

Conflict Update # 341

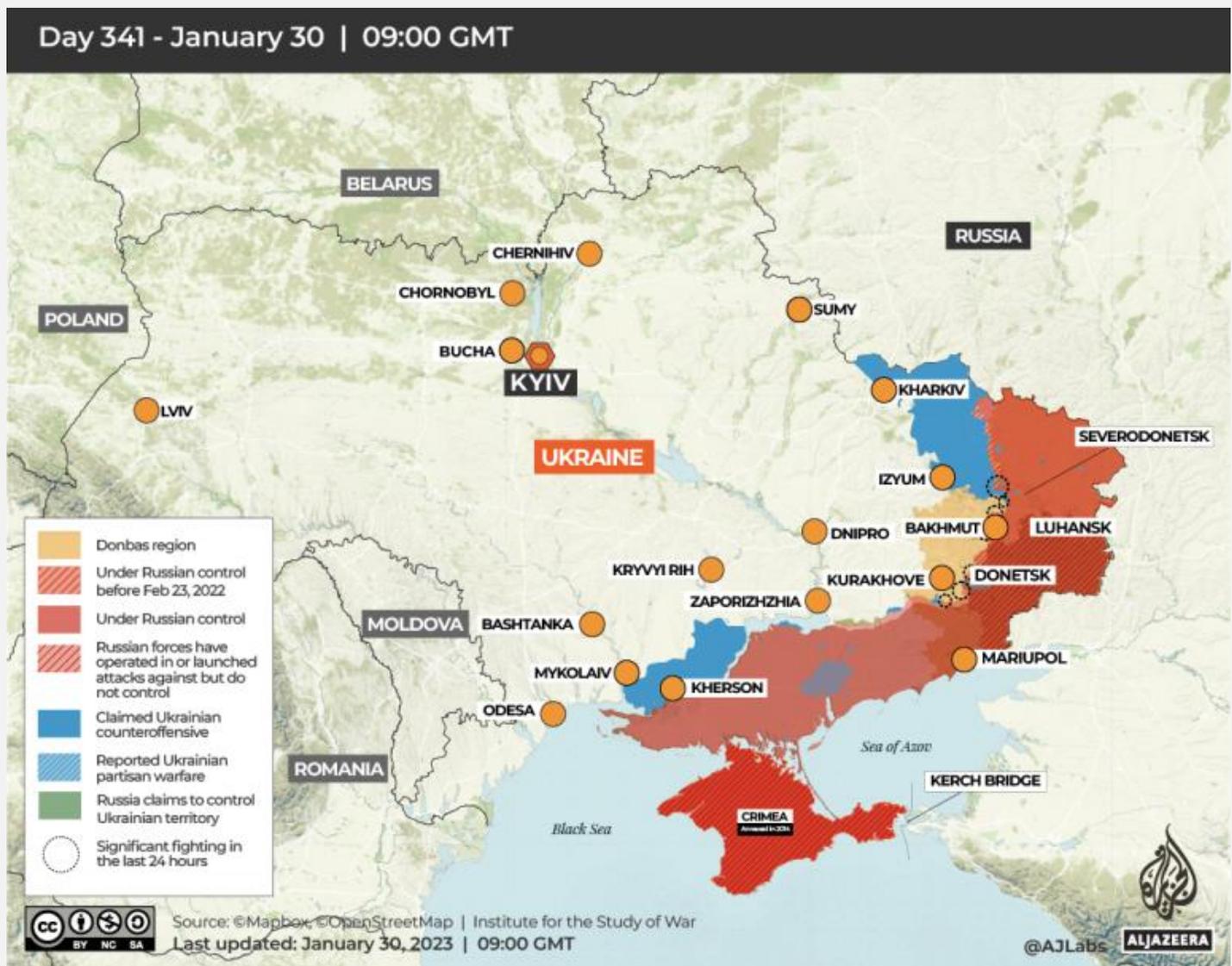
January 30th, 2023

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Conflict Assessment

Russian losses¹ – 126,650 (490) soldiers killed, 3,201 (+4) enemy tanks, 6,369 (+3) armored combat vehicles, 2,196 (+1) artillery systems, 453 (+0) MLRS systems, 221 (+0) air defense systems, 293 (+0) warplanes, 284 (+0) helicopters, 1,947 (+0) UAVs of the operational-tactical level, 796 (+0) cruise missiles, 18 (+0) warships/cutters, 5,041 (+4) trucks and tankers, 4 Iskander Missile Launchers (+0), 239 fuel bowsers (+0) and 199 (+0) units of equipment.

Key Takeaways



Russia is losing its war against Ukraine¹¹ - Carnage In Donetsk – As Ukrainian forces reportedly remain stuck in a “fierce” battle with Russian soldiers in the contested Donetsk region of Ukraine, several videos shared online in recent days show a series of successful Ukrainian strikes that show Russian forces on the back foot.

This week, the Moscow Times reported how both sides in Donetsk claimed to have taken control over a small administrative center, consisting of apartment blocks, close to the village of Pavlivka in Donetsk.

Russian-appointed Donetsk leader Denis Pushilin claimed that the Russian “encirclement” of the area “solves many problems” and that it has become a “very important success” for the Russians.

Kyiv, however, said that the town is not yet under Russian control.

Russian forces recently claimed to have taken control of Soledar, a strategically important town close to the embattled city of Bakhmut, also in Donetsk Oblast.

Kyiv pushed back against the claim, however, and insisted that the town was still contested.

Comment – Despite Russian claims to the contrary, questions remain regarding their multiple claims of victory in various spheres of the conflict. Why do they continue to shell towns they claim to have captured? Why has Putin appointed new commanders across nearly all fronts? And why is there a rising antipathy against the Wagner Group – because they are winning? Very doubtful.

The Russians are masters of misinformation.

Ukraine Destroys Russian BMP Infantry Fighting Vehicles

In one video shared by Ukraine Weapons Tracker on January 28, three Russian BMP infantry fighting vehicles, and at least one extra military vehicle, can be seen destroyed on the battlefield. The video shows the vehicles moving along dirt roads, only to be intercepted by artillery fire from Ukraine’s 110th Mechanized Brigade.

Ex-NATO commander says West sending Ukraine tanks ‘creates real problems for Putin’⁸ – Former NATO Supreme Allied Commander James Stavridis said the West sending tanks to Ukraine to provide additional aid in its war with Russia “creates real problems” for Putin.

Putin is trying to scare the West with the Kremlin’s comments that NATO countries’ move to send tanks to Ukraine increases their “direct involvement” in the conflict, Stavridis told talk show host John Catsimatidis on his WABC 770 morning show “The Cats Roundtable.”

He rejected the idea that the West has escalated the situation but added that the Abrams tanks coming from the United States, Leopard 2 tanks coming from Germany and other countries, and Challenger tanks from the United Kingdom will play a key role in supporting Ukraine’s defenses.

