

Dentons Flashpoint

Daily Global Situation Report

May 11, 2022

Global Situation Update: May 11, 2022

KEY TAKEAWAYS

The head of the WHO warned that China's zero-Covid strategy is unsustainable.

Britain rejected EU proposals to resolve a standoff over post-Brexit trade rules for Northern Ireland.

Ukraine declared force majeure for one of its key pipelines, in a move that could cut gas flows to Europe.

Global Situation Update: May 11, 2022

WHAT WE'RE WATCHING

While international attention is focused on Sri Lanka's governance crisis fueled by increased food and fuel prices, in Africa, multiple countries also facing turmoil driven at least in part by escalating fuel costs. Tanzania suspended and then reimposed a fuel levy, grappling with spiking cost of living and budget shortfalls. In Kenya, the government reached an agreement with the IMF to maintain its fuel subsidy program, while Mozambican government recently ruled out subsidies. Fuel prices in South Africa are also expected to rise dramatically as the government's short-term relief measures come to an end this month.

The fuel crisis in Africa has major ramifications for the global economy. The fuel shortage has the potential to shut down businesses, affect key African industries such as tourism and constrict economic growth and exports. The fuel crisis could portend political unrest and even affect geopolitics, as evidenced by the recent Kenyan-Ugandan diplomatic rift over Kenya's decision to localize fuel cargo.



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

Global

The UK and EU assess that Russia was behind a massive cyberattack against a satellite internet network which knocked thousands of people in the EU and Ukraine offline.

- In Congressional testimony yesterday, US intelligence provided an assessment on **Russia's intentions in the war on Ukraine**, judging that President Putin has not changed his aims in Ukraine and that his focus on the south-eastern Donbas region is a temporary shift “to regain the initiative” after failing to capture Kyiv.
- Ukraine's transmission network operator has suspended contractual obligations to transport gas through one of its key pipelines with Russia because of enemy troop activity and the company's inability to service the lines, in a move that could cut **gas flows to Europe**.

Markets & Business

Alphabet unit Google has signed deals to pay more than 300 publishers in Germany, France and four other EU countries for their news and will roll out a tool to make it easier for others to sign up too, as the company moves to comply with the EU copywrite rules.

- Fundraising by China-focused **private equity investors** has fallen to its lowest level in 13 years, just \$1.7 billion in Q1 2022, as early-stage backers of the country's start-up scene grapple with Beijing's tech crackdown and zero-Covid policies.
- **Pfizer** has agreed to buy US biotech **Biohaven Pharmaceuticals** for \$11.6 billion.
- **Philip Morris International** has struck a \$16bn deal to buy **Swedish Match**, as the tobacco company makes its biggest bet yet on alternatives to cigarettes.
- **Apollo Global Management Inc.** is in talks to lead a preferred financing for Elon Musk's proposed buyout of **Twitter Inc.**

Environment, Sustainability & Governance

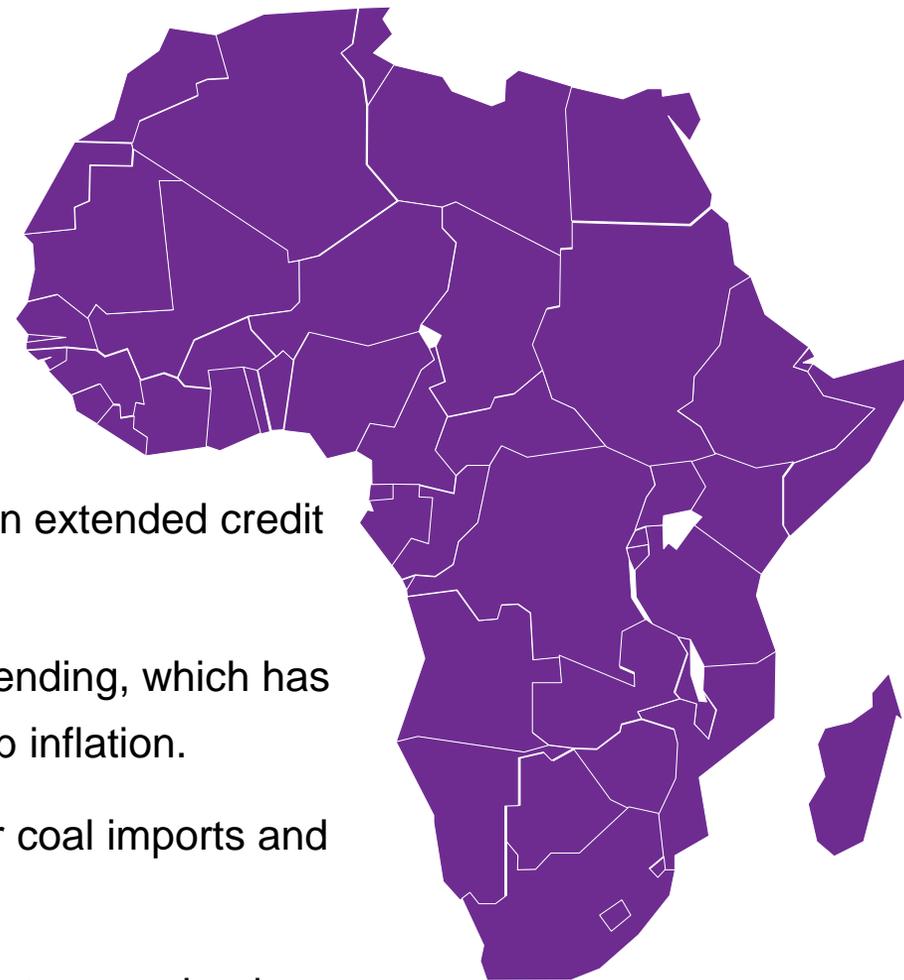
The EU is preparing to loosen its environmental regulations as it seeks to replace Russian fossil fuels with renewable energy and imported hydrogen power.

