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June

2024

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Georgian oligarch Ivanishvili advocates repression, blames Western "Party of War" for country's ills



RUSSIA'S DESPAIR INDEX RESULT IS THE BEST EVER, WHILE UKRAINE'S CRASHES

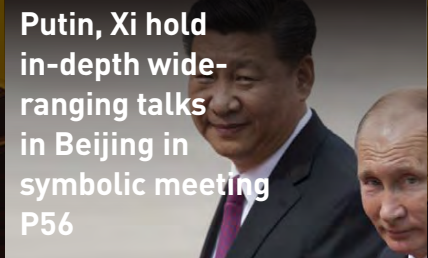
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bne Intellinews is published by
Emerging Markets Direct OU

Print issue:

€4.50 / \$6.75 / €5.90 • €499 / year

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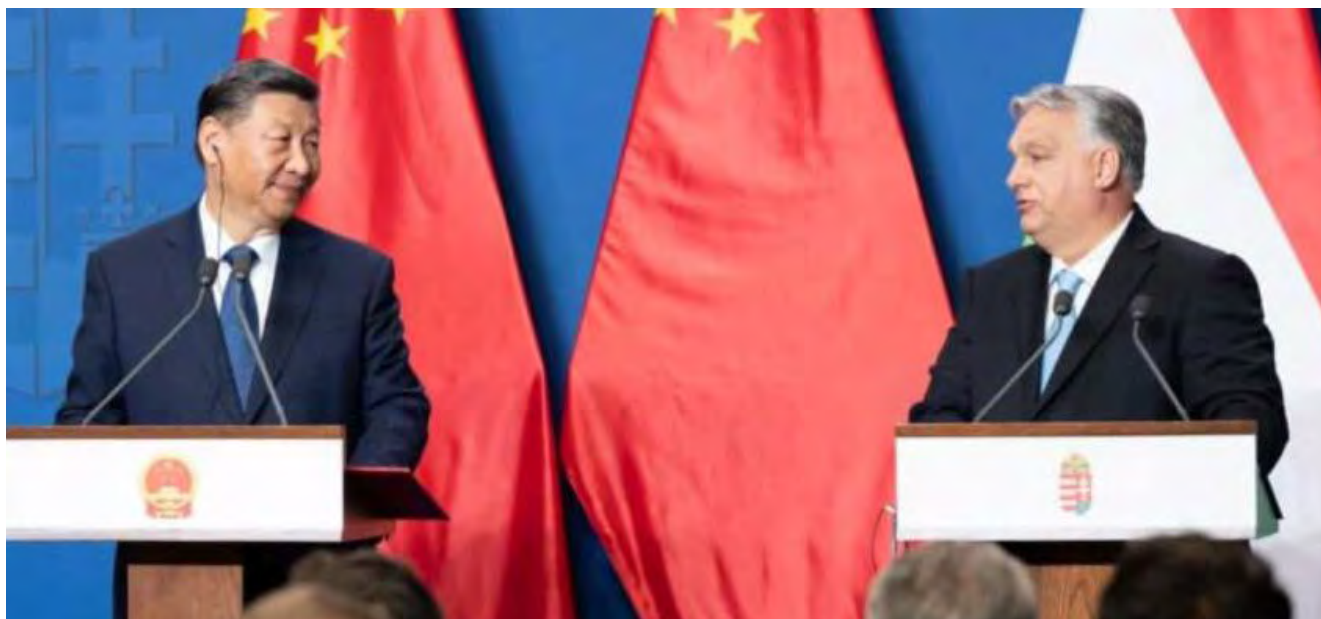
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Chinese President Xi Jinping and Hungarian Prime Minister Viktor Orban hold press conference on May 9, 2023. / bne IntelliNews

China and Hungary sign 18 agreements during last leg of Xi's European tour

bne IntelliNews

Chinese President Xi Jinping said mutual political trust provided a "firm foundation" for strengthening Chinese-Hungarian ties in a joint press conference with his host, Hungarian Prime Minister Viktor Orban on May 9. The two leaders signed 18 agreements with a focus on infrastructural projects.

China and Hungary had always been friends, enjoying mutual trust and striving to establish mutually beneficial cooperation, but bilateral ties were now better than ever before. Hungary's Eastern Opening strategy aligns with China's Belt and Road Initiative (BRI), he said.

Xi arrived in late Wednesday in Budapest, the final leg of his European tour in five years, where he was welcomed by the Hungarian leader and his wife. Children dressed in Hungarian folk costumes greeted Xi and his spouse and then offered them bread and salt, according to ancient customs.

During the day, Xi met with Hungarian President Tamas Sulyok and Prime Minister Viktor Orban.

Xi's official visit to Hungary from May 8-10 marks the 75th anniversary of diplomatic relations between the two countries.

At the joint press conference, Orban said cooperation between the two countries is "a story of continuous,

uninterrupted friendship spanning decades." Hungary has always adhered to the "One China principle" and has taken a position based on mutual respect, regarding China as a friendly country.

He called China's participation in the modernisation of the economy an honour and a great opportunity, adding that his government would continue to ensure fair conditions to Chinese companies

Orban noted that bilateral trade had risen around 4-fold in 20 years to \$12bn last year and there are HUF6.4 trillion (€16.5bn) of Chinese investments underway in Hungary.

"We're creating an opportunity for cutting-edge technology from the West and cutting-edge technology from the East to meet in Hungary and build a cooperation," he said.

Hungary's foreign minister released details of the potential list of infrastructural and energy projects that could be undertaken in the framework of China's Belt and Road Initiative and covered during the talks.

These include the VO rail line, a railway bypass around the capital to support the transport of goods from Hungary's eastern parts, where lots of Chinese manufacturers and suppliers have established a base, bound for the West.

Preparations could start for a rapid rail line connecting Budapest's Liszt Ferenc International Airport with the city centre, and for the development of an EV charging network.

Europe's biggest, most secure and fastest border crossing would be built between Hungary and Serbia to facilitate the transport of goods and persons, according to plans. The parties would review the option to build a crude pipeline between the two countries, and there is willingness from China and Hungary to extend cooperation in the field of nuclear energy.

Szijjarto provided one detail of an ongoing Chinese project. The first cars produced at the EV plant of Chinese vehicle maker BYD, which is building its first European plant, could roll off the lines at the Szeged base, in southern Hungary in 2025.

Xi's visit was preceded by beefed-up security protocols and police did not allow pro-Tibet demonstrations announced for Thursday inside Buda Castle, but only allowed the protests at alternative locations not likely to be visited by Xi.

Chinese security guards in civilian clothes covered a Tibetan flag with a Chinese flag on Gellert Hill before Xi's arrival,

and according to reports, numerous guards were deployed throughout the city along the route of the president's convoy. Local media writes that their job was to spot potential opposition.

Hungary's deepening political affiliations with China is causing concerns in Washington. Outgoing US Envoy for the Western Balkans, Gabriel Escobar, warned of the risks of the creation of a new illiberal axis against European integration.

The timing of Xi's visit to France, Hungary and Serbia was carefully timed to increase tensions with the West.

"I do think that the countries that Xi has chosen are those that are open to challenging the unity of the Euro-Atlantic community," he was quoted by Euractiv as saying.

How the Hungarian government has cultivated its relationship with China shows that it cares little for its security or that of its allies, US Ambassador David Pressman said after meeting with journalists, referring to Hungary's incorporation of problematic Chinese technology into its critical infrastructure. ●

Czech government slams Liberty Steel for missed social payments and unrealistic promises

Albin Sybera

Liberty Steel, owner of the largest Czech steel mill, Liberty Ostrava, has once again been strongly criticised by the Czech government for its handling of the mill's serious financial problems.

Minister of Labour Marian Jurecka said on May 6 that Liberty Ostrava has outstanding social security tax payments, while Minister of Finance Zbynek Stanjura said the British-based steel group's restructuring plans were "not realistic".

"It would be a different attitude and different search of possible solutions and forms of cooperation if there was an owner here who submits plans that are realistic," Jurecka alleged in a sharp statement.

"We are seeing a more than half a year-long constant transgression of [its] own commitments, goals, not meeting promised things," Jurecka was also quoted as saying by Czech Television.

Stanjura told Czech Television "our fears are being materialised, that the plans which [Liberty Steel owner] Mr. [Sanjeev] Gupta was submitting were not realistic," pointing to the delays in re-opening part of the production at the Liberty Ostrava's plant.

In the past the Czech government has accused Liberty Steel of not communicating with it and has also alleged that the group owes money to the Ostrava company. Last month Minister of Industry and Trade Jozef Sikela criticised Liberty Steel following his talks with Gupta, stating that the company should return CZK10bn to the Ostrava plant.

Liberty Ostrava won a reprieve last month when a majority of approved creditors backed its owner's restructuring plans after Tameh Czech, its key energy supplier and biggest creditor, was excluded from the vote. A court moratorium protecting the mill against some 1,300 creditors was extended in March. Recently it has restarted some operations.

Liberty Ostrava stated earlier this month that it is ending its cooperation with Tameh. Tameh's spokesperson, Patrik Schober, has repeatedly told Czech media that Tameh will challenge the restructuring plan in court. Tameh is in insolvency following unpaid bills from Liberty Ostrava and claims CZK2.2bn from Liberty Ostrava.

The Czech state is also one of Liberty Ostrava's creditors through a state export insurance company, EGAP. Stanjura told Czech Television that Liberty Ostrava did not abide to a previously agreed payment schedule with EGAP.

Liberty Ostrava spokesperson Ivo Sterba said the outstanding social security payment has been made and that salaries to employees will be paid as planned. "We can confirm that we have made the payments in question to the Czech Social Security Office" (CSSZ), Sterba was quoted as saying by the Czech Press Agency (CTK).

CTK noted that based on the details made available in the restructuring plan, Liberty Ostrava's costs on salaries amount

to €11.8mn a month. Most of the employees have been at home since December, and the production has been mostly shuttered.

The plant employs about 5,000 persons, according to the media reports, and is one of the most significant employers in the struggling Moravian-Silesian region in the east of the country, with up to 30,000 jobs dependent on the plant, according to unions. Liberty Ostrava said in March it did not plan any staff reductions. ●

Hungary's OTP makes reported record bid for EU bank

Tamas Csonka in Budapest

OTP Bank made an indicative offer for a bank in an EU member state on April 25, chairman-CEO Sandor Csanyi told shareholders at AGM on Friday, 26 April. If the deal materialises, the acquisition would be the biggest in the lender's history.

At a press conference after the AGM, Csanyi said the bank for which OTP had made was in an EU country, in which OTP did not have a presence. He did not provide further details, triggering speculation in financial media about the possible acquisition target.

He added that OTP had long weighed the chances for an expansion in Poland and that it had "not gladly" pulled out of Romania, but it had become clear that it would not get the chance to make acquisitions there.

OTP finalised the sale of its Romanian subsidiary this year after it failed to reach a desired market threshold and authorities blocked its acquisition of Banca Romaneasca from its Greek owner in 2018.

When financial portal Portfolio.hu questioned about potential targets in Western Europe, where OTP has no presence, Csanyi revealed that OTP had previously considered acquiring a major German bank. However, the plan was abandoned due to concerns over inefficiencies stemming from strong unions and the management structure. OTP had explored opportunities with a significant Austrian bank and had evaluated options in Southern Europe.

Based on this information, Portfolio speculated that the potential target could be a Greek bank.

OTP would be willing to sell its stake in Russia at a discount of up to 50%, probably at \$400mn, but after taxes, it could receive \$280mn for the stakes.

In Ukraine, the Hungarian lender is ready to expand its market presence with further acquisitions, as the privatisation of state banks in Ukraine is imminent.

OTP is the market leader in five countries and has a significant market share in several others, Csanyi told the quorum. The bank's capital position is stable, organic growth is strong, credit quality has improved at group level, and the negative impact of one-off items and the war in Ukraine has been mitigated.

At the AGM, shareholders approved the bank's financial report and the board's dividend proposal. OTP booked a record HUF1 trillion (€2.55bn) in profit in 2023, of which HUF150bn is distributed to shareholders, or HUF535.7 per share, translating to a 3% dividend yield.

Besides Hungary, OTP Group operates in nine countries of the region: in Albania (Banka OTP Albania SHA), in Bulgaria (DSK Bank), in Croatia (OTP banka Hrvatska), in Serbia (OTP Banka Srbija), in Slovenia (Nova KBM d.d. and SKB d.d.), in Moldova (OTP Bank S.A.), in Montenegro (Crnogorska komercijalna banka) in Russia (OAO OTP Bank) and in Ukraine (OTP Bank JSC). The company closed its first acquisition outside Europe last year, buying Uzbekistan's fifth-largest lender Ipoteka.

Foreign units generated more than 60% of the net profit in 2023.

Addressing the AGM, Finance Minister Mihaly Varga said OTP was a "fixture" on the local banking market and acknowledged the necessity of a capital-strong banking system for credit to support the operation of the economy and the country's economic resilience. The stability of Hungary's economy is also served by full employment, the high investment rate and the reduction in state debt levels, he added. ●

Azerbaijan, Kazakhstan and Uzbekistan join forces to power Europe

Seymur Mammadov in Baku

The energy components of the Trans-Caspian and Middle Corridors are expanding, not only through oil and gas but also through green energy. In early May, a very important document was signed in Tashkent: a memorandum of cooperation in the field of integrating the power systems of Azerbaijan, Kazakhstan and Uzbekistan. The three countries have joined forces to produce green energy and exporting it to Europe.

The memorandum implies that the parties intend to explore the possibilities of connecting their power systems by laying a high-voltage cable along the bottom of the Caspian Sea and through the territories of other countries to enable optimal technical and economic trade of green energy produced in Azerbaijan, Kazakhstan and Uzbekistan.

A project technical specification for laying a deep-sea cable along the Caspian seabed has already been developed. Within the framework of this specification, a proposed business model for the development of international transmission corridors (financing, revenue stream, and ownership) will be created for selling green energy to EU member states. This project forms the basis of the memorandum of cooperation on the inter-system connection of the energy systems of the three countries.

Underwater cable

The idea of laying an underwater power cable became possible after the adoption of the Caspian Sea Convention in 2018. This so-called "Caspian Constitution" stipulates that "the routing of underwater cables and pipelines must be coordinated with the party through whose seabed sector the cable or pipeline is to be laid." In November 2019, Kazakhstan and Azerbaijan announced the start of laying the TransCaspian Fibre Optic (TCFO) line across the bottom of the Caspian Sea. According to forecasts from the Kazakh side, this cable will connect China and the EU via the Caspian Sea and Azerbaijan.

Now, it is time for the deep-sea electric cable. Last year, negotiations took place between Azerbaijan and Kazakhstan



Azerbaijan, Kazakhstan and Uzbekistan join forces to develop green energy which they will sell to Europe via new under sea cables. / bne IntelliNews

and after a meeting of the Southern Gas Corridor Advisory Council in Baku in February of last year, a new direction was introduced: exporting green energy by Azerbaijan and its partners to Europe. The Tashkent memorandum is a natural consequence of these developments, as is the agreement reached in November 2023 by Baku, Tashkent and Astana to create a joint venture to export green energy to Europe.

The resources derived from the inter-system connection of the energy systems of the three countries will travel a considerable distance to Europe and significantly alter the energy balance in the region.

“The resources derived from the inter-system connection of the energy systems of the three countries will travel a considerable distance to Europe and significantly alter the energy balance in the region”

Earlier an agreement on the implementation of the Black Sea Energy project between Azerbaijan, Georgia, Romania and Hungary was signed in December 2022 in Bucharest. It involves laying a 1-GW underwater cable stretching 1,195 km – 95 km of the cable will be overland and 1,100 km underwater.

This cable will be designated for transporting green electricity produced in Azerbaijan through Georgia and the Black Sea to Romania for further transmission to Hungary and the rest of Europe. Initially, the plans were agreed between the EU and Georgia, with Azerbaijan joining later, expanding the project to potentially include the export of electricity from Central Asian countries as well.

Azerbaijan

According to official data, in 2023 Azerbaijan increased its electricity production by 0.9% and its exports by 8.3% year on year. The country's electricity production rose to 29.3bn kWh. In 2023, thermal power plants (TPPs) generated 27.2bn kWh of electricity, hydroelectric power stations produced 1.8bn kWh, and other energy sources contributed 359mn kWh.

Wind power plants generated 56.6mn kWh of electricity, solar power plants 79.4mn kWh, and solid waste processing facilities 223mn kWh. Meanwhile, energy imports increased by 54.5%, significantly outpacing the growth in export figures. However, considering the projects currently underway and those planned to start in the coming years, Azerbaijan's capabilities are expected to increase significantly due to the expanded use of renewable energy sources.

The production of green energy is expected to rise to about 3,000-4,000 MW in the next 3-4 years. The country has significant potential in renewable energy, particularly with a confirmed potential of 157,000 MW on the Caspian.

It should be noted that Azerbaijan has already signed contracts and memoranda with leading global companies in renewable energy, aiming to produce 10,000 MW of electricity from renewable sources. Experts believe that even if only a third or half of this volume becomes a reality, it will be a major energy source for Europe.

Partners

The issue of transforming Kazakhstan into an electricity exporter has raised some questions domestically, due to Kazakhstan's own electricity shortage. However, the country's Ministry of Energy has alleviated concerns by stating that, despite the current electricity deficit in Kazakhstan, there is significant potential for renewable energy development, including wind and solar power, in the western regions. In the future, with the development of generation capacities, the balance of the Western region could have the potential to export electricity to European countries.

The national electric grid of the Republic of Kazakhstan serves as the system-forming network within the Unified Energy System, which also facilitates electrical connections between the republic's regions and the energy systems of neighbouring countries (the Russian Federation, the Kyrgyz Republic and the Republic of Uzbekistan). To ensure reliable energy supply for the country's economy and population, a phased introduction of new energy capacities and the modernisation of existing power stations are planned in the coming years. To facilitate the systematic and sustainable development of the energy sector, an Energy Balance up to 2035 has been approved, which anticipates nearly doubling the new capacities.

Uzbekistan also plans to double its electricity production by 2030 to ensure the country's energy security and to connect

to the export of electricity to Europe. By 2025, the capacity of the country's energy system is expected to reach 25.6 GW, with thermal power plants providing 18.8 GW, hydroelectric power stations 2.5 GW, and solar and wind energy 4.3 GW. Uzbekistan has already gone since overtaken Kazakhstan to become Central Asia's renewable energy leader. By 2030, the total production capacity will reach 29,200 MW, effectively doubling from today's level.

Why does the EU need electricity from Central Asia?

Azerbaijan and Central Asian countries possess significant solar and wind energy potential, thanks to their relatively low population density, large territories, and many sunny days per year, making them unique platforms for the development of green energy. Collaborative participation in projects related to alternative energy sources will allow each country to efficiently use its potential in this economic sector. However, there are challenges, such as the high costs of modernising existing electricity generation infrastructure in Central Asia – costs so substantial that international development banks are reluctant to fund entire projects, opting instead for targeted investments in specific components. Integrating the energy systems of these three countries may help solve this problem to some extent.

As the Black Sea Power Line project progresses, there may be growing interest in investing in the Caspian submarine cable and the energy infrastructure of Kazakhstan and Uzbekistan. Europe is highly interested in diversifying its energy supplies and in importing electricity, even from such great distances. The problem is that EU countries, having set the ambitious goal of phasing out fossil fuels within ten years, do not have the capacity to achieve this goal on their own. Typically, European countries are small in area and have high population densities, while solar and wind power plants require large spaces. Compensating for the lack of space for large solar power plants with innovations would be even more costly, hence the EU is forced to import.

Unlike crowded Europe, Central Asia and Azerbaijan have all the conditions necessary for the development of green energy. Additionally, Kazakhstan and Uzbekistan can play a significant role in the mining of critical raw materials used in the production of solar panels, wind turbines, and batteries. These include lithium, cobalt, copper, nickel, silver and others. For instance, demand for lithium is growing globally, with its price having increased by more than 400% in recent years. Central Asia contains large deposits of many types of critical raw materials. For example, Kazakhstan currently produces 19 of the 34 types of raw materials listed as "critical" by the EU.

In summary, the region is attractive both for its renewable energy potential and for its capabilities in raw material extraction and equipment production for green energy generation. It seems likely that Azerbaijan, Kazakhstan and Uzbekistan will fully capitalise on these advantages. ●

IIF analysis shows Kazakhstan's economy faces bumps in the road – but no major obstacles as things stand

bne IntelliNews

Delays in expanding the giant Tengiz oil field and moderation in private consumption are expected to push down the growth of Central Asia's largest economy, Kazakhstan, to 3.5% this year from an estimated 5.1% last year, according to the Institute of International Finance (IIF).

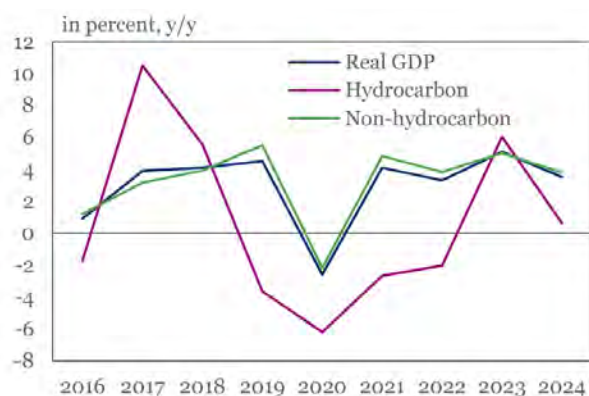
The expansion of Tengiz, located in wetlands along northeastern shores of the Caspian Sea, is now scheduled to be finalised in 2025, versus an initial timeline of 2H22, according to a note compiled by IIF economists Ivan Burgara and Garbis Iradian.

Kazakhstan's hydrocarbon output is forecast to only move up a modest 0.6% this year, primarily due to the Tengiz delay, with the authorities estimating oil production (including gas condensates) will reach 90mn tonnes, level with 2023 production.

Last year's Kazakhstan GDP growth was driven by construction and manufacturing on the production side and private consumption on the expenditure side, Burgara and Iradian say in their analysis, adding: "Agriculture was a drag on growth due to a poor summer harvest. [And] unlike some of its regional neighbors, Kazakhstan has not largely benefited from the migration of Russian skilled labor or relocation of Russian firms caused by the war in Ukraine, rather growth has been driven by robust domestic public and private consumption.

"We expect this demand to moderate slightly this year, though it will continue to be supported by scheduled

Robust domestic demand and low hydrocarbon growth will combine for modest RGDP growth this year



Source: IIF

minimum wage hikes and pension indexation that will feed consumption, leading to non-hydrocarbon growth coming in at 3.8% in 2024."

Returning to hydrocarbons, oil and natural gas production in Kazakhstan have stagnated in recent years. The country is burdened by a reliance on ageing oil fields and limited export options – the worrying reality is that around 80% of all oil exported from Kazakhstan still makes its way on to export markets via Russia's Novorossiysk oil shipment terminal on the Black Sea coast, which it reaches through a pipeline run by the Caspian Pipeline Consortium (CPC).

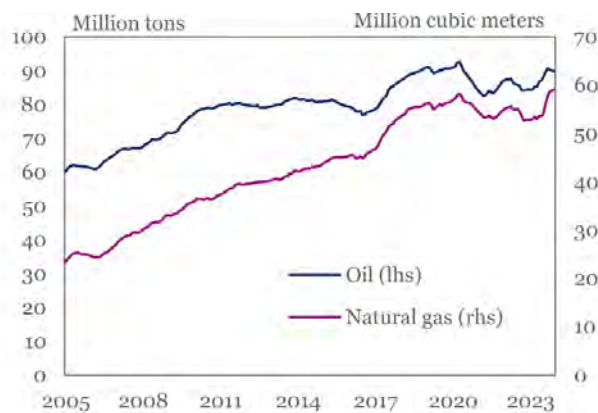
As the analysts note: "Kazakhstan remains highly vulnerable to a potential Russia shutdown of the CPC. Regardless of whether such a shutdown happens because of a direct confrontation between Kazakhstan and Russia or because of the latter's retaliation against the West [in relation to the Ukraine conflict], with 80% of all Kazakh oil exports running through the CPC, the effects could be dire."

For Kazakhstan, the expansion of Tengiz and the diversification of export routes have to be top priorities.

Looking at monetary matters, Burgara and Iradian say the country's tight monetary stance will this year be maintained.

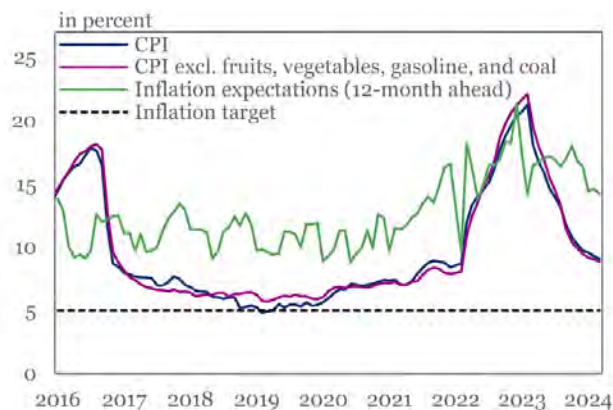
Consumer price inflation declined substantially from a peak of 20.7% in January 2023 to 9.1% in March, still well above the central bank target of 5%.

After sharp increases in oil and natural gas production, both have stagnated since 2017



Source: BNS and IIF

While inflation has been trending lower, inflation expectations remain high

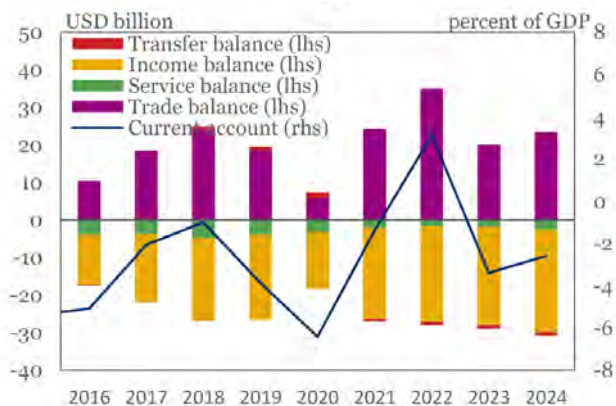


Source: BNS and IIF

“The sharp fall in inflation is attributed to tight monetary policy, lower commodity prices, and the strong performance of the Tenge. Nevertheless, inflation is forecasted to remain elevated in 2024, averaging 9% for the year,” say the IIF economists.

They add: “Month-over-month inflation remains volatile but has grown at an average pace of 0.8% over the last 6 months. Energy and utility tariff hikes, high trading partner inflation (most notably in Russia), minimum wage hikes, and the removal of price caps on food staples will all put upward pressure on inflation in the coming months. In recent communications the National Bank of Kazakhstan (NBK) has stated its concern for these developments, and we therefore expect monetary policy to remain tight for the remainder of the year.

Weaker import demand will lead to a small contraction in the CA deficit in 2024.



Source: NBK and IIF

“However, political pressures may yet prove to have a sway on the NBK, as witnessed by the recent 50bps rate cut in February.”

Weighing up prospects for the current account, Burgara and Iradian expect the deficit to narrow from the estimated

2023 shortfall amounting to an estimated 3.4% of GDP. Lower oil prices affected exports last year, which fell 7% y/y. At the same time, strong domestic demand and currency appreciation led to a near 18% y/y increase in imports.

“For 2024 we expect some of these developments to revert and forecast the deficit narrowing to 2.7% of GDP,” Burgara and Iradian advise.

They point out: “On the export side, higher oil prices will be supportive of hydrocarbon exports, a recovery in agriculture will boost wheat production, and higher base metal prices, most notably copper, will further bolster non-hydrocarbon exports.

“On the import side, moderating demand and currency stability will lead to a small fall from 2023 levels. The deficit will primarily be financed by FDI, as GCC [Gulf Cooperation

“Consequently, we expect Kazakhstan’s gradual reserve accumulation to continue”

Council] countries invest in exploration and extraction projects as well as renewable energy facilities (Kazakhstan has the goal to raise the share of renewable energy from 6% in 2023 to 15% in 2030), the authorities continue to attract FDI for infrastructure, and as Kazakhstan begins to expand its critical mineral production.

“Consequently, we expect Kazakhstan’s gradual reserve accumulation to continue.”

On the fiscal side, the analysts anticipate that the consolidated budget will this year slip to a deficit of 0.2% of GDP from a surplus of 0.6% in 2023. They see total revenues rising 10% y/y, with higher tax revenue from oil production providing a revenue injection.

Astana was working on plans to implement a VAT tax hike from 12% to 16%, but this will not go ahead, hurting revenues. The VAT increase was meant to compensate for lower transfers from the sovereign wealth fund over the medium term.

The state budget, say Burgara and Iradian, is set for a 2024 expenditure increase of 15% y/y. The state is facing a higher wage bill caused by a minimum wage raise that will affect 350,000 civil servants and higher social spending, in line with President Kassym-Jomart Tokayev’s social welfare agenda.

On the bright side, debt-to-GDP is expected to remain low and stable, at approximately 22% of GDP. There is a positive debt outlook over the medium term, with risks to the outlook prepared for the IIF by the economists balanced.

China's share of total trade with Kazakhstan has increased steadily, and is now close to Russia's.



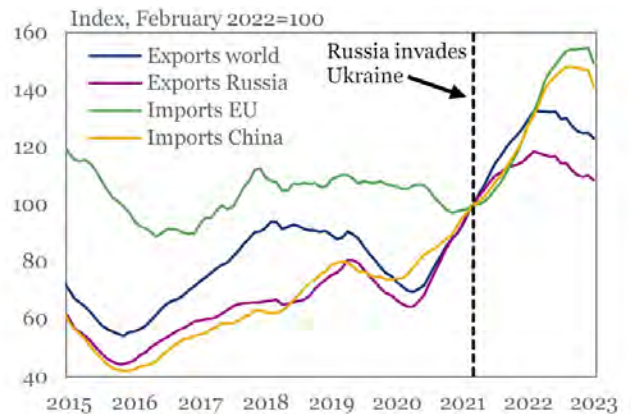
Source: IMF BOP and IIF

Providing an insight on trade, Burgara and Irdian observe: “Kazakhstan, like the rest of the region, has also pushed to diversify away from Russia. Currently, the EU is the country’s single biggest trading bloc while China’s total share [in trade] is quickly catching up to Russia’s.

“Furthermore, a regional initiative with the EU to develop the Trans-Caspian International Transport Route (aka Middle Corridor), which is a trade route between Europe and Asia that will bypass Russia, will help expand trade with Europe and Asia while also bringing in valuable infrastructure investment.”

The now ever-present threat of Western secondary sanctions faced by countries and businesses seen as helping Russia dodge sanctions introduced in response to its invasion of

A large increase in imports from the EU and China points to potential sanctions evasion.



Source: IMF BOP and IIF

Ukraine is a clear concern for Kazakhstan, especially for its banks.

On this, Burgara and Irdian conclude: “Though Kazakh authorities have done a good job at avoiding such sanctions so far, with the latest example of this being the banning of Russia’s Mir payment system, any escalation of the war and consequent expansion of Russian sanctions could indirectly impact Kazakhstan.

“This is especially true considering that Kazakhstan, like other countries in the region, have significantly increased trade with Russia since the war in Ukraine began. Potentially pointing to sanctioned goods moving from Europe and China to Russia via Kazakhstan.” ●



Around 80% of Kazakh oil exports are piped by CPC to Russia’s Black Sea export terminal in Novorossiysk for shipping to export markets. / Guido Grassow, wiki, GNU general public licence

Russia's nuclear diplomacy binding emerging markets to the Kremlin

Ben Aris in Berlin

Currently, Rosatom controls approximately 70% of the world export market for the construction of nuclear power plants where emerging powers in the global south are trying to boost their energy production and turning to Moscow for nuclear power plants and fuel.

President Joe Biden signed into law a ban on Russian enriched uranium on May 13, the White House said. The ban on imports of the fuel for nuclear power plants begins in 90 days, although it allows the Department of Energy to issue waivers for US companies that can't source uranium from anywhere but Russia. Russia accounts for about 24% of the enriched uranium used by US nuclear power plants.

The law also unlocks about \$2.7bn in funding in previous legislation to build out the US uranium fuel industry. Last December the US together with Canada, France, Japan and the UK collectively pledged to invest \$4.2bn to expand enrichment and conversion capacity of uranium to break Russia's stranglehold over enriched uranium supplies.

