

Dentons Flashpoint

Daily Global Situation Report

March 31, 2022

Global Situation Update: March 31, 2022

KEY TAKEAWAYS

Manufacturing and services activity in China both contracted in March for the first time in almost two years.

Western intelligence assesses that President Putin “*massively misjudged*” the costs of invading Ukraine due to doctored reports from advisors.

Second COVID-19 booster for 50-plus is now available in US.

Global Situation Update: March 31, 2022

WHAT WE'RE WATCHING

Costa Rica will hold a presidential runoff election this weekend. Over 3.5 million Costa Ricans will choose between 67-year-old former president and liberal candidate Jose Maria Figueres, and Rodrigo Chaves, a conservative finance minister in the outgoing government and former World Bank official. Surveys indicate Chaves has a slight lead, but the race is still too close to call.

Figueres and Chaves differ more on style and presentation than on policies. Both candidates have a remarkable business background and there is no indication there will be major policy shifts either way. Frontrunner Chaves would promote foreign trade through Costa Rica's accession to the Pacific Alliance and eliminate tariffs on machinery and industrial raw materials.



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

Global

Despite positive statement at the close of Russian-Ukrainian negotiations earlier this week, Turkey's foreign minister said the outcomes of the Istanbul talks are not being implemented on the ground.

- Western intelligence assesses that while Russia is redeploying a small number of units, Russia will continue **attacks across Ukraine**. Russian forces in Ukraine are regrouping and preparing for renewed offensive operations in the southeast region.
- In briefings by western intelligence, officials judged that Russian President Putin “*massively misjudged*” the **invasion of Ukraine**. President Putin’s aides are withholding information from the president, not telling Putin how poorly the military is performing and the full impact of sanctions.
- The UN World Food Program is feeding some one million people in Ukraine, though it warned many more were **going hungry**.

Markets & Business

An IMF official has warned that the unprecedented financial sanctions imposed on Russia after its invasion of Ukraine threaten to gradually dilute the dominance of the US dollar and result in a more fragmented international monetary system.

- **Royal Bank of Canada** has agreed to buy **Brewin Dolphin**, one of the UK's largest wealth managers, for £1.6bn in the latest tie-up in the British wealth sector.
- Australian uranium miners **Vimy Resources** and **Deep Yellow** have agreed a A\$658 million (US\$495 million) merger to better tap into the booming market for the resource.
- European Bank for Reconstruction and Development forecasts that **Russia's economy** will shrink by 10 percent this year as the war in Ukraine and western sanctions inflict the deepest recession since the early 1990s. **Ukraine's gross domestic product** will decline by as much as 20 percent due to Russia's invasion.
- EU lawmakers today will likely back tougher safeguards for transfers of bitcoin and other **cryptocurrencies**, in the latest sign that regulators are tightening up on the sector.

Environment, Sustainability & Governance

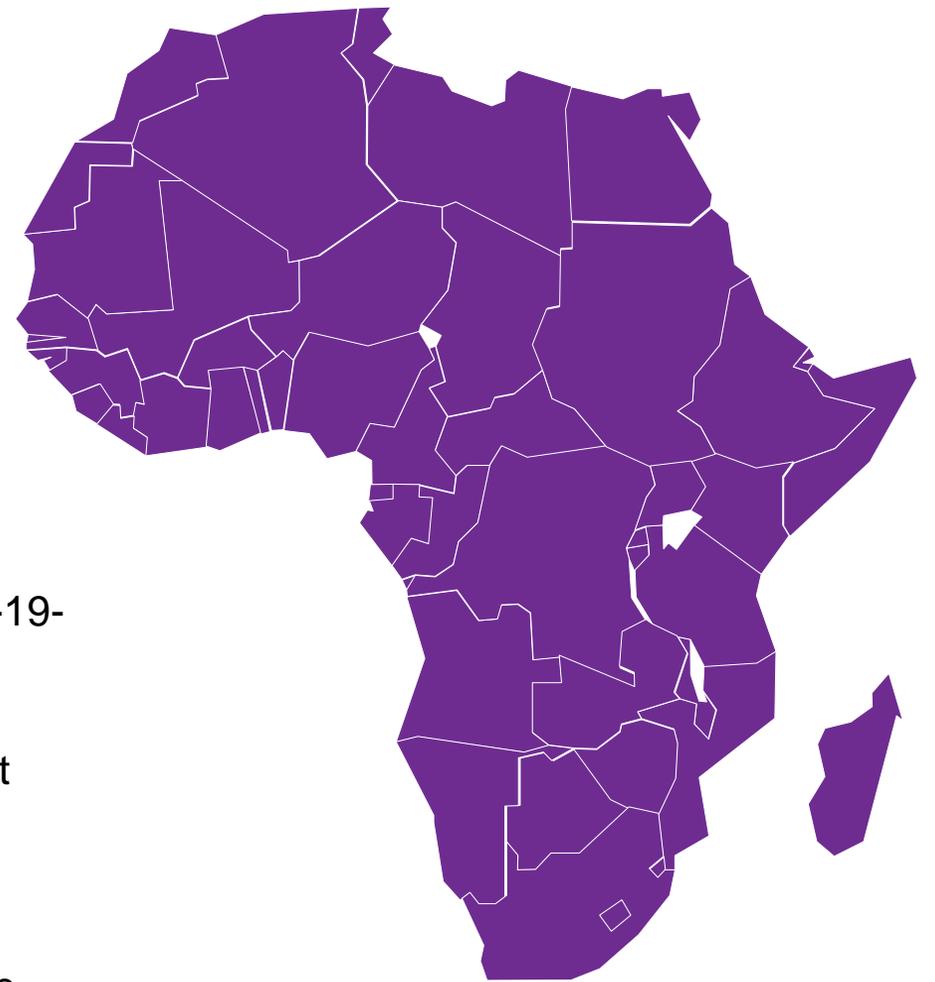
A new report by Rainforest Action Network, BankTrack and Oil Change International found that the world's top banks provided \$742 billion in financing to fossil fuel producers in 2021, little changed from 2020 despite calls to reduce fossil fuel funding.