- Pressed by lawmakers on delays receiving promised funding, South African officials said that they are “*still analyzing*” the details of an \$8.5 billion pledge from the US, Britain, France, Germany and the EU made last November to assist South Africa in shifting away from **coal power**.
- ConocoPhillips shareholders on Tuesday did not support a proposal to include its customers' emissions to its **greenhouse gas reduction targets**, according to a preliminary tally of votes on the resolution.
- BlackRock, with nearly \$10 trillion in assets, has warned that it will not support most shareholder **resolutions on climate change** this year because they have become too extreme or too prescriptive.
- Commercial insurance market Lloyd's of London is encouraging members of its 100-odd syndicates to attend its annual general meeting next week online rather than in person, due to the **threat of climate protests**.

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

Africa

- **Tanzanian** officials announced a \$43 million fuel subsidy and said that the country is in the final stage of securing loans from the World Bank and IMF to cushion rising costs of living, a likely bid to fend off anti-government protests. The IMF approved a three-year, \$456 million extended credit facility arrangement for Mozambique.
- The **Zimbabwean** central bank defended its decision to freeze bank lending, which has faced criticism from businesses, calling it a temporary measure to curb inflation.
- **Botswana** said that it had been inundated with European requests for coal imports and expects exports to Europe to surpass a million tons in a few years.
- **Democratic Republic of Congo** Mines Minister Kalambayi is seeking to cancel a decree granting Entreprise Generale du Cobalt (EGC) a monopoly over artisanal cobalt produced in the country. EGC was created to buy, process and market artisanal cobalt in December 2019 and officially launched on in 2021 but has yet to purchase any of the cobalt ore which, once processed and refined, is used in electric vehicle batteries.



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

Asia

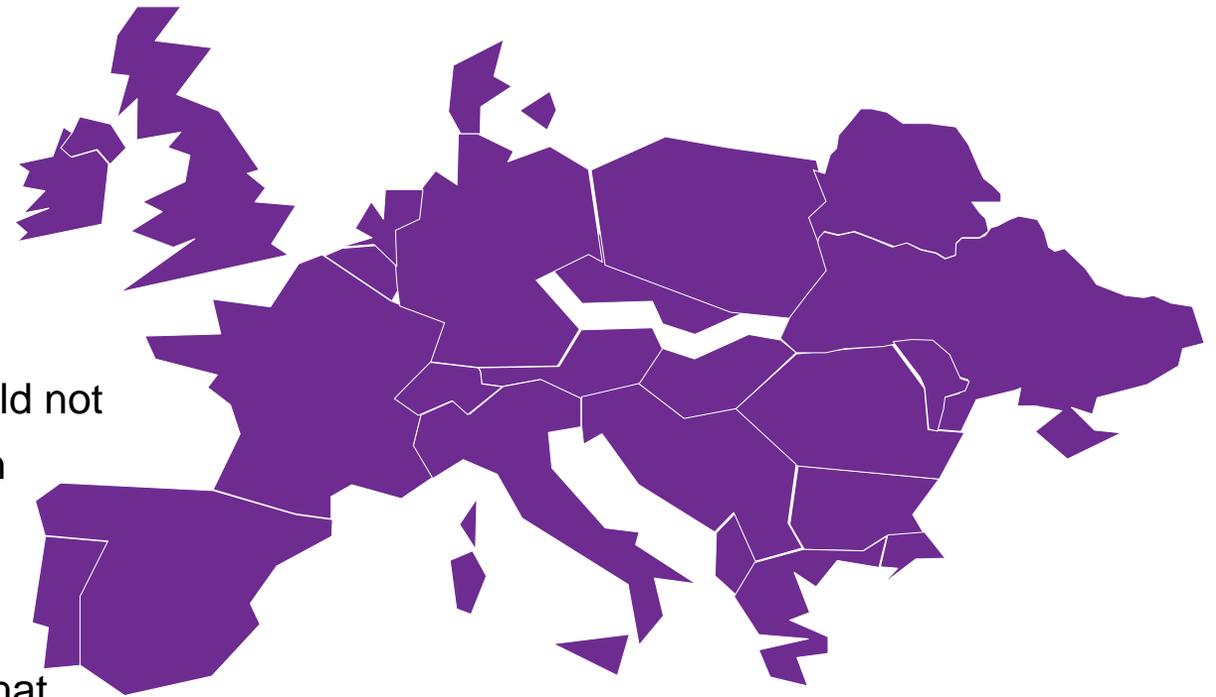
- **Sri Lanka** President Rajapaksa called for calm after days of violent unrest that have left the government on the brink of collapse, with the army enforcing a nationwide curfew and threatening to shoot looters.
- **New Zealand** will reopen its borders two months ahead of schedule and ease immigration rules to lure skilled workers as COVID-19 measures are lifted.
- The head of the WHO warned that **China's** zero-Covid strategy is unsustainable, saying governments need to adopt policy changes as the virus behavior changes. Chinese censors erased online discussion of the WHO director-general's criticism.
- Modelling projections by researchers at Shanghai's Fudan University in **China** estimated that an unchecked surge of the Omicron coronavirus variant could result in 112 million symptomatic infections, 2.7 million intensive care admissions and almost 1.6 million fatalities between May and July.



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

Europe

- **Britain** rejected **EU** proposals to resolve a standoff over post-Brexit trade rules for *Northern Ireland*, saying it would not shy away from taking direct action in the latest escalation between the two sides.
- **Germany's** central bank boss called for **eurozone** interest rates to rise in July, warning of the growing risk that policymakers act too late. Eurozone inflation hit 7.5 percent in April, a record since the launch of the single currency in 1999. In Germany, prices are rising even faster, up 7.8 percent — the most since 1981.
- The **Spanish** government fired the director of its top intelligence agency after the disclosure of the hacking of politicians' cellphones. Earlier this month, Spanish officials confirmed that Prime Minister Sanchez and Defense Minister Robles' cellphones were hacked with the Pegasus spyware.



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.

