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Senior editorial board
Ben Aris
editor-in-chief & publisher | Berlin
+49 17664016602 | baris@bne.eu

Clare Nuttall
news editor | Glasgow
+44 7766 513641 | cnuttall@bne.eu

William Conroy
editor Eurasia & SE Europe | Prague
+420 774 849 172 | wconroy@intellinews.com

Subscriptions
Stephen Vanson
London | +44 753 529 6546
svanson@intellinews.com

Advertising
Elena Arbuzova
business development director | Moscow
+7 9160015510 | earbuzova@bne.eu

Design
Olga Gusarova
art director | London
+44 7738783240 | ogusarova@bne.eu

Please direct comments, letters, press releases and other editorial enquiries to editor@bne.eu

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NEW EUROPE IN NUMBERS
EU imports of Russian gas surge in January, despite objections to Nord Stream 2

bne IntelliNews

As leading EU countries lobby Germany to stop the construction of Nord Stream 2, the same countries have been dramatically increasing their imports of Russian gas as a cold snap sweeps the continent, according to Russian national gas company Gazprom’s financial accounts.

France has been one of the most vocal critics of the new pipeline that will connect Russia’s Yamal gas fields with Germany, but it has bought 43% more Russian gas so far this year, according to Gazprom’s books, RT reported.

The unusually cold weather in the last few months has worked to undo the gas glut that built up during last year’s heating season when the winter was mild.

That was compounded by uncertainty over whether Russia and Ukraine would renew their gas transit deal, which led both sides to build gas reserves in storage in case a deal failed to transpire. Likewise, European countries anticipating a break in gas transits from Russia also built up reserves in underground facilities. Gazprom’s books have revealed that France’s underground gas storage facilities are less than 30% full and that it has turned to Gazprom for more fuel.

“Gazprom has increased its exports to France by almost 1.5 times since the beginning of the year,” Gazprom said in a report. “The demand for natural gas in European countries against the background of a cold, frosty winter continues.
to grow, and the occupancy of European underground gas storages continues to shrink.”

The surge in demand has also had an impact on the price of gas, which has almost doubled in the last few months. Gazprom’s outlook for the key European gas market in 2021 has significantly improved according to analysts.

“Gas storage levels reveal why. Very cold weather settled over first NE Asia, then Central Europe, driving up gas demand, causing a temporary global LNG shortage.”

causing a temporary global LNG shortage. This in turn caused gas prices to rise not just on spot markets, but across the curve, as European gas storage was rapidly depleted,” BCS Global Markets said in a note.

“This time last year, storage was at 74bn cubic metres, or c66% full, 10ppt above the 10-year average of 56% full in mid-February. It presaged a difficult 2020 – LNG battled pipe gas for storage, driving gas prices driven to historic lows of c$1/mmcf (c$35/mcm). Situation began to right itself in December. The situation began to correct in December with severe cold in NE Asia and continued with cold air mass sitting over Central Europe for much of February. As of 14 February, storage had fallen to 42% full or to c48 bcm, a c26 bcm gap vs mid-February 2020.”

Gas exports are on the rise across Europe despite concerns over Nord Stream 2. Italian purchases have also grown by 112.7% so far in 2021, with Poland – one of Moscow’s harshest critics of the new pipeline – also increasing its imports by 63.7%.

Russian Deputy Prime Minister Alexander Novak told TV station last weekend that obstruction efforts are in vain, and the 95% complete pipeline will eventually be finished.

The increase in demand will also improve Russia’s budget forecast. Gazprom exports’ price forecast for 2021 was raised to over $200/mcm from the $170/mcm budgeted only in December, Kommersant reported, quoting Gazprom CFO Alexander Ivannikov.

All in all, Gazprom reported that non-FSU exports were up 36.5% year on year to 27.5 bcm for the first one and a half months of 2021. Gazprom booked additional capacity of 14.2 mcm per day for transit via Ukraine for March at an auction last week, Interfax reported.

Gazprom agreed to ship 40 bcm per year via Ukraine from 2021-24. Gas production in Russia decreased from 738.4 bcm in 2019 to 692.9 bcm in 2020, and its share of production in Russia decreased from 67.7% to 65.3%. Gazprom did not use the full 65 bcm quota booked for 2020 due to the large amount of gas in storage. However, this year the new deal calls for a reduction of transits via Ukraine to 40 bcm, but it already seems likely that Gazprom will use all of that quota and more.

The gas glut of last year is already unwinding as record high levels of gas storage begin to fall because of the cold weather. Underground storage in Europe is 47.9% full vs. 68.2% full in February 2020 and 48.5% full at this time in 2019.

“The first quarter of 2021 is starting much stronger than expected, with demand likely coming in higher and prices likely to be above our previous forecast due to higher spot and Brent prices,” BCS GM said.
Ukraine and Lithuania imported record amounts of power from Belarus, but move to break ties with its power grid

Ben Aris in Berlin

Ukraine imported a record amount of electricity from Belarus in 2020, as other neighbouring EU countries cut their ties with the Belarusian power grid.

Ukraine imported more than 183mn kWh of electricity from Belarus in January, according to Ukraine's national energy company Ukrenergo, as cited by BelaPAN, making Belarus the single biggest supplier of power to Ukraine and accounting for two thirds (67.3%) of imported power.

Ukraine purchased more electricity from Belarus in January than it did in all of 2020, when it bought a total of 153mn kWh. The imports were partly due to problems in the domestic power sector where Ukraine is running dangerously low in coal to power its own power stations, much of which increasingly has to be imported from Russia.

Part of the reason for the surge in imports was that Belarus' Ostrovets (aka Astravets) nuclear power plant (NPP) went online at the end of last year and reached 100% capacity in January.

The Russian-financed and built power station produces far more power than the republic needs. Minsk was hoping to reduce its dependence on Russian oil and gas imports, and heat and power its economy and at the same time earn some extra revenue by exporting power to its western neighbours in the Baltics and south to Ukraine.

However, the plan has backfired, as Lithuania has strenuously objected to the power station which it claims is unsafe and which is only about 70 km away from Lithuanian capital Vilnius across the border. The Lithuanian government has gone as far as supplying the entire population of the capital with iodine tablets and run mock evacuations in case of an accident at Ostrovets.

Nevertheless, as the cold snap hit eastern Europe, exports to the Baltic states also surged 350% in January year on year after Ostrovets came online.

The spike in exports from Belarus to Lithuania come after Vilnius threatened to break the Soviet-era power grid ties between the two republics. Two of the main transmission lines linking the two countries were switched off in January “for repairs” but Vilnius has not gone as far as actually cutting the connections.

Since the break-out of mass protests and the condemnation of Belarus, especially by the Baltic states, following the disputed August 9 presidential elections, attitudes towards Belarus have hardened.

“Belarus’ Ostrovets (aka Astravets) nuclear power plant (NPP) went online at the end of last year and reached 100% capacity in January”

Ukraine's new acting Energy Minister Yuri Vitrenko has also come out strongly against importing Belarusian power.

“We urgently need to separate from the united system of Belarus and Russia and unite with the European one. And this will be one of my main tasks, so that we are part of Europe, part of a normal market, where there is no arbitrariness of monopolists, where there is a normal and transparent price. It is in the interests of Ukraine, our energy security and energy security – it’s national security,” Vitrenko said during an interview with a local TV channel on January 22.

Vitrenko is a former senior executive at Ukraine’s gas monopolist Naftogaz and led Kyiv’s negotiations with Moscow on a new transit deal and the efforts to collect a multi-billion dollar award from Russia’s Gazprom handed by a Stockholm arbitration court – a fight he won, securing both the payment and a new gas transit deal for Ukraine.
Rosatom, the state-owned Russian nuclear power company, has dismissed the Baltics' objections to the power station on safety grounds as political. It says that its power stations meet all of the most stringent international safety standards and is currently a world leader in the export of nuclear power technology with more than 40 international projects underway at various stage of development and another 40 projects in Russia.

The bottom line is that power exports by Ostrovets have become very politicised. As long as Belarus' self-appointed President Alexander Lukashenko remains head of the government in Belarus then none of the country's Western neighbours are likely to be willing to import power, despite the economic and environmental advantages of the power station.

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Russia's Rosneft oil major joins BP in going green

bne IntelliNews

Russia's largest crude oil producer, state-controlled Rosneft, signed a collaboration agreement with British Petroleum on supporting the carbon management and sustainability activities of both companies. BP is the largest foreign shareholder in Rosneft with a 19.75% stake.

As reported by bne IntelliNews, in the past two years Russian industrial majors have scrambled to improve their ESG scores or face the risk of losing investors that are increasingly careful about long-term environmental strategies.

On the state policy level, ESG is also in focus as Russia belatedly prepares to tackle the EU carbon tax introduction and other "green" challenges. Recent reports suggest several initiatives are being developed at the same time, such as green certificates, a greenhouse gas (GHG) emission reduction strategy, and an energy efficiency policy.

Rosneft is ranked number 16 in the latest RA Expert Russian corporate ESG ranking, a new list that describes the ESG scores of the major Russian corporates. It ranks best on the environment (7) and worst on corporate governance (27).

In this environment a comprehensive ESG agenda is a logical next step for Rosneft, which has been working hard on improving its investment appeal. In 2018 the company pushed a broad investment makeover, when it pledged to cut debt, rein in its investment programme and shed non-profitable assets. The company also raised its dividend payout to 50% of IFRS profit.

Now Rosneft and BP have agreed "to co-operate in identifying and developing new low carbon solutions and programmes that will support their shared sustainability goals." The oil majors will also jointly evaluate new projects envisaging the use of renewables, opportunities for carbon capture, utilisation and storage (CCUS), as well as developments for hydrogen.

"ESG scoring is an increasingly important part of investors' decision-making process. Therefore, a strategic agreement between Rosneft and BP on carbon management should be considered a positive for Rosneft," BCS Global Markets commented on February 5, while affirming a Buy call on Rosneft's shares.

"ESG is becoming an increasingly important part of investment management, with Portfolio Managers required to devote a large and increasing amount of time, we think, to justifying their investments on an ESG basis as well as a return basis," BCS GM analysts wrote.

Rosneft also reminds that it had adopted a 2035 Carbon Management Plan featuring clear targets for reducing GHG emissions, which was updated by the board in December 2020.

The goals outlined in the plan include the prevention of direct and indirect GHG emissions of 20mn tonnes of CO2 equivalent, a 30% reduction in the intensity of direct and indirect emissions in oil and gas production, methane emission rate below 0.25%, and zero routine flaring of associated extracted gas.

"In late 2020, FTSE Russell, a unit of the London Stock Exchange, verified Rosneft's entering the global FTSE4Good Index Series," the company stressed, while noting that "Rosneft has been recognised as the leading oil and gas company in Russia by several international ESG ratings, such as Refinitiv, Bloomberg, Corporate Human Rights Benchmark, and has been ranked among leaders in the Climate and Water Resources international ratings of CDP."

As for BP, within 10 years it aims to have increased its low-carbon investment 10-fold to around $5bn annually, while developing around 50 GW of net renewable generating capacity, a 20-fold boost.
Moldova’s largest bank MAIB appoints new CEO as it mulls international listing

Clare Nuttall in Glasgow

Moldova’s largest bank Moldova Agroindbank (MAIB) has appointed Giorgi Shagidze, a former executive at Georgia’s TBC Bank, as the new chairman of its management committee.

Announcing the appointment, which still has to be approved by the National Bank of Moldova, the chairman of MAIB’s board, Vytautas Plunksnis, noted Shagidze’s IPO experience “which may help MAIB come closer to a listing on an international stock exchange”.

MAIB’s shareholders include the European Bank for Reconstruction and Development (EBRD) and two private equity investment funds that bought into the bank in 2018 in what was seen as an important step towards cleaning up the largest bank in a sector plagued by corruption scandals.

Today, MAIB has a market share of about 30% of the country’s banking assets and about 35% of the loan balances. The bank serves over 20% of the country’s population and is one of the largest employers in the country.

Since 2018 its largest shareholder has been HEIM Partners Ltd, a UK-registered company representing the international investor consortium of the EBRD and private equity investors Invalda INVL and Horizon Capital, which used to be run by former Ukrainian finance minister Natalie Jaresko.

Shagidze has over 25 years of experience in the financial and banking sectors, most recently as chief financial officer and chief operating officer at TBC Bank. During his 10 years in the post, TBC Bank increased its assets more than eightfold, becoming the largest bank in Georgia. In 2014, TBC launched its IPO on the London Stock Exchange (LSE), attracting foreign institutional and retail investors. TBC shares are included in the FTSE 250 index with a current market capitalisation of approximately $1bn.

“We are pleased to bring in such a strong leader to take over the executive leadership of MAIB. We rely on the experience and leadership of Giorgi Shagidze to further strengthen MAIB’s position as a leader in the banking sector in the Republic of Moldova, putting, first of all, the needs of our customers at the centre of priorities,” commented Plunksnis, according to a press release from the bank.

“I am convinced that as many satisfied customers as possible will lead to the growth of MAIB’s business, ultimately resulting in superior returns for our shareholders, including through dividends. I also count on Giorgi’s IPO experience, which may help MAIB come closer to a listing on an international stock exchange.”

Shagidze thanked MAIB for its decision. “I look forward to working with the incredibly loyal, professional and talented team of Moldova Agroindbank and to serving MAIB customers in the most valuable way possible. MAIB has the people, culture and technology to provide the best banking products and services to its customers: corporations, small and medium enterprises [SMEs] and individualism,” he said. “This will allow us to ensure the continuity of MAIB traditions, but also to remain at the forefront, to anticipate and anticipate customer expectations, in a constantly evolving business environment.”

RBI net income falls by 35% to €804mn in 2020

bne IntelliNews

Raiffeisen Bank International (RBI), the second largest Austrian lender by assets, made a preliminary consolidated profit of €804mn in 2020, down 35% year-on-year, as the COVID-19 pandemic hit income and pushed the bank to raise provisioning, the bank announced on February 5.

The results were also affected by weaker local currencies and continuing low interest rates across most of the CEE region where RBI operates. Net profit in the fourth quarter was €205mn.

Loans to customers were down 0.6%, mainly due to currency effects, at €90.67bn, while assets rose 9% to €166bn.
The bank’s CET1 ratio rose 0.5 percentage points quarter-on-quarter to 13.6% after dividends.

Provisioning for impairment losses on financial assets soared 169% to €630mn, an annualised ratio of 0.68%, up 0.42pp, but this was mostly for general provisioning for the macro-economic environment. In fact there was a slight improvement in the non-performing exposures (NPE) ratio, down 0.2pp to 1.9%, with the NPE coverage ratio up 0.5pp to 61.5%.

Net interest income fell 5% to €3.24bn as net interest margins compressed to 1.97% in Q4, down 0.3pp q/q. Net fee income fell 3.3% to €1.74bn.

General administrative expenses were down 5% y/y at €2.95bn but the overall cost-income ratio remained high at 63.7% in Q4, up 9.6pp q/q.

The bank’s return on equity was 6.6%, down 0.9pp in Q4. The bank’s board has recommended a dividend of €0.48 per share for 2020.

Rising demand from Europe boosts Metalloinvest’s iron production in 2020 to end the year flat

bne IntelliNews

Rising demand for iron lifted production at the Metalloinvest Group, which belongs to Russian metals magnate Alisher Usmanov, the company reported at the start of February.

As the coronavirus (COVID-19) pandemic begins to recede, a year’s worth of pent-up demand is being released that is already pushing up commodity prices.

Metalloinvest reported that at the end of 2020 it saw an increase in the volume of export deliveries by 15.6% compared to a year earlier. Most of the uptick in demand came from Europe, where orders were up by 43.8%, but also from the Middle East and North Africa, which were up by 16.7%, according to the company’s results.

Metalloinvest is one of the largest mining and metallurgical holdings in Russia with its main assets including OEMK, Lebedinsky and Mikhailovsky GOKs, and Ural Steel.

The sign of restored hope in the markets came in the last quarter of 2020 when the first vaccines were approved for use against the pandemic. Financial markets immediately rallied and there was one of the biggest rotations on record out of the “stay-at-home” stocks, such as Netflix and e-commerce companies, into the “back to work” stocks that include metallurgical corporations.

After slumping dramatically in the first quarter of 2020, however, iron prices rallied for the rest of the year as mine after mine around the world were hit by coronavirus-related production problems. The world’s largest producer, Brazilian-based Vale, has been struggling to return to full production. The impact of the virus on production has driven up the prices on the international market from around $90/tonne in the first quarter of 2020 to a nine-year high of $172/tonne in January, according to Trading Economics, due to stronger demand from China.

With the spill over health issues still causing production problems at major international producers and the faster-than-expected recovery in demand, especially in Europe, analysts at Credit Suisse raised their forecast for iron prices from $60 in the first half of this year to a whopping $170 average.

What has surprised analysts is the speed that orders for real-world commodities like metals have picked up. Many companies that had made investment plans were dusting them

“Most of the uptick in demand came from Europe, where orders were up by 43.8%, but also from the Middle East and North Africa”
The production of pig iron at its Ural Steel unit decreased by 16.3% to 2.3mn tons due to the repair of a blast furnace. But overall crude steel production increased by 2% y/y and reached 5mn tonnes in 2020, lifted in part by faster repairs in 2019 at Metalloinvest’s OEMK production facility. Pig iron exports fell slightly, down from 1.7mn to 1.2mn tonnes. At the same time, overall pig iron and steel products supplies to the domestic market contributed 32.4% to the company’s total shipments.

While the trading operation results have been released, the financial results for 2020 have not. However, a pick-up in commodity and raw material prices over the fourth quarter are likely to lift the financial results for the year and put them on par with 2020.

In the last financial statements reported by the company for the third quarter of 2020, the company’s net profit decreased by half to $752mn. Metalloinvest’s revenue for nine months also fell by 14.2% in the same period to $4.57bn from $5.3bn in the same period a year earlier.

Metalloinvest’s revenue in 2019 decreased by 3.2% to $6.96bn, while net profit increased by 5.1% to $1.73bn, compared with $1.65bn dollars in 2018.

Metalloinvest is the flagship company of USM, a holding company controlled by Alisher Usmanov and his partners.

Usmanov is one of Russia’s most successful businessmen and the first of Russia’s superrich to turn into a full-time philanthropist. Having become a dollar-millionaire over thirty years ago from the production of plastic shopping bags he went on to dabble in trade, then became a financial investor. Usmanov moved into the metals sector in the noughties to build up Metalloinvest through acquiring assets on private market during those boom years. However, he is most famous for buying some 8% of Facebook’s stock well before the company’s eventual IPO, earning him several billions of dollars in profit. Usmanov is often described as a rare example of a Russian magnate who made his fortune in the open markets and not via government connections or privatisations.
Rolls-Royce set new Russian sales record in 2020

Rolls-Royce Motor Cars announced a new sales record in Russia for 2020, delivering more than 200 vehicles to customers, the company said in a press release in January.

The company sold its first ever car to Russia in 1910 during the Tsarist era, and has re-established sales following the collapse of the Soviet Union.

Sales in 2020 were up 4% year on year, making Russia “once again the largest market for the brand in continental Europe, and Moscow dealers top the list of European Rolls-Royce dealers,” the company said.

Julian Jenkins, regional director of Rolls-Royce Motor Cars Europe, commented: “We are proud of this impressive performance in Russia, especially during these challenging times. I want to thank our dealers in Moscow and St. Petersburg for the individual approach, which made it possible to cope with the challenges of the times, and the colossal efforts to achieve this result."

The Cullinan and Black Badge models are key growth drivers for sales, says Rolls-Royce, while the Phantom flagship model is in constant demand.

Following the Russian premiere of the new Rolls-Royce Ghost in October 2020, the brand begins the first deliveries of the new product to the Russian market this year and the first Ghost customers will receive their car keys by the end of the month.

There are three official Rolls-Royce Motor Cars dealerships in Russia: two in Moscow and one in St. Petersburg. Moscow is the first city in the world with two Rolls-Royce dealers. In the Russian capital, the only Provenance Pre-Owned showroom in Europe has also opened, confirming the interest of customers in the programme of selling used cars.

Russian agriculture enjoys another year of growth in 2020, dacha-grown food production soars

Ben Aris in Berlin

Russia’s agriculture sector is one of the great unsung successes of reform in recent years and put in another strong year in 2020 despite the multiple shocks to the economy.

Agricultural output has grown almost every year over the past decade, and 2020 was no exception, even if growth slowed down to about 1.5% as the sector did not escape the ravages of the pandemic entirely.

The main focus of the agricultural reforms has been on boosting grain production and Russia is now vying with Ukraine for the title of the “world’s biggest grain exporter,” as the two countries trade the title of pole position each year.

Grain harvests were up by 10% last year at 133mn tonnes and 43mn tonnes of exports, approaching the record harvest of 2017 of 135.4mn tonnes.

Grain exports have become a significant contributor to the budget, earning some $25bn in 2020, helped by problems in other markets such as Ukraine, which suffered from drought that pushed prices for grain up in 2020.

Russian integrated agricultural major Rusagro reported a 36% year-on-year boost in revenues for 4Q20 to RUB61bn ($0.8bn), while its top line for 2020 overall was up by 17% y/y to RUB175bn.
The development of the sector has been helped by the Kremlin’s decision to impose tit-for-tat sanctions on the EU, banning all agricultural imports to Russia following the EU’s decision to impose sanctions on Russia after it annexed the Crimea in 2014. The ban is in effect de facto protectionism and the Kremlin has used it to pour investment into agriculture to make the country autonomous. Famously, Russia now has a cheese production sector where none existed before, including the manufacture of “Siberian camembert.”

However, other subsectors of agriculture fared less well. The production of certain crops such as potatoes declined considerably, and sugar beet production collapsed to levels not seen in many years.

“Two thirds of Russia’s potato production is grown privately in dachas”

Sugar prices soared by 75% in the last quarter of 2020, leading the Kremlin to impose voluntary price controls on basic food products to head off social unrest that are still in place and will likely remain so for about six months.

And crop farming, which accounts for well over half of agricultural output, increased significantly more slowly than at nearly any time in recent history, reports Bank of Finland Institute for Economies in Transition (BOFIT) in its weekly update.

“That was due to smaller areas under cultivation and smaller harvests per area. The steady growth of livestock production continued last year,” said BOFIT.

“In particular, agricultural corporations, co-operatives and organisations have succeeded in rapidly ramping up production. They did so yet again last year and account now for about 55% of Russia’s crop production, and over 60% of livestock production,” BOFIT reports.

However, one of the quirks of Russia’s agricultural sector is that the majority of production is literally home-grown: traditionally Russians have grown a lot of their fruit and veg at the dacha, both as a necessity (in the chaos of the 90s) and as a hobby (as Russians put high value on “freshness” and “naturalness”) in their food.

In the 1990s the majority of Russia’s potato production was dacha-grown and it is a sign of the economic progress Russia has made that the share of home-grown potatoes has fallen to, the still remarkably high, two-thirds.

As the coronavirus (COVID-19) pandemic hit, forcing many Russians to move to their dachas last summer to self-isolate, they apparently passed much of their time in the garden.

“The fastest growth, however, has been posted by private farmers. Their operations focus on crop farming, and their share of total crop production nationally has gradually risen to more than 20%. Production of household farms, on the other hand, has contracted gradually over the past decade. Even so, household farms still account for nearly a quarter of crop production (and about two-thirds of potato production and over half of vegetables), not to mention almost a third of livestock production,” BOFIT said.

