

# Dentons Flashpoint

## Daily Global Situation Report

February 25, 2022

# Global Situation Update: February 25, 2022

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## KEY TAKEAWAYS

Russian troops encircle Ukraine's capital Kyiv, with first troops entering the city.

Western-aligned powers impose broad sanctions on Russia.

Increased radiation from the defunct Chernobyl nuclear plant, now under Russian military occupation, is being recorded.

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

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## WHAT WE'RE WATCHING

The invasion of Ukraine will impact the calculus of the US Federal Reserve and central banks around the world to raise interest rates in 2022. Many countries had plans for aggressive rate hikes this year to help tamp down inflation and rising consumer prices, but they are now likely to be less in frequency and intensity because of risks and uncertainty stemming from the Ukraine crisis.

Importantly, inflationary pressure in the US and worldwide will increase further now with higher fuel prices as a result of the invasion and retaliatory sanctions on Russia. Central banks will have to be more cautious with rate hikes to keep money flowing for economic growth and perhaps tolerate higher inflation, which will be a difficult balancing act.



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# Global

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**Western aligned countries rolled out new sanctions against Russia, seeking to “knock percentage points off the Russian economy in the next 12 to 18 months.”**

- At a summit of NATO alliance leaders, NATO’s secretary-general called **Russia’s invasion of Ukraine** “*deliberate, cold-blooded and long-planned*.”
- The Russian military is continuing its march towards Kyiv, seeking to encircle and capture the **Ukrainian capital today**, after having met strong resistance yesterday slowing its advance.
- G7 leaders met yesterday to coordinate a response to the Russian invasion of Ukraine. The **G7 condemned** in the strongest possible terms the Russian invasion of Ukraine and declared unwavering support and solidarity for Ukraine.
- The world's first plant-derived **COVID-19 vaccine** was approved for use in Canada, named Covifenz, available for adults aged 18 to 64, and produced by a unit of Mitsubishi Chemical Holdings Corp and Philip Morris International.
- Globally, **confirmed coronavirus cases** topped 428.5 million with 5.9 million deaths; more than 10.4 billion vaccine doses have been administered.

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# Markets & Business

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**The benchmark Japan-Korea-Marker (JKM) price for liquefied natural gas jumped nearly 28 percent today on fears of disruption to global energy and commodities after Russia's invasion of Ukraine.**

- At least two more developments of **China Evergrande Group** have been taken over by state-owned enterprises in the past few weeks, as the developer struggles to complete projects amid the more than \$300 billion in liabilities it holds.
- **Toyota Motor Corp** has accepted labor union pay demands, concluding annual wage negotiations with unusual speed amid calls by the government for firms to lift wages. Toyota has long served as bellwether of the spring labor talks, with other major firms taking a lead from its pay settlements.
- Index provider **FTSE Russell** said none of the constituents of its equity indexes fall within the scope of the sanctions Britain has announced it is imposing on Russian individuals and companies.
- Finland's **Nokian Tyres** announced it was shifting production of selected key product lines from Russia to Finland and the US to prepare for possible future sanctions.

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# Environment, Sustainability & Governance

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**A new study by As You Sow, a shareholder advocacy group, shows that increased executive pay is facing rising pushback from shareholders, leading to recent pay rejections at Norwegian Cruise Lines and General Electric.**

- **Sustainability ratings agency** Standard Ethics downgraded Russia to its lowest rung following the invasion of Ukraine.
- Chinese tech giant Tencent announced that it will **target carbon neutrality** by 2030.
- Allianz Global Investors announced several changes to its voting policies, including that it will vote against companies that do not **link executive pay to ESG** targets.
- After Russian forces seized the defunct Chernobyl power plant, Ukraine's nuclear stated that they were recording **increased radiation levels** from the site of the defunct Chernobyl nuclear power plant, likely from tanks and troops stirring up soil, sending contaminants into the air.

