READY FOR WAR AT ANY TIME IN SOUTHERN ARMENIA

Serbian “sugar king” becomes banking tycoon

Bulgaria reveals how millions of euros were siphoned off from Hemus motorway construction

Uzbekistan’s cement giant Qizilquwymsement on a roll

Kazakhstan looks to nuclear amid crypto-driven energy shortage

Montenegro’s dysfunctional ruling coalition limps on p.46

Operation Garden Ring banks shut down p.54

Savitsky museum, the Louvre of the Steppe p.58
COMPANIES & MARKETS

4 Gazprom says it will use windfall gas crisis cash to up boost capex

6 Pyaterochka CEO sees growing demand for convenience in a post-COVID world

9 The Dutch Supreme Court overturns previous decision against the Kremlin awarding Yukos’ shareholders $50bn in damages

10 German regulator Bundesnetzagentur suspends the approval of Nord Stream 2 gas pipeline, gas prices spike

11 Poland asks its top court to rule on legality of EU’s fine over Turow mine

12 Czech central bank unleashes highest rate hike since 1997 to fight surging inflation

13 EBRD lifts emerging Europe forecasts but warns of threats ahead

16 Centerra says Kyrgyzstan’s Kumtor mine under state management underperformed mine plan by 24%

17 Serbian “sugar king” becomes banking tycoon

18 Bucharest stock exchange rebrands for the digital future in a record year

19 Emerging markets IT giant Softline sets final offer price in IPO

20 From blue chips to green energy, new SPB index reveals the complex tastes of Russian retail investors

21 Russia’s venture capital market is booming, fuelled by a run of billion dollar IPOs

23 As lira carnage mounts BBVA moves to snap up rest of Turkish bank Garanti

25 Unicredit set to complete exit from Turkey’s Yapi Kredi Bank with sale of remaining 20% stake

26 Ukraine – a cryptocurrency hub?

27 “A new Dreyfus affair:” Ilya Sachkov asks President Putin to be transferred from jail to house arrest

28 Hungary’s Pegasus spyware scandal takes new twist

29 Banca Transilvania to create digital banking hub with Idea::Bank acquisition

29 Lithuanian Conservative MP appears in his underwear in virtual meeting
'Expect less water next year,' Kyrgyzstan warns downstream neighbours

Coal emerges down, but not out, from Glasgow

23 countries make zero-emissions vehicle pledge

Cover Feature

Ready for war at any time in southern Armenia

Central Europe

Roll back judiciary reforms or you will get no recovery funds, EU’s von der Leyen tells Poland

Poland moots plans to make its army one of Nato’s largest

Joe Biden leaves out Hungary from list of participants in US Democracy Summit

Hungary’s ‘Stop Soros’ legislation against migration violates EU rules, says CJEU

Southeast Europe

Bulgaria reveals how millions of euros were siphoned off from Hemus motorway construction

Eastern Europe

EU slaps Belarus with new sanctions for stoking migration crisis at Poland’s border

UK medical journal The Lancet publishes study, finds the one-shot Sputnik Light vaccine safe and effective

Operation Garden Ring banks shut down

Russia’s population policy action plan to 2025 about to start

Uzbekistan’s cement giant Qizilquwvmsement on a roll

Climate change ‘destroying honey production in Kyrgyzstan’

Kazakhstan looks to nuclear amid crypto-driven energy shortage

Uzbekistan’s multi-coloured textile revolution

Opinion

Talk of war increases longstanding tensions between Russia, Ukraine, Belarus and Nato

Is Russia’s build-up of troops on Ukraine’s border a new Cuban Missile crisis?

The West’s response to Lukashenko’s migrant gambit might seal Belarus’ fate

German traffic light coalition could worsen frictions with CEE

Germany MEP urges Albania to stop “mass killing” of street dogs

The Croatian town selling houses for 13 eurocents

Montenegro’s dysfunctional ruling coalition limps on

New photos of guns and cash in Bulgarian ex-PM Borissov’s bedroom published days before election

Russia strikes deal on Iran’s multi-trillion dollar Chalous gas field as ‘final act securing control over European energy market’

Uzbekistan’s cement giant Qizilquwvmsement on a roll

Climate change ‘destroying honey production in Kyrgyzstan’

Kazakhstan looks to nuclear amid crypto-driven energy shortage

Uzbekistan’s multi-coloured textile revolution
Capital spending levels at Russia’s Gazprom are once again creeping upwards, as the company prepares to ramp up gas supplies to China and expand development in the Russian Arctic.

Gazprom has earned hansom profits during the European gas crisis this year and intends to plough some of that windfall cash back into new infrastructure.

The state-owned gas behemoth has abandoned its promise of less than two years ago to be more fiscal prudent, spurred on by soaring gas prices that have led to a spike in its profits.

Under a programme announced on November 26, the company plans to invest RUB1.76 trillion ($23.3bn) in 2022, up from a target of RUB1.185 trillion for this year. Gazprom’s actual capital expenditure next year is expected to come to RUB1.4 trillion, but additional funds in the investment programme will go towards long-term financial investments and the purchase of long-term assets, its management has said. Borrowing from outside the company is expected to total RUB272.8bn in 2022.

These funds will partly be allocated towards additional upstream development in Eastern Siberia. Gazprom has been sending gas to China since December 2019 and is now investing in expanding supply at the Chayandinskoye field in the Yakutia region, which at full capacity is expected to flow 25bn cubic metres (bcm) per year of gas. In the mid-2020s it also intends to commission the Kovyktinskoye field in the neighbouring Irkutsk region, which will have a similar peak capacity.

Gazprom also has to fund further development of the Power of Siberia pipeline that delivers this gas to China. And investment will also be allocated to the Amur gas processing plant that handles these supplies.

**Arctic spending**

Moving up north, Gazprom said some of the funds would go towards additional development at fields on the Yamal Peninsula. Yamal is tipped to become Russia’s biggest hub for gas production. This will come on the back of field development by Novatek, which is ramping up LNG exports to Asia and Europe, and Gazprom, which has set sights on expanding pipeline supplies to Europe and sending additional volumes to China via a planned second pipeline through Mongolia.

The only Gazprom field on Yamal currently in production is Bovanenkovo, but this project alone has a capacity of 115 bcm per year, most of which is shipped to Europe. Gazprom kicked...
off development drilling at a second, neighbouring field called Kharasaveyskoye in June last year, and this will contribute a further 32 bcm per year of supply under its first, 230-well phase.

Kharasaveyskoye is due on stream in 2023, according to the official schedule, although recently Gazprom has spoken of fast-tracking some of its upcoming upstream projects in light of the supply crunch in Europe.

Another of Gazprom’s largest fields on Yamal is Tambey, which the company has teamed up with private partner Rusgasdobycha to develop. The pair formed a joint venture for the project in November, and the next step will be the transfer of licences to the partnership, which should take place next year.

Gazprom acquired rights to Tambey in 2008 but has held off on its development while it has focused on ramping up output at Bovanenkovo. It had been expected that Gazprom would continue putting off development, but it suddenly announced in May that it would push ahead, targeting first gas in 2026. Even this schedule might be brought forward in light of market conditions, but that decision will depend on how long the supply crunch and high prices in Europe are sustained.

Gazprom also noted that its investment programme would set aside some funds for infrastructure improvements to carry Tambey’s gas to the processing and liquefaction hub it is developing with Rusgasdobycha on the shore of the Baltic Sea. The field’s gas has a high concentration of ethane, which is due to be separated at the Baltic complex and used as feedstock for petrochemicals.

**Change in tact**

It is likely that Gazprom will revise its 2022 investment programme upwards over the course of next year, as is often the case with its spending plans. Gazprom purposefully uses a conservative gas price to base its investment plans on each year, ensuring no overspend that might erode profit disposals to the Russian government and its other shareholders. In September the company raised its target for 2021 to RUB1.185 trillion from 902bn that was originally approved in December last year.

Gazprom has drawn criticism in the past for investing too much on ambitious projects, sometimes with questionable economic rationale. And analysts have blamed this for the company’s comparatively poor share performance over the years.

The company’s spending levels soared in the late 2010s as it invested in the costly construction of Power of Siberia and its latest pipelines connecting with Europe, TurkStream and Nord Stream 2. The latter two projects do not expand Gazprom’s export capacity to the continent, but are instead designed to reduce flows via Ukraine. While this means they will not necessarily support increased Russian supplies to the market, Gazprom has said it expects to save billions in transit revenues as a result.

In early 2020, however, Gazprom promised investors that it would adopt greater fiscal conservativeness and focus more on rewarding its shareholders. It has also brought about other reforms to its business, including the introduction of extra incentives for its management to keep costs low and taking over control of some of its key contractors.

The planned hike in spending next year suggests that Gazprom may be diverting back to its high-spend strategy, however, encouraged by high gas prices. Back in 2020 the company was projecting that gas prices would remain in Europe for the foreseeable future, and therefore said it would aim to cap annual investments at around RUB1.2 trillion until 2030. But gas prices have seen an unprecedented surge this year, as global demand has rebounded in line with economic recovery but supply has not risen to meet it.

Gazprom’s Baltic gas complex will continue to be a drain on the company’s capital resources over the next few years, although the project will help it fulfil its long-held goal of expanding LNG exports. The bigger question is whether Gazprom’s far more ambitious plan to develop a second gas pipeline to China through Mongolia will be realised.

Russian President Vladimir Putin announced in mid-October that Moscow and Beijing had agreed “in principle” on a route for the pipeline. The necessary upstream and pipeline development for the project is anticipated to cost tens of billions of dollars.

It is understood that China and Russia are still nowhere near reaching a gas sales agreement to underpin the Mongolian pipeline’s construction. It notably took the two sides over a decade to agree such a contract to support Power of Siberia, with pricing proving to be a major sticking point.

Pipeline deals are never an easy undertaking, and are in part economical and political in nature. An agreement on a second pipeline to pump Russian gas to China will therefore depend on how political ties between the two, sometimes uneasy partners evolve, and not only on the gas market situation. This said, the current gas crisis has brought energy security to the top of the agenda in many countries including China, which is suffering from rolling blackouts right now as a result of the energy crunch. If both sides believe the market will remain tight for years to come, it would prompt them to try and make faster progress in talks.
Pyaterochka CEO sees growing demand for convenience in a post-COVID world

Theo Normanton in Moscow

As consolidation continues apace in the Russian food retail market, a dramatic shift in consumer behaviour is keeping sector leaders on their toes. A confluence of socio-economic factors, compounded by a spate of COVID-19 lockdowns, has driven up demand for innovative shopping solutions which necessitate digitisation, automation and increased choice. For retailers, this has meant upheaval as they scramble to implement new models which will capture customers in this morphing market structure.

One change in consumer habits with particularly weighty implications for the retail sector is a growing preference for shopping locally at so-called proximity stores. To effectively meet this demand for conveniently located local shops, large retailers are re-structuring their physical networks, investing heavily in local tailoring and re-imagining their approach to customer experience.

Pyaterochka, the proximity format of Russia’s largest grocery retailer X5 Group, has been particularly successful in this endeavour. It became Russia’s favourite brand during the pandemic and has maintained that position in 2021. In an exclusive interview with bne IntelliNews, Pyaterochka’s CEO Sergei Goncharov discusses some of the factors driving this revolution in the food retail ecosystem and how vendors are responding to them.

Local appeal

Pyaterochka is Russia’s largest retail chain, with more than 17,600 stores across the country. That figure is 8% greater than it was last year, an indication of Pyaterochka’s rapid expansion during the pandemic. Indeed, the chain claims to be the only nationwide food retailer in Russia which kept opening new stores throughout the coronacrisis.

“The pandemic has not only been a challenge for us, it also has become an opportunity to improve our leadership position,” Goncharov said. “Sales for last year amounted to close to RUB1.8 trillion (about $28bn). In nine months of this year we have reached sales of RUB1.3 trillion – an 11% increase year on year.”

Much of this may be down to the recent global trend which has seen shoppers spurn large hypermarkets in favour of corner shops and proximity stores. The pandemic has been a catalyst in this regard, with neighbourhood stores becoming increasingly popular among people reluctant to travel to busy shopping centres or those who are working from home. This phenomenon is not unique to Russia. Paul Martin, the UK head of retail at KPMG, wrote in a report on the industry that “the home really has become the hub… This will only further boost local high streets, with independent and convenience retailers well positioned to take advantage of suburban and town regional centres.”

### Store expansion

<table>
<thead>
<tr>
<th></th>
<th>3Q20</th>
<th>4Q20</th>
<th>1Q21</th>
<th>2Q21</th>
<th>3Q21</th>
<th>y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td># of stores, total</td>
<td>17,352</td>
<td>17,707</td>
<td>17,959</td>
<td>18,295</td>
<td>18,648</td>
<td>7.5%</td>
</tr>
<tr>
<td>Pyaterochka</td>
<td>16,385</td>
<td>16,709</td>
<td>16,960</td>
<td>17,268</td>
<td>17,600</td>
<td>7.4%</td>
</tr>
<tr>
<td>Perekrestok</td>
<td>910</td>
<td>933</td>
<td>940</td>
<td>968</td>
<td>980</td>
<td>7.7%</td>
</tr>
<tr>
<td>Karusel</td>
<td>57</td>
<td>56</td>
<td>49</td>
<td>40</td>
<td>34</td>
<td>-40.4%</td>
</tr>
<tr>
<td>Total Selling space, sqm</td>
<td>7,679,755</td>
<td>7,840,055</td>
<td>7,935,579</td>
<td>8,062,903</td>
<td>8,212,057</td>
<td>6.9%</td>
</tr>
<tr>
<td>Selling space (net added), sqm</td>
<td>169,494</td>
<td>160,300</td>
<td>95,524</td>
<td>127,324</td>
<td>149,154</td>
<td>-12.6%</td>
</tr>
<tr>
<td>Net # of stores</td>
<td>327</td>
<td>355</td>
<td>252</td>
<td>336</td>
<td>353</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

*Source: X5 Retail Group, BCS GM*
Goncharov agrees: “I see proximity stores becoming increasingly more popular. Hypermarkets are not doing well in Russia – people don’t want to spend much time anymore on driving to hypermarkets, parking there, shopping and driving back.”

The growth of Pyaterochka and X5’s supermarket chain Perekrestok has now taken priority over the company’s hypermarket operations, in a direct response to this change in consumer preferences. “At X5, we have made the decision to transform that part of our business,” said Goncharov. “Proximity stores will become increasingly more popular, following the trend that food is coming even closer to our customers through food delivery, and we use Pyaterochka proximity stores as part of that offering.”

Pyaterochka is also likely to have been helped by economic tailwinds. After a protracted period of stagnation, Russian real wages are beginning to rise, and consumer spending is growing accordingly. Spending is also encouraged by plunging interest rates in bank accounts, which make it less and less profitable to park money in one place.

Community kudos
While these factors may be enough to explain Russia’s retail boom, they do not account for Pyaterochka’s particular success. With 75mn unique customers per month, Pyaterochka has held on to the title of Russia’s favourite brand for the second year in a row in 2021, more popular even than ubiquitous tech giants like YouTube and Google.

“We have also increased the number of customers who trust us by more than 3mn this year, and this is a major accomplishment for us,” added Goncharov. “We’ve achieved this by focusing on key aspects of our customer value proposition: low prices, comfort in terms of store location, incredible convenience within the store, and care for the community.”

At Pyaterochka, care for the community has taken the form of a pilot project that transforms the network’s physical retail locations into de-facto community centres.

“We call Pyaterochka a community store,” Goncharov explained. “We launched a pilot project in 50 stores where we invite customers from the community to take part in projects, donate books, exhibit pictures on the walls. The idea is to maximise the potential to impact the community that we have around us.” These community centres could be rolled out further based on the results of the pilot, Goncharov added. Other community initiatives include the Basket of Kindness programme, where customers can donate non-perishable products to those in need, and a partnership with Liza Alert to help people who are lost find their way back home.

Community principles may become increasingly important as a way for retailers to set themselves apart in Russia’s highly competitive market. Nine out of the top ten biggest retailers in Russia in the first half of 2021 were Russian companies, as reported by bne IntelliNews.

The digital shift
Another major driver of the retail market transformation is the large-scale shift to everything digital, as reflected by the surge in online shopping. Russian e-commerce is booming, partly as a consequence of repeated lockdowns. In 2020 alone, the Russian e-commerce market expanded by 57% compared to the previous year to reach RUB2.7 trillion ($38.4bn), according to research by KPMG. In response, some Russian retailers have expanded their online offering and invested in logistics and infrastructure to enable faster order delivery.

As part of its digital transformation, Pyaterochka launched an express delivery service from its stores before the pandemic struck. “It was done at exactly the right time, as we learned later,” Goncharov explained. “We launched express delivery in February 2020 and the pandemic [in Russia] hit in March, and it helped us a lot in terms of growing demand for this service. Up to now we have fulfilled more than 9mn orders, and we operate in 20 different cities from 800 existing stores and 15 dark stores.”

“Sergei Goncharov, CEO of Pyaterochka

“The pandemic has not only been a challenge for us, it also has become an opportunity to improve our leadership position”
which track the movement of goods from distribution centres to stores. That also includes automated replenishment. We also launched a new demand forecasting system based on machine learning which helped us to improve forecast accuracy by 5-13%, depending on the region and category of goods.”

The rate of change over the past two years has clearly been staggering, but it is showing no signs of slowing. To retain loyal customers, retailers must keep pace. Pyaterochka is betting on a new format of store, focusing on fresh products and convenience.

“We launched our new format stores about two years ago and have already opened more than 4,000 stores,” Goncharov said. “Basically, the new format is the only format for us,” he added. “We’ve been using all the know-how that we’ve gathered over these past two years and our focus is on going farther into the regions of Russia, as well as optimising investment costs and capex in existing stores so that we can be present in more locations and bring prices down for our customers.”

As the economic reverberations of coronavirus (COVID-19) continue to have an impact on Russians’ mobility and spending habits, it is difficult to predict what is around the corner for food retailers. The current trends – e-groceries and proximity stores – are still far from reaching full market penetration, and the immediate goal for retailers will be capturing market share as these trends continue to catch on.

This means that analysis and improvement of services continues in earnest, driven by the potential for significant growth. As Goncharov explained: “The projects that will help us achieve our goals are focused on increasing our operational efficiency, optimising labour costs and improving our customer value proposition. A lot of thought and digital products are going into that, and that’s what excites me the most.”

In February 2020, the company was delivering around 300 orders a day; now it is delivering approximately 40,000 per day. With its ability to scale up quickly in response to changing market demands, Pyaterochka has become somewhat of a nucleus for parent company X5’s digital operations. “Pyaterochka is becoming a physical hub for X5 digital businesses by operating such things as pick-up points for 5Post – X5’s logistic delivery service – and assembling delivery orders from online-hypermarket Vprok.ru Perekrestok,” said Goncharov.

Greater digitisation has also helped the retailer get more feedback from customers.

Pyaterochka’s mobile app had almost 9mn monthly active users as of September this year, from whom the chain has collected more than 400mn product reviews as well as creating NPS scores for its individual stores. It has also used customer feedback to develop or improve more than 3,000 stock keeping units (SKUs) in Pyaterochka’s assortment.

Keeping pace
Meeting the seismic shifts in consumer behaviour is no small feat – especially in a country the size of Russia. Pyaterochka is the biggest employer in X5 Group, with stores in more than 3,300 cities spanning over 6,500 km of Russian territory (from Kaliningrad in the West to Irkutsk in the East, where the chain will be opening a store next month). Improving businesses efficiency across such a large area requires a complex mix of modern technology, automation and a nimble distribution network.

Goncharov’s description of improving efficiency at Pyaterochka brought home the scale of the operation: “We employ about 5,000 trucks that service our 34 distribution centres. We’ve spent a lot of time in the past few years focusing on the development of our IT systems,
The Dutch Supreme Court overturns previous decision against the Kremlin awarding Yukos’ shareholders $50bn in damages

Ben Aris in Berlin

The battle between the Kremlin and former Russian oil company Yukos took a new twist on November 5 when the Dutch Supreme Court overturned a decision forcing the Russian government to pay a $50bn arbitration award to the former Yukos shareholders and sent the case back to appeal, Reuters reports.

“Today the Supreme Court quashed the appeal court’s final judgment as well as the court’s preceding judgment,” a court statement said as cited by Reuters. “The case has been referred to the Amsterdam Court of Appeal for renewed judgment.”

The Supreme Court judges accepted one of the Russian government’s grounds of appeal.

“The Russian Federation’s argument that the shareholders have committed fraud in the arbitral proceedings has been wrongly dismissed by the Court of Appeal on procedural grounds and should have been judged with respect to content,” it found. “Therefore the judgements of the Court of Appeal cannot be upheld.”

It rejected Russia’s other grounds of appeal, including complaints that the court did not have jurisdiction. The judgment on that issue was final, it said.

The decision will potentially add many more years of legal wrangling in the already long-running dispute. Previously courts had awarded the shareholders the $50bn award after deciding the Russian government had illegally appropriated Yukos’ assets.

Yukos collapsed in 2006 after its owner Mikhail Khodorkovsky was arrested in 2003 on fraud charges and jailed for a decade. As the stock was widely held by international investors the case became a cause célèbre and the Kremlin was widely accused of jailing Khodorkovsky in a state-sponsored asset grab.

The Yukos assets were then sold off in a highly controversial auction that was won by the state-owned Rosneft and today form the basis of the company’s oil production, making it the biggest oil company in Russia.

Khodorkovsky is controversial figure and was called the “most corrupt oligarch in the most corrupt country in the world,” in a New York Times editorial in 1999, but after he cleaned up his corporate act in 2000 and began to promote good corporate governance the stock soared, making him the richest man in the world under 40.

After he was released from jail in December 2013, he moved to Germany and then the UK where he has become an outspoken critic of the Kremlin, funding several pro-democracy NGOs including his own Open Russia foundation. The Kremlin tolerated the criticism until the crackdown on dissent began this year ahead of the September Duma election and declared Open Russia as an “undesirable” organisation, and its managers closed it in May this year to prevent the arrest of its members and management.

The Dutch ruling on November 5 came after seven years of legal wrangling in Dutch courts following an arbitration tribunal ruling in 2014 that found Moscow had violated its international obligations by taking actions designed to bankrupt Yukos.

The decision is the second time that Dutch judges set aside the award after The Hague District Court dismissed it in 2016, only to see it re-imposed on appeal.

The Russian authorities have been vigorously defending their decision to bankrupt Yukos. Despite its improved corporate governance, as far as the shareholders were concerned the company continued to take advantage of Russia’s chaotic regulations and managed to reduce its effective tax rate to around 5%, despite the headline rate of 24%.

Khodorkovsky told this correspondent in an interview in the early noughties that he had done nothing wrong and that he had hired a team of lawyers to make sure all the company’s decisions were legal, even if they were extremely advantageous for the company.
“It’s the same thing any Western company would do. There is a whole industry in the USA trying to work out how to optimise tax payments,” Khodorkovsky said at the time.

Former Yukos shareholders have sought to recover their assets by taking their case to the Hague-based Permanent Court of Arbitration (PCA), from where the case proceeded through the Dutch legal system.

Legal proceedings seeking to enforce the awards were subsequently lodged in the Netherlands, the UK and the United States by subsidiaries of GML, formerly known as Group Menatep Ltd, which held around 70% of the shares in Yukos.

GML said in a statement it had won substantive grounds of appeal and it was “confident that the Court of Appeal in Amsterdam will dismiss the baseless allegations raised by the Russian Federation, and the arbitral awards will be upheld.”

“...any Western company would do. There is a whole industry in the USA trying to work out how to optimise tax payments,” Khodorkovsky said at the time.

Former Yukos shareholders have sought to recover their assets by taking their case to the Hague-based Permanent Court of Arbitration (PCA), from where the case proceeded through the Dutch legal system.

Legal proceedings seeking to enforce the awards were subsequently lodged in the Netherlands, the UK and the United States by subsidiaries of GML, formerly known as Group Menatep Ltd, which held around 70% of the shares in Yukos.

GML said in a statement it had won substantive grounds of appeal and it was “confident that the Court of Appeal in Amsterdam will dismiss the baseless allegations raised by the Russian Federation, and the arbitral awards will be upheld.”

German regulator Bundesnetzagentur suspends the approval of Nord Stream 2 gas pipeline, gas prices spike

In a surprise decision, the German Bundesnetzagentur, responsible for awarding the certification that would allow the controversial Nord Stream 2 gas pipeline to go into operation, has decided to suspend the process until its holding company has reorganised its legal structure to conform with German law, the body said in a tweet.

The Bundesnetzagentur said once these changes have been made it would resume its work and probably take the four months mandated to consider the application. The upshot of the suspension of the Bundesnetzagentur work is that it is now highly unlikely that Nord Stream 2 will come online this winter.

Prices for natural gas spiked on the news, rising back above $1,000 per thousand cubic metres after they had fallen in the last week to around $700-$800 after Russia’s gas company Gazprom began to increase supplies of gas to its EU-based storage facilities.

“The certification procedure will remain suspended until the main assets and human resources have been transferred to the subsidiary and the Bundesnetzagentur is able to check whether the documentation resubmitted by the subsidiary, as the new applicant, is complete. When these requirements have been fulfilled, the Bundesnetzagentur will be able to resume its examination in the remained of the four-month period set out in law. Produce a draft decision and delivery it to the European Commission for an opinion, as provided for in the EU legislation on the internal market,” the Bundesnetzagentur said in a tweet.

“If the pipeline is going to be certified, it will have to comply with EU regulations for third-party access, giving Rosneft, BP and other firms an opening to sell volumes via the pipeline in the future. BP CEO Bernard Looney has made it clear his company would be happy to participate if Rosneft receives the legal right to export gas,” Nicholas Birman Trickett, a commodities analyst, said in a newsletter.

Increases in Russian throughput into Europe are operating off a low base and can’t make up the shortfall with domestic demand at record levels too, which analysts say means that prices will stay high all winter now there will be no respite from an early approval of Nord Stream 2.

The length of the delay will depend on how long it takes decision-makers in Moscow to work out a legal arrangement ending Gazprom’s pipeline export monopoly, something it has resisted for years.

And once the Kremlin has worked out a new scheme then this has to be presented to, and be acceptable to, the Bundesnetzagentur.

“It’s a power play given the timing with events concerning Ukraine and Belarus, but one that still makes clear Germany wants the pipeline to be functional,” says Birman Trickett.
The decision comes a day after the agency announced that
Ukraine’s natural gas company Naftogaz will participate in the
certification of Nord Stream 2. As participants in the process
have no veto analysts were unperturbed by the announcement,
which was seen largely as a PR victory for Ukraine.

Naftogaz CEO Yuriy Vitrenko said: “We welcome BNetzA’s
decision to accept Naftogaz’s petition to intervene in the
certification of the Nord Stream 2 operator. We have significant
legal and commercial interests in the European gas market and
are encouraged by the fact that BNetzA is willing to examine the
issue from different angles. Our view remains: the Nord Stream
2 pipeline operator cannot be certified unless it complies with
all requirements of EU competition and energy law. There can
be no special treatment for Gazprom,” Vitrenko said.

“At the moment, the Nord Stream 2 pipeline is endangering
Germany’s and Europe’s security of supply. It is anti-
competitive, and will not provide necessary additional gas
transportation capacity either to Germany or to Europe. More
than enough excess transit capacity exists today, but is not
being used by Gazprom in its existing contracts with Ukraine’s
Gas Transmission System Operator. We see no justifiable
commercial purpose for Nord Stream 2,” Vitrenko said in
a press release.

The new decision may be an attempt to crank up the pressure
on Russia after Gazprom decided not to book any additional
transit capacity via Poland and Ukraine for December.

“At this point, it’s a question of who blinks first. It’s easy to
bemoan just how foolish this move is for consumers, myself
included, in Europe and it will worsen short-run energy price
inflation. I’m less sure it’s a mistake and think it’s an intelligent
bit of diplomacy, particularly with Ukraine’s past offer of
a considerable discount for pipeline capacity that may be
revisited,” says Birman Trickett.

Gazprom has a firm take-or-pay contract with Ukraine for
40bn cubic metres per year for 2021-24. Thus gas transit
through the country is unlikely to fall below this level in the
next three years. However, after the launch of NS2, Gazprom
might redirect gas flows from the Ukraine transit route after
2024, VTB Capital (VTBC) said in a note.

The decision comes a day after the agency announced that
Ukraine’s natural gas company Naftogaz will participate in the
certification of Nord Stream 2. As participants in the process
have no veto analysts were unperturbed by the announcement,
which was seen largely as a PR victory for Ukraine.

Naftogaz CEO Yuriy Vitrenko said: “We welcome BNetzA’s
decision to accept Naftogaz’s petition to intervene in the
certification of the Nord Stream 2 operator. We have significant
legal and commercial interests in the European gas market and
are encouraged by the fact that BNetzA is willing to examine the
issue from different angles. Our view remains: the Nord Stream
2 pipeline operator cannot be certified unless it complies with
all requirements of EU competition and energy law. There can
be no special treatment for Gazprom,” Vitrenko said.

“At the moment, the Nord Stream 2 pipeline is endangering
Germany’s and Europe’s security of supply. It is anti-
competitive, and will not provide necessary additional gas
transportation capacity either to Germany or to Europe. More
than enough excess transit capacity exists today, but is not
being used by Gazprom in its existing contracts with Ukraine’s
Gas Transmission System Operator. We see no justifiable
commercial purpose for Nord Stream 2,” Vitrenko said in
a press release.

The new decision may be an attempt to crank up the pressure
on Russia after Gazprom decided not to book any additional
transit capacity via Poland and Ukraine for December.

“At this point, it’s a question of who blinks first. It’s easy to
bemoan just how foolish this move is for consumers, myself
included, in Europe and it will worsen short-run energy price
inflation. I’m less sure it’s a mistake and think it’s an intelligent
bit of diplomacy, particularly with Ukraine’s past offer of
a considerable discount for pipeline capacity that may be
revisited,” says Birman Trickett.