- Two groups of EU lawmakers said that they would vote to reject proposed EU rules that would classify **natural gas and nuclear energy as sustainable investments** as “*transition fuels*.”
- The US Federal Deposit Insurance Corporation (FDIC) published draft principles that would direct bank boards and senior management to develop robust frameworks to measure and guard against **climate-related financial risk**.
- California State Teachers' Retirement System, one of California's largest pension funds, said that it would push companies to **appoint more women to boards**.
- Climate Action 100+, a leading group of investors pushing for faster action from the 166 companies responsible for over 80 percent of **corporate emissions**, found that only 17 percent of those companies had set targets in line with meeting the goal of capping warming at the pre-industrial average by 2050.

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Africa

- Member states approved the entrance of the **Democratic Republic of the Congo** into the East African Community. The DRC's M23 rebel group denied army reports that it had shot down a helicopter of UN peacekeepers, accusing the army itself of downing the aircraft.
- **South Africa's** cabinet announced plans to end the country's COVID-19-related state of disaster as early as next week.
- Officials in the Afar region of **Ethiopia** say that Tigrayan forces are not abiding by a unilateral ceasefire there, endangering the government's temporary truce to allow aid to access the Tigray region.
- **Sudanese** military junta leader Burhan replaced the heads of some 30 national universities, a move seen by many as an attempt to consolidate power.



