

Dentons Flashpoint

Daily Global Situation Report

August 5, 2022

Global Situation Update: August 5, 2022

KEY TAKEAWAYS

China continues intense military drills, designed to test Taiwan defenses and enforce sovereignty claims.

Germany turns back to coal to replace Russian gas for electricity grid.

The Bank of England raised interest rates by the most in 27 years to battle inflation.

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WHAT WE'RE WATCHING

Colombia's first left-wing president Gustavo Petro will be sworn in this weekend. The new government will focus on a new socio-economic model that supports different sectors and moves away from extractive industries. The administration will seek to bring peace to the territories and guarantee environmental and social justice. A bloc of FARC rebels has even proposed a ceasefire to the president-elect, along with other guerilla groups.

However, these new approaches to peace and economic growth entail regulatory changes and sectorial reforms that will likely increase political instability. Petro is unlikely to benefit businesses in general, except for certain industries such as renewable energies, agroindustry, fintech and social infrastructure developers.



Note: This report is based on sources and information deemed to be true and reliable, but Dentons makes no representations to same.

Global

Global oil prices dropped yesterday to their lowest levels since before Russia's February invasion of Ukraine, the market reacting to a possible economic recession later this year that could cut energy demand.

- OPEC leaders Saudi Arabia and the UAE stand ready to deliver a "*significant increase*" in **oil output** should the world face a severe supply crisis this winter
- Ukraine's transport minister Kubrakov said that three ships, the Navi Star, Rojen and Polarnet, left the ports of Chornomorsk and Odesa, carrying 57,000 tons of corn destined for Turkey, the UK and Ireland under an agreement to ease the **global food crisis**.
- China's military has sent planes and warships to probe **Taiwan's** defenses for a second day, escalating a crisis. Taiwan's defense ministry said multiple groups of Chinese warplanes and warships had been operating in the area of the Taiwan Strait, including on Taiwan's side of the median line. ASEAN leaders warned of miscalculations in the Taiwan Strait and "*serious confrontation*" among major powers.
- In the **space race**, South Korea launched its first lunar orbiter today, aiming to land a probe on the moon by 2030.

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Markets & Business

Coinbase announced a deal with BlackRock to give the asset manager's clients more seamless access to digital asset markets, as traditional investors mainstream dealing in crypto.

- **Credit Suisse Group AG** is considering cutting thousands of jobs globally, as the company seeks to scale back investment banking and slash costs to help the bank recover from a string of scandals and losses.
- Italy is nearing a deal initially worth \$5 billion with **Intel** to build an advanced semiconductor packaging and assembly plant in the country.
- **Visa and Mastercard** will stop working with the advertising arm of **MindGeek**, the owner of **Pornhub**, after a court ruling found that Visa could be held liable for illegal content on the user-generated pornography website.
- **Twitter** accused Elon Musk of creating a “*new set of excuses*” to avoid honoring his \$44 billion agreement to buy the social media company, calling his recently filed objections “*implausible and contrary to fact.*”

Environment, Sustainability & Governance

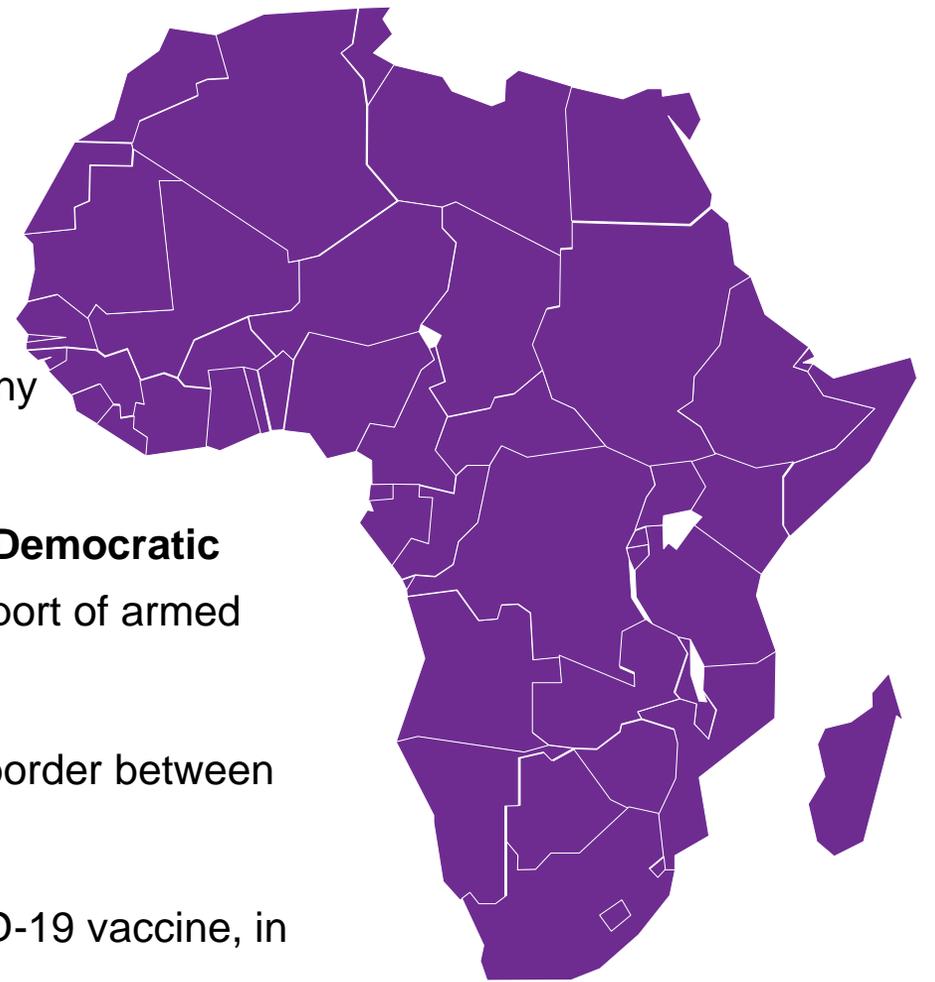
India announced the approval of a new series of 2030 climate commitments, including a pledge to reduce emissions intensity by 45 percent and to transition to approximately 50 percent electric power from non-fossil-based sources.