Gazprom has a firm take-or-pay contract with Ukraine for
40bn cubic metres per year for 2021-24. Thus gas transit
through the country is unlikely to fall below this level in the
next three years. However, after the launch of NS2, Gazprom
might redirect gas flows from the Ukraine transit route after
2024, VTB Capital (VTBC) said in a note.

Poland asks its top
court to rule on legality
of EU’s fine over Turow
mine

Wojciech Kosc in Warsaw

Poland’s Chief Prosecutor Zbigniew Ziobro has asked the
country’s Constitutional Tribunal to rule on whether the
fine imposed on Poland by the Court of Justice of the
European Union (CJEU) over the divisive Turow mine is legal.

The move marks another ratcheting up of Poland’s dispute
with the EU over whether Polish or EU law has precedence
and in particular whether the government’s legal reforms have
damaged the rule of law. Poland’s Constitutional Tribunal
is seen as a tool to give legal backing to the government’s
decisions or broader policy initiatives that have been
questioned by the European Commission.

Last month the Constitutional Tribunal, whose line-up has
been engineered by the government to follow its political line,
rules that several articles of the EU’s founding treaty conflict
with the Polish constitution. Now the tribunal is being asked
to rule on whether the CJEU itself is breaching the EU treaty.

The CJEU fined Poland €500,000 for each day it continued to allow the Turow
mine to operate.

Poland and Czechia are at loggerheads over Turow, the
open-cast lignite mine sitting on the border with Czechia. The
Czechs argue that Poland expanded the mine in breach of the
EU’s environmental laws, especially the environmental impact
directive, by not consulting properly with them. Prague says
that the open-cast mine is lowering the water table on the
Czech side.

Czechia sued Poland in the CJEU over the mine’s impact
and secured an order from the court, telling Poland to pay
€500,000 for each day of the mine’s operations. Poland
refuses to pay the fine, arguing that closing down the Turow
power plant – which burns lignite from the mine – would put
the national power grid at risk.

The chief prosecutor, who also is Poland’s minister of justice,
wants the tribunal to review one of the articles of the Treaty
of the European Union – the bloc’s fundamental legal text – to
Czech central bankers increased the two-week repo rate above analysts’ expectations on November 4, hiking it by 125 basis points to 1.75%, the highest rate hike in the past 24 years, to fight surging inflation, which saw the highest growth in the past 13 years to 4.9% in September.

At the same time, the CNB increased the discount rate to 1.75% and the Lombard rate to 3.75%.

“The rise in rates will limit the pass-through of these pressures into prices in the longer term, ensuring the return of inflation towards the 2% target at the monetary policy horizon. The Czech National Bank’s response will also help anchor inflation expectations at its target,” stated the Czech National Bank (CNB) report.

"A number of institutions and entrepreneurs were expecting a rise of between 50 and 100 basis points. The 125-point rate hike is another strong and loud signal from the CNB board that it is taking rising inflation and the confluence of several inflationary pressures seriously," said Pavel Peterka, chief economist at Roklen Group, as quoted by news website Novinky.cz.

"If the sharp 0.75 percentage point increase at the last [CNB] meeting was something of a surprise, the current move is a major surprise. It is clear that the CNB is fully aware of its mission to maintain reasonable price growth and has therefore decided to take this fundamental step," commented Petr Kriz, a partner at PwC, for the Czech News Agency.

"CNB shocked everyone with a 125bp interest rate hike at today’s meeting and while this was clearly intended to front-load tightening, the hawkish communications suggest that the tightening cycle still has some way to go," commented Liam Peach, an economist from Capital Economics. "We had highlighted for some time that investors were underappreciating the hawkish bias at the CNB and flagged the risk that policymakers would raise interest rates aggressively to take the heat out of the economy,” Peach added.

The massive “increase in the key interest rate means that the board perceives significant inflation risks and the need for a strong monetary policy response to prevent medium-term inflation expectations from rising. The CNB’s next steps in interest rates will depend on developments in the economy in terms of inflation and economic growth, and it will also be important whether and how significantly the Czech koruna appreciates,” said Radomir Jac, chief economist at Generali Investments CEE.

As BHS chief economist Stepan Krecek put it, even the astronomical increase in interest rates will not be able to avert the price increases that are ahead by the end of this year. “However, it gives us hope that price growth will slow down next year,” Krecek said.

Jakub Seidler, chief economist at the Czech Banking Association, also warned that the rate hikes will be slow in curbing inflation. According to him, the impact of these
massive hikes on inflation will only become apparent within a year. "The market is now expecting the central bank rates to go further up and reach 3.5% during the December and February meetings," he noted.

On the other hand, according to Deloitte economist Vaclav France, the tightening of monetary policy is appropriate. "Although the CNB will have no effect on energy and other commodity prices, which are currently rising steeply, it is preventing them from spilling over into inflation expectations. Only if inflation expectations are kept stable will inflation return to normal levels once the excesses in commodity prices subside," he said.

France expects the CNB to continue tightening monetary policy. "But it would no longer have to 'fire a bazooka' against inflation as it does today," he noted. Also Lubor Lacina from the Faculty of Operational Economics at Mendel University in Brno expects further interest hikes by CNB at its next meetings until inflation returns to 2%.

This has been confirmed by the CNB governor Jiri Rusnok during the press conference following the meeting. Rusnok assured that this was certainly not the last increase in rates in the near future. If the inflation is high, "taking interest rates towards neutral [3%] may not be enough".

Peach expects CNB rates to reach 3.75% next year, up from previous forecast at 3.25%. "We think the scope for further large interest rate hikes is now becoming increasingly limited and we expect the tightening cycle to end in 1Q21 after another 100bp of rate hikes, to 3.75%," he stressed.

On the other hand, according to Deloitte economist Vaclav France, the tightening of monetary policy is appropriate. "Although the CNB will have no effect on energy and other commodity prices, which are currently rising steeply, it is preventing them from spilling over into inflation expectations. Only if inflation expectations are kept stable will inflation return to normal levels once the excesses in commodity prices subside," he said.

France expects the CNB to continue tightening monetary policy. "But it would no longer have to 'fire a bazooka' against inflation as it does today," he noted. Also Lubor Lacina from the Faculty of Operational Economics at Mendel University in Brno expects further interest hikes by CNB at its next meetings until inflation returns to 2%.

This has been confirmed by the CNB governor Jiri Rusnok during the press conference following the meeting. Rusnok assured that this was certainly not the last increase in rates in the near future. If the inflation is high, "taking interest rates towards neutral [3%] may not be enough".

Peach expects CNB rates to reach 3.75% next year, up from previous forecast at 3.25%. "We think the scope for further large interest rate hikes is now becoming increasingly limited and we expect the tightening cycle to end in 1Q21 after another 100bp of rate hikes, to 3.75%," he stressed.

---

**EBRD lifts emerging Europe forecasts but warns of threats ahead**

The European Bank for Reconstruction and Development (EBRD) has increased its projection for growth in 2021 across the regions where it operates to 5.5%, an upward revision of 1.3 percentage points (pp) compared to its June forecast.

The development bank said in its latest Regional Economic Prospects report released on November 4 that the revision follows a strong performance in the first half of the year, but it warned at the same time of “serious threats” ahead, among them inflation, rising commodity prices, tight labour markets and supply chain disruption.

Output across the EBRD regions grew by 6.3% year on year in the first half of 2021, following a contraction of 2.4% in 2020. In 2022, growth is anticipated to moderate to 3.8%, 0.1 pp lower than forecast in June.

“Mobility recovered earlier than in other parts of the world, while industrial production and retail sales rebounded. Exports of goods and services increased despite temporary supply chain disruptions. Remittances also grew in the second quarter of 2021, in some cases surpassing 2019 levels. Tourist arrivals exceeded expectations, but remained significantly below their 2019 levels in most EBRD economies,” the report commented.

The EBRD noted that its forecasts are “subject to high uncertainty, reflecting risks associated with the future path of COVID-19, possible worsening of external conditions and weaker growth in trading partners”.

---

**EBRD’s GDP growth projections for 2021**
Other concerns include that wider inflationary concerns “may bring forward policy tightening in advanced economies, making debt burdens more expensive to service,” the report warned. “Travel restrictions and lingering fears of contagion continue to weigh on the outlook for the tourism sector. While bankruptcies have so far remained contained, further vulnerabilities may surface once policy support is reduced,” it added.

The EBRD’s chief economist Beata Javorcik described the ongoing recovery as “bittersweet”.

“This is a bittersweet recovery. The first half of 2021 brought a robust rebound. But we are now seeing growing cause for concern. While high commodity prices benefit exporters, they weigh heavily on the trade balances of importers. The supply of affordable energy as we enter the winter period is becoming a serious worry, especially since governments’ headroom is limited,” said Javorcik, according to a press release from the EBRD.

“High prices of natural gas, oil and other commodities weigh on the trade balances of energy importers, in particular in the southern and eastern Mediterranean. They may also test the public’s resolve for greening and put pressure on governments to step in to mitigate the burden of higher energy expenses on low-income households,” the report elaborated.

“High energy prices, supply chain disruptions and in some cases currency depreciations have also pushed inflation up. In some economies, tight labour markets have added to inflationary pressures, with a strong rebound in vacancies in lower-medium skilled occupations such as drivers or craftsmen and strong wage growth.”

**Rising inflation**

The report cited rising inflation across the region, which includes Central and Eastern Europe, Central Asia and Southern and Eastern Mediterranean countries. Across this region, inflation exceeded its end-2019 levels by 3 pp in September. Several of the region’s central banks have already raised policy interest rates.

“In some EBRD economies tight labour markets added to inflationary pressures with a strong rebound in vacancies in lower-medium skilled occupations. In other economies, considerable slack in labour markets remains,” the report said. On average, unemployment increased by 1.4 pp between February and August 2020.

The current high oil and gas prices have benefitted commodity exporters such as Azerbaijan, Kazakhstan and Russia. Yet many countries in the region are commodity importers, which have seen higher prices weigh on their trade balances.

The EBRD also identified fiscal vulnerabilities resulting from the large stimulus packages rolled out during the pandemic crisis. Public debt across the EBRD regions has increased by an average of 13 pp of GDP since end-2019, the report said, adding: “While borrowing costs remain below their pre-crisis levels in most economies, they have risen sharply in some countries.” Moreover, a number of countries in the region, including much of Central, Eastern and Southeast Europe, are experiencing a new wave of the pandemic, fastened by low vaccination rates.

**Fast and slow movers**

Three tourism-dependent Southeast European economies – Albania, Croatia and Montenegro – are heading for some of the fastest growth rates across the emerging Europe region this year, of 8.0%, 8.0% and 12.3% respectively, after experiencing some of the deepest contractions last year.

Robust growth is also anticipated in Turkey, whose economy has been one of the region’s strongest performers since the start of the crisis. It is expected to grow by 9% in 2021 and 3.5% in 2022. According to the EBRD, this is supported by a post-lockdown rebound in domestic demand and strong exports benefiting from currency depreciation, though it warned of risks related to macroeconomic stability.

The bank did, however, point to the “stubbornly high” inflation in Turkey, where the decision to cut policy rates by 300 basis points since September “caught investors off-guard, as did the decision to sack three members of the monetary policy committee in October, including two deputy governors”. In general, a “lack of policy transparency, alongside the fragile external position, makes Turkey vulnerable to changes in global investor sentiment,” the report said. Nonetheless, high frequency indicators suggest that activity remained robust in the third quarter of 2021.

At the other extreme, Belarus’ economy is predicted to expand by just 2.0% this year. GDP growth in Belarus reached 3.5% y/y in the first half of 2021, largely driven by growth of exports and revived household consumption, despite the slowing growth of industrial production since May 2021. This was due to the ending of base effects and possibly some early impact from international sanctions, the EBRD said. The development bank expects growth to decelerate in the second half of the year, to come in at just 2.0% for the full year.

“Elevated energy prices and shortages of components, chips and raw materials have already affected countries with significant shares of manufacturing in GDP”

“Economic sanctions and targeting of the export-focused potash and petroleum industries as well as sanctions-related supply shortages are expected to hit the economy later in 2021 and throughout 2022,” the report said. “At the same time, a strong commodities-based recovery in Russia, its main trading partner, could have a positive impact on Belarusian exports.”
The Kyrgyz Republic is the other slow mover. The Central Asian country posted growth of just 0.1% y/y in the first three quarters of 2021, and is headed for 2.5% for the full year. The top contributor to Kyrgyzstan’s economy, the Kumtor gold mine, was seized from Canada’s Centerra Gold by the Kyrgyz government in May.

“The recovery is being held back by a drop in gold production and exports despite Jerooy, the country’s second-largest gold mining project, moving to production in March 2021,” the report said. “Excluding the Kumtor gold mine, real GDP grew by 17.7% y/y in the first three quarters of 2021, driven by growth in retail trade, transport and communication. Expansion in services was enabled by strong growth in remittances (up 21% y/y in US dollar terms in the first eight months of 2021) and the easing of lockdown measures.”

Supply chain issues affect CEE
The Central Europe and the Baltic states (CEB) region is forecast to grow by 5.2% in 2021 and 4.7% in 2022, despite the impact of supply chain disruptions on some economies. This follows average growth of 5.1% in the first half of 2021.

“Most countries managed to recover to pre-pandemic levels, with Estonia and Lithuania already achieving this in the first quarter of 2021. At the same time, due to their persevering price competitiveness, CEB exporters in several countries, including Lithuania and Poland, achieved substantial hikes in export market shares of both goods and services,” the report said.

“Nevertheless, elevated energy prices and shortages of components, chips and raw materials have already affected countries with significant shares of manufacturing in GDP, especially the Czech Republic, Slovenia, Slovakia and Hungary. These disruptions in supply chains will likely weigh on the region’s export performance in the short term.”

Estonia is set to be the CEB region’s top performer, achieving 8.5% growth in H1 and heading for 9% for the full year. Consumption was spurred on by the withdrawal of the second pension pillar in September 2021, which caused disposable incomes to jump by nearly €1bn. Lithuania has also weathered the crisis well, experiencing the mildest recession in the EU in 2020.

Poland, the region’s largest economy, achieved growth of 4.6% y/y in the first half of 2021, which the EBRD said was “underpinned by strong household consumption, still elevated government expenditures and some improvements in investments”. Exports rebounded quickly, the report said. However, the bank warned of the risk associated with a delayed disbursement of the EU’s Recovery and Resilience Facility (RRF) funds.

Strong growth of 6.4% is expected in the Western Balkans this year, moderating to 4% in 2022. “The region saw significant upward revisions, reflecting better-than-expected performance in the first half of the year, including in the tourism sector, as well as strong export demand from the EU market,” the report said.

This growth is driven by the pent-up demand enabled by growing remittances and wages as well as continued recovery in external demand, according to the EBRD.

The Southeast European Union region, comprising Bulgaria, Greece and Romania, is expected to experience GDP growth of 6.7% in 2021 and 4.3% in 2022. Romania’s economy grew by a robust 7.0% in the first half of 2021, allowing it to exceed pre-pandemic levels in adjusted terms by the end of June. However, as the EBRD points out, economic risks have lately increased – Romania is embroiled in a deep political crisis, and is also struggling with a severe fourth wave of the pandemic.

Russia back to pre-pandemic level
Russia suffered a relatively small contraction in 2020, and the EBRD forecasts output will grow by 4.3% this year amid the ongoing broad-based recovery, before falling back to 3% in 2022. The main driver will be public spending programmes facilitated by higher commodity revenues.

The Russian economy already returned to its pre-pandemic level by the second quarter of 2021. “Mining activity was strong, and retail sales recovered rapidly following the easing of virus-related restrictions, driven by tighter labour market conditions and rapid retail credit growth. Although there were some signs of slowing in the mining sector at the start of the third quarter, retail sales have remained robust and higher OPEC+ oil production quotas should support mining output in the coming months,” commented the report.

It also noted a shift in priorities of the Russian authorities towards growth and social welfare, with “well-targeted” social expenditure measures reintroduced ahead of September’s DUMA elections. The authorities have also sought to protect the public from inflation with food price caps and export restrictions and duties.

Across the EBRD’s Eastern Europe and the Caucasus region – comprising the three South Caucasus countries plus Belarus, Ukraine and Moldova – output is anticipated to grow by 3.6% in 2021 and 2.9% in 2022. In Azerbaijan in particular, rising oil and gas prices have resulted in a stronger than expected recovery.

Ukraine’s economy continued its decline in the first quarter of 2021, only reviving modestly in the second quarter with growth of 5.7% y/y. This was attributed to driven by double-digit growth of household consumption and investment, and supported by a strong rise in the prices of major export products like cereals and iron. A strong harvest and further normalisation of business activities is set to support the recovery in the second half of the year.

Growth in the Central Asia region is forecast at 4.9% this year and 4.8% in 2022, with higher commodity prices and recovering remittances the main contributing factors.
Centerra says Kyrgyzstan's Kumtor mine under state management underperformed mine plan by 24%

Canada's Centerra Gold has said that the flagship Kumtor gold mine – seized from the company by the Kyrgyz government in May – underperformed the 2021 mine plan for June through September by 24%, Mining.com reported.

According to a Centerra statement sent to the media outlet, Kyrgyz authorities and the state-imposed “external management” continue to claim the mine is operating normally, but a very different story is seen based on production numbers.

“In particular, gold output plunged more than 24% below Centerra’s approved 2021 mine plan over the period between June and September,” Centerra said in the statement. “That means the external management poured about KGS 6.2 billion ($73.5 million) less gold, based on the average gold price for the period.”

Toronto-based Centerra also took issue with the current management’s refusal to publish any output data or other indicators of Kumtor’s performance since the last public update in late June.

“When Centerra was in control of the mine, the Kumtor Gold Company (KGC) released timely, accurate and detailed information about its operations – including how much gold was produced and sold. Despite calls for transparency from members of parliament, the ‘external management’ has refused to publish any production data or other indicators of the mine’s output,” Centerra said.

Centerra said it wants to know where Kumtor’s missing gold is; why KGC has failed to publish any operating results since the expropriation of the mine; how the state intends to make up for falling gold output; who is purchasing the gold and where the proceeds are; how much the current mine manager Tengiz Bolturuk is being paid and why the state is not allowing an independent assessment of the mine’s condition.

Critical to economy
“Kumtor plays a critical part in the Kyrgyz economy, and we again urge the government to allow Kyrgyz and international journalists to visit the mine and get answers to these and other questions,” Centerra said.

KGC, as a subsidiary of Centerra, filed for bankruptcy in June after the central Asian country brought in a law to enhance state power, enabling the government to grab control of the mine.

Kyrgyzstan is challenging Kumtor’s right to Chapter 11 bankruptcy protection in the US.

In late August, Centerra said it had obtained photographic evidence showing at least 40 metres of water at the bottom of the Kumtor gold mine and “abnormally” large amounts running down the pit walls. It claimed the situation could lead to catastrophic events.

Kyrgyzstan’s Japarov administration, which came to power following political upheaval in the country seen late last year, is facing international arbitration hearings pursued by Centerra over ownership of the mine, the second highest gold mining operation in the world and the largest taxpayer in the country. The authorities resurrected several previously settled alleged tax and environmental complaints in relation to the gold mine prior to the seizure.

The tactics deployed by nationalist strongman President Sadyr Japarov to wrestle the mine from Centerra’s hands have been especially aggressive and have shocked foreign investors. So much so that the British government, recognising that UK-based BlackRock Investment Management holds a 10.6% stake in Centerra, in late May lined up with the Canadians in warning Kyrgyzstan that measures that “negatively impact trade and foreign direct investment will further undermine already fragile economic livelihoods of the Kyrgyz people”.

The International Monetary Fund (IMF) in June called for a “speedy and transparent” resolution to the dispute between Kyrgyzstan and Centerra over the mine.●
Serbian “sugar king” becomes banking tycoon

Eldar Dizdarevic in Sarajevo

S

erbank Europe agreed earlier this month to sell five units in the Central and Eastern Europe region to Serbia’s AKI Banka, Gorenjska Banka of Slovenia and Agri Europe Cyprus. The man behind the acquisition of the Russian bank’s regional units is Miodrag Kostic, the Serbian tycoon known as the “sugar king” but who is increasingly moving into the banking and hospitality sectors.

But who is Kostic? The 62-year-old businessman was born in Vrabas, Yugoslavia, in what is now the autonomous Vojvodina province of northern Serbia. He started making money at the age of just 15, carrying bags of cement. He became a member of the Communist Party of the former Yugoslavia two years later, but is a staunch advocate of private business; he famously commented that private is always better than public.

Kostic graduated from the Faculty of Economics at the University of Novi Sad at the Department of Information Technology in 1983, launching his own company the same year, a trade, import-export and manufacturing business. By the mid-1990s this had grown into MK Group, which today employs over 6,000 people across Serbia and Southeast Europe.

This was an era of war and political turmoil in Serbia as the government in Belgrade tried and failed to keep control over the other Yugoslav republics and Kosovo. For a while, Kostic was involved in politics. From 1990, he financed the Reformists, and from 1996 until the overthrow of Serbian dictator Slobodan Milosevic, he was the director general of the Democratic Party of Serbia. “The fight against Milosevic really cost me a lot, both privately and financially and healthily,” Kostic said back in 2004, as quoted by Vreme.

Kostic was a great friend of the late Zoran Djindjic, the former Serbian prime minister who was assassinated in 2003, and was one of the six men who carried the coffin of the assassinated prime minister out of St. Sava’s Church.

After the democratic changes in Serbia, MK Group went from strength to strength. Since 2000, MK Group has managed sugar factories (factories Pecinci, Vrbas, Kovacica), more than ten agribusiness enterprises, trade and warehouse complexes. It was during that period that Kostic earned the nickname “sugar king”.

In the following years, MK Group grew and expanded so that by 2017 the group consisted of 29 companies – among them meat processing company Carnex Vrbas, sugar producer Sunoko, trading company Agroglobe, agricultural company PIK-Becej and others – most of which are in Vojvodina, whose fertile land makes it the main location for agribusiness in Serbia.

As well as adding to the group, over the years Kostic also put efforts into raising corporate governance, which helped the group to secure an equity investment from the European Bank for Reconstruction and Development (EBRD) – the development bank’s first in primary agriculture in Serbia.

“10 years ago, we did not know about corporate governance. It was like a different language. However it is the language that investors speak and so we had to learn it,” Kostic told a conference in 2014.

In recent years, MK Group had expanded its business from agribusiness to wholesale trade, hospitality and banking.

In 2009, the MK Group expanded to the field of tourism and founded the company MK Mountain Resort, which owns the Grand Hotel & Spa on Kopaonik, the main ski resort in Serbia. With the later establishment of the Istrian Hotels MK group, the portfolio of hotels was extended with the 88 Rooms Hotel in Belgrade (later sold to Arena Hospitality Group) and the Kempinski Palace Hotel in Portoroz, Slovenia, minority owned by Budvanska Riviera Hotel in Montenegro, and cooperation was established with the Sheraton hotel chain, opened in Serbia in March 2018. The youngest member of this company is the luxury hotel complex Skiper Resort in Istria.

At the beginning of the pandemic in March 2020, Kostic’s hotel in Novi Sad was handed over to the Milan Jovanovic Batut Institute for Public Health, and MK Group donated to the Institute of Virology, Vaccines and Serums Torlak, which is now producing the Sputnik vaccine. MK Group also helped Croatia after the devastating earthquakes in 2020.

Kostic was a great friend of the late Zoran Djindjic, the former Serbian prime minister who was assassinated in 2003, and was one of the six men who carried the coffin of the assassinated prime minister out of St. Sava’s Church.

After the democratic changes in Serbia, MK Group went from strength to strength. Since 2000, MK Group has managed sugar factories (factories Pecinci, Vrbas, Kovacica), more than ten agribusiness enterprises, trade and warehouse complexes. It was during that period that Kostic earned the nickname “sugar king”.

In the following years, MK Group grew and expanded so that by 2017 the group consisted of 29 companies – among them meat processing company Carnex Vrbas, sugar producer Sunoko, trading company Agroglobe, agricultural company PIK-Becej and others – most of which are in Vojvodina, whose fertile land makes it the main location for agribusiness in Serbia.
mid the global stock market rally as the world recovers from the coronavirus (COVID-19) pandemic, the Bucharest Stock Exchange (BVB) has performed particularly strongly. Not only have its main indices beaten major European and US exchanges this year, it has also seen a flood of new bond and equity listings.

The latest figures released by the BVB show that the exchange’s main index, BET, soared by 29% in the first nine months of the year, while the BET-TR index, which also includes dividends, was up by an even stronger 35.6%. This compares favourably with the performance of the US’ S&P 500 that increased by 14.7% in the same period, and the European index STOXX600, which was up by 14%.

At the same time, there was a 4.2% year-on-year increase in the total trading value for all the financial instruments traded on the BVB to RON13bn (€2.6bn). According to Radu Hanga, president of the BVB, the number of investors active on the exchange went up by close to 30% in the last 18 months. In an interview with bne IntelliNews (listen to the podcast here), he attributes this to a combination of the performance of the BVB and the international environment characterised by high liquidity. “The strong performance of the indices of course creates a lot of positive interest in the Bucharest stock exchange on the local market,” Hanga tells bne IntelliNews.

At the same time, he says, “Globally we live in a high liquidity environment. Central banks started pumping liquidity into the market, interest rates are at very low levels – that’s valid for Romania as well, if we look at retail deposits in banks we see in the last six to seven years there has been double digit yearly growth. We see loan-to-deposit ratios at historic lows. There is a lot of liquidity in the banking sector and at the same time record low interest rates. Ten years ago the interbank rate was at 8%; now it’s at 1.5%. Even after the last rate hike from the central bank, we are still very low in terms of interest rates and we are living in a high liquidity environment, and that creates pressure on investors to diversify, look for alternative investments, and in that context having a stock exchange that delivers that kind of performance creates attractiveness and brings investors into the market.”

A new emerging market

The BVB has benefitted from the elevation of Romania from frontier to emerging market status by FTSE Russell, which came into effect in September 2020. As of September 2021, there were four Romanian companies in the FTSE Global All-Cap – the country’s largest bank Banca Transilvania (TLV), nuclear energy company Nuclearelectrica (SNN), Southeast Europe’s largest oil and gas company OMV Petrom (SNP) and plastics producer TeraPlast (TRP) – while IT company Bittnet (BNET) has been included in the FTSE Global Micro-Cap index.

“That creates more visibility for the Romanian market and also attracts passive investments from investment funds which are following the FTSE indices. We are looking forward to increasing our presence there, we have other companies which are visible on the local market and which deserve to be more visible,” says Hanga.

“The upgrade for our market to emerging market status gives access to local companies for a larger pool of investors. It connects, as we like to say, to a highway instead of a national road … we are sure that part of the performance of the stock exchange is linked to the promotion to emerging market status.”

www.bne.eu
All in all, says Hanga, “We have really had a record year.”

Not only have there been 22 bond issues listed on the exchange since the beginning of 2021, there have also been nine t-bill issues, bringing the fixed income financing through the exchange to a record 1.3bn. On top of this, 19 companies have listed since the beginning of the year with a total capitalisation of around 1bn, 17 of them on the alternative AeRO market as well as two larger companies – One United Properties and Transport Trade Services (TTS) – on the main market.

“If we compare this year with the few last years, we seen an explosion in the number of listings in 2021, higher than in the last five years in total,” says Hanga.

“Looking at the pipeline, we see a lot of deals which are going to come to the market in the coming months and according to public data we collect from the news we see strong interest from local entrepreneurs to come to the BVB.”

As well as Romanian companies, Hanga says “we are looking regionally and we would like very much to support companies from the nearby space to finance themselves.” This has already happened with the listing of Moldova-founded Purcari Winery in 2018. Now Hanga says he sees more companies looking at the BVB as regional hub for financing their growth.

As the AeRO market has become increasingly active – the market capitalisation of all companies listed on the AeRO market now exceeds RON15bn, a 57% y/y increase – the BVB launched a new index, BET AeRO, dedicated to the market in October.

Hanga notes there was a “lot of noise around the AeRO market, a lot of interest in new companies” sparking discussion in the investor space about the need for an index. The index will reflect the liquidity and free float market cap of AeRO companies. It will start with 20 companies, and Hanga forecasts “quite high volatility in terms of the structure of the index”, given the number of new companies getting listed on AeRO.

At the same time, the BVB launched the BET-TRN and BET-XT-TRN as the net total return variants of the existing BET and BET-XT indices, the first indices of this type launched by the BVB.

---

**Emerging markets IT giant Softline sets final offer price in IPO**

**bne IntelliNews**

International digital transformation and cybersecurity solution provider Softline announced the final offer price in its London IPO on October 27. Securities issued in the listing will be set at $7.50 per global depository receipt (GDR).

Shares of the company, which announced its intention to float on September 30, began trading on the London and Moscow stock exchanges on October 27. As a consequence of the offering, Softline now has a total market capitalisation of around $1.5bn. Further funds could be raised through the sale of up to 8mn more shares made available by existing shareholders in an over-allotment option.

Softline’s founder and chairman Igor Borovikov said: “Today is an extremely proud day for the whole company. Softline began as a local software reseller with 10 employees and has grown into a global emerging markets’ IT leader, with a c. 6,000-strong world-class team working in 50+ countries. With the IPO now complete, we are remarkably well equipped to further reinforce our market position while continuing our trajectory of fast and profitable growth.”

Based on the offering price, the company has raised around $400mn in the IPO. Softline plans to use the proceeds of the offering to fund growth, including through its M&A strategy, developed in conjunction with anchor shareholder, DaVinci Capital, which bought into the group four years ago. With the help of a dedicated team which pursues M&A opportunities to diversify the company’s portfolio of strategic assets, it has already completed 16 M&A transactions since 2016. In a recent exclusive interview with bne IntelliNews, Borovikov explained that international growth was central to the company’s model, with a particular focus on emerging markets.

The company, which started in Russia but has its headquarters in London and now operates in over 50 countries, previously became one of the few tech players of Russian origin to issue bonds, placing exchange bonds in October and April 2020, as well as in December 2017.