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Asia

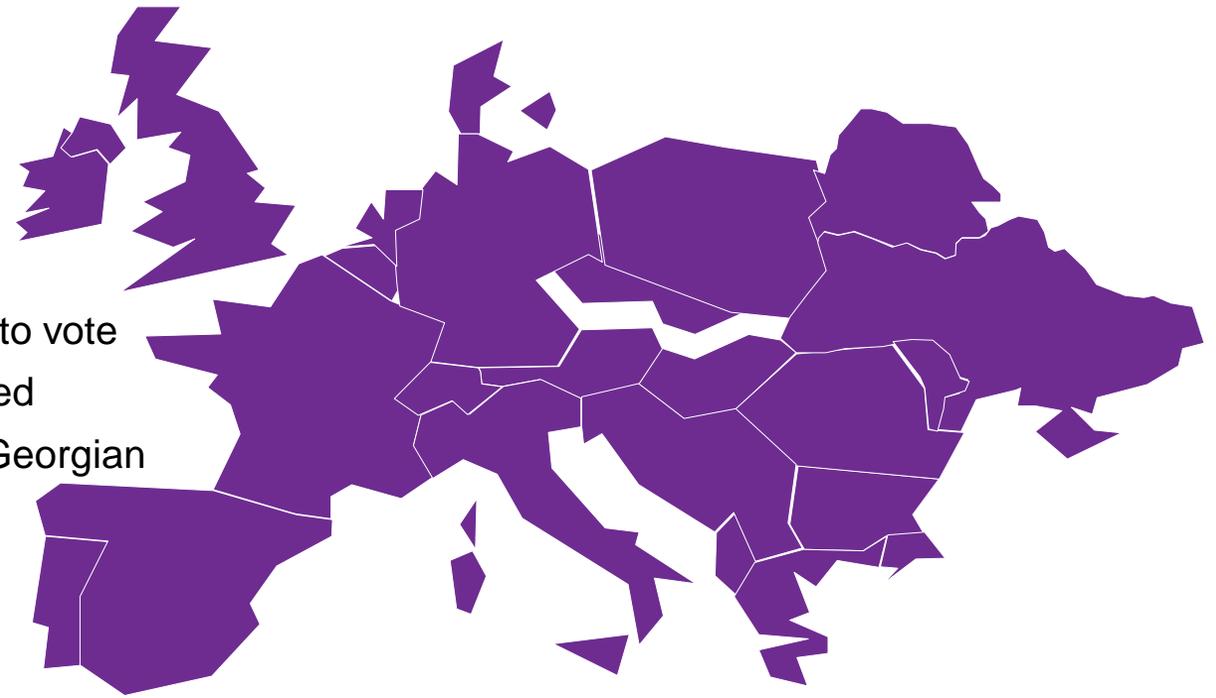
- **Hong Kong** authorities have restated that the city is not abandoning its commitment to mainland **China's** tough zero-COVID policy despite recently easing some restrictions.
- **British** Foreign Minister Truss and **Russian** Foreign Minister Lavrov will both be in India today. Truss will underline the "*importance of democracies working together to deter aggressors*," as India continues to resist calls to condemn Russia for its aggression against Ukraine. India is also reported to be undermining western sanctions by importing Russian oil at discounted rates.
- The Beijing court where Australian journalist Cheng Lei went on trial today on charges of illegally providing state secrets overseas deferred its verdict at the end of proceedings. **Australia's** ambassador to China was denied entry to a Beijing court. Cheng Lei, a business news anchor at **Chinese** state broadcaster CGTN in Beijing, has been allowed little contact with her family and friends during her 19 months of detention.
- Manufacturing and services activity in **China** both contracted in March for the first time in almost two years, in a sign of the economic strains of the government's strict COVID-19 measures. China has decided to restrict the visas for **US** officials, in response to the US visa restrictions on some China officials.



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Europe

- The leader of the South Ossetian breakaway republic wants to vote on integration into the Russian Federation. **Russia** recognized South Ossetia as independent in 2008 following the Russo-Georgian War, whereas most countries consider the region to be part of **Georgia**.
- **Sweden's** prime minister will no longer rule out applying for NATO membership, shifting positions as Russia's aggression against Ukraine continues into the second month.
- **Slovakia** will expel 35 Russian diplomats, following similar moves by **Belgium, the Netherlands, Ireland and the Czech Republic** on Tuesday.
- **Hungarian** Prime Minister Orban's ruling Fidesz party maintained a slim lead over an opposition alliance before Sunday's parliamentary election.



How do You Manage Incident Response?

2021 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.