And crop farming, which accounts for well over half of agricultural output, increased significantly more slowly than at nearly any time in recent history, reports Bank of Finland Institute for Economies in Transition (BOFIT) in its weekly update.
Russian message service Telegram hopes to raise $1bn with a convertible bond private placement

Ben Aris in Berlin

The super secure Telegram messenger service, developed by Russian-born software icon Pavel Durov, is looking to raise $1bn through a bond placement to a limited number of investors from Russia, Europe, Asia and the Middle East, the Kommersant daily reported citing unnamed sources on February 18.

The issue reportedly comprises exchange bonds that could be converted into equity in the messaging service that is currently 100% owned by Durov and his brother Nikolai. Kommersant reports that the price of the conversion would be at a 10% discount to a potential IPO should it happen within five years.

The minimum bond placement is said to be set at $50mn, but could be lowered to $10mn. Five-year bonds could carry an annual coupon of 7-8%.

In Russia, potential investors have received offers to buy bonds from VTB and Aton, which are the financial agents for the Russian market, reports Kommersant. Aton declined to comment and VTB did not respond to Kommersant’s requests for information.

Durov has already raised $1.7bn from the biggest ICO (Initial Coin Offering) in history to fund the development of his Telegram Open Network (TON) blockchain, but he later abandoned the project due to objections by the Securities and Exchange Commission (SEC), which said the sale of its GRAM coins was the sale of an unregulated security.

As bne IntelliNews reported in January, Durov was already in talks with potential investors to raise fresh investment capital using debt when the SEC ordered him to return $1.2bn of the $1.7bn he raised in the ICO by April this year, as reported by The Bell.

Investors are very keen to get their hands on Telegram’s equity as emerging markets (EMs) have seen a string of mega-IPOs in the last six months and tech stocks are currently hot. Telegram is one of the few companies working in the social media sphere that remains 100% privately owned. At the moment Telegram makes no money at all, being privately funded by Durov and the capital he has raised.

Analysts surveyed by Kommersant believe that raising funds through an IPO would not be beneficial at this stage, as Telegram could monetise its services and improve on the $30bn that market participants currently estimate it is worth.

Exchange bond borrowing is common for venture deals with a small number of participants, but they remain rare for a Russian company.

Telegram on the rise

Telegram has been on something of a roll recently, as it is the service of choice for democracy protesters around the world from Hong Kong to Tehran, Minsk and Moscow.

Its privately owned status and Durov’s promise not to co-operate with governments’ security services and his lack of contact with Big Tech corporates has created a bond of trust between him and his users.

And in January the service got yet another boost after the popular messaging service WhatsApp – one of Telegram’s main rivals – suffered from an exodus of users after it changed its terms of service. Media reports suggested the service would share its users’ data with its parent company Facebook. With more than 2bn users around the world, millions deserted the WhatsApp platform and the message service of choice they went to was Telegram: 25mn users downloaded the Telegram app in 72 hours alone.

Durov is also the author of the wildly popular VKontakte.ru (vk.ru), the Russian speaking world’s answer to Facebook, that was launched in 2006, and built Telegram while he was still running vk.ru.
The service has been gathering new users at a rapid pace thanks to its reputation for being uncrackable.

In 2019 the Federal Security Service (FSB) demanded that Durov hand over the digital keys to Telegram and allow it to read messages transmitted by the service. Durov refused and the authorities tried to block Telegram. And failed miserably. Roskomnadzor, the Russian media watchdog, failed to shut Telegram down as the service flipped from one server to the next, but Roskomnadzor did manage to shut down its own site, and hundreds of others, by mistake.

After humiliating the Russian authorities and the FSB, two years later the government finally gave up and the message service was unblocked again.

Telegram couldn’t have organised a better marketing stunt if it had tried. New users flocked to the service during the showdown and government officials continued to use it while the campaign against the service was still on – for the very reason that made the service so popular in the first place: it is impossible for the FSB to eavesdrop on your conversations, but the most popular Telegram channels reached millions of people.

For these reasons Telegram has been the preferred service in Iran, where the opposition use it to communicate and the government there was similarly frustrated in its effort to ban the service. In the mass protests that broke out in Belarus following the disputed August 9 presidential elections the go to news service was Nexta – a Telegram channel, which briefly became the most read news service in the world. Try as he might, Belarus’ self-appointed President Alexander Lukashenko was also unable to shut the service down. As a result of all this Durov has emerged as a sort of folk hero to many in Eastern Europe.

Since the Russian government dropped its effort to ban Telegram it appears that Durov is now a bit of a poacher turned gamekeeper. Last August Durov submitted an anti-trust complaint against Apple to the European Commission, the Financial Times reported on July 30 citing the text of the complaint. Telegram urged the EC to push Apple to “allow users to have the opportunity of downloading software outside of the App Store”.

After humiliating the Russian authorities and the FSB, two years later the government finally gave up and the message service was unblocked again.

Shorty afterwards, Telegram VP Ilya Perekopsky was invited to participate in the panel on IT development with Prime Minister Mikhail Mishustin, the first official contact with the authorities since Durov's self-exile in 2014.

VK.ru
Durov has already got one tech deal under his belt after a shareholder dispute over VK.ru nearly brought Telegram down in its earliest days.

In 2013 Russia’s UCP fund amassed a 48% stake in VK.ru and took Durov to court, arguing that Telegram had been developed using VKontakte resources and therefore was UCP’s property.

It looked like Durov was going to lose control of Telegram, until Russian tech tycoon Alisher Usmanov's Mail.ru Group came in as a white knight, along with Usmanov’s partner Ivan Tavrin, and acquired Durov’s shares in Vk.ru in the middle of the showdown.

While some have claimed that Durov was forced into the sale, a claim that he has denied, the buyout by Usmanov effectively ended UCP’s claim on Telegram. Mail.ru Group, part-owned by Usmanov, already held 52% of VKontakte and bought the remaining 48% of the social network in a $1.47bn all-cash transaction, which emerged from the duel independent and unscathed. Durov then turned his full attention to developing Telegram.

Big business
With Telegram up and running, Durov, who now lives and works in the UAE, launched his next big project: the TON blockchain that promised to work many times faster than existing versions and could potentially disrupt the entire global banking and credit card system by offering an alternative platform for financial transactions.

In 2018 Durov held the biggest ICO ever and raised $1.7bn to fund the work. However, TON eventually ran aground, and Durov halted his TON blockchain project in May 2020, after a prolonged struggle with the US SEC, which banned the blockchain.

In 2017 Telegram has spent $70mn, and planned expenditures for 2018 were $100mn, $130mn in 2019 and $170mn in 2020. Under the out-of-court agreement in the US Telegram was ordered to pay a fine of $18.5mn as well as being ordered to pay back $1.2bn of investment in the GRAM tokens that were sold during the ICO.

The $1bn of convertible debt the company reportedly intends to issue will presumably be used to pay back Durov's investors into TON and continue the development of the blockchain.

As a result, Durov's estimated worth has gone up ten-fold. As Telegram doesn’t actually make any money, the way these companies are valued is assessing the value on the basis of the number of users. Typically, a large social media network values each user as worth $35-$40 of potential monetisation. With over 500mn users worldwide that would value Telegram on the order of $17.5bn to $20bn, although other estimates now value the company at closer to $30bn.

Raising the money should be easy, as tech companies are hot at the moment. In just the last six months Kaspi.kz, a Kazakh-based fintech company, and Ozon.ru, a Russian e-commerce company, have both pulled off spectacular IPOs, raising $870mn and $1.2bn respectively. Capital markets have massive excess liquidity thanks to all the anti-coronavirus (COVID-19) stimulus programmes being run around the world, and with the developed equity markets already over-bought investors are risk-on for new equity offerings, especially from the sexy tech sector. Investors are salivating at the prospect of getting access to Telegram’s equity, but there will still be a while to wait.
Russian retail investors put $8.6bn into foreign stocks, bonds in 2020

Ben Aris in Berlin

Russian retail investment into stocks and bonds has finally taken off after decades of effort by the financial authorities. In 2020 retail investors put RUB638bn ($8.6bn) into foreign stocks and bonds, according to the Central Bank of Russia (CBR), Tass reported on February 16.

Russians have been moving money out of their long preferred store of wealth – high interest deposit accounts with domestic banks – after a series of interest rate cuts have reduced the returns to insignificant amounts, and have been looking for investments with a bigger return.

The CBR kept interest rates on hold at 4.25% at its first policy meeting this year last week, and CBR Governor Elvira Nabiullina made it clear there would be no more cuts in the near future. But the margin that banks add to term deposits remains small, and with inflation running at over 5% at the moment a deposit at a bank barely makes any return for the depositors.

At the same time, ongoing reforms at the Moscow Exchange (MOEX) has made it easier than ever for Russians to invest in stocks and bonds listed on foreign exchanges, via the local exchange. MOEX reports that it has over a million retail investors that have completed at least one trade last year.

Local money becoming a major market force

Russian retail investors have become a force on the local market that is providing some stability to the market due to the depth of the pool of local money. Retail investors now account for some 40% of the turnover on the exchange, according to some estimates, and tend to buy into the dips sooner than foreign investors, who have typically made up half of the holdings in the past.

The CBR said despite the growing interest of citizens in foreign securities, investments in securities of Russian issuers still account for 85% of the population's investments as of January 1, 2021.

The Moscow Exchange recently published retail investor statistics for January, who bought RUB28.5bn ($380mn) worth of Russian stocks.

Most of the inflows materialised in the last week of January (RUB44.5bn), while early in the month retail investors were net sellers. The inflows seem to be a reaction to the late-January market correction.

“As we have argued in previous notes, individual investors act as a cushion for the market in times of downward pressure. In the meantime, they are still holding on to a significant amount of the cash received in November, when they sold RUB115bn worth of stock to non-residents,” Sberbank said in a note. “Flows into mutual funds stayed positive at RUB28bn, of which we estimate a third went into the stock market.”

“Individual investors act as a cushion for the market in times of downward pressure and they are still holding on to a significant amount of the cash”

The number of brokerage accounts continues to grow fast and has reached 9.5mn, of which 1.5mn are active, i.e. with at least one trade carried out per month.

“Data on individual stocks in the portfolio of retail investors shows that retail money goes primarily into underperforming stocks. For instance, the weight of Sberbank in the top 10 stocks held by retail investors jumped from 10.5% to 14.2%, while Yandex appeared in the top 10 with a 7.3% weight. In the meantime, the weight of Gazprom and Lukoil, which have outperformed nicely, fell by 4 pp and 2 pp respectively. Essentially, retail investor flows mirror the moves of institutional investors, who reduced positions in domestic stocks amid increased political uncertainty while favouring “reflation trade” stocks in the commodity universe,” Sberbank said.

Retail investors sending more money abroad

The $8.6bn invested in foreign assets in 2020 is twice the amount of money withdrawn from foreign currency accounts at Russian banks last year. That means Russians are investing
Companies & Markets

From deposits to investments with higher expected returns,
the CBR said. "The purchase of foreign securities can be partially explained by the redistribution of households' savings in foreign currency from deposits to investments with higher expected returns," the regulator said.

"At the same time, most of the inflow was provided by investments in foreign shares, which indicates the emergence of a risk-oriented strategy in the behaviour of the population, in addition to traditional ways of investing in debt instruments," the CBR added.

The CBR is tracking this new increased risk-taking behaviour with some concern, as it worries that it could start to have an impact on the value of the currency. The regulator also is worried about the inexperienced population taking bigger risks on the securities markets and has introduced regulations to prevent unqualified retail investors from investing into high-risk instruments like derivatives.

While there are also significant amounts being invested into the domestic equity market, the outflow of funds into foreign stock markets is significant.

Russians bought shares of companies registered in foreign jurisdictions in 2020 worth RUB415bn rubles ($5.6bn). Of this amount, RUB70bn rubles ($949mn) went into shares of issuers in foreign domiciles affiliated with Russian companies.

However, the bulk of the money went into the obvious international bluechip names, including the American companies listed in the main stock indices, S&P 500, NASDAQ and Dow Jones, which account for the largest influx of funds.

The largest increase in household investments was observed on the St. Petersburg exchange: the volume of net purchases of non-resident shares for the year soared 30-fold, from RUB8bn ($108mn) to RUB242bn rubles ($3.3bn) year on year.

As of January 1, 2021, the total volume of investments of individuals in non-resident shares (in particular on the Moscow Exchange) amounted to RUB570bn rubles ($7.7bn), and investments of individuals in shares of non-residents affiliated with Russian companies amounted to RUB142bn rubles ($1.9bn), Tass reports.

The inflow of funds from individuals into bonds of non-residents for 2020 amounted to RUB223bn rubles ($3bn), of which RUB95bn rubles ($1.3bn) account for bonds of non-residents affiliated with Russian companies.

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Buyout bid for KAZ Minerals raised after undervaluation claims

N ovare - the consortium bidding to take London-listed copper miner KAZ Minerals private, led by company chairman Oleg Novachuk and billionaire Vladimir Kim – has raised its buyout offer to £7.80 per share for the 61% of KAZ Minerals it does not already own from its previous strike price of £6.40 in an attempt to appeal to minority shareholders.

The £6.40 offer was made in October. A source familiar with the matter told bne IntelliNews that the KAZ Minerals’ document announcing the new offer price, published on February 4, suggested that no investors had taken it up.

“The Increased Offer Price values the entire issued and to-be-issued share capital of KAZ Minerals at approximately £3.7bn, and represents a premium of approximately 22% to the Original Offer price of 640 pence in cash for each KAZ Minerals Share," the document said.

KAZ Minerals and its subsidiaries engage in mining and processing copper and other metals in Kazakhstan and Kyrgyzstan. The company operates the Aktogay and Bozshakol open pit copper mines in Kazakhstan along with three underground mines. It is also developing the Bozymchak copper-gold mine in Kyrgyzstan. Moreover, the firm is developing the Baimskaya copper deposit in Russia's Chukotka autonomous region. The deal is seen as potentially one of the biggest ever for Kazakhstan, as KAZ Minerals is a major stock on the London Stock Exchange (LSE) for international metal investors.

www.bne.eu
An offer document, set to contain the full terms and conditions of the increased offer and the procedures for acceptance of the increased offer, will be provided to KAZ Minerals’ shareholders on February 8, the document added.

‘Material undervaluation’

KAZ Minerals’ fifth biggest investor, RWC Partners, which holds just under 3.3% of the company’s shares, reacted to the increased offer on February 4 with the statement that the new offer still “materially undervalues” the company.

“As we forecast that KAZ Minerals will generate more than $5.5bn of ebitda over the next three years, it is our opinion that the £7.80 per share offer price still materially undervalues the company,” RWC said. “Therefore, based on current circumstances, we do not believe this latest offer price represents good value for minority shareholders.” RWC said that a bid of £10 a share would be more acceptable to minority shareholders.

KAZ Minerals shares closed at £7.73 on February 3 and opened at £10 on the morning of February 4.

It appears most shareholders would be quite happy to hang on to the stock, as copper prices have risen sharply in recent months with industry anticipating a return to normal as the coronavirus crisis fades, quite apart from appealing long-term trends expected in copper prices.

Copper prices rose from a low of $4,775 per tonne at the end of last March to end the year at $7,894 in December, and continued growing at the start of this year. They increased by another 4% from January 1 to top the $8,000 mark in the first week of January.

Further increases in the price of copper may force Nova Resources to boost its offer even higher than £10, which could potentially harm the viability of the deal for the consortium.

Rationale for the offer

Novachuk explained in October that the rationale for the offer stemmed from the company’s “higher risk, capital intensive strategy”, which may be “misaligned with the preference of many investors in the mining sector”. Nova Resources said separately that the development of the Baimskaya copper mine in Russia, bought by KAZ Minerals in 2018, “would be best undertaken away from public markets as a private company”.

The $900mn purchase of the undeveloped Baimskaya mine surprised shareholders, leading to a sell-off in the stock after the announcement of the purchase. The mine’s development is set to cost $7bn, while it is thought it will take seven years to carry out. KAZ Minerals has referred to the mine as one of the world’s biggest undeveloped copper assets.

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Foreign investors return to Ukraine’s domestic bond market, approaching peak 2019 levels

bne IntelliNews

With Ukraine’s $5bn stand-by agreement (SBA) with the International Monetary Fund (IMF) in limbo, the Ministry of Finance has turned to the domestic bond market to build up reserves ahead of a year of heavy debt redemptions.

Yields on local hryvnia debt have been hiked to between 10% and 12% to entice investors back into the market after a sell-off in 2020, due to multiple shocks. And foreign purchases of Ukrainian government bonds are returning to their peak levels of late 2019, reports Dragon Capital.

Over the last month, foreign purchases totalled $526mn, “close to peak monthly inflows of $560-610m in September and December 2019,” Dragon wrote as cited by UBN.

“Recent appreciation pressure on the hryvnia (+1.4% w/w) is likely to support interest in local bonds. We expect yields on medium-term hryvnia debt to remain close to current levels in the coming months unless an upsurge in foreign demand drives them lower.”

The government is due to pay off some $16bn of debt this year, with a peak payment of $11bn in September. Economist worry that without a working IMF programme the government will not be able to meet its obligations.

Ukraine domestic bond market issues UAH mn

Source: MinFin
Russia’s Megafon enters Uzbek telecoms market in $100mn joint venture with Ucell

Ben Aris in Berlin

Leading Russian telecoms company MegaFon has set up joint venture Digital Holding with Uzbekistan’s biggest mobile phone company Ucell and will invest $100mn to enter the country’s telecoms market, the company said on February 9.

MegaFon said it intends to “become the technological leader of the largest telecommunications market in Central Asia.”

“The creation of a leading player in the digital services market in Uzbekistan is in line with the strategy of both MegaFon and USM Telecom, which is building a technology leader in the CIS and Eastern Europe. We are confident that the long-term expertise in the implementation of digital projects, which MegaFon, CRPT and ICS Holding have, will help develop the largest industry player in Uzbekistan,” said Ivan Streshinsky, general director of USM Telecom in a statement.

MegaFon is 100%-owned by USM Telecom, an investment vehicle belonging to Russian metals and tech tycoon Alisher Usmanov, who was born in Uzbekistan and has been advising the government on reforms while also making significant charitable donations in recent years. Previously MegaFon was publicly traded, but Usmanov took the company private in 2019 with a $1.3bn buyout offer taken up by investors.

As one of Russia’s big four telecoms operators, MegaFon is now moving into Central Asia via the joint venture with the country’s state-owned telecommunications market leader Ucell, as well as other local USM assets that include CRPT Turon and ICS Holding Uzbekistan.

“The point of view of consumption of digital services, Uzbekistan is one of the most promising markets in the CIS, which over the past 10 years has shown more than threefold growth in cellular subscribers, but at the same time it is still far from saturation. We are not planning major structural changes within Ucell in 2021, but rather will focus on finding synergies and implementing best practices in Ucell to grow its business,” said Gevork Vermishyan, MegaFon CEO, in a press release.

The government of Uzbekistan’s Agency for State Assets Management (AUGA) will contribute its 100% stake in Ucell to the joint venture. The Russian side will invest $100mn to build up the Digital Holding joint venture into the country’s biggest telecoms player. The ownership of Digital Holding is split 51:49 between USM Telecoms and the AUGA respectively in a deal that will be closed later this year.

Digital Holding intends to invest in upgrading Uzbekistan’s telecommunications infrastructure to meet international standards and expand access to communication services across the country. At the same time, the company intends to improve the quality of the service and introduce more advanced technologies for information security and data storage.

“I am confident that the creation of a new joint venture will give a new impetus to the rapidly developing market of digital services in Uzbekistan”

“I am confident that the creation of a new joint venture will give a new impetus to the rapidly developing market of digital services in Uzbekistan in recent years and will open up new opportunities for Ucell and its subscribers,” said Olimjon Umarov, Advisor to the Prime Minister of the Republic of Uzbekistan.

The deal is part of a wide-ranging set of reforms launched by Uzbek President Shavkat Mirziyoyev in 2016, which he dubbed “Uzbekistan’s third renaissance” after he was elected president.

Part of the plan is to restructure and modernise the country’s most attractive assets and prepare them for privatisation. Much of this will be achieved by dual international and local listings on stock exchanges. The president has been reaching out to businessmen to partner in this process. An ethnic Uzbek, Usmanov is a natural choice, as he is already one of the biggest businessmen in the former Soviet Union (FSU) and has experience of building up major companies and bringing them to market.
Online is in vogue in Romania

Clare Nuttall in Glasgow

Sales by online retailers in Romania gained a big boost from the coronavirus (COVID-19) pandemic in 2020. While sales through e-commerce sites haven’t yet reached those of major retailers, they made considerable gains during the year.

Fashion retailers took a hit at least initially as people changed their buying habits, stocking up on food, and buying items to see them through the lockdown like laptops, crafting materials and home exercise equipment. Yet despite the dip in clothes purchases in the early days of lockdown, online fashion retailers in Romania and elsewhere have reported a sharp jump in sales in 2020.

This has contributed to Romania achieving the fastest increase in retail sales over the five-year period from 2015 to 2020, during which time the number of Romanians who shopped online more than doubled, according to a Eurostat survey. Despite this, Romania still has the second-lowest level of online retail purchasing in the EU (after neighbouring Bulgaria), as just 45% of Romanians said they had shopped online in Eurostat’s 2020 survey.

As elsewhere, the spread of the coronavirus (COVID-19) in Romania and the lockdown in spring 2020 led to a sudden increase in online sales as non-essential retailers were forced to shut and people stayed away from bricks and mortar stores out of fear of infection.

Among the online retailers that benefitted as non-essential bricks and mortar shops were forced to close were Fashion Days, the fashion arm of Romania’s top e-commerce site eMAG. Fashion Days achieved revenues of RON510mn (€105mn) in 2020, a 60% year-on-year increase, the company’s general manager Robert Berza told Profit.ro. Fashion Days and eMAG Fashion together posted total net revenues of one RON690mn, the third highest in the Romanian market after international fast fashion giants Inditex (whose brands include Zara) and H&M.

Fashion Days aims to become the leader on the Romanian market within three years, Berza told Profit.ro. In a separate interview with daily Ziarul Financiar, Berza said there had been “exponential” growth in customer migration from shops to online during the pandemic. He forecast that online sales could thus reach 25% of the fashion market in 2021 from 10% pre-pandemic.

The company’s rivals include Answear, a Poland-based online retailer that has expanded across the region and is considering an IPO on the Warsaw Stock Exchange. Answear reported a 35% y/y increase in sales in the first half of 2020, with turnover exceeding €10mn. In line with the industry trend, Raluca Radu, country manager Answear Romania, told Ziarul Financiar the company saw an initial dip in sales when the lockdown was introduced, followed by an uptick as Romanians turned to online purchasing.

Also active on the market is German tech unicorn, online fashion retailer About You, which launched in Romania in October 2019. Its first year went better than expected, with the company announced in October 2020 that it had sold 3mn items to more than 600,000 customers, achieving revenues of €100mn.

“We’re very happy that the first year was so successful. We definitely see much potential for the future and aim to become clear market leader for online fashion on the Romanian market. We will continue to adapt our shop to local preferences, expand the assortment, further increase the service level and continue to innovate with new features, local events and collaborations,” said Tarek Müller, co-founder and co-CEO of About You, quoted by local media, on the anniversary of its Romanian launch.

Another new entrant to the market in July 2020 was ING Bank, the fourth-largest bank by assets in Romania, which launched the online shopping platform DealWise, aiming to compete with the likes of Fashion Days and Answear.

