

# Dentons Flashpoint

## Global Situation Report

October 19, 2022

# Global Situation Update: October 19, 2022

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## KEY TAKEAWAYS

NATO will send to Ukraine air defense systems to defend against Russian drone attacks.

UK inflation hit double digits last month, the most since 1980.

COVID-19 has entered a new evolutionary phase, with a swarm of new variants, some likely to evade protections of vaccines.

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## WHAT WE'RE WATCHING

The historic deal on a permanent maritime boundary between Israel and Lebanon will have positive regional and international impacts. However, the agreement between the two countries, which technically remain at war, is already being tested after the Lebanese army said an Israeli gunboat violated its territorial waters earlier this week.

Sped up by rising demand for natural gas around the world due to the war in Ukraine, the deal could boost energy exports to Europe in the years to come, and help Lebanon reduce its dependence on Hezbollah and Iran. The deal will also lower offshore security risks in the eastern Mediterranean, including for companies that had delayed project work pending progress in the border negotiations.

### The agreed maritime border between Lebanon and Israel



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

# Global

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**Public health experts are watching a host of new COVID-19 variants and expect the winter wave of new infections will be driven by a swarm of viruses, in a new evolutionary phase in the pandemic. Many of these variants have new mutations which give the virus capabilities to be vaccine evasive.**

- NATO General Secretary Stoltenberg announced the alliance will deliver **air defense systems to Ukraine** in coming days to help the country defend itself against the drones that Russia is using to target critical infrastructure.
- European Commission President von der Leyen assessed that the EU was “*better prepared*” for this winter but still required “*exceptional*” measures to prevent an **acute winter energy crisis**. EU countries had achieved a cut in gas demand of 15 percent in September and the bloc’s storage facilities were filled to 92 percent of total capacity.
- Russia's defense ministry said on Tuesday two **Russian Tu-95MS strategic bombers** conducted a flight of more than 12 hours over the Pacific Ocean, the Bering Sea and the Sea of Okhotsk.
- NATO is conducting **nuclear preparedness exercises** this week and has said it expects Russia to hold its own nuclear drills imminently.
- **Ukraine** received 2 billion euros in **financial assistance** from the EU on Tuesday, the first tranche of a 5-billion euro EU package following Russian's invasion.

# Markets & Business

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**Hong Kong announced a HK\$30 billion (US\$3.8 billion) plan to attract international investors and businesses back to the city, after the exodus triggered by strict pandemic policies and a security crackdown.**

- French cement maker **Lafarge** pleaded guilty in US court to a charge that it made payments to groups designated as terrorists by the US, including Islamic State, so the company could keep operating in Syria.
- Defense company **Lockheed Martin** announced steps to boost production capacity for its HIMARS, the rocket launcher that has become a critical weapons system for the Ukrainian military in its fight against Russia.
- **Netflix** added 2.4 million new subscribers in the September quarter, beating expectations and reversing back-to-back quarters of subscriber losses.
- **Deutsche Bank's** Frankfurt headquarters and the homes of ten current and former employees were raided by police yesterday as part of an investigation by prosecutors into the bank's role in one of Europe's biggest tax scandals.

# Environment, Sustainability & Governance

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**The world's largest financial institutions increased their backing of companies in the agriculture, forestry and land use sectors most responsible for deforestation in 2021, a new study showed.**

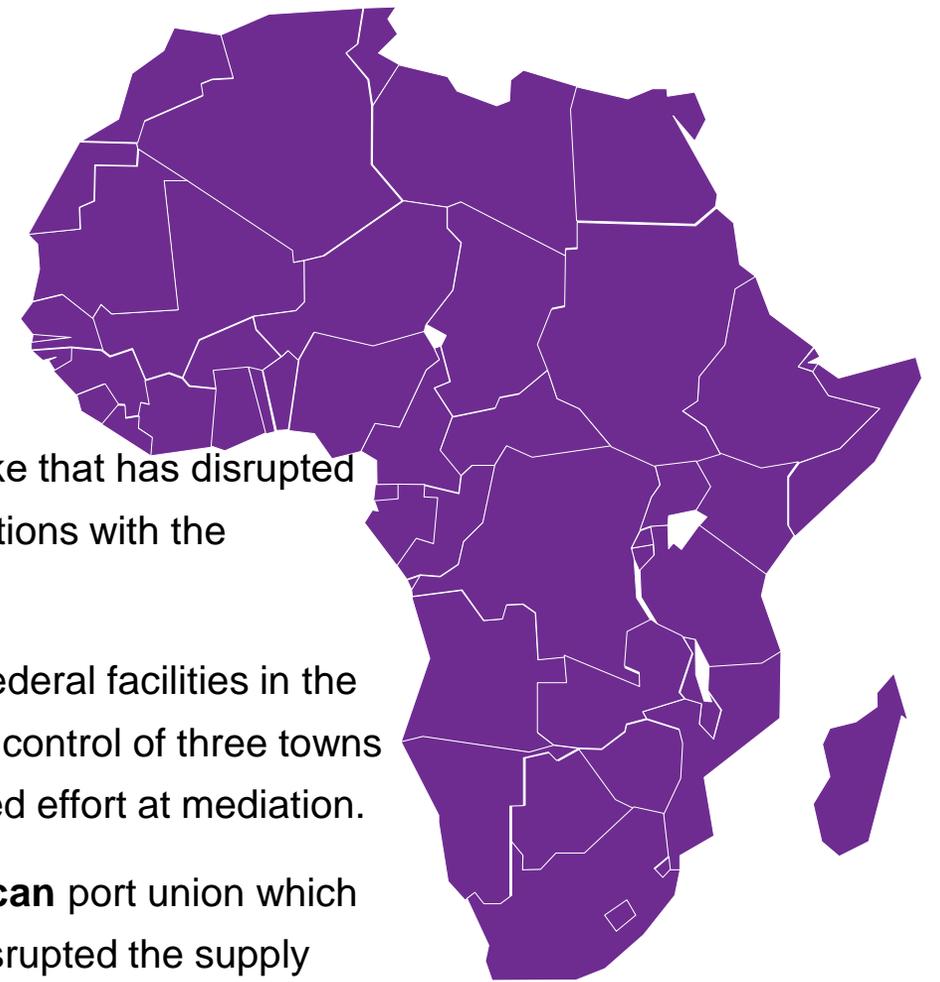
- The US Treasury is proposing a new rule to collect **data on climate-related risks from property and casualty insurers**, one of the first concrete actions in a new push to beef up financial regulation to help fight global warming.
- US Amazon workers rejected organizing a New York state warehouse by a nearly two-to-one margin, handing another defeat to the fledgling **labor union**.
- According to a new report by the World Resources Institute, the latest pledges by countries to tackle global warming under the Paris Agreement are "*woefully inadequate*" to avert a rise in global temperatures, reducing global emissions of **greenhouse gases** only 7 percent from 2019 levels by 2030. Countries must strengthen their targets by about six times that, or at least 43 percent.
- Missouri has pulled \$500 million out of **pension funds** managed by BlackRock, accusing the asset manager of "*prioritizing*" **environmental, social and governance** over shareholder returns.