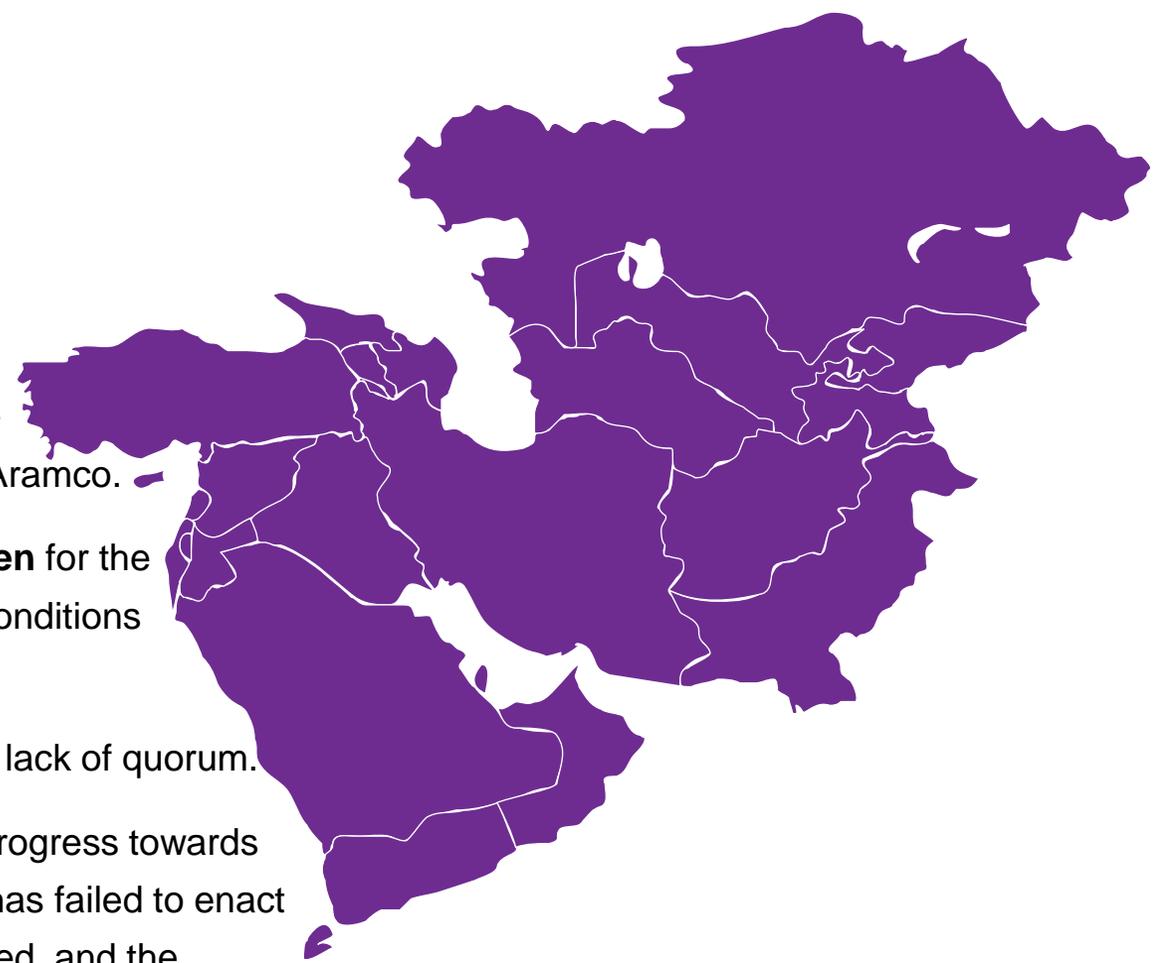
Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

- ❖ 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](#).

Middle East



- The **US** imposed new sanctions in individuals and entities thought to help supply **Iran's** IRGC with missiles in retaliation for an Iranian strike near US property in Erbil, **Iraq** and an Iranian-backed strike on Saudi Aramco.
- The **Saudi-led** coalition said it would suspend military operations **Yemen** for the month of Ramadan, which begins on Friday, in order to create better conditions for peace negotiations.
- The **Iraqi** parliament failed to elect a president for the third time due to lack of quorum.
- An IMF delegation kicked off a two week visit to **Lebanon** to discuss progress towards increased funding; the country desperately needs budget support but has failed to enact capital controls and other measures international donors have requested, and the central bank governor is under suspicion of corruption.
- **Tunisia's** union of public sector workers threatened a strike if unpopular economic reforms, which President Saied has argued are necessary to secure international funding and include wage freezes and privatization, are implemented. Tunisia's suspended parliament met online and repealed the decrees that have given President Saied, who dissolved the body, near total power to rule, deepening a political crisis as any constitutional courts that could rule on the decrees have also been dissolved.

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Americas

- The Biden Administration is considering ending a Trump-era rule that allowed immigrants to be swiftly turned away at the southern border with **Mexico** due to COVID-19 concerns; the rule has drawn criticism from human rights groups but would cause a spike in crossings if repealed.
- A new report found that the **Mexican** military knew about the disappearance of 43 students in 2014 who were found to have been disappeared by corrupt police officials.
- Under penal reforms passed by **El Salvador's** congress on Wednesday, gang lords and their followers will face prison sentences ranging from 20 to 45 years as the country clamps down on rising gang violence.
- **Honduran** authorities ordered a subsidiary of **Canada's** Aura Minerals Inc to suspend open-pit gold mining on Wednesday at an indigenous cemetery site.



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Americas: US

- Second **COVID-19 booster** shot on Wednesday, with President Biden setting an example getting his shot. The Administration rolled out a new website to help Americans live with the coronavirus, and a renewed push for vaccinations and funding.
- **Children** ages 5 to 11 who received the Pfizer COVID-19 vaccine were 68 percent less likely to be **hospitalized** during the Omicron wave in the US than unvaccinated children, according to a new study.
- A bipartisan 55 percent of Americans support sending more US troops to NATO countries in central and eastern Europe in response to Russia's five-week old invasion of **Ukraine**, according to a Reuters/Ipsos poll.
- President Biden plans to invoke the Defense Production Act to boost domestic **supply of minerals** crucial for electric vehicles and large capacity batteries.
- President Biden is close to announcing another big **release of oil from emergency stocks** as he steps up efforts to cool crude prices that are feeding high inflation across the economy.