"Today, President Biden signed into law a historic series of actions that will strengthen our nation's energy and economic security by reducing, and ultimately eliminating, our reliance on Russia for civilian nuclear power," Jake Sullivan, the national security adviser, said in a statement, Reuters reports.

"This new law re-establishes America's leadership in the nuclear sector. It will help secure our energy sector for generations to come. It will jumpstart new enrichment capacity in the United States and send a clear message to industry that we are committed to long-term growth in our nuclear sector," Sullivan added.

Russia has become a major supplier of these nuclear energy-related technologies for countries in the Global South. Like Gazprom, the state-owned natural gas champion, before it, Moscow is now using Rosatom as a diplomatic tool to garner support and exercise control over Global south countries – what the literature calls "international clientelism". And the results have been seen in the various UN votes to condemn



Uranium is the new gas. Like Gazprom before it, Rosatom is successfully binding countries from the global south to Moscow using nuclear technology and long-term uranium supply contracts. / bne IntelliNews

Russia's invasion of Ukraine where Russia has managed to garner support and abstentions from its global south partners.

Rosatom has won numerous tenders for the sale of reactors, positioning itself as a leader in terms of the number of nuclear reactor construction projects executed simultaneously, with 3 units in Russia and 33 abroad in various phases of execution.

Likewise, it controls approximately 20% of the world market for conversion and enrichment-related materials – a business it dominates – making it an irreplaceable partner, including for Western powers.

There has been talk of banning imports of Russian nuclear fuel to Europe and the US, but in practice both remain heavily dependent on Russian nuclear fuel and are unable to cancel their imports – despite the rhetoric to cut off supplies.

Centrus, the largest nuclear energy company in the United States, recently announced its intention to petition relevant government agencies to exempt it from a newly proposed ban on Russian enriched uranium imports – the so-called yellow cake uranium. The company said that the ban on Russian uranium imports is unworkable.

The problem is that the US can enrich its own uranium, or anyone else's. Nuclear power plants account for 29% of all power stations in the States, yet the country produces almost no fuel for them. Recently, the US reported that it had managed to produce 90 kg of enriched uranium for the first time, and by the end of the year, this figure is expected to reach one tonne per annum. However, that is still nearly 700 times less than what is currently imported from Russia.

Russian Ambassador in Washington Anatoly Antonov answering a question from the media said: "The Administration continues its stillborn policy of inflicting strategic economic defeat on us. The current attack – not only on Russia, but also on the world market for uranium fuel used in

nuclear power plants – leads to new shocks in international economic relations. The delicate balance between exporters and importers of uranium products is under threat," he said.

According to the ambassador, "Washington lacks enough national enrichment capacity and so is harming its own economy. Moreover, the financial losses for the United States will be much greater than for Russia. However, the main thing for local strategists is to harm our country," Tass reports.

A new law, approved by the Senate, calls for an immediate ban, but includes a system of waivers for anyone that wants them until January 2028 if it serves the "national interests" of the States. Likewise, Europe has no uranium nor refineries. Countries that do have raw uranium like Uzbekistan and Kazakhstan, lack significant enriching capacity and rely on Russia to produce the yellow cake.

As nuclear power plant (NPP) deals come with 60-year long fuel supply deals, uranium has become the new gas. Since 2023 Rosatom has been the exclusive supplier of products related to enriched uranium for Brazilian nuclear facilities. This historic agreement is the first long-term partnership with Brasilia, replacing previous imports from Canada and European consortia.

These deals come at a time when Rosatom is trying to expand its relations with the BRICS countries to increase its participation in the sale of nuclear subsidies for the production of radioisotopes in these nations and obtain financing from the New Development Bank (previously known as the BRICS bank).

Russia's nuclear exports are booming. One of the biggest new reactors was inaugurated on April 27, 2023, by Turkish President Erdoğan, the Russian built Akkuyu Nuclear Power Plant, Turkey's first nuclear reactor.

It will begin operation in 2025 with four VVER 1200 pressurised water reactors and will be responsible for around 10% of the total national electricity production. Located in the southern Turkish province of Mersin, the nuclear power plant was also 93% financed by Rosatom.

In North Africa, a region facing rapid population growth and an insatiable hunger for power, Russia has initiated strategic dialogues with countries such as Morocco, Libya and Tunisia, which have signed MOUs with Rosatom.

Several countries in sub-Saharan Africa, such as Burkina Faso, Mali, Zimbabwe, Rwanda, Burundi, Kenya and Ethiopia, also have agreements related to nuclear energy with Rosatom. Russia seeks a diplomatic rapprochement with countries like Nigeria, based on cooperation in uranium exploration and the establishment of a nuclear power plant financed by Russian lines of credit. Moscow has pursued preferential access to the continent's uranium and rare earth mines, as seen in agreements with Tanzania and Namibia.

South Africa is also looking to Moscow as it has been suffering rolling blackouts for years. In 2023, Pretoria decided to boost nuclear energy production, with Rosatom help. However, plans for the creation of new nuclear power plants are facing serious resistance, due to corruption allegations surrounding a previous agreement.

Russia's nuclear diplomacy has also extended to South Asia. India has agreed to the construction of units 3, 4, 5 and 6 of the Kudankulam nuclear power plant that has rekindled an old partnership that dates back to the agreements with the Soviet Union.

Likewise, the Russian company operates in Bangladesh, with preparations underway for the construction of the Rooppur nuclear power plant, the country's first nuclear energy facility.

In Sri Lanka Russia is a potential candidate to build nuclear reactors as part of a recently published long-term project to boost local energy production in the country.

In Latin America Russia is seeking greater access to the continent's raw materials markets. Bolivia has signed off on a \$450mn contract with Rosatom to the construction of a complex for the extraction and production of lithium carbonate, an essential material for the cooling and containment systems of nuclear reactors. Russia has also expanded nuclear collaboration with Brazil.

"In Sri Lanka Russia is a potential candidate to build nuclear reactors as part of a recently published long-term project to boost local energy production in the country"

Russia's strategic use of nuclear alliances with countries in the Global South not only increases its global influence, but also raises challenges related to technology transfer and economic dependence. These partnerships often rely heavily on Russian technology and funding that bind the client states to Moscow.

Russia and Kazakhstan big nuclear players

Russia has yet to embrace green energy and relies heavily on nuclear power, followed by hydropower.

The Russian Energy Strategy 2030, published in November 2009, envisaged a doubling of generation capacity from 225 GWe in 2008 to 355-445 GWe in 2030.

A revised scheme in mid-2010 projected 1288 TWh demand in 2020 and 1553 TWh in 2030, requiring 78 GWe of new plant by 2020 and total 178 GWe new build by 2030, including 43.4

GWe nuclear. The scheme envisaged decommissioning 67.7 GWe of capacity by 2030, including 16.5 GWe of nuclear plant.

Rosenergoatom is the sole nuclear utility, following consolidation in 2001. In 2009 nuclear production was 163.3 TWh (83.7 TWh from VVER, 79.6 TWh from RBMK and other). It then increased slowly to over 200 TWh in 2018. Before this, nuclear electricity output had risen strongly due simply to better performance of the nuclear plants, with capacity factors leaping from 56% to 76% 1998-2003 and then on to 80.2% in 2009. Rosenergoatom aimed for 90% capacity factor by 2015. In 2006 Rosatom announced a target of nuclear providing 23% of electricity by 2020 and 25% by 2030, but 2007 and 2009 plans approved by the government scaled this back significantly.

Rosatom's long-term strategy up to 2050 involves moving to inherently safe nuclear plants using fast reactors with a closed fuel cycle, especially under the Proryv ('Breakthrough') project. It envisages nuclear providing 45-50% of electricity at that time, with the share rising to 70-80% by the end of the century. The ultimate aim of the closed fuel cycle is to eliminate the production of radioactive waste from power generation.

Russia uses about 5500 tonnes of natural uranium per year and about 9% of the world's deposits. The Federal Natural Resources Management Agency (Rosnedra) reported that Russian uranium reserves grew by 15% in 2009, particularly through exploration in the Urals and Kalmykia Republic, north of the Caspian Sea.

Uranium production has varied from 2870 to 3560 tU/yr since 2004, and in recent years has been supplemented by that from Uranium One Kazakh operations, giving 7629 tU in 2012. In 2006 there were three mining projects in Russia, since then others have been under construction and more projected.

Plans announced in 2006 for 28,600 t/yr U₃O₈ output by 2020, 18,000t of this from Russia and the balance from Kazakhstan, Uzbekistan and Mongolia, though difficulties in starting new Siberian mines and the break with Ukraine makes the 18,000t target unlikely. Three uranium mining joint ventures were established in Kazakhstan with the intention of providing 6000 tU/yr for Russia from 2007: JV Karatau, JV Zarechnoye and JV Akbastau.

The Russian Federation's main uranium deposits are in four districts:

- The Trans-Ural district in the Kurgan region between Chelyabinsk and Omsk, with the Dalur ISL mine.
- Streltsovskiy district in the Transbaikal or Chita region of SE Siberia near the Chinese and Mongolian borders, served by Krasnokamensk and with major underground mines.
- The Vitimskiy district in Buryatia about 570 km northwest of Krasnokamensk, with the Khiagda ISL mine.

- The more recently discovered remote Elkon district in the Sakha Republic (Yakutia) some 1200 km north-northeast of the Chita region.

Russia's first nuclear power plant, and the first in the world to produce electricity in 1954, was the 5 MWe Obninsk reactor. Russia's first two commercial-scale nuclear power plants started up in 1963-64, then in 1971-73 the first of today's production models were commissioned. By the mid-1980s Russia had 25 power reactors in operation, but the nuclear industry was beset by problems. The Chernobyl accident led to a resolution of these problems and a new generation of much safer reactors, the pressurized water VVER reactors.

Kazakhstan has been an important source of uranium for more than 50 years and became the world's largest uranium producer in 2009. Annual production has increased from 2114 tU in 2001 to 24,689 tU in 2016, before decreasing slightly due to low uranium prices. In 2019 production was 22,808 tU, up 5% on the year before, but dropped to 19,477 tU in 2020 due to the impact of the coronavirus pandemic. Production in 2023 was 21,112 tU and National Atomic Company Kazatomprom Joint Stock Company (Kazatomprom) has said it expects 2024 production to be 21,000-22,500 tU.

“In July 2006 Russia and Kazakhstan (Kazatomprom) signed three 50:50 nuclear joint venture agreements totalling US\$ 10 billion for new nuclear reactors, uranium production and enrichment.”

In July 2006 Russia and Kazakhstan (Kazatomprom) signed three 50:50 nuclear joint venture agreements totalling US\$ 10 billion for new nuclear reactors, uranium production and enrichment. The first JV with Atomstroyexport is JV Atomniye Stantsii for development and marketing of innovative small and medium-sized reactors, starting with OKBM's VBER-300 as baseline for Kazakh units. Russia's Atomstroyexport expected to build the initial one.

The second JV with Tenex, confirmed in 2008, is for extending a small uranium enrichment plant at Angarsk in southern Siberia (this will also be the site of the first international enrichment centre, in which Kazatomprom has a 10% interest). It will eventually be capable of enriching the whole 6000 tonnes of uranium production from Russian mining JVs in Kazakhstan.

Enriching uranium

Most of the about 500 commercial nuclear power reactors operating or under construction in the world today require

uranium 'enriched' in the U-235 isotope for their fuel, the World Nuclear Association reports.

"The commercial process employed for this enrichment involves gaseous uranium in centrifuges. A process based on laser excitation is under development. Prior to enrichment, uranium oxide must be converted to a fluoride so that it can be processed as a gas, at low temperature. From a non-proliferation standpoint, uranium enrichment is a sensitive technology needing to be subject to tight international control. In recent years there has been a significant surplus of world enrichment capacity," the World Nuclear Association says.

Uranium consists mainly of two isotopes: U-235 and U-238. While natural uranium is predominantly U-238, it is the less abundant U-235 isotope, making up only 0.7%, that is used for the fission process in nuclear reactors, which releases significant energy in the form of heat.

To be usable in most of today's nuclear reactors, particularly light water reactors such as the Pressurized Water Reactor (PWR) and Boiling Water Reactor (BWR), uranium be enriched. This involves increasing the proportion of U-235 up to between 3-5%.

This enriched uranium, known as low-enriched uranium (LEU), is standard for commercial reactors. However, there is growing interest in further enrichment to about 7% and even close to 20% for some specialized reactors, producing what is termed high-assay LEU (HALEU), according to WNA.

"Uranium-235 and U-238 are chemically identical, but they differ significantly in their physical properties, such as mass," explains the WNA. The slight mass difference between these isotopes, 1.27%, though minor, allows for the separation and enrichment processes.

Some reactor designs, such as the Canadian Candu and British Magnox, operate using natural uranium, eliminating the need for enrichment. By contrast, uranium used for nuclear weapons requires enrichment to at least 90% U-235, necessitating highly specialized facilities.

The conversion of mined uranium oxide into a gaseous form, uranium hexafluoride, is a preliminary step in the enrichment process. This conversion occurs at separate facilities, tailored specifically for this purpose.

The global landscape for uranium enrichment has experienced considerable shifts, with an over-supply in enrichment capacity noted in recent years. This excess capacity has been used to reduce uranium demand or boost supply through 'underfeeding,' a process where enrichment facilities use less uranium to produce the same amount of enriched product. The advancement of centrifuge technology, which offers lower Separative Work Unit (SWU) costs and more efficient processing, has further influenced these dynamics.

There are three major producers at present: Orano, Rosatom, and Urenco operating large commercial enrichment plants in France, Germany, Netherlands, UK, USA, and Russia. CNNC is a major domestic supplier and is pursuing export sales. In Japan and Brazil, domestic fuel cycle companies manage modest supply capability.

The WNA lists the main players in the enrichment business:

Orano's enrichment plants are in operation in France, Germany, Netherlands, UK, USA, and Russia, with smaller plants elsewhere. Orano's SET subsidiary operates the Georges Besse II gas centrifuge plant at Tricastin in the south of France. The facility commenced commercial operation in April 2011, reaching its full production capacity of 7.5mn SWU/yr at the end of 2016. The plant replaced Eurodif's Georges Besse diffusion plant.

Rosatom has four enrichment plants: Novouralsk, Zelenogorsk, Angarsk and Seversk. The four facilities have a combined capacity of over 27mn SWU/yr.

Urenco has enrichment operations in the UK (Capenhurst), Germany (Gronau) and the Netherlands (Almelo). In 2010 Urenco's US subsidiary Louisiana Energy Services commenced operation at its centrifuge plant in Eunice, New Mexico.

CNNC's enrichment capacity is estimated at about 6-7mn SWU/yr, which includes 1.5mn SWU/yr from Russian-supplied centrifuges, with the remaining SWU capacity from indigenous technology. A production line using indigenous centrifuges was launched in March 2018 at the Shaanxi plant.

A small number of other countries have limited enrichment capability.

Argentina reactivated its gaseous diffusion plant at Pilcaniyeu in 2010, more than two decades after production there was halted. Production was again halted in 2018 and the plant has not been used for commercial or export needs.

Since 2009 **Brazil's** Indústrias Nucleares do Brasil (INB) has produced small quantities of enriched uranium for domestic consumption using domestically developed centrifuges. INB is renovating the Resende Nuclear Fuel Factory in Rio de Janeiro with the initial aim of supplying 70% of the requirements of the Angra 1 unit, eventually increasing to 100% of the needs of Angra 1&2.

Japan Nuclear Fuel Limited (JNFL) is upgrading centrifuge capacity at its Rokkasho facility. JNFL commenced commercial operation of the newer machinery in 2012 and has since then installed approximately 150,000 SWU/yr of capacity. The full planned 1.5mn SWU/yr of capacity was expected to be installed by 2022 and operational by 2027, but has been beset by delays. A new schedule is expected to be announced before the end of 2022.

India, Pakistan and Iran have small centrifuge enrichment capabilities, but do not sell SWU commercially or export to the global market.

Areva (now Orano) was planning to build the \$2bn, 3.3mn SWU/yr Eagle Rock plant at Idaho Falls, USA. In 2009 it applied for doubling in capacity to 6.6mn SWU/yr. It is now cancelled, and in 2018 Orano requested the NRC to terminate the licence.

USEC (now Centrus) was building its American Centrifuge Plant in Piketon, Ohio, on the same Portsmouth site where the DOE's experimental plant operated in the 1980s as the culmination of a major R&D programme. Operation from 2012 was envisaged, at a cost of \$3.5bn then estimated. It was designed to have an initial annual capacity of 3.8mn SWU.

Authorization for enrichment up to 10% was sought – most enrichment plants operate up to 5% U-235 product, which is becoming a serious constraint as reactor fuel burnup increases. A demonstration cascade started up in September 2007 with about 20 prototype machines, and a lead cascade of commercial centrifuges started operation in March 2010. These are very large machines, 13 m tall, each with about 350 SWU/yr capacity and requiring regular maintenance. The whole project was largely halted in July 2009 pending further finance, although a demonstration cascade became operational in October 2013. It was licensed for 7mn SWU/yr enrichment up to 10% U-235, but operation ceased in February 2016. In mid-2021 it was licensed to produce HALEU up to 20% and Centrus is currently deploying a cascade of AC100M centrifuges at the American Centrifuge Plant. ●

European banks still in Russia see profits quadruple, pay over €800mn in taxes

bne IntelliNews

Western banks that have continued operations in Russia paid more than €800mn in taxes last year, marking a fourfold increase from pre-war levels, despite pledges to reduce their exposure following the full-scale invasion of Ukraine, the *Financial Times* reported on April 29.

The *Financial Times*' analysis revealed that the seven largest European banks in Russia – Raiffeisen Bank International, UniCredit, ING, Commerzbank, Deutsche Bank, Intesa Sanpaolo and OTP – collectively reported profits exceeding €3bn in 2023.

The significant tax contributions from these banks account for about 0.4% of all Russia's expected non-energy budget revenues for 2024 and help sustain the Kremlin's efforts to finance the war in Ukraine. Over half of the tax payments were paid by Austria's Raiffeisen Bank International (RBI), which is the biggest of the foreign banks in Russia and has been reluctant to leave, despite repeated promises to wind its Russian business down. The bank complains that it has been unable to find a buyer for its business.

RBI's profits in Russia surged to €1.8bn from 2021 to 2023, representing half of the Austrian group's total profit. RBI was an early entrant to the Russian market and pioneered trade finance deals after Russia began to emerge from the chaos caused by the collapse of the Soviet Union in 1991. Subsequently it built up a major western style retail banking business catering to the emerging middle class in the boom years in the noughties.

Its recent gains are primarily attributed to heightened interest rates and the constraints international sanctions have imposed on Russian banks, enhancing the competitiveness of Western banks within the country.

"RBI's Russian profits more than tripled to €1.8bn between 2021 and 2023, accounting for half of the Austrian group's total profit," the FT reported. Additionally, RBI also paid €47mn due to a windfall levy imposed by the Kremlin on certain companies last year.

RBI has faced criticism from the European Central Bank and the US Treasury Department for its failure to withdraw, and more recently has been threatened with punitive action if no progress is made. Although the bank has reduced its loan book in Russia by 56% since early 2022, recent job postings indicate plans for significant expansion of its client base in the region.

Other German and Hungarian banks such as Deutsche Bank, Commerzbank and OTP have substantially reduced their presence in Russia. Italy's Intesa is nearing a complete exit, though it has not yet finalised the sale of its Russian business and UniCredit has opted not to comment on its operations.

US banks also remain financially active in Russia. Citigroup, despite shutting down its corporate and retail business, became the fourth-largest taxpayer among Western banks in Russia, earning \$149mn and paying \$53mn in taxes in 2023, according to data from the Kyiv School of Economics based on figures from the Russian central bank. JPMorgan, meanwhile,

earned \$35mn and paid \$6.8mn in taxes while dealing with legal challenges from its former Russian partner, VTB.

The imposition of sanctions on most of the Russian financial sector, which includes denying access to the SWIFT international payment system, has inadvertently made international banks critical financial conduits between Moscow and the West. This role has significantly boosted RBI's net fee and commission income in Russia, which jumped from €420mn in 2021 to €1.2bn in 2023.

RBI also has a subsidiary in Ukraine, where it plays a similar role and earns substantial fees, facilitating transfers of money in and out of the country.

A senior Russian banking executive commented on the situation, telling the *FT*: "It is not only in RBI's interest to stay in Russia. The [Russian central bank] will do everything it can to not let them go because there are few non-sanctioned banks through which Russia can receive and send SWIFT payments." ●

European banks increase profit and tax in Russia

Bank	Country	2021 Profit (€mn)	2023 Profit (€mn)	2021 Tax (€mn)	2023 Tax (€mn)
Raiffeisen Bank International	Austria	591	1,805	117	464
UniCredit	Italy	209	658	44	154
OTP	Hungary	128	338	26	90
Intesa Sanpaolo	Italy	7	138	2	27
ING Groep	Netherlands	3	151	-7	20
Commerzbank	Germany	15	51	3	8
Deutsche Bank	Germany	26	40	6	16

Source: Company filings, *FT*



Raiffeisen bank has seen its profits soar, and accounts for half of all the taxes paid to the Russian government by Western banks still operating in Russia. / Photo: www.shutterstock.com

Turkey signs LNG deal with US supermajor ExxonMobil placing question mark over Russian gas supplies



LNG deliveries give the buyer more flexibility in terms of the choice of supplier compared to supplies sent by pipeline. / bne IntelliNews

bne IntelliNews

Turkey's state gas grid operator Botas on May 8 signed a deal with US supermajor ExxonMobil for liquefied natural gas (LNG) supplies, the country's energy minister announced, throwing into question whether or not Ankara will scale down reliance on Russian gas supplies in coming years.

"The U.S. is already one of our important suppliers of LNG," Energy Minister Alparslan Bayraktar said on social media platform X, adding that the deal was signed in Washington.

Bayraktar did not provide any other details on the agreement, but added: "With this agreement, which is planned to be long-term, we will take another step towards diversifying our resources."

At the end of April, Bayraktar told the *Financial Times* in an interview that Ankara wants to build a "new supply portfolio" that will make it less reliant on any single partner. He added in the interview that Turkey would annually secure up to 2.5mn tonnes of LNG through a deal under discussion with ExxonMobil that could be drawn up for a decade. Such a deal for the super-chilled fuel would likely cost Turkey over a billion dollars a year at current prices.

Turkey has very little oil and gas of its own. It is highly dependent on imports from Russia, Azerbaijan and Iran, as well as on LNG shipments from Algeria, Qatar, the US, Nigeria and Oman.

Despite its lack of hydrocarbon resources, Turkey has plans to set up an energy hub from where oil and gas flows reaching the country could be redistributed to European and potentially other export markets. However, wary of Turkey's ambitions to become an energy supply powerhouse based on re-exports, some potential client countries have expressed concerns that the hub could be used to disguise Russian oil and gas flows currently banned from their markets by Ukraine war-related sanctions.

Around 2.5mn tonnes/year of LNG would cover around 7% of Turkey's natural gas consumption based on data for last year from the country's Energy Market Regulatory Authority.

Some of Turkey's long-term agreements with Moscow for gas will expire in 2025.

Over 40% of Turkish gas imports came from Russia in 2023, most of which was delivered via pipelines.

Despite Turkey being a Nato member, Ankara and Moscow have maintained strong trade and economic relations, with Russia also serving as Turkey's top supplier of oil.

Iran provides around 17% of Turkey's gas imports but the deal for the piped deliveries is slated to expire in 2026. Azerbaijan supplies 16% of the country's gas imports.

In 2022, the US supplied 10% of Turkey's natural gas imports, while in 2023 Turkey went to the spot market and imported 5mn tonnes of LNG gas from the US.

"LNG makes matters more flexible for Turkey when it comes to suppliers of natural gas, as opposed to the inflexibility of pipeline gas."

ExxonMobil is ramping up its LNG portfolio, while Turkey is increasing its infrastructure for importing and storing LNG. A partnership between the two not only makes sense but has become almost inevitable, according to oil and gas trade media outlet *NewsBase*.

ExxonMobil has set its sights on increasing its production capacity to 40mn tonnes/year by the end of the decade, which would mark a doubling from its 2020 level. Meanwhile, Turkey's expansion of its LNG infrastructure has seen gas imports of LNG climb to 30% in 2023 compared to 15% in 2014.

LNG makes matters more flexible for Turkey when it comes

to suppliers of natural gas, as opposed to the inflexibility of pipeline gas.

Turkey is able to receive gas via seven international pipelines, while it has five LNG facilities, including three floating storage and regasification units (FSRU) and two underground natural gas storage facilities.

Energy minister Bayraktar said he arrived in the US capital for various talks.

"We are among the few countries in the world with our gasification capacity. We will continue to contribute to the energy supply security of both our country and our region," Bayraktar added.

The minister said in a separate post on X on May 9 that he met US Secretary of Energy Jennifer Granholm and that an energy and climate programme between the two countries was initiated.

"We initiated the Energy and Climate Dialogue Program between our countries and held its first meeting. We hope that the program will bring together public and private sector representatives and serve as a productive platform for all stakeholders," Bayraktar wrote on X.

"During our meeting, we also evaluated many topics such as natural gas, renewable energy, energy efficiency, nuclear energy and critical minerals," he added. ●

Fitch believes Bulgaria unlikely to enter eurozone in January 2025

bne IntelliNews

Fitch Ratings no longer expects that Bulgaria will enter the eurozone at the start of next year, the international rating agency said on April 26 when affirming the country's long-term foreign-currency issuer default rating (IDR) at BBB, with positive outlook.

"Bulgaria's ratings are supported by its strong external and public balance sheets versus 'BBB' peers and credible policy framework, underpinned by EU membership and a long-standing currency board. This is balanced by low labour productivity and unfavourable demographics, which weigh on potential growth and government finances over the long term," Fitch said in the statement.

The positive outlook reflects the prospects for euro adoption despite the expected delay.

"Despite the euro adoption process being delayed beyond January 2025 and renewed political uncertainty, Fitch considers that there is broad political commitment locally and at the EU level to euro adoption," Fitch noted.

Meanwhile, Bulgaria's HICP inflation has slowed down significantly but remains above that of the three best performing EU member states. Fitch has projected that Bulgaria will not comply with the price stability criterion in mid-2024 but in the last quarter of this year at the earliest.

"Bulgaria is on course to meet all other euro-adoption nominal criteria (public finances, interest rate and exchange rate). Nonetheless, a lack of stable government and potentially lengthy coalition negotiations could delay the eurozone entry beyond 2025," Fitch said.

It expects the June 9 snap general election to produce yet another fragmented parliament with pro-European parties holding a majority.

Bulgaria's GDP is expected to grow by 2.4% in 2024 and 3.1% in 2025, accelerating from the 1.8% growth last year.

"Weak external demand, renewed political uncertainty and slow absorption of EU funds will impede economic activity in 1H24, while positive real wage growth and strong credit growth will support private consumption," Fitch noted.

HICP inflation is projected at 3.3% in 2024 and 2.9% in 2025, down from 8.6% in 2023. ●



Return to political instability has put Sofia's eurozone entry target date at risk.



Top Russian mobile operator MTS announces \$86.5mn share buyback

Ben Aris in Berlin

Russia's biggest mobile phone operator MTS is offering its international investors whose shares have been blocked inside the country due to sanctions-related restrictions imposed in 2022 an opportunity to sell their shares at a discount and get a return on their investment, the company said in an emailed statement to *bne IntelliNews* on April 30.

MTS is following in the footsteps of the country's largest supermarket chain, Magnit, which completed a series of successful buybacks from foreign shareholders in 2023.

MTS said on April 27 that its wholly owned subsidiary Stream Digital LLC is making a tender offer to purchase up to 4.2% of the company's common shares at RUB95 (\$1.03) apiece "to provide investors additional options to exit their investments in MTS." That offer represents a roughly 65% discount to the weighted average price of MTS shares over the last six months. The company's closing share price on the Moscow Exchange on April 26 stood at RUB310.

The buyback is for a maximum of 83,932,026 shares worth RUB7.97bn (\$86.5mn). The company said that if the total number of shares tendered will be higher, they will be purchased on a pro rata basis. MTS said it will finance the buyback with its own funds and will "maintain a comfortable net debt leverage level" following the deal's completion.

MTS, long one of Russia's most popular blue chips among international investors, is one of the country's biggest companies outside the energy and natural resource sector. The company has over 81 million mobile subscribers in the country and boasts more than 4,400 retail outlets.

Capital market restrictions imposed in Russia in response to Western sanctions have made it virtually impossible for some foreign investors to exit from their Russian investments. MTS said its tender offer had to receive special approval from the Russian government commission that oversees foreign



Photo: www.shutterstock.com

investment. The purchase price was set in accordance with the commission's decision and is in line with the existing practice of buying Russian assets from foreign investors at steep discounts. A number of foreign companies faced discounts of 80% or more to exit from their Russian investments amid strict regulatory limitations.

While the tender offer is addressed to all holders of MTS common shares, it could be of particular interest to foreign investors whose assets have been effectively frozen on so-called type-"S" depo accounts. As part of the transaction, they will be given the first opportunity to sell their shares

"The company has over 81 million mobile subscribers in the country and boasts more than 4,400 retail outlets."

since 2022. The buyback "will grant shareholders whose rights have been restricted an opportunity to dispose of their shares partially or fully," the company said.

To make the deal more attractive to a wider group of foreign shareholders, investors will have the option to receive payment for their shares in US dollars, euros, Chinese yuan or UAE dirham, in addition to the ruble.

Investors will have until May 28 to tender their shares, with the deal expected to be completed around June 20.

Following a similar buyback from Magnit in 2023, the deal announced by MTS marks the second time since Russia's invasion of Ukraine that global portfolio investors have been given an option to exit from a publicly traded Russian company. ●

Premier Energy seeks to raise over €135mn with Bucharest IPO

Iulian Ernst in Bucharest

Power and gas utility group Premier Energy announced that the Romanian Financial Supervisory Authority (ASF) approved its planned Bucharest Stock Exchange (BVB) IPO that thus kicks off on May 8. The IPO will last for a week and aims to bring over €135mn to the company and its owner.

Premier Energy's owner EMMA Alpha Holding (EMMA Holding) values the company's 100mn shares (before the IPO) at €405mn, or €4.05 (around RON20) per share – 5.12 times the €79mn net profit reported last year, according to the IPO prospectus. It is ready to cede a stake of 29-32.5% to retail and institutional investors, under the IPO by new share issuance and sale of existing shares.

The indicative price range for the IPO has been set at between RON19.0 and RON21.5 per share.

Under the IPO, EMMA Holding seeks to issue between 25mn (Base Deal) and 30mn (Upsize Scenario) new shares and thus derive at least €100mn for Premier Energy to finance its further expansion: the development and takeover of renewable assets in Romania and Moldova. As part of the same deal, EMMA

Holding also wants to sell 6.25mn-7.5mn of its shares to derive at least €25mn in cash.

Under the Base Deal, 31.25mn shares, out of which 25mn new shares, will be available to investors, while under the Upsize Scenario, the number of shares on sale may rise to 37.5mn (30mn new shares).

At the same time, EMMA Holding is ready to make available to the IPO managers 4.69mn of its shares to allow for stabilisation measures (Over-Allotment Shares).

EMMA Holding will retain a share of 71.2% (Upsize Scenario) or 75% (Base Deal) after the IPO, shares that would drop to 67.5% and 71.2% respectively if all the Over-Allotment Shares are sold.

Retail and institutional investors are offered portions of 20% and 80% respectively.

Retail investors will be able to subscribe at the maximum price (RON21.5 per share). They will pay the price set in the tranche for institutional investors, but those who subscribe during the first three days of the IPO (May 10 including) will be given a 5% discount. ●



The Romanian Financial Supervisory Authority approved Premier Energy's planned Bucharest Stock Exchange IPO that kicks off on May 8.



Dollar remains dominant in global trade, but global tensions are fragmenting the world, says IMF

Ben Aris in Berlin

The global economic landscape is undergoing a transformation not seen since the end of the Cold War. Soaring geopolitical tensions have seen the world fragment into large trading blocs based on economic and national security concerns and that has affected the use of the dollar as the currency for trade and foreign direct investment (FDI) flows around the world.

“After years of shocks – including the COVID-19 pandemic and Russia’s invasion of Ukraine – countries are re-evaluating their trading partners based on economic and national security concerns. Foreign direct investment flows are also being re-directed along geopolitical lines. Some countries are re-evaluating their heavy reliance on the dollar in their international transactions and reserve holdings,” First Deputy Managing Director of the IMF Gita Gopinath said in a speech on May 7.

