Conflict Update # 169

September 1st, 2022

Conflict Assessment

Russian losses – 48,350 (+450) soldiers killed and 145,050 injured, 1,997 (+23) enemy tanks, 4,345 (+33) armored combat vehicles, 1,115 (+24) artillery systems, 287 (+2) MLRS systems, 153 (+1) air defense systems, 234 (+0) warplanes, 205 (+1) helicopters, 851 (+2) UAVs of the operational-tactical level, 196 (+0) cruise missiles, 15 (+0) warships/cutters, 3,239 (+3) trucks and tankers, 76 fuel bowsers and 104 (+5) units of specialized equipment.

Key takeaways

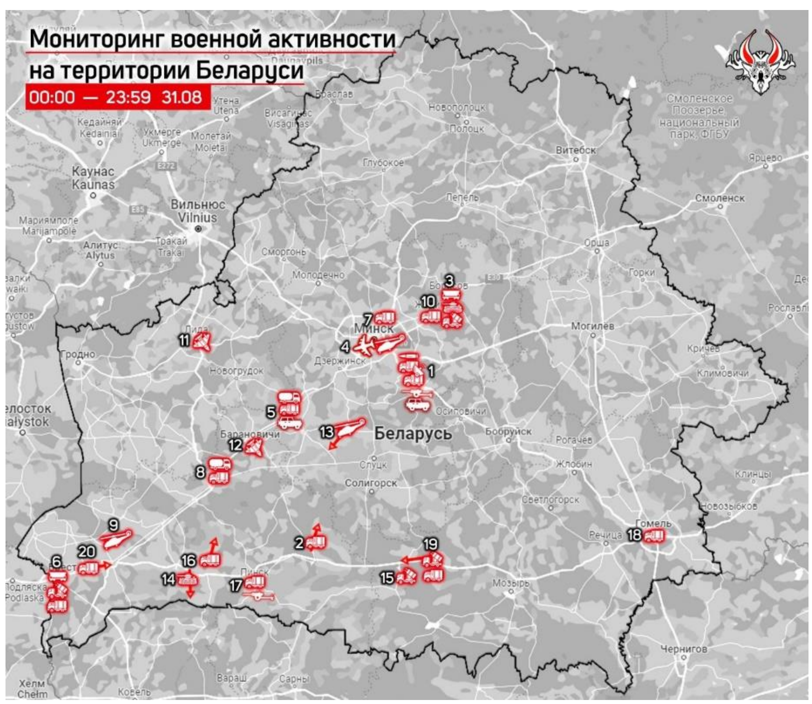
Ukrainian army rolls south toward Kherson - Ukrainian troops have attacked Russian positions along the entire front, Ukrainian President Zelenskyy said.

Belarus to train its military on capturing Ukrainian territory - Belarus plans to work out the seizure of the Ukrainian territories of Polissia and Volyn at the command and staff exercises on September 8-14.

Such an assumption was expressed by Oleksiy Hromov, the head of the main operational department of the General Staff of the Armed Forces of Ukraine, Interfax-Ukraine reports.

According to his assessment, the probability of a real offensive by the Belarusian army remains low.

Belarus moved military aviation exercises even closer to the borders of Ukraine - Military aviation exercises in Belarus have become even closer to the borders of Ukraine. Now Belarusian fighters are training in the border regions of the Brest region.



This was reported in the Telegram channel of the monitoring group "Belarusian Gayun". It is noted that at the beginning of the week, fighters from Lida and Baranovichi, as well as helicopters from Machulishchi, were training over the 230th combined-arms training ground "Obuz-Lesnovsky" in the Baranovichi district.

"At the moment, it appears that their training area has shifted significantly closer to the border with Ukraine," the statement said.

So, at 14:30 on Thursday, 4 fighter jets flew south from Brest. At 14:35 from Kobrin towards the south-west - two helicopters Mi-24 of Belarus.

At 14:40 in Brest, the fighters turned towards the west. At 14:50 two fighters took off from Kobrin towards the north, two more joined from the north.

The Russian army lost 20 tanks in just per day and 23 the next day - Over one day - August 30th - Ukrainian military destroyed 20 Russian tanks. Over the next day – August 31st - they destroyed 23 tanks.

Putin called the new goal of the "special operation": the anti-Russian enclave in Ukraine threatens Russia - Putin has named a new goal for the so-called "special operation". The leader of the aggressor state claims that an anti-Russian enclave is allegedly being created in Ukraine, which should be "liquidated".

This "enclave", according to Putin, allegedly threatens the Russian Federation. "On the territory of today's Ukraine, they began to create an anti-Russian enclave that threatens our country, so our guys who are fighting there protect the inhabitants of Donbass and Russia itself," the dictator said.

In addition, Putin repeated the propaganda that the inhabitants of the Ukrainian Donbass allegedly consider themselves part of the "Russian humanitarian, cultural and linguistic space."

Huge queues for the train have formed in Belgorod, people are fleeing the city - On the evening of August 29, an unusual stir was noted on the platform of the railway station in Belgorod. The local population massively tried to leave the city.

This was reported by local Telegram channels. A few hours before the wholesale migration to Moscow, cameras installed on the territory of the airport recorded two “arrivals” of missiles

"A train leaves for Moscow in 15-20 minutes. There is only one passage on the way, but there are many people," the authors of the publication summarize.

Ukrainians subscribed to these resources satirically reacted to the panic of the Russians. In their opinion, there is nothing tragic in the fact that the citizens of the aggressor and terrorist country felt in their own skin what their state has been doing in Ukraine since February 24.

Questions – With mass evacuations such as these close to the Russian/Ukrainian border, what has triggered their movement? Is it something that the Kremlin has said?

Ukrainian tactics – Yesterday we wrote about the Ukrainian tactic of “scooting” around Russian forces on electric scrambler motor cycles, quietly responding to local folk providing information on enemy convoy and troop movements, using light shoulder-mounted weapons to attack convoys.

They would subtly change road signs, sending Russian lines of heavy armor down dead-end streets into areas where they could neither reverse nor escape because of heavy ground terrain.

Eliminating front and last vehicles, they would then systematically work their way through the rest.

They would take particular interest in striking fuel bowsers and food trucks, as well as command post vehicles. Ukrainian teens would simultaneously monitor movements via domestic drones, relaying information back to Ukrainian command bases.