The figures announced so far by online fashion retailers show they are catching up with the big fast fashion brands, though they aren’t there yet.

H&M, for example, achieved revenues of SEK2.1bn (€210mn) in the first 11 months of 2020, down from SEK2.6bn in 2019. Faced with strong competition on top of the temporary closure of its stores, H&M announced in May it was expanding the websites for brands including Arket, Cos and Monki in nine European markets, including Romania.
Local fashion chain Miniprix, which had eight stores in the Romanian capital Bucharest at the start of the pandemic, also moved swiftly online when its stores were forced to close. Not only that, but the family-owned retailer moved into an entirely different segment of the market, opening up Minimarket grocery stores. When the lockdown eased, the move online had been so successful that Miniprix decided against re-opening two of its stores as it moved its emphasis to online sales, according to e-commerce platform provided Vtek which supported the project.

The shift to online fashion retailers, and the scramble by some major mass market retailers to up their online game is part of a global trend. People didn’t stop buying clothes during the pandemic, though they changed what they bought, with sales of loungewear and easy garments like throw-on dresses rising, while workwear and eveningwear purchases fell.

Berlin-based online fashion giant Zalando reported a 28.6% increase in the number of orders in the 2Q20 compared to the same quarter of the previous year, as well as a 27.4% y/y increase in revenues. This trend continued into the third quarter, despite the easing of lockdowns across Europe.

In the UK, Boohoo’s revenues were up by an even stronger 45% in the six months to August 31, 2020, putting the 14-year-old online fashion retailer in a position to buy the 242-year-old British retailer Debenhams. Other major European online fashion retailers have reported similar leaps in revenues.

Amid this international trend, Romanian analysts are bullish about the future for the country’s online retail segment.

A report from Bucharest-based Tuya SEO & Digital Marketing estimated the country’s e-commerce sector would grow 30% y/y in 2020 to reach €5.5bn amid an 8% increase in the number of online shoppers. Fashion is the largest segment of the online market with a projected market volume of $943mn in 2020, said the report.

“The major breakthrough comes in the context of the COVID-19 pandemic … e-commerce has kept the Romanian economy open and moving throughout the pandemic,” says the report.

“Many Romanian companies, but also many Romanian entrepreneurs who relied exclusively on a physical presence, realised the advantages of the online sector, so they shifted to e-commerce during this year.”

Another report, by iSense Solutions, expects an even bigger rise of 40% to €6bn in 2020, and a 13% increase in the number of Romanians shopping online.

“The COVID-19 pandemic had a significant impact on the market and shopping habits and was an opportunity to increase online shopping,” says the report. iSense’s survey revealed that 43% of respondents said they feel uncomfortable shopping in traditional stores because they are too crowded (71%) and do not adhere to social distancing rules (68%).

According to the report, the top 10 online stores and shopping apps in the fashion category are: online retailers eMAG, Fashion Days, About You and AliExpress; fast fashion retailers H&M and Bershka; local retail chain Miniprix; and European supermarket chains Auchan and Carrefour.

Amid this international trend, Romanian analysts are bullish about the future for the country’s online retail segment.

**Israeli agritech unveils “indoor growing” plans to challenge Iran’s global saffron dominance**

Saffron Tech, an Israeli wholly owned agritech subsidiary of Seedo Corp, has announced that it plans to develop a new technology to challenge the global Iranian monopoly on saffron supply, which it says has been in place for 1,000 years and presently meets 90-95% of world demand.

The technology, it said, would provide for automated, year-round high-yield growing of high-quality saffron indoors.

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industry and as a dye in the textile industry," said David Friedenberg, Saffron Tech CEO, in a press release.

He added: "It is considered the 'Red Gold', worth its weight in gold. We are about to revolutionize the way saffron is grown, growing it all year round and anywhere with our indoors growing technology."

Promoting its project to develop the "technology that hopes to provide turnkey automated growing solutions", the company added that it has reached the "advanced stages of developing and testing its automated vertical farm for saffron growing, based on the company's knowledge in plant biology and providing optimal conditions for each stage of the plant's development to reach optimal product quality".

Saffron Tech added that its solution would be a perfect fit for the "Grow Next to Consumer" model and sustainable and fit for COVID-19 restrictions on transport.

The company added: “It is environmentally friendly, using economic levels of water, space, fertilizer, and energy. We believe that our controlled indoor growing technology could produce 10 times more yield compared to the same land area using traditional methods. The sealed environment eliminates the need for harmful pesticides and herbicides, producing a clean and safe product. The solution is easily scalable and pre-designed to quickly grow operations.”

Saffron Tech also focuses on cultivating exotic plants and mushrooms.

Seedo said its knowhow takes into account the world's "diminishing water resources and unstable weather conditions".

Milluu is the first company in the Early Game Ventures portfolio to be listed on SeedBlink. It will use the money to support growth in the local market and expand its property management services in Poland.

Milluu is founded and run by Florin Stoian, an entrepreneur who previously founded StarTaxi, sold to World Com Trading in 2012, and Yellow Menu, which received an investment of €300,000 in 2019.
“We were initially targeting €784,000 euros, but we reached €884,000 within about three hours of the crowdfunding campaign launch.”

From a mobile application that only wanted to put landlords in touch with tenants and provide them with digital tools to facilitate the apartment rental process, Milluu opened a property management division under pandemic conditions, managing to have apartments and studios totalling €18mn in the portfolio at the end of 2020.

Through the property management division, Milluu takes over the management of apartments, for which it ensures the risk of non-collection of the rent by guaranteeing uninterrupted payments of the rent for the entire contractual period.

Milluu intends to replicate its business model in Warsaw, Poland being the first market after the local one in which the company intends to expand its services. This market, similar to the one in Romania, is a fragmented, unregulated and very little technological, which offers a good opportunity to adapt the property management model of Milluu.

“Milluu managed in a very short period of time, with limited resources, to demonstrate the ability to monetise a new business model in Romania. By raising a new round of funding that we support, it will have the chance to scale in an area where digitisation is in its infancy, with spectacular efficiency opportunities. Milluu can become the property management solution preferred by the educated and above-average income segment in Central and Eastern Europe,” said Radu Stoicoviciu, EGV partner.

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Russia considers its “sovereign internet” options

Vladimir Kozlov in Moscow

For quite a while, Russia has entertained the concept of a "sovereign internet," which basically means cutting itself off from the World Wide Web. In early February, Dmitry Medvedev, former president and now deputy head of the security council, confirmed that Russia is still seriously considering this option.

"Key controls [over the global internet] are in the United States,” he was quoted as saying by Kommersant. "Therefore, in case of an emergency, [Russia could disconnect from the World Wide Web]. This is why regulations on Russia's segment of the internet were adopted."

In November 2019, Russia adopted regulations that created a legal framework for centralised state management of the internet within Russia's borders – a concept often referred to as "sovereign internet."

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While creating a legal basis for disconnecting from the global internet, the regulations also built a framework for potentially tighter state control over content available online to users in Russia. The regulations were expected to accelerate the fragmentation of the global internet, introducing control over the internet in Russia based on China's model.

Still, for over a year since the regulations were adopted, Russian officials didn’t take any steps or announce plans regarding the implementation of the regulations. Now, based on Medvedev's statements, it's clear that the idea of the sovereign internet is still on the table.

However, Russian authorities apparently realize that running a sovereign internet would be difficult.

"We have to be realistic," Medvedev told Kommersant.
"If we make a decision of that kind, it will lead to significant problems. That is, re-adjusting the Russian internet will take some time, but, in principle, the Russian segment of the internet could run autonomously."

Russian leadership has been especially uneasy about the way the global internet is run since 2014, when relations between Russia and the West soured following the annexation of Crimea from Ukraine.

"The internet arrived as a special project of the United States' CIA, and it has been developing as such," Russia's president Vladimir Putin commented back then.

"The internet arrived as a special project of the United States' CIA, and it has been developing as such"

Reportedly, over the past few months, Russian telecom companies have been installing, at the authorities' demand, equipment that would enable filtering online traffic and, in case of Russia's breaking away from the global internet, would maintain the operation of the Russian internet segment. Under the latter scenario, Roskomnadzor, Russia's communications watchdog, would assume control over a sovereign internet.

So far, however, equipment of this kind has been installed and tested in a handful of Russian regions. Due to the coronavirus (COVID-19) pandemic, further tests were postponed.

Observers say, at this point, Russia has the technical capabilities to block some information from spreading online, but running an entirely sovereign internet wouldn't be feasible.

"The regulations adopted so far are basically declaring an intent," Filipp Kulin, general director of Diphost online company, was quoted as saying by Kommersant. "On the tech side, they offer nothing except for filtering banned information, but it's just the start."

"The focus is specifically on fighting banned information," he went on to say. "And I can't say what impact it will have on cutting off from the global internet. In any case, specific regulations need to be created first."

According to earlier reports, the Russian government was willing to bankroll the installation of telecom equipment for "autonomous internet," spending about RUB20bn ($264mn).

The execution of the sovereign internet plans would lead to a situation when popular global services would not be available in Russia, experts warn.

"All content hosted outside the Russian Federation, most likely, won't be available here," Sergei Grebennikov, director of the Regional public centre for internet technologies, told Kommersant. "Even though we are told that Google, Facebook or Yandex host content on the territory of the Russian Federation, if Russia is cut off the global internet, we won't be able to properly use many services."

Meanwhile, there's a precedent of Russian authorities' miserable failure to ban the messaging service Telegram. For two years, Roskomnadzor tried to block the use of the app in Russia until last year the agency admitted it didn't have the tech capability to do so.

"If we make a decision of that kind, it will lead to significant problems. That is, re-adjusting the Russian internet will take some time, but, in principle, the Russian segment of the internet could run autonomously."

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Paper and pulp company Segezha is tapping

RUSSIA'S "GREEN GOLD"

Ben Aris in Berlin
One of Russia's biggest natural resources is also one of its least talked-about – its 'green gold' – trees.

The country stretches halfway around the world, yet the bulk of the interior is devoid of people and one giant forest. Russia is home to one tree in four on the planet, and also three quarters of the earth's soft wood that is ideal for making paper. But the business has lain fallow until recently; Russian company Segezha is in the middle of tapping this resource and has already made Russia a world leader in the paper, pulp and packaging businesses.

“In 2014 Sistema identified forestry as a high potential investment. Russia had not invested into the sector for many years, especially not into soft wood. Sistema set out to build a world-class company,” Segezha’s CFO, Rovshan Aliyev, said in an exclusive interview with bne IntelliNews.

Sistema began to acquire forestry companies and paper and pulp plants around the country, investing over $1bn, with the main facility being the Segezha paper and pulp mill in Karelia in Russia's north-west.

With the attention slowly returning to the climate crisis, Russia's wood processing and timber business is coming back into focus, as bne IntelliNews reported in a recent company profile of Segezha, predicting an IPO of the company that is now expected to happen very soon.

Today the company is one of the largest vertically integrated paper, pulp and packaging producers in Russia, and one of the biggest in the world.

Russia is famous for its raw materials production, but while oil, gas, metals and diamonds catch most of the attention, Russia has one further huge reserve of a valuable but under-utilised natural resource: trees.

Segezha is also one of the largest leaseholders of forests, by hectares, in Russia, which is the resource the business is based on. Controlling the paper production process from start to finish gives the company big cost advantages, says Aliyev.

“We have built a company that is both vertically and horizontally integrated,” says Aliyev. “We have everything included – from the forests to the efficient distribution channels – and so we seek to maximise the entire potential of each tree to maximise the profit. There is minimal waste.”

**Business lines**

Segezha has four main business lines: paper and packaging, forestry and woodworking, plywood and boards and specialist products like construction materials.

The biggest of the four is paper and packaging. Segezha produces its own pulp, then converts that into paper, of which 35% goes into the production of its own packaging. The company is the second-biggest producer of packaging in Europe, with plants in Germany, Italy, Romania, Turkey and elsewhere. It is also the biggest producer of packaging in Russia with more than 60% of the market.

“In 2017 we invested RUB11.5bn (€154mn) into a new German paper-making machine that is the best in Europe. It makes very high quality paper,” says Aliyev.

Plywood is another important product, and here Segezha has been investing not only to increase production but also to move up the value chain.

And the business is still growing fast as a result of these investments, which are ongoing. Production in some segments has been growing by double digits in recent years, helped by ongoing investments into efficiency, says Aliyev. Plywood is another important product, and here Segezha has been investing not only to increase production but also to move up the value chain.

Already in the top five biggest producers of large birch plywood in the world, Segezha started work on a new factory this year that may raise it another two spots in the global production ranking when it is complete. The company focuses on high-quality plywood products that have stronger profit margins, according to Aliyev.

“The question we faced was: should we invest to double the production, but of low-quality plywood, or invest into lower production volume but of higher margin products. Given our cost structure, both options work. But generally we prefer...
Segezha competes directly with the Scandinavian companies on the European market, but they have already developed almost all of their available forests, so their resources are tapped out and they are struggling to grow production volumes any more.

Canada is a big player too, with plenty of undeveloped forest in reserve, but as transport costs play a significant role in the paper and pulp business, the companies there tend to focus on the large American market south of the border.

Because of Russia’s size it has several markets that are within easy striking distance, including Europe, North Africa and the Middle East, and on to the whole of China and Southeast Asia – all of which have a strong and steady demand for paper.

The demand for paper is still growing steadily, although the nature of the market is changing fast, driven by the digitalisation of economies around the world.

“Paper is partly a commodities market, but within the business the different grade and quality of paper is also important,” says Aliyev. “We have found that office print paper and newsprint demands have fallen, but demand for kraft paper [paper for sacks] and packaging has gone up… In the last 3-4 years the demand for consumer packaging has gone up enormously.”

As retail is rapidly going online and home delivery is becoming the norm, the amount of packaging in use is soaring. And the same is true in Russia. The demand for packaging started to rise rapidly in Moscow and St Petersburg, but Aliyev says it is now growing rapidly across the whole of Russia. This year, Segezha is building five packaging plants within a 30-km radius around Moscow to cover a large portion of the city’s consumer packaging needs.

“The timber business is a global one, as the bulk of the world’s soft wood that is ideal for making paper (the fibres in soft wood are longer than those in the hard wood that is found in Southeast Asia and Latin America).

Russia accounts for 70% of the world’s boreal forests and 25% of the world’s entire forest resources with the bulk of the rest found in Scandinavia and Canada.

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The demand for paper is still growing steadily, although the nature of the market is changing fast, driven by the digitalisation of economies around the world.

“Russia is not the key market for us, but it is our original domicile, and we take pride in servicing it as a leading player in the market for paper sacks, unbleached sack paper and sawn timber.
here,” says Aliyev. “Russia was behind [the rest of the world in the production of packaging], but now it is growing at an attractive rate.”

The global market demand for pulp is rising at a much more sedate 1.5%-2% a year, but it’s a global market, so the volumes are huge. Aliyev estimates the global production of pulp at some 50mn tonnes per year, which means the paper and pulp companies need to add approximately 1mn tpy of paper production capacity. That’s a lot. It requires one new plant each year to produce that much new paper at an investment cost of $1.5-2bn and a timeline of 3-5 years to bring it online.

As the Scandinavian production is largely tapped out, that means meeting the bulk of future paper and pulp demand will fall on Russia.

Developing Russia’s forests is now also on the Kremlin’s agenda. Russia signed off on the Paris Climate accord in 2019 and is committed to reducing its emissions, as bne IntelliNews reported in “The Cost of Carbon in Russia”. At a corporate level too, Russian companies are also embracing the rise of environmental, social and governance (ESG), partly as some big Scandinavian institutional investors have begun to ban investments into companies that have poor ESG scores.

In addition to putting regulations and an inspection regime in place under a Federal Forestry Agency, part of the Ministry of Natural Resources & Environment, from January next year the government will ban the export of raw timber altogether.

“There is lots of export [of raw timber], especially to China, but the government wants to incentivise investment into higher value-added products,” says Aliyev, who adds that the cost of leases in Russia represents a competitive advantage for forestry product producers.

**IPO plans**

The company already issued its first RUB10bn (ca $140mn) bond on the Moscow Exchange (MOEX) in December 2019 with a coupon of 7.1% that was issued in rubles, but then swapped into euros to bring the cost of borrowing down, says Aliyev. “It was cheaper than issuing a Eurobond. The perception is that the cost of borrowing in Russia is very high, but it’s not necessarily true.”

And the company also has a RUB35bn credit line from a consortium of Russian and international banks that it can draw on. Banks are happy to lend to Segezha as, like other raw materials producers, its costs are in rubles but its exports earn foreign exchange revenues, making the company relatively immune to Russia’s perennial crises. Indeed, the shocks that the Russian economy felt in 2020 and the circa 20% devaluation of the ruble that resulted only improved Segezha’s profitability.

The borrowing means Segezha’s net debt-to-LTM OIBDA ratio was 3.3x for 9M 2020, which Aliyev considers is justified and more than manageable given the company’s fast growth rate.

The company’s financial results are very strong. Sistema reported 10% year-on-year revenue growth for the 3Q20 to RUB185bn ($2.5bn) in 3Q20 under IFRS, with adjusted operating income before depreciation and amortisation (OIBDA) up by 14% to RUB72bn with 39% margin, part of which was due to strong third-quarter 2020 results from Segezha that saw revenues up 38% y/y to RUB19bn ($250mn), and OIBDA more than doubled (106.9%) y/y to RUB5.1bn ($67mn) with a OIBDA margin of 26.7%, an increase of 8.9pp from a year earlier, bne IntelliNews reported in December.

And the next big event will be to float the company. Segezha plans to raise $0.4bn-0.5bn in an IPO planned in Moscow in spring 2021, Reuters reports citing unnamed sources. Aliyev declined to comment on the reports.

However, the shareholders approved a new share issue of 11.94bn new shares last week, which could potentially double the existing share count. Notably, a new legal form as a public joint-stock company has also been approved, which means the company is now technically ready for an IPO.
Czechs reassess their Habsburg legacy

Robert Anderson in Prague

Czechs have become enmeshed in their own version of the “statue wars” that have raged in Europe and the US in the past year over historical monuments, but with two important differences: the statues are of foreign oppressors rather than slave owners, and while the Russian ones are being pulled down, the Habsburg ones are being re-erected.

A largely Catholic civic group has placed a copy of a column topped by the Virgin Mary back in Old Town Square – originally built to celebrate the Catholic Habsburg reconquest of Prague from the Protestant Swedes in the Thirty Years War, it was pulled down by the newly independent Czechs in 1918. A Prague borough has also built a statue of Empress Maria Theresa near the remains of the city’s Habsburg fortifications, and another borough plans to bring a statue of Habsburg Field Marshal Joseph Radetzky – subject of Johann Strauss’ famous March – out of a museum and put it back in the Little Quarter Square under the Castle. Meanwhile, amid a media storm, Soviet Marshal Ivan Konev’s statue has been removed from its plinth in the capital, and its fate is still unclear.

The differing reactions to these Austrian and Russian monuments explain a lot both about Czechs’ complicated attitude to their long history of foreign oppression, and also about the different texture of Czech nationalism compared to their Central European neighbours.

The Czech view of the Habsburg Empire was initially black and white. When Czechoslovakia first won independence in the collapse of the Austro-Hungarian Empire in 1918, most of the imperial monuments were torn down to mark the end of what was called “300 years of darkness”. This was how Czech nationalists referred to the repression of the Bohemian lands after the Habsburg Empire retook control of the kingdom after the Battle of White Mountain in 1620.

After this victory, the Habsburgs executed 27 of the leading Czech Protestant nobles and burgheers in Prague’s Old Town Square, displaying
their heads on Charles Bridge for 10 years. Some 150,000 Czechs, including a quarter of the nobility, fled the country, and three quarters of the country’s land was redistributed among loyal Czech and foreign Catholic nobles. The Czech Diet was neutered, Protestant churches were suppressed, and German was made the dominant language in the realm.

Even during the Czech National Revival in the 19th century, when the Bohemian lands had become the most industrialised part of the empire, Emperor Franz Joseph refused to raise the kingdom’s status level with that of rural Hungary and never bothered to have himself crowned King of Bohemia. Despite this, in the First World War, one million Czechs still fought on the Austrian side (and 150,000 were killed) amid great mistrust of their loyalty by the incompetent Habsburg military.

After independence, Tomas Masaryk, Czechoslovakia’s first president, followed a “de-Austrianisation” policy that helped to alienate the country’s large ethnic German minority. Much of the land and property owned by Austrian aristocrats and the Catholic Church was expropriated, and noble titles were abolished. A state-backed Protestant Hussite church was also established, inspired by the 15th century Czech theologian Jan Hus who had been martyred by the Catholic Church.

During the First Republic, the old empire was ridiculed for being absurd, reactionary, stifling, repressive, corrupt and incompetent, most famously in Jaroslav Hasek’s “The Good Soldier Svejk”, where the eponymous hero outwits the Austrian authorities and evades combat in the First World War through dumb insolence.

This stance continued after the Communist takeover in 1948, and merged with wider hostility towards Germans in general because of the Nazi wartime occupation of Bohemia. Some two and a half million ethnic Germans were expelled from the country after the war, each taking only one suitcase with them, and their property was nationalised or handed to Czechs. Following the coup, the Catholic Church was persecuted, while the Hussite Church was tolerated, and beautiful Habsburg buildings were allowed to fall into disrepair or deliberately vandalised.

**Nostalgia for the empire**

After the collapse of Communism in 1989, the First Republic – the only interwar democracy in Central Europe – was depicted as a golden age, but the Czech view of their Habsburg past also shifted markedly. Partly this was simply an allergic reaction to all things Communist but it also reflects a continuing reappraisal of the Habsburg Empire and the Czech role in it.

Some historians now see the multinational Habsburg Empire as a kind of precursor of the European Union and sympathise with its struggles to balance the competing demands of its various nationalities. Austria is also now a close ally of the Czech Republic, and is seen as very separate from Germany (towards which Communists and the far right still try to whip up resentment).

For many, the empire’s stability and glitter now also looks much more attractive, given the horrors that the 20th century were to rain down on the small, weak countries that rose from its ashes. To some Czechs, the humiliating capitulation of the First Republic to Hitler in 1938, the following 50 years of Nazi and Soviet occupation, and then the inglorious 30 years since the Velvet Revolution have made the Habsburg period look like another golden era.

In a famous 1984 essay in the New York Review, self-exiled Czech novelist Milan Kundera wrote: “They [the Austrian Empire] did not succeed in building a federation of equal nations and their failure has been the misfortune of the whole of Europe. Dissatisfied, the other nations of Central Europe blew apart their empire in 1918 without realising that, in spite of its inadequacies, it was irreplaceable.”

The Czech role in the empire has also come more into focus. The Habsburgs were also kings of Bohemia, and Rudolph II, patron of art and occult sciences, even made Prague his capital in the 16th century, bequeathing to the city glorious Baroque palaces and churches that have made it the biggest draw for tourists in Central Europe. Czechs such as Radetzky rose to high positions in the empire, and the economy and culture flourished, with world famous composers such as Bedrich Smetana and Antonin Dvorak.

“The Habsburgs are no longer seen as occupiers, the empire is more and more seen as an entity that helped the Czechs culturally and economically,” says political analyst Jiri Pehe.

For some, this nostalgia includes affection for the former nobility, many of whom have won their castles back in restitution, and who add some glamour to the country’s otherwise classless commonality. Czech architect and monarchist Jan Barta, who is one of the backers to re-erect the Radetzky statue, believes that Czechs should be proud of their Habsburg history. “Simply put, my colleagues and I want it remembered that we were part of some larger state entity – because Czech history does not begin with independence in 1918 or after the liberation in 1945 – and certainly not in 1948 [after the Communist coup],” he told Prague International Radio.

