

# Conflict Update # 350

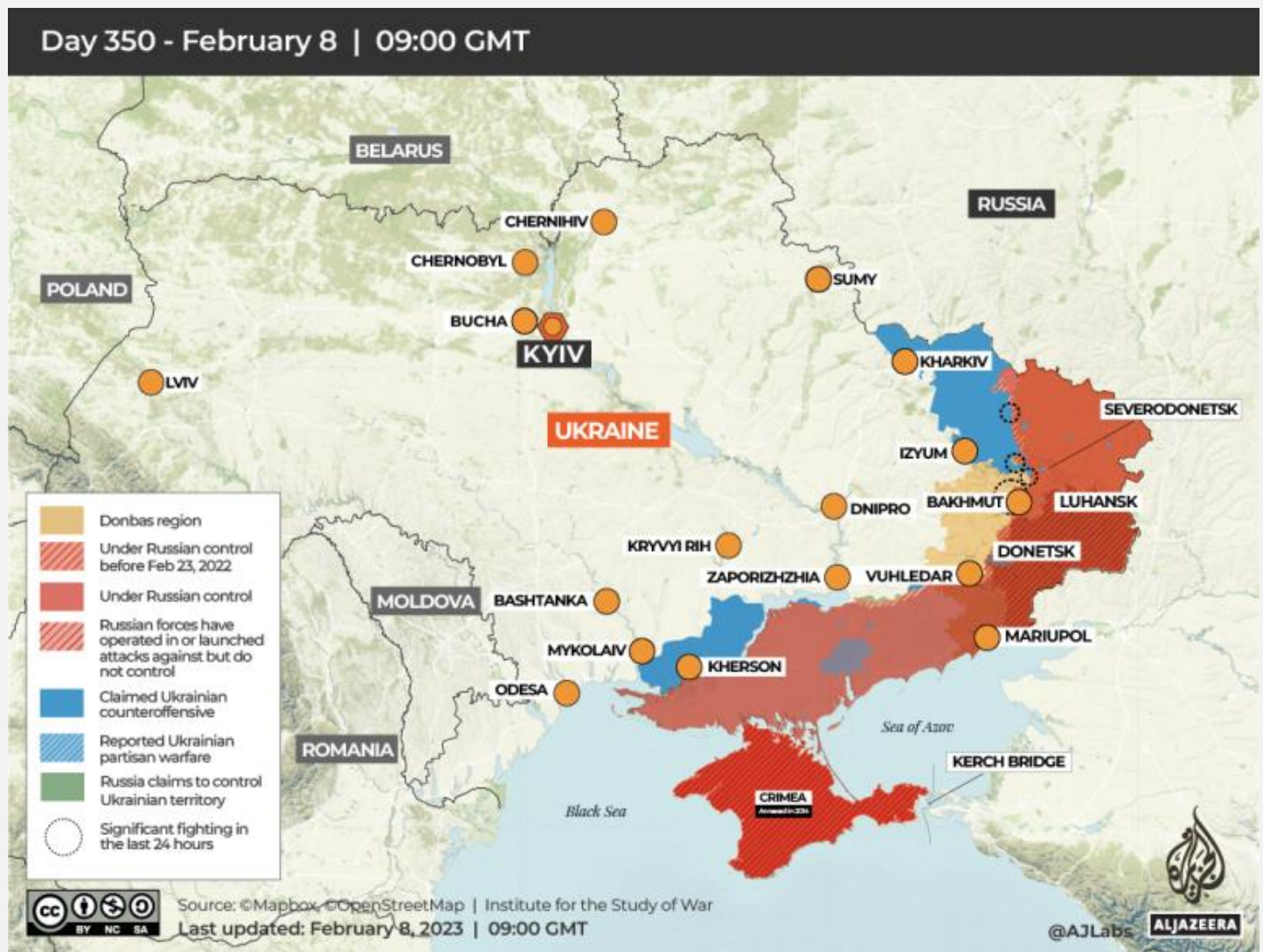
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## Conflict Assessment

