

Dentons Flashpoint

Global Situation Report

January 23, 2023

Global Situation Update: January 23, 2023

KEY TAKEAWAYS

Germany says it will not stand in the way of other NATO nations transferring Leopard tanks to Ukraine.

China celebrates the Year of the Rabbit, pursuing opening plans despite mounting COVID-19 deaths.

Brazil and Argentina are exploring a common currency, seeking to boost regional trade and reduce reliance on the US dollar.

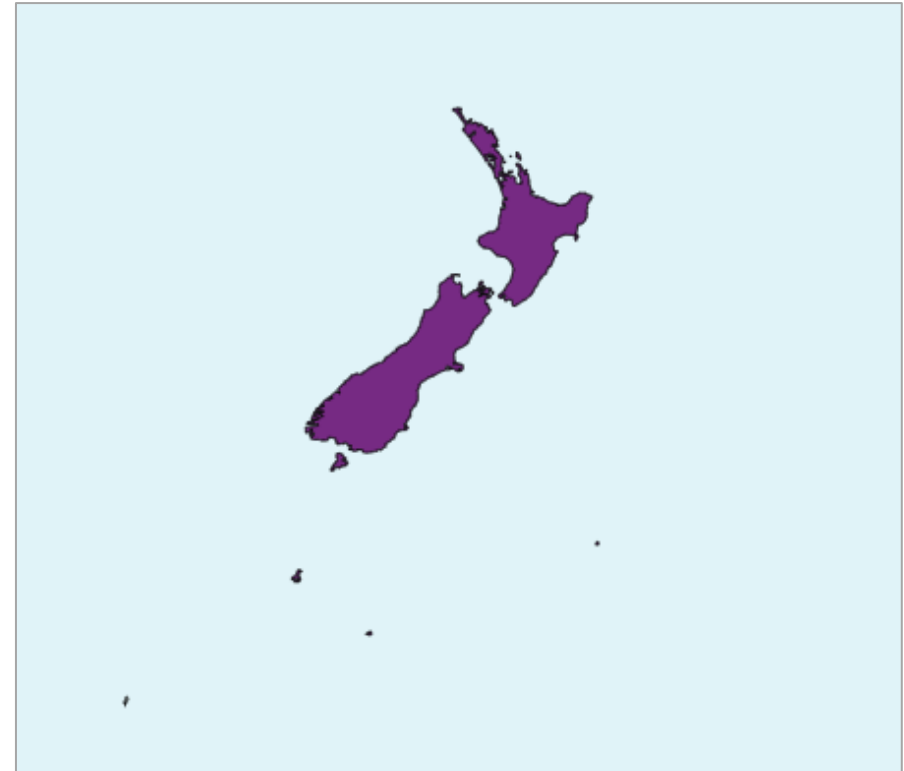
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WHAT WE'RE WATCHING

The New Zealand Labour Party's installation of Chris Hipkins as prime minister so close to the next polls means that Labour is unlikely to come up with substantive policies to adequately address voter concerns about cost of living. The outgoing prime minister had continued personal popularity among voters and her absence is likely to severely hurt the chances of her party at upcoming polls in October.

The main opposition New Zealand National Party has led Labour in sentiment polling for the past few months. National is pursuing a small target strategy that is light on policy but will use any perceived inaction by the new prime minister to attack the government and highlight its inadequacies.



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Global

US Treasury Secretary Yellen said Western countries are working to structure price caps on Russian refined petroleum products to ensure continued flow of Russian diesel, but the markets are complicated and “*there is a chance things do not go to plan.*”

- Western allies pledged billions of dollars in weapons for **Ukraine** at the Contact Group meeting last Friday, although they failed to persuade Germany to provide German-made **Leopard battle tanks**. In signs of new flexibility, Berlin is now saying it would not stand in the way of other NATO nations transferring Leopard tanks to Ukraine. French President Macron said he does not rule out the possibility of sending Leclerc tanks to Ukraine.
- A Russian warship armed with new-generation **hypersonic cruise weapons** will participate in joint exercises with the navies of China and South Africa in February, per the Russian state news agency. The exercise will be the second involving the three countries in South Africa.

Markets & Business

Investors poured a record \$12.7 billion into emerging-market debt and equity funds last week in response to China's easing of its COVID-19 restrictions on activity, per BofA Global Research.

- China's **Geely** is planning a big investment in the **London Electric Vehicle** company to turn the maker of London's iconic black taxis into a high-volume, all-electric brand with a range of commercial and passenger vehicles.
- Germany's cartel office regulator announced initiated proceedings against payment company **PayPal Europe** over the possibility that it hindered competition.
- The US Justice Department is investigating conduct at the **Abbott Laboratories** infant-formula plant in Sturgis, Michigan, that led to its shutdown last year and worsened a nationwide formula shortage.
- **Amazon.com Inc** launched a dedicated air cargo service in India, **Amazon Air**, as it looks to expand and speed-up deliveries across one of its key markets amid fast-growing e-commerce sales.

