



ASSESSING RUSSIA'S ECONOMIC FOOTPRINT IN MACEDONIA

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Overview

Russia's economic footprint in Macedonia can be described as non-existent at best or very limited at worst. However, a detailed assessment of Russia's economic presence in the country reveals a more nuanced picture, in which many channels of engagement are indirect, including through third parties and offshore companies. Former Prime Minister Nikola Gruevski and his coalition were instrumental in strengthening Macedonian ties with Russia through an expanded engagement in not only the national, but also regional energy sectors. Fully dependent on Russian gas and possibly with the aim of becoming a natural gas transit center, Gruevski sought to enter two large-scale Russian-led gas pipeline projects: South Stream and its replacement, Turkish Stream. Following opposition from European regulators, and in part due to declining gas consumption in Central and Eastern Europe, Gazprom canceled South Stream and announced Turkish Stream, a project which could secure a market for more gas coming from multiple gas development projects in Western Siberia and the Yamal Peninsula in Russia.

Outside the oil and gas sector, trade between Russia and Macedonia has historically been small. Bilateral trade recently saw some uptick due to in-

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KEY POINTS

- The Russian economic presence in Macedonia has been growing over the past decade albeit from a minimal starting point.
- The revenues of Russian companies operating in Macedonia grew fourfold from EUR 63 million in 2006 to over EUR 212 million in 2015. Still, they make up a little over 1 % of the total revenues in the economy.
- Much of Russia's investment in Macedonia is channeled via third countries including through offshore havens like Cyprus and Belize, obscuring the true extent of the economic footprint.
- Russia has engendered Macedonian energy dependence by controlling the single gas route to the country – via the TransBalkan Pipeline. Gazprom charges Macedonia one of the highest gas prices in Europe, and has locked in the country in a costly expansion of the natural gas network.
- Though the Russian economic footprint in Macedonia has been much less pronounced than in other Western Balkan countries, there is significant potential for future growth considering Russia's project plans in the energy sector over the next decade.
- Over the last two years, Russia has skillfully exploited Macedonia's political instability, striving to undermine the country's Trans-Atlantic ties.



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creased Macedonian agricultural exports following a 2014 Russian decision to embargo EU-produced agricultural goods, which opened space for otherwise non-competitive producers, such as those from Macedonia. Macedonia was allowed by Russia to export more after its refusal to join the EU and U.S. sanctions against Russia over its annexation of Crimea. Although Macedonia currently maintains a trade deficit, it fell from around 5 % of gross domestic product (GDP) in 2006 to about 0.5 % in 2016. This was mainly due to the fall in natural gas prices and Macedonia's diversification away from imported Russian crude oil. In absolute figures, the trade turnover between the two countries has never been more than EUR 400 million per year, and is currently around EUR 100 million.

Similarly, Russian direct investments in the country are just EUR 27 million (in 2015), compared to, for example, Austrian investment in Macedonia of over EUR 500 million. Russian direct investments in the country began around 2009 but have increased incrementally since then. Russian businesses have also invested indirectly through offshore accounts held in countries such as Cyprus, Belize, or others with preferential tax regimes such as the Netherlands, where Lukoil, the largest Russian company operating in Macedonia, is registered, as becomes clear when reviewing corporate footprint data to identify offshore companies with their ultimate beneficial owners located in Russia. One example is the sports and gambling business of Russian businessman Sergei Samsonenko, who is one of the wealthiest individuals in Macedonia. As detailed in this report below, he built strong ties with the former government of Gruevski and his circle, including powerful Macedonian businessmen such as the co-owner of the Iskra MM company, Cvetan Pandeleski, and Orce Kamcev,¹ purportedly the richest person in Macedonia. Samsonenko also supported Gruevski's election campaign in 2014.

Over the last two years, there has been increasing evidence of Russian efforts to take advantage of Macedonia's political instability and undermined the country's Trans-Atlantic aspirations. In 2017, confidential information was leaked that appeared to indicate that Russian agents operated in Macedonia with the aim of blocking the country's entry into NATO.² There are indications that Russia sought to use the Macedonian energy sector to dominate the country's politics. Such a strategy was employed in Bulgaria and Serbia, and is consistent with strategies identified in *The Kremlin Playbook* regarding Russia's use of vulnerable economic sectors and weakly governed state-controlled businesses to establish with a range of countries long-term, asymmetrical relationships.³ On the political level, Russian Foreign Minister Sergei Lavrov publicly blamed the West for creating the crisis in Macedonia to support allied politicians.

In sum, though the Russian economic footprint in Macedonia is less significant than in other Western Balkan countries, there is significant potential for future growth considering Russia's projected plans in the energy sector over the next decade.

Russia's Economic Footprint in Macedonia

Russia's economic presence has been growing steadily over the past decade, from a low starting point. A detailed analysis of Russia's corporate footprint shows a total of 78 companies registered in Macedonia with at least 25 % of their shares owned by Russian entities or individuals. The revenues of Russian companies operating in Macedonia grew fourfold from EUR 63 million in 2006 to over EUR 212 million in 2015.⁴ Still, these companies make up a little over 1 % of the total revenues in the economy, with close to half of the revenue generated by one company:

¹ Rajcheska, Angela and Stankovich, Bianka (2016). Samsonenko: Successful in Macedonia-under scrutiny in Russia. Center for Investigative Journalism (SCOOP), 5 December, 2016.

² OCCRP (2017). "Leaked Documents Show Russian, Serbian Attempts to Meddle in Macedonia," 4 June, 2017.

³ Conley, A. Heather, Stefanov, Ruslan, Mina, James and Vladimirov, Martin (2016). *Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*. CSIS/Rowman & Littlefield, October, 2016.

⁴ CSD calculations based on data from Eurostat, and corporate registers and databases.

