

Dentons Flashpoint

Daily Global Situation Report

June 3, 2022

Global Situation Update: June 3, 2022

KEY TAKEAWAYS

There are signs North Korea is preparing to conduct a nuclear test for the first time since 2017.

Russia's invasion of Ukraine enters the 100th day.

The head of the African Union meets with Russian President Putin to discuss grain supplies amid Africa's growing food security crisis.

Global Situation Update: June 3, 2022

WHAT WE'RE WATCHING

A two-month truce between Yemeni government forces and Houthi rebels, begun on April 2 and set to end yesterday, has been extended for another two months. Under the agreement's provisions, the warring parties are required to halt military operations inside Yemen, operate two flights a week from Houthi-controlled Sana'a to Egypt and Jordan, allow fuel vessels into the Houthi-controlled port of Hodeida and open road blockades.

However, potential stumbling blocks remain. Some roads to the government-controlled city of Taiz are still closed by Houthi rebels. Meanwhile, fighting over the key city of Marib has not ceased completely. The warring parties are still far apart in negotiations, complicating efforts to secure a permanent peace agreement.



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

Global

More than 550 confirmed cases of monkeypox have been reported by at least 30 countries outside of Africa, where the virus is typically found, according to the WHO.

- **Russia's invasion of Ukraine** entered its 100th day today with no end in sight. The impact of the Ukraine war is leaving no country untouched, by increased commodity prices, food insecurity and resulting political insecurity.
- The EU formally approved an **embargo on Russian oil** and other sanctions targeting major banks and broadcasters over Moscow's invasion of Ukraine. The US added 71 Russian and Belarusian entities to its trade blacklist, including aircraft plants and shipbuilding and research institutes.

Markets & Business

The US, UK, EU, Canada and Australia called for the International Labour Organization to set up a mission to probe alleged labor abuses in China's Xinjiang and urged Beijing to allow unfettered access.

- Russia has limited exports of **noble gases** such as neon, a key ingredient for making chips, until the end of 2022 to strengthen its market position, per the Russian trade ministry. Ukraine was one of the world's largest suppliers of noble gases until it suspended production at its plants in the cities of Mariupol and Odesa in March.
- Fitch Ratings said on Thursday it has decided to withdraw its rating on embattled property developer **China Evergrande Group** and two of its subsidiaries as the firms have stopped participating in the process.
- **Tesla** CEO Musk has proposed cutting about 10 percent of jobs at the electric carmaker in anticipation of economic downturn and the impact on the auto sector.
- **Walmart Inc** announced plans to open four new fulfillment centers in the US over the next two years, creating 4,000 new jobs that will expand its delivery network.
- Taiwan pledged to continue to be a trusted partner for the **global chip industry** and help stabilize the supply chain, in a meeting between Economy Minister Wang Mei-hua and the director-general for trade at the European Commission.

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

Environment, Sustainability & Governance

Sustainability-focused hedge fund Engine No. 1 has backed 83 percent of shareholder resolutions on environmental, social and governance topics at top US companies so far this year as it looks to arm investors with more information.

- A unit of Morningstar Inc that rates companies on environmental, social and governance criteria will no longer sell a **human rights research product** to investors after an independent review found it *"focuses disproportionately on the Israeli/Palestinian conflict."*
- Three South Korean companies have signed an agreement to build a \$1 billion **green hydrogen** and ammonia production plant in the UAE.
- A district court found in favor of environmental groups to rule that the Biden Administration must thoroughly analyze the climate impacts of oil and gas leasing on nearly 4 million acres of federal land in five states before drilling can take place.
- The US is considering congressional proposals that could tax oil and gas producers' profits in order to provide a benefit to consumers struggling with higher energy prices.

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

Africa

- The head of the **African** Union is in Sochi today for talks with **Russian** President Putin focused on grain supplies amid Kremlin's standoff with the West over **Ukraine**.
- **Chad** declared a “*food emergency*” in the country, which has been devastated by rising commodity prices, and urged the international community for help.
- One person was killed in **Guinea's** first anti-junta protests since the military coup, spurred by price hikes; the protesters defied a total ban on demonstrations by the junta.
- **Mozambique's** government estimated that nearly 400,000 children are currently displaced by Islamist terrorism in the Cabo Delgado region that began in 2017.
- **Uganda** and the **Democratic Republic of Congo** extended a joint military operation launched late last year against Islamist insurgents in east Congo.



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

Asia

- The WHO has cast doubts on **North Korea's** claims of progress in the fight against a COVID-19 outbreak, saying it believes the situation is getting worse, not better.
- **Sri Lanka** seeks to secure around \$5 billion in funding this year to cover repayments for fuel imports and other items bought through credit lines, and another \$1 billion to bolster its foreign reserves.
- **China's** proposed cybersecurity rules for financial firms could pose risks to operations of western companies by making their data vulnerable to hacking, among other things, per the Asia Securities Industry and Financial Markets Association.
- Officials from the **South Korea, Japan and the US** met in Seoul today to prepare for "*all contingencies*" amid signs **North Korea** is preparing to conduct a nuclear test for the first time since 2017.