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Environment, Sustainability & Governance

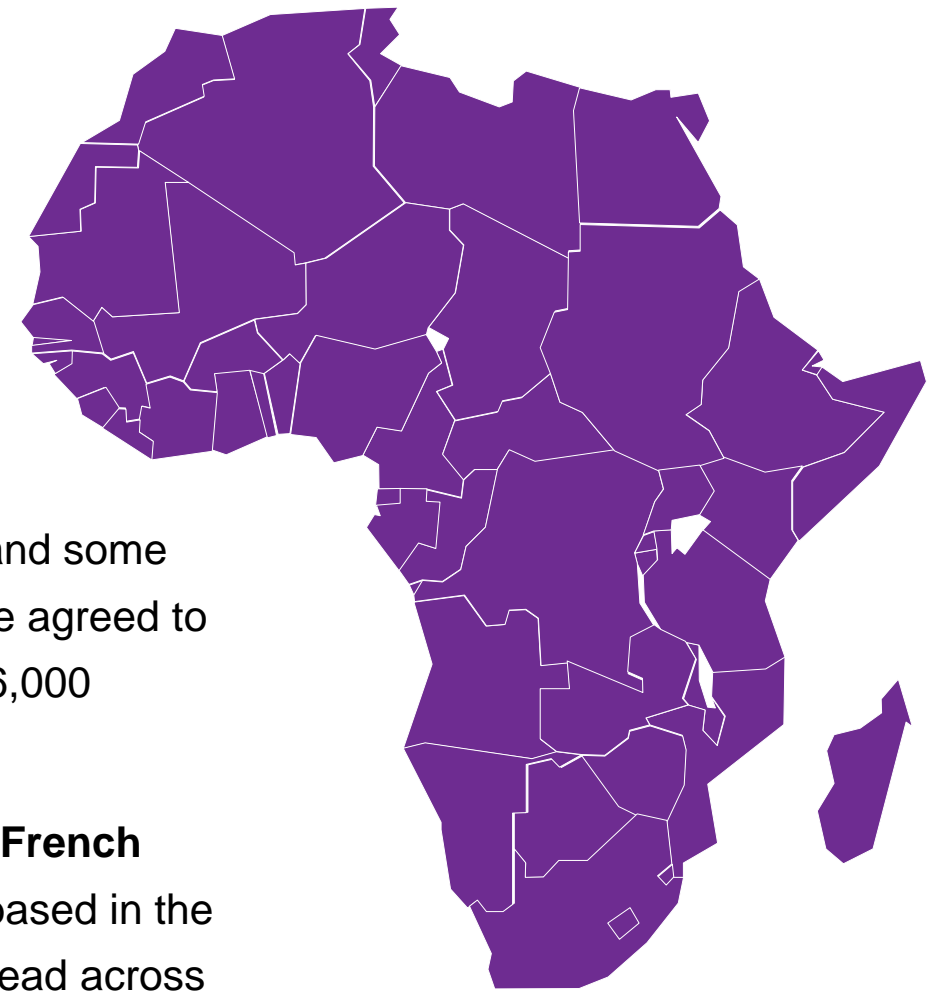
A new study has found that Germany could save almost three times more carbon dioxide emissions than previously thought by introducing a speed limit on its highways.

- In a ruling on the legal status of **gig economy workers**, a French court ordered Uber to pay around 17 million euros (\$18.43 million) in damages and lost salaries to a group of drivers who argued they should have been treated like employees rather than self-employed.
- UAE renewable energy company Masdar, state oil firm Abu Dhabi National Oil Company and oil major BP are teaming up to conduct a joint feasibility study on the production of **sustainable aviation fuel** in the UAE.
- Germany announced new development plans for offshore wind turbine sites to reach a target for 30 gigawatts (GW) of installed **wind power capacity** by 2030.
- The construction of Finland's first industrial-scale **green hydrogen production** facility began on Friday. Finland announced plans last June to build a hydrogen transmission network to help reduce carbon emissions and bolster the long-term security of its energy supplies.