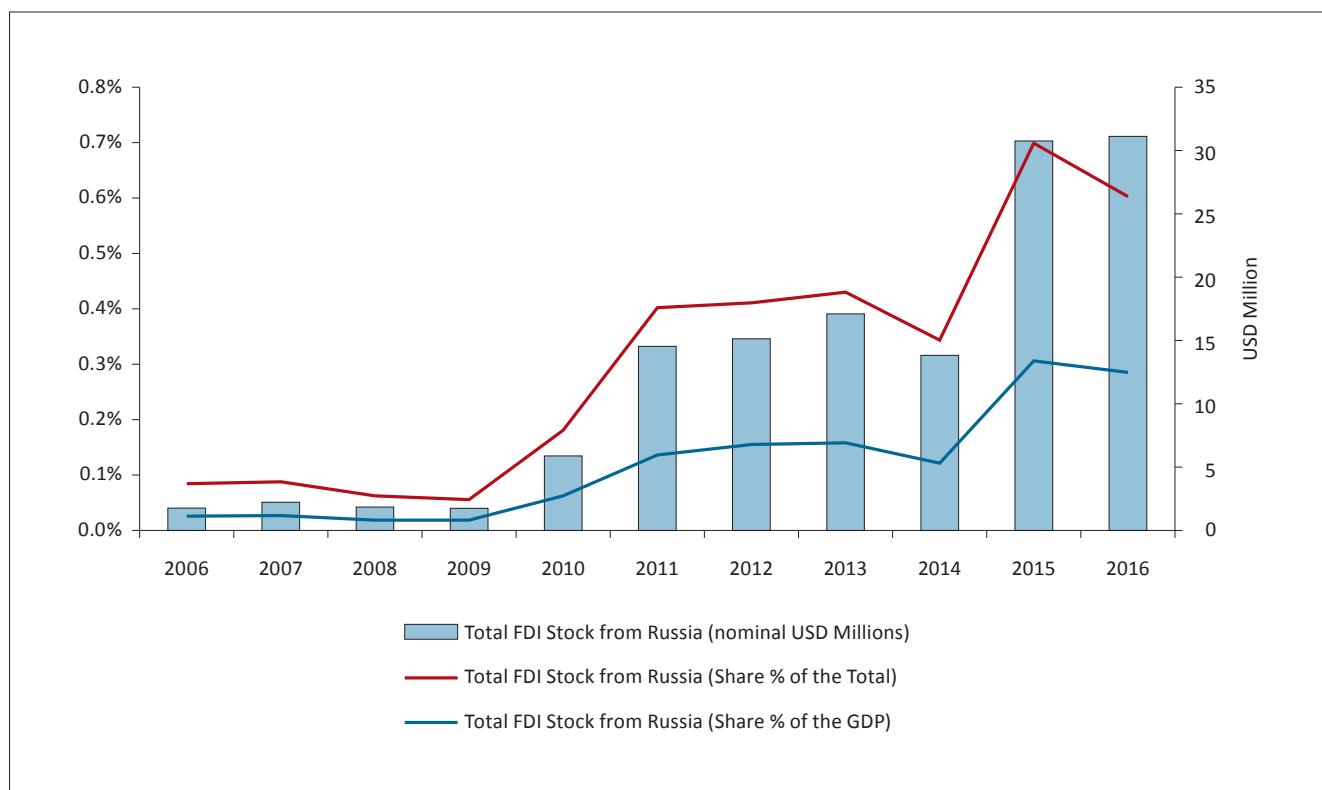
Lukoil, a retail fuel distributor. The other half is concentrated in the two largest gas pipeline construction companies that are recurrently expanding Macedonia's domestic gas transmission and distribution network, and the aforementioned Samsonenko's gambling business.

In comparison, Macedonian companies with Austrian and Dutch beneficial ownership directly control more than 26 % of the total revenues of all businesses in the country and 24 % of the total assets in the economy, as well as employing 15 % of the labor force.⁵ Greek companies make up another 13 % of the economy; Hellenic Petroleum, operator of the OKTA refinery, is the largest Greek investor. Some of the largest companies in Macedonia are also from the above-mentioned countries, including a power distribution provider, EVN, as well as a Kavadarci

ferro-nickel plant owned by the largest nickel producer in Europe, Cunico Resources, currently registered in the Netherlands. With a significant stake in the banking, fuel distribution, and shipping sectors, Greece arguably has the largest corporate presence in the country⁶ and in one case, there are indications that Russia may have tried to use a Greek firm to expand the Russian footprint in Macedonia.

Some of the Russian corporate footprint in Macedonia is currently channeled through third countries. One example is the Russian mining company Solway, which operates a lead, zinc, and copper mine in Macedonia, but is officially registered in Switzerland. Another is a large Russian power plant operator, TKG, which owns a joint-venture, the TE-TO Combined Cycle Heat and Power Plant near Skopje, through a Cypriot offshore intermediary.⁷ To consider the mines

Figure 1. Stock of Russian Foreign Direct Investment

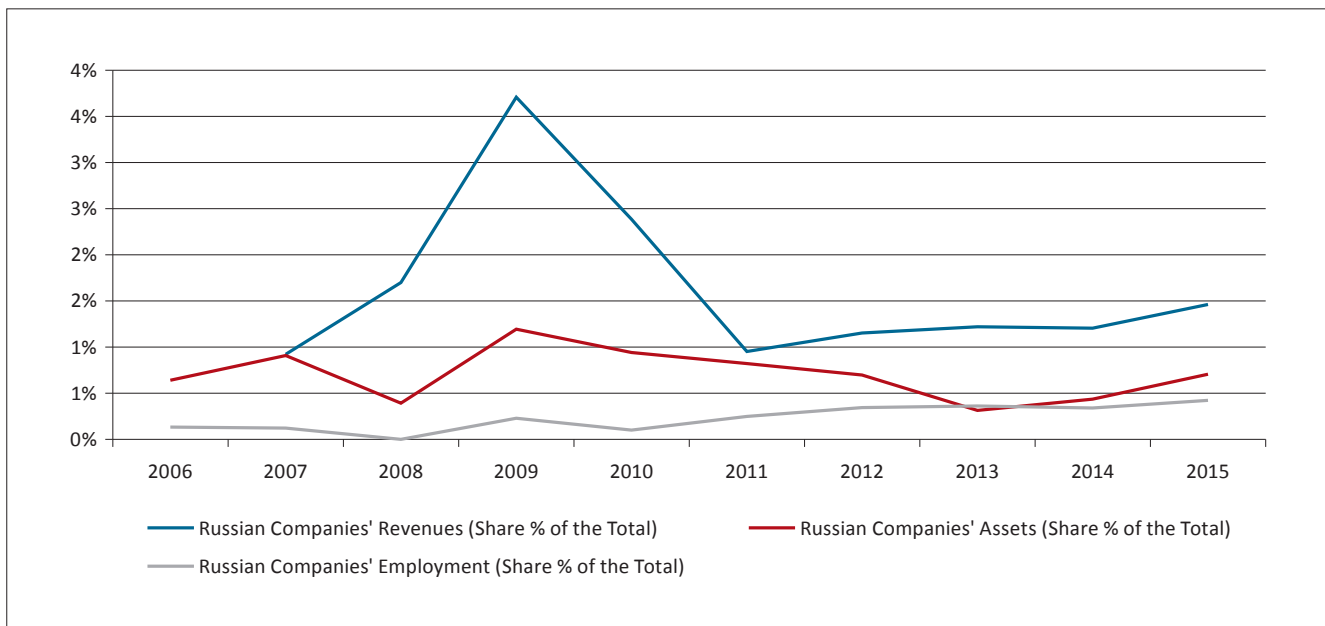


Source: CSD calculations based on Macedonia's Central Bank and UNCTAD statistics.

⁵ Ibid.

⁶ Ibid.

⁷ Фомичева Анастасия (2015). "Sorry, Skopje: TKG-2 lost the right to a 100 % ownership of the TPP in Macedonia," *Kommersant*, 14.10.2015, <https://www.kommersant.ru/doc/2832233>

Figure 2. Russia's Corporate Footprint in Macedonia

Source: CSD calculations based on a commercial corporate database survey using ultimate beneficial ownership as criteria.

operated by Solway and TE-TO as Russian-owned companies in this assessment would nearly double the extent of the Russian economic footprint in Macedonia.