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

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:

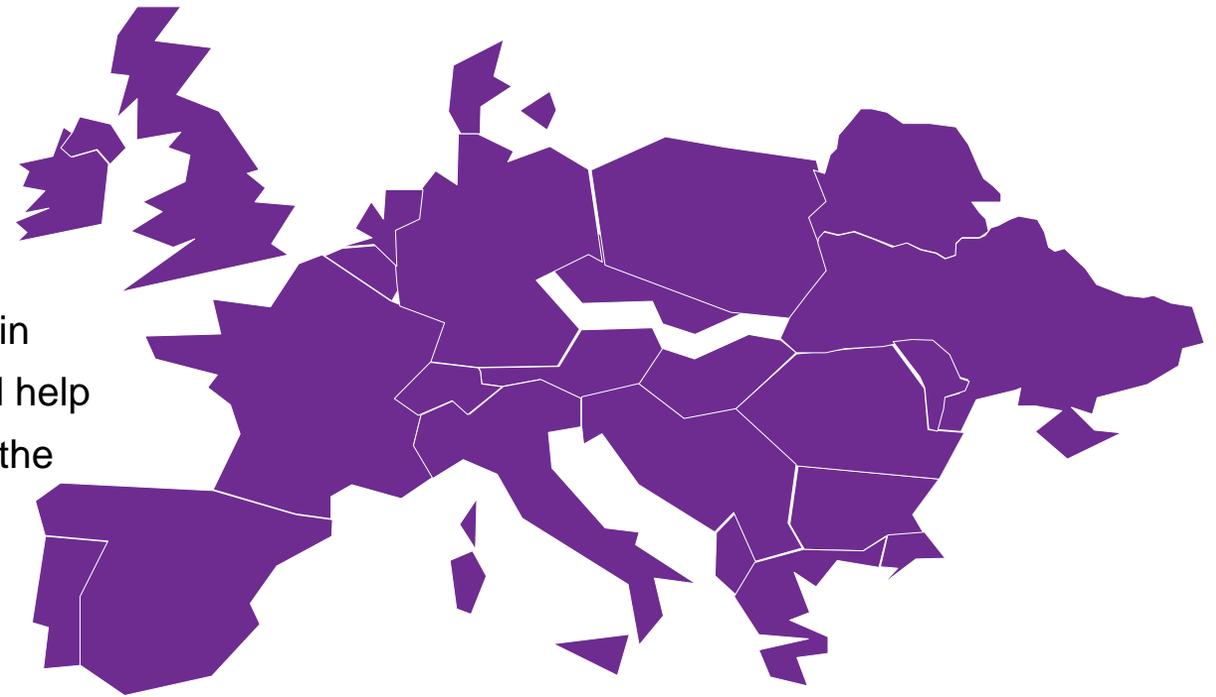
- ❖ Ransomware tabletop exercises
- ❖ Post-tabletop action reports
- ❖ Maturity assessments for preparedness
- ❖ Supply-chain attack simulation
- ❖ Comprehensive incident response plan
- ❖ Threat analysis and monitoring