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Africa

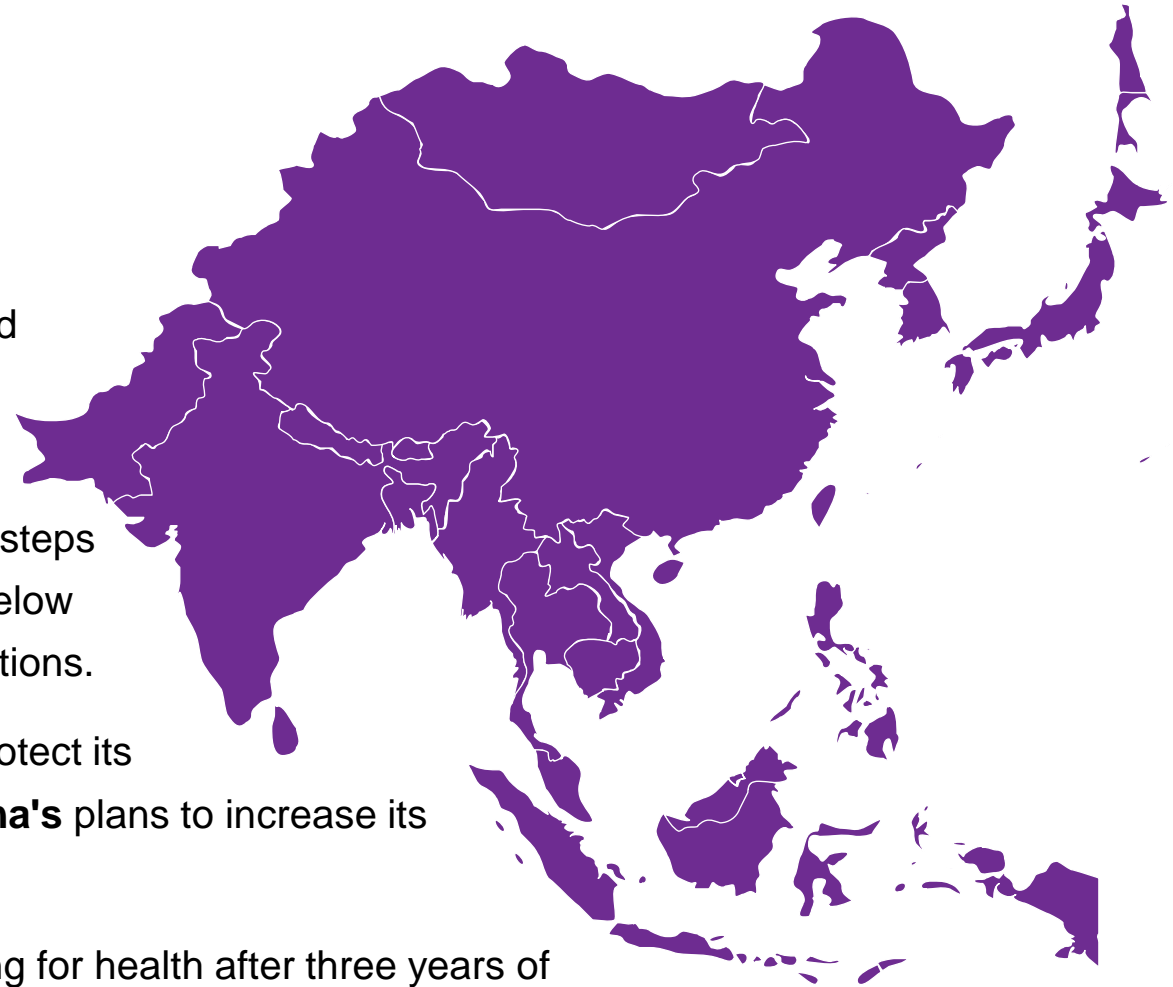
- **Russian** Foreign Minister Lavrov visited **South Africa** today for talks with one of his country's most important allies on a continent, as Washington and Moscow vie for influence in Africa.
- **Canadian** mediators announced that the government of **Cameroon** and some separatist factions in the English-speaking regions of the country have agreed to enter into a process aimed at resolving a conflict that has killed over 6,000 people.
- **Burkina Faso's** military government has demanded the departure of **French** troops stationed in the country. France has some 400 special forces based in the country to help local forces battle the Islamist insurgency that has spread across the Sahel from **Mali** over the past decade.
- **Nigeria's** NNPC spent 4.39 trillion naira (\$9.7 billion) on a fuel subsidy last year, a cost the government has blamed for dwindling public finances.



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Asia

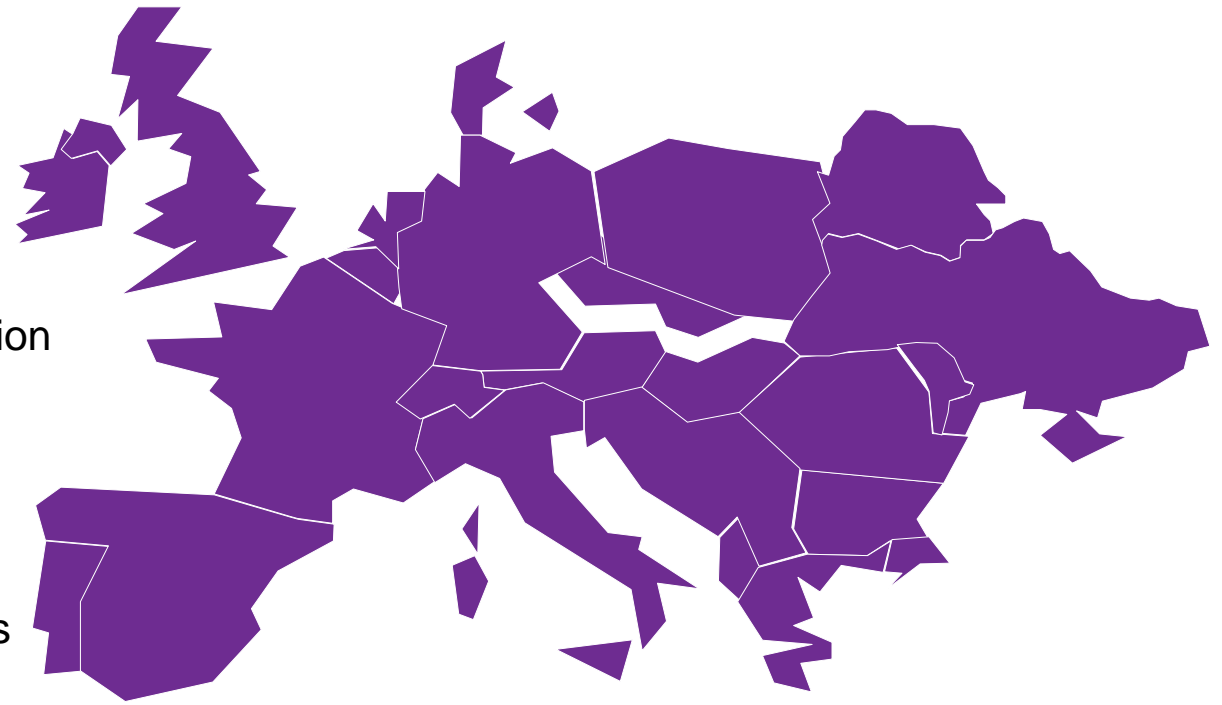
- **India** blocked the airing of a BBC documentary which questioned Prime Minister Modi's leadership during the 2002 Gujarat riots, saying that even sharing of any clips via social media is banned.
- **Japanese** Prime minister Fumio Kishida pledged to take urgent steps to tackle the country's declining birth rate, with births dropping below 800,000 for the first time, below the level to sustain societal functions.
- **Australia** will accelerate plans to buy advanced sea mines to protect its maritime routes and ports from "*potential aggressors*" amid **China's** plans to increase its influence in the Pacific region.
- **China** rang in the Lunar New Year yesterday with citizens praying for health after three years of stress and financial hardship under the pandemic. Beijing reported almost 13,000 deaths related to COVID-19 in hospitals between January 13 and 19, adding to the nearly 60,000 reported earlier in the month. Chinese health experts say the wave of infections across the country has already peaked, with 80 percent of Chinese having been infected.