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Russia-Ukraine War Prompts Shifts in ESG

By Anni Coonan

Among other market shocks, the ongoing Russian invasion of Ukraine has prompted some investors to rethink the parameters and purpose of environmental, social and governance investing (ESG). Invasion-related market disruptions have created new economic pressures, endangering climate pledges that inform ESG ratings, and new geopolitical realities have shifted attitudes around defense investments and the application of ESG standards to sovereign investing.

Russia-Ukraine and Green Energy Investing

Oil market disruptions have been among the most visible second-order effects of the war in Ukraine: over the past month, restrictions on exports from Russia and other supply chain disruptions have sent oil prices soaring. The reduction in supply has prompted diverging opinions on the appropriate response from investors – some have called for increased investment in upstream capabilities to bolster traditional energy security, while others have called to accelerate the energy transition to diversify energy sources and foster energy independence. At least in the short term, energy market disruption fueled a flight from ESG funds - Equity ESG funds, which make up the bulk of funds focused on sustainable investing, saw a 60% slowdown in inflows over the last month. Many countries moved to approve new shale oil and coal production, and ExxonMobil announced new investments in shale production that may hamper its 2050 net zero emissions goal. The shift may lead regulators to be more accepting of fossil fuels in ESG taxonomy: the last several months have seen a heated debate in the EU over whether so-called transition fuels, which are not seen as climate-friendly themselves but will be necessary in transitioning to renewable energy, can be classified as “sustainable.” The most recent proposal – establishing an “amber” tag for investments that are not fully environmentally friendly – may be easier to swallow now that energy security is higher-priority for European governments, and even nuclear energy, a source of conflict in the EU, could be easier to accept (the German government was a prominent critic of including nuclear in ESG rules, but is especially impacted by new energy security concerns).

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Russia-Ukraine War Prompts Shifts in ESG

Defense Stocks and Social Harm

One of the largest shifts has been the swift reorientation around defense stocks. The last several years saw steep divestment from defense companies throughout the world, and especially in Europe – French defense firm Thales saw the share of equity held by non-French European investors halve since 2016, for example. Draft language for the EU’s much-anticipated ESG classification system tagged defense stocks as harmful, without much pushback. Defense stocks have seen a U-turn since the onset of the war in Ukraine, however, with market sentiment strongly supporting investment in defense stocks – this month, Sweden’s SEB bank, one of the largest Nordic banks, walked back a year-old decision to ban defense investments, and new draft ESG language from the European Commission quietly removed regulations that would classify defense stocks as “socially harmful,” reserving the label instead only for investments that violate international rules on the production, use and deployment of weapons.

ESG and Sovereign Risk

Finally, Russia’s war on Ukraine has prompted some investors to consider expanding ESG ratings to include sovereign investments and national markets as a whole, where they currently do not typically factor into risk ratings. In recent years, human rights-related risks to investments have often manifested in the form of consumer boycotts, sanctions (such as in Russia), or business continuity concerns where human rights concerns are relevant but secondary (such as in Myanmar). However, a recent survey by Reuters found that more than half a dozen fund managers said the Ukraine crisis was causing them to rethink how they assign country risk, and that expanded risk analysis could more regularly encompass ESG concerns such as climate and human rights risk exposure in addition to government stability and economic strength. While interesting, however, applying ESG standards to entire countries could be deeply politically fraught: consider, for example, the ramifications of a potential negative ESG rating for China for western advisors whose governments have vocally opposed the use of Uyghur labor in supply

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Russia-Ukraine War Prompts Shifts in ESG

chains. Formally factoring ESG ratings into national investments could further partition an already segmented global economy.

Future of ESG

More broadly, shifts in the ESG landscape as a result of the Russian war in Ukraine may force ESG ratings agencies and investors to examine the methodology of ESG ratings. Leading ratings agencies MSCI and Morningstar's Sustainalytics score ESG investments in

investments in terms of potential impact to stock price. While for individual investors, then, ESG indexes may be a way to invest money in ways that align with their morals, for institutional investors, while purpose and impact can be important, the actual function of ESG ratings is to gauge risk to stock prices and investment returns from ESG-related market shocks. As a tool for predicting investment risk from exposure to social score issues, most ESG ratings failed in the Russia-Ukraine conflict: existing ESG ratings could not predict the rebound in defense and nuclear investment sentiment, and in the first 12 days of the war, the Financial Times found that lower-rated companies on Refinitiv's combined ESG score did more to suspend

or divest their Russian operations than those with higher ratings, incurring less negative sentiment.