Borovikov described his company as a consulting group focusing on software asset management in emerging markets, information and IT security, cloud and future datacentre, as well as a digital workplace for corporate clients. It is a Microsoft Global Partner, and serves large clients around the world, including Coca-Cola and Citibank.

bne IntelliNews has been following the story since 2018, when Softline was among the Russian mid-caps expected to IPO in the next two to three years.
From blue chips to green energy, new SPB index reveals the complex tastes of Russian retail investors

Theo Normanton in Moscow

A new index has been launched on the St Petersburg-based SPB Exchange harnessing the surging domestic retail investment market. Trading started on the SPB100 Index, which records the performance of prime stockpicks from Europe, America and Asia in the portfolios of Russian retail investors.

As followed by bne IntelliNews, SPB Exchange, already Russia’s leading platform for the trading of international securities, is also driving a retail investment boom in Russia. Now it will begin to publish the results of 100 of the most popular foreign stocks in the portfolios of Russian investors, according to a press release by the Exchange.

The best of all worlds

Companies represented on the SPB100 index are a diverse mix of industry giants from outside Russia. Main drivers include Chinese titans like Baidu and Alibaba, as well as NASDAQ’s classic FATANG tech stocks (Facebook, Amazon, Tesla, Apple, Netflix and Google). Big pharma and biotech companies will also feature, along with retailers, travel firms and even spaceflight company Virgin Galactic.

The weighting factor of each stock in the index corresponds to its share in the average portfolio of a retail investor who traded on SPB Exchange in the previous quarter. The index can also boast of being well diversified: the top 20 stocks don’t represent more than a 60% share, and each issuer has a concentration limit of 10%. Liquidity was also an important criterion for the index, as Aleksandr Diakovskiy, managing director of the SPB Exchange, explained in a livestreamed launch presentation: “The process of choosing the index was very simple. We took all the stocks traded at our bourse – approximately 1,800 of them – and put them through a fairly strong liquidity filter. The 500 best picks were arranged in order of their size in the portfolio of the average retail investor. The 100 most popular shares make up the SPB100 index.”

To be included in the SPB100, therefore, a stock must have been trading at least 2/3 of the time since the last rebalancing period, and also show a minimum average daily turnover of $50,000 on the SPB Exchange. This is designed to ensure that the SPB100 can accurately reflect real-time changes in the behaviour of investors, with an update every second. In the launch presentation, Jacques der Megreditchian, chairman of the board of directors of SPB Exchange, emphasised that “this is important to all market players, because it allows them to understand where the market is positioned. You can look at individual companies, but if you want a more general picture, this index will be an important aspect of that.”

Surfing the retail investment wave

The ability to easily trade international stocks has opened up a huge new market in Russia. Reforms to capital markets undertaken in 2011 successfully increased domestic trading on Russian exchanges, but they also left a gap in the market. Since the Russian ruble is built into the IT system of the Moscow Exchange (MOEX), traders of foreign stocks are exposed to additional risk through FX fluctuations. SPB Exchange has ironed out this inefficiency by offering foreign securities in exchange for dollars, effectively negating the FX risk at the time of trading. The consequence has been sustained growth of the international stock offering at the SP Exchange. Whereas over 200 foreign stocks can be traded on MOEX, SPB Exchange traded over 1,900 international securities as of June 30, 2021.

In 1H2021, total trading volume on the bourse reached approximately $206bn, representing an increase of 356% from approximately $45bn in 1H2020. In an exclusive interview with bne IntelliNews in July, SPB Exchange’s founder and CEO Roman Goryunov put some of the exchange’s recent success down to the flexibility it offers investors – open for trading 19 hours a day. “The time difference means that the US markets only open in the late afternoon in Russia, and people don’t want to trade only at the end of the day,” said Goryunov.

However, SPB Exchange’s growth has also been supported by a shift in the behaviour of Russian markets. Retail investing has taken off over the last 10 years as ultra-low bank account interest rates have encouraged Russians to invest their wealth in new places. Rising real wages and the appearance of investment platforms driven by fintech solutions (like Tinkoff Invest and SberInvestor) have driven increasing numbers of Russians to give investing a go, and Russia was in the top five countries by global investment app downloads at the
Indeed, countless stories have emerged this year that testify to the increasing influence of retail investors on the performance of stock markets. The popularity of GameStop is a particularly vivid example, although perhaps not an entirely representative one. The SPB Exchange claims to be particularly well positioned to assess the development of the retail investing boom, given that somewhere in the region of 99% of its transactions come from retail investors. For Diakovskiy, the momentum achieved by retail investors coming to the market is “the trend of the decade.”

The bourse will hope that its new index continues to fare as well as it has in the past year, when the profitability of SBP100 was more than 50%, comfortably beating the performance of Russian and international equity indices. The SPB Exchange is expected to hold an IPO this year, and a report by business newspaper Kommersant suggests the bourse could be valued at up to $2.5bn.

Russia’s venture capital market is booming, fuelled by a run of billion dollar IPOs

Ben Aris in Berlin

Russia’s venture capital market is booming as entrepreneurs and business hope to cash in on the international appetite for the rapidly expanding tech sector. Dsight, a Moscow-based business intelligence company with a focus on investment, has just released the English version of its Russian venture report covering the first half of 2021, reports East-West Digital News (EWDN).

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

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

The leading retail players were already investing into their online offering, but the traditional bricks and mortar retailers are now increasingly facing competition from the largest e-commerce players like Yandex, Ozon and Wildberries, which this year became Russia’s largest retailer of any kind and is taking on the established market leaders like children’s good chain Detsky Mir at their own game. At the same time, Russia’s leading banks are snapping up online ventures in a quest to build complete ecosystems that cater to the gamut of customers’ lifestyle needs.

Russia’s retail banking behemoth went as far as to drop the word “bank” from its name and is now rebranded simply as Sber. The competition between all these players has led to an explosion of M&A activity, with startups able to sell to one of the vying incumbents at valuations in the tens and hundreds of millions of dollars.

M&A has also been growing fast, although the after-effects of the start of the pandemic last year weighed on M&A activity in the first half of this year, with the rate of growth in the number of deals slowing somewhat from previous years. The total value of transactions in January-June was up by 16.5% to $17.17bn from $14.74bn a year earlier, according to law firm
AK&M. During this period, 294 transactions were recorded – 38.7% more than in the first half of 2020 (168 transactions). In ruble terms, the amount of transactions increased more noticeably: by 20.4% to RUB1,279.5bn ($17.95bn) from RUB1062.6bn a year earlier, which is due to the fall in the ruble exchange rate, says AK&M.

“However, more transactions worth more than $1bn were concluded in the reporting period than last year – four against three. The largest transaction of the first half of 2021 was the January purchase of Citrix Systems IT company Wrike, a developer of a collaboration platform, from Andrey Filev and Vista Equity Partners for $2.25bn. The second place was taken by the sale in May at competitive auctions of the property of the Antipinsky Oil Refinery, which was acquired by Anatoly Yablonsky’s Rusinvest LLC for $1.51bn. In the third place was the March purchase by the Pipe Metallurgical Company of its competitor – the ChTPZ group – from Alexey Komarov for $1.11bn. Completing the four billion-dollar deals is the May sale by Oleg Tkach and Vladimir Uzun of the largest Russian publishing house of educational literature "Enlightenment" to a consortium of state-owned companies, including Sberbank, RDIF and VEB.Russia, for $1.1bn,” AK&M reported.

In general, assets continue to fall in price. The average value of transactions (excluding the largest ones) decreased by 6.4% to $38.6mn from $41.3mn in January-June 2020, but analysts believe that as the economy recovers the number and value of deals will pick up again, a renewed wave of the epidemic notwithstanding.

At the same time, in the last year Russia’s IPO boom has seen a dozen companies list on international exchanges with billion dollar plus valuations. While tech and e-commerce are predominant, the newly issued stocks from other sectors of the Russian economy are also being snapped up by hungry portfolio investors.

All of this has combined to create a very fertile climate for venture capital, which is on the hunt for projects and is spoilt for choice in the largest consumer market in Europe, populated by a talented, highly educated and entrepreneurial population.

### Venture Capital Rising

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

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

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

This year’s uptick in venture capital deals follows a mild downturn in the actual investments during the epidemic last year. Russia saw a 20% contraction in venture capital investments in 2020, according to Dsight.

Total venture capital investment came in at $703mn in 2020, down from $869mn in 2019, the firm said in a new report. Dsight attributes this fall to the “unpredictability of the pandemic” and “investors’ risk aversion.”

Despite the fall in investment volumes, the number of deals increased 14% from 2019, with a jump in deals registered at both the startup and growth stages. Most activity came in the second half of the year, after the end of the first wave of the pandemic in Russia.

Most investments went into the e-commerce, entertainment and healthcare sectors. Edtech, agrotech and fintech also seem to have taken off during the pandemic, accounting for small overall values but recording fast growth rates.

The pandemic has also catalysed the VC business with new players of all sizes entering the industry as part of a global boom. VC funds are creating a new “unicorn” (a company with a valuation of more than $1bn) on almost a daily basis, reports The Bell. In the first nine months of this year venture capitalists have invested almost $456bn worldwide in startups at various stages in more than 22,800 deals. According to KPMG’s calculations, this is already 64% more in volume and 20% more in terms of the number of transactions than for the entire 2020, and in comparison with nine months of the previous year, the growth is accelerating. In the US VC funds have invested $239bn in the first nine months of this year, a 44% gain y/y. European VC funds have invested €74bn, up 150% more in volume and 65% in value over the same period.

As the enthusiasm for startups grows it now typically takes a startup only one or two years to reach unicorn status, whereas ten years ago it would take multiple rounds of financing over 7-8 years to be valued at $1bn. According to Crunchbase there are now over 1,000 unicorns with a combined valuation of $2.7 trillion.

### Helicopter money boosts stock markets

Both the IPO market and VC business are being partly driven by the unprecedented amounts of liquidity that governments have poured into the global economy in the last two years, a large share of which has ended up in the capital markets.

In the United States alone, $1.4 trillion was pumped into the economy at the height of the crisis in 2020, and another $1.9 trillion in 2021. Since the recent low at the end of February 2020, the Dow Jones index has added 41%, the S&P index 56%, and the NASDAQ 81%.
While Russia’s government spent a very modest 3% of GDP on stimulus the international market has spilled over into Russian stocks too, where the leading RTS index soared this year, gaining over 35% as international investors started bargain hunting. The RTS has been range bound, trading between 900-1,300, since sanctions were imposed following Russia’s annexation of the Crimea in 2014. But this year the index smashed two important milestones, rising to above 1,800 for the first time in a decade and briefly topping 1,900 at the end of October.

With US VC funds alone holding $260bn of free capital to invest the pool of available liquidity, this is enormous and an all-time high.

**IPO driving the excitement**

The ability to float is pulling in more VC funds to the Russian market. Leading e-commerce player Ozon IPO’d in December last year, initially hoping to raise $500mn but closing the deal with a $1.2bn valuation.

And the boom continues. In the first week of November during Russia’s latest lockdown, two Russian companies tried their luck on the American stock exchange: car-sharing firm Delimobil and online real estate company CIAN. These IPOs have only one thing in common: the management of both companies had problems obtaining American visas to travel to the opening ceremony. But that’s where the similarities end. Delimobil baulked at the offer price at the last moment and withdrew its IPO, whereas CIAN persuaded investors to buy at the upper end of the offer price range and closed the deal.

Delimobil largest shareholders, Italian Vincenzo Trani and VTB Capital (VTBC), announced at the end of October that it was going to sell 20mn American Depository Receipts (containing two local shares per receipt) at $10-12 per share that would give the company a valuation of $760-912mn. The order book closed on the evening of November 2, but the next day Interfax, citing sources, said that the deal had been delayed due to a dialogue with “additional” investors and it was later reported that the order book was oversubscribed. On November 4 the company announced that it had decided to postpone the deal to early 2022, citing market conditions. One of the difficulties was that investors perceived Delimobil more as an advanced version of good old car rental than a tech play, a market source who followed the placement told The Bell.

By contrast, CIAN managed to convince investors it was an innovative tech play that enables users to rent and buy real estate online without the need for brokers. Investors highlighted both the scale of the business of the company, which is one of the ten largest real estate services in the world by audience. CEO of the company Maxim Melnikov told The Bell: “Buying real estate is always a very exciting moment, our mission is to make [it] so that for our clients this process is as convenient and fast as possible.”

More recently the company added the possibility of taking out mortgages from one of Russia’s eight large banks, expanding its service to cover the complete transaction, including the funding. The whole real estate purchase and sale transactions can all be concluded online. “It makes life much easier if the buyer is, for example, in Novosibirsk, and the seller is in Sochi,” explains Melnikov.

Investors valued the company at $1.1bn, at the top of the announced price range of $16 per receipt. Trading in the company’s securities opened on the NYSE the next day with gains in the share price.

---

**As lira carnage mounts BBVA moves to snap up rest of Turkish bank Garanti**

**Akin Nazli in Belgrade**

Spain-based BBVA (New York; Madrid; Mexico/BBVA) will apply to Turkey’s capital markets board (SPK/CMB) to hold a voluntary tender offer to buy the 50.15% of Garanti BBVA (GARAN) bank that it does not own, Garanti said on November 15 in a filing with Borsa Istanbul. The move takes advantage of the latest severe depreciation of the Turkish lira (TRY) that has brought the currency beyond 10-to-the-dollar for the first time ever.

BBVA plans to pay up to TRY 26bn (€2.25bn) if all shareholders participate in the tender offer. Its offer will be TRY12.2 per share for a stake nominally valued at TRY2106.3mn. That represents a premium of 15% over the market price recorded at the end of last week.

Garanti operates with a paid-in capital of TRY4.2bn and BBVA currently holds a stake nominally valued at TRY2,903.7mn.

BBVA said in filings with stock exchanges where its shares are traded that it intends to complete the deal in Q1 2022.

Garanti shares stood at TRY10.58 at market close on November 12. They jumped 10% on November 15.
On November 8, it was announced that UniCredit is to sell its remaining 20% in Yapi Kredi.

BBVA’s decision to make an offer for the remainder of Garanti may come across as in conflict with conversations heard on the market, as in recent years there have been plenty of rumours of foreign investors in Turkish banks looking to exit their investments due to the ongoing economic collapse of Turkey. Turks, meanwhile, will be concerned that the descent of the lira means that foreign investors who either stay in Turkey or arrive will be snapping up assets on the cheap.

"Now, more companies will go to the vultures, with the bank’s share at 10 Turkish Lira, getting cheaper in dollars. Garanti is an example of this. It’s called total impoverishment [of the country]," Mustafa Sonmez, a Turkish economist and columnist, complained on Twitter.

In terms of foreign investors leaving, UniCredit pressured Koc Holding (KCHOL), its partner in Yapi Kredi, with the prospect of the sale of its stake on the market. Koc subsequently agreed to gradually buy UniCredit’s shares to avoid further declines in the Yapi Kredi price.

In the case of Garanti, institutional investors had a 39.53% stake in the lender at end-2020. If they were to sell their stake on the market, Garanti’s share price would dive into even more grim territory.

In January-September, Garanti contributed 14% of BBVA’s €3.73bn consolidated profit. For BBVA, world economic prospects have a growing pinkish tinge, with Turkey offering big gains in the long run. Those feeling glum can get a shot in the arm from BBVA’s macro reports should they buy the story.

Italian and Spanish lenders have in recent decades featured heavily in backing the European economy. That was particularly the case after the 2008 global financial crisis. The policy rate of the European Central Bank (ECB) remains in negative territory. As for when the European economy will return to normal conditions, all bets are off. ●
Italy’s UniCredit (Milan/UCG-Frankfurt/CRI-Warsaw/UCG) is to sell its remaining 20% stake in Turkey’s Yapi Kredi Bank (YKBNK), UniCredit said on November 8.

The Italian lender will sell an 18% stake to Istanbul-listed Koc Holding (KCHOL) for €0.3bn at the current exchange rate, while it expects to sell the remaining 2% on Borsa Istanbul.

The deal is expected to be completed in Q1 2022.

The sale will have an overall low-mid single-digit positive impact on UniCredit’s consolidated CET1 ratio while the group will book a 1.6bn loss on the sale. The loss will have no impact on UniCredit’s CET1 capital since it has already been accounted for.

“The deal is coherent with the group’s strategy of exiting areas with low capital returns, high earnings volatility and no active control,” BofA analyst Alberto Cordara said in a note confirming a “buy” rating on the stock, as cited by Reuters.

On November 9, Koc Holding said that it would pay Turkish lira (TRY) 3.49bn ($358.6mn), or TRY2.2980 per share, to UniCredit for the 18% stake in Yapi Kredi.

As a result, Koc’s direct stake in Yapi Kredi will increase to 27.02% and its combined stake will increase to 67.97%, when its 40.95% indirect stake held via Koc Finansal Hizmetler is included.

Since its combined stake will surpass the 50%-threshold, Koc Holding will be obliged to hold a tender call.

A total of 30.03% of Yapi Kredi is listed on Borsa Istanbul and it seems UniCredit will also participate in the tender call with its remaining 2% stake.

The tender call price will be set at a later date, but it will not be below TRY2.3940, namely the weighted average share price across the last 180 days.

Yapi Kredi shares were priced at TRY3.09 at market close on November 9.

Koc Holding may face up to around TRY6.5bn worth of bids in the tender call to be held for the remaining 32.03% stake in Yapi Kredi if all shareholders demand the sale of their holdings.

At end-September, Koc Holding reported TRY68bn (€7bn) worth of cash on its balance sheet, while its market value was around $7bn as of November 9.

At an analysts’ meeting held on Koc’s Q3 financials, there was no mention of the latest Yapi Kredi deal.

In January 2019, Koc Holding and UniCredit each bought $200mn worth of Yapi Kredi’s subordinated bonds in order to dance around a dividend ban and support Yapi Kredi’s capital buffers.

In August 2019, UniCredit essentially said ‘enough is enough’ and pressured Koc Holding with the prospect of the sale of its stake in the market.

In November 2019, Koc and UniCredit struck a deal. Koc has been buying UniCredit’s shares since then.

Since July 2016, when Turkey was hit by a failed coup attempt, consequences of which fuelled an ongoing overall economic collapse, Turkey’s banks have been under political pressure to boost lending.

In 2018, Erdogan’s son-in-law Berat Albayrak became finance minister and tested the limits of political pressure on local lenders.

Since Albayrak’s resignation in November 2020, the banks have enjoyed some relative relief. However, with the latest rate-cutting cycle launched in September there is no guarantee that a drive for growth at all costs before the next elections in June 2023, will not add to the private banks’ difficulties.

The Koc Group companies account for around 6% of Turkey’s GDP.

The Koc family controls a combined 73.34% stake in Koc Holding, a conglomerate founded in 1926, while the remaining 26.46% is listed on Borsa Istanbul.

Since July, Koc Holding has been conducting a share buyback programme to repurchase a stake of up to 1.38%. So far, it has bought back 0.035% for TRY19mn.

The currency crisis that began in 2018 added to the economic collapse process. Following the coronavirus (COVID-19) shock in 2020, the economy has entered a new period of jeopardy.

Since Albayrak’s resignation in November 2020, the banks have enjoyed some relative relief. However, with the latest rate-cutting cycle launched in September there is no guarantee that a drive for growth at all costs before the next elections in June 2023, will not add to the private banks’ difficulties.
Robert Homans in Washington DC

There was an article in the *New York Times* this month entitled “The Crypto Capital of the World – It Has to be Somewhere. Why Not Ukraine?”

The article starts with an introduction to Michael Chobanian, described as the founder of one of Eastern Europe’s first cryptocurrency exchanges – “A buccaneering 37-year-old educated in a British private school, Michael Chobanian is fluent both in English and the folkways of Ukraine, which he regards as a largely lawless frontier and which he likes to traverse in his black Ferrari 612. He is the founder of Kuna, one of Eastern Europe’s first cryptocurrency exchanges. To him, his native country is a terrific place to run a business, as long as you have the nerve to navigate a system rife with corruption.” For someone who has been coming to and observing events in Ukraine for almost 17 years, even though he is Ukrainian, Chobanian seems to me to be part of the latest generation of expats with visions of riches that turn out to be a mirage.

Expats have been coming to Ukraine at least since 1992, when Ukraine became independent. The article states: “Ukraine has already lured some Americans and Brits in the crypto industry, and they didn’t come because they’re sticklers about the rule of law.” Perhaps this characterisation is a bit unfair, but it’s also true that over the years American and British expats have been involved in shady real estate deals, bribing officials to deport a business partner who has become inconvenient, and other activities which, if they were in their home countries, would likely land them in jail.

Some expats who have established themselves in Ukraine have done very well, and they have done so honestly and with the utmost integrity and lived to tell about it. Others have lost everything. By choosing to sit for an interview for this article, in my opinion Chobanian violated a cardinal rule for expats doing business in Ukraine – don’t draw attention to yourself. The article stated that Kuna, Chobanian’s company, has already been the subject of one police raid, it is surprising that he continues to draw attention to himself. In Ukraine, property rights are very limited or non-existent. Private companies that are making money often become targets of oligarchs, businessmen with the proper connections who can launch corporate raids, police inspections, and tax raids to name a few.

Recently a friend of mine, an American, went on vacation with his family to the United States. He lost his business the day after he left Ukraine, to his partner. There are many other examples.

Not long after I first came to Ukraine in 2005, an expat who started a very successful business in Ukraine sat for an interview with the *Kyiv Post*, Ukraine’s only English language newspaper. He said that his ability to navigate through Ukraine’s opaqueness was a comparative advantage, because it serves as a barrier to entry to other expats and foreign companies interested in entering the market. What he didn’t say was that he had had his own share of encounters with the authorities, resulting in raids and confiscation of assets. His ability to navigate Ukraine’s opaqueness was the result of his paying an expensive tuition fee.

Ukraine has a vibrant IT industry. Examples include Grammarly, a company that helps people check their grammar and spelling. Facebook’s original toolbar was developed by Ukrainians working for a US corporation. In many respects, Ukraine’s prowess in IT and the growth of cryptocurrency is a match made in Heaven, or possibly Hell depending on one’s perspective. Because of the lack of property rights, especially intellectual property protections, most of the major IT companies that were established in Ukraine are now incorporated in the United States, the UK, the EU or Cyprus.

In 2015, the year after the Revolution of Dignity, I had a conversation with the head of DHL/Ukraine, who told me of a campaign they started to promote some of their small business customers, including a successful manufacturer of wedding dresses located in Western Ukraine. DHL offered them free promotions of their businesses. Not a single company took DHL up on its offer. None of them wanted to draw attention to themselves, for fear of becoming the target of a corporate or tax raid. The memories of the Yanukovych Epoch were still fresh. That fear has subsided, as evidenced by the manufacturer of wedding dresses being part of a webinar.
The article also interviewed Alexander Bornyakov, Deputy Minister for Digital Transformation. As described in a very snappy video, Ukraine is in the process of digitising interactions between citizens and their government, much like Estonia and Kenya have done. This is an excellent development but, as the article points out, some prefer the status quo – “the country is pushing sunlight and legitimacy to a group of executives who often prefer darkness and quasi-outlaw status.” The ability of an individual to start a business online, to take one example of an interaction being digitised, effectively limits the opportunity for graft.

Ukraine has made great progress, especially in reducing the level of petty graft that directly affects its citizens, but until property rights are strengthened, caveat emptor.

Robert Homans is an international financial sector consultant based in Washington DC and tweets at @rhomansjr.

The Pandora Papers revealed that in 2012 President Zelenskiy’s production company, Kvartal 95, was incorporated in Cyprus. At the time, Zelenskiy had a good reason to incorporate in Cyprus. 2012 was during the presidency of Viktor Yanukovych, a period that a friend of mine, a long-time resident of Ukraine, described as “beyond corruption.” President Zelenskiy likely believed that if his company was successful, it would become the target of a corporate raid by one of Yanukovych’s associates, collectively known as “the Family.” 2012 was the time of the pre-packaged corporate raid, where for say $100,000, one could obtain all the ingredients of a successful corporate raid, including bribed judges, notice for a general meeting, police raids and everything else necessary to steal a company from its owners. A $15,000 pre-packaged Cyprus corporation, including the corporate seal, and an office address, bank accounts, by-laws, etc., at least offered some protection.

---

“A new Dreyfus affair:”
Ilya Sachkov asks President Putin to be transferred from jail to house arrest

Ilya Sachkov, the top cybersecurity businessman who was arrested under charges of “state treason” in late September, has claimed he is innocent and asked President Putin to be transferred from jail to house arrest during the investigation, reports East-West Digital News (EWDN).

Excerpts of his letter to Putin were shared with Forbes Russia by Sachkov's lawyer Sergey Afanasyev.

“I think this is a new Dreyfus affair,” wrote Sachkov, referring to a political scandal that divided France in the late 19th-early 20th centuries. Falsely accused of spying for Germany, Captain Dreyfus was recognized innocent only after a 12-year legal saga.

“I am neither a traitor nor a spy,” continued Sachkov: “I am a Russian engineer. Through my work, I repeatedly proved my loyalty to the Motherland. I very much ask my president, Vladimir Vladimirovich Putin, to allow me to be under house arrest with maximum restrictions during the period of the investigation.”

Sachkov’s mother also wrote a letter to Putin last month. She asked the Russian President to “honestly investigate the case” and release her son.

While stating that the President is the “guarantor of citizens’ rights and freedoms,” the Russian constitution does not grant him any specific power to intervene in legal matters.

Sachkov, who is currently in the Lefortovo pre-trial detention center, feels well, Afanasyev said. He started receiving letters and answers them all, the lawyer added – implying some of the strict restrictions placed on Sachkov’s activities following his arrest have been lifted.

A Moscow court extended Sachkov’s jail term for another three months, until Feb. 28, 2022, while the investigation continues. The businessman could face up to 20 years in prison under the present charges.

This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.
Hungary’s Pegasus spyware scandal takes new twist

A senior official of Hungary’s governing party acknowledged for the first time that the government had purchased Israeli spyware tool Pegasus, which was allegedly used to target journalists, businesspeople and an opposition politician. Under Hungarian law, revealing this information may be a breach of national security.

After a closed meeting of parliament’s national security committee on Thursday, Fidesz MP Lajos Kosa admitted that Hungary’s interior ministry had acquired the spyware manufactured by Israeli cybersecurity firm NSO Group.

Hungarian Interior Minister Sandor Pinter told committee members the security services only used Pegasus with the permission of either a judge or the Justice Ministry.

Opposition MPs said Pinter had refused to say whether journalists or politicians had been targeted by the Hungarian state with the spyware.

The transcripts of the meeting are sealed and classified until 2050.

Speaking to journalists, Kosa confirmed Pinter’s comments, saying the surveillance had been lawful, authorised by the judiciary and/or the Minister of Justice. Kosa has said he finds nothing objectionable about the fact of using Pegasus. He argues that tech giants carry out more extensive surveillance than the state.

The inadvertent acknowledgment by the former Fidesz faction leader and mayor of Debrecen, Hungary’s second-largest city, is an important development in the Pegasus saga since the Orban cabinet has been consistently refusing to reveal any details about the purchase and application of the software that had originally been created to fight terrorism and organised crime.

Investigative news site Direkt 36 broke the story in July as part of an international investigation, which revealed the phone numbers of 300 Hungarians in a database of some 50,000 which may have been targeted. Four journalists of the website were also watched, including Szabolcs Panyi, a well-known reporter with a wide range of sources in diplomatic and national security circles.

The phone of Zoltan Varga, the owner of government-critics Central Media Group, was also targeted when he hosted a dinner party with former ministers and businessmen. Former state secretary of the Orban government Attila Aaszodi was also on that the list of targeted individuals and traces of Pegasus were found on his phone.

Hungary may have acquired the software after Viktor Orban’s national security expert had personally met Israeli PM Benjamin Netanyahu in Israel in 2018.

Pegasus can only be bought with the approval of the Israeli Defence Ministry.

The opposition is sure the software has been in use in Hungary for years, targeting critics of the government.

Officials of the Orban government refused to officially confirm any of the findings of the international investigation. In case any surveillance was carried out, they complied with all rules, government officials said on numerous occasions since the story broke.

The chairman of the national security committee, led by opposition party Jobbik, said that Kosa had disclosed classified information, which is punishable for up to three years. Janos Stummer told online political website Partizan on Sunday that he had seen evidence in August that Hungary has acquired the software, but was not allowed to talk about it without breaking the law.

Stummer believes Pegasus was used against 100 people in Hungary but in his view, it was more important who gave authorisation and on what grounds. Israeli NSO said earlier it had allowed the use of the software on the grounds that it is used to prevent terrorism and crime.

End of November, the US Department of Commerce put NSO on a blacklist of restricted companies responsible for the creation and dissemination of malicious software.●
Banca Transilvania to create digital banking hub with Idea::Bank acquisition

East West Digital News in Moscow

Romania’s biggest lender Banca Transilvania (BT) has reached the closing phase for the acquisition of Getin Holdings' shares in Idea::Bank, Idea::Leasing and Idea::Insurance Broker.

Idea::Bank is the third bank purchased by Banca Transilvania, after Bancpost (2018) and Volksbank Romania (2015).

BT announced the signing of the purchase agreement in June this year, and lately, the bank received the necessary authorisations for the completion of the transaction from the National Bank of Romania and from the Competition Council.

Idea::Bank will become a digital banking hub. All the three entities known under the Idea brand will have new corporate identities.

The new transaction will not only contribute to the Romanian banking sector consolidation but will also convey the affirmation of the new bank as a digital platform with an ESG agenda at all levels, BT said.

“We are happy to supplement Banca Transilvania's ecosystem and capabilities with a new entity that has technology written in its DNA … We are confident that through our endeavours we are groundbreakers on the Romanian banking market and to our clients who are keener and keener for online banking products and services. We are appreciative to the ones who have contributed to the success of this purchase – authorities, financial and legal advisors, and BT’s dedicated team. Likewise, we thank the Getin Holding Group for their trust and cooperation,” said Horia Ciorcila, chairman of the board of directors, Banca Transilvania.