“All of this is not necessarily bad. Given the recent history of events, policymakers are increasingly – and justifiably – focused on building economic resilience. But if the trend



Geopolitical tensions have not lowered the level of trade, which remains higher than in the Cold War, but the routes have changed dramatically and the use of the dollar is falling slowly. / bne IntelliNews

continues, we could see a broad retreat from global rules of engagement and, with it, a significant reversal of the gains from economic integration,” Gopinath adds.

The US decision to weaponise the dollar as part of its sanctions regime on Russia has unsettled governments around the world and has pushed them to diversify away from their dependence on the currency.

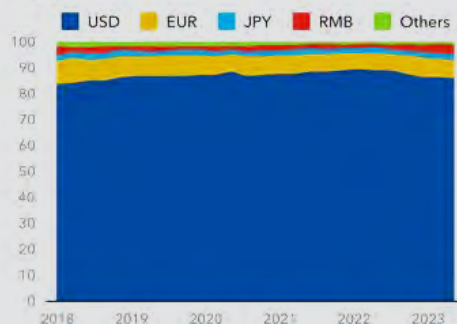
While the dollar continues to dominate global trade as the foreign exchange of choice, countries with balanced trade relations are already moving to settle this trade in national currencies, led by Russia and China, which have already almost entirely abandoned the dollar in settlements of their mutual trade.

More noticeable is the reduction of the share of the dollar in sovereign gross international reserves; the dollar continues to make up the largest share of the reserves of most countries, but its share has already fallen noticeably. China and Russia in particular have been dumping the dollar and rapidly increasing the share of monetary gold in their reserves basket.

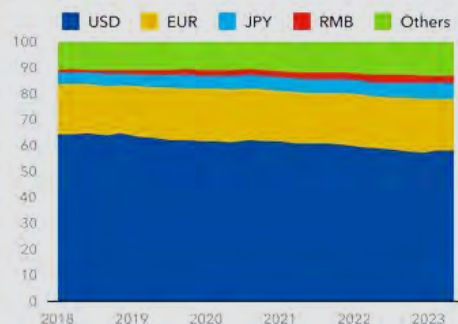
DOLLAR DOMINANCE

USD RETAINS DOMINANT POSITION IN GLOBAL TRADE FINANCE AND FX RESERVES
RMB SHARE IS RISING, NOTABLY IN TRADE FINANCE, BUT FROM A VERY LOW BASE

TRADE FINANCE
(PERCENT)



FX RESERVES
(PERCENT)



Sources: COFER, SWIFT and staff calculations.

“Policymakers are increasingly – and justifiably – focused on building economic resilience,” Gopinath says. However, she warned that if this trend persists, it could lead to a significant reversal in the benefits gained from globalisation in what is becoming an increasingly fractured world.

New trade restrictions have more than tripled since 2019, while financial sanctions have mushroomed. The geopolitical risk index spiked in 2022 following Russia's invasion of Ukraine. And concerns over fragmentation have surged among the private sector, evident in the increased mentions of the issue in corporate earnings calls.

Despite these trends, signs of deglobalisation aren't yet clear at an aggregate level, says Gopinath. Since the end of the hyper-globalisation era of the 1990s and early 2000s, the ratio of goods trade to global GDP has remained relatively stable at around 41-48%. However, fragmentation is evident beneath

“Although direct trade between geopolitical rivals has declined, some exchanges are now routed through third-party nations, partially offsetting the impact of US-China decoupling.”

the surface, as trade and investment flows are redirected based on geopolitical allegiances rather than just profit. The share of international trade has remained roughly the same, but the routes it travels have drastically altered.

China's share of US imports dropped by 8 percentage points from 2017 to 2023 amid heightened trade tensions, while the US share of China's exports decreased by 4 percentage points during the same period. Meanwhile, direct trade between Russia and the West has collapsed following Russia's invasion of Ukraine but Russia's trade with China has ballooned to more than \$200bn a year of trade turnover.

Three Geopolitical Blocs

Gopinath examines the world through the lens of three geopolitical blocs: the US-leaning bloc, the China-leaning bloc, and a bloc of non-aligned nations, following on from a similar analysis by Capital Economics on the fractured world.

Between the second quarter of 2022 and the third quarter of 2023, trade growth between US-leaning and China-leaning nations was nearly 5 percentage points lower than in the preceding five years, whereas trade growth within each bloc only saw a modest 2-point decline.

Trade and FDI between opposing blocs have fallen by roughly 12% and 20% respectively, since Russia's invasion of Ukraine. This reallocation persists even when removing the US and China from the analysis.

Shadow Trade Networks

Although direct trade between geopolitical rivals has declined, some exchanges are now routed through third-party nations, partially offsetting the impact of US-China decoupling. Countries like Mexico and Vietnam have helped cushion the blow, while the strategic role of “connector” nations remains an open question in terms of supply chain resilience.

Going forward, policymakers face crucial decisions. They can either accept the rerouting of trade and FDI to maintain economic integration or continue raising barriers, further isolating politically distant nations.

Potential Costs of Fragmentation

An IMF study compares current trade fragmentation to the Cold War era, when trade between the Western and Eastern blocs was heavily restricted. Although current fragmentation isn't as severe as during that time, it's still a cause for concern, says Gopinath.

“Today's trade is far more interconnected, with the goods trade-to-GDP ratio at 45% compared to 16% at the start of the Cold War,” says Gopinath.

Fragmentation could stifle productivity gains from specialisation and limit the benefits of global supply chains. The costs of financial fragmentation include weaker risk-sharing and higher macroeconomic volatility. The rise of new payment systems could also hinder interoperability.

“Economic losses from fragmentation could range from 0.2% to 7% of global GDP, depending on the severity of restrictions. FDI losses could trim another 2% off global output,” says Gopinath. “Emerging and developing economies could bear the brunt of these disruptions, particularly those reliant on commodity imports and agricultural trade.”

Call for Cooperation

Gopinath called for a renewed commitment to international cooperation. She urged preserving the multilateral, rules-based trading system and maintaining open lines of communication. Areas of common interest, like climate change, digital trade and cross-border payment systems, should serve as opportunities for collaboration, said Gopinath.

Rebuilding trust is challenging but vital to safeguarding the gains of global economic integration.

“It is well worth it to preserve some of the enormous gains from economic integration that have made the world more prosperous and more secure,” Gopinath concluded. ●

BRICS currency is coming soon



BRICS currency is edging closer to reality, according to a top Iranian official visiting Moscow. / CC: IRNA

bne Tehran bureau

Iran is actively participating in initiatives under Russia's leadership in BRICS, with the two countries working towards creating a single currency for the bloc, Iranian Ambassador to Russia Kazem Jalali said on Thursday, 16 May.

Speaking at a press conference during the "Russia-Islamic World: KazanForum," Jalali underscored Iran's significant efforts as a new BRICS member state.

"The creation of a new single currency within the framework of the association is what Russia and Iran are working on," the diplomat stated.

The Islamic Republic's insider pointed out that the United States uses the dollar to impose restrictions, which has made the use of national currencies in mutual settlements a priority.

Iran and Russia are the two most sanctioned countries with no access to Western payment systems, including Belgium-based SWIFT. The two sides have been slowly connecting their respective payment systems, MIR and SHETAB, to each other, which is reportedly now active. Moscow and Tehran have been leading the vanguard in creating parallel payment systems for the West, with the central banks of both countries working in tandem.

"More than 60% of bilateral trade is in rubles and rials," he said, adding that relations between Russia and Iran are now at the "golden stage."

Iran's inclusion in BRICS, alongside Saudi Arabia, Egypt, the UAE, Argentina and Ethiopia, marks a significant geopolitical shift.

As the association expands, the development of a BRICS currency is seen as a strategic move to challenge the dominance of the US dollar in global trade. This shift aligns with BRICS' ongoing efforts to enhance financial cooperation and reduce dependency on Western financial systems.

According to an earlier *bne IntelliNews* report, Iran stands to gain substantially from BRICS membership.

Benefits include increased trade opportunities, investment inflows and enhanced political leverage. By joining BRICS, Iran aims to bypass sanctions and integrate more deeply into the global economy. The reports highlight that the move is expected to bolster Iran's economic resilience and provide a platform for it to advocate for its interests on a larger international stage.

BRICS payments were previously touted by Kremlin aide Yury Ushakov in March. She said to TASS that a solution has been suggested: instead of a currency, a new blockchain-based payment system will be used called "BRICS Pay".

"We believe that creating an independent BRICS payment system is an important goal for the future, which would be based on state-of-the-art tools such as digital technologies and blockchain. The main thing is to make sure it is convenient for governments, common people and businesses, as well as cost-effective and free of politics," he said.

Ushakov said the goal for this year is to increase the role of BRICS in the international monetary and financial system. In 2023 the members said in the Johannesburg Declaration would work on increasing settlements in national currencies and strengthening correspondent banking networks to secure international transactions. "Work will continue to develop the Contingent Reserve Arrangement, primarily regarding the use of currencies different from the US dollar," the Kremlin aide pointed out.

Russia has already stepped up the use of national currencies in its mutual trade with friendly countries to 75% and is due to host this year's BRICS summit in the Russian region of Kazan this summer.

This is not a new common BRICS currency, but rather an analogue of SWIFT for transactions in national currencies in digital form operating on blockchain technology.

Apparently, this will be integrated with the digital versions of the ruble, yuan, rupee, etc., whose creation is also expected in the very near future.

Russia has accelerated its plans for digital currencies, which operate outside the control of international regulators. The Central Bank of Russia (CBR) has been working to create the long-discussed central bank digital currency (CBDC) – the digital ruble – which is expected to enter into circulation in 2025.

In accordance with new legislation in 2023, the CBR obtains the status of the digital ruble platform's operator. The regulator will also be responsible for the security of digital rubles in circulation, as well as for the organisation and round-the-clock operation of the platform.

The CBDC is not a blockchain-based “coin” similar to those issued by other blockchain-based projects, but an electronic currency, as the CBR controls the emissions of the tokens, which are also under the supervision of the central bank in the same way as fiat currencies are issued and regulated.

The CBR rolled out a pilot of digital ruble in August last year that included several commercial banks, as it gets ready for the formal launch of the digital money. The CBR has also

issued a series of guidelines on the digital currency “The Digital Ruble: what it is and how to use it”.

“We were preparing a long while for the start of real transactions,” First Deputy Governor of the Bank of Russia Olga Skorobogatova said at a press conference at the time of the start of the pilot. “This pilot will involve, in the first instance, testing of such active transactions as the opening of wallets in digital rubles for banks, clients (individuals and legal entities), transfers of digital rubles between clients and payments in trade and service businesses.”

The 15th International Economic Forum “Russia-Islamic World: KazanForum 2024” is being held from May 14-19 in Kazan, Russia.

This year's theme, “Trust and Cooperation,” aims to strengthen trade, economic, scientific, technical, social, and cultural ties between Russian regions and the countries of the Organisation of Islamic Cooperation (OIC).

The forum also seeks to promote the development of Islamic financial system institutions in Russia. ●



bne:Tech

Latvia's start-up scene: a second fiddle no more

bne IntelliNews

Some key new initiatives look set to help Latvia's start-up scene move out of the shadow of its northern neighbour Estonia, emerging-europe.com reported.

That Estonia's start-up scene owes so much to Skype is no secret. Just ask anyone in the technology and innovation sector in neighbouring Latvia, which has for some time had to play second fiddle to the more northerly of the three Baltic states.

The investment capital Skype's various exits created is the reason, they'll tell you, why Estonia has had so much more success at creating unicorns, and why the country's international reputation as a hive of tech and innovation surpasses most countries in Europe.

Not that Latvia is short of start-up success. Indeed, by just about any metric the country is a star. In the most recent edition of Emerging Europe's Future of IT report, which looks at the tech sector across the 23 countries of the emerging Europe region, the Latvian ecosystem was ranked fourth – up four places on the previous year and behind only Estonia, Lithuania and Poland. It is well set to take an even higher position in the 2024 edition of the report, set to be published later this month.

Print-on-demand giant Printful became a unicorn in 2021 following a \$130mn raise. Another custom printing start-up, Printify, is well on the way to joining it: its last big raise of \$45mn valued the company at an estimated \$300mn – and that was in 2021.

A Latvian, Linda Strazdiņa, is co-president of the European FinTech Association, a role in which she represents the interests of fintech companies at EU level.



Of late, there's been a slow-burning sense in the Latvian capital Riga that things might be about to get even better for the city's tech start-ups.

Of late, there's been a slow-burning sense in the Latvian capital Riga that things might be about to get even better for the city's tech start-ups; nowhere more so than at TechChill, the largest technology and innovation event in the Baltics, which this year was abuzz with talk of a new Startup House – a hub for start-ups, investors, talent and expertise that aims to provide the final spur to greatness that the Latvian start-up scene has previously (arguably) been lacking.

Andris Berzins is one of the co-founders of Change Ventures, set up in 2016 to invest in start-ups across the three Baltic states. Last year it secured €20mn to launch its third fund investing in the Baltic states, focusing on pre-seed investments in founder-driven companies.

Berzins is part of a group of stakeholders who have been trying to push the start-up agenda politically in Latvia for some time.

"And there's actually been a lot of good initiatives," he says. "We launched a start-up tax some six years ago, which means that if you qualify as a start-up there are various tax incentives to lower the cost of getting a business up and running. We also successfully lobbied for a change in the stock option law – we now have the world's most attractive stock option law, bar none."

"It's even marginally better than in Estonia," he adds. Berzins believes that one of the things a small country such as Latvia offers is the ability to move fast.

Open just a couple of months, Startup House Riga is a non-profit initiative that aims to have "all the right people in one building, mingling in the kitchen," says its CEO Egita Polanska.

Startup House is already home to a couple of exciting firms: Oruga is developing the world's first all-terrain electric monorail vehicle, while micromobility start-up Mosphaera produces industrial on- and off-road e-vehicles – some of which have been successfully used on the frontlines by the Ukrainian armed forces.

TechChill was also the scene for the launch of another major initiative that has the potential to drive Latvia's start-up ecosystem forward – StartSchool, which Anna Andersone, one of the founders, describes as "a new-generation tech business school".

"The ingredient most missing in Latvia and the region, and why we don't get more early stage start-ups popping up, is the lack of technical co-founders," says Andersone, who is also the CEO of Riga Tech Girls, emerging-europe.com said. ●

Russia prepares a crackdown on crypto

Vladimir Kozlov in Cyprus

Russia is preparing a crackdown on cryptocurrencies in a bid to establish control over the segment that so far has been operating largely under the radar.

The State Duma, the lower chamber of the Russian Parliament, is currently considering a bill on the regulation of cryptocurrencies in Russia. The document stipulates a complete ban on the organisation of crypto circulation as of September 1, 2024, making exceptions only for officially registered miners and projects by Russia's central bank.

In accordance with the draft, only Russian firms and individual entrepreneurs included in a special register will be able to mine cryptocurrencies. Private individuals will be allowed to mine cryptocurrency without being included in the register, provided they comply with the energy consumption limits set by the government, which could discourage them from mining activities.

The bill also prohibits advertising of digital currencies and the organisation of their circulation.

Control over crypto

Under the new law, Russian miners will be obliged to report total amounts of the crypto they have mined to the tax service,

also providing crypto addresses to which the mined currency has been deposited.

The aim of this stipulation is to eliminate the possibility of using these funds "for money laundering, financing of terrorism or other criminally punishable acts," legislators claim. Also, authorities will have the right to totally ban crypto mining in the country's specific regions.



Russians have turned to cryptocurrencies to avoid capital controls and sanctions making it hard to transfer money. Now the government is cracking down on the industry in order to keep control of money. / bne IntelliNews

In the summer of 2023, Russia's ministry of finance already proposed to prohibit the organisation of the circulation of cryptocurrencies with the exception of stablecoins and the sale of coins by miners.

However, the initiative was blocked by Russia's secret service FSB and the investigative committee.

The current bill was introduced in the State Duma some time ago but appeared to be a lower priority for legislators. Now, however, Russian authorities are rushing the bill to take over control over crypto circulation amid problems with settlements in foreign economic activity, which arose due to sanctions imposed after the outbreak of war in Ukraine.

The finance ministry, the central bank and the country's financial monitoring service have said that they expect the law to be passed before the end of the State Duma's spring session.

"The purpose of the bill is to make the cryptocurrency market in Russia civilised, admitting only bona fide participants, those who do not raise questions with the regulator," Anatoly Aksakov, chairman of the State Duma's committee for financial markets, was quoted as saying by the Russian edition of Forbes.

"It is also important that lacunas in the legislation prevent cryptocurrency from being used in Russia for dubious financial transactions, payment for drug trafficking, terrorism financing and so on," he added.

According to data from the Russian finance ministry, Russia ranks third in the world in terms of crypto mining capacities. The total value of the main two cryptocurrencies, Bitcoin and Ether, mined in the country in 2023 is estimated to be about \$5bn. The operation of crypto miners under government control would bring significant revenue to the country's budget.

More power for the regulator

Another reason why the State Duma is rushing the bill is the Russian central bank's plans to use crypto in international payments. In a situation when Russian banks are hit by sanctions following the invasion of Ukraine in February 2022, international payment with crypto looks like a promising direction to explore, and the regulator plans to launch a test platform for such payments soon.

The regulator's deputy chairman Olga Skorobogatova said earlier that according to the adopted law, digital assets can be used in cross-border settlements without experimental legal regimes and the regulator has already received three applications from businesses that would like to try it.

According to Aksakov, the new crypto regulations will improve Russia's system of international payments, hit by Western sanctions.

Meanwhile, the central bank seems to be eager to embrace crypto payments.

"We have long agreed to use digital currencies for foreign economic settlements," the regulator's head Elvira Nabiullina said in her address to the State Duma last month. "I think it would be desirable for us to adopt this regime faster, to work it out, to see what can be introduced into the legislation and what cannot."

Issues with proposed regulations

Observers and the Russian crypto community have reacted to the crypto bill critically, expressing fears that it will hamper the development of a legitimate crypto segment in Russia, while pushing the existing operators into the grey area and users to foreign exchanges.

"Business has a general doubt about the need for such a bill," Andrey Mikhailishin, a board member and CEO of the company Digital Payments, told Forbes. "Alternative proposals from industry representatives were also discussed at the State Duma's expert council meeting."

According to Mikhailishin, alternative proposals stipulated introducing licences to enable cryptocurrency companies and individual entrepreneurs to legitimately operate in Russia, paying applicable taxes. He added that industry standards should be established by its representatives through self-regulation, but no one from the crypto community was even invited to discuss the current version of the bill.

Meanwhile, the law contains some technical irregularities that may hamper the execution of some of its clauses.

For example, the requirement to provide wallet identifier addresses does not take into account the fact that many such addresses can be generated for any wallet, said Mikhailishin.

Moving forward

The bill is coming as good news for electricity companies which have so far struggled to prove that Russia-based crypto miners for commercial purposes. The creation of the crypto miner registry is likely to close this issue. However, the inability to take advantage of cheap electricity any longer may drive some crypto miners out of business or force them to relocate to another country.

Still, these new regulations are likely to deal a hard blow to the crypto exchange infrastructure, which has been active in Russia for years.

All kinds of "independent exchanges and exchangers" physically located in Russia will definitely come to an end, Giorgi Okrochemdlishvili, a senior analyst ITSWM, was quoted as saying by Forbes Russia.

Russia has an estimated 20mn private owners of cryptocurrency wallets, but inability to use the Russian crypto infrastructure would force them to switch to foreign exchanges and most of these have cut Russians off since the invasion of Ukraine in 2022. ●



Environmental disaster awaits all the countries of the Caspian. / bne IntelliNews



bne:Green

Caspian Sea water levels dropping cause alarm in Iran's north

bne Tehran bureau

Ahmad Donyamali, an Iranian MP from Anzali on the Caspian coast, has raised serious concerns in the country's parliament over the falling water levels of the Caspian Sea, which he says are damaging the Anzali Lagoon.

The Caspian Sea, the largest inland body of water globally, has been experiencing a massive decrease in water levels over the past decade. This decline, attributed to climate change and upstream diversions, is endangering its unique ecosystem, which has been the lifeblood of both humans and animals for millennia. The Caspian has shorelines in five countries: Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Kazakhstan's section is the shallowest, while Iran has the deepest in the south.

The sea is home to over 400 indigenous species, including the endangered Caspian sturgeon and rare freshwater seals. Pollution from industrial waste, untreated sewage, and agricultural runoff has worsened the situation, posing severe risks to the sea's flora and fauna.

The Iranian MP urged the government to create a new presidential commission to tackle the ongoing drop in the Caspian Sea's level, and create a working group across the country and with neighbours as a priority.

He said the economic implications are also "significant," adding that ports and docks in "coastal regions on the coastline" are becoming less accessible, disrupting shipping and transit operations to the country with its neighbours in Russia and Kazakhstan.

Meanwhile, further north, the Volga River, a crucial water source for the Caspian Sea, has suffered from a lack of maintenance, exacerbating navigation issues in recent years with the silting up of the river and its tributaries causing several ships to run aground.

In his address, Donyamali urged the Supreme Council of Free Zones to prioritise development efforts in Anzali and called for annual reviews and potential amendments to

parliamentary procedures to enhance legislative efficiency.

Projections indicate that the Caspian Sea's water levels could drop by 9 to 18 metres by the end of the century, potentially reducing its surface area by 23 to 34%.

Such a decline would have catastrophic ecological and human impacts, including the desiccation of major areas like the northern Caspian shelf and coastal regions.

In June 2023, government officials in Kazakhstan raised the alarm over what they said is the critically low level of the Caspian Sea.

City hall in Aktau, the capital of the western Mangystau region, said in a statement on June 8 that it was declaring a state of emergency over a situation that poses a grave risk to the maritime industry.

The retreat of the Caspian Sea from Kazakhstan's coast began in 2005. Since then, the level has dropped by one-and-a-half meters. And yet whenever environmentalists and activists have shared their concerns by posting photos and videos of the exposed, stone-strewn seabed extending at times for hundreds of meters to the shoreline, the authorities have largely been mute. ●

European election results could spell further backtracking on climate policy

Newsbase

Critics of Ursula von der Leyen's climate policy say it has exacerbated the energy crisis and Europe's resulting deindustrialisation.

WHAT: The upcoming European parliamentary elections will have a significant bearing on future EU climate policy.

WHY: There has been a backlash against climate policy in light of the energy crisis and resulting deindustrialisation.

WHAT NEXT: There could be further backtracking on policy if predictions of a shift in Parliament to the far right materialise.

Results from the European Parliament elections next month could have major implications for the EU Green Deal and other climate policy, with far-right politicians expected to win more seats.

The elections, due to take place on June 6-9, will be followed by negotiations by lawmakers over who should take the top positions in Brussels, including the presidency of the European Commission. Current President Ursula von der Leyen has presided over a very ambitious climate agenda, enshrined in the European Green Deal, introduced within two months of the start of her presidency in December 2019. At its core, the deal set the goal of reducing greenhouse gas (GHG) emissions by 55% by 2030, versus 1990 levels, and bringing them to net zero by 2050.

However, the 2022 energy crisis and soaring high gas and power prices has led to a reassessment of green goals. Those against von der Leyen's agenda argue that not enough attention has been paid to energy security and affordability,

exacerbating the crisis triggered by Russia's drastic cuts to European gas supply. Cuts in investment in natural gas supply also led to a resurgence in coal use, causing some reversal of progress.

The EU is also struggling to keep on track with its lofty targets. As of 2022, its GHG emissions were down only 32.5% versus 1990 levels, meaning there is also a significant way to go.

At the same time, the European economy is stagnating, primarily because of high energy prices, leading to calls for more focus on economic growth rather than sustainability. European industry has become less competitive versus industry in places with cheaper energy such as the US and China.

The vice president of the current Commission, Maros Sefcovic, lamented at the poor state of affairs at an informal meeting of EU energy ministers in April, noting that the bloc was paying three to four times more for its natural gas than China and the US, putting huge pressure on its energy-intensive industry. High energy prices were also driving high inflation in Europe, he said, adding that the energy crisis had cost the European economy some €1 trillion (\$1.06 trillion).

One of the countries hardest hit by the energy crisis has been Germany, whose industry used to rely on ample supply of Russian gas. That supply ended in autumn 2022 following the rupturing of the Nord Stream pipelines, and Germany has been scrambling to build up its LNG import capacity to replace it. Germany's chemicals sector in particular has been badly affected, given its high gas use, and is now mired in a deep recession.

German chemical production dropped by 10.6% in 2023, to its lowest level since 1995, according to data released by the country's federal statistics agency, while total production

from industry, energy and construction dropped by 1.5%. Industrial production was down 0.7% year on year, led by a 10.2% fall in production from energy-intensive sectors.

Highlighting the extent of deindustrialisation, German power consumption last year slumped to its lowest level since 1990 last year.

The International Monetary Fund (IMF) last week slashed its growth forecast for Germany's economy in 2024 to only 0.2%, having previously predicted 0.5% growth in January. It expects growth to pick up in 2025, at 1.3%. The EU economy will meanwhile grow by 1.4% this year.

Notably despite being heavily sanctioned, the Russian economy in contrast is expected to grow 3.2% this year – a faster rate than any other advanced economy in the world.

Growing backlash

Current polls predict that der Leyen's conservative European People's Party will likely win the parliamentary elections, but she may have to make concessions to far-right politicians, who are set to increase their number of seats. These concessions could mean watering down some climate plans.

More and more environmental rules and policies are already being challenging and made less strict, whether it be the Nature Restoration Law – a cornerstone of the European Green Deal that has already been weakened by EU lawmakers and governments and now looks set to collapse – or the environmental rules connected with EU farming subsidies,

the Net Zero Industry Act or the Stability and Growth Pact.

The European Green Deal faces criticism already from farmers, industrialists, public opinion and even national governments. While some of its laws have been adopted, such as an end to sales of internal combustion engine cars by 2035, a border carbon tax and rules against goods from deforested zones, progress slowed significantly last year on legislation to reduce the use of chemical pesticides and restore wilderness ecosystems, in light of opposition from farmers.

While the European manufacturing association AEGIS Europe said last September that it supported the Green Deal, it also said it was “extremely concerned about the noticeable deindustrialisation on the continent. And in March, business association BusinessEurope stressed that the next commission should “concentrate on essentials” by tying the deal with a solid policy plan to revive industry.

French President Emmanuel Macron is among several leaders who have called for a pause on the introduction of more environmental regulation, and even von der Leyen – who is seeking another term as commission president – has said the Green Deal should enter a new phase, better factoring in the need to ensure the competitiveness of European agriculture and industry.

The election of a new parliament could hasten the backtracking on climate policy, causing progress on emissions to slow or even reverse. Some politicians will see this as necessary, though, for the sake of protecting economic prosperity. ●



The elections, due to take place on June 6-9, will be followed by negotiations by lawmakers over who should take the top positions in Brussels, including the presidency of the European Commission. / Creative Commons Attribution-Share Alike 3.0

Trees are “coughing not breathing” due to climate crisis stress, study finds

bne IntelliNews

Trees are struggling to trap carbon dioxide in warmer, drier climates, meaning that they may no longer serve as a solution for offsetting humanity's carbon footprint as global warming accelerates, a study by Penn State university found.

“We found that trees in warmer, drier climates are essentially coughing instead of breathing,” said Max Lloyd, assistant research professor of geosciences at Penn State and lead author of the study recently published in Proceedings of the National Academy of Sciences. “They are sending CO₂ right back into the atmosphere far more than trees in cooler, wetter conditions.”

“The biggest drawdown of CO₂ from our atmosphere is photosynthesizing organisms. It's a big knob on the composition of the atmosphere, so that means small changes have a large impact”

Trees typically remove CO₂ from the atmosphere through photosynthesis, yet under stressful conditions, they release CO₂ back into the atmosphere via a process called “photorespiration.”

The researchers demonstrated that photorespiration rates are up to twice as high in warmer climates, particularly when water is scarce. This pattern starts to emerge when average daytime temperatures exceed 20C and gets worse as temperatures rise further.

Last year was the hottest year on record and global warming is



As temperatures rise trees become stressed and take less CO₂ out of the air. / bne IntelliNews

accelerating as the climate models are wrong, underestimating the rate at which temperatures are rising.

“Plants and climate are inextricably linked,” Lloyd said as cited by Science Daily. “The biggest drawdown of CO₂ from our atmosphere is photosynthesizing organisms. It's a big knob on the composition of the atmosphere, so that means small changes have a large impact.”

Plants currently absorb an estimated 25% of the CO₂ emitted by human activities each year, according to the US Department of Energy. However, as the climate warms and water becomes scarcer, this proportion is expected to decline. “The world will be getting warmer, which means plants will be less able to draw down that CO₂,” Lloyd added.

As part of the changes caused by the climate crisis, last year the Amazon basin suffered from a severe drought while the whole of South America suffered from record heat waves. The Amazon rainforest absorbs a quarter of all the CO₂ absorbed by all the land on Earth. The amount absorbed today, however, is already 30% less than it was in the 1990s because of deforestation and now the forest is becoming stressed that share is likely to fall further.

Previously, studying photorespiration was nearly impossible at scale due to the reliance on real-time measurements in living plants or well-preserved specimens. The Penn study came up with a new method using isotopes that offers researchers a tool for predicting how well trees might “breathe” in the future and how they coped with different climates in the past. ●

“The world will be getting warmer, which means plants will be less able to draw down that CO₂”

RUSSIA'S DESPAIR INDEX RESULT IS THE BEST EVER, WHILE UKRAINE'S CRASHES

Ben Aris in Berlin



Ukraine's despair index has tumbled to 61.3, one of its worst results in the last three decades, while Russia's despair index has improved to 19.7 as of March, its best result ever.

bne *IntelliNews* invented the despair index in a piece entitled "The poverty of nations" in 2011 as a way to better compare the pain of transition. The index is a rough measure of the amount of pain the more vulnerable parts of society in emerging economies feel during crises. Based on the more widely known "misery index", the addition of inflation and unemployment, *bne IntelliNews* added poverty levels to the indicator to better reflect the hardships that many emerging markets suffer.

As a result, the index is especially good at indicating the amount of pain felt by the bottom third of a society in, for example, an oil-rich country such as Russia, where the billions earned from exports artificially push the aggregate indicators up to make them look richer than they are at street level.

An ideal despair index should score below a value of ten if residual indicators are taken into account: inflation (2%) + residual unemployment (4%) + poverty (0%). Unfortunately, while 2% inflation and 4% unemployment are regularly reported, no countries have ever managed to eradicate poverty, which runs at least 12% in the developed world and averages in the mid-teens or above in most developing countries.

Of course, where you set the bar for poverty makes a big difference and each country has a different level, making direct comparisons between countries problematic. And what constitutes poverty is a subjective measure, as a poor man in Britain would be considered a rich man in India, but the perceived level of poverty has important political consequences for the government of each country, making the despair index relevant and cross-country comparisons useful, especially in countries in roughly the same development bracket.

Russian despair

Ukraine's despair index spiked following the start of the war just over two years ago, driven up by soaring inflation, rising unemployment and increasing poverty levels, while the metric for Russia peaked in April 2022, but then rapidly fell again to normal levels.