And yet it is still jarring that the triumphalist Habsburg Marian Column was placed facing the monument to the proto-Protestant Czech martyr Jan Hus in Old Town Square, in the very place where the cream of the Bohemian nobility was
executed – and on the 400th anniversary too! The statue of Maria Theresa may be less controversial, because it is minimalist and out of the centre, but it is hard to justify naming a park and monument to the Austrian empress in Prague simply because she was the only Czech queen. As for Radetzky, though he was at least Czech, he is also questionable because he crushed the liberal 1848 revolutions across the empire.

In reality, the rehabilitation of the Habsburgs is being pushed by local rightwing politicians in Prague, with little public debate. The Catholic Church has also played a behind the scenes role – the pillar was blessed by conservative Archbishop Dominik Duka – demonstrating that its influence is growing, as shown by the way it regained much of its former wealth in a 2012 church restitution law. Nevertheless, the church is still neither as reactionary nor as powerful as in neighbouring countries such as Poland because Czechs are mostly atheist.

Habsburg supporters have been able to restore the monuments with incredible ease because of popular indifference. Even though Prague’s Pirate mayor Zdenek Hrib said the erection of the Marian Column would be like rebuilding the huge monument on Letna hill to Josef Stalin, he never bothered to mount a real campaign against the pillar.

The city assembly’s decision to permit the column surprised even its backers, says Prague representative Martin Benda, a member of the city’s ruling centre-right coalition. Benda says he had pushed instead for a contemporary ecumenical monument that would be an act of healing and mutual respect, rather than something that “really looks like a monument of Catholic triumph”.

“Some of my colleagues voted for it as it looks quite nice, pretty much disregarding the meaning of it,” he says. “But statues are not just a matter of beauty or aesthetics, they are a political message too. They are saying something to the passersby.”

Self-confident nation

By contrast, the removal of the statue of Soviet general Ivan Konev, who liberated Prague in 1945, was accompanied by a public furore, threats against the mayor of the local Prague borough and official Russian complaints. The marshal had survived the purge of Soviet monuments after the Velvet Revolution but had become the target of anti-Russian vandalism. Critics said that, like Radetzky, he may have been a great general but he also helped crush the 1956 Hungarian uprising against the Soviet empire.

The pulling down of Konev’s statue was meant to end the debate over the meaning of his monument, which had become too violent and troubling. Meanwhile, the building or rebuilding of the Habsburg monuments barely aroused any debate, because Czech national identity is now based much less on the historical struggle for independence against the Austrian empire, and much more on that against the Soviet one.

“Czechs are a self-confident nation that does not need this quite unconvincing fairy tale of the struggle against the Habsburgs,” says Roubal.

He argues that anti-communism is now the guiding spirit of Czech patriotism, at least among the Prague establishment, which is reflected in the country’s foreign policy. “It has become an essential part of Czech ID,” says Roubal. “It is impossible to underestimate how important this is and it shapes everything.”

But like the previous anti-Habsburg drive, this is also a contested area. The Communist Party was the largest party after the war, with one million members, and among older Czechs there is still some nostalgia for that period (and significant, though diminishing, support for the hardline rump of the party).

The opposition to removing Konev’s statue fits into a pattern of conflicts over how to remember the period. The Institute for the Study of Totalitarian Regimes, which holds the secret police files, has been fought over between left and right, with the right claiming the institute has now been neutered by leftwingers, who for their part claim the right just wanted to eaponise it against them. Significantly, in contrast to its neighbours, a Museum of Twentieth Century Memory has only just been created (by Prague
City Council), and it is still awaiting a new government before it is properly launched (and funded).

Yet, according to Roubal, though there may be divisions over the Communist past, there is little real debate that the Velvet Revolution ended the Communist period. Unlike Poland or Hungary, few believe that the revolution was ‘stolen’ or ‘unfinished’ and he argues that the fact that there was no museum of totalitarianism shows that the political elite did not think it was necessary to propagate an official narrative. “The need is not there to make a political statement on this,” he says.

Czech patriotism therefore is no longer rooted in liberation from the Habsburgs, though it is not yet entirely firmly based on freedom from the USSR. It does not look back at a glorious past, so much as at a history of oppression that the Czechs have had to endure, something that explains their continuing suspicion of authority and arguably their introspection or provincialism.

This “Svejkism” was something that former dissident and president Vaclav Havel berated his countrymen for. But it appears far less tragic when compared with the historical mythmaking and bitter divisions in neighbouring Poland and Hungary over not just their communist past and its alleged continuing influence, but also over their interwar authoritarian regimes and their anti-Semitic legacy. These debates have poisoned their politics and led to the rise of the current radical rightwing governments that are dismantling their democracies.

And though it looks weaker, Czech patriotism’s quiet strength is that it can laugh at itself, despite the country’s tortured history. When Czechs were surveyed in 2005 on their greatest forebears, the winner (later disqualified) was Jara Cimrman, a fictitious comic polymath. The cult anti-hero, a patriot battling (at least in his own mind) Habsburg oppression, is said to be the original author of many of the world’s greatest creations, but he was simply ignored by the rest of the world because he was just a little Czech.

Prime Minister Viktor Orban’s proxy is richest Hungarian ever

Prime Minister Viktor Orban’s friend and close ally Lorinc Meszaros is Hungary’s richest man with wealth of HUF500bn (€1.4bn), according to Forbes’ annual list of Hungary’s 50 Richest. Hungary’s billionaires have become ever richer under Orban and have never been as wealthy as in 2020.

The former gas fitter managed to increase his assets by HUF70bn despite a divorce and the underperformance of his flagship holding company Opus Global on the Budapest bourse.

The holding consists of 40 companies from all sectors of the economy, from asset management, insurance, agriculture, industry to construction and tourism. Meszaros used to have a huge media portfolio, but he transferred it to the Central European Press and Media Foundation (KESMA) controlled by Orban allies.

The former mayor of Orban’s home village, Meszaros has been portrayed as the proxy to the prime minister. Orban himself claims to have zero savings, according to his latest asset declaration.

Meszaros’ rise to the business elite began after Lajos Simicska, the former cashier of Fidesz fell out of favour with the prime minister in early 2015. After the break-up, Simicska’s companies were excluded from state tenders and Hungary’s most powerful oligarch was forced to sell his companies after the 2018 elections. His media companies were gobbled up by Meszaros.

The sale of Hungary’s second-largest power plant also boosted his wealth. State-owned utility giant MVM paid HUF17.6bn for his 76% stake in Hungary’s second-largest power plant last year. The state had injected an additional HUF57bn for the loss-making coal-fired plant later, but that was only revealed after a data request by opposition politicians.

When Meszaros acquired the company in the spring of 2018 he tapped HUF11bn of dividends set aside by former owner Germany’s RWE and EnBW.

The former gas fitter’s wealth has shown an exponential rise from HUF8bn in 2015. He broke the HUF100bn mark in 2017.

While other companies are struggling to stay afloat, the pandemic has had little impact on Orban’s cronies. They have also benefited from state lifelines. Hunguest Hotels, owned by Meszaros was the recipient of a HUF17bn state grant during the first wave.

This did not prevent Hungary’s richest man from laying off hundreds of people. In comparison, the government is dishing out some HUF27bn for more than 14,000 companies to save 100,000 jobs in tourism and catering.

The future looks bright for Orban’s loyal friend as the state continues to roll out multi-billion euro contracts, including the €12.5bn construction of the Paks nuclear power plant and major railway development projects.
Abuse and hate speech against LGBTI people rises across Europe and Central Asia

There has been a “stark rise” in abuse and hate speech against LGBTI people in the Europe and Central Asia region, including from politicians, says a new report from the International Lesbian, Gay, Bisexual, Trans and Intersex Association in Europe (ILGA-Europe).

The Annual Review of the Human Rights Situation of LGBTI People in Europe and Central Asia 2021 shows the coronavirus (COVID-19) pandemic worsened the situation in the last year in multiple ways, from the use of emergency powers by governments – notably in Hungary – to hack away at trans rights, to the exclusion of LGBTI people from coronavirus support packages.

“In reports from country after country, we see a stark rise in abuse and hate speech against LGBTI people,” said Evelyne Paradis, executive director of ILGA-Europe. “There has been a resurgence of authorities and officials using LGBT people as scapegoats while authoritarian regimes are empowered to isolate and legislate without due process. Overall, there has been a crackdown on democracy and civil society, and not just in Poland and Hungary, which made all the headlines in 2020.”

“The ILGA-Europe Annual Review 2021 shows a significant growth of opposition that advancing the protection against discrimination and self-determination for trans people would harm women’s rights or ‘the protection of minors’.”

Among the 19 countries that have seen regression in this area are Croatia, Hungary, Lithuania, Russia, Slovakia and Slovenia, along with several Western European countries.

Abuse in Belarus

“Attacks on freedom of assembly continue to be a growing trend,” says the report. It details the “brutal crackdown in Belarus for months, including arrests, detention, violence, and torture of LGBTI people”. Mass protests erupted in the East European country after the rigged August 2020 presidential election.

“LGBTQI people and activists have participated in and supported the protests from the first day. Some have brought rainbow flags to the protests. LGBTQI activists warned that even if [Belarus’ self-declared president Alexander] Lukashenko resigned, their fight would be far from over,” said the report.

Among those detained in the protests was LGBT+ activist Victoria Biran, who was arrested and put in administrative detention for 15 days, when on her way to the Minsk Women’s March.

“Being a peaceful protester these days in Belarus means to be a target of violence, to be terrorised, detained, attacked, beaten up, injured and murdered on the streets, or tortured in jail,” gay activist Andrei Zavalei told Politico.

In addition to developments in Belarus, “events were attacked or disturbed by extremists in Bulgaria … in Poland anti-LGBT and anti-abortion rallies were rampant, while activists were arrested. In Russia activists were detained; in
Turkey there are ongoing court cases against peaceful Pride marchers and other cases against human rights defenders, and in Ukraine the Odessa Pride event was attacked.”

In Azerbaijan “hate crimes against the LGBT community continued to be a serious issue [in 2020],” according to the report.

Among several violent incidents, two gay men were attacked in Baku in May but the police failed to investigate; Aysu Mammadli, a trans woman and sex worker, was stabbed to death in Baku by an alleged client; 18-year-old Sevgia-Subkhani Ismayilova was subjected to family violence after coming out to her mother; and a young gay couple received multiple death threats after they shared a post of themselves on Valentine’s Day which went viral.

Abuse of emergency powers

Hungary’s Prime Minister Viktor Orban used the emergency powers approved by the parliament in March to issue a decree that made it impossible for transgender people to legally change their gender.

At the end of the year, when Parliament again voted to give the government emergency powers, several constitutional amendments were put forward, including one that would ban adoption by same-sex couples. The proposed amendment would specify that “the mother is a woman, the father is a man” and permit only married couples to adopt children.

On December 14, MPs amended the Fundamental Law “to further entrench the anti-trans framework by establishing children’s “right” to identify with their birth sex and Orban said homosexuals should “leave our kids alone”.

More destructive than Communism

As Poland’s June 2020 presidential election approached, incumbent President Andrzej Duda said that the Polish LGBT rights movement peddles an “ideology” that is “more destructive” than Communism.

“There are attempts to convince us that [LGBT] are people but this is simply an ideology,” Duda said.

“My parents’ generation didn’t fight more destructive, ideology to come,” the president added.

Duda’s message was calculated to pander to the core of his electorate, conservative Catholic Poles, as he presented himself as the defender of family and traditional values.

The issue of gender also continues to loom large in Bulgaria, which has seen growing anti-gender rhetoric focused on the Council of Europe Convention on preventing and combating violence against women and domestic violence, also known as the Istanbul Convention. This was “to a large extent due to the efforts of the nationalist and populist Bulgarian National Movement (IMRO) Dalli commenting: “EU values and fundamental rights must be respected by member states and public authorities.”

The gender issue

Elsewhere among the newer EU member states, the Romanian parliament approved a law banning the teaching of gender studies in schools and universities, and forbade teachers and professors even to address the subject of being trans. Proposed by the centre-right Popular Movement Party and publicly supported by the orthodox church, the law sparked widespread criticism. In December, the Constitutional Court ruled that the ban was unconstitutional.

The hate campaign against the LGBTI community in Poland, which started in October 2018, resulted in LGBTI people becoming a dominant issue during [2020]’s presidential elections, in which President Duda degraded and scapegoated the LGBTI community on his way to election victory,” said the report.

He won a narrow victory and in protest against his anti-LGBT rhetoric, the parliamentary representation of the Left showed up at the swearing-in in. Moreover, dozens of Polish municipalities have adopted declarations they are “free of LGBT ideology”, a concept peddled by the government led by the Law and Justice (PiS) party. This resulted in some being denied applications for EU grants under the twinning programme, with Equality Commissioner Helena

“In December Hungarian MPs amended the Fundamental Law “to further entrench the anti-trans framework by establishing children’s “right” to identify with their birth sex”

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party, which is the coalition partner of the ruling conservative GERB party”. The report quoted Defence Minister Krasimir Karakachanov from the far right IMRO party as saying about anti-government protesters in September: “We cannot let a few Sorosoid NGOs and small parties, that are not even in the parliament, get in power and destroy the country. In the name of what? To introduce gay marriage and to create a gender republic.”

In Croatia an effigy of a gay couple and a child was burnt at a festival in Imotski shortly after a ruling by the Supreme Court on the right of same-sex couples to foster children.

**Hate speech from politicians**

“The review shows a substantial rise in hate speech across the regions, both from official sources, in the media and online. The trend of politicians verbally attacking LGBTI people has grown considerably and spread widely, while many religious leaders have directly blamed LGBTI people for COVID-19,” said Paradis.

According to the report, “The trend of politicians verbally attacking LGBTI people has grown sizeably and spread in countries including Albania, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Czechia, Estonia, Finland, Hungary, Italy, Kosovo, Latvia, Moldova, North Macedonia, Poland, Russia, Slovakia and Turkey.”

Among the many examples of hate speech by politicians, in October 2020, Estonia’s then interior minister Mart Helme made disrespectful comments about same-sex couples in an interview with Deutsche Welle. Helme, the outspoken leader of the far right Conservative People’s Party of Estonia (EKRE), opined that Estonian gay people “could run to Sweden” as they are looked upon more favourably there.

On EKRE’s urging, the government led by Juri Ratas planned to hold a referendum in April 2021 to ask Estonian citizens: “Should marriage in Estonia remain as a union between one man and one woman?” However, the government collapsed at the beginning of 2021.

In Latvia, far-right MP Janis Iesalnieks retweeted a post of an “LGBT-Free zone” sign in Latvian, similar to those used in Poland.

Moldova’s incumbent president Igor Dodon used anti-LGBT rhetoric in an attempt to discredit his rival Maia Sandu ahead of the presidential election.

“I have not participated in any gay marches, like Maia Sandu has done in recent years. Think very carefully, dear parents, what we will achieve in schools with such a president,” Dodon, who went on to lose the election, told a press conference.

**Civil partnerships in the Western Balkans**

In the EU-aspiring Western Balkans, Montenegro became the first country to introduce civil partnerships, and the Serbian government has promised to take steps toward introducing civil partnerships in 2021.

Meanwhile, talks on a potential marriage equality law stalled in Czechia, and in Latvia the parliament rejected a proposal for same-sex marriage to be legalised. “[Latvia’s] first initiative to legalise civil partnerships or same-sex marriage was launched in 1997, but all have failed to date,” the report noted.

Many countries have “more progressive laws on the books than there were five years ago, but in too many places we’re still waiting for those laws to translate into real change in the lived experience of LGBTI people”, according to LIGA-Europe. At the same time, “in a substantial number of countries, legislative change is lagging, stagnant or backsliding”.

**Pride cancelled**

In recent years there have been a growing number of Pride events in emerging Europe. In 2020, there were very few Pride events, as most were cancelled due to the lockdowns – indeed, many LGBTI organisations had to turn their energies to providing basic necessities like food and shelter when governments left LGBTI people out of their relief packages.

“The absence of Pride events matters not just as a test of free assembly, but because of the potential longer-term impact on the visibility and presence of LGBTI people and communities in the public space, which will only be seen as we move into the years beyond the pandemic,” said the report.
Slovak President Zuzana Caputova warned that the epidemiological situation in the country is extraordinarily grave and serious. According to her, the country should not overestimate antigen testing and instead increase the supervision and enforcement of emergency measures. They should also carry out more consistent and reasonable communication with the public.

Aside from increased mobility, the mass testing also has a psychological effect, she stressed, implying that the people often perceive their negative certificates as a clean bill of health.

As of February 16, Slovakia’s National Health Information Centre reported more than 6,000 new positive cases and 105 deaths. “The most significant factor that has prevented coronavirus cases from falling in Slovakia is a high occurrence of the variant that was found in Britain,” said Slovak epidemiologist and vice rector of Trnava University Marek Majdan to the Associated Press.

Two weeks ago, the British mutation of coronavirus was found in 74% of almost 2,000 samples examined recently in the country. "It’s spread throughout Slovakia," warned Prime Minister Igor Matovic.

As of today, the government also approved the proposal by the Slovak health ministry to activate the EU civil protection mechanism in the context of the deteriorating pandemic situation and ask for doctors and nurses from abroad to come and help to provide care for patients suffering from coronavirus in anaesthesiology and intensive care units.

"Foreign teams that would come to Slovakia to provide healthcare would only stay for the time necessary in order to achieve the goal. For the time being we expect that the length of stay would be one month," said the ministry in its report.

The Austrian defence ministry responded that it can lend the medical staff of the Austrian army. "Swift and bureaucracy-free aid is a requirement of European solidarity. That’s why we’ve admitted patients from France, Italy and Montenegro. Now, the Austrian army will support Slovakia," said Austrian Chancellor Sebastian Kurz.

"The Austrian Armed Forces are available whenever the situation calls for it, be it in Austria or abroad... So, it goes without saying that we stand by Slovakia in these times of hardship," added Austrian Defence Minister Klaudia Tanner.
As of February 17, the government approved a list of 19 districts to be labelled as the most severe degree concerning coronavirus. Schools are obliged to stay closed and people are allowed to go to work only with a negative test for coronavirus no older than seven days. It’s forbidden to leave or enter these districts.

The country also introduced mandatory 14-day isolation upon arriving in the country, with people obliged to wait at least eight days before being tested with an RT-PCR test. The isolation also applies to those who have visited other countries in the past two weeks.

"People who have exclusively visited EU countries, Iceland, Norway, Liechtenstein, Switzerland and the United Kingdom in the past 14 days are subject to isolation. The person will be tested by the PCR method on the eighth day of isolation at the earliest. If the person doesn’t participate in testing but has no symptoms during isolation, it will end after 14 days," said Public Health Authority spokesperson Dasa Rackova, quoted by the Slovak News Agency.

The Slovak Association of Employers Unions called on the government to give the green light to the Russian anti-covid vaccine Sputnik V, even without the EU’s approval.

"It isn’t appropriate to pursue geopolitical interests at the moment. We should focus on human lives instead. If we waited for a registration permit to be issued by the European Medicines Agency, we could be outmatched by other countries. There could be a lack of vaccines, and this could lead to a significant increase in the price of Sputnik V," said its general secretary Oto Nevicky.

The Slovak Pandemic Commission has recommended the government to start talks with the Russian side about supplies of Sputnik V,” said Matovic on his Facebook, quoted by Reuters.

“The government will discuss this on Thursday morning,” he said. “I am in favour. It is a great vaccine with great efficiency. So far in the EU it is only being used by Hungary and I do not see a reason why we should not use it as well.”

All coalition parties but For The People support the recommendation of the Commission. For The People chairwoman Veronika Remisova said Slovakia should wait for the results of the evaluation of the Russian vaccine by the European Medicines Agency (EMA).

Same was stated by Slovak Foreign Minister Ivan Korcok on his Facebook page. Even though he is not against the use of the Russian Sputnik V vaccine, he has reservations about whether it should be distributed in EU countries without EMA’s approval.

The junior government partner Freedom and Solidarity (SaS) agreed with negotiations with Russia, however it stressed that its safety and effectiveness must be confirmed by the Slovak State Institute for Drug Supervision.

"We're aware of people's demand for vaccination, but it would be very reckless if we released Sputnik V without any control. It is therefore important to contact our supreme professional authority first and foremost to do everything necessary to responsibly assess the benefits and quality of the vaccine," said SaS.

The Voice-SD party of former Prime Minister Peter Pellegrini criticized the government for creating chaos in the anti-coronavirus measures and for bringing the country to the worst place in terms of the number of deaths per million people. It called on the cabinet to resign, appealing to President Caputova to appoint an expert caretaker government to serve until a snap election can be held.

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According to Krajci, thoughtless personnel changes definitely won’t help to handle the coronavirus crisis. The health ministry spokesperson Zuzana Eliasova stated that the ministry is open to cooperation.

"The accessibility of treatment in Slovakia, purchase of artificial lung ventilation well in advance, management of mobile points for testing people across the country to detect those infected, coordination of hospitals and setting up their capacities with regard to healthcare for patients with other diagnoses, as well as other steps for the benefit of patients - this is the minister's daily agenda, along with managing important talks by the pandemic commission and setting the rules for the country along with other cabinet members," she said.

health ministers Tomas Drucker (extra-parliamentary Good Choice), Andrea Kalavska and Richard Rasi (an Independent MP, working for Voice-SD).

"I view Krajci as a decent man, but he should never have become a health minister, as he doesn’t have the managerial prequisites to serve in such a post. This is especially true in the current crisis, when there’s a need for vigorous and systematic crisis management of healthcare with an impact on the whole of society," Drucker told the news agency.

"I'm particularly unhappy about Krajci's personnel policy, favouring family members and friends at the expense of professionalism. … Despite our good personal relationship in the past, I believe that Marek Krajci should offer his post to a more capable manager as soon as possible," he added.

Kalavska called the current fight against the pandemic in the country catastrophic. "The highest numbers of people per capita per day are dying from coronavirus in Slovakia, and the figures keep growing. I view this as sufficient reason for the minister to accept responsibility and resign," she said.

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Hungary tries to speed up vaccinations by turning to China and Russia

bne IntelliNews

Hungary has blamed the European Union for the slow roll-out of its COVID-19 vaccination campaign and has turned to its eastern allies Russia and China for help. Without waiting for approval from the European Medicines Agency or for rigorous tests by its own watchdog, the government has become the first country in the EU to turn to Chinese and Russian manufacturers to speed up its vaccination programme.

Now the government plans to inoculate every Hungarian over the age of 60 by March 15, Prime Minister Viktor Orban told state media on February 5.

If it succeeds, the government hopes this will make up for its mistakes last year in handling the pandemic, while also demonstrating that the country can handle the crisis by itself, the importance of its strong ties with China and Russia, and that it does not need the help of the EU.

Government officials have accused EU leaders for the slow delivery of vaccines, while critics accuse the government of trying to divert attention away from the soaring infection rate over the winter and its confused response.

"Everyone was expecting that the vaccination will be launched at a tremendous rate in the EU, which will allow the existing restrictive measures in Europe to be lifted, but the expectation could not be fulfilled by the European Commission," Foreign Minister Peter Szijjarto said in mid-January.

In response, Hungary has turned to China and Russia to diversify its supplies. "It doesn't matter if the cat is black or white, as long as it catches the mouse," Orban has said numerous times, quoting Chinese communist leader Deng Xiaoping.