Shifts in ESG investing in the wake of the Russian invasion of Ukraine remind us that ESG ratings are formed by scientific realities, such as the impacts and drivers of climate change, but also by public sentiment about what investing "with purpose" should accomplish. The geopolitical landscape will continue to evolve and influence the values that ESG promotes, the priority it takes, and the types of investments it applies to, creating new regulatory considerations to consider alongside other business concerns like sanctions and public opinion.

Ukraine War Update: Putin's Misjudgment, Rouble's Rejection, NATO's Reinforcement

Despite observing some redeployment of Russian units, Western intelligence judges that Russia troops continue to plan for an offensive against the Ukrainian capital and remain dug into positions around Ukraine. Russian President Putin, they assess, has not been fully informed by his advisors on the poor military performance, nor the impact of western sanctions.

Political Developments

Despite positive statement at the close of Russian-Ukrainian negotiations earlier this week, Turkey's foreign minister said the outcomes of the Istanbul talks are not being implemented on the ground. Ukrainian and Russian negotiators are set to resume talks online Friday.

The US continued to increase assistance to Ukraine as the war goes into the fifth week. President Biden announced the US would provide \$500 million (€448 million) in direct budgetary aid to Ukraine.

The Pentagon announced additional aircraft, including 10 F-18 jets, and more than 200 personnel would be headed to NATO allies eastern Europe, including Lithuania. Estonia's prime minister called on NATO to increase its defensive capabilities in the Baltic region.

Ukrainian President Zelensky called on Norway and the rest of Europe to close their seaports to Russian ships.

Ukrainian President Volodymyr Zelenskyy addressed the Australian parliament, calling for a tightening of sanctions and asking for donated vehicles, such as Australia's Bushmaster armored vehicles.

The EU and US have convened the first US-EU High-Level Dialogue on Russia in Washington yesterday where discussions focused on strategic objectives and policy coordination aimed at ending Russia's war of aggression against Ukraine.

The UN Human Rights Council has named Norwegian judge Erik Mose to lead its investigation into possible war crimes committed by Russian forces in Ukraine. Mose is a former member of Norway's Supreme Court and the European Court of Human Rights.

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Ukraine War Update: Putin's Misjudgment, Rouble's Rejection, NATO's Reinforcement

Battlefield Developments

Western intelligence assesses that while Russia is redeploying a small number of units, Russia will continue attacks across Ukraine. Russian forces in Ukraine are regrouping and preparing for renewed offensive operations in the southeast region. UK military intelligence also assess that heavy fighting will likely occur in the suburbs of Kyiv in the coming days as Russian forces continue to hold positions both east and west of Kyiv. The US also confirmed that "*less than 20 percent*" of the Russian contingent in the vicinity of Kyiv were starting to "*reposition.*" Russia is expected to refit and resupply them for redeployment and not bring the forces home.

Russia continued to target Ukrainian fuel depot, hitting a center in the eastern Ukrainian city of Dnipro.

Russian shelling and missile strikes have continued in Chernihiv despite Russian statements indicating an intended reduction of military activity around the area, British military intelligence.

Russia's defense ministry said it was moving into the "*final phase*" of its operation in eastern Ukraine, while reiterating its plan to focus forces on securing the separatist republics in the Donbas.



Source: [Institute for the Study of War](https://www.instituteforthe studyofwar.org/)

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Ukraine War Update: Putin's Misjudgment, Rouble's Rejection, NATO's Reinforcement

In briefings by western intelligence, officials judged that Russian President Putin “*massively misjudged*” the invasion of Ukraine. Morale is very low among Russian soldiers who are refusing to carry out orders and sabotaging their own equipment. The US assessed that President Putin's aides were withholding information from the president, not telling Putin how poorly the military is performing and the full impact of sanctions.

Humanitarian Developments

Russia has promised a temporary cease-fire on Thursday to let residents of Mariupol flee. Ukrainian officials have dispatched a convoy of buses to Mariupol in an effort to evacuate civilians.

The UN World Food Program is feeding some one million people in Ukraine, it said Wednesday, though it warned many more were going hungry.