All interaction with Dentons is attorney-client privileged

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

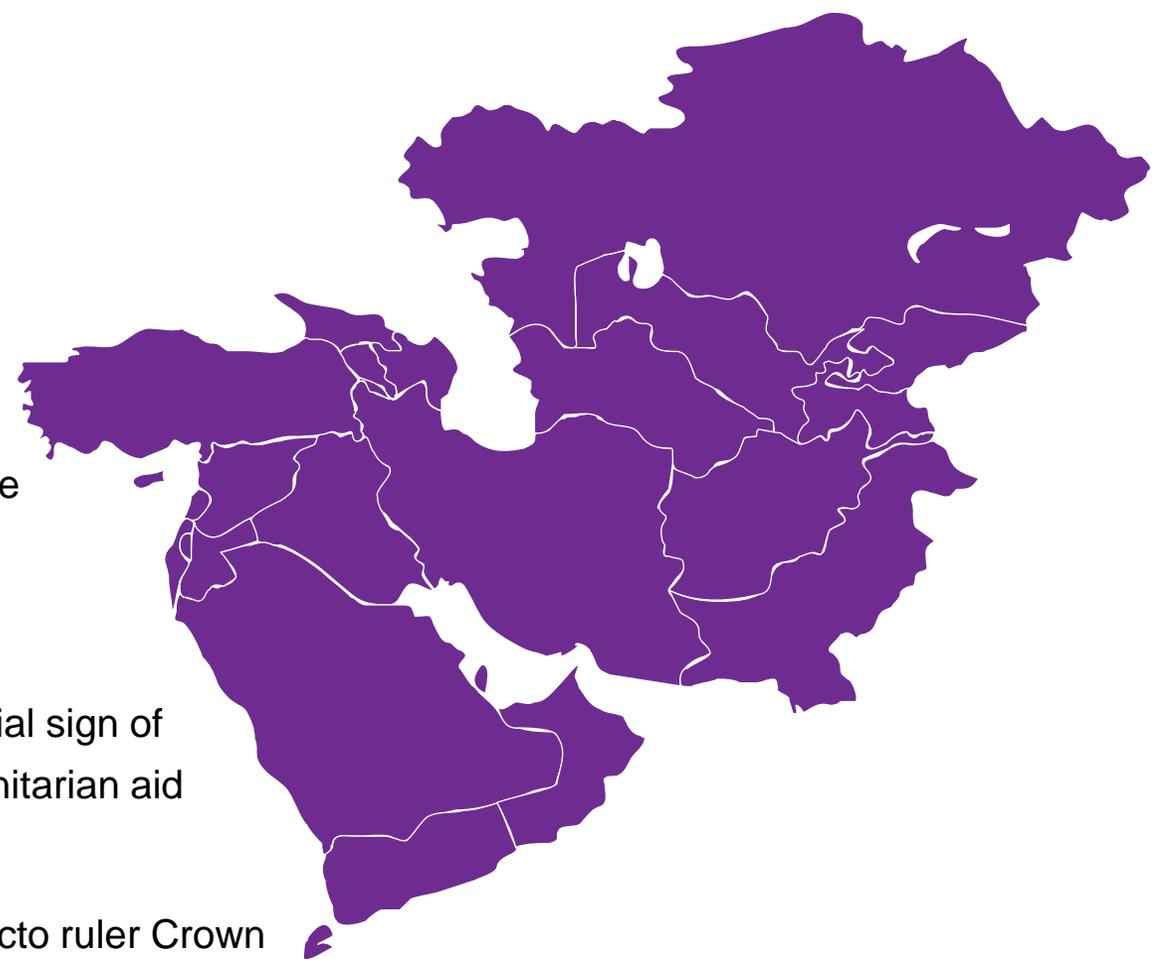
Europe

- A referendum on constitutional reform to decentralize power in **Kazakhstan** this week after unprecedented turbulence could help President Tokayev build political capital for a second term in the oil-rich country allied with **Russia**. The referendum is aimed at addressing the discontent that drove people to the streets in January, when protesters called for political reform.
- **Russia** oil company Rosneft appointed a Mandarin-speaker to head global trading operations as Russia's top oil producer seeks to deepen ties with **Asia** after Western sanctions forced it to pivot away from **Europe**.
- Maritime authorities in **Greece** have called for international help to release the crews of two oil tankers that were seized by **Iranian** forces last week. Greek Merchant Marine Minister Plakiotakis described the incident as a threat to the security of shipping and commerce.
- **French** diplomats went on strike yesterday for the first time in 20 years in protest at staff cuts and reforms by President Macron that they say could hurt France's global standing.



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

Middle East



- **Tunisian** President Saied fired dozens of federal judges, accusing them of corruption in a televised address, drawing further denunciations from the international community for his slide towards authoritarianism.
- **Morocco** reported its first case of monkeypox.
- **Yemen's** warring parties renewed their two-month truce, a potential sign of hope for peace talks and an opportunity to continue supply humanitarian aid in less difficult conditions.
- **US** President Biden will visit to **Saudi Arabia** and meet with de facto ruler Crown Prince Mohammed bin Salman, who he has refused to meet with since his inauguration over human rights concerns, amid a push to ease divisions over energy production and **Ukraine**.
- The Emirati government announced that the **UAE** had reached its target of 100 percent vaccination among eligible populations.

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

Americas

- **Canada's** right-leaning Progressive Conservatives are set to retain power in Ontario, the country's most populous province.
- The Inter-American Commission on Human Rights found that **Colombia** is only partially adopting necessary measures to prevent members of its security forces from committing human rights violations.
- **Peru's** congress gave President Pedro Castillo approval to attend the **US'** upcoming Summit of Americas, fulfilling a Peruvian requirement for congress to okay international presidential trips.
- The Paris Club of creditor countries aims to wrap up a renegotiation of \$2 billion in debt that **Argentina** owes "*in the coming weeks.*"



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

Americas: US

- The White House expects **vaccinations of young children** to begin in earnest as early as June 21, with FDA approval of the vaccine expected shortly. The federal government will make 10 million vaccines available to state and local authorities to start broad-based vaccinations of children under 5 years of age.
- **US employment** likely increased at a brisk clip in May, with the jobless rate expected to have dropped to its pre-pandemic low of 3.5 percent. The Labor Department's employment report is expected to show **strong wage gains** last month, an indicator that the economy continues to expand, although at a moderate pace.
- In a prime-time address, President Biden called on Congress to take immediate action on **gun control**, as the nation reels from a wave of mass shootings from New York to Texas to Oklahoma.
- The State Department has updated its fact sheet on **Taiwan** again, to reinstate a line about not supporting formal independence for the Chinese-claimed, democratically-governed island. Last month the State Department changed the wording on its website on Taiwan, removing wording both on not supporting Taiwan independence and on acknowledging Beijing's position that Taiwan is part of China, to anger in Beijing.