The consultants of Banca Transilvania for the transaction were Barclays Bank Ireland PLC, Filip&Company, EY and Linklaters.

Lithuanian Conservative MP appears in his underwear in virtual meeting

The parliamentary Committee on Governance and Municipalities of the Seimas, Lithuania’s parliament, went a little awry after Bronislovas Matelis, a lawmaker from the ruling conservative Homeland Union party, answered a phone call and stood up from his computer wearing only briefs.

His peers did not seem concerned about his appearance and continued the meeting as normal. The MP told Lithuanian media he had not realised anyone had seen his underwear during the live broadcast call until he was contacted by a reporter.

“Today, at the meeting of the Committee on Public Administration and Municipalities, I appeared as if I was just born and therefore barely dressed,” Matelis wrote on social media after the incident emerged.

“I’m sorry if anyone expected more and more impressive video but was disappointed. I was at my home at the time, doing an exercise and saw it was time to join the meeting. And then one journalist called, I grabbed the phone, asked me to wait for me to vote, then I stood up and went to talk.”

Lithuanian media recalled that this is not the first time a member of the country’s parliament has been embarrassed on a Seimas call. Last year a half-naked man appeared in the background of MP Petras Gražulis’ screen during a meeting of the Culture Committee.
‘Expect less water next year,’ Kyrgyzstan warns downstream neighbours

Ayzirek Imanaliyeva for Eurasianet

To stop Kyrgyzstan’s electricity shortage from becoming a multi-year crisis, Bishkek has warned its neighbours that it must start keeping more water for itself.

After a dry and hot summer, the level at Kyrgyzstan’s Toktogul reservoir, source of around 40% of the country’s power, is lower than it has been in over a decade. Next year Toktogul must be allowed to refill, Kyrgyz Deputy Energy Minister Taalaibek Ibrayev told a meeting of the Electricity Coordination Council of Central Asia in late October.

That will mean less water for farmers and power plants downstream in Uzbekistan, Tajikistan and Kazakhstan. "This situation will not allow the region to successfully get through the growing season next year," Ibrayev was quoted as saying in an Uzbek readout of the conference.

Toktogul can hold up to 19.5bn cubic metres (bcm) of water. At 5.5 bcm, the level is considered “dead” – too low to produce electricity. Currently the reservoir contains 11.8 bcm. The water has not been this low since at least 2008.

Toktogul uses an average of 7 bcm each winter, energy expert Myrzatay Sultanaliyev told Eurasianet on November 5, agreeing with Ibrayev that the reservoir will likely be below the dead level by spring.

Sultanaliyev believes Kyrgyzstan must use more water from the Syr-Darya River, the longest in Central Asia, which begins as the Naryn in Kyrgyzstan’s Tien Shan Mountains. This could “hurt agriculture in neighbouring countries by leading to less irrigation,” he said.

Bishkek began rationing power to businesses earlier this autumn, but more sweeping domestic cuts seem inevitable, probably after parliamentary elections later this month.

President Sadyr Japarov has toyed with the notion of sharply hiking household rates to encourage conservation, but he swiftly changed his mind. As a leader who came to power on the back of public unrest last year, he may have recalled how one of his predecessors, Kurmanbek Bakiyev, was toppled amidst street violence in 2010 fuelled in part by electricity pricing reforms.

Blackouts are already sweeping across Tajikistan, which, like Kyrgyzstan, is mountainous and home to decades-old hydropower dams built by the Soviet Union when the region’s five countries were part of an interdependent unit: Upstream Soviet republics made hydropower in spring and summer, releasing water when farmers needed it; in winter, downstream republics provided gas for heating and power.

Since shortly after independence in 1991, the Central Asian republics have struggled to share, though this year Kyrgyzstan’s neighbours have been helping with electricity transfers – a planned 500 billion kWh from Turkmenistan, 900 million kWh from Kazakhstan and 750 million kWh from Uzbekistan. Also, since October, Kyrgyzstan has reportedly been receiving 1 million kWh per day from Tajikistan. Though Ibrayev’s comments could be read as a strategy to negotiate for more, imports from at least two of those countries are not a long-term solution: Tajikistan is perennially short of power, and Kazakhstan is now plagued by shortages due, in part, to its thriving crypto mining industry.

Local disputes over water have even triggered bloodshed. Last April, in a contested section of the Kyrgyz-Tajik border, villagers came to blows over access to irrigation infrastructure. More than 50 died during fighting, which involved troops from both sides exchanging gun and mortar fire. Kyrgyzstan is now investing in new weapons, including
Companies & Markets

Richard Lockhart in Edinburgh

The COP26 conference finished 26 hours late on November 13, with a last-minute intervention by India watering down the final agreement’s commitment on coal.

The Indian delegate, Environment Minister Bhupender Yadav, in the final hours objected to the agreement’s commitment to “phasing out” unabated coal-fired generation, instead inserting the weaker “phasing down,” into the document.

The coal article also does not set any time limits for an end to coal-fired generation.

India’s action, supported by China, was met with widespread disappointment by a number of country’s delegates, especially from developing and island nations, but the agreement was adopted unanimously, as required, at 8 pm on the evening of Saturday 13.

Critics claim the deal does not go far enough and will prove unable to limit global warming to 1.5C by the end of the century.

Conference chairman Alok Sharma spoke strongly against the intervention by China and India, while also welcoming the entry of coal into a COP agreement for the first time.

India and China will “have to explain themselves to poor nations,” he said.

“We are on the way to consigning coal to history. This is an agreement we can build on. But in the case of China and India, they will have to explain to climate-vulnerable countries why they did what they did,” he said, the Guardian reported.

UK Prime Minister Boris Johnson was bullish, however, saying the deal signed in Scotland “sounded the death knell for coal power.”

Still, Japarov is wagering his country’s future on hydropower: At the COP26 climate summit in Glasgow on November 2, the president promised Kyrgyzstan would stop using coal by 2050. “Renewable energy sources, especially hydropower, will be the locomotive” of Kyrgyzstan’s carbon-free future, he said.

Climate experts blame shrinking glaciers, decreased snowfall and increased water consumption in summer, when temperatures are higher than they used to be – all apparently irreversible impacts of climate change.

And Yadav had said earlier in the day on November 13, saying he disagreed with the language on fossil fuel subsidies and that the draft lacked balance.

“Renewable energy sources, especially hydropower, will be the locomotive” of Kyrgyzstan’s carbon-free future, he said.

Coal emerges down, but not out, from Glasgow

Ayzirek Imanaliyeva is a journalist based in Bishkek. This article originally appeared on Eurasianet.
India may have taken last-minute action to change the wording of the deal, but the country itself is making progress to deal with coal. On the first day of the conference in Glasgow, Indian Prime Minister Narendra Modi announced 2070 as its target date for net zero, and the COP26 agreement is the first time it has signed any agreement about moving away from the fuel.

Crucially, India is the leading developing nation to argue that it needs coal to meet rising power demand and to accelerate economic growth.

“India setting a net-zero target and agreeing to phase down of coal is surely a step forward from where it was in terms of national policies and commitments before arriving at COP this year,” said Sunil Dahiya, an analyst at the Centre for Research on Energy and Clean Air in India.

Dahiya said India’s first step should be to set a target date for peak coal.

“If India formulates a detailed plan for coal phase-down and aggressive renewable energy deployment, they will be on track to diminishing coal capacity and consumption,” he said.

Nicholas Stern, a UK climate economist, was also hopeful about the wider success of the conference and the consensus on 1.5C and moving away from coal.

“The last-minute watering down of this statement is unfortunate but is unlikely to slow down a strong momentum past coal, a dirty fuel of an earlier era,” he said.

**Political lifeline**

Green think-tank E3G said the deal “offers a political lifeline for accelerating action to keep [the] temperature rise below 1.5C and respond to rising climate impacts.”

“The political fireworks over the coal and fossil fuel language on the floor of the plenary show the vital role of coal in climate action”

The think-tank highlighted that while the agreement covered a wide range of issues, coal was the key political issue.

“The political fireworks over the coal and fossil fuel language on the floor of the plenary show the vital role of coal in climate action,” E3G said.

On the other hand, E3G said that the progress made on adaptation and loss and damage was not enough for developing countries. But it failed to offer dedicated finance for loss and damage, and vulnerable countries have agreed to compromise on the understanding that more help will be coming soon, including on loss & damage finance.

“Delivering on their promises in the next 12 months will be key to addressing the disappointment raised by some on the plenary floor that the deal didn’t go far enough. Alongside countries’ pledges on cutting emissions from coal, methane and deforestation and unlocking trillions of dollars of finance, the negotiated deal shows the Leaders’ level politics has shifted. The real test of the Glasgow Climate Pact will be whether finance ministries take the tough decisions over the next 24 months to deliver on the faster action now promised to their citizens.,” said Alex Scott, E3G Climate diplomacy and Geopolitics lead.

**Achievements**

However, despite the final change on coal, there were a number of achievements at the conference,

The agreement has urged governments to improve and republish new Nationally Determined Contributions (NDCs), containing more ambitious emissions reduction targets for 2030, by the end of 2022.

Countries are now expected to bring their NDCs into line with the 1.5C goal at the next COP in Egypt in 2022.

The NDCs now in place after Glasgow would result in 2.4C of global warming in 2011, when compared to pre-industrial temperatures.

Countries are also expected to constantly update and improve their NDCs in years to come.

Meanwhile, the document also stressed that developed countries should increase climate finance for developing countries beyond the current $100bn target.

Meanwhile, the Glasgow Financial Alliance for Net Zero (GFANZ) aligned over $130 trillion in private finance behind net zero.

This commits around 40% of the world’s financial assets to limiting global warming to 1.5C.

The document also called for the “doubling” cash for adaptation, or loss and damage payments to developing countries in order to repair what climate change has already done, such as flooding and drought.

What the world can take away from Glasgow is the now universal acceptance that fossil fuels and CO2 emissions cause global warming, and that the 1.5C target for 2010 is needed. Even India and China have agreed to this principle, even though they forced a climb-down on coal.

Other plusses were a list of agreements on sectoral issues, principally deforestation, ending coal and reducing methane emissions. These contained more definite dates and targets.
23 countries make zero-emissions vehicle pledge

Richard Lockhart in Edinburgh

November 10 was Transport Day at COP26 in Scotland, and parts of the automotive industry had pledged to end the sale of petrol and diesel cars and vans by 2035 in leading markets and by 2040 across the globe.

The new targets aim to accelerate the transition to zero-emission vehicles in a bid to achieve the goals of the Paris Agreement.

A key issue is the difference between developed and developing economies. Developing governments called on developed countries to strengthen the collaboration and international support offer to facilitate a global, equitable and just transition.

The deal was also signed by local and regional authorities and automotive companies and investors. Measures to be taken include making all municipal car and van fleets zero emissions by 2035, while private business fleet owners committed to a target date of 2030 for zero-emission vehicles (ZEVs).

Investors also committed to enabling 100% zero-emission car and van sales by 2035.

The agreement also calls for zero-emission vehicles the new normal by making them accessible, affordable and sustainable in all regions by 2030.

How this will be done requires a wholesale restructuring of the global automotive sector.

The agreements called for sector players to work together to overcome strategic, political and technical barriers, accelerate the production of zero-emission vehicles and increase economies of scale, to make the transition faster, lower-cost and easier for everyone.

The agreement was signed by some major governments, such as the UK, India, Mexico, but crucially not the US, Germany, Japan, Russia or China.

This will substantially weaken the deal and inhibit its ability to achieve major CO2 emission reductions.

Indeed, the transport sector, especially heavy goods vehicles, will be particularly difficult to decarbonise.

The EU’s Fit for 55 package, published in July 2021, aims to reduce greenhouse gas (GHG) emissions across the EU by 55% by 2030, compared to 1990 levels. However, the package projects just a 4% emissions reduction for HGVs between 2019-30.

On the other hand, a number of US cities such as Los Angeles, Atlanta, New York City and San Francisco did sign up.

Volvo, Mercedes, Jaguar Land Rover, General Motors and Ford all signed, but not Volkswagen, Honda or Toyota.

On the same day, the World Bank launched a trust fund that will mobilise $200mn over the next 10 years to decarbonise road transport in emerging markets and developing economies.

Meanwhile, the Zero Emission Vehicle Transition Council (ZEVTC), co-chaired by the US and UK, set out a plan to hasten the transition to zero-emission vehicles.

The UK also pledged to shift to clean trucks by committing to end the sale of most new diesel trucks between 2035 and 2040.

Greenpeace was highly critical of the deal, not least because of the lack of support from major government and automotive manufacturers.

“Transport is one of the biggest causes of global fossil fuel emissions. To keep the goal of 1.5 alive, the final text agreed at Glasgow must commit to phasing out new oil, but we won’t get there if our economies stay stuck in the past, reliant on pumping cars and trucks full of fossil fuels.”

“What’s gravely concerning today is that major economies like the US, Germany, China, Japan and manufacturers like VW, Toyota and Hyundai could not even bring themselves to sign a declaration on electric vehicles that promises less than what’s actually required to maintain climate security,” said Martin Kaiser, executive director of Greenpeace Germany.

Meanwhile, 19 governments have also stated their intention to support the establishment of green shipping corridors – zero-emission shipping routes between two ports.

This will involve deploying zero-emission vessel technologies and putting alternative fuel and charging infrastructure in place in ports to allow for zero-emission shipping on key routes across the globe.
READY FOR WAR AT ANY TIME IN SOUTHERN ARMENIA
Arek Hayrapetyan never intended to be a soldier or to fight in any war. But given where he’s from, being prepared for that is something of a necessity.

At a schoolyard in the small city of Sisian, about four hours south of the capital Yerevan, Hayrapetyan leads a group of two dozen volunteers in nighttime training.

In two columns, the trainees advance forward at Hayrapetyan’s command – hunched over, their wooden practice rifles sweeping across the landscape.

“Spread out! If there was a Bayraktar, you’d all be dead!” he shouts, referring to the Turkish-made armed combat drones that wreaked such devastation on Armenian forces in last year’s war.

As the exercise continues, command is delegated to two participants in the exercise – the ones who will lead them in any real-life combat and the closest this group gets to officers.

“Follow Narek’s command!” Hayrapetyan intones at one of the columns. “In a real war, your lives will depend on him!”

The recruits duly oblige, and for the next 10 minutes the group runs a series of defensive tactical manoeuvres in the moonlight.

This is life in Syunik, Armenia’s southernmost province, which is sandwiched between two parts of Azerbaijan and has been the subject of multiple Azerbaijani incursions in recent months.

Hayrapetyan is a local instructor at a volunteer corps known as VOMA, an abbreviation of the group’s Armenian name that translates as “the art of staying alive”. The semi-official outfit gained fame for co-ordinating groups of volunteers who wanted to aid the Armenian military in its 44-day fight against Azerbaijan in Karabakh last year.

It has since opened offices in all major settlements of Armenia, organising local military and first aid training for volunteers ranging from teenagers to septuagenarians.

For Hayrapetyan, 30, it was necessary to do his part.

“I joined VOMA in January, and received training to be an instructor,” he says. “We are a small country, and enemies are all around us. The mission of every Armenian should be to be a soldier,” he says.

Shortly thereafter, the group’s Sisian branch was opened, with Hayrapetyan as an instructor.

“When the branch here was opened, it had about 70 participants,” Hayrapetyan says. “But there was a big age difference between those interested, so we split it into several groups. The main group, about 25 people, has now been training for about eight months. I can assure you that all of them are now well prepared,” he says.

Aside from military and tactical drills, along with first aid, much of the training consists of fitness regimens.

“The course is quite effective in part because of the amount of physical and strength training incorporated into it,” Hayrapetyan says. “The programme includes marksmanship, physical exercise, alpinism, first aid training and other things. Even during a natural disaster, those who participated will now be able to help,” he adds.

New geopolitical realities

Sisian’s location, and the new geopolitical reality following last year’s war, has reinforced to locals the necessity of military preparations.

Forming a narrow wedge thrusting towards the Iranian border, Armenia’s southernmost province of Syunik is bordered by Azerbaijan on two sides: the exclave of Nakhchivan to the west, and the mainland to the east.

The latter was never a problem before – the First Karabakh War (1991-94)
saw Armenian forces capture the Azerbaijani provinces that lay to Syunik’s east, holding them as a depopulated buffer zone for nearly three decades. During and after last year’s war, however, those regions returned to Azerbaijani control – and with them, Azerbaijani soldiers who have sought to make life along Syunik’s borders as difficult as possible.

Problems began in earnest this May, when Azerbaijani troops advanced across the newly relevant border as the snows melted and occupied Armenian territory around a lake known as Sev Lich, about 15 km northeast of Sisian.

In other areas, Azerbaijan blockaded roads whose paths crossed the haphazard Soviet-drawn border, and Azeri servicemen seized cattle from shepherds whose herds wandered too near the boundary.

Then, more recently, fighting erupted. Using artillery and armoured vehicles, Azerbaijani troops launched an assault across the border on November 16, just 10 km north of Sisian. Heavy fighting ensued that left dozens of casualties and prisoners in the worst clash since last year’s war.

The sound of artillery shelling, audible in Sisian itself, spurred more locals into action.

“We heard the bombing from Sisian, but not everyone realises the seriousness of the situation,” says Gevorg Asatryan, 69, a retired bank manager who joined VOMA in March.

“We must immediately become a nation-army, and the country must become a fortress,” he says. “Unfortunately, only strength can guarantee peace. And those who want peace must always be ready for war,” he adds.

Another volunteer, two generations his junior, echoes these thoughts.

“I was interested in these courses because I like military life, and I always wanted to be a soldier,” says Basentsi Azoyan, 15. “My father was a soldier, and his father as well. I’m too young still to fight but I want to help however I can and be ready when the time comes. It’s a war situation, and we have to be ready” he says.

The trainings are not gender exclusive: plenty of women are participating as well.

Katya Babayan, 37, is a medical assistant and certified first aid trainer in her day-to-day life. She left her job and joined VOMA full-time this summer after realising her skills were needed.

“The physical regimen was very demanding at first. My whole body was sore,” she says, describing the rigorous exercise programmes involved in VOMA trainings. “Now I teach [the volunteers] how to stop bleeding, apply pressure bandages, safely revive the unconscious – all things necessary not only on
the battlefield but in everyday life,” Babayan says.

These sorts of training programmes, while expanded in scope in recent months, have long been present in Syunik, where seemingly nearly every man is a veteran of one conflict or another.

Syunik is one of the strongholds of the Yerkrapah veterans’ organisation, a political and paramilitary group that played a large role in Armenian politics in the 1990s. The group has regularly organised its own trainings as well as directing local manpower to aid the army in Karabakh in times of war. They also occupy positions on the border, aiming to bolster the military’s capabilities of their own volition.

Fighters from Sisian have regularly borne the brunt of casualties when the conflict flares up, too.

In April 2016, a group of volunteers from the town headed to Karabakh on the second day of fighting in what became known as the ‘Four Day War’. The day after arriving, they were arrayed in a rear area awaiting commands on where to deploy when they noticed a strange craft circling overhead. Minutes later, it picked up speed and descended towards them, slamming into their group in one of the first documented uses of a ‘suicide drone’ – in this case, an Israeli-made IAI Harop, an ominous precursor to the hundreds of casualties such drones would cause in autumn 2020.

**Devastating drones**

Those 2016 losses would be repeated on a greater scale in last year’s war.

Hasmik Azoyan, a local hotel owner, tells that Sisian suffered the most dead of anywhere outside of the capital Yerevan in autumn 2020.

“We lost at least 80 dead, maybe even 90, as there are still some missing,” Azoyan says. For a city of barely 12,000, that was more than enough to ensure everyone knew at least one of those killed.

Azoyan’s own husband is a veteran, as with so many other Sisian men.

“Already on the 14th, we were expecting something to happen following the tensions in Artsakh [the Armenian name for Karabakh],” Azoyan says. “My husband told me to get his uniform ready, but the army managed to contain [the Azerbaijani attack] on its own,” she says.

The terrors of 21st-century warfare, with its devastating drones, is a lesson Sisian’s residents have learned early – and one they continue to take heed of.

“We are always ready in spirit, but it’s not enough,” says Azoyan. “You need training – even participating in the last wars is not enough. The changes in military technology happen so fast, as we saw last year. It’s like we were fighting with swords against Bayraktars,” she says.

Meanwhile, the exposed geographic position of Sisian – situated just 15 km from two different Azerbaijani borders – looms large in people’s thoughts.

“We are like a bone in the throat of Turkey and Azerbaijan and their pan-Turkic plans,” Azoyan says. “They make it clear enough by their maps that they want this land.” And for locals, the fate of the parts of Karabakh seized by Azerbaijan last year provides cold comfort.

“We hosted about 100 refugees from Artsakh last year,” says Azoyan. “There was one man among them last year who kept saying, ‘they won’t stop with [Karabakh]. If they beat us, they’ll come for Syunik’. Maybe he was onto something.” ●
Poland must remove its "unlawfully established disciplinary regime" for judges in order to receive money from the EU’s pandemic recovery fund, the European Commission President Ursula von der Leyen said on October 28.

Poland and the EU are feuding over the former’s judiciary reforms, which, Brussels says, undermine the independence and impartiality of the judges and thus the EU’s very fundamental principle of rule of law.

Poland opposes that view, saying that the EU is usurping power in an area that is member states’ sole competence.

Warsaw has ignored a number of rulings of the Court of Justice of the European Union, which enraged the EU.

Brussels is going to hold up billions of euros from the recovery fund unless Poland complies, von der Leyen said.

“Poland must remove its unlawful disciplinary regime for judges or it will get no EU funds,” said von der Leyen on October 28.

“We want … a clear commitment to dismantle the disciplinary chamber [of the Supreme Court], end or reform the disciplinary regime, and reinstall judges,” the Commission president said.

“I think it’s doable I hope that we will reach an agreement but the reform
part is conditio sine qua non,” von der Leyen added.

Poland stands to receive €36bn in grants and loans from the recovery fund. The money is the backbone of the government’s so-called “Polish Deal,” a wide-reaching investment plan. That, in turn, is a major part of the government’s strategy to win the third term in office in the election due in 2023.

The CJEU on October 27 fined Poland €1mn a day for not dismantling the disciplinary chamber of the Supreme Court. Poland says it is not going to pay because the court’s order was “unlawful”, Deputy Justice Minister Sebastian Kaleta tweeted in reaction.

Kaleta referred to a ruling by the government-engineered Constitutional Court, which said in early October that the articles of the Treaty of the European Union (TEU) pertaining to judiciary matters are incompatible with the Polish Constitution.

In a related development on the same day, the European Network of Councils for the Judiciary (ENCJ), an organisation of EU bodies representing judges, voted to expel Poland’s National Council of the Judiciary (KRS).

The KRS is Poland’s judge-appointing body that was overhauled by the government amidst concerns that the overhaul served to secure the executive branch’s influence on who becomes a judge, possibly a lenient one.

The ENCJ suspended the KRS in September 2018, stripping the Polish body of its voting rights and excluding it from participation in ENCJ activities.

“The KRS does not safeguard the independence of the judiciary, it does not defend the judiciary, or individual judges, in a manner consistent with its role as guarantor, in the face of any measures which threaten to compromise the core values of independence and autonomy,” the ENCJ said in a statement.

Poland moots plans to make its army one of Nato’s largest

Poland plans to more than double the size of its military to at least 250,000 troops, the country’s defence ministry said on October 25.

The plan is the new initiative of Poland’s radical rightwing government led by Law and Justice (PiS) and would make the Polish Army one of the largest in Nato.

“If we want to avoid the worst, which is war, we must act according to the old rule ‘if you want peace, prepare for war’,” said Jaroslaw Kaczynski, Poland’s deputy prime minister responsible for security, and the de facto top decision-maker in the country as the chairman of the Law and Justice (PiS) party.

Other than enlarging the army, the plan – set out in a new draft bill dubbed “On Defence of the Fatherland” – assumes stepping up the modernization of the armed forces, and increasing the size of the so-called Territorial Defence, a kind of paramilitary service for civilians, to 50,000.

Kaczynski and Defence Minister Mariusz Blaszczak did not provide an estimate of the timeline for the changes nor how much they would cost.

The politicians only said that the project will be paid for by the Armed Forces Support Fund, which will be financed from the issuance of Treasury bonds, as well as bonds issued by the state bank BGK, and from the profits of the National Bank of Poland.

The financing structure will be similar to the one used by the government to keep the economy afloat during the worst of the COVID-19 (coronavirus) pandemic, Blaszczak noted.

The opposition has railed against the plan as unrealistic and taking ever more state spending outside of parliament’s control.

Poland has long been one of the few Nato member states that spend the alliance-recommended 2% of GDP on defence. Since Russia’s annexation of Crimea from Ukraine in 2014, Poland has grown wary of the need to beef up its military potential.
Joe Biden leaves out Hungary from list of participants in US Democracy Summit

bne IntelliNews

US President Joe Biden has invited some 110 countries to a virtual summit on democracy from December 9-10, the US State Department announced on November 24, but Hungary is not among these countries. Viktor Orban is the only premier among the EU member states not taking part in the two-day event.

During the election campaign, Joe Biden promised to convene a summit of governments and civil societies who want to take action against the decline of democracy and human rights.

The Democracy Summit, which will be held by video conference, will focus on combating authoritarian regimes, fighting corruption and promoting human rights. China, Turkey and Russia are also missing from the list of participants. The majority of invitees, 77 countries, rank as “free” or fully democratic, according to Freedom House’s 2021 report, while another 33 invitees rank as “partly free”.

Hungary was ranked partly free in the Freedom House’s latest report. The country was among the top 10 registering the steepest decline of freedom in the last 10 years, falling 21 points.

The United States is inviting countries to the Democracy Summit that are setting the bar high for themselves and others in terms of renewing democratic values, policies and institutions, Under Secretary of State for Civilian Security, Democracy, and Human Rights in charge of organising the online meeting Uzra Zeya told leftist newspaper Nepszava in a telephone interview.

Poland was invited despite serious concerns about the rule of law and the ongoing disputes with the European Commission over the rule of law. Zeya deflected all questions about the invitees.

Joe Biden’s election victory a year ago was bad news for Viktor Orban, who was the first to come out in full support of Donald Trump in 2016 and last year he put his bet on the incumbent, saying he had no plan “B” should the Democratic candidate win.

During his election campaign last year, Biden cited Hungary in his criticism of his predecessor Donald Trump’s foreign policy.

“You see what’s happening from Belarus through Poland and Hungary and the rise outside “interference” including from the United States in the 2022 election, which promises to be a tight contest that could see the radical rightwing premier’s defeat.

“That will happen, we are not worried about it, we are prepared for it,” Orban said in an interview with Fox TV anchor Tucker Carlson, when asked if he was worried about “international interference” in the election.

Carlson was one of the honoured guests of a three-day conference of conservative

“You see what’s happening from Belarus through Poland and Hungary and the rise of totalitarian regimes in the world”

of totalitarian regimes in the world,” Biden said last year. "Our current president supports all the thugs in the world."

Orban said openly on numerous occasions that he is “prepared” for outside “interference” including from the United States in the 2022 election.

Prime Minister Viktor Orban (right) told Fox TV anchor Tucker Carlson (left) in August that he was “prepared” for outside “interference” from the United States in the 2022 election.
The Hungarian government has repeatedly accused billionaire George Soros of plotting to destabilise the continent by allowing millions of migrants to settle. Viktor Orban’s illiberal government has waged ruthless campaigns against Soros not just in the 2018 election campaign but since the start of the migration crisis in 2015. Orban has demonised the liberal philanthropist – seen as the illiberal Hungarian prime minister’s public enemy no. 1, which has gained him immense popularity and a third supermajority victory in April 2018.

The bill defined the promotion of illegal migration as an organised activity that illegally helps a person not in danger of persecution to submit an asylum request or to obtain a title of residence. People found guilty of financially supporting illegal migration face criminal prosecution and one year of imprisonment.

The ‘Stop Soros’ law also called on NGOs that "support migration activity" to register with the Hungarian tax office and pay a 25% levy. Later that clause was withdrawn.

The CJEU also found that Hungary had failed to respect EU rules when its authorities rejected an application for asylum because the person had arrived from another EU member state where their life or well-being was not in danger.

Human rights group Amnesty International welcomed the verdict, saying it “sends an unequivocal message that the Hungarian government’s campaign of intimidation, targeting those who stand up for the rights of refugees and asylum-seekers, cannot and will not be tolerated”.

Hungary’s position on migration "remains unchanged”, the government’s international spokesman Zoltan Kovacs said after the ruling.

"Criminalising such activities impinges on the exercise of the rights safeguarded by the EU legislature in respect of the assistance of applicants for international protection"
Bulgaria reveals how millions of euros were siphoned off from Hemus motorway construction

Denitsa Koseva in Sofia

Around BGN60mn (€30.7mn) paid in advance for the construction of Lot 5 of Bulgaria’s Hemus motorway was transferred to shell companies and then exported from the country in bags and sacks, caretaker Interior Minister Boyko Rashkov said on November 5.

A day earlier, the arrest of more than 10 people suspected of involvement in stealing money paid in advance for the construction of the motorway was announced.

At a press conference on November 5, Rashkov said that the BGN60mn was part of a BGN84mn payment in advance for the construction of Lot 5. He explained that this was just one case of siphoning of funds from the construction of the motorway.

According to Petar Todorov, secretary of the interior ministry, the money was transferred to shell companies registered just days before the money was paid. Their owners were the subjects from one of the shell companies in 23 operations between June and September. BGN12mn was withdrawn from another shell company within six days at the end of 2020, BGN20mn

“All the shell companies had capital of BGN2 and were officially owned by people with no assets and with criminal files”

of criminal files, and signed letters of attorney at a cafe. Other people then withdrew the money in cash, taking BGN1mn at a time.

