

War in Ukraine

Situational Awareness Briefing

16 May 2023



The information contained in this briefing is prepared by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. It is for general guidance on matters of interest, and intended for the personal use of the reader only and in connection to the PwC Webcast series "War in Ukraine" or based on individual consent in the context of an existing client relationship. This informational material shall not be deemed to establish a contractual relationship between PwC and the reader. Further distribution requires explicit consent of PwC.



Situational Awareness – Briefing as of 18 April 2023 (Summary)

Ukraine Crisis

The current geopolitical developments in Eastern Europe and the unprecedented attack on Ukraine are also an attack on our way of living and doing business together.

At the moment, no one can foresee all the consequences of this aggression. This is why urgent questions are now being asked in all areas of our social life. Also for companies this means far-reaching cuts and changes.

This Situation Awareness Briefing is provided for information purposes only by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft and will be updated regularly.

The overview to the right represents a summary of points along the following five dimensions:

- Overall Geopolitical Assessment
- Industry/Topic/Country Special
- Forecast
- People
- Operations
- Finance



Overall Geopolitical Assessment

The battle of Bakhmut is experiencing a new climax. While Russian forces have taken control of over 90% of the city, Ukrainian counterattacks on the northern and southern flanks have commenced. Ukrainian preparations elsewhere are indicative of an upcoming large-scale counteroffensive. Due to operational security considerations, it remains unknown where and when the strategic counterattack will take place.



Forecast

EU foreign ministers agreed to an updated strategy on China that recognises it as “a competitor and rival”, but also calls for dialogue on issues of mutual interest // Pakistan to pay for Russian oil imports in yuan.



Operations (Focus: Cyber)

According to the US Department of Justice, it has shut down the “Snake” also known as “Uruburos”, a highly developed spyware programme that the Russian secret service FSB allegedly used to attack computer systems in at least 50 countries.



Inside-out view on reconstruction efforts in Ukraine

The Ministry of Development of Communities, Territories and Infrastructure of Ukraine launched the DREAM state communication platform, which will provide a single digital route for all reconstruction projects in Ukraine // Ukraine has approved measures to reform the model of corporate governance of the gas transportation system operator of Ukraine // The State Fund for Decarbonization and Energy-Efficient Transformation has been created.



People

The US has allocated Russian oligarch’s confiscated assets for Ukraine // Putin urges Russia to be more “attractive” for the citizens to return // Serbia pauses plans to distribute passports to Russians.



Finance (Focus: Sanctions)

Russian oligarch filed a lawsuit to free Superyacht From UK // The EU has begun discussions on the 11th package of sanctions against Russia // Goods worth more than EUR 1bn from sanctioned EU countries have reportedly “disappeared” during transit to Russia’s partners and may have entered the Russian economy.

For questions, comments or details, please contact Joint Crisis Center team: de_ukraine-crisis@pwc.com



Key takeaways

- Successful Ukrainian counterattacks on the flanks of Bakhmut have forced a significant Russian withdrawal.
- While Russians are pushed back on the flanks, they continued their attacks in the city.
- The Ukrainian operation can be seen as a precursor to a larger, strategic counterattack.