“When you put these three types and you bring them in real Ukraine, and I there will be at maybe as many midspring, call March, that problems for



of tanks together numbers into would estimate least 100, as 200, by it the end of creates real Putin,” he said.

Stavridis, who is a retired admiral, said Russian forces are stretched out on a long front of 400 to 600 miles, running from Russia down to the Black Sea and the Crimean Peninsula.

“With these tanks, the Ukrainians can mask that armor and use it to punch through the Russian line, separate them, peel them apart, break the logistics chain,” he said.

He also noted that transfers of the tanks mark a “pivotal” moment in the land war and will be a “bad day” for Putin with the conflict itself and in seeing the West’s unity.

“It’s a strong political and diplomatic signal, and, as I said earlier, it’s a very important military step for the alliance,” Stavridis said.

British tanks to arrive on Ukraine's front lines 'this side of summer' - defence minister⁸ - Asked in parliament when the 14 Challenger tanks it has agreed to supply would be deployed onto the battlefield, Wallace said: "It'll be this side of the summer, or May - it'll be probably towards Easter time."

He said security reasons prevented him from setting out the timetable of training for Ukrainian forces on using the tanks, but that it would begin with instruction on operation of individual vehicles before progressing to how to fight in formation.

Last week, Britain said its plan was that the tanks would arrive in Ukraine by the end of March.

Comment – As mentioned in previous Updates, training is already underway and has been for some time in various weapons and equipment platforms. The question now is whether there is any training underway for jet fighter pilots?

Russian tanks 'going to get smoked' by US Abrams—retired Major⁷ - Richard Ojeda, writing on Twitter, said the Bradleys and M1 Abrams could be a "game changer" for Kyiv's resistance forces "if utilized properly."

On January 6, the State Department announced a further \$3.75 billion in new military assistance for Ukraine in a package including Bradley Fighting Vehicles. On January 19, the Defense Department confirmed that 59 Bradley Fighting Vehicles were heading for Ukraine, along with 90 Stryker Armored Personnel Carriers.

Russia says it will consider the deployment of German Leopard 2 tanks as the use of a nuclear 'dirty bomb' if they use shells containing uranium core¹⁷ - A Kremlin official has warned that Russia will consider the use of any depleted uranium weapons in their new NATO tanks as nuclear 'dirty bombs'.

The West finally agreed to arm Kyiv with dozens of state-of-the art tanks yesterday, modernizing the attritional warfare seen on the battlefield in the past 11 months.

Konstantin Gavrillov, head of Russia's delegation on the OSCE forum on security cooperation, claimed that Ukraine could arm their German-supplied Leopard 2 tanks with 'uranium core armour-piercing' shells.

Putin throwing 'meat into the grinder' as war losses grow - former lawmaker¹⁵ - Putin's persistence in Ukraine has been likened to "throwing meat into the grinder" by one former US lawmaker, who also added that "it's only getting worse."

Richard Ojeda served in the U.S. Army from 1989-2014, reaching the rank of major before transitioning to the political realm. He was later elected to the House of Representatives as a Democrat from West Virginia's 7th Congressional District, serving from 2016 to 2019. He also launched a brief unsuccessful presidential campaign in 2020, followed by an unsuccessful run for the U.S. Senate.

Since the start of the conflict last year, Ojeda has been outspoken in his support of Ukraine against the invading Russian forces, frequently using his military background to weigh in on new developments. On Saturday, the former lawmaker

shared an up-to-date graphic from the Kyiv Independent detailing Russia's mounting losses in the conflict, offering a grim assessment of where the country stands.

These losses are unsustainable. Putin is throwing meat into the grinder and it's getting worse. Tanks are about to be injected into this war that are far more capable than that of Russia. Russia was a paper Tiger and Ukraine proved that!

"Russia (regular forces but especially the private Wagner Group that has used many thousands of prisoners who have been promised pardons in exchange for fighting on the front lines) has indeed sustained heavy losses in the recent battle in Soledar and Bakhmut, both in Ukrainian-held Donetsk province," military expert Rajan Menon from the Defense Priorities think-tank told Newsweek on Sunday. "Ukraine has also suffered significant casualties but Russia's have been far greater, mainly because poorly equipped prisoners are being used as human waves, one after the other.

Ukraine says repelled attack near Blahodatne, Russia's Wagner claims control¹³ - Ukraine's military said yesterday its forces repelled an attack near Blahodatne in the eastern Donetsk region after Russia's Wagner mercenary group claimed it took control of the village.

Kyiv's forces "repelled attacks near...Blahodatne" and 13 other settlements in the Donetsk region, the Ukrainian General Staff said in its daily report.

Earlier, Russia's private military group Wagner said its units had taken control of the village.

"Units of Wagner PMC have taken Blahodatne. Blahodatne is under our control," Wagner chief Yevgeny Prigozhin said as quoted by his press service.

There was no immediate confirmation from Russia's Defense Ministry. Moscow has made capturing the eastern Donetsk region, which it has already declared a part of Russia, its primary goal in Ukraine.

Kyiv recently said that Russian troops had stepped up their attacks in the east, particularly on the towns of Vuhledar and Bakhmut.

Comment – I was last night watching geolocation footage of activity in and around Vuhledar, where Russian troops made some progress but were then encircled and fled taking a large number of casualties.

Ukraine plans \$550 million drone investment in 2023 - defense minister⁸ - Ukraine's military will spend nearly \$550 million on drones in 2023, and 16 supply deals have already been signed with Ukrainian manufacturers, Defense Minister Oleksii Reznikov said on Monday.

Both Ukrainian and Russian forces have used a wide array of Unmanned Aerial Vehicles (UAVs), commonly known as drones, for reconnaissance and assault purposes during 11 months of war.

"In 2023, we are increasing the procurement of UAVs for the Armed Forces of Ukraine," Reznikov wrote on Facebook. "We plan to allocate about 20 billion hryvnias (\$547.05 million) to this segment."

Foreign weapon suppliers

Ukraine has received significant supplies of UAVs from its partners, from Turkey's missile-equipped Bayraktar TB2 to the Norwegian-made Black Hornet reconnaissance drone, which weighs less than 33 grams.

Kyiv is now seeking to boost domestic production to build what officials cast as an "army of drones."

Russia's commanders 'terrified' by Putin's demands for new attack⁸ - Russia's top brass are 'horrified' at Putin's demand for an urgent new military offensive on multiple fronts in Ukraine, it has been claimed. They fear more 'slaughter' as new analysis suggests the Kremlin has now lost a staggering total of more than 175,000 troops in the war.

Ukrainian troops are calling the US military in the middle of shootouts with Russia for help fixing their artillery⁷ - The US military is leading a team that is helping to repair Ukraine's military hardware over the phone.