Russia posted a despair index of 21.1 in 2021, which surprisingly put it ahead of all of Western Europe countries in *bne IntelliNews'* despair index survey in May 2020, where all the EU countries were reporting results in the high-20s to mid-30s thanks to soaring inflation

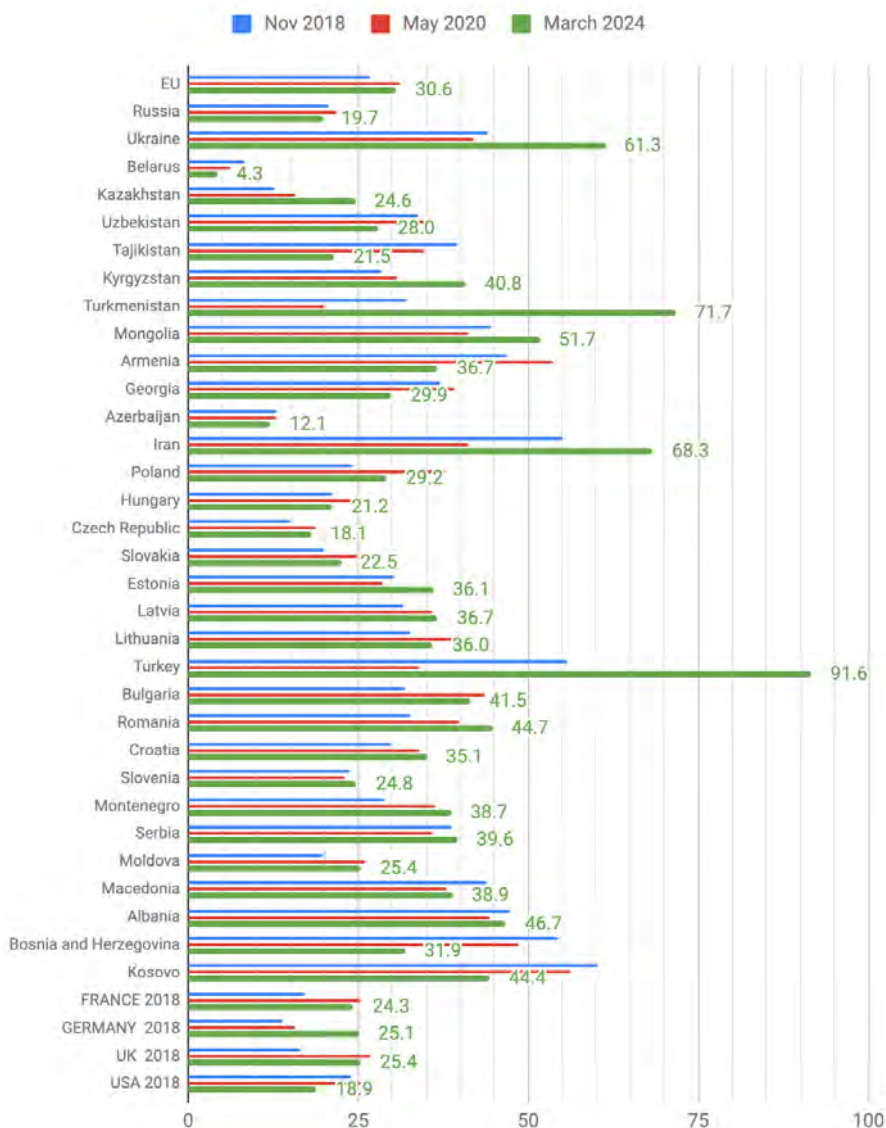
and high post-Covid levels of poverty as the cost-of-living crisis got underway.

The poverty line in Russia is set at RUB12,916 (\$221.26) against the national average income of \$765 per month in 2021 and Russia had a poverty ratio of 14.5% before the war in Ukraine started. The poverty line was adjusted up to RUB14,339 (\$158.92) per month in 2023, but the weakening ruble has reduced it in dollar terms.

The initial months of the war were difficult for Russia after inflation took off, increasing the index to just over 30

Despair index 2018 - 2024

index = inflation + unemployment + poverty



Source: bne, national stats, World Bank, Eurostat

in the first quarter of 2022 after inflation briefly hit 20% in May of that year and a jump in unemployment, taking Russia's despair index up to briefly touch 42.5, but it soon fell back again after the Central Bank of Russia (CBR) took drastic action to stabilise the economy.

As Moscow's military spending-fuelled boom got underway the number of Russians living below the poverty line began to fall and numbered 20.9mn people by the end of 2022, according to RosStat estimates.

Despite the reporting, poverty in Russia has always been relatively modest and on a par with the lower end of most EU countries, which had a poverty level of 21.7% in 2020 according to Eurostat before the various crises hit the globe and increased it.

In 2023 the economy began to boom as Putin put Russia on a war footing and all these indicators have come down dramatically. Inflation is still high, but a much more manageable 7.8% in April. Poverty has also fallen to 9.3%, *Reuters* reports. And it will fall further, according to Russian President Vladimir Putin, who has tasked the new government with bringing it under 8% as part of the renewed National Projects 2.1 programme.

During Putin's re-election campaign he said poverty was still an acute problem that directly affects 9% of the population, and with the rate among large families above 30%, but he set a goal for those rates to fall below 7% and 12% respectively by 2030. He promised the state would spend at least RUB10 trillion (\$110bn) on the social sector as part of his guns and butter long-term plans to develop Russia's economy.

In the meantime, the economy is already growing strongly and real wages are rising quickly thanks to the very tight labour markets, which have also driven down unemployment to a record post-Soviet low of only 2.8%. According to the latest World Bank data, the Russian economy overtook Japan to become the fourth-largest economy in the world in purchasing power parity

(PPP) terms, behind China, the US and India, in that order.

Taken together, Russia currently has a despair index rating of 19.7, its lowest level since 1991.

Even in the pre-war boom years when inflation fell briefly to a record low of 2.7% and unemployment was 2.9%, poverty remained at a sticky circa 14%, which puts the current despair index on a par with Russia's best ever despair index performance.

As *bne IntelliNews* has reported, one of the quirks of this war has been that Russia's poorest regions have been the biggest winners, as that is where most of the military factories are located. The war in Ukraine has acted to undo some of Russia's legendary income inequality, if the Kremlin's poverty figures are to be believed.

Ukrainian despair

Ukraine has been a lot less lucky. In 2020 before the war Ukraine's despair index was 42.7. Unemployment was stuck at 13% and with the second-lowest average incomes in Europe, the poverty level was 27%. The good news was the National Bank of Ukraine (NBU) was one of the first central banks in Europe to anticipate the spiking prices that followed the coronavirus pandemic and smothered inflation to a remarkable 2.7% before the war started.

Assessing the situation in Ukraine today is hard, as many of the economic indicators are no longer being reported other than inflation, which was 15.5% in May but has been falling steadily for months.

No official unemployment statistics have been released since the war started and presumably Ukraine is in the same position as Russia, grappling with an acute shortage of labour thanks to the war. However, an unofficial estimate of the unemployment rate in April was 16.8%. More than a fifth of the adult population who were working before the war lost their jobs after the war started, according to the World Bank.

The labour force in Ukraine has decreased by 27% due to mobilisation, and personnel shortages are reducing productivity, which could have an impact on the country's defence capabilities. "This is a political problem that cannot be resolved with the help of allies. Labour shortages provide Russia with a strategic advantage," said Alexander Isakov, head of Russia and CIS macroeconomics at *Bloomberg*.

Poverty is likewise hard to measure and there have been no official data releases since Moscow's invasion, but Ukraine was already the poorest country in Europe before the war started. In May the World Bank estimated that a third (29%, or about 9mn people) of the population is now living below the poverty line. The World Bank says 1.8mn more Ukrainians are now living in poverty since 2020, and while the situation is dire, it would be much worse if Ukraine had not received foreign aid to help pay for pensions and salaries.

Another proxy indicator of poverty – the proportion of people surveyed who have to save on food – was 17.9% in April 2024, according to the Info Sapiens research agency.

Taken together, that gives Ukraine a despair index of 61.3, a level comparable to all of the worst crises of the last two decades.

Comparing countries

None of the despair indices today are anything like those recorded in the first years after the collapse of the Soviet Union. All of the countries in our sample have emerged from that chaos and are now simply trying to build on the progress made.

For example, life for Russians at the start of the 1990s was truly horrible. The International Monetary Fund-sponsored "shock therapy" introduced in 1992 freed state controls over prices overnight and sent the prices of staples to the moon: inflation reached a peak of 2,333% in December of the same year (that's 6.4% a day, more than what most countries endure in a year). Unemployment was relatively mild

at 5.7% in 1993, but the 27.9% of the population living in poverty gave a despair index score of 2,367, which is off the scale when compared with those of any and all other emerging markets, the worst of which saw their levels reach the lower hundreds at the worst.

The results for other former Warsaw bloc countries were an order of magnitude lower, but even countries such as Hungary and Poland had despair scores of well over 200. Poland's proximity to Western Europe and economic reforms brought the despair index down to 37 by the time it joined the EU in 2003 but even Russia had wrestled its score down to 28 that same year.

Putting aside the danger of comparing apples and oranges, how does Russia's despair index of 19.7 and Ukraine's of 61.3 compare against the other countries of the world?

US: The poverty rate in the US was 11.5% in February – more than Russia's poverty rate now – unemployment was 3.9% and inflation was 3.4% in April, giving it a despair index of 18.8 – slightly better than Russia's result and better than almost all of the EU countries.

However, analysts worry that the US population is living on borrowed time, as the cost of living continues to climb and the increases are being financed by burgeoning credit.

Data released by the Federal Reserve Bank of New York in April shows that people have never taken out loans so quickly as they are doing at the moment. At the end of the first quarter US household debt reached a record level: total debt has climbed to \$17.69 trillion, a rise of \$184bn, or 1.1%, compared to the fourth quarter of 2023, as people increasingly max out their credit cards; about one in six credit card users utilises at least 90% of their available limit.

In Russia's credit cards are also fuelling a consumer boom that has worried the CBR. "This significant growth [in consumer borrowing in the first quarter] may be linked to increased household incomes, which have

sustained high consumer activity. The primary driver of this growth is the credit card segment, where interest rates have traditionally been higher and thus less sensitive to changes in market rates," the CBR said in its latest bank sector assessment. But the regulator has introduced new macroprudential limits that have tightened the borrowing conditions on credit card use in an effort to pop a potential credit card bubble before it forms.

China: Economic growth has slowed in China, which is grappling with several macroeconomic headaches, but it also has a modest despair index. Inflation was a very low 0.5% in April and unemployment was a modest 5%. Like elsewhere, measuring poverty in China is difficult, but the World Bank estimates China's poverty rate will continue its rapid reduction in recent

"None of the despair indices today are anything like those recorded in the first years after the collapse of the Soviet Union. All of the countries in our sample have emerged from that chaos"

years thanks to the ongoing economic transformation, and it will fall to 15.3% this year before shrinking further to 13.6% in 2025.

Taken together, that gives China a despair index of 19, a shade better than Russia's level and just behind the US level.

India: Indian poverty is also declining and was 11.3% in January, although the government claims that it has fallen to only 5% in the last month as part of a hotly contested general election. But with a poverty line set at only \$12 a month, what passes for the middle class in India would be labelled as being in deep poverty for most of its emerging market peers. Unemployment was an average of 7.6 in March, and inflation 4.8%.

Taken together that gives India a despair index of 23.5, better than the majority of EU countries.

Europe and Eurasia: The picture varies widely in Europe and Eurasia but despair indices range between 20 and 40 for most of the countries in this region.

From the Western European leaders all of the big three of France, German and UK have despair indices of 24.3, 25.1 and 25.4 respectively.

In Central Asia Kazakhstan and Uzbekistan have despair index values of 24.6 and 28 respectively, where none of the three variables are extreme but all are at elevated levels, as they are still in the earlier stages of transition.

In the Caucasus, oil-rich Azerbaijan is the outstanding leader with a despair index of only 12.1 – the lowest result by far in our sample group. What pulls the score down is the government's claim

that poverty is only 5.5%, also reported by the Asian Development Bank (ADB), an extremely low level given that almost all countries in both the developed and developing worlds struggle to get the rate below 10%. But with a poverty rate of \$3.65 and a government flush with oil revenues, social support is available for those that struggle. Georgia and Armenia have more typical scores of 29.9 and 36.7 respectively. Armenia has been reporting deflation in recent months, but it continues to carry the burden of a high level of poverty for 24.8% of the population that drags its result down.

Turkey is also a standout poor performer with a huge despair index score of 91.5 – usually a score only seen in the midst of a deep crisis and by far the highest result in our sample group. ●



Spending on the military has soared to \$140bn a year, but in parallel the budget for the National Projects has also expanded as Putin tries to find a balance between "guns and butter." / bne IntelliNews

"Guns and butter" are both important, Putin tells military commanders

Ben Aris in Berlin

Federal budget expenditures for implementation of National Projects will total RUB3.008 trillion (\$33.3bn) in 2024, the Russian Finance Ministry told TASS, or just under a quarter of what is being spent on defence.

"The Federal Law "On the federal budget for 2024 and the planned period of 2025 and 2026" provides RUB3.008.4 trillion for implementation of National Projects in 2024. The largest amount of budget allocations in 2024 is provided for implementation of the following National Projects: Demography - RUB890bn (\$9.9bn), Safe Quality Roads - RUB621.4bn (\$6.9bn), Healthcare - RUB283.8bn (\$3.15bn), and Education - RUB237.2bn (\$2.6bn)," the ministry said.

Federal budget spending for National Projects provisionally totalled RUB2.53 trillion (\$28bn) or 84.5% of planned allocations as of December 1, 2023, the ministry said earlier.

Following the recent cabinet reshuffle, technocratic economist and close Putin ally Andrei Belousov has been appointed Defence Minister in a move that is seen as an effort to improve the efficiency of the military spending.

However, spending on the 12 National Projects that were launched in 2019 has also been ramped up. Belousov played a leading role in drawing up that plan which has recently been dramatically expanded under National Projects 2.1.

"While increasing our defence and security expenditures, we bear in mind that all our social obligations to the people must be fulfilled, and that our national development goals must be achieved in all spheres, including in social protection," Russian President Vladimir Putin said at a meeting with his military district commanders on May 16.

Putin explained he was referring to education, healthcare, support for veterans, pensions and the like.

"All this must certainly be done while the growing defence spending is growing. At the same time, we see and understand that growing defence and security expenses are also intrinsically connected, one way or another, with civilian industries, which is boosting economic development as a whole and increasing the number of jobs (the unemployment rate is currently at a historic low in the country)," Putin added. "However, this connection between "guns" and "butter" must be organically incorporated into the general development strategy of the Russian state."

While military spending has overtaken social spending for the first time ever, spending on the National projects is already equivalent to a quarter of what

is being spent on defence and one of the budget's biggest expenditures.

The total spending on the military this year is slated to be RUB12.8 trillion (\$140) in the current budget plan, up nearly a third (29%) from last year's RUB6.58 trillion (\$84bn) and RUB4.7 trillion (\$75bn) in 2022.

"Andrei Belousov has been appointed defence minister, not least because of the growing defence expenses. I would like to remind you that the Soviet Union's aggregate defence and security spending amounted to approximately 13% [of GDP] in the mid-1980s. In 2024, our total spending on defence and security will be about or slightly more than 8.7%. The approximate figure will be 8.7%. This is less than the 13% the Soviet Union spent, but it is still a considerable sum and a major resource, which we should use

sparingly yet effectively," Putin said.

Andrei Belousov had been Minister of Economic Development and a president's aide in the Presidential Executive Office, and for the past few years he was First Deputy Prime Minister in charge of economic matters.

"It goes without saying that he knows very well what should be done to incorporate the economy of our defence and security sector, and the Defence Ministry as its core element, into the national economy. This is extremely important. What I mean is that it will determine the innovative development of our industries with due regard for our economic and budget capabilities," Putin added.

The danger the Russian economy faces is long-term stagnation. As a lot of

civilian production has been switched to military output and capacity utilisation is already at a record high of 81%, at some point post-war this non-productive production will have to be switched back to civilian output.

The investments into the National Projects are intended to start this process now and support pro-growth sectors like construction, to soften the pain of that transition. In general, Putin is also keen to keep life at home as normal as possible to head off any potential protests against the war and its cost to the Russian economy in order to keep his grip on power. Everyday life in Russia has so far been largely unchanged by the war in Ukraine and indeed with nominal wages rising much faster than inflation real incomes have been rising, and that has been fuelling a consumption boom. ●

Ukraine's strategy of hitting Russian oil refineries is working

Ben Aris in Berlin

Ukraine's strikes on Russian oil refineries are doing what oil sanctions have failed to achieve: reducing the Kremlin's income from oil production, limiting its supply of fuel for the army and pushing up domestic prices, but without affecting the international markets for oil. Despite US fears, the effect of the attacks will be to drive international oil prices down, not up.

Since the drone war started earlier this year, new long-distance drones have struck at least 20 targets deep in Russian territory, causing fires and threatening to put refineries out of action for weeks as increasingly difficult to effect repairs are carried out.

The attacks do not destroy refineries. Thanks to the legacy of the Cold War, most refineries were built to withstand attack and have air defences, as *bne IntelliNews* reported in an article

looking at how much damage Ukraine's drone attacks on oil refineries can do.

Nevertheless, Russia's oil products production has fallen by an estimated 14% between January and March as a result, causing shortages for the civilian population, if not for industry and the military; Russia has significant over-production capacity to enable exports and only an estimated 40% of its refineries are in range. But the attacks have already caused the domestic prices for oil and diesel to surge.

The attacks have compelled Moscow to implement a six-month ban on gasoline exports and import gasoline from Belarus as well as asking Kazakhstan to create a reserve of 100,000 barrels in case of emergencies. One of the world's largest oil producers has been forced to slash its refining capacity, which is damaging the economy it relies on to

fund the ongoing war in Ukraine.

Ukrainian strikes have achieved what Western sanctions have not: a reduction in Russia's ability to convert crude oil into the fuels needed to power its military.

But the strategy has made the US very nervous, with Secretary of Defence Lloyd Austin expressing concerns that these strikes might "have a knock-on effect in terms of the global energy situation" by pushing up global oil prices. That hasn't happened.

Ukraine insists that targeting Russia's refineries will instead drive down international oil prices. By limiting Russia's refining capabilities, Ukraine effectively forces Moscow to export more crude oil, increasing supply and driving prices down.

"Russia is exporting more crude, while its refined exports have hit near-historic



The US feared that Ukraine's drone strikes on Russian oil refineries would cause oil prices to spike. In fact they are having the opposite effect, and the strategy is proving to be more effective than the Western oil sanctions regime. / bne IntelliNews

lows," Tymofiy Mylovanov, rector of the Kyiv School of Economics (KSE) and former economics minister, said in a tweet.

"Moscow exported just over 712,000 tonnes of diesel and other petroleum products in the last week of April, a drop from more than 844,000 tonnes in the same week in 2023," Mylovanov added. Monthly exports of crude oil, however, rose by 9% from February to March, reaching their highest level in nine months and their third highest since Western sanctions on Russian crude oil took effect in December 2022.

To drive the point home, a Ukrainian drone hit a Gazprom oil refinery in Salavat (Salavatnefteorgsintez) in Russia's republic of Bashkortostan 1,500 km from the Ukrainian border, the first time the region has been struck since the war started.

"This Gazprom refinery is one of Russia's largest oil refining and petrochemical production complexes. It specialises in the production of gasoline, diesel fuel and other types of petroleum products. In 2022, the Salavat refinery processed 6.7mn tonnes of oil," Mylovanov said.

In 2023, Russia produced approximately 10.1mn barrels per day (bpd) of oil – about the same level as pre-war – half of which was refined domestically to produce fuel products, including gasoline and diesel, consumed by the military and the domestic market. The remaining 50% was exported

as crude oil to refineries abroad. Although Russia continues to export fuel products to Turkey, China and Brazil, most Western nations have ceased importing Russian refined fuels. The Ukrainian strikes have knocked out up to 900,000 bpd of Russian refining capacity, leading to repair delays due to complex equipment and Western sanctions preventing access to specialised components.

With limited oil storage capacity, Russia faces a tough choice: either increase crude oil exports at lower prices or shut wells. Should Russia halt production, global oil prices would rise, driving up Russia's own costs for fuel, but reducing the oil export revenues it needs to cushion the blow.

And Russia is already ramping up crude oil exports as the production of refined products fall, with monthly shipments rising by 9% between February and March, reaching a nine-month high. Conversely, the country's refined fuel exports have plummeted. The Ukrainian strategy is working and is inflicting palpable pain on Russia's oil business. Diesel production has fallen by 16%, and gasoline production by 9% since Ukraine began targeting Russian refineries.

Wholesale fuel prices in Russia have surged due to the reduced refining capacity. Gasoline prices rose by 23%, and diesel prices jumped by 47% in western Russia between the end of 2023 and mid-March, according to KSE.

Gasoline hit a six-month high in April, rising over 20% from January, forcing the Kremlin to ask for help from its friends in Belarus and Kazakhstan.

Russian consumers have so far been shielded from the wholesale price hikes, but retail diesel prices surged by 10% in the last week of April. This indicates that oil companies might be absorbing the price increases, reducing their margins, or that the Kremlin has expanded fuel subsidies.

Despite its success, the strikes on oil refineries is not going to stop the war anytime soon; crude oil exports may be increasing their share in exports, but the current high oil prices, supported by the OPEC+ voluntary production cuts, have led to a surge in income for Russia's budget.

Russian oil export revenues surged to \$17.2bn in March 2024, driven by higher global oil prices and increased crude export volumes, according to the April 'Russian Oil Tracker' by KSE Institute. Despite robust US Treasury sanctions targeting the shadow fleet, Russia continues to expand it by incorporating new tankers, allowing for stable exports and further evasion of oil price cap. Russian seaborne oil exports rose by 4% in March, driven by a 12% increase in crude oil shipments (+400,000 bpd), while exports of oil products declined by 6%.

However, the one place where the strain on the system is already showing up is that the discount that Russia has to offer customers is rising again and reached \$18 at the end of last year, according to KSE, from a low of \$13.7 dollars in October. Previously, analysts were predicting that the discount could fall to as low as \$10 this year, due to the success of redirecting all of Russia's oil exports from Europe to Asia.

In the end, Ukraine's strikes have weakened Russia's refining capacity without significantly affecting global oil prices, reducing the Kremlin's income and increasing domestic fuel costs, all while forcing Russia to rely more on crude oil exports to sustain its economy. ●

Russia hits Ukrainian power facilities in six regions with intense missile attack, imports from EU won't cover winter demand

bne IntelliNews

Russian forces launched an intense missile attack on Ukraine's energy infrastructure in six regions on May 8. Half of Ukraine's power facilities are now out of action, reducing generating capacity to the point where the deficit can't be covered by imports.

The attack caused significant damage to electricity generation and transmission networks in Poltava, Kirovohrad, Zaporizhzhya, Lviv, Ivano-Frankivsk, and Vinnytsia, according to Ukraine's Energy Ministry.

"Another massive attack on our energy sector! Electricity generation and transmission facilities in the Poltava, Kirovohrad, Zaporizhzhia, Lviv, Ivano-Frankivsk, and Vinnytsia regions were attacked," said Energy Minister Herman Halushchenko.

Ukrenergo, Ukraine's national energy provider, warned of potential rolling blackouts between 6pm and 11 pm. Kyiv has also requested emergency assistance from EU nations.

The Ministry urged Ukrainians to conserve electricity during peak hours to help alleviate pressure on the grid. "Saving electricity is the contribution of each of us to victory. Responsible consumption in the morning and evening hours is especially important," read a statement by the ministry.

Ukraine has been under a barrage of missile attacks since January, which intensified in March when Ukraine began to run out of air defence ammunition. Several of Ukraine's largest power stations have been completely destroyed.

Following the latest large-scale attack on 8 May, the loss of power generation is so significant that energy imports from

Europe are not able to fully compensate for the deficit in the power system this winter, Volodymyr Kudrytskyi, head of Ukraine's national energy company Ukrenergo told Ukrainska Pravda.

Kudrytskyi said that the restriction of power supply for industrial consumers, announced earlier, "is almost guaranteed", and for household consumers, it "depends on how much energy we will be able to save, voluntarily limiting our energy supply".

"Many important power stations were damaged, including three power stations of the DTEK company and two hydroelectric power plants, so we can really feel this deficit," Kudrytskyi told Ukrayinska Pravda.

"The damage is quite large-scale, and the loss in power generation is significant. It is so considerable that even power imports from Europe are not able to fully compensate for the deficit in the power system," he added.

Russia's Defence Ministry said that the strikes were in retaliation for Kyiv's alleged attempts to attack Russian energy infrastructure, Tass reports. A drone war that began in January has escalated as each side targets the other's energy facilities. Ukraine's power infrastructure is in danger of being destroyed while Russia's oil refineries have been hit by Ukraine's drones reducing their output.

"A combined strike was delivered using drones, sea- and air-launched precision weapons, including Kinzhal hypersonic ballistic missiles, targeting Ukraine's energy and military-industrial enterprises," Russia's Defence Ministry claimed.

The attacks also targeted Ukraine's military production factories aimed to

degrade Ukraine's capacity to produce military equipment and hinder its ability to deploy Western-made weapons to the frontline.

The nationwide air raid alerts began around 4am, lasting more than two hours before a second alert was issued just 20 minutes later. Explosions were reported in Kyiv, Kharkiv, and the regions of Ivano-Frankivsk, Lviv, Poltava, Zaporizhzhya, and Kherson, prompting power and water outages in various areas.

Ukrenergo confirmed that key equipment at one of its central power facilities was damaged, while the DTEK energy holding reported severe damage to three thermal power plants.

In response to the strikes, Poland and its allied forces scrambled warplanes after detecting active Russian aircraft operations.

As power engineers worked to restore energy supplies, Halushchenko reiterated the importance of responsible consumption during peak hours to support efforts toward recovery and stability.

The dispatch centre of Ukrenergo is already restricting energy supplies to industry and businesses between 6pm and 11pm. ●



Russian forces launched an intense missile attack on Ukraine's energy infrastructure in six regions further denigrating Ukraine's generation capacity to the point where authorities worry imports won't cover this winter's demand. / bne IntelliNews



Photo: Leader.ir

President Raisi's death and its implications for Iran and the region

bne Tehran bureau

The sudden death of Iran's President Ebrahim Raisi in a helicopter crash on May 19 has cast a shadow of uncertainty over the country's political future, especially concerning the succession of the Supreme Leader. However, Iran's entrenched balance of power suggests that there will be no immediate seismic economic or foreign policy shifts anytime soon.

Iran's sanctions-battered economy is set to continue struggling, and tensions with Israel and the West are likely to persist. Yet, the international response to Raisi's death underscores a significant thawing in relations with the Persian Gulf states, including previously long-time competitors like Saudi Arabia. Iranian state media confirmed that President Raisi, Foreign Minister Amir-Abdollahian, and six others perished when their helicopter crashed near the Azerbaijan border. In response, Supreme Leader Ayatollah

Ali Khamenei has declared five days of mourning and the closure of the country's economy.

Raisi, elected in 2021 as a hardline candidate, had pledged to crack down on corruption, revive the JCPOA nuclear deal, and improve regional relations. While the JCPOA nearly saw a revival in 2022 under Amir-Abdollahian's watch before mass protests erupted, Raisi's tenure did see the resumption

“The larger question looming over Iran is who will succeed Ayatollah Khamenei as Supreme Leader”

of diplomatic ties with Saudi Arabia, entrances to the Shanghai Cooperation Organisation (SCO), launch of regional projects like the joint dam with Azerbaijan and membership to the exclusive BRICS+ club.

In the wake of the crash, Ali Bagheri Kani has been promoted to Foreign Minister, stepping up from his previous role as deputy. First Vice President Mohammad Mokhber will serve as interim president until an election is held within the next 50 days. The Guardian Council, a body of clerics and lawyers, will determine the candidates. The 2021 election faced criticism for barring hardliners and reformists, clearing the path for Raisi's victory.

The larger question looming over Iran is who will succeed Ayatollah Khamenei as Supreme Leader. Raisi was seen as a close ally and potential successor. His death shifts the focus to other possible candidates, including the Supreme



Leader's son, Mojtaba Khamenei, former President Hassan Rouhani, and Hassan Khomeini, the founder of the Islamic Republic's grandchild.

Despite these internal shifts, the Supreme Leader, Guardian Council, National Assembly, and the Iranian Revolutionary Guard Corps (IRGC) wield substantial influence, diluting the president's power. Consequently, Raisi's passing is unlikely to precipitate immediate changes in policy. Economic challenges will persist, with Iran's economy showing modest growth primarily due to increased oil production. Nevertheless, ongoing sanctions severely restrict hard currency inflows, causing the rial to plummet and fuelling persistent double-digit inflation.

The potential for tighter sanctions remains, particularly if Donald Trump were to regain the US presidency and revive his hardline stance against Iran. Additionally, with significant economic resources controlled by the IRGC, regional tensions, particularly with Israel, will continue to see the military prioritised over business interests. Geopolitically, Iran's stance is expected to remain steadfast. Hopes for reviving nuclear deal negotiations have stalled, and while direct conflict with Israel has recently de-escalated, Iran's support for its proxies like the Houthis continues unabated. This implies ongoing regional instability, affecting non-Gulf economies such as Egypt.

Conversely, a new president might seek to sustain the momentum in improving relations with Gulf states, which have extended condolences after Raisi's death. Saudi Arabia and the UAE, referring to Iran as a "sisterly regime," highlight the positive shift in regional dynamics. Improved relations between Iran and the Gulf reduce the risk of broader conflict disrupting oil supplies from the region. In sum, while Raisi's untimely death raises questions about Iran's immediate political trajectory, there remains little chance that while Khamenei remains at the top of the power structure, any significant change in direction is on the horizon. ●

EXPLAINER

What happens when an Iranian president dies in office?

bne Tehran bureau

The death of President Ebrahim Raisi following a helicopter crash at the age of 63 has sent shockwaves through Iran, and now the process of finding his successor begins.

According to the Iranian constitution, the mantle of leadership now falls to the first vice president, Mohammad Mokhber. However, his ascent to the presidency is contingent upon the approval of Supreme Leader Ayatollah Ali Khamenei.

This sudden shift in leadership highlights the unique structure of Iran's political hierarchy as well as the next supreme leader role which was pegged for Raisi. At the apex is the Supreme Leader, who wields ultimate authority over the state. The president, as head of the government, serves as the second-in-command, managing the day-to-day affairs and representing the country on the global stage.

The unexpected death of a sitting president thus places the first vice president in a critical position, tasked with maintaining continuity and stability during a potentially turbulent transition.

Mohammad Mokhber, known for his administrative prowess and loyalty to the principles of the Islamic Republic, is now poised to step into the role of acting president. His immediate challenge will be to reassure both the Iranian populace and the international community of Iran's stability and continued adherence to its policies.

The Supreme Leader's endorsement will be crucial in legitimizing Mokhber's temporary leadership, setting the stage for the next phase of governance.

According to Iranian law, Mokhber's tenure as acting president is limited to a 50-day period, during which an election must be held to choose a new president. This accelerated timeline imposes a significant burden on the nation's electoral infrastructure and political institutions. In a country where political dynamics are complex and often contentious, the rapid organization of a presidential election could exacerbate existing tensions.

The immediate implications of Raisi's death and Mokhber's potential interim presidency are multifaceted. Domestically, the government must address ongoing economic hardships and public discontent, which have been exacerbated by international sanctions and the COVID-19 pandemic.

Mokhber's leadership will be scrutinised for its effectiveness in navigating these challenges and maintaining public order.

On the international front, Iran's foreign policy, particularly regarding its nuclear programme and relations with neighbours and Western nations, will come under intense observation. The transition period could either present an opportunity for diplomatic engagement or risk escalating tensions, depending on the actions and rhetoric of Iran's interim leadership.

The Supreme Leader's role in this transition cannot be understated. Ayatollah Khamenei's support for Mokhber will be pivotal in ensuring a smooth handover of power and mitigating potential power struggles within the Iranian political elite. His guidance will likely shape the interim administration's policies and strategic decisions during this critical period. ●



Turkey says helicopter carrying Iran's Raisi did not emit transponder signal, adds Turkish drone used to find wreckage

bne IntelliNews

The helicopter that crashed causing the death of Iran's president and foreign minister on the evening of May 19 either did not have its signal system turned on or did not possess such a transponder, Turkish Transport Minister Abdulkadir Uraloglu said on May 20.

Uraloglu informed Turkish media that since neighbouring Iran fell within Turkey's area of responsibility for emergency response, authorities checked for a signal from the helicopter upon hearing news that it had crashed. "But unfortunately, [we think] most likely the signal system was turned off or that the helicopter did not have that signal system," he said, as reported by *Reuters*.

Separately, it has emerged that a Turkish high-altitude, long-endurance (HALE) Akinci drone played a central role in locating the wreckage of the helicopter that was carrying Iranian President Ebrahim Raisi and his delegation, including foreign minister Hossein Amir-Abdollahian.

Iranian search and rescue officials reported late on May 19 that they believed the helicopter had made a "hard landing" in a mountainous area of Iran's East Azerbaijan province, near the border of Azerbaijan, from where Raisi and Amir-Abdollahian were returning to Iran. However, adverse weather conditions, including dense fog and rain, obstructed the search mission for several hours, prompting Tehran to ask Ankara for assistance.