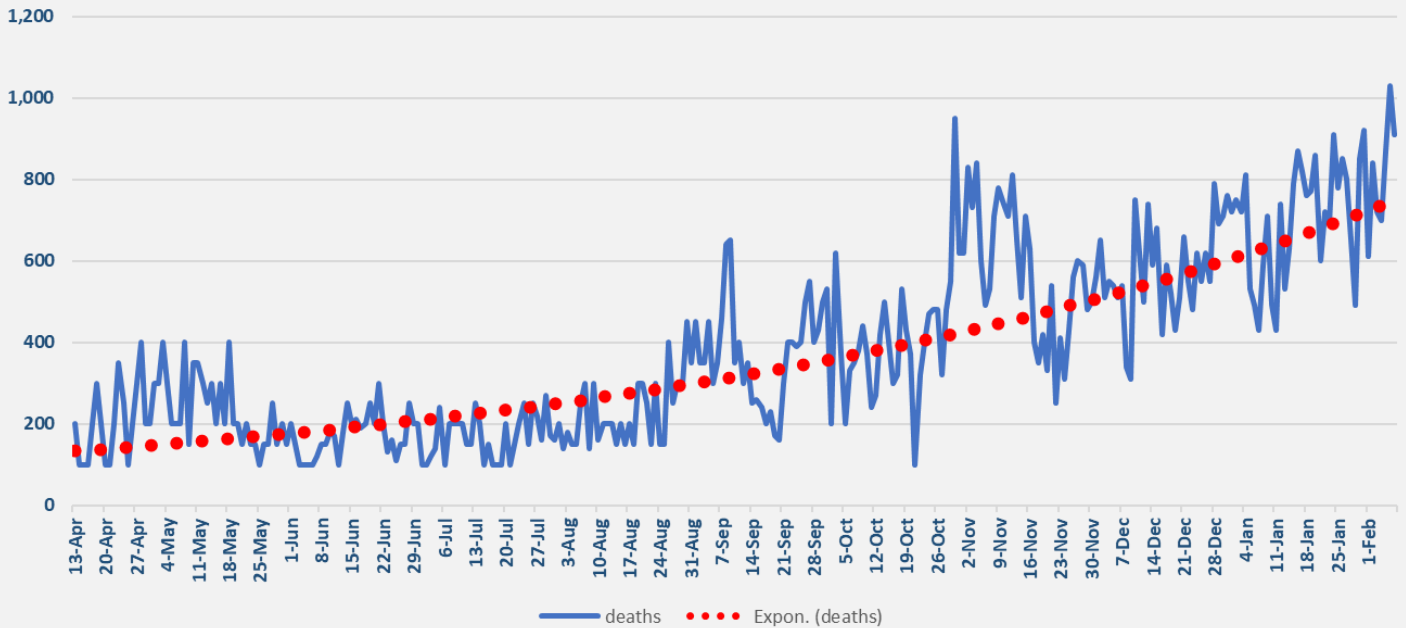
**Russian losses** – 134,100 (910) soldiers killed, 3,253 (+8) enemy tanks, 6,458 (+15) armored combat vehicles, 2,236 (+4) artillery systems, 461 (+0) MLRS systems, 228 (+1) air defense systems, 295 (+1) warplanes, 285 (+1) helicopters, 1,961 (+3) UAVs of the operational-tactical level, 796 (+0) cruise missiles, 18 (+0) warships/cutters, 5,112 (+5) trucks and tankers, 4 Iskander Missile Launchers (+0), 239 fuel bowsers (+0) and 211 (+3) units of equipment.

## Key Takeaways



**High Russian daily death toll continues** – Russia yesterday lost 910 soldiers killed and approximately 2,730 injured. Over the past week they have suffered 5,680 killed and approximately 17,500 injured, equating to 2.6% of the entire Russian armed forces strength. In one week!