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# Africa

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- **Sudan** released 115 of some 135 detained anti-coup protesters following pressure from lawyers, families, and the international community.
- Four French soldiers deployed as part of MINUSCA were released after four days of detention in the **Central African Republic**, where social media theorized that they had been planning to assassinate the CAR President.
- US drugmaker Johnson & Johnson announced it is close to a vaccine licensing deal with **South African** group Aspen Pharmacare.
- Operator TotalEnergies has made a significant discovery of light oil and associated gas off the coast of **Namibia**.



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# Asia

- **Taiwan** will join "democratic countries" in imposing sanctions on **Russia** over the invasion of **Ukraine**, the government announced. The world's largest contract chipmaker TSMC saying it would comply with all export control rules.
- **Japan** announced it will strengthen sanctions against **Russia** to include financial institutions and military equipment exports. Tokyo too will halt exports of military-use goods such as semiconductors.
- **India** is reportedly exploring ways to set up a rupee payment mechanism for trade with **Russia** to ensure access to vital supplies of fertilizer from Russia, need for India's fast farm sector.
- **China** stuck to its message on Friday of refusing to call **Russia's** action in Ukraine an "*invasion*" or criticizing Moscow despite intensifying assaults from Russia's military in **Ukraine**. China has announced it is fully open to Russian wheat imports, a financial lifeline for Russia.
- **Australia** imposed more sanctions today against **Russia**, targeting several of its elite citizens and lawmakers, and said it was "*unacceptable*" that **China** was easing trade restrictions with Moscow at a time when it invaded Ukraine.
- **Singapore and Indonesia** condemned **Russia's** assault, **Myanmar's** junta backed Putin, and **Philippines and Thailand** are focusing on evacuating their citizens from **Ukraine**.



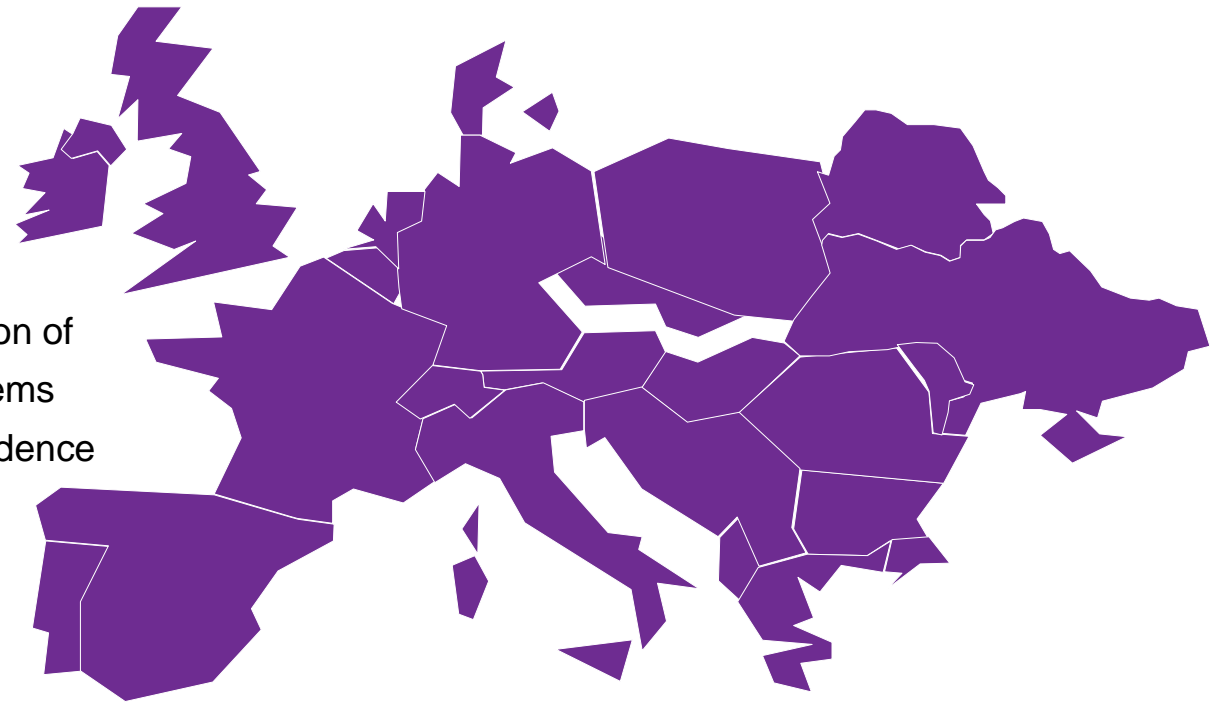
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# Europe