Current topics

Current situation in the Russo-Ukrainian War

At the Kherson front small Ukrainian amphibious operations resulted in the occupation of a strip of river march land on the eastern side of the Dnieper. Ukrainian presence was established in the villages of Ostriv and Dachi and acts as decoy operation for attacks along the Kherson and the Zaporizhzhia front. Along the Zaporizhzhia front Ukrainian probing attacks occurred between Kamyaske (on the Dnieper) and Huliapole. Marginal Russian offensive attempts were thwarted in the direction Vuhledar. At Marinka Russian efforts yielded some territorial gains within the city, as a few blocks were occupied. A Ukrainian cruise missile attack on a military equipment assembly facility in Luhansk was successful and destroyed the building. Duma members that were present at the time of the attack were reported lightly wounded. Minor Russian efforts also continued in the Avdiivka direction with negligible territorial exchanges. At Bakhmut major developments occurred. Successful Ukrainian counterattacks at the northern and southern flanks of the Bakhmut front have regained favorable positions. In the south, Russian forces abandoned a bulge west of Ivanivske. That eased the pressure on the so-called "Road of Life" towards Bakhmut that runs along the T0504 highway. In the north, Ukrainian forces forced a Russian withdrawal from the high ground overseeing the Khomanovo road section and liberated about 20 km². Russian forces still control about 90% of Bakhmut and have pressed the Ukrainian defenders into the Western triangle of the city. Within the city, Russian forces predominantly consisting of Wagner private military contractors continued to attack the Citadel (Bakhmut's last Ukrainian stronghold) and advanced towards the children's hospital. The Ukrainian attacks come amidst a raging power struggle between the PMSC Wagner and Russian Ministry of Defense over ammunition supplies, reinforcements and material support. It is also reflective of both sides competing over favors from the Kremlin. After Wagner announced it will transfer positions to the regular Russian army, Ukrainian forces used the rotation to their advantage. As a result, and due to anticipation of a larger Ukrainian push along a focal point of the front, Russian forces have for the most part refrained from offensive operations and concentrate on strengthening their defensive lines.

Implications of a "hot" Taiwan conflict

China views Taiwan as a breakaway province and sees its eventual return to Beijing's control as inevitable, with the use of military force being one option to achieve this. US intelligence reports indicated last year that China aims to be ready from a military capability point of view to invade Taiwan by 2027. In September 2022, US President Biden stated that US forces would defend Taiwan, thus hinting at direct support for Taiwan in case China invaded. Support for Taiwan also has strong bipartisan backing. Thus, any invasion attempt would likely lead to a direct military confrontation between the US, the West and China. An invasion of Taiwan would also lead to a further deterioration of China's relations with East and Southeast Asian nations. However, Russia's stalled invasion of Ukraine may have reinforced doubts among China's leadership on its ability to take Taiwan via military force. Considering these factors, an invasion should thus not be seen as a definite outcome. Instead, China may instead focus on achieving unification by coercion and subversion rather than war.

Similar to the conflict in Ukraine, the dispute over Taiwan can be framed as struggle between democracies and authoritarian regimes. It can also be identified as an indicator of the loss of US hegemonic power, as a Chinese invasion challenges the US rule-based order. If an invasion was to occur, it would have catastrophic business implications for Western companies due to US-led sanction regimes. Companies from countries that opt to remain neutral are likely to be subjected to secondary sanctions or prohibited to operate in US-led markets. Supply chains and sea lines of communication that were the primary indicator of globalization will be severely impaired in the South China Sea. Trade routes in the Indo-Pacific region will be exposed to disruptions as well. The geopolitical implications of such conflict will herald the beginning of a hegemonic war between the West and China. Unless China is decisively defeated in such a conflict and undergoes internal reform, economic and political rapprochement between the West and China will likely prove impossible.

Overall Geopolitical Assessment (2 of 2)



