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## INTELLINEWS

December

2023

Czechia in last place as rest of the EU starts to recover

Oil continues to flow to Israel via Turkey despite Erdogan's vehement speeches on plight of Gaza

Russian businesses embrace AI

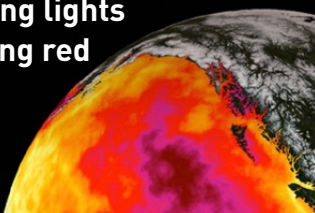
Report links Ukraine's top general Zaluzhny to the Nord Stream 1 & 2 pipelines bombing

Aliyev could still lose in the Great Game he started



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Southeast Europe is seen as a key area for investments, given its expected strong growth, and its closeness to, and historical and cultural similarities with, PPF's Central European base. / PPF

# PPF hunts for opportunities in Balkans as it retreats west

Robert Anderson in Bucharest

**P**PF, the leading Czech private financial group, is refocusing on Southeast Europe as part of its shift out of Eurasia, according to Jan Ruzicka, its chief external affairs officer.

PPF is in the process of selling or scaling down its once sizeable consumer credit operations in Russia, China and Southeast Asia, and has been investing in the US and Europe as part of a drive to reduce risks and stabilise returns for its owners, the family of the late PPF founder, Petr Kellner.

"PPF is moving west [for] practical, strategic and even geopolitical reasons," Ruzicka told *bne IntelliNews* in an interview at the Aspen-GMF Bucharest Forum last week.

Southeast Europe is now seen as a key area for investments, given its expected strong growth, and its closeness to, and historical and cultural similarities with, PPF's Central European base.

"For them we are the good Westerners. There is an amity that in a good way can be beneficial for business," says Ruzicka. PPF had already begun its strategic shift under Kellner

before he died in 2021 but this has now accelerated under his successor, Kellner's former partner Jiri Smejck.

Since the full-scale Russian invasion of Ukraine last year, PPF has virtually pulled out of Russia, leaving only a joint venture in real estate and a small life insurance business, which are both up for sale. "This is the strength of being a private family business," says Ruzicka, "the owners can make quick decisions".

In Asia, PPF's Home Credit consumer credit business had an early mover advantage but, lacking bank licences, it then struggled to compete against local banking rivals with access to cheap deposits. It disposed of its operations in Indonesia and the Philippines last year, and has been winding down its once sizeable operations in China, blaming over-regulation and growing nationalism. It is now believed to be close to selling its Vietnam business to Thailand's KBank, and it is currently looking for a partner for its Indian business.

## Child of globalisation

Ruzicka explains PPF's strategic shift westwards in broad geopolitical terms:

“PPF was a happy child of globalisation, the era of what I would call the long 90s...In those days it was possible for a company from the Czech Republic with no legacy money but just the entrepreneurial spirit of one man – Petr Kellner – to go to the world.

“Now the world is more complicated. From this perspective those wonderful 30 years were an interregnum. So now it's normal the world is full of cleavages, clashes, geopolitics.”

In the Balkans PPF has already invested more than \$1bn by buying Telenor's telecom operations in Bulgaria, Serbia and Montenegro in 2018, and by taking over CME's television businesses in Romania, Bulgaria and Slovenia in 2020 (to which it last year added Croatia's RTL Hrvatska). It is also active in real estate in Romania, and in e-commerce across the region through its price comparison site Heureka.

PPF CEO Jiri Smejck also has his own private interests in the Balkans, largely in energy and gambling, through Emma Capital.

“We are successful here also because of historical, cultural similarities, no doubt about that,” says Ruzicka.

The PPF group is now looking to expand its SEE telecom business through a tie-up with e& of the UAE, which should close early next year. It is reportedly keen on buying an operator in Romania, with Telekom Romania Mobile seen as a potential target.

Ruzicka refused to comment on ongoing transactions but he confirmed that PPF is looking at opportunities in all its four pillars: telecoms, media, finance and e-commerce. Telecom and media in particular offer the group potential synergies.

“In these markets – Romania, Serbia, Croatia – we don't have only one pillar, we have many,” says Ruzicka.

In all businesses, the group remains focused on mass-market retail offerings, and it highlights the way it tries to localise its products for domestic tastes. “You have to always look for your local opportunity, your niche,” says Ruzicka.

#### Local international group

In television, PPF's stations can benefit from sharing international news resources and bought-in global content, while also developing domestic shows tailored to specific local tastes. It also has a regional video on-demand group, Voyo.

“[Viewers] would also like to see stories from their home towns,” says Ruzicka. “This is where we see our value.”

Pro-TV in Romania, like PPF's other channels in the region, often take international formats such as *The Voice* and adapts them. “It depends on how well you manage to localise them,” chief executive Aleksandras Cesnavicius told *bne IntelliNews* in a separate interview. “The big trick is how you localise it,” he points out.

In the Balkans, PPF is investing at a time when some Western companies are still reluctant to do so. “I think it is a mistake that US and British companies are not investing here as well,” says Ruzicka.

He says Western investors often see Southeast Europe as sub-scale and think it will be “painful” to operate in so many jurisdictions.

This is now beginning to change, because the Russian invasion of Ukraine has made investors retreat west and take another look at the Balkans.

“There is renewed interest – in Brussels and Washington – in the region, rightfully so. I think it is our task ... to use this positivity because it won't be here forever,” points out Ruzicka. ●

## Czech billionaire Komarek reported to have failed to sever business ties with Russia

Albin Sybera

**C**zech lottery and energy billionaire Karel Komarek has failed to sever his business ties to Russia, despite promising to do so as part of his winning bid to take over the British National Lottery licence, reported UK news website Tortoise Media.

Komarek's Allwyn lottery operator won the National Lottery operating license in March 2022, shortly after the Russian full-scale invasion of Ukraine, despite extensive ties with Russia's

Gazprom. Russia's gas giant and several of its key figures are on the UK's sanction list.

As part of its bid, Komarek's KKCG holding company said it would shortly end its gas storage joint venture with Gazprom in the Czech Republic, Tortoise reported. Komarek and Allwyn also publicly condemned Putin's war as senseless, brutal and barbaric.

Senior executives from the Gambling Commission, which ran the National Lottery licence competition for the government, told the UK's parliamentary committee that oversaw the competition on 30 June 2022 that they expected Komarek to divest from the Gazprom joint venture within days. They also told the MPs Komárek had already divested from the Samara oil terminal.

However, company records and a statement from Komarek's lawyers at Schillings state that he divested from the oil terminal in the Samara region on 19 September 2022, ie. half a year after winning the National Lottery licence and seven months after the invasion of Ukraine. The divestment was by means of selling the oil terminal to a recently-former employee of Komarek.

Moreover, more than 18 months after winning the lottery license, KKCG has still not left or removed Gazprom from its joint venture Moravian Gas Storage, consisting of an energy terminal in Damborice in the Czech Republic.

Komárek's representatives said that he'd divest from the joint venture before or shortly after the competition by selling his half to the Czech government, Tortoise reports.

Lawyers for Komárek now say the plan is to dilute Gazprom's shareholding from 50 to 3 per cent by issuing new shares for him to buy. But this hasn't happened yet – and hasn't even received regulatory approval.

Therefore there is a possibility that Komarek started to make a profit from selling lottery tickets while still linked to Gazprom.

“That would be astonishing because the [House of Commons] select committee would have been misled, whether inadvertently or not,” Clive Efford MP, who sits on the parliamentary committee, was quoted as saying by Tortoise.

“We would have to investigate, but I think that that really does raise questions that need to be answered,” Efford added.

Tortoise also recalled that Komarek has recently made headlines in connection with intelligence company Hakluyt accidentally sending Komarek a story about his father allegedly hiring a Ukrainian hitman to murder his business partner, a Slovak politician and that the Komareks had forced the man to sign over assets worth millions of pounds.

The Komareks say unequivocally that the allegations were “entirely false” and that they were never contacted by any police or any investigative authorities about them.

Komarek is the third richest Czech, according to the Forbes list of billionaires, with \$8.1bn.

Komarek grouped his lottery assets in Greece, Italy, Austria and the United Kingdom under the Allwyn brand last year. Komarek rose in the lottery business shortly after the 2012 takeover of Czech lottery behemoth Sazka, which had gone bankrupt.

Leading Czech investment firms, such as PPF, competed over Sazka's assets during its bankruptcy. Czech media reported last August that PPF also invested CZK6.5bn into Allwyn in exchange for 5% shares and assistance to list Allwyn in the USA.

Damborice facility is one of the most modern underground gas storage facilities in Europe, and its construction was commenced in 2013 following the establishment of the Moravian Gas Storage JV. Its overall capacity is 448mn cubic meters.

In August 2022, the government seized half of its capacity, or 242mn cubic meters according to Czech TV, after amending the country's Energy Act, enabling authorities to seize unused gas capacities in gas storage facilities across the country in an effort to brace the country for the winter months of the energy crisis.

Komarek's umbrella group, KKCG, still lists Damborice as a KKCG asset on its website. ●



# Czechia in last place as rest of the EU starts to recover

Ben Aris in Berlin

Czechia is the only EU country not to have recovered its pre-pandemic level of output and its economy is teetering on the edge of another recession, economic consultancies Oxford Economics and Capital Economics warned in their recent reports.

Gross domestic product decreased in the third quarter by 0.3% quarter-on-quarter and by 0.6% year-on-year. The third quarter figures follow a stagnant performance q/q and a 0.6% decline y/y in the second quarter. This means that over the past two quarters the economy has shrunk, putting it once again technically in a recession.

“The Czech Republic is the only EU economy yet to recover to its pre-pandemic size. That won’t happen this year, as we expect the economy to stagnate before resuming a lacklustre recovery in 2024, remaining at the bottom of the EU economies’ table,” Tomas Dvorak, an analyst with Oxford Economics, said in the note. “The economic structure and its exposure to the recent shocks still reverberating through the economy make Czech Republic the ‘sick man of Europe’, even more so than Germany.”

All EU economies except Czechia have clawed back all the ground they lost during the two-year shut down caused by the coronacrisis. It now remains the sole laggard, with GDP still over 1% below its end-2019 peak. Although revisions to the volatile national accounts data of recent years might yet shake up the standings, the Czech economy is visibly struggling to make a convincing recovery since the pandemic.

The Czech economy has been harder hit than most by the economic dislocations and soaring inflation caused by first the polycrisis that followed the coronavirus pandemic, which was then exacerbated by the economic repercussions of Russia’s brutal invasion of Ukraine. Both private consumption and fixed investment remain below pre-pandemic levels.

“The collapse in consumption is particularly noteworthy, as six quarterly contractions – some of them the largest on record, excluding during the pandemic lockdowns – through to the first quarter 2023 have pushed private consumption back to 2015 levels in real terms, a cumulative 9% peak-to-trough decline. Household spending then only eked out 0.2% q/q growth in the second quarter, hardly a start of a swift rebound. High-frequency data point to another possible contraction in the third quarter,” says Dvorak.

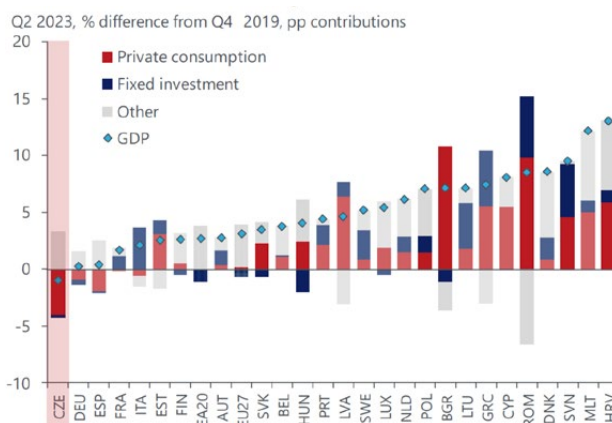
Czechia fell into recession over the second half of last year, and GDP has broadly stagnated over the first half of this year.

The hit to households’ real incomes from high inflation and interest rates has weighed particularly heavily on household spending, which fell by 4.5% y/y in the second quarter, according to Capital Economics. There is some good news too, though Czechia continues to lag behind its regional peers.

“The monthly activity data for the third quarter (available up until August) have offered some slightly more encouraging signs. While retail sales and services sector activity have remained weak, the downturns in these sectors appear to be bottoming out. Consumer confidence has recovered too, which on past form suggests that the largest falls in household spending have now passed,” says Nicholas Farr, an Emerging Europe economist with Capital Economics.

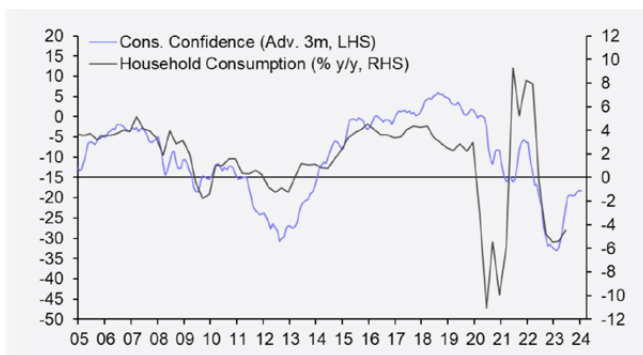
The Czech economy has been buffeted by a number of headwinds, including large exposure to supply-driven inflation,

## EU excl. Ireland: GDP recovery



Source: Oxford Economics / Haver Analytics

## Czech consumer confidence & household spending



Sources: Refinitiv, Capital Economics

double-digit real earnings falls, restrictive monetary policy, lukewarm fiscal support, and the eurozone-wide industrial downturn. These adverse factors, coupled with incoming fiscal consolidation, will continue to dampen growth in the coming quarters, says Farr.

The supply shocks that have hit the EU countries over the last three years reverberated particularly strongly in the Czech economy. The shortage of microchips and severe supply disruptions during the pandemic hit the country's large manufacturing sector hard, particularly automotive production.

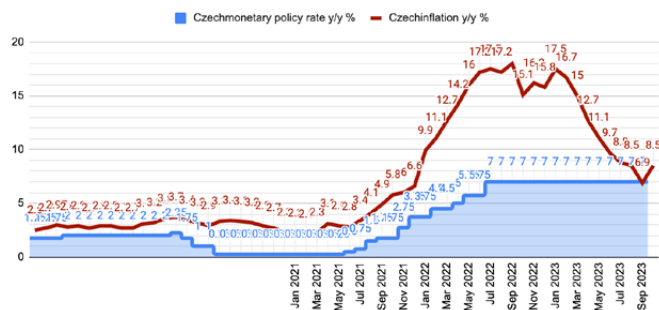
In general, manufacturing output is currently only 5.6% above the pre-pandemic level and well short of the pre-pandemic trend. The still high interest rates continues to weigh on manufacturing and Oxford Economics expects that industrial production will decline by another 2.7% in the second half of this year as a result.

But falling inflation will gradually take the pressure off as real incomes resume growth and the Czech National Bank (CNB) starts to normalise its restrictive policy. But government's spending cuts will dampen growth in 2024 and with Germany, Czech Republic's key export market, also struggling, the near-term outlook for manufacturing and exports is also dim.

"Policy support is needed to address fledgling growth, easing inflation, and a risk of lasting damage to the demand and supply sides. But this is unlikely to be heeded as the centre-right governing coalition's focus is on balancing the budget. The CNB might need to loosen policy quicker, particularly as inflation falls below target, but this won't shore up growth immediately," Dvorak says.

All central banks in Europe have gone through substantial hiking cycles in order to tame inflation. However, the CNB was an early mover in June 2021 and its policy tightening was unusually front-loaded. Now, some analysts expect the CNB to start monetary easing at the next monetary policy meeting in December in an effort to give the economy a shot in the arm, perhaps with a cut in its policy rate of 25bp, from 7% to 6.75%.

**Czech monetary policy rate vs CPI inflation y/y**



Source: Central bank of Czechia

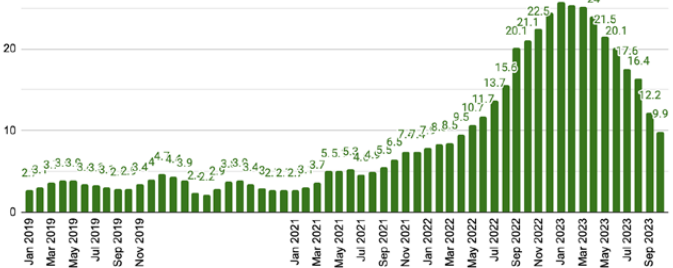
**Falling inflation in CE**

In general, Central Europe has experienced significant drops in inflation this year, providing central banks with increased flexibility in their monetary policies as they start to switch from fighting inflation to supporting growth.

Hungary's central bank implemented a rate cut of 75 basis points in the first half of November, surpassing market expectations, after inflation fell to 12.2% in September – the highest rate amongst the Visegrad countries. However, Hungary still grapples with inflationary pressures, with the current inflation rate of 12.2% y/y on average – well above the central bank's target range. Recent data released this week also shows that wage growth in August continued to soar, registering at over 15% y/y.

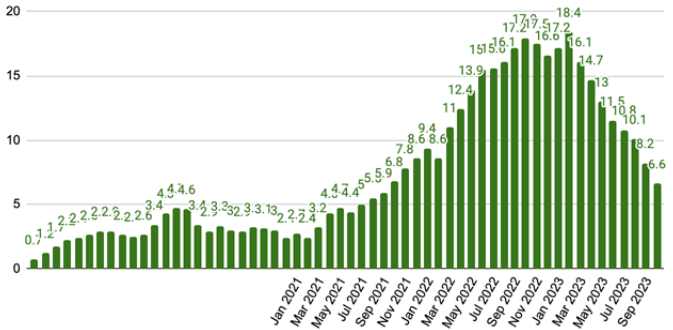
And after running record inflation rates of almost 20% in the last year, Polish consumer price inflation (CPI) has been falling consistently to reach 6.5% in October. Likewise, Slovak inflation has fallen to 8.2% in September and Czech inflation to 6.9%.

**Hungary inflation y/y**



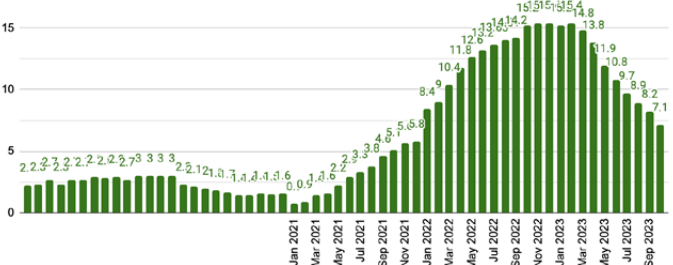
Source: Central bank of Hungary

**Poland CPI, y/y change**



Source: Central bank of Poland

**Slovak inflation y/y**





# Serbia moves away from dependence on Russian gas with new Azerbaijan supply deal

bne IntelliNews

**S**erbia has agreed to buy 400mn cubic metres of natural gas a year from Azerbaijan from 2024, Azerbaijan's energy ministry announced on November 15.

Serbia is currently heavily reliant on Russian gas, but has long aimed to diversify its sources by obtaining gas from Azerbaijan once a gas interconnector to Bulgaria, now nearly completed, is put into operation.

The deal was signed during Serbian Minister of Mining and Energy Dubravka Dedovic Handanovic's visit to Baku.

"Today, Serbia and Azerbaijan have opened a new chapter in their economic and bilateral cooperation by signing a contract on the volumes of gas that Azerbaijan will supply to Serbia," said Dedovic Handanovic, as quoted by the Azerbaijani energy ministry.

"After the supply of Azerbaijani gas to Serbia via the Bulgaria-Serbia Interconnector, which is expected to be commissioned in the near future, we are going to achieve our strategic goal of diversifying our sources of supply for this energy source and further bolstering our role as a transit country for gas distribution to Central Europe."

Dedovic Handanovic added that she expects the volume of gas to be delivered by Azerbaijan to be increased in future. Serbia currently consumes around 3bn cubic metres (bcm) of gas a year.

Azerbaijan's Energy Minister Parviz Shahbazov called Serbia Baku's "new partner in diversifying the gas market in Europe".

The gas supply deal was signed during Serbian Minister of Mining and Energy Dubravka Dedovic Handanovic's visit to Baku. / Azerbaijan energy ministry

"With the documents of strategic importance we signed today, we are laying the foundation for multifaceted cooperation in the field of gas, including gas supplies from Azerbaijan to Serbia for the first time," Shahbazov said.

"With the supply of up to 400mn cubic metres of gas per annum to Serbia, the number of countries supplied with Azerbaijani gas will reach eight. This is a clear indication of expanding Azerbaijan's mission as a reliable energy partner and its growing role in energy security. Today's agreements also pave the way for the sustainability of our gas supply partnership with long-term contracts and Azerbaijan's contributions to Serbia's energy security."

The memorandum of understanding (MoU) between the two countries also provides for the supply of liquefied natural gas (LNG) to Serbia, cooperation with Azerbaijan's state oil company SOCAR, the company's participation in gas trading operations and the construction of a gas power plants.

The Serbia-Bulgaria gas interconnection project is nearly finished, with about 98% of the work completed, Dedovic Handanovic said at the end of October, when she visited the construction site near the southern Serbian city of NIS.

Azerbaijan has become an increasingly important source of natural gas for European countries since Russia's invasion of Ukraine and imposition of Western sanctions on Moscow.

Serbia has declined to join the sanctions, despite facing pressure to do so as an EU candidate country. Three months after the invasion of Ukraine, in May 2022, Serbian President Aleksandar Vucic announced at the time that Belgrade had secured an "extremely favourable" three-year gas deal with Russia. ●



# Kazakhstan confirms nationalisation of ArcelorMittal unit as nation mourns death of 45 in coal mine blaze

bne IntelliNews

**K**azakhstan moved quickly to confirm the nationalisation of coal and ore miner and steelmaker ArcelorMittal Temirtau as the country went into mourning over a deadly coal mine blaze that claimed the lives of at least 45 people.

Speaking to victims' relatives at the mine – the Kostenko mine in the central Karaganda region – Kazakh President Kassym-Jomart Tokayev slated Luxembourg-based steel giant ArcelorMittal, the parent company behind the local unit, as “the worst enterprise in Kazakhstan’s history in terms of cooperation with the government”, AFP reported.

Giving the death toll the day after the October 28 fire, Kazakhstan’s Ministry of Emergency Situations said one miner was still unaccounted for. Rescue operations were hindered by damaged mining equipment and rubble, officials said.

ArcelorMittal Temirtau attributed the blaze to a methane gas explosion. Approximately 252 people were inside the mine when the fire began.

ArcelorMittal Temirtau is responsible for Kazakhstan’s major coal and ore mines and steel plants.

Prime Minister Alikhan Smailov noted that prior to the fire a preliminary agreement on nationalisation had been reached with the company’s shareholders, and the formalisation of the process was in progress.

Declaring the national day of mourning, Tokayev ordered cooperation with ArcelorMittal to be “brought to an end”.

The prosecutor-general, meanwhile, initiated an investigation into potential safety violations in the coal mine.

ArcelorMittal Temirtau has a history of high workplace mortality rates at its sites in Kazakhstan and has come under repeated criticism for a perceived lack of commitment to robust safety measures and investment strategies. The enterprise has experienced over 100 fatal incidents involving miners throughout its operation, with recent tragedies occurring in 2021, 2022 and 2023.

The prosecutor’s office has made limited progress in recent times obtaining information from the company about measures taken to enhance safety protocols and prevent

accidents. This year, an inspection of the company’s mines uncovered several safety violations.

In an incident on August 17, four miners died in a fire that broke out in another mine, Kazakhsanskaya, operated by ArcelorMittal Temirtau in Karaganda region. After that blaze, Kazakh Prime Minister Alikhan Smaiylov criticised the company for what he referred to as a lack of compliance with industry regulations and its focus on profit over ensuring safe working conditions.

The previous deadliest mine accident in post-Soviet Kazakhstan occurred in 2006, killing 41 miners at another ArcelorMittal site.

In a company statement released after the weekend fire, ArcelorMittal said: “No words can adequately convey the devastation the company feels following this accident. Everything that can be done to support the families who have lost loved ones through this deeply painful time will be done.”

It added: “ArcelorMittal can also confirm, as communicated earlier today by the government of Kazakhstan, that the two parties have been in discussions concerning the future of ArcelorMittal Temirtau and recently signed a preliminary agreement for a transaction that will transfer ownership to the Republic of Kazakhstan.”

ArcelorMittal arrived in Kazakhstan in 1995. Led by Indian businessman Lakshmi Mittal, it operates 15 factories and mines in the centre of the former Soviet republic. ●



At press briefings given after the tragedy, Kazakhstan’s President Tokayev was unsparing in his criticisms of ArcelorMittal. / WION news coverage, screenshot

# Mongolia's meat export dilemma

**Antonio Graceffo, Munkh-Orchlon Lkhagvadorj & Lhagvadorj Dorjburegdaa**

**M**ongolia remains a developing country that faces challenges in building its export revenues while at the same time diversifying its economy away from mineral resource dependence.

As things stand, a worryingly large part of its economy is dependent on exporting minerals to China. However, Mongolia's giant neighbour does not just need coal and metals, it is also a net food importer, struggling to feed the world's second-largest population. As part of that, China has a relentless demand for meat. And with Mongolia boasting a staggering 71.1mn head of livestock, vastly outnumbering its human population of 3.3mn, the potential for meat exports amounts to an obvious way to augment the country's income.

According to Mongolia's National Statistics Office (NSO), agriculture accounted for 13.1% of the country's GDP in 2022. Selling more animal products to China helped to expand agricultural exports by 22.6% y/y. Mongolia's 2023 meat market has an estimated worth of \$1.148bn and the market is expected to grow by 13.71% annually over the next five years. This works out to \$335.20 per person, a welcome supplement in a country where the average income is less than \$5,000 per year.

Unlike coal or metals exports, where much of the revenue goes to large mining companies, meat exports directly benefit the everyday lives of herding families, which comprise around a quarter of Mongolia's population.

Typically, herders primarily derive their income from two sources: meat and cashmere. The income source varies depending on the specific Soum (administrative division) within the country. In areas where goats are relatively scarce, meat takes precedence as the primary income generator. Conversely, regions with abundant horses provide herders with opportunities to profit from producing airag, a fermented mare's milk, although airag exports rare.

Moreover, families with substantial cattle holdings have the option to sell milk and dairy products, although the profit



Mongolia, a country of 3.3mn, boasts a staggering 71.1mn head of livestock. / ILRI/Stevie Mann, cc-by-2.0

margins are often slim, dissuading many families from doing so. But these products also present their best opportunity to participate in Mongolia's export market.

Historically, meat has been the cornerstone of the Mongolian diet. Herding families also eat a great deal of dairy and, to a lesser extent, flour-based foods, along with occasional small portions of rice. However, the consumption of fruits and vegetables remains exceptionally rare in their dietary habits. And while fruits, vegetables, bread, rice, and potatoes have increased in popularity in the cities, meat is still the staple. Consequently, city people are very sensitive to changes in the price of meat.

Between 2017 and 2019, Mongolian meat exports surged significantly. By 2020, Ulaanbaatar, Mongolia's capital, faced shortages in meat supply, driving prices to exorbitant levels beyond the means of many low-income families. To

“Mongolia's giant neighbour does not just need coal and metals, it is also a net food importer, struggling to feed the world's second-largest population”

ensure meat remained affordable on the domestic market, the government implemented a meat export quota system. This system allocated quotas to meat exporting companies, limiting the volume of meat each could consign abroad. Additionally, the government initiated a programme to sell a restricted quantity of stockpiled meat, often at prices up to 40% below market rates.

Nevertheless, despite these measures, over the past three years, the upswing in meat exports has contributed to meat price inflation, at times surging to levels exceeding 20%. This has hurt domestic consumers, who find that they need more

money to feed their families. Meanwhile, the quotas have negatively impacted the livelihoods of herders.

In China, the price of beef hovers between \$7.4 and \$10.4 per kilogram, while in Mongolia, it stands at a lower range of \$4.6 to \$5.35 per kilogram. This represents a significant price difference, ranging from approximately 60% to nearly 100%. Consequently, herders' incomes are nearly halved by the export quota.

Furthermore, the nation is witnessing a decline in export revenues, exacerbating its trade deficit with China. Also, as the export of cashmere remains more lucrative, and is not constrained by the quota, herders are increasingly turning to goat farming, contributing to the desertification of the grasslands. Over the last few years, the number of cashmere goats has increased from 13mn in 2010 to 27mn.

Goats are often considered to have a greater potential for causing damage to grazing land compared to sheep, horses and cows. The latter animals graze, eating the grass down to

the soil. Goats, by contrast, browse, meaning that they eat everything including shrubs, bushes and even tree saplings. What's more, when goats eat, they rip the vegetation out of the ground, tearing it to the base. This leads to the depletion of vegetation, soil erosion and desertification.

As per the United Nations Development Programme (UNDP), approximately 70% of Mongolia's grasslands have experienced some degree of damage due to overgrazing, primarily attributed to the rising population of animals, notably goats.

The government finds itself faced by a difficult dilemma. Allowing unrestricted meat exports can result in elevated domestic meat prices, causing hardship for Mongolian households. Conversely, implementing export quotas helps control domestic prices to some extent. The quotas, however, also reduce the income of herders, while encouraging the expansion of goat herding for cashmere production, exacerbating the issue of desertification in the steppes." ●

## Russia hedge fund Prosperity Capital quits the UK for Abu-Dhabi

Jason Corcoran in London

**R**ussia-focused hedge fund Prosperity Capital Management is quitting London as part of a move to relocate its operations to Abu-Dhabi, citing Brexit and the UK's uncooperative business environment, *bne IntelliNews* can reveal.

The firm's co-founder and chief executive, Mattias Westman, said the economic and political fallout from the UK's decision to exit the European Union had triggered the move.

"[The] UK is getting increasingly insular and uncooperative in my view," Westman told *bne IntelliNews*. "I guess Brexit was a specific reason to leave and [moving to] Abu-Dhabi is because it's friendly."

The winding up of the UK subsidiary, which had a swanky office in London's West End on Regent Street, is expected to be completed by the end of this year.

The departure of Prosperity, a pioneering Russian hedge fund, from London marks the end of an era. Russian state-controlled investment banks Sberbank CIB and VTB Capital have been sanctioned out of business in the UK, while the future of privately-owned Renaissance Capital in the Square Mile is very much up in the air.

*bne IntelliNews* had previously revealed that Prosperity had set up an office in France to serve as its European marketing

arm. The firm needed an office within the European Union to continue to "passport" its UCITS fund after the Brexit transition period ended.

Prosperity's Quest fund was the best performer globally for the decade ending December 31, 2009, with a return of 3,300%, according to data from Morningstar.

The firm, which was set up by Westman and several partners, has a focus on purely Western institutional clients with long-term investment horizons. Clients in the past have included the largest US pension funds, European institutions such as the \$1.2 trillion Norwegian Oil Fund, along with high-net worth individuals and some of the wealthiest family trusts in the world.



Mattias Westman, co-founder of Prosperity Capital, the Russia-focused hedge fund.

Westman, a Swede, has been investing in Russia for 30 years and launched his firm's flagship Prosperity Fund 27 years ago. Before becoming a stockbroker he served on the Russian desk of the Swedish Ministry of Foreign Affairs, having learnt Russian with the Swedish Armed Forces.

Prosperity, which has blazed a trail investing in Russian equities, was caught napping when severe sanctions were introduced following the invasion of Ukraine.

A week before conflict erupted, Westman wrote to Prosperity's clients on February 20 to reassure them there wouldn't be a war, after sensationally visiting the Ukrainian border himself to inspect the build-up of troops.

International asset managers, hedge funds and pensions plans are believed to have about \$90bn in equities stuck in Russia's financial plumbing but Prosperity probably has the largest exposure by proportion of assets under management.

Swedish rival East Capital has less exposure to Russia after diversifying away from the former Soviet Union into China and frontier markets in Africa, the Middle East and Latin America. Unlike Prosperity, its investor base is more from the retail market, with Scandinavian pensioners making up a high proportion of its clientele.

The hedge fund firm's latest earnings released this month to UK Companies House show profits slumped to GBP161,000 (\$200,200) last year compared with GBP2mn in 2021.

The firm's directors said the accounts managed by the group were affected by the war due to their inability to trade Russian securities.

"The investment funds and accounts managed by the group have significant investments in Russian companies, and because it has not been possible to trade those Russian securities after February 2022, the investment funds managed by the group suspended calculations of the valuations of their portfolios as well as the issuance and redemption of shares in those entities," wrote director Joseph Keane.

Prosperity admitted there remains "a material uncertainty over the long-term future" of the funds they manage due to the war.

The directors of the company have taken steps to retrench the business, including termination of its lease obligations "and some redundancies."

Westman, who has moved to Milan from London, said the firm has not pivoted away from its core market or Russia since the war erupted with Ukraine. Other emerging market shops with large exposure to Russian equities, such as East Capital, have been diversifying further into other far-flung markets.

"We have a fiduciary duty to work hard to recover value for existing investors," said Westman.

In the meantime, there may be light at the end of the tunnel for funds like Prosperity Capital after Russia's President Vladimir Putin signed an executive order on November 8 laying out a preliminary scheme that would allow Russian investors to "exchange" their frozen assets abroad with the frozen assets of foreign companies in Russia.

The mechanism was first discussed in August when Minister for Finance Anton Siluanov said the Central Bank and the government were preparing a draft decree to unlock some of the foreign assets held by Russians in exchange for domestic securities.