Here is a picture of just such an attack. The entire Russian convoy was destroyed.

Ukrainian progress in the south - Ukrainian forces have had "successes" in three areas of the Russian-occupied region of Kherson, a Ukrainian regional official said on Wednesday, two days after Kyiv announced the start of a southern counter-offensive to retake territory.

Yuriy Sobolevskyi, the deputy head of Kherson's regional council, told Ukraine's national news broadcaster that Ukrainian troops had enjoyed successes in the Kherson, Beryslav, and Kakhovka districts, but declined to give details.

"Now is the time to support our armed forces... Now is not the time to talk about the specific successes of our lads," he said, echoing the Ukrainian military's insistence on a near-total information blackout about the offensive.

Sobolevskyi urged Ukrainians to support their armed forces with "everything they could" as the offensive was using up a vast quantity of resources.

"Right now, drones and ammunition are being used there like expendable material," he said.

US war-gamed with Ukraine ahead of counteroffensive and encouraged more limited mission - In the buildup to the current Ukrainian counteroffensive, the US urged Kyiv to keep the operation limited in both its objectives and its geography to avoid getting overextended and bogged down on multiple fronts, multiple US and western officials and Ukrainian sources tell CNN.

Those discussions involved engaging in "war-gaming" with Kyiv, the sources said -- analytical exercises that were intended to help the Ukrainian forces understand what force levels they would need to muster to be successful in different scenarios.

The Ukrainians were initially considering a broader counteroffensive, but narrowed their mission to the south, in the Kherson region, in recent weeks, US and Ukrainian officials said.

Pentagon spokesperson Brig. Gen. Pat Ryder told CNN that "the US has routine military-to-military dialogue at multiple levels with Ukraine. We will not comment on the specifics of those engagements. Generally speaking, we provide the Ukrainians with information to help them better understand the threats they face and defend their country against Russian aggression. Ultimately, the Ukrainians are making the final decisions for their operations."

Equal footing - There is a distinct feeling amongst Ukraine's US and western advisers that the Ukrainian military is on much more even footing with Russia than was believed even just a few short months ago, multiple officials told CNN. Russia still maintains superior numbers in overall manpower and massed artillery.

Ukrainian capabilities, bolstered by sophisticated western arms and training, have closed an important gap, officials say -- particularly the High Mobility Artillery Rocket Systems, or HIMARS, that Ukraine has been using to launch attacks behind Russian front lines in recent months.

"It shows you what the sustained training and weapons provision can do when the force is highly motivated and capable in its employment," a senior NATO official told CNN.

Another US military source put it more bluntly: Ukraine has made up for Russia's advantage in sheer volume of fire with its "competence."

Growing momentum

Ukraine has been publicly signaling for months that it intended to launch a major counteroffensive to retake territory lost to Russia in the six-month war. And even before Monday, when Ukrainian forces began increasing their artillery rocket and missile fire on the frontlines in southern Ukraine, Kyiv had been actively disrupting Russian resupply efforts and command and control across the region.

For weeks, Ukraine has used a mix of partisan supporters, long-range fire and special operations forces to launch a series of attacks far behind Russian lines -- including in Crimea -- that have targeted logistics and command and control hubs in preparation for the southern offensive.

"I don't think it's possible yet to confirm the extent of Ukrainian advances, but they've certainly impacted Russia's ability to move north and south across [the Dnieper River] with their attacks on bridges," the senior NATO official said on Wednesday. "And in terms of future prospects, I'd note that Ukraine is much closer to parity in troop numbers in Kherson than it has been in recent weeks" in the eastern provinces of the country, where fighting has ground on for months.

Attacks in Crimea have been a particularly smart strategy, one official said, because Russia has been using the peninsula as a launchpad for its operations in southern Ukraine.

Russia has also been forced to pull resources from the east "simply because of reports that the Ukrainians might be going more on the offense in the south," John Kirby, the communications coordinator for the National Security Council, said on Monday.

"And so they've had to deplete certain units ...in certain areas in the East in the Donbass, to respond to what they clearly believed was a looming threat of a counter offensive," Kirby said.

'A slow operation to grind the enemy' - Officials say that Ukraine now appears more evenly matched with Russian forces not only because of the advanced western weaponry that Ukraine has been using effectively, but also because the Ukrainians still have the advantage in terms of morale, unit cohesion, tactical acumen, and a superior ability to improvise on the fly.

They have another advantage, too, two officials said: a population that is largely appalled by the Russian occupation, willing to engage in partisan attacks to expel them -- such as assassinations and sabotage efforts behind enemy lines.

Still, despite a more bullish assessment of Ukrainian fighting capabilities, US officials aren't placing any bets that Ukraine will successfully retake Kherson -- yet.

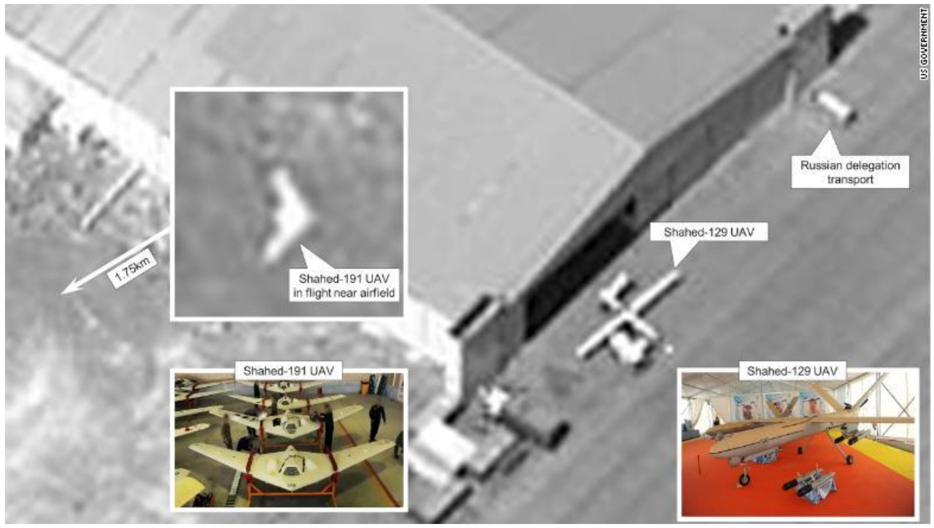
"I'm not sure this is going to be the big, massive counteroffensive that folks might be waiting on — it might be a smaller number of forces," the US military source cautioned. Much will depend on how well Russia is able to defend newly-claimed territory, the source said—something that it has not yet been called upon to do in the last six months.