Russian troop deaths by day



**UK seeking ‘decisive military victory’ in Ukraine this year** - The UK government wants to see a decisive military victory on the battlefield this year in Ukraine, Britain’s prime minister has said.

“Our objective remains to ensure a Ukrainian victory in this conflict,” Rishi Sunak told parliament ahead of an anticipated address by Ukraine’s president, who is on a visit to the UK.

“We will continue to support Ukraine to ensure a decisive military victory on the battlefield this year.”

**Russians endure deadliest day** – Monday was the deadliest of the war so far for Russian troops as Moscow pressed with an intensifying winter assault in the east, bringing tens of thousands of freshly mobilised troops to the battlefield.

**Ukraine may start targeting inside Russian borders** - Oleksiy Danilov, the secretary of Ukraine’s National Security and Defense Council, told CNN that Ukraine could begin to target inside Russian borders.

Western allies prohibited Ukrainian President Volodymyr Zelenskyy from using Western weapons to strike inside its adversary’s nation. According to Ukraine's officials, attacks have been at its borders, not directly inside.

Danilov told CNN that Ukraine does not need to use weapons from the West to attack Russia inside its borders.

“Nobody prohibits us to destroy targets with weapons produced in Ukraine,” Danilov said to CNN. “Do we have such weapons? Yes, we do.”

This is not the first occurrence of Ukrainian officials touting a more aggressive offensive. Head of Defense Intelligence of Ukraine, Kyrylo Budanov, told ABC News in January that such measures were not off the table.

“Crimea is Ukrainian territory, we can use any weapon on our territory,” Budanov said in an interview with ABC News. Russian President Vladimir Putin annexed Crimea in 2014.

After a December attack on a Russian military base not in Ukraine, Budanov stated attacks would strike “deeper and deeper” inside Russia.

Danilov also said President Joe Biden would eventually send F-16 fighter jets to support Ukraine.

“It’s only a matter of time before we get F-16s,” Danilov told CNN. “They will definitely come.”

Ukraine has already received tanks. Western nations are still holding out from fighter jets, although some European leaders have suggested a willingness to provide such support.

**Comment** – Ukraine has already been targeting internal Russian towns, transportation hubs, airfields dispatching bombers and fighters to launch missile attacks against Ukrainian towns and cities, fuel depots and manufacturing points. They just haven’t claimed responsibility yet.

**German visit to Kyiv** - German Defence Minister Boris Pistorius visited Kyiv later on Tuesday as Berlin, Denmark, and the Netherlands said they would pool funds to restore Leopard 1 tanks from industry stocks and supply them to Kyiv in the coming months.

Pistorius announced the supply of about 80 Leopard 1s this year and about 100 in 2024, more than previously announced.

"I'm full of admiration for your efforts, for how fast you and your comrades learned handling our weapon systems. It was very fast, and this way you'll apply it effectively in your defence against the Russian aggressors," he told a press conference with his Ukrainian counterpart Oleksii Reznikov.

**Why Russia is so determined to capture Bakhmut** – As Russia’s invasion of Ukraine approaches the one-year mark, all eyes are trained on one small, war-ravaged city: Bakhmut. There, in Ukraine’s eastern Donetsk region, is where one of the fiercest and bloodiest battles of the war is currently playing out as Russia tries to achieve its first major battlefield victory since its capture of the eastern cities of Severodonetsk and Lysychansk over the summer.

Although Ukrainian President Zelenskyy described the situation on the frontline as “very difficult” in his Sunday evening address to Ukrainian citizens, Russian forces have yet to encircle the city.

This months-long battle for Bakhmut has come at the cost of hundreds of Ukrainian and Russian casualties per day, according to some estimates, as well as the city of Bakhmut itself. “Burnt ruins” is how Zelensky described it during one of his nightly addresses in December, the outcome of what has been likened to World War I-style trench warfare.