Key takeaways

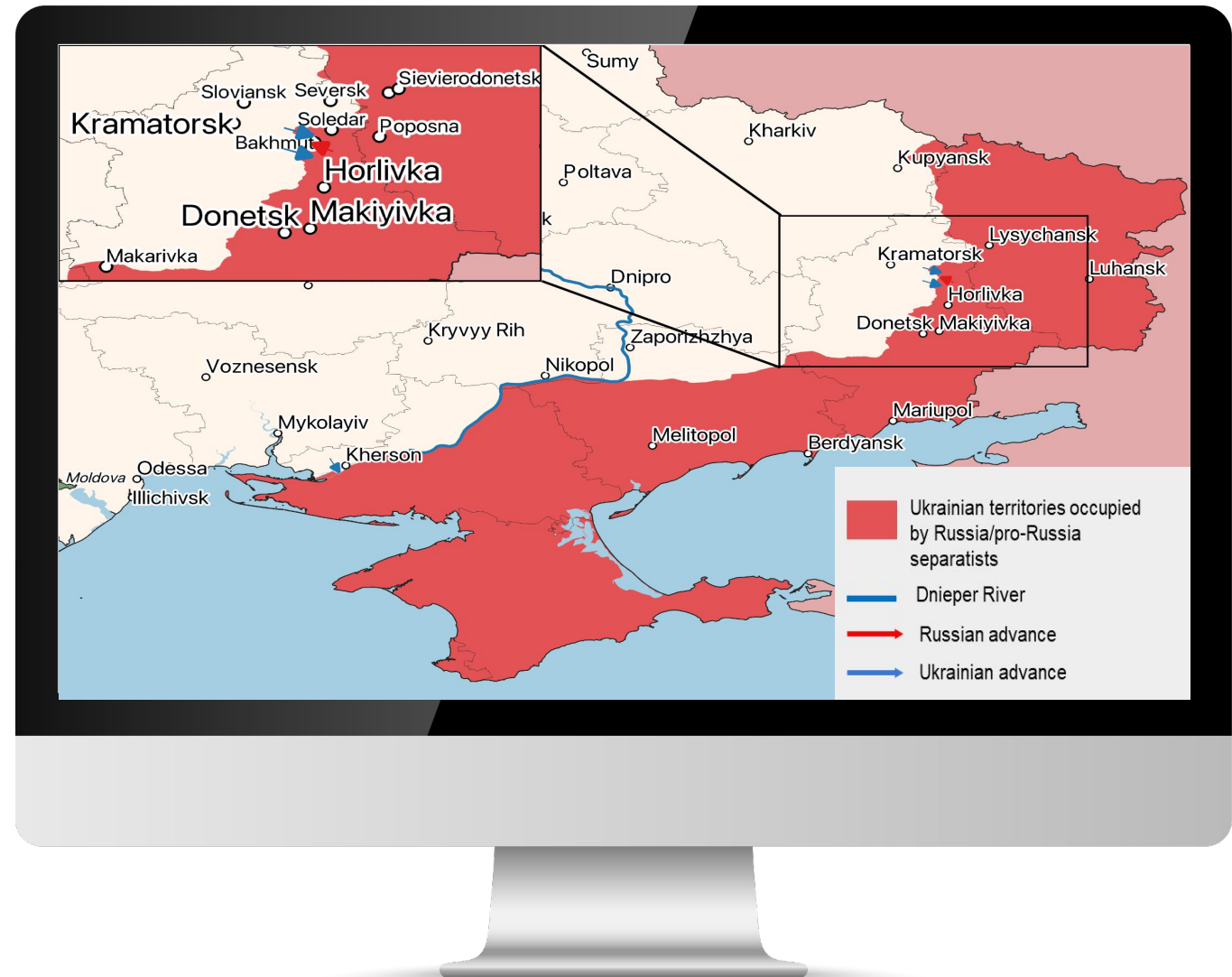
Bakhmut remains the focus of operations for both sides.

Ukrainian flanking attacks liberated 20 km² and pose a threat to the Russian positions in Bakhmut.

Selected upcoming events

- 19-22 May 2023 - The G7 leaders meeting in Hiroshima, Japan.

Current military situation in Ukraine (blue arrows indicate current Ukrainian counterattack, red arrows indicate potential future Russian operations in the coming weeks)



Inside-out view on Ukraine reconstruction efforts



Donor activity - update

G-7 Ministers of finance and heads of central banks, after a three-day meeting before the G-7 summit in Hiroshima, agreed to increase the economic and budgetary support of Ukraine for 2023 and the beginning of 2024 to USD 44 bln. •

On May 12, 2023, in Tokyo the development finance institutions (DFIs) of the G7 countries JBIC (Japan), JICA (Japan), CDP (Italy), FinDev Canada (Canada), Proparco (France), DFC (US), BII (UK), DEG (Germany) and the European Bank for Reconstruction and Development have held discussions and have agreed to the establishment of the Ukraine Investment Platform. The Platform will aim to strengthen cooperation and promote information exchange and co-financing among participating institutions for the reconstruction assistance of Ukraine with a mainly private sector focus. It will also consider the needs of neighbouring countries affected by the war and seek to provide support.