A Ukrainian presidential adviser also warned that the offensive will be a "slow operation to grind the enemy."

"This process will not be very fast," Oleksiy Arestovych, an adviser to the Head of the Office of the President of Ukraine, said in a statement posted on his Telegram account late Monday, "but will end with the installation of the Ukrainian flag over all the settlements of Ukraine."

Russia now in possession of Iranian drones - The US assesses Russia is now in possession of weapons-capable Iranian drones that they will likely deploy on the battlefield in Ukraine, administration officials tell CNN. The Russians picked up the drones from an Iranian airfield earlier this month and transported them back to Russia in cargo planes in mid-August, the officials said.

They began training on the drones in Iran late last month, CNN previously reported, and the US now believes that they have officially purchased and transferred the Mohajer-6 and Shahed-series drones -- the Shahed-129 and Shahed-191 -- back to Russia, for use in the war in Ukraine.



Both types of UAVs, or unmanned aerial vehicles, are capable of carrying precision guided munitions and can be used for surveillance. Russian operators are still training on the drones inside Iran, the officials said, and the US believes that Russia intends to import hundreds of them to use for air-to-surface attacks, electronic warfare and targeting inside Ukraine.

Introduction of the Iranian drones, which can also be used for surveillance, could have a significant impact on the battlefield as Russia looks to blunt the impact of the High Mobility Artillery Rocket Systems (HIMARS) that the US and its allies have provided to Ukraine. The HIMARS have a range of 49 miles and have enabled Ukraine to attack targets behind Russian front lines.

US intelligence officials believe, however, that when tested, many of the drones Russia has purchased from Iran have already experienced numerous failures, the officials said, so it is unclear how much of a game changer they will be for the Russians when deployed.

Putin

Another Putin critic falls from a window - Few things are more dangerous for critics of Russian President Vladimir Putin than standing near windows. On Wednesday, Russian media reported that Ravil Maganov, chairman of private Russian oil company Lukoil and a critic of Russia's war on Ukraine, fell to his death from his hospital window. Maganov joins the ranks of Ivan Safronov, Olga Kotovskaya, and others who experienced nasty falls after falling out of Putin's favor.

The company is the biggest privately held oil producer in the country, and in March openly criticized Vladimir Putin's invasion of Ukraine. In a statement posted on its west to shareholders, LUKOIL's board expressed "its deepest concerns about the tragic events in Ukraine" in March.

Putin denies Gorbachev a state funeral and will stay away - Putin is to miss the funeral of the last Soviet leader, Mikhail Gorbachev, denying the man who failed to prevent the collapse of the Soviet empire the full state honors granted to Boris Yeltsin.

Gorbachev, idolized in the West for allowing eastern Europe to escape Soviet communist control but unloved at home for the chaos that his "perestroika" reforms unleashed, will be buried on Saturday after a public ceremony in Moscow's Hall of Columns.

The grand hall, within sight of the Kremlin, hosted the funerals of Soviet leaders Vladimir Lenin, Josef Stalin and Leonid Brezhnev. Gorbachev will be given a military guard of honor - but his funeral will not be a state one.

State television on Thursday showed Putin solemnly placing red roses beside Gorbachev's coffin - left open as is traditional in Russia - in Moscow's Central Clinical Hospital, where he died on Tuesday aged 91.

Six months of war: what Putin wanted; what Putin got - In the early morning of the first day of the war on Feb. 24, Putin defined the objectives of his "special operation" as (i) **"protecting the inhabitants of Donbas, demilitarizing and denazifying Ukraine,"** and (ii) **"bringing to justice those who have committed innumerable bloody crimes."**

Continuing a Soviet tradition — the invasions of Hungary in 1956, Czechoslovakia in August 1968 and Afghanistan in December 1979 — Putin said that he had "decided on a special military operation" in response to a request from the leaders of Donbas. And he stressed that "Russia has no plans to occupy Ukrainian territories."

Two and a half months later, Foreign Minister Sergei Lavrov complimented his boss, saying that the special military operation was (iii) **"designed to put an end to the reckless expansion and the reckless course of total U.S. domination."**

Four months later he corrected Putin: (iv) **"the geographical objectives of the 'special operation' have changed. Now it is not only the DNR and LNR [Donetsk and Luhansk People's Republics], but also a number of other territories."**

And one of the generals even issued the enigmatic statement that (v) **"control over the South of Ukraine is another path to Transnistria [a Moldovan break-away state supported by Russia], where facts of oppression of the Russian-speaking population are also being observed."**

Ultimate goals multiplied in the statements of various Russian officials, from security chief Nikolai Patrushev and parliament chairman Vyacheslav Volodin, Sergei Lavrov and presidential spokesperson Dmitry Peskov, and Putin himself. Now they included (vi) **"preventing war from starting on the territory of Ukraine";** (vii) **"restoring the statehood of the LNR and DNR within the borders of 2014"; and** (viii) **"achieving a guarantee of Ukraine's real neutral status."**

Reality

The "demilitarization" of Ukraine? In the six months of war Ukraine has received the most modern Western-made weapons worth tens of billions of dollars that it did not have before. Just the latest tranche for weapons, air defense systems, surface-to-air missiles, radars and artillery from the U.S. government was valued at $2.98 billion.

Denazification of Ukraine? It seems that no one except the Russian Chekists doing reconnaissance has seen them, and if someone else did see some Nazis, there were about as many of them in Ukraine as there are on Moscow's Pushkin Square on Adolf Hitler's birthday.

None of the dozens of journalists from around the world who broadcast their reports from Ukraine have met any Nazis or fascists. But the rhetoric from various Russian official and quasi-official speakers makes us think that some of the thousands of recordings of Hitler's speeches were put to good use.