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: Western Oil Sanctions on Russia and the Next Phase of War

On the 100th day of the Ukraine war, Ukrainian Defense Minister Oleksii Reznikov said that NATO should consider granting Ukraine "de facto" rather than "de jure" membership of the alliance when it discusses its strategy for the next 10 years at a summit in June.

Analysis

This past week, after extensive and difficult negotiations, the EU forged a consensus to adopt an import ban on Russian seaborne oil. The agreement imposes an immediate ban on 75 percent of Europe's imports of Russian crude. This will rise to 90 percent by year end. Landlocked Hungary, Slovakia and the Czech Republic were given an exemption for oil via the Druzhba pipeline. Included in the agreement is a ban on EU insurers providing coverage for vessels carrying oil shipments from Russia. While the ban is not complete and only just enacted, it is already impacting the global energy market.

Europe is Russia's largest oil customer, purchasing about half of the 4.7 million barrels per day of Russian crude exported last year. Russia will struggle to find new buyers, with weak Chinese demand due to COVID-19-related economic doldrums and India's demand

already saturated with refineries running at capacity with cheap Russian exports already purchased under contract. The insurance ban will make it even more difficult – and expensive – to secure new buyers.

The EU and the UK have agreed to a coordinated ban on European insurance for Russian oil cargoes that will cut Russian energy exporters off from the Lloyd's of London marine insurance market for H&M (hulls and machinery insurance) and from the International Group of P&I Clubs (protection and indemnity insurance), which provides about 95 percent of global cover for tanker liability. The reinsurance business is also heavily concentrated in Europe and will likely be heavily affected. Tankers carrying Russian crude to any destination will not be able to get the required insurance to transport and dock through these networks of marine insurance. Russian exporters will need to find smaller insurance markets with less established brokers, or obtain sovereign guarantees, either of which

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: Western Oil Sanctions on Russia and the Next Phase of War

may not be accepted by ports used to dealing with firms meeting the Lloyd's of London and the International Group of P&I Clubs standards. Shipping executives expect the impact will begin to be felt by July, when withdrawn policies begin to expire.

With the announcement of the oil ban, US crude futures for July jumped 3 percent in an already heated market. While Europe is certain to have to pay more per barrel to replace Russian supplies, oil market analysts assess that Russia will pay even steeper costs. According to analysis by the UK *Financial Times*, Russia could earn at least \$8.1 billion per month by exporting 3 million barrels per day to the EU at current Urals crude prices. Moscow may be able to reroute at best 1 million of the barrels previously destined for the EU, with exports of 3 million barrels shrinking to just 1.75 million barrels. That means lost revenue of at least \$3.4 billion per month in the initial phase of the embargo, or just over 40 percent of Moscow's estimated monthly proceeds from EU exports. That loss could rise to at least \$4.5 billion a month once the full EU ban kicks in. Analysts at the *Financial Times* conclude that the EU oil embargo will hurt Russia more than Europe.

With the prospect of strong global demand, and spiking commodity prices, OPEC+ has revised its production targets, deviating from a supply policy set over two years ago when oil prices crashed with the onset of the pandemic. The cartel said it would increase output by almost 650,000 barrels a day in July and August, up from planned increases of about 400,000 b/d. While there are questions on whether the cartel members can meet the new target, with only Saudi Arabia having sufficient excess capacity, and Russia almost certain to decrease exports rather than expand, oil prices are likely to remain high through the summer and into the winter without additional supplies coming on-line, either through a political arrangement with Saudi Arabia, or other ramp up by non-OPEC producers.

The impact of the Ukraine war is leaving no country untouched, by increased commodity prices, food insecurity and resulting political insecurity. Western sanctions, however, are intended to make Russia feel the cost of war most acutely and force the Kremlin to end the war and retreat back to internationally recognized borders. The Russian government has tried to insulate its population by an

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: Western Oil Sanctions on Russia and the Next Phase of War

economic relief package equivalent to tens of billions of dollars to assist struggling individuals and businesses. Moscow has ordered an emergency increase in payments to pensioners, state employees and the needy to compensate for surging inflation. He has also backed state-subsidized loans to companies battered by sanctions. Russia has deep pockets and is tapping into its rainy-day fund, the National Wealth Fund which has over \$100 billion in liquid assets. While subsidies can shore up demand, they are less effective in addressing supply disruptions and the impact of long-term unemployment. Western sanctions have left hundred of thousands unemployed, closed retail stores, shut off services and idled manufacturing plants. The Russian economy is contracting, and ordinary Russians are feeling the pain.