These virtual exchanges often take place during battle, the Associated Press reported. As Ukrainian troops push their Western artillery to the limits, and sometimes past them, while fighting off Russian forces, the US military is helping to repair broken down pieces over the phone and through video chats.

A US military-led response team that includes troops, civilians, and contractors from the US and allied countries, provides real-time support from a base in Poland to Ukrainian forces on the front lines, the AP reported Saturday.

Because NATO countries are not sending troops into Ukraine, the maintenance team has to work remotely to provide support — often while Kyiv's forces are in battle and actively exchanging fire with the enemy.

This help line, with encrypted communication between phones and tablets in virtual chatrooms, is a growing effort to give Ukraine advice on repairs and maintenance as it continues to receive more advanced weapons from NATO countries, the report said.

Sanctions

Gauging the efficacy of western sanctions against Russia³ - As the Russo-Ukrainian war enters 2023, its sustained intensity raises consternation amongst various policymakers in the US and Western Europe as to whether sanctions against Moscow are achieving desirable results. Despite the imposition of Western sanctions, there is no apparent end to the invasion in sight, nor are there any serious attempts at negotiations from Russia's President Vladimir Putin. Thus, months into an aggressive sanctions regime on Russia, an assessment of the effectiveness of those measures on the Russian economy is necessary to determine whether policy goals are making satisfactory progress.

When the war began last spring, the US sought to implement a maximum pressure campaign strategy against the Kremlin. Such a strategy materialized into a multilateral collaborative effort aiming to weaken key sectors of the Russian economy and isolate Moscow financially.

Yet Western sanctions aimed at Russia aggression have existed well before Putin's "special military operation" in Ukraine. Current US sanctions on Russia predate Moscow's most recent military incursion into its neighbor, beginning with President Obama's EO (Executive Order) 13660 in 2014. EO 13660 authorized sanctions on individuals and entities responsible for violating the sovereignty and territorial integrity of Ukraine, or for stealing the assets of the Ukrainian people. Succeeding orders such as EO 13622, EO 13685, EO 14065, and EO 10466 prohibited the importation of hydrocarbons, agriculture, and minerals from Russia. They further prevented US persons from conducting business with Kremlin-connected elites. As these examples show, the US has and continues to be committed to the imposition of economic restrictions against Putin and his enablers.

More recently, and in solidarity with Ukraine, a US-led multilateral task force was launched to take more concrete action against Russia, comprise of the G7, who met and joined in the ban on import of Russian commodities, a major source of revenue for the Kremlin, in a collective measure to starve Russia out of tens of billions of dollars.

While there seems to be consensus on maintaining sanctions against Russia, there are several outspoken critics in G7 nations that think they are fruitless. Proponents of this belief that the G7 has failed in achieving desirable/tangible results from its sanctions initiatives theoretically look toward macroeconomic indicators that suggest the Russian economy has proved to be more resilient than anticipated.

Indeed, it is true Russia has implemented several policies to mitigate the impact of sanctions. For years, Putin has built up Russia's economic defenses so that it would be able to resist whatever measures the West imposed – dubbed the

Fortress Russia Strategy. Since 2014, he has aspired for Russian economic self-sufficiency and attempted to ensure the West can never exert economic control over his country. The Fortress Russia Strategy necessitates Russia diversify its economy away from oil and gas and lessen dependence on Western technology and trade. It has yielded some success as Russia is somewhat less dependent on hydrocarbon revenue compared to 2019. Oil profits accounted for nine percent of its GDP, down from fifteen percent from when Putin took office. Between 2010 and 2019 Russia's services industry grew by seven percentage points relative to GDP.

Moscow has also developed technologies which operate independently of Western ones. For example, Mir, a Russian payment system accounted for a quarter of domestic card transactions in 2020, up from nothing five years ago, and the share of Russian imports classified as high-tech appears to be falling as well. It has additionally pursued alternative trade supply routes from places like China, India, Turkey, and Kazakhstan to lessen dependence on Western Europe.

But the Fortress certainly has its holes, as Russia still remained enmeshed in a supply chain of Western ideas and technologies at the start of the war. In fact, its economy is still significantly dependent on the West and in some industries such as chipmaking and computers, it remains wholly dependent on American parts. Almost all advanced semiconductors that it utilizes from civilian to military application requires Western "know-how." This particularly inhibits Russia's ability to effectively wage war in Ukraine; Russian military is dependent on microchips for electronic gear, military equipment, and missile technology. Faced with a ninety percent drop in microchip imports, it is unlikely the Kremlin will be able to sufficiently employ equipment vital to the operability of its armed forces or replenish its missile stocks with precision munitions.

Furthermore, being shut out of the SWIFT financial transfer system hurts trade, and SPFS – a Russian backed rival program – is not popular enough to augment the loss of Russia's expulsion. Additionally, even as Russia pivots towards China for a majority of trade and revenue, upwards of fifty percent of transactions still use US currency despite de-dollarization policy initiatives.

With regard to hydrocarbon sales, even with a lessened dependence on energy revenue, it still constitutes a major portion of Russia's GDP. Russia's Fortress Strategy has been unable to supplement the loss of Western financing and technology to sustain the maintenance of existing oil and gas firms. New Russian reserves in the Arctic Sea cannot be developed without Western technology, which will deprive Moscow of significant revenue in the years to come.

Reorienting gas exports to China will additionally take years and investment in new infrastructure to develop as the majority of Russian energy pipelines are routed towards Europe. It is likely that China will place the burdensome costs of developing these transit routes on Russia, as Beijing is already developing pipeline routes to several Central Asian republics that are more insulated from Western diplomatic pressure than Russia. Policymakers in Beijing likely recognize they will be able to extract financial concessions from Moscow as it becomes increasingly desperate as sanctions continue to take their toll. (**Comment** – Russia's dropping exports through sanctions will see reduced oil traffic through its pipelines, leading to increased maintenance requirements given the permafrost landscape prevailing in its oil-producing areas. Once these pipelines start to crack and rupture, it is nigh on impossible for Russia to repair them given the need for western technological maintenance needs. This last transpired post-1991 and they are still trying to repair the damage – 31 years later!)