Ukraine attracts USD 200 mln from the European Bank for Reconstruction and Development for the Ukrainian railways restoration project, which includes the purchase of equipment necessary for the restoration of railway corridors with the EU, the improvement of passenger transportation and the purchase of additional locomotives.

Norway has allocated EUR 235 mln in support for life-saving humanitarian aid and now is setting aside an additional EUR 143 mln in civilian support for the Ukrainian government administration. The funds will be used to repair and maintain civilian infrastructure to provide Ukrainians with access to electricity and water, among other things.

The International Bank for Reconstruction and Development and the International Development Association provided a grant in the amount of USD 10 mln for the project Strengthening the Health Care System and Preservation of Life(Heal Ukraine). Of these, USD 5 mln will be directed to improving the processes of providing rehabilitation services and services in the field of mental health. Another USD 5 mln will be spent on restoring the provision of medical services in hospitals affected by the war.

PwC

Reconstruction projects platform

The Ministry of Development of Communities, Territories and Infrastructure of Ukraine launched the DREAM (Digital Restoration Ecosystem for Accountable Management) state communication platform, which will provide a single digital route for all reconstruction projects in Ukraine. The platform will collect all project data online, display this data in the form of convenient tables, graphs and charts, ensure the publication of open data in accordance with the global Open Contracting Data Standard and allow monitoring of every stage of the project life cycle - from registration of damage to financing, carrying out procurement and construction works and putting facilities into operation. It is planned that, thanks to DREAM, international organizations will be able to choose projects for financing through a common project showcase, each municipality will have the opportunity to directly present their projects to potential investors. Investors will have access to all information on procurement, regular reports, audits, municipality recovery and development plans and monitor the implementation progress of the projects.

Gas sectoral update

The Government of Ukraine has approved measures to reform the model of corporate governance of the gas transportation system operator of Ukraine, taking into account the Guiding Principles of the Organization for Economic Cooperation and Development regarding corporate governance at state-owned enterprises and with the aim of ensuring the implementation of the Memorandum of Understanding dated January 16, 2023, concluded between Ukraine and the European Union. The corporate reform of the gas transmission system operator has been started with the application of the best practices with the assistance of the World Bank and the Secretariat of the Energy Community.

Energy sectoral update

The State Fund for Decarbonization and Energy-Efficient Transformation has been created, which will become operational in January 2024. Also, the European polluter pays principle is being implemented, as stipulated by the EU Regulation on energy management and climate action. The Fund will be replenished at the expense of the environmental tax on CO2 emissions. The received money will be used for the implementation of new technologies that will allow to reduce emissions, as well as for thermal modernization of buildings and social facilities and other projects. By 2030, according to the National Energy Efficiency Action Plan, final energy consumption is expected to decrease by 17 percent. The electricity transmission system operator "Ukrenergo" and the Polish company PSE, with the help of equipment and support from European partners, completed modernization and put into operation the interstate power transmission line between Ukraine and Poland to expand the export-import capacity between Ukraine and the EU and to create a backup line for emergency import of electricity.

Preliminary Assessment

- The Ministry of Communities Development, Territories and Infrastructure of Ukraine is preparing the sea trade port terminals Chornomorsk in the Odesa region for transfer to a concession. The feasibility study preparation will be financed by the Global Infrastructure Fund, experts and consultants will be involved by the European Bank for Reconstruction and Development and the International Finance Corporation. Ukraine already has the experience of transferring port infrastructure into a concession. In particular, in 2021, the state seaports Kherson and Olvia were handed over to private companies.
- The Ministry of Reintegration of the Temporarily Occupied Territories of Ukraine has signed a memorandum of cooperation with the Swiss company Global Clearance Solutions (GCS), a manufacturer of mechanized demining equipment. The result of the cooperation should be the supply of 20 demining machines for clearing mines and unexploded ordnance from agricultural lands and critical infrastructure facilities in the de-occupied districts of Mykolaiv, Kharkiv and Kherson regions. Ukraine has only 10 machines and 2,000 sappers. The need for financing the purchase of special equipment is estimated at more than EUR 230 mln, which is planned to be raised through the UNITED24 fundraising platform.