Macedonia currently imports mostly natural gas and oil derivatives from Russia. Hence, with the fall of oil prices on world markets after 2014, the country's import costs have significantly shrunk. Imports from Russia fell from around EUR 300 million per year from the 2006 – 2011 period to EUR 58.3 million in 2016, of which EUR 55 million were mineral fuel products. Conversely, Macedonian exports to Russia have more than doubled in the past decade, reaching around EUR 50 million in 2016, or 2.4 % of Macedonian total exports. Until 2016, Macedonian exports were dominated by pharmaceuticals produced by a Macedonian subsidiary of a Russian pharmaceutical giant, Protek, and agricultural products (mostly fruits and vegetables). These agricultural products have become more attractive and competitive on the Russian market following Russia's embargo on EU agricultural exports in

response to 2014 sanctions against Russia.⁸ Macedonia and Russia worked on including dairy and meat products in the country's export portfolio, but Russia's high import tariffs and strict food regulations prevented a major expansion of this trade. At least since 2014, the Macedonian government of former Prime Minister Gruevski floated the idea for a free trade agreement between the two countries, but this did not materialize.

Russian foreign direct investment (FDI) in Macedonia has increased since 2014 following the establishment of closer ties with the government of former Prime Minister Gruevski. Still, Russian FDI in the country was estimated at just around EUR 31 million in 2015, or less than 1 percent of the total FDI in Macedonia.⁹ For comparison, in 2015, Dutch FDI in Macedonia accounted for a quarter of the total, or around USD 1.05 billion, while Austrian investments were close to 12 percent.¹⁰ Austria and the Netherlands are the two the largest investors in Macedonia, and more generally, in the region. The biggest direct

⁸ Currently, the biggest pharmaceutical exporter to Russia is the Alkaloid company. Protek closed its plant in 2016.

⁹ CSD calculations on the basis of foreign direct investment statistics from the Macedonian Central Bank, UNCTAD and the Russian Central Bank.

¹⁰ Ibid.

Russian investment in the country is through the pharmaceutical company Protek, owned by Russian businessman Vadim Yakunin. The company has invested around EUR 13 million since 2011.¹¹

However, according to our findings, Russian indirect investment appears to dwarf its FDI in Macedonia. The two largest Russian investments in the country date back to 2005 when Lukoil and Itera invested in a chain of gasoline stations and a combined heat and power plant, respectively.¹² Both investments were channeled through third countries, including Cyprus and the Netherlands. In the period from 2005 to 2016, Lukoil invested USD 50 million in Macedonia.¹³ If we include third-party investments channeled through Switzerland, Belize, and Cyprus by Solway, Sintez, and Samsonenko's BetCity, Russian investment in the country would be at least six to seven times larger, amounting to USD 200 million in FDI stock, or around 4 % of all FDI. Notably, in 2015, the biggest investor in Macedonia was Bermuda (USD 200.7 million).

Vulnerable Sectors

Energy

Macedonia is a country with exceptionally high dependence on fossil fuels: over 80 % of the primary energy in the country comes from coal and oil. Depending on the year, Macedonia imports up to half of its energy needs. Meanwhile, the energy sector has suffered from very high levels of energy intensity, which is estimated to be 40 % higher than the EU average.¹⁴ Energy inefficiency has pushed up the country's energy import costs and has significantly

strained the economy. This energy dependence is exacerbated by the fact that Russia controls the single gas route to Macedonia. The Macedonian gas market is fully dependent on imports from Gazprom via the TransBalkan Pipeline, which passes through Ukraine, Romania, and Bulgaria. Gazprom charges Macedonia one of the highest gas prices in Europe.¹⁵ The high gas price and the inflexible take-or-pay contract terms with Gazprom have placed financial strain on some of the major gas consumers in Macedonia.¹⁶

In the oil sector, Macedonia's OKTA refinery no longer depends on Russian crude oil, as it ships from a Thessaloniki port controlled by Hellenic Petroleum, a major fuel producer and supplier in the country. In 2016, Rosneft attempted to purchase the Greek state-owned company, though no agreement was reached. Considering that OKTA is the sole refinery in Macedonia, the potential Russian purchase of Hellenic Petroleum would have increased Russian control of the oil sector in Macedonia had the purchase gone through. This incident underscores that Macedonia's reliance on one pipeline and one refinery potentially poses economic and political risks to the country.

Natural Gas

Macedonia does not have a well-developed gasification network, and natural gas is not a major part of the country's energy supply. In 2016, Gazprom delivered only 70 mcm of gas, the lowest in Europe.¹⁷ Macedonia's remarkably low gas consumption spared the country the impact of 2006 and 2009 gas supply cuts caused by Gazprom's debt disputes with Ukraine. Macedonia had little difficulty in switching to heavy fuel to substitute for the gas supply cut.

¹¹ CSD calculations based on multiple media reports.

¹² "Lukoil Plans to Increase the Investment in Macedonia." Lukoil Press Center. 21 June, 2012.

¹³ Stefanova, Natasha (2016). "Lukoil Plans to Increase the Investment in Macedonia." SITEL, 30 September, 2016, accessed on January 13, 2018 at <http://sitel.com.mk/lukoil-najavuva-novi-investicii-vo-makedonija>

¹⁴ Stojkovska, Iskra (2012). Energy Policy in Macedonia in the Context of the EU Integration, Front 23/42, April 2012.

¹⁵ Gazprom's Grip: Russia's Leverage Over Europe. RadioFreeEurope – Infographics on the Russian gas dependence in Europe by country, accessed on 9 November, 2017 at <https://www.rferl.org/a/gazprom-russia-gas-leverage-europe/25441983.html>

¹⁶ A take-or-pay clause stipulates that a buyer is obliged to either take up all of the contracted gas volumes or pay a certain percentage of them.

¹⁷ Gazprom statistics on gas supply to Europe accessed at Gazprom's official website: <http://www.gazpromexport.ru/en/statistics/>, accessed on 30 November, 2017.

Heat production is based predominantly on the use of coal, wood, and fuel oil. The country generates roughly 80 % of its electricity through two lignite-fired power plants in Bitola and Oslomej, both owned by a state-owned power monopoly, ELEM, with a combined capacity of 800 MW. The remaining 20 % is provided by hydroelectric power plants (528 MW – also owned by ELEM and several private companies) and marginal volumes of wind and solar power. Macedonia is also among the biggest lignite producers and holds around 2.5 billion Mt of reserves. Hence, the country is planning to construct additional lignite-based power stations despite its obligations to Brussels to invest in renewables instead. Macedonia has not been able to implement many of its obligations, including unbundling of ELEM and the liberalization of the power and gas markets, which are still highly regulated and non-transparent.¹⁸ Poor management and a highly regulated below-cost power and gas price environment have led to an accumulation of large debts on the part of these state-owned companies. As a consequence, the companies have neglected much-needed infrastructure improvements, which further imperils the security of the supply chain. Macedonia's energy security risks are also associated with widespread energy poverty among households, which find it difficult to pay their electricity bills and are widely reliant on burning low-quality wood and lignite for heating. This contributes to high levels of air pollution and associated health risks.

