of the EU’s southeast neighbourhood.

“With the Russian invasion in Ukraine and a very aggressive China, the future of the entire liberal-democratic world order is at stake. If Ukraine falls under the Russian occupation, there is a high risk that Moldova, Georgia and others in the vicinity will fall too. It is clear by now that Russia will not stop with Ukraine,” said Belan.

“A lengthy accession process will jeopardise the entire EU promise for a peaceful and prosperous neighbourhood to the east or southeast. Where the EU hesitates, the authoritarians firmly step in and exploit that hesitation to shift the societies’ hearts and minds as well as the convictions of their leaders.”
away from democratic norms and values. This is what is happening in the Balkans.”

Let down by the West
In the first waves of EU accession after the collapse of the Soviet bloc, Nato membership was seen as a stepping stone to eventual EU membership, as both were seen as steps to improve a country’s security in the widest sense. Now, arguably, both accessions should be seen as equally urgent.

However, the lack of a very positive answer to Ukraine’s application to join the EU comes after the country was arguably let down by Nato.

At the beginning of March, Zelenskiy strongly criticised Nato for failing to come to Ukraine’s aid by closing the skies to Russian aviation. In an angry diatribe against Nato, Zelenskiy said that each Ukraine that dies from that day will be “Nato’s fault”.

A few days later, on 7 March in an interview with ABC News, Zelenskiy announced that Ukraine would no longer pursue Nato membership. “I have cooled down regarding this question a long time ago after we understood that Nato is not prepared to accept Ukraine,” he said. He accused the alliance of being “afraid of controversial things” and “scared of confrontation with Russia”.

Russia has consistently said it will not accept Nato membership for either Ukraine or Georgia. In the latter’s case, the cause of the escalation of tensions with Georgia that led in summer 2008 to Russia’s five-day war and its recognition of the breakaway Georgian republics of Abkhazia and South Ossetia, can all be traced back to the April 2008 Bucharest summit at which Nato members agreed that Georgia and Ukraine would become members of the alliance.

Paul Taylor, senior fellow at Friends of Europe, argued shortly before the Russian invasion of Ukraine that Nato must bear some of the responsibility for the situation around Ukraine. Presenting a report from the think-tank on Black Sea security at a conference last week, Taylor criticised Nato for its promise to admit the two countries. “I think Nato made a big mistake in making a promise it couldn’t keep. That is one reason why we are in the current situation. By creating false hopes and at same time stoking unnecessary fears, Nato shares responsibility for where we are now.”

Insurmountable obstacles?
The main obstacle to any of the three newest applicants joining the EU is that they all have part of their territory occupied by Russia-backed separatists, and Ukraine of course is now partly occupied by Russia.

After Moldova submitted its application to join the EU, Sandu commented on this critical issue, saying that she expects a peaceful settlement of the dispute with the separatist authorities in Transnistria. Of the three states, Moldova is best placed to do this, as neither Russia nor any other state has recognised Transnistria as independent, and the two sides have been engaged in settlement negotiations for years.

“We have not carried specific talks [with the EU] on this. We discussed the Transnistrian conflict and the need to resolve this conflict, as well as the fact that we see this solution as peaceful. We see a solution that would result in a functional state, but we did not discuss concrete topics at this stage,” said the president.

Speaking of Ukraine, How said that he does not expect much can happen before hostilities come to an end. “Even when hostilities do end, assuming Russia is still in Ukraine in some way or other, there would need to be a treaty change in order to admit counties the territorial integrity of which is compromised. This applies not only to Ukraine, it applies to Georgia, to Moldova, Kosovo, Serbia.”

He added: “these are very difficult questions and not just [in terms of] security – integrity of borders is integral to the functioning of the EU single market. These are difficult issues to deal with and there probably won’t be a swift resolution.”

For both the three new applicants and the Western Balkans states another of the major concerns has been that they are much poorer than the existing member states, and also less ready in other ways such as governance and the fight against corruption.