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- The Kremlin said that sanctions imposed on **Russia** for its invasion of **Ukraine** would cause problems for Moscow, but that those problems would be resolved, as Russia had deliberately reduced its dependence on foreign imports to protect itself against the threat of sanctions. Russia plans on reorienting trade and economic ties to **Asian** countries.
- **Italy** announced it is ready to supply an additional 3,400 military personnel to support NATO efforts, to apply maximum pressure on **Russia** to withdraw its troops and return to the negotiating table.
- **UK** Prime Minister Johnson is pushing forward legislation on a long-stymied register of overseas property ownership to expose **Russian** assets hidden in the UK. The number of UK properties whose owners' principal correspondence address is in Russia reached 1,127 in August 2021. More than 85,000 properties are owned by offshore entities, according to Transparency International.
- **Ukraine** has suspended commercial shipping at its ports, stoking fear of supply disruption from leading grain and oilseeds exporters. Global farm commodities trader Cargill said an ocean vessel it chartered was “*hit by a projectile*” on the Black Sea.



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# How do You Manage Risks?

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*The coronavirus pandemic has not just added a new layer of risk for business leaders to navigate, but has accelerated drivers of change, including disruptive technologies, political and economic realignments and cultural priorities on equality, justice and conservation, while increasing vulnerabilities that bad actors seek to exploit.*

*Dentons Intelligence and Security Services Group offers bespoke services to provide business leaders with the intelligence they need to understand and thrive in complex operating environments.*

- ❖ due diligence and compliance investigations
- ❖ physical and cyber security assessments
- ❖ country and political risk assessments
- ❖ enterprise risk management and organizational resiliency advice
- ❖ crisis and incident response (physical security breaches and cyber incidents, insider threats and reputational impacts)

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# Middle East



- The IMF has reportedly asked that **Lebanon** fill several pre-conditions before agreeing to a new rescue package; the measures, including capital controls and lifting banking secrecy, are ones which Lebanese politicians have long failed to agree on, meaning additional doubt that a rescue agreement can be reached.
- **Yemen's** Houthis have reportedly detained yet another local employee of the US' long-closed embassy; 11 former employees are now in Houthi custody. The World Food Program warned that conflict in **Ukraine** will cause food prices to rise in Yemen, causing further hunger.
- The **UAE** Ministry of Defense announced plans to buy 12 **Chinese** L-15 fighter jets, a move likely to concern the west and that comes months after the UAE walked away from negotiations to purchase US-made F-35 jets.
- New **Libyan** prime minister-designate Bashaga announced that he had formed his government and will send it to parliament for a vote of confidence; the country appears set for rival governments as former interim prime minister Dbeibah has refused to step down until an election.

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# Americas

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- **Canada** joined allies in announcing new sanctions on **Russian** financial institutions, and canceled all export permits to Russia, in response to Russia's invasion of **Ukraine**.
- Following the anti-vaccine trucker barricade of Ottawa, **Canada**, analysts estimate that the closure of a major trade route cost C\$3.64 billion and the occupation of a retail center cost C\$70 million in lost sales.
- **Argentina** said that an agreement with the IMF to restructure \$40 billion in debt that the country is unable to pay is imminent and could be sent to parliament in weeks.
- **Colombia's** armed forces killed 23 FARC dissidents yesterday as part of a military offensive to seize control of an area in the northeast of the country which sits on the border with Venezuela.



