



RUSSIA REFORM MONITOR

The American Foreign Policy Council's Review of
Russian Government Actions and U.S. Policy

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Related Categories: Economic Sanctions; Energy Security; International Economics and Trade; Warfare; China; Europe; Russia; Ukraine

MOSCOW PASSES ON CHINA'S PEACE PLAN

The Kremlin has rejected outright Beijing's recently released 12-point proposal for an end to the war in Ukraine. Although the Russian Foreign Ministry thanked China for its efforts, and Kremlin spokesman Dmitry Peskov acknowledged China's plan, he clarified that "for now, we don't see any of the conditions that are needed to bring this whole story towards peace." Those conditions are, according to the Russian Foreign Ministry, Russian control over the four regions in Ukraine that Moscow annexed in late 2022. China has sought to present itself as a neutral party in the war despite its close relationship with Moscow, and unveiled the plan on the one-year anniversary of Russia's invasion in late February. (*The Moscow Times*, February 27, 2023)

RUSSIA'S DWINDLING DRONE STOCKS

Russia has employed Iranian-made drones extensively in its campaign against Ukraine, targeting civilian and military infrastructure and targets alike. That strategy, however, may be coming to an end. New intelligence from the UK Ministry of Defence suggests that Russia's supplies of Iranian "kamikaze" drones are running out, and notes that there have been no reported Russian attacks on Ukraine with unmanned aircraft since February 15th. However, the update also states that Russia will likely try to replenish its stocks of Iranian Shahed drones, which Russia can use as decoy projectiles to overwhelm Ukrainian air defenses. Moscow also allegedly has plans to cooperate with Iran on setting up its own factory in Russia to produce drones for its campaign. (*Meduza*, February 25, 2023)

RUSSIAN BANKS PUT ON A BRAVE FACE...

To mark the one-year anniversary of Russia's invasion, Western states have imposed new sanctions on Russia's financial sector, but Russian financial institutions have brushed off the measures as irrelevant. Russian financial actors such as Alfa Bank and online lender Tinkoff were recently cut off from the SWIFT global payments system, but Tinkoff claims to "have developed an infrastructure solution that will allow clients to seamlessly transfer [foreign] assets to a new, non-sanctioned company within one to three weeks," and further asserted that any disruptions would be limited. Russia's banks appear to have largely recovered following the initial imposition of comprehensive Western financial sanctions, and now simply compete for business from the state. However, Dmitry Polevoy, head of investment at Locko-Invest, has said that restrictions on foreign currency payments could have longer-term consequences for smaller banks, explaining that, "in the future, this could raise the issue of voluntary and compulsory consolidation of the sector." (Reuters, February 27, 2023)

...BUT OLIGARCHS SAY DIFFERENT

As Western sanctions continue to bite into Russia's profits from energy exports, it is possible that Moscow will soon be facing an extreme shortage of funds. Oleg Deripaska, an energy and metals tycoon, has noted that Russia could run out of money without significant investment from other countries while speaking at a conference in Siberia. Deripaska predicted that "there will be no money already next year. We will need foreign investors." Deripaska's assessment is similar to the forecasts of the European ratings agency Scope, which has warned that Russia's budget deficit could reach 3.5 percent of GDP, much higher than the Russian government's prediction of a 2 percent deficit. Scope based its forecast on reduced energy revenues because of Europe's transition away from Russian oil and gas, stating that, "sanctions and the war are constraining Russia's fiscal flexibility... due to lower energy export revenues, higher war-related spending and a steady decline in GDP." (*The Guardian*, March 2, 2023)

WAGNER HEAD RAMPS UP THE WAR OF WORDS

Yevgeny Prigozhin, the head of Russia's Wagner private military corporation, has once again widened his rift with the Russian military elite. In a post uploaded to Russian social media site VK, Prigozhin issued a threat against Alexey Stolyarov, a blogger and influencer who is also the son-in-law of Sergei Shoigu, Russia's Minister of Defense. According to Prigozhin, Stolyarov had allegedly liked Russophobic and anti-war content online, which prompted Prigozhin to "offer" Stolyarov military training so that he could serve in Ukraine. In his post, Prigozhin also referenced using a sledgehammer as a form of punishment, a method that Wagner has used on its own troops in the past. Prigozhin has repeatedly attacked Shoigu and the Ministry of Defense, as the two sides have feuded over power and influence in Russia. (*Newsweek*, February 27, 2023)

RUSSIA TURNS OFF THE TAP

The energy relationship between Russia and Europe is one step closer to being completely severed. Polish Refiner PKN Orlen announced on February 25th that Russia had halted all deliveries of oil to Poland through the Druzhba pipeline. The energy route was exempted from Western sanctions on Russian oil in order to accommodate European countries with few ways to quickly reduce their reliance on Russian energy. According to Daniel Obajtek, the chief executive of PKN Orlen, "Russia has halted supplies to Poland, for which we are prepared. Only 10% of crude oil has been coming from Russia, and we will replace it with oil from other sources." Poland had been receiving Russian oil from Tatneft, another Russian energy firm, after PKN Orlen's contract with Rosneft expired in February. (*Voice of America*, February 25, 2023)

A SYMBOL REOPENS

In preparation for "Defender of the Fatherland Day," when Russia celebrates its armed forces, Moscow announced that the Kerch Bridge had fully reopened for road traffic. The bridge, which connects Crimea to mainland Russia, was badly damaged in an explosion in October. The Kremlin has repeatedly blamed Kyiv for the attack, an accusation that Kyiv has denied. The Kerch bridge is a prestige project for the Russian government and for Russian President Vladimir Putin, and he himself opened it after its construction was completed in 2018. The bridge is also a vital link for military logistics and the resupply of troops fighting in Ukraine. (*The Moscow Times*, February 23, 2022)