General context

Considerations on implications for businesses along the PESTEL framework

P Political	EU takes new strategy with China
E Economic	Pakistan wants to buy Russian oil in yuan
S Social	Social related implications: e.g. refugee streams, labour market developments
T Techno-logical	Technology related implications: e.g. cyber threats and disinformation, IT infrastructure disruptions
E Environ-mental	Environment related implications: e.g. Resource scarcity, energy embargo
L Legal	Legal implications: Compliance with changing regulations, contractual obligations, etc.

Current topics

New EU strategy in regard to China

At an informal meeting on Friday, EU foreign ministers agreed to an updated strategy on China that recognises it as “a competitor and rival”, but also calls for dialogue on issues of mutual interest. This was stated at a press conference following the meeting by EU Chief Diplomat Josep Borrell.

Experts have already said that imposing tough sanctions on China is difficult because the EU is too dependent on its products. The bloc's executive proposed blacklisting several Chinese companies and introducing a new mechanism that would open the way to a possible restriction of EU exports in the future to countries that flout sanctions. Chinese Foreign Minister Qin Gang has already said that China will respond “severely and strongly” to any EU sanctions against its companies.

Germany led calls urging caution against targeting China under new European Union sanctions over Russia's invasion of Ukraine during a first discussion among the bloc's 27 countries on proposed new restrictions, five diplomatic sources said.

Pakistan to pay for Russian oil imports in yuan

Pakistan has placed an order for a one-off shipment of Russian oil, but is interested in a long-term deal to buy oil in Chinese currency, according to the country's Energy Minister Khurram Dastgir Khan.

Payment for the first batch was made in US dollars, but Pakistan would like to see further purchases made in yuan, as the country has a currency swap agreement with China, the minister said. Such an agreement would be in line with Russia's desire to move away from using the dollar or euro for exports and China's ambition to bring the yuan to the global market to undermine the dollar's dominance. It would also bring some relief to Pakistan, which is heavily dependent on energy imports and is trying to revive a USD 6.5 bn aid package to avoid a default from the IMF that has stalled, according to Bloomberg.

Preliminary Assessment

- In recent weeks, European leaders have intensified contacts with China in an attempt to engage it as a mediator in resolving the war in Ukraine. At the same time, Brussels is reportedly preparing to impose sanctions on Chinese companies that help Russia evade restrictions.
- Brazilian hardwood pulp producer Suzano SA is considering selling its products to China in yuan, and Bangladesh recently agreed with Russia to pay USD 300 mn related to the construction of a nuclear power plant near Dhaka in yuan.



Key Considerations

Response measures may include the following:

- Scenario planning sessions to explore how the escalating situation could impact the organization and identify the risks and mitigating actions.
- “Table-top exercising” can be used to validate response structures if they are not already in operation.
- Ensuring that playbooks are in place for extreme but plausible scenarios such as loss of IT for an extended period and disruption to critical suppliers.
- Ensuring the ability to locate all personnel based in, or travelling to, regions of conflict and ensure appropriate steps are taken for their protection.

Current topics

The US has allocated Russian oligarch's confiscated assets for Ukraine

The Justice Department said that the US has delivered confiscated assets from a Russian tycoon to a fund to reconstruct Ukraine for the first time. The State Department received USD 5.4 mn confiscated from Russian oligarch Konstantin Malofeyev to be used to "remediate the harms of Russia's unjust war," Attorney General Merrick Garland said in a statement. The US said Malofeyev was a main source of funding for pro-Russian separatists in eastern Ukraine. Along with that indictment, the US government took control of USD 5.4 mn in Malofeyev's assets, mainly an investment he had made into a Texas bank.