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# Africa

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- Four UN peacekeepers were killed when their vehicle hit an improvised explosive device in northern **Mali**.
- **Nigeria's** professor's union announced the suspension of the lecturer strike that has disrupted university schedules since February, after several failed rounds of negotiations with the government.
- The **Ethiopian** government said it will seize control of airports and other federal facilities in the country's northern Tigray region, and later announced that they had taken control of three towns in the region. The escalation comes amid global calls for peace and a failed effort at mediation.
- A wage deal over a three-year period has been accepted by a **South African** port union which represents 54 percent of port workers, easing a wage standoff that has disrupted the supply chain.
- Congolese army units backed armed groups implicated in serious abuses in the recent conflict with M23 rebel forces in eastern **Democratic Republic of Congo**, a new report by Human Rights Watch found.

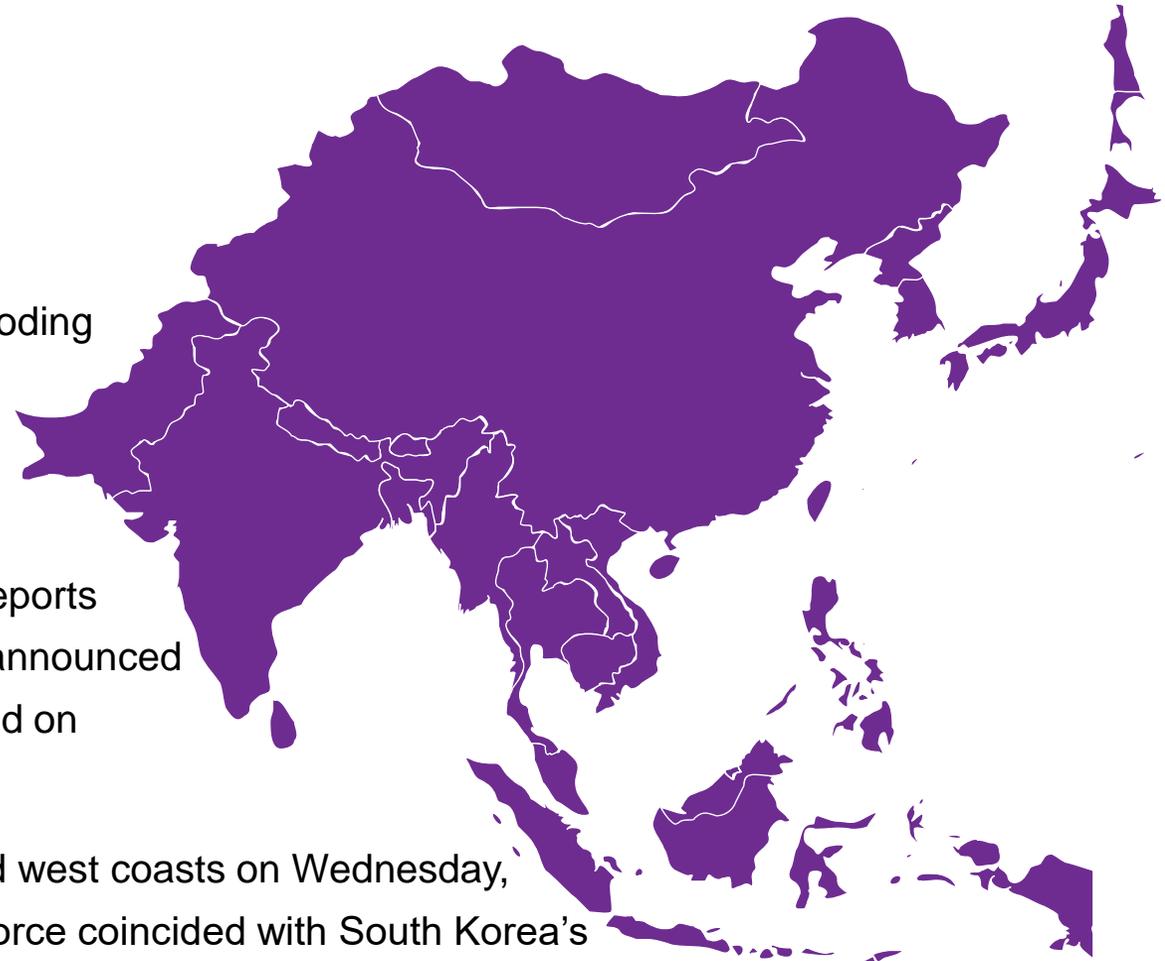


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# Asia

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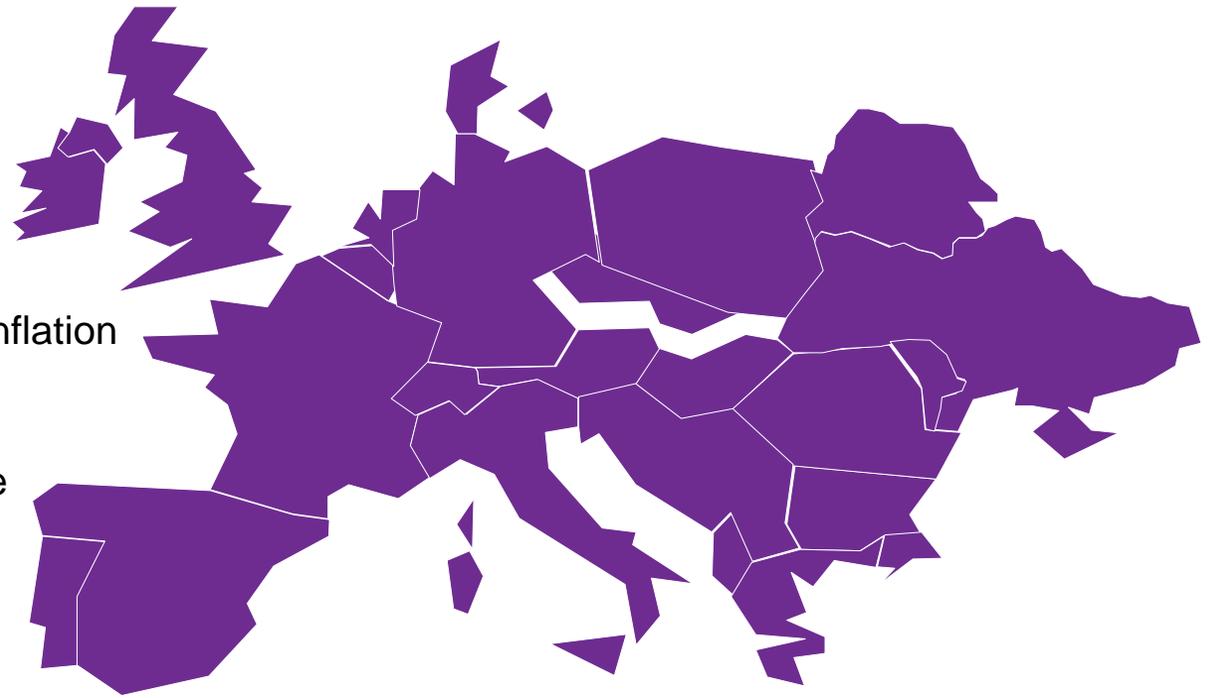
- Thousands of residents in southeast **Australia** face renewed flooding as weather forecasters warn of more downpours later this week, while swollen rivers continued to roll downstream inundating farms, towns and homes.
- **Australia's** defense minister said its military was investigating reports former pilots were accepting training roles in **China**, as **Britain** announced plans to take legal action to stop its pilots being similarly recruited on national security grounds.