The weaknesses in Russia's ability to resist the Western backlash from the war in Ukraine means sanctions are having a profound effect on the Russian economy and arguments to the contrary are misguided. A reliance on macroeconomic indicators to ascertain the effectiveness of sanctions is misleading, as when contextualized with Russia, these factors point to a strengthened ruble, modest contraction of Russian GDP, and relatively low unemployment. However, these figures are not necessarily reflective of the situation on the ground. For example, Russian unemployment officially stands around 3.7 percent, equating to approximately 2.7 million Russians unemployed. Certainly a low figure, considering the economic attrition that Russia is ostensibly contending against. In reality however, at the end of 2022

almost five million Russian workers were subject to various forms of hidden unemployment, and significant numbers of Russian workers were on unpaid leave. Ten percent of the Russian workforce is without consistent work, which is comparable with Russian levels in the 1990s following the dissolution of the Soviet Union. (**Comment** – Let’s not forget the mobilization effect on Russia’s unemployment ratio. One also needs to consider which economic sectors have been affected and to what degree. For example the small business sector is suffering demonstrable harm, the immediate effect of which can be seen in the Kremlin’s inability to ensure adequate maintenance of military vehicles damaged in combat or requiring regular refitting. They have tanks and armored vehicles waiting since the first weeks of the illegal invasion for maintenance – because in large part they have forcefully mobilized mechanics and repairmen to such an effect that small maintenance companies no longer can provide these critical services. And when one considers the extremely high attrition rate – some 55% of conscripted men and women are either dead or severely injured, there is literally zero chance of rectifying this situation).

The ruble exchange rate is yet another misleading statistic. While true that the ruble has strengthened, it is only because Moscow has made it difficult for Russian businesses and individuals to withdraw money and convert it to foreign currency. The contemporary strength of the ruble is predicated upon strict currency controls and a sharp plunge in imports, which has subsequently hurt several Russian industries. (**Comment** – this is what the South African government did during the Apartheid years).

Thus, the sanctions are unequivocally hurting Russia. A poll released by Russian private research company Romir in October of 2022 cited 68 percent of participants noticed a reduction in the supply of goods offered in stores and were forced to cut spending on a variety of commodities.

Putin’s attempts to insulate Russia from Western sanctions via import substitution, favoring domestic manufacturing, and redirecting trade and investment flows to Asia to circumvent sanctions will not solve its problems. Moreover, Russia’s largest trading partners since the start of the war – India and China – are more interested in buying Russian raw materials at significant discounts than helping develop its self-reliance and competitive manufacturing sectors.

The confusion around the effectiveness of sanctions ultimately stems from a lack of clarity about their goals, seldom in clear view. Western countries most likely have never intended to use sanctions to force Putin out of Ukraine, although should such an outcome would certainly be welcome. The West understands the Kremlin believes it is waging a war against an existential threat to its national security and its commitment to the war in Ukraine is unwavering.

Inciting Moscovian regime change is not the goal either, as sanction regimes against Cuba, North Korea, Syria, and Iran have clearly demonstrated. Putin has eliminated most organized political opposition and successfully intimidated the population with tough prison terms for dissidence against his leadership. Examples of these measures include jail sentences of up to 15 years for, “political extremism” and “discrediting Russia’s military.” Prompting an economic collapse reminiscent of Venezuela or Iran following the imposition of US sanctions is not the objective either.

Russia is the world’s #11 economy, and an immediate economic collapse would likely result in a global economic recession and completely halt global imports of various Russian commodities including grain, fertilizer and metals.

Instead, sanctions are likely meant to achieve alternative goals. This includes sending a strong signal of resolve and unity against the Kremlin, degrading Russia’s ability to wage war, and slowly asphyxiating the Russian economy to dissuade future actions that threaten the sovereignty of other nations.

Furthermore, trans-Atlantic sanctions are strong despite several EU nations facing economic backlash over sanctioning Russian energy, which perhaps highlights the greatest achievement the sanctions have thus far attained - confounding Putin’s presumed expectation that the West is weak and divided. But when it comes to truly ascertaining the full effect of sanctions on the Russian economy, this is something that will take months or years to materialize.

Comment – A prominent and hidden effect of sanctions is the morale balance of Russian Main Street where young folk, now accustomed to improved standards of living based on western styles post-1991 will bring home to ordinary Russians that something is amiss in their erstwhile existence of civilian enjoyment and entitlement.

Russian shadow fleet waiting to ship oil under sanctions¹⁴ - Russia faces a dilemma as its shadow fleet waits to ship oil under sanctions, reports Bangalore's Marine Insight. It cannot move its oil to those places as it did to Europe, and its tanker fleet cannot carry it all.

The US and its allies imposed limitations to prevent shipping services and tankers from transporting Russian oil unless it is sold under or at US\$60 a barrel.

The flagship oil brand in Russia, Urals, currently sells below the price, but that might change.

Therefore, Russia must turn to a fleet of tankers wanting to get around the sanctions to move crude to farther locations in Asia or otherwise.

Poten & Partners analyst Erik Broekhuizen declared that the shadow fleet comprises 200 to 300 vessels and use of shadow fleets is regular and has been used by Venezuela and Iran to evade Western oil sanctions.

Most ships of the shadow fleets are reportedly owned by offshore firms in nations that have relatively lenient shipping norms. A ship can change its name and ownership when it is in transit, so a vessel can reach a port with a name, and when it goes to another one, it could be the same ship but have a different name and owner.

The owners operating the tankers that belong to the shadow fleet have limited exposure to the EU or the US governments or banks.

Enforcement is tricky, making it a hard area to solve for Western nations.

Comments, Developments & Reports

Norway discovers huge trove of metals, minerals and rare earths on its seabed⁸ - A Norwegian study has found a “substantial” amount of metals and minerals ranging from copper to rare earths on the seabed of its extended continental shelf, authorities said on Friday in their first official estimates.

The resources estimate, covering remote areas in the Norwegian Sea and Greenland Sea, showed there were 38 million tonnes of copper, almost twice the volume mined globally each year, and 45 million tonnes of zinc accumulated in polymetallic sulfides.

The sulfides, or “black smokers,” are found along the mid-ocean ridge, where magma from the Earth’s mantle reaches the sea floor, at depths of around 3,000 meters (9,842 feet).

About 24 million tonnes of magnesium and 3.1 million tonnes of cobalt are estimated to be in manganese crusts grown on bedrock over millions of years, as well as 1.7 million tonnes of cerium, a rare earth element used in alloys.

The manganese crusts are also estimated to contain other rare earth metals, such as neodymium, yttrium and dysprosium.

“Costly, rare minerals such as neodymium and dysprosium are extremely important for magnets in wind turbines and the engines in electric vehicles,” the NPD said.

UK’s Boris Johnson says Putin threatened him with missile attack² - Ex-PM says Russian leader warned him before the Ukraine war, but the Kremlin claims Johnson misunderstood the exchange.

Former British Prime Minister Boris Johnson has said Russian President Vladimir Putin threatened him with a missile attack during a phone call in the run-up to the invasion of Ukraine, in an allegation the Kremlin has refused.

Johnson, speaking to the BBC for a documentary to be broadcast later on Monday, said the Russian leader had asked him about the prospects of Ukraine joining NATO, to which he had responded it would not be “for the foreseeable future.”