- Australia's financial services regulator released the results of a climate risk survey of the financial services sector, indicating that most institutions have not yet fully embedded climate risk across their **risk management framework**.
- **Wildfires** have depleted almost all of the carbon credits set aside in reserve by forestry projects in the US to protect against the risk of trees being damaged over 100 years, per a new independent study.
- The estimated cost to companies of **decommissioning oil and gas infrastructure** in the British North Sea, considered a test case for broader decommissioning projects, has fallen to close to a target of nearly 40 billion pounds.
- **Low water levels** on the Rhine, Germany's main shipping artery, will affect output over the coming month from two major coal-fired power stations.

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Africa

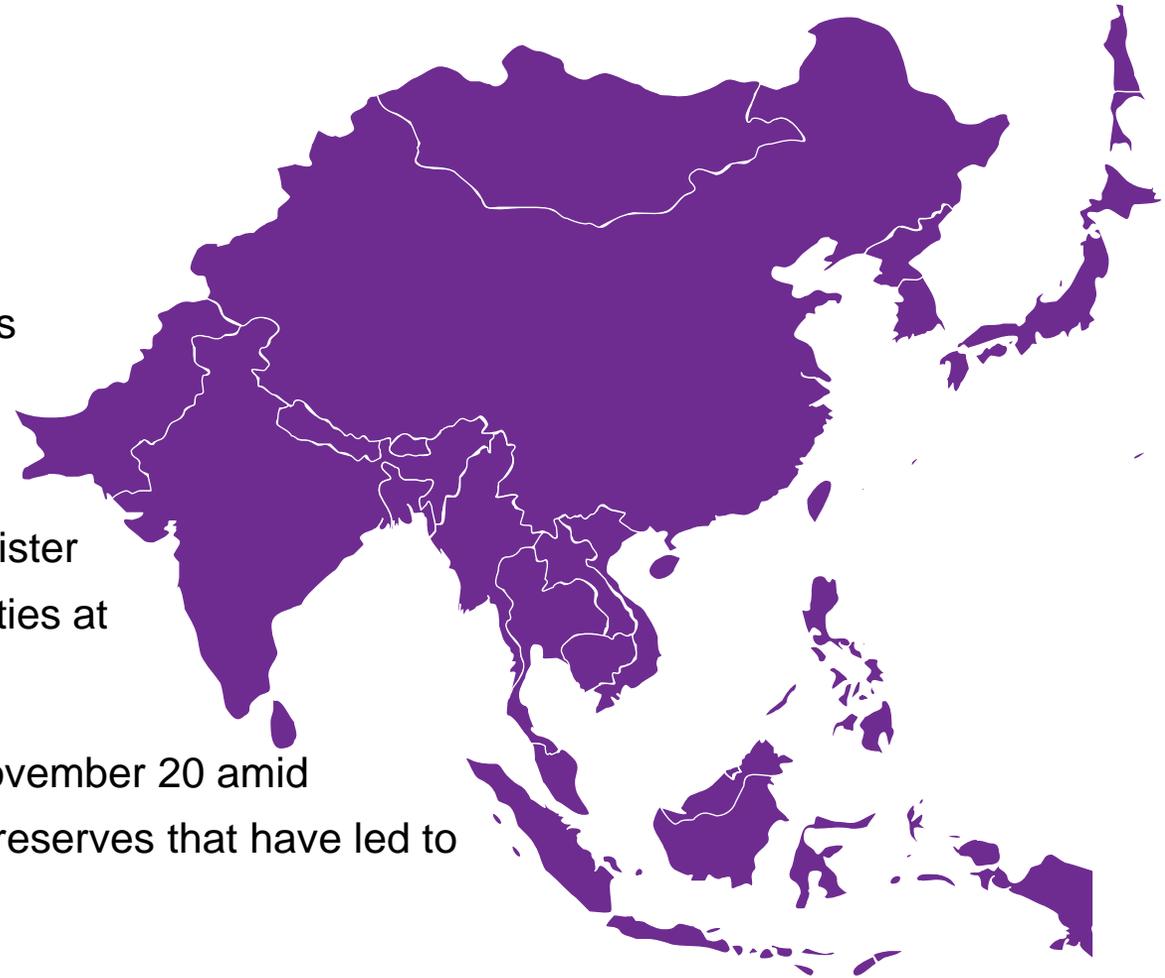
- **South Sudan's** unity government announced a two-year extension of the post-civil war "*transitional period*" due to a lack of progress on many areas of the post-war peace agreement.
- The UN confirmed that the **Rwandan** army intervened in the eastern **Democratic Republic of Congo** (DRC) in recent months, both directly and in support of armed groups.
- Some 8,759 civilians were displaced following recent clashes on the border between Oromia and Somali regional state, per a new **Ethiopian** NGO report.
- **South Africa** reported its first ever death causally linked to the COVID-19 vaccine, in an individual who contracted Guillain-Barre syndrome.