The government sees household gasification as one possible solution to the country's energy poverty. However, there has been limited infrastructure development in Macedonia. The underdeveloped domestic gas network, supplied by the TransBalkan pipeline, reaches only Strumica in Eastern Macedonia and the outskirts of Skopje, where it connects

to several industrial clients and the TE-TO Skopje Combined Cycle Heat and Power (CCHP) plant. Consecutive governments have continued to support natural gas network expansion in the country and engaged with the Gazprom-led South Stream and Turkish Stream pipelines. In July 2013, the Macedonian government signed a bilateral agreement with Russia to construct an offshoot of South Stream, although there was great uncertainty regarding how exactly to link Macedonia to the pipeline.¹⁹ After abandoning the project following a dispute with regulators in Brussels,²⁰ Russian President Vladimir Putin announced a new project, Turkish Stream, which would consist of two pipelines to Turkey, each delivering a little less than 16 bcm of gas per year. The first line would supply only the Turkish domestic market, while the second would transport gas either through Greece or Bulgaria to Macedonia, Serbia, and Hungary along a new pipeline, TESLA, and would terminate at the Baumgarten gas hub near Vienna. These plans are similar to the initial South Stream project plans, but only TESLA has been included in the European Commission's Projects of Common Interest (PCI). PCI inclusion is a pre-condition for possible EU financing.²¹ The pipeline is scheduled for 2019, which appears unrealistic, considering the slow progress of Turkish Stream and opposition in the EU to a new Russian pipeline from the South. The inclusion of TESLA in the list of EU Projects of Common Interest (PCI) in 2015 seems to be the result of heavy lobbying on the part of Hungary, which has been the diplomatic leader in pushing TESLA through.²²

The former Macedonian government embraced TESLA and worked closely with a Russian gas construction company, Sroytransgaz, to extend the domestic natural gas pipeline network. Sroytransgaz is owned

¹⁸ European Energy Community (2017). Annual Implementation Report. 1 September, 2017, Energy Community Secretariat.

¹⁹ B92 (2013). "Russia and Macedonia sign South Stream offshoot deal," 24.07.2013, accessed on 16 November at http://www.b92.net/eng/news/region.php?yyyy=2013&mm=07&dd=24&nav_id=87050

²⁰ RFERL (2014). "Bulgaria Suspends Work On South Stream Pipeline". Radio Free Europe, 8 June, 2014, accessed on 21 November, 2017 at <https://www.rferl.org/a/bulgaria-suspends-work-on-south-stream-pipeline/25414739.html>

²¹ Georgiev, Georgi (2015). "CE/SEE partners eye EU funds for Tesla gas pipeline project," SeeNews, 28 August, 2015 accessed on 21 November at: <https://seenews.com/news/cesee-partners-eye-eu-funds-for-tesla-gas-pipeline-project-490558#sthash.zOUb2R0v.dpuf>

²² Ibid.

by the U.S.- and EU-sanctioned Gennady Timchenko. The same company was reportedly responsible for constructing an offshoot of the South Stream pipeline before the project's cancellation.²³ The cancelled project was planned at USD 200-300 million and would have been partially financed by the Russian state as a way to repay USD 60 million in Soviet-era debt to Macedonia. Russia's Finance Ministry announced in February 2017 that it would clear the debt to Macedonia by the end of the year.²⁴ In effect, in repaying this longstanding gas debt to Macedonia through financing the expansion of the domestic pipeline infrastructure, Russia would have financed a company with strong ties to Kremlin, which had previously received billions of U.S. dollars through other pipeline projects in Russia and Europe.

Despite the failure of South Stream and the somewhat unclear fate of TESLA, the government has partially followed through with the plans to expand its network. In August 2016, Stroytransgaz completed the construction of the 96 km, USD 75 million Klekovce – Negotino pipeline, linking Macedonia with the Serbian gas system.²⁵ The company also planned to complete a link to Greece, where it would potentially connect to the second line of the Turkish Stream pipeline at the border.

In October 2016, Macedonia's and Greece's transmission operators, MER and DESFA, signed an agreement to connect their networks via a 160 km interconnector between Stip, where the extension of the Russian-built Klekovce-Negotino pipeline ends. This new pipeline is a welcome move in the process of gas diversification that could possibly link the Macedonian gas system with Azeri gas flowing through the Trans-Adriatic Pipeline (TAP).²⁶ Unfortunately, consecutive Macedonian governments have balked

at this opportunity to diversify gas supply. Instead, government officials have decided to pursue economically unrealistic, contractually rigid, Gazprom-managed pipeline projects: South Stream, Turkish Stream, and TESLA. The decision to begin large-scale gasification exclusively with a company close to the Kremlin (Stroytransgaz) and Gazprom in order to recoup its Soviet-era debt is one example of a region-wide pattern of Balkan governments acting against what would appear to be in their national interests.

Similar approaches can be observed in Bulgaria and Serbia. Consecutive governments in Bulgaria have not been willing to complete a number of strategic energy security projects, such as the gas interconnectors with Greece, Romania, Turkey, and Serbia, and instead have focused almost entirely on building a Gazprom-led large-scale pipeline through the country, either South Stream or Turkish Stream. In Serbia, the government agreed in 2008 to sell its largest company, Naftna industrija Srbije (NIS), to Gazprom at a below-market price without improving the terms of its long-term gas contract. This precipitated huge losses for the state-owned gas supplier, Srbijagas, and the Serbian budget.

Throughout the region, there is one key popular economic misconception associated with the South Stream project: that hosting a large Russian gas pipeline would transform local economies, create thousands of jobs, and generate new businesses, and that the construction of the pipeline would benefit Balkan countries through cheaper natural gas, which would, in turn, facilitate expanded gas transmission. It appears that this view is not grounded in facts or detailed economic impact assessments, but have drawn on statements of high-level politicians and business leaders.²⁷ The idea that a Russian pipeline

²³ Luhn, Alec (2014). "Gennady Timchenko denies Putin links made him one of Russia's top oligarchs," 24.03.2014, accessed on 16 November at <https://www.theguardian.com/world/2014/mar/21/oligarch-timchenko-denies-putin-links-us-blacklist-sanctions>

²⁴ RT (2017). "Russia to clear entire Soviet debt by year-end", RT, 17.02.2017 accessed on 10 November at <https://www.rt.com/business/377676-russia-pays-soviet-debt/>

²⁵ "Macedonia completes part of its gas network", economynews.bg, 01.08.2016.

²⁶ Balkan Energy (2016). "MER and DESFA signed MoU on gas pipeline construction", 14 October 2016 accessed on 10 November at <http://balkanenergy.com/mer-and-desfa-signed-mou-on-gas-pipeline-construction-region-14-october-2016/>

²⁷ Marusic, Sinisa (2013). "South Stream Deal Boosts Macedonia's Gas Prospects", BalkanInsight, 26 July, 2013.