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# Americas: US

- The CDC is expected to announce new **facemask guidance** today, weighing metrics such as hospital capacity and coronavirus admissions, rather than simply looking at case counts, so more people can feel comfortable going maskless in indoor public spaces.
- A Michigan judge on Thursday ordered the parents of an accused **teenage school shooter** to stand trial on involuntary manslaughter charges, saying evidence showed they purchased their son a gun despite signs that he was a "troubled young man."
- In another major **social justice lawsuit**, three former Minneapolis police officers who were at the scene with Derek Chauvin resulting in the death George Floyd, were convicted of violating Floyd's civil rights in a case that is likely to increase scrutiny over how officers are trained to intervene with rogue colleagues.
- President Biden has decided who he will nominate to the **Supreme Court** and his announcement could come as soon as today. Biden has said he will nominate the first Black woman to the Supreme Court in its 233-year history.
- US imposed sanctions on **Russia** over the invasion of Ukraine, targeting all 10 of Russia's largest financial institutions, a number of Russian political and business elites and new technology export controls.



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# Russia's Invasion of Ukraine – Kyiv Encircled, Likely to Fall in Next 24 Hours

***On Day Two of the Russian invasion of Ukraine, Russian troops have advanced through four primary axes, with missions to break the Ukrainian defense lines, establish air superiority by capturing airports and military bases and taking control over critical infrastructure.***

The Ukrainian forces have not collapsed and are slowing the Russian advances, denying them achievement of key goals on the first day. Russia has not gained air superiority and failed to capture Kyiv's airport, preventing Moscow easy access to airlift forces directly into the capital. However, Russia significantly out-guns the Ukrainian forces. The first Russian units are reported to have entered the capital this morning, and it is a matter of 24 hours before Russia will occupy the capital of Ukraine. Ukrainian President Zelenskiy remains in the country as of Friday morning, calling on full mobilization of Ukrainians to resist and criticizing Western governments for not doing more to aid Ukraine.

## ***Western aligned Governments Impose Sanctions***

On Thursday, the US imposed sanctions on Russia. US sanctions target all 10 of Russia's largest financial institutions through a combination of "full blocking" sanctions that choke off all transactions

with US entities, as well as "correspondent" sanctions that bar transactions with US banks, and debt and equity sanctions on institutions holding nearly 80 percent of Russian bank assets. The sanctions also target a number of Russian political and business elites and penalize companies in virtually every major sector of the economy, including mining and minerals as well as telecommunications and railways through new technology export controls. Canada, Australia, Japan, Britain and the EU adapted their existing export controls to be consistent with the new US export rules. Over time, cutting off Russia's access to key components like semiconductors will touch all aspects of economic life in Russia.

The EU is set to discuss and announce its sanctions package today. EU sanctions are expected to largely mirror those of the US. Per unofficial comments, the EU is not expected to cut Russia off from the SWIFT global interbank payments system.

# Russia's Invasion of Ukraine – Kyiv Encircled, Likely to Fall in Next 24 Hours

The UK announced a 10-point sanctions package, imposing asset freezes on some major Russian banks, including state-owned VTB, its second-biggest bank, and stopped major Russian companies from raising finance in Britain. The sanctions also targeted members of President Putin's closest circle and wealthy Russians who enjoy high-rolling London lifestyles, amounting to more than 100 Russian individuals and entities.

The sanctions are substantial, but do not completely cut off Russia from the international financial system. Because of their nature, their immediate impact will be limited. Over the past decade, Russia has attempted to sanctions-proof its economy. Russia has financial deep buffers to protect against the economic shock. However, they will not protect Russia from the loss of investment that enables economies to grow and standards of living to improve.

The sanctions imposed yesterday will require the Kremlin to self-finance more activity, constraining investment in industry and the military. Limited access to foreign capital leaves oil companies reliant on prepayment deals and facing significantly higher cost of capital.