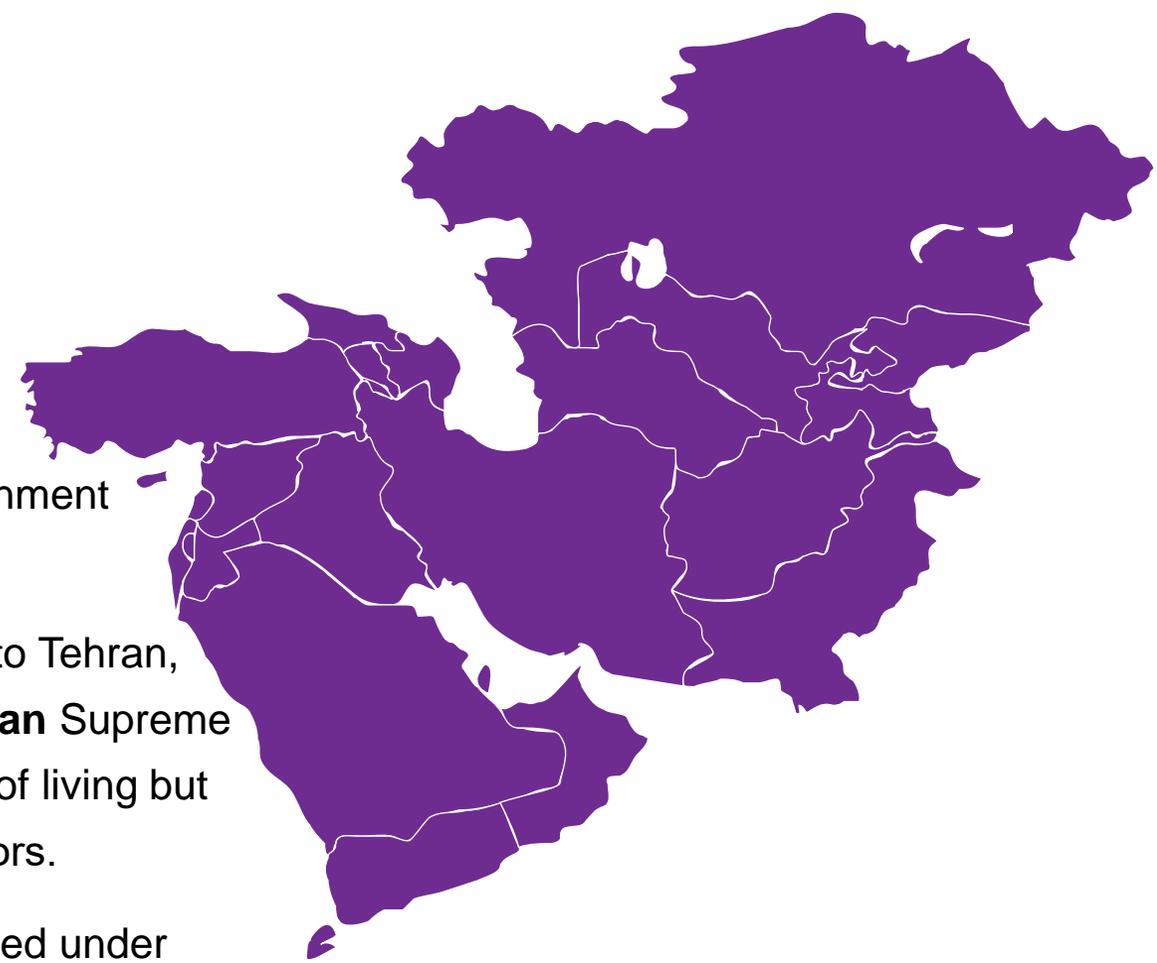
Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

- ❖ 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



- **Kuwait's** crown prince accepted the resignation submitted by the government more than a month ago and asked it to stay on in a caretaker role, giving no timeline on a new government formation.
- The **European** coordinator of JCPOA talks announced a trip to Tehran, seen as a last-ditch attempt to revive nuclear deal talks. **Iranian** Supreme Leader Khamenei acknowledged protests against rising cost of living but warned against “*enemy plots*,” likely hinting at external agitators.
- **Libya's** parliament announced that the government it appointed under Bashagha should be based in Sirte as the stalemate over Tripoli, where the previous government refuses to hand over power until elections.
- Donors pledged \$6.7 billion in humanitarian aid for **Syrians** at a summit in Brussels. UN High Commissioner for Refugees expressed concern that the Ukraine refugee crisis was creating donor fatigue.