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Asia

- **China** has decided to sanction **US** House of Representatives Speaker Pelosi and her immediate family in response to her "*vicious*" and "*provocative*" actions.
- **US** Secretary of State Blinken urged **Cambodian** Prime Minister Hun Sen to be fully transparent about Chinese military activities at its Ream naval base.
- **Nepal's** government will hold a parliamentary election on November 20 amid concerns over high inflation and depleted foreign exchange reserves that have led to rising food and energy prices.
- **Russia** became **India's** third-largest coal supplier in July, with imports rising by over a fifth compared with June to a record 2.06 million tons.
- **India's** central bank increased its main lending rate by half a percentage point today, the third such increase this year, in the face of persistently high inflation.



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How do You Manage Incident Response?

2022 has already seen business disrupted by extreme weather, ransomware attack, the ongoing pandemic and more. The common refrain “It’s not if, but when” rings truer than ever for disruptive incidents that will impact business as usual.

Working with Dentons, you can effectively develop an organizational incident-behavior adopted by all your team members. Dentons will help you build muscle memory through tabletop exercises, which are crafted to fit the business strategy of every client.

Our team plays events and incidents of different severities and complexities and accounts for real-world factors such as inconclusive evidence, mistakes by responders, and the business impact of eradication steps. Our tech-savvy lawyers continuously revise the playbooks per the evolving sector-specific threat landscape.

Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

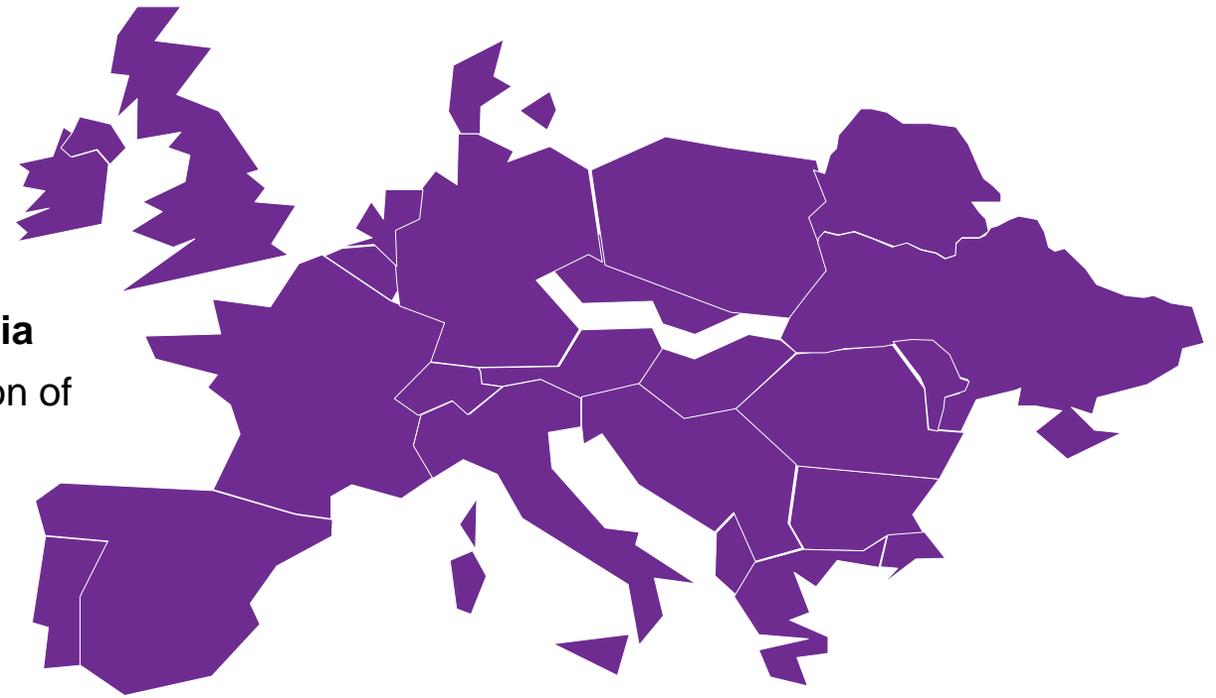
- ❖ Ransomware tabletop exercises
- ❖ Post-tabletop action reports
- ❖ Maturity assessments for preparedness
- ❖ Supply-chain attack simulation
- ❖ Comprehensive incident response plan
- ❖ Threat analysis and monitoring

All interaction with Dentons is attorney-client privileged

To learn more about the bespoke intelligence and risk services from Dentons, contact [Karl Hopkins](#).