Russia has banned British airlines from landing at its airports or crossing its airspace, its state civil aviation regulator said on Friday. The move follows London's ban on the flights of Russian flag carrier Aeroflot imposed in response to Russia's invasion of Ukraine.

## *Business impact*

Sanctions pose direct risks to sanctioned entities and indirect risks to companies owned or controlled by sanctioned entities or individuals and will complicate transactions with other Russian companies for both operational and reputational reasons.

Western companies and business leaders also face elevated retaliation risks, including legal or regulatory action for compliance with sanctions.

# Emerging and Existing Hotspots: Tensions in East Jerusalem

By Dan Arbell, Special Advisor to Dentons

*Less than nine months after the May 2021 confrontation between Israel and Hamas, which began as a result of tensions in the East Jerusalem neighborhood, renewed divisions between Israelis and Palestinians there may lead to a new round of fighting between the two sides in the near future. Similar to May 2021, the East Jerusalem neighborhood of Sheikh Jarrah is once again the main point of friction between the parties.*

## **Historical Context and Legal Status**

The neighborhood was built in the late 19th century, when it housed Palestinian families, and decades later two smaller Jewish neighborhoods were established in the area. When Jordan took control of the West Bank and East Jerusalem in 1948, the Jewish residents fled their homes, which were taken over by Palestinian refugees. When Israel took control of East Jerusalem in 1967, however, Israeli laws allowed Jews only to reclaim property they owned before 1948. Since the 1980s, Israeli right-wing organizations have made efforts to trace heirs of Jews who lived in the neighborhood and file law suits aimed at evicting the 27 Palestinian families which have lived there since the 1950's.

Prior to the May 2021 clash, 13 Palestinian families received eviction notices simultaneously, leading to rising tensions and eventually

clashes between Israelis and Palestinians. The Palestinian residents filed an appeal to the Israeli Supreme Court, requesting the eviction notices be withdrawn. The two sides have since rejected a compromise offer and the court has continued its deliberations.

## **The May 2021 Confrontation**

In the meantime, violent confrontations spread to other areas of East Jerusalem, including parts of the Old City and the Muslim holy sites. The international community's criticism of the Netanyahu government's handling of the situation and Palestinian amplification of the cause on social media elevated Sheikh Jarrah to a symbol of Palestinian nationalism. Hamas was quick to identify the neighborhood as a means of galvanizing support for the Palestinian struggle on an issue which enjoys broad consensus in the Palestinian street (the status of Jerusalem), especially during

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# Emerging and Existing Hotspots: Tensions in East Jerusalem

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the sensitive month of Ramadan. Ahead of the conflict, Hamas threatened that any eviction of homes in the neighborhood would lead to a violent response and issued an ultimatum to Israel that it should withdraw its security forces from the neighborhood and Temple Mount by May 10 at 6pm. When Israel did not respond to the ultimatum, Hamas followed on its threat, launching rockets into Israel, including in the direction of Jerusalem. Over the course of 11 days, 256 Palestinians and 13 Israelis were killed as the sides traded rocket fire, until a ceasefire agreement was reached on May 21.

## *Renewed Tensions*

In the aftermath of the Israel-Hamas confrontation, tensions have somewhat subsided, both sides eagerly awaited the Supreme Court's ruling. Nevertheless, in a neighborhood where several thousand Palestinians reside alongside several dozen Jewish families, disputes arise on a daily basis. In mid-February tensions flared anew when a house belonging to a Jewish family in the neighborhood was set on fire. Israeli police found evidence of arson and subsequently arrested two Palestinians as suspects. Israeli right-wing politicians expressed anger over the arson and what they claimed was police incompetency.