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

Americas

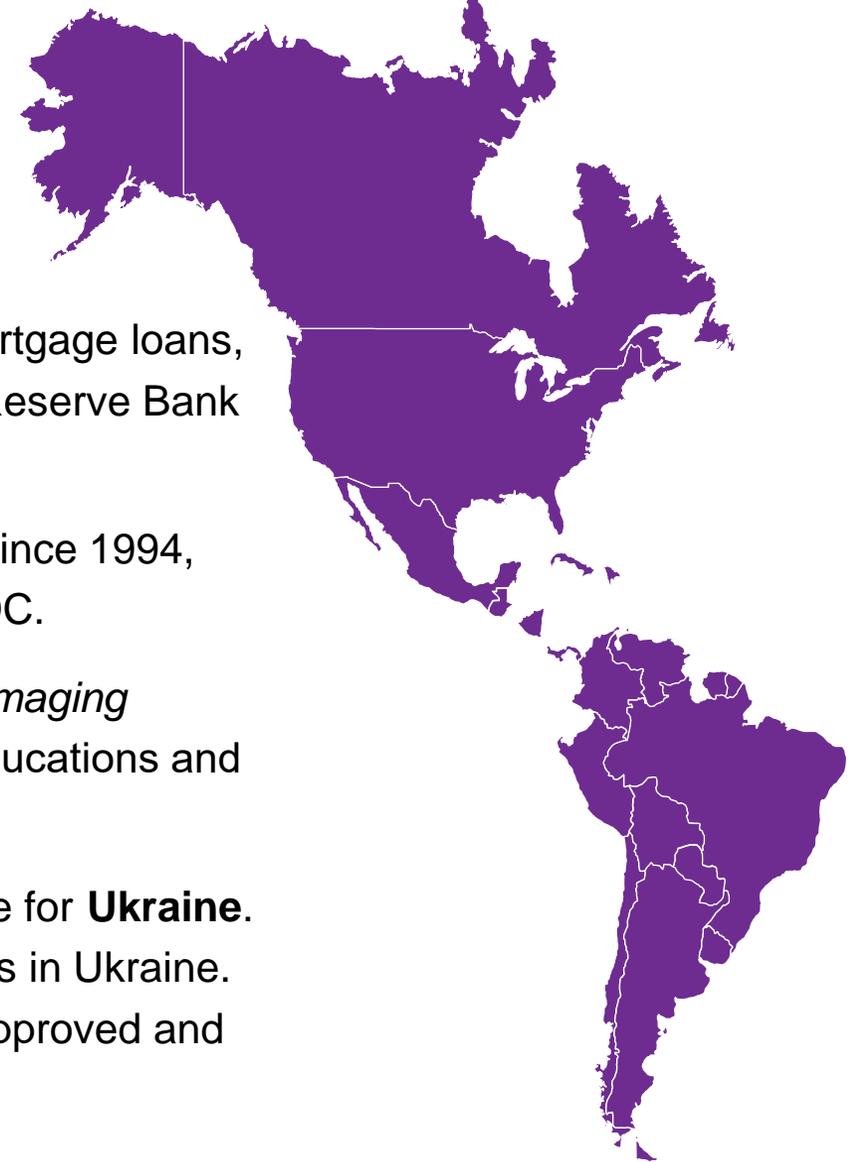
- **Mexican** President Obrador said that he would send a representative in his place to the Summit of the Americas if not all countries in the region are invited, alluding to his calls for **Cuba** to be included. **Brazilian** President Bolsonaro is reportedly not planning on attending the summit.
- Leftist former president Lula narrowed his lead over incumbent Bolsonaro in polls ahead of upcoming elections in **Brazil** but is still 14 points ahead.
- **Peru** said that it will increase public expenditure in mining regions in a bid to de-escalate social conflicts wherein impoverished indigenous groups have shut down mining operations.
- Alberta's highest court ruled on Tuesday that a **Canadian** law assessing how major infrastructure projects like pipelines impact the environment is unconstitutional because it interferes with the power of the provinces.



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

Americas: US

- US **households** added \$266 billion to their **debt balances** in Q1, led by mortgage loans, in the largest single-quarter increase since 2006, according to the Federal Reserve Bank of New York.
- The rate of US **gun deaths** surged 35 percent in 2020 to the highest point since 1994, with especially deadly levels for young Black men, per new report by the CDC.
- US Treasury Secretary Yellen said that **abortion bans** would have “*very damaging effects*” on the US economy, keeping some women from completing their educations and reducing their lifetime earnings.
- The US House of Representatives agreed to a fresh \$40 billion in assistance for **Ukraine**. The money will include funds for defense, humanitarian and economic needs in Ukraine. The bill will be considered by the Senate next week and is expected to be approved and sent to President Biden to sign into law.



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

Economic Impact of the Ukraine War and Western Sanctions

In response to Russia's invasion of Ukraine, Western and Asian countries allied with Ukraine have used economic tools of state to effectively execute an economic war on Russia in an attempt to compel the Kremlin to end its aggression in Ukraine.

The economic impact of the Ukraine war and associated sanctions are hard hitting and global, with collateral damage to global food security, global economic growth and the very future of the globalized economy. While Western stakeholders remain committed to current policies, analysts are examining the costs and impacts thus far, as well as prospects for sanctions to change the war calculus in Moscow. The outlook is mixed.

Impact of Sanctions on Multinational Companies and Global Growth

When sanctions were initially imposed after the February 24 invasion, multinational companies operating in specific sectors – certain financial and investment activities, aviation, military equipment, technology exports -- were obliged to wind down

operations. As the breadth of sanctions broadened, so did the reputational risk for western multinational companies doing business in Russia. Around 1,000 multinational companies have shut down their Russian operations, or are in the process of winding them down or curtailing them, in the 10 weeks since the beginning of the Ukraine war. The operational losses are mounting, evidenced by the multitude of write-downs being announced in quarterly filings. Bloomberg forecasts that big oil companies will write down \$34 billion exiting Russia. In Shell Oil's May filing, it wrote down \$3.9 billion as the cost to exit operations in Russia. The Financial Times estimates that Western banks collectively have \$86 billion of exposure to Russia — with close to 40,000 staff — and are setting aside more than \$10 billion in expectation of losses on their ventures. Italian lender UniCredit this week set aside \$1.37 billion to cover potential losses, warning that it could face a loss of \$5.6 billion if its entire Russian business was wiped out. French lender Société Générale has an exposure of \$19 billion in Russia and is seeking to sell its holdings, likely at steep losses.

On the insurance front, global losses from the Russia-Ukraine war could range from \$16 billion to \$35 billion, with reinsurers expected to assume 50 percent of those claims, according to S&P Global

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

Economic Impact of the Ukraine War and Western Sanctions

Ratings. Looking forward, companies wanting to remain in Russia will face steep challenges renewing their insurance policies. Certain forms of insurance, such as cargo and liability, are mandatory for companies based in the West. Cargo underwriters, however, have already begun suspending coverage in Russia and Ukraine. The EU is reportedly considering imposing a ban on insuring ships that carry Russian oil, which will further restrict business options. Voluntary insurance policies, such as for political risk, are practically essential for companies operating in countries with political and security risks. Getting new insurance for operations in Russia now is near impossible, with reinsurance is very difficult even for sectors not under sanctions. The Yale School of Management database of companies list another 220 multinational companies persevering with their Russian operations. As policies come up for renewal, more and more of these will be forced to exit Russia.

The cumulative cost to business activity is mounting and negatively impacting the global economy. Global supply chains disruptions are triggering shortages, spikes in commodities pricing, increased transportation costs and compounding overall uncertainty in the post-pandemic world. In mid-April, the International Monetary Fund (IMF) cut its global growth projections for 2022 and 2023, saying the

economic hit from Russia's invasion of Ukraine will "*propagate far and wide.*" The IMF is now projecting a 3.6 percent GDP growth rate for the global economy this year and for 2023. This represents a 0.8 and 0.2 percentage point drop, respectively, from its forecasts published in January.