"Tehran requested a night vision search-and-rescue helicopter and technical help," a Turkish diplomatic source told *Middle East Eye* (MEE).

Subsequently, the Turkish defence ministry announced it had dispatched the Akinci drone to assist in the search.

The Akinci, produced by Turkish drone manufacturer Baykar since 2019, can fly at up to 40,000 feet (12,192 metres) and stay airborne for more than 24 hours.

"Akinci has capabilities to operate in hard terrain and foggy weather thanks to its high-altitude flight capabilities and thermal technology," a defence industry source told *MEE*. "It is a very good match in this sense."

As the Akinci conducted its surveillance mission, Turkish state news provider *Anadolu Agency* announced a live stream on social media platform X, which ran footage from the drone.

The stream reportedly attracted 3.1mn viewers at its peak.

After less than two hours surveying for wreckage, the Akinci reported a heat source and instantly shared the image with Iranian officials. Rescue workers reached the wreckage around three hours later.

The coordinates suggested by the Akinci were in close proximity to the crash site, *MEE* quoted a source familiar with the operation as saying.

On May 20, there were posts on X noting that the Akinci's flight path into Iran through Tabriz airspace appeared to include a route taking it over sensitive Iranian military sites, such as the Amand rocket site, Khoi Airport, Tabriz Airport and an Iranian army rapid response base. ●

"It has emerged that a Turkish high-altitude, long-endurance (HALE) Akinci drone played a central role in locating the wreckage of the helicopter that was carrying Iranian President Ebrahim Raisi and his delegation"



The high-altitude, long-endurance Akinci drone can stay airborne for more than 24 hours. / Ukrainian defence ministry, cc-by-sa 4.0

Who will be the next Iranian president following Raisi's death?

bne Tehran bureau

With the death of Iranian President Ebrahim Raisi in a helicopter crash on May 19, many are wondering what happens next in the country of more than 80 million people.

Based on the Constitution, the first vice president, Mohammad Mokhber, will take charge as caretaker president with the nod of the Leader, Ayatollah Ali Khamenei, until an election is held within a maximum of 50 days.

There is no clear leader currently who will lead the country after the next election and which person will take over from Khamenei when he dies – previously tipped to be Ebrahim Raisi, who had been training in the job for a while.

Mohammad Mokhber

Mokhber, 69, is a potential presidential candidate himself. He has a PhD in development management and had been the head of the Execution of Imam Khomeini's Order, a parastatal organisation under the direct control of Ayatollah Khamenei which controlled huge swathes of land and property in the country following the revolution in 1979.

He has also held a position in the Mostazafan Foundation, the second-largest commercial enterprise in Iran, which claims its profits are used to promote the living standards of the disabled and poor individuals.

His sudden temporary rise to power likely surprised him as much as everyone else in the country following the helicopter crash near Uzi close to the border of Azerbaijan.

However, it may not be plain sailing, Mokhber was sanctioned by the European Union in 2012 for "alleged involvement in nuclear or ballistic missile activities," the sanctions were

removed two years later. He came under American sanctions in January 2021 for his role in the crackdown on protesters.

Mohammad Baqer Qalibaf

Long-time presidential wannabe and current parliament speaker Mohammad Baqer Qalibaf, 54, is believed to be another contender. As a former military officer, he has been in top ranks, such as the mayor of Tehran and Iran's chief of police and the revolutionary guards, suggesting a steady hand at the helm of the government.

Qalibaf has run for presidency three times but lost twice in 2005 and 2013 and withdrew in 2017 in favour of Raisi to secure his position in the parliament. He stands a good chance at taking over the government as he remains a stalwart conservative, although more a pragmatist than cleric Raisi.

Mohammad Javad Zarif

Rumours have circulated about former Foreign Minister Mohammad Javad Zarif's intention to run for the presidency as a representative of the so-called Reformists. However, he has repeatedly dismissed the speculations, saying he is happy to work as a university professor.

As a politician favouring normal relations with the West and the United States, Zarif, 64, is most well-known as the architect of the landmark 2015 nuclear deal that lifted international sanctions on Tehran in return for restrictions on its atomic programme.

Mohsen Rezaei

Another long-time presidential hopeful, Mohsen Rezaei, 70, a conservative politician and a senior officer in the IRGC, could be another candidate in the coming snap elections.

He has a reputation for running for the

presidency and losing in Iran. He has been a candidate four times, withdrew from one and lost the other three, including the latest 2021, in which he competed against the late Raisi.

Eshaq Jahangiri

A former first vice president under Hassan Rouhani, Eshaq Jahangiri, 66, is known for his reformist views and experience in economic management.

He has been a prominent figure in Iranian politics and could garner support from the moderate and reformist factions if allowed to run in the next elections in more than 50 days. The chances of Rouhani's faction returning to power if allowed to run are not entirely implausible, considering the poor running of the state under Raisi's tenure.

However, with all these potential candidates behind the scenes, powerful committees and Supreme Leader Ali Khamenei have the final say on who can run in the tightly controlled elections, which have not been classed as free and fair.

Successor to the Supreme Leader

With Raisi's death, Khamenei's son Mojtaba emerges as a prominent contender for the role of Supreme Leader. However, Mojtaba's lack of public presence and potential backlash against perceived nepotism could complicate his ascension.

The legitimacy of the Supreme Leader requires at least an appearance of popular support, which Mojtaba has yet to demonstrate. The sudden death of President Raisi introduces uncertainty into Iran's political future, particularly regarding the succession of the Supreme Leader.

The upcoming weeks and months will be critical in determining the country's direction and stability. ●



Back at the top table: French President Emmanuel Macron, German Chancellor Olaf Scholz and Polish premier Donald Tusk. / bne IntelliNews

Von der Leyen says EU will close rule-of-law dispute with Poland

Wojciech Kosci in Warsaw

The European Union will formally close the six-year-long dispute over the rule of law in Poland, European Commission President Ursula von der Leyen said on May 6.

Poland's new government, in power since mid-December, has made a series of steps to address the EU's grievances over the rule of law, which – Brussels has long said – the previous administration of Law and Justice (PiS) compromised by wide-ranging judiciary reforms in the name of national sovereignty and populist policies.

In response to PiS, the EU launched the so-called Article 7 procedure that could have suspended its voting rights, and also restricted Poland's access to EU funds. The incumbent Polish government of Prime Minister Donald Tusk made reopening the funding tap a key campaign point ahead of elections last October.

“Today marks a new chapter for Poland. After more than six years, we believe that the Article 7 procedure can be closed,” von der Leyen said.

“I congratulate Prime Minister Tusk and his government on this important breakthrough. It is the result of their hard work and determined reform efforts. The ongoing restoration of the rule of law in Poland is great for the Polish people and for our Union as a whole. It is a testament to the resilience of the rule of law and democracy in Europe,” von der Leyen added.

Both von der Leyen and Tusk belong to the same European political group,

the European People's Party (EPP). Von der Leyen is standing in next month's EU elections and is the EPP's leading candidate to become the Commission president for a new term.

In February, Poland tabled a raft of legislative and other measures to undo changes in the judiciary forced by PiS.

Key assumptions are changes to a top court – the Constitutional Tribunal – and the judge-nominating body KRS that the Tusk government says PiS had engineered to become party tools. The Supreme Court, ordinary courts, and the prosecution service will also undergo reforms.

“Poland is consequently bringing back rule of law. We are determined and devoted to our common European values”

The fundamental problem with the system established by PiS is legal and hardly appealing to the wider public – unless one happens to be involved in a court case.

That is because legally dubious judge nominations by the KRS provide premises to undermine any court decision that involved those nominations; this applies all the way up to the Supreme Court.

In one case, the European Court of Human Rights (ECHR) ruled in 2021 that a Polish company could not get a fair trial because the Polish government illegally appointed a judge to the Constitutional Tribunal that had reviewed the company's case.

Brussels began easing financial restrictions against Poland when the Tusk government presented its reform roadmap in February. In response, the Commission announced green-lighting the release of €137bn from the bloc's pandemic recovery fund and the cohesion funding pool.

The European Union disbursed €6.3bn from the pandemic recovery fund to Poland in April.

The impact of the payout – and others to follow this year – will be noticeable in the economy by the end of this year, although significant growth is expected only in 2025, as time is

needed for the investments to ramp up.

The money is projected to boost Poland's economic growth to 4%-5% next year.

"Great news from Brussels today! Thank you President von der Leyen for cooperation and support! Poland is consequently bringing back rule of law. We are determined and devoted to our common European values," Poland's Justice Minister Adam Bodnar said in a post on X.

The Commission will now present an analysis of the state of the rule of law in Poland at a General Affairs Council meeting on May 21. ●

Polish judge shows up in Minsk asking for political asylum

Wojciech Kosciński in Warsaw

A senior Polish judge asked for political asylum in Belarus on May 6, citing objections to Poland's policies toward Belarus and Russia.

In his resignation letter released on X, Judge Tomasz Szmydt announced his immediate departure from the Warsaw Administrative Court, saying he was protesting against the actions of the Polish authorities that could potentially lead to military conflict with Belarus and Russia. Szmydt urged Polish authorities to normalise relations with Minsk and Moscow.

Tensions between Poland and Belarus have run high for years now. Warsaw accuses Minsk of orchestrating a border crisis and supporting Russia's actions in Ukraine. Poland is also home to several Belarusian dissidents after Lukashenka suppressed dissent following his contested re-election in 2020.

Appearing at a press conference in Minsk, Szmydt commended President

Alyaksandr Lukashenka's leadership, criticising Warsaw for being influenced by the US and the UK.

His move to Minsk drew condemnation in Warsaw. Stanisław Żaryn, an aide to President Andrzej Duda, branded him a "scoundrel and traitor" for defaming Poland and Nato.

Foreign Minister Radosław Sikorski called the development "shocking".

"If someone chooses Belarus, it means that they have been working in Poland for years to advance someone's interests - whose interests?" Deputy Prime Minister and Defence Minister Władysław Kosiniak-Kamysz said.

Poland's National Public Prosecutor's Office said that it launched a probe into Szmydt's defection, which, it said, might have been a crime of working for foreign intelligence.

Poland's counterintelligence agency ABW said on May 6 that it was going

to look at "the scope of classified information, which [Szmydt], who requested asylum in Belarus, had access to".

Szmydt is seen as a judge openly loyal to Poland's previous government of Law and Justice (PiS). He even spent a brief time working in the Ministry of Justice under the PiS government.

Polish media reported in 2019 that he was part of a group discussing ways to discredit judges not aligned with the PiS party government. The judge exposed the workings of the group in an interview in 2022.

Szmydt's defection echoes a similar incident in December 2021 when Emil Czeżko, a Polish soldier, fled to Belarus and criticised Poland's handling of the migration crisis on Belarusian state media. Czeżko allegedly died by suicide in Minsk in March the following year. ●



Slovakia's political polarisation has worsened since the killing of journalist Jan Kuciak in 2018, and the opposition now calls regular demonstrations against Prime Minister Robert Fico's rule. / bne IntelliNews

Assassination attempt on Fico shows radicalisation of Slovak society

Albin Sybera

The shooting of Slovakia's populist Prime Minister Robert Fico on May 15 is already the third shooting to shake the country's politics in six years.

Just like when investigative journalist Jan Kuciak and his fiancé Martina Kusnirova were murdered by a contract killer in 2018, and two young men were gunned down in front of LGBTQ-friendly bar Teplaren in Bratislava by a radicalised teenage shooter in 2022, the assassination attempt on Fico is poised to have a big impact on the course of Slovak politics.

The shootings partly reflect a level of aggressiveness and radicalisation in Slovak political discourse that is worse than neighbouring countries in the region, and there is no sign that this will diminish anytime soon, despite the wave of expressions of sympathy for Fico from across the political spectrum.

Some government politicians have already blamed the opposition for the

shooting, while the opposition has blamed the government for causing the deepening polarisation in society, through its sharp attacks on them and its use of disinformation. The country's polarisation has clearly worsened since Fico was forced to resign in 2018 after the killing of Kuciak and Kusnirova, and then fought back to win last September's general election by adopting radical rhetoric against the then centre-right government's COVID-19 restrictions and support for Ukraine.

"In a small corner of my soul, I am hoping that despite all the aggressive statements made by government politicians [following the assassination

"The shootings partly reflect a level of aggressiveness and radicalisation in Slovak political discourse that is worse than neighbouring countries in the region, and there is no sign that this will diminish anytime soon"

attempt] this becomes also for them a big reminder that when they push the situation too far that some people with extremist tendencies can have their nerves burst and commit such brutal and despicable acts," Ivan Stulajter, former media advisor to ex-premier Eduard Heger, told *bne IntelliNews*.

Immediately after the shooting, leftist Smer MP Lubos Blaha tried to blame the opposition for inspiring the assassination attempt.

"This is your work" and "you have what you wanted", Blaha said when very few details were known about the shooting, which was actually carried out by a 71-year-old who turned out to be a virtually unknown poet and onetime security guard.

Interior Minister Matus Sutaj-Estok took a more measured tone, saying the shooter was a "lone wolf" who had been "radicalised recently, after the [spring] presidential election".

Editor-in-chief of the Warsaw-based investigative outlet VSquare, Szabolc Panyi, pointed out on X that the apprehended assailant Juraj Cintula "was associated with pro-Russian paramilitary group Slovenski branci (SB)", fuelling speculations about the assailant's motives.

It is a clear that Cintula has a record of government criticism on social media and in the widely shared videos from the scene he appears to be shouting accusations against Fico over his attempt to exert greater control on the public broadcaster RTVS.

Fico's cabinet has faced criticism for its legislative proposal aimed at restructuring RTVS from across Slovakia's liberal media and from

international media organisations. Fico's left-right government and politicians such as Blaha have also been criticised for spreading pro-Kremlin disinformation.

The opposition has mounted rolling protests against these media proposals, as well as its moves to take tighter control over the judiciary, and its planned legislation to expose NGOs with foreign funding.

Andrej Danko, leader of the far-right SNS, a junior coalition party on whose party list neo-fascist politicians such as Tomas Taraba were elected, raised already strong worries among the journalist community about the government's plans for the media when he declared that "a political war is starting for the SNS at this stage" and that changes will follow concerning the media, adding that government politicians will not "sneeze" at them.

"The key question which now pre-occupies the minds of all sober-thinking people regardless of their stance on social issues is whether the radicalisation in [Slovak politics] will continue and its consequences will yet be more horrific, or whether it will stop in some way," Stulajter said.

Stulajter said Taraba's comments had also linked the shooting to the opposition "without any regard for facts", adding that he is "a radical profiting on splitting and polarising society".

"It will be very important what stance will Fico take towards this event" if he recovers and returns to politics, Stulajter continued. He explained that if Fico "will continue to back the radicalisation, which he is a specialist at", then it will likely worsen, but if he undergoes "some self-criticism and will come to understand that this is a road to perdition then I think the radicalisation could flatten, at least on some levels of the society."

For the past 2-3 years NGOs and journalists following Slovakia have been ringing alarm bells about the state of

Central Europe nudges Ukrainian refugees to return home

bne IntelliNews

Central European countries that have been the biggest recipients of Ukrainian refugees are gently encouraging them to return, amid pressure from Kyiv for military-age men to come home and domestic discontent with the continuing costs of looking after them.

The Czech Republic is set to launch a pilot project aimed at facilitating the voluntary return of Ukrainian refugees, while neighbouring Poland plans to tighten benefit regulations for displaced individuals.

Czechia has the largest number of Ukrainian refugees per capita, while Poland has the largest number in aggregate after Germany.

Czechia has already curtailed the existing temporary asylum programme for Ukrainians fleeing Russian aggression. Under the programme, which is now in force until March 2025, emergency housing conditions are now stricter.

At the end of April there were 339,000 Ukrainians under the temporary asylum rules in Czechia and about 133,000 of these are working Ukrainians were one of the largest minorities in Czechia already prior to the 2022 Russian invasion of Ukraine.

Some 59% of Czechs believe their country has admitted more Ukrainians under the temporary protection scheme than it can absorb, according to a survey by the Centre for Public Opinion (CVVM), an affiliate of the Sociological institute of the Czech Academy of Sciences, in April.

Under the new pilot initiative, scheduled to operate from June to November, assistance will be to Ukrainians desiring to return home, primarily due to health or family-related reasons. This project aims to offer support such as purchasing tickets and, in severe cases, arranging ambulance services, according to the Ministry of Internal Affairs.

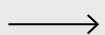
In the first tranche Czechia will arrange for bus tickets to 400 persons and another 30 in complicated health condition will receive individual travel and health assistance for their journey back.

Meanwhile, Poland is preparing to introduce a new system enabling authorities to verify the residency status of Ukrainian refugees and promptly suspend benefits for those relocating to other countries.

Poland has granted temporary protection status to some 950,000 Ukrainians, the second-largest number after Germany, according to Eurostat data. Most of them are women and children.

All told, there are around 2mn Ukrainians in Poland, as many had been arriving in the EU member states for years before the war.

Nevertheless, both Czechia and Poland have so far resisted Kyiv's call to send military-age male refugees home. Ukraine has been



struggling to recruit more soldiers as Russian forces advance, and is now looking to those who earlier fled the country.

Recently, Ukraine denied consular services to all male Ukrainian citizens aged 18-60 living abroad unless they updated their information in a special military register, so that Ukraine will know whether men of draft age who have left the country are hiding from the service. Expiring passports will only be replaced if they come home.

Warsaw believes such measures affecting Ukrainians as a group appear dubious from a legal standpoint.

Pushing tens, if not hundreds, of thousands of people out of the country could also be problematic for the Polish economy, which is grappling with acute labour shortages.

"I cannot imagine the Polish labour market without Ukrainian citizens. I think this would be a very serious problem for us from the point of view of companies' competitiveness," Deputy Home Affairs Minister Maciej Duszczyk told the Polish parliament recently.

That said, some in the ruling coalition hinted they didn't like Ukrainians enjoying life in Poland while their country is being bombed into submission.

"I think many Poles are outraged when they see young Ukrainian men in hotels and cafes, and they hear how much effort we have to make to help Ukraine," Prime Minister and Defence Minister Kosiniak-Kamysz told *Polsat News*.

According to a survey by the Kyiv International Institute of Sociology (KMIS), only half of Ukrainian refugees currently residing in Germany, Poland, and the Czech Republic are willing to return home if certain conditions are met, including security, stable employment in critical infrastructure, housing availability, and the conclusion of the war.

Slovak society, described variously as fragmented and highly polarised.

"I see not only polarisation but fragmentation within our society," the country's liberal President Zuzana Caputova warned last June ahead of the national elections campaign, which culminated in September amid the circulation of deep fake videos of Progressive Slovakia leader Michal Simecka allegedly taxing beer, and hoaxes and conspiracies invoking dangers ranging from "illegal migration" to "Brussels gender ideology".

Following the victory of Peter Pellegrini, the candidate of Fico's coalition, in the presidential elections in March and April, Pellegrini and his team were criticised by liberal media for employing ever more aggressive rhetoric and divisive strategies in the second round, when they falsely claimed that rival pro-Western diplomat Ivan Korcok would send Slovak soldiers to fight in Ukraine.

Caputova herself decided last year not to seek re-election after her daughters faced death threats and amid speculations that she was worn out by Fico's relentless attacks, which were amplified by far-right politicians and online extremists.

As Slovakia gears up for elections to the European Parliament next month, the question is whether this climate of hate will only worsen or whether politicians will step back from the brink. ●

"For the past 2-3 years NGOs and journalists following Slovakia have been ringing alarm bells about the state of Slovak society, described variously as fragmented and highly polarised."



Ukrainian refugees arriving in Poland in 2022. / bne IntelliNews

University of Ljubljana students occupy faculty in protest against military operations in Gaza

Albin Sybera in Ljubljana

Students at the University of Ljubljana have occupied the main lecture hall at the Faculty of Social Sciences (FDV) in protest over Israeli military operations against Hamas militants in the Gaza Strip.

Students demand that the FDV and the university, Slovenia's main education institution, denounce the strikes in Gaza as genocide and back the rights of the Palestinians. The protest has been supported by six departments at FDV as well as by the student council and seven departments from other universities.

One of the demonstrators, student at the Faculty of Philosophy, Masa, told *bne IntelliNews* during the May 10 press conference at the FDV hall that the protestors' main demand is for "the university and the faculty to take a stance on the conflict" and use their power and influence on Slovene politics.

Following the talks with the FDV dean Iztok Prezelj, protestors told public broadcaster RTV Slovenija that "we agree in principle" and that "we differ only in small differences in diction".

Slovenia's Minister of Foreign Affairs Tanja Fajon, from Robert Golob's centre-left cabinet, is on a tour of the Middle East and met with her Egyptian counterpart Sameh Shoukry in Cairo on May 12, where she expressed concerns over the stalled negotiations between Israel and Hamas and warned against the offensive by the Israeli Defence Forces (IDF) in Rafah, the city in south Gaza to which swathes of Palestinian refugees fled from the military operations.

Fajon also visited the Rafah crossing on May 11, calling for the reopening of

the crossing to enable aid deliveries into Gaza. The Rafah crossing was previously taken by the IDF.

Golob and Fajon also welcome the UN General Assembly vote in favour of a resolution backing Palestine's full membership at the UN. As *bne IntelliNews* reported, Slovenia has parted ways with Central European countries such as Czechia and Hungary in their staunchly pro-Israeli stance and has pushed for the recognition of Palestine.

In January, Slovenia became a non-permanent member of the UN Security Council. In April, it called for a meeting of the Security Council, along with Algeria, Guyana and Switzerland, over the killing of humanitarian workers by the IDF, and the continuing fighting in Gaza.

Masa told *bne IntelliNews* that protestors consider themselves as

"one part of a larger movement", mentioning students from other faculties in the Slovenian capital. When asked whether the protestors encountered criticism, she responded there are "always some negative reactions, ranging from [being accused of] anti-semitism, to [being] radical left, to Marxists."

Israel launched air and ground military operations in Gaza in response to the massacres carried out by the Hamas fighters mostly against civilians in southern Israel on October 7, but has faced criticism from the world community and also from the US, its closest ally, over the staggering death toll on the Palestinian side.

A Hamas-run health ministry puts the death toll of the IDF strikes at over 34,000. The Hamas attacks from October 7 left over 1,200 dead and over 100 are still held captive in Gaza. ●



Students demand that the university denounce the strikes in Gaza as genocide and back the rights of the Palestinians. / Crt Piksi



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Turkey simply relabels Russian oil products and exports them to Europe, research indicates

bne IntelliNews

More evidence that Turkey simply relabels Russian oil products and re-exports them to Europe as Turkish emerges from a new study by the Centre for Research on Energy and Clean Air (CREA) and the Centre for the Study of Democracy (CSD).

“Turkey, the world’s largest buyer of Russian refined oil products, has emerged as a strategic pitstop for Russian fuel products rerouted to the EU, likely generating hundreds of millions in tax revenues for the Kremlin’s war chest,” said Martin Vladimirov, senior energy analyst at CSD and co-author of the report.

The report reveals that from the point the EU/G7 Russian petroleum products ban took effect on February 5 last year to the end of February this year, the EU

has imported €3bn of oil products from three Turkish ports. The trio of ports—Ceyhan, Marmara Ereğlisi and Mersin have no refining hubs and in the period analysed imported 86% of their oil products from Russia.

Turkey’s big role as an importer and re-exporter of Russian crude and oil products came more into focus in January last year when US senators claimed that “masked Russian oil” supplied via mid-sized Turkish oil trans-shipment terminal Dortyol even ended up in US warships after being processed at a Greek refinery.

Turkey’s imports of Russian oil have in fact grown almost fivefold over the last decade and in 2023, Turkey became the world’s biggest buyer of Russian oil products, importing 18% of Russia’s

total exports of oil products. It has increased its reliance on Russia for the supply of seaborne refined oil products, mainly diesel, gasoil and jet fuel from 52% in 2022 to 72% in 2023, according to CREA and CSD.

Said CREA: “Investigations carried out by CREA and CSD of specific shipments suggest that European entities may have imported Russian oil products mixed or re-exported from oil storage terminals in Turkey.

“Loose EU legislation, combined with a lack of stringent enforcement, means that EU/G7 countries’ imports may still contain significant volumes of oil products of Russian origin — especially for their imports coming from Turkey that has not implemented sanctions [on Moscow].”

The study authors issued key findings, including:

- In the period assessed, the EU imported 5.16mn tonnes of oil products valued at €3.1bn from the three Turkish ports with no refining hubs—Ceyhan, Marmara Ereğlisi and Mersin. In this same assessed year-long period, 86% of the ports’ imports of oil products, in value terms, was from Russia.
- Investigations of specific shipments carried out by CREA and CSD suggest that European entities may have imported Russian oil products mixed or re-exported from oil storage terminals in Turkey.
- In May 2023, the Toros Ceyhan oil terminal at the port of Ceyhan received 26,923 tonnes of gasoil from Russia’s Black Sea oil export port of Novorossiysk — the terminal’s first import of the commodity in three months. Ten days after the import the terminal shipped a similar volume of gasoil to the MOH Corinth refinery in Greece. This trade seems to have exploited a legal loophole that allows blended Russian oil products to enter the EU.
- Since the start of the EU/G7 ban on 5 February 2023 until the end of February 2024, Turkey has imported €17.6 €bn of Russian oil products, marking a 105% y/y increase. Since the introduction of the ban, 81% of Turkey’s imports of oil products have been from Russia, showing an increased reliance that could threaten their energy security.
- Turkey’s domestic consumption of oil products grew by 8% in 2023. In contrast, the country’s seaborne imports of oil products grew by 56% suggesting that Turkey is becoming a re-export hub for oil products, not just satisfying growth in domestic demand.
- Russia’s exports of oil products to Turkey generated €5.4bn in tax revenues for the Kremlin war chest, prolonging and enabling Moscow’s full-scale invasion of Ukraine.

The study authors also issued policy recommendations, namely:

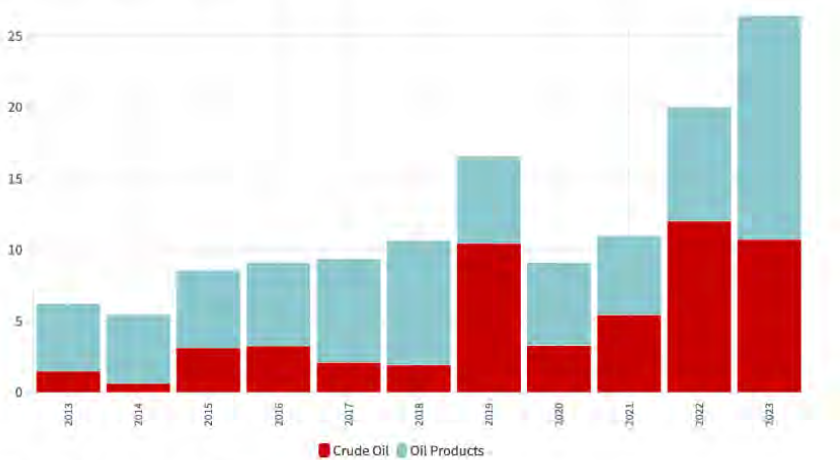
- Tighten existing legislation: The EU should strengthen their sanctions regulations to define precisely that EU Member States cannot import re-exported Russian refined oil products. EU legislation remains vague on the proportion of Russian-origin oil that will constitute sanctions evasion, thereby encouraging the continuing trade and transshipment of products without the threat of repercussions. Stricter rules on enforcement must be implemented to prevent higher oil export volumes and earnings for

Russia that are then subsequently used to fuel the Kremlin’s war effort in Ukraine.

- Better enforcement: Sanctioning countries must require strict ‘Rules of Origin’ documentation when importing oil products from countries that have imported oil products from Russia. To enhance transparency and compliance, the EU should amend the Commission Implementing Regulation (EU) 2015/2447, ensuring that the customs declaration includes the true origin of oil products exported to an EU port, confirming they were not produced with Russian oil.

Turkey's long term relationship with the Russian oil industry

Volume of imports | Mn tonnes



Source: CSD Analysis of COMTRADE data



A graphic published with the CREA and CSD report shows how Turkey has become a "Kremlin pitstop".

- Investigate and implement strict penalties on violators: EU/G7 countries must investigate shipments from Turkish ports to deduce any violations on the transshipment of Russian oil products. In case of violations, entities must be sanctioned and served with bans and penalties. Enforcement agencies should have the power to board vessels, check certification documents that show evidence of the oil's origin and chemically test it to determine whether the commodity contains oil originating from Russia. Tankers with falsified statements of the fuels' origin should be treated as smuggling with all the related legal consequences. This includes the arrest of ships at sea and their confiscation.
- Lower the price cap on products: The coalition must also lower the price cap of oil products which are currently above the market price. Lowering the price cap would be deflationary and force Russia to produce and export more volumes of refined products to make up for the loss in revenue. Lowering the price cap to \$35 per barrel for premium products and \$25 per barrel for low-value products would cut the Kremlin's revenues from seaborne oil products by 68% (€3.3 bn per month).
- Remove transfer pricing loopholes: Regulatory authorities such as customs and tax agencies must also ensure that Russian companies do not use transfer pricing schemes to increase profits made from oil sold in different markets, and especially ensure that the proceeds from such transfer pricing cannot reach the Russian government. Creative transfer pricing schemes allow vertically integrated Russian oil companies to sell crude oil or refined products at artificially low prices so that they can extract a profit from selling on the wholesale market at much higher prices abroad (in countries such as Turkey). The profit out of the price difference is then moved to an offshore-registered subsidiary to avoid paying taxes in Russia. ●

China to intensify relations with Serbia after President Xi's landmark visit to Belgrade

bne IntelliNews

Beijing's diplomatic engagement with Serbia has entered a new phase after Chinese President Xi Jinping's visit to Belgrade on May 7-8.

Serbia, one of just three nations on Xi's European tour, is poised to deepen ties with Beijing, with a statement from Xi and his Serbian counterpart Aleksandar Vucic talking of a "shared future" for the two countries.

The visit included the signing of 29 agreements aimed at bolstering legal, regulatory, and economic cooperation between the two nations.

Serbia is set to become the first European country in years to enter into a free trade agreement with China, slated to take effect on July 1.

Xi's decision to prioritise Serbia in his European tour reflects the country's strategic significance to China. Alongside Hungary, Serbia has been a steadfast supporter of China's Belt and

Road Initiative (BRI), positioning itself as a pivotal partner in China's infrastructure agenda across Asia and Europe.

"Serbia became China's first strategic partner in Central and Eastern Europe eight years ago, and it becomes the first European country with which we shall build a community with shared future," said Xi during the visit.

The discussions between the two leaders covered a wide range of topics, including bilateral cooperation, the BRI, China's engagement with Central and Eastern Europe, and international and regional affairs. The two parties reached a broad consensus on these matters, affirming their commitment to deepening mutual cooperation.

"The two sides agreed that Serbia and China foster strong traditional friendship, intensive cooperation in specific areas, fruitful coordination on a multilateral level, and the development of bilateral relations has

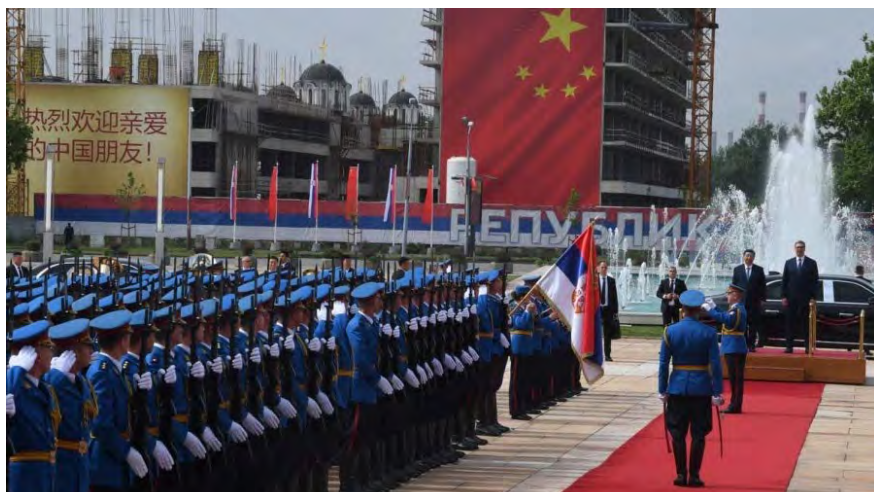
broad perspectives," said the Serbian presidency in a statement.