However, a 2018 paper from the Centre for European Policy Studies (CEPS) looking at the quality of political and economic governance in the Western Balkans and Georgia, Moldova and Ukraine found that the two groups of countries were broadly comparable, with Georgia even ranking ahead of the two Western Balkans closest to accession – Montenegro and Serbia – on a number of indicators.

Hlib Vyshlinsky, executive director of the Centre for Economic Strategy in Kyiv, thus argued on the wiiw panel that the findings “mean it is not an issue of just making a huge political decision to invite the countries that are not at all ready, but of making a political decision to invite countries which are ready but before there was no political will”.

Admittedly, the Western Balkans states are ahead of their peers in terms of GDP per capita, though both were well behind the EU members. However, the two groups were well matched when comparing the European Bank for Reconstruction and Development (EBRD) transition indicators, and on both the political criteria measured by CEPS and on economic governance, Georgia performed better than the Western Balkan frontrunners.
The Communist Party is also working to generate Chinese public support of the leadership’s pro-Russia tilt. State media is promoting pro-Russian viewpoints, while pro-Western posts on social media have been censored. A leaked document appeared to contain explicit instructions to editors of the state-owned Beijing News to delete pro-Western comments on the publication’s official Weibo account.

Russia was left further isolated after both India and China chose to abstain on an emergency UN Security Council vote on February 25 to condemn the launch of the Kremlin’s attack on Ukraine the day before. China also abstained in the more general UN General Assembly vote on a resolution to condemn Russia’s unprovoked attack on Ukraine a week later, that was overwhelmingly supported by the international community.

China and Russia have no veto in UNGA voting. The Kremlin had been hoping for a more decisive show of support by Beijing in the two votes and the abstentions were widely seen as a Chinese decision to remain on the fence and further isolate Russia from the rest of the world.

“Two weeks ago we noted that Beijing was struggling to balance support for its strategic partnership with Moscow with a desire to avoid further damage to relations with the West. Since then, Beijing's approach to balancing these conflicting objectives has come into clearer focus,” Teneo said. “On the one hand, China's official diplomatic statements continue to avoid direct criticism of Russia’s invasion and to echo Moscow's criticisms of Nato expansion and Western sanctions. Domestically, the Communist Party is censoring criticisms of Russia online, while state media amplifies Russian grievances. On the other hand, Beijing appears increasingly unlikely to provide substantial material support for the Russian invasion or to help Moscow evade Western sanctions.”

Beijing hopes that public statements criticising the West will be sufficient to uphold its relationship with Russia, even without much material support.

On the other hand and to Beijing’s benefit, there are an increasing number of calls for the West to ask China to intervene in the conflict between Russia and Ukraine as one of the few countries with any clout with the Kremlin. European Union's top diplomat Josep Borrell has already said that China is the logical choice to lead peace talks.

“Boris Johnson has declared that Putin must fail. Faced with Russia’s hideous military campaign, it is easy to sympathise with the sentiment – until it comes to defining success and failure. Cornering Putin carries its own dangers. A wiser course would be to encourage a third party, China, to play a mediating role rather than the West sliding into a new Cold War against the two leading autocratic powers,” former Financial Times editor Lionel Barber said in an opinion piece for the Spectator on March 10.

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term and will be its access point to the international commodity markets if the West attempts to cut Russia off from the global energy markets. However, Chinese banks have already shown a reluctance to work with Russian banks under sanction, afraid of receiving secondary sanctions themselves.

“We previously outlined the risks to China if Beijing helped Russia entities avoid Western sanctions, and since then those risks have increased. On 7 March, a bipartisan group in the US House of Representatives introduced the Direct Investigations on China, Take Action to Oppose Russia (DICTATOR) Act, which would require the US State Department to issue a report on whether China is helping Russia evade sanctions and take action to block such efforts,” Teneo reports.

In the Senate, Marco Rubio is working on legislation that would sanction Chinese banks that use China’s renminbi-based Cross-Border International Payments System (CIPS) to avoid financial sanctions, Teneo added.

Others in Congress have publicly called on the Biden administration to apply secondary sanctions against Chinese companies that assist Russia.