Plamen Tonchev, the head of the national security agency, said that BGN12mn was withdrawn in cash between end-October 2020 and mid-January 2021 from a third company and BGN13mn from a fourth.

All the shell companies had capital of BGN2 and were officially owned by people with no assets and with criminal files. They had no equipment
or personnel. Some employees had been appointed a few days before the money transfers, and then dismissed and appointed to another shell company. The companies had no revenue other than the sums transferred for the construction of the Hemus motorway stretch.

BGN84mn was paid in advance to the company Vodno Stroitelstvo-Blagoevgrad under a contract signed with the state-owned company Avtomagistrali. Radio Free Europe has reported that, according to its unofficial information, the company’s owner, Viktor Velev, was among those arrested.

Todorov also said that the authorities had information on November 3 that the participants in the scheme were preparing to destroy documents proving the criminal activity so the police decided to quickly arrest them.

The BGN84mn was paid by Avtomagistrali at a time when even the route of the Lot 5 stretch had not been decided, caretaker Deputy Regional Development Minister Ivan Shishkov said. The government only decided to initiate the procedure to select the route in the last few days, but the money was paid in 2020.

Another section of the motorway – Lot 4 – also did not have the proper documents allowing the start of its construction. However, Avtomagistrali paid for that section in advance as well, the head of the state construction supervision Vladi Kalinov said.

At the end of October, the interior ministry, the National Revenue Agency and the Agency for State Financial Inspection raided the offices of Avtomagistrali, seizing documents and computers related to the Hemus motorway construction.

On October 4, Rashkov accused former prime minister Boyko Borissov of being involved in the theft of money paid for the construction of Hemus motorway. Rashkov said the funds were transferred via a bank (still unnamed) whose owner had joint ownership in companies with Borissov.

---

**German MEP urges Albania to stop “mass killing” of street dogs**

**bne IntelliNews**

German MEP Martin Buschmann has urged the Albanian authorities to stop the “mass killing” of street dogs, raising the issue of the treatment of animals in the country in the context of its quest for EU membership.

Albania has been an EU candidate country since 2014, but has so far failed to progress to starting membership negotiations. The country’s progress is coupled with that of neighbouring North Macedonia – which has been held back by a bilateral dispute with Bulgaria – and several West European EU members also have their own issues with Albania, in particular concerning drugs and crime.

"Albania is close to the beginning of negotiations with the EU ... However, the legitimate question has to be asked whether Albania even meets the criteria for joining. The country continues to struggle with an exhausting reform process," the MEP wrote in a lengthy Facebook post.

"As a candidate for membership, Albania must also follow the EU regulations in animal protection."

He pointed to an order from the mayor of Tirana to resume mass sterilisation, claiming this was followed instead by “a legal mass murder” of dogs. “The animals are captured and not sterilised in public institutions, but killed by acid injection. Their dead bodies are then disposed of at the municipal dump. We have to assume that thousands of street dogs have died [in] this cruel way in recent years,” Buschmann wrote.

"How will the prospects of the start of the entry negotiations with Albania be influenced by the fact that Albania seems to be missing any minimum standards in animal protection,” he wrote.

Animal Rescue Albania revealed earlier this year, in a video posted on social media, that street dogs are being given lethal injections in Tirana, which sparked a protest in the Albania capital. Media outlet CNA.al has estimated that around 10,000 stray dogs could have been killed in the Albanian capital in the last few years.

After Buschmann’s appeal, Animal Rescue Albania issued a new statement saying that municipalities in other Albanian cities also kill stray dogs by poisoning or shooting them.

"In the capital, Tirana, municipality employees take the dogs from streets with the excuse of ‘sterilisation’ and kill them, as shown in the video taken from hidden camera. They put the bodies of killed dogs inside black plastic bags and in the end throw them to the Sharrail landfill,” it wrote. "The municipality of Pogradec keeps the dogs tied up and lets them starve without any food or water until they die. This happens every day.”
Local media have suggested that Rashkov was referring to Tsvetelina Borislavova, owner and chairman of the board of the Bulgarian-American Credit Bank. Borislavova was allegedly in a relationship with Borissov in the past. However, there has been no confirmation of these suggestions so far. Borissov has denied Rashkov’s claims, threatening to sue him.

**Years of accusations**
The Hemus motorway’s construction – one of the top priorities of Borissov’s three governments – has been marred by controversy and accusations of corruption for years.

When completed, the motorway will connect the capital Sofia to the Black Sea city of Varna, a distance of 420 km. Construction of the first section started back in 1974, but work stalled in the final years of the communist era, only to resume in the late 1990s. By the time Bulgaria joined the EU in 2007, just 170 km of the motorway had been built. After that, progress continued to be patchy as several tenders for various stretches were cancelled either by the government or by the courts following objections from failed bidders.

Rumours of corruption in the construction process have also been circulating for some years. Back in January, Hristo Ivanov, one of the leaders of Democratic Bulgaria, said his formation would inform the European Commission about large-scale corruption related to the construction of Hemus, estimated at €2.6bn.

However, it was only when the first caretaker government under Prime Minister Stefan Yanev took office that action was taken; his government launched in-depth investigations into numerous cases of suspected corruption, including the construction of Hemus.

In June, Minister of Regional Development and Public Works Violeta Komitova revealed that in-house procedures for granting contracts worth millions were used for the strengthening of 84 landslide defences and for the construction of the Hemus motorway.

Her ministry said at the time that Avtomagistrali had paid more than BGN180mn to subcontractors in advance for works that had not progressed, or did not begin at all six months after their deadlines.

According to Komitova, the previous government led by Borissov secured BGN3.71bn for the construction of the Hemus motorway. Avtomagistrali granted BGN976mn to 45-50 companies in advance for future construction works.

Some of the sections, for which advance payments were made, need to be re-designed as currently they go through landslides, protected areas and areas with construction risks.

Komitova added in September that illegal construction works were carried out on three sections of Hemus motorway as no construction permits had been issued.

---

**BALKAN BLOG:**

The Croatian town selling houses for 13 eurocents

Clare Nuttall in Zagreb

A small town close to Croatia’s border with Hungary made the headlines this summer when it offered houses and building plots for just HRK1 (€0.13). The municipality of Legrad launched the measure to try to persuade young families to settle there; people can take advantage of the offer provided they are aged under 40 and commit to staying for at least 15 years.

Legrad’s population has approximately halved over the last century to around 2,250. It wasn’t always a border town in decline. Before the Austro-Hungarian Empire was defeated in the First World War and carved up, Legrad was a thriving market town, benefitting from its location at the confluence of the Mura and Drava rivers.

"After the Austro-Hungarian Empire fell in 1918 we became a border town. The border was closed, there was no merchandising and nobody was happy in our village," the town’s mayor, Ivan Sabolic, told *bne IntelliNews* in a Zoom interview. Even the railway station built in the 19th century was lost, as when the borders came down it was on the other side of the Drava in what is now Hungary.

Worse came with the Second World War, when many of Legrad’s Jews were taken to concentration camps, and afterwards the Iron Curtain separated non-aligned Yugoslavia from Hungary. Even now, while Croatia, is an EU member, it is not yet part of Schengen. Prime Minister Andrej Plenkovic says Croatia hopes to join the borderless area in 2022. This would open up access to Schengen members Austria, Hungary and Slovenia, all within 80 km of Legrad.

“We believe that when we get into Schengen the situation will change, because only the river divides us from Hungary and we have a lot of connections with Hungarian people, Slovenian people, Austrian people … after that I believe the communication with other people in our region all be better and easier, and I hope we will get new inhabitants,” says Sabolic.

**Two problems to solve**

Meanwhile, the municipality is doing everything it can to persuade young people to stay and start their families and encourage others to move to Legrad.
Currently, the town has two problems, explains Sabolic. “First, we have a lot of houses and building lots owned by the municipality,” he says, citing the associated maintenance costs. Under Croatian law if a person dies with no successors or their successors renounce the inheritance because of debts, ownership passes to the municipality or city authority. Most years, five to 10 properties pass into the ownership of the municipality in Legrad each year.

“Secondly,” says Sabolic, “We lack population here, we lack workers, so we tried to talk to get new people to come to our municipality.”

The municipality uses various incentives to bring people to live there. First, there is the sale of houses or plots of land for HRK1, a scheme similar to that launched by some small towns in Italy also looking to revive declining populations. Alternatively, people who buy homes or land from a third party can get a HRK35,000 grant to renovate them.

The first measure has brought 30 people to the town, while around 100 people took advantage of the second. “We are very satisfied, because we now have many more people in our municipality in just one year,” Sabolic says.

The mayor points out that while some came from as far afield as Pula or Slavonia, more than 200 km away, to start a new life in Legrad, not all are newcomers to the town. They also include, for example, young couples moving out of their parents’ homes to start their own family.

A nationwide problem
Some other municipalities have taken note of Legrad’s efforts, but according to Sabolic they have tended to cherry-pick parts of it such as extending bringing in workers from as far away as India and more recently Nepal – though most see Croatia as only a temporary place to work, not a permanent place to settle. On the other hand, companies from Germany come to the area to recruit Croatians for jobs in Germany.

“Irrespectively of the labour market stability during the crisis, it is evident that mismatches in the demand and supply of labour will continue to be present in some core industries. The government has already relaxed the rules on entry of foreign workers when related to skilled labour. The tourism industry was struggling even before the pandemic because it was not possible to satisfy demand locally,” Victoria Zinchuk, European Bank for Reconstruction and Development (EBRD) director for Croatia, told bne IntelliNews.

“If Croatia wants to retain a highly skilled workforce in the long term, it will need to create opportunities for higher value-added industries and services,” Zinchuk added.

“For me personally, in addition to enabling a better business environment, the priorities are to provide kindergartens, schools, hospitals and care for the elderly. Fundamentally, this basic infrastructure needs to be in place in order to allow young families to settle down, work, invest and promote the growth in the country.”

Located near to the industrial cities of Koprivnica and others in Mejemuru County, Legrad has a low rate of unemployment. According to Sabolic, there are a lot of working places for people who want to come to the area, so many, in fact, that local companies have employed recruitment agencies who are

“Currently, the town has two problems, says Sabolic. “First, we have a lot of houses and building lots owned by the municipality,” he says, citing the associated maintenance costs. Under Croatian law if a person dies with no successors or their successors renounce the inheritance because of debts, ownership passes to the municipality or city authority. Most years, five to 10 properties pass into the ownership of the municipality in Legrad each year.

“Secondly,” says Sabolic, “We lack population here, we lack workers, so we tried to talk to get new people to come to our municipality.”

The municipality uses various incentives to bring people to live there. First, there is the sale of houses or plots of land for HRK1, a scheme similar to that launched by some small towns in Italy also looking to revive declining populations. Alternatively, people who buy homes or land from a third party can get a HRK35,000 grant to renovate them.

The first measure has brought 30 people to the town, while around 100 people took advantage of the second. “We are very satisfied, because we now have many more people in our municipality in just one year,” Sabolic says.

The mayor points out that while some came from as far afield as Pula or Slavonia, more than 200 km away, to start a new life in Legrad, not all are newcomers to the town. They also include, for example, young couples moving out of their parents’ homes to start their own family.

A nationwide problem
Some other municipalities have taken note of Legrad’s efforts, but according to Sabolic they have tended to cherry-pick parts of it such as extending bringing in workers from as far away as India and more recently Nepal – though most see Croatia as only a temporary place to work, not a permanent place to settle. On the other hand, companies from Germany come to the area to recruit Croatians for jobs in Germany.

“Irrespectively of the labour market stability during the crisis, it is evident that mismatches in the demand and supply of labour will continue to be present in some core industries. The government has already relaxed the rules on entry of foreign workers when related to skilled labour. The tourism industry was struggling even before the pandemic because it was not possible to satisfy demand locally,” Victoria Zinchuk, European Bank for Reconstruction and Development (EBRD) director for Croatia, told bne IntelliNews.

“If Croatia wants to retain a highly skilled workforce in the long term, it will need to create opportunities for higher value-added industries and services,” Zinchuk added.

“For me personally, in addition to enabling a better business environment, the priorities are to provide kindergartens, schools, hospitals and care for the elderly. Fundamentally, this basic infrastructure needs to be in place in order to allow young families to settle down, work, invest and promote the growth in the country.”
The biggest problem for Montenegro’s government is not its highly antagonistic relationship with President Milo Djukanovic and the opposition Democratic Party of Socialists (DPS), but the deep divisions within its own ranks.

Able to move swiftly on issues that unite its members – such as tackling organised crime and sacking DPS-era appointees from the civil service and judiciary – it has been hamstrung by the different agendas of the ruling coalition members when it comes to making the reforms needed to move towards EU accession. That was reflected in the latest EU enlargement report, which pointed to a lack of progress and some backsliding.

The current government led by Prime Minister Zdravko Krivokapic came to power in December 2020, four months after the August general election finally put an end to the 30-year monopoly over Montenegrin politics enjoyed by Djukanovic’s DPS, before and after the tiny country declared its independence from its union with Serbia in 2006. Krivokapic appointed an almost entirely technocratic government that was backed by three formations – For the Future of Montenegro, Peace is Our Nation and Black in White – each comprising various small parties and coalitions. Their political orientation ranges from the hardline pro-Serbia, pro-Russia Democratic Front and Movement for Changes led by Nebojsa Medojevic – a vocal supporter of Donald Trump and other far-right politicians, who has blamed the coronavirus pandemic on satanists and ‘deep state’ paedophiles – to the progressive United Reform Action (URA) civic movement, whose leader, Deputy Prime Minister Dritan Abazovic, was the only party leader accepted by Krivokapic into his cabinet.

Krivokapic himself is a former university professor who entered politics after the DPS took the fatal misstep of taking on the powerful Serbian Orthodox Church with the adoption of the controversial ‘church law’ in late 2019. He led the newly-formed NGO We won't give up Montenegro, set up by academics and intellectuals to support the Serbian Orthodox Church, later joining the For the Future of Montenegro alliance alongside the Democratic Front and smaller rightwing populist parties. Yet two months after the summer 2020 election he acknowledged that a government including ministers from the Democratic Front would lose credibility among international institutions; the party is now trying to oust him from office.

Exceeding expectations
The diverse make-up of the coalition and the widely diverging agendas of its members led analysts to speculate last year that it would be short-lived and able to achieve little. Yet such prognoses proved to have underestimated the coalition, or at least the strength of the glue holding it together, namely its members’ fierce opposition to the DPS and determination to keep the former ruling party out of power. Moreover, when it came to the issues that did unite its members, the government moved swiftly.

One of the first actions it took was to scrap the DPS’ church law. The amendments, which were expected after the change of government in 2020, were aimed at removing the articles that provoked objections from the Serbian Orthodox Church and led to increased tensions between Podgorica and Belgrade. According to its critics, the law aimed to strip the Serbian Orthodox Church of hundreds of religious sites in Montenegro, including medieval monasteries and churches.

A less politically sensitive but even more pressing issue for the new guard in Podgorica was tackling the dire state of the economy, after the collapse of tourism in 2020 resulted in the deepest contraction of any emerging Europe economy. The finance ministry immediately issued a €750mn eurobond, which Finance Minister Milojko Spajic claimed had saved the country from bankruptcy. It did, however, take months to get the 2021 budget approved by all members of the coalition – a harbinger of the divisions to come later in 2021.
More recently, it has drafted a roadmap on the transition to becoming carbon neutral, setting a goal to reduce carbon emissions by 35% by 2030, and adopted the ambitious Europe Now plan, a set of reforms aimed to hike wages and lower taxes for people and companies with lower incomes.

There have also been well published efforts to tackle organised crime, including the seizure of the largest haul of cocaine ever found in the country.

“It’s still early days, of course, but there have been some notable achievements. Though their successes have been relatively modest, they have done well to mitigate against the worst impact of the economic crisis fuelled by the Covid pandemic and in tackling organised crime, evidenced by the seizure of 1.4 tonnes of cocaine near Podgorica and the arrest of the leader of the Kavac clan, Slobodan Kascelanmm,” Kenneth Morrison, professor of modern Southeast European history at De Montfort University and author of Montenegro: A Modern History, tells bne IntelliNews.

Going too far?
The new government has also been delving into suspected corruption under former DPS-led governments, including in connection to the Bar-Boljare motorway construction, a project that pushed Montenegro’s debt up to the extent that the new government had to appeal to Brussels for help when its first loan repayment to Chinese Exim Bank became due. The capital investment ministry recently revealed that two separate studies by UK consultancies both put the cost of the project considerably below the €724mn plus €38mn paid so far.

Local anti-corruption NGO MANS has many times voiced concerns about the project, claiming it has created room for corruption and lacks transparency, and the project has also run into controversy over its environmental impact on the Unesco-protected Tara river.

The capital investments ministry has also notified prosecutors of several other cases of possible corruption and complained that prosecutors have not taken any action so far.

More controversially, the government has made several efforts to overhaul the judiciary, including efforts to remove chief special prosector Milivoje Katnic, the man who led the investigation into the 2016 failed coup plot which led to the sentencing of Democratic Front leaders Andrija Mandic and Milan Knezevic. Their sentences were later annulled after the change of government. This issue led to one of the early public confrontations within the new government when the initial legislation put forward by the Democratic Front was toned down by Krivokapic following criticism from the Venice Commission.

“This government did not stay paralysed by the early public confrontations within the new government when the initial legislation put forward by the Democratic Front was toned down by Krivokapic following criticism from the Venice Commission.

Multiple disagreements
Over the last year it has become apparent that there are multiple issues on which members of the government and the coalition that installed it disagree, which have stymied efforts at reform in those areas.

“I had high hopes when the new government came in. The Djukanovic government had been there too long, and corruption had become entrenched … but the only thing that unites the government is their opposition to Milo Djukanovic and I wonder how long they are going to survive. They are only hanging together because they don’t want Djukanovic back,” says Michael Taylor, senior analyst, Eastern Europe, at independent geopolitical analysis and advisory firm Oxford Analytica.

This has been particularly problematic when it comes to the reforms Montenegro needs to complete to become a member of the European Union. While it has long been the frontrunner among the aspiring EU members in the Western Balkans, this autumn its annual enlargement report from the European Commission was highly critical, stating that reforms have been slowed by the political insecurity since the August 2020 general election.

“[T]he reporting period was marked by tensions and mistrust between political actors. The deep polarisation between the new ruling majority and the opposition persisted throughout 2020 and intensified in the post-election period. Heated relations and mistrust fed frequent escalations and further exacerbated political divisions, including within the ruling majority,” the latest progress report from the EC notes.

It adds that friction between the executive and legislative powers slowed
“There have also been well published efforts to tackle organised crime, including the seizure of the largest haul of cocaine ever found in the country”

against organised crime, the country has made just limited progress in the fight against corruption, which "remains prevalent in many areas and an issue of concern".

Despite the shortcomings of Djukanovic and the DPS, particularly on the issue of corruption, the president and his party had long been committed to pursuing EU accession. By contrast, some of the members of the new ruling coalition are more ambiguous on this ambition, favouring close relations with Serbia and Russia.

“The pan-European reformist agenda that would move the country closer to EU integration has at best stalled, at worst reversed,” comments Vukovic. “I have seen some very troubling reactions from various European officials over the past 10 months, especially in recent months. The progress report pointed out point blank that progress towards the EU has been halted, no meaningful process has been made and there are troubling signals that the country lacks ability and appetite to pursue those types of reforms.”

Responsibility for the slowdown in progress cannot, however, be entirely cast onto the new government in Podgorica, as waning enthusiasm for EU integration is apparent across the region, where politicians have seen their hopes of speedy progress towards accession dashed.

“[T]he greatest impediment to Montenegro joining the EU emanates from within the bloc,” says Morrison. “Montenegro still has significant challenges to overcome, but they are not insurmountable. However, the reality is that there is little or no appetite from within the EU for further expansion, at least not any time soon … there is a growing perception that the EU accession process is, at least for now, stalled. Recent reports that there simply is no consensus within the EU regarding the accession of the ‘Western Balkan Six’ have only added to the pre-existing scepticism.”

Democratic Front’s appetite grows

The biggest division within the ruling coalition doesn’t concern policy, but the composition of the cabinet. While the parties behind it initially agreed on a government of technocrats, the Democratic Front in particular is now unhappy with that, and has been pushing aggressively for a reshuffle that would allocate ministries to its leaders. As Taylor points out, “in a Balkan-style government it’s always a good thing to have a ministry”. The Democratic Front thus "wanted a reshuffle to get rid of the technocrats and have their own people in various portfolios”.

Meanwhile, with the ruling coalition members failing to find agreement on a common strategy in many areas, the policies that got backing were “largely random”, says Vukovic. "The people who were given ministerial roles were never politically active [before joining the government], and as such their political capital, agenda and accountability is very elusive. They started enacting policies that were not necessarily reflective of anyone in the ruling coalition.”

Over time, says Vukovic, “appetites grew” and the Democratic Front in particular saw “some of their priorities were not really reflected in the way the government was operating”. Today, he says, it has got to the point there the party is “providing an active resistance to the government”. At the same time, the political ambitions of the technocrats currently in power are growing, creating a new political force that could form their own party to run in the next general election.

DPS waits for its chance

Throughout the last year, the DPS and Djukanovic have clearly been hoping for – and encouraging – the disintegration of the ruling coalition, which would allow the former ruling party to make a comeback. The distribution of seats in the parliament is so close that only one MP would need to switch sides for the government to fall.

Moreover, as Morrison points out, “the DPS, though now in opposition and seemingly unable to reform, was a ‘state party’ that had ruled Montenegro, in one form or another, for three decades. They created a system in which party members or loyalists were deeply embedded into state institutions and many that remain in post are, inevitably, resistant to any changes proposed by the new government. The DPS were not simply a government; they had established a system of power and control that could not be easily dismantled simply because the party lost the August 2020 elections.”

The closest the DPS came to achieving this was when Krivokapic moved to sack the country’s then justice minister Vladimir Leposavic in June over his denial of the Srebrenica genocide in Bosnia & Herzegovina. As the Democratic Front refused to back Krivokapic, Leposavic was dismissed in a parliament vote with the support of
the DPS and with the Democratic Front acting as the opposition.

Djukanovic, meanwhile, has slowed the approval of new legislation by frequently wielding his presidential veto, only to have it repeatedly overturned by the parliament.

Despite the party’s deep entrenchment in Montenegro, since the change of regime, sackings of DPS-era appointees have chipped away at the party’s control over the state apparatus, while it has also lost control over state broadcaster Radio Television Montenegro (RTCG).

Taylor talks of a “clearout of the old guard” appointed under previous governments, but the downside has been the new appointments are “not necessarily better than the old ones, just different and inexperienced”.

This has been problematic in the context of Montenegro’s EU accession, as Taylor points out: “Negotiations for EU membership had to start again with new people and the fact people were sacked from the bureaucracy had a very poor effect on effectiveness.” Moreover, on the judicial side there were many vacancies that couldn’t be filled because some needed a two-thirds majority in parliament, which the government doesn’t have.

According to the latest EU enlargement report, the government dismissed 110 members of the teams for negotiations on EU accession chapters, which “significantly weakened” the negotiation structure.

**Divisions laid bare in Cetinje**

The conflict over the inauguration of the new head of the Serbian Orthodox Church in Montenegro in September not only pitted the two sides openly against each other but also exposed the deep polarisation in Montenegrin society.

As the road from Podgorica to the historic Montenegrin capital Cetinje filled with cars and buses taking thousands of people to the inauguration of Metropolitan Bishop Joanikije II, Djukanovic arrived in the city vowing to prevent the inauguration. He accused Krivokapic’s government of sacrificing the security of Montenegrins to serve the Serbian Orthodox Church and to help Serbia regain its control over Podgorica. The DPS is widely understood to have backed protesters, who built a barricade of tyres in an attempt to prevent people reaching the city. Police used tear gas to break up the protests and arrested dozens of people during the clashes, among them the president’s security advisor Veselin Veljovic.

The government won that confrontation insofar as the inauguration went ahead after the authorities decided to transport Joanikije and the head of the Serbian Orthodox Church, Patriarch Porfirije, to Cetinje by military helicopter.

The incident laid bare the deep divisions within Montenegro, where two-thirds of the country’s population of just over 620,000 is Orthodox Christian and the main church is the Serbian Orthodox Church. A separate Montenegrin Orthodox Church was set up in 1993 but has not been recognised by other Orthodox Christian communities to date.

“The events in Cetinje were only part of a much longer and complex story that pre-dates the controversy over the Law on Religious Freedoms. But what was evident was that the political environment had become more polarised and radicalised, and certainly more so than at any point since Montenegro became independent in 2006,” says Morrison.

**Staying together?**

While the dramatic events in Cetinje unfolded, Montenegro was in the process of emerging from the deep economic crisis this year, though it isn’t expected to recover fully from the contraction in 2020 for at least another year. The government expects the 2022 budget deficit to reach a record-high €5.3bn, or 3.87% of GDP, as spending on healthcare and other areas is set to remain high. Montenegro has by no means left the coronavirus pandemic behind; after opening up to tourism in the summer, this autumn it has suffered a severe new wave of the pandemic, which forced the authorities to cancel New Year’s Eve celebrations and all other mass gatherings.

Jockeying for position continues within the fractious ruling coalition. In the latest development on November 22, the Democratic Front proposed removing Krivokapic and appointing a new government that includes members of the ruling coalition parties.

“The enthronement of Joanikije might have been seen as a victory for the parties and coalitions that comprise the new government, but in the wake of it tensions between them were evident again,” comments Morrison. “That said, while there may be disagreements, they all have an interest in remaining united and keeping the DPS out of power. This will probably ensure that, however fragile, the governing coalition will find a way to stay together because the one thing that united them during the August 2020 elections was their shared antipathy towards the DPS.”

The next electoral test of the relative popularity of the current ruling parties and Djukanovic’s DPS will be the presidential election in 2023. This will be a chance for voters to compare the achievements of the current government during what will by then be almost three years in office (assuming it survives) against the record of the previous DPS-led administrations.

In the meantime, there are plenty of opportunities for the new guard to further tarnish the reputation of Djukanovic and his party as they continue to probe suspected corruption under previous governments. Most recently, Montenegro’s specialised prosecution launched a probe into allegations by Albanian oil businessman Rezart Taci that Djukanovic has been participating in an international money laundering scheme – a claim denied by Djukanovic. The president is also being probed over revelations in the Pandora Papers that he and his son Blazo funnelled money to offshore accounts via a complicated network of companies in the UK, Switzerland, the British Virgin Islands, Panama and Gibraltar.
New photos of guns and cash in Bulgarian ex-PM Borissov’s bedroom published days before election

Denitsa Koseva in Sofia

New photos sent to local media on November 9 showed Bulgaria’s former prime minister Boyko Borissov sleeping in a state residence with a significant sum in euro banknotes in the drawer next to his bed and a handgun on top of his bedside table.

The photos were distributed just days ahead of the November 14 snap general election. Borissov’s Gerb party, which ruled the country for 12 years, is set to win the election but with less than a quarter of all votes and would have a hard time finding coalition partners for a fourth mandate.

The photos were sent by an anonymous sender to the Euro Dikoff talk show with an email saying the move was provoked by the lack of activity by the prosecution since the first set of gangster-style photos were distributed in June 2020, when Borissov was still in power.

Back then, local media received anonymous photographs of Borissov sleeping in his bedroom next to a Glock 9mm handgun and a drawer full of €500 bills and gold bars. The former prime minister confirmed their authenticity, saying they were taken in the residence he was using as premier.

Since then Bulgaria’s caretaker government has launched numerous probes into corruption under Borissov’s former administration. The interim government also launched a wide-reaching overhaul of the state administration and institutions, but this put it into open conflict with the prosecution, headed by Ivan Geshev, who was appointed through a controversial procedure while Borissov’s Gerb party was in power.

“We waited for more than a year to see if anyone in the prosecutor’s office would check how and why a Bulgarian prime minister has organised robberies in all economic sectors, orgies at a government residence, hid bundles and gold in his bedroom (also seized from highway construction) and sleeps with a gun to his head – the zero result is known to all, so today we are organising a “Day of Reflection before the Day of Reflection” – because if we do not show him on Sunday that his place is out of power and in prison, there may be no next chance,” the sender of the photos wrote in his letter to Euro Dikoff.

Analysis carried out by investigative news portal Bird.bg showed the photos were taken in mid-July, 2018, on May 8, 2020 and June 11, 2017. Two of the photos lacked metadata providing information on the date they were taken, Bird.bg wrote on Facebook.

“Evening financial news. According to financial analysts the most secure place for your money at the moment is the drawer of Borissov, because it is being guarded personally by the prosecution. You want to keep your money there? Congratulations, you already are,” PR expert Radoslav Bimbalov commented on Facebook.

In 2020, the original photos of Borissov sleeping next to the cash and the gun were distributed amid mass anti-government protests. At the time, they seriously shook Borissov and his government but the prime minister refused to resign. The protests were marked by police violence and arrests of dozens of people. 

“Local media received anonymous photographs of Borissov sleeping in his bedroom next to a Glock 9mm handgun and a drawer full of €500 bills and gold bars”
KEEP YOUR EYES ON THE BALL

www.intellinews.com
EU slaps Belarus with new sanctions for stoking migration crisis at Poland’s border

Wojciech Kosc in Warsaw

EU foreign ministers agreed on November 15 that they would step up sanctions targeting Belarus for its role in the ongoing migration crisis on the border with Poland and Lithuania.

Minister are expected to approve sanctions for airlines, travel agencies and officials linked to migrant trafficking to Belarus, EU foreign policy chief Josep Borrell said on the eve of the meeting. A list of people and entities to be hit by asset freezes and travel bans is expected to be finalised in the coming weeks. It will include “people, airlines, travel agencies and everyone involved in this illegal push of migrants against our borders,” Borrell said, The Guardian reported.

Poland has seen a surge in attempts at crossing its border from Belarus as the authorities in Minsk allow migrants to fly in from the Middle East and travel to the Polish border. Warsaw says that the operation by Belarus is “hybrid war” overseen by Russia with the aim of sowing chaos in Poland and the EU using the politically divisive issue of migration.