Putin's decree states that deals with foreigners will be concluded via "bidding". The conditions for conducting such trades and completing transactions will have to be established by the government commission for control of foreign investments in Russia.

Furthermore, the decree states that the Central Bank's board of directors will establish the procedure for interaction between brokers and clients as well as the identification of "non-residents." Such accounts will be credited with foreign securities that non-residents will buy from Russians and will be opened in the name of non-resident buyers in Russian depositories.

Market makers, such as brokers and management companies, will not be allowed to charge Russian investors fees for transactions in foreign securities.

The Central Bank, headed by Putin ally Elvira Nabiullina, will regulate the exchange mechanism and has specified it will initially only pertain to retail investors with an investment threshold of RUB100,000.

Putin has delegated many of the details of the plan to a government commission, meaning that its mechanisms and its feasibility remain yet unclear.

By late August, Siluanov said his Ministry hoped to enable the swap of roughly RUB100bn (about \$1.1bn) in frozen assets.

Under the plan in Putin's order, foreign companies will regain access to some of their frozen funds (now locked away in "Type C" accounts) to buy securities owned by Russian investors frozen in the West.

The Finance Ministry previously this year estimated that the assets of more than 3.5 million Russians worth RUB1.5 trillion were blocked abroad.

However, ongoing sanctions against Russia for its invasion of Ukraine make it uncertain that foreign regulators and international clearing houses will co-operate with Putin's swap proposal.

"It's complicated but some form of swaps may be possible," said Westman, whose firm had approximately \$3.5bn in assets under management prior to the conflict. ●

# US charges three more tankers with busting oil price cap sanctions, warns 30 more companies

bne IntelliNews

The US Office of Foreign Assets Control (OFAC) has charged three more UAE-flagged tankers with busting sanctions by ignoring the \$60 oil price cap and issued warning letters to 30 more shippers operating more than 100 vessels that are suspected of engaging in “suspicious activities,” it was reported on November 16.

“Shipping companies and vessels participating in the Russian oil trade while using Price Cap Coalition service providers should fully understand that we will hold them accountable for compliance,” Deputy Treasury Secretary Wally Adeyemo said in a statement. “We are committed to maintaining market stability in spite of Russia’s war against Ukraine, while cutting into the profits the Kremlin is using to fund its illegal war and remaining unyielding in our pursuit of those facilitating evasion of the price cap.”

The secondary sanctions will freeze any US assets of those targeted and bars Americans from dealing with the companies in any way.

The UAE-based firms targeted are: Kazan Shipping Incorporated, Progress Shipping Company Limited and Gallion Navigation Incorporated, Reuters reports. Some Liberian-flagged ships were also hit with the sanctions: the Kazan, Ligovsky Prospect and NS Century, according to the Treasury Department.

OFAC sanctioned the first two tankers in October for carrying Russian oil that cost more than the \$60 price cap as the West ramps up efforts to make the sanctions scheme work that is designed to limit the Kremlin’s revenues from oil exports, but at the same time keep the market supplied with oil.

However, the scheme has largely failed. The Peterson Institute for International Economics (PIIE) and Kyiv School of Economics (KSE) have documented widespread cases of EU-flagged tankers simply ignoring the sanctions, especially in the Pacific Ocean, where the ships, many of which are Greek, do not sail through EU-controlled waters. As *bne IntelliNews* reported, oil price sanctions are a spent cannon.

The latest move by the US to enforce the sanctions comes as the EU is due to release details of a twelfth sanctions package that includes measures to better enforce existing sanctions.

Data from marine intelligence firm Kpler suggest that 30% of Russian exports from Western ports continue to employ commercial shipping with beneficial ownership within the European Union. In addition, Russia employs a large shadow fleet that operates entirely outside the sanctions regime.

A total of five tankers have now been sanctioned by the US for

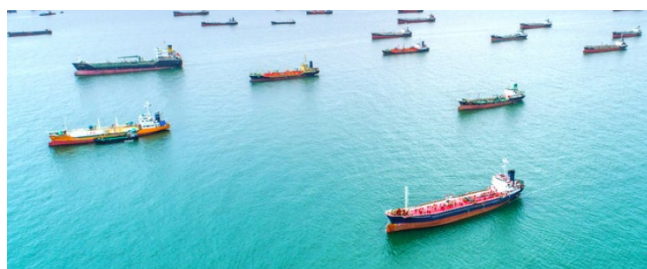
ignoring the oil price cap, but analysts believe a widespread and aggressive campaign to stamp out the sanctions busting remains unlikely, as the US is concerned with restricting the supply of oil that would send prices spiking. So far, oil price sanctions remain largely symbolic, after Russia successfully redirected the majority of its oil exports to Asia – mostly to China and India.

While the vessels and shipping companies recently sanctioned for transporting Russian oil above the price cap are likely to have Russian ties, many ship-owners may make a “safe harbour” case based on OFAC’s guidelines.

Matthew Wright, lead analyst of freight at marine intelligence firm Kpler, told NBC: “Based on the history of these fleets, these [UAE-flagged] vessels were all owned and operated by [Russian state-owned shipping giant] Sovcomflot. Management of all the Sovcomflot ships was transferred to Sun Ship Management in March/April 2022 when their offices in Europe were closed. Those three companies are now managed by a new manager called Oil Tankers SCF Management, but it’s just another name. Ownership hasn’t changed since 2006. They’re not part of either the dark or grey fleet really, as I consider them still Russian-owned.”

Separately, more sanctions were also imposed on eight people and six entities from Bosnia, North Macedonia and other Balkan countries accused of corruption and enabling Russian malign influence in the region. Some Bosnian politicians were included, as well as leading figures in organised crime in Montenegro and firms and executives in North Macedonia tied to sanctioned Russians.

Brian Nelson, the Treasury’s undersecretary for terrorism and financial intelligence, said: “Russia has continued to use its influence in the Western Balkans to stymie the region’s integration into international institutions and organisations, as well as leverage key jurisdictions to facilitate its aggressive destabilising activities,” AP reported. ●



The US Office of Foreign Assets Control has charged three more UAE-flagged tanker with busting sanctions by ignoring the \$60 oil price cap and has issued warning letters to 30 more shippers operating more than 100 vessels that are suspected of engaging in “suspicious activities.” / bne IntelliNews

# EC to investigate Bulgaria for exploiting Russian oil sanctions loopholes that earned the Kremlin €1bn

## bne IntelliNews

**T**he European Commission will investigate Bulgaria for exploiting loopholes in the oil sanctions regime against Russia that have earned the Kremlin \$1bn, *Politico* reported on November 10.

It has emerged that a Russian oil firm exploited a loophole in the sanction's regime, earning €1bn of profits that can contribute to Russia's war efforts.

Bulgaria is one of the EU countries that has an exemption from the embargo on imports of Russian oil, thanks to the heavy dependence of the economy on the import of oil from Russia as a legacy from the Warsaw Pact days. It is allowed to import millions of barrels of Russian oil a year that supply a Moscow-owned refinery on its territory, which then exports refined fuels, including to EU countries, *Politico* reports.

A senior Commission official told *Politico*: "We're paying attention to it, and we've asked the Bulgarians to explain themselves." Bucharest has acknowledged the challenges posed by such derogations and exceptions.

Enforcing the oil sanctions has turned into a game of whack-a-mole that the West is failing to win; as *bne IntelliNews* reported, oil sanctions are increasingly a spent cannon.

The Bulgarian trade in oil products has generated about €983mn in production and export levies for Russia and nearly €500mn in refinery profits since the exemption began on February 5, according to a classified analysis.

While privately-owned Russian oil major, Lukoil, the owner of the refinery via its EU subsidiary Litasco, did not breach sanctions, it shipped nearly 3mn barrels of Russian-origin refined products to EU countries like Malta. This equated to around one-fifth of crude oil processed at Bulgaria's leading port of Burgas where the refinery is located.

The revelations have stirred political controversy in Bulgaria, with Prime Minister Nikolay Denkov expressing surprise at the scale of the sanctions-avoidance scheme. He pledged to



Photo: Miroslav Nikolov.

strengthen sanctions laws and redirect funds from Lukoil's profits to the Bulgarian budget.

Russian oil companies own several refineries in the EU and have been selling their own Russian oil to their own EU-based refineries at low prices, which is then refined and sold legally to EU customers. The profits generated then accumulate at the level of the EU-based subsidiaries and are not sanctioned. Thanks to these schemes Russia has built up an opaque slush fund controlled by Russian oil companies of legally earned and spendable foreign exchange that is worth somewhere between €80bn and €200bn, according to various estimates. While the Kremlin has no direct access to this money, or indeed doesn't know where it is, it does know roughly how much each company has thanks to production volumes and customs data on exports and so in theory can lean on the companies and use these funds to finance sanctions-busting trade.

The EU is also aware of these scams and is slowly starting to crack down on them. Compared to Russia's energy giants Gazprom and Rosneft, Lukoil's assets in Europe have been relatively unaffected by the fallout from the conflict in Ukraine, but the noose is starting to tighten around Lukoil's neck. Lukoil has already been forced to sell its ISAB refinery in Sicily and on July 21 Bulgaria's parliament voted to take control of the Burgas oil terminal controlled by Lukoil. Lukoil could also sell its refinery in Romania, local media reported in January, as well as its retail fuel operations in Moldova.

Bulgaria is slowly moving to join the EU embargo on the import of Russian oil. After heated debates, parliament decided last month to end its exemption on the import of Russian oil two months earlier than planned, in October next year. However, the EC investigation has spurred calls to end the exemptions even earlier.

Bulgarian lawmaker Delyan Dobrev, the chair of parliament's energy committee says he will introduce a new motion to end the exemption immediately, stating that: "Everyone is shocked, including the government," *Politico* reports. ●

# Oil continues to flow to Israel via Turkey despite Erdogan's vehement speeches on plight of Gaza

## bne IntelliNews

Israel's oil imports have continued to pass through Turkey despite the near collapse of relations between the two countries over the uncompromising military operations mounted by the Israelis in the Gaza Strip in response to the Hamas cross-border massacre committed three weeks ago.

The *Seaviolet*, an oil tanker registered in Malta, recently transported 1mn barrels of Azerbaijani crude from Turkey's Mediterranean oil hub port of Ceyhan to Israel's Eilat Port, according to a report by *Bloomberg*. Around 40% of Israel's annual oil consumption is met by crude that is piped to Ceyhan for onward shipping.

Turkish President Recep Tayyip Erdogan at the weekend during a "Great Palestine Rally" in Istanbul accused Israel of being a "war criminal" – though he stands accused of committing war crimes himself given the Turkish military's bombing of Kurdish-held areas of northeast Syria – while on October 25 he declared that Hamas were not terrorists as they were "a liberation group, 'mujahideen' waging a battle to protect its lands and people".

Israel responded by recalling its diplomatic staff from Turkey for a re-evaluation of relations between Jerusalem and Ankara.

Prior to Erdogan's sharpest rhetoric against Israel's actions in Gaza and the backing it has received from the US and other Western nations, Western brands including McDonald's and Starbucks were already dealing with Turkish consumer backlashes.

The fact that Turkey has continued to allow the shipping of oil to Israel, however, should perhaps not cause too much surprise given the realities of politics and business.

As *bne IntelliNews* wrote back in November 2022, when Israeli PM Benjamin Netanyahu held a new term of office phone call with Erdogan: "Netanyahu has to regularly kill some Palestinians to remain in power. Erdogan's gambit is to issue



In mid-September, in New York, Israeli leader Benjamin Netanyahu and Turkish counterpart Recep Tayyip Erdogan had their first ever face to face meeting. / Anadolu Agency news feed, screenshot

harsh words and yell his ire. It works a treat in relaxing the masses who get angry over the global silence that meets Israel's murderous actions against the Palestinians.

"Once he [Erdogan] used to call me Hitler every three hours, now it's every six hours but thank God trade [with Turkey] is up," Netanyahu said in 2020, describing the international relations game between him and Erdogan."

Unicef executive director Catherine Russell, addressing the UN's security council on October 30, said more than 420 children were being killed or injured in Gaza each day in the Israeli offensive. It was, she said, "a number which should shake each of us to our core".

Gaza's health ministry said that more than 3,400 Palestinian children were among the 8,300 killed in Gaza as a consequence of Israel's attack since October 7. That was the day that Hamas mounted its bloody attack on Israel, killing around 1,400 people, mainly civilians and including many children.

Diplomatic relations between Turkey and Israel are now in danger of sinking to the lows seen in 2010, when an Israeli raid on a Turkish aid ship to Gaza resulted in 10 civilian deaths. Prior to the Gaza crisis, Erdogan and Netanyahu were moving towards sealing a rapprochement between their two nations. ●

"Turkish President Recep Tayyip Erdogan during a "Great Palestine Rally" in Istanbul accused Israel of being a "war criminal" – though he stands accused of committing war crimes himself"



# Turkey fails to respond to Iran call for ban on shipping oil to Israel

## bne IntelliNews

**T**urkey's foreign minister on November 1 failed to respond to a call from his Iranian counterpart for a ban on shipping oil to Israel.

"We need to stop sending fuel to Israel, and we need to cut off our political and diplomatic relations," Iran's top diplomat Hossein Amir-Abdollahian stated on a visit to Ankara, while standing alongside Hakan Fidan at a joint press conference focused on the Israel-Hamas war in the Gaza Strip.

But, as reported by *Al-Monitor*, Fidan left Amir-Abdollahian's call hanging in the air, and instead turned to stressing the need for a two-state solution in the Israeli-Palestinian conflict, reiterating that Turkey was prepared to "take responsibility and be guarantor" in a potential peace agreement between the two sides.

Amir-Abdollahian's remarks on stopping oil flows to Israel could be taken as a jab at Turkey's close ally Azerbaijan, the largest Muslim-majority oil exporter to Israel – it is piped Azerbaijani oil that Turkey continues to ship to Israel from its Mediterranean oil hub port Ceyhan, despite the Erdogan administration's fiery condemnation of the Israelis as "war criminals" for their brutal bombardment and besieging of Gaza. Iran, which has been supportive of Armenia in its conflict with Azerbaijan, has difficult relations with the Azerbaijanis.

Iran's supreme leader, Ayatollah Ali Khamenei, has said all Muslim countries should halt trade with Israel, including oil exports.

Iran's top diplomat Hossein Amir-Abdollahian, left, and Turkish counterpart Hakan Fidan gave a briefing at Turkey's foreign ministry. / Iranian foreign affairs ministry



Amir-Abdollahian visited Ankara following meetings with Qatari leaders and the leadership of Hamas' Qatar-based political bureau. He also met with Turkish President Recep Tayyip Erdogan.

Adding to anxieties that the Gaza conflict could spark a regional conflagration, Amir-Abdollahian also said at the press briefing: "The region is very close to making a monumental and decisive decision if [Israeli] genocide and war crimes are not stopped."

The Hamas-run Health Ministry in Gaza said on November 1 that around 8,800 people have been killed by Israeli strikes on the Palestinian territory, including more than 3,600 children.

Also on November 1, *Reuters* reported a Turkish diplomatic source as saying that US top diplomat Antony Blinken will visit Ankara on November 5.

In another report, *Al-Monitor* said that the US on October 31 made the rare move of deploying a pair of B-1B Lancer bombers to Turkey's Incirlik air base for military drills focused on refuelling.

The government of Turkey, a Nato member, said in a statement: "The refuelling of aircraft from Incirlik base has nothing to do with the conflicts in the region."

However, the deployment will be seen by some observers as a US show of strength at a sensitive and volatile time in the Middle East. ●



bne:Bond

# Turkey's Mersin Port sells \$600mn of five-year eurobonds at 8.25% coupon

**Akin Nazli in Belgrade**

**T**urkey's port operator Mersin Uluslararası Liman İşletmeciliği (Mersin Port/MIP) has sold \$600mn of eurobonds (US590454AC80) due 2028 at a coupon rate of 8.25% and a yield to investor of 8.50% (priced at 98.999), Reuters reported on November 9.

The paper is callable at the end of the second year. The company has not issued an official statement on the deal as yet.

Citibank (Citigroup/New York/C), DBS Bank (Singapore/DO5) and HSBC (London/HSBA) acted as bookbuilders for the deal.

In July, MIP said that it was closely monitoring opportunities to refinance its \$600mn of outstanding five-year eurobonds (XS2071397850) due November 2024, callable at par in November 2023.

In 2013, MIP sold the \$450mn of seven-year eurobonds (XS0957598070) in question at a coupon rate of 5.875%.

At issuance, the paper was provisionally rated investment grade by both Moody's Investors Service (Baa3) and Fitch Ratings (BBB-).

It was recorded as Turkey's first ever infrastructure bond issue. The European Bank for Reconstruction and Development (EBRD) bought \$80mn of the paper.

In 2019, to roll the existing \$450mn paper, MIP sold \$600mn worth of five-year eurobonds (XS2071397850) at a coupon rate of 5.375%. The EBRD acquired \$90mn of the paper.

In 2013, the World Bank Group's International Finance Corporation (IFC) provided \$75mn for MIP's East Mediterranean Hub Project by acquiring eurobonds issued by the company. In 2019, the IFC participated in the rollover of the paper by acquiring \$80mn of new eurobonds.

In July, the EBRD said that it was in September set to approve a loan worth up to \$50mn for the company, while the IFC said that it would also provide a loan worth up to \$50mn to the MIP.

The loans will be used to finance the second phase of the construction of the East Mediterranean Hub Project.

The \$408mn project was launched in 2013. Its first phase was completed in 2016. The second phase of the project

aims to increase the port's container handling capacity to 3.6mn twenty-foot equivalent units (TEU) from the current 2.6mn TEU.

The plan is to commence construction works by 4Q23. The berth and new cruise terminal are expected to become operational by end-2025.

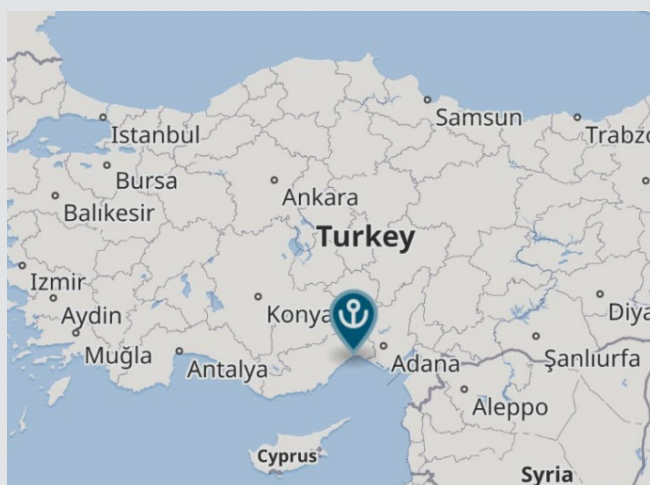
In 2022, the port handled 2.02mn TEU of containers, down 4% y/y. Revenues rose by 10% y/y to \$353mn.

**"It was recorded as Turkey's first ever infrastructure bond issue"**

MIP currently has a B/Stable credit rating from Fitch Ratings, five notches below investment grade and in line with Turkey's sovereign ratings.

MIP is a JV that operates the Mersin Port under a 36-year concession agreement signed in 2007 with the Turkish Privatisation Administration and Turkish State Railways.

Mersin Port, launched in 1962, is located on Turkey's Mediterranean coast. It is Turkey's largest port in terms of total container throughput.



Anchor symbol marks the location of Turkey's Port of Mersin. / Open Street Map Foundation, cc-by-2.0

The port handles dry bulk, liquid bulk, containers and ro-ro cargoes. It also hosts ferryboat services carrying passengers between Turkey's Mersin province and Northern Cyprus.

It has a number of tenants, including a vegetable oil company, grain storage company, soda ash facility and a petrol station.

Singapore-based PSA International has a 51% stake in MIP while Australia-based IFM Investors has 39% and Turkish conglomerate Akfen Holding holds the remaining 10%.

In 2005, PSA-Akfen consortium placed a winning bid of \$755mn in the concession tender for the operating rights of the port.

In 2017, Akfen sold its 40% stake in MIP to IFM for a consideration of \$869mn.

Many tonnes of cocaine are regularly intercepted at Mersin Port. On October 27, 610 kg of cocaine was seized at the port.

Looking at the global markets, there is no turbulence of note

impacting sentiment. Turkey's five-year credit default swaps (CDS) remain below the 400-level, while the yield on the Turkish government's 10-year eurobonds remains below the 9%-level.

The USD/TRY rate is, meanwhile, still heading north. On September 21, the pair once again broke through the horizontal barrier set at the 27.00-level. The latest record high, registered on November 10, is 28.8050.

The Turkish government's 'five/10 kuruş (Turkish cents, pronounced as kurush) devaluation per day policy' in the struggle to stop the slide is still in place. As of November 14, the latest daily trench was being dug around the 28.65-level, up 3% m/m and 55% y/y.

Following the local elections to be held in March, Turkey's policy rate will reach its peak. The finance industry will then be welcomed in for the rate-cutting party.

So far this year, Turkish issuers have sold a total of \$16bn worth of eurobonds across 16 papers.

#### Major eurobond issues by Turkish issuers

Issuer	ISIN	Coupon	Volume (USD mn)	End of placement	Maturity	UST+	CDS+
Mersin Port	US590454AC80	8.25%	600	Nov 8, 2023	Nov 15, 2028	374	459
QNB Finansbank (QNBFB) (subordinated)	XS2678233243	10.75%	300	Nov 9, 2023	Nov 15, 2033 (/28)	613	705
Treasury (sukuk)	XS2689091846	8.51%	2,500	Nov 7, 2023	Jan 14, 2029	394	491
Ziraat Katilim (sukuk)	XS2699906512	9.375%	500	Nov 6, 2023	Nov 12, 2026	476	570
Eximbank	XS2692231975	9.00%	500	Oct 25, 2023	Jan 28, 2027	341	496
We Soda (UK/Ciner)	US92943TAA16	9.50%	800	Sep 28, 2023	Oct 6, 2028	488	565
Arcelik (ARCLK)	XS2695038401	8.50%	400	Sep 25, 2023	Sep 25, 2028	393	467
TSKB (TSKB)	XS2678232781	9.375%	300	Sep 19, 2023	Oct 19, 2028	487	550
Yapi Kredi Bank (YKBANK)	XS2445343689	9.25%	500	Sep 13, 2023	Oct 16, 2028	486	550
Vakifbank (VAKBN)	XS2677517497	9.00%	750	Sep 12, 2023	Oct 10, 2028	464	527
Akbank (subordinated)	XS2611752317/ XS2611752663/ XS2611747234	9.60%	300	Jul 25, 2023	Jul 25, 2033(/28)	574	525
Treasury	US900123DJ66	9.125%	2,500	Apr 13, 2023	Jul 13, 2030	597	396
Treasury	US90014TAJ07	9.375%	2,250	Mar 8, 2023	Mar 14, 2029	517	393
Ziraat Bank	XS2581381634	9.50%	500	Jan 25, 2023	Aug 1, 2026	566	410
Eximbank	XS2395576437	9.375%	500	Jan 24, 2023	Jan 31, 2026	552	387
Treasury	US900123DG28	9.375%	2,750	Jan 11, 2023	Jan 19, 2033	619	427

In 2022, Turkish borrowers sold \$12bn of eurobonds across eight tenders. The Treasury was the dominant player, raising \$11bn in five tenders. It redeemed \$8bn on four papers during the year.

In 2023, Turkish eurobond sellers are supposed to redeem

a total of \$11bn across 15 papers. In the year to date, \$9bn across 13 papers has been redeemed.

On December 10, Isbank (ISCTR) is to redeem a \$400mn paper (XS1003016018), which pays a 7.85% coupon.

#### Upcoming eurobond redemptions by major Turkish issuers

Issuer	ISIN	Coupon	Volume (USD mn)	End of placement	Maturity	UST+	CDS+
Isbank (ISCTR)	XS1003016018	7.85%	\$400	10.12. 2013	10.12.2023	374	459
Treasury	US900123CR91	7.25%	\$2,000	23.10. 2018	23.12.2023	394	491

Turkey's finance minister Mehmet Simsek has, meanwhile, been talking about selling bonds worth \$8.5bn for earth-

quake recovery efforts and \$3bn for UAE export credits. It is unknown what type of papers will be sold and when. ●

#### Awaited eurobond auctions by major Turkish issuers

Date			Up to USDbn	Sold	Type
02.11.2023	Aktifbank	SPK Approval	TRY0.75	-	papers abroad
27.10.2023	Pasha Yatirim Bankasi	SPK Approval	0.025	-	papers abroad
25.10.2023	Ziraat Katilim Bankasi	SPK Approval	0.5	6.11.2023	sukuk
18.10.2023	QNB Finansbank (QNBFB)	SPK Application	4	-	papers abroad
18.10.2023	QNB Finansbank (QNBFB)	SPK Application	1	-	subordinated
09.10.2023	QNB Finansbank (QNBFB)	Board mandate	0.3	-	subordinated
05.10.2023	Destek Yatirim Bankasi	SPK Approval	0.02	-	papers abroad
28.09.2023	Mersin Liman	SPK Approval	0.6	8.11.2023	eurobond
28.09.2023	Kalibre Boru	SPK Approval	0.075	-	papers abroad
27.09.2023	TAV (TAVHL)	SPK Application	0.75	-	papers abroad
20.09.2023	Ford Otosan (FROTO)	SPK Approval	€0.5	-	papers abroad
14.09.2023	Eximbank	SPK Approval	3	25.10.2023	eurobond
14.09.2023	Fiba Yenilenebilir Enerji Holding	SPK Approval	0.2	-	papers abroad
14.09.2023	Akbank (AKBNK)	SPK Approval	2	-	papers abroad
14.09.2023	Akbank (AKBNK)	SPK Approval	2	-	green
07.09.2023	Isbank (ISCTR)	SPK Approval	2	-	green
31.08.2023	Vakifbank	SPK Approval	1	19.09.2023	green
31.08.2023	Nurol Holding	SPK Approval	0.5	-	papers abroad
24.08.2023	Garanti (GARAN)	SPK Approval	2	-	green
09.08.2023	Destek Yatirim Bankasi	SPK Approval	0.015	-	papers abroad
27.07.2023	Isbank (ISCTR)	SPK Approval	GBP 0.02	-	XS2658516732, 29.07.2024
20.07.2023	Arcelik	SPK Approval	0.5	-	papers abroad
19.07.2023	Garanti (GARAN)	GMTN Programme Renewal	6	-	papers abroad



# Serbian pro-democracy activists targeted with spyware ahead of election

## bne IntelliNews

**T**wo civil society activists in Serbia have been targeted by what are believed to be state-sponsored technical attacks, NGOs Access Now and the SHARE Foundation announced on November 28.

The two activists, who have not been named, were reportedly critics of Serbia's government. The attacks took place during the summer, when the authorities faced a series of mass protests under the 'Serbia against violence' banner.

"Both targeted civil society members have been openly critical of Serbia's government, which has a track record of deploying spyware and other digital surveillance tools," a statement from Access Now said.

The two individuals were notified by Apple of their potential exposure to the attacks on October 30, and reached out to Serbian digital rights NGO the SHARE Foundation seeking an assessment of the allegations and a determination of whether their devices had been subjected to known spyware attacks.

After Apple representatives confirmed the authenticity of the alerts, the SHARE Foundation team, in collaboration with Internews, conducted a thorough analysis of the mobile devices to identify traces of spyware infection, including well-known variants such as Pegasus and Predator. To corroborate the diagnostic and analytic data obtained, as well as secure encrypted backups of crucial device data, the SHARE Foundation engaged with international organisations Access Now and Amnesty International, known for their expertise in digital forensics.

Following a comprehensive review of the data, both organisations independently confirmed the presence of traces from a failed attack attempt that occurred on August 16, on both mobile devices. Their analysis converged on the initial phase of the attack, which targeted a device vulnerability known as 'PWNYOURHOME', previously associated with the Pegasus spyware, the SHARE Foundation said. This vulnerability has since been addressed through patches.

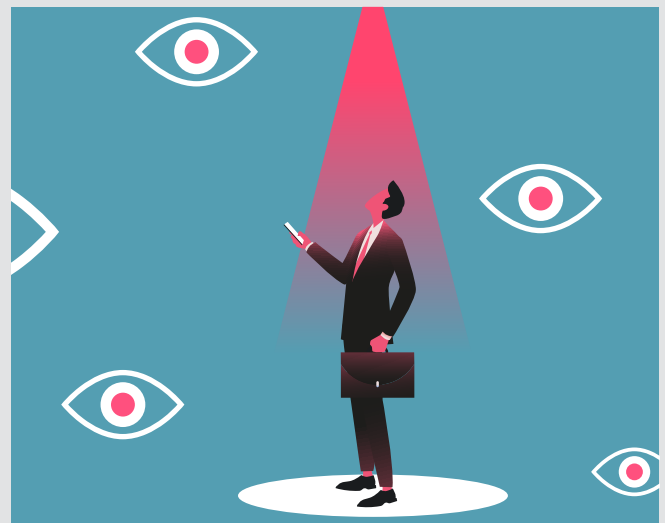
"The SHARE Foundation warns that spyware attacks on representatives of the critical public have a disastrous impact on democracy and human rights, especially in the pre-election period. The use of spyware is illegal and incompatible with democratic values," the organisation said.

"We remind the public that these and similar tools for technical attacks on mobile devices are used by non-democratic regimes around the world to spy on members of the opposition, civil society, independent media, dissidents and other actors working in the public interest. Such activities threaten the freedom of expression and association, as well as the right to privacy and secrecy of communication guaranteed by domestic and international law."

Access Now pointed out that the Citizen Lab had previously identified the Serbian Information Security Agency (BIA) as a user of FinFisher's spyware in 2014 and, in 2020, as a

"Both targeted civil society members have been openly critical of Serbia's government, which has a track record of deploying spyware and other digital surveillance tools"

user of Circles' tools for mobile phone geolocation and call interception. Leaked emails from 2012 revealed that the BIA had received a demonstration of Hacking Team's RCS spyware.



The head of the BIA, Aleksandar Vulin, recently resigned. A prominent pro-Russian figure within the Serbian establishment, Vulin was placed on the United States Treasury's sanctions list because of his support for Moscow earlier this year.

In the past year, both Citizen Lab and Google's Threat Analysis Group (TAG) also pointed to the Serbian government as a probable operator of Cytrox's Predator spyware. Furthermore, Citizen Lab's research suggests that Serbia has been using Pegasus spyware since at least December 2021.

Serbia is due to hold a snap general election in December.

The campaign ahead of the election is "highly polarised" with an "unprecedented level of negative campaigning and fearmongering", a report from the Parliamentary Assembly of the Council of Europe (PACE) warned on November 27.

A PACE observer team expressed concern about unprecedented levels of negative campaigning, fearmongering, attacks on the opposition and journalists, and media-related issues. The team criticised inflammatory rhetoric, hate speech, and pressure on opposition members and journalists, stressing the need for fact-based information for voters. ●

## Tajikistan: Communications regulator loosening monopoly

### Eurasianet

The first step to solving a problem is admitting that it exists. Telecommunications regulators in Tajikistan have taken a surprising step in that direction by reportedly admitting last week that a staggering 95% of the country's territory is covered by only outdated 2G mobile connections.

This situation is in no small part due to the State Communications Service itself. In addition to regulating the sector, the service and the people running it are also major market players, albeit in highly nebulous ways that would be unthinkable almost anywhere else in the world.

Two weekends ago, the regulator announced that it is allowing two mobile telecommunications operators, MegaFon Tajikistan and Tcell, to source internet data through international channels instead of relying, as all ISPs are now required to do, on a state-run data spigot called the Unified Electronic Communications Switching Centre, or EKTs in its commonly deployed Russian-language acronym.

EKTs is operated by joint-stock phone and internet company Tojiklecom, which is in turn run by the State Communications Service, a body that has been long run by a relative by marriage of President Emomali Rahmon. This in effect has made Tojiklecom a for-profit monopoly run by a government service designed in theory to protect consumer interests.

The ostensible purpose of the EKTs is to grant the state powers to fully vet internet traffic, for security reasons, among other things. The most noticeable impact of this arrangement, however, is that Tajikistan has some of the worst internet speeds in the world. The Amsterdam-headquartered company that operates the Beeline brand and Sweden-based mobile phone company TeliaSonera have both pulled out of Tajikistan amid difficulties navigating a market riddled with corruption and arbitrary policy-making.

It is unclear what has prompted the telecoms regulator to ease the current monopolistic set-up.

It is known that at least some parts of the ruling family are frustrated with the current situation. In January 2022, President Rahmon's son and presumed successor-in-waiting, Rustam Emomali, complained about the quality of service provided by mobile companies. Emomali was especially exercised by what he said was the discrepancy between the quality of service advertised and what was actually provided.

Even Rahmon had grounds for being annoyed. A source at one mobile telecommunications company last year told Eurasianet, on condition of anonymity, that they and industry peers were ordered to work on improving the quality of their service after an incident, also in January 2022, in which Rahmon experienced trouble staying online during a Collective Security Treaty Organization (CSTO) virtual summit. Other participants in that online video call included Russian President Vladimir Putin and Kazakhstan's President Kassym-Jomart Tokayev.

"During the meeting, his connection dropped out about seven to 10 times. The president was angered by the quality of the internet and reprimanded the head of the communications service," the source told Eurasianet.