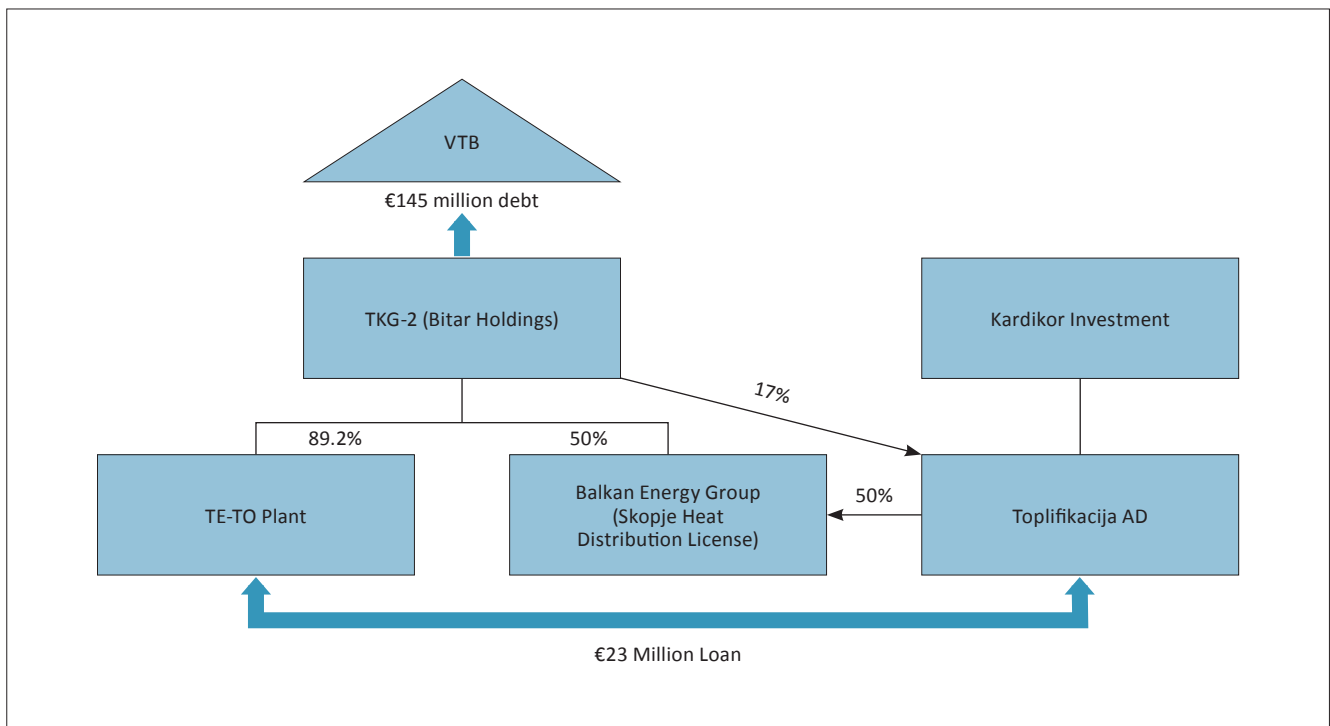
project would bring more energy security to the host countries can be contrasted with the experience of Ukraine and Belarus, which have both faced continued supply disruptions, despite serving as the main transit countries for Russian gas.

From 2006 to 2013, the promise of closer cooperation between Macedonia and Russia on natural gas pipeline projects spilled over into a number of related joint projects, including the biggest individual Russian investment in the country: the construction of a 220-MW gas-fired heat and power plant near Skopje, the above-mentioned TE-TO plant. CCHP is owned by Russia’s TKG-2 company, a subsidiary of the Sintez Group, owned by Russian Senator and businessman Leonid Lebedev. TKG-2, which controls 80 % of the shares (through the Cyprus-based offshore company Bitar Holdings), completed CCHP

in 2010 for EUR 136 million (see Fig. 3 for a visualization of ownership links). At the time, there was a widespread belief in Macedonia that Gazprom had control of the Sintez Group.²⁸ In 2013, Sintez further increased its stake at TE-TO to 89.2 %.

Sintez purchased another 9 % from Toplifikacija, a private heat distribution company, which until 2012 had a monopoly over the heating supply in Skopje.²⁹ In 2012, an offshore-registered company, Balkan Energy Group, also controlled by the owners of the TE-TO plants, received a license to take over heat production, distribution and supply to the city, despite the fact that there was no information about the financial or managerial capacity of the firm.³⁰ Hence, in the past five years, one Russian company has indirectly taken over heat production and distribution in Skopje. This close interdependence cre-

Figure 3. TE-TO CCHP Plant Ownership Structure



Source: CSD.

²⁸ Earlier, TE-TO was owned by the Russian companies Itera (60 %) and Bitar (20 %).

²⁹ Toplifikacija’s major shareholder is a mysterious Cyprus-based company Kardikor Investment. MKD (2012). “Балкан Енерџи Груп” ќе произведува, дистрибуира и снабдува топлинска енергија за Скопје”, 30 December, 2012, accessed on 16 November at <https://www.mkd.mk/86917/ekonomija/balkan-enerdзи-grup-ke-go-snaбдува-skopje-so-parno-greenje>

³⁰ Immediately after taking over the heating licenses, Balkan Energy Group began accumulating debt to Toplifikacija as described by the annual reports of the company from 2013 to 2015.

ates a potential vulnerability for the Macedonian energy sector.

By 2013, TE-TO accumulated around USD 120 million in gas debt to Gazprom for the operation of two plants in Russia and the CCHP in Skopje.³¹ The exact extent of its gas debt in Macedonia is not known due to the agreement's confidentiality. At the end of 2016, TKG-2 also owed Toplifikacija³² EUR 23 million, most of which was used for a construction of the CCHP in Skopje.³³ In January 2017, a Russian state-owned bank, VTB, filed a claim with a Russian court to seize the CCHP (which was used as collateral for a loan) in an attempt to use its assets to recover some of TKG's debts to the bank. The difficult financial situation of the ownership of the CCHP has created a cascade of debt that affects the heat distribution company. In theory, this could lead to decapitalization of the company, in turn causing problems with the reliability of supply, or even a temporary halt of the plant's operation, which would risk leaving 50,000 Skopje households without heat.

Oil

Macedonia is completely dependent on crude oil imports from the port of Thessaloniki in Greece, via the pipeline to the OKTA refinery in Skopje. Hellenic Petroleum, partially owned by Greece, purchased the

refinery in 1999. Before 2012, Macedonia imported most of its crude oil from Russia (though imports fell from USD 497 million in 2012 to nearly 0 in 2014).³⁴ In order to cover some of its debt obligations to its international creditors, the Greek government previously offered to sell its state share in Hellenic Petroleum. Both Lukoil and Gazprom expressed interest in purchase.

Currently, Makpetrol is the biggest distributor of oil products to around half of all gas stations in Macedonia. As of 2014, Russia's Lukoil, which represents the second-largest Russian investor in the country, controlled around 9 % of the retail processed fuels market. The Russian company imports its fuel products from a Bulgarian refinery in Bourgas, also owned by Lukoil. In addition to its own chain of 27 gas stations, Lukoil supplies 40 other gas stations with fuel. In 2016, two former partners in a joint venture between Russian TNK and British BP attempted to take over Makpetrol for EUR 47 million. However, Makpetrol was eventually purchased by Balkan Petroleum Holding Limited, a British-Cypriot company that can be traced to the British Virgin Islands.³⁵ One report links the Balkans Holding company to a Russian-Israeli businessman, Uri Bider, Vasilij Evdokimov, a British national with links to Russia,³⁶ and two Russian businessmen, Alexander Kaplan and Mikhail Cerny, about whom allegations of wrongdoing have been made.³⁷ In July 2017, the Macedonian Security

³¹ Skorlgina, Nataliya. (2014). The debt of TKG-2 could be covered by China. *Komersant*, 28.05.2014 accessed on 9 November, 2017 at <https://www.kommersant.ru/doc/2480821>. TKG-2 is owned by Sintez Group, with significant oil and energy assets in Russia and across Eastern Europe.