Within days, ultra-nationalist Member of Knesset (MK) Itamar Ben-Gvir - a controversial politician (a disciple of late Rabbi Meir Kahane) and member of the Religious Zionism Party - announced that he would open a temporary parliamentary office in Sheikh Jarrah, setting up a tent outside the house of the Salem family, a Palestinian family which received an eviction notice for March. MK Ben-Gvir's actions sparked immediate denunciation from Palestinians and left-wing Israeli politicians. Soon after the establishment of the offices, clashes broke out between supporters and opposers of Ben-Gvir, and the police became involved.

Prime Minister Naftali Bennett, en route to Manama for a historic first visit of an Israeli PM to Bahrain, denounced the violence and criticized provocations by politicians on both sides of the spectrum, which he said are aimed at fueling more violence. Notably, at least a dozen of MK's from the powerful Likud Party came to Sheikh Jarrah to show solidarity with Ben-Gvir, demonstrating how far to the right has the former center-right ruling party has shifted.

Hamas issued statements expressing support for the Palestinian residents of Sheikh Jarrah, warning of a potential repeat of the May 2021 events if incursions continue. However, the clashes did not spread to other parts of East Jerusalem, and politicians and analysts

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# Emerging and Existing Hotspots: Tensions in East Jerusalem

are assessing that Hamas is not interested in another full-scale confrontation with Israel at the current moment, particularly as more Gazans are allowed to enter Israel for work and as the Gazan economy seems to be improving.

## Steps Forward

Earlier this week, the Israeli Supreme Court opted to temporarily freeze the most high-profile of the evictions – that of the Salem family – in a likely bid not to further inflame tensions, especially just ahead of the month of Ramadan, which has historically been a politically sensitive one in the area. While the Israeli Supreme Court is yet to rule on the evictions more broadly, it is clear that any decision by the court will most likely lead to renewed tensions and possibly the outbreak of violence. The May 2021 events demonstrated that it does not take much to “set Jerusalem on fire,” literally and figuratively. If the court rules not to carry out the evictions, MK Ben-Gvir and his partners on the nationalist right will not shy away from protests and clashes with Palestinians. If the court upholds the evictions, Palestinians will rally against the decision. Whether clashes remain contained will depend in large part on Hamas’ reaction. While at present, Hamas does not seem eager to confront Israel militarily, its calculations may change in the future.

The Israeli government, a patchwork coalition of ideologies that has thus far governed surprisingly effectively, has its work cut out to prepare for all scenarios and especially to forcefully address potential violence, if or when it erupts, in order to avoid a slippery slope to a May 2021-like scenario.