Russia’s offensive on eastern Ukraine, parts of which Moscow purported to annex in September, reflects Putin’s long-held aim of capturing Ukraine’s eastern regions of Donetsk and Luhansk, collectively known as the Donbas—a tall order that Russian troops have been tasked with achieving by March, according to Ukrainian officials.

Yehor Cherniev, a Ukrainian lawmaker and head of the Ukrainian delegation to the NATO parliamentary assembly, tells TIME that although Bakhmut “is not of strategic importance” to Kyiv, they will nonetheless “try to hold it as long as possible.”

“We are gradually grinding down the most combat-ready units of the Russians,” says Cherniev. “Regardless of the future fate of Bakhmut, we managed to win precious time. In our next counter-offensive campaign, we will return much more.”

If Moscow’s aim is to seize Donetsk and Luhansk by the spring, then capturing Bakhmut could be an important stepping stone in its eastern push. Michael Kofman, the director of Russia Studies at the U.S.-based Center for Naval Analyses, says that Bakhmut represents “a gateway” to Sloviansk and Kramatorsk, both of which have been subject to recent Russian missile strikes.

Such an outcome is not necessarily imminent, let alone likely. Ukrainian and Russian forces have been fighting in the Bakhmut area since at least May. This long, drawn out battle of attrition gained Bakhmut outsized significance as a theater of war, especially as troops and resources began pouring into the small city. Bakhmut “has become this rallying cry in the Russian information space,” says Karolina Hird, a Russia analyst at the Washington, D.C.-based Institute for the Study of War, noting that the small city represents one of the few places where its forces have been making tangible gains. Among Ukrainians, “Bakhmut holds” has become a national battle cry.

Russian forces have so far been unable to advance beyond the city’s urban outskirts, nor have they been able to disrupt the crucial ground lines being used to supply Ukrainian forces in the city. “We continue to assess that the imminent fall of Bakhmut through a Russian encirclement is very unlikely,” adds Hird—a prognosis that bodes poorly for Putin’s greater territorial aspirations in the region.

The fall of Bakhmut would be a modest tactical victory for Russia. But it would also be a pyrrhic one, given all the resources used. Indeed, Western officials reportedly estimate that the number of Russian troops who have been killed or wounded in the war so far is nearing 200,000, up from estimates of just 80,000 in August.

“In recent months, the Russians have been forced to spend a colossal amount of resources and reserves to take Bakhmut,” says Cherniev. “In this regard, our plan was a success.”

Hird and Kofman agree that while the loss of Bakhmut would be symbolically damaging for Ukraine, which is loath to cede any of its territory to Russia, it wouldn’t have a meaningful impact on Kyiv’s war effort. “Bakhmut in and of itself isn’t that significant,” says Kofman, noting that even if Russian forces were to march onward toward Sloviansk and Kramatorsk, they would run into yet another, even more fortified Ukrainian defensive line.

**Comment** – Bakhmut is not of strategic importance to Ukraine but of great import tactical given that they have sucked in elite Russian forces for almost nine months, keeping them away from and enemy forces further north around Kreminna and Svatove, both located on the most strategic of all Russian supply lines from their home bases into Ukraine front lines.

Putin and the Kremlin will trumpet any victory in Bakhmut as it will be inflated to represent a major achievement in a forlorn war for them. Anything will do right now in their effort to portray their illegal invasion as being successful.

Putin also would like to have as his minimum negotiating ploy occupation of both Luhansk and Donetsk Oblasts, within which Bakhmut falls.

Pyrrhic indeed as, per their normal, usual and sole tactic being to fully obliterate towns in their sights. Barbarians arise again.

## Comments, Developments and Reports

**Dutch PM promises to hold Russia to account over MH17 downing** - The Netherlands will hold Russia to account for the downing of passenger flight MH17 over eastern Ukraine in 2014, Dutch Prime Minister Mark Rutte says.