“He threatened me at one point, and he said, ‘Boris, I don’t want to hurt you but, with a missile, it would only take a minute,’ or something like that,” Johnson said, recalling the “very long” and “most extraordinary” call in February 2022 which followed a visit by the then-prime minister to Kyiv.

“But I think from the very relaxed tone that he was taking, the sort of air of detachment that he seemed to have, he was just playing along with my attempts to get him to negotiate.”

Russia denies Johnson’s account.

Kremlin spokesman Dmitry Peskov said there were “no threats” of missiles in the exchange.

Putin & Russia

Russia has more dead soldiers in Ukraine than America in WWI¹¹ - Russia has lost more men in the war in Ukraine than the U.S. lost during World War One.

With over 120,000 casualties in 11 months of war, the Russian forces have lost more troops killed and wounded than the U.S. military in one year of fighting on the brutal Western Front.

Air defences are set up near Putin's forest palace days after missiles were deployed near his official residence in latest sign the Russian leader fears a direct strike from Ukraine¹⁸ - Air defences have been set up near Vladimir Putin’s forest palace days after missiles were deployed by his official residence near Moscow in the latest sign that the Russian leader fears a direct strike from Ukraine.

A Pantsir-S1 defence system has been established near the Valdai presidential palace in Yascherovo, a village halfway between Moscow and St Petersburg.

Similar systems have been set up close to Putin's official residence in Novo-Ogarevo in the past week, evidently to protect him from Ukrainian drones or missiles.

Russia can’t replace the energy market Putin broke⁹ - Russia spent almost 50 years building its energy market in Europe. Putin destroyed it in under 50 weeks. Finding a replacement will be almost impossible.

While Russia has found alternative markets for its crude oil, mostly in India, switching sales of refined products and — perhaps even more so — natural gas will take years and come at huge cost. That’s if it’s even possible to create markets as the world turns away from fossil fuels.

When Moscow’s troops invaded Ukraine on Feb. 24, its European energy customers took fright. A market that soaked up nearly 2.5 million barrels a day of crude, another 1 million barrels of refined products and 155 billion cubic meters a year of natural gas has all but disappeared.

Crude flows from Russia to parts of Europe began to dwindle soon after Putin’s troops crossed the border. By Dec. 5, when a European Union ban on seaborne imports of Russian crude came into effect, they were already down to a trickle, with Bulgaria, which secured a temporary exemption, the only remaining market. The flow of refined products is following the same trajectory ahead of similar sanctions that come into effect on Feb. 5.

Russia's European market for natural gas has also been lost. A huge network of gas fields and pipelines, developed at a cost of hundreds of billions of dollars since the first gas crossed the border into Austria in 1968, has been thrown away.

It was estimated in 2017 that \$100 billion had already been invested in the development of gas reserves on Russia's Yamal Peninsula, most of which were tied to Europe through pipelines, including those running beneath the Baltic Sea linking Russia to Germany. That figure was expected to double by 2025. Much of that investment now looks redundant.

While Russia may be able to salvage some sort of an energy relationship with Europe after the war ends, which it inevitably will, it's unlikely that EU countries will ever allow themselves, or need, to be as dependent on Russian gas as they were just a year ago.

Governments and consumers in Europe are at last getting serious about demand restraint and energy efficiency, while record prices paid for gas and electricity spurred investment in renewables and the first serious attempts to change the way retail electricity prices are formulated, taking account of the dwindling share of fossil fuels in power generation.

Russia's oil companies have succeeded in diverting deliveries of crude shunned by traditional European buyers, thanks in very large part to the thirst of Indian refiners for cheap feedstock. But the diversion has come at a huge cost to Russia and its oil industry. Big discounts, which appear to have been as high as \$35 a barrel, equivalent to a 40% price cut, have been required to penetrate the Indian market.

By the end of 2022, Russian barrels accounted for about one-quarter of India's crude imports, displacing cargoes from the subcontinent's traditional Middle Eastern suppliers — Saudi Arabia, Iraq, the United Arab Emirates and Kuwait.

Diverting crude flows to a thirsty market with a big refining sector capable of processing the relatively high-sulfur crude exported by Russia is one thing; diverting refined products into that market is quite another. There will be countries willing to snap up cheap Russian diesel while exporting their own locally produced fuel back to Europe, but they require discounts big enough to make the trade profitable — another cost to be borne by the Kremlin and its oil companies.

But oil, whether crude or refined products, has a big advantage over natural gas: It can be easily and cheaply transported by sea.

For most of the past 55 years, Russia has looked westward for its gas buyers. Huge pipelines, thousands of kilometers long, linked gas fields, first in Siberia and more recently on the Yamal Peninsula, to buyers in Europe.

In the past decade, Russia has begun to look east for new markets for its gas and the Power of Siberia gas pipeline now carries the fuel to China. But this gas comes from new deposits, more than 1,300 miles east and 600 miles south of the Yamal fields that used to supply Europe, but now sit underused. Russia's state-owned gas giant Gazprom PJSC put the official cost of Power of Siberia and its associated gas fields at \$55 billion. An independent assessment came up with a figure almost twice as large — an investment, it argues, that will never yield a return.

There will be limits to how much more Russian gas Beijing will buy. While its energy needs are vast, it will be wary of repeating the mistakes that some European countries made by becoming too dependent on Moscow. So Russia will need to look elsewhere to replace its lost European markets.

It would like to supply India, another rapidly growing nation with vast and rising energy needs. But piping natural gas to India will be even more difficult than getting it to China. The route would either have to cross some of the highest mountains in the world, or pass through Afghanistan and Pakistan. Either route would cross several other countries, making construction and operation more costly than the link between two nations with shared borders.

Putin's war in Ukraine has cost Russia its European energy market. It won't be easy to replace. Whatever rapprochement Moscow and Europe may eventually reach, Russians will be counting the cost of the war for generations to come.

Putin open 'to contacts' with Germany's Scholz – RIA⁶ - Putin is open to contacts with German Chancellor Scholz though has no phone call scheduled with him, a Kremlin spokesman told the RIA Novosti news agency.

Germany, previously the West's main holdout on providing modern battle tanks to Ukraine to help it fight off Russia's invasion, said last week it would send 14 of its Leopard 2 tanks to Kyiv and also approve Leopard shipments by allied European countries. The announcement, followed shortly afterwards by a U.S. pledge of M1 Abrams tanks to Kyiv, infuriated the Kremlin.

Impacts

As fighting rages in Ukraine, the US is sending drones to keep an eye on another tense corner of Europe¹⁶ - Late last year, the US deployed MQ-9 Reaper drones to Greece's Larissa Air Base.

The deployment came amid Russia's ongoing attack on Ukraine, which has raised tensions throughout Europe, but the drones also arrived in Greece as that country and Turkey, both of which are NATO allies, wage a war of words over their longstanding territorial and political rivalries.