³² TKG-2 (co-owner of TE-TO plant) also have 16.44 % ownership in Toplifikacija through the Cypriot subsidiary, Bitar Holdings. The rest of the company's shares are dispersed among private investors and the company's employees. The stocks of Toplifikacija are publicly traded on the stock exchange.

³³ Letter from a management of Toplifikacija AD to its shareholders regarding an attempt by the Balkan Energy Company to take over TE-TO AD, one of whose shareholders, TKG-2, accumulated debt to VTB Bank, Gazprom Bank and Gazprom, 6 June, 2016, accessed on 21 November, 2017 at www.toplifikacija.mk/Tekstovi/Information2016.pdf. Toplifikacija Annual Report for 2016, accessed on 4 January, 2018 at <http://www.toplifikacija.mk/Tekstovi/AR2016.pdf>

³⁴ Observatory of Economic Complexity. What does Macedonia import from Russia?, accessed on 16 November at <http://atlas.media.mit.edu/en/visualize/line/hs92/import/mkd/rus/show/1995.2015/>

³⁵ Telma (2016). "Caribbean Offshore Companies Stand Behind the Takeover of Makpetrol," 6 July, 2016, accessed on 16 November at <http://telma.com.mk/vesti/karipski-shor-firmi-stojat-zad-prezemanjeto-na-makpetrol>

³⁶ Dimitrievska, Valentina (2016). "Obscure holding company plans takeover bid for Macedonia's largest fuel retailer," 7 July, 2016, accessed on 16 November at <http://www.intellinews.com/obscure-holding-company-plans-takeover-bid-for-macedonia-s-largest-fuel-retailer-101429/>

³⁷ Milmo, Cahal (2012). "Businessman 'boasted of killing US trader,'" *Independent*, accessed on 13 July, 2012 at <http://www.independent.co.uk/news/uk/crime/businessman-boasted-of-killing-us-trader-7942388.html>

and Exchange Commission suspended the takeover, and the relevant Macedonian institutions have not yet reached a final decision in this case.

If a Russian company were to take over Makpetrol, Russia would have a virtual monopoly on the country's oil and gas market, which would expand the Russian economic footprint multi-fold. In neighbouring Bulgaria, Lukoil's controls 50-60 % of the oil market, making it quasi-monopoly in the country.³⁸ Lukoil has not only been charging higher than international market prices in Bulgaria, but has also been alleged to have used transfer-pricing methods to evade taxes.³⁹

Mining and Metallurgy

Solway previously owned a lead-zinc mine, Sasa, and Macedonia's most productive copper and gold mines, Bucim and Pehcevo. Each year, the Sasa processes about 900,000 tons of lead and zinc ore. Solway's investments in the development and expansion of the mines are estimated at EUR 70 million since their acquisition in 2005. Solway however sold Sasa to a U.S. commodities fund in December 2015 and currently operates only Bucim.⁴⁰ Solway

is officially registered in Switzerland but has links with Rusal Holding, controlled by Oleg Deripaska, an ex-owner of Montenegro's aluminium company, KAP, and widely considered a close ally of the Russian president.⁴¹

In 2005, Solway acquired Bucim and has since invested over EUR 32.6 million (in modernization and development).⁴² Bucim is the biggest local employer, with 600 workers, and has significantly contributed to local infrastructure. Since 2010, Solway has also invested around EUR 4 million in a Pehcevo copper ore mine and has announced plans to increase its investment to EUR 40 million in the future.⁴³

In 2010, a Cyprus-based company, Circuitland Developments LTD, purchased an electrical and metallurgy plant, Jugohrom, and became its majority owner with its 90 % of its shares. Circuitland Developments LTD can be traced to a Hong-Kong-based holding company, Camelot Group, owned by Russians Maxim Moskalev and Dimitry Agramakov.⁴⁴ In 2016, Jugohrom was closed due to extremely high levels of pollution.⁴⁵ The State Inspectorate for the Environment ordered the plant to stop production until further notice.⁴⁶

³⁸ Goranova, Kalina and Vassileva, Teodora (2017). „Лукойл“ може да не продаде българския си бизнес, Генералният директор на „Лукойл България“ Валентин Златев пред „Капитал“, Capital Daily, 7 April, 2017, accessed on 10 November at http://www.capital.bg/politika_i_ikonomika/bulgaria/2017/04/07/2950000_Lukoil_moje_da_ne_prodade_bulgarskiia_si_biznes/

³⁹ E-Burgas (2014). „Рекордни загуби за „Лукойл-Нефтохим“. Пазарът на горива става все по-динамичен,“ e-Burgas, accessed on 16 November at <http://e-burgas.com/post/rekordni-zagubi-za-8222lukoyl-neftohim8220-pazarat-na-goriva-stava-vse-po-dinamichen>

⁴⁰ MiningSee (2015). “Orion mine finance, the owner of Macedonia Sasa lead zinc optimistic in commodities market,” 7 December, 2015, accessed on 16 November at <https://www.miningsee.eu/orion-mine-finance-the-owner-of-macedonia-sasa-lead-zinc-optimistic-in-commodities-market/>

⁴¹ Smith, Geoffrey (2017). “What to Know About Oleg Deripaska, the Russian Billionaire Who Paul Manafort Worked For,” Time Magazine, accessed on 22 March, 2017 at <http://time.com/4709452/paul-manafort-donald-trump-vladimir-putin-oleg-deripaska/>

⁴² Solway – Company website, accessed on 21 November, 2017 at <http://www.solwaygroup.com/index.php/our-business/bucim-dooel-radovish-macedonia>

⁴³ MiningSee (2015). “Solway Russian mining company plans 40 MEUR investment in Macedonia copper ore mine Pehcevo,” 24 July, 2015.

⁴⁴ Xhelal, Neziri (2015). “In the toxic Kingdom of Jugohrom,” Center for Investigative Journalism – SCOOP, 21 February, 2015, accessed on 21 November at <http://en.scoop.mk/in-the-toxic-kingdom-of-jugohrom/>

⁴⁵ Meta (2016). “Tomorrow employees from “Jugohrom” will block the intersection outside the courthouse,” 23 November, 2016, accessed on 16 November at <http://meta.mk/en/tag/jugohrom-en/>

⁴⁶ SeeNews (2017). “Macedonia extends ban over Jugohrom Ferroalloys plant operations.” 31 January, 2017 accessed on 21 November at <https://seenews.com/news/macedonia-extends-ban-over-jugohrom-ferroalloys-plant-operations-556220#sthash.Aq0DPi9I.dpuf>