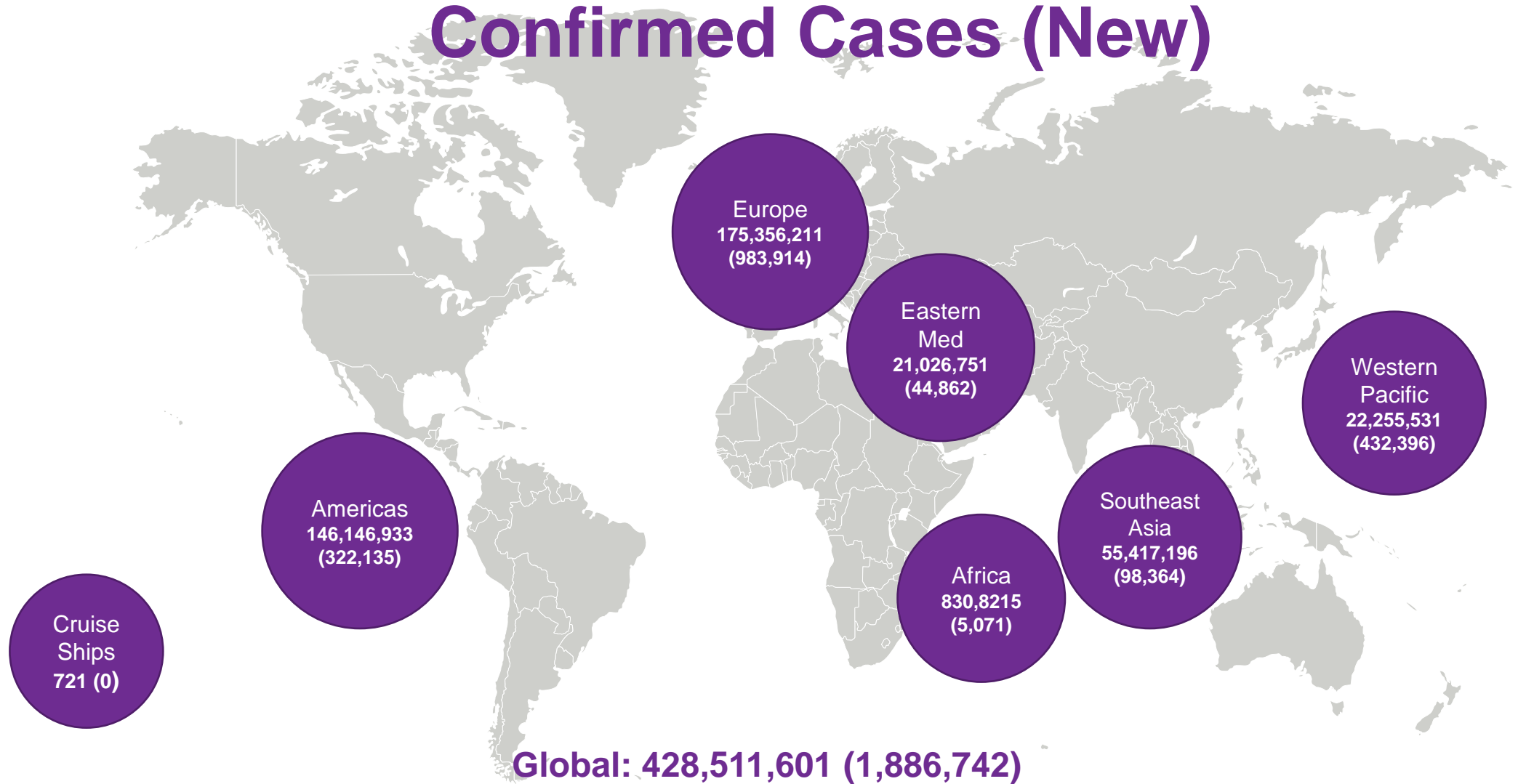
Additionally, the May 2021 confrontation was the first major test to the Abraham Accords, the Arab-Israeli normalization agreements signed seven months earlier between Israel, and the UAE and Bahrain (and later with Morocco). Concerned over clashes in Jerusalem and Israeli bombardments in Gaza, the foreign ministers of the Gulf states called their Israeli counterparts on a daily basis, urging Israel to deescalate tensions and end the fighting. The confrontation was relatively short, lasting just 11 days, and the UAE and Bahrain both took credit for helping to end it (despite the fact that both countries do not engage with Hamas). If a new round of violence begins, the Gulf states will be monitoring the situation closely, calling on the parties to deescalate and resolve the problems. However, it does not seem likely that the Abraham Accords would be seriously impacted by another round, given that embassies, ambassadors and direct flights are in place, and after dozens of bilateral MOU’s have been signed, and high-level mutual visits have been held.

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# Coronavirus Condition Updates