- **North Korea** fired several hundred artillery shells off its east and west coasts on Wednesday, in what it called a grave warning to **South Korea**. The show of force coincided with South Korea's annual Hoguk defense drills, designed to boost their ability to respond to North Korea's nuclear and missile threats.
- **Japan** will impose additional sanctions against **North Korea** by freezing assets of groups involved in the development of missiles. Japan also announced its biggest arms buildup since World War Two in an effort to deter **China** from war in East Asia.



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# Europe

- The biggest jump in food prices since 1980 pushed **British** inflation 10.1 percent last month.
- The **UK** will call fresh elections in Northern Ireland unless the region's power-sharing executive, which has been unable to form because of a disagreement over post-Brexit trade negotiations, can be restored by an October 28 deadline.
- **Russia** has destroyed almost a third of **Ukraine's** power stations in the past week, as Moscow targeted missiles down on infrastructure in what Kyiv and the West call a campaign to intimidate civilians. Ukraine is moving towards formally cutting diplomatic ties with **Iran** after a wave of Russian attacks using what Kyiv says are Iranian-made drones. Ukraine plans to appeal again to **Israel** for air defense systems.
- **Germany's** interior ministry fired the country's cybersecurity chief and launched an investigation into his conduct after media allegations of past business ties with Russian intelligence.
- **EU** foreign policy chief Borrell said the bloc should recognize **China** as a competitor and reduce its economic dependency on Beijing. EU leaders are scheduled to discuss relations with China at a two-day summit starting tomorrow.