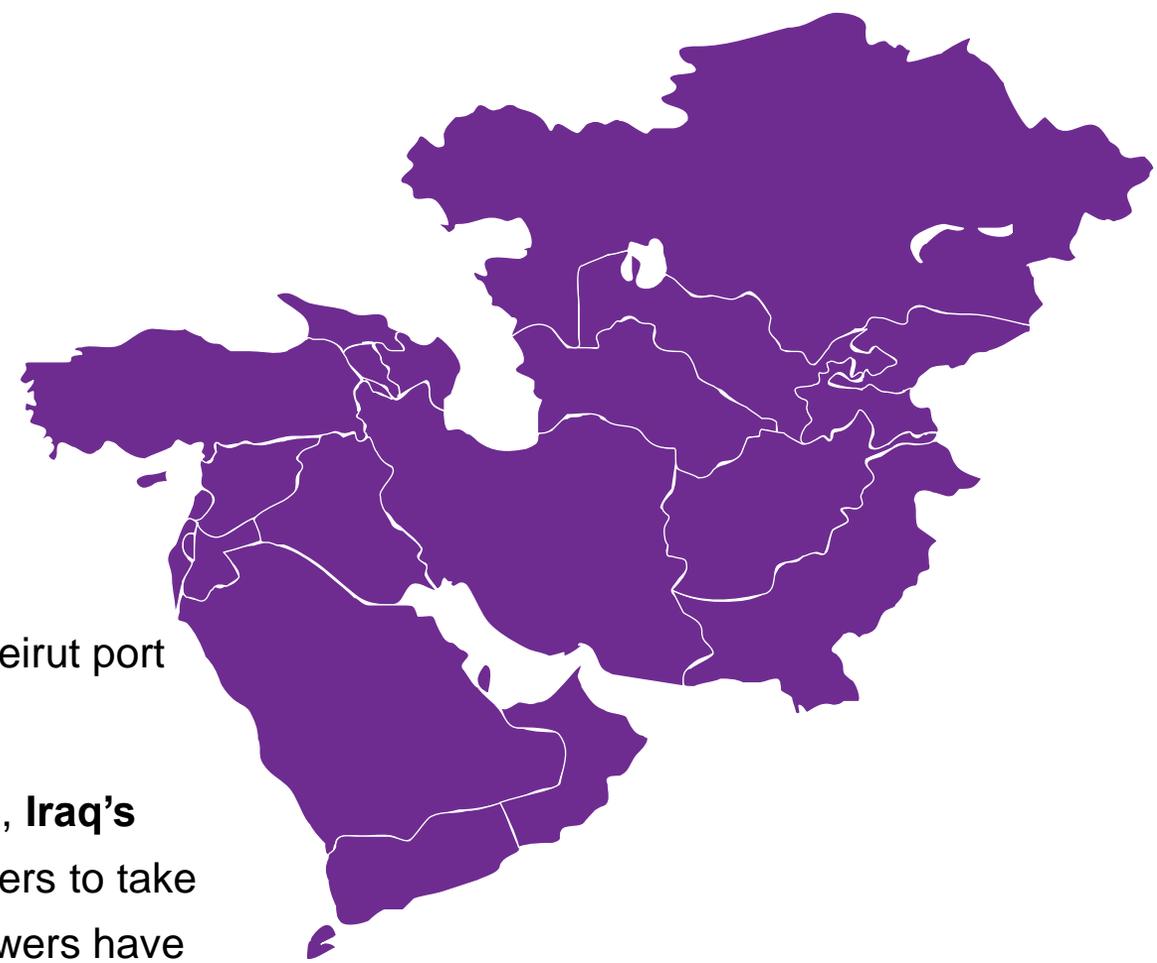
Europe

- The **EU** called for a "*cessation of hostilities*" between **Armenia** and **Azerbaijan** after renewed clashes in the separatist region of Nagorno-Karabakh. The two countries have blamed each other for the latest tensions.
- **US** women's basketball star Brittney Griner was convicted yesterday of bringing marijuana with criminal intent into **Russia** in mid-February and sentenced to nine years in prison. With the court case concluded, negotiations for a prisoner exchange are expected to begin.
- **Germany** is restarting hard coal-fired power stations, which were being phased out because of the detrimental climate impact, seeking to replace Russia gas fueling gas-fired electricity that currently makes up some 10 percent of Germany's overall energy mix.
- Yesterday, the Bank of **England** raised interest rates by the most in 27 years, a half percentage-point rise in Bank Rate to 1.75 percent, in an attempt to smother surging inflation nearing 13 percent. A grassroots campaign called "Don't Pay UK," is organizing Brits to boycott paying their energy bills come October. So far 75,000 people have pledged to strike.



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Middle East



- **Israel** enforced a ban on personal cash transactions over \$4,400 between private citizens, and a limit of \$1,700 on business transactions, to curb financial crime.
- Thousands of **Lebanese** protesters took to the streets to commemorate the two-year anniversary of the catastrophic Beirut port explosion, which killed hundreds.
- In a new power play following his demands for early elections, **Iraq's** Shiite cleric Moqtada Al-Sadr called for traditional Friday prayers to take place on a vast square inside the Green Zone where his followers have occupied parliament for seven days.
- Palestinian officials said that a key **Gazan** power plant is at risk of shutting down within 48 hours if an Israeli blockade, instituted earlier this week due to fear of backlash from the arrest of a senior Palestinian Islamic Jihad leader, is not lifted.