“Indeed, no new US legislation is required for the Biden administration to impose crippling penalties on China. On 8 March, US Commerce Secretary Gina Raimondo directly threatened to block Chinese technology companies from buying key US equipment if Washington discovered that those companies were selling products to Russia. Raimondo directly referenced Shanghai-based Semiconductor Manufacturing International Corp (SMIC),” Teneo said.

Amongst the most crippling of the proposed sanctions now being mooted is a ban on the sale of technology to Russia. As bne IntelliNews reported, Russia has missed out on several revolutions in the machine building space and remains heavily reliant on the imports of western technology as it attempts to modernise its economy. While Russia has increased the amount of imports of machine tools from China, it remains almost entirely dependent on the US and Germany for imports of the best technology used in a wide range of industries. The US government is moving to ensure that Russia does not have access to that technology by using China as a middleman.

Teneo suggests that there are already signs that China is complying with Western sanctions and limiting ties and trade with China. For example, Chinese companies have reportedly refused orders for aircraft parts from Russian airlines. Western plane manufacturers have ended leasing deals for Russian airlines and the majority of the planes in their fleets are western-made and on lease deals. The move could ground the majority of Russia’s commercial aviation, leading the Kremlin to threaten to nationalise the planes. However, as the planes need to be regularly serviced and those facilities are largely based in Germany, even if the planes are nationalised without access to spare parts they will be unusable within a matter of months, say experts.

“Though details are sketchy, this refusal [to supply aeroplane parts] appears to represent compliance with the US Commerce Department’s newly issued export controls, known as foreign direct product rules. These rules ban sales of civil aircraft parts, among other products, and cover sales from both US companies and non-US companies that manufacture products using US-origin hardware or software,” Teneo said.

Other reports suggest that even Chinese companies not directly exposed to sanctions are cutting ties with Russian companies, as are hundreds of western companies at the insistence of their compliance departments that are afraid of sanction risks, but also on principle.

Chinese smartphone makers including Huawei and Xiaomi have also reportedly cut back on shipments to Russia, despite the fact that US sanctions have explicitly exempted smartphone technology in an effort to spare the Russian people the worst effects of sanctions. Western companies like Apple have also stopped exports of their phones to Russia on general principle, not because of any ban on sales. “These moves appear to reflect concerns about reputational risk as well as the dramatic decline in the ruble’s exchange rate,” Teneo said.

“China’s leadership appears to believe that while supporting Russia is burdensome in the short term, the bilateral partnership remains indispensable in the long term, given rising anti-China sentiment in the West. A similar strategic logic has guided Beijing’s approach to North Korea for many years. While China’s support for Pyongyang is often a source of embarrassment, North Korea’s role as a buffer between Chinese territory and US troops in South Korea is ultimately too important to sacrifice,” Teneo said.

To a large extent Beijing is using Russia’s showdown with the West to fight a proxy war ahead of the anticipated clash between Beijing and Washington and is watching developments closely. Like Russia, China has long threatened to retake Taiwan using military means and tensions in the South China sea are high. It is possible that Beijing will annex Taiwan in much the same way that Russia annexed the Crimea peninsula. That is also a reason that the US has come down on Russia so hard, as Washington needs to signal to Beijing that any attempt to take Taiwan will also trigger catastrophic sanctions and a united global reaction to head any such move off.

For its part, Beijing is trying to find a balance between public criticism of western sanctions and validation of Russia’s security concerns, without wrecking its commercial ties with the West, Teneo argues, even if China provides Moscow with little material support in the conflict or as sanctions relief after the active phases of the military operations are over.

On March 7, Foreign Minister Wang Yi said as cited by Teneo: “No matter how perilous the international landscape, we will maintain our strategic focus and promote the development of a comprehensive China-Russia partnership.”
Global food prices are poised to keep climbing even after jumping to a record in February, placing the heaviest burden on vulnerable populations while adding to headwinds for the global economic recovery.

Food commodity prices rose 23.1% last year, the fastest pace in more than a decade, according to inflation-adjusted figures from the United Nations Food and Agriculture Organization. February’s reading was the highest since 1961 for the gauge tracking prices for meat, dairy, cereals, oils, and sugar.