Turning to Russia and China

Hungary, which has a population of 9.7 million, has ordered a total of 19.7mn doses from western manufacturers, including AstraZeneca, Moderna and Pfizer-BioNTech, which would be enough to provide immunity to every child and adult. The government had ordered a total of 4.4mn doses of the vaccine as part of a joint European Union order.

Hungary received the first delivery of close to 10,000 Pfizer-BioNTech vaccines before Christmas. But as supply problems surfaced in January, Orban asked his foreign minister to speed up talks and to secure further supplies from China and Russia.

Under an agreement reached with Moscow a week ago, Hungary will receive 2mn doses over three months. The Russian Sputnik V had received a preliminary license from Hungarian authorities, while they still await certification from the European Medical Agency (EMA).

Hungary also agreed with China on the shipment of 5mn doses of Sinopharm a week ago. Deliveries will take place in four phases over four months. In February, March, and April Hungary is slated to receive 500,000 doses per month and 3.5mn in May. Hungary was the first country in the EU to give the green light for the use of Sinopharm's drug.

The agreement with the Chinese manufacturer came a day after the government issued a decree calling for a green light for any vaccine that had been administered to at least 1mn in at least three other countries. The decree made it possible to circumvent an authorisation from the Hungarian National Institute of Pharmacy and Food and Health (OGYEI), which gave its blessing to the Sinopharm drug days later.

Some Hungarian medical professionals have complained about the lack of transparency of the approval process.

Hungary’s largest opposition party DK said that the government was gambling with the health and lives of Hungarians. It should be up to the European Medicines Agency to decide whether the vaccine was safe and effective, they said. The government in response accused the DK of fearmongering and trying to undermine the vaccination campaign. ●
Hospitals in Czechia have reported a record number of coronavirus patients with severe conditions – their number reached 1,227 on February 18 – as the British variant of the virus spreads fast across the country.

The capacity of the hospitals has shrunk to 14% of beds in intensive care and high dependency units. According to the Health Minister Jan Blatny, the Czech hospitals may be overwhelmed with coronavirus patients in two or three weeks.

“If we together don’t prevent further spread at this level, then within two or three weeks the whole country will be likely in the same situation,” Blatny said, quoted by Reuters.

The minister said the government might consider asking its neighbour Germany to take in a limited number of patients when the intensive care bed capacity drops to single digits.

Just recently, Germany closed its border with Czechia as along the border it has posted the highest coronavirus incidence rates, of over 300 cases per 100,000 citizens. Currently, only selected cross-border medical workers, critical sectors workers and lorry drivers transiting Germany are allowed to cross into Bavaria for short-term entry and must provide a negative PCR test no older than 48 hours.

The government is now facing a huge dilemma: It has to decide between tightening the measures even more or reopening shops and sending students to schools, as demanded by businesses and some opposition parties.

“The opening of shops is a significant shift. It’s a big psychological break. After a long time, people will see the light at the end of the tunnel, we will ease it [restrictions] slowly, and if we manage to do it, it is a great signal that we will be able to continue. I am convinced that we can do it together,” said Industry and Trade Minister Karel Havlicek on his Twitter account.

While Blatny also agrees to open the shops under strict conditions, Education Minister Robert Plaga tweeted that sending children back to school is a priority and the reopening of shops can wait.

“If the return of pupils to schools is a real priority not only for education ministry, other changes to the measures (for example opening shops) are not possible, and the increase in social contacts when returning to schools must be balanced by mandatory testing in manufacturing companies and maximum use of the home office,” Plaga said on his Twitter.

The President of the Czech Medical Chamber Milan Kubek warns against the idea of easing the restrictions. “Many people here don’t take the epidemic seriously, they fear other things than COVID, they think this does not concern them. The government must not make the same mistake it made in the run up to Christmas when it reopened shops to please the public. It is high time we learnt from our mistakes,” Kupka said, as quoted by Prague International Radio.

The Czech Chamber of Deputies approved the law on pandemics on February 18, which should provide a means of handling the coronavirus crisis once the state of emergency is over. The law contains compensation for the companies hit by the COVID-19 situation, as insisted on by the opposition. Last week parliament had refused to prolong the state of the emergency but the government imposed it anyway with the backing of regional governors.

According to the former health minister Roman Prymula, the government should introduce hard lockdown for two to three weeks.

“We are getting to a crossroads where we really have to admit, and there are not many options, that either there will be a short-term hard restriction, two to three weeks, followed by easing, or we will continue in the regime as we currently are in,” Prymula said, stressing that the situation is deteriorating every day and within one to two weeks, medical facilities will reach their capacity.
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Serbia to become vaccine production hub for the Western Balkans

Eldar Dizdarevic in Sarajevo

Serbia will be able to produce 20mn doses of the Russian Sputnik V vaccine, President Aleksandar Vucic stated on TV Pink on February 16.

“Our estimate is that we are able to produce 20mn doses. We need five to six million, and the rest can be sold in the region,” Vucic said.

Vucic stated that Serbia has signed agreements on more than 10mn doses of the vaccine and that it has so far received around 2mn doses. The country’s population is just under 7mn.

The president added that 41,000 doses of the Pfizer vaccine were on their way, as well as of the AstraZeneca vaccine, and then 50,000 of the second dose of the Russian vaccine Sputnik V. He said, however, that Serbia was yet to get vaccines from the COVAX programme.

There are now plans to set up production of the Russian Sputnik V vaccine in Serbia. A delegation of Russian experts that visited Serbia in mid-February estimated that there are technological conditions for the first phase of the production of the vaccine. Serbia would thereby become the first country in Europe to produce the vaccine.

Minister without portfolio in charge of innovation and technological development Nenad Popovi said on February 15 that production will take place in two phases. The first phase could start in two to three months, and the second within seven to nine months, a government statement said.

Even before the launch of production, Serbia’s success in securing vaccines from multiple sources – in line with its four pillar foreign policy of good relations with the EU, the US, Russia and China – has made it one of the most advanced European nations in terms of the share of the population already vaccinated.

So far Serbia has vaccinated 14% of its population, putting it second after the UK in Europe, and far ahead of any EU country.

Meanwhile, its neighbours in the Western Balkans have struggled to secure any vaccines at all. Albania, Bosnia & Herzegovina and North Macedonia have started vaccinating their populations but have only received small numbers of doses.

North Macedonia received its first shipment of 4,680 COVID-19 vaccines from Serbia on February 14. Vucic personally handed over the vaccines to North Macedonia’s Prime Minister Zoran Zaev at the Tabanovce border crossing.

Vucic said the possibility of helping Montenegro the same way as North Macedonia was being considered. When asked about the vaccines that Serbia has delivered to North Macedonia, Vucic said that numerous permits were necessary (the delivery was delayed slightly as permits were obtained), not just for Pfizer, but for any other vaccine as well.
He said that a part of the population of Bosnia & Herzegovina’s Serb entity Republika Srpska would be able to get vaccinated in Serbia and that it remained to be seen whether Serbia could provide them with a quantity of vaccines.

Serbia’s announcement that it will also vaccinate ethnic Serbs in Kosovo has angered the government in Pristina. Meanwhile, Albanian Prime Minister Edi Rama has lashed out at the EU for failing to give sufficient help to the candidate and potential candidate countries of the Western Balkans.

Vaccine scepticism spreads
There is a high level of vaccine scepticism in Serbia and other Western Balkans countries and it seems that after the initial euphoria, the desire for vaccination in Serbia is declining.

The response of citizens to vaccination in Serbia is disappointing, the Vojvodina Research and Analytical Centre (VOICE) announced, N1 reported.

Epidemiologist Zoran Radovanovic said that the response of citizens to vaccination against the coronavirus was “disappointing” and assessed that the cause was “unprecedented media manipulation and sensationalism”.

When asked why the take-up of vaccines among health workers is low, Radovanovic said that they, as well as other citizens, were influenced by those manipulations.

The president of Serbia stated on February 14 that health workers who accept the vaccine will receive an additional one-time bonus of RSD10,000 (€85).

There are also fears of a new rise in coronavirus cases, and an increase in hospitalisations.

Around 1,000 partygoers were caught at a Belgrade nightclub flouting anti-virus restrictions in Serbia, which has banned gatherings of more than five people, the interior ministry said February 14. The organizers now face up to three years in jail.

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**Erdogan’s announcement of Turkish space programme short on budget details**

**bne IntelliNews**

Turkish President Recep Tayyip Erdogan late on February 9 drew the curtain on a 10-year space programme.

Erdogan did not share any budget details during his speech on the programme broadcast live on television. His announcement came on the same day that a probe built by a regional rival of Turkey, the United Arab Emirates, successfully entered Mars’s orbit.

Erdogan said the first goal of the programme was to make contact with the moon in 2023, the centennial of the founding of the Turkish republic. Sending Turkish astronauts into space, building a Turkish spaceport, and developing sophisticated satellite and meteorology technology were other objectives.

“Our feet will be on Earth but our eyes will be in space. Our roots will be on Earth, our branches will be up in the sky,” the president said.

The Turkish space agency (TUA) was founded in December 2018.

Turkey has been beset by economic stress for several years and Erdogan’s popularity ratings in the country are seen as low and falling. The astronomical costs of a space programme such as that announced will not be easily borne by the state budget. But TUA supporters say the project will deliver technical and highly specialised jobs, reducing the brain drain abroad of scientists and researchers.

In January, Erdogan had a telephone call with Elon Musk, chief executive of SpaceX, the private US space exploration company. Erdogan and Musk spoke about technological cooperation with Turkish companies, but few other details of the call were released.

In cooperation with SpaceX in January, Ankara launched the next-generation Turksat 5A communications satellite from the US. It will be used for both civilian and military purposes.

Prior to the space programme announcement, a metal monolith-like structure mysteriously appeared and disappeared in the southeast of Turkey. It was later revealed as a publicity stunt related to the unveiling of the programme.

The 3-metre-high metal slab with the inscription “Look at the sky, you will see the moon,” written in ancient Turkic script, was discovered in a field last week by a farmer in Sanliurfa province.
Vetevendosje is polling at 40-50%, which will almost certainly give party leader Albin Kurti a chance to form his second government.

Kosovo’s new generation of politics

Clare Nuttall in Glasgow

Levizia Vetevendosje leader Albin Kurti’s strong stance against corruption has resonated with Kosovan voters disillusioned with the parties that have dominated the country’s politics since it declared independence in 2008, many of them headed by former commanders of the Kosovo Liberation Army (KLA), the guerrilla army that fought for independence from Yugoslavia.

2020 saw a break from the politics of the last 12 years as several top politicians – among them Kosovo’s then president Hashim Thaci and Democratic Party of Kosovo (PDK) leader Kadri Veseli – were indicted for war crimes and put into detention in The Hague while they await trial.

Meanwhile Vetevendosje, a left-wing nationalist party that grew out of a protest movement, has gained overwhelming popular support, especially from the younger generation of voters. Ahead of the February 14 general election, Vetevendosje is polling at 40-50%, which will almost certainly give Kurti a chance to form his second government.

In a speech on January 14, when he announced that Vetevendosje would run jointly with acting President Vjosa Osmani’s list, Kurti described the election as a referendum on Kosovo’s future. “We have made an agreement of political principles and goals … for a state with justice and without corruption, for a society with health, employment and education for all citizens, without distinctions, discrimination and favours,” the Vetevendosje leader said.

Along with its neighbours in the Western Balkans, Kosovo is one of the most corrupt countries in Europe, ranked 104th out of 180 countries and territories worldwide on Transparency International’s latest Corruption Perceptions Index. With its economy damaged by the coronavirus (COVID-19) pandemic last year, even before 2020 Kosovo struggled to attract international investment partly because of its long-unresolved dispute with Serbia. The lack of opportunities and high unemployment have led to large-scale emigration.

While all of the main political parties talk of alleviating poverty and raising living standards, Vetevendosje’s policies on the economy have been specific and coherent: it wants to raise taxes on higher income groups to fund investment and tackle poverty, it opposes privatisation and it wants to support domestic production including through subsidies for local companies. It is also adamantly against compromise with Serbia.

“LVV [Vetevendosje] has taken a stronger stance on Kosovo’s status than the other parties, which have all conceded the need to compromise with Serbia in order to gain recognition … A second factor is the decline of some of the established parties after their leaders were extradited to The Hague to stand trial for war crimes at the end of last year. This is particularly so for PDK and the Social Democratic Initiative (Nisma), which are largely vehicles for former president Hashim Thaci and Fatmir Limaj respectively,” Michael Taylor, senior analyst, Eastern Europe at Oxford Analytica, told bne IntelliNews.

A strong poll lead

This has helped the party to a substantial poll lead ahead of Sunday’s election, though its share of the vote in recent polls (which can in any case be unreliable) varies. A poll commissioned by TV station T7 and Gazeta Express put Vetevendosje on 50%, followed by the PDK on 16.94% and the LDK on 15.97%. The latest poll from the Public Opinion Research (PIPOS) put Vetevendosje at just under 41%, the PDK at 22.3% and the LDK at 19.3%.

Vetevendosje was the winner in the last general election in October 2019, when it took 26.27% of the vote, less than two percentage points ahead of the second-ranked Democratic League of Kosovo (LDK), as voters expressed their frustration over the failure of previous governments to tackle poverty, unemployment and corruption. The two parties formed a coalition government that was voted in on February 3, 2020.
But less than two months after Kurti’s government was formed, rifts opened up between Vetevendosje and the LDK on critical issues such as the 100% tariffs on imports from Serbia and Bosnia & Herzegovina and the handling of the coronavirus pandemic. Kurti sacked interior minister Agim Veliu, one of the LDK’s ministerial appointments, when Veliu backed calls from Thaci to declare a state of emergency, prompting the LDK to call a confidence vote in the government.

After the vote, Kurti accused then US president Donald Trump’s envoy for the Western Balkans, Richard Grenell, of being “directly involved” in bringing down his government. Kurti argued at a press conference that Grenell saw him as an obstacle to the deal with Serbia that the White House wanted ahead of the US’ autumn presidential election.

The next government, led by the LDK’s Avdullah Hoti, didn’t last much longer, as the Constitutional Court ruled in December that the vote to appoint Hoti’s cabinet had been invalid, thus prompting the snap election – the fifth since Kosovo gained independence in 2008.

The failure of Kurti’s 2020 government hasn’t dented his popularity. “I am expecting a clear win by Levizja Vetevendosje for several reasons. Firstly, the other parties that used to rule the country so far have disappointed the people by not being able to improve the lives of the population in a considerable way. Secondly, the first Kurti government at the beginning of last year sparked enthusiasm within the population,” says Adem Ferizaj, graduate teaching assistant at Soas University of London.

On the contrary, the controversy surrounding the Trump administration’s suspected interference in Kosovo’s domestic policies contributed to the groundswell of support that has seen the share of voters favouring Vetevendosje in recent polls reach almost double the share he received in October 2019. The suggestion that Kurti was victim to what effectively amounts to a coup by Washington left its legacy, says Ferizaj, “it especially led to a further politicisation changing the political awareness of a major part of the society.”

Nor has the Kosovan Central Election Commission (CEC) decision not to certify Kurti and two other members of his party because of their convictions for tear gas attacks in the parliament damaged his standing in the polls. Vetevendosje has insisted Kurti will remain on its list, even though the CEC says votes cast for him or fellow candidates Albulena Haxhiu and Bajram Mavriqi will not be counted.

**From street protests to parliament**

Both Kurti and Vetevendosje have come a very long way since the early days of independence. When the Kosovan war broke out in 1998 Kurti was a student at the University of Pristina, where he organised protests against the Yugoslav police’s occupation of the campus that were brutally put down. Like other leading politicians such as Thaci, Veseli and former prime minister Ramush Haradinaj, Kurti was a member of the KLA, working for its political representative Adem Demaci. During the Nato bombing of Yugoslavia in 1999, Kurti was arrested and beaten, then sentenced to 15 years in prison. His release was secured under “self-determination” in Albanian – grew out of the Kosova Action Network (KAN), which also promoted human rights and social justice. Kurti was among hundreds of activists arrested and convicted during protests in 2005, the year Vetevendosje was founded, when they wrote “No negotiations, Self-Determination” on UNMIK buildings.

Vetevendosje – the party name means “self-determination” in Albanian – grew out of the Kosovo Action Network (KAN), which also promoted human rights and social justice. Kurti was among hundreds of activists arrested and convicted during protests in 2005, the year Vetevendosje was founded, when they wrote “No negotiations, Self-Determination” on UNMIK buildings.

Vetevendosje clashed again with the UN presence in Kosovo in February 2007, when it organised a protest against the Ahtisaari Plan, a proposed settlement agreement for Kosovo, that turned violent. Romanian UN police officers killed two protesters and injured 80 others. Kurti was arrested again and sentenced.

Initially outside mainstream party politics, Vetevendosje entered parliament for the first time in 2010, slightly increasing its share of the vote in 2014, and almost doubling it to become the largest party in the parliament after the 2017 and 2019 elections. Even after entering parliament Vetevendosje remained a rebel force; Kurti and other MPs repeatedly let off smoke bombs in the assembly in protest against an agreement with Belgrade giving limited autonomy to Serbs in northern Kosovo in autumn 2015. They used the same tactic in 2018, when MPs met to vote on a border demarcation deal with Montenegro.

At a time when many of the parties and movements that have challenged the political establishment are from the populist right, Vetevendosje is a relatively rare example in the Central and Eastern Europe (CEE) region of a left-wing popular movement that has managed to gain mass appeal. The challengers to the entrenched local elites in other Western Balkans have mainly been from the far right, such as the parties that co-opted protests against President Aleksandar Vucic in Serbia last summer and some members of the new government in Montenegro that successfully ousted President Milo Djukanovic’s Democratic Party of Socialists after 30 years in power. Another emerging right-wing force is the Alliance for the Unity of Romanians (AUR) that took a startlingly high 9% of the vote in Romania’s December general election barely a year after it was founded.

Yet the last decade has also seen left-wing anti-establishment movements shift from the fringes to the mainstream, not only Vetevendosje, but also Syriza, which took power in Greece, as well as Spain’s Podemos, which grew out of mass protests against inequality and corruption to become one of the country’s largest parties and a member of the current government. Vetevendosje is heading to a convincing win in the elections, but it is not clear if it will be able to form a government.
Breaching a government ban on demonstrations, students and teachers at Bogazici have held protests for the last month against President Recep Tayyip Erdogan's appointment of academic and former political candidate Melih Bulu as rector. They said the move was undemocratic.

Hundreds of protesters who gathered in Istanbul's Kadikoy district on February 2 carried signs that said, "LGBTQs will never walk alone", among other slogans.

In Ankara, police clashed with protesters, some of whom chanted: "Shoulder to shoulder against fascism." Local reports said 69 were detained.

"Should we tolerate the LGBT deviants who insult the great Kaaba? Of course not," Interior Minister Suleyman Soylu on February 3 called student protesters "LGBT deviants" on Twitter, prompting the social media platform to put a rare warning on his comment.

In the 2013 demonstrations hundreds of thousands of people marched against government plans to build replica Ottoman barracks in Istanbul's Gezi Park. Erdogan praised his party's youth wing for "not being the LGBT youth".

"Are you students or terrorists trying to raid the rector's room?" Erdogan said. "This country will not again live a Gezi event in Taksim, will not allow it. We have not stood with terrorists and we will not." Erdogan praised his party's youth wing for "not being the LGBT youth".

Soylu added on live television on February 2 that it was his duty to preserve families against "LGBT deviants", also remarking: "I am a believer, and in my belief, this is deviant. As a Muslim, I am responsible to say this, to protect the institution of family."

Bulu, who once applied to run for parliament as an AKP candidate, told broadcaster HaberTurk that the "crisis will be totally finished within six months".
Montenegro’s ruling coalition splits over criminal code changes

Denitsa Koseva in Sofia

The existence of Montenegro’s ruling coalition is in question as one of its biggest parties, the Democratic Front, said it will no longer support the government after Prime Minister Zdravko Krivokapic decided to withdraw proposed changes to the criminal code that would scrap the special prosecution and pave the way for the dismissal of its head, Milivoje Katnic.

Katnic led the investigation and trial against several leaders of parties in the current ruling coalition, who were charged with plotting a coup against the then ruling Democratic Party of Socialists (DPS) back in 2016. His work led to guilty verdicts for 13 people, including Democratic Front leaders Andrija Mandic and Milan Knezevic.

The rift appeared just two months after the new coalition came to power, ending 30 years of rule by the DPS. Since taking office in December, the new government has sought to remove Katnic, while on February 5 the Appeal Court cancelled the verdicts in the coup plot case, citing significant violations of criminal procedure.

However, the head of the European Commission delegation to Montenegro Oana Cristina Popa has raised concerns about the judicial reforms under the new government, saying Podgorica must “advance and not reverse the implementation of the judicial reform”.

Late on February 16, Krivokapic made an extraordinary statement, saying the government is determined to respect the rule of law and all international agreements, including those signed with the EU as part of the membership talks.

Krivokapic argued that the amendments to the criminal code are necessary as the special prosecution lacks effectiveness and because the majority of people believe the institution does not work well, pointing to recently revealed corruption cases.

“But! There is always this ‘but’ we have to pay attention to! Our obligation when adopting systematic laws concerning the rule of law … is to consult with our partners. This means we should have wider discussions, include the EC’s experts and respect the opinion of the Venice Commission,” Krivokapic said in the statement.

He explained that the legislation changes were proposed to the government by the parliament and that the government had not enough time to carry out the necessary consultations.

“We do not want to go the wrong way,” Krivokapic explained.

He added that the government is determined to lead Montenegro towards EU membership, which is also the desire of 75% of the population.

“We bet on the European values and standards and we accept them, we shall very quickly get onto the European Union’s doorstep!”

In the next one this word would be ‘regress’,” Krivokapic wrote.

The Democratic Front was angered by his decision and its leaders said they will no longer support any decisions of the ruling majority until the legislation changes are returned to the parliament’s agenda.

At a press conference broadcasted on the party’s Facebook page Mandic and Knezevic said they would not even back the 2021 budget.

“A crisis of the parliamentary majority has been caused. Today, the coalition For the Future of Montenegro [which is led by the Democratic Front] we decided that our club, which is the absolute majority, will not participate in any consultations until the laws on the prosecutor’s office are put back on the agenda, as agreed in the parliament,” Mandic said.

However, the Social Democratic Party (SDP), which is also part of the ruling coalition, welcomed Krivokapic’s decision.

For the Future of Montenegro got 32.6% of the votes in the August 30 general election, just behind the DPS which gained 35.1%. The DPS was ousted from power after For the Future of Montenegro united with almost all the other opposition parties in parliament to form the new ruling coalition.

Since its formation, experts have expressed concerns over the ruling coalition’s stability as it comprises 20 parties with often conflicting views, from the pro-Russian Democratic Front to liberal and pro-EU coalitions, which were united behind the common goal of removing the DPS after three decades in power.
Russia’s Lavrov threatens to break off diplomatic relations with EU if sanctioned

Ben Aris in Berlin

Russian Foreign Minister Sergei Lavrov said on February 12 that Moscow is ready to sever relations with the EU if sanctions are imposed that threaten its economy in connection with the jailing of anti-corruption activist and opposition politician Alexei Navalny last month.

"We do not want to isolate ourselves from international life, but we have to be ready for it," Lavrov said during a TV interview.