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Europe

- The **European** Council will begin talks on using \$300 billion worth of confiscated Russian central bank assets for the reconstruction of **Ukraine**.
- **German** Finance Minister Lindner, who is working on a new **China** strategy, stated that Germany must reduce its dependence on China gradually as decoupling from the Chinese market would cost jobs. China has been Germany's top trading partner since 2016.
- Retired general Petr Pavel has a 15 percent lead over billionaire ex-premier Andrej Babis heading into a January 27-28 **Czech** presidential run-off vote. The post does not carry executive authority but has significant powers in appointing prime ministers, central bank chiefs and nominating judges for the constitutional court.
- A referendum in **Slovakia** failed to open a path to early elections after low voter turnout at the polling stations on Saturday, quashing the opposition's plan to bring the contest forward. Only 27.3 percent of voters cast ballots, far below the absolute majority a referendum must attract to be valid.



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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.

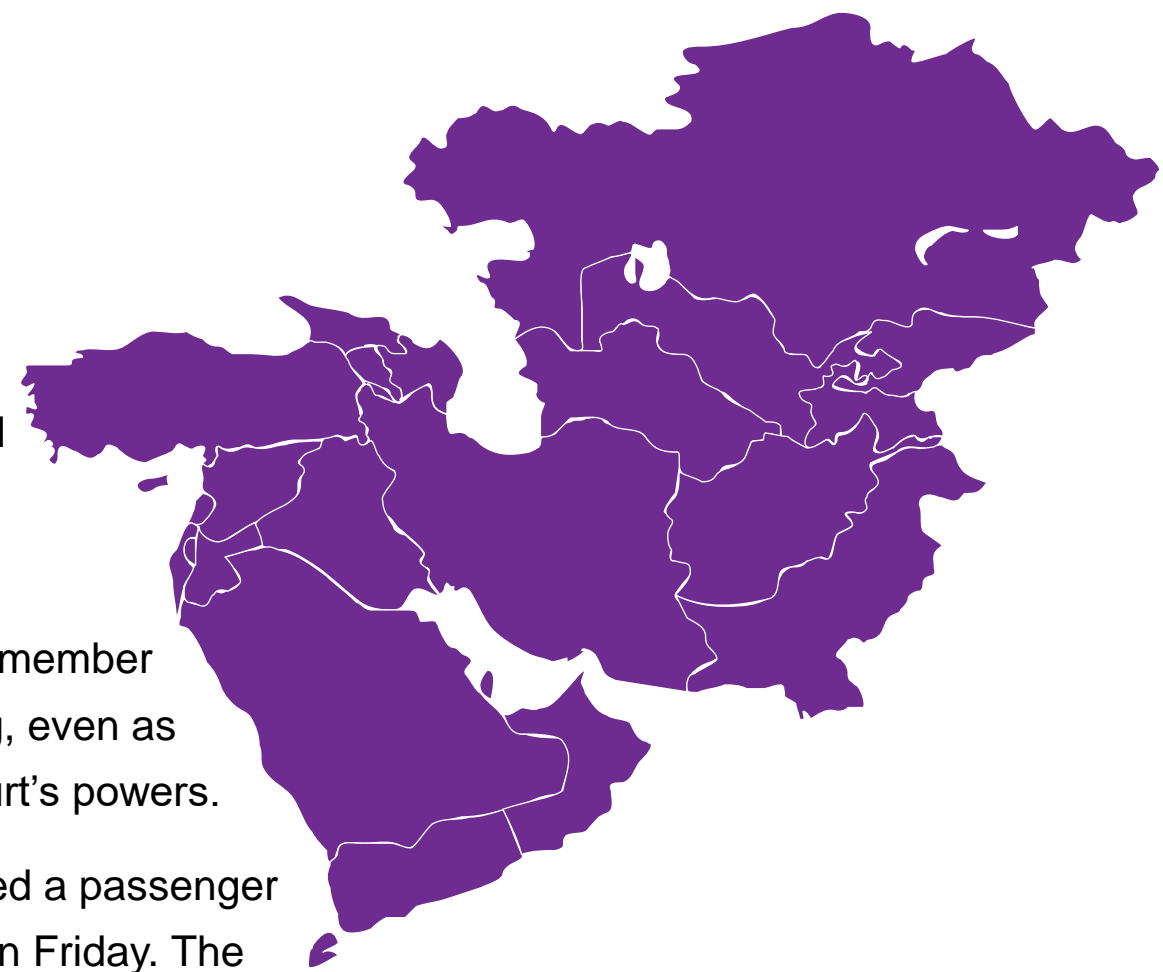
Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

- ❖ 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](#).