Looking ahead, both countries expressed readiness to capitalise on the new phase of development of the BRI, with a focus on expanding cooperation in various sectors, including economy, trade, investment, technology and innovation.

On the political front, the two presidents expressed mutual support for each other's territorial integrity. Specifically, Belgrade made clear that it sees Taiwan as part of China, while Beijing considers Kosovo as part of Serbia.

Xi's visit took place on the 25th anniversary of the 1999 accidental Nato bombing of the Chinese embassy in Belgrade, an incident that prompted widespread condemnation and an apology from then US president Bill Clinton.

Serbia's alignment with China's Belt and Road Initiative has cemented its position as a key partner for China



in Europe. Chinese investments in Serbia have contributed significantly to infrastructure development, with projects spanning mines, factories, roads and bridges.

China is currently Serbia's second most important economic partner following the EU. China was also the top foreign investor in Serbia in 2023, accounting for €1.37bn of the total €4.5bn.

Chinese companies have played an

important role in Serbia's industrial sector, and are among the country's top exporters. Specifically, Serbia's top exporters were dominated by three Chinese-owned companies in 2023: Zijin Mining, Zijin Copper and the HBIS Group.

Other recent collaborations include the establishment of yuan clearing arrangements and the inauguration of a new freight route linking China's Hebei province with Belgrade.

Xi received a warm welcome within Serbia, with crowds gathering to greet him in Belgrade, which was decorated with Chinese flags and posters in honour of the visit.

The recent Western Balkans Regional Poll by the International Republican Institution (IRI) showed that Serbs see China as their second most important ally after Russia.

However, concerns have been voiced by Western think-tanks about Chinese influence in Serbia, as well as via Serbia to the EU if and when the Western Balkan country join the bloc.

A comment by Angelica Vascotto, pan-European fellow at the European Council on Foreign Relations (ECFR), warned in January over Belgrade's low foreign policy alignment with the EU and questions over its commitment to European values. Failure to mediate and incentivise democratic recovery could allow other countries, including China, to exert influence in Serbia, potentially diverting the country away from its Western neighbours, the analyst said. ●

North Macedonia's opposition VMRO-DPMNE celebrates twin electoral victory

Valentina Dimitrievska in Skopje

The largest opposition party in North Macedonia, VMRO-DPMNE, started celebrating late on May 8 following its resounding victory in both the general election and second round of the presidential election.

In the second round of voting for North Macedonia's next president, the candidate of conservative VMRO-DPMNE, law professor and MP Gordana Siljanovska Davkova (70), secured 65% of the votes, surpassing the incumbent president and the candidate of Social Democrats (SDSM), Stevo Pendarovski, who garnered just 29.3% of the vote, with 93% of ballots counted.

Siljanovska Davkova's win marks a historic moment as she becomes the country's first female president.

Discontent with the governance led by the SDSM, in alliance with the ethnic Albanian Democratic Union for Integration (DUI), became apparent during the first round of the presidential elections on April 24. Voters overwhelmingly backed the opposition, rallying behind Siljanovska Davkova.

In parliamentary elections, the VMRO-DPMNE-led coalition captured 43.1% of the vote with 91.9% of votes counted, while the SDSM-led coalition trailed

with only 15.1%, data released by the state election commission (SEC) indicated.

"We have achieved victory. Macedonia has triumphed. This marks a historic moment for our nation," leader of VMRO-DPMNE Hristijan Mickoski, who is set to become the new prime minister, stated.

Attributing the government's downfall to issues of crime, corruption, nepotism and manipulated tenders, Mickoski stressed the need for accountability. Mickoski also reiterated his stance against using the prefix 'North' in the



VMRO-DPMNE leader Hristijan Mickoski is set to become North Macedonia's next prime minister. / VMRO-DPMNE

country's name, a change made by the previous SDSM government to resolve a longstanding dispute with Greece that had held up the country's EU accession.

He confirmed plans to initiate negotiations as soon as possible with opposition parties for a new government formation.

Within the Macedonian bloc, the opposition pro-Russian Left party

secured 6.8% of the vote, while the newly formed Znam, a splinter party from the SDSM, received 5.3%. Other minor parties failed to cross the threshold for parliamentary representation.

Among the parties representing the country's sizeable ethnic Albanian minority, a coalition led by the DUI, comprising various ethnic minority parties, won the largest share of the

votes (14.1%), edging out the opposition front Vlen, which took 11% of the votes.

However, VMRO-DPMNE has expressed reluctance to form a coalition government with the DUI, opting instead to align with the opposition VLEN.

Znam's MPs are also expected to be part of the new government.

Projections indicate that VMRO-DPMNE may secure 59 parliamentary seats, with the SDSM on 19, the DUI on 18, Vlen on 13, Left on six and Znam on five.

Analysts believe Mickoski is in a strong position to establish a new government, given the party's electoral success.

More than 1.8mn eligible voters were eligible to participate in the elections across 3,360 polling stations, tasked with electing 120 members of parliament and the next country's president.

The voter turnout for the presidential election stood at 46.38%, while for the parliamentary election it reached 53.41%, with 93% of the votes counted, according to the SEC. ●

Kosovo to become first Muslim-majority country to legalise same-sex marriage

Valentina Dimitrievska in Skopje

Kosovo's Prime Minister Albin Kurti announced his government plans to legalise same-sex marriages in May, as part of the country's efforts to join the Council of Europe (CoE).

If the plan goes ahead, Kosovo would become the first Muslim-majority country to legalise same-sex unions, and the second in the EU-aspiring Western Balkans region.

"Kosovo will make an effort to soon become the second country in the Western Balkans, after Montenegro,

which guarantees its citizens the right to a same-sex life partnership. We will work hard to pass this in the near future," Kurti was cited by Klix.ba as saying in the German parliament.

In addition, Kurti said that his government will also work to meet the rights and needs of minority ethnic communities, including the Serbian minority.

The Parliamentary Assembly of the Council of Europe (PACE) recommended on April 16 that Kosovo be invited to become a member of the Council

of Europe, contingent upon its commitment to fulfill an extensive list of obligations as part of its accession.

Serbia, which still sees Kosovo as part of its territory, opposes the idea of Kosovo joining the CoE.

In 2008, Kosovo unilaterally declared independence from Serbia, following a bloody conflict in 1998-99. Despite engaging in EU-mediated normalisation dialogue, both countries have made limited progress in resolving their differences. ●



Montenegro's Prime Minister Milojko Spajic (left) meets German Chancellor Olaf Scholz in Berlin. / gov.me

German chancellor says 4-year timeline for Montenegro's EU membership is realistic

bne IntelliNews

German Chancellor Olaf Scholz, who met Montenegro's Prime Minister Milojko Spajic on April 29, said that the idea of Montenegro joining the EU in four years is a realistic ambition, the government in Montenegro announced.

Montenegro became an EU candidate country in 2010 and was given the go-ahead for accession negotiations two years later. It is considered the closest country to accession among all the candidate countries from the Western Balkans, with all 33 screened chapters opened, and three provisionally closed.

However, progress stalled in recent years after the appointment of several unstable coalition governments. Spajic's Europe Now party came to power pledging to reinvigorate the process.

The meeting took place during Spajic's first official visit to Germany, and came after efforts made by Montenegro towards European integration over the past six months. Chancellor Scholz

affirmed Germany's unwavering support for Montenegro, which he said was akin to the assistance extended to countries joining the European Union in 2004.

Scholz also spoke more broadly of the urgent need for EU enlargement to come to fruition, highlighting the promising prospects for Montenegro. He noted Montenegro's rapid progress, unmatched by any other country in the region.

"I see significant progress that Montenegro has achieved in the past period, and what is impressive is your

"Scholz also spoke more broadly of the urgent need for EU enlargement to come to fruition, highlighting the promising prospects for Montenegro. He noted Montenegro's rapid progress, unmatched by any other country in the region."

ambition to close a large number of chapters in the shortest possible time. With this pace, completing the process within the next four years is a realistic ambition, and we will provide support at all levels," Scholz stated.

Montenegro is due to receive its Interim Benchmark Assessment Report (IBAR) in June, which Spajic said would serve as an indication of the country's progress in the integration process.

"We expect Germany's support in reforming the security and police systems, further affirming our work in the rule of law. We do not want the rule of law to be merely a dead letter; we want it to be fully implemented. We are confident that this, along with the fair treatment of investors and the security provided by the reformed system, will be the best recommendation for attracting major German companies," Spajic said.

Regional cooperation, particularly through the Berlin Process, featured prominently in the discussions, with Montenegro's commitment highlighted through its ratification of all four mobility agreements.

Both parties announced plans to sign a Cultural Agreement in May or June, signalling a deepening of bilateral ties. Additionally, the issue of mutual recognition of driver's licenses is set to be resolved soon.

The talks concluded with a recognition of the potential for collaboration in energy, infrastructure and tourism sectors, laying the groundwork for enhanced partnership between Montenegro and Germany. ●



Russia's Putin and China's Xi held in-depth wide-ranging talks in Beijing, Putin's first foreign trip since being re-elected, as the two countries continue to deepen ties. / bne IntelliNews

Putin, Xi hold in-depth wide-ranging talks in Beijing in symbolic meeting

Ben Aris in Berlin

Chinese President Xi Jinping and Russian President Vladimir Putin have jointly called for a political resolution to the ongoing war in Ukraine, during the latter's visit to Beijing on May 16.

The leaders signed a joint declaration and discussed deepening bilateral ties, including cooperation in trade and significant foreign policy issues, on the 75th anniversary of the establishment of diplomatic relations between the two countries.

The document was signed after extensive Russian-Chinese negotiations. Kremlin foreign policy chief Yuri Ushakov said earlier that the document is over 30 pages long.

Ukraine featured prominently in the discussions, where the two leaders walked in a park drinking tea. Xi

referred to the conflict in Ukraine as a "crisis" during a joint press conference by the two premiers.

"China and Russia are insisting on a political solution to the war in Ukraine," Xi Jinping said, without detailing any specific next steps. Putin expressed gratitude for "China's efforts to resolve the Ukrainian crisis."

On the agenda is an informal dinner in the 1+4 format from both sides. Putin will be joined by Foreign Minister Sergey Lavrov, Defence Minister Andrey Belousov, Security Council Secretary Sergey Shoigu and presidential aide Yuri Ushakov, who will be joined by their Chinese counterparts. Ukraine will also be the main topic of talks at the dinner.

Beijing is Putin's first foreign destination after his re-election, although

he has a dozen more invitations from various other countries in Asia, Africa and Latin America. Putin's first foreign visit after being first elected in 2000 was to the UK, where he signed off on the creation of the TNK-BP oil company 50:50 joint venture between the British and Russian companies at a time when he was still trying to create a warm relationship with the West.

Ushakov said that China was not randomly chosen for the president's first foreign trip, but as a response to a similar gesture of friendship made by Xi, who made a landmark three-day state visit to Moscow in March 2023 on the tenth anniversary of his election. That trip placed China squarely in Russia's camp and in open defiance of the West. The two leaders declared a "no-limits" friendship at the meeting just weeks before the invasion of Ukraine, which

has helped Russia endure the extreme sanctions imposed on it by the West, rendering them largely ineffective. The two men have met more than 40 times since Xi came to power in 2012.

According to Chinese Foreign Ministry Spokesperson Wang Wenbin, Beijing attaches great significance to Putin and Xi's diplomatic strategic leadership in the formation of bilateral ties. "The two heads of state agreed to continue maintaining close ties so that Chinese-Russian relations could continue developing successfully and stably," he said.

China has been in the spotlight recently, after the US accused Beijing of aiding Moscow to avoid sanctions and of being a major source of dual-use "high priority" exports of equipment and technology to Russia in a trade worth \$300mn per month. The US has also targeted Chinese banks as part of its smart sanctions regime introduced in December, which has caused major Chinese and Turkish banks to cut ties with Russian banks.

Despite the growing economic ties, China's exports to Russia were down 13% in April from a year earlier, the second month in a row of an annual decrease, according to Chinese customs data. Russian media reported that Chinese banks in late March began blocking payments from companies in Russia buying components for electronic assembly.

The two leaders and their top officials could look for solutions such as designating smaller banks with no exposure to the US financial system to handle transactions with Russia, according to Alexander Gabuev, director of the Carnegie Russia Eurasia Centre.

US Secretary of State Antony Blinken was in China recently with a long shopping list of requests and overtly threatened China with a "suitable response" if China did not curb its aid to Russia. US Treasury Secretary Janet Yellen was also in China recently, making similar threats. Earlier this week US President Joe Biden ordered new tariffs of up to 100% on Chinese exports of electric

vehicles (EVs), batteries and other high tech items as trade relations between the two become increasingly tense.

During the press conference, Putin mentioned that he would brief Xi on the battlefield situation and that the conflict in Ukraine was a major topic of discussion during their meeting. He also criticised the military-political partnerships forming in the Asia-Pacific region, calling them "harmful."

While Russia is confronting the West over its "special military operation" in Ukraine, similar tensions are escalating in the South China Sea where China has become increasingly aggressive in its territorial claims.

Trade between China and Russia has surged to over \$200bn a year as Russia's trade with Europe has tumbled as a result of sanctions. China has become Russia's more important export market for both energy and other raw

Views on issues of cooperation within various international organisations and structures, including the United Nations and the Shanghai Cooperation Organization (SCO) are also on the agenda.

Putin and Xi are due to discuss issues of linking integration processes within the Eurasian Economic Union (EEU) and the One Belt, One Road Chinese initiative, which are at the core of the new Russian foreign policy concept as well as Beijing's grand foreign policy strategy.

Another item that will be high on the business agenda is to sign off on the construction and operation of the potential new Power of Siberia 2 gas pipeline link through Mongolia, which could lift Russian state-owned gas champion Gazprom's eastbound deliveries by 50bn cubic metres a year. Currently the Power of Siberia 1 is functioning, but construction of its sister pipeline is waiting for a comprehensive agreement between the two, especially on the price of the

"We are working to create a multipolar world," Putin said, emphasising that the two countries share similar views on global and regional issues"

materials. Russia and China have also abandoned the dollar and settled all their mutual trade in rubles and yuan respectively.

"We are working to create a multipolar world," Putin said, emphasising that the two countries share similar views on global and regional issues.

Other agenda items

Improving trade and economic cooperation also feature prominently on the agenda as the two countries not only continue to tie their economies closer together, but also seek to form a global alliance of non-aligned countries in the global south through the BRICS+ format and other similar organisations. Russia will host the annual BRICS+ summit this summer where more members are expected to join.

gas. While Putin and Xi may discuss the contract when they meet, the Russian side does not expect a final agreement this time around, according to a person familiar with the matter. The previous deal took a decade to agree.

Regional problems, such as the situation in and around Ukraine, in the Middle East, in Central and Northeastern Asia, and in the Asia-Pacific region in general, are also on the agenda. The Russian leader will hand over to his Chinese counterpart an invitation to visit the BRICS summit in Kazan in June, which will be their next meeting. Western powers are excluded from the BRICS meetings.

While in Beijing, Putin will also meet with Premier of the State Council of the People's Republic of China Li Qiang,

take part in the wreath laying ceremony at the Monument to the People's Heroes in Tiananmen Square, and together with Xi he will visit a gala concert on the occasion of the 75th anniversary of diplomatic relations between the two countries and the opening of the Year of Russian Culture in China, TASS reports.

The two may also discuss China's attendance at an international peace summit being organised in Switzerland to discuss the war in Ukraine. China has been invited but has yet to say whether Xi will attend.

Representative delegation

The Sino-Russian meeting was as much about business as it was politics and Putin brought a very large delegation that included most of Russia's blue-chip companies that had parallel meetings with their Chinese counterparts. The

Russian president was also accompanied by nearly the entire new cabinet sworn in during last week's reshuffle, as well as dozens of regional governors and top executives of big businesses.

TASS reports that the members of the delegation included: First Deputy Prime Minister Denis Manturov, Deputy Prime Ministers Dmitry Chernyshenko, Alexander Novak, Yury Trutnev, Tatiana Golikova, Vitaly Savelyev; Central Bank Governor Elvira Nabiullina, Finance Minister Anton Siluanov, Economic Development Minister Maxim Reshetnikov, head of the Financial Monitoring Agency Yury Chikhanchin, Minister of Natural Resources Alexander Kozlov; Russian Railways CEO Oleg Belozеров, Rosatom CEO Alexey Likhachev; head of the Federal Service for Military Technical Cooperation Dmitry Shugayev, Roscosmos CEO Yury Borisov; deputy

heads of the presidential administration Maxim Oreshkin and Dmitry Peskov, presidential aide Yury Ushakov; Foreign Minister Sergey Lavrov, Defence Minister Andrey Belousov, Russian Security Council Secretary Sergey Shoigu; co-chairman of the Russian-Chinese friendship committee and businessmen's rights ombudsman Boris Titov, head of the Russian-Chinese Business Council and co-owner of Volga Group Gennady Timchenko; Sberbank President and board chairman Herman Gref, Oleg Derpaska, director general of the Russian Direct Investment Fund Kirill Dmitriev, VTB President Andrey Kostin, Rosmano and Novatek board chairmen Sergey Kulikov and Leonid Mikhelson, head of Business Russia Alexey Repik, Rosneft CEO Igor Sechin, President of the Russian Union of Industrialists and Entrepreneurs Alexander Shokhin, and VEB chairman Igor Shuvalov. ●

Ukraine – running through the numbers

Tim Ash of BlueBay Asset Management in London

Lots of figures are thrown around about the cost of supporting Ukraine in its defence against the Russian invasion. I have myself used a \$100bn a year price tag for keeping Ukraine in the war, and likely a \$50bn a year price tag to fund post war reconstruction.

The Kiel Institute for the World Economy provides by far the best tracker of Western support for Ukraine.

I also combine this with Ukraine's Ministry of Finance website which provides a tracker of budget support for Ukraine.

According to data from Kiel, total US and European support for Ukraine (military and budget/humanitarian) since the onset of the full-scale invasion until the end of February 2024 was €156.7bn. In addition, Japan provided around €6bn over this same period, and Canada around €5.4bn. This would then

put the total at over €168bn. Of this total around €67.1bn had been provided by the US – and obviously this excluded the latest \$61bn support package for Ukraine approved by the US Congress in April 2024.

The €168bn total excludes multilateral financing (IMF and World Bank, plus EIB) which, according to the Ukrainian MOF, amounted to around \$11bn for the period from the onset of the full scale invasion to March 2024.

Also note that to plug holes left by the delay in US funding from the \$61bn package, which had originally been slated for last fall, the EU and other donors front loaded some of their disbursements in Q124. The MOF hence reports over \$8bn in additional Western funds were directed to Ukraine in March 2024, including \$4.8bn from the EU (part of the €50bn facility agreed at the EU council meeting in December to cover Ukraine to the period to 2027), an

additional \$1.2bn from Japan and \$1.5bn from Canada and just over \$0.5bn from the UK.

€168bn is around \$180bn in US money, add in the \$11bn multilateral financing, and the \$8bn detailed above for March and that is already just over \$199bn in effect for 25 months. One could perhaps also add in the external debt service relief accrued to Ukraine of well over \$10bn also over this period.

Suffice to say the \$100bn figure of the annual cost of supporting Ukraine looks about par – not bad from my finger in the air approach.

Notable though that the above figure is just to keep Ukraine in the war, and not actually ensuring victory – Ukraine is currently on the back foot so whatever we are doing is not enough. The West is only just providing Ukraine with enough funds to keep it in the war. In recent months Western financial

support has ebbed and flowed. For the first six months of 2023, just prior to the Ukrainian counteroffensive, the West was funding Ukraine to the tune of \$8.5bn a month. That had, however, dropped back to just \$3.7bn per month

of not less than \$100bn per year (\$8bn plus a month), but more likely closer to \$150bn (more like \$12.5bn per month).

The obvious question is what happens if Trump wins the US presidency in

“The West is only just providing Ukraine with enough funds to keep it in the war.”

in the period from October 2023 to February 2024, and no surprise then that Ukraine was then militarily on the back foot. The latter reduction in funding was again related to the fall off in US financing as funds were logjammed in Congress.

What seems to be evident then from the above is that the West needs to provide Ukraine with at least \$100bn a year to maintain the battlefield status quo. Less than this and Ukraine is pushed onto the back foot. I would then argue that to ensure positive forward momentum for Ukraine it likely will require Western financing

November, and then likely US financing for Ukraine falls off a cliff in 2025. This would risk funding to Ukraine dropping to closer to \$50-60bn per year. Would other Western allies be willing then to step in to cover the \$40bn per year plus financing shortfall from the US, and go beyond that to provide the additional \$50bn to take funding to the \$150bn mark. It seems unlikely.

Obviously \$100-150bn annually to support Ukraine sound like big numbers. But these have to be set against the costs of not supporting Ukraine and the costs of a Russian victory. Likely then Nato defence

spending would need to increase not just to the current 2% of GDP target but close to the 3% plus of GDP spent during the Cold War era on defence. To put some numbers on that Nato's European members are slated to meet the 2% of GDP target in 2024, which is expected to total \$380bn in combined defend spending in that year. Pushing that to 3% of GDP would add an additional \$190bn on annual defence spending in Europe. This number would double if the US joined Europe in increasing its defence spending by an additional 1% of GDP to account for the additional threat from a resurgent Russia, likely if it wins in Ukraine. Hence when we think of bang for buck here a \$150bn annual investment in Ukraine for just a few years to potentially save a recurring \$400bn plus additional spend if Ukraine loses looks like a very good investment by the West in its own security. Not sure if the ECB does cost benefit. ●

Timothy Ash, the senior sovereign strategist at BlueBay Asset Management in London. This post first appeared on his substack blog here.

Received state budget financing (general fund)



As of April 25, 2024 Source: mof.gov.ua



A private company linked to Belarusian President Alexander Lukashenko is reportedly constructing a luxurious bolthole with hotel, restaurant and chalets in Russia's mountainous village of Krasnaya Polyana, near Sochi. / bne IntelliNews

A private company is building Belarus President Lukashenko a luxurious bolthole in Russia's Sochi – investigation

bne IntelliNews

A private company linked to Belarusian President Alexander Lukashenko is reportedly constructing a luxurious bolthole with hotel, restaurant and chalets in Russia's mountainous village of Krasnaya Polyana, near Sochi, a joint investigation by Belsat journalists and the association of former Belarusian security officials BELPOL found, reports *Ukrayinska Pravda*.

The new estate, being built in Russia's Krasnodar Krai and the famous luxurious Russian ski resort, boasts numerous opulent amenities and armed security, the investigation found, *The Insider* reports.

The territory of the 97,000-square metre complex features a dozen buildings spanning a total of 7,374 square metres. The main building boasts a banqueting hall, living room,

cinema theatre, swimming pools and a private office. It will also be equipped with a dressing room, security facilities and a bathroom suitable for those with limited mobility.



An underground floor houses a pool, a Turkish steam sauna and a Russian banya, a fitness room and a ski room. On the top floor is a 62-square metre living room and a 20-square metre bath, along with three bedrooms, including a master bedroom of 55 square metres.

Nearby, three VIP cottages of 730 square metres each are being built. One of them is designed for individuals with special needs. Each cottage will be equipped with its own pool and dining room.

The estate also includes a hotel with four rooms, each measuring 47 square metres, along with a restaurant complex larger than the hotel itself. Sports facilities, a garage, a security building with an armoury, and a checkpoint are all part of the plan.

BELPOL obtained the design documents from the Krasnodargrazhdanproekt group, responsible for building the estate, *Ukrayinska Pravda* reports. The group believes Lukashenko's closest associates are involved in the construction, leading to the assumption that the residence is intended for Lukashenko's personal use after leaving the presidency.

"The residence is being built covertly, through a shell company, behind a high fence, and they are afraid that information about the purpose of this building will leak into the media," BELPOL stated.

The investigators speculate that Lukashenko may have decided to build a bolthole in Russia outside Belarus after the 2020 mass demonstrations followed a massively falsified presidential election that year, which came close to toppling the Belarusian strongman. Lukashenko has promised several times to leave the presidency but recently said he will stand for re-election again next year.

Luxury villas

Russia has become a popular refuge for former presidents and others on the Interpol wanted list. After he was ousted in 2014 during the EuroMaidan revolution, former Ukrainian president Viktor Yanukovich also fled to Russia and now reportedly lives in luxury in the southern city of Rostov-on-Don.

While still president, Yanukovich also built himself the opulent Mezhyhirya Residence just outside Kyiv. When protesters stormed the palace the day after Yanukovich fled the country, they found the villa bedecked in marble, a room full of fur coats, as well as a private zoo that was home to ostriches. But the centrepiece was a loaf of bread made of solid gold, which has since disappeared.

Luxury residents are also popular amongst the elite in Eastern Europe. In 2021, the late Alexey Navalny's team released a sensational investigation into the so-called Putin's Palace that was viewed by over 50mn people in just two days after its release.

The sprawling complex on Cape Idokopas on a promontory on the Black Sea coast of Russia near Gelendzhik first came to public attention in 2010 after whistle-blower Sergei Kolesnikov published an open letter to then Russian President Dmitry Medvedev exposing the construction of the palace.

Putin's yacht Olympia accompanied by patrol ships was seen moored at Cape Idokopas on several occasions and the facility was managed by people associated with the Federal Protective Service (FSO) that had closed the airspace over the villa to air traffic.

Former Nexta editor Protasevich says he owes Belarus authorities \$7.6mn in damages

Ben Aris in Berlin

The former editor in chief of social media channel Nexta Roman Protasevich says he owes the Belarusian authorities \$7.6mn in damages.

During the mass demonstration in 2020, Nexta played a crucial role in coordinating the crowds in an otherwise leaderless revolt, following the massively falsified presidential elections that returned Belarus President Alexander Lukashenko to office.

Protasevich was arrested when Belarus scrambled a MiG-29 fighter to force down a commercial Ryanair flight and land in Belarus as it transited Belarusian airspace en route from Athens to Lithuania where Protasevich was living in exile. The incident caused an international outcry at the time and all flights from the EU were banned and EU airspace was closed to Belarusian flights as a result.

Protasevich has been stuck in Belarus ever since and has been in and out of jail as Lukashenko flip flops on his status. He was released and appeared on state TV denouncing the protests on one occasion, but had bruises on his wrists suggesting that he had been tortured by police while in detention.

Now he revealed on May 7 that he and his co-defendants in the Nexta case have been ordered to pay the Belarusian state approximately \$7.6mn as compensation for their participation in the mass protests in 2020.

Protasevich said a court had ruled that Protasevich, Yan Rudzik, and Stsiapan Putsila, co-founders and editors-in-chief of the Nexta Telegram channel were liable for damages caused by the mass protests that went on for months. Nexta has since been designated as an "extremist" organization by the regime.

"The total compensation demanded by the court was \$7.6mn," Protasevich said. Rudzik and Putsila were convicted in absentia and remain in exile. Protasevich is the only senior member of Nexta that is still in Belarus.

"I have no idea what to do about this and how to go on living," Protasevich said following the ruling, *Kyiv Independent* reports. "It's clear that I don't have even close to that kind of money. Even finding a job now is extremely difficult for me. I have three choices: to leave, to pay 50% of any income for the rest of my life, or to walk into the noose."

Protasevich was sentenced to eight years in prison in May 2023 but was pardoned by Lukashenko two weeks later.

At least 161 Belarusians were charged in politically motivated cases in April, the Viasna Human Rights Center wrote in its report, the *Kyiv Independent* reports. Almost two thirds (64%) of the criminal cases were initiated on charges of "participating in actions that grossly violate public order," from the mass anti-government protests in 2020.



The sprawling complex on Cape Idokopas.

And the Cape Idokopas complex has recently had a makeover, with a stripper's pole being replaced by religious icons and a war theme, according to a new report jointly released by Navalny's FBK Anti-Corruption Foundation and independent news outlet *Proekt* on May 6, to coincide with President Vladimir Putin's inauguration, the *Kyiv Post* reports, to reflect Putin's growing obsession with war and religion.

"The interior of the palace attests to the scope of Putin's evolution since the property was built in the early 2010s. The renovated version does not feature a casino, a striptease hall, or an arcade room. Instead, it has a chapel housing an icon of Saint Vladimir, Putin's patron saint – [the prince believed to have baptised Kyivan Rus in 988]," the report says.

"One of the main halls has been decorated with paintings of battles and corpses. The centrepiece is titled 'He Who Comes to Us With a Sword Will Die by the Sword!' The original of this painting is prominently displayed in the Grand Kremlin Palace, and Putin is known to favour the set phrase used in the title," the report adds.

A very similar story emerged when it was reported that Uzbek state companies built a secret luxury mountain resort for use by President Shavkat Mirziyoyev, including a new reservoir that locals

say has disrupted their water supply and displaced families, a RFE/RL investigation claimed in 2021.

Most of Russia's elite live in sumptuous villas that come right out of the Tsarist era palaces built by princely landowners from before the revolution.

Former Russian president Dmitry Medvedev's luxury villa was exposed in another Navalny investigation, the "Milovka manor," and located roughly

a kilometre outside the town of Plyos, about five hours northeast of Moscow. The villa was remarkable, as it included a sophisticated duck house in a pond that led protesters against Russian corruption to bring rubber ducks with them to lampoon Medvedev.

Igor Sechin, the CEO of state-owned oil giant Rosneft, owns a reportedly \$60mn luxury house in the exclusive Moscow suburb of Rublyovka, close to Putin's workweek Moscow residency.

The three-storey marble-clad mansion, occupying 70 hectares of land near the Moscow suburb of Domodedovo, was identified as the former railways minister Vladimir Yakunin's property by bloggers using property maps in 2013 and is estimated to be worth millions of dollars.

And in the most recent scandal, Deputy Defence Minister Timur Ivanov was arrested on corruption charges. Another Navalny investigation had exposed graft on a massive scale fuelling a jet-setting lifestyle for Ivanov and his glamorous wife. Drone footage of their house shows a huge colonnaded villa set in sprawling formal gardens worthy of the 19th century's nobility. ●



One of the main halls has been decorated with paintings of battles and corpses. The centrepiece is titled 'He Who Comes to Us With a Sword Will Die by the Sword!' The original of this painting is prominently displayed in the Grand Kremlin Palace

Ukrainian oligarch Kolomoisky faces life imprisonment for murder

bne IntelliNews

Igor Kolomoisky, once considered Ukraine's most influential oligarch and a supporter of President Volodymyr Zelenskiy, has been charged with organising a murder over 20 years ago and faces life in prison if convicted.

Kolomoisky was informed of suspicion in organising a contract killing of a director of a legal firm dating back to 2003, according to the country's Prosecutor General's Office and National Police.

The one time friend and patron of Ukrainian President Volodymyr Zelenskiy, Kolomoisky was arrested on September 2 by the Ukrainian Security Service (SBU) and charged with money laundering and fraud. He has been held on remand ever since awaiting trial.

Now Kolomoisky faces new and much more serious charges, an accusation of involvement in the assassination plot, allegedly stemming from a corporate dispute over shareholder decisions.

"Under the procedural guidance of the Prosecutor General's Office, a well-known businessman suspected of money laundering has been informed of another crime related to the organisation of a contract killing," the prosecutor's office said in a statement.

According to informed sources, the allegations are directed at Kolomoisky.

Investigators assert that the oligarch ordered the killing of a legal firm's director over the refusal to annul decisions made during a shareholders' meeting of an open joint-stock company.

Police officials claim that Kolomoisky had personal commercial interests in a metallurgical plant, which were impeded by the shareholder decisions that barred him from fully executing his profit-making plans.

Consequently, he allegedly resorted to threats and hired a gang, known for its involvement in physical assaults against competitors, to carry out the hit.

The assault occurred in August 2003 in the city of Feodosia, where four men attacked the victim with metal rods and inflicted stab wounds to various parts of his body. The victim survived due to the intervention of his wife and prompt medical assistance.

The alleged perpetrators were apprehended shortly after the incident and later sentenced to imprisonment ranging from 6 to 12 years.

The investigation into identifying the mastermind behind the assassination attempt remained a separate inquiry until May 8, 2024, when Kolomoisky was formally notified of suspicion.

The charges against him, involving attempted premeditated murder, carry penalties ranging from imprisonment for up to 15 years to life imprisonment.

"Investigators assert that the oligarch ordered the killing of a legal firm's director over the refusal to annul decisions made during a shareholders' meeting of an open joint-stock company."

Additionally, 23 searches are being conducted in four regions of the country as part of the ongoing investigation.