"We assume that we are ready [to break relations] if we see again – as we have often felt – that in some areas sanctions are imposed, creating threats to our economy, including in the most acute spheres," Lavrov added.

The comments came after a meeting between Lavrov and the European Union’s top diplomat, Josep Borrell, who was slated by observers for failing to hold Russia to account for the arrest and jailing of Navalny.

Lavrov’s comments confirm bne IntelliNews' analysis “Kremlin lays out new rules of the game for post-Trump relations,” that Russia used the meeting, and the humiliation of Borrell, to send a very clear message that it was taking a new hard line with the West. Lavrov has since indicated that while Russia is prepared to negotiate with the West over things like arms control deals, it is not prepared to accept a dual policy where threats of sanctions are made in parallel.

After the Borrell visit Lavrov told the new US Secretary of State Antony Blinken in a tweet that an offer to sign a commitment to nuclear arms reduction agreement was “still on the table” but explicitly linked that to a second commitment to “not interfere in each
Russian government launches a National Projects 2.0 revamp

Ben Aris in Berlin

Getting the 12 national projects to work has become an existential problem for the Kremlin, and they are not working. So the government has launched a revamp that it hopes will re-energise the programme that is intended to transform Russia and return the prosperity it enjoyed during Russian President Vladimir Putin’s first term in office.

With the mass roll-out of coronavirus (COVID-19) vaccinations well underway and infection rates already beginning to fall, the government is hoping for an economic rebound this year, after the relatively mild 3.1% contraction in 2020. The early indicators are that the economy is already starting to recover after all three of the PMI indices – services, manufacturing and composite – went back into the black in January.

However, the pandemic has put the national project programme back and the final disbursement of the RUB27 trillion ($357bn) spending has been delayed from its original completion date of 2024 to 2030. The programme got off to a slow start in 2019 but by the end of that year real incomes started to grow briefly on the back of all the budget spending. However, the respite was short-lived as a double whammy of an oil price shock and the start of the coronavirus (COVID-19) pandemic hit in March of 2020.

The country has been riven by mass protests following the return and arrest on January 17 of anti-corruption activist and opposition politician Alexei Navalny, who was sentenced to 2.8 years in jail on February 2; popular dissent has been building slowly after six years of real income declines. While Russian incomes are the highest in the Commonwealth of Independent States (CIS) and the Russians themselves are as worried about losing the gains already made as they are dissatisfied with Putin, a full blown Ukrainian-style revolution remains a remote possibility.

Nevertheless, the Kremlin is acutely aware that it needs to restore growth and see incomes start to rise again, otherwise social discord will continue to increase. The Navalny affair has only thrown this problem into sharp relief and bne IntelliNews staff in Moscow say Navalny has catalysed a national debate over what sort of future awaits the
country’s citizens. More immediately, the Kremlin needs some positive results before a crucial general election for Duma seats in September.

**National Projects 2.0**
The government has prepared a repackaging of the national projects programme, according to a report by The Bell on February 5.

Prime Minister Mikhail Mishustin is celebrating his first anniversary in office with a new strategy of socio-economic development, and has developed a special plan to achieve the national goals set by the president. The government promises to change the economy and business conditions on the principle of “change and disrupt” and has invited experts like Sber CEO and author of Russia’s first economic reform programme in 2000 German Gref to contribute.

Shortly after Putin took over as president in 2000 he brought in Gref, an academic, to draw up reforms dubbed “the Gref Plan” that began the process of remaking the Russian economy. Unpopular with the elite at the time, the plan was able to make the first round of changes, entirely backed by Putin’s personal authority, although it ran out of steam after a few years.

Now the government is attempting to re-start the reforms yet again, and kicked off the effort with a meeting chaired by Mishustin on January 27, The Bell reports, citing two government sources involved.

The new strategy was also reported by Vedomosti, without references to the source of information. The newspaper reported that the goal of the meeting was to determine ways of fulfilling the goals set out last July in a presidential decree “On the national development goals of the Russian Federation for the period up to 2030” that sets out the national projects action plan.

Teams have been set up to deal with the specifics, including: New Social Contract, Client-Oriented State, Aggressive Infrastructure Development, New High-Tech Economy, and National Innovation System, which correspond to five of the 12 tasks in the national projects. A working group headed by a specialised vice-premier is responsible for each segment.

A few details have leaked out from the meeting. The National Innovation System team is headed by Gref, as well as the co-founder of IBS IT Services, Russia’s answer to Germany’s SAP, Sergey Matsotsky and Alexander Galitsky, founder of Almaz Capital Partners, a leading Russian investment fund.

Boris Kovalchuk, the CEO of state-owned power company Inter RAO and the son of Yuri Kovalchuk, co-owner of Rossiya Bank, have been named the top experts for the New High-Tech Economy project, The Bell reports.

The Bell reports that the plan’s documents are full of ideas from the tech sector. The kick-off meeting is called “kick-off” (as a borrowed word from English) in brackets. Mishustin was appointed Prime Minister after transforming the tax service by, among other things, overseeing a hugely successful overhaul of the IT system. Clearly Putin is hoping Mishustin can do for the whole government what he has already done for the tax service.

The national projects themselves have been repackaged, renamed and broken into components.

The Bell reports that the three most interesting blocks include: The “New Social Contract”, which envisages the introduction of a universal family allowance – not for everyone, but only for the “needy”, who will have to be identified according to the “know your client” principle. Direct payments and provision of food for the poor should become the components of the new social contract. The materials do not say anything about aid to other categories of citizens in the context of the new social contract.

Law enforcement and judicial system will be reformed to improve confidence and the business climate. One of Russia’s biggest problems holding back faster economic growth is the fact that entrepreneurs don’t trust the courts and property rights remain weak. The upshot is that successful business people are very reluctant to invest and take a defensive position to protect existing businesses rather than taking expansionist positions to grow their businesses. This attitude acts as a brake on growth and once a business gets to the size where it is providing the owner a good living it stops growing.

Putin urged in 2019 to approach judicial and law enforcement reforms “carefully, without revolutions and without waving a sword.” The Bell speculates that these reforms remain very sensitive and a deep root and branch reform is not on the cards.

Another goal in the new look national projects programme is to reduce the state’s share in the economy and at the same time to use the potential of state-owned companies to “accelerate digital development” in an effort to make Russia welcoming for start-ups from all over the former Soviet Union (FSU).

The “National Innovation System” is the development of IT and innovations, a favourite topic of Mishustin, and involves creating a favourable business environment for tech development and innovation. The plan documents seen by The Bell talk about the “model of Korean chaebols.”

The new plan is also designed to address some of the problems with the existing programme. The head of the Audit Chamber and former Finance Minister Alexsey Kudrin has been an outspoken critic of the National Projects, constantly complaining they
Russia has approved its third coronavirus vaccine, CoviVac, for domestic use, and production has been launched before trials complete.

Russia has approved its third coronavirus vaccine CoviVac for domestic use, Prime Minister Mikhail Mishustin said on state TV, although large-scale clinical trials have not started yet.

According to Kudrin’s latest estimates for November 2020, only 70% of the planned spending on the programme has been fulfilled. The most problematic areas were with “labour productivity” (65%), “culture” and “science” (67–67% each) and “small and medium-sized businesses” (75.7%). The Bell reports. The demography national project was the best with budget execution of 86.2%. Most of the national projects, on which Putin signed a decree in May 2018, were actually launched only from January 1, 2019, Kudrin says. The implementation plans were only formulated and the all-important instructions added only by the end of 2019, according to Kudrin.

The CoviVac vaccine is based on a highly successful vaccine Russia developed to prevent polio and could be more effective against mutations of the coronavirus (COVID-19), as it is a “whole-virion” vaccine that uses a deactivated form of the actual coronavirus that has been stripped of its ability to replicate. Production the vaccine has already been launched, although its release is only planned for March after preliminary trials are complete.

By contrast, Russia’s leading Sputnik V vaccine is a vector vaccine that has coronavirus RNA injected into a regular flu virus. The fact that the CoviVac vaccine is in effect identical to the wild version of the coronavirus is believed to improve its efficacy against a wider range of mutations of the original virus.

The CoviVac has been produced by the Chumakov Centre, which has a long pedigree of immunological work.

The Sputnik V vaccine was developed by Moscow’s Gamaleya Institute, which has previously worked on effective vaccines against Ebola, and it was also rushed through the approval process.

The pre-emptive approvals had raised concerns among some scientists in the West, but inoculations with those first two shots began on a mass scale in Russia only after trials were concluded and showed success.

A peer-reviewed study published in Britain’s The Lancet medical journal found that Russia’s Sputnik V vaccine is 91.6% effective and has put paid to much of the criticism of the skipping through the usual approval process by Russia. Sputnik V was approved in August and late-stage trials began in September. Mass vaccination was launched in December, after
preliminary trial results showed the vaccine to be 91.4% effective.

To date the Kremlin claims that more than 2mn Russians have been vaccinated with at least the first dose of Sputnik V, Health Minister Mikhail Murashko said on February 10, although again, some question the official statistics.

The rollout of a second vaccine, developed by the Vector Institute in Novosibirsk, has also begun in February.

The Chumakov Centre was founded in 1955 in St Petersburg by Mikhail Chumakov and is known for its work with US scientist Albert Sabin at the height of the Cold War to develop an effective vaccine against a widely used polio vaccine, Reuters reports.

“The vaccine we have developed... reflects the whole history of Russian, as well as global, vaccine science,” the Chumakov Centre’s director, Aidar Ishmukhametov, said as cited by Reuters.

Only one other major vaccine candidate – India’s COVAXIN by Bharat Biotech – uses the “whole-virion” approach.

Like most of the other vaccines the CoviVac shot is given in two doses, 14 days apart. And like the other Russian vaccines, but unlike the Western RNA-messenger vaccines, it can be stored and transported in a normal fridge at temperatures of 2-8°C, Deputy Prime Minister Tatiana Golikova said in a government briefing in January.

Testing of the new vaccine with a trial of 200 people aged between 18 and 60 began in September, Ishmukhametov told the state-run Vesti-24 news channel in late January. So far the vaccine has shown no side-effects, including no rise in temperature, Ishmukhametov said, reported by Reuters.

Confident of positive results, production of CoviVac has already begun and the first 120,000 doses have already been produced, but none will be released until after the trials that are expected to be completed in March, Mishustin said.

Then the Chumakov Centre could produce around half a million doses per month on its platforms, Ishmukhametov said at the weekend.

Deputy Prime Minister Golikova also announced over the weekend that Russia will produce 88mn vaccine doses in the first half of this year, including 83mn Sputnik V doses, according to Reuters.

CoviVac may also be used to boost the antibody count in those already infected by the coronavirus or administered to the elderly and those suffering from chronic diseases, as it has a “milder” impact on the body, Albert Rizvanov, director of the Center for Precision and Regenerative Medicine of the Kazan Federal University, told TASS over the weekend.

“The CoviVac vaccine, developed by the Chumakov Federal Scientific Center for Research and Development of Immune and Biological Products of the Russian Academy of Sciences, is [a] better fit for secondary immunisation because it helps develop a comprehensive immune response to all coronavirus proteins, not only to spike proteins, like in the case of Sputnik V, or to certain spike protein peptides, like in the case of EpiVacCorona: i.e. if a person has had the disease and needs to boost his or her immunity after a certain period of time, this vaccine, I think, would be preferable. It would help restore the organism’s ‘immune memory’ and boost immunity when it begins to lower in ten to twelve months,” he said.
Ukraine’s pro-Russian opposition leader Viktor Medvedchuk sanctioned for financing terrorism

Ben Aris in Berlin

The National Security and Defence Council of Ukraine (NSDC) has imposed sanctions against the Ukrainian MP and leader of the pro-Russian political party “Opposition Platform for Life”, Viktor Medvedchuk.

Medvedchuk has been an eminence gris in Ukrainian politics for decades and is a former head of the presidential administration under Ukraine’s second president, Leonid Kuchma. He is also a personal friend of Russian President Vladimir Putin, who is godfather to his daughter. And he reportedly has significant business interests in Russia.

He has now been subjected to sanctions as part of an attack on the pro-Russian opposition that has seen its popularity rise in recent polls as that of Ukrainian President Volodymyr Zelenskiy sinks, although the comedian turned politician remains the most popular politician in the country.

In an effort to shore up his ratings and to hobble his political rivals, the government has recently launched an attack on media assets associated with Medvedchuk by closing down three leading TV stations via sanctions.

Ukraine’s pro-Russian parties launched an impeachment process against Zelenskiy on February 3, the day after the president closed down TV stations associated with the party, which is unlikely to go anywhere, as the opposition parties do not command enough votes in the Rada to put the motion through.

Under Ukrainian law Ukrainian citizens can only be sanctioned if they commit an act of terrorism. However, no such act has been described, nor any terror charges brought against Medvedchuk. Secretary of the National Security Council Oleksiy Danilov said at a briefing that the restrictions are imposed for three years as part of the case on financing of terrorism.

The move was welcomed by Ukraine’s Western supporters, who have long been unhappy with Medvedchuk’s position at the summit of Ukraine’s domestic politics. The US embassy in Ukraine tweeted that it “supported” the decision to sanction Medvedchuk and pointed out that he was already under US sanctions.

Medvedchuk’s wife Oksana Marchenko was also put on the sanctions list; she is also the de jure owner of many of her husband’s businesses.

The new sanctions list additionally includes another Ukrainian citizen, five Russians and 19 companies. The decision of the National Security Council must be approved by the President of Ukraine.

Russia’s reaction to sanctions imposed on its ally in Kyiv was swift. Former Prime Minister, President and currently deputy chairman of the Russian Security Council Dmitry Medvedev called the imposition of sanctions against Medvedchuk a manifestation of the “political inquisition.”

“The easiest way to divert attention from their endless failures is to persecute the opposition and subject it to repression. In addition, Viktor Medvedchuk is one of the few Ukrainian politicians who advocates the restoration of relations between Moscow and Kyiv. Such methods of unfair struggle are unlikely to stop the collapse in Zelenskiy’s approval ratings,” Medvedev said as cited by the Ukrainian press.

Danilov said that property controlled by Medvedchuk and the others listed, who included five Russian citizens, would be seized by the state.

Ivan Bakanov, head of Ukraine’s SBU state security service, said the sanctions were imposed based on intelligence that the individuals and companies were involved in smuggling coal from eastern regions controlled by Russian-backed separatists. The ongoing investigation would “confirm financing of terrorism”, he said, as cited by the Financial Times.

The sanctions against Medvedchuk will only deepen a political crisis that has been gathering momentum since last autumn when the Constitutional Court struck down a raft of anti-corruption mandated by the International Monetary Fund (IMF). Zelenskiy attempted to fire the judges responsible, for which he has no power to do so, and threatened to plunge Ukraine into a constitutional crisis. The judges’ decision, five of which are under investigation for corruption themselves, was widely seen as handed down at the behest of the oligarchs.

That particular crisis has yet to be resolved. The attack on Medvedchuk’s media holding is seen by some as part of the same growing tension between the president and the oligarchs. Medvedchuk is also part-owner of the media assets belonging to oligarch Ihor Kolomoisky, who is credited with putting Zelenskiy into office in the 2019 presidential election.

Zelenskiy’s decision to take Medvedchuk’s three TV channels off Ukrainian airwaves for allegedly spreading pro-Russia “disinformation” was sharply criticised by the Kremlin, but the Western response has been muted, despite the questionable legality of the sanctions.

Assets to be seized from Medvedchuk include an oil pipeline in western Ukraine and aircraft controlled by companies affiliated with him and his associates, Danilov said.

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Mongolia’s pitiless dzud

Anand Tumurtogoo in Ulaanbaatar

The dzud is a peculiar weather phenomenon unique to Mongolia in which every few years a summer drought combines with a harsh winter. Nomadic herders can only despair as piles of dead, frozen sheep and goats stack up across the steppes, dead from either starvation or the cold. It is not uncommon to see a frozen animal dead on its feet.

Following the dry summer of 2020, most herders, mainly in the central provinces, were not able to prepare hay in the autumn because of degraded grazing lands. Thus, many were forced to buy fodder at high prices. This was a heavy blow to a great number of herders, particularly those who, given the disruption caused to trading by the coronavirus crisis, were unable to sell their primary source of income, cashmere wool.

As of February 17, food and agriculture ministry data showed 402,300 livestock had died nationwide in Mongolia from the 2020/2021 dzud (sometimes spelt zud). The figures broke down to a list of devastation that included 2,100 camels, 17,200 horses, 36,600 cows, 123,300 sheep and 222,900 goats. In all, the dead animals were equivalent to 0.6% of the country’s livestock.

The highest number of livestock deaths were in the central regions, mainly in Arkhangai province (26,200 animals), Bayankhongor province (196,200), Gobi-Altai province (30,500), Uvur-khangai province (31,400) and Tuv province (35,600).

These numbers, however, are relatively low when held up against the more than 8mn livestock that perished in the dzud of 2010 or the more than 12mn lost from 1999 to 2001, infamous years that brought the worst dzud period in Mongolia’s history.

Towards 40% of Mongolia’s nomad population depend on animal husbandry for their livelihood.

In 2006, a UN research paper on Assessments of Impacts and Adaptations to Climate Change (AIACC) noted the following in describing the three-year dzud: “More than 12,000 herders’ families lost all their animals, while thousands of families had to subsist below the poverty line. Some people who lost all their animals even committed suicide.

“Such a long-lasting (three consecutive years) winter dzud followed by summer drought had not occurred in Mongolia in the last 60 years. Mongolia’s gross agricultural output in 2003 decreased by 40% compared to that in 1999 and its contribution to the national gross domestic product (GDP) decreased from 38% to 20% (Mongolian Statistical Yearbook, 2003). The livestock sector has become more destitute.”

Accursed year

As Mongolia’s latest winter loomed closer, the signs of it fast becoming severe were unmistakable. Herders in the central regions realised they had no
time to lose in moving their livestock to the northern regions for more natural shelter and better grazing, but the accursed year of 2020 wasn’t about to make things easy. Herders found their movements constrained as the nation went into a lockdown in November after officials recorded the first domestic transmissions of the coronavirus.

However, December brought a little good fortune: the virus was from that month seen as contained within the capital city, Ulaanbaatar, and relatively free movement across other parts of the country became permissible.

Each year, the Mongolian Institute of Meteorology, Hydrology and Environmental Research compiles land and satellite data on droughts, dzuds and pastures. It then develops and issues a dzud risk map. According to the map as of January 10, more than 20% of the country faced a very high dzud risk, while almost 60% was classified as at high risk and 15% as at moderate risk.

About 11.7mn heads of livestock herded by 26,600 households were forced to on to the winter migration, Monstame reported on December 29. Some herders had to migrate more than 700 kilometres to find better winter grazing lands, known as otor. Those who travelled the furthest actually left their home region as early as May; as a result, they could not allow their animals the usual mating period.

Amid the bitter cold, it is not unusual to hear of dedicated herder families keeping some of their animals inside their tents. Many livestock that have been unable to put on enough weight to survive the winter months are victims of rapid desertification caused by over-grazing and global warming that has over time degraded Mongolia’s land. Herders have as a consequence become more territorial. Some herders block other herders that want to let animals graze on their territory during the winter. The altercations this provokes have steadily gotten worse. In 2019, there were reports of herders killing one another over winter grazing disputes. Such reports are becoming commonplace in Mongolia.

Order not to expel
To help resolve the situation and to assist herders during the pandemic, the Mongolian State Emergency Commission and government advised provincial governors not to expel herders during the winter, but to provide moral support and cooperation. However, the herders have been informed that by government order they must return to their own land by April 1. This is a problem as livestock will in the coming weeks start to calve. If there is no vegetation, animals will be too weak to travel. But the government is aware of the issue and might adjust matters in response to the situation. Lawmaker Chinzorig Sodnom, who toured three provinces hit hard by the dzud in January, told local news outlet Zuunii Medee: “The herders voiced their concerns about high winter migration costs and rising fodder prices and on how they might not be able to travel back in April. Therefore, it is necessary to extend the implementation deadline of this law and provide more opportunities for these herders.”

Addressing the severity of this year’s dzud, with the help of the World Bank, the government since February 1 has provided Mongolian tugrik (MNT) 300,000 ($88) worth of fodder to each of the more than 45,000 herder households across the five provinces that have experienced the severest winter.

Heading to Ulaanbaatar
Suffering a lack of livestock, a substantial number of poverty-trapped nomadic herders – who rely on their animals for so much, from meat and milk, to the burning of their waste to heat their homes to selling their skins to buy food and pay children’s education fees – have in recent times headed for Ulaanbaatar in search of economic prospects, but their lack of other job skills count against them.

The herders have generally settled in suburban areas of the capital known as “ger districts”, which are largely slums with almost no public amenities and infrastructure, especially heating. During the winter months, the ger districts (a ger is a traditional yurt, or roundhouse) rely on coal for warmth.
That makes Ulaanbaatar one of the most polluted cities in the world.

There is a backdrop of societal and economic change in Mongolia that has taken place since the 1990s, when the country became a democracy. The state stopped subsidising herders and the organisation that ran livestock population management was dissolved. Prior to Mongolia shifting away from the communist regime, the livestock head count never surpassed 25mn. In 2019, according to the national statistics office, it stood at 70.9mn.

This high number might stem from the introduced market economy and liberalisation of herding, but it is doubtful that herders are incentivised to keep a high number of animals because of actual market demand. The situation is more likely tied to fear – fear of suffering from a diminished number of livestock given the greater vulnerabilities now facing the nomadic herder.

The dzuds, the degradation of grazing land, the climate change causing desertification. Each of these growing woes interact with one another and it becomes more and more difficult to find sufficient sheltered lands with viable grazing. Keeping as much livestock as one can to survive the ever more treacherous steppes is grasped as a solution.

The prevailing perspective right now is that it seems many herders this winter escaped the bleak devastation of the dzud with swift action and some government intervention. The search for sustainable solutions, however, risks being overtaken by worsening events.

“Suffering a lack of livestock, a substantial number of poverty-trapped nomadic herders have in recent times headed for Ulaanbaatar to find work”

US accepts invitation to nuclear deal talks with Iran hosted by EU

The US has agreed to take part in multilateral talks with Iran hosted by the EU, Washington announced late on February 18.

The aim is to find a way of bringing the US back into the 2015 nuclear deal and to restore full Iranian compliance with the accord.

US State Department spokesman Ned Price said the US would accept the invitation of the EU high representative for discussions with Iran and the five other countries that agreed the nuclear deal (formally named the Joint Comprehensive Plan of Action, or JCPOA), under which Tehran agreed to tight restrictions on its nuclear development programme in return for sanctions relief.

There was no immediate announcement from Tehran on whether it was ready to join the talks. US officials said the timing and location of the talks would be up to the EU hosts, and warned that they were unlikely to lead to a quick breakthrough.

The US delegation for the talks would be led by special envoy Rob Malley, who helped negotiate the JCPOA six years ago.

Enrique Mora, the EU political director and lead negotiator, tweeted an invitation to the planned talks.

“US State Department spokesman Ned Price announced the US was accepting the invitation.”
**Georgia’s PM resigns after court orders detention of opposition leader**

Gioriki Ernst in Bucharest

Georgia’s prime minister Giorgi Gakharia resigned on February 18 after condemning an “unacceptable” court ruling ordering the pre-trial detention of opposition leader Nika Melia.