Economic Developments

Russian President Putin told German Chancellor Scholz that European companies could continue paying for gas in euros. Putin said the money would be paid into Gazprom Bank, which is not a

subject of sanctions, and then transferred in rubles to Russia. Putin had said last week “*unfriendly*” countries would have to pay for Russian gas in Russian rubles. G7 countries have said payment in rubles would breach existing contracts.

EU investigators raided offices of Gazprom's German divisions, as EU officials seek to understand the Russian company's possible role in the recent surge in gas prices.

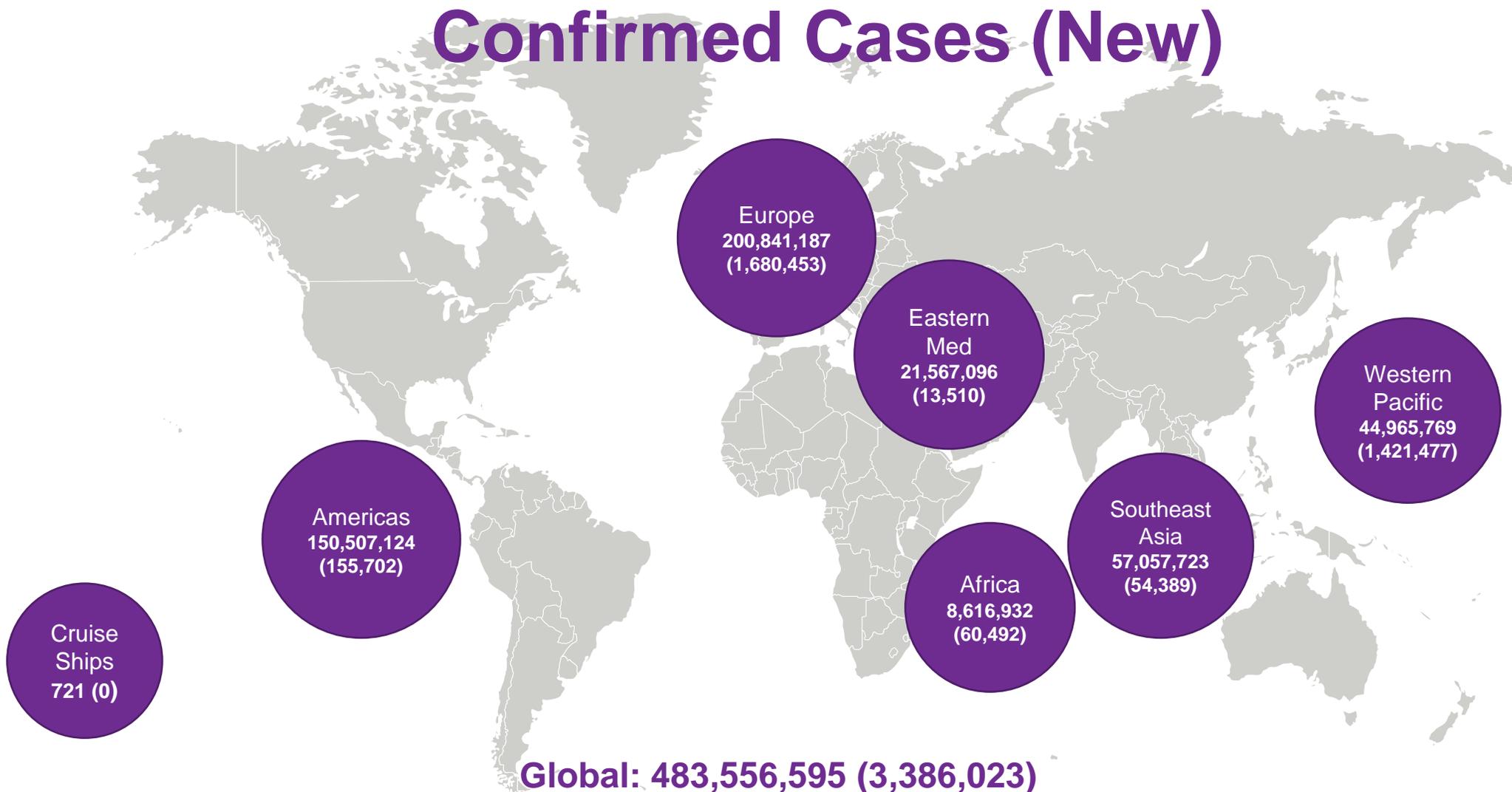
Poland has said it intends to end all Russian oil imports by the end of the year.