As of 5:23 pm CEST on February 24, 2022

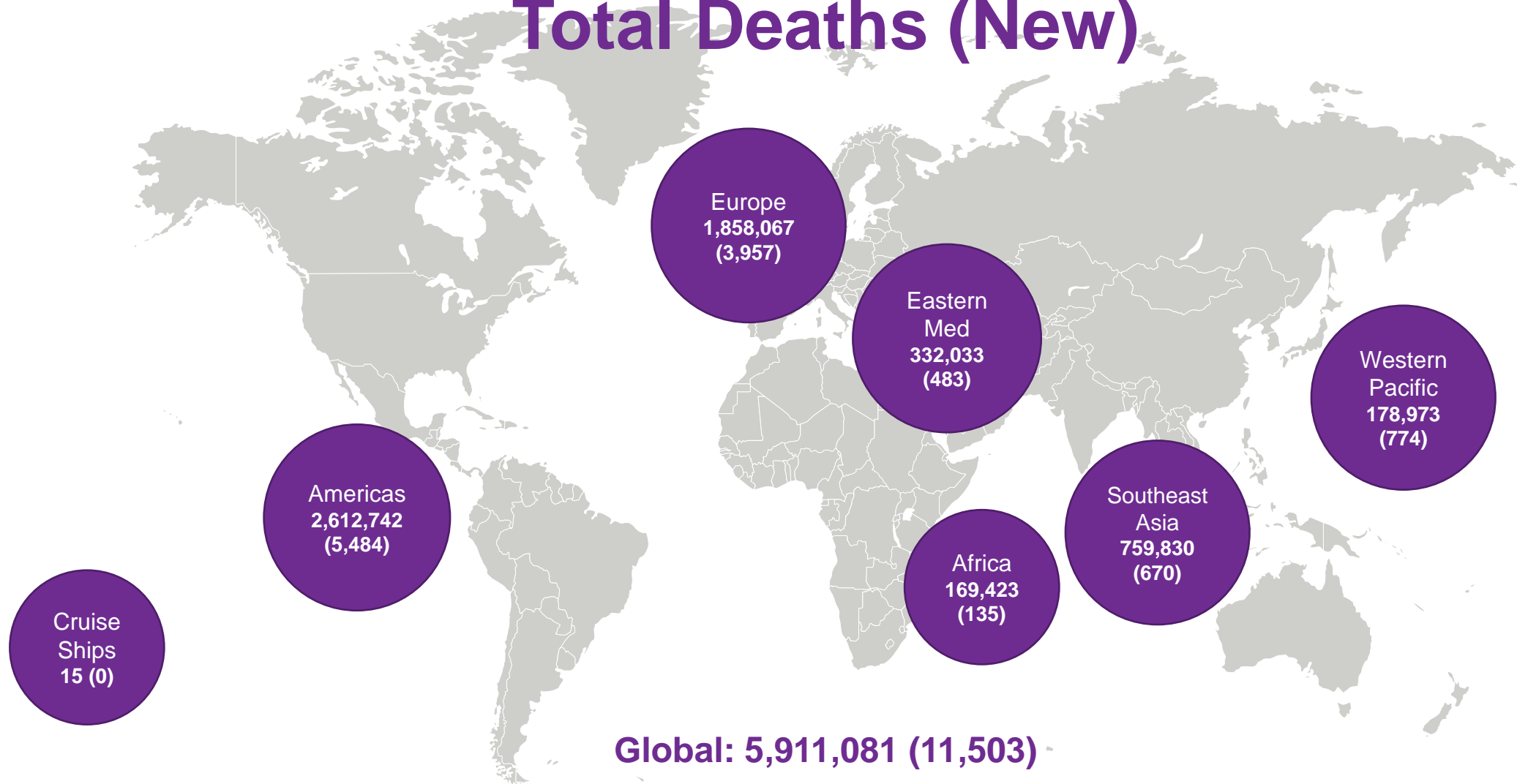
# Confirmed Cases (New)



Reflects data as of 5:23 pm CEST on February 24, 2022.  
Data Source: World Health Organization

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# Total Deaths (New)



Reflects data as of 5:23 pm CEST on February 24, 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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## Karl Hopkins

Partner and Global Chief Security Officer  
Dentons  
Washington, DC

D +1 202 408 9225  
[karl.hopkins@dentons.com](mailto:karl.hopkins@dentons.com)

## Melissa Mahle

Senior Analyst  
Dentons  
Washington, DC

D +1 202 408 6383  
[melissa.mahle@dentons.com](mailto:melissa.mahle@dentons.com)