Now, the war in Ukraine and sanctions on Russia are upending shipments and possibly production for two of the world’s largest agricultural producers. The two countries account for nearly 30% of world wheat exports and 18% of corn, most of which is shipped through Black Sea ports that are now closed. Wheat futures traded in Chicago, the global benchmark, recently rose to a record.

The Chart of the Week shows how price shocks will have worldwide impact, especially on poor households for whom food is a higher share of expenses. Food costs account for 17% of consumer spending in advanced economies, but 40% in sub-Saharan Africa. Though this region is highly import-dependent for wheat, the grain constitutes only a minor share of the total caloric needs.

Differences in diet are also significant. In Europe, where bread is deeply embedded in many aspects of its culture, wheat makes up about a quarter of diets. In Southeast Asia, wheat accounts for only 7% versus 42% for rice, for which price increases so far have been relatively contained. Country-level averages, however, mask substantial differences within nations as poor households tend to eat more cereals but less meat, vegetables, and fruits compared with middle-income households.

Finally, disruption may be even greater for countries with close trade links to Russia and Ukraine, including in Eastern Europe, the Caucasus, and Central Asia. High wheat prices will weigh even more on economies in the Middle East and North Africa, such as Egypt, which are especially reliant on Russian exports.

Looking forward, reduced fertilizer supplies and higher oil prices will increase costs for harvesting, transporting and processing food. Policymakers must prevent those pressures from fueling food insecurity by avoiding protectionism and increasing social assistance for the poorest.

The world may also call upon the two largest economies if the situation worsens. In the United States, where about 40% of corn production goes to ethanol, policymakers could reassess that use. And China, which holds more than half of global wheat and corn reserves, could consider releasing supplies to lower prices.”

This article is part of the IMF Blog series delivered by email.

Andrea Pescatori and Ervin Prifti
Siva Prasad: Considering the amount of natural gas potential that sub-Saharan Africa holds and the need for Europe to find an alternate source of natural gas [following] Russia’s invasion of Ukraine, sub-Saharan Africa definitely stands at a point where previously stalled/delayed projects might come into [the] limelight.

We are already seeing BP, which was one of the first operators to announce its exit from Russia, start studies on its BirAllah gas discovery offshore Mauritania, targeting LNG sales to Europe. To be noted, it was previously estimated that BirAllah would see a delayed timeline of development, especially after the [Greater] Tortue Ahmeyim (GTA) scheme [offshore Senegal] was downsized from the initially planned 10mn tonnes per year capacity to 5mn tpy.

Shell and Equinor’s exits from Russia can mean increased focus on the currently less spoken about Tanzania LNG. ExxonMobil’s exit from Russia can mean acceleration of [the] currently phased-out development of Mozambique LNG.

Europe has been one of the two main importers of Nigerian LNG, with the other being Asia. Nigeria is bumping up its LNG export capacity from 22mn tpy to 30mn tpy, and this can mean increased focus on natural gas development in the country to feed the Nigeria LNG plant.

As such, the natural gas developments in the region can seem more attractive to the investors now as this not only helps fill the possible void of supply to Europe but is also in line with the energy transition strategy to focus more on natural gas developments compared to crude oil.

Derek Boulware: Put in simple terms, the events of the last month make sub-Saharan Africa’s upstream more attractive. Of course, the same argument applies to other regions, but some of the countries in sub-Saharan Africa had been making good progress in drawing in investment. These countries can continue to pull in the dollars as long as they stay on that path. From an M&A [mergers and acquisitions] perspective, the current market may suppress deal-making. Producing assets will be generating substantial cash flow right now, a disincentive to sell.

Furthermore, the current high prices and extreme market uncertainty in the near to medium term make asset valuations and closing the buyer-seller gap very tough.

INTERVIEW
Implications of war in Ukraine for Africa

Jennifer DeLay
Experts from Rystad Energy and Welligence Energy Analytics speak to NewsBase about what the Russia-Ukraine conflict might mean for oil and gas producers in sub-Saharan Africa.