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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:*

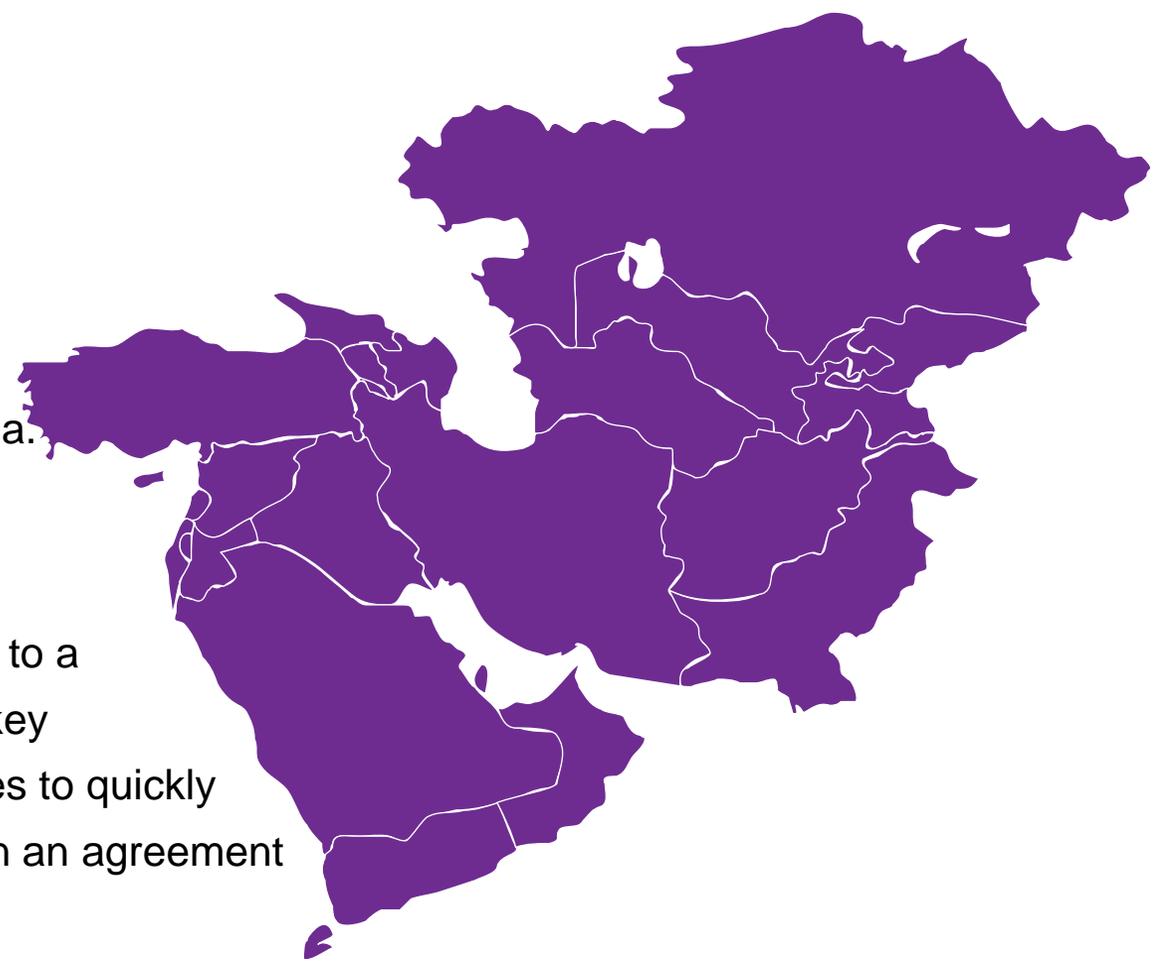
- ❖ Ransomware tabletop exercises
- ❖ Post-tabletop action reports
- ❖ Maturity assessments for preparedness
- ❖ Supply-chain attack simulation
- ❖ Comprehensive incident response plan
- ❖ Threat analysis and monitoring

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

# Middle East

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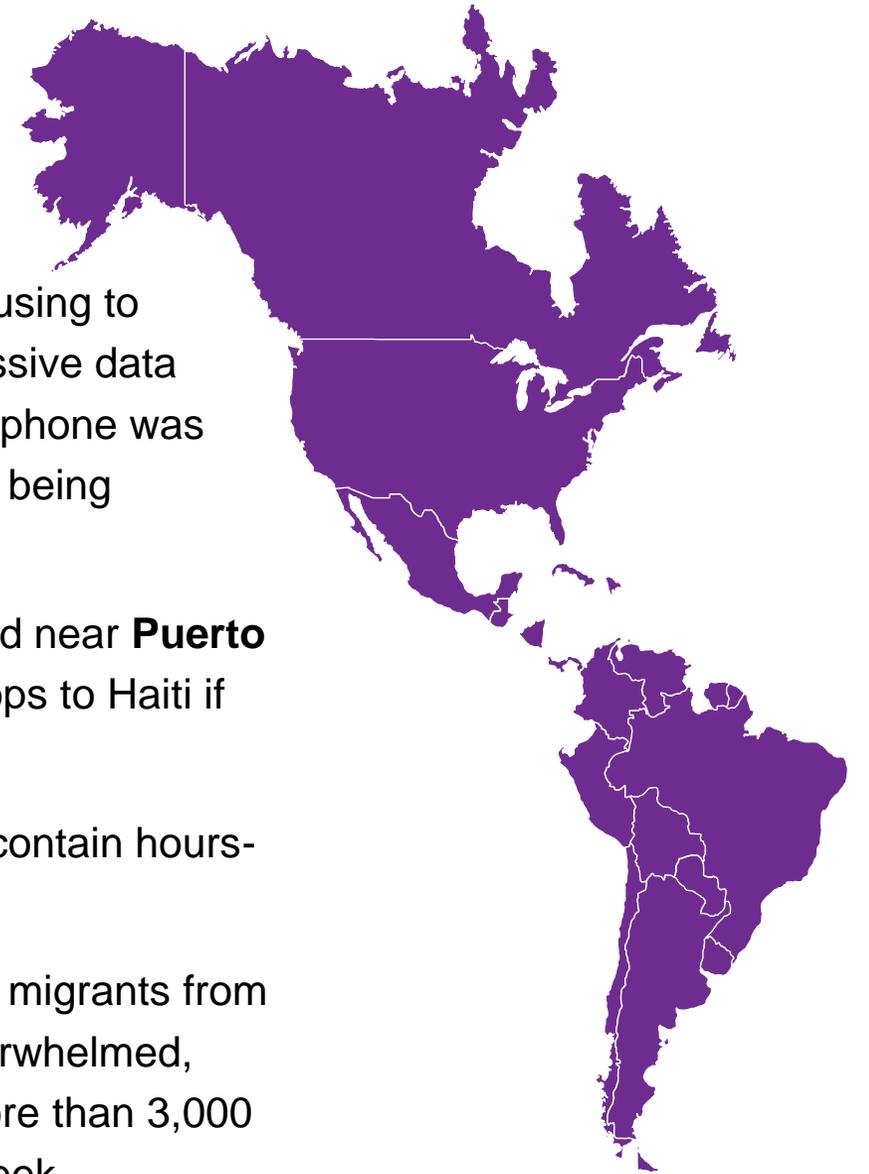
- **Iran** has promised to provide **Russia** with surface-to-surface missiles, in addition to more drones, Iranian officials told media. The **US** asserts that Iranian drone sales breach international sanctions.
- **Lebanon's** parliament passed another round of amendments to a banking secrecy law after IMF said a previous draft retained key deficiencies. Lebanese President Aoun called on TotalEnergies to quickly start drilling in areas recently officially designated Lebanese in an agreement with **Israel**.
- **Palestinian** Hamas leaders will visit Bashar al-Assad in **Syria** today, continuing their rapprochement after years of severed ties with Damascus.
- A southern **Tunisian** coastal town remained paralyzed by protests amid growing anger over the fate of people who drowned in a migrant shipwreck last month.