Gakharia said the step was a move on which he failed to reach a consensus with ruling Georgian Dream party colleagues and risked inflaming political tensions – since last autumn’s general election, the opposition parties have refused to take their seats in parliament, claiming the poll was fixed in Georgian Dream’s favour. The resignation of Gakharia came after police were blocked from entering the headquarters of main opposition party United National Movement (UNM) in Tbilisi, where Melia and hundreds of his supporters had barricaded themselves, according to local media reports.

Georgia’s interior ministry said on February 18 that Melia’s detention had been “temporarily postponed” in light of Gakharia’s decision to resign. Melia was ordered into pretrial custody the previous day after failing to post bail or agree to wear an electronic tag on charges of inciting violence at anti-government protests in Tbilisi in 2019. He responded that the charges – centred on a backlash to a decision by lawmakers to invite a Russian MP to chair a session in the parliament – were “absurd and fabricated”, while opposition groups in a joint statement denounced the decision to order the detention of Melia as “a dramatic escalation in political repression”, adding that they would “resist Georgian Dream’s obvious push towards full-blown authoritarianism”.

Gakharia, a former interior minister who became PM in September 2019, said: “Unfortunately, I could not reach a consensus with my team on this issue, so I decided to resign. I want to believe that this step will help reduce polarisation... because I am convinced that polarisation and confrontation are the biggest risks for the future development of our country.”

"Against the background of the resignation of the PM, the minister of internal affairs made a completely logical decision to temporarily postpone the arrest of Nikanor Melia," Irakli Kobakhidze, chairman of Georgian Dream, said at a briefing at his party’s HQ. At the same time, he called on Melia to obey the law.

"It is expected that the political council will convene tomorrow and a candidate for prime minister will be nominated," Kobakhidze also said.

**Calls for snap election renewed**

Melia, his party and the other opposition parties renewed calls for a snap election. Street rallies are likely in coming days.

Gakharia also remarked that Melia “has never obeyed the law and called on the people to storm the parliament building on June 20 [2019]”. But he noted that his arrest would trigger threats to public health, in a seeming reference to the mass protests Melia would attempt to organise in response, amid the ongoing coronavirus crisis.

The official general election results showed Georgian Dream won 48% of the vote, giving it 90 seats in the 150-seat parliament. The subsequent crisis that erupted after all the opposition parties rejected the vote as falsified has hurt Georgia’s reputation as a post-Soviet successful democracy.

"The crisis that erupted after all the opposition parties rejected the vote as falsified has hurt Georgia’s reputation as a post-Soviet successful democracy" said: “The current dangerous situation following the Melia ruling stems from decades-long problems with the electoral system and the judicial system. It is imperative the authorities and opposition exercise maximum restraint this morning. The way to address the important issues at stake is through peaceful negotiation. We urge all involved to remain calm and avoid violence.”

The pro-EU, Atlanticist UNM takes a harder line on relations with Russia than Georgian Dream but it has not been in power since its time in office from 2004-12.

Georgia’s public defender, a constitutionally independent judicial watchdog, earlier this week said that the arrest of Melia would be unjustified, stating: “The arrest of the leader of an opposition political party without proper justification… is similar to the practices of non-democratic countries”.

After the court order was announced, the US urged Georgian authorities to act peacefully. Its embassy in Tbilisi
Kazakhstan: Government allowing shady banking minnows to wither

Almaz Kumenov for Eurasianet

There was a time when Kazakhstan’s authorities pulled out all the stops to keep banks from going under. Those days are in the past.

Instead, the government is allowing dubiously administered minnows to wither in the hope that mid-ranking players can grow and restore some health to a chronically trouble-ridden financial sector.

The disintegration of Tengri Bank, a lower-tier lender, came to its conclusion as a court order for its operations to be terminated came into force. On February 17, media were reporting that the bank’s former chairman, Yerzhan Shaikenov, had been detained in connection with ongoing investigations into the alleged embezzlement of more than 5.4 billion tenge ($12.6mn).

A massive outflow of deposits had by early 2020 compounded the bank’s liquidity troubles, to the point that it was unable to fulfil basic fiduciary obligations. In March, the regulator demanded that major shareholders recapitalise the bank to tune of around 23 billion tenge (about $53mn at that time), but they failed to abide by that injunction.

In November, two key executives were arrested as part of the investigations that have now also caught up with the ex-chairman, Shaikenov.

Yet another lender, AsiaCredit Bank, lost its operating licence on February 12.

The Financial Market Regulation and Development Agency said its decision was based on the bank’s systematic policy of ignoring supervisory measures and failing to comply with demands for additional capitalisation.

The volume of the bank’s assets are practically equivalent to its outstanding loan portfolio of around 45 billion tenge ($107mn). Of those loans, around 70% have been classed as non-performing, meaning they had been overdue for more than three months. AsiaCredit Bank faces probable liquidation too.

That these banks are allowed to sink marks a change of thinking since the times of president Nursultan Nazarbayev, who grumbled in 2018 that the government had spent more than $9bn injecting liquidity into stressed banks.

Moody’s Investor Services has offered a positive verdict on the elimination of Tengri Bank and AsiaCredit Bank from the scene, saying it represented a good example of the authorities’ efforts to clean up the banking system. The disappearance of weak banks will create more space for mid-ranking lenders to compete with giants like Halyk Bank, which accounts for 32% of the market in terms of assets, Moody’s said.

Kazakhstan’s banking system, as characterised by Moody’s, is concentrated at the top and fragmented at the bottom. The top 10 players have a combined market share of 86%. The remaining 16 banks, which include AsiaCredit Bank, contend for the crumbs.

A scythe-wielding banking regulator can go a long way toward boosting competitiveness, but the propensity for shady dealing among many of Kazakhstan’s bankers may be a harder nut to crack.
Satellite ‘detects alarming methane leaks after looking down on Turkmenistan’

A satellite reportedly looked down on central Turkmenistan in early February and detected methane leaks from at least eight natural gas pipelines and unlit flares in the Galkynysh gas field, releasing as much as 10,000 kilograms per hour of the supercharged greenhouse gas.

That amount of methane would have the planet-warming impact of driving 250,000 internal-combustion cars running for a similar amount of time, Stephane Germain, president of GHGSat Inc, the company that said it picked up on the leak, was cited as saying when explaining to Bloomberg what was observed using imagery produced by a new satellite capable of detecting emissions from individual sites.

The company told how the satellite, GHGSat - C2 (aka "Hugo") first spotted the eight plumes of greenhouse gas, all within an area of 20 square miles, on February 1. "It’s reasonable to say this happened for several hours," Germain said in an interview.

GHGSat launched its first satellite in 2016, but it wasn’t until last September that it had one in orbit capable of picking out individual wells, pipelines and mines. In the fourth quarter of 2020 alone, according to Germain, the satellite detected hundreds of leaks.

This isn’t the first time that GHGSat has raised an emissions alarm regarding Turkmenistan. Last year, the company was taking satellite measurements from a volcano in the western part of the country when it by chance hit upon enormous qualities of methane rising from the nearby Korpezhe oil and gas field.

**Time is of the essence**
GHGSat sets out to work with refinery and pipeline operators to stop methane leaks to minimise emissions impacts.

Its ability to communicate with Turkmenistan is limited, Germain added in the interview, and time is of the essence for stopping large leaks. The satellite company said it has been relying on diplomatic channels through the Canadian government to try to reach the operator, but with no success so far. GHGSat, said Bloomberg, declined to disclose precise coordinates for the leaks in order to give the Turkmenistan government space to address the situation.

While the Turkmen leak wasn’t the biggest leak GHGSat has detected to date, it was the first time it had captured as many as eight separate plumes in a single image. Four of the plumes were emissions from pipelines, likely caused by problems with valves meant to control or halt fuel flows, while the other four came from flares meant to burn fuel that can’t be transported or processed, converting it into less-potent carbon dioxide.

Two of GHGSat’s three satellites can detect methane leaking at a rate of 100 kilograms per hour in 50-square mile images, and the company plans to launch nine more through 2022. The European Space Agency uses satellite technology that can detect leaks that release at least 10,000 kilograms per hour. The satellite detection equipment available to those working in the field is said to be improving rapidly.

Methane raises particular concern for those working to slow climate change. Odourless and colourless, it is seen as extremely difficult to detect and is a particularly potent greenhouse gas, capturing 25 times as much heat as carbon dioxide over the course of a century, and more than 80 times over 20 years.

The International Energy Agency warned last month that an estimated 10% drop in global methane emissions in 2020 was mainly driven by lower production during the coronavirus crisis rather than the prevention of leaks. Those emissions may “rebound strongly” when global economic activity picks up.

In Central Asia, methane emissions rose three-fold between March 2020 and the end of the year compared to the same period a year earlier, according to GHGSat. ●

GHGSat’s satellite “Hugo” was launched from Cape Canaveral Space Force Station in Florida in late January.
This attitude resulted in a stern rebuke when the prime minister of Bulgaria – a Southeast European country where Russia traditionally has a strong influence, though less so under the Western-leaning Gerb government – condemned the arrest and conviction of Navalny and the violence against protesters in Russia. “Sentencing Navalny is unacceptable. He must be released as soon as possible,” Boyko Borissov wrote on Facebook.

As major powers set out their positions after the chaos and confusion of the Trump era, Russia is sending out an uncompromising message to Western leaders that it will not tolerate interference in its internal affairs. Moscow was ready to humiliate the European Union’s foreign policy chief by expelling diplomats from three EU countries during his meeting with the Russian foreign minister, and Russian officials are even less inclined to mince their words when it comes to the small countries of Southeast Europe that are gradually slipping out of its sphere of influence.

“Russia just laid out its position: it made it very clear that it will no longer brook any interference in what it considers to be domestic affairs,” wrote bne IntelliNews in a recent comment. Specifically, “the Kremlin will not brook any criticism or sanctions whatsoever linked to [opposition politician Alexei] Navalny or domestic politics”.

www.bne.eu
The Russian embassy in Sofia riposted through the same social networking site, telling Bulgaria to stop “Navalnying”. “We remind you that the Russian Federation is the sovereign state and will not tolerate intervention in its internal affairs from third countries and their official representatives.

“We believe that the most active countries, which under a “benevolent” pretext of “protecting democracy and civil society” want to influence the domestic political situation in Russia, should first secure the observance of democratic rights and freedoms in their own countries before doing some “navalnying”,” the statement added.

Borissov’s reaction also drew accusations of hypocrisy from opposition figures within the country, who pointed to police violence against journalists and protesters during the mass anti-government protests in Bulgaria last summer.

The same week, Russia ordered the first secretary of the Albanian embassy in Moscow, Yonida Drogu, to leave the country within 72 hours in retaliation for Albania’s expulsion of Drogu’s opposite number at the Russian embassy in Tirana. The Albanian foreign master declared the Russian diplomat persona non grata for having repeatedly violated restrictions aimed at preventing the spread of the coronavirus (COVID-19).

The Russian foreign ministry said Krivosheyev’s expulsion was on a “completely contrived pretext” and accused Tirana of trying to gain “political points in the context of the election campaign that has begun in Albania, playing along with the anti-Russian forces in the West and enlisting their support”.

A Constitutional Court ruling in Moldova that a law adopted by the parliament last year giving special status to the Russian language was unconstitutional drew a similarly harsh response.

Russian foreign ministry spokesperson Maria Zakharova called out Moldova’s new President Maia Sandu, a West-leaning politician who nonetheless spoke after her election of a “balanced” relationship with Russia. “She [Sandu] urged not to believe the “horror stories” that after her election, the rights of the Russian-speaking population to study and apply to government agencies in their native language would be infringed. Less than a month after her inauguration, these promises were broken,” said Zakharova.

“We hope that the leadership of the republic will have enough common sense not to provoke an artificial exacerbation of internal political tension on the basis of language,” Zakharova added.

Meanwhile in Bosnia & Herzegovina, High Representative Valentin Inzko came in for strong Russian criticism when he gave the authorities in Republika Srpska – one of Russia’s main footholds in the region – a three-month deadline to annul honours given to Radovan Karadzic and other convicted war criminals. The Russian foreign ministry slammed Inzko for “defiant behaviour” and “amateur” actions, which, it said, are adding to inter-ethnic tension in Bosnia.

Given the new US President Joe Biden’s history of involvement in the Western Balkans, where he pushed for the US to intervene in the wars first in Bosnia & Herzegovina and later in Kosovo, a change in US policy away from the quick fix deal-making of the Trump era was already expected. Most recently, Biden stated explicitly in a letter to Serbian President Aleksandar Vucic that Serbia should recognise Kosovo; Russia has consistently backed Belgrade’s refusal to recognise Kosovo, which unilaterally declared independence from Serbia in 2008.

Beyond its criticism of Inzko, the Russian foreign ministry statement also set out Moscow’s position on Bosnia, where it wants changes to the post-war status quo. “The unconstitutional institution of the High Representative in BiH has long lost its “added value” for the Bosnian settlement, turned into a legal and political atavism. We are convinced that the time has come to finally abolish this anachronistic mechanism of external protectorate in relation to sovereign Bosnia and Herzegovina, to transfer all power in the country to its state-forming peoples and legitimately elected bodies,” it said.

This could set Russia and the US up for a diplomatic conflict over Bosnia, on top of their opposing positions on Kosovo.

And while Russia won’t tolerate Bulgarian criticisms of its domestic politics, Moscow also took exception to US comments on corruption within its old friend Bulgaria. After US diplomat Jessica Kim compared corruption in Bulgaria – rated the most corrupt country in the EU by Transparency International – to a pandemic, the Russian embassy in Sofia wrote on Facebook: “The correctness and appropriateness of these sharp remarks, especially on the eve of the [April] parliamentary elections, raises big doubts.”
Kremlin lays out new rules of the game for post-Trump relations

Ben Aris in Berlin

What just happened in Moscow? The European Union’s top diplomat Josep Borrell was sitting in a room with Russian Foreign Minister Sergei Lavrov in a highly anticipated meeting in the Russian capital, when in the course of the meeting Russia announced it was expelling three diplomats from Germany, Poland and Sweden.

Borrell has been slated for what has been seen as a disastrous trip, where he failed to threaten Russia with more sanctions in response to the decision to jail Alexey Navalny, who was sentenced to 2.8 years in prison just two days earlier.

He also suggested that the EU would buy the Sputnik V vaccine, which is increasingly being seen as a success following a peer reviewed paper in Britain’s The Lancet after it was universally lambasted during the trials stage. Indeed, the EU has already launched the certification procedure for the drug in the middle of January – another PR victory for the Kremlin.

And in general his message was one of accommodation and the search for a middle ground. That has led to comparisons with Neville Chamberlain’s meeting with Hitler in the run-up to WWII.

What is going on here is that in the first weeks following the departure of US president Donald Trump, everyone is laying out their positions for the post-Trump era. And Russia just laid out its position: it made it very clear that it will no longer brook any interference in what it considers to be domestic affairs (and for the purposes of diplomacy it considers Belarus to be a domestic affair as well).

This hardening of the Kremlin’s line is bound to lead to new clashes.

"While we fully respect Russian sovereignty... the European Union considers issues related to the rule of law, human rights, civil society and political freedom are central to our common future," Borrell said. Lavrov’s answer was to expel three diplomats while Borrell was talking.

Borrell went to Moscow in the hope of creating at least a pragmatic basis for EU-Russia relations in the post-Trumpian era. Russia has responded by setting the bar to zero: no co-operation, no compromise, no tolerance of any criticism of its domestic affairs, and it has put the onus on the EU to back off if it wants anything from Russia.

Post-Trump world
New beginnings are a chance for making big changes. Trump was not just the worst president in US history; the real problem was he was totally incompetent and entirely unpredictable.

That meant there was no diplomacy. Everyone was left to wing it, reacting to the damage Trump did as he careened from one disaster to the next train wreck: trade wars, visa bans, detaining immigrants’ children, ignoring the coronavirus [COVID_19] pandemic, treaty withdrawals and so on. The last four years have been a diplomatic nightmare.

And this unpredictability had serious economic consequences. As chief economist at Renaissance Capital Charlie Robertson pointed out in the bne IntelliNews cover story “Brighter Days”, foreign direct investment (FDI) into the US during Trump’s reign led to a strengthening dollar as major companies eschewed cheaper emerging market bases and moved their factories back home, afraid of the consequences of the break-out of a Trumpian trade war that could wreck their investments.

That is expected to change now, and a net $1bn a day will begin to flow out of the US into other markets as before, which will lift emerging markets and at the same time weaken the dollar in the next few years, which is also good for EMs.
Biden summed up the consequences of the end of the Trumpian madness in his first major foreign policy speech on February 2: “Diplomacy is back.”

Likewise, responding to Biden’s “We will not hesitate to raise the cost on Russia,” comments, Peskov retorted: “This is very aggressive, unconstructive rhetoric, to our regret.”

“Any hints of ultimatums are unacceptable to us. We have already said that we won’t pay attention to any lecturing announcements,” he added.

Will the West and EU follow through on sanctions because of Navalny? Both have been remarkably quiet on specifics so far, as there are several important differences in the two cases.

Navalny is not Tikhanovskaya, nor even a Tymoshenko. He is a political activist with only a 4% political approval rating, according to the independent pollster the Levada Center. Tikhanovskaya is the nominal victor in the August 9 Belarusian presidential election and universally popular. Latvia has gone as far as calling Tikhanovskaya the “president-elect”.

Russia is not Belarus. Belarus is an insignificant economy on the EU’s periphery, whereas Russia is a major player on the international stage and a big supplier of arms, energy and raw materials to the world. Moreover, it is the largest consumer market in Europe and most of Europe’s leading multinational corporates are already heavily invested in the country.

Russia is not Belarus. Belarus is an insignificant economy on the EU’s periphery, whereas Russia is a major player on the international stage and a big supplier of arms, energy and raw materials to the world. Moreover, it is the largest consumer market in Europe and most of Europe’s leading multinational corporates are already heavily invested in the country.

One of Navalny’s strengths has been his high international profile as “opposition leader”, which has allowed him to seriously embarrass the Kremlin, but his weakness is his lack of actual popular support amongst Russian voters. Both Tikhanovskaya and Tymoshenko have electoral mandates (even if in Tikhanovskaya’s case it has never been confirmed).

It appears that Team Navalny has miscalculated. In calling off this weekend’s protest, Navalny’s campaign manager said they wanted to end on a high note and would focus on “international pressure.” However, without Tikhanovskaya’s widespread domestic political support, it appears that Navalny is banking on his high international profile to put pressure on the West into bringing down sanctions on Russia. Team Navalny has already issued a list of 35 Russian officials and businessmen that it wants the West to sanction. But as push comes to shove it appears the EU is not prepared to scupper its relations with Russia entirely over the sake of one jailed activist who is not actually that popular with the Russian electorate, even if his cause is just.

Certainly the international investment community is not expecting anything more than symbolic sanctions to be imposed on Russia, as inflows into Russia’s bond and equity market have been heavy since November.

**Russia gives up any attempt to be nice**

Beyond Belarus the Kremlin has just laid out its longer-term foreign policy principles for dealing with the West and it is a significantly harder line.
Lavrov actually said this out loud at the joint press conference he held with Borrell. “Lack of normalcy in relations between Russia and EU, [the] two biggest Eurasian actors, is not a healthy situation, benefits no one and is the main issue to be addressed.”

The expulsion message is also aimed at the White House and is a rejection of the dual policy that newly installed US President Joe Biden has been hinting at. During his first call with Putin, Biden talked about arms control and Navalny. Lavrov is saying in very clear terms the Kremlin is prepared to talk about the first one but not the second.

And Russia has put its money where its mouth is. The rapidity of the passage of the new START III treaty and Biden’s clear call for new arms control deals with Russia – as bne IntelliNews has argued, a significant departure from the previous policy of pulling out of all the Cold War era security deals – was a signal that there is in fact common ground on which a new relationship can be built. Russia immediately followed up the START III deal by calling for the two sides to move on directly to re-making the Cold War-era Intermediate-Range Nuclear Forces Treaty (INF).

Putin feels he can now afford to thumb his nose at the West. With Russia’s huge $600bn cash pile, its deepening ties with China, its friendly relations with most of the G20 countries, its re-equipped military, its soft power success from supplying many of the emerging markets countries (who have been ignored by the developed nations) with the Sputnik V vaccine, Moscow is saying it needs nothing from the West and will do without unless the West rethinks its position on Russia.

In a week where Biden was laying out his foreign policy goals and intending to set the tone for his tenure, the Kremlin has just answered with its version of how things will work. Russia is demanding that the EU and US stop treating Russia like an emerging market in need of help and advice, and start treating it like a developed market and global power peer.

Moscow is making it explicit that in the new era of “diplomacy is back” it has entirely given up on the possibility of cordial relations with the West as its starting position.

If the West wants to create a better work environment and do arms control deals, for example, which Russia wants, then the West will have to deal on Russia’s terms. There can be no dual policy of co-operation on arms on one hand, and sanctions because of things like the Navalny affair on the other.

This is a total rejection of the way business between Russia and the West has been done so far. What Moscow is saying now is: “Do your worst. We won’t be forced by you to change anything.”

The golden rule of Russian watching is if the Kremlin is faced with a choice between hurting its international reputation and a domestic policy goal, it will always choose the domestic policy option – in this case taking Navalny out of the game ahead of the elections.

STOLYPIN: Vpered KoZa! Can Navalny mobilise the Coalition of the Fed-Up?

Mark Galeotti

Now the dust has settled on the latest day of protests, the blood staunched and the streets again empty of riot-armoured ‘cosmonauts’, the contours of this current political struggle are becoming clearer, as is the real battlefield. It’s not Lubyanka Square, nor even the State Duma: it’s the Coalition of the Fed-Up.

Call it the Koalitsiya Zayobannykh or, less profanely, the Koalitsiya Zadobannykh, but the KoZa is what in many ways defines Russian politics today, and the goal of everyone in this multi-player game of political Risk.

The protests, after all, were called for by Alexei Navalny and marshalled by his supporters, but although many chanted for his release and were prompted to come by outrage at his attempted murder, a great deal of the propellant force was provided rather
by a general sense of dissatisfaction. Living standards are at their lowest for a decade; issues with acute local impacts, from refuse disposal to municipal services, remain fundamentally unsolved; unemployment is a serious fear.

Corruption – Navalny’s mobilising cause – remains a core national concern (in the most recent Levada tracking survey, 38% identified it as one of their greatest worries). Whether the monument to kitsch on Cape Idokapas is ‘Putin’s Palace’ or, as now implausibly claimed, an apartment hotel being developed by his trusted crony Arkady Rotenberg, is in some ways irrelevant: the story is not about any one individual, but rather an exploitative kleptocracy who have protected their own quality of life at everyone else’s expense.

KoZa in search of a party

KoZa is an inchoate beast. It is contradictory, often able still to respect Putin as the avatar of a nation pulled from the brink of irrelevance and collapse and back to global status, while despising the system over which he presides. It is fickle, happy to embrace anyone who may offer some hope of positive change, relatively unconcerned about their ideology. This is in many ways the strength of Navalny’s ‘smart voting’ scheme that relies on voters being as ready to vote KPRF as LDPR in the name of unseating United Russia (with its uninspiring 29% approval rating).

And all this makes KoZa, possibly an unemboldened, un-led and unrecognised majority, the heart of the new politics.

The Communist leader Gennady Zyuganov has announced that the KPRF will hold its own nationwide day of protests of 23 February – Defender of the Fatherland Day – which they promise to be ‘conscious and constructive’. (Presumably the Navalny events were unconscious and unconstructive?) He is right to worry about being outflanked, as while the Communists have benefited from KoZa’s half-hearted support in the past, that need not remain the case in the future.