“The Council [of foreign ministers] today amended its sanctions regime in view of the situation at the EU’s border with Belarus, so as to be able to respond to the instrumentalisation of human beings carried out by the Belarus regime imposed on Belarus after its autocratic leader Alexander Lukashenko rigged the presidential election last year. Orchestrating a migration crisis is widely seen as Lukashenko’s retaliation for the sanctions.”

“Orchestrating a migration crisis is widely seen as Lukashenko’s retaliation for the sanctions”
for political purposes,” the official communiqué said.

“We will toughen sanctions on individuals who are involved in this human trafficking, and we will have to talk about the fact that severe economic sanctions are inevitable ... We will have to tackle the airlines, too,” Germany’s EU Minister Haiko Maas told reporters, according to Reuters.

Diplomats are also reportedly discussing tightening economic sanctions against Belarus by extending restrictions that already target the tobacco and potash industries.

Brussels announced new sanctions just as a new

President Lukashenko has vowed to retaliate. “They’re scaring us with sanctions,” he told officials on Monday. “We will defend ourselves. We can not retreat.”

At the same time, Lukashenka seemed to have hinted at a possible winding down of the crisis.

Lukashenka said that Belarus “was working on repatriating the migrants, mostly from the Middle East, who are stuck at Belarus’s border with EU member Poland,” AFP wrote based on a report by the Belarusian state-owned newswire Belta.

"Active work is underway in this area, to convince people – please, return home. But nobody wants to go back," Lukashenka said in what may be seen as a pretext to keep the crisis going.

The influx of new migrants at the border may at least stop or lessen for now after the Belarusian state airline Belavia said that – on request by Turkey – it would stop boarding citizens of Iraq, Syria, and Yemen on flights along the Turkey-Belarus route. The EU also pushed Turkish Airlines and Russia’s Aeroflot to do the same.

Iraq said it would launch a “voluntary” repatriation flight for its citizens currently stuck at the Belarusian-Polish border, Politico Europe reported.

UK medical journal The Lancet publishes study, finds the one-shot Sputnik Light vaccine safe and effective

bne IntelliNews

Russia’s sovereign wealth fund, Russian Direct Investment Fund (RDIF) announced the release of the results of a study by the vaccine’s inventor Gamaleya Center in the prestigious UK medical journal The Lancet that found the one-shot Sputnik Light vaccine against coronavirus has a high safety profile and induces a strong humoral and cellular immune response, the RDIF said in a press release on November 3.

Most of the solicited adverse reactions observed during the study were mild or moderate. No serious adverse events were detected, the study found.

"One-shot Sputnik Light is a highly effective vaccine when used both on a standalone basis and applied as a booster. Sputnik Light has been authorized in more than 15 countries with the registration process ongoing in a further 30 countries,” the RDIF said that funded the development of the vaccine.

The earlier findings by the Gamaleya Center based on data from 28,000 subjects in Moscow have demonstrated the Sputnik Light vaccine administered standalone has 70% efficacy against infection from the Delta variant of coronavirus during the first three months after vaccination. The vaccine is 75% effective among subjects under the age of 60.

Efficacy of one-shot Sputnik Light as a booster against Delta variant for other vaccines will be close to the efficacy against the Delta variant of Russia’s flagship Sputnik V vaccine: over 83% against infection and over 94% against hospitalization.

Sputnik Light has demonstrated superior efficacy compared with some two-shot vaccines, which have shown a major decline in efficacy against the Delta variant to less than 50% five months after injection, the RDIF claimed. Standalone use of Sputnik Light also provides much higher efficacy against severe disease and hospitalizations.

The vaccine has demonstrated efficacy of between 78.6-83.7% among the elderly as confirmed by the Ministry of Health of Buenos Aires, Argentina, the study found.

Paraguay’s Ministry of Health found Sputnik Light to be 93.5% effective during the country’s ongoing vaccination campaign.

The Sputnik Light vaccine is currently being tested as a booster shot in a number of clinical trials around the world. In particular, a combination of AstraZeneca/Sputnik Light showed higher immunogenicity levels than the original AstraZeneca vaccine.

RDIF and the Ministry of Health of Argentina are co-sponsoring the first multi vaccine combination trial targeting 2,800 subjects (560 in each of the 5 provinces: City and Province of Buenos Aires, as well as Córdoba, La Rioja and San Luis).
The Mints family used to be one of the biggest players on the Moscow real estate market and their O1 Properties owned a portfolio of some of the best buildings in Moscow worth billions of dollars. But they got caught up in the collapse of the so-called Garden Ring banks in 2017, a group of Russia’s biggest privately owned banks located inside the ring road that encloses the heart of the capital. Now they live in London, where the family has been fending off legal assaults by the Russian authorities.

“We are collateral damage,” Dmitri Mints, the former director of O1 Group, told bne IntelliNews speaking for the first time to the international press about what actually happened that year and how his business collapsed.

Russia’s banking sector came close to a full-scale meltdown in the summer of 2017. The Central Bank of Russia (CBR) nationalised several of Russia’s biggest commercial banks in a controversial move. The regulator said the move was necessary after many of these banks had seen depositors flee, but critics claim the crisis was actually carefully planned and orchestrated by the regulator. At the end of crisis the CBR ended up controlling almost all of the country’s leading formerly privately owned commercial banks. Only a few survived.

**A hot August for bankers**

The first sign of trouble came when the market was shaken by a research note issued by an analyst at Alfa Capital in August 2017 that warned several of the Garden Ring banks – FC Otkrytie, B&N Bank, Credit Bank of Moscow (MCB) and Promsvyazbank – were in trouble and could collapse at any minute. The note was hastily withdrawn and the analyst reprimanded. Alfa Capital released a statement reassuring the market and saying nothing was wrong. But the note started off speculation that something might be wrong and as journalists dug into the story it soon transpired that the Garden Ring banks were indeed in trouble.

The note proved to be prescient. The most dynamic of all the Garden Ring banks, Otkritie, was soon in the firing line. Short of liquidity, the bank cashed in bonds and appealed to the CBR for help. Its operations were disrupted as depositors began to withdraw money, and by the end of the month deals on the repo market soared in August as banks began to build up war chests, swapping their bonds for crisis-fighting cash, afraid yet another banking crisis was about to break.

Things went from bad to worse. In late August, the CBR provided an unspecified bailout loan to Otkritie, but a week later the regulator finally pulled the plug and took over the bank, placing it under the control of its newly created Banking Sector Consolidation Fund (BSCF). A second bank, BIN Bank, fell shortly after. More banks went to the wall in the months that followed. Eventually the BSCF took over all of: Otkritie, Binbank, Trust, Promsvyazbank, Sovetsky Bank, NB Trust, Rost Bank, AVB Bank, ATB, Moscow Industrial Bank and Volgo-Oksky Commercial Bank.

In a fudge, the CBR did not nationalise these banks but only “took control,” which avoided the need for expensive bailouts. Initially the banks would be sold off, the CBR said, claiming its control was “temporary”. And indeed, three years later this week Otkritie announced it was back in profit and will list its shares early next year.

At the time, the crisis was seen as part of CBR Governor Elvira Nabiullina’s campaign to clean up the sector. Since taking over the governorship in 2013 Nabiullina has been closing down on average three banks a week for four years, but in the summer of 2017 only the largest commercial banks were left, each of which was large enough to spark a systemic crisis if their reform was badly handled.

The summer ended being very tense. But as the restructuring work began in September fears rapidly faded and repo
volumes, a good barometer of banker’s confidence and the state of the sector, rapidly fell back to normal levels. It seemed like prompt action by the regulator had nipped a disaster in the bud and things went back to normal.

**ACRA downgrades**
Mints tells the story a little differently. His father and the patriarch of the family, Boris Mints, had been a shareholder in Otkritie and on the board of directors, but sold his stake in 2013. However, Otkritie remained very important for the group and had provided $500mn of loans for “general corporate investments,” the son told *bne IntelliNews*. He claims that the CBR in effect engineered the crisis with the intention of taking the bank over and at the same time removing the independently owned commercial banks from the market.

As *bne IntelliNews* reported at the time, the problems began in April 2017 when the CBR introduced new rules that required all of Russia’s banks to get a credit rating from the Russian Analytical Credit Rating Agency (ACRA) credit rating agency that had been set up to break the monopoly on ratings by the big three agencies of Moody’s, Fitch and Standard & Poor’s (S&P). The trouble is, most of the Garden Ring banks didn’t make the cut.

Under the new rules top Russian commercial banks could only hold the funds of state-owned enterprises (SOEs) and state pension fund money if they got the equivalent of a A- rating from ACRA. That meant that those banks had to return the SOE cash, which hurt their businesses.

“Otkritie had ratings from the international ratings agencies and if you translated their international ratings scale to the national one then the rating was sufficient to meet the CBR’s criteria. However, ACRA gave the bank a rating two notches lower that triggered the outflows of SOE and pension fund money,” said Mints.

Up until July 2017, international rating agencies issued ratings on two scales, international and national. From Standard & Poor’s, Bank Otkritie received a B+ rating on the international scale, and an A rating on the national scale. The ACRA rating received for Bank Otkritie was two notches lower than the Standard & Poor’s international rating and four notches lower than the Standard & Poor’s national scale rating for the bank, Mints explains.

Losing the SOE and pension fund money was bad enough, but what really did the damage was the lack of confidence the new status caused and Mints said that the banks began to see a slow moving run on their deposits.

“At that time, all someone from the CBR had to do was come out and say these were systemically important banks and that the central bank would support them. It would have stopped the runs dead in their tracks. But for almost two months there was silence,” Mints said.

O1 was caught up in Otkritie troubles as CBR wanted the group to pay back its $500mn loan to shore up Otkritie’s balance sheet. Mints said they were willing to negotiate with the authorities and Otkritie was willing to return the SOE and pension cash to their owners, but they were not given a chance.

On August 31 the CBR announced it was taking Otkritie over and installed a temporary administrator. At the same time, the CBR promised all the deposits still in the bank would be protected and thus stopped the run.

**Bond Deal**
O1 had already restructured its loan to Otkritie in August. As the pressure mounted the bank started casting round for cash and the O1 debt was restructured and turned into bonds. “It is easier to raise liquidity against a bond than a credit,” says Mints.

However, when the temporary administrator took over control it objected to the restructuring and wanted to turn the bonds back into debt.

“The temporary administrator didn’t like the restructuring deal. We tried to accommodate them and offered to change the terms but they started a court case against us in Russia in October 2017 and wanted us to return the loans,” says Mints.

Another part of O1 Group’s business is its ownership of the Budushee (Future) pension fund, which also came under attack. The fund had $200mn of callable deposits in Promsvyazbank.

“No one in Russia expects fair treatment from the Russian court system, especially if you are in open conflict with something as influential as the CBR”

“Here the problem was due to the low rating Promsvyazbank was assigned [where the pension funds were held and that was also taken over]. Those funds should have been returned to the pension company, but the temporary administrator would not release the funds. At the same time, another department in the CBR said because the funds had not been returned it was in breach of the regulations,” says Mints.

Mints is stoical about the spot his family found themselves in. It was a fight they were not going to win. The pressure on O1 built as the demands for money grew. Eventually they sold the pension funds to “structures associated with [Rosneft CEO Igor] Sechin,” Mints told *bne IntelliNews*. The family then left for London in February 2018 and went into exile.

“No one in Russia expects fair treatment from the Russian court system, especially if you are in open conflict with something as influential as the CBR,” says Mints.

**Planned in advance**
Critics claim that ACRA’s low ratings of the Garden Ring banks were unfair and designed to trigger the crisis. However, another piece in the puzzle was the...
creation of the Banking Sector Consolidation Fund (BSCF) earlier that year, a vehicle specifically designed to hold banks that allows the CBR to own banks, while at the same time be the regulator of banks – a highly unusual setup.

The BSCF legislation was enacted by the Duma on April 21, 2017, but it only became functional in August when it was used for the first time – to take over Otkritie.

Nabiullina’s clean-up has been highly successful, but the main vehicle for exercising it has been the Deposit Insurance Agency (DIA).

During the so-called wildcat banking days of the 1990s, thousands of banks were set up, many of which were at best “glorified treasury operations” and at worst “bank-like institutions,” as famous bank analyst Kim Iskyan dubbed them at the time, that were acting as money chutes to whisk cash offshore, facilitating capital flight and dodgy taxes.

Nabiullina managed to close thousands of these banks – as of October there are only 373 credit institutions left, down from over 4,500 in the 1990s – without undermining confidence in the system.

The way it worked is: the CBR pulled a dodgy bank’s licence and the DIA took over and gave all the depositors back their money up to a maximum of about RUB1mn (about $15,000 at today’s exchange rates).

The system worked so well that some savvy depositors began to seek out the riskiest banks because they were paying the highest interest rates, confident that when the banks were eventually shuttered they could get their money back in a few days from the DIA and look for the next high yielding bank account.

But the DIA was already losing favour with the CBR as bailing out corrupt banks was costing the state billions of dollars a year. Moreover, the DIA simply didn’t have the resources to take on the much bigger commercial banks. Although the mechanism worked well for years, an investigation by Russian publications Meduza, Project and Vtimes showed the DIA was also extremely corrupt. Another part of the clean-up was to ease the DIA out of the process and it was finally closed by the CBR last year. The Banking Consolidation Fund, under the direct control of the CBR, has now taken over the DIA’s role.

Mints says the transition from the DIA to the BSCF, plus a series of other smaller changes to the banking sector regulations, were all made in preparation for an attack on the Garden Ring banks.

“In addition to the creation of the Banking Sector Consolidation Fund, there were lots of little tweaks which the CBR put in place between 2015 and 2017 together with the new rules on ACRA ratings that allowed them to engineer a situation where they could nationalise all the biggest private banks in the sector, excluding the banks that were connected to the leadership,” said Mints.

**Aftermath**

Afraid they would eventually be arrested, the Mints family left for London and have lost all their Russian businesses, where they are still fighting a legal assault by the Russian authorities.

Many Russian bankers have fled to the UK capital to seek asylum and a routine has been established where the now state-owned banks bring cases against them in the UK High Courts in an attempt to recover what the state claims are stolen assets – and in many cases the assets were stolen.

In June 2019 Otkritie, now under the control of the BSCF, brought a similar case against the Mints family seeking $800mn in damages. The Mints responded in kind with a claim against the Russian state for the same amount claiming they had been dispossessed of their assets illegally. The Russian authorities promptly responded by launching a criminal case against them in Russia.

“They also issued an international arrest warrant via Interpol, but in May this year we got a certificate from Interpol rejecting Russia’s request to arrest us and saying that there was insufficient evidence to link the underlying charges in Russia to our family,” says Mints.

The case brought by Otkritie in the High Court has not gone very far either. First, the proceedings were delayed by the coronavirus (COVID-19) epidemic and secondly, Otkritie brought in more defendants from the Garden Ring banks, who have tied the case up by challenging its jurisdiction.

“We will fight to protect ourselves but I don’t want to go back to Russia now, as I don’t want to live in a country like that. Sure I will miss my friends and it is my motherland, but things have changed,” says Mints.

At the end of 2017 the Moscow Arbitrage Court arrested the shares of O1 Properties and Nevis business centre, in a lawsuit brought by Otkritie. In March 2018 Boris Mints announced that he had fully closed a deal to sell a stake to Goldman Sachs, but the US investment bank has also managed to exit, selling its stake, and the company has also been taken over by “structures close to Sechin,” claims Mints.

Mints believes that these takeovers associated with people surrounding Rosneft were not part of the CBR plan to bring down the Garden Ring banks, but simply powerful people close to the administration taking advantage of the Mints family problems to grab some of the most attractive assets on the market.

“I think we are collateral damage,” Mints says phlegmatically. “What was going on was to do with the banks. Today amongst the top 50 banks there are three categories: the biggest state-owned banks, which account for about 80% of the assets; the leading privately owned banks like Raiffeisen and Alfa, but their share is smaller and falling; and a few surviving commercial banks that are all owned by people close to the government. The CBR may have been cleaning up the sector, but it also got rid of any real privately owned capital in the system.”

www.bne.eu
The Kremlin is about to launch its population action plan designed to address the demographic decline.

Russia's population policy action plan to 2025 about to start

bne IntelliNews

The action plan for Russia’s population policy program until 2025 is about to start. The plan is the final step in the population policy guidelines adopted by President Putin in 2007. In addition to the measures for the whole population, the measures at the current stage are aimed in particular at families with children but also at the elderly, Bank of Finland Institute for Economies in Transition (BOFIT) reports.

As before, extensive areas of action are e.g. enhancing health monitoring throughout the health care system, developing health monitoring in the workplace and improving health care, especially for cardiovascular disease.

“The most concrete are the targets for social benefits, which focus on families with children. The aim is to slightly increase the number of families receiving childbirth allowances from the current just under 2.5mn. This is mainly due to an increase in the number of recipients of one-off maternity benefits, which currently stands at just over one million. The aim is also to make it easier to apply for child benefits and to grant benefits without an application procedure to cover 60% of families with children,” BOFIT said in its weekly update.

As bne IntelliNews reported in the feature “Putin’s babies” Russian President Vladimir Putin has put dealing with Russia’s demographic crisis at the top of his agenda since his first day on the job. The Kremlin successful reversed the demographic decline in the last decade and stabilised the population size. However, more recently as the demographic dent caused by the chaos of the collapse of the Soviet Union in the 1990s hits the curve the population has started to fall again.

The new policies are a continuation of the former efforts to boost the birth rate and protect newborns. The aim is to reduce infant mortality to 0.45% to reduce the number of maintenance recovery cases in the legal system, BOFIT reports.

As part of the demographic recovery plan the Kremlin has also focused on public health issues. Alcohol sales at night have been restricted and a move to a more healthy diet is being promoted to good effect. The aim is to reduce the proportion of smokers in the population to 26% by 2025 and alcohol consumption to 8.5 liters (calculated as 100%) per capita by 2025. Booze sales remain the fourth largest item in the average shopping basket.

The population of Russia began to decline in 2019, shortly before the corona epidemic. Natural population growth turned positive in 2013, but has remained negative again since 2017. The number of births and the proportion of the population has also been declining almost steadily since 2017. Birth rates have fallen sharply since 2017 (among women aged 15-49). The death toll has been declining for a long time, although the corona pandemic naturally reversed, BOFIT reports.

Net immigration has offset the negative demographic trend, but in the first corona year, the number of emigrants decreased in 2020 and has remained lower this year. The number of emigrants increased further in 2020, although it has levelled off this year.

Russia’s baseline population forecast for the winter of 2020, which runs until 2036, is projected to decline from the current 146mn to 143mn, but to 134mn in the weaker scenario. The number of births is expected to start rising around 2030. The fact that the assumptions about net immigration differ considerably from the forecast options is also quite significant.
Savitsky museum, the Louvre of the Steppe

Ben Aris in Nukus

The small town of Nukus in the wastes of Uzbekistan’s Qizilqum (aka Kzyl-Kum) desert is the “Louvre of the Steppe.” The new building, put up in 2017, houses an Aladdin’s cave of lost Russian impressionist art, an entire generation’s worth that was rescued by art enthusiast Igor Savitsky. It is probably the second-biggest collection of avant-garde art in the world collected in the 30s after Stalin had most of an entire generation of impressionist artists repressed or executed.

Savitsky was born in the Ukraine in 1915 to a well-to-do family but eventually ended up running an archaeological project in Nukus. Stalin didn’t like the new impressionist style that was being developed in France and leaked into Russia where a whole school of painters embraced it, turning out their own interpretations. In 1932 the Kremlin officially ruled that only the social realism style was acceptable and most of the Russian artists simply stopped displaying their work, while many were arrested for anti-Soviet propaganda.

Savitsky began travelling to Moscow and St Petersburg and bought up entire collections, or was sometimes gifted them by relatives hoping to save the paintings from destruction. In all Savitsky assembled a collection of over 80,000 canvases, many of them masterpieces, and opened the Savitsky Museum in a few rooms of Nukus’ natural history museum in 1966, where they hung as many of the best pieces from ceiling to floor. At the same time, Savitsky collected the work of local artists and is credited with being the father of a whole school of Central Asian painting, which is also on display in the Nukus museum.

Old building
The Uzbek authorities took a long time to realise the treasure trove that was sitting in a run-down old building in the remote western town that is the capital of the Karakalpakstan region.

I first visited the museum when I was correspondent to Uzbekistan and met the curator Marinika Babanazarova, the daughter of Savitsky’s friend who helped him open the museum. Even the new building only has room to exhibit about 3% of the entire collection, so the paintings are rotated regularly, but rarely leave Nukus. However, in 1999 they were stacked in wooden racks along the walls and on the floors. You could flick through the canvases. For closer inspection you could pick out picture and hang it on a large nail in the wall in front of a bare light bulb.

At the time Nukus was an ecological disaster and the local economy had
of the Russian Academy of Sciences. As a child, Savitsky received an excellent education, travelled abroad and spoke fluent French. Having decided to become an artist, Savitsky entered the Surikov Institute in Moscow but couldn’t find work after graduating.

When World War II erupted, Savitsky was evacuated to Uzbekistan (he was unfit to serve due to an illness). During this period he befriended prominent Russian artists Robert Falk and Konstantin Istomin, who had also been evacuated to the region.

Savitsky trained and worked as an archaeologist in Central Asia, but was also a painter and passionate art lover. He began to collect the art of locals and encouraged them by giving lessons to young artists, including some of the more prominent Uzbek artists of the period.

When a chance to work as an artist at the Khorezm Archaeological and Ethnographic Expedition in the Kyzlkum desert came up, he took it. The expedition made significant discoveries in local history, while Savitsky developed a deep attachment for the Karakalpakistan region, which featured heavily in his own art.

Savitsky started collecting ethnographic objects from local villages: carpets, costumes, folk art. Soon local authorities noticed his efforts and made him the head of the museum in Nukus in 1966.

After the museum was established Savitsky paid more attention to the paintings being produced by local artists, many of which are on exhibition in Nukus today. This led to Savitsky’s discovery of Alexander Volkov, Ural Tansykbaev, Viktor Ufimtsev and others, whose style is now dubbed “Turkestan avant-garde” and amongst the most famous of the local artists.

Tansykbaev – the most famous of all – was initially attracted to Fauvism and Expressionism, but later turned to Socialist Realism as the political climate changed, and he became a member of the Soviet Academy of Arts.

The Nukus art museum was the first dedicated to Central Asian art where he displayed his collection in a few rooms in the old history museum in Nukus, the same building that Babanazarova occupied when I met her.

**Russian impressionism**
The artistic movement which emerged in Russia around 1890 unfolded through the extensive flow of art and artists between Paris and Moscow, which were culturally joined at the hip in Tsarist Russia. However, following the October Revolution in 1917 the ties with France were broken and art became the preserve of the state.

Stalin cracked down on the new school and constrained art to populist, realist and easily understandable iterations via Socialist Realism. Art took on a propaganda role that impinged on its style and narrowed the interpretations an artist could make. The State fought an escalating campaign to completely eradicate the genre of true art until Stalin’s death in 1953. Savitsky played a major role in preserving that entire generation of Soviet art.

Russia was rocked by Stalin’s terror in the early 30s. In 1932 the Soviet government decreed that artists had to follow the social realism school, but this was the heyday of impressionism and a Russian school had embraced the new ideas.

The painters soon got into trouble. Some were arrested. Others didn’t show their
work for fear of retribution. And many simply ran out of money.

Savitsky started to travel up to Moscow and St Petersburg to rescue the works of these artists and take them back to the relative safety of his museum in Nukus. Under the noses of the Soviet censors Savitsky amassed a collection that encompassed the works of almost an entire generation of artists.

He disguised thousands of priceless paintings as simple luggage and packed them off to Uzbekistan. He loaded them onto trains and trucks assigned to a non-existent archaeological expedition, which whisked them off to safety in the far flung desert town that was his home.

Savitsky bought a lot of the art using the museum’s money but most of it came from his own pocket, or he simply wrote IOUs to the artist’s family. When he was in Moscow close to the end of his life he would joke: “I can’t die yet as I owe too much money!”

Among the Russia impressionist works on display today in Nukus are some from the group of Russian artists painting in the impressionist style called the “Jack of Diamonds” group in the 20s centred around Sergei Nikritin, who had lived in Paris and was friends with Picasso.

There are also works on the wall in Nukus by Lyubov Popova, probably the best-known female artist of the Russian avant-garde, as well as more obscure painters such as Alisa Poret and Boris Rybchenkov.

In one of the most brazen collection stories, after discovering a series of sketches by Nadezhda Borovaya, an artist who smuggled depictions of her daily life out of the Temnikov Gulag. Savitsky persuaded party officials that her art actually illustrated Nazi, not Russian, concentration camps and persuaded the local Party chief to give him money to purchase her surviving work, which is now also in the Nukus collection.

Predictably the Jack of Diamonds group fell foul of the authorities, but Savitsky managed to scoop up much of their work, including that of Nikritin, before it could be confiscated and destroyed.

Old and new building
The old building remained largely untouched since Savitsky set the museum up. When I visited first in 1999 most of the paintings were housed on racks inside concrete blocks that Savitsky had built himself at the back of the museum proper. But conditions were not good.

“We can’t afford anything. Despite having these treasures we are in a critical position. We are financed by the local budget, but they give us nothing other than salaries,” Babanazarova told me, who is the daughter of the co-founder of the museum, Marat Nurmukhamedov.

However, as the secret of the treasure in Nukus began to leak out Babanazarova start to get offers of money and help. Experts from Russia’s legendary Hermitage museum in St Petersburg flew down to see her and tried to recover the collection, but she resisted.

The Nukus Museum became better known after several exhibits were organised abroad in the 1990s. Then in 2011 an American-made documentary, “The Desert of Forbidden Art”, about Savitsky was shown and promoted a group of 85 American artists to charter a plane to fly to Nukus specifically to visit the museum, where they offered Babanazarova large sums of money to buy a few pieces. She refused that offer too, afraid that if she sold even one painting it would suddenly become clear to the authorities in Tashkent how incredibly valuable the entire collection was and trigger a massive auction of the collection by the cash-strapped Karimov regime.

Nevertheless, following the success of the international exhibits the authorities were slowly waking up to the value of the collection and the need to preserve it. In 2003 a new building was put up and then expanded into the modern three-story complex that is there today.

In November 2010, while Babanazarova was out of town on business, officials suddenly declared the original museum building condemned. Granted just forty-eight hours to evacuate its contents, employees haphazardly piled fragile canvases on the new building’s exposed basement floor in a rush to transfer them to a new building.

Babanazarova had by this time become a more influential woman and thanks to a degree in English had built up contacts with the international art community and was actively promoting dissident art. Uzbekistan was still under the control of the authoritarian president Islam Karimov and the authorities became increasingly suspicious of Babanazarova’s relationship with foreigners as well as threatened by her growing international stature.

During the summer of 2015, they struck. A scandal erupted where the authorities accused Babanazarova of pilfering from the museum and selling art on the black market. She was fired her from her position. Her supporters claim that Uzbek authorities fabricated the story in order to take control of the collection into the hands of the state.
Collection

Today the museum displays a mixture of the famous Central Asian artists but only a fraction of the Russian impressionist collection. Despite the large new building, the wall space is too limited and the role of the museum is more about celebrating the domestic artistic achievement than those of the lost generation of Russian impressionist painters.

Karimov took a selection of the paintings with him to Paris during his state trip and current Uzbek President Shavkat Mirziyoyev did the same in April 2017 shortly after his appointment on his first state visit to Russia. The decision to bring the famous collection was a soft power move by the newly installed president designed to show the deep cultural ties and long-standing friendship between the two countries, and it went down very well.

The paintings were shown at the renowned Pushkin Museum in Moscow: 200 canvases of the collection most iconic items. The Pushkin was the perfect venue, as it boasts Moscow's largest collection of European art. Ironically, its most distinguished pieces are works of impressionist and post-impressionist painters, including Van Gogh, Picasso, Derain and Matisse – the same artists that inspired the Russian impressionists that were castigated by Stalin. The exhibition was a huge success with round-the-block queues that prompted the administrators to extend it by three weeks as Russians lapped up their missing avant-garde artistic legacy for the first time.

The centrepiece of the Nukus collection is “The Bull” by the Belarusian artist Vladimir Lysenko, originally called “Fascists Advances,” and is the picture most intimately associated with the museum.

The Soviet censors deemed it anti-Soviet and Lisenko was interned in a metal asylum for 15 years from which he eventually emerged paralyzed and extremely ill.

Lysenko was born in Bryansk, now in Russia on the Ukrainian border, to Belarusian parents and studied under the famous artist Kazimir Malevich at the Institute of Artistic Culture in Russia, one of two art academies established by Lenin.

As the movement’s most influential patron, Lenin’s institutes offered artists such as Malevich and the international renowned abstract artist Vasilii Kandinsky, who also studied at the institute, space to debate freely the ideologies that shaped avant-garde. The abstract images they produced, which involved precise geometry and which emphasised proportion and space, challenged commonplace notions of art and reality in the golden period of Russian impressionism. During this time, both the movement and art revolution were seen as in step with the new revolutionary society, but after Lenin’s stroke in 1922 the tolerant attitude to experimental art evaporated.

Unlike Lenin, Stalin considered the avant-garde bourgeois, instead preferring the more straight-forward and more easily understood realism. Stalin’s preferences were eventually institutionalised in what became known as socialist realism, characterised by the glorified, realistic portrayal of communist values by larger-than-life heroic figures. By 1930, about the time Lysenko returned to Tashkent, Stalin dissolved both of Lenin’s institutes and forced the movement underground. Two years later, the Party took control of artists’ unions and officially imposed socialist realism one year after that. Stalin insisted that art should portray the easily understood iterations of the New Soviet Man and the accomplishments of the first and second Five-Year Plans.

During Stalin’s reign, “formalism” came to be used as the catch-all term to denigrate any form of art that deviated from the Soviet norm and was often used in political struggles between artists to denounce rivals.