Russian Economy Buffeting Under Economic Shocks

Having significantly misjudged the extent to which G7, EU and NATO powers would come to Ukraine's assistance, the Kremlin was not prepared for coordinated economic action that has increasingly cut Russia off from the global economy, severing trade ties and sources of hard currency. The Kremlin launched some drastic measures to protect the economy, including hiking interest rates to as high as 20 percent, instituting capital controls and forcing Russian business to convert their profits into rubles. As a result, the value of the ruble has recovered after an initial plunge, and the central bank reversed part of its interest rate increase.

A closer look, however, shows that the sanctions are taking their toll on the Russian economy. Whereas it took nearly an entire year after Russia was sanctioned for seizing Ukraine's Crimea peninsula in

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

Economic Impact of the Ukraine War and Western Sanctions

2014 for its economic data to show signs of distress, such as higher inflation, a decline in industrial production and a slowdown in economic growth, the results of today's economic pressures have been immediate. The country is enduring its worst bout of inflation in two decades, with inflation over 20 percent in April. Job losses are mounting with the exit of multinational companies. Moscow's mayor says the city is looking at 200,000 job losses from foreign companies shutting down operations. Western banks employed about 40,000 staff in Russia. The Big Four accounting firms employ around 15,000 people across Russia. Russian businesses face a credit crunch in addition to steep challenges to importing goods and raw materials.

As time goes on, the economic pain will deepen. As of late April, multinational companies continue to pay more than 200,000 employees based in Russia despite pledges to suspend or end activities in the country. With a growing consensus that the war will not end swiftly, these jobs too will be eliminated. At least 60 percent of Russia's banking assets are under US sanctions. If Russian businesses cannot access capital, parts or supplies over time, that will cause even more factories and businesses to shut down, leading to higher unemployment. Default is also a possibility: thus far, Russia

has used its limited access to hard currency to meet bond payments, but the risk remains acute.

Russian oil and gas exports are the Kremlin's lifeline. The EU, with some member states highly dependent on Russian energy imports, is struggling to lock in alternatives and impose import bans. The EU executive commission has a draft plan to reduce Russian gas imports by two-thirds by the end of 2022. Meanwhile, with rocketing commodity prices, EU payments are feeding the Kremlin's treasury. Russia is also finding alternative buyers in Asia for its oil exports. In the first three months of 2022, oil revenues of \$60 billion boosted Russia's current accounts. Russia is not only exporting more oil, but is benefiting from higher oil prices. The Russian budget is heavily dependent on revenues from oil exports, which accounted for 45 percent on its total income in 2021. However, the government will continue to face difficulties even if Russian producers can sell their oil for \$44 per barrel or more.

Impact of Economics on Decision Making

As long as Russian energy exports keep the Kremlin's current accounts in the positive, the government will be able to cushion, but

Economic Impact of the Ukraine War and Western Sanctions

not eliminate, the effects of most Russian business activity being cut off from international trade and downward pressure on ordinary Russians' standard of living and disposable income. While the squeeze will be felt over time, pressure may not be sufficiently acute, in and of itself, to compel Russian President Putin to abandon his agenda in Ukraine in 2022.

Looking to the medium term, multinational companies will be able to adjust to supply disruptions and sanction regimes, reorienting business operations to other market opportunities and leaving Russia behind. The Russian economy will muddle along, unable to obtain key inputs needed for growth and development, particularly in the technology sector. The energy market will be permanently altered. Even when the war in Ukraine ends, the EU will not resume business as usual by renewing its dependency on Russian gas. Discussions are already underway to mandate national ownership of key energy infrastructure. Gazprom will no longer be treated as a commercial enterprise, but as a Russian instrument of state economic power.

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

Ukraine War Update: Russian War Strategy, Ukraine Gas Disruption, Ukrainian Kharkiv Counteroffensive

In Congressional testimony yesterday, US intelligence provided an assessment on Russia's intentions in the war on Ukraine. The US believes President Putin has not changed his aims in Ukraine and that his focus on the south-eastern Donbas region is a temporary shift "to regain the initiative" after failing to capture Kyiv.

Political Developments

US Intelligence assesses that Russia is preparing for a prolonged conflict and is likely to turn to more drastic means, including imposing martial law, reorienting industrial production or potentially escalatory military actions, as the conflict drags on, or if Putin perceives that Russia is losing. Putin most likely also judges that Russia has a greater ability and willingness to endure challenges than his adversaries and was counting on the US and EU resolve to weaken as food shortages, inflation and energy prices worsen.

US Intelligence officials described the conflict as currently at a stalemate. However, Russia will not be capable of achieving its goals of the land bridge, which stretches to Transnistria and includes Odesa, without launching some form of military mobilization. The officials judged that it is increasingly unlikely that Russia will be able to establish control over both oblasts and the buffer zone they desire in the coming weeks.

The UK and EU assess that Russia was behind a massive cyberattack against a satellite internet network which knocked thousands of people in the EU and Ukraine offline. The digital assault against Viasat's KA-SAT satellite broadband network took place as Russian troops moved into Ukraine on February 24.

Germany is reopening its embassy in Kyiv after it closed temporarily in February following Russia's invasion of Ukraine.

Russia will not take part in Thursday's specially convened session of the UN Human Rights Council on *"the deteriorating human rights situation in Ukraine stemming from the Russian aggression."*

The new leader of the Georgian breakaway region of South Ossetia said it would wait for a signal from Moscow before holding a referendum on joining Russia.