In an interesting reminder of this, consider the findings of a survey of supporters of the New People Party. This recent addition to the lists, part of the latest efforts of the Presidential Administration’s political technologists’ efforts to keep the opposition fragmented, has a broadly centre-right platform especially espousing the interests of entrepreneurs and small business. According to its founder, Aleksei Nechaev, those who voted New People in the September 2020 polls could be divided into three broad categories.

There were those who definitely supported its platform, and who otherwise would not have voted. There were those who had voted for other parties in the past and who chose to support New People this time – classic KoZa. And then, most striking, there were those who had previously voted KPRF. But they had done so not because of any passionate commitment to Marxism-Leninism, but simply as a way of opposing United Russia. In other words, they were willing to vote pro-Communist yesterday and pro-business tomorrow, all in the name of being fed up. KoZa again.

The key challenge will thus be: who will finally manage to cohere it, and how?

Apathy and fear

The state’s strategy is becoming clear. A slow ratcheting up of the old ultra-violence in the hope of deterring street activism and depriving Team Navalny of the kind of momentum that built up in Belarus, calculating that the minatory effect of – quite literally – blood on the streets is more valuable than any outrage it may spark.

Meanwhile, though, it is doubling down on its usual messaging to KoZa. It has long since given up trying to win the beast’s affection, really since the dissipation of the ‘Crimea effect’. Instead, it speaks to a very powerful and up to now effective concern: that things could be worse.

After all, they could. Standards of living may have slipped but they have done so from an unprecedented high point. This is not the anarchy of the 1990s. It is not the agonised collapse of the 1980s. Putin is not even imposing the grey authoritarianism of the 1970s. The message that change – and especially change driven by street protest – is likely to be for the worse is a negative and depressing one, but it retains power.
At the same time, the Kremlin seeks to project an aura of unshakeable determination. The old men running the shop are essentially products of perestroika in the most damaged sense, who feel that the lesson of the Gorbachev era is that reform under pressure is weakness, and that weakness leads to more pressure and ultimately collapse.

I am reminded of a conversation I had some years back with a retired silovik who had lived through those days. He was smart, cosmopolitan, liberal in his personal views, but when asked what was Gorbachev’s greatest flaw, he had no hesitation in replying: “he was uncomfortable with the use of violence.”

His current crop of heirs are determined not to repeat what they feel was his mistake. They may not relish the thought of using force against their own people, but they probably will if they feel they must. And they want there to be no doubt in Russians’ minds. This is all very reminiscent of the kind of lessons Yuri Andropov taught when he headed the old Soviet KGB back in the 1970s: better a gram of deterrent today than a kilo of force tomorrow.

In many ways, the whole point of the dramaturgiya of sham opposition parties, of elections that change nothing, is not so much to fool Russians into thinking they have real democracy, but rather to make alternatives to the regime look illegitimate and pointless. Why cause a fuss and risk the ire of the state, if you cannot accomplish anything except on the most local level?

The Kremlin would love to offer KoZa something more positive. In many ways, that was the rationale behind the grandiose National Projects. But with their timetables lengthening and lengthening, for now it has only a negative message: things could be worse, and politics is fruitless at best, dangerous at worst. So settle down, watch TV, vote how you’re meant to vote, and better times will come someday.

KoZa in play
While the KPRF leadership may continue to play fake politics, the day when this really works may be coming to an end. It is not just floating voters that are looking elsewhere. It was striking, for example, to see Communist Moscow City Councillor Evgeny Stupin – a former Investigatory Committee investigator – detained in Sunday’s protests.

But KoZa seems more fitful than ever, looking for someone who can mobilise and inspire it. Navalny’s high-stakes gamble of returning to Russia was a powerful move, but it is not likely that street protests alone will be enough, especially as the state is clearly willing to respond with force. Can Team Navalny maintain and extend their national network and act as a party de facto? Can they form alliances with other movements and even subvert and co-opt members of other parties, from the KPRF to the new Just Russia – For Truth composite? Can they craft a message beyond contempt for the ‘Party of Crooks and Thieves’?

This is the real battle: to inspire and unite KoZa, to give it enough hope to overcome the Kremlin’s calculated balance of apathy and fear, and – perhaps hardest of all – to find a way of turning street power into political change without forcing a soft authoritarianism to become a hard one. It’s just the start of a long journey.

Mark Galeotti is director of the consultancy Mayak Intelligence and also an honorary professor at UCL School of Slavonic & East European Studies.

NO YARDSTICK:

Navalny protests turn the screws on Russia’s “systemic opposition” ahead of September’s Duma elections

Andras Toth-Czifra in New York

Navalny’s campaign has put a pause on protests and will likely focus on this year’s Duma election – which is expected to be heavily rigged – even as the leaders of loyal opposition parties are scrambling to assure the Kremlin that they are not seeking co-operation with Navalny’s team. This might look like a defeat, but the Duma election is important and systemic opposition parties are facing more dilemmas than their leaders will admit.

The January protests shook up the “systemic opposition” as well. On the one hand, we got a reminder of why the parties are referred to as “systemic”. Their leaders were scrambling to distance themselves from Navalny: the head of the Liberal Democratic Party (LDPR), Vladimir Zhirinovsky, in a characteristically overblown rant, called on the authorities to both imprison and institutionalise Navalny; Gennady Zyuganov, the dour leader of the Communist Party (KPRF),
trying to offer voters just enough new faces – either in new parties or in old parties merging with new ones – to make the election palatable for them without endangering United Russia’s position.

This also reflects a realisation that in recent years the electoral base of systemic parties has become more complex in several regions. The KPRF boosted its appeal in 2018 by briefly replacing the ossified Zyuganov with the much more energetic Pavel Grudinin as the headliner of the party, and by supporting protests against the government’s pension reform. The LDPR’s appeal grew briefly when two of the party’s gubernatorial candidates triumphed over Kremlin-backed incumbents in 2018. In Khabarovsk, the LDPR delivered a double whammy to United Russia when, one year after Furgal’s surprise victory, the governor’s party all but demolished the ruling party in the Khabarovsk Territory.

Allowing systemic opposition parties to take liberties in order to make them look more alive and appealing has been part of the Kremlin’s toolbox for more than a decade. Yet it seems that the growing grassroots activism of recent years prompted the local elites who dominate the local and regional chapters of these parties to rethink their interests, led to more uncontrolled activities, and made it more difficult for the Kremlin’s political technologists to keep the lid on the loyal opposition.

Uneasy dilemmas
Furgal’s election predated smart voting, but voters followed the same principle and in 2019 Navalny’s campaign suggested that it was partly due to their efforts that LDPR candidates won a landslide victory in the Khabarovsk city council as well as the regional parliament (the party disputes this). Following Furgal’s arrest in July 2020 the LDPR was offered a deal to accept the appointment of Mikhail Degtyaryov, an associate of Zhirinovsky who had no links to Khabarovsk, to head the region. Zhirinovsky accepted the deal, but the Khabarovsk LDPR almost tore itself apart over the issue and while the protests in the city ultimately ended, the decision had a devastating effect on the party’s standing in the region – and likely elsewhere, as a significant number of Russian citizens followed the protests.

The KPRF faces a very similar dilemma in Moscow. When local authorities refused to give the party permission to hold

Russia’s countrywide protests organised by activist Alexey Navalny have caused the biggest political crisis for the Kremlin in a decade, but they have also turned the screws on the “systemic opposition” who now have to make some tough choices ahead of September’s Duma elections.

called him an agent and criticised his supporters. Sergey Mironov, the head of the Fair Russia (SR) Party, took time out of his no doubt very busy schedule – merging his moribund party with two nationalist parties – to call Navalny a puppet and a traitor. Grigory Yavlinsky, a senior politician and former leader of the liberal Yabloko, penned an article in which he painted Navalny as a dangerous nationalist.

Dissonance
None of this was surprising, of course. In Russia’s electoral autocracy where the Kremlin controls most financial resources and legal avenues that parties need to conduct electoral campaigns – and often the ballot boxes too – party leaders are dealing with the Kremlin more often than they do with their electorates, especially in an election year. Yavlinsky, for his part, has had a bone to pick with Navalny, who was expelled from Yabloko in 2007 after criticising him (then the head of the party).

On lower levels, however, the parties reacted very differently. Local Yabloko deputies openly criticised Yavlinsky. Several senior members of the KPRF – former Irkutsk governor Sergey Leshchenko, Valery Rashkin, the head of the party in Moscow, Denis Parfyonov, a Duma deputy and Vyacheslav Markhaev, a former member of the Federation Council, made ambiguous or supportive statements as regards Navalny or the protests, as did Leonid Razvozzhayev, a prominent member of the Left Front, an ally of the KPRF. The KPRF announced a “constructive and sensible” protest for February 23, the Day of the Fatherland’s Defenders, while the LDPR accept the official result of this year’s Duma election is at least as important as it is to grant United Russia the necessary number of seats to navigate the turbulent years ahead. Thus the authorities seem to go after the most obvious targets – opposition candidates openly courting Navalny as an ally, as well as Navalny’s regional campaign offices – while they are relying on party leaders and more acquiescent opposition candidates to discredit smart voting either by openly denouncing it or by trash-talking Navalny himself. At the same time, they are also

“Allowing systemic opposition parties to take liberties in order to make them look more alive and appealing has been part of the Kremlin’s toolbox for more than a decade”
a protest on February 23, Valery Rashkin, its leader in Moscow, announced that they would go ahead with the rally anyway. As I mentioned above, Rashkin has been one of the advocates of co-operating with Navalny, and with good reason: the KPRF has been the main beneficiary of smart voting across the country, but especially in Moscow, where 13 of the 20 opposition deputies elected to the city council in 2019 were KPRF candidates; only in this case the stakes seem to be higher.

These questions inevitably feed into the already ongoing debate about the party’s future as the KPRF mulls the question of who should succeed the ageing Zyuganov. One obvious candidate who is widely mentioned as the Kremlin’s preferred successor is Yury Afonin, the deputy head of the party’s Central Committee, but as recent years have shown, other Communist politicians are available.

The party will ultimately also need to address the question of its dwindling popularity – in November 2020 Levada survey gave it an electoral rating of 11% as opposed to the LDPR’s 17 – and crucially, where to look for support. The drop might partially be due to the Kremlin’s actively or tacitly supporting a number of left-wing political startups in recent years; this should prompt party leaders to seek an arrangement with the Presidential Administration.

However, the party’s performance in regional elections in recent years tells a different story, which may suggest to the KPRF that it is better off keeping smart voting on the table. First of all, in 2016 its candidates finished second in the largest number of vulnerable single-mandate districts (SMDs that the United Russia candidate won with less than 45% of the vote): in almost three times as many as did LDPR candidates, even though the proportional vote of the two parties share was roughly the same. Second, the perception that the KPRF is Russia’s “second-strongest party” has seemingly benefited it as an increasing number of voters express their dismay with the Kremlin through the ballot boxes.

“The perception that the KPRF is Russia’s “second-strongest party” has benefited it as an increasing number of voters express their dismay with the Kremlin through the ballot boxes.”

Lessons for everyone
There are three lessons about smart voting that can be drawn from this: one for the systemic opposition, one for the Kremlin and one for both.

The first lesson – for both – is that smart voting can lock in opposition gains by reducing scepticism and removing reservations against opposition figures, as well as by amplifying their reach. The LDPR’s sweeping victories in Khabarovsk in 2019 were quite likely the consequence of Furgal’s first year in office at least as much as of smart voting. It is possible that we will see something similar in Tomsk, Novosibirsk and Moscow in this year’s Duma election (not necessarily in the official results, although more actual votes for opposition candidates also make rigging more difficult).

The second lesson – for systemic opposition parties – is that if their candidate is seen as the best bet against a United Russia incumbent in a single-mandate district, this perception can also improve their proportional vote share, which will yield mandates more easily than winner-takes-all SMDs. In other words, voters will be more likely to give both of their votes for the same party. Admittedly, this requires more rigorous analysis, but the KPRF outperforming its national electoral rating in several regions suggests that it is worth considering.

The third lesson, finally, is for the Kremlin. It is that smart voting does not require the public consent of those whom it benefits. The “coalition of the fed-up” (as Mark Galeotti called it) will not necessarily care whether or not Zyuganov, Zhirinovsky or Yavlinsky endorses Navalny or smart voting. Two years ago, liberal Muscovites fiercely debated whether it was acceptable to vote for Communists just to hold up a finger to the Kremlin. The result was a strong yes. Voters in the regions, many of whom feel short-changed by Moscow and devastated by an ongoing economic and health crisis, would likely care even less. A crackdown on protests may have discouraged people from taking to the streets, as Levada’s latest data show, but it certainly has not made them forget their problems. And as long as there are elections in Russia – even if in name only – they will be able to articulate this anger.

Andras Toth-Csifra is an independent political commentator on Russian affairs based in New York. This article first appeared in the No Yardstick blog.
A new dynamic governing regional integration is shaping up in Central Asia. Uzbekistan is challenging Kazakhstan’s position as the region’s power broker, and China’s economic choices may well be a critical factor in determining the outcome of the leadership rivalry.

The shift seems counterintuitive on the surface, given that Kazakhstan’s economy currently generates three times the GDP of Uzbekistan’s. Kazakhstan also enjoys better connectivity with international markets. Nur-Sultan’s strong diplomatic relations with China and Russia should seemingly ensure that Kazakhstan remains the main driver of regional integration. Nevertheless, the reality is that the road to Central Asian stability and prosperity is increasingly running through Tashkent.

The changing dynamic is driven by China’s sober reassessment of its Belt and Road Initiative (BRI), its ambitious plan to reshape the contours of global trade. Beijing has tweaked its BRI strategy to focus more on securing trade ties in Asia, while deemphasizing the construction of ambitious transcontinental trade corridors. To this end, China is seeking favourable destinations for foreign direct investors pursuing lower-wage co-manufacturing opportunities.

Uzbekistan’s key advantage in this altered context is human capital: With an estimated population of 33.5mn, Uzbekistan is by far the most populous country in a sparsely inhabited region on China’s western flank. Uzbekistan’s total fertility rate (TFR) was one of the highest in the Soviet Union and stayed above replacement levels throughout the tumultuous 1990s. As a result, Uzbekistan now has a large cohort of young people entering the workforce each year.

As highlighted in the chart on the right, Kazakhstan’s TFR recovery after 2000 will soon create an analogous situation to what Uzbekistan already is experiencing. This demographic trend is naturally motivating authorities in both countries to prioritise job creation.

At present, Chinese investors are attracted by Uzbekistan’s lower wages in the manufacturing sector relative to wages in China. Uzbeks are also becoming more sceptical of Chinese investment. Even so, 75% of Uzbek respondents had at least some confidence that Chinese investment would create jobs, according to a recent Central Asia Barometer poll. The poll showed only 24% of Kazakhs felt the same way.

This discrepancy may be partly a reflection of the Uzbek government’s past moves to curtail Chinese land acquisition and limit foreign labour participation in joint ventures. Kazakhstan, meanwhile, has witnessed protests in recent years over leasing land and the influx of Chinese workers.

A second dimension of the changing integration dynamic is economic flexibility. Uzbekistan is much better positioned than Kazakhstan in the current economic climate to partner with Chinese manufacturing firms.

Uzbekistan rising as Central Asian integration catalyst

Eurasianet

Chinese investors are attracted by Uzbekistan’s lower wages.


www.bne.eu
Kazakhstan has been classified as an advanced middle-income country since 2006 and despite having a GDP per capita roughly equal to China’s, its export basket is less sophisticated. Despite efforts to diversify, Kazakh manufacturing output has stagnated. It is increasingly apparent that Kazakhstan is facing a middle-income trap with elevated wage rates driven up by resource rents, combined with high transport costs. The result is restricted export competitiveness. Kazakhstan’s most likely escape from the trap is through prioritising service export capabilities by investing in higher education and research, along with specialised manufacturing.

The obvious downside of this strategy is that it would dampen opportunities for manufacturing co-location with China. In the short term, China needs Kazakhstan as a partner for logistics coordination for the Asia-Europe corridor. Over the longer term, it could collaborate on R&D and educational exchange, but it would be less inclined to form manufacturing partnerships built on comparative economic advantage.

Uzbekistan also needs to diversify its economy and increase its export competitiveness, yet with a nominal GDP per capita under $2,000, the Uzbek economy currently is better suited for growth through export-oriented manufacturing – the “Chinese model.”

So far this century, Uzbekistan’s principal export focus, besides commodities, has been the auto industry. But that strategy has proven problematic for Tashkent. While auto exports accounted for 14% of Uzbekistan’s overall total in 2012, by 2018 the failure of joint ventures with GM and others, as well as less favourable trade conditions with Russia, caused autos to fall to less than 1% of exports. Expanding partnerships with China thus has the potential to rekindle this moribund sector.

The Uzbek model
Uzbekistan’s rising regional influence is the outgrowth of significant policy changes in Tashkent over the past five years, with President Shavkat Mirziyoyev upending the sclerotic dictatorship of Islam Karimov. At home, he’s taken steps to boost commerce, including suspending foreign exchange controls and opening the economy. Meanwhile, he has paved the way for integration with neighbouring states by striving to settle disputed borders, liberalise trade and tackle transnational issues. In particular, Uzbekistan has worked with neighbours on a sustainable framework to manage Central Asian water resources.

Since 2016, Mirziyoyev has sought to augment private-sector growth by targeting privatisation and increased opportunity for small business development. The State Fund of Uzbekistan is prioritising microcredits aimed at stimulating entrepreneurship among young people and women. It is also emphasising the need to boost the overall workforce participation rate of women. To get the initiatives off the ground, the government is relying on an admittedly modest initial $2mn grant from the World Bank.

It is still early days for these initiatives, and it is too early to tell whether institutional resistance from entrenched bureaucrats on the regional and local level may frustrate nascent reforms. Nevertheless, if successful they could provide an appropriate model for neighbouring states, especially Kyrgyzstan, Tajikistan and, eventually, Afghanistan. Uzbekistan perhaps has the greatest stake of any state in the region in fostering prosperity beyond its borders, both to grow trade markets as well as joint infrastructure.

Though more difficult to quantify, another critical element in the changing regional dynamic involves statecraft. Since President Nursultan Nazarbayev’s resignation almost two years ago, Kazakhstan has taken a somewhat less assertive leadership position. Of late, authorities seem to have downplayed regional economic connectivity in favour of cultivating bilateral relations with Russia and China – capitalising on Kazakhstan’s favourable position on transcontinental freight corridors. In doing so, Nur-Sultan is overlooking the fact that stronger regional economic cooperation is a prerequisite for attracting higher levels of foreign investment.

It is clear that a Kazakh-Uzbek tandem would be the optimal driver for regional coordination, and here, too, Uzbekistan has recently taken a lead. Mirziyoyev initiated the first heads-of-state meeting for a fractious region in March 2018, which was held in Kazakhstan. The two countries are actively coordinating the development of the Central Asian auto industry and evince a keen interest in Kyrgyzstan’s chronic instability.
In challenging Kazakhstan’s primacy, officials in Tashkent are benefiting from the Uzbek diaspora – including economic migrant clusters in Kazakhstan and Russia, exclaves throughout Central Asia, and nearly 2mn ethnic Uzbeks in Afghanistan. This dispersed Uzbek population creates a unique vector of Eurasian integration. Mirziyoyev now pointedly refers to Afghanistan as an “unalienable part of Central Asia.”

**Tashkent’s connectivity challenge**

Moving forward, Tashkent will need to play its cards carefully to maintain its forward momentum, particularly when it comes to making expensive transport and infrastructure investments.

Uzbekistan’s top transport priority is a long-stalled rail connection from the Ferghana Valley through Kyrgyzstan to China’s Xinjiang province. A longer-term aim is to connect its manufacturing base to a southern port – either Gwadar in Pakistan, or Chabahar in Iran, via a rail corridor through Afghanistan. The latter project would also benefit Kazakhstan’s export competitiveness.

At present, high regional transport costs along with border inefficiencies are undercutting any potential comparative advantage Uzbekistan has for exporting its goods. Though still problematic, Uzbekistan has tried to address these problems by introducing simplified border inspection requirements and documentary compliance.

Not only must Tashkent solve its connectivity challenge, it must do so in a way that is fiscally sound and promotes regional trade as broadly as possible. A wrong bet could undo the progress of the past five years. Uzbekistan remains a poor country without the capital reserves to repay large underperforming debts.

Ultimately, China’s investment choices could be a deciding factor. Beijing doubtless notices the potential benefits of Uzbekistan’s low-cost labour, economic dynamism, and potential for regional political leadership. Whether Chinese leaders also prioritise investments in transit routes that benefit Uzbekistan is another matter.

**Article authors:** Nathan Hutson is a professor at the University of North Texas. He is a specialist on China’s Belt and Road Initiative and previously worked as a consultant for the World Bank. Marsha McGraw Olive is a retired World Bank manager and former senior vice president of the Eurasia Foundation. She is a lecturer at The Johns Hopkins University - Paul H. Nitze School of Advanced International Studies.

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46% of Bulgarian companies cut investment during coronacrisis

Investment strategies of Bulgarian companies have been substantially affected by the coronavirus (COVID-19) pandemic with 46% of them investing less than planned and just 7% investing more than planned, a survey carried out by the European Investment Bank (EIB) showed on February 8.

Albania has Europe’s lowest minimum wage

Albania has the lowest minimum wage in Europe, at just €242.52 equivalent, according to data compiled by Eurostat.

There are also significant variations within the EU, where they range from €332 per month in Bulgaria to €2,202 per month in Luxembourg.

Putin’s popularity holds steady in face of protests, but Russians divided on Navalny

Russian President Vladimir Putin’s approval rating has fallen by one percentage point to 64% in January despite nationwide protests. At the same time the majority of Russians are indifferent to the fate of jailed anti-corruption activist and opposition politician Alexei Navalny and the minority of Russians that have an opinion are evenly divided between supporting him and disapproving of his actions.

Turkey’s auto sales gain 60% y/y in January

Combined sales of passenger cars and light commercial vehicles (LCVs) in Turkey expanded by 60% y/y to 43,728 units in the first month of 2020 – marking the best January sales since 2011 – after booming 61% y/y in 2020, data from trade group ODD showed on February 2.

Passenger car sales grew 61% y/y to 35,358 units while the LCV market grew 59% y/y to 8,370 units in January.
Poland’s recession “one of the world’s mildest,” PM Morawiecki boasts

bne IntelliNews

The COVID-19 (coronavirus) pandemic-induced recession in Poland is one of the “mildest in the world,” the Polish Prime minister Mateusz Morawiecki said on February 9.

Poland’s GDP fell only 2.8% last year, the country’s statistical office said in a preliminary reading in late January. A recovery with growth of around 3%-4% is expected in 2021, analysts say.

Morawiecki was even more optimistic. “I think that GDP growth of 4% in 2021 is rather safe. If I were to bet, I would say we would rather exceed that,” the PM told a news conference.

The PM also referred to the recent Debt Sustainability Monitor published by the European Commission, which has Poland as the only EU member state with all fiscal sustainability markers in green, marking low risk. That will allow a faster and more sustained recovery, the PM said.

Poland’s rightwing coalition government is expected to reveal details of a major plan to boost healthcare, infrastructural investment, and housing to help the economy after the COVID-19 (coronavirus) pandemic recedes.

The comprehensive plan is also seen as the government’s way forward politically after a series of mistakes in handling the pandemic in the middle of 2020 that cost Poland a surge in new cases and deaths in the autumn.

Poland GDP y/y

Source: State Statistics Agency
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