Swiss miner Glencore will not seek any new trading business in Russia but will continue to meet its legal obligations under pre-existing contracts

Coronavirus Condition Updates

As of 5:04 pm CEST on March 30, 2022

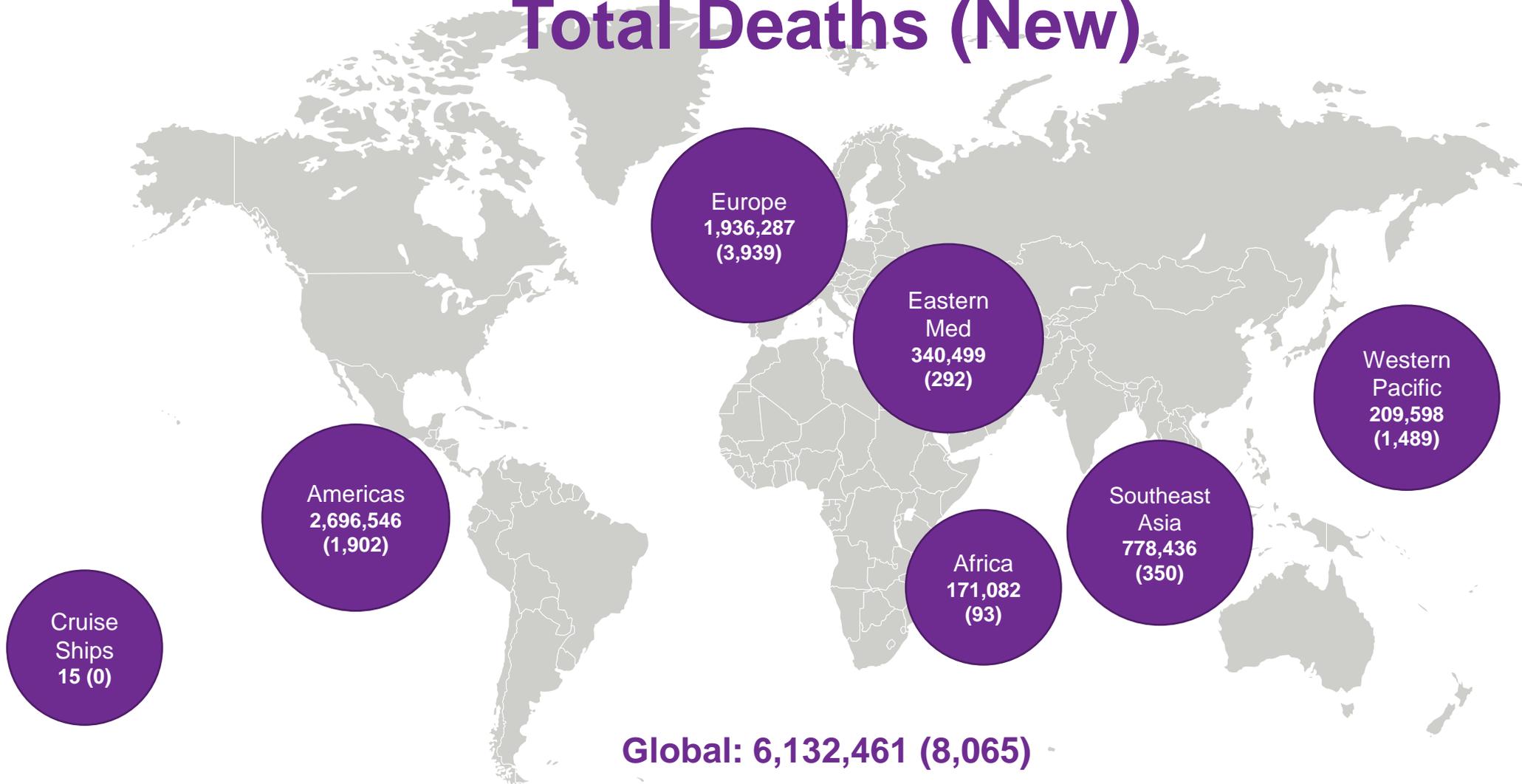
Confirmed Cases (New)



Reflects data as of 5:04 pm CEST on March 30, 2022.
Data Source: World Health Organization

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Total Deaths (New)



Reflects data as of 5:04 pm CEST on March 30, 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.

Karl Hopkins

Partner and Global Chief Security Officer
Dentons
Washington, DC

D +1 202 408 9225
karl.hopkins@dentons.com

Melissa Mahle

Senior Analyst
Dentons
Washington, DC

D +1 202 408 6383
melissa.mahle@dentons.com