Jugohrom, based in Tetovo, was one of Macedonia's top exporters. It accounted for 7 % of total exports and employed 1,100 workers. Although it was among the biggest polluters in the country, it faced little oversight and consequences from the relevant Macedonian authorities. Despite prior investigation by the Tetovo public prosecutor and an indictment in 2014 against the management of Jugohrom on

charges of endangering the health of the citizens of Tetovo, the case was dropped on December 5, 2014 due to a lack of evidence of any criminal offense.⁴⁷ This changed when it failed to meet a October 31, 2016 deadline set by the State Inspectorate for the Environment to install a dust collection system, and was, as a result, closed.⁴⁸

Box 1. Influx of Russian Offshore Capital: the Case of Samsonenko

One key example of Russian capital flows in the Western Balkans is Samsonenko's network of businesses in Macedonia. Samsonenko is a Russian businessman who came to Macedonia just a few months after Gruevski became Prime Minister in the fall of 2006. Beginning then and continuing to present, Samsonenko was reported to have links with the then-ruling coalition of the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE).⁴⁹ First, a former VMRO Member of Parliament (MP) (from 1998 to 2002), Aleksandar Pandov, worked as a manager in Samsonenko's BetCity gambling business until 2011.⁵⁰ Second, Samsonenko publicly appeared in a pre-election music video commissioned by VMRO-DPMNE in 2014, in which he openly supported Gruevski.

Samsonenko's investments have been concentrated in sports and gambling. In addition to BetCity, Samsonenko owns the football and handball club Vardar. His biggest direct investment in the country is a 2014 public-private partnership between one of his companies and the municipality of Aerodrom (at that time governed by a VMRO-DPMNE mayor) to build "Sport Center Jane Sandanski." The municipality gave Samsonenko a 35-year concession for the sports hall through a procedure that appeared to be neither competitive nor transparent. The company managing the sports hall⁵¹ is a Cypriot-based offshore company owned ultimately by a Belize-based shell company used by Samsonenko for many of his other investments. In addition to Samsonenko's businesses, many companies associated with the Macedonian political elite close to Gruevski are registered at the same addresses in the offshore jurisdictions used by Samsonenko himself.⁵²

⁴⁷ Xhelal, Neziri (2015). "In the toxic Kingdom of Jugohrom", Center for Investigative Journalism – SCOOP, 21 February, 2015, accessed on 21 November at <http://en.scoop.mk/in-the-toxic-kingdom-of-jugohrom/>

⁴⁸ Dimitrievska, Valentina (2016). "Top Macedonian exporter Jugohrom faces shutdown over air pollution". IntelliNews, 1 November, 2016.

⁴⁹ Lefkov, Goran (2016). "Samsonenko: Successful in Macedonia-under scrutiny in Russia". Center for Investigative Journalism – SCOOP, 5 December, 2016.

⁵⁰ SCOOP (2016). "Samsonenko: Successful in Macedonia-under scrutiny in Russia," Center for Investigative Journalism – SCOOP, 5 December, 2016 accessed on 16 November at <http://en.scoop.mk/samsonenko-successful-in-macedonia-under-scrutiny-in-russia/> and Nova TV (2015). "The Russian Samsonenko in the story "Invest in Macedonia Belize", 6 February, 2015, accessed on 16 November at <http://novatv.mk/rusinot-samsonenko-vo-prikaznata-invest-in-masedonia-via-belize/>

⁵¹ Samsonenko has also built a big hotel attached to the sport center.

⁵² <http://novatv.mk/rusinot-samsonenko-vo-prikaznata-invest-in-masedonia-via-belize/>

Political Meddling and Soft Power

Russia has also gained a foothold in the Macedonian public space through its media outlets, such as Sputnik, and its non-profit organizations, including charitable activities. Some of these Russian organizations have donated funds to construct Orthodox churches or promote Russian culture and language. Russia's public relations campaign relies heavily on promoting Russia's historic ties to Slavic nations in the region as a way to improve the public perception of its institutions. Pro-Russian media and non-profits often present Russian governance as an alternative to the EU, which they describes as hypocritical in its approach to the Western Balkans.

Russia has allegedly financed the construction of a Russian Orthodox Church in the Aerodrom municipality of Skopje, which also hosts a sports center, co-financed by Samsonenko and the municipality.⁵³ The same foundation was previously associated with financing the pro-Russian Center Party in Estonia.⁵⁴ Meanwhile, a member of the Russian Duma, Leonid Lebedev, also a beneficiary of the Skopje TE-TO heating plants, donated funds for lighting the Millennium Cross above Skopje.⁵⁵

Although the Gruevski government attempted to boost Russian tourism to Macedonia by scrapping short-term visa requirements for visits of less than one year, the number of tourists from Russia has remained small, at between 2,400 and 4,800 per annum. The latter trend is not helped by the lack of a direct flight connection and the limited promotion of the country in Russia. In comparison, more than 300,000 Russians on average visit Montenegro each year.

Russia emerged as a political player in Macedonia after the country plunged into a political crisis following April 2014 elections. The Social Democratic Union of Macedonia (SDSM), an opposition party, left the Macedonian parliament because it claimed that the elections were illegitimate and demanding a new vote. Gruevski's determination not to back down unleashed a wave of street protests. The political crisis deepened after a leader of the SDSM began releasing wiretaps revealing high-level corruption and even alleged murder plots. The recordings appeared to have the voices of Gruevski, the Secret Services head Sasho Mijalkov (Gruevski's first cousin), and the Transportation and Interior ministers discussing public procurement tender manipulation, appointments of loyalists to senior judicial positions, suppression of protests, abuse of public funds for conspicuous consumption, and cover-ups of the murder of a youth who attended earlier protests.

As the protests turned violent, the EU negotiated the so-called Przino agreement between the government and the opposition, which stipulated the resignation of Gruevski's government, new elections, and appointment of a special prosecutor to investigate the corruption allegations stemming from the wiretapped recordings. However, the crisis was exacerbated in 2016 following inconclusive elections and the attempt by Macedonia's president to pardon the individuals charged in or allegedly involved in the publicized corruption scandals. Eventually, the president backtracked and rescinded the pardon in the face of national and international protests, including from the EU. Finally, once a new coalition government headed by Zoran Zaev and his SDSM party formed a government on May 31, 2017, the country returned to relative stability.⁵⁶

⁵³ Braw, Elisabeth. (2015). "Mixed Feelings In Macedonia As A Russian Orthodox Church Rises". 25 June, 2015, accessed on 16 January, 2018 at <https://www.rferl.org/a/macedonia-russian-orthodox-church-skopje/27093507.html>

⁵⁴ RWR (2015). "Economic and Financial (E&F) Threat Assessment for Macedonia: Assessing the Activities of Russian State-Owned Enterprises in Macedonia," 2 December, 2015.