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# Americas

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- **Mexican** President Obrador backed the country's defense ministry for refusing to appear before legislators to explain a major cyber hack, resulting in a massive data breach. Mexican opposition congressman Agustin Basave Alanis said his phone was infected by Pegasus, the fourth alleged case of the controversial spyware being deployed under President Obrador.
- More than 100 **Haitian** migrants have been found on an uninhabited island near **Puerto Rico** amid Haiti's humanitarian crisis. The **Bahamas** pledged to send troops to Haiti if asked.
- **Cuba** replaced its energy and mines minister as the country struggles to contain hours-long blackouts that have stirred rare protests.
- The UN is voicing concern on the deportation of hundreds of **Venezuelan** migrants from the **US** to **Mexico** under a new policy, noting that shelters were being overwhelmed, leaving families without places to stay in the dangerous border region. More than 3,000 Venezuelans have been returned to Mexico since the policy began last week.

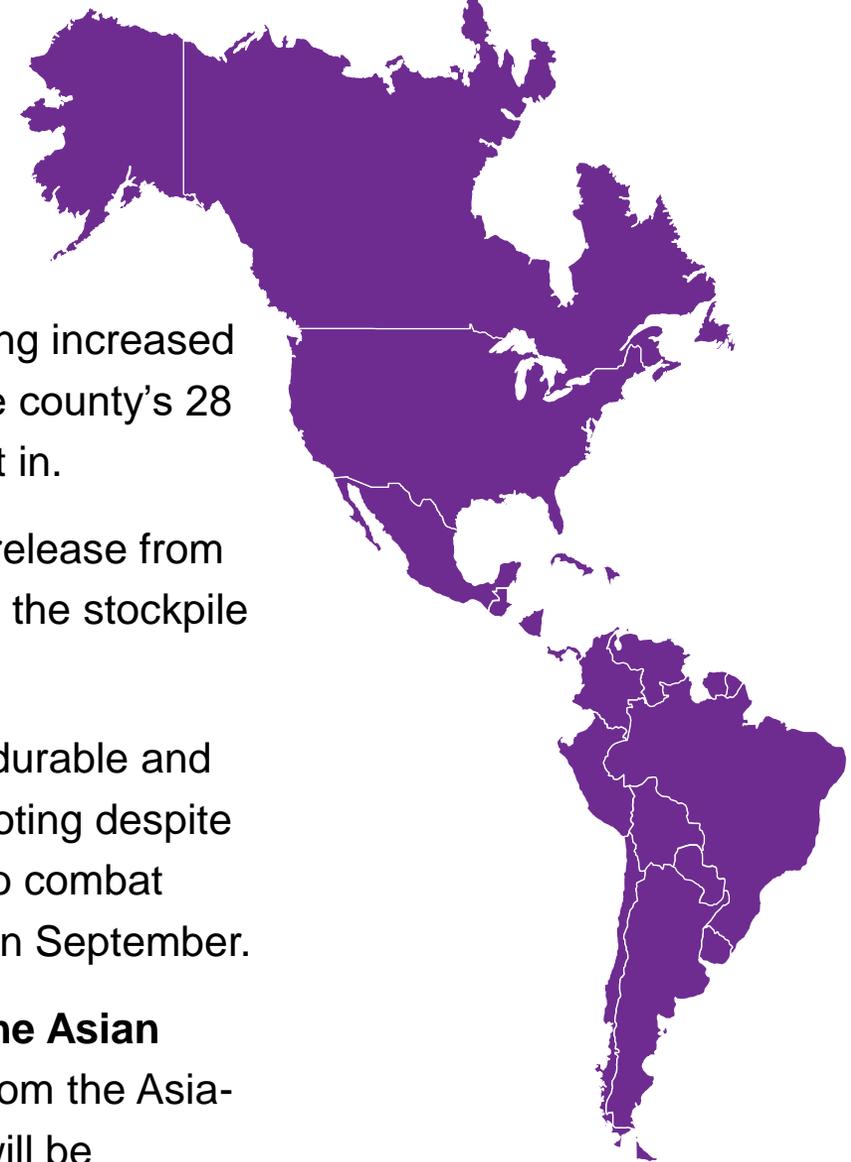


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# Americas: US

- More than three weeks after Hurricane Ian, some coastal Floridians are facing increased risks from vibrio vulnificus, a **flesh-eating bacteria**. In Lee County, 26 of the county's 28 cases this year occurred in the weeks since the late September storm swept in.
- President Biden will announce a plan today to sell off the last portion of the release from the nation's **strategic oil reserve** by year's end and detail a strategy to refill the stockpile when prices drop.
- **Production at US factories** rose in September led by output gains in both durable and nondurable goods, indicating the manufacturing sector remains on stable footing despite the Federal Reserve's efforts to cool demand through higher interest rates to combat inflation. US **homebuilder confidence** fell for the tenth consecutive month in September.
- Deputy Treasury Secretary Wally Adeyemo will travel to Asia this week for **the Asian Economic Cooperation (APEC)** finance ministers meeting with ministers from the Asia-Pacific region and bilateral meetings in Thailand and Singapore. Adeyemo will be highlighting US commitment to the Asia-Pacific region, through initiatives such as the Indo-Pacific Economic Framework, which both Thailand and Singapore have joined.

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# EU Gas Price Cap: Options and Risks

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***European Union (EU) leaders will meet on October 20-21 in an effort to forge a consensus on how to contain soaring gas prices in the short term and to get the bloc's member states through the winter.***

Benchmark natural gas prices are trading at about €123 (equivalent to \$121) a megawatt-hour, more than three times higher than a year ago. At the national level, member states have adopted a range of policies to blunt the shock of energy prices, such as mandating conservation, regulating tariffs, subsidizing energy bills for companies and vulnerable households, bailing out struggling energy companies through liquidity injections or nationalization and altering the energy mix by firing back up nuclear reactors and coal-powered generation facilities.

These measures, albeit needed, are insufficient and creating tensions within the bloc. They are creating a 'haves' and 'have nots' situation, pitting countries with stronger buffers against those with more vulnerable economics unable to support increasing debt burdens. They are also exacerbating competition within the bloc as countries seek to secure supplies to meet national needs, leaving

behind those with constrained access to gas supplies and alternative fuels. Member states are calling on the EU to step in with policy support, namely a price cap. At this point, the integrity of the single market is at risk of if there is no intervention at the EU level. The challenge, however, is agreeing to one option among several, when not all member states have the same energy challenges.