Lysenko painted The Bull but hid it for years, fearing it would not conform to the officially approved form of art.

And the painting is very political. Lysenko dropped the original name “Fascist approaching” as he considered it to be too provocative, but the symbolism is obvious to even an untrained eye. The flags on the horn of the bull are of those countries that supported the Nazis in WWII and the hollow back eyes of the bull are clearly the barrels of a cannon.

When the painting was put on display, the censors saw it as a parody of the mighty USSR advancing as a raging bull; its eyes symbolic of Stalin’s methods of repression and blindness of state; and the rising sun symbolic of the Soviet Union.

Few details of Lysenko life are known. He first visited Uzbekistan’s capital, Tashkent, in either 1918 or 1919. Between 1925-9, he studied at the Lenin institute under Malevich, when it is believed that Lysenko painted The Bull. He exhibited several times in various Russian cities but in 1935 he was declared a formalist and sent to a mental institute for seven years. He spent the next decade in and out of institutes until he was finally rehabilitated in 1950, but by that time he was seriously ill and paralysed, living with his sister.

Savitsky visited the artist at his home and bought the painting from his sister, although by that point Lysenko could no longer talk. He eventually died sometime in the late 1950s after Stalin’s death.

Back in Nukus Savitsky put The Bull on display in his museum, but in a typically brazen episode the museum was subjected a surprise inspection by Soviet art inspectors, who immediately focused on the painting. The inspectors quickly assessed The Bull as “anti-Soviet” and Savitsky immediately agreed and removed it from display... until the inspectors left. Then he immediately returned it to its place in the exhibition. Nukus is a very long way from Tashkent and the inspectors come to check the exhibition very rarely.

Over the last two decades Nukus has recovered. The salt that caked the soil is gone. Local agriculture has been re-engineered to produce crops that are less damaging to the soil. A new museum building dominates the dusty main square and its clean and cool interior welcomes a steady trickle of art lovers from around the world.
Russia strikes deal on Iran's multi-trillion dollar Chalous gas field as ‘final act securing control over European energy market’

A finalised deal to develop Iran’s multi-trillion dollar new gas discovery, the Chalous field in the Caspian Sea, is reportedly regarded by Russian officials “as the final act of securing control over the European energy market.”

Russian companies will hold the major share in the deal, followed by Chinese companies, and only then Iranian companies, sources close to the agreement were reported as saying by OilPrice.com on November 15. The trade publication also reported that new calculations show that Iran, taking into account new estimates of the gas contained in Chalous, looks set to be soon recognised as holding the world’s largest gas reserves, dropping Russia into second place.

Explaining why Iran would relegate itself to third place behind Russia and China in the development and exploitation of Chalous, the media outlet said that the Islamic Revolutionary Guard Corps (IRGC) – the Iranian entity essentially controlling field development companies that will participate in Iran’s side of the deal – “has stated in a series of internal discussions within the Iranian government recently that the new terms of the Chalous deal that have placed Russian and Chinese interests above those of Iran are ‘the price we have to pay for Iran’s access to the technology and manufacturing capacity required for our missile program’.”

It added: “To gain effective control over these new Iranian gas flows through securing such a stake in Chalous, Russia privately assured Iran that, in addition to development and exploration expertise, and some funding, it will also ‘seek to support Iran’s interests in the matter of the JCPOA [Joint Comprehensive Plan of Action, or nuclear deal] and in other matters at the UN’.”

Supergiant Chalous
Russia’s Transneft has, meanwhile, purportedly in the past two weeks projected that supergiant Chalous alone can provide up to 72% of all of the natural gas requirements for Germany, Austria and Italy every year for the full 20 years that the Chalous deal is set to run, while Chalous alone could supply up to 52% of all of the European Union’s gas needs over the period.

Previously, the estimates of Iran and Russia were that Chalous contained around 3.5 trillion cubic metres (tcm) of gas in place, equating to around one-quarter of the 14.2tcm of gas reserves contained in Iran’s supergiant South Pars natural gas field in the Persian Gulf that accounts for around 40% of Iran’s total estimated 33.8tcm of gas reserves.

OilPrice.com reported that it has learnt that, following further studies by Russia, the Chalous discovery is now seen as essentially a twin-field site, with the fields nine kilometres apart, with ‘Greater’ Chalous having 5.9tcm of gas in place, and ‘Lesser’ Chalous having 1.2tcm of gas, giving a combined figure of 7.1tcm.

“Therefore,” the publication said, “the new Chalous figures would give Iran a total natural gas reserves figure of 40.9tcm, whilst Russia – for a long time, the holder of the largest gas reserves in the world – officially has just under...
48tcm. That Russian figure, though, has not been revised to account for usage, wastage, and gas field degradation for many years, and, according to Russian gas sources, is around 38.99tcm as of the end of 2020. Consequently, the Chalous find makes Iran the biggest gas reserves holder in the world.”

Following both the upgrading of the gas reserves estimates in Chalous and spiralling gas prices across Europe of late, the new stake split in the combined Chalous twin-sites is reported as follows: Russia’s Gazprom and Transneft will together hold 40%, China’s CNPC and CNOOC a combined 28% and Iran’s Khazar Exploration and Production Company (KEPCO) 25%.

“Gazprom will have overall responsibility for managing the Chalous development, Transneft will do the transportation and related operations, CNPC is doing a lot of the financing and providing the necessary banking facilities, and CNOOC will be doing the infrastructure parts and engineering,” said one quoted source.

Given the likely length of gas recovery at Chalous – and the fact that Russia intends to take less than 10% of it out over the course of its 20-year deal – sources close to the deal estimate the total value of the Chalous gas site at $5.4 trillion, OilPrice.com said.”

Uzbekistan’s cement giant
Qizilqumsement on a roll

Ben Aris in Navoi

Qizilqumsement (QZSM) is of Soviet vintage, set up in 1977, and is the biggest cement maker in Central Asia. If construction is one of the main drivers of economy growth, then the frenetic activity at the cement plant is perhaps the best indicator of the boom that is sweeping the country.

Located outside of the city limits of the industrial town of Navoi and surrounded by flat rocky desert entering the plant’s grounds is a step back in time for anyone that has spent time in the Former Soviet Union (FSU).

At the gate is a wall with the photos of the previous directors, all of them with sour po-faced poses that are the hallmark of Soviet-era official portraits. Another section has pictures of the best employees of the month with equally serious faces.

Driving into the plant there are three huge beaten silos of the original production standing at the back of the territory that continue to churn out 3.2mn tonnes per year (tpy) of cement entirely for the domestic market. Domestic demand is currently outstripping domestic supply by 6mn tonnes, forcing Uzbekistan to import cement, and the Qizilqumsement plant is working flat out to get cement out to its customers.

In the first eight months of this year Uzbek companies bought a total of 8mn tonnes of cement, up 18.2% year on year and driving the prices up by 2.4% as a construction boom gathered momentum in the same period. But thanks to the production deficit the country had to import 550,000 tonnes of cement from its neighbours in that period.

Qizilqumsement is hoping to do something about that. Earlier this year the company launched a $112mn investment to add a fourth production line – the first significant investment in the plant since 1989 – that is slated to come online in December. The new line will add 2.2mn tpy of cement to its output, bringing the total output to 5.8mn tpy – a bit less than a third of Uzbekistan’s entire cement production.

“The contractors are Russian, Turkish and Chinese, although most of the equipment is German,” says Abduqahhor Salomov, the general director of Qizilqumsement sitting in his modest office drinking tea. “We have mostly financed it from our own funds and the return on investment should take about seven years. There is huge domestic demand. We can’t even meet that. Even with the new capacity there won’t be enough of a surplus to do any exports. Maybe next year.”

The centre of the grounds where the new silo and processing plant is going up is a hive of activity. The ground is
Climate change ‘destroying honey production in Kyrgyzstan’

Climate change, with the consequent loss of glacier meltwater, threatens to destroy the beekeeping sector of Kyrgyzstan, considered the best in the world in terms of honey quality.

The issue was investigated by State of the Planet, the news site of Columbia Climate School. It noted how on the second day of the ongoing COP 26 climate change summit in Glasgow, Kyrgyz leader Sadyr Japarov made an ambitious statement in the framework of the Paris Agreement on climate change, asking for help from international organisations. He also reportedly mentioned glacier issues in Kyrgyzstan, with small glaciers in the Central Asian country in danger of disappearing by 2050. The loss of glaciers is said to be having a devastating effect on farmers in the region, with reduced irrigation water supplies undermining the growth of pastures.

In the 1990s, 12,000 honey farms were producing more than 10,000 tonnes of honey in Kyrgyzstan. But the number of beekeepers has deteriorated to a low of around 1,000, which produce only around 3,000 tonnes of honey a year.

State of the Planet talked to Taalaibek Saatov, a 60-year-old farmer who has been beekeeping for four years on the slopes of the Sary-Uzen Chui region, with its rivers fed by glacier meltwater. It is becoming more and more difficult for Saatov to harvest from about 20 beehives, primarily due to climate change, it reported.

Field flowers ‘withered’

“Spring was very late in the Chui region this year, and as soon as the bees needed the flowers, the weather passed 30 degrees Celsius, and all the field flowers withered. Since May 2021, it has rained not more than four times. My bees suffered from such extreme and unusual climatic conditions,” Taalaibek was quoted as saying.

In addition, Taalaibek was reported as observing, farmers were using uncontrolled pesticides to increase crop yields. Those applied to the fields in May and June led to mass extinctions of his bees.

Kyrgyzstan has a unique geography with vast high-mountain pastures covered with a variety of honey-bearing plants. The country’s honey has been recognised at international festivals worldwide as the best quality organic honey.

Kyrgyzstan business has been freed and transformed. Once a key part of the command economy, its status was little changed during the administration of Islam Karimov, Uzbekistan’s first president, who maintained a more or less centrally controlled economy.

What has changed since Uzbek President Shavkat Mirziyoyev took over in 2016 is not any specific sweeping reform other than the plant is allow to run its own affairs and manage its own funds, despite the fact that it remains largely state-owned.

Nevertheless, Uzbekistan’s cement deficit is a strategic and balance of payments problem for the country and Qizilqumsement’s investment project to boost production is one of a dozen going on at smaller plants in the country. Uzbekistan’s total cement output is around 19mn tpy, but the demand is currently some 24mn tpy. The new projects are expected to close the gap next year and make the country self-sufficient in cement.

Reorganisation and privatisation

Freeing up companies to be in charge of their own business has been the most
Effective reform, but Qizilqum cement has also been through a more formal restructuring too that started in the Karimov era when it was transformed into a joint stock company. But now the company is working up towards its eventual privatisation.

“We were changed into a joint stock company already in 1996 that is 86% owned by the government,” says Salomov. “Now we are getting ready for privatisation. The plan is to sell the entire 86% stake. We are preparing, but no one is sure when it will happen.”

Asked if he thinks it is a good idea to privatise the company Salomov says simply: “Privatisation is a good idea, as the company will be more profitable than when it is owned by the state.” This is the director who has been working at the plant for 36 years speaking in a deadpan voice of someone stating the obvious.

Navoi is in the heartland of Uzbekistan’s industry, as many elements of the country’s heavy industry are located in the desert city. But even Salomov says the changes in the country are obvious here too.

“If someone tells you that today there is a huge difference. We can feel the development in the different spheres of the country. Things are noticeably accelerating in the last two years,” says Salomov. “Everyone has their own ideas. Me? I'm in cement production, but I can feel the development from the production and sale of cement.”

The government has been giving the industry a helping hand as it tries to reach self-sufficiency. The taxes on cement production were cut last year from UZS40,000 ($3.72) per tonne to UZS25,000. At the same time, the profit tax on cement makers was cut from 20% to 15%.

“I hope the taxes fall again,” says Salomov. “The government cut the taxes so Uzbek cement is more competitive against the imported cement. If our cement costs too much then construction companies will just buy cement made elsewhere, but now ours is cheaper and that lays the basis for our investment into new production, as we know we will have buyers for it.”

One possible cause for concern is the company borrowed part of its investment funds as commercial debt from the local banks and chose to borrow the money in dollars, which were converted to soum for the project.

“We borrowed in currency as it was cheaper. But the foreign exchange risk is not really a problem: the devaluation of the soum to the dollar this year has so far only been 1%,” says Salomov. “Besides, we have a natural hedge, because in addition to cement we produce lime which we export to Kazakhstan which is paid in dollars, so we have dollars too which we can use to pay off the debt if we have to.”

Qizilqum cement has already emerged as one of the most popular stocks on the Tashkent Stock Exchange (TSE) and owned by portfolio investors as well as a share that has been given to the workers. Asked who the minority shareholders are, Salomov says he doesn’t know.

The company’s finances highlight that even in a boom management still has a lot of work to do, as the company also reported an 11.9% rise in receivables that “contributed to QZSM’s cash crunch and [indicate] that the country’s rapid economic recovery is not evenly distributed among the construction companies,” says Bluestone. Demand is high and sales are strong but companies still need to collect the payments on time, and that is not always easy.

The one bone of contention is the company’s failure to pay dividends, due to the cash crunch. After using its cash to retire some of its long-term debt obligations in 2019 the company took out a fresh UZS240bn of long-term debt, denominated in dollars, this year, ostensibly to pay out dividends of UZS660 per share but to the chagrin of shareholders it failed to pay. The company has borrowed a total of $112mn but its overall level of debt

“In 1994 we had to close down one of the three lines, as there was no demand. Today we can’t produce enough.”

However, the total assets rose in value by 19.6% thanks to the significant increase in capex on the fourth line.

The company’s finances highlight that even in a boom management still has a lot of work to do, as the company also reported an 11.9% rise in receivables that “contributed to QZSM’s cash crunch and [indicate] that the country’s rapid economic recovery is not evenly distributed among the construction companies,” says Bluestone. Demand is high and sales are strong but companies still need to collect the payments on time, and that is not always easy.

The one bone of contention is the company’s failure to pay dividends, due to the cash crunch. After using its cash to retire some of its long-term debt obligations in 2019 the company took out a fresh UZS240bn of long-term debt, denominated in dollars, this year, ostensibly to pay out dividends of UZS660 per share but to the chagrin of shareholders it failed to pay. The company has borrowed a total of $112mn but its overall level of debt...
to equity ratio remains an extremely modest 0.10, according to Bluestone.

“Despite Qizilqumsement’s large-scale investment in a fourth production line, on May 22 the company announced it would allocate 75% of 2020 net profits to dividends at UZS989 per share. However, the company failed to pay the dividends within the 60 days stipulated by the regulations due to cash needs for construction,” Bluestone reports.

The management called an EGM at the end of August and voted to reduce the dividend payments to UZS660 per share to free up more cash to pay for its capital investment, but it wasn’t enough. In September the management announced that it was suspending the dividend payment altogether.

Despite these growing pains portfolio investors remain keen on the company. The Tashkent-based, but foreign managed, AFC Capital says that Qizilqumsement accounts for a third of its portfolio on its own and Bluestone also has a Buy recommendation on the stock, estimating the shares still have a 14% upside. When the fourth production line comes online the capex should drop to nothing and the revenues will increase; the company’s financials could improve dramatically in the New Year.

“Our price target is a conservative forecast that could be revised significantly upwards if the fourth cement production line opens in December 2021, as the company indicated in 2020, and the company resolves its dividend and cash flow issues,” Bluestone said in a note.

Coal cannot keep up with demand.

Kazakhstan looks to nuclear amid crypto-driven energy shortage

Almaz Kumenov for Eurasianet

President Kassym-Jomart Tokayev has declared that Kazakhstan’s decades-long handwringing over nuclear power has come to an end. Despite widespread fear of nuclear in a country that was used as a testing ground for the Soviet atomic weapons programme, Kazakhstan no longer has a choice, Tokayev said.

Admitting that “we are already feeling the first signs of power shortages in Kazakhstan” – in part due to the rapid increase in electricity-hungry digital-currency mining this year – Tokayev told bankers in the business capital, Almaty, on November 19 that Kazakhstan must pursue nuclear energy at some point soon.

"Looking into the future, we will have to make an unpopular decision about building a nuclear power plant,” Tokayev said. “But, as they say, the role of a leader is to make unpopular decisions.”

In recent years, Kazakh officials have often worried aloud over how to prevent a growing energy shortfall, especially as Nur-Sultan has pledged to clean up its coal-dominated power sector.

Tokayev first publicly discussed the idea of building a nuclear power plant with his Russian counterpart Vladimir Putin in April 2019. Putin offered to assist with Russian technology, including training Kazakh specialists to manage and maintain the plant.

The public reaction that followed pushed the idea onto the back burner. Critics pointed to the threats of a possible ecological disaster, the risks of energy dependence on Russia, and the cost. Many cited the Chernobyl disaster in Soviet Ukraine in 1986 and the Fukushima accident in Japan in 2011. The fears were heightened by the Chernobyl TV series that aired on HBO just as the controversial initiative was being discussed.

Tokayev – having assumed the presidency the month before – hastened
Uzbekistan’s multi-coloured textile revolution

Ben Aris in Tashkent

Uzbekistan has a very long history of making luxury textiles and today the country is trying to revive them. The khalat, the vibrantly coloured long-sleeved silk robe worn by Uzbeks, has been a hallmark of the country for thousands of years and is still worn today by many.

Uzbek craftsmen in Khiva, and the country’s other ancient Silk Road way stations, still practise the delicate embroidery and weave the multi-coloured patterned cloth as their ancestors did, but following a revolution in the textile business in the last few years they are now turning their attention to T-shirts, jeans and shoes.

Uzbekistan is famous for its high quality cotton production that used to be the country’s main source of foreign exchange earnings. However, in 2017 Uzbek President Shavkat Mirziyoyev simply banned the export of raw cotton entirely, forcing the whole industry to invest into textile production almost overnight.

It may have been a rather heavy-handed reform to the sector, but it worked. Within only a few years textile production has soared and the export revenue earned has already overtaken the money Uzbekistan used to make from selling its raw cotton aboard. The idea of going up the value chain is at the core of all of Mirziyoyev’s reform ideas, but it has probably been most successful with the changes made to the cotton-textile complex.

“There is a blooming of Uzbek textiles. We have a new openness to the rest of the world and there have been many changes in the last five years,” Jasur Rustambekov, deputy head of the textile association of Uzbekistan, told bne IntelliNews in an interview in Tashkent. “Textile exports have been exploding. In 2016 Uzbekistan exported to 43 countries; today it exports to 72.”

The production of textiles has been supported by advances made in cotton production. In 1991 Uzbekistan was growing 50mn tonnes of raw cotton, which produced 1.7mn tonnes of cotton fibre but only 7% of the raw cotton was processed into textiles, says Rustambekov.

Kazakhstan, which generates 70 percent of its electricity by burning coal, says it wishes to switch to renewable energy sources such as solar and wind, but so far it has made more optimistic declarations than real progress. The share of renewables of the country’s total energy production is only a few percent. Despite state support for renewables, large investors are not interested in the sector due to the small market and instability of the national currency.

With growing energy shortages, and as the world’s largest uranium producer, it is not a surprise that Kazakhstan sees nuclear as the only option.
This stands in stark contrast to the regime of former president Islam Karimov, who ran a more or less unreformed centralised economy, where the state owned all the key assets.

“As a result of the changes today we are in the first place in terms of cotton fibre production. Before we earned about $1.5bn from raw cotton exports, but now we will get about $500mn from cotton fibre and another $3bn from the export of textiles in 2021. That means new jobs for people and more tax for the government,” says Rustambekov. “There are no state companies in the sector any more. It is all in private hands. The sector was privatised in 2018 and the cluster system [was] introduced to turn raw cotton into textiles more efficiently.”

**Cotton Campaign**
The state has also abandoned the old system of forcing students, doctors, teachers and any one else the state could order or cajole to work in the cotton fields when the harvest was ready. That brought down accusations of forced and child labour and the Cotton Campaign was set up to raise public awareness and organised a very effective boycott of Uzbek cotton products.

A boycott of Uzbek cotton was launched in 2007 and was joined by some 300 companies that under public pressure refused to buy Uzbek cotton products.

Since then, the ban on Uzbek cotton products has been gradually lifted as the Mirziyoyev wound down the unreformed centralised economy, where the state owned all the key assets.

In August last year the activists along with the International Financial Corporation (IFC) and other donors met with Uzbekistan’s Ministry of Investment and Foreign Trade to seek responsible investment in Uzbekistan’s cotton sector and to support reforms to end forced labour,” Allison Gill, senior Cotton Campaign co-ordinator at GLJ-IRLF adds. “As brands are looking to get out of the Uyghur region, Uzbekistan provides an opportunity – to develop new sourcing and to come in under a co-governed structure where workers, producers and brands all have a seat at the table,” the Cotton Campaign said in a statement at the time.

Unwinding the boycott is taking time, and few of the big multinational textile retailers have set up production in Uzbekistan yet, that stage is coming soon, says Rustambekov.

“Most companies joined [the boycott] on a voluntary basis and were free to leave again, and many have,” Rustambekov told bne IntelliNews.

“The US Department of Labour declared us free of child labour and since 2018 this has no longer been a problem. The international organisations, including the IMF, have recognised the new child labour-free status too.”

Since then the Uzbek government has invited delegations from the NGOs and international financial institutions (IFIs) to come and inspect the cotton harvest each year and check the labour practices, including representatives from the International Labour Organisation and the EU.

**New markets**
The exports of textiles are flourishing as the newly established privately owned companies develop their markets, made easier since the currency and exchange controls were lifted in 2017 allowing them to deal directly with customers in dollars.

The main markets so far are places like Turkey, China and the other members of the Commonwealth of Independent States (CIS). But more recently the EU has emerged as a major new market, which is only 14 days away by truck, says Rustambekov. In April this year the EU granted Uzbek textiles a special preferential status that allows exports to the EU with no quotas and no duties.

Uzbekistan also has a preferential trade deal with the US where there are also no quotas, but there are export duties to be paid. Exports of textiles to the EU have already jumped fourfold y/y since the new special status was granted.

The next phase will be with the multinationals move in and start to produce their shoes, jeans and T-shirts in Uzbekistan. While preliminary deals have already been signed with international shoemakers Nike and Adidas last September the big deals are yet to be done.

“We are in talks with more than 100 major brands, and we have invited everyone to come and see. But it will demand lots of investment – more than $2.5bn is needed. Still we are already attracting about $500mn a year into setting up manufacturing plants,” says Rustambekov.

The first investment began in 2017 with the liberalisation of the sector, as “that allowed the first foreign investment to happen and the first international manufacturing business could start,” says Rustambekov, who adds there are about 200 international companies already working in Uzbekistan, although none of them are big ones.

“There are British, Swiss, Dutch, Austrian, Latvians, companies from China, the UAE and Kingdom of Saudi Arabia, as well as lots of Poles,” says Rustambekov.

In 2020 Uzbekistan produced $2bn worth of textiles for export and expects to sell $2.2bn this year before rising to $3bn the year after. But those are only the exports. As the most populous country in Central Asia and the third most populous in the CIS, Uzbekistan also has a large domestic market: including the domestic market the textile business is currently worth $4.7bn, says Rustambekov.

“We don’t just work for the export market. The internal market is growing every year too. But broadly speaking you can divide the market into four: the internal market, the CIS, Turkey and China,” says Rustambekov. ●
Newsbase is a global energy publication, covering oil, gas, power and related topics in the five main geographies of North America, Latin America, Africa, Asia and the Former Soviet Union.

Today Newsbase has a total of 14 titles such as the African Oil & and Gas Monitor and the Asian Power Monitor that are publish daily on our website or weekly as a newsletter that is emailed to subscribers. All Newsbase publications are subscription products.

Newsbase has a 25-year pedigree with staff all over the world, reporting daily on developments in the global energy market markets, focusing the power, oil and gas sectors.

Newsbase was founded in 1995 and taken over by Emerging Markets Direct in 2019, the leading independent emerging markets publishing house covering business, economics, finance and politics in Eurasia and publishes bne IntelliNews.

Emerging Markets Direct is domiciled in Estonia and owned by private investors. It has bureaus in Edinburgh, Berlin, Moscow, Prague, Almaty and Istanbul as well as reporters in over 40 countries.

Newsbase has a total readership of 700 leading corporate entities and over 9000 professionals, including most of the leading oil & gas producers and a major utility companies in Europe, the US, Asia and Africa, as well as leading service companies, governments, consultants and other industry participants.

Newsbase subscribers learn what’s happening in these regions long before the mainstream media reports on it and have access to the deep analysis based on the reporting from local correspondents with a long experience of covering the story.

Newsbase provides pragmatic and actionable information for investors and companies worldwide about the emerging markets that helps them to make informed decisions.

Sales
Elena Arbuzova earbuzova@intellinews.com
+7 916 001 5510  I +44 117 318 1763

Stephen Vanson svanson@intellinews.com
+44 753 529 6646

Editorial
Ben Aris editor-in-chief
editor@newsbase.com  I +49 176 6401 6602
International headlines have featured the word “war” with alarming frequency in recent days. It has come in different contexts, but inevitably involved Russia as a key party. That makes it all the more alarming because Russia is not just any other country, at least when it comes to wars. 

The Polish government describes the ongoing standoff between its security personnel and predominantly Kurdish migrants, who are trying to get into the EU from Belarus, as an act of hybrid war against Poland waged by President Aleksander Lukashenko and, by extension, his senior partner, Vladimir Putin.

Poland and Baltic countries are now pondering triggering Article 4 of the NATO treaty which envisages consultations with other members of the alliance if "the territorial integrity, political independence or security of any of the parties is threatened."

Article 5 of the treaty is triggered if a member state is attacked but Article 4 is for less extreme situations, when members are merely threatened. Article 4 has so far been triggered four times, once by Turkey over the 2003 Iraq War, in June 2012 after the shooting down of a Turkish military jet by Syria, in October 2012 after Syrian attacks on Turkey and their counterattacks, and in February 2020 after increasing tensions arising from the Northwestern Syria offensive. Latvia, Lithuania, and Poland called an Article 4 meeting in March 2014 in response to the Crimean crisis, but the article was not triggered.

Meanwhile, US officials have been making unusually alarming statements about Russia’s alleged plans to re-invade Ukraine.

Finally, General Nick Carter, chief of the British Defence Staff, warned about soaring risks of a “miscalculation” that could result in a war between Russia and the West. bne IntelliNews columnist Mark Galeotti said in a recent opinion piece that there is no evidence of any Russian role in the Belarusian migrant crisis so far and the knee-jerk assumption that Russia behind every problem can lead to poor policy choices.

Although the border crisis in Belarus draws most attention, it is the standoff over Ukraine that lies at the heart of the story of
Rising tensions in Eastern Europe, which is why the bewilderingly radical American statements require special scrutiny.

“Our concern is that Russia may make the serious mistake of attempting to rehash what it undertook back in 2014, when it amassed forces along the border, crossed into sovereign Ukrainian territory and did so claiming falsely that it was provoked,” Secretary of State Antony Blinken said on November 10.

Blinken was reacting to the Russian military build-up in areas adjacent to Ukraine. It was the Americans who started sounding alarm bells. European allies and even the Ukrainian military initially took it sceptically. But the US shared intel and soon at least Ukraine and France were on board.

Russia’s build-up near Ukraine is a repeat of similar developments last spring, when the US and its East European allies were also up in arms with what they saw as a threat of imminent Russian aggression.

The prehistory of this year’s seemingly perpetual crisis begins with the election of Ukrainian President Volodymyr Zelenskiy in the spring of 2019. His landslide victory over his predecessor, Petro Poroshenko, was in no small part achieved thanks to his promise of making peace with Moscow and ending the war against Russian-backed separatists in the east of the country.

At the beginning, things seemed to be on the right track. The Ukrainian and Russian leaders met for talks in Paris in December 2019, with French President Emmanuel Macron and German Chancellor Angela Merkel as mediators. Both sides expressed cautious optimism with the results, which soon showed – the war in the east of Ukraine came to a near-halt, with the lowest number of casualties since its beginning in 2014. There was even a big prisoner-of-war swap just before the long New Year’s holidays, a feather in Zelenskiy’s cap.

But later on things became difficult. First, Zelenskiy encountered strong resistance from Ukraine’s own security community, backed by members of far right volunteer units that were openly sabotaging de-escalation agreements achieved in Paris. Secondly, he got sucked into the American domestic political cycle, as President Donald Trump tried to use him as a weapon against Joe Biden.

Finally, his popularity bubble began deflating. December 2020 polls showed the pro-Russian Opposition Platform/For Life (OPZZh) bloc overtaking Zelenskiy’s Servant of the People Party in electoral ratings.

Another development around the same time was Azerbaijan’s stunning attack and victory over Armenia, which was achieved largely thanks to Bayraktar drones supplied by Turkey. That small and victorious war, which saw a Russian ally defeated, instilled hopes in Ukrainian security circles that it could be somehow repeated in Donbas.

But it might be the factor of Trump going and Biden coming, with his strong views on Ukraine, which contributed to Zelenskiy’s abrupt change of tack with regards to Russia and the peace process.

It started with a full-blown assault on Putin’s man in Ukraine, Viktor Medvedchuk, the person behind the OPZZh bloc. That involved a criminal case against the man himself as well the closure of popular TV channels he was alleged to control via a proxy.

Simultaneously, Zelenskiy and his foreign ministry went on a PR offensive, whipping up international support for Ukraine’s Nato membership and, on occasions, even reprimanding Nato countries for not accepting Ukraine into the block. A series of programmatic publications by senior American diplomats and military on the website of Atlantic Council, a Nato-linked think-tank, suggested that the campaign was co-ordinated with circles close to the Biden administration.

In early March, several senior figures affiliated with the Atlantic Council recommended that the Biden administration grant Ukraine the status of “major non-Nato ally” and threaten Russia with activating a membership plan for Ukraine should the Kremlin fail to be more co-operative on peace settlement.

Inevitably during the same month, the effective cease-fire on the frontline in Donbas collapsed, while Russia started demonstratively amassing troops near Ukrainian borders. A series of strong-worded statements by Nato countries and the alliance itself followed, with the Russians retorting in kind. The standoff ended when both sides seemingly exhausted their strategic reserves of cockiness.