Rutte said it was a “bitter disappointment” that the international investigation into the downing of the Malaysia Airlines flight, which took off from Amsterdam, had ended without further prosecutions for lack of evidence.

“We will continue to call the Russian Federation to account for its role in this tragedy,” Rutte said in a statement.

Russia has denied any involvement in the downing of the civilian airliner, which killed all 298 people on board, but investigators said they uncovered convincing evidence Putin had approved the supply of missiles that shot down MH17.

**Russian threat to Baltic security rising: Estonian intelligence report** - Estonia's Foreign Intelligence Service has said it believes Russia still has the strength to exert "credible military pressure" on the Baltic region, where it assessed the security risk had risen for the medium and long term.

"A military attack against Estonia is unlikely in 2023" due to Russia's invasion of Ukraine, but "in the mid-to-long term, Russia's belligerence and foreign policy ambitions have significantly increased the security risks for Estonia," the Estonian service said in its annual report.

"Russia considers the Baltic states to be the most vulnerable part of NATO, which would make them a focus of military pressure in the event of a NATO-Russia conflict," it added.

Estonia, Latvia and Lithuania – the so-called Baltic states – have sharply boosted defence spending in response to Russia's 2014 annexation of Crimea and the full-scale invasion of Ukraine last year.

## Putin & Russia

**Russian envoy makes veiled threats if Bosnia joins NATO** - Russia reserves the right to a "proportionate response" should Bosnia and Herzegovina join NATO or any organisation hostile to Moscow, the Russian ambassador in Sarajevo wrote in a Facebook post meant to debunk misconceptions about 'Russian threats against Bosnia.'

In a long text posted on Tuesday to mark Russia's "Day of Diplomacy", Ambassador Igor Kalabukhov stressed that no one has the right to meddle in Bosnia's affairs, "neither Russia, nor the EU, nor the USA".

"Bosnia and Herzegovina is free to take any step on the global scene, join any organisation. If this is what the majority of citizens want, and if it is useful for the country, go ahead, we will be happy."

"But you have to understand that if you join a bloc whose main aim is the destruction of Russia, then we have the right to defend ourselves."

Although Kalabukhov said that "as long as you are not taking any measures against us, we are relaxed and feel no need to step up our defences," he went on: "Let's be realistic: If a hypothetical Brussels or Washington ordered the deployment of nuclear missiles aimed at Moscow, then the hypothetical Sarajevo, a future member of organisations under their control, would be forced to do it."

"So it's a free choice, but please, do not limit our own right to respond. Proportionally, of course."

Seeking to end on a reassuring note, the ambassador concluded: "As long as we are not 100% sure about the reality of vile plans for the destruction of our country, no one will push the red button. Speaking seriously, I do not think we should expect any extreme developments."

Bosnia and Herzegovina was divided into two parts – the Federation and the Serb Republic – at the end of the 1992-1995 war among its three ethnic groups, Bosniaks, Croats, and Serbs.

Bosnia participates in NATO's Membership Action Plan but has made little progress towards membership of the alliance. Bosnian Serbs oppose NATO membership and have also refused to join in international sanctions against Russia.

**A slow, soft and incomplete exit? Moldova's relationship with the CIS** - When the Commonwealth of Independent States (CIS) was created following the collapse of the Soviet Union, many commentators suggested that either it would be a device for the civilized divorce of the former republics or it would become a framework for the restoration of a Moscow-dominated state.



In the years since, most writers have continued to insist that it will be one or the other, either completely breaking down with its members then going their own way or alternatively becoming ever-more crucial in re-integrating them under the Kremlin's.

Ample evidence supports both of these notions, but there is a third possibility: Some of the former republics may continue to make use of some, but not all, of the CIS's framework agreements—at least for a time, even as they continue to distance themselves from Moscow and seek to integrate with other centers of power beyond the post-Soviet space. The Republic of Moldova provides the latest example of this calculated approach.