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Americas

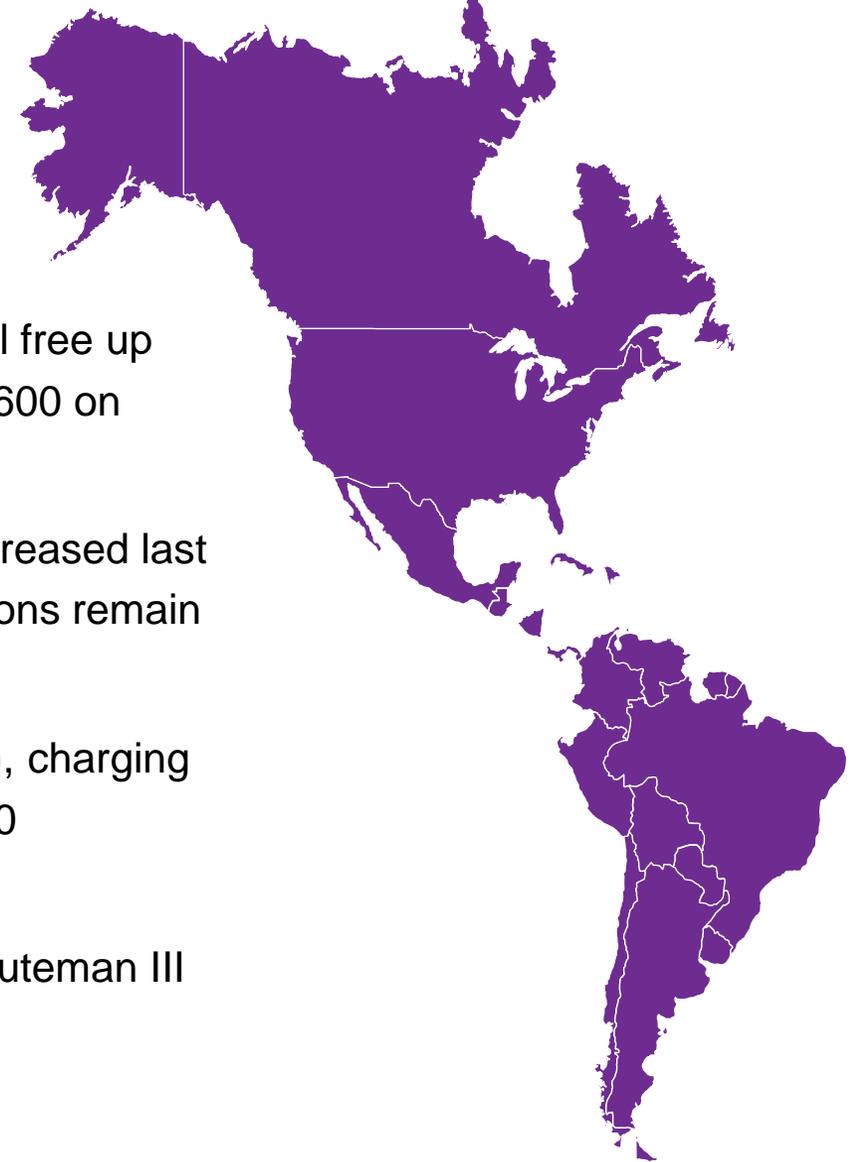
- Former **Venezuela** opposition lawmaker Juan Requesens was sentenced to eight years in prison for alleged involvement in the 2018 explosion of two drones at an event attended by President Nicolas Maduro.
- **Peruvian** President Pedro Castillo expects to swear in a new cabinet today, just days after the surprise resignation of his prime minister amid five criminal probes into Castillo.
- New **Argentine** Economy Minister Sergio Massa instructed finance officials to halt all new temporary cash transfers from the treasury to pay for government spending effective Thursday.
- **Canada** will send up to 225 personnel to the **UK** to train **Ukrainian** military recruits, starting with the first troops next week, per Canadian Defense Minister Anand.



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Americas: US

- The US declared **monkeypox** a public health emergency, a status which will free up additional funding and tools to fight the disease. Cases in the US topped 6,600 on Wednesday, almost all of the cases among men who have sex with men.
- The number of Americans filing new claims for **unemployment benefits** increased last week, suggesting some softening in the labor market, though overall conditions remain tight.
- The FBI arrested former **Puerto Rico** governor Wanda Vázquez Garced (R), charging her in a bribery scheme that was allegedly aimed at financing her failed 2020 gubernatorial campaign.
- The Biden administration postponed a long-planned test of an Air Force Minuteman III **intercontinental ballistic missile** to avoid escalating tensions with China.



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Ukraine War Update: Europe Prepares for Energy Austerity

European energy security is now a household imperative, with the refrain “turn off the lights” echoing across the continent as Europeans get serious about energy conservation. The European Union (EU) has agreed to a plan to reduce gas usage by 15 percent as a short-term measure, while alternatives are developed for mid- to long-term diversification. Businesses will face higher compliance burdens, with mandatory conservation measures differing across the EU, and even within member states as local jurisdictions set their own policies.

Russia Weaponizes Gas to Sow Discord

Since even before Russia invaded Ukraine in February, Moscow has been manipulating the energy market in Europe, initially driving up prices by channeling supply deals through the spot market and restricting flow through the Yamal pipeline, which runs from Russia through Belarus onward to Poland and Germany. Since the invasion, Moscow has used various artifices to further restrict the flow of gas to put pressure on European capitals in an effort to break the political will supporting sanctions on Russia.

The Kremlin’s current gambit is blaming sanctions for delaying the repair of Nord Stream 1’s turbines, despite maintenance on the turbines having been completed by Siemens under a sanctions

waiver and the turbines sitting in Germany waiting for Gazprom to take delivery – which Gazprom has declined to do. The restriction of gas flows pending repair of the turbines, while needed on an annual basis, was a manipulation in itself as there are four spare turbines on site for backup, according to a Reuters source who is familiar with how the station operates.