But that reprimand was evidently not sufficient to unseat that official, Beg Sabur, the relative related to Rahmon by marriage, or bring about any significant change. While there has been a marginal improvement in internet speeds since December 2022, the overall trajectory remains dispiriting. ●

*This article first appeared on Eurasianet.*

# Russian businesses embrace AI

## bne IntelliNews

Lately, Russian businesses have been actively adopting solutions based on artificial intelligence (AI) and machine learning (ML), while the government is also incentivising the use of these technologies.

Industries that are looking at AI and ML solutions run the gamut – from retail and finance to telecom, construction and real estate sales.

### Exploring opportunities in retail

Among the industries with the highest adoption rate of AI solutions is retail. AI-based systems are often used as "advisors": they help to determine what goods exactly that a customer is likely to be interested in and automatically generate special offers for them.

All major Russian marketplaces, including Wildberries, Ozon and Sbermegamarket, actively use AI. X5 Group, Magnit, Lenta and many others also analyse customer behaviour in offline stores, such as frequency and amount of purchases, lifestyle, acceptable price level and favourite categories of goods.

Dmitry Demidov, head of the innovation laboratory at Norbit, told Russian business daily *Vedomosti* that retail companies often use a solution called BPMSoft, developed by local firm Lanit Omni.

With BPMSoft, AI tools built into the product can be used for automating various processes, including – in addition to sales – logistics, pricing, work with suppliers and service.

For instance, AI in BPMSoft can determine the probability of a delivery deadline failure, predict customer churn or analyse feedback from customers. Feedback texts are processed by ML-models that are able to determine customers' emotions and even independently decide whether it is necessary to engage a human for further communication with the customer.

"The system facilitates automating different stages of sales management, marketing, service and accompanying processes," said Demidov. "At the same time, data is collected



Russian Industries that are looking at AI and ML solutions run the gamut – from retail and finance to telecom, construction and real estate sales.

in a common digital space, forming a single end-to-end process. It turns out that management decisions can be made quickly, with less effort and, which is most important, in a more educated way."

### Striving for efficiency

Apart from increasing sales, ML and AI technologies can be used to monitor employees' working hours and various tasks. Time management has always been important for productivity growth.

There are many software solutions that monitor employee activity: how much time a person spends online, what sites they visit, who they talk to on the phone and for how long.

There are also solutions that allow you to monitor physical labourers, such as an intelligent monitoring system from a Russian firm named Solut.

Alexander Belousov, the founder and director of Solut, told *Vedomosti* that the system recognises any working and non-working actions of a person by the movements of their hands.

"All major Russian marketplaces, including Wildberries, Ozon and Sbermegamarket, actively use AI"

Each worker is given a wristwatch with sensors that accumulate data on hand movements during the shift and, with the help of AI, recognise activities typical for each specialty, process or task. Solut analyses the data and presents it in the form of reports. With their help, management can optimise processes and increase the efficiency of manual labour, Belousov explained.

The system identifies the time of inactivity of each worker, providing tools to combat it and understand why a specific employee isn't working at a specific moment. As Belousov

noted, sometimes workers may not be involved in any productive activities due to planning errors or lack of materials, tools and assigned tasks.

### AI boosts safety

Occupational health and safety is another area in which businesses are actively applying ML and AI-based solutions. For instance, AI technologies are used at the Bystrinsky mining plant to monitor and ensure the safety of employees.

Real-time analysis of video camera images helps prevent accidents: if the neural network detects the absence of protective equipment on employees, the management will immediately receive a corresponding signal.

At the same time, employees are identified by facial biometrics. Round-the-clock video surveillance is carried out in the most dangerous production shops: at the crushing, grinding, drying, finished product shipment, process section and central repair and mechanical workshops.

The smart video analytics system was implemented at Kola NPP back in 2019. According to the company, the system detects and registers 95-98% of violations, which has reduced the number of accidents by 8 times. It is planned that by February 2024 the system will be implemented at nine out of 11 Russian NPPs.

A firm called Computer Vision Systems is engaged in the development of such solutions, using AI for extracting information from images with the help of algorithms, primarily mathematical or based on neural networks.

### The government fosters AI adoption

In a bid to foster AI adoption by companies from various industries, the Russian government plans to make the issue of state subsidies conditional on the use of AI-based solutions. This approach is to be tested as of 2024.

"On the president's instructions, the use of artificial intelligence will become mandatory for all companies that plan to receive any subsidies from the federal budget," deputy prime minister Dmitry Chernyshenko was quoted as saying by Russian state-run news agency TASS. "Starting next year, we will test this approach at companies with annual revenues exceeding RUB800mn (€8.2mn)."

Apparently, the Russian government expects AI to contribute to the growth of the country's economy, which has been struggling since Russia's invasion of Ukraine in February 2022 and ensuing Western sanctions. According to Chernyshenko, the adoption of AI-based tech could add as much as RUB11.3 trillion (€116bn) to the country's GDP by 2030.

He noted that by 2030, the volume of computing power is expected to grow 10 times, the number of scientists whose work is published at top-level conferences will more than double, and the share of industries with a high level of AI implementation will grow to 95%.

"By 2030, an additional 70,000 AI specialists will be trained, and by the end of the decade, the volume of the AI solutions market will increase fivefold," Chernyshenko concluded.

Meanwhile, in November 2023, the Russian government announced that the federal project "Digital health services" will be launched. Prime Minister Mikhail Mishustin instructed the ministry of health and the ministry of finance to provide for the financing of this project starting from 2025.

### Not all rosy

However, as experts say, the adoption of AI solutions in Russia may not be as easy and smooth as government officials would like it to be.

"The hardest part is getting the right data," Yuri Makarenko, head of the expert department at the company Umbrella IT, told the Russian business news website RBC. "It requires a lot of money and time. About 60% of resources and time are spent on data collection, and the other 40% on development. And although there are data storage centres, they are available only to large companies because of their high cost.

In addition, according to Makarenko, there are not enough qualified data scientists on the market. "Even if an experienced specialist can be found, he or she may leave if the company sets unrealistic goals," he explained. "In such cases, it may be worth considering looking for vendors that provide a full range of services for implementing artificial intelligence in business."

"The main danger of [a] neural network is the possible unreliability of the answers," he went on to say. "A neural network is a "black box": it is impossible to verify why it gives this or that result."

Another major issue that Russian companies adopting AI solutions may face is shortages of chips for AI. The world's leader in manufacture of chips for AI is currently US-based Nvidia, which stopped exports to Russia in the wake of Russian aggression against Ukraine.

Earlier this year, the Russian company Baikal Electronics said it had begun developing chips for AI.

"Access to such specialised equipment determines a fundamental opportunity to participate in the international race of artificial intelligence technology development," Andrey Evdokimov, CEO of Baikal Electronics, told RBC.

"Russia should be able to compete in this segment, and we are purposefully going into it."

However, so far, Russia's attempts to develop high-tech hardware have born little fruit. ●





Between 2015 and 2019, the world lost around 420mn hectares, or 4.2mn square kilometres, of healthy and productive land. / bne IntelliNews



bne:Green

## Central Asia land degradation data demonstrates rapid advance of crisis worldwide says UNCCD

bne IntelliNews

**M**ore than 20% of Central Asia's land area is degraded, the UN Convention to Combat Desertification (UNCCD) said on November 13, launching the UNCCD Data Dashboard at the opening of its first-ever meeting held in the region.

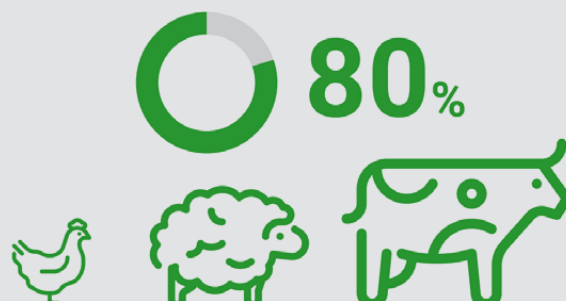
The area is equivalent to roughly 80mn hectares, or 800,000 square kilometres, an area almost four times the size of Kyrgyzstan. It affects an estimated 30% of the region's combined population.

Land degradation is rapidly advancing in the region and around the world, according to the UNCCD. The Dashboard also showed that between 2015 and 2019, the world lost at least 100mn hectares of healthy and productive land each year. The totals add up to around 420mn hectares, or 4.2mn square kilometres, which happens to be slightly over the combined area of the five Central Asian nations: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

Speaking ahead of the Samarkand, Uzbekistan meeting – the 21st session of the Committee for the Review of the Implementation of the Convention (CRIC 21) to the UNCCD, taking place from November 13-17 – UNCCD executive secretary Ibrahim Thiaw said: “The first-ever UNCCD Data Dashboard offers an eye-opening insight into rapid loss of healthy and productive land around the world, with dire

consequences for billions of people. At the same time, we are seeing some ‘brightspots’ – countries effectively tackling desertification, land degradation and drought. As we gather in Uzbekistan this week to review global progress towards ending land loss, the message is clear: land degradation demands immediate attention.”

While Uzbekistan reported the highest proportion of degraded land in the Central Asia region, the Dashboard showed it also



*Roughly 80% of land in Central Asia is used for pastoralism, with livestock grazing year-round. Today, up to 50% of the region's rangelands need to be supplied with water. A lack of access to watering points reduces the mobility of herders, causing overgrazing of pastures near settlements and undergrazing of remote areas. Uneven grazing ultimately contributes to the formation of anthropogenic sources of SDS [sand and dust storms], which leads to further deterioration of soils and suppresses vegetation – UNCCD factsheet.*

saw the largest decrease – from 30% to 26% – compared to 2015. A total of 3mn hectares of land in Uzbekistan have been degraded due to the drying of the Aral Sea.

Between 2018-2022, Uzbekistan carried out saxaul planting on an area of 1.6mn hectares to eliminate salt and dust emissions from the drained bottom of the Aral Sea.

Kazakhstan increased irrigated lands by 40%, expanding the total irrigated area to 2mn hectares. In Kyrgyzstan, some 120,000 hectares of pastures and forests are now under sustainable land management, including a pasture rotation system. Turkmenistan committed to restoring 160,000 hectares under its national 'greening the desert' initiative by 2025.

Although land degradation varies by region, the warning seen in the UNCCD data is that if current trends persist a staggering 1.5bn hectares of land will need to be restored globally by 2030 to reach targets enshrined in the sustainable development goals (SDGs), the UNCCD said.

Barron Orr, UNCCD chief scientist, said: "Although global trends are going in the wrong direction, it is still possible to not only meet but exceed land degradation neutrality goals. This can be done by stopping further degradation while accelerating



*More than 80% of about 400mn hectares of Central Asia is covered by deserts and steppes, which coupled with climate change and lasting droughts, represent a natural source of sand and dust storms (SDS). Unsustainable practices of irrigation farming and livestock grazing, mining and other land use change activities create conditions for the formation of human-induced SDS sources. Nearly 6.5mn people or 9% of the region's population live in high-risk areas. The SDS-prone area in Central Asia equals 85mn hectares (medium and high risk) -- UNCCD factsheet.*

efforts on existing commitments to restore one billion hectares of land by 2030 with funding and action hand-in-hand."

Around the world, approximately \$5bn in bilateral and multilateral funding flowed into global efforts to combat desertification, land degradation and drought between 2016 and 2019. This helped 124 nations roll out a wide range of projects aimed at addressing these challenges, UNCCD said. ●

## EBRD supports €3bn plan for North Macedonia's green energy transition

Valentina Dimitrievska in Skopje

International institutions including the European Bank for Reconstruction and Development (EBRD) and the World Bank have pledged their support for a comprehensive €3bn plan to facilitate North Macedonia's transition from coal to renewable energy sources.

The announcement, confirmed by the EBRD on November 17, sets the stage for a transformative initiative that aims to address environmental concerns and reshape the country's energy landscape.

A spokesperson from the EBRD refrained from disclosing details, saying that they are slated to be unveiled during the COP28 United Nations Climate Change conference. The conference is scheduled to take place from November 30 to December 12, at Expo City in Dubai.



The focus of North Macedonia's coal-to-renewables transition is the REK Bitola thermal power plant that contributes over 70% of the country's total electricity production. / ESM

"[W]e can't provide more detail before COP28," the EBRD's green spokeswoman Vanora Bennett said in a written statement to *bne IntelliNews*.

However, according to Reuters, the overarching objective of the plan is to retire the country's two coal power plants and replace them with a substantial 1.7 GW of renewable energy capacity.

The move aligns with global efforts to combat climate change and reduce reliance on fossil fuels, underscoring the importance of North Macedonia's transition away from coal, which constitutes 40% of its energy source.

In the focus of the coal-to-renewables transition is the thermal power plant REK Bitola, the largest producer of electric energy in North Macedonia, contributing over 70% of the country's total electricity production. ●

# Cleaner air is accelerating global warming

Ben Aris in Berlin

**N**ew research indicates that global warming is advancing at an even faster pace than previously anticipated, with a surprising contributor: cleaner air.

The reduction in atmospheric pollution, often associated with burning coal, oil, and fossil fuels, has led to clearer skies and that means more sunshine. Paradoxically, this seemingly cleaner environment from burning less fossil fuels is actually exacerbating global warming, not preventing it.

The phenomenon hinges on the presence of aerosols, minute particles resulting from the pollution of the atmosphere. While burning coal and other fossil fuels release carbon dioxide (CO<sub>2</sub>), a potent greenhouse gas (GHG) that contributes to global warming, the accompanying smog contains aerosols that reflect sunlight back into space, which has a significant cooling effect on the planet. This counter-intuitive cooling effect has been disrupted as pollution levels have decreased.

“Paradoxically, this seemingly cleaner environment from burning less fossil fuels is actually exacerbating global warming, not preventing it”

Much of the effort in reducing emissions has focused on cutting the emissions from cars, but it turns out shipping plays just as important a role, if not more so.

New regulations for smoke purification from ships emissions, introduced by the United Nations' shipping authority, the International Maritime Organization (IMO) in 2020, have led to a massive reduction in pollution.

Experts have since observed that larger expanses of the Pacific and Atlantic oceans now receive more sunlight than in the past, accelerating global warming beyond previous expectations.

Sulphur particles emitted from ship fuel have a notable role in cloud formation, and the reduction in pollution post-



The unintended consequence of reducing pollution by using less fossil fuels is that clearer skies have accelerated global warming. / bne IntelliNews

2020 has led to increased sunshine and energy reaching vast oceanic regions.

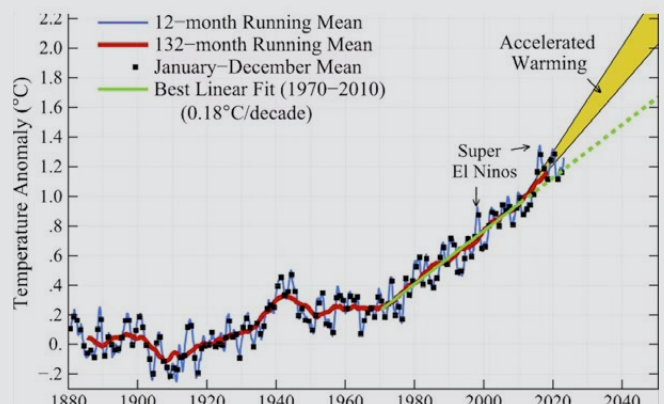
This research backs up parallel research into the Earth Energy Imbalance (EEI) that shows changes in the climate and atmosphere, paradoxically linked to successes in reducing the use of emissions emitting fuels, means the earth is absorbing more of the sun's energy and accelerating the climate crisis.

The researchers now foresee an accelerated pace of global warming in the future, surpassing previous estimates provided by organisations such as the Intergovernmental Panel on Climate Change (IPCC).

As with nearly all the big research papers released this year, the researchers behind this report are calling for the urgent transformation of society and action to combat these alarming trends.

If ignored, the research warns of a substantial sea-level rise resulting from the melting of the Greenland ice sheet and the potential collapse of significant Antarctic glaciers later this century. Additionally, they argue that the IPCC underestimates the risk of disruptions to the thermohaline circulation, a critical oceanic process. This research aligns with recent Danish findings that have similarly surprised the global scientific community.” ●

## Climate crisis temperature anomalies



Global temperature relative to 1880-1920, yellow area is projected accelerated warming. Source: World Open Climate Change

# THE BOOMERANG EFFECT: SANCTIONS HURT EUROPE MORE THAN RUSSIA

Ben Aris in Berlin



After two years of war in Ukraine, the sanctions regime has run its course. As sanctions rules are tightened they are starting to boomerang back and are increasingly hurting Europe more than they are Russia.

The extreme sanctions imposed on Russia in the first days of the Ukraine invasion were designed to collapse the Russian economy at best, or at least throw Russia into a crisis that would make it impossible for Russian President Vladimir Putin to fund his war.

It didn't work. Russia came close to a meltdown in March and April 2022, but the team at the Central Bank of Russia (CBR) acted fast and efficiently headed off a disaster with strict capital controls and banning withdrawals of dollars. Crucially, the EU continued to send billions of dollars to Moscow every month to pay its gas bill, throwing Russia a key lifeline. That was a mistake.

As 2023 comes to an end it is now clear that Russia's economy has proved to be a lot more robust than thought, says political economy analyst Alexandra Prokopenko. GDP will expand by 2.2% this year. Growth is so strong in many sectors there is talk of overheating. The budget is back in profit. Both Russia's oil revenues and its nominal GDP are back above the level they were on the eve of the invasion over 600 days ago.

"Russian real GDP is above where it was before the invasion. That is lamentable, but no one in Brussels gets to lament this.

#### Russian real GDP



Source: xxxxx

The EU made a conscious decision to put the profits of a handful of Greek shipping oligarchs ahead of the 450mn people it's supposed to represent," said Robin Brooks in a bitter tweet, the chief economist at Institute of International Finance (IIF), referring to Greek shippers that have largely ignored sanctions to make money by shipping Russian oil to Asia.

One of the miscalculations the West made was to underestimate the quality of the financial and macroeconomics team running the economy. As Prokopenko points out, these people have been in charge of these policies since the 2008 credit crunch and are crisis veterans. Underpinning this resilience is a mindset of "permanent

"Russian real GDP is above where it was before the invasion. That is lamentable, but no one in Brussels gets to lament this"

war", reminiscent of the totalitarian regime described in George Orwell's novel 1984. They have had to deal with one disaster after another, which left them uniquely prepared to fight the latest clash with the West.

"The succession of crises has instilled a particular mindset in Russian officials. The perpetual need to address challenges that arise from factors beyond their control, often unrelated to monetary and fiscal matters, has kept them in a state of constant readiness for unexpected crises. This mindset, coupled with substantial oil revenues, has enabled the Russian economy as a whole to withstand the impact of sanctions and swiftly adapt to new realities. The role of crisis management by the central bank and the finance ministry in responding to sanctions should not be underestimated," says Prokopenko, in the preamble to her report.

On top of that, it appears that Putin has been preparing for the current showdown for over a decade, building a Fiscal Fortress with massive reserves and low debt that has largely sanction-proofed Russia Inc.

By contrast, Europe is not good at dealing with crises. Almost all the EU members saw negative growth in the third quarter according to the latest OECD data and the forward-looking S&P Global Production Manufacturers Index (PMI) for October remains deeply in negative territory, while industrial production in many countries is sinking.

As *bne IntelliNews* reported already last year, the lights are going out in Europe's heavy industry after input and power prices rocketed. German industrial powerhouse BASF has been forced to shutter or dramatically reduce production at hundreds of factories across Europe due to unaffordable energy and gas costs which has made them economically

unviable. By some estimates 10% of Germany's heavy industry has been mothballed.

These economic problems can partly be ascribed to the after effects of the pandemic and the ongoing polycrisis, but the sanctions regime has only made things worse. An indicator of the pain Europe is suffering is the fact that recently Russia overtook Germany to become the fifth biggest economy in the world in PPP terms.

As *bne IntelliNews* has reported, sanctions across the board have failed to have the intended impact. Oil sanctions are now a spent cannon and technology sanctions have failed thanks to Russia's long list of friendly countries that are making a killing from transiting banned Western goods to Moscow.

The EU is currently debating the details of a twelfth sanctions package, which are supposed to tighten the sanctions regime and improve enforcement, but there is already stiff resistance to tightening the noose amongst many EU member states because of the painful economic bounce-back effects.

Russia is too big, too autarkic and too deeply embedded into the global economy to be effectively sanctioned. The Fiscal Fortress Putin has built since around 2012, still has some \$300bn in cash (mostly yuan and gold) despite the freezing of the CBR reserves, and only 14% of GDP of state debt – by far the lowest level of any major country in the world.

There are too many emerging Global South markets that are too big, growing too fast and too independent of Western pressure that are willing to trade with Russia to allow the West to effectively enforce the sanctions. After the EU banned Russian oil imports in December 2022, Russia was able to reorientate its entire oil exports to Asia in a matter of months.

While Russia is still getting the foreign-made machinery it needs via the backdoor, Europe remains heavily dependent on many critical inputs it can still only get from Russia. Europe suffers from a deficit of energy, metal, food and chemicals and as it has started to de-industrialise it has become more dependent on Russia than ever. Things like Russian fertilisers, LNG, gas and grain all remain unsanctioned for this reason.

“This theme is nothing new,” said presidential spokesman Dmitry Peskov in November, when asked about the twelfth sanctions package. “This is a continuation of the search for some kind of sanctions solution, which, according to the authors of these sanctions, will hit Russia. As a rule, it turns out to have a kind of boomerang effect. The interests of Europeans suffer.”

### Europe goes into recession

Global growth will fall from 6% in 2021 to under 3% this year, says the World Bank, but that is not all due to the boomerang effect. The polycrisis, persistently high food inflation and rising energy costs, the deglobalisation that followed the pandemic and the increasingly fractured world that is a result of the trade disputes between the US and China before the Ukraine war have all taken their toll. But the boomerang effect has catalysed all these problems and hit Europe particularly hard.

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The economies of Central and Northern Europe are spluttering and Germany, the engine of European growth, has stalled completely. Germany ranks bottom for business confidence in Europe, according to the latest S&P Global Business Outlook survey. Firms are forecasting cuts to both employment and investment and staff cost pressures expected to remain high for at least the next year. And its economy contracted in the third quarter as it slips into recession.

Economists are calling Germany “the Sick Man of Europe” again, although Czechia also has a strong claim to that title, as it is the only economy in Europe not to have regained its pre-pandemic size and is also bottom of the growth table. Hungary and Poland are also recovering from bouts of inflation that have been the highest in 20 years.

But the picture is very similar across most of Western Europe, although the countries of Southern Europe are faring better. The business climate in France deteriorated again in November and growth is anticipated to slow further in the fourth quarter. At the same time, the PMI indices indicate that inflationary pressures remain high and that disinflation will take time, according to ING.

The European Commission said in its Autumn Economic Forecast that energy prices remain a problem and revised down its forecasts for GDP growth in the EU and in the eurozone this year, by 0.2 percentage points to an average of only 0.6% this year before recovering slightly in 2024 to 1.3% growth. All of Austria,

Czechia, Estonia, Germany, Hungary, Ireland, Latvia, Lithuania, Luxembourg and Sweden will see their economies contract this year, but all, except Sweden, are expected to put in at least some anaemic growth next year.

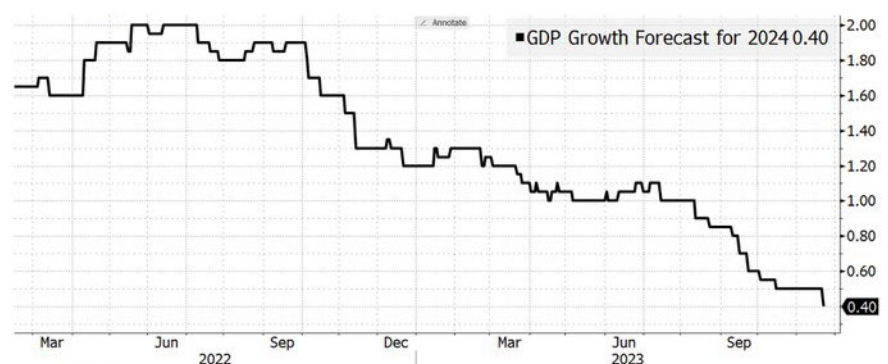
“EU GDP growth is forecast to improve to 1.3% in 2024, still below potential and a downward revision of 0.1 pps. from summer. It is projected to gain further pace, to 1.7%, in 2025,” the EC said in its report.

More generally, the World Bank says global growth is forecast to slow from 6.0% in 2021 to 2.7% in 2023 before recovering a little in 2024 to reach 2.9%, which is being driven by the polycrisis.

The EC said while inflation in Europe is declining from 20-year highs in some European countries, the monetary policy put in place to control it, “took a heavier toll than previously expected” this year and another lacklustre quarter ahead. Some Central European banks are getting ready to ease monetary policy, but the European Central Bank (ECB) has made it clear in comments that growth-boosting eurozone rate cuts in 2024 are unlikely.

The European slowdown is not a disaster yet. ING called it a “very shallow technical recession” in a note on November 23 and suspects the low point has already been passed. But against that, analysts say that climbing out of the bowl will take several years. The bottom line is that the anaemic eurozone economies are currently in a lot worse shape than Russia for the meantime.

### Germany Consensus GDP forecast



Source: Bloomberg

**Poor PMIs**

Capital Economics says that Europe is facing a “long slog” and following on from the GDP contraction recorded in the third quarter, monthly indicators suggest the economy is likely to remain in recession in the fourth quarter.

“The outlook for European manufacturing in general looks bleak,” says Liam Peach, an emerging market economist with Capital Economics. ING points to the poor PMI results as a warning sign, where any result under the no-change 50 mark is a contraction.

“The eurozone composite PMI ticked up from 46.5 to 47.1 in November, which still indicates a contraction in business activity. New orders continue to fall as backlogs of work are being depleted. This is more so the case for manufacturing, where the downturn is deeper than for services... The downturn is not worsening at the moment, but there is little evidence of recovery either. Overall, it looks like this is a shallow technical recession.” ING said in a recent note.

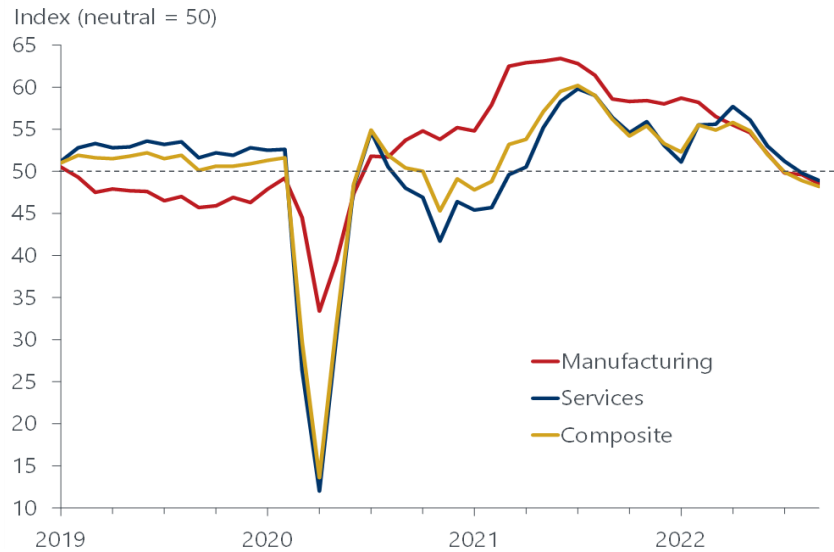
Germany is key to a recovery and currently the country is one of the worst performing of all big EU states. And now it is facing a spending squeeze.

The German budget was thrown into chaos in November after the Constitutional Court ruled that Chancellor Olaf Scholz could not transfer €60bn of pandemic relief money to the climate crisis investment fund, and the state has had to put all new spending plans in 2024 on hold as a result. Now strapped for cash, that will hurt growth prospects even more.

“The growth forecasts for 2024 have been cut following the budget chaos after the Constitutional Court declared [the] government’s spending plans unconstitutional. The consensus now expects GDP growth for Germany of just 0.4% for the coming year,” Holger Zschäpitz, a journalist with Die Welt, said in a tweet.

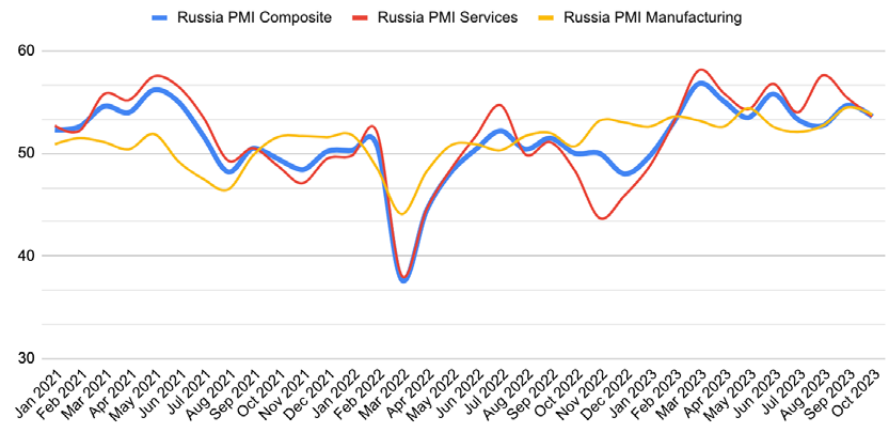
Germany’s budget woes may also affect its funding for Ukraine as the EU overtakes the US as the biggest Ukrainian donor. Berlin says it will

**Eurozone: PMIs**



Source: Oxford Economics

**Russia PMI**



Source: S&P Global

continue to support Kyiv despite budget difficulties, but it will have to take funds from non-military budget items and tighten its belt.

Russia’s PMI, on the other hand, is booming. It put in the biggest jump in five years to 54.5 in September thanks to the military Keynesianism boost of heavy military spending, and has shown economic expansion every month this year. Russia’s PMI remained a robust 53.8 in October and Russia’s businessmen are optimistic about the prospects for the near term.

The story is the same with industrial production. Germany and France are both in the red compared to 2015, and the UK is headed for stagnation in 2024, due

to high interest rates, according to ING.

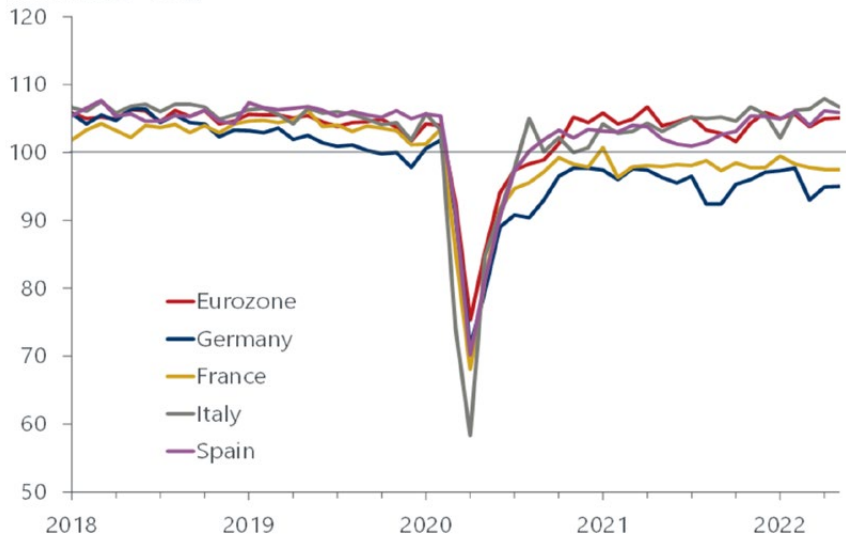
Spain was the only EU economy to see industrial production rise in September but by only 0.6% year on year. September was the weakest month of German output compared to 2015, and Dutch manufacturing output has fallen every month so far in 2023, plunging by 10.3% in October alone.

Industrial production in Russia is back in the black since the war started and showed a modest uptick in growth in September, rising from 5.4% y/y in August to 5.6% y/y.

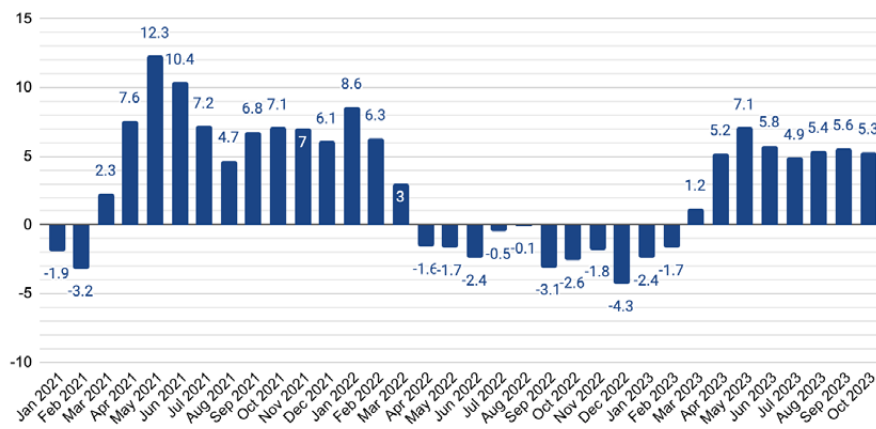
In the days following the start of the war European Commission President

**Eurozone: Industrial production**

Index (2015 = 100)



Source: Oxford Economics

**Russia industrial production y/y**

Source: Rosstat

Ursula von der Leyen was a unifying force and looked like “the new Merkel” as she rallied the EU members to impose crushing sanctions on Russia.