WHAT: Given Russia’s position as a major oil and gas exporter, the current conflict has the potential to make projects in sub-Saharan Africa more attractive.

WHY: African gas may draw more short-term interest than oil.

WHAT NEXT: African gas-producing states will have to demonstrate their ability to provide adequate support for LNG projects.

Russia’s invasion of Ukraine on February 24 hit the geopolitical scene like a bolt of lightning, and the shock spread quickly to the global economy as a consequence of the sanctions that Western states have imposed on Russia.

And there are surely more storms to come. The EU and the US have begun expanding their sanctions regimes to encompass crude oil and natural gas, two of Russia’s most valuable (and politically useful) exports. In turn, Russia has imposed a freeze on commodity exports out to the end of the year.

The parameters of this freeze are not yet clear. But since Russia is the world’s largest gas producer and one of the world’s top three producers of oil and wheat, this move has the potential to wreak economic havoc in many parts of the world – partly by driving food and fuel prices up and partly by complicating its relationships with countries that depend on imports of these basic commodities.

Under such circumstances, it is worth asking what these developments might mean for other producers of commodities such as oil and gas. NewsBase has therefore sought the opinion of two energy experts on the question of whether recent development represent a new opportunity for oil- and gas-rich states in sub-Saharan Africa.

The following is a lightly edited version of the responses received from Derek Boulware, head of sub-Saharan Africa research at Welligence Energy Analytics, and Siva Prasad, senior analyst at Rystad Energy.

Investor sentiment
Question: How are recent developments on world oil and gas markets (rising prices, talk of sanctioning Russian oil and gas exports) likely to affect investor sentiment on upstream projects in sub-Saharan Africa?
Seeking advantage

Q: Is there a way for oil and gas producers in sub-Saharan Africa to take advantage of some Western countries’ desire to disengage with Russian suppliers?

DB: Russia is the world’s second-largest oil exporter. Companies no longer purchasing Russian crude will need to source it from elsewhere, which could increase competition for sub-Saharan African crude.

SP: One way for sub-Saharan African gas producers to go about taking advantage of the situation, [in which] some European nations are looking to end/minimise their gas supply trade relations with Russia, would be to showcase [their] large natural gas potential and secure long-term LNG supply contracts – and then focus on accelerating the upstream development and LNG export infrastructure development to fulfil these contracts.

Many upstream gas developments are delayed in sub-Saharan Africa, and LNG export infrastructure plans are [being] phased out. [Demonstrating the capacity] to develop potential and transform as a long-term supplier should be the focus if sub-Saharan African gas producers want to replace Russia as an LNG/natural gas exporter to Europe.

Frontier provinces

Q: Will higher oil prices make relatively high-cost projects (such as, perhaps, ultra-deepwater development offshore Namibia) a more attractive long-term proposition?

SP: The Venus and Graff discoveries offshore Namibia have definitely opened up a new exploration play, where more exploration activity can pick up. But as far as development of these or the other sub-Saharan African deepwater discoveries concerned, it still remains to be seen if the current high oil prices will act as an accelerator or have long-term implications.

The current oil prices are driven by a crisis, which when solved will eventually lead to a more stabilised market at a relatively lower oil price. There are many other factors – fiscal, administrative and other above-the-surface factors that either drive development or act as deterrents to deepwater development in sub-Saharan Africa.

“So it cannot be said that the current high oil price environment will have a long-term positive impact on the cost-intensive deepwater developments off sub-Saharan Africa.

DB: Sustained higher prices will indeed make higher-cost projects more attractive. However, it’s important to note that investment in new greenfield developments, especially in remote areas like Namibia, which will take some years to get to first oil, are based on long-term oil price assumptions, not what is happening now or forecasts over the next 12-24 months.”

Europe and Asia have been the two main buyers of Nigerian LNG.

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The recent sanctions against Russia catalysed a sudden fall of the ruble from RUB81 to the dollar to RUB150. But between March 7 and April 3, 2022, the ruble miraculously recovered to RUB85 to the dollar. What happened?