The oligarch has faced legal scrutiny in the past, with criminal proceedings initiated against him in 2005 for allegedly orchestrating the assassination attempt of lawyer Serhiy Karpenko. However, the case was closed under dubious circumstances later that year.

In 2013, Viktor Pinchuk, who initiated legal proceedings against Kolomoisky in London over shares in the Kryvyi Rih Iron Ore Plant, attempted to revive the case, accusing Kolomoisky of involvement in Karpenko's murder. Nevertheless, the High Court of London ruled out the inclusion of the "Karpenko episode" in the trial.

In 2016 his PrivatBank was nationalised after a *bne IntelliNews* investigation "Privat Investigations" revealed that almost all the loans on the bank's book were fraudulent. The National Bank of Ukraine (NBU) stepped in with a \$5.5bn bailout to rescue PrivatBank, the largest commercial bank in the country. Kolomoisky has now been charged with fraud charges in connection with that case, but almost none of the money stolen by him and his partners has been recovered.

After Zelenskiy took office in 2019 with the backing of Kolomoisky-controlled media, he returned to Ukraine from Israel and launched what the NBU called a campaign of terror to regain control of PrivatBank. NBU governor at the time Valeria Gontareva told *bne IntelliNews* in

an exclusive interview that Kolomoisky threatened her life personally. She quit her job and fled to London when someone sent a coffin to the doors of the NBU dressed up to look like Gontareva.

In 2023, Ukraine's Security Service, Bureau of Economic Security, and the Prosecutor General's Office formally charged Kolomoisky with fraud and money laundering and arrested him. ●



Saltanat Nukenova died of brain trauma caused during the eight-hour ordeal. / kazTAG, open source

Kazakh ex-minister convicted of savage torture and murder of wife in trial that gripped nation

Peter Baunov in Astana

A former economy minister of Kazakhstan, Kuandyk Bishimbayev, on May 13 was handed a 24-year prison sentence for the brutal torture and murder of his wife, Saltanat Nukenova, 31, whom he subjected to a horrendous ordeal lasting eight hours.

The trial, broadcast live, gripped the nation, with released CCTV footage showing much of the savage assault. It raised the issue of the disturbing level of domestic violence in the country, with perpetrators, frequently people with elite connections and money, often going unpunished.

The judge convicted Bishimbayev, 44, of "murder with special cruelty" and

"torture". As the verdict was read out, Bishimbayev could be seen gasping "Why?" and slumping down in the dock, holding his head in his hands.

Despite the long sentence, it was a far cry from the life term demanded by many including members of his astrologer wife's family. However, Nukenova's brother Aitbek Amangeldi spoke after the verdict, saying: "This prison term

was one of the options we expected. Generally, we stop here, this term is enough. In 24 years, he will be 68. It's basically a life sentence."

The sensational trial, which has also garnered much international attention, was considered by many as a crucial test of Kazakh President Kassym-Jomart Tokayev's commitment to enhancing women's rights. Many in the Central

"The trial sparked widespread anger and outpourings of emotion from both men and women in the country, possibly contributing to a lasting shift in attitudes towards domestic violence."

nation also viewed the case as offering government officials the chance to make an effort to demonstrate that elite members of Kazakh society are no longer above the law.

The trial sparked widespread anger and outpourings of emotion from both men and women in the country, possibly contributing to a lasting shift in attitudes towards domestic violence.

It was the sense of this potential shift that may have prompted Karina Mamash, the wife of Saken Mamash, an advisor to the Kazakh ambassador to the United Arab Emirates (UAE), the determination to go public with a video message outlining allegations of domestic abuse against her husband. She wrote to an online feminist group, NeMolchi.kz, leading to Kazakh Foreign Ministry spokesman Aibek Smadiyarov publicly announcing that Saken Mamash would be recalled and dismissed.

The social resonance of Nukenova's tragic death last November also led to tens of thousands of Kazakhs signing a petition demanding tougher measures against perpetrators of domestic violence. Last month, senators approved a bill, dubbed "Saltanat's Law", that toughens spousal abuse laws and criminalises the act of domestic violence. Some critics, however, have described the legislation as full of holes. For instance, it fails to explicitly criminalise domestic violence as a standalone offence.

Throughout the trial, footage from surveillance cameras displayed Bishimbayev's repeated acts of violence against Nukenova during the torture, including punching, kicking, strangling and dragging by the hair. She was pulled into a room where she later died on November 9, with brain trauma determined as the cause of death.

The video footage was so disturbing that members of the jury wept in court.

Additionally, videos retrieved from the mobile phone of Bishimbayev, once known as a "golden boy" of Kazakh

politics, mobile phone depicted him insulting and demeaning Nukenova, who was visibly bruised and bloodied, in the hours leading up to her loss of consciousness.

During the trial, Bishimbayev acknowledged assaulting his wife but claimed that some of her injuries were self-inflicted. He denied any intent to torture or kill her.

Bishimbayev served as the country's economy minister from May to December 2016. He was convicted of bribery in 2018 and received a 10-year prison sentence. However, he was

granted an early release, after serving less than three years in prison, due to an amnesty and parole.

President Tokayev, who succeeded long-time Kazakh leader Nursultan Nazarbayev five years ago, has expressed his commitment to creating a fairer society with enhanced women's rights.

Government statistics show that one in six women in Kazakhstan have suffered violence at the hands of a male partner. UN statistics say that around 400 women die due to spousal violence in the country every year, though the actual death toll could be far greater than that. ●



Kuandyk Bishimbayev, in the center at the back, during the court hearings. Photo from the Supreme Court telegram channel.



Kuandyk Bishimbayev and Saltanat Nukenova in an undated photograph (Credit: social media).



Bidzina Ivanishvili blamed a global conspiracy by the Western “Party of War” for Georgia’s ills and promised to use the ‘foreign agents law’ to repress the opposition United Nation Movement in a speech straight out of the Kremlin’s playbook. / bne IntelliNews

Georgian oligarch Ivanishvili advocates repression, blames Western “Party of War” for country’s ills

Ben Aris in Berlin

Bidzina Ivanishvili, honorary chairman of the ruling Georgian Dream party, has blamed a Western-led “Party of War” for all the ills Georgia has suffered in the last decade and a half, and insisted that a planned “foreign agents” bill was needed to protect the country.

The speech at a pro-government rally in the capital Tbilisi on April 29 was the oligarch’s most direct intervention in politics for years, and his strong comments indicate that the Georgian Dream party that he founded is not planning to back down, despite big demonstrations against the bill over the past two weeks.

Leading regional specialist and political analyst Thomas de Waal of Carnegie Europe said in a post on social media: “An extremely dangerous speech that will chill anyone who cares about Georgia to the bone. There will be plenty of commentary but no summary can convey the full-on conspiracy-minded paranoia. Bidzina Ivanishvili seems to believe this stuff.”

Ivanishvili said that “[the] ‘Global War Party’ wields influence over Nato and the EU, stirring conflicts between Georgia and Russia and exacerbating Ukraine’s situation.”

Ivanishvili claimed that “foreign agents still aim to restore a cruel dictatorship

in Georgia, but Georgian Dream will prevent this, advocating for governance elected by the people, not appointed from outside.”

Georgian Dream is in the process of trying to introduce the so-called foreign agents law, also known as the “Russian law”, that will mark any organisation that receives more than 20% of its funding from abroad as a “foreign agent” and puts their operations under scrutiny. Putin has used the same law to crush the liberal opposition and press in a brutal crackdown that gathered momentum after opposition figure and anti-corruption activist Alexei Navalny returned to Russia in January 2021 and was arrested. Navalny died in prison on February 16.

While Ivanishvili is not overtly pro-Russia, his speech makes it clear the ruling party intends to use the foreign agents law in a similar fashion to Russia to crack down on civil society and repress the freedom of the press as it seeks to consolidate its hold on power.

“The important decisions in this world are taken by the global ‘Party of War’. It is this global force that first forced the confrontation of Georgia with Russia and then put Ukraine in even worse peril. NGOs and radical opposition are acting on their behalf. The laws that we are proposing are there to expose those dark linkages,” Ivanishvili said, sowing conspiracy theories as a justification for the foreign agents law.

He also threatened that after the elections in October, Georgian Dream would launch a crackdown on the opposition, which is led by the United National Movement party (UNM) of former President Mikheil Saakashvili. He said the UMM would face “the harsh political and legal judgment it deserves”.

The government bussed in thousands of workers and civil servants to Tbilisi on April 29 to hold a counter rally to demonstrations that have rocked the Georgian capital for two weeks against the foreign agents law.

In his keynote address Ivanishvili claimed that during 2004-2012 Georgia

was under the control of “foreign agents” – foreign funded NGOs that form Georgia’s vibrant civil society that has flourished since the Rose Revolution that brought Saakashvili to power and aligned Georgia with the West.

“Georgia should be governed by people who are elected by Georgians. From 2004-2012 we were governed by a foreign-appointed revolutionary committee. They came to power as a result of an NGO-led revolution,” Ivanishvili said. Ivanishvili claimed that “all crimes committed by the Saakashvili regime were orchestrated from abroad”.

The oligarch, who had in recent years kept behind the scenes, specifically assumed responsibility for the Russia-styled “foreign agents law” and new legislation targeting the LGBT community that has also received strong backing from the Georgian Orthodox church.

Georgia has been struggling to come to terms EU requirements to show more tolerance to its gay community, and has cancelled its gay pride march in the last few years due to the threat of violence from right-wing groups, which the police have made little effort to control. The government also cracked down on “LGBTQ+ propaganda” in March in another move that mirrors Russia’s anti-gay laws.

Second time lucky

Following the Rose Revolution, Georgia was seen as the poster boy for liberal reform in the Former Soviet Union (FSU). Saakashvili famously sacked the entire traffic police force and ended the rampant bribes taking place overnight. Under another former Georgian-born Russian oligarch, Kakha Bendukidze, the entire legal framework was overhauled and streamlined, sending Georgia shooting up the World Bank’s “Ease of Doing Business” ranking.

But Saakashvili was also accused of authoritarianism and Ivanishvili’s Georgian Dream defeated his United National Movement in the 2012 elections. Saakashvili was forced to flee the country, but returned later only to be arrested on abuse of power charges.

He is now in jail, where supporters fear for his life as his health deteriorates.

In his speech, Ivanishvili called out the United National Movement by name and linked it to the “Party of War”, indicating that he intends to use the foreign agents law to suppress Saakashvili’s party.

“Today, these foreigners are motivated by the desire to bring back the inhumane and sadistic dictatorship of the same people to Georgia, which we will not allow at any cost. When we talk about greenlighting, we should also remember that the [UNM] regime’s sadism enjoyed the full support of the NGOs,” Ivanishvili said.

Tensions in the Georgian capital are high and rising as the law has already passed the first of three readings. A day earlier an estimated 20,000 protesters gathered in front of the parliament building to call on the government to abandon its effort to pass the law for a second time.

The EU has warned Georgia that the foreign agents bill could block the country’s accession hopes. The European Parliament passed a resolution last week calling for the accession talks to be frozen as long as the foreign agents law remains on the books.

Brussels is not yet ready to abandon Georgia, which it wants to include in the Western-allied bloc to counter Russia’s influence in the region. Russia has already de facto annexed two of Georgia’s regions – Abkhazia and South Ossetia – following a short war with

Lukashenko, wants to retain political autonomy and is accusing the West of meddling in Georgia’s internal affairs.

Ivanishvili made his billions in Russia, before returning to his homeland in 2002 to go into politics. He is Georgia’s richest man and has wielded considerable influence in Georgia for a decade.

Anti-government protestors have marched under Georgian and EU flags, in demonstrations some see as reminiscent of the start of the EuroMaidan protests in Kyiv in 2014 that eventually caused the then President Viktor Yanukovich to flee the country after he likewise abandoned a path to the EU by rejecting the Association Agreement and took a large loan from Russia instead.

The government tried to pass the same law last year but was forced to abandon the attempt in the face of mass protests. It promised to refrain from introducing the law again, a promise it has since reneged on.

Renta crowd

Roads to Tbilisi were choked by an armada of buses and minivans as the government bussed in people from all over the country to make up the numbers. An estimated total of 53,000 pro-government supporters attended, according to eye-witness accounts posted on social media.

In a sign of the orchestration the government was putting into its rally,

“The EU has warned Georgia that the foreign agents bill could block the country’s accession hopes.”

Georgia under Saakashvili in August 2008. However, the EU is becoming increasingly unhappy with Ivanishvili’s Russian proclivities.

For his part, Ivanishvili remains lukewarm but still officially in favour of accession to the EU and Nato. But at the same time, he, like Belarus President Alexander

pedestrians in central Tbilisi were surprised during the day when the public tannoy system suddenly played a loud round of applause for no reason. According to reports on social media, officials were preparing for the evenings rally and intended to use canned applause to bolster the crowd’s reaction to planned speeches by Georgian Dream leaders.

In the event, the crowd was lacklustre and listened to the speeches by the leaders of Georgian Dream without enthusiasm, according to reports from members of the crowd. There were virtually no EU flags amongst the pro-government crowd, which carried Georgian flags and the blue banners of the Georgian Dream party.

Key slogans chanted sporadically

by the crowd included: "Language, Fatherland, Faith! Long live Georgia! Long live Bidzina!"

Meanwhile, President Salome Zurbishvili criticised the ruling party's actions as a "real Putin move" in Tbilisi. She illustrated her post with a video showing thousands of buses transporting people to Tbilisi for the ruling party's rally.

She highlighted the 15-day-long spontaneous protests against the "Russian foreign agents bill" and advocated for a European future for Georgia.

During the ruling party's rally, thousands of students gathered in another part of the city, on Chavchavadze Avenue, in an anti-government protest against the foreign agents bill. ●

New India-Europe transit corridor set to challenge IMEC, Suez routes

bne IntelliNews

The battle of the corridors is heating up as India promotes a new India-Middle East-Europe Economic Corridor (IMEC) route that will connect the subcontinent with Europe by traversing the Middle East over land then sea to the EU via Haifa in Israel. An alternative has sprung up that avoids the increasingly unstable Levant and travels to Europe from India via Iraq and Turkey. And a third route of sanctioned countries will connect St Petersburg in Russia via the Middle East to India.

Geopolitical tensions and are high. Houthis are terrorising the Red Sea, which carries 40% of global seaborne traffic and a war in the South China Sea between China and the US is looming. The sea routes connecting east and west have not looked so insecure for centuries. Land routes that connect Asia and Europe are suddenly at a premium.

China has already established rail links between the two as part of its Belt and Road Initiative (BRI), but since Russia went rouge and invaded Ukraine, even those routes have become problematic.

The Caucasus have been promoting the Middle Corridor that dips below the Caspian Sea, avoids Russia completely and claim could halve transit times.

At the same time, Russia is promoting

its Northern Sea Route (NSR) over the top of the country, now that global warming is clearing the ice packs out of the way and also promises to significantly shorten the time for sending goods from Europe to Asia by several weeks. While security fears dog most other sea routes, only Russia has the nuclear-powered icebreakers need to traverse this route.

IMEC

India is proposing IMEC, which traverses the Middle East and avoids the Caspian and Black Sea completely. The 4,800-km-long IMEC will consist of a railway, ship-to-rail networks and other transport routes. It will be divided into two parts: the East Corridor, which will connect the Arabian Gulf to India, and the Northern Corridor, connecting the Gulf to Europe.

The original IMEC plan was a deal signed at the last G20 summit between India and the Kingdom of Saudi Arabia (KSA) and formalised with a memorandum

of understanding (MoU) in September 2023. Indian goods were to be collected at the port of Mumbai and shipped to Jebel Ali in the UAE, before being transported across the Kingdom of Saudi Arabia (KSA) by train to Israel, where they will be sent by ship from Haifa on their last leg to the European ports of Piraeus in Greece, Marseille in France and Messina in Italy, to enter the EU.

"It will be the most direct connection to date between India, the Arabian Gulf and Europe: with a rail link that will make trade between India and Europe 40% faster; with an electricity cable and a clean hydrogen pipeline to foster clean energy trade between Asia, the Middle East and Europe; with a high-speed data cable to link some of the most innovative digital ecosystems in the world and create business opportunities all along the way," European Commission President Ursula von der Leyen said at a related transport event in September.

"The EU is also keen to see the route established, because if it significantly increases its trade with India via the route it will also give it new leverage in the Middle East, where currently it has limited influence."

But since the October 7 attacks by Hamas on Israel and the rapidly deteriorating situation following Israel's attack on the Gaza strip, this plan has had to be reworked.

Given the problems in the countries surrounding Israel are unlikely to go away quickly, an alternative is emerging where goods are landed at the top of the Persian Gulf and then transported across Iraq and Turkey to enter Europe that way.

India is keen to expand its connections to Europe by land; these are currently bottled up thanks to poor relations with Pakistan and instability in Afghanistan, which are both in the way. The Central Asian states would love to see a southern route out of their region open up as well, as currently they are forced to trade and transport across the long Russia border which shuts them in to the north, and Iran, which has similar sanctions problems, to the south.

The EU is also keen to see the route established, because if it significantly increases its trade with India via the route it will also give it new leverage in the Middle East, where currently it has limited influence.

KSA is also keen to cooperate with India. While Riyadh has been moving closer to the BRICS group led by Russia and China – it has agreed in principle to join BRICS+ – Riyadh has surprised by throwing in its lot with the Indian transport corridor proposal that has been backed by both the US and EU. Crown Prince Mohammed bin Salman (MbS) is clearly trying to improve KSA's clout on the international stage and is following a multivector foreign policy that is popular throughout Eurasia. At the same time as improving relations with the more pro-market India, MbS is buying some political leverage in his relations with the more politically aggressive Beijing and Moscow.

A coalition involving Iraq, Turkey, Qatar and the UAE signed an MoU in February to enhance trade connectivity between India and Europe by creating a new trade corridor to rival the existing IMEC and seaborne Suez Canal routes.

Last year, Iraq launched a \$17bn project to connect a major commodities port on its southern coast to the Turkish border via an expansive rail and road network. Known as the Development Road project, it will span over 1,200 kilometres and is designed to transform Iraq into a strategic transit hub linking Asia and Europe.

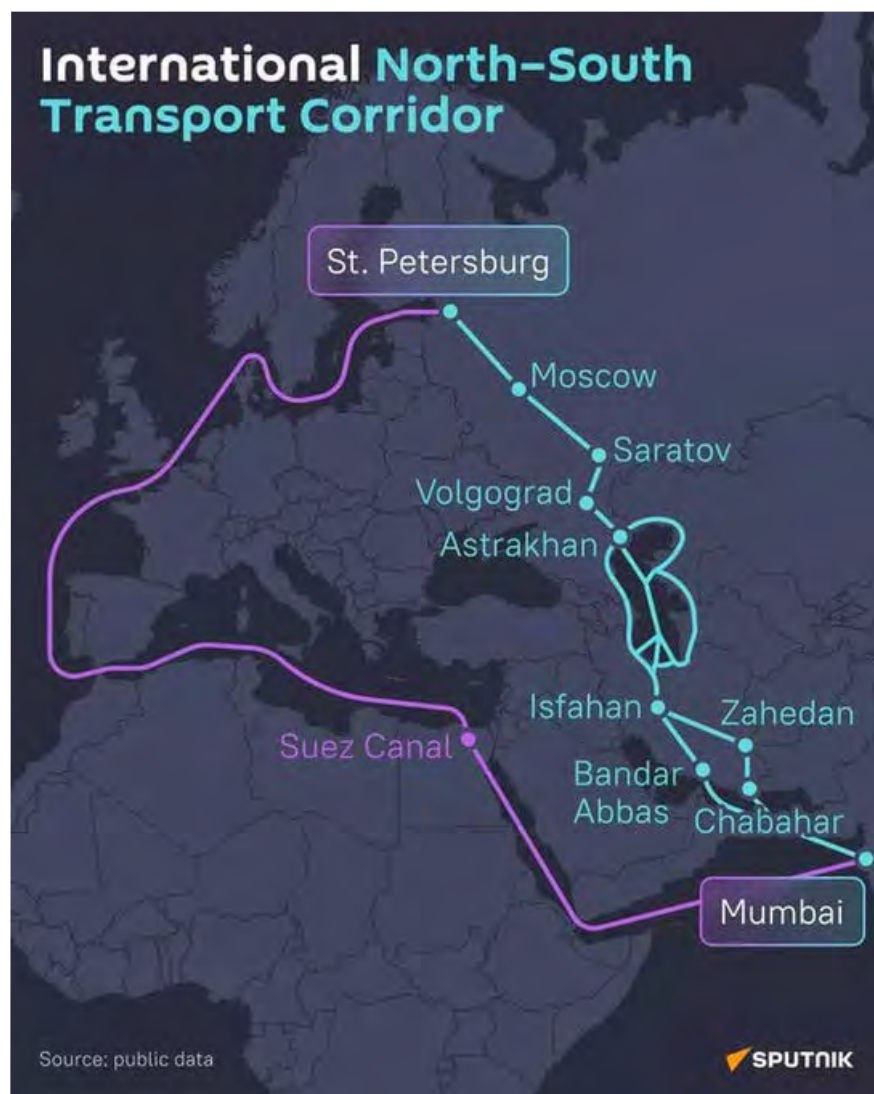
Sanction free north-south route

Less prominent, a third route is being discussed as sanctioned Russia and Iran try to stay in the game and create routes that are outside Western influence. The International North-South Transport Corridor (INSTC) aims to strengthen connections between India, Russia and Iran while bypassing Western-

controlled trade routes. The 7,200-km corridor links St Petersburg in Russia to ports in southern Iran and ultimately to Mumbai, India.

However, the timing and funding for all the projects remain vague. The cost of upgrading and modernising ports and railways along the route is estimated to be \$8bn and the work could take years. No timeline for the route has been established yet by its participants.

In the meantime, the seaborne routes continue to dominate global trade, but the land-based routes are slowly growing in attractiveness and will continue to do so as globalisation fades in the face of an increasingly fractured world. ●



India is seeking alternative routes to connect its trade with Europe, and simultaneously bypass some of the world's unstable flashpoints / bne IntelliNews



Relations between the EU and China remain tense, but the trade between them remains significant. / bne IntelliNews

The bilateral relations between China and the European Union are important but challenging

Bank of Finland Institute for Economies in Transition (BOFIT)

In early May, Chinese President Xi Jinping visited Europe for the first time since 2019. The destinations of the visit were France, Hungary and Serbia. According to the view generally expressed in the media, China sought to improve its relationship with Europe with the help of the trip, as China's bilateral relations with the United States are in a rather vulnerable state, and China wants Europe not to lean too much towards the United States' strict stance on China. For the European Union, the visit made it possible to maintain a dialogue with China, the Bank of Finland Institute for Emerging Economies (BOFIT) said in its weekly newsletter on May 17.

One of the key meetings of the visit was a meeting with French President Emmanuel Macron and European Commission President Ursula von der Leyen on May 6 in Paris. In their discussions, the managers discussed geopolitics, climate change and economic relations between

the EU and China. According to the official press release of the European Commission, the discussion related to economic and trade relations focused in particular on the following three issues:

1. China's structural overcapacity and state-supported industry,
2. facilitating China's market access, and
3. improving the resilience of production chains.

Although the differences of opinion between Europe and China in these matters are large, both sides characterized the bilateral relationship as significant and emphasized the importance of dialogue.

China's industrial policy, which, according to the EU's view, favours domestic companies and, due to state subsidies, leads to unfair competition in the international market, has

received widespread attention in Europe recently. Recently, the EU, like the United States, has not set special import duties on Chinese products, although the debate on the matter is lively. The EU has placed under the competition investigation e.g. Chinese medical devices, wind turbines, solar panels, and electric cars, with the results influencing potential trade policy decisions.

Disagreements and a challenging business environment can also be seen concretely in business life. According to a report published by the EU Chamber of Commerce in China on May 10, the confidence of European companies doing business in China continues to weaken. According to the report, China's structural problems – such as weak domestic demand, industrial overcapacity, and a downturn in the construction sector – as well as market access and regulatory barriers make it difficult for European companies to operate in China.

According to the statistics of the Chinese customs, trade in

goods between China and the EU has decreased by 6% in the first four months of this year compared to the previous year. Last year, the value of bilateral trade decreased by 7%. The background for this was especially the reduced exports from the EU to China (-10%), as imports from China only decreased by 1%. The value of China's exports to the EU was \$504bn in 2023, while the value of imports was \$283bn. Thus, China had a trade surplus with the EU of 221bn dollars last year.

China is a very important export market for the EU, as it bought 9% of the EU countries' total exports outside the Union in 2023. Similarly, the EU is China's most important export market alongside the United States, as both buy about 15% of China's total exports. The EU exports to China e.g. motor vehicles and their parts, medicines, as well as electronic equipment and their parts and imports from China, for example, telecommunications equipment, information technology and various electrical equipment. ●

Putin visits China; US sanctions also make trade between China and Russia more difficult

Bank of Finland Institute for Economies in Transition (BOFIT)

Russian President Vladimir Putin travelled May 16 on a state visit to China to meet President Xi Jinping. In addition to Beijing, the destination is Harbin in northeastern China. The political relations between the countries have become closer after the war of aggression against Russia, says the Bank of Finland institute for Emerging Economies (BOFIT) in its weekly update.

The last time Putin visited China was at the forum of the Belt and Road project in October. According to Russia, the meeting will discuss cooperation in areas of innovation, such as high technology, space technology and renewable energy. The information about the meeting did not mention the Power of Siberia 2 gas pipeline. The pipeline agreement, which has been in discussions for a long time, would be important for Russia. According to the Russian gas company Gazprom's plans, the pipeline would be in use in 2030, although an agreement with China has not yet been reached.

The growth of trade between the countries has waned. According to Chinese customs data, the value of goods exports to Russia decreased by 3% in January-April from a year ago. The value of imports increased by 11%. In particular, the export of vehicles to Russia has decreased. This can be partly explained by the boom at the end of last year, when Russians bought Chinese cars before Russia stopped at the beginning of April

the possibility of reimporting cars to the country through the Eurasian Economic Union with lower taxes.

The increase in imports is mainly due to crude oil imports, which grew in January-March in terms of volume by 13% (China's total oil imports +1%) and in dollars by 20% y/y. Imports of oil products and natural gas from Russia also increased at the beginning of the year. Coal imports, on the other hand, decreased. Russia is China's most important oil importing country with a 20% share. According to customs data, a ton of oil imported from Russia cost 3% less than



Russian President Putin travelled to China to meet President Xi Jinping in a display of their tightening relations, despite the Western sanctions / bne IntelliNews

imported oil on average and 7% less than Saudi Arabian oil in January-March.

In recent months, trade between the countries has also been hampered by Western sanctions against Russia. Late last year, the United States made it possible to impose secondary sanctions on foreign financial companies if they help Russia evade sanctions. According to press reports, China's three major state-owned banks (BOC, CCB and ICBC) have refused to accept payments from sanctioned Russian companies, and Chinese banks have been more reluctant than before to pass on payments that could have any connection to sanctioned companies. Banks have started to demand extensive explanations from the seller and the buyer about which shipments the payments are related to. According to newspaper reports, this has caused long delays in payment traffic between the countries. Some Russian companies have started to relay payments through third countries, which increases costs. This year, Chinese companies have

been urged to switch to using the yuan in Russian trade. Last year, a good quarter of international trade was in yuan. According to press reports, this spring many Chinese banks (including ICBC) have also stopped accepting yuan payments from Russian companies and some have stopped their operations in Russia completely. Smaller banks with no other international operations are increasing their market share.

As a result of Russia's war of aggression and sanctions imposed by Western countries, Russia's dependence on China has increased. China (including Hong Kong) already accounts for about 40% of Russia's goods imports. Russia has also increased its importance as China's trading partner, and the country's share is 5% of China's goods imports and 3% of its exports. However, travel between the countries has decreased significantly since the time before the pandemic. According to Rosstat's statistics, last year Chinese tourists visited Russia only a quarter of the number in 2019. Similarly, the number of Russian tourist trips to China fell to less than a third from 2019. ●

COMMENT

Aliyev continues to block the chance of peace in the South Caucasus

Robert Ananyan in Yerevan

Will Armenia and Azerbaijan sign a peace treaty, finally agreeing on the difficult issue of border demarcation?

Yerevan and Baku have taken a first step by accepting the Alma-Ata Declaration as a guiding document in the process of border demarcation, fixing the borders at the time of the collapse of the USSR and affirming the independence of the two states. The former administrative borders of the USSR are recognised as state borders. The administrative borders of the Armenian and Azerbaijani Soviet Republics should be restored through demarcation. Maps from 1969, 1974, and 1975 will be used, which have a legal basis as they were approved and signed by the Armenian and Azerbaijani Supreme Councils.

In line with this declaration, Armenian Prime Minister Nikol Pashinyan agreed to return to Azerbaijan the ruins of four villages, which came under the control of the Armenian armed forces in the fighting in the 1990s.

However, Armenia won't get a single centimetre from the 200 to 300 sq km of territory that Azerbaijan has occupied in recent years. This fact has caused discontent in the villages bordering Azerbaijan, where anti-government protests are currently being held.

This unpopular decision of Pashinyan exposes his government to serious risk, but it gives observers reason to believe that Armenia and Azerbaijan will finally sign a peace treaty. How realistic are these hopes?

"Resolution" of the Nagorno-Karabakh conflict

The central issue in Armenian-Azerbaijani relations had long been the fate of Nagorno-Karabakh. The 30-year-long peace talks between Azerbaijan and Armenia eventually failed because of Azerbaijan's aggressive wars in 2020 and 2023 to recover the territory, which has for centuries been occupied by ethnic Armenians.

In December, 120,000 ethnic Armenians, who had relied on the "security guarantees" of Russian "peacekeepers", were forcibly displaced from Nagorno-Karabakh and sought refuge in Armenia. Today, Azerbaijan considers the conflict resolved, as Karabakh is completely under its control. Armenians have not returned to Nagorno-Karabakh because of a lack of trust in the Russian guarantees. Recently, the Russian troops agreed to leave Karabakh, concluding one of the most disgraced peacekeeping missions in the world.

However, the G7 countries do not regard the Karabakh issue as closed, as they recently called on the Azerbaijani authorities to "take appropriate steps to ensure the safe, dignified, and stable



Yerevan and Baku have taken a first step by accepting the Alma-Ata Declaration as a guiding document in the process of border demarcation, fixing the borders at the time of the collapse of the USSR. / bne IntelliNews

return of refugees to Nagorno-Karabakh". However, there is no visible action by the G7 countries to deploy international peacekeeping forces to Nagorno-Karabakh. Until this occurs, the return of Armenians to Karabakh is improbable.

If Armenia insists on the return of the Karabakh Armenians in the current negotiations, Azerbaijan would demand the return of Azerbaijanis to Armenian-occupied territory based on the principle of reciprocity. These factors currently preclude the return of Armenians to Karabakh.

Yerevan is disinclined to make the Karabakh Armenians' fate a subject of discussions with Azerbaijan, understanding that it would hinder reaching an overall agreement. Armenia is prepared to remain silent on the issue of Karabakh and forgo lawsuits against Azerbaijan in international courts in order to facilitate the signing of the treaty.

Pashinyan's changed stance

With the difficult decision to cede four villages to Azerbaijan, Pashinyan's government has demonstrated its genuine intention to sign a peace treaty.

After the 44-day war in 2020, Pashinyan reconsidered his ideas about relations with Azerbaijan and Turkey. Until September 27, 2020, he was no different from today's nationalist figures in Armenia, holding radical positions on relations with Turkey and Azerbaijan.

However, the situation has now changed 180 degrees. In recent months, Pashinyan has been trying to convince

Armenian society that it is necessary to abandon the dream of restoring "historical Armenia" and instead deal with the realities of "real Armenia." The survival of "real Armenia" implies the need to rebuild relations with Turkey and Azerbaijan.

Even with its Western allies, Armenia has no chance of pursuing a confrontational policy with Azerbaijan and Turkey. Armenia is inferior to Turkey and Azerbaijan in terms of economic, military, and demographic potential.

"With the difficult decision to cede four villages to Azerbaijan, Pashinyan's government has demonstrated its genuine intention to sign a peace treaty"

Among Pashinyan and his team, the idea has also taken root that Russia, rather than Armenia, benefits from Armenian's long-term conflicts with Turkey and Azerbaijan. The existence of military conflicts in the South Caucasus and Armenia's tensions with Turkey strengthened Russia's position. Armenia is directly dependent on Russia, and if this dependence is not addressed, Armenian statehood may cease to exist. This is why Pashinyan approaches relations

with Armenia and its neighbours realistically. He genuinely wants to solve problems.