In large measure, Russian commentators denounce what they perceive as a “paradoxical” situation, in which the former Soviet republics seek to benefit from ties with Moscow even while denouncing the Russian Federation, particularly over its invasion of Ukraine (Ritmeurasia.org, February 6). This sentiment arises from how the CIS is understood, either as an integrated body led by the heads of each member state who meet regularly or as a broad network of treaties and agreements governing large swaths of relations among its original members.

Understood in the first way, Georgia, Ukraine and now Moldova have left the CIS; understood in the second, not one has completely left, with all, and even the three Baltic states which never signed the CIS covenant, continuing to abide by certain CIS arrangements regarding rail traffic in particular (Window on Eurasia, July 25, 2013; Railwaypro.com, April 23, 2014; Izvestiya, April 19, 2018).

Nonetheless, the Moldovan case is instructive not only in and of itself but also as a model of how other CIS members are likely to behave in the future, as they seek to protect themselves from Russia's aggression while not losing the benefits they believe they can only enjoy by remaining closely tethered to the Russian Federation. These countries are also wary of how Moscow is likely to react to such strategies.

Since Maia Sandu became president of Moldova in December 2020, Chisinau has pursued a policy that seeks to integrate the country into the European Union and, in the opinion of many, ultimately the North Atlantic Treaty Organization as well. As a result, and especially in the wake of Putin's invasion of Ukraine, Chisinau has suspended its participation in high-level CIS meetings but has not withdrawn from various CIS agreements—and may not do so anytime soon, even if it formally “exits” the grouping, a possibility that many in Moscow are already considering and seeking ways to counter (Ritmeurasia.org, February 6).

**Stealing Russia** - Owing to Vladimir Putin's war in Ukraine and the West's response, hundreds of billions of dollars' worth of assets are up for grabs in Russia. As ownership changes hands, the country's shrinking wealth will become even more concentrated among the kleptocrats who have remained.

Wars and sanctions usually lead to major redistributions of property through nationalization, confiscation, and often criminalization. Russia today is no exception.

Largely underreported, a radical redistribution of property is underway in Russia. Just as the Kremlin's war of aggression in Ukraine is increasing Putin's control of society, it is severely damaging economic efficiency, with international sanctions hitting energy, banking, armaments, and other core industries with increasing force.

Before Russia invaded Ukraine last February, it boasted cumulative foreign direct investment of about \$500b. But most of this was from Western companies that have since declared their intention to leave the country. According to Yale University's Jeffrey Sonnenfeld, more than 1,000 firms have announced that they are cutting back operations in Russia beyond what is required by sanctions. Assets worth hundreds of billions of dollars are up for grabs, and though the changes of ownership will be gradual and non-transparent, the nature of the transformation is clear.

The biggest share of foreign ownership was in the hydrocarbons sector. Most of the industry's major multinational players had a presence in the country through partnerships with state-owned companies like Rosneft and Gazprom.

For example, BP owns a 19.75% share of Rosneft previously valued at \$14b, and it remains unclear how it will unload this stake. Presumably, Rosneft will eventually acquire the shares for kopecks on the ruble.

Similarly, Exxon had a major joint venture with Rosneft in Sakhalin, but it appears to have had its ownership transferred to the Russian government. It previously valued its share of the company at more than \$4b, and it has yet to clarify whether Rosneft offered any compensation. We know that Shell's share in a Sakhalin project with Gazprom was effectively confiscated without compensation.

Then there is the French multinational TotalEnergies. Having invested in Novatek – which is controlled by two Putin cronies, Gennady Timchenko and Leonid Mikhelson – and its huge Yamal LNG plant on the Arctic Sea, TotalEnergies was the last big Western energy company to declare that it would leave the market. So far, it has not done so; but it has written off \$3.7b of its investment in Novatek, and it is likely to settle on terms favorable to Timchenko and Mikhelson.