Very simply: Russia declared that from April 1, gas deliveries to “unfriendly” countries must be paid in rubles or gold. The Russian central bank also agreed to buy gold at RUB5,000 per gram, effectively linking the ruble to both gold and oil.

The Russians were able to strengthen their currency by (a) increasing demand for rubles (e.g. gas importers had to buy rubles to buy gas) and (b) tying it to gold. Russia just announced that this will be the prototype for other commodities in future (e.g. wheat, fertiliser, etc). Terms of trade also shifted massively to Russia’s advantage, (i.e. the prices of energy and food-related commodities, Russia’s main exports, soared).

In this financial war, each side played to its strength – the US to its control of the US dollar payment system, the Russians to their strength in energy (being the world’s largest gas exporter and third largest oil exporter).

Zoltan Pozsar, a well-known Credit Suisse analyst and former US Treasury official, stated that we are entering a new monetary order, which he calls Bretton Woods III: “Commodities are real resources … and resource inequality cannot be addressed by QE…you can print money, but not oil to heat or wheat to eat.”

For Pozsar, Bretton Woods I was the post-World War II agreement that established a gold-backed US dollar as global reserve currency. Bretton Woods II began in 1971 when Nixon “temporarily” suspended the gold backing of the US dollar.

“We are [now] witnessing the birth of Bretton Woods III – a new world (monetary) order centred on commodity-based currencies in the East that will probably weaken the Eurodollar system and contribute to inflationary forces in the West...It used to be as simple as ‘our currency, your problem.’ Now it’s ‘our commodity, your problem’.”

Pozsar believes that the Bretton Woods III era will be characterised by higher inflation and higher interest rates. Governments will substitute foreign currency reserves for commodity reserves. Demand for dollars will be lower, as fewer dollars will be held in reserves, and more trade will be done in other currencies.

The two charts below illustrate the decline in past years in the use of US dollar, both as a share of global reserve currencies and its share as currency used in international trade:

According to a very recent IMF working paper, “The Stealth Erosion of Dollar Dominance”, “the reserve managers have moved out of dollars in two directions, with one quarter headed into the renminbi and three quarters into currencies of smaller countries that have traditionally played a limited role as reserve assets.”

There is a fear that the seizure of Russian reserve assets may accelerate the trend.

According to Pozsar, “When this crisis (and war) is over, the US dollar should be much weaker and, on the flipside, the renminbi much stronger, backed by a basket of commodities.”

In my opinion, the Chinese are much more natural allies with Russia in this form of monetary/commodity warfare than allies in the military sense. You may recall that in February, 2022, Russian President Vladimir Putin and Chinese President Xi Jinping signed a joint statement calling for a new world order. The Chinese have made no secret of their desire to carve out a global role for the yuan.

If Bretton Woods III were to emerge over time, it would undermine the exorbitant privilege of the US dollar’s current status as the world’s reserve currency. Furthermore, if Pozsar is right, the deflationary impulse of Bretton Woods II (globalisation, free trade, etc) will turn into an inflationary impulse (autarky, duplication of supply chains, etc.)

In no way should this article be interpreted as predicting sudden collapse of the US dollar in the short to medium term. The US dollar remains extremely dominant, both in trade and reserve currency functions; a more likely scenario is long-term erosion.

Currently the Chinese and Russians seem to be playing the currency game more creatively than the Americans. The Fed has painted itself into a corner on inflation. We are still in the early stages of a long-term decline of the US dollar. While the trend is inescapable, it is not irreversible: an economic implosion in Russia or real estate crisis in China, for example, could slow or reverse the trend.

Think of the world monetary order today as a game, where the rules are changing all the time – not suddenly, but gradually – there is no referee. You have to figure out how the rules evolve as you go along, adding to the challenge of the game.
Russia’s CBR keeps key rate at 20%, Nabiullina nominated for third term

The board of the Central Bank of Russia (CBR) at the policy meeting of March 18 resolved to keep the key interest rate unchanged at a record-high 20%, after an emergency hike following Russia’s military invasion of Ukraine.

Notably, President Vladimir Putin also nominated Elvira Nabiullina for a third 5-year term, amid previous unconfirmed reports that the respected central banker had tried to resign.