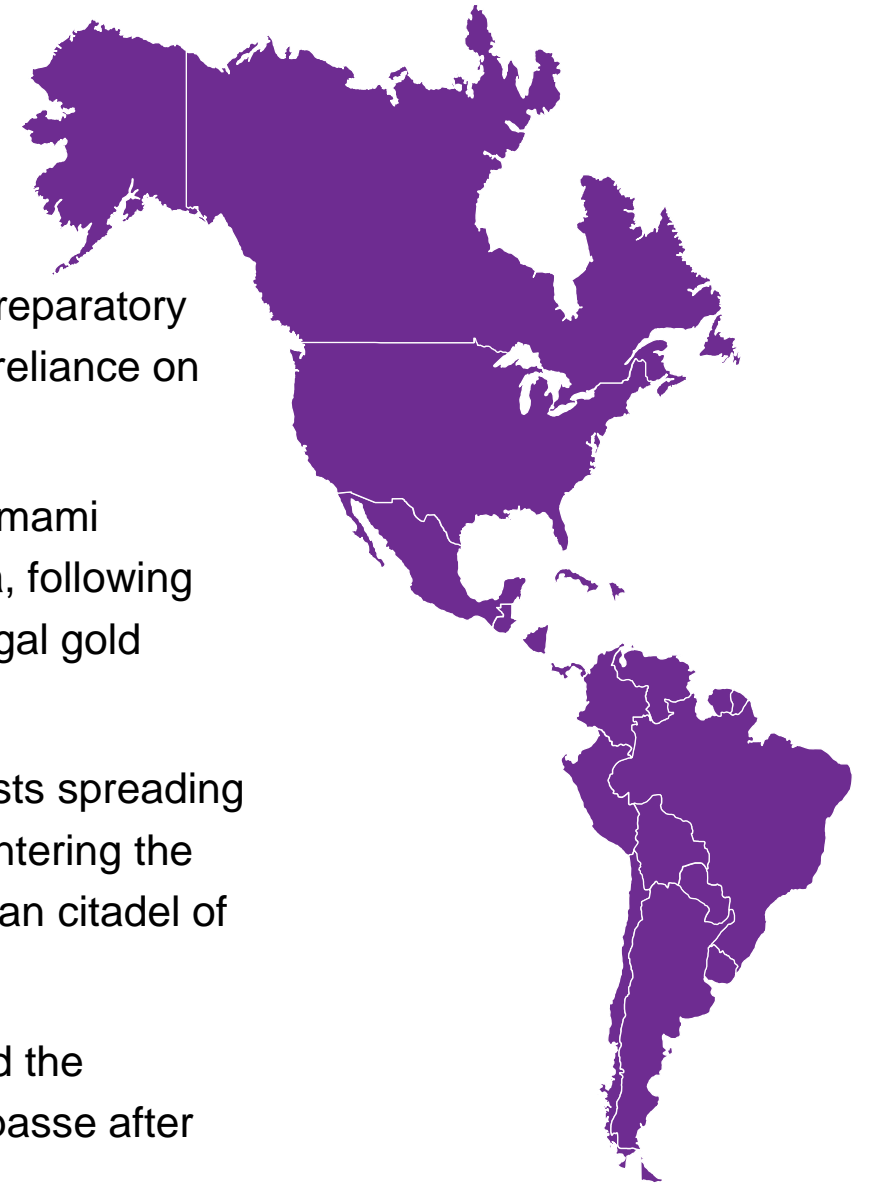
Middle East



- Thousands of people took to the streets of Brussels on Sunday to protest against the detention in **Iran** of **Belgian** aid worker, who was sentenced to 40 years in prison on charges including spying.
- **Israeli** Prime Minister Netanyahu dismissed a senior cabinet member with a criminal record, complying with a Supreme Court ruling, even as he pursues contested judicial reforms that would curb the court's powers.
- At least fifteen people were injured when a bomb blast derailed a passenger train in the southwestern **Pakistani** province of Baluchistan on Friday. The attack was claimed by the Baloch Liberation Army, a regional separatist group.
- **Iran's** troubled currency fell to a record low against the US dollar over the weekend amid the country's increasing isolation. The **EU** is discussing a fourth round of sanctions against Iran including members of the Revolutionary Guards.