Meanwhile, two big energy service companies – Halliburton and Baker Hughes – say they have left Russia. They appear to have sold their local subsidiaries to those entities' Russian top managers, which is a common practice. It is hard to say which, if any, of these deals could be reversed if Western sanctions were lifted. Schlumberger, however, decided to remain, only suspending new investments and technology deployment.

While big Russian banks have been sanctioned, most smaller ones have not, which has allowed for arbitrage opportunities. But any changes in bank ownership are likely to proceed more cautiously, because the Central Bank of Russia – which seems to hold a great deal of sway with Putin – is worried about destabilizing the banking sector.

The outstanding case concerns Vladimir Potanin, one of the original oligarchs from the 1990s, who sold his Rosbank to Société Générale many years ago. Following Putin's invasion, Société Générale wanted to get out. So, Potanin (who had not yet been sanctioned) stepped in to buy Rosbank back at a massive discount, paying just €500 million (\$545 million) while Société Générale wrote off €3.1b from the sale. Then, Potanin (who was eventually sanctioned) turned around and bought 35% of Tinkoff Bank from its founder, Oleg Tinkov, after the latter publicly criticized the war and then fell out with Putin. In Tinkov's estimation, the shares he sold were worth ten times more than what Potanin paid for them.

Aside from the Russian state, the most important beneficiaries of this redistribution are likely to be Putin's main cronies from St. Petersburg – the brothers Yuri and Mikhail Kovalchuk, the brothers Arkady and Boris Rotenberg, and Gennady Timchenko. Yuri Kovalchuk – who is known as Putin's banker and closest adviser – owns most of Russia's television stations and has acquired most of the Russian internet by purchasing mail.ru from Alisher Usmanov, an oligarch who is close to Putin (but apparently not close enough).

Similarly, several other predominantly oligarch-owned industries are being redistributed from those who have left Russia or distanced themselves from Putin to those who remain loyal. Not coincidentally, those who remain in Russia – with whom Putin has now surrounded himself – tend to be those who probably would be arrested if they went abroad.

Others who have left Russia include tens of thousands of the country's excellent computer scientists, whom the armament industry desperately needs. So many Russians have emigrated to neighboring countries that Armenia expects its 2022 GDP growth to come in at a whopping 13%. Unlike oil fields, this is capital that Putin cannot nationalize or seize.

Naturally, Putin has used the situation to enrich himself even further. The Financial Times recently reported that, “a Russian court has ordered the seizure of a luxury hotel complex owned by billionaire Oleg Deripaska, one of the few oligarchs to have criticized” the war. These assets were valued at \$1 billion, and they have now essentially been handed over to Putin by a court whose decisions he ultimately controls. Finally, Russian wealth is also being redistributed in the West. Russian companies are being forced to sell their subsidiaries or face nationalization, as with Gazprom's gas-storage facilities in Germany, Rosneft's oil refinery in Germany, and Lukoil's oil refinery in Sicily.

However this redistribution plays out in Russia, it is already clear that vast fortunes will be concentrated in the hands of the state and the cronies and criminals closest to Putin, while foreigners and émigrés will be expropriated. But the Kremlin does not appear to be in any rush. So far, it has used redistribution as punishment for disloyalty. But that hasn't stopped Putin from openly seizing property for himself.

Article by Anders Åslund in Project Syndicate on February 7<sup>th</sup>, 2023.

## Containment

**Zelenskyy calls for fighter jets on UK visit** – Zelenskyy appealed for the West to provide Kyiv with fighter jets while on a surprise visit to the United Kingdom.

On only his second trip overseas since Russia launched its invasion, Volodymyr Zelenskyy tells the UK Parliament that his country will defeat Russia's invasion and deter future aggressors.

He has urged the UK and its allies in the West to supply fighter jets to Kyiv. Wearing his trademark khaki military fatigues, told the UK Parliament that combat aircraft would be “wings for freedom.”

The president, who planned to meet later with King Charles III, noted that the British monarch was a qualified Air Force pilot, “Zelenskyy said, every Air Force pilot is a king.”