Armenia's strategic perspective is to join the European Union and establish strong military-political relations with the US. Resolving problems with Azerbaijan and Turkey will make Armenia's strategic turn towards the West more feasible.

The West is ready to embrace Armenia as part of its family if it does not have hot conflicts with its neighbours. I think Washington and Brussels have conveyed this message to Yerevan.

Pashinyan's government has calculated that after signing a peace treaty with Azerbaijan, Turkey will open the Armenian-Turkish border, diplomatic relations will be established, and significant economic interactions will begin.

The signing of a peace treaty with Azerbaijan would be a major achievement for Pashinyan's government. It would allow him to prove to the citizens of Armenia that the "era of peace" is truly beginning after decades of war (which was Pashinyan's pre-election promise).

Unpopular concessions

At this stage, Azerbaijan will not return the 200 to 300 sq km of Armenian territory it has occupied. Despite the one-sided logic of the process, Pashinyan has nevertheless agreed to withdraw Armenian troops from the four villages on the border of Armenia's Tavush and Azerbaijani Kazakh regions.

The inhabitants of Kirants, Voskepar, and Baghanis villages are particularly nervous about this fact, as they will have to communicate with the Azerbaijani armed forces from a closer distance. Villagers currently regularly block interstate and community roads, complaining about the Pashinyan government's decision.

Pashinyan has calculated that by starting the border demarcation process with Azerbaijan based on the Alma-Ata declaration the situation on the Armenian-Azerbaijani border would become stable. According to him, Azerbaijan will be deprived of the opportunity to create false grounds for military attacks against Armenia. Additionally, one of the most difficult problems preventing the conclusion of the Armenian-Azerbaijani contract will be solved with the start of the demarcation process.

Pashinyan is trying to prove that he is ready to take painful and risky steps for the sake of signing a peace agreement. He also hopes to receive the support of the USA and the EU, thus gaining partners in deterring Azerbaijan's military attacks.

However, Pashinyan's romantic aspirations to make the peace treaty a reality collide with the regional plans of Ilham Aliyev and Vladimir Putin.

Azerbaijan's reasons to avoid peace

In the last four years, Azerbaijan has occupied 200 to 300 sq km of territory of Armenia by military attacks. In January 2024, Aliyev admitted to the Azerbaijani media that he had occupied heights bordering Armenia. According to him, positioning troops at the heights gives him a chance to control the movement of the Armenian armed forces.

If Azerbaijan, after receiving the four villages, continues to use the Alma-Ata declaration as a basis for border demarcation, Baku would logically be forced to withdraw these troops from Armenia. By retreating from the territory of Armenia, Azerbaijan would lose its superior position over the Armenian armed forces.

To avoid this scenario, Azerbaijan may abandon the Alma Ata declaration after receiving the four villages. Azerbaijan will likely introduce new principles, try to invoke fake maps in the process of border demarcation and demand the recognition of Azerbaijani sovereignty over the Armenian heights.

Since international specialists do not participate in the border demarcation process, there is a big risk that Azerbaijan will threaten war and again force Armenia to accept the rules of its game.

It seems unlikely that Aliyev, who preaches "Armenian hatred" to Azerbaijan society, will return the occupied territories to Armenia. This could block the signing of a peace treaty.

Prolonging Aliyev's regime

Secondly, the internal political realities of Azerbaijan also support not signing a peace agreement. For almost 20 years, Aliyev has built his power around the goal of defeating the external enemy, Armenia. Armenia has been portrayed as an occupier, and defeating it has become the national ideology of Azerbaijan. Propaganda of hatred towards Armenians is state policy in Azerbaijan. A leader "sitting on a victorious horse" cannot yield to a "defeated enemy". Unfortunately, this idea prevails among the political elite and society of Azerbaijan.

The motivation to protect Azerbaijan's citizens from the military aggression of "enemy Armenians" ensures the consolidation of Azerbaijani society around the Aliyev regime.

Having hostile relations with Armenia is necessary for the president of Azerbaijan to protect and extend his regime. Aliyev reportedly won more than 90% of the votes in the last presidential pseudo elections thanks to the victory against the Karabakh Armenians and the realisation of his dream of revenge.

By signing a peace treaty with Armenia and building real peace, Aliyev would lose the tool to consolidate his regime. Why should Aliyev risk the future management of his dynasty in Azerbaijan?

The Russian spoiler

The conclusion of the Armenian-Azerbaijani peace treaty has a stronger opponent than Aliyev. The main state opposing the peace treaty between Armenia and Azerbaijan is Russia.

Russia has maintained its military and political presence in the South Caucasus for 200 to 300 years by provoking conflicts between local peoples. Russia has troops in all countries of the South Caucasus: Armenia, Georgia, and Azerbaijan, giving it dominant control.

The Russians have used the same method in Georgia, Moldova, and Ukraine. The Armenian-Azerbaijani conflict has not been resolved for decades because Russia did not want it to be.

The conclusion of the peace treaty implies that Armenians and Azerbaijanis should stop killing each other, and problematic issues should be resolved through negotiations. It is not a favourable scenario for Moscow. If Armenians and Azerbaijanis stop killing each other, Russia's presence in the South Caucasus would become meaningless.

Two years before its attack on Ukraine, Russia, in a deal with Turkey, agreed that Azerbaijan could start a war against Nagorno-Karabakh. That war also gave the Kremlin a chance to send troops into Karabakh. In addition, Putin got the loyalty of Aliyev and Erdogan in his war against Ukraine.

“The motivation to protect Azerbaijan's citizens from the military aggression of “enemy Armenians” ensures the consolidation of Azerbaijani society around the Aliyev regime.”

But this policy has been a complete failure. Today, Russian peacekeepers are leaving Karabakh following the Azerbaijan reconquest. Even the Russian military presence in Armenia is now at risk. Pashinyan recently said that Russian military positions should be removed from the demarcated border of the Tavush region. The Kremlin has repeatedly tried to deploy CSTO or Russian troops on the Armenian-Azerbaijani border throughout the demarcation period. But Russia was excluded from the demarcation process, even though a Russian commission was created. If border demarcation is carried out in the Gegharkunik and Syunik regions, Russian military positions will also be removed from those regions.

The reduction of Russian military-political influence in the South Caucasus is a crushing defeat for Putin's policy. Moscow will try to prevent the signing of an Armenian-Azerbaijani

peace treaty to prevent the scenario of the removal of Russian military units. The settlement of relations between Armenia and Turkey would also make the existence of Russian border guards on the Armenian-Turkish and Armenian-Iranian borders pointless.

It can also be expected that Armenia will demand the withdrawal of Russian troops from its territory, including the withdrawal of the 102nd military base in Gyumri. This will be the final expulsion of Russia from the South Caucasus. In other words, Putin was not only unable to win the war against Ukraine but may also lose his influence in the South Caucasus.

Russia will try to disrupt the signing of a peace treaty, using both its influence on Azerbaijan and the political forces loyal to it in Armenia. While the West welcomed the latest Armenian-Azerbaijani agreement on the Alma-Ata declaration, Russia remained silent. Rather, Russia is trying to find ways to punish Pashinyan.

The pro-Russian opposition, taking advantage of Pashinyan's unpopular decision, is trying to take advantage of public dissatisfaction and generate anti-government movements. However, at the moment, there are no grounds to claim that the protests against the border demarcation process will have a potential nationwide scope and nature. It is more likely that they will disappear after the completion of the demarcation process around the four villages.

Aliyev plays Putin's game

But Russia also still has great influence over Azerbaijan. Aliyev arrived in Moscow on February 22, the second anniversary of the signing of the Russia-Azerbaijan strategic alliance declaration. Afterwards Aliyev presented Armenia with artificial preconditions to make reaching a final peace agreement nearly impossible.

Praising Russia's “fundamental” role in the South Caucasus, Aliyev insisted that Armenia is obliged to provide what it calls the “Zangezur Corridor” under Russian control, a strip of territory linking Azerbaijan to its exclave Nakhichevan.

In the last four years, Armenia lost hundreds of servicemen and lost territories, but Armenia did not yield to Azerbaijan and Russia the “Zangezur Corridor”. There is almost zero probability that Pashinyan will agree to provide Russia and Azerbaijan with this, which would violate Armenia's sovereignty and territorial integrity.

According to our information, Yerevan now will propose new regulations to Baku that will make transportation to Nakhichevan more comfortable, but Armenia's sovereignty will be preserved. In other words, soon, Baku will have a chance to prove that it does not serve Russia's plan. But I'm a sceptic on this question.

Aliyev demands Armenia change its constitution

After the meeting with Putin, Aliyev also demanded that Armenia change its constitution.

The Declaration of Independence is mentioned in the constitution, the text of which also refers to the "Armenia - Nagorno-Karabakh reunification decision" of the Supreme Councils of Karabakh and Armenia. However, in the peace treaty negotiations, Armenia and Azerbaijan agreed on a principle according to which the parties cannot refer to domestic legislation to not fulfill the provisions of the peace treaty.

In other words, by recognising the territorial integrity of Azerbaijan with the Alma Ata declaration, Armenia includes Nagorno-Karabakh in the composition of Azerbaijan. And since Armenia undertakes not to refer to its domestic legislation, this problem has been overcome. After the signing of the agreement, Armenia cannot consider Nagorno-Karabakh as separate from Azerbaijan, referring to its constitution.

However, since Azerbaijan appears to be under Russian orders to block the conclusion of the agreement, Aliyev put forward the demand to change the constitution. I think Pashinyan's government has no chance of holding a referendum to adopt a new constitution, considering that it is Azerbaijan's demand. Armenian society will oppose it. Azerbaijan is deliberately presenting an unrealistic demand.

Azerbaijan itself has some problems with its constitution. Azerbaijan declares itself the successor of the First Republic, by which it expresses ambitions for the eastern territories of present-day Armenia. Aliyev is not going to change his constitution, but he makes such demands on Armenia.

Aliyev also demands that Yerevan give up using Mount Ararat as a symbol. Ararat is a biblical mountain, and Armenia, which was the first in the world to adopt Christianity, cannot but consider that mountain as one of its symbols, even if it is located in the territory of Turkey. This is also an artificial obstacle that Aliyev deliberately puts forward.

It is also not excluded that the issue of dropping the Azerbaijan blockade will be left out of the draft peace treaty, and after the signing of the treaty, Armenia will continue to be under a blockade.

Will the historic chance fail?

Therefore, although Armenia and Azerbaijan are now the closest they have been to signing a peace treaty in the last 30 years, there is a high probability that it will not be signed.

Armenia's efforts and constructive stance alone are not enough to conclude an Armenian-Azerbaijani peace treaty, because Aliyev continues to serve Putin's interests. The Armenian and Azerbaijani peoples will probably not realise the historical chance to sign a peace treaty. And even Pashinyan's realism may become meaningless.

For the wars in the South Caucasus to end and a peace treaty to be signed, the US and the EU must exert strong pressure on Azerbaijan. If they don't, Azerbaijan will become the main base for the spread of Russia's military and political influence in the South Caucasus, whose function will be the fight against the influence of the West.

Aliyev now positions himself as a figure fighting against extra-regional forces. He repeats the mantra of Putin and Erdogan that the problems of the South Caucasus should be solved by the forces of the region, and not by the countries across the ocean, referring to the US.

The president of Azerbaijan is playing on the Russian field. The signing of the agreement between Armenia and Azerbaijan will reduce the Russian factor in the region, and the role of the US and the EU will increase. By presenting these demands, Aliyev is trying to weaken and neutralise Western pressures. Aliyev's activity in the Russian direction is a message to the US and the EU that they could finally lose Baku if they try to impose sanctions.

“Yet the West has decided to increase the level of resilience of Armenia, giving the Armenian side a chance to defend itself against the illegal demands of Azerbaijan and Russia”

Yet the West has decided to increase the level of resilience of Armenia, giving the Armenian side a chance to defend itself against the illegal demands of Azerbaijan and Russia.

On Sunday, US Secretary of State Antony Blinken had a telephone conversation with the leaders of Armenia and Azerbaijan. He called on Aliyev to maintain dialogue with his Armenian counterpart, and expressed gratitude to Aliyev for the declaration of demarcation between the parties. He emphasised its importance for both Yerevan and Baku in achieving stable and dignified peace. While talking to Pashinyan, Blinken also emphasised the ongoing efforts of the United States to support Armenia's sovereignty and territorial integrity, as well as Pashinyan's vision of a prosperous, democratic, and independent future for Armenia.

Although Baku refuses to sign a peace treaty in Washington, the US has taken a positive role in these processes. Whether or not Azerbaijan president will drop those obstacles preventing the conclusion of the agreement will depend especially on the involvement of the USA – both its determination and its demonstration of positive power. ●

RAGOZIN

Exhausting Russia, strategies and fantasies

Russia and Iran have some people in Moscow asking questions

Leonid Ragozin in Riga

The long-delayed allocation of \$61bn by the US Congress gives Ukraine yet another chance to negotiate peace with Russia without losing even more lives and territory, provided it succeeds in stalling the current Russian offensive.

But the political class, both in Ukraine and the West, is too invested in a maximalist vision of Ukraine's victory, while Putin is confident he can realistically end the conflict on his terms and – as things stand now – he might have a point. All of that means that the war could spill into 2025 or beyond, when Russia may very well be quite worn out, but Ukraine completely devastated.

Breaking up is hard to do

As the Russian advance accelerated in recent weeks and the headlines in Western media began exuding doom and gloom, several former US ambassadors manned a panel at a Jamestown Foundation event in DC together with the think-tank's president, Peter Mattis.

The conference, called Russia's Rupture and Western Policy, focused on the possibility (and desirability) of Russia's eventual

breakup. The event's web page featured a map of Russia divided into dozens of nations, each with its own flag. The co-organiser, Free Nations of Post-Russia Forum, is closely linked to Poland's former ruling PiS party and fugitive Russian politician Ilya Ponomarev. He works with the Ukrainian government to recruit Russian nationals into the military units run by Ukraine's military intelligence.

Participants in Post-Russia forums, previously held in Europe, claim to represent separatist movements in bigger ethnic autonomies, such as Bashkortostan and Buryatia. Others identify themselves with Tolkien-styled imaginary states, such as "Ingria" (area around St Petersburg) or "Smallandia" (Smolensk region). It is safe to say that none of them has any clout in their region and most are entirely unknown to its residents.

The expectation that Russia will break up into many independent states as a result of Ukraine's military victory is one of the wildest ideas which keeps popping up in the Western discourse. It betrays the shining ignorance of its proponents about the country's demography, geography and



Some Western security experts have pushed for policies to encourage the break-up of Russia. / bne IntelliNews

political reality. But it helps a number of crooked personalities to draw funds from think-tanks and intelligence services.

To begin with, Russia is not the USSR, where the right of republics to separate was written into the constitution. It is a nation state where over 80% of the population are ethnic Russian, while others are heavily Russified. It has ethnic autonomies, but few with indigenous majorities and even these are hardly sustainable as independent nations. Imagine Sakha-Yakutia, with an area equal to nine Germanies and a population of Latvia – maintaining its territorial defence if it were threatened by the nearby China.

The ambassadors in question – John Herbst, William Taylor and William Courtney – played important roles in developing American policy with regards to Ukraine and Russia over several decades since the 1990s. Two served in Kyiv.

Back in March 2021, Herbst and Taylor appeared among the authors of an Atlantic Council report containing recommendations for the Biden administration on dealing with the Russo-Ukrainian conflict. The other co-author, Swedish economist Anders Aslund, sat on the previous panel. The report argued for a more aggressive approach to steering Putin towards what the authors saw as an acceptable version of peace settlement. That included derailing the Nord Stream 2 gas project and offering Ukraine a roadmap for joining Nato, should Russia display intransigence.

Its publication coincided with President Volodymyr Zelenskii's abrupt transformation from a dove into a Russia hawk, which resulted in Putin beginning to amass troops at the Ukrainian border in preparation for a full-out invasion.

To their credit, the ambassadors who lent their names to the forum as headliners were relatively cautious about the prospects of independent Buryatia and "Smallandia". Herbst even stated the obvious – that talking about disintegrating Russia might be helping Putin more than anyone else, which begged the question of why he chose to participate in the first place.

But they spoke about Ukraine's victory, defined as Russian troops withdrawing to the 1991 borders, and about the subsequent regime change in Russia, as a real possibility. It was only a matter of giving Ukraine more weapons and paying less attention to Russia's red lines and nuclear threats, it followed from their comments.

The story of the demise of the USSR, mechanically extrapolated on today's Russia, loomed large over the discourse, betraying the speakers' inability to grasp the abyss which divides the totalitarian communist project from the highly modernised far-right-leaning nation state of today. One of the diplomats indeed repeatedly referred to modern Russians as "the Soviets".

Hearing their optimistic prognostications against the backdrop of increasingly gloomy analysis provided daily by Ukrainian

war monitoring services and blogging active-duty soldiers on Telegram created the impression of two parallel realities existing on the battlefield and inside what is commonly known as the Blob.

The stories of people fleeing or resisting press gangs that are hunting for recruits all over Ukraine seem to have never reached their ears. Neither did the stories of over 8,000 people prosecuted for "collaboration with the enemy" – a number which by far exceeds that of political prisoners in Russia. Or of repressions against Ukraine's largest church organisation, affiliated with Moscow.

It is this culture of making far-reaching decisions and implementing risky policies without really understanding or bothering to study the potential allies and adversaries which plunged Ukraine into its ongoing catastrophe. This outcome was entirely avoidable had Russia's reactions and capacities been predicted more accurately and if there had been a desire to listen to Russia before it degraded into a fascist war machine.

Winning strategies that lose

Biden's administration may or may not have taken the Atlantic Council report on board, but it was willing to take even more risks than the ambassadors were proposing at the time. In particular, it endorsed Zelenskii's clampdown on Putin's man in Ukraine, Viktor Medvedchuk, who owned several popular TV channels and whose party overcame Zelenskii's in a 2020 opinion poll. Medvedchuk's immunity during the previous six years was clearly a part of an informal agreement that ended the hot phase of war in 2015 and which Putin was right to think was now broken.

A series of seemingly coordinated actions by the Ukrainian and the US governments at the beginning of 2021 resulted in Putin bringing troops to the Ukrainian border in March that year. But it took another year of brinkmanship and misguided diplomacy before he launched a brutal full-out invasion of Ukraine. The crime of aggression is entirely on him, but the catastrophe appears to have been avoidable at multiple points of time.

As an example, Putin did give diplomacy the last chance when Russia recognised the two Donbas "republics" but stayed still for another two days before invading Ukraine. It was during this period when Germany pulled out of Nord Stream 2, leaving Russia without a key incentive to maintain peace.

Another chance to mitigate the catastrophe came soon after. The talks which the two sides conducted during the first months of war came close to achieving an agreement, which would allow Ukraine to minimise territorial losses and join the EU. But, as a recent Foreign Policy piece by Sergey Radchenko and Samuel Charap suggested, both the United States and Britain were opposed to the peace deal. Ukrainian negotiator David Arakhamia famously pointed the finger at

the then British prime minister, Boris Johnson, as the person most responsible for the failure of the talks.

There was another window of opportunity again, famously announced by the top US military commander General Mark Milley, when Ukraine liberated swathes of its territory in the autumn of 2022 and had an opportunity to talk with Russia from the position of relative strength. But instead, President Zelenskiy banned himself from talking to Putin by his own decree.

Putin's strategy is based on punishing Ukraine for its perceived intransigence by claiming more territory and devastating the economy. The pattern is that every time Ukraine declines settlements, it finds itself losing more territory and left with fewer options.

So what is the likelihood of Ukraine getting a better deal than it could conceivably get now if it keeps fighting for another year or two?

A winning strategy for Ukraine might be being developed secretly in some Nato bunker as we speak, but it is hard to imagine what it could entail, especially given the fiasco of the 2023 counter-offensive. Russia has proved capable of adapting to every piece of military technology the West has supplied so far and every type of Western sanctions that have been levied on its economy.

The calculations at the time when the previous talks were derailed by the Ukrainian side in May 2022, were all based on the assumption that both the Russian economy and its military machine would soon collapse because of their

“The West has crossed many red lines and is willing to try even more, but it is impossible to predict how the close-knit group of criminally inclined individuals which rules Russia will act if their country begins losing.”

inefficiency and technological backwardness. Today, it is the high-tech side of war in which Russia is making the longest strides. That prominently includes drone technology and electronic warfare.

The Western cheerleaders of Ukraine's war effort seem to suffer from an acute deficit of ideas as to how to defeat Russia. Anne Applebaum suggested in her recent piece for the Atlantic that the West should exhaust the Russians while

simultaneously arming military units composed of Russian nationals which fight on the Ukrainian side. But how lifeless will the Ukrainians have become when the Russians get sufficiently exhausted?

As for the units in question, one of them, known as Russian Volunteer Corps, is comprised of neo-Nazis who draw inspiration from Russian collaborators that fought on Hitler's side in WWII. The other unit, Free Russia Legion, is the brainchild of the above-mentioned Ilya Ponomaryov, a former associate of Putin's spin-doctor-in-chief Vladislav Surkov.

Ponomaryov is a sworn enemy of Russia's only genuinely popular opposition force, Navalny's movement, whose key figures typically describe him as a fraudster. Just like the fake separatists, these units achieve much more in discrediting anti-Putin resistance in the eyes of ordinary Russians than in gaining anything tangible for Ukraine or for the Russian opposition.

The truth, though, is that there has never been a viable winning strategy, except those putting the world at risk of nuclear war. Much is being said about the West acting in Ukraine with one hand behind its back, but the very nature of a proxy war against a nuclear superpower presumes a great deal of self-deterrence.

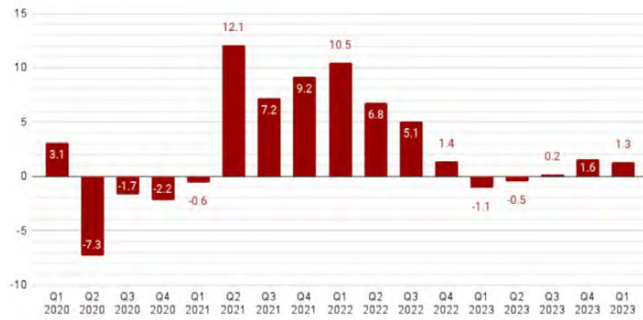
The West has crossed many red lines and is willing to try even more, but it is impossible to predict how the close-knit group of criminally inclined individuals which rules Russia will act if their country begins losing. It has always been a tough proposition to play chess with a guy who is holding a hand grenade. And it makes no sense, as Biden's predecessors knew well at the time of the Cold War.

Russia is clear about its demands. It has spelled them out on multiple occasions in recent months: It wants to return to the framework of a peace deal nearly agreed upon two years ago, but it wants to keep the territories it formally annexed in the autumn of 2022. The exact shape of this territory might be up for bargain, since Russia is still very far from occupying the four annexed regions in their entirety. Russia's endorsement of China's recent peace initiative suggests its readiness to freeze the frontline situation as it is now.

But accepting that kind of arrangement is a political suicide for a political class which convinced everyone, especially the Ukrainian public, that Ukraine could get a better deal than envisaged in previous talks by fighting a battle with a far stronger rival.

More broadly, it would be the ultimate fiasco of the three-decade policy of dismissing Russia as a “declining power” that has no real say even when it comes to its own security. But since that fiasco will be impossible to admit, retired hawks will probably keep looking for magic solutions to their Russia problem. Maybe a separatist movement in Putin's hometown will help, who knows. ●

Poland GDP (seasonally adjusted), change y/y



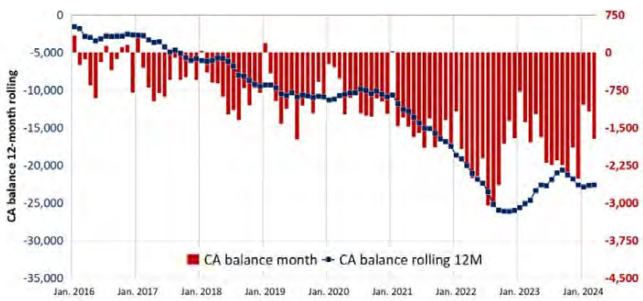
Source: GUS

Polish GDP growth eases to 1.3% y/y in Q1, flash estimate says

Polish GDP expanded 1.3% year on year in the first quarter, easing slightly versus a gain of 1.6% y/y in the preceding three months, seasonally adjusted data from the Central Statistical Office (GUS) showed in a flash estimate on May 15.

“Economic growth in Poland is gradually recovering but low activity in the economies of Poland’s main trading partners, especially the ongoing recession in German industry, limits the scale of the recovery,” Bank Millennium said.

Romania: CA balance rolling 12M, monthly (€mn)

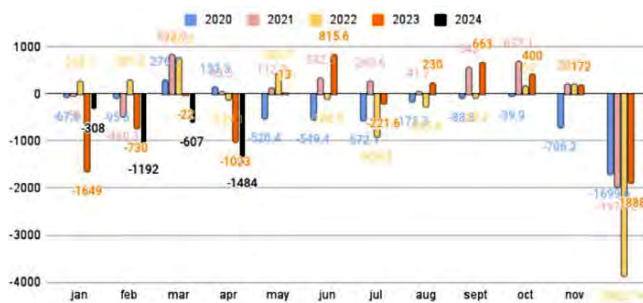


Romania’s CA balance flat y/y at €3.95bn in Q1

The current account (CA) of Romania remained roughly unchanged in nominal terms (€3.95bn) in the first quarter of the year (Q1) compared to the same period in 2023, according to data published by the National Bank of Romania (BNR).

The CA deficit in 12 months to March 2024 (€22.6bn) remained roughly constant compared to the end of 2023 and a significant 8% down from €24.7bn at the end of March 2023. The CA to GDP ratio dropped to 7.1% in 2023 from 9.1% in 2022 and is expected to further ease albeit at a slower rate over the coming years.

Russian budget (cumulative RUB bn)



Source: Russian MinFin

Russia ups budget revenues 50% in 4M24, deficit widens

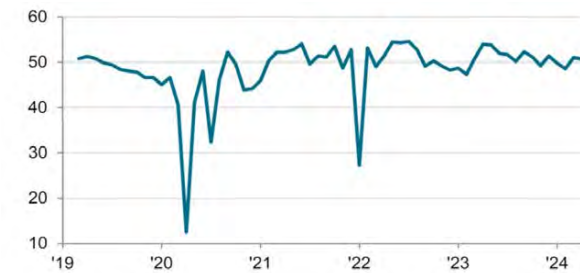
The Russian federal budget posted revenue growth of 50% year on year to RUB11.7 trillion (\$128bn) in 4M24, achieving a revenue growth rate of 41% y/y in April 2024 alone, according to preliminary data from the Finance Ministry and calculations of RBC business portal.

Spending was up by 21.5% y/y to RUB13.2 trillion in 4M24, up by 25% y/y in April alone, making a deficit of RUB1.48 trillion in 4M24. Despite halving y/y from RUB3 trillion seen in the same period of 2023, the deficit came close to the full-year target of RUB1.59 trillion as early as the end of April.

The deficit jumped from RUB607bn seen in the first quarter, even as the high oil prices maintained over 80% y/y growth.

S&P Global Kazakhstan Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global

Growth in Kazakhstan services sustained for second successive month, April PMI shows

Growth in Kazakhstan services was sustained for a second successive month in April, according to the latest purchasing managers’ index (PMI) survey data on the sector from S&P Global, released on May 6.

The survey’s seasonally adjusted business activity index posted above the neutral 50.0 mark at 50.7 for April, down from 51.0 in March.

Global warming acceleration at its peak but the La Nina effect this year will reduce temperatures less than expected

Ben Aris in Berlin

Global temperatures are now near their peak due to the El Niño aerosol decrease, but how far will they fall in the coming La Niña?

If the El Niño/La Niña average is $\sim 1.5^\circ\text{C}$, given Earth's energy imbalance, we are now passing through 1.5°C , for practical purposes.

Global temperatures (12-month mean) are still rising at 1.56°C relative to 1880-1920 in the GISS analysis through April, and are likely to continue to rise a little for at least a month before peaking this summer, before then declining as the El Niño fades toward La Niña, say scientists.

"Acceleration of global warming is now hard to deny. The GISS 12-month temperature is now 0.36°C above the $0.18^\circ\text{C}/\text{decade}$ trend line, which is 3.6 times the standard deviation (0.1°C). Confidence in global warming acceleration thus exceeds 99%, but we need to see how far (the) temperature falls with the next La Niña before evaluating the post-2010 global warming rate," Dr James E. Hansen, a climatologist at the Earth Institute at Columbia University said in a recent update.

The La Niña climate phenomena where temperatures fall following its sister El Niño effect was experienced in 2023. However, in this cycle the effect will be reduced by an increase in the Earth Energy Imbalance (EEI) – an increase in heating by the sun as more sunlight reaches the earth's surface after reflective sulphur dioxide was removed from shipping fuel in recent years.

As a result of this change, as *bne IntelliNews* reported, the climate models are wrong and are underestimating the rate at which global warming is accelerating.

Present extreme planetary energy

imbalance will limit La Niña-driven temperature decline. Thus, the El Niño/La Niña average global temperature is likely about 1.5°C , suggesting that, for all practical purposes, the global temperature has already reached that milestone," says Hansen. "In other words, we are beginning to realise the consequences of the Faustian bargain, in which humanity partly offset greenhouse gas warming with aerosol (particulate air pollution) cooling."

Hansen says that the rapid and unexpected acceleration of global warming since 2010 is due to the removal of the reflective aerosols, the effects of which have not been included in most climate models.

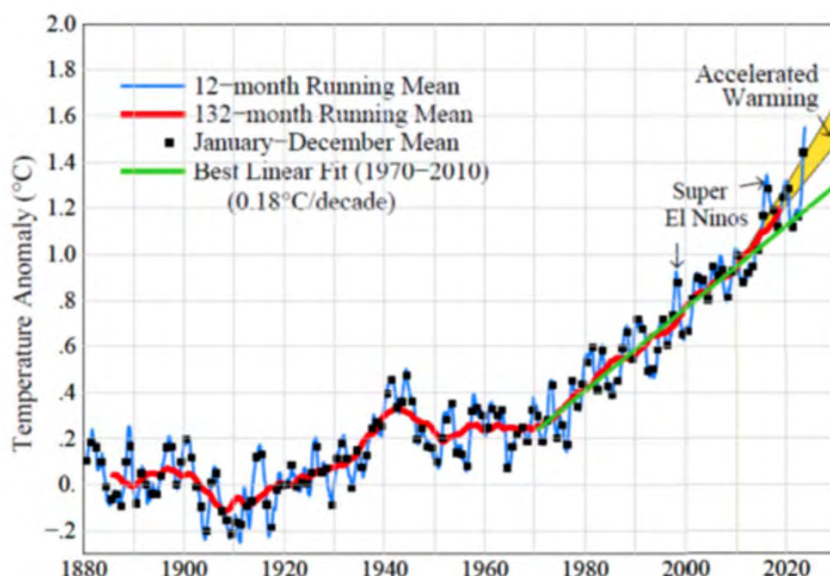
"We interpret acceleration of warming since 2010 to be a consequence of decreasing aerosols, with a significant contribution from reduction of ship aerosols due to the strict 2020 emission limit imposed by the IMO (International Maritime Organization),"

says Hansen, which he says has been underestimated because ship emissions are a tiny part of total anthropogenic emissions and of emission changes.

"But ships emit into relatively pristine ocean air and the aerosol effect is nonlinear... An important issue concerns how much additional global warming lurks in our Faustian aerosol bargain. That depends on interpretation of ongoing change. Our preliminary analysis suggests a ship aerosol forcing an order of magnitude (factor of ~ 10) greater than what follows from United Nations' Intergovernmental Panel on Climate Change (IPCC) estimates," says Hansen.

Hansen says the effect of the aerosol change is hard to measure and estimate as it works through its effect on clouds, and cloud cover is very hard to model.

"Cloud changes also occur as a climate feedback that is poorly quantified, and clouds have large natural variability," says Hansen. ●



As last year's El Niño effect gives way to this year's La Niña effect, temperatures should fall, but scientists say global warming is accelerating and the effect of La Niña will be less than expected. / *bne IntelliNews*

Newsletter

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