But since then she has started to look more like an ideologue, hell bent on crushing Russia at all costs – including at the cost of the economic health of the EU countries. Von der Leyen has come in for criticism for her total lack of condemnation of Azerbaijan’s so-called anti-terrorist operation and the ethnic cleansing of the Nagorno-Karabakh enclave on September 19 – clearly an EU values issue. Her willingness to completely ignore Azerbaijan’s atrocious human rights record when cutting a gas deal with Baku last year has also

been roundly criticised. And her blatant pro-Israeli support led 800 members of her staff to publish a letter of complaint.

Now tensions are rising between the EC’s tough line on Russia and what the member states desire to protect their economies.

Sanctions have cost Europe a lot. Sanctions were first imposed in 2014, following the annexation of Crimea, and have hit Europe disproportionately, as the US has little trade or investment in Russia. In dollar terms, the European Union economy is now 65% of the United States economy, according to the FT, down from 91% in 2013. In addition, American GDP per capita is more

than twice that of Europe, and the gap continues to widen.

Russia has overtaken Germany to become the fifth biggest economy in the world in PPP terms, as Russia’s economy continues to grow while that of Germany sinks under the weight of the sanctions bounce-back.

Some EU member states are attempting to protect already damaged sectors while politically supporting the punishment of Russia. The eleven rounds of sanctions are riddled with exemptions and carve-outs to protect some of the more vulnerable industries, and everyone in Europe has been indirectly affected by the soaring energy prices and sky-high inflation.

As *bne IntelliNews* reported a year ago, the lights are starting to go out in Europe as just the soaring energy costs in Europe and lack of gas have already forced companies like Germany’s industrial powerhouse BASF to shutter or drastically reduce production at hundreds of factories in Europe that are unlikely ever to reopen. Germany’s heavy industry has already been reduced by 10%, according to some estimates. Energy prices have come down from their extreme levels in 2022, but they remain 2-3 times above the pre-war five-year averages and continue to punish European industry.

The cost of power has become a new tax that is also dragging down growth and investment. Households in Belgium and Germany are already paying twice as much for electricity as Poland, a German government research body said in November. Energy price rises have particularly squeezed small to mid-sized homes in the two countries in the first half of 2023, despite falling from astronomically high levels in 2022.

The German government is planning to spend billions of euros on subsidies to shelter the population from the high prices for at least the next four years, but its budget is already being squeezed as it hits Constitutional borrowing limits, known as the “debt brake”, in the middle of November. A recent German study found that two out three companies



operating in Germany are now looking to relocate at least some of their operations abroad to save money.

And a lot of money has been spent. The US reportedly made over \$1 trillion in excess profits from LNG exports to the EU last year in the midst of the energy crisis that saw prices decouple. The EU reportedly lost €1 trillion through hand outs and energy subsidies to protect households from the worst: governments provided \$830bn to assist consumers and another \$446bn to fossil-fuel producers, many of whom recorded bumper profits.

Western governments can't keep that level of spending up. The US is reportedly planning to end energy subsidies this winter and will pass more of the costs on to the consumer. UK regulator Ofgem has raised the national price cap for the first quarter of next year by 5% at a time when Britons are facing persistent inflation in the price of food and basic goods, and the government is struggling with worsening economic growth forecasts.

Likewise, Germany's €200bn fund to soften the impact of rising energy prices on consumers and businesses will expire at the end of 2023, Finance Minister Christian Lindner told Deutschlandfunk at the end of November. "As of December 31 of this year the Economic and Stabilisation Fund will be closed," he said in a recent interview. "There will be no more payouts from this. The electricity and gas price brakes will also be terminated." The fund, known by its German abbreviation WSF, is one of the off-budget funds ruled unconstitutional by the country's highest court in the middle of November.

### Twelfth package of sanctions

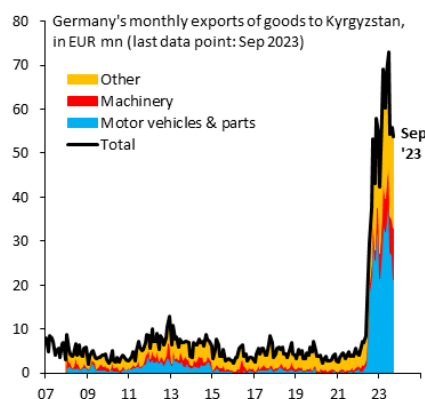
The tensions between government's desire to protect their struggling industries and the EC's determination to do Russia in has come to a head with the twelfth sanctions package, now under discussion.

The details were due to have been announced on November 17, but this has now been delayed to sometime in mid-December as the intra-EU wrangling becomes fraught.

The latest package is designed to better enforce the existing sanctions, which have largely failed to inflict much pain on Russia. As *bne IntelliNews* has extensively reported, Russia has managed to avoid almost all the sanctions, which have done little more than impose some extra costs on its trade. Oil sanctions are a spent cannon and the *FT* reports that not one barrel of oil has been sold below the \$60 per barrel oil price cap. Technology sanctions have also failed thanks to the co-operation of Russia's friendly countries; to illustrate, German exports to Kyrgyzstan alone, especially of cars, are up by 5,500% since the start of the war.

Kyrgyzstan has become a key destination for all European exports that – ultimately – go to Russia. Estonian exports to Kyrgyzstan are up 10,000%. Finnish exports are up 3,100%, Poland's are up 2,200% and Greece's are up 2,100%, IIF reports.

### German exports to Kyrgyzstan



Source: IIF

More insidious are reports that Turkish exports of dual-use goods to Russia were up three-fold in 2023, the *FT* reported on November 27. Turkey recorded \$158mn in exports of 45 goods like microchips over the first nine months of 2023, marked by the US as sensitive to Russia and five "former Soviet countries" suspected of serving as intermediaries for Moscow. The average figure for the trade of the same goods in 2015-21 was \$28mn, according to the *FT*.

The new package is supposed to tighten the noose and will impose new regulations, reporting and fines on

European companies that break the rules. However, Bloomberg reported on November 24 that several EU members are already pushing back hard, as they don't want to punish their own companies for Russia's wrongdoing. They also don't want to forgo the money they are making.

The EC is proposing to prohibit importers from reselling many goods, in particular, semiconductors used in Russia for the production of weapons. It is also proposing to fine EU countries that ignore the rules and put the money in a special "Ukraine Recovery Fund". Exporters will also be required to inform national authorities of any violations by third-country companies.

However, diplomats from an unnamed group of major EU member states raised several "concerns" about the proposals in the last week of November, including questions about their legality and whether such guarantees and conditions could be demanded from importers.

Bloomberg's sources said that the group of countries want to narrow the scope of the proposed rules, reduce the list of goods to which the new laws will apply and introduce more exemptions and carve-outs that have already fatally weakened the existing sanctions regime. They are afraid the rules will place them at a "competitive disadvantage."

The problems that arise from on the one hand sanctioning Russia's biggest export earners and the losses to European firms using or buying those products are thrown into relief by the proposed bans on diamonds and aluminium.

**Diamonds:** Russia is one of the world's biggest producers of diamonds in the world and accounted for 35% of the world's trade in 2021, worth \$4bn. Belgium buys up to half of Russia's diamond exports, 28.2mn carats, worth approximately \$2.5bn in 2021, according to Kimberley Process data, which are sold in Antwerp. Unhappy about losing this significant trade, Belgium has successfully kept diamonds off the sanctions lists until now, but diamonds are likely to be included in the twelfth sanctions package.

Typically, the ban on imports of Russian diamonds to the EU will come into effect immediately on January 1, but the wider ban on goods produced using Russian diamonds and stones cut elsewhere, like India, will be phased in over a year to ease the pain on Antwerp.

**Aluminium:** Russia is an equally important producer of aluminium which has also been excluded. A previous attempt to sanction the oligarch owner RusAl, Russia's main producer, Oleg Deripaska in 2018 backfired when the price of aluminium spiked by 40% the next day on the London Metal Exchange (LME). The US Office of Foreign Assets Control (OFAC) backed off when it was told the cost of a can of Coke in the US would rise by 15 cents and the sanctions were eventually withdrawn entirely – the only sanctions imposed on Russia since 2014 to have been withdrawn again.

Aluminium products are back on the lists again. The twelfth sanctions package reportedly includes wire and pipes, but that has caused an outcry from the Federation of Aluminium Consumers in Europe (FACE) that warned the ban will cause chaos amongst European businesses that rely on Russian aluminium.

“Aluminium was the target of a vigorous and persever[ing] lobbying campaign from competitors of Russian producers and some industry associations, and it finally made its way up to the Commission's proposal for the 12th EU sanctions package,” FACE said in a statement.

Europe already has a net deficit of primary aluminium, now at more than 84%, according to FACE. Nobody foresees any new smelting production investments on the Continent, and the most optimistic recycling scenario will at best cover half of the demand for this ever more sought-after material, according to the consumer's association, which warns of business-busting price hikes.

**Grain & trucks:** A more recent example of unintended consequence has been grain exports from Ukraine. The major foreign exchange earner for Ukraine, its

grain has been bottled up since the Black Sea Grain Initiative collapsed in July.

Ukraine redirected its exports by rail via Poland, but massive quantities of cheap low-quality Ukrainian grain crashed the local market in April and the transit of Ukraine's grain has been banned ever since.

More recently, a new trade dispute has broken out after Polish truckers blockaded the border to prevent Ukraine's trucks from crossing. Already smarting from the loss of business ferrying EU goods to Russia, Poland's truckers are complaining Ukrainian truckers, who earn a quarter of what Polish truckers do, are undercutting them and putting them out of business. This dispute is also spreading to Poland's neighbours in adjacent Central Europe.

Determined to support Ukraine, even at the expense of hurting Poland, the EC has refused to reinstate the permit restrictions on Ukraine's truckers that was rescinded last year, and Warsaw has refused to lift the ban on Ukrainian grain imports, as it is Brussels, not the member states, that makes trade policy.

**Czech steel:** Another less celebrated example is Czech steel companies, which have asked for an extension to exemptions from a ban on buying Russian steel. Novolipetsk (NLMK) is one of Russia's biggest steel producers, but has rolling mills in Europe in order to be close to its big customers.

Czechia's automotive sector is a linchpin for the economy, accounting for about 10% of national GDP – one of the highest totals in the world – and is heavily dependent on the import of Russian steel which is used to make the car bodies.

NLMK produces nearly all of its flat and long steel products in Russia, but nearly a quarter of its rolling operations are sited in Europe and these products were included in the eleventh sanctions package. Czechia got an exemption which is due to expire next year. In addition, thousands of European jobs at NLMK's European plants are on the line. Czechia is now asking to prolong that transition period to 2028. Belgium

is likely to support Czechia's call for an extension, as it is also home to a large NLMK steel mill.

**Exodus:** Just how badly Germany's economic model has been affected by the end of cheap Russian gas remains a matter for debate, but clearly the costs of energy have risen dramatically and are unlikely to return to the pre-war long-term averages anytime soon. That has made a swathe of German businesses economically unviable.

Manufacturing accounts for more than a quarter (27%) of the German economy. New orders at the country's engineering companies, long a bellwether for the health of Germany Inc., have been dropping like a stone, falling 10% in May alone, the eighth consecutive decline. Foreign direct investment (FDI) into Germany is also collapsing, down in 2022 for the fifth year in a row, hitting the lowest point since 2013. German firms are already looking for new homes, a recent study by the Federation of German Business (BDI) found.

Already 16% of the medium-sized companies interviewed by the BDI have launched steps to relocate parts of their business abroad, but the study found that another 30% are actively studying relocation options. The German government is planning a major four-year €4.4bn subsidy programme to keep German businesses at home. If Germany's deindustrialisation continues then it will have Continent-wide ramifications.

“Almost two-thirds of the companies we interviewed consider prices of energy and resources to be among the most pressing challenges,” said BDI President Siegfried Russwurm, as cited by Euroactiv.

German industrial giant BASF, founded on the banks of the Rhine in 1865, has just decided to forego a \$10bn investment in a new chemical plant in Germany, choosing to locate it in China instead. As *bne IntelliNews* reported last year, BASF has already shuttered hundreds of factories and plants in Europe as a result of soaring gas and energy prices.

In the most recent example, Germany's biggest solar panel maker, Meyer Burger Technology, is contemplating relocating its operations abroad due to the energy crisis. The CEO, Gunter Erfurt, said a decision would be made soon, citing the difficult power situation in Germany as a potential reason for the move, Brussels Signal reported. The United States is a possible new location, encouraged by substantial government investment in the solar sector and offers of significant state support for the company's already planned manufacturing plant in the US.

**Sanctions are distortions**

Oil sanctions won't work unless Russia is totally encircled and all Russia's exports have to leave through a gate that is controlled by the West, which then can enforce the \$60 per barrel rule.

When the oil price sanctions were first suggested, as the West controlled 95% of maritime insurance it was assumed this could serve as the enclosing fence. The flaw in the scheme is that the entire eastward facing export route is wide open, allowing Russian ships to sail to Asia totally avoiding the Western controlled gate entirely.

Chinese and Indian shippers have their own insurance and have refused to participate in the scheme in exchange for cheap Russian oil. At the same time Russia has built up a "ghost fleet" of ships that can carry almost all its own crude that operates entirely outside of the sanctions regime. After two years, the West is estimated to now control some 65% of the global maritime insurance business.

The US has imposed secondary sanctions on a total of five shipping companies in November and is investigating 100 more for ignoring sanctions. Western companies have been widely ignoring the regime with impunity, as detailed in an investigation by The Peterson Institute for International Economics (PIIE) and Kyiv School of Economics (KSE). In another note KSE warned that oil sanctions are in danger of losing their credibility as they are working so badly.

The West is increasingly being sucked into a game of whack-a-mole to make leaky sanctions work. It is targeting individual ships and companies after the much more elegant market mechanism of using insurance to enforce the rules continues to fail. Without nailing all the holes shut – sanctioning both China and India for example – you can't win whack-a-mole and that would mean sanctioning the whole of the non-aligned world.

The hole in the eastern side of the ringfence means that sanctions are not sanctions but a distortion of the once highly efficient global energy market. Whereas once Russian oil from Siberia had to be shipped from Primorsk in the Gulf of Finland a few days to the oil terminals in Rotterdam where it was refined before being distributed across Europe, now it has to sail for two months to Indian refineries in Gujarat or Chinese privately owned "teapot" refineries, before being shipped back to Europe and sold as "Chinese" or "Indian" oil products. It is of course the same Russian oil, except it has been whitewashed by the journey.

Ultimately, it is the European customer that pays the added transport costs.

As the roundtripping Asian trade route becomes well established, the discount Russia had to offer has been falling steadily according to the latest KSE Russian oil tracker. Pre-war the Urals blend was sold at a \$2 discount to Brent. At its peak in the spring of 2022 that discount blew out to some \$35, but since then it has fallen to \$10 now and analysts expect it to fall further next year to \$5, reflecting the longer journeys involved.

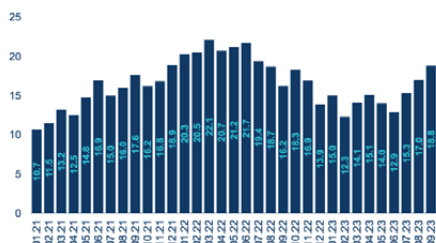
The upshot of the hole in the ringfence, combined with the agreement between Russia and OPEC+, led by the Kingdom of Saudi Arabia (KSA), now a firm Russian ally, to restrict oil production, has been to push up the price of crude to over \$80 per barrel, which more than compensates for any increase in transport costs.

The distortions that have been introduced into the oil markets is one of the main mechanisms for the boomerang effect. In February 2022 on the eve of the war Russia earned \$20.5bn from oil exports and the budget received RUB892bn (\$10.7bn), according to KSE. In September this year Russia earned \$18.5bn from oil exports in dollar terms and RUB987bn (\$11.1bn) using the exchange rates current at the respective times. Instead of dramatically reducing the amount of money the Kremlin gets to fund its war machine, it is now earning more than it did in January 2022.

**Cost to Russia**

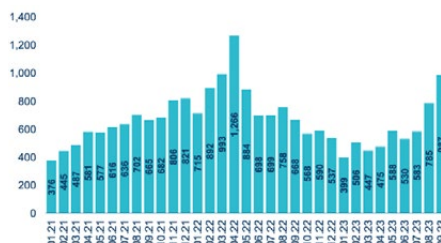
That is not to say the sanctions are useless. They have done a lot of damage but more importantly they condemn Russia to long-term stagnation. Thanks to Putin's efforts to build a Financial Fortress, Russia's growth potential pre-war was only 1-2% a year – far below the average global growth rate, condemning Russia to long-term stagnation in the long term. Prokopenko argues that the "permanent war" mentality of Russia's financial elite leads to hoarding of resources, super-conservatism and discourages institutional building, long-term

**Oil export earnings, in U.S. dollar billion**



Source: Federal Customs Service, International Energy Agency, KSE Institute \*2021 data from Russian customs service, 2022-23 data from IEA

**Federal budget oil revenues, in ruble billion\***



Source: Ministry of Finance, KSE Institute \* includes extraction tax and export duty

investment or planning and stifles innovation. Following the sanctions, Russia's growth potential has fallen to a mere 0.3-0.5% as a result, say economists. That's stagnation. But Ukraine can't wait for the long term. It needs results now after the much vaunted summer counter-offensive led to a stalemate which is fuelling the already palpable Ukraine fatigue.

Apart from slow growth, the most obvious cost to Russia has been the

(€8.1bn, 8.1%), electrical equipment and machinery (€7.57bn, 7.6%) and plastics (€4.38bn, 4.3%).

But in 2022 most of Russia's leading export products were sanctioned and by the start of 2023 all oil and gas imports stopped entirely, cutting just under €100bn out of mutual trade by themselves. The Russo-EU trade turnover halved to €171.4bn in 2022 as EU exports fell by a third to around €40bn, even though Russian exports to

Russia's growth of 2.2% this is an aberration caused by the military spending, but once that wears off the economy will stagnate.

Russia's share of GDP/per capita as a share of the world is already falling, reports The Bell. Since 2013, Russia's GDP per capita has only increased by 5%, which is lower than the world average and most developing countries. Prior to the Ukraine conflict, Russia's GDP per capita was just 2% below the global average, but this gap has now widened significantly.

The annexations of Crimea and four more Ukrainian regions last September are also a heavy burden as they are amongst the most heavily subsidised regions in the Federation.

And all this is not counting the cost of the war itself. In Russia's 2024 budget the Kremlin is for the first time ever spending more on security than on social spending. This year Russia is expected to spend RUB15 trillion on the war (\$168bn), or some 10% of GDP.

"Expenditure on this scale leads to the expansion of groups that benefit from war (soldiers and their families, the military-industrial complex, military officials) and a reduction in income for everyone else. Extending the war will result in a gradual decline in living standards in Russia," the Wilson Centre said in a recent note. ●

**"The most obvious cost to Russia has been the collapse of bilateral trade between Russia and the EU, formerly Russia's biggest trade partner"**

collapse of bilateral trade between Russia and the EU, formerly Russia's biggest trade partner. Trade with China has more than doubled in the same period and is on course to top \$200bn this year, but that doesn't come close to replacing the trade lost with the EU.

After a slowdown in trade between 2013 to 2016 caused by the first round of sanctions, Russo-EU trade recovered rapidly in 2017 according to the Russian customs to just under €250bn and stayed pretty constant at that level until 2021. In this period Russia was running an annual trade surplus with Europe on the order of €80bn a year of which over a third were oil and gas in value terms.

In 2021, the total trade in goods between the EU and Russia amounted to €257.5bn, according to Eurostat.

The EU's imports were worth €158.5bn and were dominated by fuel and mining products – especially mineral fuels (€98.9bn, 62%), wood (€3.16bn, 2.0%), iron and steel (€7.4bn, 4.7%) and fertilisers (€1.78bn, 1.1%).

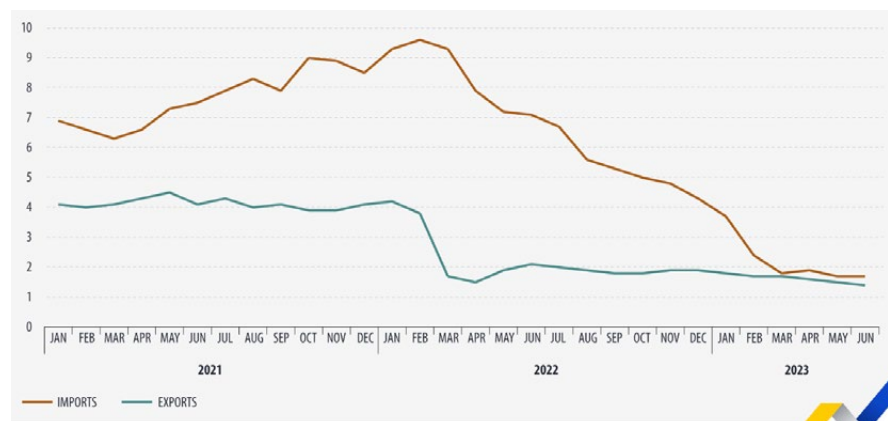
The EU's exports in 2021 totalled €99.0bn. They were led by machinery and equipment (€19.5bn, 19.7%), motor vehicles (€8.95bn, 9%), pharmaceuticals

the EU were up two thirds to €137bn in value terms (due to the energy crisis).

Trade between Russia and Europe this year is down more than 3-fold after EU exports to Russia fell to under 2% of total EU trade in the first nine months of this year, from 9.6% in 2022 in the same period, according to Eurostat. The EU now runs a trade deficit with Russia of only €400mn a month or less, down from the pre-war average of about €8bn a month. Russia's mutual trade with the EU is on course to fall below €100bn this year.

#### EU trade in goods with Russia, January 2021 - June 2023

% share in extra-EU trade, seasonally adjusted



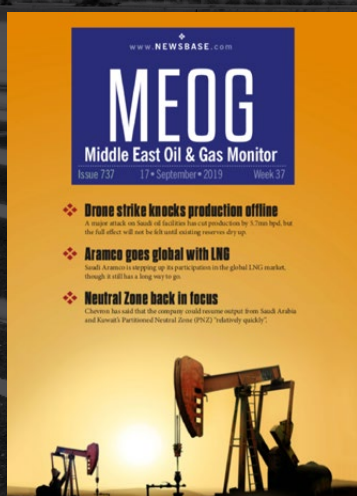
Source: Eurostat

## COVERING THE WORLD OF ENERGY

Someone bombed Saudi Arabia's biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to \$100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

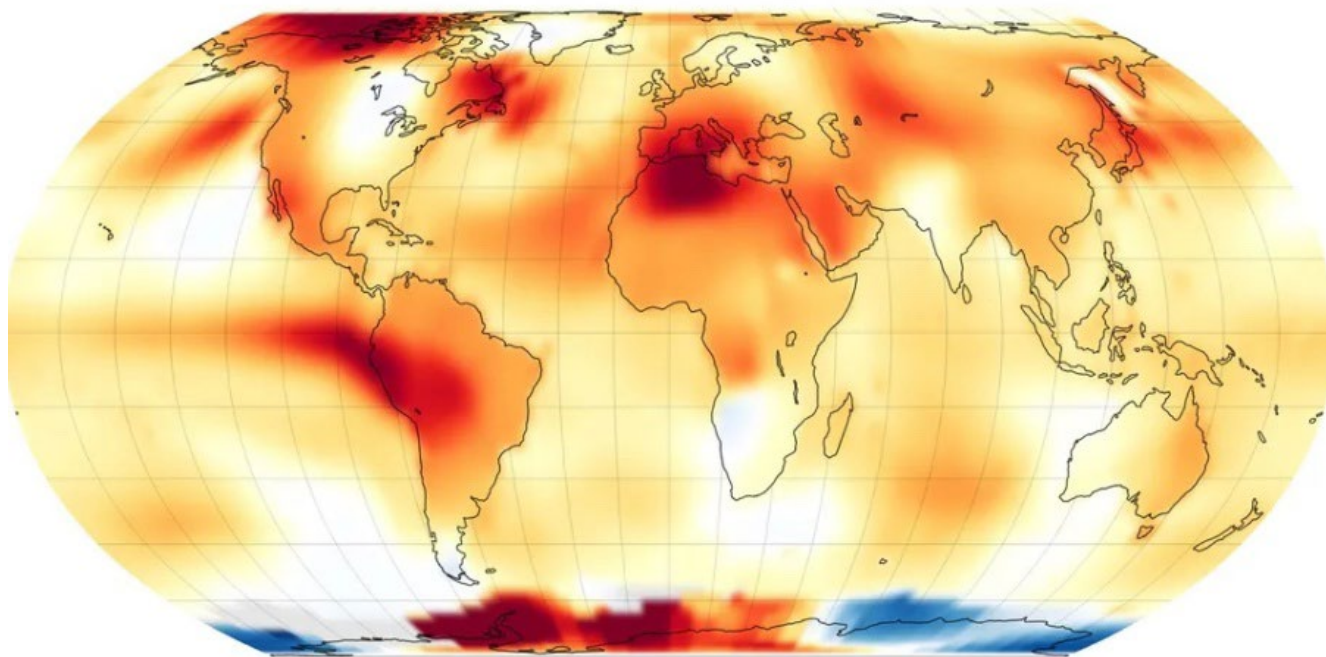
Newsbase follows all these stories and more with 11 weekly newsletters that cover the global oil, gas and power sectors including Asia, Africa, Europe and the Americas. A *bne IntelliNews* sister company, Newsbase global network of correspondents provide unique and timely analysis of the development of the energy business.



Read a sample from the *Middle East Oil & Gas* monitor that followed the attack on the Saudi facilities here.

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Global warming is accelerating and all the vital signs are flashing red. The world's leaders meet at COP28 but the scientists warn that it is almost too late to stop the process. / bne IntelliNews

## All the climate crisis warning lights flashing red

Ben Aris in Berlin

**O**n the Climate Crisis dashboard 20 out of the 35 vital indicators of the environment's health are flashing red. The great and good have assembled in UAE's capital of Dubai for the COP28 conference to hash out a plan to avert the looming environmental disaster, but it's probably too late.

The Climate Crisis is here and the chances of averting a disaster are dwindling rapidly – although they have not disappeared entirely. Report after report issued by multinational development banks, governments and NGOs conclude that unless an enormous effort is made in the next few years and literally trillions of dollars are invested then the world will sail past the 1.5C maximum temperature increases mandated by the Paris Accords in 2015 that will have “serious” consequences.

The UN's recent global stocktake report,

the most comprehensive study of climate change that will also be used as the basis of the upcoming COP28 meeting, was specific that there are two years left to act. Trillions of dollars need to be invested in order to stave off disaster.

“The earth's energy imbalance (EEI), the excess amounts of energy the earth absorbs from the sun, has doubled between 2005 and 2015”

Likewise, another report from the International Energy Agency (IEA) said that earth's energy imbalance (EEI), the excess amounts of energy the earth absorbs from the sun, has doubled between 2005 and 2015. The planet is literally starting to cook.

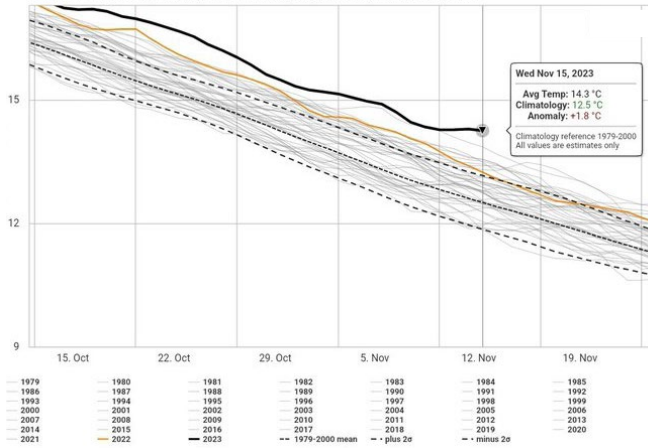
Another report concluded that the global community needs to make

changes the equivalent of what was done in the Industrial Revolution, “but in the next ten years.” A UN report argued that the world's fundamental economic model of endless growth and consumption has to see a

root and branch remake to create a new “sustainable economic model”. As *bne IntelliNews* reported, our governments are failing us, as far too little is being done.

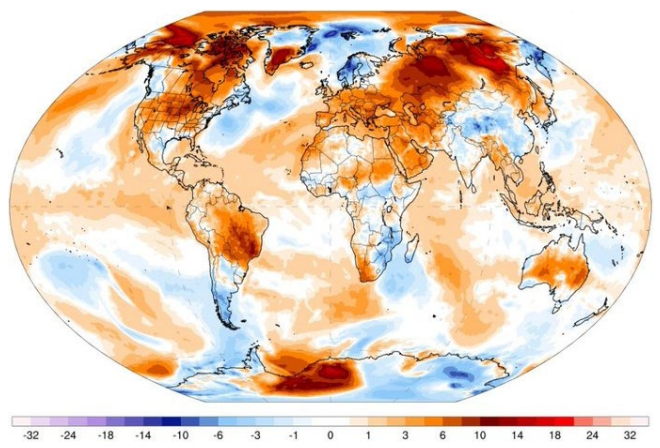
The decision to allow the UAE to host the event which is being run by Sultan al-Jaber who is also head of the Abu Dhabi National Oil Company

Daily surface air temperature (Northern Hemisphere) (Temp. °C)



Source: ClimateReanalyzer.org, Climate Change Institute, University of Maine

CFSV2 Avg 2m T Anomaly (°C) | CFSR 1979-2000 base



Source: ClimateReanalyzer.org

has outraged climate activists as oil deals are already being reported on the sidelines of the gathering.

This year has seen an unbroken streak of record breaking temperatures above the long term average. In the Northern Hemisphere the temperatures have been 1.8°C above the 1979-2000 average for 140 consecutive days, with no sign of letting up.

A recent study by Stanford using AI to model climate events found that the Earth is likely to cross critical climate thresholds even if emissions decline from here. The model found that the world will cross the 1.5C threshold within 10-15 years even if emissions start falling from here, and a 2C increase soon after that. Stanford professor Thomas Hansen said: "The magnitude of the currently observed warming is off the scale. Within a decade or so it will probably be 2 degrees." Officially, the world is already 1.1C warmer on average than before industrialisation took off.

Most of the reports are predicting that a temperature rise of 2C is now more likely, and after the rapid acceleration of temperature rises this summer that lead to unprecedented flooding and hurricanes that talk is already giving way to talk of a 3C rise above the long-term pre-industrial average by 2050. At those levels the Amazon forest dies. The polar ice caps melt. Oceans rise by tens of meters. And large swaths of the planet become uninhabitable.

**Emissions at record highs**

All the reports also point to the ongoing use of fossil fuels are the main culprit. Instead of falling, apart from a noticeable drop during the pandemic lockdowns, emissions have soared to new all-time highs, according to the IMF.

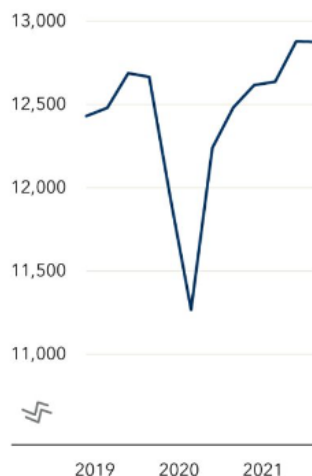
When world leaders huddled in Paris to strike their climate deal in 2015, levels of heat-trapping carbon dioxide in the atmosphere were near 402 parts per million – already enough to start causing problems. Today they're approaching 420 parts per million, levels that scientists say the planet hasn't seen since more than 4 million years ago, when seas were 25m higher.

"It appears the green recovery following COVID-19 that many had hoped for has largely failed to materialize. Instead, carbon emissions have continued soaring, and fossil fuels remain dominant, with annual coal consumption reaching a near all-time high of 161.5 exajoules in 2022," reports Oxford University.

Although the consumption of renewable energy (solar and wind) grew a robust 17% between 2021 and 2022, it remains roughly 15 times lower than fossil fuel energy consumption. "On the basis of year-to-date statistics for 2023, three important greenhouse gases – carbon dioxide, methane, and nitrous oxide – are all at record levels," Oxford University said in a recent paper.

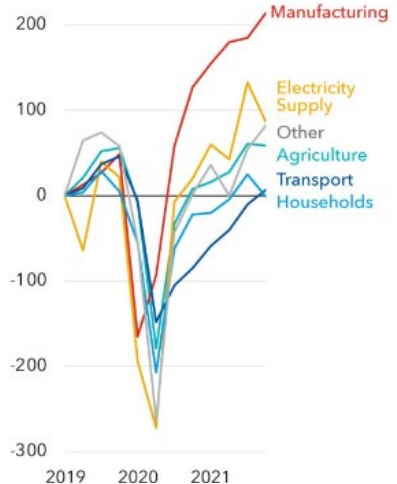
**Global greenhouse gas emissions**

(million metric tons of CO<sub>2</sub> equivalent)



**Change in emissions by sector since 2019**

(million metric tons of CO<sub>2</sub> equivalent)



Source: IMF Climate Change Indicators Dashboard. Note: Emissions are seasonally adjusted. The right panel shows change in greenhouse emissions from Q1-2019 levels.