In the following months, Putin and other Russian officials began spelling out what they see as red lines with regards to Ukraine.

In broad terms, that pertains to preventing any talk about Ukraine’s Nato membership, which would bring the US-led alliance within 550 km from Moscow on the southern flank,
in addition to Nato’s Baltic realm already beginning just 600 km away from the Russian capital in the west. In both cases we are talking about distances smaller than that between Washington and Boston.

When it comes to this perceived threat, Putin knows he is being supported by a vast majority of Russians, given the country’s historical experience of various deadly menaces from the West and the resulting paranoia.

There are also more specific red lines, such as not allowing Nato vessels anything remotely similar to American “freedom of navigation” operations in South China Sea aimed at antagonising Beijing.

Ever since the Kerch strait incident in 2018, when the Russian navy shot at Ukrainian vessels which tried to pass into the Sea of Azov, Russia has been on high alert for any similar developments. It didn’t help that hawkish American experts, such as former US army commander in Europe Ben Hodges, were actively pushing for Nato’s active role in containing Russia in the Black Sea theatre after Russia has re-establish itself in the Mediterranean.

Putin played it cool when the British warship HMS Defender sailed through what Russia deems its territorial waters off the coast of the occupied Crimea. But when on October 20 two nuclear-capable US bombers flew near Crimea, followed by US warships entering the Black Sea, Russia once again began a very demonstrative military build-up on strategic directions pointing towards Ukraine.

Another likely cause of the escalation was Ukraine successfully testing a Bayraktar drone, of Karabakh war fame, against Russian-backed forces in Donbas.

All of these developments went in parallel with the US, Ukraine and several other European countries, notably including Poland, trying to derail Nord Stream 2 – a gas pipeline project that could potentially create a multi-billion-dollar gap in the Ukrainian budget by starving the country of gas transit revenues.

They pinned their hopes on the election success of the German Green Party, which positions itself as a vocal opponent of the NS2. The party showed strong support during the election campaign, but in the last few months it was overtaken by the Social Democrat Party, who proceeded to win the election.

Eventually Biden decided it was no longer productive to keep antagonising Germany, a key Nato ally, so he struck a deal with Merkel, promising not to apply sanctions against NS2 in exchange for Merkel’s promise that Russia would not try to suffocate Ukraine’s economy by depriving it of gas transit. But that does not mean the US wouldn’t use the period when Russia finds itself tied up by the Nord Stream certification process in Germany to push Putin’s red lines with regards to Ukraine. Or, in an ideal scenario, lure Russia’s paranoid leadership into making a disastrous political mistake that would swing public opinion in Germany and derail NS2 altogether. That might explain all the moves in the Black Sea and elsewhere which are designed to provoke a knee-jerk reaction in Moscow.

Enter Lukashenko – a certified joker in this house of cards. The hawkish wing of the Western political establishments finds it convenient to brand him as Putin’s obedient puppet. But Russia’s failure to agree on deeper integration with Belarus, which became apparent this autumn, is larger than life evidence that Lukashenko is playing his own game by pitting Russia against the West.

The crisis he manufactured on the Polish border allows him to exert pressure on neighbouring EU countries, which don’t recognise him as a legitimate president after 2020 elections. But he is also blackmailing Russia, which coerced him into drafting a constitutional reform that envisages him resigning from the presidential post.

In his quest to raise the stakes by making the riot at the border resemble war, the Belarusian dictator is inciting Middle Eastern refugees to attack Polish border guards, arming them with wire cutters and stun grenades, and backing them with spotlights and laser beams to blind Polish soldiers.

Lukashenko made a conscious attempt to get Germans involved by threatening to block gas supplies via the Yamal pipeline that runs through Belarus and Poland before reaching Germany. That strategy paid off this week when he got a phone call from Angela Merkel, which amounted to the first Western leader talking to him as a legitimate ruler of Belarus since last year’s election.

But in doing so, he is becoming a major liability for Putin, who needs to get Nord Stream 2 up and running, not least because it would get untie his hands with regards to Ukraine and a plethora of other issues, if only to a limited extent.

Lukashenko is not the only one who is using the international policy conundrum, which Putin is facing, to advance his goals. On Tuesday, Azerbaijan renewed its aggression against Russia’s military ally Armenia, which now has every right under the joint defence treaty to request assistance from Moscow.

Alarming, this entire entanglement of conflicting interests and stealthy sabotage is beginning to resemble the years and months preceding two previous big wars in Europe. The fact that a few international actors are normalising war as part of their political vocabulary adds to the overall sensation of global political establishment entertaining itself with the game of Russian roulette.

Leonid Ragozin is an independent journalist based in Riga. He covers Russian and Ukrainian politics for a variety of Western media outlets. He co-authored multiple editions of Lonely Planet Guides to Russia, Ukraine and other countries. He tweets at @leonidragozin.
Russia has clearly been building up forces close to Ukraine’s border but as bne IntelliNews has reported, experts are convinced that Russia will not actually attack. So what is really going on?

This is not the first time that Russia has built up its forces on Ukraine’s border. In April the Russian army also built up its forces on Ukraine’s border in a very public and obvious way that also created a major scare.

That confrontation only ended at the end of April when Russian Defence Minister Sergei Shoigu ordered the men back to barracks at the end of the month.

At the time analysts speculated the gesture was designed to improve Russia’s hand ahead of a one-on-one summit between Russian President Vladimir Putin and US president Joe Biden in Geneva on June 16. The idea was to show the US that Russia had the ability to cause serious trouble in the conflict in Ukraine, which the Kremlin turned on or off at will.

Now there is another build up and a second Putin-Biden summit is being planned to happen sometime before the end of the year. Could the same thing be happening again? Some analysts think so.

Part of the puzzle is that the Kremlin is increasingly unhappy with what Putin called a de facto membership of Ukraine into Nato, even if the country is not being offered formal membership. The US has increased its military aid to Ukraine this year from the approximately $250mn it got in the last two years to $400mn. US navy vessels just delivered a reported 80 tonnes of arms and ammunition to Ukraine and the UK has also closed a $1.3bn naval upgrade deal earlier this year. UK Defence Minister Ben Wallace was in Kyiv earlier this month to discuss a follow-up deal.

Putin has taken all this badly and said that the west is ignoring Russia’s “red lines” when it comes to arming Ukraine. To make matters worse Ukraine used its new Turkish-made drones against a rebel artillery unit in Donbas this month and fired a US-supplied Javelin missile for the first time as well.

Moscow has protested loudly, claiming that the US is whipping up “hysteria” about the troop movements and escalating the situation in Donbas with these arms sales.

All these moves could be taken as both sides playing a game of “multi-dimensional chess” ahead of the next summit between the two presidents.

Putin’s re-positioning of troops closer to Ukraine is part of a Russian push to secure and frame the terms of another summit with Biden, two sources close to official Russian foreign policy circles, told Reuters; The other big aim is to signal to the West that it should stop helping Ukraine upgrade its military and that Kyiv should avoid escalating a grinding conflict with Russian-backed separatists in eastern Ukraine, the two sources added.

"Putting needs another summit meeting with Biden," Andrey Kortunov, head of RIAC, a foreign policy think-tank in Moscow close to the Foreign Ministry, told Reuters. "Apparently he now believes that the Europeans cannot really do much without the Americans and that the U.S. President has the final decision on European security measures on behalf of the Western alliance."

In response to the western complaints Putin has complained about aggressive Nato troop movements, including naval exercises in the Black Sea and nuclear exercises that involve bombers flying within 20km of Russia’s border.

Nato admits there has been a significant build up in its own forces facing off against Russia since before the current crisis started, but dismiss this as an innocent reinforcement against potential Russian aggression.

In an interview with CNN Nato Secretary General Jens Stoltenberg said: “Nato has implement the biggest reinforcement since the end of the Cold War. For the first time in our history we have combat ready troops in the eastern part
of the alliance. We have tripled the size of our response force. More presence in the air, on land, the sea – in the Black Sea, the Baltic Sea. And all this of course demonstrates to Russia that there will be consequences if they once again use force against and independent sovereign Ukraine.”

Some have suggested that by moving up troops closer to Ukraine, but in insufficient numbers to threaten an actual imminent invasion, Putin is creating a new Cuban Missile crisis to get some leverage over the White House in possible talks. His intention is to hammer home that the recent increases in weapons delivery and military aid is destabilising and Russia won’t tolerate Ukraine being turned into a “giant unsinkable aircraft carrier parked on Russia’s border,” as Dmitri Trenin, director of the Carnegie Moscow Center called Ukraine.

"Obviously, since [the last build up of Russian troops on Ukraine's border in] April Moscow has discovered that a new Cuban Missile Crisis over Ukraine could be very effective in getting Biden’s attention and inflaming his desire for a personal engagement with Putin," said Vladimir Frolov, a former Russian diplomat in the United States who is now a foreign policy analyst, as cited by Reuters.

The calculation seems to be that, as Biden clearly wants to downgrade the “Russia problem” so he can concentrate on China and domestic politics, that gives the Kremlin real leverage over the White House by demonstrating its ability to escalate the situation with Ukraine at will. The hope would appear to be by escalating, the White House will be willing to cut a quick deal or give the guarantees on freezing the situation with Ukraine – the “red lines” that Putin is talking about – so that the US can move on to deal with its foreign policy priorities.

In a big foreign policy speech, Putin said Moscow had no appetite for war, but suggested that Russia’s posture in eastern Europe was paying some dividends and making its adversaries take heed.

"Our recent warnings have had a certain effect: tensions have arisen there anyway," Putin said. "It is important for them to remain in this state for as long as possible, so it does not occur to them to stage some kind of conflict on our western borders... we do not need a new conflict.”

The Kremlin leader then ordered Foreign Minister Sergei Lavrov to push for serious long-term guarantees from the West that he said could ensure Russia’s security.

Russia has taken a much harder line with the west since Lavrov gave a new rules of the game speech in February where he said that Russia was no longer willing to accept the dual policy in the west of imposing value-based sanctions with one hand and asking for cooperation in solving big geopolitical problems or doing business with the other. Moreover, Lavrov went on to say shortly afterwards that Russia was willing to break off diplomatic relations with Europe entirely. And the Kremlin went as far as actually breaking off diplomatic relations with Nato entirely in October.

Part of the explanation could also be that the US is playing the same card on Russia that the Kremlin played in April: deliberately fanning the flames of war talk in an effort to unite Europe around its backing of Ukraine and negate the threat of Russia’s troop movements.

One element that supports this take is that the concerns about the Russian troop build up have largely been driven by the US intelligence services. Russia did move up some powerful new military units close to Ukraine, but the White House has called the Kremlin’s bluff by playing up these moves to make Russia look like an aggressor and put it into a defence position, forcing it to deny its spoiling for war.

The fears began with a Washington Post report at the end of October and that has been followed by regular statements. But what is different from the April build up is the lack of supporting evidence on social media and also the apparent lack of concern in Kyiv or any visible signs of preparation for war by Ukraine. Indeed, Ukraine’s border guards and military did start a large exercise this week, but on the border with Belarus that was designed to stop migrants crossing over in Ukraine.

“One of the interesting things about the latest uptick in “is Russia about to invade Ukraine?” speculation is that (unusually) it’s been western countries talking it up - not Ukraine,” Jonah Fisher of the BBC tweeted at the weekend.

The US administration has been aggressively pushing this story with largest part of the reporing on the tensions still sourced from US intelligence reports and statements from a wide variety of senior US officials. Unlike the very public

“Obviously, since April Moscow has discovered that a new Cuban Missile Crisis over Ukraine could be very effective in getting Biden’s attention”

build up of Russian troops in April, the amount of social media footage showing troop movements and local reports from the ground on social media to support the story is significantly less.

If this is a ruse by the White House to define the terms of the upcoming summit then it seems to be working. The Kremlin has sounded increasingly shrill in denials of an ill intent and its complaints about the US ignoring its “red lines” have become lost in the noise. In its place the talk of new even harsher sanctions is back that has already hit both the value of the ruble and ended a year-long stock market rally. ●
The West’s response to Lukashenko’s migrant gambit might seal Belarus’ fate

Mark Galeotti

Is what is happening on the Belarus-Poland border a hybrid war or a human tragedy? Clearly, it is both. However, it is also an excuse for dangerous wider polemics, not least about a supposed “Putin connection” that not only devalues the calamity on the ground and Belarusian President Alexander Lukashenko’s personal responsibility, but also risks escalating the crisis further.

Back in May, when Lukashenko was flailing around for ways to punish the European Union for the temerity to criticise his gratuitously brutal crackdown at home and impose sanctions after he forced down a Ryanair flight to arrest an opposition journalist, he threatened to open the floodgates to a variety of threats. “We stopped drugs and migrants” coming to the EU, he claimed, but “now you will eat them and catch them yourselves.”

Soon thereafter, Belarusian tourist agencies operating in the Middle East began making it clear that they were in a position to facilitate the issue of individual and group tourist visas, ostensibly for everything from hunting trips to attending sporting fixtures, to those eager to claim asylum or refugee status in the EU.

The role of the Belarusian state in this operation is as obvious as it is extensive. Migrants arriving in Minsk were bussed first to the Lithuanian and later the Polish border. Belarusian border guards advised them on how and where to cross the border. Now that Polish police and military have been deployed to seal the frontier, Belarusian security personnel have been trying to breach their border fences.

An escalating crisis

On the other hand, this seems also to have spiralled beyond Lukashenko’s original intent. On the one hand, he seems – characteristically – to have instinctively upped the ante when first Lithuania and then Poland instituted measures to block the flow of migrants. What was presumably originally conceived as a limited act of malicious blackmail – back off or else you can expect more of the same – has become a major incident involving thousands of increasingly desperate men, women and children, currently trapped inside Belarus. At the same time, as Tadeusz Giczan has observed, the migrants themselves appear to have begun organising themselves, in ways presumably known to the authorities, but not necessarily under their control.

It is hard to see how this ends well. The Poles are disinclined to let in thousands of migrants, even if most appear to want to pass through to Germany. Locked into its own political tussle with Brussels, Warsaw is also happy to amplify the crisis to present itself as the strong-willed and essential defender of Europe. Besides, to let in some would only encourage Minsk to bring in more and keep up the pressure.

Lukashenko also has his own perverse reasons to magnify the situation. Not only is he hoping to scare other European countries into making some kind of deal to defuse the situation; he presumably also fears the consequences if he is seen to back down. Shorn of any legitimacy, his regime depends on its reputation for ruthlessness and remorselessness. For such a dictator, an admission of failure may encourage renewed protests on the street but, rather more probably, may leave him open to challenge within his own elite.

Like Macbeth, he is “in blood stepped in so far that, should [he] wade no more, returning were as tedious as go o’er”. He has gone so far, he can only escalate.

The hand of Putin?

All this can be explained by the internal dynamics of Lukashenko’s regime and his own pattern of thuggish behaviour. To many, though, that is not enough. Polish Prime Minister Mateusz Morawiecki has accused Vladimir Putin of being the “mastermind” behind it the crisis, for example. He seems to have to be the Blofeld of their global dramas.

There is no evidence of any Russian role so far. Organising the migrant flows largely was done by opportunistic businesspeople – both legal travel firms and illegal migrant smuggling rings – and supported by the Belarusian KGB. The airlines which flew them may well have known what was going on, but the migrants had legal visas and had paid for their tickets, meaning that the carriers had at least plausible deniability and at most a legal duty to fly them.

www.bne.eu
Instead, this interpretation appears based on little beyond rumour and assumption. In particular, there is the belief that because Belarus is now dependent on Russian political and economic support, Lukashenko would have to have Putin sign off on any such venture.

This is a deeply problematic argument. First of all, it is foolish to underestimate Lukashenko’s personal agency. This is the man who still refuses to give formal recognition of Russia’s annexation of Crimea and engages in continued trade disputes with Moscow. He recently even threatened to cut off gas supplies flowing to Europe, something that earned him a slapdown from Putin.

Moscow’s problem is that having thrown their weight behind Lukashenko (something some in policy circles now regret), they are stuck with him. If he falls, they will be considered to have suffered a defeat and will have to choose between direct intervention and the likely rise of a pro-Western successor regime. Lukashenko thus has considerable room for manoeuvre.

According to Franak Viačorka, a Belarusian journalistic and adviser to opposition leader Svetlana Tikhanovskaya, “it’s like a small boy hiding behind the older brother… Lukashenko is trying to use the Kremlin and to threaten the West with the Kremlin, [but] very often not consulting [over] his statements with it.”

Ironically, many who argue he is now simply Putin’s puppet because Moscow pays the bills also excuse America’s failure in Afghanistan because the Kabul regime was too wilful, too corrupt, even though Washington bankrolled it. Empires rarely have the kind of control over their notional subjects as they might like.

**Pushing Moscow into Minsk**

Secondly, this assumption can lead to bad policy. Of course Moscow is neither going to do the EU any favours, nor pass up on any opportunities to use the situation to its advantage. Lavrov’s disingenuous suggestion that the EU should pay Belarus to stop the migrants and the ‘heavy metal diplomacy’ of sending paratroopers to exercise in Belarus and a couple of bombers into its skies represent a bid to put pressure on Europe.

However, this is not a good crisis for the Kremlin. Those hoping for an eleventh-hour reversal of German policy over Nord Stream 2 are again pressing their case, framing it as some kind of rebuke over Belarus.

Likewise, British Foreign Secretary Liz Truss has affirmed that “Russia has a responsibility to end the migrant crisis in Belarus”.

To an extent that is true, in that every country has a responsibility to do its bit to end the cynical use of migrants as political weapons. Furthermore, even if it is not the boss of Lukashenko, clearly Moscow has more leverage on Minsk than Berlin or Brussels, Warsaw or Vilnius.

However, there are two dangerous corollaries. The first is – as some are already asserting – that the only way to hit Lukashenko is to bring pressure to bear on Putin.

There is no solid evidence that the Kremlin really wants to take over Belarus; even the much-touted new common military doctrine has still not been published. However, there may come a point at which they decide that if they are having to pay for the country, and being punished for Lukashenko’s misdeeds, they might at least extract the maximum advantage.

That would presumably mean using the Russia-Belarus Union Treaty as the pretext for some kind of leveraged take-over and the replacement of the toxic and wilful Lukashenko with a genuine Russian proxy. And that, ironically, is something no one wants, not Putin, not Lukashenko, and not the West, yet which may acquire an inexorable momentum of its own, if people are not careful.

*Mark Galeotti is director of the consultancy Mayak Intelligence and also an honorary professor at UCL School of Slavonic & East European Studies.*
German traffic light coalition could worsen frictions with CEE

Marcus How and Gunter Deuber in Vienna

Suddenly, the odds on what was supposed to be the long shot have shortened considerably. On 21 October, the Social Democratic Party (SPD), Greens, and Free Democratic Party (FDP) said that they were planning to have the SPD’s Olaf Scholz confirmed as chancellor in the Bundestag by 6 December.

An Ampelkoalition (traffic light coalition) is thus looking increasingly likely. Yet the direction of foreign policy under such a government is less clear. The election campaign and the current negotiations have largely been dominated by domestic issues, such as tax, climate and social policy. Of the 10 chapters in the first joint coalition paper, only one is dedicated to foreign and European policy.

National elections are rarely fought on such issues. The Greens, FDP and, to a lesser extent, SPD variously advocate a greater geopolitical role for Germany. But there is little reason to expect greater dynamism from an Ampelkoalition. The focus on domestic policy suggests that approaches to “Europe and the world” will tread the well-worn path of previous German governments.

Indeed, while Germany has often underwhelmed its partners in its foreign policy concepts – for example by subordinating values-based approaches to trade – it has also been a major success economically. The abandonment of the principle of Wandel durch Handel (change through trade) would require an economic logic that does not currently exist.

Nevertheless, the devil is in the detail – and small differences can have an impact. In the context of Central, Eastern and Southeastern Europe (CESEE), there are several indicators that suggest modest change ahead. The salient areas concern the direction of EU integration, the rule of law, approaches towards Russia and EU enlargement.

Convergence through divergence?
The prospects of further integration at the EU level are of the most relevance for CESEE. The SDP and Greens are integrationist in their policy orientation. However, this is likely to be diluted significantly by the FDP, especially if it secures the finance ministry.

The FDP advocates restoring the constitutional debt brake as soon as possible. On the domestic level, a compromise will be possible through the shifting of debt-financed public investments from the primary budget to a bespoke agency. Large-scale spending by Germany – with the aim of making the 2020s “the decade of investments in the future” – will likely have positive spill-over effects for the rest of the EU, including the CESEE member states, many of which are key nodes in the German supply chain.

However, the entrenchment of spending infrastructure on the EU level is unlikely. The grants and loans enabled under the COVID-19 recovery package, Next Generation EU (NGEU), are unlikely to form the basis for either debt mutualisation or budgetary pooling. The Stability and Growth Pact (SGP) will remain a sacred cow, even if it becomes increasingly irrelevant. At most, the FDP would support the completion of

The coalition paper briefly mentions the need for Europe to ensure the diversification of its energy supply but the Greens are likely to abandon their opposition to Russia’s Nord Stream 2 gas pipeline.
The Ampel parties, especially the Greens and FDP, are united in their desire to promote a foreign policy that puts values at its forefront. This would indicate that relations with Russia and China would deteriorate. More likely, values-based foreign policy will boil down to a question of marketing rather than substance.

In the coalition paper, there is a brief mention of the need for Europe to ensure the diversification of its energy supply – in other words, away from Russia, Germany’s primary energy supplier. This is significant rhetoric given Germany’s commitment to the Nord Stream 2 gas pipeline, the opposition to which the Greens will likely abandon. Substantive moves in this direction would be very significant for most states in CESEE, the vast majority of which are strongly in favour of diversification.

However, it is unclear which geopolitical steps an Ampelkoalition would proactively take to diversify supply. The outgoing grand coalition supported expanding the infrastructure for importing liquified natural gas (LNG), but the terminals that are envisaged in Brunsbüttel, Wilhelmshaven and Stade are facing questions over their viability.

Outside of Germany, greater commitment to energy diversification could entail that an Ampelkoalition will increase support for the Three Seas Initiative (3SI), which seeks to develop infrastructure across EU-CESEE on a north-
south axis – and to which Germany finally committed in 2021 following years of flip-flopping. As part of 3SI, LNG infrastructure is being developed, but it is more probable that an Ampelkoalition would prioritise the financing of green projects.

As such, the strategic steps that an Ampelkoalition would take to diversify energy supply both domestically and within Europe remain unclear, indicating that there is no clear vision beyond focusing on the development of renewable electricity at home.

**Waiting for enlargement**

It is noteworthy that the coalition paper does not mention the enlargement of the EU, let alone the prospects of the Western Balkan states joining. The Greens set out some specific objectives in its election programme, while the SPD paid only lip service and the FDP did not raise the issue at all. This suggests that an Ampelkoalition will continue a policy of passivity on enlargement, supporting it in theory but leaving the stage vacant for states such as France and the Netherlands to capitalise on their relative influence.

Indeed, Germany has squandered considerable amounts of political capital in the Western Balkans, with the USA remaining the state with the most influence. Individual items, such as visa liberalisation for Kosovar nationals, might inch forward, but an Ampelkoalition would need to commit considerable resources to generate fresh momentum, for which there does not seem to be political will.

**Strengthening the core**

Based on these indicators, our assessment is that an Ampelkoalition is unlikely to depart radically from the policy continuum. Yet a key variable will be how the ministerial portfolios are divided between the three parties, especially those of finance and foreign affairs.

Overall, German influence within the EU as well as internationally is not likely to increase in comparison with the Merkel era. In CE/SEE it may even possibly decline. Merkel was a well-known figure here and in large parts of the region respected as an anti-communist lamplight. Merkel also had a deep understanding of Eastern European and Russian history; the new German leadership is likely to be less versed in this and thus possibly understand the region and its problems (even) less.

Nonetheless, the primary implications for CESEE of an Ampelkoalition is that there will be support for measures that, deliberately or otherwise, increase the likelihood that a two-tier EU will emerge. The Western European member states, led by Macron and the Netherlands’ Mark Rutte, have been championing the strengthening of the “core” for some years now, to which Angela Merkel was opposed.

Many of the measures in this respect were likely to have eventually been implemented regardless. But timing is important, and with the faster implementation of punitive measures to uphold the rule of law – including facilitating the potential suspension of the voting rights of EU member states such as Hungary and Poland – divergence is more likely than convergence. Such a scenario could be mitigated by the deepening of interdependence through fiscal integration; however, the FDP is very unlikely to support such measures.

More likely, an Ampelkoalition will remain primarily concerned with domestic issues, namely the strengthening of domestic demand through public investment and ‘predistributive’ measures. This is likely to have a positive economic impact for CESEE states even in the event of increasing geopolitical polarisation.

Ultimately, Germany is one (admittedly major) actor in an ensemble cast. Political developments elsewhere will therefore influence its priorities. If the united opposition defeat Orban’s Fidesz party in the Hungarian election in 2022, or the Law and Justice Party in Poland calls snap elections that it loses, this will change the outlook very significantly. Confrontation may then no longer be necessary. Risk-averse foreign policymakers in Germany may then breathe a sigh of relief.
Ukraine GDP slows to 2.4% growth in 3Q21, UkrStat estimates

Ukraine’s 3Q21 real GDP increased 2.4% year on year, slowing from 5.7% y/y growth in 2Q21, according to preliminary estimates from the State Statistics Service released on November 15. The seasonally adjusted GDP increased 1.4% quarter on quarter in 3Q21.

This is another set of disappointing statistics showing the extreme weakness of Ukraine’s economy. With a 3.5% y/y fall of the economy in 3Q20, the result of 3Q21 means that Ukraine’s output is still below its pre-pandemic level.

Albania has Europe’s highest share of households at risk of poverty

Albania has the highest share of households at risk of poverty among the EU countries, says Eurostat. The share of people at risk of poverty was just over 50% as of 2020. No other country topped 40% for either category.

In candidate country Montenegro and EU member Romania, the share of people at risk was 36.3%. High risk in candidate countries North Macedonia, Turkey and Serbia scored 34.1%, 33.2% and 31.1% respectively, as well as EU member Bulgaria (33.2%). Across the EU, the rate was 21.0%. The lowest risk of poverty was in Czechia at 12.1%, followed by Slovenia (13.7%), Slovakia (14.9%) and Finland (15.4%).

Georgia’s exports hit new record in October after 32% y/y growth

Georgia’s exports surged by 32% y/y to $411mn in October, and the growth compared to October 2019 was equally impressive at 29%, according to data released by the statistics office Geostat.

In January-October, the country’s exports rose by 24.9% y/y (to $3.39bn) and by 11% compared to the same period of 2019. The country’s Minister of Economy Natia Turnava praised the performance, arguing that this is the result of the government’s import substitution policies.

Poland’s GDP growth beats consensus with 5.3% y/y expansion in Q3

Polish GDP expanded a seasonally adjusted 5.3% y/y in the third quarter, easing after a jump of 10.9% y/y in the preceding three months, the Central Statistical Office (GUS) said in a flash estimate on November 12.

The flash reading comes above the consensus line of 4.8% y/y to affirm Poland’s economy is on track for a sustained recovery after the COVID-19 (coronavirus) induced recession that lasted 12 months from Q2 2020 to Q1 2021.
Disruptions in global value chains continue to weigh on Central and Eastern Europe, and the Delta variant is blurring the outlook for the fourth quarter. Yet the activity outlook for 2022 remains sound. Record high inflation can no longer be written off as temporary. We see rates getting close to 3% across the region.

There is no doubt that supply-side factors have been a primary driver of accelerating inflation since the spring. But in addition to energy and food, price increases have become generalised and visible in elevated core inflation numbers. This signals that inflation is becoming widespread and, in 2022, the contribution of demand-side pressures and wages should take a leading role in holding core inflation at elevated levels.

The inflation peak in the CEE3 is just ahead of us in the coming months and is set to remain elevated to the end of the first quarter of 2022. Hungary’s headline inflation should reach 6.8% y/y in November, while Poland’s reading should be close to 8%; that’s a figure not seen since 2000.

The inflationary impact of supply shocks is not over. Consumers are facing inevitable increases in regulated prices of electricity and natural gas. In Romania, Parliament capped electricity prices for households at last year’s level, but it might not prevent indirect price pressure, as energy bills for firms are largely determined by markets. It’s a similar story in Hungary, where utility prices for households are capped, but companies will shift the increase in producer prices onto consumers indirectly. In addition, Poland decided to hike excise tax rates on alcohol and tobacco products from early 2022. Some moderation of headline inflation is expected due to base effects (high prices a year before) from the second quarter of next year.

The most hawkish central bank in the CEE3, the National Bank of Hungary, started with a cycle of interest rate hikes in June 2021. We see the terminal rate of 2.75% being reached by spring 2022 (just before the general election in April).

One of the most dovish central banks in Central Europe, the National Bank of Poland, is catching up after making a surprise 40bp hike in October. This is due to the rising inflation risk.

And Romania, which has been very dovish until recently, launched a tightening cycle in October with a 25bp move. We expect the NBR will deliver at least 25bp rises at each of the following meetings until we reach 3%.

**CPI inflation close to the peak in CEE3**

Wages and demand will come to the fore in 2022
Are you interested in following the countries of Emerging Europe and Eurasia more closely?

Then sign up for free for a two week trial!

Eastern Europe · Russia · Ukraine · Belarus · Central Europe · Czech Republic · Hungary · Poland · Slovakia · Baltics · Slovenia · Southeastern Europe · Turkey · Albania · Bosnia · Bulgaria · Croatia · Kosovo · Moldova · Montenegro · North Macedonia · Romania · Serbia · Eurasia · Armenia · Azerbaijan · Georgia · Iran · Kazakhstan · Kyrgyzstan · Tajikistan · Turkmenistan · Uzbekistan · Mongolia

Fill out the form to start your trial tomorrow tinyurl.com/PRO2wkTrial or contact sales@intellinews.com for more information