## ***Areas of Consensus for EU Gas Policy***

Member states will focus on both short term and long-term issues at the upcoming meeting. Russia, which previously provided 40 percent of the EU's gas supplies, has reduced the flow of gas supplies by 80 percent. This is the key driver of the current gas price surge. While demand in summer and fall is normally lower, EU member states prioritized stocking of storage facilities to at least 90 percent of capacity to get the EU through winter and peak demand. However, this is not likely to be sufficient, as demand during a "normal" winter will exhaust

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# EU Gas Price Cap: Options and Risks

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these supplies in two months and, in Europe, winter lasts longer than that.

Ensuring supplies to get through winter is only part of the equation, with price being the other. The price should not be economically crippling, as it could lead to political instability (which is what Russia seeks by using gas as a weapon in the Ukraine war). Already, EU member states are experiencing the pressure of street protests over the rising price of energy and food (such as the recent protests in France) and changes in government driven by popular discontent over economic management (such as in Italy). The EU must avoid a severe recession in the months to come and, in the longer term, the policy should not harm the EU's economy by adding substantially to the debt burden and hampering the ability to grow.

The EU member states agree that vulnerable households need to be protected, incentives for conservation should be maintained, and Russia should not reap windfall profits off the suffering of EU citizens. The EU also wants to stay on track for energy transition to renewables and greener forms of energy.

## *Policy Options Under Consideration*

The EU could set a ceiling for gas prices, determining for how much gas can be bought and sold. Day traders would not be able to bid above the ceiling and companies with existing contracts would have to renegotiate those contracts so that the price is set below the ceiling. The benefit of a price ceiling is that EU member states could not use price to compete for supplies. However, fixed price, if set too low, risks suppliers looking to other markets for their gas, creating a shortage in the EU. The Russian government has already threatened to completely cut off gas flows, should a price cap be imposed—but Moscow may do that anyway for political reasons. Hungary opposes a price cap because it is dependent upon Russian gas.

Rather than a fixed price, however, the EU could adopt a “dynamic” cap, linking the maximum price to gas prices in Asia, thus maintaining market dynamics. Dynamic pricing would require the EU to set up a process to set prices and would make sense for the EU to pool the market power of EU members by acting as a single buyer, negotiating and organizing secure and affordable contracts with

# EU Gas Price Cap: Options and Risks

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trusted or politically neutral external gas suppliers. Forming a consensus for the EU to assume the command and control over gas supply will be difficult in the short term but is on the agenda.

A second option is placing a cap on all physical and financial transactions at Europe's gas hubs. The European Commission is reportedly drafting a proposal that recommends establishing a market "dynamic" price for transactions at the Dutch Title Transfer Facility (TTF), which is widely used in Europe for contracts and hedging. Price at other EU gas trading hubs would be linked to the TTF spot price through a dynamic price corridor. The pricing would apply to longer term contracts that are indexed to the TTF (such as those with Gazprom). The Commission believes the measures would not affect security of supply, nor lead to an increase in gas consumption, nor impact the orderly functioning of energy derivative markets.