“The global average carbon dioxide concentration is now approximately 420 parts per million, which is far above the proposed planetary boundary of 350 parts per million.”

And it is largely the Western world that is to blame. The impacts vary greatly by wealth; in 2019, the top 10% of emitters were responsible for 48% of global emissions, whereas the bottom 50%

“On the basis of year-to-date statistics for 2023, three important greenhouse gases – carbon dioxide, methane, and nitrous oxide – are all at record levels”

were responsible for just 12%, reports Oxford University.

Only 11 developed countries have reduced emissions and none of those are anywhere close to hitting their Paris accord obligations to prevent global temperatures rising more than 1.5C before reaching zero in 2050. At the current rate of reduction, it will take more than 200 years for the developed world to reach carbon-zero, according to a study published in the *Lancet*.

Oil production is still climbing and marking a record year in the United States. The industry is even poised to gain from the green crusade as government's pour billions into new energy subsidies, rather than ending them. One study found that emissions would be quickly cut by a third if the trillions of dollars spent on fossil fuel subsidies were ended tomorrow.

Oil company profits in the most recent quarter didn't reach the stratospheric heights that record-high gasoline prices delivered last year, yet they still beat pre-pandemic returns. Exxon reported earnings of \$9.1bn, and its refineries churned out the highest volume of fuel for that period since 1999, *Politico* reported.

Continuing to dither is not an option, as the longer we wait to solve the problem, the bigger the problems become;

negative feedback loops are starting to kick in, otherwise called tipping points. The melting of Russia's permafrost is an obvious example, as the warmer the soil gets, the more primordial methane it releases, accelerating the warming. The melting of the ice caps is another one that is already happening.

Oxford University says these feedback loops are not well understood and is

calling on the Intergovernmental Panel on Climate Change (IPCC) to urgently investigate. But the danger of starting a runaway cascade of self-fuelling planetary heating effects is a real danger now.

### Earth's energy imbalance

Most of the attention has been on reducing the Green House Gases (GHGs) as they heat the planet, but there are other sources of global heating too. Ironically, thanks to the efforts to clean up pollution and take harmful gases out of the atmosphere, the planet is now retaining more sunlight than it used to and that is also adding to global warming.

The earth's energy is out of balance and the world is starting to cook, says a new report. The authors include James Hansen, who testified to the US Congress on global heating as long ago as 1988.

More energy than ever before is coming into the planet (absorbed sunlight) than is going out (heat radiated to space), said the scientists. The earth's energy imbalance (EEI) has escalated in the past decade, they said. The imbalance so far in the 2020s is almost double the rate during the study's calibration period, from mid-2005 to mid-2015.

“Although fossil fuel-related greenhouse gas emissions are the main driver of rising temperatures, a global

decline in sulfur dioxide emissions is likely a contributing factor,” Oxford University reports. “Sulfur dioxide forms sulfates in the atmosphere, which are the strongest anthropogenic cooling agent, hiding part of the greenhouse gas warming.”

As *bne IntelliNews* reported, ironically an effort to clean up ship exhaust fumes has backfired and accelerated the heating of the planet. Sulphur particles emitted from ship fuel have a notable role in cloud formation, and the reduction in pollution post-2020 has led to increased sea temperatures.

In a study published in 2021, the EEI was found to have doubled in the 14 years from 2005 to 2019. The study was by scientists at NASA and the US National Oceanic and Atmospheric Administration.

Earth's climate is determined by a delicate balance between how much of the sun's radiation energy is absorbed in the atmosphere, and at the surface, and how much thermal infrared radiation the earth emits to space, says NASA.

A positive energy imbalance – which is what we have – means the earth system is gaining energy, causing the planet to heat up.

This is in addition to global climate change – also known as global warming – which is caused by emissions of CO2 and other greenhouse gases (GHGs).

EEI is the result of a decline in the cooling effect of human-made aerosols – reducing the sulphur in ship fuel mentioned above.

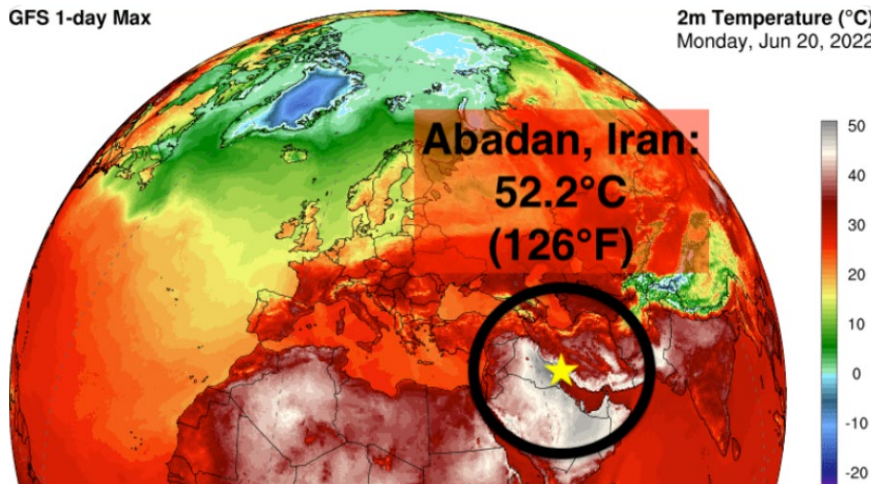
### Ozone hole is back

There is a massive hole in the Ozone again, which is also allowing more of the sun's energy to reach the surface. Ozone absorbs ultraviolet rays, a high energy wavelength of light. A giant hole in the ozone layer has reappeared over the Arctic allowing cosmic rays to zap DNA, genetically modifying to extinction any higher organism living within thousands of square miles of the hole.



### Iran hottest day ever on earth

GFS 1-day Max



Things weren't any better in Europe where temperatures broke through the 40°C mark in mid-June, stoking fears of record-breaking summer heatwaves that could endanger lives and threaten food supplies while providing further proof of the devastating effects of man-made global warming.

In the French resort town of Biarritz, temperatures reached 42.9°C on 18 June, the hottest ever June day in the town since records began in the nineteenth century. This was also the earliest 40°C observed in France in recorded history, beating the previous record of 21 June in 2003.

### Hot summer

This year has been the hottest on record. Exceptional heat waves have swept across the world, causing chaos as they go and fuelling extreme weather events on an unprecedented scale. Hundreds of billions of dollars of damage has been done and tens of thousands of people have died.

Globally temperatures in June, July and August were 0.66 degrees Celsius above the average between 1991 and 2020, according to Europe's Earth observation agency Copernicus.

In the Northern Hemisphere Surface Air Temperature Anomaly has been increasing and has already increased by more than 1.5C compared to the

long term average. Then the Earth briefly passed the threshold of 2C hotter than the average for the first time on November 17.

The global average temperature has never before exceeded a rise of 2C since before industrialisation, according to Samantha Burgess, the deputy director of the EU's Copernicus Climate Change Service.

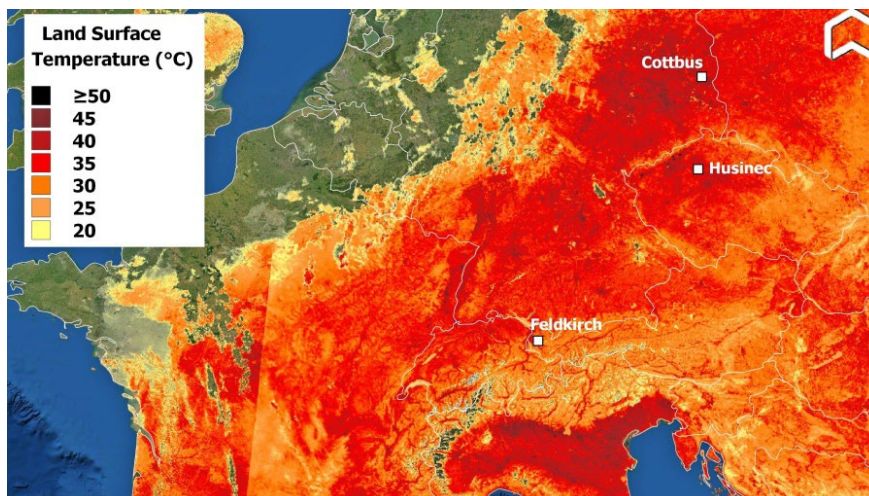
And in June Iran has recorded one of the hottest days since records began of 52.2C – on the edge of what humanity can survive. By August the heatwave forced Iranian authorities to declared August 2 and 3 as national bank holidays due to abnormally intense heat across the country.

Likewise, Brazil and the rest of South America has also seen a heatwave that has been drying up the Amazon river.

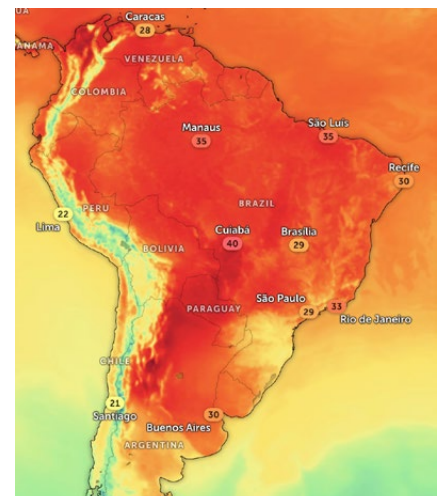
Large parts of India risk becoming uninhabitable in future if current heat waves persist, threatening migration and climate crises that could send shock waves round the world and displace 1.3bn people.

Temperatures were in their 50Cs in April in India and Pakistan, with peaks of up to 65°C, breaking all records, pushing up demand for electricity, causing water shortages in agriculture and threatening future food supply constraints. The Indian franchise of Burger King took tomatoes off the menu after the local crops failed and tomatoes became exorbitantly expensive.

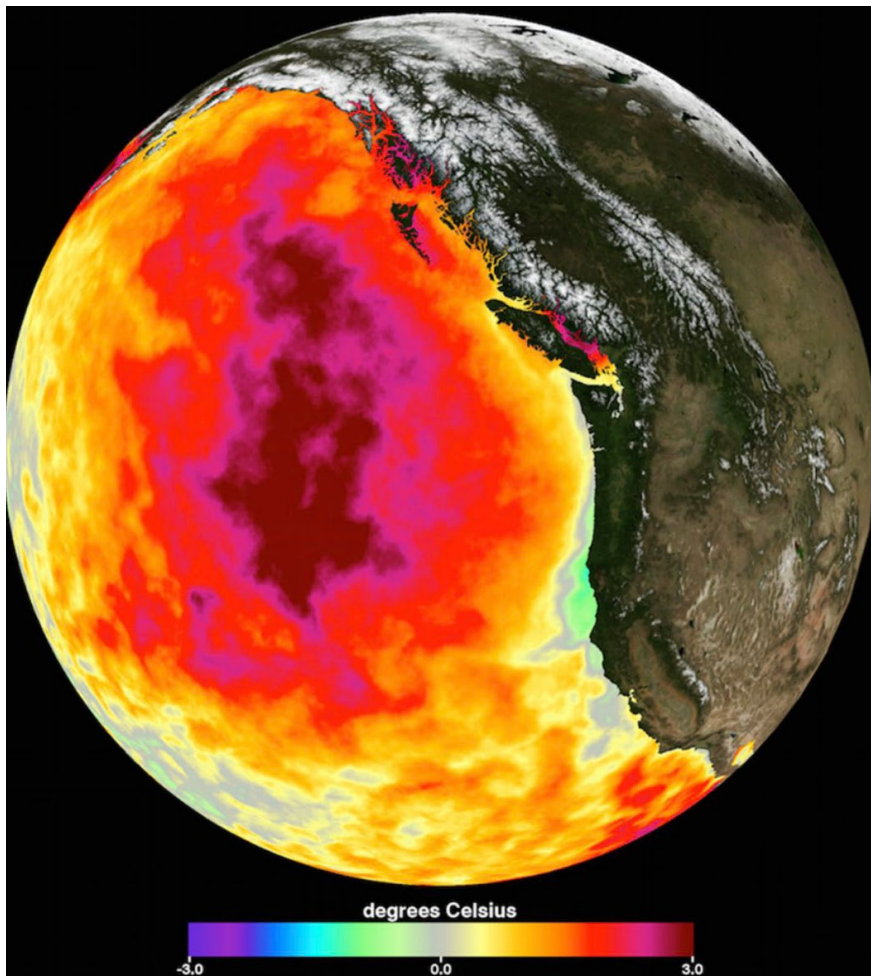
### EURO heatwave map



### Brazil heatwave map



## Pacific Ocean temperature



### Hot oceans

The seas are the temperature of bath water and the land is baking. This year the rise the global temperature in June already passed the 1.5C limit compared to the 1850-1900 base set in the Paris Accords as the upper limit for global warming.

Leon Simons, a board member of the Club of Rome and climate expert, released a scary string of charts recently that show ocean temperatures are at record breaking levels across the board and show no sign of slowing down.

“Do people understand how crazy it is that these temperature records are being shattered SIMULTANEOUSLY and CONTINUOUSLY for months [this year],” said Simons in a tweet. “If the extreme weather around the world is shocking to you now, hold onto your hats. 2023 is just a warmup.”

[www.bne.eu](http://www.bne.eu)

“A massive heat blob is sitting across the Pacific Ocean. Thermal inertia in the oceans is going to continue for a very long time due to the incredible amount of energy oceans have been absorbing due to anthropogenic greenhouse warming,” says Simons.

Global Sea Surface Temperatures keep running record high. “Based on the previous two strong El Niños, it might take another full year until temperatures dip below the pre-2023 records again,” says Leon Simons.

“Do people understand how crazy it is that these temperature records are being shattered simultaneously and continuously for months”

### 20 of 35 vital signs are now record levels

Academics are becoming alarmed as all the indicators they use to measure the health of the planet are starting to flash red.

On the basis of time series data, 20 of the 35 so-called “vital signs” have already breached their safe levels and are now showing record extremes.

“These data show how the continued pursuit of business as usual has, ironically, led to unprecedented pressure on the Earth system, resulting in many climate-related variables entering uncharted territory,” Oxford University said in its study.

### Ice caps are melting

One of the consequences of the accelerated heating is already visible. That has led to unprecedented low levels of sea ice surrounding Antarctica. Each line in the charts below corresponds to a different year, with darker grey representing later years.

“Ocean acidity, glacier thickness, and Greenland ice mass all fell to record lows, whereas sea level rise and ocean heat content rose to record highs. The increase in heat content and the rapid rise in sea surface temperatures are especially troubling, because they could have many serious impacts, including the loss of sea life, coral reefs dying because of bleaching, and a rise in the intensity of large tropical storms,” Oxford University says.

### Floods and storms

Another very visible consequence of the changes in the climate is the unprecedented storms this year. Climate change has already contributed significantly to human suffering as weather-related deaths from everything from heat stroke to hurricanes has rapidly increased in 2023.

## Recent climate-related disasters since November 2022.

Timeframe	Climate disaster
November–December 2022	Record-breaking heat waves in Argentina and Paraguay contributed to power outages, wildfires, and poor harvests. This extreme heat was estimated to have been made 60 times more likely because of climate change.
December 2022 – March 2023	Heavy rainfall caused by atmospheric rivers led to multiple floods in the Western United States. There were at least 22 fatalities and property damages were estimated to be US\$3.5 billion. Climate change may be increasing the likelihood of such catastrophic floods.
February 2023	Cyclone Gabrielle caused extreme rainfall in Aotearoa New Zealand's Te Ika-a-Māui (North Island), potentially resulting in billions of dollars in damages and 225,000 homes losing power. This intense rainfall may be partly caused by a warming climate.
March–May 2023	Record-breaking temperatures were recorded in parts of Southeast Asia, China, and South Asia. The extreme heat caused deaths and school closures in India and led to more than 100 students requiring treatment for dehydration in the Philippines. It was likely at least partly because of climate change. For example, climate change has increased the likelihood of such an event to occur over Bangladesh and India by a factor of at least 30.
January–July 2023	Intense wildfires in Canada burned roughly 10 million hectares, displacing 30,000 people at their peak, and worsening air quality across large portions of Canada and the United States. These extreme wildfires may be partly because of climate change, although many other factors are likely involved.
May 2023	Tropical cyclone Mocha is reported to have killed at least 145 people in Myanmar and affected roughly 800,000 people in the region. Climate change may have made such storms more intense.
May–June 2023	Tropical storm Mawar caused flooding and loss of power in parts of Guam. Mawar is the strongest cyclone ever recorded in the northern hemisphere in May. Climate change may be causing an increase in the intensity of tropical cyclones (Wu et al. 2022).
June 2023	Deadly heat led to more than a dozen deaths in the Southern and Midwestern United States. Climate change is leading to an increase in the frequency and duration of such heat waves.
July 2023	Up to six people died in Southwest Japan because of extremely heavy rainfall that caused floods and landslides. Climate change is likely making such heavy rainfall events more severe. Days later, floods and landslides, which may have been partly related to climate change, killed more than 26 people and led to thousands being evacuated in South Korea.
July 2023	Heavy monsoon rain caused flash floods and landslides in northern India that killed more than 100 people. Climate change is likely making monsoons in this region more variable, causing frequent landslides and floods. Heavy monsoon rains also damaged rice crops in India, raising concerns about global food prices and food security and prompting an export ban on nonbasmati varieties.
June–August 2023	Extreme heat in the United States killed at least 147 people. In the absence of climate change, the extreme heat seen in July 2023 in the United States would have been extremely unlikely to occur.
July–August 2023	Beijing, China experienced its heaviest rainfall in at least 140 years, resulting in major flooding that affected nearly 1.29 million people, damaged 147,000 homes, and caused at least 33 deaths. Intense flooding is likely becoming more common because of climate change.
August 2023	In Hawaii, United States, catastrophic wildfires on the island of Maui killed at least 111 people, with more than 1,000 people likely missing, as of 18 August 2023. Climate change may have decreased rainfall and increased temperatures in this region, potentially contributing to these fires.
September 2023	Storm Daniel caused extreme flooding in Libya and parts of southeastern Europe, resulting in thousands of fatalities and more than 2 billion US dollars in damages. Climate change may be increasing the intensity of such storms.

Source: Oxford University

## Human impact

Billions of people could die or at least be forced to leave their homes, in the coming years, as parts of the planet become uninhabitable. Climate change will affect food production as well and entire cities may end up under water and towns along river banks in the heart of Europe could be swept away or at least suffer debilitating flood damage.

After declining for many years, food insecurity is already on the rise again thanks to droughts that are already affecting the more arid parts of the globe. As *bne IntelliNews* reported, Central Asia has just been through a second year of severe drought that led to water rationing. SE Asia have been suffering from a shortage of rice as agricultural yields tumble thanks to droughts there as well and led India to ban rice exports.

In 2022, an estimated 735mn people faced chronic hunger, according to Oxford University, an increase of roughly 122mn since 2019.

“This rise, which has pushed humanity far off track from achieving zero hunger by 2030, is due to multiple factors, including climate extremes, economic downturns, and armed conflict,” the university said in a study. “Climate change has reduced the extent of global agricultural productivity growth, so there is danger that hunger will escalate in the absence of immediate climate action. In particular, there may be serious and underestimated future risks

of synchronized harvest failures caused by increased waviness of the jet stream.”

Oxford’s study warns there is a growing risks of synchronised major crop losses in multiple regions of the world, due to the extreme global weather associated with climate change. Along with many other studies, Oxford recommends a shift toward plant-based diets, particularly in wealthy countries, which could improve global food security and help mitigate climate change.

“The effects of global warming are progressively more severe, and possibilities such as a worldwide societal breakdown are feasible and dangerously underexplored,” argues the Oxford study. “By the end of this century, an estimated 3bn to 6bn individuals – approximately one-third to one-half of the global population – might find themselves confined beyond the liveable region, encountering severe heat, limited food availability, and elevated mortality rates because of the effects of climate change.”

In what was an academic study of climate change and challenges, replete with citations to other academic studies and evidence, at the end of the report the authors, experts on the Climate Crisis, let themselves go to add a personal message, reproduced below here.

“As scientists, we are increasingly being asked to tell the public the truth about the crises we face in simple and direct terms. The truth is that we are shocked by the ferocity of the extreme weather

events in 2023. We are afraid of the uncharted territory that we have now entered. Conditions are going to get very distressing and potentially unmanageable for large regions of the world, with the 2.6°C warming expected over the course of the century, even if the self-proposed national emissions reduction commitments of the Paris Agreement are met (UNEP 2022b),” they said.

“We warn of potential collapse of natural and socioeconomic systems in such a world where we will face unbearable heat, frequent extreme weather events, food and fresh water shortages, rising seas, more emerging diseases, and increased social unrest and geopolitical conflict,” the authors said.

“Massive suffering due to climate change is already here, and we have now exceeded many safe and just Earth system boundaries, imperilling stability and life-support systems. As we will soon bear witness to failing to meet the Paris agreement’s aspirational 1.5°C goal, the significance of immediately curbing fossil fuel use and preventing every further 0.1°C increase in future global heating cannot be overstated,” they said. “Rather than focusing only on carbon reduction and climate change, addressing the underlying issue of ecological overshoot will give us our best shot at surviving these challenges in the long run. This is our moment to make a profound difference for all life on Earth, and we must embrace it with unwavering courage and determination to create a legacy of change that will stand the test of time.” ●





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## Turkmenistan joins Global Methane Pledge

Will Conroy in Prague

**T**urkmenistan has joined the Global Methane Pledge, Turkmen media reported on December 1, following an address given by the country's president, Serdar Berdimuhamedov, to the UN COP28 climate summit in Dubai.

TurkmenPortal cited TDH as quoting Berdimuhamedov as saying: "Today, from this high podium, Turkmenistan officially announces its accession to the Global Methane Pledge."

Under the US- and EU-led Pledge, more than 150 countries have since 2021 pledged to slash their methane emissions by 30% from 2020 levels by 2030 – but few have stepped forward with concrete plans on how they will achieve this.

As *bne IntelliNews* recapped on November 28, planet-heating methane is pouring out of the gas-rich remote "hermit nation" of Turkmenistan at an alarming and immense rate. Satellite pictures prove it. Rarely responsive to

the outside world, the Turkmen regime has until now been accused of fiddling while the world burns. Working to persuade the Turkmens to sign the Pledge, the Biden administration, after spotting the opportunity for a diplomatic coup, deployed big guns including US top diplomat Antony Blinken and US Special Presidential Envoy for Climate John Kerry, to lay on the charm while at the same time attempting to give super-emitter Turkmenistan a kick in the gas.

There have been growing hopes that the big gathering in the UAE will produce real action in clamping down on methane, the second-most prominent greenhouse gas. The Turkmen commitment will be prized as an encouraging step forward.

The United Arab Emirates' COP28 presidency has called for formalised efforts in tackling methane. Part of that will also be securing commitments from independent and national oil and gas companies to eliminate routine

flaring by 2030. An early indication of a breakthrough in this area came this week when the UAE's Dragon Oil said it would transition to zero gas flaring in Turkmenistan by 2027.

Though methane has more warming potential than carbon dioxide, it breaks down in the atmosphere within just years compared with decades for CO<sub>2</sub>. That means that an effective crackdown on methane emissions could have a relatively quick impact on limiting climate change and, what's more, plugging leaks coming from sites such as pipelines and gas fields is not a tall order – it amounts to low-hanging fruit.

Analysts and lobbyists are wary that even after COP28, not much action will result from the Pledge. "If it's just a pledge [with no sign of action], it will land with a thump," Rachel Kyte, the World Bank's former climate envoy, told *Reuters* earlier this week, adding: "The UAE needs to commit companies and countries to sit down and negotiate a binding agreement to X-out methane."

French climate tech company Kayrros, which at COP28 is launching an open-access live "Methane Map" for better tracking of emissions, identified 1,005 methane super-emitter events worldwide in 2022, with 559 from oil and gas fields, 105 from coal mines and 340 from waste sites such as landfills.

Turkmenistan had the highest number of super-emitting events – some 184.

"They vent like crazy," Christian Lelong at Kayrros told the *Guardian*.

Scientists have also revealed at least 55 "methane bombs" around the world, namely fossil fuel extraction sites where gas leaks from future production would emit methane levels equivalent to 30 years of all US greenhouse gas (GHG) emissions. Turkmenistan, which has the sixth-highest gas reserves in the world, is home to one of these major bombs (Yolotan South), giving it a place in a top 10 that also includes Texas, Louisiana, Canada, Russia (with three major methane bombs) and Qatar. ●



Major metropolises are on the frontline, facing some of the highest risks from coastal flooding. / Dibakar Roy via Unsplash

## Cities in the face of the rising tide

Clare Nuttall in Glasgow

**B**y 2050 an estimated 1bn people globally will be living in coastal areas, which are already threatened by rising tides that put at risk their homes, livelihoods and the cities they call home. As sea levels rise as a result of melting ice caps and warming oceans, storms, intensified by shifting temperatures, also contribute to increased flooding.

Major metropolises are on the frontline, facing some of the highest risks from coastal flooding. According to Théophile Bongarts Lebbe, project manager at the Sea'ties initiative for climate change and coastal adaptation, emerging markets cities with tens of millions of inhabitants such as Kolkata, Mumbai, Dhaka and Jakarta are among the cities with the highest number of people at risk from coastal flooding, while Miami, Guangzhou and New York are the most vulnerable cities in terms of assets exposed.

"Yet, it is not just megalopolises that are threatened – medium-sized cities worldwide are [also] concerned. In Europe, one third of the population lives less than 50 km from the coast (over

200mn people), nearly 50mn of whom live in low-lying coastal areas," Lebbe tells *bne IntelliNews*.

"Furthermore, it is estimated that around 72,000 people in the EU are exposed to coastal hazards every year. In the Baltic region, coastal cities such as Gdansk and Riga are vulnerable to coastal erosion (which can be worsened by human activities along the shoreline), coastal floods and the severity and frequency of storms."

### Appeal to COP28 nations

In response to these mounting dangers, the Ocean & Climate Platform (OCP) initiated the Sea'ties project in 2020, dedicated to supporting threatened coastal cities by facilitating the conception and implementation of effective adaptation strategies. In the run-up to COP28, the platform unveiled a set of comprehensive policy recommendations aimed at assisting coastal cities in adapting to the inevitable rise in sea levels.

Sea level rise is a consequence of the ice sheet and glaciers melting due to human-induced climate change.

The acceleration of the sea level rise observed in the 20th century may lead to a potential one-metre increase by 2100 if greenhouse gas (GHG) emissions are not curbed sufficiently. This is an irreversible phenomenon that is set to persist for centuries, posing existential threats to coastal cities.

The gradual rise in sea levels is just part of the picture; it is combined with sudden extreme levels, often induced by tropical cyclones, resulting in land loss, chronic tidal flooding, coastal erosion, salinisation and ecosystem degradation.

As outlined in a paper from the Sea'ties Ocean & Climate Platform, the exposure of coastal communities to such threats is heightened by urban development and other human activities. Extracting resources like sand, groundwater and hydrocarbons contributes to subsidence.

This is an unprecedented phenomenon and no one knows how fast sea levels will rise; it depends on how successful humans are in cutting greenhouse gas emissions, the speed at which the Antarctic and Greenland ice sheets melt and other variations. Despite the uncertainties, it is certain that risks associated with sea level rise will increase, as the target of limiting global warming to 1.5°C above pre-industrial levels by 2100, in line with the Paris Agreement, looks increasingly ambitious.

### Short-term solutions

Coastal cities, despite the occasional headline-grabbing climate disaster like Hurricane Katrina or Jakarta's relocation, are for the most part shockingly underprepared.

Sea level rise adaptation only recently became a political priority, and there is not currently a unified vision for a climate-resilient future for coastal cities at national and international levels.

City authorities often resort to short-term engineering solutions like seawalls that may exacerbate the problem. The lack of financial, human and technical resources, combined with insufficient engagement from regional authorities, hampers effective co-ordination.

In response to erosion and flooding, cities often resort to engineering solutions like seawalls, which may exacerbate the issue. Ambitious adaptation strategies are rare, hindered by a lack of financial, human, and technical resources. Regional authorities are insufficiently engaged, hindering coordination, and knowledge exchange among practitioners is limited.

### Call for international action

The mission of Sea'ties is to elevate the adaptation of coastal cities on the international agenda. Ahead of COP28, they are advocating for greater support, sharing key messages with elected representatives, scientists, project developers and private companies to secure the transition needed.

"Our role is to advocate for greater support for the adaptation of coastal cities faced with rising sea levels," says Lebbe.

"We want this eminently important issue to be high up on the list of priorities on the international agenda. To date, we are still underestimating the scale of the population displacements and economic losses that rising sea levels will cause. The financial and technical tools are also lacking."

The set of Policy Recommendations to Coastal Cities to Adapt to Sea Level Rise were developed over four years. Currently endorsed by 80 organisations globally, these policy recommendations target local, national, regional and international decision-makers, with four key priorities, namely: planning long-term adaptation responses tailored to the local context; prioritising social imperatives in adaptation policies: developing new ways to generate and share operational knowledge on adaptation; and, building a sustainable finance approach for coastal cities.

As explained by the Sea'ties Ocean & Climate Platform, adaptation requires a shift towards long-term planning that anticipates diverse scenarios of sea level rise while remaining flexible to potential environmental and societal changes. The recommendations advocate for a mix of solutions ranging

from hard and soft protection to ecosystem-based adaptation, hybrid solutions, accommodation, planned relocation, and others.

Immediate and substantial GHG emission reductions are paramount, necessitating a systemic societal transformation for effective adaptation measures, says the document.

Adapting coastal cities demands long-term planning that integrates diverse sea level rise scenarios and remains flexible. It also calls for urban development and other activities such as sand extraction to be limited along shorelines and vulnerable inland areas to avoid disrupting natural processes and weakening buffering ecosystems like dunes, mangroves and salt marshes. New development in high-risk zones should be discouraged.

The document recommends minimising reliance on protection-based measures unless absolutely necessary, reserving such responses for heavily urbanised sites facing significant challenges or as a temporary solution. Instead, the focus should be on the protection of existing coastal ecosystems and promoting restoration in suitable locations to leverage their capacity for containing coastal erosion and mitigating the impacts of extreme climate events.

### Innovative strategies

Some cities are already moving beyond traditional protective infrastructure like seawalls. "Cities are at the forefront of adaptation action and although there is no perfect, one-size-fits-all solution, many cities are turning away from protective infrastructure only (such as seawalls) to instead implement a mix of several typologies of solutions," says Lebbe, giving examples such as elevated infrastructure, nature-based solutions and planned relocation.

One example is the 14 municipalities of the Sète Agglopolité Méditerranée in France, which carried out a project including dune restoration, the repositioning of a road, beach nourishment and the deployment of sand-filled geotextile bags.

Lebbe also points to the actions of the Thames Coromandel District Council in New Zealand, which planned ahead for the next 100 years, and adopted 138 pathways, each for a specific section of the shoreline, that are responsive to change and can be updated as future needs evolve.

### Cost of change

Yet an important question remains: is adaptation prohibitively expensive for some developing world cities? The upfront investment is indeed substantial, but the cost of delayed action is even higher, points out Lebbe. Coastal cities are not only densely populated but also critical economic hubs; most future global GDP growth is centred around cities located in coastal regions.

One forecast indicates that sea level rise could result in annual damage of as much as 9.3% of global GDP in 2100. In Europe alone, damage is currently estimated at €1bn a year, for a total of €959bn in assets potentially at risk, and it could be as high as €11bn by 2050 and almost €814bn by 2100.

"The upfront investment needed to kick-start adaptation is expensive for all coastal cities, and even more so for cities in countries with a developing economy. As such, many cities turn to short-term measures or are locked in recovery action," Lebbe tells *bne IntelliNews*.

"However, the cost of delayed action is even starker. Coastal cities are densely populated areas and critical economic hubs, where many communities, activities, infrastructure and lifelines are located.

"Cities will be increasingly burdened by the recovering costs associated with coastal flooding, storms and erosion, and will increasingly require assistance. As costs of adaptation rise and dedicated investments fall far short of needs, enhanced funding from both public and private sources is urgently required and must be directed towards long-term adaptation strategies," Lebbe adds. ●



## The EU's climate goals and the Western Balkans challenge

Clare Nuttall in Glasgow

**E**U members are set to push at the upcoming COP28 climate summit for an agreement to gradually phase out fossil fuels that emit carbon dioxide (CO<sub>2</sub>), as agreed at a summit of EU climate ministers in October, compromising between the more ambitious aims of some member countries and the concerns of others that are more dependent on fossil fuels. The position is also an ambitious one for the countries of the Western Balkans, where five of the six aspiring EU members still have coal as a substantial share of their energy mix.

As well as seeking a deal to phase out fossil fuels, EU climate ministers also want the gradual elimination of “inefficient” fossil fuel subsidies by the end of the decade, as well as an end to construction of new coal-fuelled power plants. The agreement positions the EU one of the most ambitious participants in the yearly United Nations climate discussions, due to start on November 30 in Dubai. Such a phase out has previously been opposed by major producers of fossil fuels, as well as those who depend on fossil fuels for energy.

However, as agreed by EU climate ministers, the bloc will argue for an end

to “unabated” fossil fuels, which would allow countries the option to continue burning coal, gas, and oil if they employ technology to “abate”, or capture, the emissions. At the same time, ministers acknowledged that emissions-capturing technologies are currently limited in scale, and emphasised that the use of these technologies should not serve as a means to postpone climate action, as reported by Reuters in October.