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

Ukraine War Update: Russian War Strategy, Ukraine Gas Disruption, Ukrainian Kharkiv Counteroffensive

Battlefield Developments

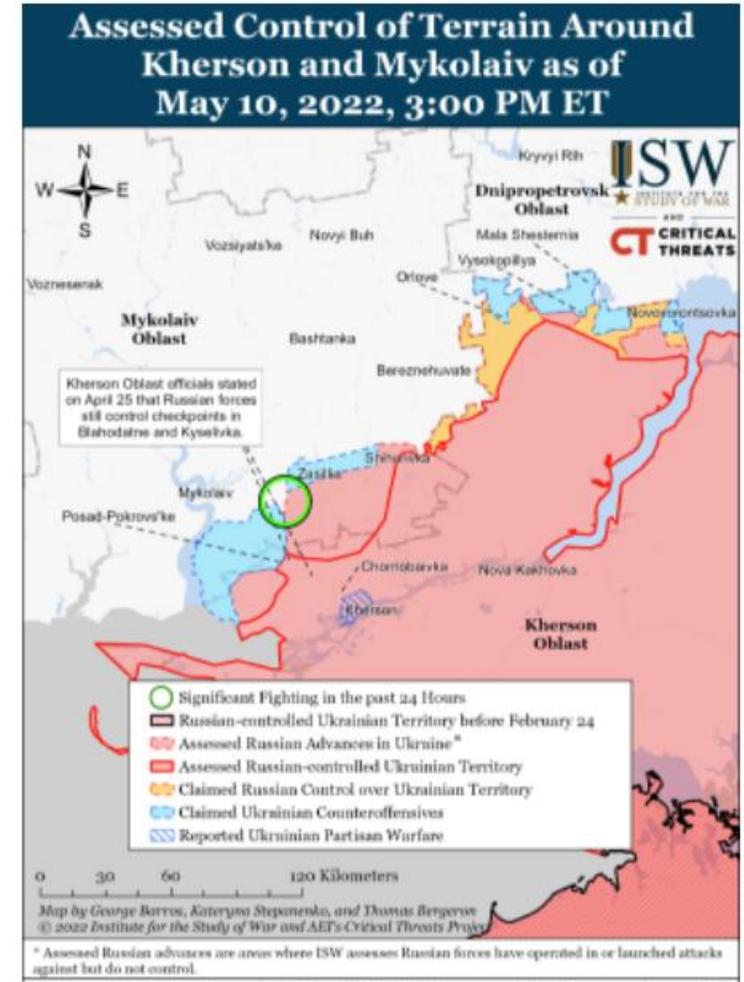
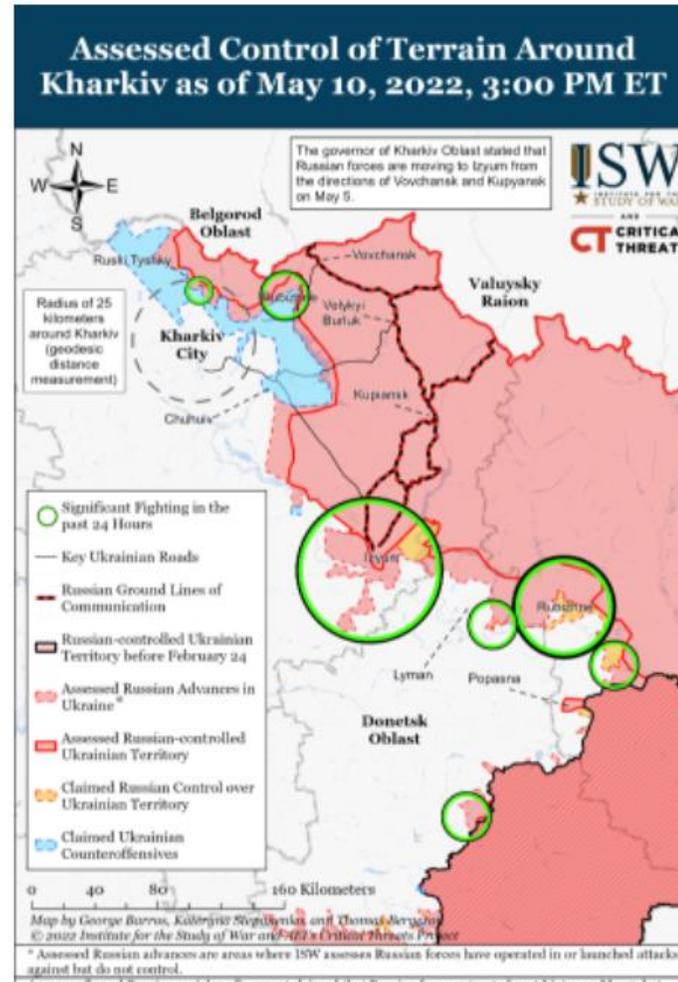
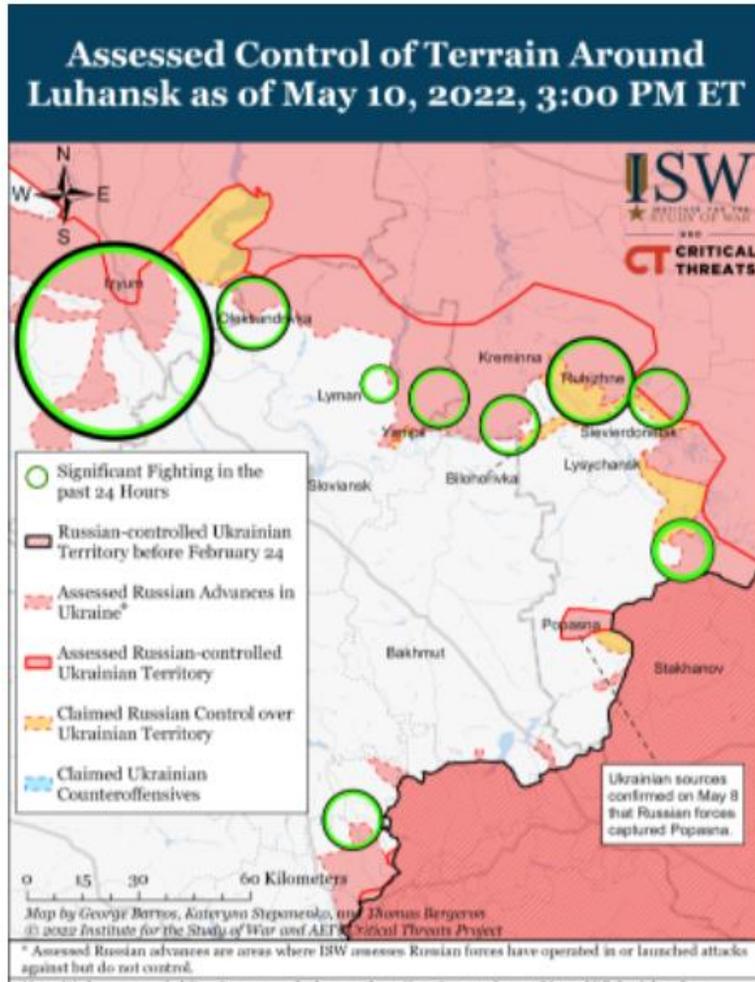
The Institute for the Study of War (ISW) reported that the Ukrainian counteroffensive north of Kharkiv City continued to successfully push Russian forces toward the Russia-Ukraine border on May 10. Ukrainian forces liberated several towns north of Kharkiv City and continued pushing north of the recently liberated Stryi Saltiv to capture several towns northeast of Kharkiv. Russian forces from the Izyum area are reportedly redeploying northwards to attempt to alleviate the pressure of this counteroffensive and stymie further northward advances toward the Russian border. ISW assessed that the Ukrainian counteroffensive will likely continue to divert Russian troops and resources from deployment to other axes of advance where fighting has been similarly stalled out by the successful Ukrainian defense. The counteroffensive will impede the ability of Russian artillery to target the northeastern suburbs of Kharkiv City, will potentially enable Ukrainian forces to threaten Russian rear areas with their own shelling and further attacks, and—if Ukrainian forces are able to further advance the counteroffensive or Russian forces collapse along the Kharkiv axis and withdraw further—unhinge Russian offensive operations around Izyum.