Using these manufactured excuses, Gazprom is now providing gas through Nord Stream 1 at 20 percent of the level prior to the start of the Ukraine war. Further cuts, perhaps to zero, seem likely as Gazprom is claiming that there is only one operable turbine left and it will be taken offline for maintenance “at some point in the near future.” Russia has incentives to act soon, before Europe can fill up gas storage caverns in preparation for winter peak demand.

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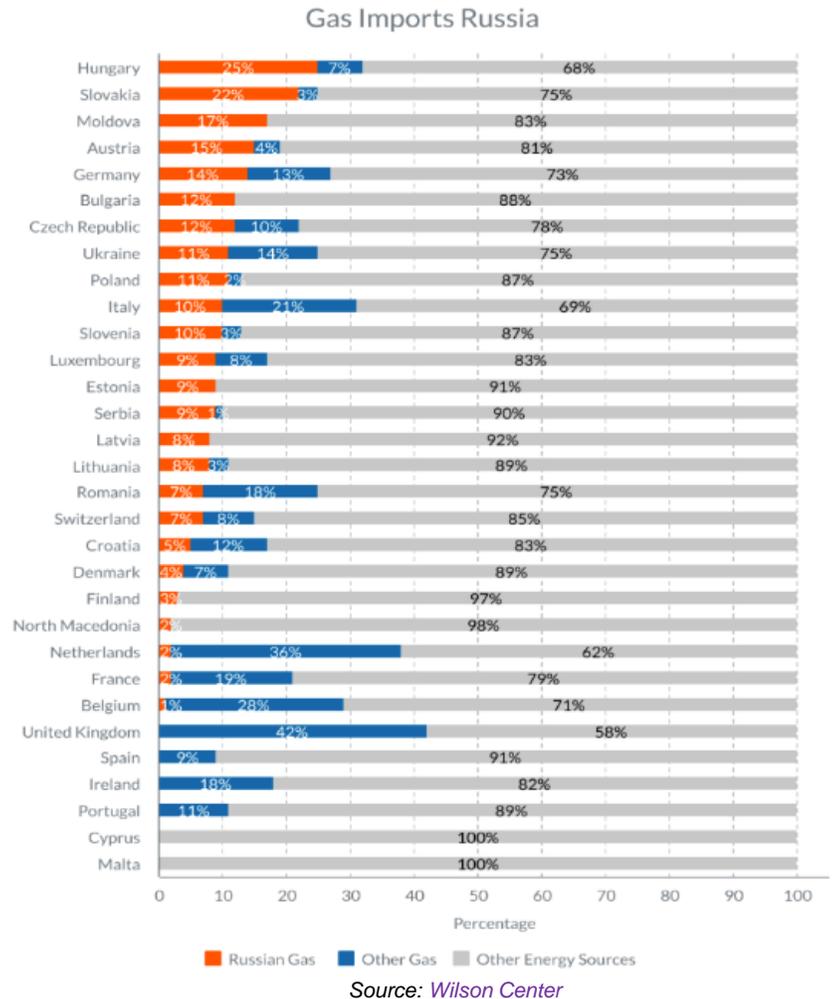
Ukraine War Update: Europe Prepares for Energy Austerity

While Moscow's plan to break the will of the European Union (EU) has not been successful, the costs are mounting. After Gazprom cut the flow to 20 percent, natural gas prices surged to 10 times higher than the average between 2010 and 2020, according to the Financial Times. With rising fuel costs and other factors driving up cost of living, labor actions across Europe are multiplying as workers seek pay increases to offset increased costs.

Political impact is already taking root. Italy's coalition government under Prime Minister Mario Draghi collapsed last month when a right-wing party withdrew its support over the government's handling of the economy. In June, lawmakers ousted the government of Bulgarian Prime Minister Kiril Petkov over its fiscal and economic policies. Also in June, French President Macron lost his majority in the National Assembly, as voters backed leaders on the far-left and far-right. During the campaign, far right leader Marine Le Pen opposed sanctions on Russian gas but has since expanded her opposition to all economic sanctions on Russia.

EU Mandate for Conservation

EU leaders have preemptively tried to reduce reliance on Russian gas to reduce their vulnerability to Moscow's economic coercion. Some countries, such as Estonia, Latvia, and Lithuania, began years ago to transition away from Russian gas. Others, such as Germany, have been late to understand the risks of energy dependency, supporting the



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Ukraine War Update: Europe Prepares for Energy Austerity

construction of Nord Stream 2 up until Russia's invasion of Ukraine this year. The extent of dependency today varies, with Eastern Europe reliant on Russia for the largest percentage of their energy supplies. Before the Russian invasion of Ukraine, Russia accounted for about 45 percent of gas imports into the EU.

There are a number of initiatives to increase European energy security through diversification. The Baltic Pipe is a natural gas pipeline under construction between the Norwegian sector of the North Sea and Poland and is scheduled to come partially online in October 2022. The Baltic Pipe will have the capacity to replace the roughly 60 percent of Polish gas imports coming from Russia via the Yamal pipeline. The Gas Interconnector Greece-Bulgaria pipeline is a natural gas pipeline currently under construction that is scheduled to link the Greek and Bulgarian natural gas pipeline networks. It is expected to be put into operation in September 2022. Longer term projects include Germany's plans to construct floating LNG terminals, and Italy's plans to tap into a new trans-Saharan gas pipeline pumping gas from Nigeria to Algeria, with a connector through the Mediterranean Sea.