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Americas

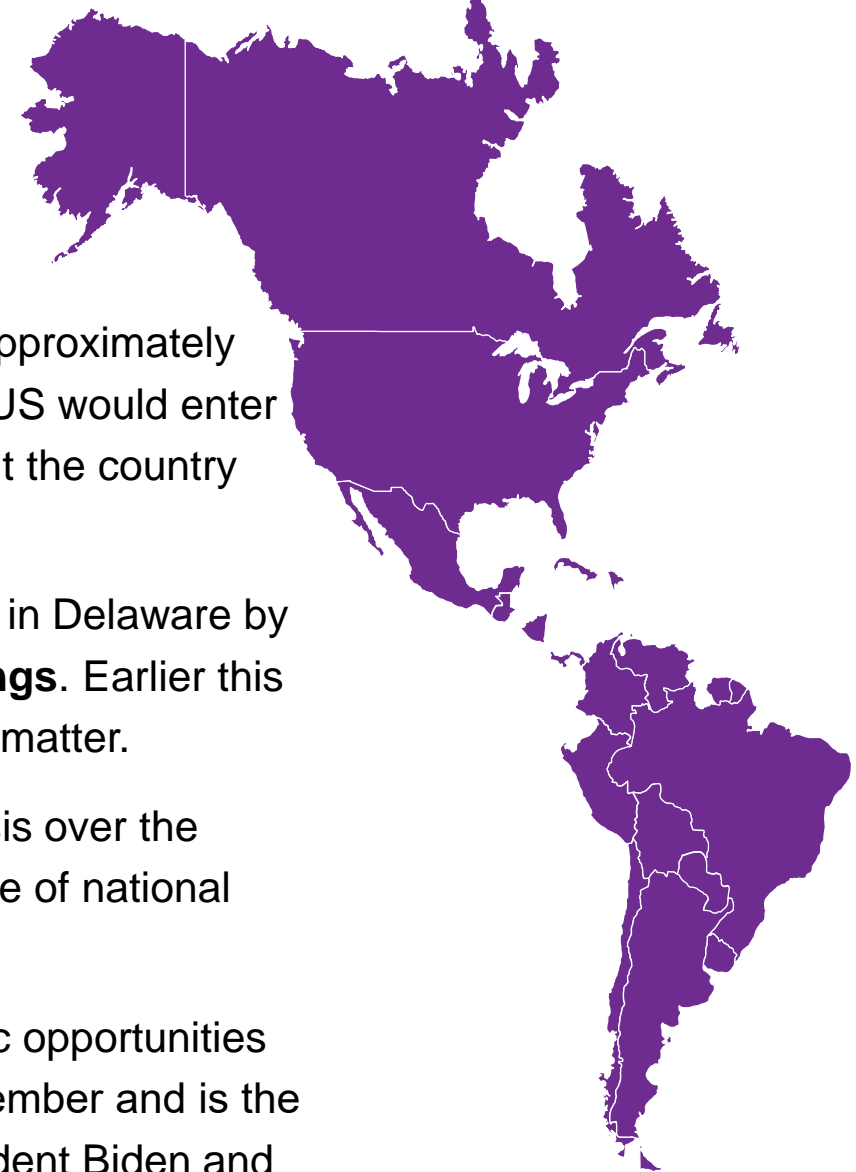


- **Brazil and Argentina** plan to announce this week that they are starting preparatory work on a common currency, seeking to boost regional trade and reduce reliance on the US dollar.
- **Brazil's** ministry of health has declared a medical emergency in the Yanomami territory, the country's largest indigenous reservation bordering Venezuela, following reports of children dying of malnutrition and other diseases caused by illegal gold mining.
- Violence in **Peru** continued over the weekend with anti-government protests spreading nationwide, with Peruvian police arresting over 200 people who illegally entering the campus of a major Lima university, while authorities in Cusco shut the Incan citadel of Machu Picchu and the Inca trail.
- **Colombia** and the National Liberation Army (ELN) rebel group announced the resumption of peace talks in Mexico next month, overcoming a recent impasse after the government recently declared and then called off a bilateral ceasefire.

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Americas: US

- According to a survey of the National Association of Business Economics, approximately 53 percent of those polled said they had a more than-even expectation the US would enter a **recession** over the next 12 months, while 3 percent indicated they thought the country was already in one. This was down from 64 percent in the October survey.
- Political pressure is mounting after a new search of President Biden's home in Delaware by the Justice Department found more **documents with classification markings**. Earlier this month, US Attorney General Garland named a special counsel to probe the matter.
- A bipartisan group of lawmakers is preparing a plan to defuse a looming crisis over the **nation's debt ceiling** by changing it from a fixed dollar amount a percentage of national economic output.
- Treasury Secretary Yellen is on a 10-day visit to **Africa**, promoting economic opportunities with the US. Yellen's visit follows on the US-Africa Leaders' Summit in December and is the first of many high-level visits to the region planned this year, including President Biden and Vice President Harris.



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The Future of Energy: Is the Russian Oil Cap Working?

“The oil cap is controversial and experimental, a so-called buyer’s cartel that works in theory but has never been put to a practical field test. The question is would it really work? Seven weeks in, the answer is yes.”

On December 5, G7 sanctions on Russia to cap the price of Russian oil at USD 60 per barrel came into effect. The price cap applies to crude oil, petroleum oils, and oils obtained from bituminous minerals which originate in or are exported from Russia by sea. The price cap mechanism runs in parallel with a ban on the maritime transport of Russian crude oil, except if sold below the price cap. The purpose of the sanctions is threefold: 1) further reduce Europe’s dependency on Russia oil and byproducts; 2) reduce Russia’s revenues being used to fund the Ukraine war, and 3) maintain sufficient Russian crude and byproducts on the market to push down global energy prices. The oil cap is controversial and experimental, a so-called buyer’s cartel that works in theory but has never been put to a practical field test. The question is would it really work? Seven weeks in, the answer is yes.

Market Response to Russian Oil Cap

With nearly all of the EU cutting off Russian seaborne crude oil supplies (Bulgaria being an exception, given a carve out until 2024), Russia had to scramble to find buyers and offer deep discounts to offload supplies. According to the Centre for Research on Energy and Clean Air (CREA), in December 2022, Russia’s earnings fell 17 percent, to the lowest level since the start of the country’s invasion of Ukraine. The EU’s crude oil import ban and the wider price cap caused a 12 percent reduction in Russia’s crude oil exports and a 23 percent drop in selling prices, for a 32 percent drop in Russian crude oil.