Protecting the Russian-speaking population of the eastern and southern regions? Where were they protected —

- in the almost completely destroyed city of **Mariupol,** where more than 89% of the population considered Russian their spoken language?
- Or in **Kharkiv**, which has been mercilessly bombed for week after week, killing civilians, and where 95% of the population speak (spoke?) Russian?
- Or **Mykolaiv**, where over 50% of the population, according to the census, speak Russian as their mother tongue, and which is being destroyed by cluster bombs, according to a Philadelphia Inquire reporter who was just there? A curious defense strategy: pile up the corpses of the people you're defending.

Putin, and Peskov after him, called the goal of the military operation (ix) **the restoration of the self-declared Donetsk and Luhansk republics to their 2014 borders.** Today Russian troops control almost all of the Luhansk region and less than 60 percent of the Donetsk. Judging by reports from the fronts, this situation is not going to change any time soon.

So, the first, second and third goals weren't met. Maybe "U.S. dominance" in Eastern Europe has been undermined and NATO has been pushed away from Russia's borders?

It certainly doesn't look like it. A year before the war, in February 2021, there were 4,650 soldiers and officers under NATO command, and now there are almost ten times as many — 40,000. In the near future, the number of NATO troops will increase to 300,000. This, military analysts say, is the largest increase in NATO strength since the end of the Cold War. The border between Russia and NATO countries also doubled after Finland and Sweden joined the alliance — from 1,207 to 2,575 km.

The cost

And now — the cost. According to American intelligence, the irrecoverable losses of the Russian Armed Forces in the six months of the war amounted to tens of thousands killed (during the 9 years and 2 months of the Afghan war about 15,000 Soviet soldiers and officers were killed), and tens of thousands wounded and captured (in Afghanistan over 110 months — about 35,000).

The Russian army has lost thousands of tanks and armored personnel carriers and they destroyed Ukrainian tanks production facilities from where they sourced their armored stocks, during the first weeks of the war.

Almost all the country's high-precision weapons have been used, and the production of new missiles is held up because they can't get microchips and semiconductors, which are under sanctions. Anti-ship missiles and Soviet Grads, which have a range of several hundred meters, are being used for strikes.

The shortage of hardware has forced the Russian army to scavenge for weapons, transfer them by quasi-trade ships from the military base in Syria, buy drones from Iran, and even consider North Korea's offer to buy artillery from them.

The situation with manpower is even worse. Due to their heavy losses, Russia is carrying out "voluntary mobilization." According to various estimates, 30-35,000 volunteers have been sent to training camps with subsequent deployment in the active army. Soldiers are also being recruited from high-security prisons and deployed in private security companies. Battalions that carried out peacekeeping duties in Nagorno-Karabakh and troops from de facto annexed South Ossetia are also being sent to the front.

Each day of the war costs taxpayers about $500 million. In July, Finance Ministry statistics showed a federal budget deficit of 892 billion rubles, a drop of 22.5% in oil and gas revenues despite high energy prices, and a nearly 30% drop in revenue from tax collection. The expected loss of GDP by the end of the year is 8%, with a further contraction of the economy over the course of a year and a half or two years.

These are the calculations for the summer of 2022, when many private Russian banks can still to conduct transactions with the rest of the world and the country is not cut off from SWIFT. But there can be no doubt that the West will choke the Russian economy before it begins to be choked by its own declining level of technological development, and the Russian military-industrial complex will no longer a threat to Europe and the world.

What Putin wants

An investigation by Washington Post journalists indicates Putin's initial goal was to (x) **totally occupy all of Ukraine**.

This seems strange, given that Stratfor military analysts played out five or six scenarios for Russia's war with Ukraine back in 2015 and concluded that the Russian Armed Forces would need between 91,000 and 135,000 troops just to seize the so-called left bank of Ukraine and an equal number to hold the occupied territories. The total is 182,000 to 270,000 troops needed. Military analyst Alexander Goltz wrote in a 2014 article for The New Times that Russia would need at least 100,000 troops to hold southeastern Ukraine alone. Note that both analyses came out before the Ukrainian Armed Forces were reformed and equipped with the most modern weapons.

Today there are approximately 170,000 Russian soldiers and officers on the Ukrainian fronts, and 20% of Ukrainian territory is occupied. A simple extrapolation shows that Russia would need about a million men to occupy and hold the entire country. Meanwhile, Commander-in-Chief Putin signed an order to increase the army by 137,000 starting on January 1, 2023.

My Moscow sources who met with Putin on the eve of the military operation do not believe that the FSB deceived the Russian president by convincing him that everything was ready by Feb. 24 for a quick capture of Kyiv or a blitzkrieg. This was much discussed in the first months of the war and recently covered by the Washington Post.

- **First of all,** they said that in the week before operation began, Putin listened to a variety of people, both those who supported the war and those who opposed it. It is highly unlikely that Chekists or army officers gave him false information, but they probably gave him the information that he wanted to see.
- **Secondly**, they say that there was no plan for the army to occupy the entire country. The goal was to eliminate President Zelensky (or force him to leave the country), and then, the KGB officers thought, there would be a domino effect: mayors and regional leaders would either run or swear allegiance to Russia in droves. The logic was as follows: Yanukovich, a "tough guy" with experience of prison and gangster capitalism, was so frightened by the Maidan demonstrations away in 2014 that he fled the country. So what could anyone expect from "that clown Zelensky"? The fact that Zelensky did not leave, did not surrender, did not ask for peace came as a great surprise to Putin: the habit of thinking that the world is run like it is in Russia and that politicians everywhere are a priori greedy and opportunistic has once again let the Kremlin down.

Then what does Putin want? (xi) **"To tear Ukraine to pieces,"** said a source at the top of the Russian political elite. "But now I think the Kremlin is ready to codify the status quo," said another. That is, Putin is (xii) **ready for peace talks concerning a map in which 20% of Ukrainian territory is controlled by Russian troops.**

NATO

Danish defense minister: New status quo will ‘move NATO to the north,’ with Baltic emphasis - In the aftermath of Russia’s invasion of Ukraine and the NATO membership request from Sweden and Finland, Nordic nations are looking to deepen their cooperation, with a focus on both the Baltic Sea and Arctic regions, according to Denmark’s defense minister.

The two new NATO members, in particular, “will, so to say, move NATO to the north,” Morten Bødskov said Wednesday at the Atlantic Council in Washington. “What the Nordic countries in common are looking into is a stronger Nordic voice within NATO and also within the European Union.