Around 10 countries, including Denmark, France, Germany, Ireland, the Netherlands and Slovenia, had advocated for a more robust agreement to eliminate all fossil fuels, according to the newswire. Around the same number of countries effectively made a case for including a provision regarding abatement technologies for energy intensive industries.

The nations that argued for the inclusion of provision on abatement technologies included Bulgaria and Poland, both of which are among the poorer members of the bloc and have large coal sectors that politicians acknowledge will be politically difficult to shut down.

The Western Balkan countries are all considerably poorer than existing EU

member states and, with the exception of Albania, also rely to varying extents on coal power. Several studies have shown that emissions from the region's ageing coal power plants cause widespread harm to health both in the region and outside it.

They have committed to reducing emissions as they seek to align with EU energy policy. However, Climate Action Network (CAN), a European NGO coalition dedicated to combating climate change, pointed in a new report that outdated and inefficient coal-fired power plants in Bosnia & Herzegovina, Kosovo and Serbia complicate the transition to renewable energy.

“While commendable efforts have been made in drafting the [National Energy and Climate Plans] NECPs, there is substantial room for improvement in their final versions. Notably, while the avoidance of investments in new coal generating capacities is a positive step, the absence of a concrete coal phase-out strategy is concerning. Minimal efforts to reduce reliance on coal by 2030 are insufficient for significant greenhouse gas [GHG] reduction,” says the report.

“Persistent dependence on an outdated and inefficient coal fleet hampers the much-needed transition to renewable energy sources in the region, further complicated by the potential transition to fossil gas as indicated in the NECPs. This undermines the feasibility of implementing carbon pricing policies, which are inadequately addressed in the NECPs,” added the report.

CAN Europe director Chiara Martinelli called for countries in the region to “establish clear and immediate coal phase-out dates and implement corresponding policies”.

It pointed out that Bosnia, as the sole electricity exporter in the region, generates up to 60% of its power from coal-fired plants, with the remainder primarily coming from hydropower. Kosovo and Serbia produce approximately 90% and 70% respectively of their electricity from coal-fired plants, supplemented by hydro, wind and solar power.



While the NECPs of these countries outline general goals for transitioning to green energy and committing to cease investing in new coal capacities, the report criticised the lack of detailed information on capacity scale, sectoral uptake and comprehensive grid integration strategies.

“Inclusion of credible and cohesive policies in the final NECPs by June 30, 2024 is essential, serving as a milestone to ensure that the 2030 climate and energy targets pave the way for climate neutrality by mid-century. This deadline is not merely procedural; it represents a critical opportunity for the Western Balkans to align with the EU’s energy and climate framework, actively contributing to Europe-wide climate neutrality,” said Viktor Berishaj, energy policy coordinator for Southeast Europe.

There is also controversy over the increased emphasis on gas in the region. CEE Bankwatch Network has strongly criticised the European Commission

and international development banks for their support for fossil fuel projects – specifically gas – in Southeast Europe.

Southeast Europe has gained some major gas transportation infrastructure in recent years, including the Trans-Adriatic Pipeline (TAP) and Croatia’s offshore Krk liquefied natural gas (LNG) terminal, and several other interconnector projects are underway as countries in the region seek to reduce their dependence on Russian gas by enabling gas imports from different sources.

European Commissioner for Enlargement Oliver Varhelyi announced recently that the EU will support construction of an LNG terminal and gas power plant in Montenegro – despite the country not having any gas distribution infrastructure at present.

Campaigners from CEE Bankwatch contest assertions that gas is a useful transition fuel in the shift away from coal power, and argue that building

new gas infrastructure will not help importing countries achieve energy independence. Instead, they call for development banks and other international institutions to redirect funding to green energy projects.

“Before the escalation of the Russia war with Ukraine, there was really a strong group of progressive countries, mostly EU members. Now, everybody is concerned with energy security,” said CEE Bankwatch gas campaigner Gligor Radevic in a recent interview with *bne IntelliNews*.

“We do not believe gas can provide any energy security. It’s the exact opposite; we’ve seen super volatile prices and even if the EU is not importing so much fossil gas from Russia, replacing it with other sources like Azerbaijan cannot be considered facilitating energy security. We do not believe Europe should be using fossil gas from authoritarian regimes,” said CEE Bankwatch’s communications officer Ido Liven. ●

## Turkey assessed as “critically insufficient” on all climate crisis goals by scientific analysis

bne IntelliNews

**T**urkey received the worst rating, “critically insufficient”, for all climate crisis goals in an evaluation by Climate Action Tracker, an independent scientific analysis site that made an assessment of the EU countries and 39 other countries.

Its net zero target of 2053 was, meanwhile, rated as “inadequate”.

The findings were discussed in articles written for *Iklım Masası* and *bianet* by Ezgi Ediboglu Sakowsky, a senior researcher at the Max Planck Institute for Innovation and Competition. They were published just prior to the eve of the 28th Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change, which

began in the United Arab Emirates on November 30.

Sakowsky noted that it is frequently emphasised by Ankara that Turkey has relatively low historical responsibility for greenhouse gas (GHG) emissions, but pointed out that its present-day responsibility is increasing: as of 2021, Turkey rose to 14th place among the highest emitting countries. That’s partly caused by its continuing commitment to burning increasing volumes of coal to produce electricity.

Climate Action Tracker evaluates only seven countries as “critically insufficient” in relation to climate crisis goals besides Turkey. The other countries in this category are Russia, Mexico, Argentina, Thailand, Vietnam and Iran.

“However, upon closer examination of the details of these countries’ plans, it is observed that only Iran received a worse rating than Turkey and this is because Iran has not yet announced a net-zero target,” observed Sakowsky.

He added: “We can express how severe the situation is as follows: According to this analysis, in a scenario where all countries make plans as insufficient as Turkey’s, global warming will exceed the target of 1.5°C-2°C set by the Paris Agreement, reaching at least double that, with a temperature rise of 4°C.”

In short, concluded Sakowsky, “Turkey has set an emission target that it can almost achieve without any serious action”. ●



Estonian Prime Minister Kaja Kallas with Ukrainian President Volodymyr Zelinskiy. / bne IntelliNews

# Kallas looks for an international way out as domestic sharks circle

**Linas Jegelevicius in Vilnius**

**E**stonian Prime Minister Kaja Kallas revived her bid to be the next Nato secretary-general – as her domestic opponents rally against her, she may really need a new job soon.

After winning re-election in March, Kallas' popularity has swiftly tumbled after she belatedly announced she was planning tax rises to bring down the country's budget deficit, even though the economy is still struggling to emerge from recession. Kallas has also appeared hypocritical in her hawkish stance on sanctions against Moscow after it was revealed that her husband's logistics company had continued to operate in Russia after the invasion.

Since the election the far-right opposition EKRE party has been obstructing parliament by filibustering debates, and now Kallas' former allies, the rightwing Ismaa party, have joined calls for her to resign and are preparing another no-confidence motion.

The opposition scents blood and even some coalition politicians are now speculating about a change of leadership.

"She is in trouble. Dissatisfaction with her is tangible even among her own ranks. Some just do not dare to speak out against her because of being afraid not to be politically correct – she has helped Ukraine much, perhaps too

much if the support and the GDP ratio is taken into consideration and, well, her being a woman is her ally too," an Estonian analyst, who asked to be quoted anonymously, told *bne IntelliNews*.

## **Crumbling reputation**

Kallas has won a high profile for herself and for Estonia by her tough stance towards Russia and her strong support for Ukraine. Estonia has given the most aid to Ukraine in relation to GDP, has consistently called for tougher sanctions on Russia and more help for Ukraine, and is planning to raise its defence spending above 3% of gross domestic product (GDP) next year.

This has got Kallas talked about as a potential Nato secretary-general, which, if it happened, would make her the first woman and the first from a former Warsaw Pact state to fill the post.

In the past Baltic candidates for secretary-general were routinely written off as “too hawkish”. The sea-change in perceptions since Putin’s invasion makes it conceivable that a Baltic leader could now succeed Secretary-General Jens Stoltenberg when his extended term expires in October 2024, though Kallas herself has previously said she would be “unlikely” to be chosen.

Despite this strong international reputation, Kallas’ domestic standing and that of her centre-right Reform Party have crumbled this year. Now, it is EKRE that sits on top of the country’s most popular political party rankings, favoured by 23.2% of voters, while 20.2% support Isamaa and only 20% support the Reform Party.

Kallas and her party are accused by the rightwing opposition of winning the election in the spring by concealing their plans for tax rises, which they only announced afterwards.

“The government as a whole has failed, especially in tax matters which have been the most problematic for Reform after being their bread and butter historically,” says political analyst Ott Lumi, a former Isamaa politician. “I believe the problem started in the spring when hopes and expectations were quite different. Tax hikes were not communicated in good time,” he said.

The usually fiscally upright Estonia has experienced high budget deficits over the past few years, with social spending from government measures to alleviate the energy crisis, together with boosted defence spending, forecast to push the deficit up to a forecast 4.3% of GDP this year.

Since the spring, the Reform party and its coalition partners – the centre-right Eesti 200 party and the Social Democrats – have been hotly debating the measures to bring the deficit within

the Maastricht criteria of 3% of GDP next year: Reform – which has always prided itself on its budgetary rigour – favours spending cuts, as well as tax cuts for high earners, while the Social Democrats prefer tax rises.

### Bad mood

The issue is particularly contested because Estonia has been in recession since mid 2022, accompanied by at times one of the highest inflation rates in the European Union, and a bout of budget austerity could prolong the recession and the prevalent bad mood in society.

The economy declined 2.5% during the third quarter and is forecast by the central bank to shrink 2.2 per cent overall this year, and grow just 1.4% next year. Estonia’s October inflation was at 4.9% year-on-year and the central bank forecasts an overall inflation level this year of 9.4% before falling to 3.4% in 2024. Moreover, the bank also predicts that unemployment will rise to 8% next year.

“The general feeling in Estonian society about the government and the prime minister is outrage,” says entrepreneur Otto Schwarz. “The country’s economic performance has declined for the sixth quarter in a row, with some public figures maintaining that the

“The primary and specific cause of Estonia’s economic downturn can be attributed to the government’s decision to refrain from intervening during the energy crisis. This hands-off approach might be viable in an isolated economy, but Estonia’s situation is different. Our economy is deeply intertwined with other European markets, where most governments have actively supported their businesses,” he says.

He argues the planned VAT rise will disproportionately hit lower income families and instead the government should take advantage of the country’s low public debt to invest in infrastructure, which would provide employment and give support for the construction sector.

### Pain now

However, some observers believe the bad mood will blow over as the scandal over Kallas’ husband fades away and the economy recovers, and argue the government is right to get the pain over now in its first year of office. The government still has a solid majority of 60 seats in the 101-member parliament.

Kallas also still has staunch supporters, like MP Raimond Kaljulaid from the Social Democratic Party: “Regarding

“The government as a whole has failed, especially in tax matters which have been the most problematic for Reform after being their bread and butter historically”

government does not have a clear and well-thought-out economic policy and an anti-crisis plan,” he told *bne IntelliNews*.

Andrei Korobeinik, MP from the opposition Centre Party, told *bne IntelliNews* that the Reform party’s original mistake was its hands-off, free market response to the energy crisis following the Russian invasion, which allowed domestic prices to soar and Estonian companies to become less competitive.

state finances, we have seen worrying level of budget deficits for at least five years now and until now we have not had a government that would actually do something about it. As we know from the sad experience of some other countries, these problems snowball. We are trying to change that trend, cut down on the deficit and borrowing before it is out of control. And this of course is politically very unpopular and turbulent, but I strongly believe it must be done. So overall, we are on the right track.” ●

# New Slovak cabinet axes latest military aid package for Ukraine

bne IntelliNews

The new Slovak populist cabinet of Robert Fico has axed the latest round of the military aid package prepared by their predecessor technocratic cabinet of Ludovit Odor.

“With great pleasure, I can announce that the whole cabinet unilaterally rejected sending these weapons and ammunition to Ukraine,” premier and the Smer party leader Fico commented in a video message posted on his Facebook following the cabinet session held on Wednesday, November 8.

Previously, the latest military aid package to Ukraine was suspended by mutual agreement between Odor and Slovak president Zuzana Caputova following Smer’s victory in the September 30 elections and pending the decision of the new cabinet.

“We are clearly demonstrating that we prefer sending humanitarian aid to Ukraine and that sending supplies of weapons and ammunition from state stocks has ended,” Fico also stated in his Wednesday message after the cabinet’s anticipated move.

Slovakia has so far backed Ukraine with 13 military aid packages worth €671 and has been among the most active Nato backers of Ukraine, sending heavy weapons, including Mig-29 fighter jets, T-72 tanks, anti-air and artillery systems to help Ukraine thwart the full-scale invasion launched by the Russian military in February 2022.

Smer is coming off an aggressive nationalist campaign during which it vowed not to send “a single more bullet” to Ukraine and also adopted Kremlin propaganda, blaming “Ukrainian fascists” for the start of the war in 2014.

The campaign was dominated by widespread online disinformation,

adopted also by populist and far-right parties, as well as circulated hoaxes and deep fake videos smearing Smer’s rivals, liberal Progressive Slovakia.

After the election victory, Smer formed a coalition with its breakaway party, centre-left Hlas and far-right SNS. Both Smer and Hlas were suspended from the European grouping of Socialists for joining forces with SNS.

“We are clearly demonstrating that we prefer sending humanitarian aid to Ukraine and that sending supplies of weapons and ammunition from state stocks has ended”

On Monday, November 6, Fico also stated that his cabinet “won’t prevent” local companies from “manufacturing weapons and delivering those” in an anticipated nod to the Slovak defence industry with which Smer enjoys good relations.

joined the video message, stating that the “technocratic cabinet of Mr. Odor was able to prepare aid packages for anyone but Slovak people,” pointing out that this latest package for Ukraine would have been worth €40mn.

“We need to primarily focus on helping our people, and that is why I am glad our proposal [to axe the package] was approved and supported,” Kalinak concluded.

The axed military aid package consisted of 4mn pieces of 7.62mm ammunition, 5,172 pieces of large artillery calibre 125mm ammunition, 140 missiles for anti-air defence system Kub, 8 missile launchers and 1,200 mines. ●



Slovak Prime Minister RObert Fico with Deputy Prime Minister and the Minister of the Defense of Slovakia Robert Kalinák / bne IntelliNews



The Slovenian Democratic Party (SDS) is the largest opposition party in Slovenia's parliament. / Slovenian parliament

## Slovenia's rightwing opposition SDS received funds secretly channeled from Hungary

Valentina Dimitrievska in Skopje

**A**n inquiry launched by the Slovenian parliament into suspected unlawful financing of "party propaganda in the media" has shed light on a complex network of bypass accounts associated with the main opposition Slovenian Democratic Party (SDS), led by former prime minister Janez Jansa.

The interim report on the alleged illegal funding of political parties was discussed by the parliamentary investigative commission in a closed session on November 7.

The investigative commission's report highlights that the majority of SDS activities have been funded through a network of bypass accounts, which serve as a parallel financial mechanism. It also revealed funding channeled from Hungary.

"It is a kind of parallel financial mechanism of one of the key political parties in Slovenia, in which party functionaries at all levels or party sympathisers who pursue both their political and above all their personal financial interests participate," president of the commission, Mojca Setinc Pasek was cited by broadcaster RTV SLO.

She emphasised that, concurrently, "the key party account remains untainted and secure" as all crucial transactions for SDS's major political endeavours, advertising campaigns, and self-generated media election campaigns pass through this parallel mechanism.

She noted that a significant portion of these transactions also occurs in cash. The commission also suspects that the SDS bypass financing network involves additional companies.

The investigative commission extended its scrutiny to several companies suspected of being instrumental in facilitating unlawful financing. Among them are NovaTV24.si, Nova hisa, Nova obzorja and Geopolar Zascite.

One of the most striking aspects of the inquiry's findings is the involvement of Hungarian capital in the SDS' financing model.

The report reveals that Hungarian funds are funneled into Slovenia through two companies, R-post and R-post-R zaloznistvo. The former, founded in Hungary and part of the Hungarian KESMA system, acts as a conduit for capital flow, ultimately benefitting the SDS.

The report further reveals that a substantial amount of money, approximately €14mn, entered Slovenia through the system, with financial leverage in Hungary for the companies NovaTV24.si and Nova obzorja.

An additional sum of around €4mn passed through Slovenia, ultimately making its way to North Macedonia, indicating a potentially larger network of financial flows with regional implications.

The source of the funding from within Hungary was not revealed, however, SDS leader Jansa has close ties with Hungarian Prime Minister Viktor Orban, who is also linked to the former leader of North Macedonia's opposition VMRO-DPMNE party. A longstanding former prime minister of North Macedonia, ex-VMRO-DPMNE leader Nikola Gruevski fled to Hungary to avoid serving a prison term, where he sought asylum.

In 2020, it was revealed that Hungarian owned media had also become more present in Slovenia and North Macedonia. The Hungarian expansion started in 2017, when three Hungarian companies – Ridikul, Ripost and Modern Media Group – purchased Slovenia's Nova24TV. Nova24TV is also co-owned by members of the SDS. ●



According to European Commission President Ursula von der Leyen, the plan has the potential to double the size of the Western Balkans' economies in the next decade. / bne IntelliNews

## Bosnian Serb leader accused of waiting for Putin's nod to break up Bosnia

Denitsa Koseva in Sofia

**M**ilorad Dodik, president of Bosnia & Herzegovina's Republika Srpska, will attempt to force the entity's secession within one or two years, MP Zlatko Miletic said in an interview with N1.

Dodik has been threatening Republika Srpska's secession for years but in the last few months took steps towards rejection of the authority of the state-level constitutional court and the international community's high representative Christian Schmidt. Earlier in November, he said he sees himself as the first president of independent Republika Srpska in 2030.

The entity makes up Bosnia along with

the Muslim-Croat Federation. Each of them has its own institutions and there are also state-level bodies.

"I believe 99% that he will do it in the coming period. I believe this, based on all the indicators. I also warned the [coalition of Bosniak parties] Troika before the formation of the [state-level] government. When I saw paper – what the intentions of his party are in the state government, to work on derogating state institutions and authorities, his frequent visits to [Russian President Vladimir] Putin, playing games with the citizens of Bosnia and Republika Srpska, making Republika Srpska's citizens hostages of his politics to protect all those activities

he was engaged in from '92 to the present. He has no other way out. He is just waiting for a signal from Russia and a favourable moment," said Miletic, a Bosnian Croat MP.

He added, however, that he does not expect a military conflict as the international community would not allow it.

"We are in a big trap, and that is one of the problems with which everything is softened, he has been preparing for years and is preparing the euthanasia of BiH citizens. He is making unconstitutional moves, directly destroying the integrity of Bosnia & Herzegovina, Montenegro, and Serbia. He called for creating a

state union of Montenegro, Serbia and Republika Srpska and there were no consequences. Not to mention the denial of genocide, etc. He has not been prosecuted, and it needed to be done five times so far," Miletic said.

However, he added he does not believe that the Bosnian state will collapse.

"The disintegration of Bosnia and Herzegovina will not happen. There are people who are paid to stop such activities and believe me there are people who do their job professionally and would not allow it. Ultimately, even if there are not enough EUFOR forces, Nato forces will come to the rescue," the MP said.

He added he expects that Dodik will end up in prison.

Meanwhile, a group of Bosnian MPs wrote to the US and EU officials, saying that the threat of terrorism in Bosnia is rising.

"Unfortunately, Bosnia & Herzegovina, especially in the last few years, is facing anti-constitutional, secessionist and retrograde policies that are encouraged and promoted by certain officials of

the Alliance of Independent Social Democrats (SNSD), a political party led by Milorad Dodik. The main determinant of the Dayton Peace Agreement and the foundation for peace, stability and prosperity, which is the territorial integrity, sovereignty, political independence and international legal subjectivity of Bosnia and Herzegovina, are continuously contested," the MPs wrote.

They noted that the official documents from SNSD's 2015 congress stated that Dodik and his party's strategic goal is the secession of the Republika Srpska, "i.e. the completion of the war goals by political means".

The MPs warned that Dodik and his SNSD party have intensified activities that undermine the Dayton agreement that ended the Bosnian war, and are provoking constant crises and blockades, while insulting and provoking pro-state political forces and representatives of the international community.

"Milorad Dodik is also the only politician in Europe who, since the beginning of the aggression against

Ukraine, has personally visited Vladimir Putin in Moscow twice and has given him full support for all his activities," they added.

The MPs warned that the facts stated in their letter confirm the fact that prominent SNSD officials represent the extended hand of the Kremlin regime in the Western Balkans and a proxy of Russian interests in Bosnia.

"Following the example of that regime, the Republika Srpska National Assembly adopted a law criminalising defamation, representing a direct attack on freedom of expression and freedom of the press and returns us to the period of censorship and totalitarian and autocratic single-mindedness," they said.

"After considering all of the above, we can clearly and unequivocally conclude that the biggest threat to peace in Bosnia & Herzegovina is not represented by made-up "religious radicalism" or "foreign interventionism" but the actions and moves of SNSD officials, most of which are headed by Milorad Dodik, who was placed on the US and UK's black list," the MPs noted. ●

## Zelenskiy warns Russia planning to destabilise Balkans and Moldova

### bne IntelliNews

Ukrainian President Volodymyr Zelenskiy warned on November 15 that Russia may instigate fresh crises in the Balkans and Moldova as a strategy to divert global attention away from the ongoing war in Ukraine.

While Russia's influence in the Western Balkans has waned in recent years, Moscow maintains close ties with pro-Russian politicians in some countries, in particular Serbia, Bosnia & Herzegovina and Moldova.

Speaking to a group of African journalists, Zelenskiy suggested that

Russia, along with its ally Iran, could be orchestrating events in the Middle East as a convenient distraction of Western powers' attention from Ukraine.

He urged the international community to take notice of the Balkans too, indicating that Russia might have a long-term plan to create instability in the region if preventive measures are not taken.

"This is an explosion in the Middle East, Russia is behind this, we are sure, with their allies Iran," Zelenskiy said as quoted by Interfax Ukraine.

"Pay attention to the Balkans. Believe me, we are receiving information: Russia has a long plan. The Middle East, there will be the Balkans, at least, if the countries of the world do nothing now, there will be such an explosion again," the Ukrainian president added.

There have been fears since Russia's invasion of Ukraine that Moscow could seek to destabilise Bosnia, where the pro-Russian president of the Bosnian Serb entity, Republika Srpska, has long been agitating for secession.



Ukrainian President Volodymyr Zelenskyy warned Russia may destabilise Moldova and the Balkans at a press conference with African journalists. / Ukrainian presidency

Republika Srpska President Milorad Dodik said on November 15 that he sees himself as the first president of independent Republika Srpska in 2030, sparking a fresh political scandal in the country.

Politicians from Republika Srpska have repeatedly defied the authority of both state-level institutions and the international community's high representative in Bosnia.

There is another volatile situation in northern Kosovo, where there have been several violent clashes this year, including a gun battle between a group of armed Serbs and Kosovan law enforcers.

Turning to Moldova, Zelenskyy raised concerns about Russia's alleged efforts to undermine the situation in the country.

"Moldova. Now they are starting to

undermine the situation in Moldova. To show that something was wrong there during the elections. To recognise the elections as unconstitutional. To again demolish the current government. To demolish the government that is pro-European," he said.

Part of Moldova's territory, Transnistria, is controlled by pro-Russian separatists, though both Chisinau and the breakaway regime in Tiraspol have sought to keep the country calm and avoid Moldova being dragged into the war in neighbouring Ukraine. There is also a pro-Russian government in the autonomous Gagauzia region.

The ruling Party of Action and Solidarity (PAS) won the recent local elections in Moldova, after having successfully secured EU candidate status for the country in 2022, though it did less well in major cities.

Recently, the Shor Party – the vehicle of fugitive politician Ilan Shor, suspected of being backed by Moscow – was banned in Moldova. This was followed up by bans on parties launched by ex-Shor Party politicians. ●

## Rights report means Turkey's EU bid will stay in deep freeze

### bne IntelliNews

**T**he European Commission has accused Turkey of "serious backsliding" on democratic standards, the rule of law, human rights and judicial independence. Turkey's application to join the EU has been in the deep freeze for several years. This report means it will stay there.

The heavy criticism is included in the Commission's annual report on Turkey's EU membership bid. The assessment also includes a rebuke to Turkish President Recep Tayyip Erdogan for referring to Palestinian militant group Hamas as a "liberation" movement. The EU, it said, was in "complete

disagreement" with Turkey's stance on Hamas.

In the report, released on November 9, the EU's executive arm chastises Ankara for not complying with the principles of the rule of law, human rights and fundamental freedoms in fights against adversaries Turkey has identified as

terrorist. "Anti-terror measures need to be proportionate," the report said.

The report also pointed to unaddressed deficiencies in Turkey's judicial system.

"The lack of objective, merit-based, uniform, and pre-established criteria for recruiting and promoting judges

**"The lack of objective, merit-based, uniform, and pre-established criteria for recruiting and promoting judges and prosecutors remains a source of concern"**



and prosecutors remains a source of concern," the Commission said.

The Turkish foreign ministry described the report as "unjust and biased". "We categorically reject unfounded claims and unjust criticisms, particularly on the political criteria and the Chapter on Judiciary and Fundamental Rights," it said in a statement.

The report also reiterated criticisms of Turkey for not abiding by a ruling of the Grand Chamber of the European Court of Human Rights (ECtHR) that called for the release of philanthropist Osman Kavala, detained in 2017 for attempting to oust the government, a charge he has always denied.

Gender-based violence and hate speech against minorities and the LGBT community in Turkey remain a serious concern, the report also stated.

The launch of the formal process for Turkey's bid to join the EU took place as far back as in 2005, though the country's move towards Europe can be traced all the way back to September 1959 when it applied for associate membership of the European Economic Community (EEC). Ever since Erdogan launched his massive purge against opponents in the wake of the July 2016 coup attempt against him, there has been no progress to speak of in moving Turkey towards EU accession.

The regime's conduct in the May elections that saw Erdogan re-elected as president and retain control over parliament is also attacked in the Commission report.

While the elections "offered voters a choice between genuine political alternatives and voter participation remained high... biased media coverage and the lack of a level playing field gave an unjustified advantage to the incumbent", observed the report.

It added: "Political pluralism [in Turkey] continued to be undermined by the targeting of opposition parties and individual members of parliament." ●

## Greece reportedly stalls start of accession talks with Albania

### bne IntelliNews

Athens has declined to approve a joint letter from the 27 European Union member states on the opening of negotiations on the first package of EU accession chapters, according to reports in the Greek press.

Greece's objections centre around the ongoing case concerning elected Fredi Beleri, an ethnic Greek Albanian elected as mayor of the city of Himara, despite being arrested ahead of the May 14 local elections after being accused of buying votes. The detention of the ethnic Greek mayor has sparked strong criticism from Athens and soured relations between Greece and Albania.

The news that Greece has declined to sign the letter, as reported by eKathimerini, comes just days after the European Commission published the latest package of enlargement progress reports.

The report on Albania said opening of the first negotiation cluster with the country is also expected by the end of the year. The Commission was positive on Albania's determination to implement EU reforms, while warning that further efforts are needed in areas such as freedom of expression, minority issues and property rights.

Athens has consistently appealed for Beleri to be granted the opportunity to take the oath as the mayor of Himara. However, Albanian politicians including Prime Minister Edi Rama insist justice must take its course through the court system. The next session of the corruption court is scheduled for November 22, but a hearing may be arranged before then for the special dispensation Beleri is seeking to assume office.

Meanwhile, Greek officials have warned for months that Albania risks jeopardising its EU accession progress if Beleri is not released.

Greece has previous form on using its position as an EU member in its relations with its neighbours. The country formerly known as Macedonia had its attempts to start EU accession negotiations repeatedly vetoed by Athens, which objected to the use of the name "Macedonia", which is also the name of a Greek province. The issue was eventually resolved when the government in Skopje changed the country's name to "North Macedonia" in 2019 following the signing of the Prespa Accord in June 2018.

Prior to Beleri's arrest Albania and Greece enjoyed relatively good relations thanks to their historic and cultural links, and shared membership of Nato and other international institutions. While thwarting Skopje's ambitions, Greece has long advocated Albania's EU candidacy, and Albania eventually secured candidate status during Greece's presidency of the EU Council in 2014.





Lipiyoshka seller at Uzgen bazaar, south Kyrgyzstan. The EBRD's survey found people from Kyrgyzstan, Tajikistan and Uzbekistan to have the highest life satisfaction. / Clare Nuttall

## EBRD survey reveals surprising surge in life satisfaction in Emerging Europe

Clare Nuttall in Glasgow

**T**here has been a strong rise in average life satisfaction across the Emerging Europe, Central Asia and the southern and eastern Mediterranean (SEMED) regions, according to the European Bank for Reconstruction and Development's (EBRD's) latest Transition Report.

Despite the traumas over the last seven years – which saw first the global coronavirus (COVID-19) pandemic, then the war in Ukraine and a severe cost of living crisis – the EBRD's research shows a broad-based increase in life satisfaction in the region that it attributes to a range of factors including higher incomes, better jobs and improved health.

This has seen countries in the region catch up with their peers in Western

Europe in terms of life satisfaction. “Once differences in gross domestic product (GDP) per capita had been controlled for, people in transition

“Once differences in gross domestic product (GDP) per capita had been controlled for, people in transition countries were, on average, no longer less satisfied with their lives than people in Germany and Italy”

countries were, on average, no longer less satisfied with their lives than people in Germany and Italy,” said the report. “There used to be a big happiness gap in our countries until 2016, even

taking into account the income level of the country and the family. Now it's gone,” commented EBRD chief economist Beata Javorcik in an interview with *bne IntelliNews*. “The improvement has been broad based. It's true of men and women, all ages, urban and rural populations.”

The results of the latest Life in Transition Survey (LITS) follow a steady increase in happiness levels in many of the post-communist countries of Central, Eastern and Southeast Europe and the former Soviet Union. This is in stark contrast to the beginning of the transition process when they were clustered near the bottom of global league tables such as the World Happiness Report.

“[F]or many people in the EBRD regions, it seems that the transition process is increasing overall satisfaction with life,” the report said.

The report identifies a variety of potential reasons. “One possibility is that people's answers have been influenced by growing prosperity. LiTS IV was launched at a time when most economic aggregates were moving in a favourable direction, with supply chains reopening and household demand bouncing back following the relaxation of Covid restrictions,” it said.

“However, two other issues are probably also influencing the results: improvements in the health of the population and favourable developments in labour markets (including a shift towards more pleasant and higher-skilled jobs).”

Health is another important indicator, and the report finds people's assessments of their own health have improved significantly over time.

“The new EU member states are now on a par with the G7 countries when it comes to self-reported health status. There used to be a difference that emerged in the mid-40s; now there is only a difference at the age of 70 plus,” said Javorcik.

**Regional variations**

Central Asian countries, despite lower GDP per capita, scored high on life satisfaction indicators. At the top of the table was the post-socialist space’s poorest economy, Tajikistan, followed by neighbouring Uzbekistan and Kyrgyzstan. The report notes this is a “perennially surprising result, given that GDP per capita is usually positively correlated with happiness in cross-country regressions and these three countries are still among the poorest in the EBRD regions”.

Two of the region’s smallest and richest economies – Slovenia and Estonia – were next placed.

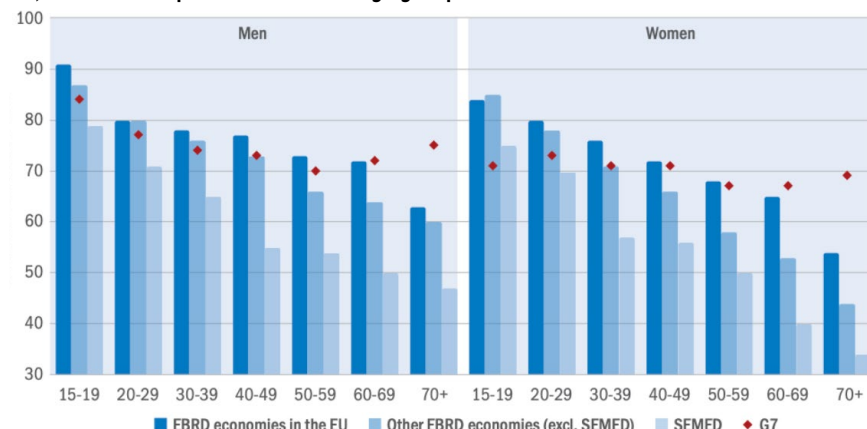
Overall, noteworthy increases are observed in Southeast and Eastern Europe and the Caucasus, with the rise in life satisfaction spanning all age groups, genders and urban-rural divides.

“One region that has made substantial progress since 2016 is South-eastern Europe (which includes both (i) European Union member states Bulgaria and Romania, and (ii) the Western Balkans), with nearly all countries recording significant increases in satisfaction (the sole exception being Albania, where that score has remained more or less unchanged),” says the report.

At the other end of the scale, Lebanon is facing a socio-economic crisis that is reflected in low happiness levels in the country. The percentage of respondents satisfied with life was also relatively low in Tunisia, Lithuania, Turkey and Hungary.