However, this option does not address gas supplies not traded through hubs, and sellers could move to trading over the counter to get higher prices. Foreign sellers, such as Russia, could refuse to link their pricing to the TTF and/or cut off supplies completely. Germany, Austria and the Netherlands do not support this dynamic

price cap at the hubs because they dispute the EU's analysis, believing that the cap would lead to a gas shortage and undercut pricing incentives that encourage conservation.

A third option involves partial subsidies. To ensure that the price cap does not drive away trusted suppliers, the Commission is also considering a contract for difference mechanism (CfD) that would return to importers the difference between the international price and the price cap, paid for from the EU budget (i.e., a subsidy). The cap would lower wholesale gas prices (and price of electricity generated by gas), reduce the liquidity needs of energy companies and reduce the need to directly subsidize households' energy use.

A fourth option also involves a partial subsidy: the so-called Iberian option entails a cap on the price of gas used for electricity generation. Spain and Portugal have already adopted a program that compensates the cost of gas burned for electricity above €40 per MWh, which is subsidized through commercial power contracts and not through payments from the government budgets to the consumer. Germany supports this program, as it mirrors what Berlin is already doing at the national level. The risks of this approach EU-wide are multiple, per energy analysts. The cost of fuel caps could

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# EU Gas Price Cap: Options and Risks

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become substantial and still require a public subsidy. The Iberian option is likely increase gas prices, to the detriment of industrial consumers that use gas directly rather than via electricity. It would also have uneven impact, as electricity-intensive and gas-intensive industries are concentrated in some member states.

## *Looking Beyond the Winter*

The European Commission is seeking a program to minimize energy shocks over the winter – calling the program a “last resort” to last no longer than three months. This timeframe is governed by expectations that new energy infrastructure and sources will be coming into play in 2023. Five additional floating storage regasification units (FSRUs) for LNG imports will be operational, which should ease bottlenecks and large dislocations between hubs in Europe. In a longer term, industry group Gas Infrastructure Europe estimates LNG terminals in the EU could provide a gateway for more than 285 billion cubic meters (bcm) of imports by 2030, enough to meet estimated import demand at that time, compared to Europe’s current import capacity of around 220 bcm per year.

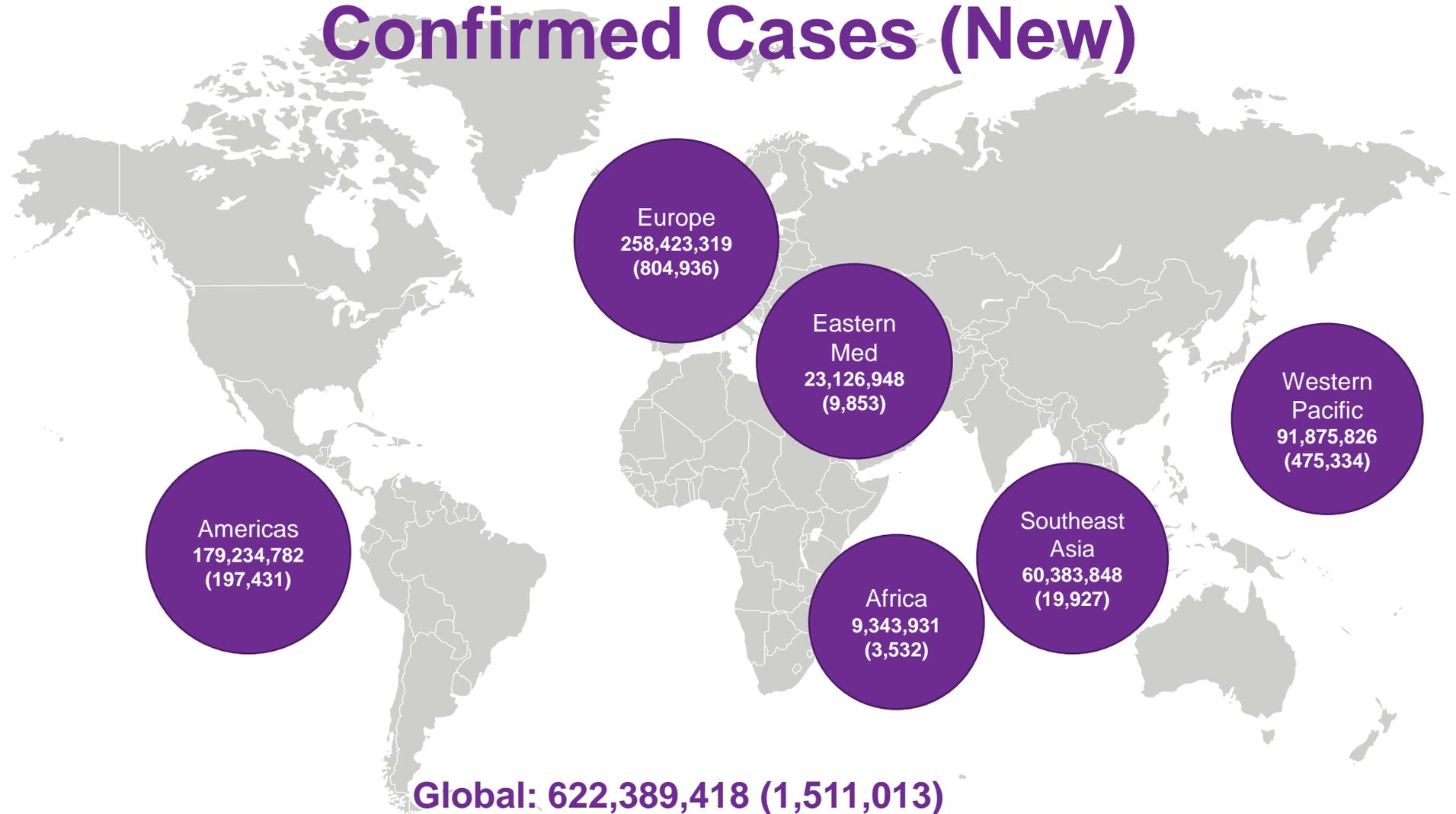
In 2022, nearly 40GW of solar PV is expected to be rolled out across Europe, compared to 27GW in 2021. In May, in response to Russia’s invasion of Ukraine, the EU unveiled its updated EU Solar Energy Strategy, which is targeting 400GW of solar PV by 2025 and almost 740GW by 2030. New offshore wind capacity additions in Europe are poised to hit a record high of 4.2 GW this year, more than doubling additions seen in 2021. New capacity additions are expected to grow further in the coming years, almost doubling again in 2023 to 7.3 GW and jumping to 8.6 GW in 2025.