Russian President Putin has demonstrated he is not impervious to the costs of war. When the decapitation of the Ukrainian government strategy failed with the Kyiv offensive, Kremlin planners narrowed their objectives to focus on capturing the Donbas. This objective is now within Russia's reach. Putin is betting that the Western alliance is fracturing and that he can set the terms for the next phase. It is possible that Putin will use this "victory" to seek a ceasefire and new

negotiations, with terms of a long-term ceasefire in exchange for Russia's annexation of the Donbas and Crimea and an end to Western sanctions. This would present a difficult set of choices for Ukraine and its backers. Will territorial compromise satiate Russia and end the growing global economic and security crisis? Or will it simply be a pause, enabling Russia to rebuild its military and launch a new offensive next winter?

Political Developments

Russia's invasion of Ukraine entered its 100th day today with no end in sight.

NATO Secretary General Stoltenberg said yesterday that Ukraine faced a "war of attrition" and that the West needed to make its support sustainable. In an interview with The Washington Post, he said Ukraine had the right to seek the full expulsion of Russian forces from its territory.

US Undersecretary of State Zeya spoke at a UN Security Council meeting and underscored Washington's commitment to hold Russia accountable for crimes committed in Ukraine since the start of the invasion.

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: Western Oil Sanctions on Russia and the Next Phase of War

Kyiv's ambassador to Ankara said Turkey is among the countries that is buying grain that Russia stole from Ukraine.

Russia's defense ministry said on Thursday that vessels carrying grain can leave Ukraine's ports in the Black Sea via "*humanitarian corridors*" and Russia is ready to guarantee their safety,

The administration in the Russian-controlled Zaporizhzhia region of Ukraine plans to take over state assets, including strategic firms, land and natural resources.

The US issued a warning on Russia's plans to institutionalize control over sovereign Ukrainian territory, particularly in Ukraine's Kherson region. The Kremlin may be seeking to recognize Kherson as a so-called "*people's republic*" as Russia forcibly did in Donetsk and Luhansk, to an attempted annexation just as Russia did in Crimea, noting that is part of the Russian playbook. The US is pointing to Russian President Putin's unilateral decree that would fast-track the issuance of Russian passports to Ukrainian citizens. Russia used similar tactics in Donetsk and Luhansk in 2019. Additionally, there are multiple reports indicating Russian forces have forcibly removed

Ukrainian government officials and installed pro-Russian proxies. Russia has also forced Kherson residents to adopt the Russian ruble over the legitimate Ukrainian currency, according to multiple accounts.

According to the US assessment, as of late April, Russia likely controlled at least 25 broadcasting towers in Ukrainian areas under Russian military control, including in the Kherson region, and was airing pro-Russia media channels probably to weaken anti-Russian sentiment and public resistance. Russian officials have increased visits to Kherson, including a visit by Russia's deputy prime minister in mid-May during which he publicly stated that Moscow believed Kherson has "*a decent place in our Russian family.*" This followed a trip by the head of Russia's ruling party, United Russia, who said Russia would remain in Kherson "*forever.*" The Kremlin has also indicated it may hold a referendum to create a Kherson "*people's republic.*" The Kremlin probably views that forcibly holding Kherson would provide Russia a land bridge to Crimea as well as gaining some kind of so-called victory in an attempt to justify the costs to its citizens.

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: Western Oil Sanctions on Russia and the Next Phase of War

Battlefield Developments

Ukrainian President Zelensky said the fighting was brutal in the eastern Donbas but there has been “*some progress*” in the city of Severodonetsk. Ukraine’s military has reported that it has managed to hold positions in Severodonetsk, and that fighting continues.

Some 60 percent of the infrastructure and residential buildings in Lysychansk, one of only two cities in the east still under at least partial Ukrainian control, have been destroyed from attacks, according to a local official.

Sloviansk’s mayor urged residents to evacuate as Russian bombing intensified, damaging electricity lines and cutting the water supply in the city.