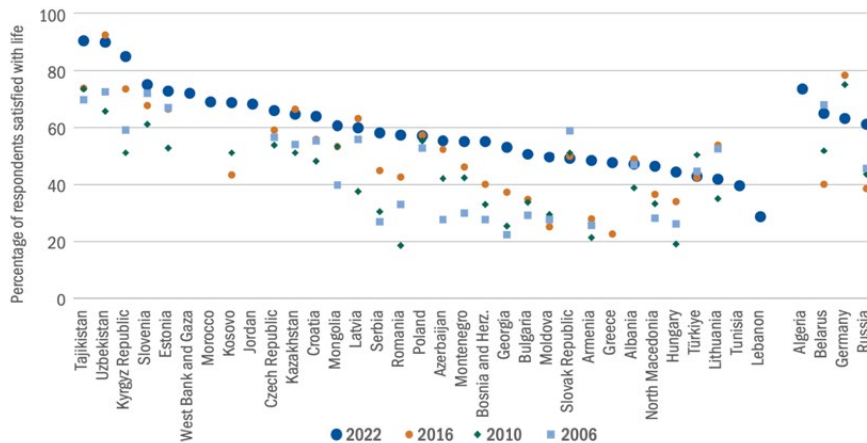
Ukraine, now almost two years into a devastating war, was not included in the survey. However, residents of Gaza and the West Bank were among those with the highest life satisfaction in the survey carried out before the outbreak of intense fighting this autumn. ●

**Self-assessed health in EBRD economies in the EU has mostly caught up with the G7, with the exception of the oldest age groups.**



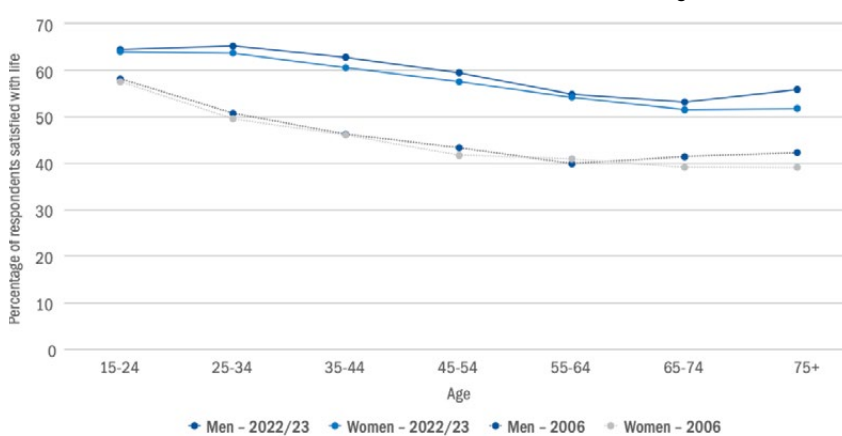
Source: Gallup World Poll (2022 or latest available year) and authors’ calculations. Note: This chart shows average personal health index scores taken from the Gallup World Poll, broken down by age group and gender. Sampling weights are used. The index is based on the following five questions on physical and mental health: (i) “Do you have any health problems that prevent you from doing any of the things people your age normally can do?”; (ii) “Now, please think about yesterday, from the morning until the end of the day. Think about where you were, what you were doing, who you were with, and how you felt. Did you feel well rested yesterday?”; (iii) “Did you experience the following feelings during a lot of the day yesterday?... How about physical pain?”; (iv) “... How about worry?”; and (v) “... How about sadness?”

**Levels of life satisfaction have risen over time**



Source: LiTS and authors’ calculations. Note: This chart shows the percentage of respondents who either agree or strongly agree that, overall, they are satisfied with their life.

**Life satisfaction has increased for both men and women across all age cohorts.**



Source: LiTS and authors’ calculations. Note: This chart shows the percentage of respondents who are satisfied with their life by age cohort.



European Commission President Ursula von der Leyen said enlargement is “the call of history” at a press briefing on November 8. / www.shutterstock.com

# Ukraine and Moldova recommended for EU accession talks, Western Balkans urged to speed up reforms

## bne IntelliNews

**T**he European Commission recommended starting accession negotiations with Ukraine and Moldova on the release of its latest package of enlargement reports on November 8

There was also good news for Georgia, as the Commission recommended giving the country candidate status, contingent on further reforms, as well as the start of accession negotiations with Bosnia & Herzegovina, again depending on the country's reform progress.

For the longstanding accession candidates in the Western Balkans –

Albania, Montenegro, North Macedonia and Serbia – the verdict was mixed. The Commission's reports noted progress in some areas, but pointed to a stalling of reforms in Montenegro in particular.

### Ukraine and Moldova to move ahead

Both Ukraine and Moldova were given EU candidate status in 2022 after Russia's invasion of Ukraine pushed the EU to refocus on enlargement.

“Enlargement is a vital policy for the European Union. Completing our union is the call of history, the natural horizon of our union. Completing our union, also has a strong economic and geopolitical logic,” commented

European Commission President Ursula von der Leyen on the release of the package.

The European Commission's statement on November 8 talked of a “powerful reform dynamic” in Ukraine after the country secured candidate status.

“In light of the results achieved by Ukraine and Moldova, and of the ongoing reform efforts, the Commission has recommended that the Council opens accession negotiations with both countries,” a Commission statement said.

It recommends that the EU Council adopts the negotiating frameworks once

Ukraine and Moldova have adopted key measures.

It commented on the determination of the Ukrainian government and parliament in advancing on the seven steps outlined by the European Commission Opinion on Ukraine's EU membership bid. Ukraine implemented a transparent pre-selection process for Constitutional Court judges, reformed judicial governance bodies, and bolstered its anti-corruption initiatives. Additionally, the nation made significant strides in curbing oligarch influence and aligning with EU standards, even amidst wartime challenges, demonstrating its commitment to EU integration, according to the statement.

Commenting before the release of the reports, Ukrainian President Volodymyr Zelenskiy said that Kyiv expected a positive verdict and is already planning its next steps.

"Ukraine will join the EU. And we will achieve this, in particular, as a result of our state's internal transformation that is completely consistent with the interests of our people," Zelenskiy wrote on social network X (formerly Twitter).

The report on Moldova also detailed progress on meeting the nine steps required by the Commission. It pointed to the justice reforms launched by Chisinau as well as the restructuring of anti-corruption bodies, and the deoligarchisation plan drawn up by the Moldovan authorities. Public administration and finance management reforms were pursued, alongside legislation for public procurement, while civil society involvement in decision-making and human rights protection were bolstered.

"An important milestone for Moldova. @EU\_Commission recommends the initiation of Moldova's EU accession talks, recognising our commitment to democracy and development," President Maia Sandu wrote on X.

"Moldova is firmly on the path for EU membership and we will continue working relentlessly towards this goal."

### Candidate status recommended for Georgia

Georgia did not secure candidate status at the same time as Ukraine and Moldova in 2022 amid concerns about the state of democracy. However, in November 2023, the country has been recommended for candidate status on the "understanding that a number of steps are taken".

"Georgia has taken steps to strengthen engagement with the EU and increased pace of reforms in the recent months," the statement said.

It pointed to efforts to address the 12 priorities identified by the Commission including on gender equality, fighting violence against women and organised crime. Steps have also been taken

"Ukraine will join the EU. And we will achieve this, in particular, as a result of our state's internal transformation that is completely consistent with the interests of our people"

towards judicial reforms and the protection of human rights.

"Building a strong cross-party political consensus would contribute to addressing polarisation and accelerate its European path," the report added.

### More effort needed from Bosnia

Bosnia was also granted accession candidate status in 2022, becoming the fifth of the Western Balkans countries to become a candidate.

On November 8, the Commission recommended the opening of accession negotiations once Bosnia has achieved the necessary degree of compliance with the membership criteria.

As for Ukraine, the Commission said the decision to award candidate status "brought a much-needed positive dynamic", with the new government starting to deliver on reforms. However, it warned that further efforts are needed, including on the rule of law and judicial, constitutional and electoral reforms.

Commenting on the difficult political situation within Bosnia, the Commission warned: "It is also important to preserve the constitutional order of the country. The secessionist and authoritarian measures introduced in the Republika Srpska entity are not in line with the EU path."

### Montenegro's progress stalls

Montenegro is the most advanced of the candidate countries towards EU accession, however, as pointed out by the Commission, progress toward EU accession reforms came to a standstill due to polarisation and political instability during the reporting period.

After months of negotiations, a new government was appointed in October,

and the Commission said it now expects Podgorica "to swiftly demonstrate its capacity and commitment to Montenegro's EU path and deliver on EU accession related reforms".

North Macedonia is the longest-standing EU accession candidate, having been granted candidate status back in 2005. Its progress has been repeatedly blocked by bilateral disputes with its EU-member neighbours, first Greece and later Bulgaria. The government is now struggling to get constitutional changes required for it to start accession negotiations through the parliament, which the Commission said should be made a priority.

On a more positive note, the Commission said that it presented to EU Council the screening reports on the "fundamentals cluster" for North Macedonia in July and looks forward to a swift follow-up, with a view to opening negotiations on the cluster by the end of the year.

"The political polarisation and the blockade of the parliament where

important legal decisions are made are the most important detected weaknesses in the latest report of the European Commission," Foreign Minister Bujar Osmani said on the release of the report.

The opening of the first negotiation cluster with Albania is also expected by the end of the year. The Commission was positive on Albania's determination to implement EU reforms, while warning that further efforts are needed in areas such as freedom of expression, minority issues and property rights.

#### Conflict between Serbia and Kosovo

For both accession candidate Serbia and potential candidate Kosovo, the Commission stressed the need to

normalise their relations in order to progress on their EU path.

It pointed out that despite the agreement reached (but not signed) earlier this year as part of the EU-facilitated dialogue between the two countries, "both Serbia and Kosovo are yet to start the implementation of their respective obligations, which are binding for the parties and a key part of their European paths".

The report also called on Serbia to align its foreign policy with the EU's by joining sanctions on Russia.

Regarding Kosovo, the Commission acknowledged legislative progress during the reporting period, particularly highlighting a significant electoral reform.

Nevertheless, there remains unfinished business, notably in the development of an action plan for justice reforms.

#### No accession prospects for Turkey

Commenting on Turkey, the report described the country as a "key partner" for the European Union but stressed that progress in accession talks has stalled since 2018.

"The country has not reversed the negative trend of moving away from the European Union, and it pursued accession related reforms to a limited degree," said the statement.

A report on EU-Turkey relations is due to be submitted to the EU Council in November. ●

## Report links Ukraine's top general Zaluzhny to the Nord Stream 1 & 2 pipelines bombing

### bne IntelliNews

**R**oman Chervinsky, a colonel in Ukraine's Special Operations Forces, was an integral part of the destruction of the Nord Stream 1 & 2 pipelines, an investigation by the *Washington Post* and *Der Spiegel* reported on November 11.

The report revealed that Chervinsky, a senior Ukrainian military officer with strong ties to the country's intelligence services, played a central role in the bombing of the Nord Stream natural gas pipeline last year.

Chervinsky is a decorated 48-year-old colonel who served in Ukraine's Special Operations Forces. He is said to have acted as the "co-ordinator" of the Nord Stream operation, overseeing logistics and support for a six-person team that carried out the sabotage. On September 26, 2022, three explosions damaged the Nord Stream 1 and 2 pipelines, which run under the Baltic Sea from Russia to Germany, leaving only one of the four gas links intact.

Evidence is mounting that Ukrainians were behind the attack on the pipelines, after initially Russia, the US and the UK were each blamed for the explosions that massively reduced the delivery of Russian gas to the EU. What remains unclear is whether the attack was authorised by the Ukrainian government or whether the government had any knowledge of the plan.

Analysts worry that the *Washington Post* revelations could be part of infighting inside the Ukrainian government and highlight that at a time when Ukraine fatigue is building, this could be very damaging for the Ukrainian cause.

"The conflict between Zelenskiy's office and Zaluzhny is apparently real. Within this conflict, people close to Zelenskiy leaked to WaPo what is effectively an admission that [it] is responsible for Nord Stream.

The purpose of the leak is to blame Zaluzhny for the Nord Stream attack

while claiming that Zelenskiy did not know about it," said Ilya Matveev, a political scientist formerly based in St Petersburg, Russia, and who is currently a visiting scholar at UC Berkeley, in a tweet.

"In effect, a leak to WaPo becomes a weapon in the internecine struggle, but the admission itself puts Ukraine in an



Roman Chervinsky, a colonel in Ukraine's Special Operations Forces, has been accused of masterminding the operation to blow up the Nord Stream gas pipelines and is said to have reported to Ukraine's top general Valery Zaluzhny.

incredibly tough spot diplomatically. This just shows how destructive the spiralling conflict between Zelenskiy and Zalyzhny can be."

The investigation reports that Chervinsky did not act alone and did not plan the operation himself. Instead, he reportedly received orders from more senior Ukrainian officials, who ultimately reported to General Valery Zaluzhny, Ukraine's highest-ranking military officer, who recently caused a storm by saying the war in Ukraine is at a stalemate.

The claim that Chervinsky was taking orders from Zaluzhny is explosive, as it suggests the attack on the pipelines, a major piece of European energy infrastructure, was officially sanctioned.

Chervinsky has denied any involvement in the pipeline sabotage, stating that the speculations about his role are being spread by Russian propaganda without any basis. The Ukrainian government has not responded to questions about Chervinsky's participation.

Chervinsky's role was well-suited for carrying out covert missions due to his experience in senior positions within Ukraine's military intelligence agency and the Security Service (SBU). He has also been involved in other secretive operations, such as luring Russian mercenaries into Belarus and targeting pro-Russian separatist leaders.

Chervinsky is currently held in a Kyiv jail on charges related to a plot to lure a Russian pilot to defect to Ukraine. He claims that he was acting on orders and that his arrest is politically motivated due to his criticism of the Ukrainian government.

The revelation of Chervinsky's involvement in the Nord Stream attack contradicts Ukrainian President Volodymyr Zelenskiy's public denials of his country's involvement in the operation. It appears that the operation was designed to keep Zelenskiy uninformed, with those involved reporting directly to General Zaluzhny, according to the *Washington Post*. ●

## Putin pardons Politkovskaya's killer

### Ben Aris in Berlin

President Vladimir Putin has granted a pardon to Sergei Khadzhikurbanov who was convicted of the 2006 murder of famous investigative journalist Anna Politkovskaya, *RBC* reported on November 15.

Khadzhikurbanov was serving a 20-year sentence for the crime, but was pardoned by Putin after signing up to fight in the Special Military Operation (SVO) in Ukraine.

According to Khadzhikurbanov's lawyer, Alexey Mikhalechik, Khadzhikurbanov initially participated in the SVO as a prisoner and was later pardoned. Khadzhikurbanov's lawyer did not say when he started to fight in Ukraine or when he received the presidential pardon. Khadzhikurbanov is currently fighting in Ukraine on a contract with Russia's Defence Ministry, his lawyer said.

He subsequently re-joined the SVO as a freelance military contractor after entering into a contract with the Defence Ministry. His prior experience in special forces during the 90s likely contributed to being offered a command position. Mikhalechik believes that Khadzhikurbanov was not involved in the murder of Politkovskaya, who was a leading critic of Chechen president Ramzan Kadyrov's regime that runs the region.

The pardon elicited strong reaction from Politkovskaya's children. In a joint statement, Politkovskaya's daughter, Vera, and son, Ilya, said the decision was a "desecration" of their mother's memory. They also lamented that they were not informed about the presidential pardon, expressing disillusionment with the pursuit of justice in their mother's case.

There has been a string of murders of those that have opposed Kadyrov or criticised his regime. Chechens linked to Kadyrov are also thought to be behind the murder of opposition leader Boris Nemtsov in 2015, who was gunned down under the walls of the Kremlin.

More recently, another Kadyrov critic, Chechen Zelimkhan Khangoshvili was shot twice in the head in Berlin's Tiergarten in August 2019 by a Russian assassin on a bicycle with a suppressed Glock 26. Khangoshvili had fled Russia and was seeking refuge in Germany. In December 2021, two Russian diplomats were expelled after a Berlin court determined that the murder was a state-ordered killing.

Observers believe that Russian President Vladimir Putin has little control over Kadyrov, who is a former military leader in his father's succession movement that was attempting to break away from the Russian Federation. A poacher-turned-gamekeeper, the Kremlin has spent billions of dollars on rebuilding Chechnya following two Chechen wars at the start of the 1990s.

A leaked Kremlin report written by top presidential aide Dmitri Kozak at the end of the 90s caused a storm when it reported more than \$1bn of state investment money for the republic had gone missing. But ever nominally loyal, Kadyrov sent his elite fighters – the so-called Kadyrovtsy – to fight in Ukraine and more recently he is believed to be building up a private army on the off-chance there is a social backlash against Putin and a coup.

# The World Bank says Ukraine can attract only \$73bn in a “no reforms” scenario

Ben Aris in Berlin

The World Bank has conducted an analysis of Ukraine's capacity to attract private investment, including scenarios with and without reforms, as the nation gets ready to rebuild, UBN reported on October 27.

Ukraine will face a massive need for investment when the fighting eventually stops. The World Bank estimates the cost of the damage inflicted by Russian aggression currency stands at a whopping \$411bn – about twice the value of the entire economy before the war.

Experts from the International Finance Corporation (IFC) and the World Bank (WB) have a “no reforms” scenario, which reflects conditions prior to the conflict. Under this scenario, the two IFIs estimate Ukraine can attract over \$73bn, or approximately 18% of the total needed.

In contrast, by embracing and accelerating economic reforms, addressing industry regulations, and deepening integration with Europe, Ukraine can potentially attract \$130bn in private sector investment, equivalent to about 30% of the total reconstruction needs.

Furthermore, these reforms could pave the way for an additional \$282bn in private-sector investment.

The report from these financial institutions highlights specific sectors where reforms hold significant potential:

**Agriculture:** Reforms in this sector could attract \$30bn in private investment.

**Food Products and Beverages:** Approximately \$16bn in private investment opportunities can be realised through reforms in this industry.

**Transport and Logistics:** Restoration efforts in this sector could attract \$7bn, while additional needs for expansion and development may reach \$41bn.

**Energy and Mining Industry:** Reforms in the energy sector could unlock \$36bn in private investment, while the mining industry may see investments of up to \$132bn.

**Restoration and New Housing/Construction:** The restoration of infrastructure and facilities could attract \$30bn in private investment, while new housing and construction projects hold the potential for \$60bn in investments.

How to raise the hundreds of billions of dollars needed to rebuild Ukraine is a pressing issue, after the EU has more or less totally written off the idea of seizing the Central Bank of Russia (CBR) frozen \$300bn as legally unworkable.

The EU has proposed a €50bn four-year support programme and the US has already spent some \$45bn on support, but long-term it is very unlikely that

Ukraine's Western partners will come up with sufficient funds to cover the whole \$411bn bill.

The answer has been to turn to the private sector, as was highlighted at the Ukraine Recovery conference held in London in June. But private investors are worried about Ukraine's corruption problem that has always held back foreign direct investment (FDI). Ukrainian President Volodymyr Zelenskiy is fully aware of this and as *bne IntelliNews* has reported has launched the most comprehensive anti-graft programme since independence, but there is still a long way to go.

Attracting investors is a work in progress. Kyiv will present a new Ukraine Plan to the EU in November that is more detailed and will bring more investment if implemented. While the study suggests there is going to be a significant shortfall in funds needed to complete the rebuild of Ukraine post-war, every little bit helps and the more reforms Ukraine can make, the more investment it will attract. ●



In the worst case scenario where Ukraine makes no reforms it will attract only \$73bn of investment to rebuild, or 18% of the \$411bn it needs to rebuild, according to a study by the World Bank.





The EC is considering punitive actions against Poland after local truckers block the border for Ukrainian trucks.

## EC mulls punishing Poland for blocking transit of Ukrainian trucks

### bne IntelliNews

Ukrainian truckers are facing daily losses of €300 due to the ongoing blockade of the Polish border by Polish truckers, according to the Association of International Motor Carriers, UBN reported on November 20.

The blockade, which started earlier this month, has resulted in a 90% reduction in border traffic and has both economic and political implications.

Polish truckers are protesting against the end of a permit system last year that restricted the number of Ukrainian trucks that can cross the border. They complain that the large increase of Ukrainian trucks traversing Poland on their way to EU markets has significantly reduced the amount of work for Polish truckers, already hurting from the loss of deliveries to the Russian market, due to sanctions.

The blockade is a grassroots protest and not official Polish policy, but it comes in the context of another trade dispute between Ukraine and Poland: a ban on the import of Ukrainian grain imposed by Warsaw, which crashed the local Polish grain markets in April.

While Warsaw is a steadfast supporter of Ukraine in its fight against Russia, trade relations have been prickly due to the impact of Ukrainian trade flowing out of the war-torn country to EU markets after most restrictions on Ukraine's export to the EU were suspended after the start of the war.

The blockade of the border has raised concerns, and if the Polish authorities do not resolve the border blockage issue promptly, the EC may take punitive measures against Poland. The EC emphasises the need for the free movement of goods, especially for the transportation of trucks through the "corridors of solidarity."

Ukraine is running a massive budget deficit and is desperate for foreign exchange earnings from exports at a time when Ukraine's funding is in increasing doubt as US support wanes.

The EC is currently assessing whether the actions of the Polish authorities constitute a violation of the EU regulation on the liberalisation of trade with Ukraine, which includes provisions

for transport visa-free access. This regulation is in effect until June 30, 2024.

Negotiations are underway with all parties involved in the conflict, but the EC's official stance is that restoring a system of permits or quotas for road transport is not legally possible, as it contradicts an agreement on road transport between Ukraine and the EU. Brussels, not the EU's sovereign governments, has control over trade policy and sets the rules. However, Warsaw has already defied an order by Brussels to lift the ban on grain imports, after a temporary ban expired on September 15.

Ukraine relies significantly on its trade with Poland, with 11.5mn tonnes of goods exported this year (61% through Poland) and 13.8mn tonnes of goods imported (42%). The ongoing border blockade has disrupted these trade flows and incurred substantial financial losses for Ukrainian carriers.

The dispute threatens to widen, after five other Central European countries demanded that Brussels revise the transport agreement with Ukraine to restrict the number of trucks going through their countries as well.

On November 20, members of the International Road Transport Union (IRU) from Hungary, Poland, Slovakia, the Czech Republic and Lithuania will send a joint letter to the President of the European Commission, Ursula von der Leyen, calling for a review of the transport agreement with Ukraine, *Bloomberg* reported.

The current agreement expires in June 2024, which "seriously distorts the market and causes irreversible damage to Hungarian and EU carriers," according to the trucking union.

Some IRU members will also send letters to their governments.

The freight carriers want this deal cancelled or, at the very least, not extended.

This will make it possible to return to the implementation of bilateral agreements between individual EU countries and Ukraine. ●



David Cameron, appointed November 13 as the UK's new foreign secretary, already has a busy Central Asia in-tray. / UK Government, cc-by-sa 3.0

## UK engagement with Central Asia “lacks seriousness” says report by British MPs

### bne IntelliNews

**T**he UK's high-level ministerial engagement with Central Asia's governments is persistently inadequate and is interpreted by partners as demonstrating “a lack of seriousness” from the British government, according to a report from the Foreign Affairs Committee of the UK Parliament released on November 10.

The report, entitled “Countries at crossroads: UK engagement in Central Asia”, calls for “high-level, consistent diplomatic engagement” with Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, “whilst ensuring that the UK financial services cannot be used as a conduit for illicit finance flows from the region. This is of increasing importance as these five

countries become a setting for a great power competition.”

Deepening the engagement both bilaterally and as a regional group is “a geopolitical imperative”, said the committee, calling on the British prime minister and secretaries of state to engage with all five countries over the next three years.

Chair of the Foreign Affairs Committee, Alicia Kearns MP, said: “Sandwiched between Russia and China, Central Asian countries are courted by both powers. For too long, the UK has neglected to engage with Central Asian states. Instead, the FCDO has played whack-a-mole – easily distracted by crises elsewhere – and provided no consistent offer to Central Asia.”

In recent months, Central Asia's leaders have had meetings with US President Joe Biden in New York and German Chancellor Olaf Scholz in Berlin, while last week French President Emmanuel Macron visited Kazakhstan and Uzbekistan.

A press release summarising the report's findings also turned to how the report finds that the UK is “a leading enabler for corrupt Central Asian elites and a key node for capital flight out of the region.”

It added: “The Committee says that the continuance of an underenforced financial crime prosecution system in the UK constitutes an undeclared interference in the form of facilitation of kleptocratic autocracies.

“UK agencies have been under-resourced in comparison with the wealthy individuals they are investigating, and the report calls on Government to increase resources available to law enforcement authorities, including the National Crime Agency and the Serious Fraud Office.”

The report also urges the National Crime Agency to send agents to liaise with Central Asian governments on developing cooperation on unexplained wealth orders (UWOs) and on returning stolen public assets from the UK.

The report further finds that there are close links between the drugs trade in Central Asia and ruling elites and organised crime, and that funds originating in the drugs trade are being channelled through the City of London. The committee argues that the UK

cannot shirk its responsibilities: it is not only the source of demand for narcotics but is also complicit in the washing of the illicit gains of the trade.

Sanctions evasion by Russia via Central Asian states is a threat to international measures against Russia’s renewed illegal invasion of Ukraine, the report also observes.

The UK government, it said, should work with Central Asian states to reduce the dependence of their economies on that of Russia in the medium to long term and to close off opportunities for entities involved in sanctions evasion to use the City of London and UK services.

The committee also underscored the dangers of Russian disinformation in Central Asia, with the report arguing “that the insidious messages spread by

the Russian state have a powerful impact on Central Asian states’ sovereignty and comments on how the older generation views the renewed illegal invasion of Ukraine and the nature of UK engagement in their countries”.

In another observation, the report finds that China has taken advantage of the waning of Russian influence in Central Asia, with part of this involving provision of Chinese surveillance technology that could be used to further curtail the rights of citizens.

The report also says that the UK’s response should not aim to outcompete China but to take an assertive stance, providing different options to Central Asian leadership as they pursue regional cooperation. “This will be key to the independence of Central Asian states from their powerful neighbour,” it advises. ●

## Macron compliments Kazakhstan on not bowing to Kremlin

### bne IntelliNews

**N**o doubt to Moscow’s displeasure, French President Emmanuel Macron grasped the nettle in taking on the delicate subject of post-Soviet Kazakhstan’s relations with Russia during his November 1 visit to the Central Asian country, complimenting the nation for not bowing to the Kremlin.

“France values ... the path you are following for your country, refusing to be a vassal of any power and seeking to build numerous and balanced relations with different countries,” Macron said at a meeting with Kazakh counterpart Kassym-Jomart Tokayev.

“I don’t underestimate by any means the geopolitical difficulties, the pressures ... that some may be putting on you,” Macron also told Tokayev, who for his part hailed the visit as “historic”.

Tokayev called France a “key and reliable partner” in the European Union and said he would work to give the partnership “extra impetus”.

Macron – who moved on from Central Asia’s largest economy to its second

largest, Uzbekistan – was not only in Kazakhstan to deliver blandishments. He and Tokayev signed a series of bilateral contracts across sectors including minerals, energy, pharmaceuticals and aerospace. Macron would likely have also underlined France’s desire to build



Tokayev, left, told Macron he is going to give Kazakhstan’s cooperation with France “extra impetus”. / Akord

Kazakhstan's first nuclear power station – Russia's Rosatom would be loathe to lose out to France's EDF in that flagship investment, should the project win the backing of the Kazakh people in a referendum later this year – and work more extensively with Kazakh partners in mining the country's uranium. Kazakhstan's potential in rare earths and rare metals is also high on the agenda for Paris and other major powers given the pressing needs of the energy transition.

Kazakhstan is part of the Moscow-led Eurasian Economic Union (EEU) and a member of other Kremlin-dominated organisations such as the Collective Security Treaty Organization (CSTO) defence bloc. But the country, like Uzbekistan, has not offered any backing to Moscow over its invasion of Ukraine and, in principle at least, has pledged to adhere to Western sanctions on Moscow.

Russia is clearly watching with concern as the West steps up diplomatic, trade and investment activity in its Central Asian "backyard". Russian foreign minister, Sergei Lavrov, said last week that the West was trying to pull Russia's "neighbours, friends and allies" away from it.

"We respect our friends, we are here when they need us and we respect their independence," Macron also said on his visit. "And in a world where major

powers want to become hegemons, and where regional powers become unpredictable, it is good to have friends who share this philosophy," he added.

France is actually already the fifth-biggest foreign investor in Kazakhstan, ahead of China, which is also making determined efforts to build up influence and economic heft in Central Asia while Russia is distracted by the situation with Ukraine. However, the French investment footprint is largely due to big oil investments, such as TotalEnergies involvement in the massive Kashagan offshore oilfield project in the Caspian Sea.

Kazakhstan plays a role in providing an alternative to Russian oil for European nations determined to break any reliance on Russia's production of hydrocarbons. It is also increasingly prominent in offering China-Europe importers and exporters "Middle Corridor" trade routes that avoid Russia.

Of deals signed during Macron's visit, France's TotalEnergies inked an agreement to participate in the development of a wind farm in Kazakhstan, while France's Alstom sealed a deal that could lead to the manufacturing of electric locomotives at a Kazakh plant. French nuclear company Orano,

formerly known as Areva, is, meanwhile, looking to step up its uranium activities in Kazakhstan, where it already mines uranium deposits in a joint venture with state-run Kazatomprom, the world's largest uranium producer. Orano is also active in Mongolia, where Macron visited earlier this year, partly with a view to sourcing further uranium and rare earth and metal supplies.

"Kazakhstan is the world's top uranium producer, contributing over a quarter of nuclear fuel consumed in Europe," Tokayev noted. "With nuclear power comprising 63 percent of France's energy sector, there is vast potential for further cooperation," he added.

Trade turnover between France and Kazakhstan stood at €5.3bn (\$5.6bn) in 2022.

In aerospace, the Elysee announced during the Macron visit that Paris would supply Ground Master 400 air defence radar systems to Kazakhstan to boost the country's "sovereignty".

One other business signing linked to the visit, in pharmaceuticals, saw Boehringer-Ingelheim and Kazbiopharm ink a letter of intent on foot-and-mouth vaccine manufacturing. ●

## Kazakhstan: Death of ex-official's wife sparks conversation around domestic abuse

### Almaz Kumenov for Eurasianet

**T**he death of a woman, allegedly at the hands of her husband, a former top-ranking official in Kazakhstan's government, is sparking fresh public calls for more to be done to combat spousal abuse.

A court in the capital, Astana, ordered that Kuandyk Bishimbayev, a 43-year-old whose meteoric rise through the ranks was cut short by a corruption scandal

in 2018, be held in jail for at least two months pending investigations.

The exact circumstances around what Bishimbayev may have done remain murky, not least as he appears to have engaged in a cover-up in the immediate wake of the incident. What is known is that Bishimbayev was detained on November 9 after his wife's body was discovered bearing signs of a

violent death. Saltanat Nukenova was 31-years-old.

Bishimbayev and Nukenova had been dining at a restaurant in Astana when an argument broke out between them. That night, the restaurant, which belongs to the couple, was closed to the public. Video surveillance of the scene showed Bishimbayev savagely beating Nukenova, according to media reports.



Kuandyk Bishimbayev and Saltanat Nukenova seen in an undated photograph. / social media

News website Orda cited police sources as saying the former minister initially sought to cover his tracks. He reportedly called his brother and asked him to have the staff leave the premises of the restaurant. Bishimbayev is then said to have had the CCTV footage deleted and to have asked his brother to carry his wife's phone to a gym she regularly frequented and then home as the geolocation data would lend the impression she was still alive at the time.

Things turned out entirely differently, however. Bishimbayev's brother called an ambulance, after which medics were able to confirm that Nukenova was dead.

Medical examiners have said they found bruising on Nukenova's body and head. Investigators were able to recover the deleted CCTV footage. The working assumption is that she may have succumbed to a powerful blow to the head with a blunt object. Further investigations are ongoing.

KazTag news agency quoted its law enforcement sources as saying Bishimbayev threatened to stab himself as he was being detained.

Bishimbayev has been behind bars before. A court in March 2018 found him guilty of accepting large bribes and

sentenced him to 10 years in prison. He was, however, released on parole the following year. Before his arrest, Bishimbayev, who holds an MBA from George Washington University, held a number of senior government positions and once served as an assistant to former president Nursultan Nazarbayev.

People close to the Bishimbayev family have alleged in the wake of

**“The working assumption is that she may have succumbed to a powerful blow to the head with a blunt object”**

Nukenova's death that her husband frequently abused his wife. Orda quoted Nukenova's friend, Linara Smagulova, as saying she had often seen bruises and scars left by those assaults.

The death has reawakened public discussions around the problem of domestic violence – namely, how the police routinely fail to act to prevent it.

Well-known lawyer Zhanna Muhamadi wrote on her Facebook account that in Kazakhstan the police limit themselves, when receiving reports of spousal assault, to issuing warnings. She

said, although without citing specific examples, that men found to have killed their wives are given light sentences. The Children's Rights Commissioner for Almaty, Khalida Azhigulova, argued that Kazakhstan was the only country in the world where “a concussion, and fractured ribs, limbs, and jaws” are regarded as mere minor injuries for which a judge need only issue a written warning to the suspected perpetrator.