Britain's defense ministry commented on the continuing fighting for control of Snake Island, which lies off the coast of Ukraine's southwestern Odesa region. The UK observed that if Russia consolidates its position on the Island with strategic air defense and coastal defense cruise missiles, Russia could dominate the north-western Black



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

Ukraine War Update: Russian War Strategy, Ukraine Gas Disruption, Ukrainian Kharkiv Counteroffensive



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

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

Ukraine War Update: Russian War Strategy, Ukraine Gas Disruption, Ukrainian Kharkiv Counteroffensive

Sea. According to the intelligence update, Ukraine has struck Russian air defenses and vulnerable resupply vessels with Bayraktar drones and has an opportunity to deny Russian consolidation.

Ukrainian fighters holed up at a steel plant in the city made another plea yesterday for help evacuating their wounded, as heavy Russian airstrikes and shelling continued, hitting a field hospital at the complex.

Belarus announced the second stage of ongoing rapid response forces exercises, claiming that Poland and the Baltic states are threatening Belarusian territory through reconnaissance, sabotage, and special operations. Belarus also announced the deployment special operations troops in three areas near its southern border with Ukraine. ISW assessed that Belarus remains unlikely to join the war in Ukraine, with these deployments designed to distract NATO and signal Belarus' continued political support for Russia's war in Ukraine

US intelligence assessed that between eight and 10 Russian generals have been killed while fighting in Ukraine, an extraordinarily high number for a conflict that is less than three months old.

Humanitarian Developments

In a new report, the UN International Organization for Migration said more than 8 million people were displaced in Ukraine since the Russian invasion started on February 24. Among its key findings, the report noted an “*overwhelming need*” for financial support and shelter among the displaced. Two-thirds of those surveyed said they needed cash assistance, compared with 49 percent at the beginning of the war.

Economic Developments

Ukraine's transmission network operator has suspended contractual obligations to transport gas through one of its key pipelines with Russia because of enemy troop activity and the company's inability to service the lines, in a move that could cut flows to Europe. The gas transmission system operator of Ukraine said that almost one-third of Russian supplies that go via the country to Europe would be affected, but it would still be possible to fulfil the needs of its European customers by rerouting gas to the Sudzha connection point. Ukraine's pipeline operator has previously cautioned that war-

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

Ukraine War Update: Russian War Strategy, Ukraine Gas Disruption, Ukrainian Kharkiv Counteroffensive

related damage to the system could endanger flows, but it is the first time since the invasion that it has declared force majeure, highlighting the risks to the supply of Russian gas to Europe.

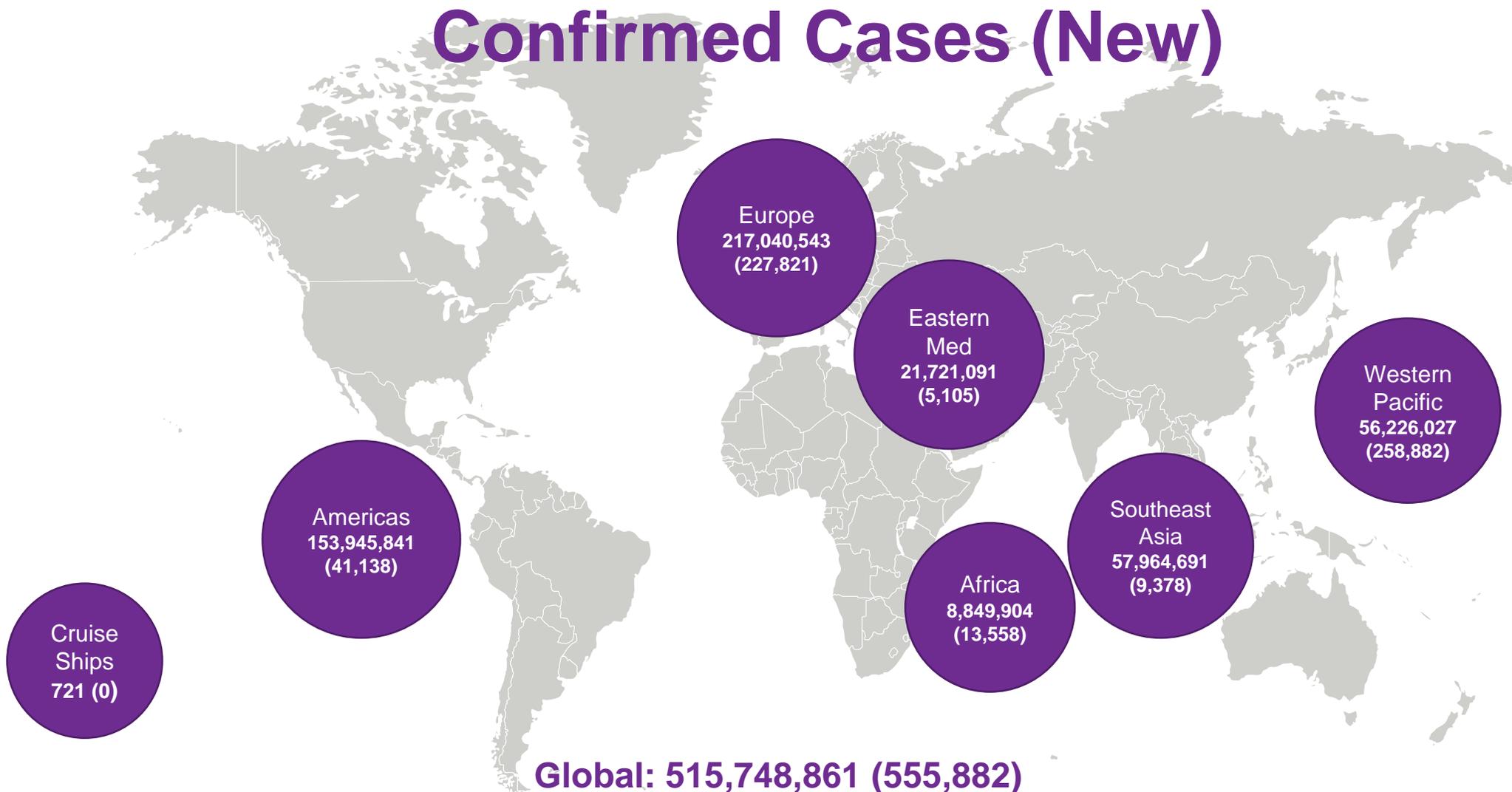
Russian's Gazprom said it was not technologically possible to switch gas transfers to Ukraine to a new entry point.