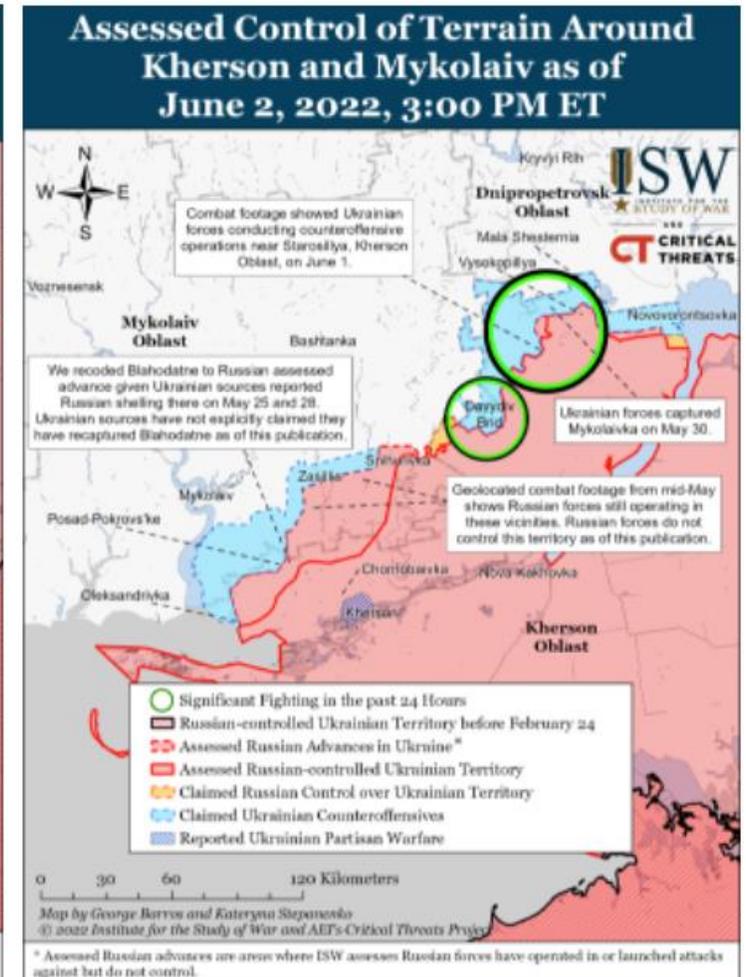
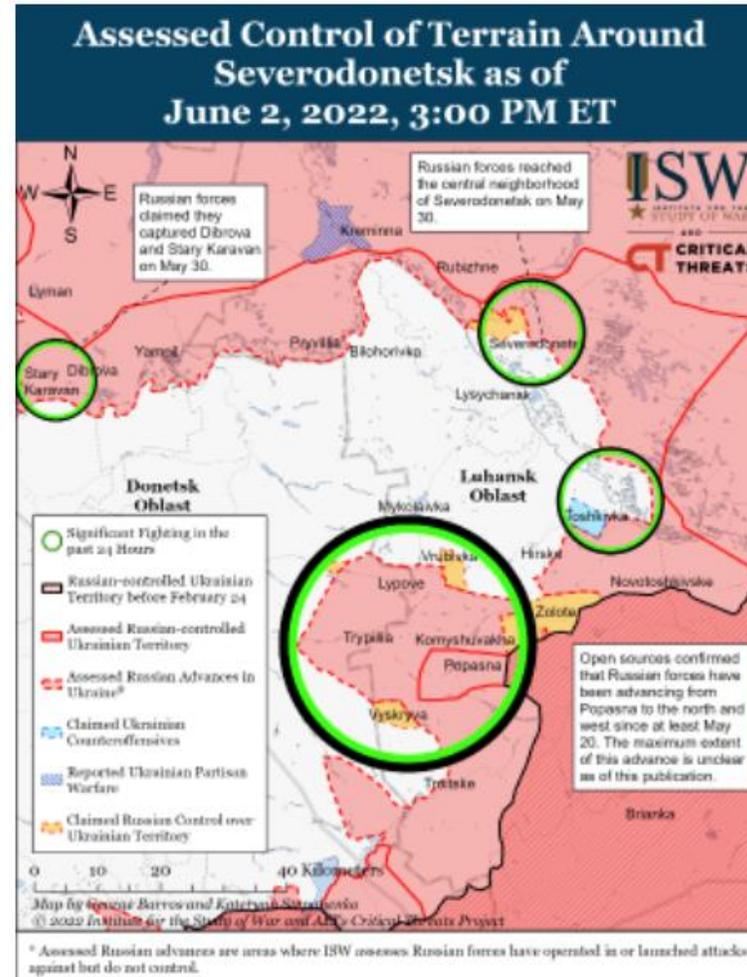
The UK Ministry of Defense assessed that Russia is now achieving tactical success in the Donbas after failing to achieve initial objectives to seize Kyiv. “*Russian forces have generated and maintained momentum and currently appear to hold the initiative over Ukrainian opposition.*” Russia now controls over 90 percent of Luhansk Oblast and is likely to complete control in the next two weeks. Russia has achieved these recent tactical successes “*at*

significant resource cost, and by concentrating force and fires on a single part of the overall campaign. Russia has not been able to generate maneuver or movement on other fronts or axes, all of which have transitioned to the defensive.” With none of its strategic objectives achieved, Russia will need to make huge investments of manpower and equipment, to achieve any form of success and this will likely take considerable time.

The Institute for the Study of War assessed Russian military leadership continues to experience complications with sufficient force generation and maintaining the morale of mobilized personnel, citing growing complaints about forced mobilization in occupied territories, lack of training, food and medical services. Russian occupation authorities also continue to face challenges establishing permanent societal control in newly occupied Ukrainian territories. The Ukrainian Resistance Center reported that Russian occupational administrations “*are [only] created on paper*” and are incapable of controlling local populations, enforcing the use of the Russian ruble, or conducting bureaucratic processes. The Ukrainian Resistance Center noted that Ukrainian civilians welcome partisan activity that systematically sabotages Russian occupation rule.