Their dispute has raised a new challenge for the US and for its NATO allies, as their leaders try to maintain the alliance's support for Ukraine and manage a new period of conflict with Russia.

For security reasons, the US Air Force did not disclose how many Reapers were deployed to the base, but local media has reported eight drones are now operating there.

Russian business offers cash bounties to destroy Western tanks in Ukraine⁷ - A Russian company said it will offer five million roubles (\$72,000) in cash to the first soldiers who destroy or capture western-made tanks in Ukraine, after the Kremlin vowed Russian forces would wipe out any Western tanks shipped to Ukraine.

A Russian company - Fores, a Urals-based firm which makes proppants for the energy industry - is offering cash payments to Russian servicemen who "capture or destroy" German-made Leopard 2 or U.S.-made Abrams tanks.

The company said it will pay five million roubles to the first Russian soldier to destroy one of the tanks, and 500,000 roubles (\$7,200) for all subsequent attacks.

Support for Putin costly for Belarus President as he faced revolt: 'joining russian war an act of pure suicide'¹⁴ - Putin's ally, Lukashenko of Belarus, was facing flak at home for siding with the former in the Ukraine war.

What Happened: Lukashenko was facing the prospect of a revolt against him by his military amid growing concerns among top officers regarding Minsk's alignment with Putin's Russia and its support for the war in Ukraine, according to the Daily Express.

During a visit to Moscow last year, the Belarusian president told reporters that the country supported and "will continue to support Russia" in its "fight against Nazism."

The Belarusian leader emphasized that he would "remain together with fraternal Russia." His commitment did not go down well with his military officer class. In an open letter to the president, senior Special Forces officers warned against sending Belarusian soldiers to fight in Ukraine and said that such a move would amount to "pure suicide."

"To join Russia in its fight against Ukraine would be an act of pure suicide."

In the letter, the officers accused Putin of destroying their sovereignty and denounced Kremlin's war as "totally unprovoked." They reiterated their support for Ukraine, saying the two countries had always enjoyed friendly relations.

The officers blamed Russia for seriously infringing the Clause One of the Belarus Constitution.

"According to this Clause, the Belarus Republic maintains supremacy and full authority on its own territory. It also enjoys independence over its internal and foreign politics." the letter added.

"By entering the war against Ukraine, Belarus will be evicted from the community of civilized states and will be an international outcast for many years to come."

Russia was making big plans for Ukraine's nuclear power plants before its invasion fell apart⁵ - Russia launched its attack on Ukraine in February 2022 with plans for a quick victory. Those plans depended in part on seizing Ukraine's nuclear power plants and using them for leverage. Russia's ambitions for those plants were foiled when Ukraine fended off the initial attack.

When he launched his invasion, Putin had ambitious goals for Ukraine. Within three days to a week of attacking, Putin planned to capture Kyiv, topple Ukraine's government, and demilitarize Ukrainian forces.

According to an analysis of the first five months of the war by the Royal United Services Institute, a British think tank, the Russians had big plans to use Ukraine's nuclear power plants to help make it all happen.

According to the RUSI report, Russia's war plans viewed Ukraine's nuclear power plants as a means to achieve Moscow's larger aims. Key to that planning was southern Ukraine's Zaporizhzhia plant, which is Europe's largest.

The Kremlin's plan envisioned **three uses** for the Ukrainian nuclear power facilities once the invasion was underway.

First, Moscow planned for Ukrainian nuclear power facilities to function as bases for Russian troops and their equipment as well as ammunition depots. Russian officers were also to set up command-and-control posts within the premises of those nuclear facilities.

The **second** function the Kremlin envisioned for the nuclear facilities was to gain control over Ukraine's energy system. Nuclear power generates more than 60% of Ukraine's electricity. Thus, by controlling the nuclear facilities, Moscow would have influence over Ukraine's population and economy.

Finally, Moscow wanted to control the Ukrainian nuclear facilities so as to have "leverage for blackmailing" European countries. By threatening Europe with radiation pollution from potential accidents, the Kremlin hoped to deter direct or indirect foreign intervention.

Moreover, to deal with Ukrainian provinces refusing to cooperate with the proxy government Moscow was planning to install, the Russians planned to weaponize the captured nuclear power plants to cut off electricity to those regions.

Moscow's goal was the "denuclearization" of Ukraine through the capture and control of its nuclear power plants, along with the destruction of Ukraine's national identity and of Ukraine's military forces and defense industry, according to the RUSI report.

Moscow also incorporated Ukraine's nuclear power facilities into its information operations.

In trying to justify the illegal and brutal invasion of its neighbor, Russia went to extremes, calling for "denazification" of its neighbor and making allegations about the presence of "American Pentagon biolaboratories."

Moscow also seized on Ukraine's peaceful nuclear power program — a legacy of the Soviet Union — to accuse Kyiv wanting to restore its nuclear weapons program and thereby threaten Russia. Ukraine was left with nuclear weapons after the Soviet Union dissolved, but leaders in Kyiv, who didn't have the ability to use those weapons or funds to maintain them, gave them up in 1994 in exchange for security assurances from the US, the UK, and Russia.

Although Russia’s military failed to achieve any of its primary invasion objectives, it did manage to capture the Zaporizhzhia plant.

Over the following weeks and months, the Russian military moved more troops into the area and housed them on the plant’s premises. Fighting in the region around the plant continued, and artillery fire frequently landed in and around the facility. Russian troops also stored equipment and weapons in and around the Zaporizhzhia plant.

Russian forces still control the Zaporizhzhia plant, but Ukraine has fended off Russian attacks on its other nuclear power facilities. Russian forces tried to capture the Pivdenoukraiinsk plant in southern Ukraine but were repelled, though the facility came under artillery fire in the fall that struck a few hundred yards from its nuclear reactors.

After almost a year of fighting and the deaths of tens of thousands of Russian troops, it’s evident that Putin’s plans for Ukraine failed miserably, and there are other signs that Ukraine and the world thinks those ambitions are thwarted for good.

The International Atomic Energy Agency recently established a permanent presence at the Pivdenoukraiinsk plant, a sign of confidence in Ukraine’s ability to hold off future Russian attacks.

War unbudgeted for¹² - In December, Russia’s budget bore the real brunt of sanctions for the first time, but it held its own — for now.