⁵⁵ Kuzmanovski, Blagoja. (2015). Is Russia Showing Special Interest in Macedonia?, RadioFreeEurope, 25 March, 2015, accessed on 16 January, 2018 at <https://www.slobodnaevropa.org/a/is-russia-showing-special-interest-in-russia/26919885.html>

⁵⁶ Marusic, Sinisa. (2017). "Macedonia Parliament Approves New Gov't after Prolonged Stalemate". BalkanInsight, 31 May, 2017, accessed on 13 January, 2018 at <http://www.balkaninsight.com/en/article/macedonia-parliament-approves-zaev-s-new-govt-05-31-2017>

Throughout, there were indications that the Russian government was using the political crisis to reawaken national rifts in the region and to find “evidence” to back claims of Western meddling, including allegations of stoking the protests and pushing for a change in government.⁵⁷ The Gruevski government, as well as Macedonian President Gorge Ivanov, repeated many of Russia’s claims.⁵⁸ Russian Foreign Minister Lavrov stated that the protests in Macedonia were the product of outside manipulation.⁵⁹ Lavrov had been commenting on the situation in Macedonia beginning with the protests in 2015, when he drew upon ethnic divisions and sensitivities, claiming that Macedonia had been a victim of extremism and would be divided by Albania and Bulgaria. Later, after the December 2016 elections, Russia focused attention on an alleged “Tirana Platform” to create a “Greater Albania.” In government statements, Russia played up the poor state of inter-ethnic relations, with great resonance in Macedonia and the region. In general, Russian Foreign Ministry statements became a regular occurrence after 2015. Prior to these protests, Russia had largely ignored Macedonia. Against this backdrop, the Macedonian government refused to join the EU and U.S. sanctions against Russia after the Crimean annexation. Ivanov was also invited to join the May 9, 2015 military parade in Moscow amid a boycott of the event by most world leaders.⁶⁰

The poor state of media freedom in Macedonia contributed to the ability of Russian messages to enter the mainstream media. Pro-government media outlets and then-Prime Minister Gruevski himself borrowed narratives from Russian media outlets such as Sputnik. Outside the panic-raising reports about the

West promoting a Greater Albania project, the U.S. Ambassador also became a target of a pro-government media campaign.⁶¹

An investigative report from June 2017 by the Organized Crime and Corruption Reporting Project (OCCRP) and several local and regional investigative organizations revealed information from leaked Macedonian counterintelligence documents portraying how Serbian intelligence had been involved in efforts to support anti-Western and pro-Russian nationalist groups.⁶² The documents also revealed how the Russian Embassy in Skopje had been engaged in propaganda and subversive activities since 2006, which included direct funding of Macedonian media outlets, including those directed at the Albanian minority, so that they become outlets for Russian disinformation.⁶³ The Russian foreign intelligence (SVR) bureau in Belgrade and the military intelligence (GRU) office in Sofia were reportedly managing the operations in Macedonia. In addition, Russia has set up over 30 Russo-Macedonian cultural associations, opened a Russian cultural center in Skopje, and opened two Consulates in Ohrid and Bitola in 2016, allegedly with the goal of gathering intelligence.⁶⁴

Apart from some Russian intelligence officers, leaked documents identified some journalists from TASS, a state-owned Russian news agency, and a representative of the Rossotrudnichestvo Russian aid agency to have worked on recruiting Macedonian officials.⁶⁵ A Rossotrudnichestvo office opened in Macedonia in 2016 as a result of a 2013 intergovernmental agreement envisioned the founding of a Russian cultural and science center in Macedonia.⁶⁶ The leaked coun-

⁵⁷ Rettman, Andrew (2017). “EU and Russia step into Macedonia crisis,” EUObserver, 3 March, 2017.

⁵⁸ Marusic, Sinisa (2016). “Macedonia’s Gruevski Issues Threats,” BalkanInsight, 17 December, 2016.

⁵⁹ Holodny, Elena. “The Kremlin thinks that the massive protests rocking a Balkan nation are an outside job to hurt Russia,” Business Insider, 20 May, 2015 accessed on 11 November, 2017 at <http://www.businessinsider.com/russia-lavrov-macedonia-protests-2015-5>

⁶⁰ Ivanov was also made doctor honoris causa by the Russian foreign relations academic institute – MGIMO.

⁶¹ Ibid.

⁶² OCCRP (2017). “Leaked Documents Show Russian, Serbian Attempts to Meddle in Macedonia,” 4 June, 2017.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Ibid.

⁶⁶ Website of the Rossotrudnichestvo office in Macedonia accessed on 6 December at <http://mkd.rs.gov.ru/ru/about>

terintelligence documents also noted that the Russian Ambassador directly told a senior foreign ministry official in April 2017 that Russia was working to make Macedonia, Bosnia and Herzegovina, Montenegro, and Serbia militarily neutral countries and complained that the Macedonian government was not reciprocating Russia's support, and threatened it with economic and political consequences.⁶⁷

Policy Recommendations

The immediate goal of Russia's economic policy in Macedonia has been to maintain its regional dominance over energy markets and galvanize support for its gas pipeline projects in the region. Control of energy markets is the basis on which Russia could try to step up its efforts to expand both its economic engagement and political influence. By trying to lock Macedonia in large-scale energy projects, Russia has been working towards pressuring the government over the long-term, potentially through energy supply halts, debt disputes, or trade restrictions. To bolster the resiliency of its economy and political system against the inflow of corrosive capital, the Macedonian government should strengthen the governance of its key institutions, put economic considerations before geopolitical assumptions, improve media freedom, make capital inflows more transparent, and tackle high-level corruption that could be used by foreign countries, entities and individuals for their own interests.

Several key policy recommendations include:

- Macedonia should create an independent department within the Financial Intelligence Office (FIO) to monitor and analyze capital flows from foreign countries. Its task would be to flag suspicious money flows into strategic economic sectors and in sensitive areas, such as cultural and media institutions.
- The FIO and the Special Prosecutor's Office should look more closely at ties between domestic political parties and businessmen and foreign businesses, particularly from authoritarian countries, especially when there is little transparency about the origin of large-scale transactions aiming to acquire lucrative assets in the country.
- Macedonia should work on strengthening the independence of media by reforming the media regulator and developing a special unit targeting disinformation campaigns that pose threat to national security.
- To promote healthy investment in the country, Macedonia should demand transparency of ultimate beneficial ownership, and should closely monitor and analyze money laundering and tax evasion risks.
- Macedonia should focus its efforts in the energy sector on diversification of gas supplies and liberalization of gas and power markets, consistent with European energy rules.
- Regulatory institutions such as the country's Security and Exchange Commission (SEC) should not allow the ownership of the largest oil refining and wholesale distribution assets to be acquired by companies with unidentified ultimate beneficial ownership and financial capacity. The SEC should ensure full transparency of its decision-making process, in which the FIO and the Energy Regulatory Commission (ERC) should also be involved.
- A detailed cost-benefit analysis of each large-scale infrastructure project conducted by independent consultants should be performed before the government commits to them. Foreign financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank and the World Bank, could be engaged in advising the government on the most efficient public investment frameworks.
- The capacity and independence of energy and environmental regulatory bodies, as well as judicial institutions should be strengthened, so that they can prevent and respond to violations of respective frameworks.
- Mergers and acquisitions should be closely monitored by Macedonia's Commission for Protection of Competition for possible market concentration risks, even when the deals affect foreign companies investing in Macedonia.

⁶⁷ Ibid.

- Private businesses and CSOs should advocate against non-transparent decision-making in strategic sectors such as energy, mining and finance that potentially attract the attention of corrosive capital.
- Civil society organizations and investigative journalists should become much more active in reflagging and exposing corrupt practices, the fusion of corporate and political interests, and irresponsible and opportunistic economic policies.