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: Western Oil Sanctions on Russia and the Next Phase of War



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

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: Western Oil Sanctions on Russia and the Next Phase of War

Economic Developments

Today, the EU formally approved an embargo on Russian oil and other sanctions targeting major banks and broadcasters over Moscow's invasion of Ukraine. Russian crude oil will be phased out over six months, and other refined petroleum products over eight months, with a temporary exception for landlocked countries, Hungary, the Czech Republic and Slovakia, that *"suffer from a specific dependence on Russian supplies and have no viable alternative options."* Russia's biggest bank, Sberbank, plus Credit Bank of Moscow, Russian Agriculture Bank and the Belarusian Bank for Development and Reconstruction have also been blocked from using the SWIFT system for international bank transfers.

The German Minister of Economy Habeck assed that the Russian economy is collapsing. Germany reduced exports to Russia in March by 60 percent, with an even sharper fall expected in April. Across the allied countries participating in the sanctions, exports to Russia fell by 53 percent over previous months, while the drop among neutral or pro-Russian states was 45 percent, according to Habeck.

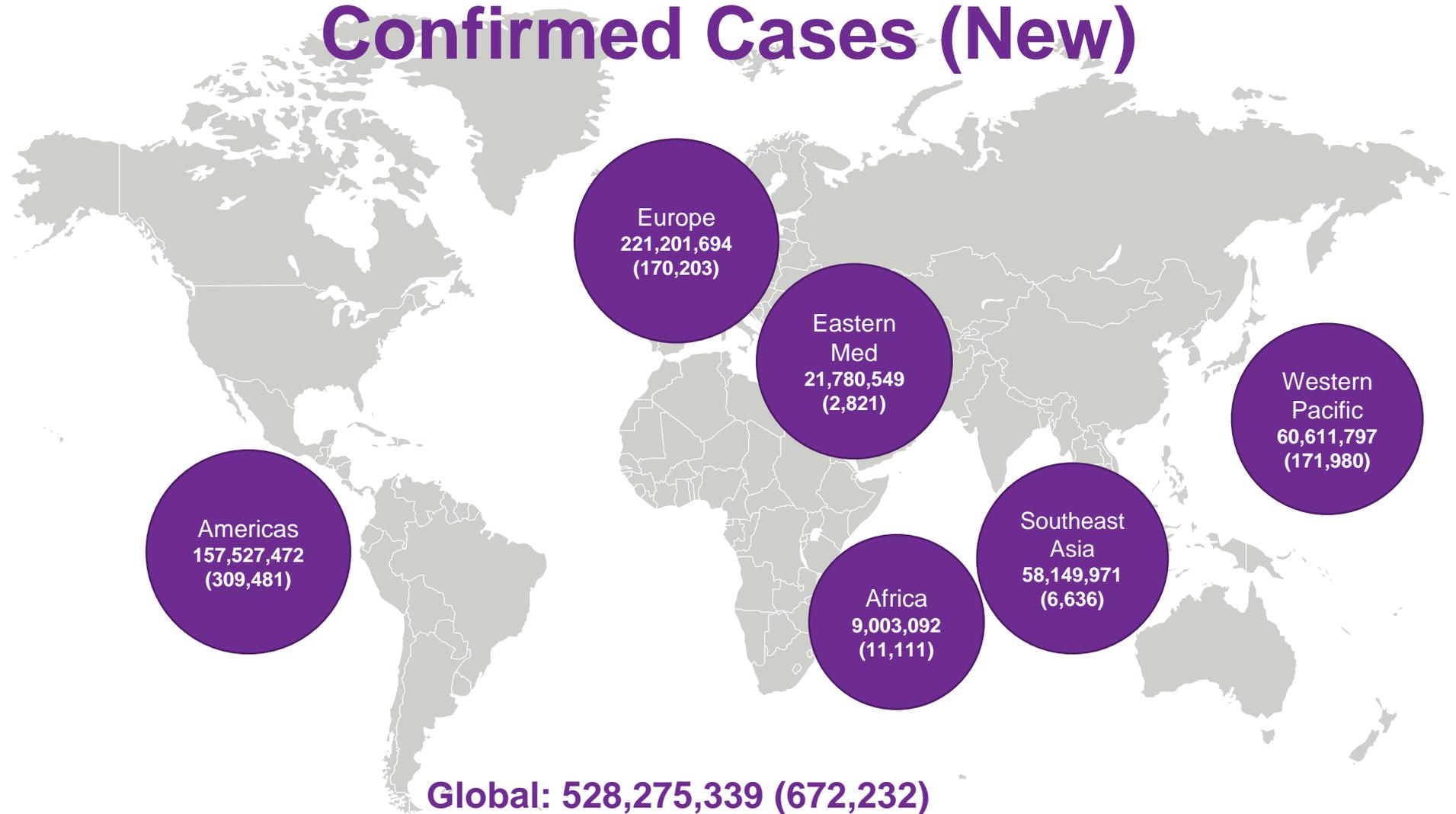
The US imposed new sanctions, some in coordination with allies, on prominent Russian government officials and business leaders, luxury property of elites, and luxury asset management and service companies key to Russian attempts to evade sanctions; additional Russian oligarchs and elites close to Russian President Putin; and 71 parties in Russia and Belarus assisting the Russian military to obtain technologies and other items it needs to sustain its aggression and project power.