“Denmark will be in the center of this, with tensions with Russia in the Baltic Sea area, but also the High North, the Arctic will be an area of more tensions in the future. So Denmark is at the center of that. The Nordic cooperation is also at the center of that,” he continued.

For decades Sweden and Finland avoided joining NATO but were both members of the European Union. Norway has been part of NATO since its inception in 1949 but has not joined the EU. And Denmark, while in both camps, has historically had restrictions that would restrain it from taking part in any EU defense activities.

Humanitarian

"Mass illegal data collection exercise" - Russia has kidnapped hundreds of thousands of Ukrainians and taken them to Siberia and elsewhere and is collecting large amounts of digital data from their phones and electronic devices along the way, a State Department official told the Washington Post on Wednesday. The so-called "filtration" system, which includes more than 20 sites in Russian-held areas, is overseen by the Kremlin.

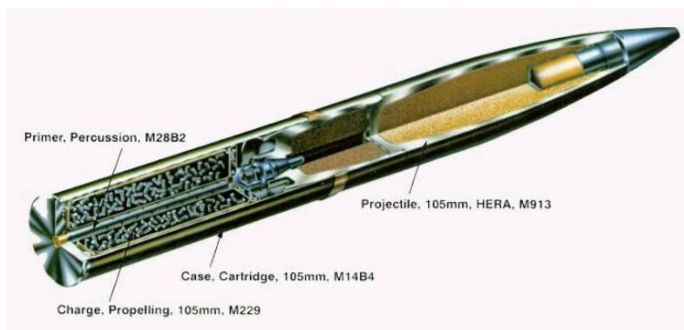
Impact

International Atomic Energy Agency - inspectors arrived at Ukraine's Zaporizhzhia nuclear power plant today after shelling. The plant, staffed by a skeleton crew and under Russian control since March, was damaged by artillery fire according to recent satellite photos from Maxar. Both Russia and Ukraine accused the other of firing on the nearby town of Enerhodar just before the inspectors' visit Thursday, Reuters and others reported. But Ukraine has welcomed the IAEA mission and Russia frequently uses false flag operations to paint the Ukrainians in a poor light.

The inspection comes as Ukraine counteroffensive's slow but steady start meets Russian propaganda efforts. The Ukraine counteroffensive to reclaim territory in the country's south and west could take months. But Russian military bloggers are already calling it a failure. Yesterday, ISW warned against what the institute described as a Russian disinformation operation.

Containment

Ukraine received 105mm M927 high-explosive rocket-assisted projectiles - Ukrainian gunners have been provided with the 105mm M927 high-explosive rocket-assisted (HERA) shells for M119 howitzers.



M927 provides a range increase of over 40% and a significant increase in lethality compared to the standard M1 projectile.

M913 is designed exclusively to be used in the modified M119 howitzers and has a range of 20 km.

Putin is enraged: Ukraine will now get US weapons for years to come - At a news briefing on Wednesday, White House national security spokesman John Kirby announced that a new round of military aid for Ukraine is on its way. The White House official said that the announcement could arrive sometime this week.

“There will be announcements of future security assistance in coming days,” Kirby said at a news conference.

The comments come after reports revealed that the White House is considering giving the government’s support for Ukraine an operational name, committing the federal government to the long-term support of Ukraine as Russia continues its assault.

No details were given during Wednesday’s press conference, though it’s likely that the White House is preparing a fresh round of financial support to Ukraine and potentially new commitments to supply weaponry and ammunition.

Long-Term Support

Just eight days earlier, the US DoD announced a new military aid package for Ukraine worth $2.98 billion. In a statement last Wednesday, on Ukraine's 31st anniversary of independence from the Soviet Union, President Joe Biden recommitted his support to Ukraine and said the latest package would "allow Ukraine to acquire air defense systems, artillery systems and munitions, counter-unmanned aerial systems, and radars to ensure it can continue to defend itself over the long term."

The latest package was the most significant single round of aid committed by the US since the beginning of the war. The package also committed the US to provide weaponry that could take years to arrive.

Pentagon Press Secretary Air Force Brig. Gen. Pat Ryder also issued a statement on the federal government's continued support for Ukraine, describing how the latest round of aid "underscores the U.S. commitment to supporting Ukraine over the long term, representing multi-year investments in critical capabilities to build the enduring strength of Ukraine's armed forces as it continues to defend Ukraine's sovereignty in the face of Russian aggression."

Sweden to evaluate providing Ukraine with Archer self-propelled guns and RBS 70 MANPADS - Sweden has officially agreed to consider providing Ukraine with Archer self-propelled artillery systems.

This was announced by Swedish Foreign Minister Ann Linde.

She also said that Sweden will consider the transfer of portable RBS 70 anti-aircraft missile systems to Ukraine.

China

AMD says US told it to stop shipping top AI chip to China - Advanced Micro Devices Inc on Wednesday said U.S. officials have told it to stop exporting its top artificial intelligence chip to China, according to a spokesman.

The company said new license requirements prevent shipment of its MI250 chips to China, but it believes its MI100 chips are not affected by the new requirement. The company said it does not believe the new rules will have a material impact on its business.

AMD shares had been down 2% in after-hours trading after rival Nvidia said the new rules could cost it up to $400 million in sales.

Xi's vision for chip self-reliance runs into reality - The recent purge of top executives points to the tension between the Chinese leader's vision of government-led tech self-reliance and the very nature of semiconductors.

After heavy national investment in semiconductors to break a dependence on global chips, Xi seems unhappy with the results.

Wearing a laboratory coat, China's top leader, Xi Jinping, inspected a subsidiary of Yangtze Memory Technologies Company, a national semiconductor company based in Wuhan. It was April 2018, shortly after the US government had barred the Chinese telecommunications firm ZTE from doing business with American suppliers.

The ban was a Sputnik moment for China's tech industry and its leaders. Despite the country's success in building smartphones, e-commerce platforms and high-speed railways, they realized that tech boom had been built largely on top of Western technologies, especially chips that power nearly everything. They had to change that — and fast.

Xi told the executives of Yangtze Memory, or YMTC, that semiconductors were as important for manufacturing as hearts for humans. "When your heart isn't strong, no matter how big you are, you're not really strong," state media reported him saying. He urged them to hurry and make tech breakthroughs to contribute to the rejuvenation of the Chinese nation.