It will take years for the EU to completely “Russia-proof” its energy security, though. Even if the EU is able to mitigate the shocks currently being felt because of the energy crisis, gas prices will remain elevated through 2023, impacting businesses and households. If the EU can forge a consensus this week, however, the worst-case scenario of extreme fluctuations triggering a severe recession might be avoided.

# Coronavirus Condition Updates

As of 7:45 pm CEST on October 18, 2022

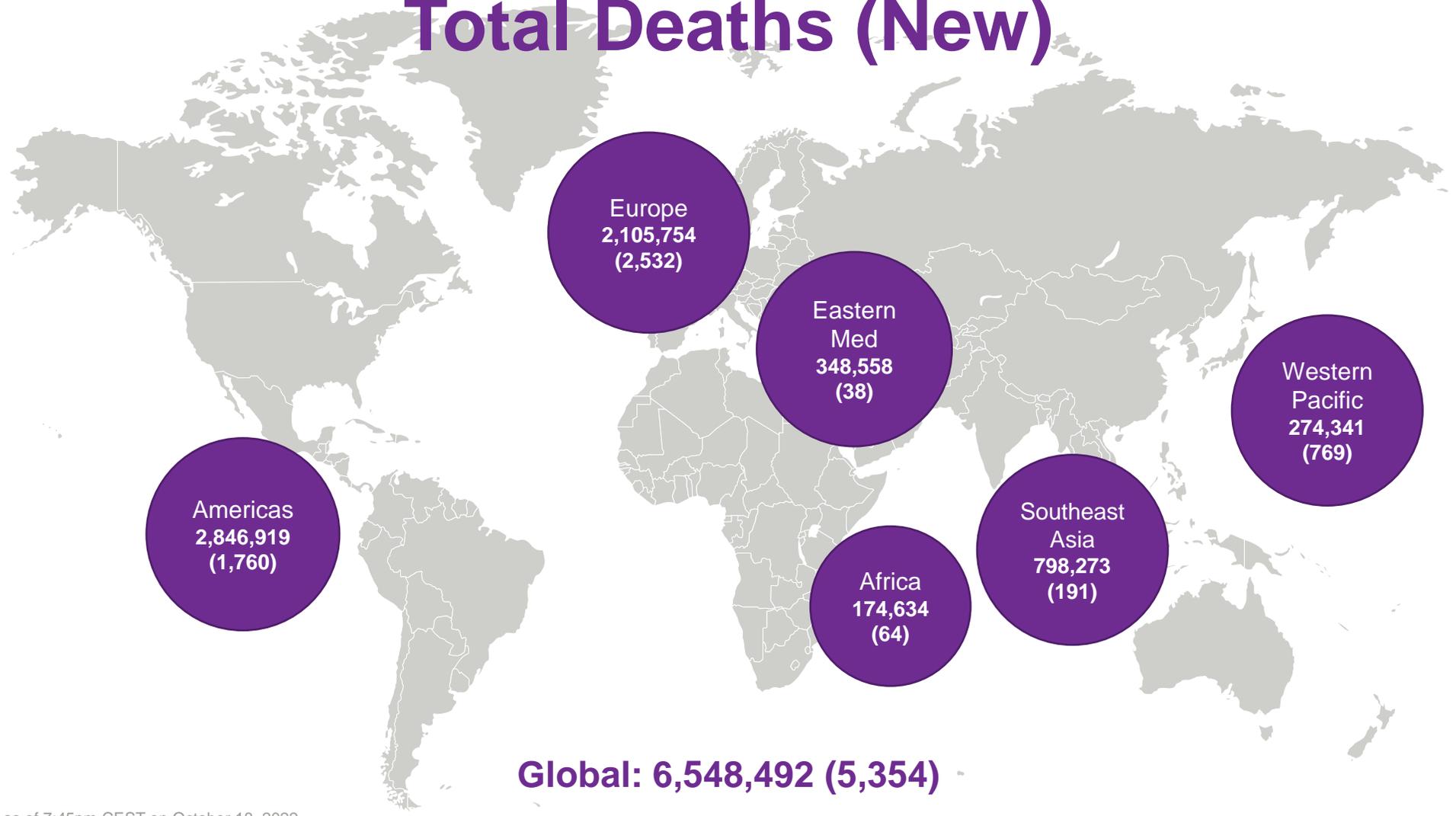
# Confirmed Cases (New)



Reflects data as of 7:45pm CEST on October 18, 2022.  
Data Source: World Health Organization

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# Total Deaths (New)



Reflects data as of 7:45pm CEST on October 18, 2022.  
Data Source: World Health Organization

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# Contacts

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*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.*

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