Diversification cannot happen overnight because construction of new pipelines and LNG terminals takes time, as does the transition to renewables. So, for the immediate term, the EU agreed to reduce their gas demand by 15 percent compared to their average consumption in the past five years, between 1 August 2022 and 31 March 2023, with measures of their own choice.

The agreement has built in exemptions to accommodate different circumstances. For example, member states that are not interconnected to other member states' gas networks are exempted from mandatory gas reductions as they would not be able to free up significant volumes of pipeline gas to the benefit of other member states. Member states whose electricity grids are not synchronized with the European electricity system and are heavily reliant on gas for electricity production are also exempted, in order to avoid the risk of an electricity supply crisis. Other exemptions would kick in under specific circumstances to accommodate members in distress, or those who have done extremely well in their gas savings. Member states agreed to share their gas stocks and bail each other out if acute shortages happened, using shared pipeline networks.

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Ukraine War Update: Europe Prepares for Energy Austerity

Varied Responses for Energy-Saving Compliance

Member states are taking different approaches to meeting the EU agreement, which will require businesses to respond to adopt a variety of responses depending on jurisdiction in order to not be labeled an “energy hog.”

Air-conditioned shops throughout France will have to keep their doors shut or risk a fine of €750 (£635). Public premises will also be required to set thermostats higher in summer and lower in winter, while the public will be expected to turn off their Wifi routers and TVs when they are away and switch off lights in rooms they are not using.

In Germany, around 200 historical monuments and landmarks will no longer be illuminated at night. In Munich, hot water has been turned off in administrative buildings, and the maximum heating temperature limited to 19 degrees Celsius (about 66 degrees Fahrenheit) during the winter months. The federal government has launched a campaign urging citizens to take shorter showers, increase their fridge's temperature by 1 degree and better insulate their home.

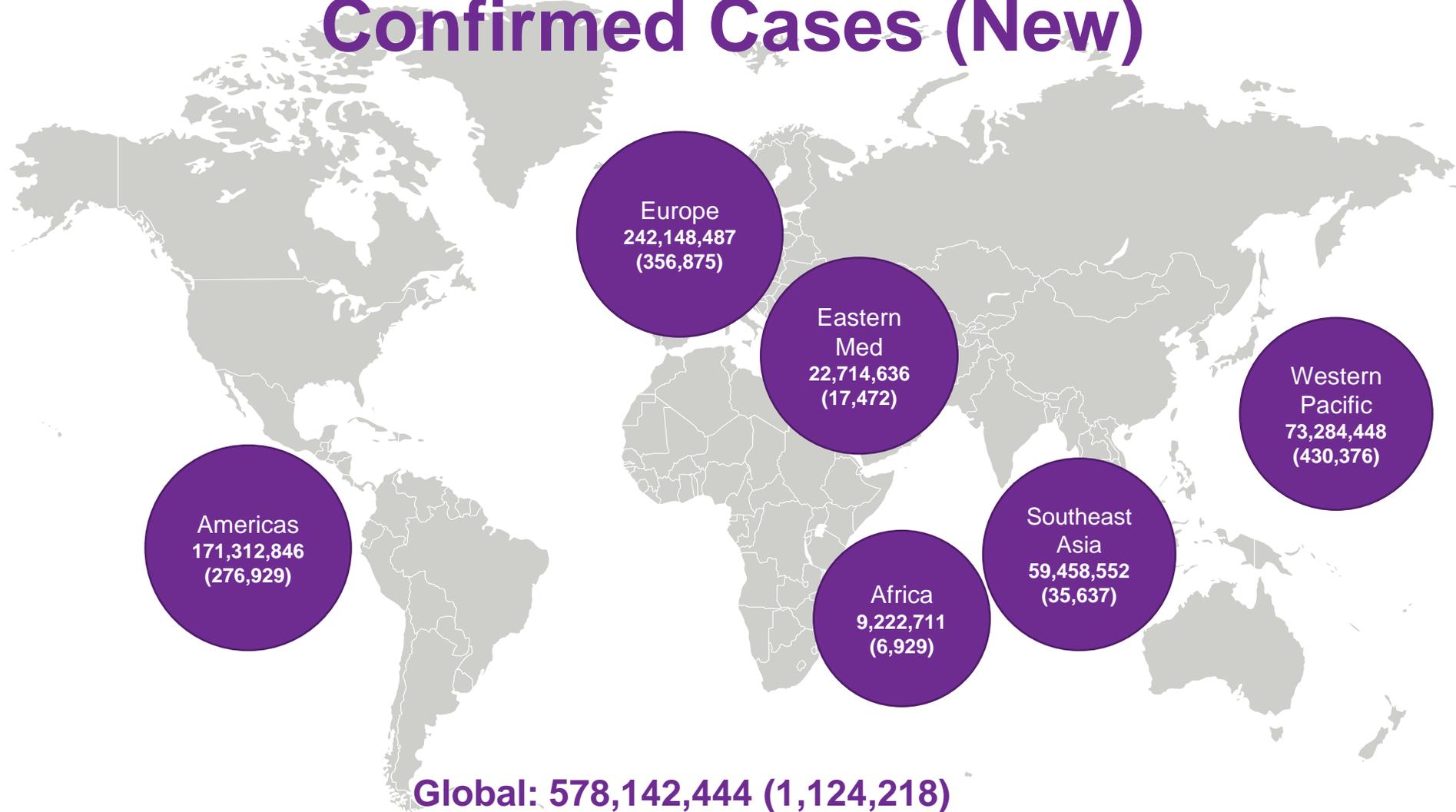
In Spain, air conditioning in commercial buildings will be limited to 27°C, while heating will be limited to 19°C. Shop fronts and public buildings will also be required to turn off lights by 10:00pm.