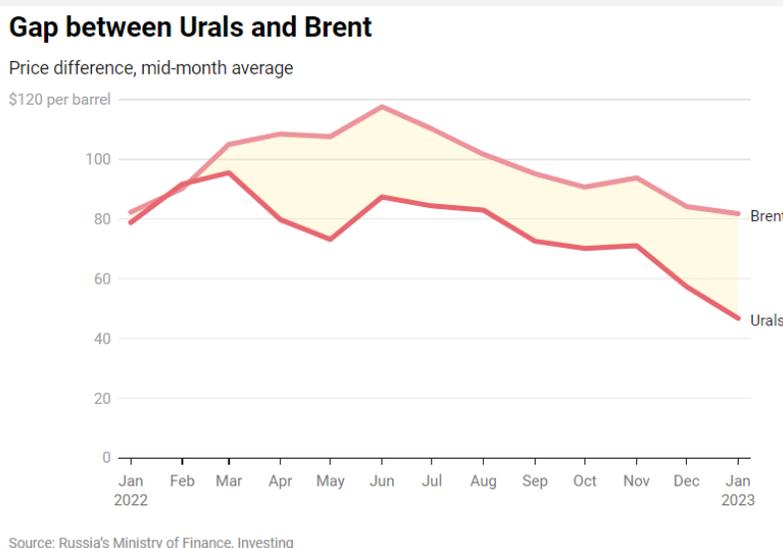
The sanctions imposed on Russian oil and gas have started succeeding in their goal. European deliveries have almost stopped, while the price of Russian oil has fallen significantly. In December, this led to a record-breaking monthly deficit of the federal budget — 3.8 trillion rubles (€49.4 billion). The government was able to fulfil the revenue plan mostly due to a one-time payout from the gas giant Gazprom estimated at 1.2 trillion rubles (€15.6 billion).

But whose “money tree” will the authorities shake this year? Furthermore, the biggest hit is still to come — the embargo on Russian oil products will come into force in February.

Were sanctions really effective?

Yes. Russian oil began to quickly go down in price in December. By the end of the month, the average price of Urals had been \$50.4 per barrel (the drop in prices continued in January, too). Some of the oil was being sold at \$37 per barrel. For the three months before that, a barrel of Urals was being sold for \$20-25 more.

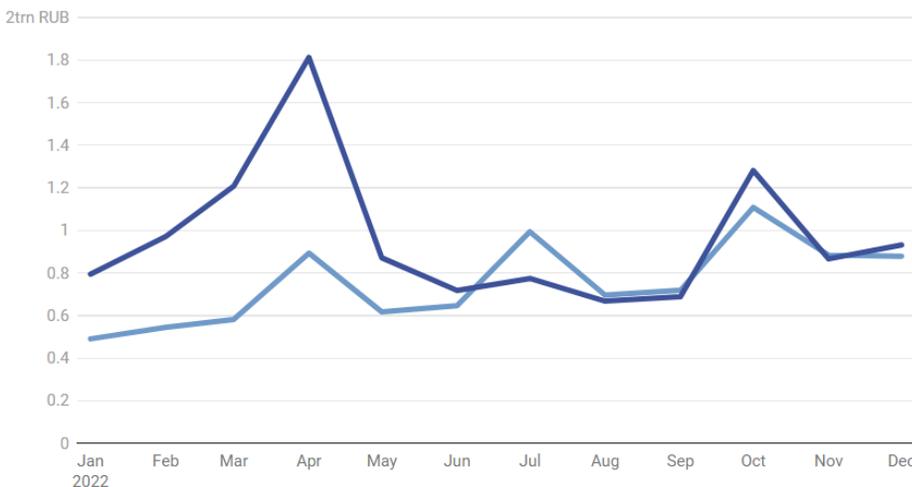
Prices of other grades of oil were going down, too: the average price of Brent was \$10 lower in December compared to October. But the price of Urals dropped significantly harder: the difference between Urals and Brent surpassed \$30, despite the fact that the gap stayed at the \$22-24 level from August to November. Before the Russian invasion of Ukraine, Urals was only \$1-3 cheaper than Brent.



The price difference between Urals and Brent grew by about \$10 immediately after the new sanctions had come into force on 5 December. The main reason for the Urals price drop, aside from the decrease of worldwide prices, is the European embargo, president of the Institute for Energy and Finance Foundation (FIEF) Marcel Salikhov notes.

According to the FIEF estimates, the discount offered for Urals compared to Brent has reached \$37 per barrel. The increase of the discount on Urals is mostly connected to the increase in costs of freight to the end customer, FIEF analysts think: it takes 31 days to get from the Baltic ports to India, seven days to Rotterdam, and 3-4 days to Poland. Furthermore, it is also a payment for the risk the transporters of Russian oil take upon themselves. The freight cost is put into the discount, Salikhov explains.

Russia's oil and gas revenue in 2021 and 2022



Source: Russia's Ministry of Finance

Russia exports other grades of oil, not only Urals. In particular, the Eastern Siberia–Pacific Ocean pipeline oil, which is mostly exported to China. This grade is still being sold without any substantial discount in comparison to Brent, analysts note. But the share of this export is not large; 70-80% of physical oil deliveries come from cheaper Urals.

Furthermore, maritime oil export from Russia has not showcased a stable trend of decreasing as of now. In the past four weeks, supplies have been on the same level as in the second half of 2022, Bloomberg reported on 23 January. Flows of Russian oil have been redirected to Asia — mainly to India and China, Salikhov explains.

“Russian companies have to look for other buyers, those were possibly drawn to the big discount,” he says.

The December drop did not have a big impact on the annual results. In 2022, oil production in Russia grew by 2% and oil export by 7%, Vice Prime Minister Alexander Novak previously said.

So the budget withstood the hit?

By the end of December, the budget saw a record-breaking monthly deficit estimated at 3.8 trillion rubles (€49.4 billion). The problem is not only the embargo: the budget expenditure basically tripled in December. The reason being that many budget-related spendings are postponed to the end of the year.

Furthermore, there was a surplus from the previous months (557 billion rubles, or €7.2 billion). The average price of Urals in January-December 2022 was \$76 per barrel — \$7 more than in 2021. This is how the Russian federal budget fulfilled its annual revenue plans.

The budget revenue in 2022 amounted to 27.8 trillion rubles (€361.4 billion) — 100 billion rubles above the plan. Oil and gas revenue grew by 27.9% in 2022. All other revenue increased by 0.1%.

Budget expenditure in 2022 ended up being 2.2 trillion rubles (€28.6 billion) higher than planned. Russia's Finance Ministry revised its assessment of the deficit three times. At the end of September, the expected deficit was estimated at 1.3 trillion rubles (€16.9 billion), which is 0.9% of GDP. On 8 December, the ministry revised its assessment once again, estimating the deficit at 2.9 trillion rubles (€37.7 billion), which is 2% of GDP.