“This is a disgrace for our country,” Azhigulova wrote on Facebook. “[Our laws] are adopted only to please rapists and psychopaths ... so that they can continue to abuse their loved ones ... with impunity.”

Activists point among other things to a development from 2017, when MPs struck domestic violence from the Criminal Code. The articles criminalising “deliberate infliction of minor harm to health” and “battery” were transferred to the Administrative Code.

In September, Amantay Zharkynbek, an MP from the ruling Amanat party, reportedly said that in cases where a husband is found guilty of domestic violence and placed under arrest for 15 days, wives should be held accountable

for “provocation” and be kept in custody for a similar period.

In 2022, police in Kazakhstan received more than 115,000 calls reporting domestic violence. That was a marked drop on 2020, the year when COVID-19 lockdowns were being enforced, when the figure spiked to 180,000. ●

*Almaz Kumenov is an Almaty-based journalist.*

*This article first appeared on Eurasianet.*



Ursula von der Leyen meeting President Ilham Aliyev in 2022. / bne IntelliNews

## COMMENT

# Aliyev could still lose in the Great Game he started

Robert Ananyan in Yerevan

**T**he Great Game in the South Caucasus continues despite the de facto dissolution of Nagorno-Karabakh. Russia and the West are in fierce competition to reconcile Armenia and Azerbaijan, which would also confirm one of them as the prime mover in the South Caucasus.

After its new attack on Karabakh on September 19, relations between the West and Azerbaijan have become complicated.

Azerbaijan, which is in alliance with Turkey and Russia to remove the West from the region, recently refused to negotiate with Armenia through the mediation of European Council President Charles Michel in Brussels. The USA and the EU had strongly pressured Aliyev, who broke his promise not to start a war against Nagorno-Karabakh, according to German Foreign Minister Annalena Baerbock.

In order not to suffer political losses from the occupation of

Karabakh, Aliyev first refused to go to Granada to participate in the meeting with Michel, French President Emmanuel Macron, German Chancellor Olaf Scholz and Armenian Prime Minister Nikol Pashinyan, and then also cancelled the meeting in Brussels. Afterwards he announced in Bishkek that his preferred format is with Russian mediation. He invited the Armenian premier to both Moscow and Tbilisi. This is Aliyev's blackmail against the West to block any pressure on Baku.

In Granada, Armenia received the support of Germany, France, and the European Union (EU), which in a sense is a kind of security guarantee. In the agreed statement, what happened in Nagorno-Karabakh was described as a mass displacement, and there was unwavering support for Armenia's sovereignty, territorial integrity, and inviolability of borders. It was also mentioned that borders should be drawn according to the last map of the USSR.

The European Parliament, in a resolution adopted on October 5, condemned Azerbaijan's military aggression against Nagorno-Karabakh and called on the EU leadership to impose sanctions on Azerbaijani officials who are responsible for the ceasefire violation in Nagorno-Karabakh and numerous abuses of human rights. The European Commission was urged to refuse the purchase of gas from Azerbaijan if it takes military steps against Armenia. Parliaments of individual European countries also adopted resolutions condemning Azerbaijan.

The US State Department announced on October 15, that it strongly supports Armenia's sovereignty and territorial integrity. "We emphasised that any violation of that sovereignty and territorial integrity will lead to serious consequences," it said. In short, the West drew a red line before Aliyev, forbidding any military aggression against Armenia.

### Avoidance strategy

These developments made Aliyev realise that he would not succeed in Brussels, but on the contrary, would be told to recognise the territorial integrity of Armenia with an area of 29,800 square kilometers.

This would deprive Baku of the chance to create a narrative to carry out new military attacks against Armenia, using as an excuse, for example, the eight villages under Armenian occupation. The West has forbidden Azerbaijan to attack Armenia and re-occupy the "eight villages or three enclaves".

Aliyev avoided meeting the European interlocutors. Furthermore, he exploited the fact that Armenia had recognised Nagorno-Karabakh as a territory of Azerbaijan in the previous negotiations under the EU format. He declared that this is a basis for extending his sovereignty over Karabakh through a military operation. He no longer has anything to gain from the Western format, and is therefore boycotting it.

Why is the Russian format preferable for Azerbaijan? Azerbaijan cannot demand in Brussels that Armenia provide it and Russia with the "Zangezur Corridor" through Armenian territory to its exclave of Nakhitchevan, but it can do this in Moscow.

At the meeting held in Brussels on May 14, Azerbaijan had agreed that Armenia and Azerbaijan should seek the help of the World Customs Organisation to restore railway and transport connections. This implies the approval of Armenia's sovereignty and jurisdiction over roads in its territory. The West considers the topic of the Zangezur Corridor closed.

Meanwhile, Russia is interested in creating a Zangezur Corridor outside of Armenia's customs, border, and security controls, which it will control with Russian Security Forces.

Unlike the United States and the European Union, Moscow also turns a blind eye to Aliyev carrying out military attacks

against Armenia. During the Azerbaijani attacks, Russia refused to fulfill its security obligations towards Armenia, causing a security vacuum. This is a lever of pressure against the Armenian government so that it is forced to cede the Zangezur Corridor to Baku and Moscow. This scheme has been used for three years now.

Another military aggression of Azerbaijan against Armenia would be an excellent opportunity for Russia to finally deploy Collective Security Treaty Organisation (CSTO) peacekeepers on the Armenian-Azerbaijani border. The Kremlin announced the plan to deploy the CSTO in Armenia in autumn 2022, when Yerevan decided to deploy an EU observation mission on its territory.

Therefore Putin and Aliyev invited Pashinyan to Moscow to negotiate. It is unlikely that Yerevan will accept this offer. Yerevan realises that Russia is not a mediator, but a party to the conflict. Russia does not want to establish real peace between Armenia and Azerbaijan, unlike the US and the EU. If Armenians and Azerbaijanis stop killing each other, who would the Russians "save"? Russian troops would be removed from the South Caucasus.

Georgia could be an interesting option, but Prime Minister Irakli Gharibashvili can at most offer Aliyev and Pashinyan a good hotel, delicious food, and a sincere wish not to go to war and reconcile. Georgia cannot present a political plan to resolve the 35-year-old Armenian-Azerbaijani conflict. Georgia has no leverage on the parties for the implementation of the agreement. If the Tbilisi meeting takes place, it will actually be an Armenian-Azerbaijani bilateral format.

### Position of strength

Azerbaijan offers the formats of Moscow and Tbilisi to Armenia in order to exclude the US and the EU from the negotiation process. The absence of the West would be dangerous for Armenia, because Azerbaijan will continue to speak from a position of strength. Armenia has not yet managed to restore the military balance.

It will not sign a bilateral peace agreement with Azerbaijan in Georgia and participate in the Russian-Turkish-Azerbaijani plan to push the US and the EU out of the region. If it did, Yerevan will lose the support of the West.

Yet Aliyev could still lose in the "Great Game" he started. Despite the support of Turkey and Russia, Azerbaijan is a weak link for the US and the EU. The West can apply sanctions against Azerbaijan, imposing embargoes on the sale of Azerbaijani oil and gas, and the purchase of arms.

France, one of the leading states of Nato, will start supplying weapons to Armenia and will support the reforms of its armed forces. America's ally India is preparing to deliver a new batch of weapons to Armenia. Armenia has security cooperation with three other Western countries.

If Azerbaijan continues to boycott Western formats, the West can strengthen Armenia's defence capabilities, forcing Aliyev to forget about the new war and return to constructive negotiations. Azerbaijan could even be forced to accept back the 150,000 Armenians of Nagorno-Karabakh under the international mandate of the United Nations.

Aliyev's next step will be decided by Turkey's President Recep Tayyip Erdogan and Putin, who held a meeting in Sochi 15 days before Azerbaijan's September 19 attack on Karabakh.

It is still the case that Azerbaijan may not sign a peace treaty with Armenia and could prefer the logic of the "Cold War".

There is a possibility that Azerbaijan will wait until a suitable window for new military aggression is created. Elections are coming soon in the US and the EU.

But if the US and the EU increase the pressure against Azerbaijan now, a new date for the meeting between Aliyev and Pashinyan could be announced in the near future under the Western format." ●

*Robert Ananyan is a journalist based in Yerevan, Armenia, who focuses on the political, and security problems of the South Caucasus.*

## COMMENT

# US, Europe, and Russia jostle for influence in the South Caucasus

Zachary Weiss in Tbilisi

**M**ore than a month after Azerbaijan attacked ethnic Armenians living in its Nagorno-Karabakh region, displacing 120,000 people, foreign political influence in the Caucasus is still shifting. In the recent conflict, the United States played a role for Armenia in ways it had not done in years past, while Russia's leadership is still attempting to limit the damage from its failure in mediating the conflict.

Evolving Russian interests made Moscow unable and unwilling to prevent the conflict or help Armenia as it had previously. Russia's ties with Armenia have loosened, partially because it is distracted by the ongoing war in Ukraine.

As the West is beginning to fill Russia's old supportive role in Armenia in its own way, the most powerful foreign players in the Caucasus have changed their relations with regional actors, undoing 30 years of precedent.

Since the fall of the Soviet Union, Russia supported Armenia in its territorial dispute and wars with Azerbaijan, and key Western states stayed largely uninvolved, though some aided Azerbaijan. According to Krzysztof Strachota, department head for Turkey, the Caucasus, and Central Asia at the Centre for Eastern Studies in Warsaw, Russia's weakening influence is changing power dynamics in the Caucasus, but Russia is not abandoning the Caucasus entirely.

"The last war is one more major step in the erosion of the regional order, the post-Soviet order, the order donated by Russia. Right now, the Russian influence, Russian instruments,

and Russian politics are much weaker than they were two months ago, two years ago or 10 years ago," he says.

Changing Russian influence could mean that the West can form new relations with regional actors, according to Strachota. "A weak Russia doesn't mean that Russia is powerless. From the Western perspective, weakening the post-Soviet system, weakening the Russian donation, creates more space for the states in the region. It creates more space for the West and the Caucasus' relations."



Expelled Azerbaijanis make a return visit to Nagorno-Karabakh.



Despite Russia's failure to mediate the September war and prevent the ethnic cleansing of Armenians from Karabakh, it still holds leverage over the small nation in the South Caucasus. Russia supplies Armenia with natural gas. Armenia is also dependent on Russia for trade, and Moscow has investments into important parts of the Armenian economy, including mining, transportation, and financial industries. It can use this leverage to disrupt Armenia's growing ties to the West.

Western entities like the United States and the European Union, on the other hand, have new influence and leverage over Armenia. The United States sent the head of the United States Agency for International Development, Samantha Power, as the September conflict was ongoing, along with millions of dollars of aid.

Prime Minister of Armenia Nikol Pashinyan is looking to the West more for support; he has also attacked Russia, calling Armenia's reliance on Moscow for military support a mistake and joining the International Criminal Court, which has called for the arrest of Russian President Vladimir Putin.

“A weak Russia doesn't mean that Russia is powerless. From the Western perspective, weakening the post-Soviet system, weakening the Russian donation, creates more space for the states in the region. It creates more space for the West and the Caucasus' relations”

With Russia out of favour as a peace broker, new peacemakers are stepping in to fill the void, according to Strachota. “The USA is somehow needed in the region, by Armenia, and by Azerbaijan.” Strachota noted that their official policy is to avoid more conflict between Armenia and Azerbaijan, and to establish a sustainable peace in the region.

Efforts by American Secretary of State Antony Blinken and European allies are vital for this effort. They can “clearly communicate to Azerbaijan to avoid open aggression towards Armenia,” Strachota says. He adds, “helping Armenia in this current situation is important because right now Armenia is extremely weak without external guarantees for its security.”

Political guarantees from the West in partnership with Azerbaijan are the best way to ensure that sustainable peace is achievable. Another tool the West can use is sending

peacebuilding and aid missions to Armenia as a deterrent. Anything that the West can do to encourage peace is important, as Armenia alone lacks the leverage to prevent Azerbaijan from further aggression. These tactics are likely what has deterred Azerbaijan from further aggression, according to Strachota, as some have feared Azerbaijan would attack Armenians again to connect Azerbaijan to its exclave of Nakhchivan, which the south of Armenia separates.

The United States may not have a strong incentive by itself to prevent conflict between Azerbaijan and Armenia, but reducing Russian influence in the region has long been its goal. Much of Europe is more reliant on Azerbaijani energy than ever as it struggles to find energy sources aside from Russia. This reliance limits how much Europe will be realistically able to push back on Azerbaijani aggression towards Armenia, so its peacekeeping efforts are the best it can do to stabilise the region.

Russia itself cannot easily undo the strengthening ties between Armenia. Instead, it must wait, according to Strachota. “Russia wants to stop, or to push out the West from the region.” That means weakening Pashinyan's grip on power over time, with the goal of a new leader of Armenia coming to power that does not protest against Russian failures by siding with the West to the same degree as Pashinyan. At this moment, according to Strachota, “it's not the time for a very assertive active politics of Russia in the Caucasus because it seems to be risky for Moscow”. That time could come soon, though.

Russia's efforts to undermine the West in the region could even mean improving relations with Azerbaijan and Turkey. By changing its relationships with Azerbaijan for better relations and shifting from a peacekeeping role with Armenia, it would drive a wedge between Russia and the West in a way that would punish them for supplanting Russia as a peacemaker.

The United States, Europe, and Russia are all trying to take advantage of the recent conflict to cement their own influence in the region. As Armenia, and to a lesser extent Azerbaijan, are reliant on foreign support in their conflict, the steps more powerful nations take in the ongoing conflict could bring lasting peace or fuel growing tensions in the South Caucasus. ●

“Russia's efforts to undermine the West in the region could even mean improving relations with Azerbaijan and Turkey”

INTERVIEW

## Andrew Michta, director of the Scowcroft Strategy Initiative

Robert Anderson in Bucharest

Ukraine is ready for Nato membership now and its accession would enhance the West's security, US defence expert Andrew Michta told *bne IntelliNews* in an interview at the Aspen-GMF Bucharest Forum last week.

"Ukraine is ready, it's the alliance that's not ready to invite them," says Michta, director of the Scowcroft Strategy Initiative at the Atlantic Council think-tank, speaking in a personal capacity.

"The reason I'm supporting Nato membership for Ukraine is that it is not only the most effective but also the most economical way of securing Europe," he argues.

He says Ukraine – together with Poland, Romania and Finland – are vital for the defence of Nato's Eastern Flank and the US should push for its early accession.

"If the US does not take leadership in this case, then other countries that are also reluctant [over Ukraine membership] will hide behind [it]," he adds.

Michta argues that disallowing Ukraine's membership because of the Russian occupation of Crimea and large parts of the east of the country would just play into the hands of Russian dictator Vladimir Putin.

"Putin is operating on the assumption – like with Georgia – you grab a portion of a country's territory and then you are presenting Nato with a dilemma: If you bring it into Nato you are effectively voting for going to war with Russia," Michta says. "That doesn't have to be the case. We extend Article 5 [security guarantee] to territory the country controls."

He says Nato missed an opportunity at its Vilnius summit in July to make an explicit offer of membership to Ukraine. "The biggest disappointment for me was the no clear path to Nato for Ukraine." He adds: "We communicated to Putin 'keep fighting'."

He also points out that it is vital that Ukraine is not defeated because a Russian victory would bring its battle-hardened military forces right up to Nato's Eastern Flank.

He criticises Western leaders for "strategic myopia". Even though Russia's land forces are "pretty badly damaged" from the war, they can be rebuilt in "two, maximum three years".

"This is going to be a very different [Russian] force that comes out from this," he says.

Michta downplays the risk of nuclear war if Ukraine is allowed to join Nato at a time when it is still in a hot or cold war with Russia.

"Putin is playing that card because we are communicating that is what we are afraid of," he says, dismissing the risk of nuclear escalation as "relatively low".

He therefore counsels against pressure on Ukraine President Volodymyr Zelinskiy to make peace now.

"If we find ourselves in a situation where Ukraine is cut off financially and runs out of resources, if we force Ukraine into some sort of frozen conflict or armistice, that is a victory for Putin."

Michta says Nato's Eastern Flank countries get this, but many Western European countries still don't.

The Vilnius Summit made a show of the alliance's unity, clearly marked Russia an "adversary" and agreed regional defence plans, but more work is needed.

"The alliance emerged politically unified, even if when it comes to Ukraine that unity does not translate into the same



Andrew Michta: Nato membership for Ukraine "is not only the most effective but also the most economical way of securing Europe".

risk perceptions, or the same intensity of risk perceptions. There is a different capacity for risk taking as you move away from the flank. In the east there is a clear sense this is about Russia; as you move further west this sense of urgency declines.”

“We have a regionalised security optics across Europe and that is something that requires a lot of work.”

This is most visible in defence spending, as well as the building up of defence industries, where Western Europe is still behind the pace.

“The larger point is that if Nato does not step up on rearmament ... it will become a hollowed out organisation. While the flank countries are stepping up, the western

countries are shrinking their armies. There needs to be a sense of urgency, that I see lacking on the continent,” he argues.

“Europe has disarmed to the extent it would take a decade for countries like Germany to come back.”

At the same time, the huge ongoing military build-up in Poland will “completely transform the hard power picture on the flank”.

Michta argues this will require a shift in the US force structure from Germany towards the Eastern Flank, so that in the future one Nato brigade is stationed permanently in Finland or the Baltic states, two in Poland and potentially one in Romania. ●

PANNIER

## Piece by piece, Japarov is dismantling Kyrgyzstan’s celebrated independent media

**Bruce Pannier**

Independent media outlets have set Kyrgyzstan apart from its authoritarian neighbours since the country became independent in late 1991. The current Kyrgyz administration, however, seems to see such media as a threat and since the start of 2022 an unprecedented campaign has been under way in the country to silence outlets that publish information that the authorities find inconvenient.

Signs of trouble down the road for independent media were evident as early as October 2020. That was when now-president Sadyr Japarov was busted out of his Bishkek prison cell by supporters during unrest sparked by the results of the quite obviously rigged October 4 parliamentary elections.

Japarov was described in one report as “a former MP from the nationalist Ata-Jurt political party and disgraced politician”.

He was arrested in October 2012 while trying to storm the government building in Bishkek and convicted in 2013 for trying to overthrow the government, but he was released from prison within weeks. Japarov was then implicated in the November 2013 kidnapping of a local official in Japarov’s native Issyk-Kul Province during protests against the company mining the country’s flagship gold mine Kumtor. A wanted man, he fled the country.

Apprehended along the Kazakh-Kyrgyz border in March 2017,

Japarov was sentenced to 11 years and six months in prison. And that was where the sixth-Kyrgyz-president-to-be was when crowds chased the government from power in October 2020.

Hours after he left his prison cell, word started spreading on Kyrgyz-language social networks that Japarov should be the choice to be president. The ploy worked and the path to a meteoric rise to power was thrown open to Japarov.

Japarov became prime minister, then acting president by mid-October.

On November 6, 2020, Japarov told journalists, “I am always for freedom of speech... if the correct information is given.”

### **Pursuit of Temirov Live**

Bolot Temirov is an investigative journalist who founded *Temirov Live*, a YouTube programme that reports on corruption.

On January 20, 2022, *Temirov Live* reported on corrupt deals in the state oil industry involving family members of Kamchybek Tashiyev, head of the State Committee for National Security (GKNB), and a close friend of Japarov.

Subsequently, police raided the office of *Temirov Live*. They then claimed to find a small packet of marijuana on Temirov



Investigative journalist Bolot Temirov was finally silenced when authorities put him on a plane to Russia. / Temirov LIVE, YouTube

that Temirov said police planted on him. Temirov was tested for narcotics. The tests came back negative, but he was still arrested for narcotics possession and held in custody.

*Temirov Live* continued to operate. On April 18, the programme reported on a company of Tashiyev's son, Taimuras, winning several state tenders.

On April 19, three new charges were brought against Temirov – forging documents, using a fake passport and illegally crossing the state border, charges Temirov also denied.

In September 2022, a court found Temirov not guilty of possession of drugs and of illegally crossing the state border, but it convicted him of using forged documents to obtain a Kyrgyz passport in 2008. He was not sentenced because the statute of limitations had expired.

Temirov filed an appeal against the conviction. The prosecutor filed an appeal against all the court decisions.

A court heard both appeals on November 23, 2022, upholding the original decisions, but ordering Temirov to be deported from Kyrgyzstan since his Kyrgyz citizenship documents were forged.

Police escorted Temirov from the courtroom to the airport and put him on a plane for Russia.

### "Panic-inducing" Kloop

*Kloop Media* is one of the leading independent media outlets in Kyrgyzstan.

[www.bne.eu](http://www.bne.eu)

*Kloop* has worked with the *Organized Crime and Corruption Reporting Project (OCCRP)* to shed light on the shady business world in Kyrgyzstan. This work has included a detailed report on the vast assets of a former deputy Customs Service chief, and reputed mafia kingpin, Raimbek Matraimov.

Matraimov is suspected of having played a role in catapulting Sadyr Japarov from prisoner to president.

"Kloop received notice that the Bishkek prosecutor's office had filed an application with the court to close it down because *Kloop Media's* charter allegedly did not list media activity as part of its operations"

On August 22, *Kloop* reported on the involvement of GKNB chief Tashiyev's sons, and also associates of Japarov, in a project to open a Barcelona football academy built on state land in the southern city of Jalal-Abad.

On August 28, *Kloop* received notice that the Bishkek prosecutor's office had filed an application with the court to close it down because *Kloop Media's* charter allegedly did not list media activity as part of its operations.

*Kloop* reported that same day that Bishkek prosecutor Emilbek Abdymannapov said its reporting “has a negative emotional-psychological effect on society... generating fear, anxiety, despair, and panic among a huge number of people...”

On September 8, the Culture Ministry demanded *Kloop* remove its reports about a jailed former member of parliament and vocal critic of the government, Ravshan Jeenbekov, being tortured.

*Kloop* refused and, on September 12, the Culture Ministry ordered *Kloop*'s Russian-language website to be blocked. At the end of October, the Culture Ministry issued another order, this time to block *Kloop*'s Kyrgyz-language site.

The Committee to Protect Journalists (CPJ)'s reading of the government's attack on critical media was crystal clear as early as May 7, 2022, when it concluded: “As their attacks on the independent press intensify, Kyrgyz authorities appear to be resorting to any legal means, however spurious, to clamp down on critical outlets.”

The CPJ and other watchdogs by now have extensive files on Japarov officials' moves against the media.

### Shutting down Next TV

On March 3, 2022, less than one week after Russia launched its full-scale invasion of Ukraine, Kyrgyzstan's *Next TV* posted on its Telegram channel about comments made by Kazakhstan's former security chief Alnur Musayev.

Musayev alleged Kyrgyzstan was secretly providing military assistance to Russia.

*Next TV* was founded by Ravshan Jeenbekov.

Plainclothes GKNB officers raided the station that night, taking director Taalaybek Duyshenbiyev into custody and charging him and *Next TV* with “inciting ethnic, national, religious, or interregional hatred.”

The station was closed.

Duyshenbiyev was convicted of inciting interethnic hatred in September 2022 and sentenced to five years in prison, but the sentence was later reduced to three years' probation.

### Close shave for Kaktus

On January 27, 2022, *Kaktus.media* republished an article from independent Tajik media outlet *Asia-Plus* about a brief exchange of fire along the Kyrgyz-Tajik border days earlier.

*Asia-Plus* reported that it was Kyrgyz soldiers who started the shooting.

Kaktus removed the report several hours later, but

prosecutors filed a case against the outlet on February 1 for disseminating “propaganda of war.”

The case was dismissed at the end of March 2022 for lack of evidence.

### Silencing Azattyk

*Radio Free Europe/Radio Liberty's Kyrgyz Service*, known locally as *Azattyk*, was blocked in late October 2022 after refusing to remove material about the September 2022 Kyrgyz-Tajik border clashes.

The Culture Ministry ordered the website blocked on the grounds that *Azattyk*'s material on the border conflict contained views from the Tajik side that the ministry claimed were false.

*Azattyk*'s bank accounts were also frozen, and a long court process started that only ended in July this year when *Azattyk* removed the material from its website.

### Deaf to the clamour of protest

Domestic and international rights and media freedom groups, the OSCE, the European Union, individual governments, and others have criticised the Japarov administration's campaign against Kyrgyz independent media outlets every step of the way – without effect.

In its annual Press Freedom Index, Reporters Without Borders dropped Kyrgyzstan on its ranking of 180 countries from 72nd in 2022 to 122nd in 2023.

There are currently two draft laws moving forward, which, if passed, could be the death knell for independent media in Kyrgyzstan.

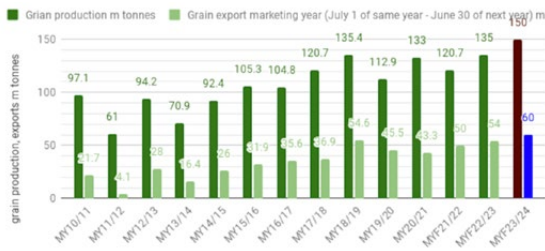
One proposed law is on “non-commercial organisations”. Its critics point out the draft strongly resembles Russia's law on foreign agents, which has led to the closure of many independent media outlets in Russia.

The other is the proposed new law on media that places new restrictions on media outlets.

If these draft laws are passed, the end of independent media in Kyrgyzstan might follow. ●

“There are currently two draft laws moving forward, which, if passed, could be the death knell for independent media in Kyrgyzstan”

**Russian grain production, export m tonnes**



Source: Rosstat

**Russian grain farmers anticipating another record-breaking harvest**

Russian grain farmers are anticipating a potentially record-breaking harvest during the current agriculture season of over 150mn tonnes of grain, according to Arkady Zlochevsky, the president of the Russian Grain Union, speaking on November 13.

According to earlier reports, Russian farmers have already harvested 147mn tonnes of grain as of November 7, including the new territories in Ukraine, with the export potential for the 2023-2024 agricultural season standing at 65mn tonnes, First Deputy Agriculture Minister Oksana Lut said on November 8.

**Ukraine gross intl reserves \$bn**



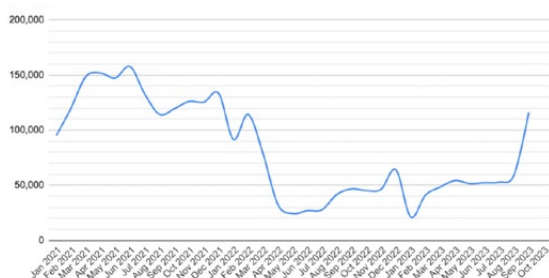
Source: NBU

**Ukraine's international reserves fell for the third month in a row in October to \$38.97bn**

Ukraine's international reserves declined for the third month in a row in October, under pressure from a trade deficit and delays in the arrival of fresh international aid. Reserves decreased by 1.9% to \$38.97bn, the National Bank of Ukraine (NBU) reported on November 8.

The NBU said the fall was due to its interventions in the currency market and the country's foreign currency debt payments as well. However, the impact of these factors was partially offset by income received from international partners, according to the NBU.

**Russia car sales, units in the period**



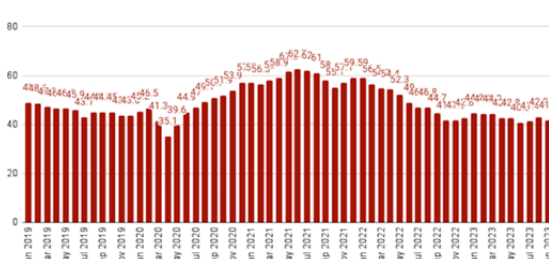
Source: AEB

**Base effect propels Russia's car sales in September, with Chinese models dominating**

New passenger and light commercial vehicle (LVCs) sales in Russia in September 2023 jumped by 120% year on year to 116,234 vehicles, according to AEB Automobile Manufacturers Committee data. In 9M23, total sales were up by 43% y/y to 0.76mn.

After Russia's full-scale military invasion of Ukraine, the domestic production of cars almost completely ceased in the summer months as the sector ground to a screeching halt. Car sales in Russia collapsed by 58.8% y/y in 2022 to 687,370 units and are only expected to recover to pre-war levels in 2027.

**Czech manufacturing PMI**



Source: IHS Markit

**Czech PMI stays low in November**

Czech manufacturing PMI data from the S&P Global market intelligence company posted 43.2 in November.

This is up from 42 in October but still indicates deteriorating conditions and a challenging market environment. The index deterioration run stretches back to June 2022, although it was slowest since March in November.

"Czech manufacturers continued to see a decline in the sector's health in November, but some glimmers of light emerged as output, new orders and employment all fell at softer rates," commented Sian Jones, principal economist at S&P.

# Businesses increasingly concerned over geopolitical and economic risks to the global economy

Ben Aris in Berlin

Businesses are increasingly concerned over geopolitical and economic risks to the global economy, according to Oxford Economics' latest Global Risk Survey released on November 6.

"Amid the ongoing Gaza conflict, and in line with early evidence following the Hamas attack on Israel, geopolitical risks are seen as the key threat," Oxford Economics said in a note.

But concerns extend well beyond Israel and Gaza. Almost two-fifths of respondents view developments in the Middle East as a very significant risk to the global economy over the next two years but worries over China-Taiwan relations are similarly widespread.

And investors are not only scared by tense geopolitics. The polycrisis continues to simmer in the background. Business leaders are also concerned by high inflation and those worries have increased in the last quarter, according to Oxford Economics.

"Respondents anticipate higher inflation next year and are increasingly concerned that sticky inflation will keep policy rates higher for longer," Oxford Economics said.

Pointedly, the survey did not cover risks due to the accelerating climate crisis after the world recorded its highest temperatures ever in 2023 and the rate of global warming accelerates. Nearly all the environmental indicators are flashing red and this year was marked by unprecedented flooding, fires and other extreme weather events that are likely to repeat or get worse in 2024.

The survey was completed by 130 businesses from 11-27 October.

"Our fourth quarter 2023 Global Risk Survey was launched just days after the start of the Israel-Hamas war.

The final results broadly confirm the early evidence from the first wave of the survey, which highlighted a notable decline in business expectations for global growth," Oxford Economics said.

The survey was dominated by wide-ranging geopolitical concerns as geopolitical tensions were inflamed by the appearance of new conflicts.

"Almost two-fifths of businesses view developments in the Middle East as a very significant risk to the global economy over the next two years, with a similar proportion citing risks relating to China-Taiwan tensions. Overall, geopolitical tensions are the top business concern in the survey, both in the near term and over the medium term," said Oxford Economics.

Oxford Economics Global Risk Surveys canvas the views of Oxford Economics' clients, including some of the world's largest companies. Based on past analysis of survey responses, the participating companies collectively employ around 6mn people and have a total turnover of around \$2 trillion.

Oxford Economics' Global Business Sentiment Index has fallen from 98 in

September's survey to 97.6 in October. "The decrease unwinds much of the recovery in the index since banking-system strains weighed on sentiment earlier this year," Oxford Economics said.

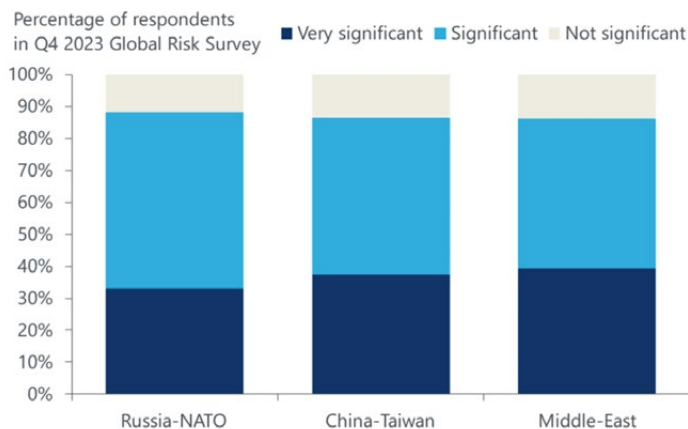
Businesses still attach only a small probability to severe weakness in the global economy next year, however. Businesses see only a 1-in-40 chance of growth turning out as weak as in 2009 during the global financial crisis.

The index indicates a notable decline in business expectations for global growth in the year ahead. The Global Business Sentiment Index has fallen in October to 97.6, down from 98 in July.

"This implies that businesses' mean expectation is for world GDP in a year's time to be 2.4% below the level forecast before the coronavirus pandemic," Oxford Economics said.

"Businesses have become more concerned over downside risks to the global economy. They now perceive an increased risk of global recession, though respondents perceive only a 1-in-40 chance of a similar economic weakness experienced during the global financial crisis," Oxford Economics concluded. ●

## How serious are the following geopolitical risks to the global economy over the next two years?



Source: Oxford Economics

Newsletter

# Invest Uzbekistan

Fortnightly newsletter covering business  
and reforms in Uzbekistan

One of the fastest growing countries in the world and one of only two countries that didn't go into recession during the coronavirus pandemic, Uzbekistan is coming into its own.

The most populous country in Central Asia and third biggest country in the Former Soviet Union, president Shavkat Mirziyoyev unleashed a wave of economic reforms after taking office in 2016 that are starting to bear fruit.

The entire cotton and textile sector has already been privatised and banking, mining and the major state-owned industrial enterprises are up next. With a young and growing population, sectors like retail, IT and automotive are already flourishing as growth gathers momentum.

Follow the fast moving developments in business, economics, finance, energy and politics in this dynamic and ancient Silk Road country with bne IntelliNews' **Invest Uzbekistan** newsletter, carrying the best stories from the last two weeks.



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