Xi has repeated that message ever since, with growing urgency as the United States tries to restrict China's access to key semiconductor technologies. But a series of corruption investigations last month into the who's who of the country's semiconductor industry suggest that Xi may not be getting what he expected, or at least not quickly enough.

Those under investigation include the former chairman of YMTC who showed Xi around on the 2018 visit, and the head of a giant state fund, known as the Big Fund, which has invested in dozens of China's biggest chip projects.

The firms they lead are at the heart of the country's push into semiconductors, the little slices of silicon that act as the brains of computers and other devices. Their downfalls are a public acknowledgment that China is rethinking its gold rush approach of throwing cash at projects in the hope that some work out. And it's a clear setback for the country's drive to become technologically self-sufficient.

Behind the purge lies a tension between Xi's vision of government-led tech self-reliance and the very nature of semiconductors.

The chip industry is highly complex and interconnected. It depends on an integrated global supply chain and draws upon expertise from different regions: design in the US; manufacturing in Taiwan and South Korea; assembly, packaging and testing in China; and equipment from the Netherlands. The comparative advantages of each region were built with decades of capital expenditure and research and development.

"Any government considering a push for self-reliance in semiconductors needs to face the harsh reality," said Christopher A. Thomas, a nonresident senior fellow at the Brookings Institution and Intel's former general manager in China, in an interview. "Semiconductors represent the highest form of human engineering achievement. They are the most difficult thing we create as a species. How can one country 'win it all' by itself?"

Charles Kau, a Taiwanese semiconductor veteran who has worked on both sides of the Taiwan Strait, said in a recent newspaper interview that he had tried telling mainland tech executives many times that it could take China 30 — or even 50 — years to become an industry leader.

Such statements aren't likely to be what Xi wants to hear. Expected to secure a third term at an important Communist Party congress this year, he is increasingly obsessed with tech "choke points" that have left China vulnerable amid the trade war with the US, including bans on companies like ZTE, the potential war over the Taiwan Strait and Russia's invasion of Ukraine. This month, President Biden signed into law a $280 billion bill aimed at strengthening domestic semiconductor manufacturing, design and research to compete with China.

To confront these challenges, Xi has increasingly reached back to Mao Zedong's playbook when China was operating a planned economy and had few friends and self-reliance was a necessity. He doesn't hide his fondness for the Mao era's top-down approach to tackling big obstacles: mobilizing national resources, which he claims is a big advantage of China's state-dominating political system.

Such inward and backward vision has come to define Xi's views on how China should advance to become self-sufficient in tech and how fast. He has promoted technocrats from the space and defense industries who pulled off technologically challenging projects that he believes testify to the strength of China's system.

The purged semiconductor executives didn't live up to that criterion.

Zhao Weiguo, the YMTC chairman who stood behind Xi in a widely circulated photo of his 2018 visit, used to be the most high-profile person in the industry. He earned the nickname "semiconductor madman" after making a series of eye-popping investments in big chip projects through the company he controlled, Tsinghua Unigroup. He is best known in the West for his failed 2015 takeover of Micron Technology, a US maker of memory chips.

The other man under investigation, who is equally influential, is Ding Wenwu, head of the Big Fund, which became Beijing's vehicle for doling out capital to chip makers.

At least five other executives who worked with the two men are also under investigation on corruption allegations. So is Xiao Yaqing, minister of industry and information technology, who oversaw the sector, though it's unclear whether the three sets of investigations are related.

The results of the Big Fund and Tsinghua Unigroup, which the Chinese government used to steer the development of the domestic chips industry, have been a mixed bag.

China's chip makers made more progress in the past five years than the previous decade, people in the industry said. In 2020, the country's chip sales grew 30.6 percent to reach $39.8 billion, according to an analysis by the Semiconductor Industry Association, a trade organization and lobbying group in Washington.

But much of the headway was in the lower end of the very long product chain in semiconductors, and gaps in more advanced market segments remain large and could take years or even decades to close. China still spends more on chips than on any other imported good.

And there have been failures despite — or because of — tons of government money and subsidies. In the first 10 months of 2020, more than 58,000 firms registered as chip-related enterprises, according to an analysis by China Economic Weekly, a magazine affiliated with the Communist Party's official newspaper, People's Daily. Some of the companies used to be in fashion, construction and other sectors, and changed their registration information only to gain access to easy money and cheap land, the magazine said. At least six semiconductor projects that boasted $1 billion investments went bust.

Some critics have cautioned against a top-down approach in semiconductors because of the global complexity.

Liu Yadong, the former editor in chief of the official Science and Technology Daily, said in an interview in May that the whole nation system helped China win Olympic golden medals and build atomic bombs, "but it's not fit for building semiconductor chips."

Xi keeps pressing ahead. In June, he visited another semiconductor company in Wuhan. He stressed that tech self-reliance was the foundation of China's prosperity and the key to national security.

"We must take the technology lifeline in our own hands," he said. "If every city, every high-tech development district, every tech company and every researcher can follow the government's guidance in tech innovation, we will definitely be able to achieve the goal."

China's BRI takes over the world: is Europe ready to respond? - China seems to be overtaking Europe in global infrastructure investments, with EU leaders alarmed about the possible consequences. How does China benefit from expanding the Silk Road to other continents, and what could be Europe's response?

The recent leak of an EU document highlighting the dangers of China and Russia's growing influence in Latin America brings transport and politics to the forefront again. The European External Action Service (EEAS) document leaked to the Spanish newspaper El País highlighted that "China is the first or second most important trading partner of Latin American and Caribbean countries, displacing the EU and surpassing the United States in many countries."

Moreover, the document warned that the EU should take immediate action to restore its regional influence by launching more investments. For instance, an investment plan of 8 billion euros is promoted for allocation in South America, with transport and infrastructure gradually becoming the tool for increased political sovereignty.

A look at the past

China's Belt and Road Initiative project was launched by Chinese president Xi Jinping in 2013. It is China's primary international cooperation and economic strategy focusing mainly on infrastructure investments that improve connectivity between different regions and enhance the global supply chain.

The Belt and Road Initiative is also referred to as the New Silk Road, drawing inspiration from the ancient Silk Road spanning Eurasian territories. Many think the New Silk Road only reduces itself to overland transport, namely rail. "Indeed, the network of China-Europe trains across Eurasia is a major component of the BRI," explains Frans-Paul van der Putten, an independent expert and consultant on China and geopolitics.