Romania’s stock exchange maintains double-digit annual growth despite deep war losses

The main index of the Bucharest Stock Exchange (BVB), BET, still boasted a robust 12.6% y/y annual advance as of March 11, despite the 9.7% m/m decline seen over the past month following the Russian invasion of Ukraine and the subsequent economic turmoil.

The BET-TR index, which includes the dividends disbursed by the listed companies, advanced even more — by 20.7% y/y — and the impact of the war in Ukraine was slightly smaller at -8.5% m/m.

Czech inflation at its highest level since June 1998

Czech inflation accelerated to 11.1% year-on-year in February, its highest level since June 1998, up from 9.9% recorded in January, said the Czech Statistics Office in its monthly report.

“Inflation thus accelerated further, significantly exceeding the upper boundary of the tolerance band around the CNB’s target. Consumer prices adjusted for the first-round effects of changes to indirect taxes rose by 10.7% y/y in February,” said Petr Kral, Executive Director, Monetary Department.

NBU postpones rates decisions until the situation normalises

The National Bank of Ukraine (NBU) announced that it has suspended making any rate decisions until the “economic situation normalises,” the central bank said on March 3.

The NBU has left the prime rate at 10% for the meantime.
Russia’s GDP expected to drop 8-15% in 2022 on Ukraine invasion, inflation at 20%

The domestic analysts surveyed by the Central Bank of Russia (CBR) on March 10 forecast Russia’s GDP to drop by 8% in 2022 – the worst result since 1998 – after the military invasion of Ukraine, versus 2.4% growth expected previously. In 2021 Russia’s GDP rebounded to 4.7% growth after 2% contraction in the pandemic in 2020.

Russia will now see a wave of outlook reviews following the unprecedented market turbulence, uncertainty, and sanction pressure akin to economic war.

Due to uncertainty there is a wide spread in the range of economic forecasts for this year, although the fact that the economy will contract this year is unanimous.

The magnitude of the contraction is expected to be unprecedented. In 2014, following Russia’s annexation of Crimea, the Russia’s GDP growth forecasts of 3% were revised to 1-2% contraction. Russia’s actual GDP growth in 2014 was 0.7%.

The Institute of International Finance (IIF) now expects the Russian economy to contract by 15% (versus 3% previously), according to a BBC report. Experts warned that the decline could be even sharper should there be additional Western boycotts of Russian energy supplies. Elina Ribakova, deputy chief economist with the Institute of International Finance (IIF), told bne IntelliNews in a podcast that this year’s contraction could be as large as 20%.

“We have to rethink the way we think about Russia. We have gone from an open economy to one that is going to look more like that of Iran,” says Ribakova.

“Russia’s economy is in the early stages of a deep recession and we’ve revised our forecast for GDP to collapse by 12% this year. We’ve also revised our forecasts for

Central and Eastern Europe as a result of the war in Ukraine with inflation set to be stronger, GDP growth weaker and interest rates settling at a higher level than previously thought,” Capital Economics’ Liam Peach said in a note on March 11, which has also downgraded its Russia outlook from a 5% contraction earlier.

Inflation started accelerating rapidly only a week after the start of the Kremlin’s so-called “special military operation”, and increased four-fold in under a month.

The extreme scenarios among economists’ forecasts have 40% for inflation, a fall in GDP by 23% and the dollar/RUB rate at RUB130 to the dollar in 2022.

However, there were also optimists who believe that inflation will not exceed 9.8%, the economy, GDP will only contract by 3.5%, and the dollar will fall to RUB100, but no one saw the ruble breaking below the RUB100 barrier.

Inflation is expected at 20% in 2022 (+14.5 percentage points revision) at 8.0% in 2023 (+4.0 pp), and at 4.8% in 2024 – still well ahead of the CBR’s target rate of 4%. As followed by bne IntelliNews, based on latest weekly inflation data, 20% consumer price growth is expected already in March.

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Russia GDP expected to drop 8-15% in 2022 on Ukraine invasion, inflation at 20%
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