“I will be leaving Parliament today, thanking you all in advance for powerful English planes,” he said.



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**Zelenskiy, touring Europe, wins UK pledge to train pilots on NATO jets** - Zelenskyy embarked on a European tour earlier today to drum up aid, winning a British pledge to train Ukrainian pilots on advanced NATO fighter jets, a big step up in Western military support.

**U.S. approves sale up to \$10 billion sale of HIMARS rocket launchers and ammunition to Poland-Pentagon** - The U.S. State Department has approved the potential sale of long-range missiles and rockets to Poland in a deal valued at up to \$10 billion, the Pentagon said yesterday.

The sale comes as Kyiv has praised their U.S.-made High Mobility Artillery Rocket Systems (HIMARS) rocket launchers for their battlefield successes such as destroying Russian warehouses and command posts.

The package includes 18 HIMARS launchers, 45 of the 185-mile (297-km) range Army Tactical Missile System (ATACMS) missiles and more than 1,000 Guided Multiple Rocket Launch System (GMLRS) rockets.

The US has rebuffed Ukraine's requests for ATACMS missiles. Poland would not be able to transfer any ATACMS to Ukraine without US approval.

**Netherlands, Denmark and Germany buy 100 Leopard 1 Tanks for Ukraine - Dutch government** - The Netherlands, Denmark and Germany are buying 100 Leopard-1A5 battle tanks for Ukraine, the Dutch government said yesterday. The tanks will be purchased "directly from German industry."



## Sanctions

**Russian State Bank VTB blames 2022 losses on sanctions - CEO** - Russia's VTB bank's losses last year were due entirely to sanctions, CEO Andrei Kostin said on Tuesday, a rare acknowledgement that the West's punishment of Moscow over the Ukraine conflict have crippled parts of Russia's financial sector.

The West blocked several major Russian banks' access to the international SWIFT payments system soon after Moscow sent tens of thousands of troops into Ukraine on Feb. 24 last year, with dominant lenders Sberbank and VTB - Russia's No. 2 bank - forced to shutter operations across much of Europe.

The sanctions hammer fell for VTB sooner than most domestic rivals and, being heavily exposed to international markets and with more than 20% of its loan portfolio in foreign currency, the bank was one of more than 100 loss-making lenders as the sector's profits slumped around 90% in 2022.

Kostin, in an interview with state television channel Rossiya 24, said the bank had managed to grow its retail and corporate loan portfolios, but that sanctions accounted for all the lender's losses.

"The main thing on which we incurred losses is that from Feb. 24 to March 10, before decisions were made about restrictions on issuing funds in foreign currency to the population, \$26 billion was withdrawn from our accounts."

Capital controls introduced in February and March last year included a ban on buying cash dollars and euros as depositors hurriedly withdrew funds and Moscow sought to wrestle back some control on the FX market.

VTB was forced to buy FX on the open market when the rouble had weakened sharply to more than 100 against the dollar, Kostin said. On Tuesday the rouble was trading at around 71 to the dollar.

Kostin also pointed to deteriorating financial markets impacting the bank's clients, the closure of parts of VTB's extensive overseas network and the central bank being unable to provide sufficient dollar liquidity as further evidence of the sanctions impact on its results.

VTB was profitable in January and hopes to post profits in 2023 with a similar number of zeroes as the 320-billion-rouble figure achieved in 2021, Kostin said.

**UK announces new round of Russia sanctions** - The UK government has announced further sanctions on Russia, targeting manufacturers of military equipment and individuals with ties to the Kremlin.

Foreign secretary James Cleverly said the new measures would "accelerate the economic pressure on Putin - undermining his war machine to help Ukraine prevail."

The sanctions package, announced as Zelenskyy visited the UK, targets six organisations providing military equipment such as drones to Russia's army.

It also includes new measures targeting eight individuals and one organisation connected to "nefarious financial networks that help maintain wealth and power amongst Kremlin elites," the UK government said in a statement.