However, the Chinese project also includes the Maritime Silk Road, which focuses mainly on developing sea transport links. "Via ports in Asia and Europe, the New Silk Road is linked to maritime transport networks, which themselves connect all continents," says van der Putten. In this sense, China's investments in other continents, like Latin America or Africa, make sense in the BRI context.

BRI in Latin America

So far, the BRI includes 149 countries worldwide. In Latin America, 21 of 33 countries in the region are part of the project. These countries are located in Central and South America and the Caribbean. Among them are Argentina, BRI's latest addition, Bolivia, Chile and Cuba.

This impressive and growing number shows that most Latin American countries are already reaping the fruits of their financial cooperation with China. Nevertheless, "China also benefits from investing in South America since this strengthens diplomatic relations with countries in the region, provides access to markets and raw materials, and helps Chinese companies internationalize. Cooperating with South American countries boosts the status of BRI as a global initiative and China's status as a major actor in globalization and international development," highlights van der Putten.

Europe's role and response

China's growing influence in Latin America signalled a 'mayday' in European headquarters, with the EU deciding to take immediate investment action to mitigate China's global expansion. Yet, China's involvement in the region is not new since, as van der Putten said, "like in other areas, countries in South America joined the BRI gradually" and not overnight.

As a result, EU concern is not due to China's rapid expansion but due to a belated European realization that it is losing precious overseas allies. "For Europe, BRI means a less central role in intercontinental transport networks for the EU," explains van der Putten. On top of downgrading its intercontinental transport role, though, Europe risks losing its political influence, too, since investments and access to international markets go hand in hand with political sovereignty.

Yet is there a drastic solution that could overturn or neutralize the global balance of power? "To some extent, the EU can counter China's growing sway by maintaining and strengthening its transport links with Latin America, Africa and Asia. However, given the strong economic ties between China and developing countries, the EU cannot prevent China from becoming an influential actor in global transport networks," concluded van der Putten.

Comment – China is also pursuing its BRI as a state strategy. It is wholly reliant on the US for access to any ocean for imports and exports. The US can shut down Chinese access overnight, should it so wish, and the Chinese government is keenly aware thereof. Creating a land-link between eastern China and the EU is a vital cog in Xi's overall long-term strategy, if not Chinese survival.

Its “Blue Strategy” as part of the BRI, includes securing port access and, if possible, naval access, in the Indian, Pacific and Atlantic Oceans.

Sanctions

After first call with Lapid, Zelensky says expects Israel to join Russia sanctions - Ukrainian President Zelensky today said he expects Israel to join international sanctions against Russia, following his first conversation with Prime Minister Lapid.

The two countries have had a somewhat rocky relationship since Russia invaded Ukraine, as Israel sought to balance its ties between the two warring nations.

Zelensky also called for Israel to continue providing aid to Ukraine.

“I count on [Israel’s] accession to the sanctions on Russia and provision of practical assistance to Ukraine in countering the aggression of the Russian Federation,” Zelensky said in a statement after the call.

Lapid’s office said he had highlighted his support for Ukraine and wished Zelensky a happy independence day, which Ukraine marked last week.

Russian rail sector moves towards recession this year - The Russian rail and wagon-building sector are getting a hard hit from ongoing military conflict in Ukraine and the ever-tightening sanctions from the West, and the situation is gradually deteriorating. This is according to recent statements made by some leading local shippers and analysts in the field of rail business in Russia.

The seven EU and US sanction packages against Russia have already resulted in the suspension of supplies of various equipment and technologies, many of which are crucial for the wagon-building sector of the country. This, in turn, leads to the massive demurrage of rail cars, including the so-called innovative rolling stock.

Stopping supply

According to recent statements made by Sergey Popov, director of department of repair and operation of rolling stock of the Russian National Transport Company (NTC), one of Russia’s rail transport holdings, in August, 7,000-7,500 innovative gondola cars were idle in Russia, including more than 6,000 of its own fleet. According to analysts, this figure could rise up to 9,000 units as soon as September, compared to only 1,400 cars in June.

Analysts said the main reason for this is the lack of spares, particular bearings for Russian rail car builders. After Russian factories (previously owned by foreign companies) ceased supplying bearings to domestic customers in May, availability dropped to zero as these products are not produced in Russia, although the annual demand for them from the local car-building sector is estimated at 195,000 units.

Among the possible solutions could be increasing imports from China.

A similar situation has arisen with regard to the Russian car-building sector. Prior to 24 February 2022, all spares and assembly elements these were supplied from abroad, particularly Western countries.

Switching to China

Ongoing attempts to switch rail cargo flows to Asian destinations, particularly China, are extremely complicated through a lack of infrastructure. According to Zakhary Dzhioev, deputy head of the Federal Agency for Marine and River Transport (Rosmorrechflot), reorientation and redirection of cargo from west to east has been suggested before. However, after imposition of Western sanctions against Russia, it has become a Russian state priority.

Lack of infrastructure

The Russian railway monopoly RZD, together with leading domestic shippers, are taking measures to implement these plans, which, however, are complicated by the lack of needed infrastructure and capacities.

Russia’s eastern transport environment consists of a single major corridor – the Trans-Siberian Railway (TSR), and any shift of cargo from the north-west and south directions towards the TSR, according to most analysts, will be impossible due to the current limited carrying capacity of the railway.

The TSR is also part of China’s BRI, which is already running at capacity. Russia also has varying rail gauge challenges, relics from Soviet times.

For the same reason, Russia switching oil from west to east, is beset with infrastructural issues. It takes years, perhaps decades, to plan and construct a pipeline capable of making up the western shortfall.

Even if the US, politicians make the same bland statements without any sector knowledge. Florida offered ocean container ships an alternative to the congested ports of LA/LB.

This is not just done based on a (politician’s) statement. LA/LB had empty containers to load, rail and handling facilities had been booked, moving product from Floridian ports back to the west and mid-west would take huge resources and astronomical cost, and changing ocean lane routing locks out all ports of call on the steamship roster, among many other reasons.