The largest burden will be on industry with operations requiring intensive energy usage. The IMF has urged European governments to pass on rising energy costs to consumers to encourage energy saving. For some businesses, between demands to cut usage and overall higher prices, operational risks this winter will be elevated.

Coronavirus Condition Updates

As of 5:56 pm CEST on August 4, 2022

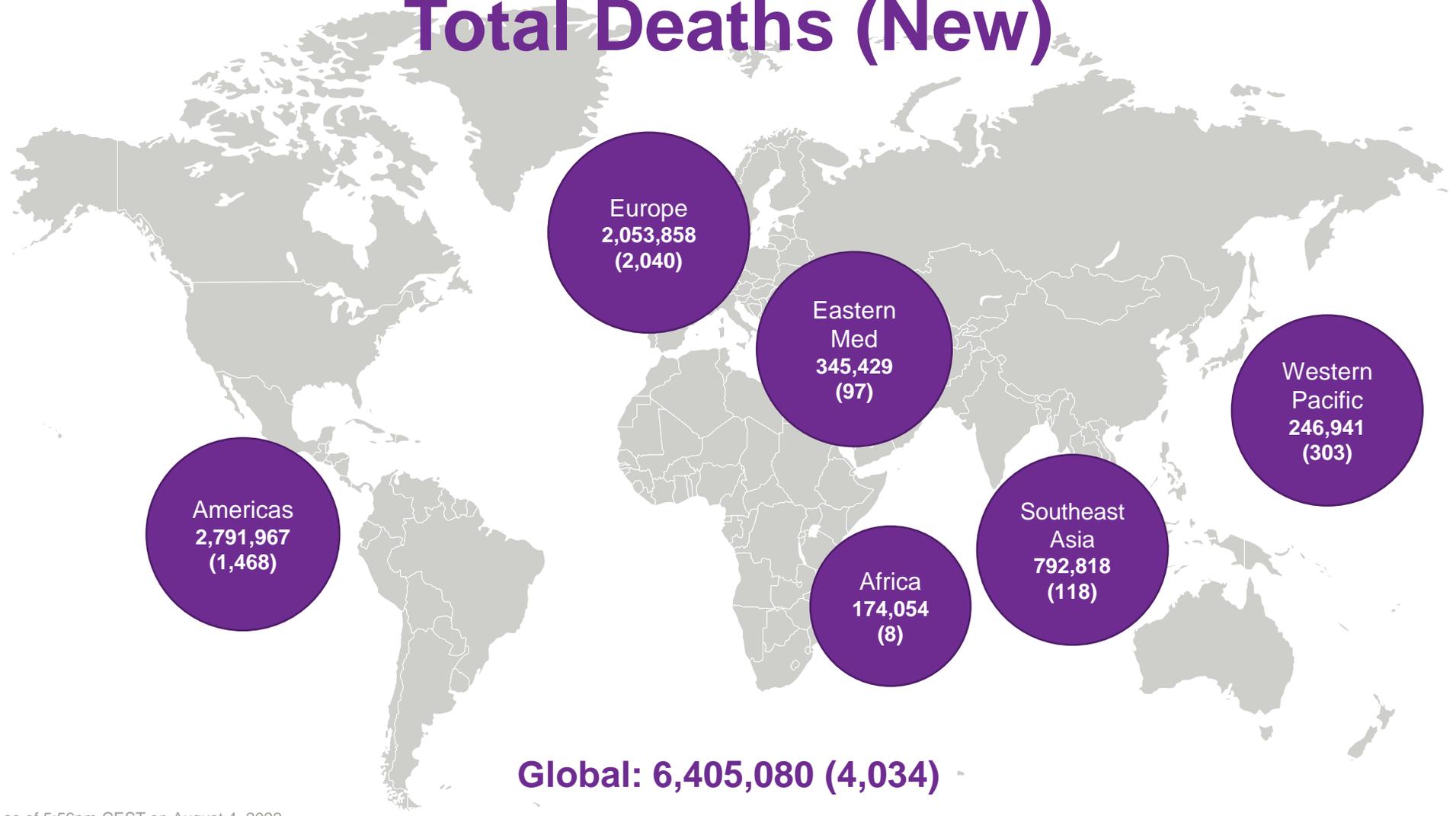
Confirmed Cases (New)



Reflects data as of 5:56pm CEST on August 4, 2022.
Data Source: World Health Organization

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Total Deaths (New)



Reflects data as of 5:56pm CEST on August 4, 2022.
Data Source: World Health Organization

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Contacts

This summary is based on reports sourced from among the 75 countries in which Dentons currently serves clients as well as from firms in other locations, some of which will formally join Dentons later in 2020. We are pleased to share this complimentary summary and contemporaneous assessment, with the caveat that developments are changing rapidly. This is not legal advice, and you should not act or refrain from acting based solely on its contents. We urge you to consult with counsel regarding your particular circumstances.

To read additional analysis, visit the [Dentons Flashpoint portal](#) for insights into geopolitics and governance; industry and markets; cyber and security; science, health and culture; and economic and regulatory issues.

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