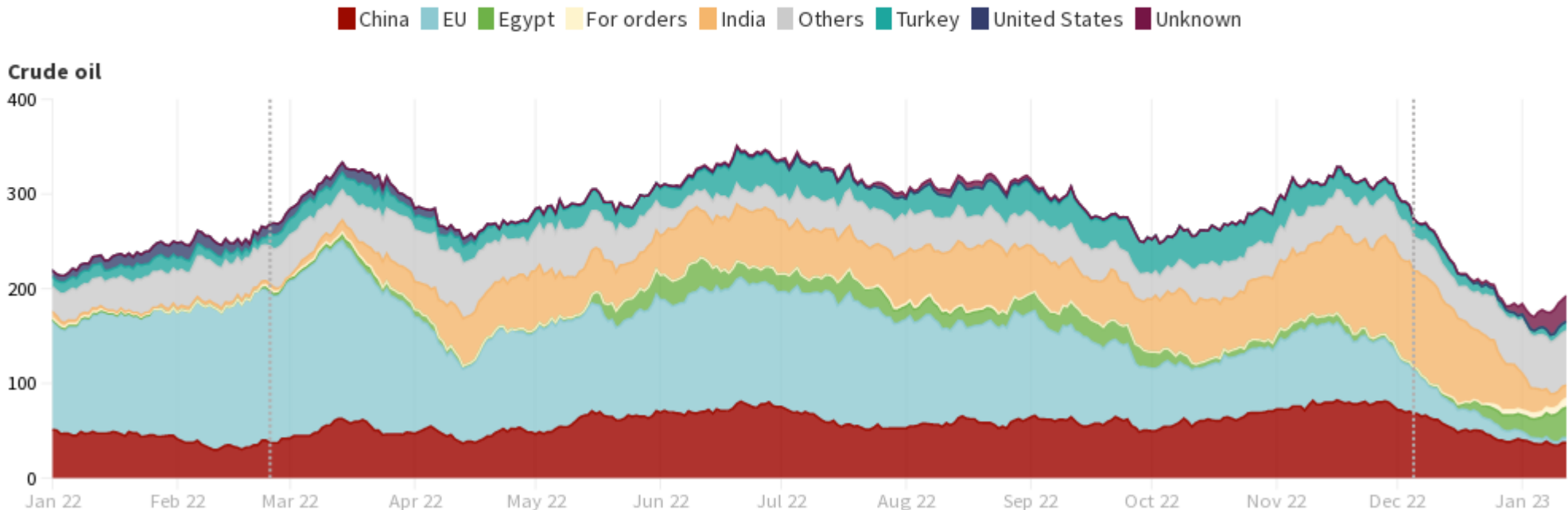
The drop in Russian seaborne exports in December may be a temporary phenomenon, caused by initial uncertainty and risk aversion of traders, insurers, and shippers, as well as

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Fossil fuel shipment departures from Russia

By declared destination

Million EUR per day, 30-day running average



Source: CREA

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bad weather reducing loadings at Russia's Kozmino port in the far east, and maintenance at Primorsk Port. Exports have already begun to recover somewhat.

The direction of Russian oil flows changed dramatically. In December, 70 percent of Russia crude was sent to Asia. The EU dropped off as Russia's top export market for fossil fuels, with China and India moving into the first and second spots. To sell its crude, Russia offered deeper discounts. In December 2022 prior to the start of the price cap, Urals was selling at a discount of around USD 24 per barrel compared to Brent. Currently, the discount is almost USD 32 per barrel, continuing a downward trend. During the same period, Brent prices increased marginally, and Brent is currently selling at USD 87.70.

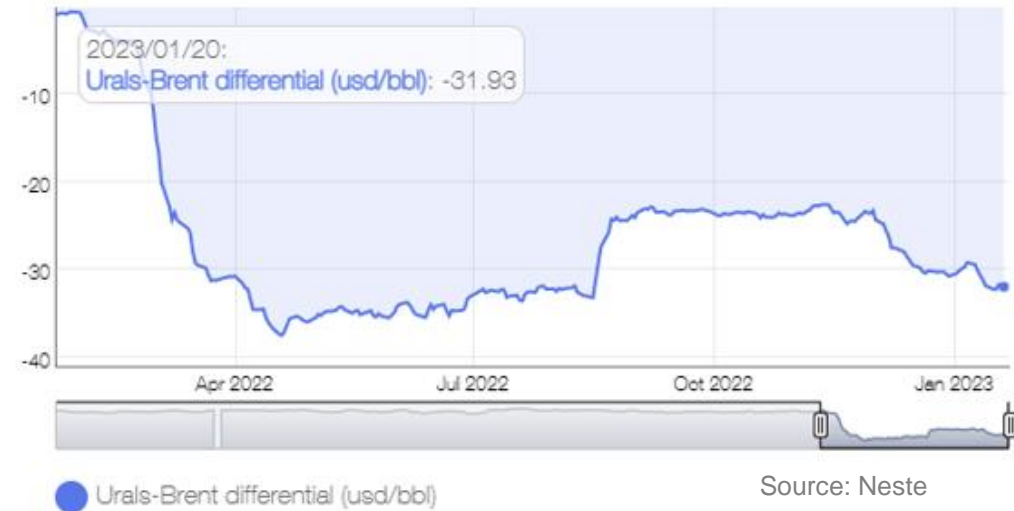
What's Next: Russian Countermeasures and Refined Products Price Caps

Moscow originally threatened to cut off shipments to any country imposing the oil price cap. This has not yet manifested into actual policy but may yet come into play. On December 27, Russian President Putin signed a decree that bans the supply of crude oil and

Price Differential between Urals and Brent

Daily figure is based on last five (5) days rolling average.