RUSCON explores new multimodal routes between China and Russia - Russian logistics operator RUSCON is going to launch a new multimodal container service between China and Russia via the port of Novorossiysk on the Black Sea. The first shipment is scheduled for 11 September, and the goods will follow a route that is somewhat unusual for exchanges between the two countries. The majority of the journey will be via sea. The cargo will be moved on rail once it reaches the Russian port to be transported throughout the country.

A cargo vessel will leave the Chinese port of Taicang. From there, the vessel will reach Istanbul via the port of Qingdao. From Turkey, the goods will be loaded on a feeder vessel directed to the NUTEP Terminal in Novorossiysk, where they will be distributed in Russia by rail, for a total transit time of 40 days.

Comment – There are an estimated 200,000 rail containers stuck in Russia due to sanctions against the country. This in part is contributing to the global shortage of containers.

GeoPolitics

Turkey may yet prove to be the big winner of the Ukraine war - Erdogan has already helped avert a global famine, and he may yet exploit Europe's looming energy winter crisis to redraw the world order in his interests.

It is often said that there are no winners in war. But the old cliché fails to take into account non-combatants who find their international position has strengthened through the conflict.

China, for example, might well secure advantageous oil and gas contracts from Moscow in return for the invasion of Ukraine.

But the most significant winner could yet to prove to be Turkey, which has already proved its status as a regional powerbroker by securing a deal with the Kremlin to allow the export of millions of tons of Ukrainian grain - thus averting a major global food crisis.

But there is more to it than that.

Turkey, of course, sits at a crucial geopolitical crossroads. It has one foot in Europe and the other in Asia. It controls the Bosphorus, gateway to the Black Sea, it sits astride the oil and gas pipelines from central Asia that may yet prove to be Europe's savior in the coming winter without Russian gas.

It is a major food exporter, a member of NATO and while it sits outside the European Union, Turkey is part of the EU Customs Union, which has been credited with accelerating the development of its industrial sector as European manufacturers seek to lower production costs without attracting tariffs and international red tape.

There is also a human bargaining chip. Turkey is the gateway to Europe for tens of millions of migrants who want to abandon their homes in Africa and the Indian subcontinent and try their luck in Europe.

The last time Ankara opened the floodgates, in 2015, caused political mayhem across Europe, sparking speculation that a refugee crisis could bring an end to the EU itself. The resulting deal saw the EU pay Turkey billions of Euros to close its borders and stop the flood of migrants to Europe. But there were many disagreements between parties.

President Erdoğan has shown he is a tough deal-maker keen to preserve his country's traditional role of promoting Turkey's interests, while keeping both Moscow and the Western World if not happy, then grudgingly content.

Thus Turkey is happy to supply its Bayraktar drones to the Ukrainian armed forces and refuses to permit Russian warships to sail through the Bosphorus to reinforce Putin's ailing Black Sea Fleet while at the same time President Erdoğan meets with Vladimir Putin in Sochi.

The most visible outcome of that mini-summit was the agreement to ship Ukrainian grain, a public relations coup which allowed Russia to be seen as acting in the best interests of the international community.

But the real subject of their backroom negotiations will undoubtedly have been oil and gas - the vital issue that will also bring President Erdoğan's moment of maximum leverage with the European Union in the coming winter months.

Both Moscow and the big industrial economies of Europe that have become reliant on cheap Russian oil are after one thing: access to the network of pipelines that link the oil and gas fields of the middle East, central Asia and, indeed, Russia with the Mediterranean Sea.

Putin would pay handsomely for Russian oil and gas to be allowed to flow freely alongside the valuable fuel coming through Turkey from Azerbaijan, Iran and elsewhere. He will see Turkey's oil facilities as a way to skirt the economically damaging embargo in Europe and effectively 'launder' replenish his country's biggest source of foreign currency.

Europe, meanwhile, is desperate to a southern oil pathway to stop the continent's lights going out in the coming winter. Its heavy reliance on Russian gas pipelines through Northern Europe has left many countries with a critical shortage of energy storage added to this summer's continent-wide drought which threatens alternative means of generation such as hydro-electric power.

So far, European nations have been publicly bullish about their prospects of surviving the coming wither with our Russian gas. But what if there is a big freeze, or a major power station goes off-grid?

Erdoğan's price for riding to Europe's rescue is bound up in Ankara's ambitious concept of Mavi Vatan, or 'Blue Homeland'. This is Turkey's claim over swaths of the Mediterranean, which has taken on renewed importance following the discovery of natural gas deposits in the Eastern Mediterranean that could meet Turkey's energy needs for generations to come as well as making the country a net exporter of energy on Europe's doorstep.

To this end, Ankara has sent deep-water drilling ships ship Abdulhamid Han on 9 August 2022 to probe the sea-bed in an area that is not in outright contention as part of Blue Homeland.

Certain other parts of the marine territory are hotly disputed by, for example, Cyprus in the eastern Mediterranean and Greece in the Aegean Sea.

The problem for Turkey is historical: such is the vast spread of the Greek islands, that Greek territorial waters are currently held to stretch as far as the coastline of Turkey itself. A settlement bitterly contested by Ankara.

The EU has threatened Turkey with sanctions over its maritime claims but conceding drilling rights in the area to Turkey is likely to be a key Erdoğan aim in any negotiation with Europe about oil and gas pipelines.

He will also surely see this winter's energy squeeze as a once-in-a-lifetime opportunity to redraw the established geopolitical map of the world to make Turkey a key part of a new order.

In this vision, Turkey will have a seat at the table in Washington, Moscow, and Beijing thanks to its status as a crucial commercial and political bridge between East and West, the de-facto European terminus of China's Belt and Road initiative and a key part of the EU's economy and NATO.

It is also pressing the international community to use its preferred version of the name, Turkiye, rather than Turkey, a name its says was imposed upon it by former colonial powers.

Erdoğan will also see the huge financial incentives of the newly-discovered East Mediterranean gas field as a way to finally settle the international status of Turkish-run northern Cyprus, which currently only Turkey recognizes as a legitimate country and to fix the maritime borders in Ankara's favour.

All this will be seen by President Erdoğan's supporters as an overwhelming success that finally brings Turkey back to a level of international importance not seen since the days of the Ottoman Empire.

It will also send a strong signal to the political and industrial powers of Europe that negotiation with Ankara – rather than hectoring or intimidation – is the only profitable way forward for all concerned.