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 7:38 pm CEST on June 2, 2022

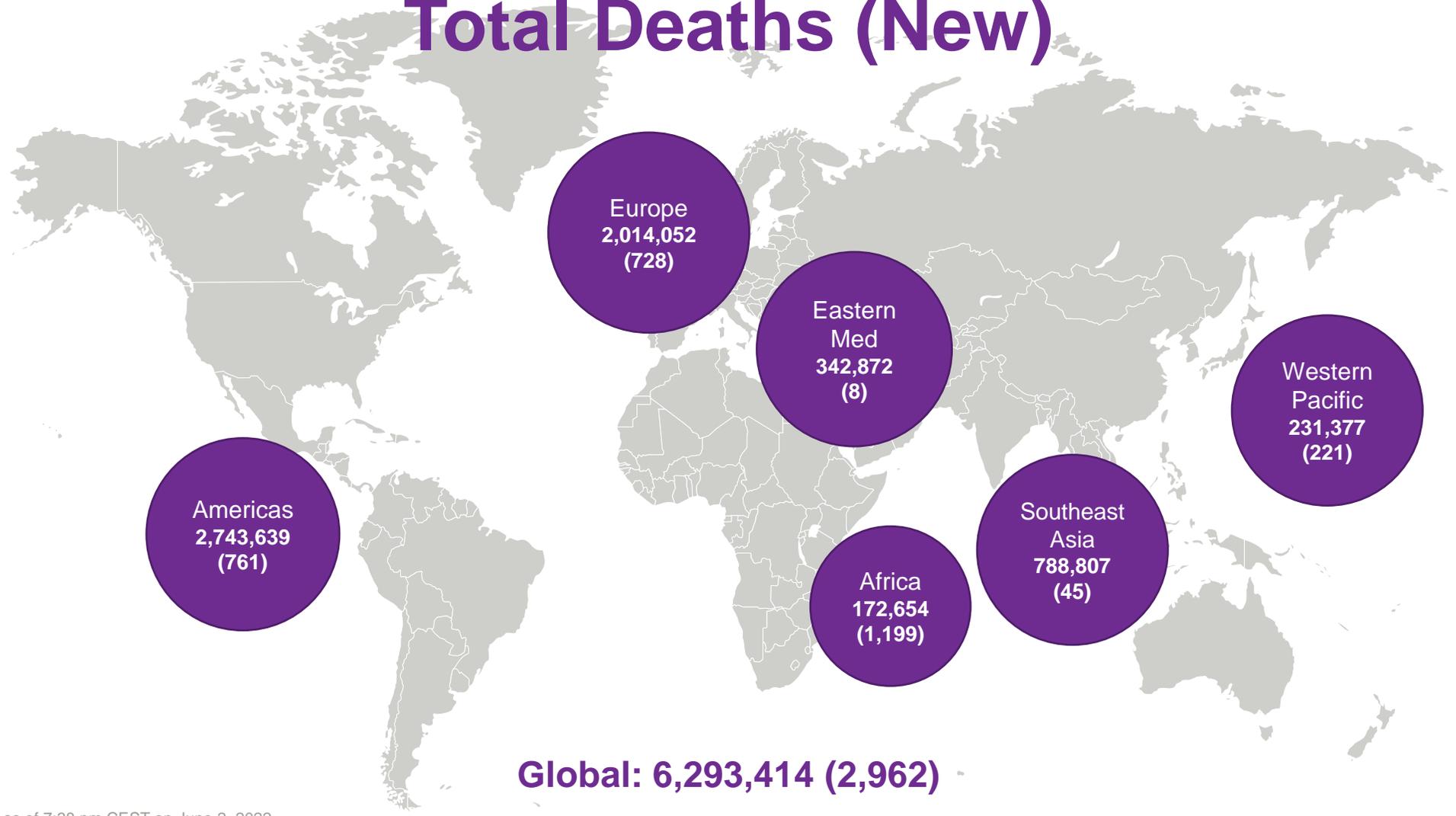
Confirmed Cases (New)



Reflects data as of 7:38 pm CEST on June 2, 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)



Global: 6,293,414 (2,962)

Reflects data as of 7:38 pm CEST on June 2, 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