Zoom: 5d 1m 3m 6m 1y 3v Max ← →



oil products from February 1 for five months to nations that abide by the cap. The impact of this policy, however, remains to be seen. The price cap, while in place, is viewed as having been set relatively high, very close to the benchmark price of Russian oil over the past two years. Additionally, there is no public disclosure system in place to regulate compliance with the price cap. Russia could selectively

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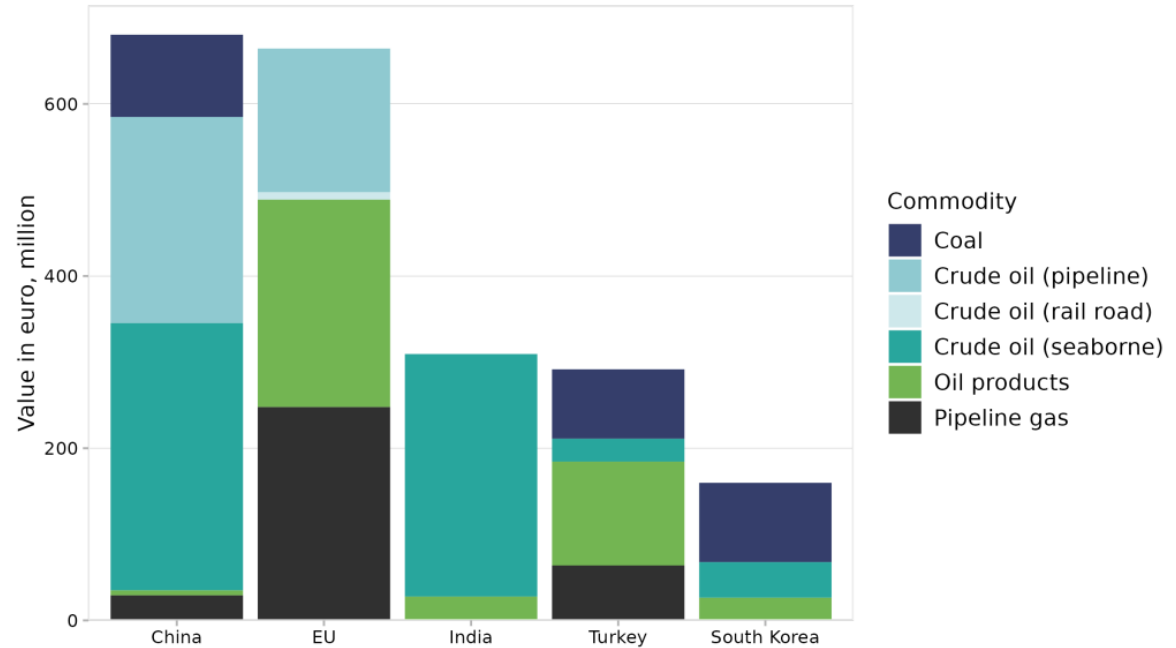
impost the ban, if the price of Russian crude remains near the cap. Yet, the stakes are high. In December, the EU paid Russia over €640 million per day for fossil fuels.

On February 5, the next stage of EU energy sanctions will be implemented, extending the ban (with price cap exemption) to Russian refined oil products. This is expected to lead to a decrease of €72 million per day flowing to Russia from the EU. The question is whether this will create a price shock. Details for the extension to refined products are not yet available. Policymakers are reported to be considering multiple price caps for different products, i.e., different caps for diesel, jet fuel and fuel oil. Those price caps will be harder to design and implement, given the lack of global benchmarks for refined products.

The EU energy commissioner Kadri Simpson assesses that European and G7 countries have secured alternative fuel supplies and can draw on their strategic oil reserves to mitigate the impacts of the upcoming

Top 5 importers of Russian fossil fuels

09 January 2023 to 15 January 2023



Source: CREA

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The Future of Energy: Is the Russian Oil Cap Working?

sanctions and price cap on Russian refined products. The EU's 27 member states are required to hold 60 days or more of refined product inventories in storage.

For Russia, the oil products ban could have a greater impact than that for crude oil. Russia lacks storage capacity for refined products. Export requires smaller tankers and markets within closer proximity. Some experts assess that two bans combined could reduce Russian oil output and total exports by 1 million barrels per day by the end of the first quarter in 2023.

The Larger Picture

Ukraine war related energy sanctions are fragmenting the energy market, creating price differentials depending on location and suppliers, adding to overall volatility. The International Energy Agency (IEA) assesses that volatility will be persistent in 2023 and that the war will have long-lasting changes on energy markets. While some short-term responses have focused on diversifying oil and gas supplies, many countries are looking to accelerate structural changes, moving more aggressively towards renewables. The IEA has forecasted that new measures such as the US Inflation Reduction Act, the EU's Fit for 55 package and REPowerEU, and

Japan's Green Transformation (GX) program, could propel global clean energy investment to more than USD 2 trillion a year by 2030, a rise of more than 50 percent from today. Meanwhile, the world will remain dependent on fossil fuels. The IEA does not see Russian fossil fuel exports ever returning to the levels of 2021. Russia's share of internationally traded energy, which stood at close to 20 percent in 2021, falls to 13 percent in 2030, while the shares of both the US and the Middle East rise, in IEA modeling based on existing policy decisions.

Despite these future headwinds, Russian experts do not expect energy sanctions alone will compel Moscow to change its policy on Ukraine. Sanctions are causing pain, but they are not catastrophic. Russia's budget performance worsened in 2022, with an expected 20 percent deficit. GDP is expected to drop by 2 percent. However, Russia's sovereign fund provides deep buffers in the short term. With no end of the Ukraine war in sight, decoupling of Europe from Russia will continue, with new energy sanctions closing loopholes and carve outs being phased out. The oil price cap, which is under review every two months, could be pushed downward, closer to Russia's production costs, in an effort to maximize pressure on Moscow and further decrease the flow of euros into the Russian war chest.

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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. 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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