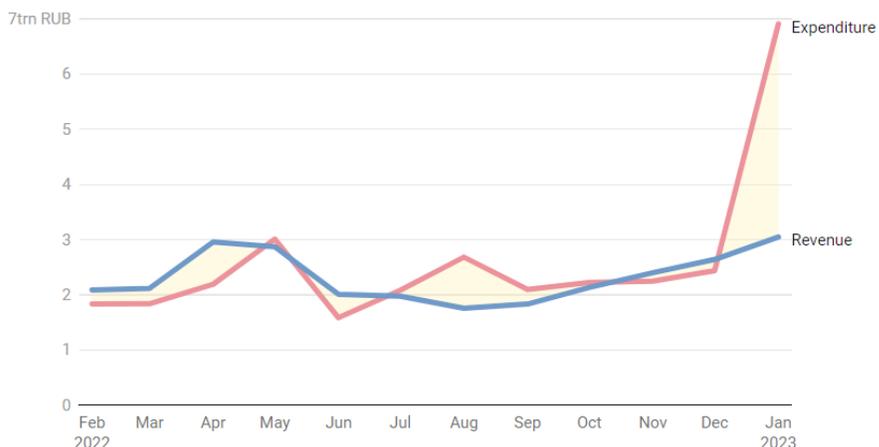
The actual deficit was even higher: in 2022, the federal budget received 3.3 trillion rubles (€42.9 billion) less than needed, or 2.3% of GDP. This may indicate that the sudden drop in oil prices was a surprise for the Ministry of Finance.

While worldwide oil prices are important for the government, so is how many rubles will end up going to the budget. This factor depends on the national currency exchange rate.

In December, a barrel of Urals cost 3,300 rubles (€42.9), according to the Telegram channel MMI founded by the current director of the Monetary and Credit Policy Department of Russia's Central Bank Kirill Tremasov. This is the lowest price since the end of 2020. Furthermore, the next year's budget assumes the price of 4,800 rubles (€62.4) per barrel. In 2022, the price per barrel during the peak exceeded 9,000 rubles (€117).

End of 2022: deficit in the federal budget

Data on the monthly budget expenditure and revenue



Source: Russia's Ministry of Finance

Containment

F-16 Fighters Could Go To War In Ukraine¹¹ - After a year of reluctance to send weapons to the embattled nation of Ukraine, Western leaders have put together a unified resolve not seen since World War II. But has the time come for Ukraine to also get western-created fighters like the F-16 Fighting Falcon?

The biggest request thus far for Ukraine has been the F-16, one of the most battle evaluated and combat proven jets in the U.S arsenal.

Immediately after the request, there were signs that Washington is open to potential modern aircraft transfers. This has caused great debate as Russia has used nuclear bluffs to install fears over the country's support.

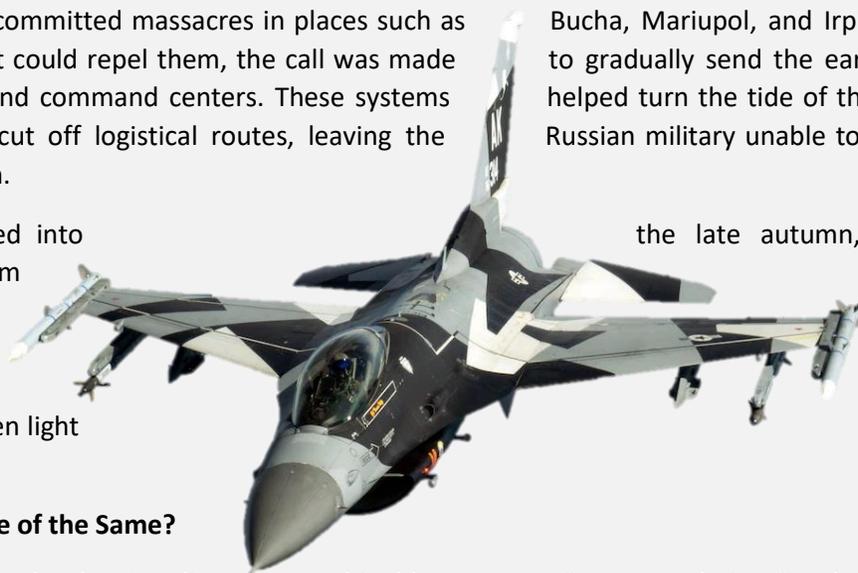
The Slow Transfer of More Modern Weapons

When Russian forces committed massacres in places such as Bucha, Mariupol, and Irpin, and Ukraine's armed forces (ZSU) showed it could repel them, the call was made to gradually send the early 1990s HIMARS to hit Russian supply lines and command centers. These systems use the weapons to cut off logistical routes, leaving the places such as Kherson.

As the war progressed into the late autumn, a frustrated Kremlin, under pressure from hardliners for poor effort, decided to use the 'Aleppo' and indiscriminately target infrastructure. This escalation gave western nations a green light for air defense systems to be sent to Ukraine.

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the late autumn, a frustrated Kremlin, hardliners for poor effort, decided to use the 'Aleppo' and indiscriminately target infrastructure. This escalation gave western nations a green light for air defense systems to be sent to Ukraine.



The F-16 Debate: More of the Same?

The F-16 has been seen by the Kremlin and its bloggers as a "grave escalation," and many in the anti-war and isolationist factions in the West have also raised concern, but just the prospect of sending them has made Putin's inner

circle rattle. Nonetheless, the Kremlin reiterated for months that Javelins, HIMARS, and tanks were “red lines,” yet their bluffs were called each time.

Recently, Ukraine stated it only expects to receive 24 Western jets, which is a probable chance of a combined joint pledge which could see NATO states send their older models in return for being backfilled by the U.S without having to send more than a handful of the model. With a small amount being sent, it would send the message that escalation will continue to be only in the court of the Kremlin.

Russia Is the Aggressor

We should keep in mind one key fact: Russia is the aggressor and the reason Ukraine needs such weapons.

The entire war so far has been an escalation by Russia as during the initial stages, the Kremlin denied an invasion would take place and that it was western warmongering. Then, when the invasion happened, they used the pretext of “genocide,” of Russian speakers—though Russian speaking cities such as Mariupol, Bakhmut, and Severodonetsk have been razed to the ground by RF.

Moscow has gradually escalated every time they suffered a military setback, such as mass executions in Bucha after their expulsion from the north, the partial mobilization after the ZSU liberation of Kharkiv, and civilian infrastructure strikes after the bombing on the Kerch Bridge and liberation of Kherson.

Comment – There are increasing reports of internal Pentagon pressure for Ukraine to receive F16 and perhaps A10 Warthog planes. As always, maintenance and spares will be time-consuming in executing any supply. The F16 is a narrow body fixed wing aircraft capable of being deployed to rural roads as Ukraine has been doing with its MiG29s.

NATO chief asks S Korea to ‘step up’ military support for Ukraine² - Jens Stoltenberg suggests Seoul reconsider its policy of barring weapons exports to countries in conflict.

Jens Stoltenberg, the secretary-general of NATO, has urged South Korea to “step up” military support for Ukraine, citing other governments that have changed their policies on exporting weapons to countries in conflict following the Russian invasion. Stoltenberg made the appeal in the South Korean capital, Seoul, earlier this morning.

Sources

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