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

Coronavirus Condition Updates

As of 7:07 pm CEST on May 10, 2022

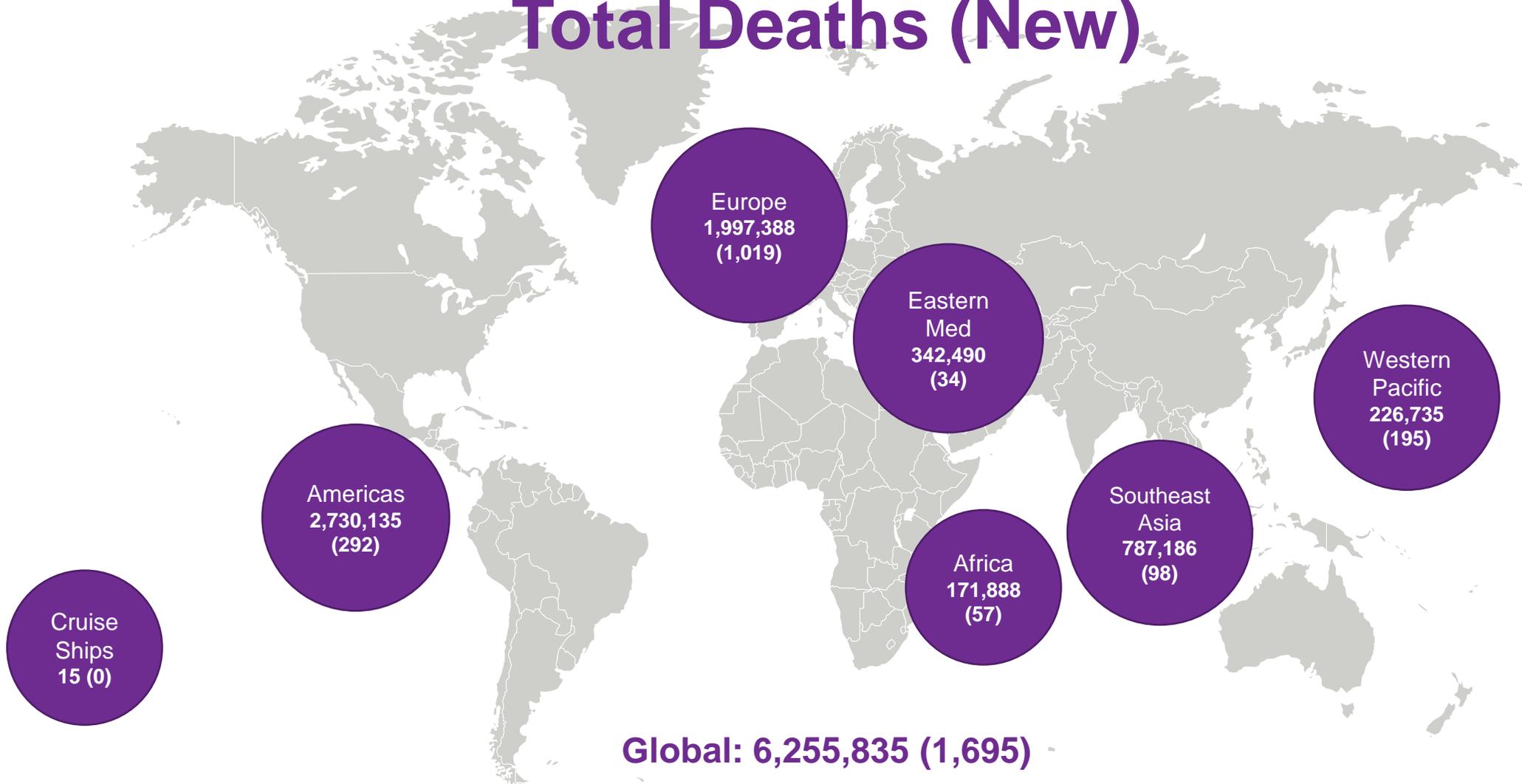
Confirmed Cases (New)



Reflects data as of 7:07 pm CEST on May 10, 2022.
Data Source: World Health Organization

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

Total Deaths (New)



Reflects data as of 7:07 pm CEST on May 10, 2022.
Data Source: World Health Organization

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

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