Putin urges to make Russia more “attractive” to reduce the outflow of Russians from the country

Russian President Vladimir Putin signed a decree amending the migration policy concept until 2025 where he has instructed the country to be "financially and socially attractive" to reduce the outflow of Russians from the country in 2022 due to "socio-economic conditions". According to the decree, the concept includes a clause stating that the authorities should create "attractive financial, social and other mechanisms for preserving human capital and reducing the outflow of population" in Russia. In addition, the concept is supplemented by a clause that refers to the need to "create conditions for the return" of residents of the occupied territories of Ukraine who have left since the beginning of the full-scale invasion.

Serbia pauses plans to distribute passports to Russians

Serbia has suspended plans to ease the rules for citizenship for Russians and other foreign nationals who have lived in the country for only one year, as the EU warned that it may suspend the visa-free regime for the Balkan country. News of the alleged legislative changes in Serbia has been spreading on Russian-language social media over the past few weeks, and a new wave of emigrants has been preparing to move to Serbia in the hope that they will soon be able to move to other European countries.

Preliminary Assessment

- The United States has ordered the seizure of several Russian tycoons' assets related to Russia's 2014 actions and the 2022 invasion of Ukraine.
- The new Russian migration concept also includes clauses on "creating conditions that ensure the possibility of participation in civil and other legal relations in the territory of the Russian Federation only for persons legally staying on its territory", as well as on "counteracting the formation of ethnic (multi-ethnic) enclaves".
- Serbian Prime Minister Ana Brnabic said that the Serbian economy would benefit from the influx of thousands of skilled and educated Russians who fled their country after the beginning of war in Ukraine.

Operations (Focus: Cyber Threats)



Key considerations

Detecting a cyber attack:

- Ensure centralized log collection and monitoring capability to boost the ability to promptly detect the threats and investigate incidents
- Implement monitoring for behavioral evidence or network and host-based artifacts from known state-sponsored actors in Russia

Responding to an incident:

- Immediately isolate breached systems
- Secure backups
- Collect and review relevant logs, data, and artifacts
- Consider soliciting support from qualified specialists to provide subject matter expertise
- Report incidents to authorities (if applicable)

Mitigating risk of incident occurrence:

- Ensure proper training for staff regarding incident detection, reporting and response
- Ensure appropriate number of IT security personnel
- Prepare a Cyber Incident Response and Resilience Plan, as well as a Continuity of Operations Plan

Current topics

USA shuts down Russian spy software

According to the US Department of Justice, it has shut down the “Snake” also known as “Uruburos”, a highly developed spyware programme that the Russian secret service FSB allegedly used to attack computer systems in at least 50 countries. With the help of the malware, the FSB has penetrated networks of US government agencies, research institutions and the media over the past 20 years and stolen hundreds of secret documents. NATO member states have also been targeted.

According to the US Cybersecurity Agency (CISA), a FSB unit called Turla began developing the Snake in 2003. The programme had “few bugs despite its complexity” and was particularly difficult to detect. This allowed the FSB to infiltrate networks unnoticed for years and access computers with secret documents.

The FBI worked on the counter-operation under the code name “Medusa” with several foreign governments and the US Attorney’s Office. The agents succeeded by infiltrating the code, which gave Snake the order to overwrite itself.

AI tools to combat cyber threats

In a report published on May 2, cybersecurity company Tenable revealed it is now experimenting with generative artificial intelligence (AI) applications like ChatGPT, a large language model trained by AI lab OpenAI, to enhance security research, which in turn can help in combating cyber threats.

The research focuses on a set of new tools designed to help researchers streamline reverse engineering, vulnerability analysis, code debugging and web application security, and identify cloud-based misconfigurations.

These tools demonstrate that generative AI tools have a valuable role to play in defensive use cases, particularly when it comes to analysing code and translating it into human-readable explanations so that defenders can better understand how the code works and its potential vulnerabilities.

In February, researchers at another cyber security company, Sophos, used GPT-3’s large language models to develop a natural language query interface for searching for malicious activity, detect spam emails and more.

Preliminary Assessment

- In 2018, the Federal Foreign Office in Berlin reported a large-scale cyber attack. The media attributed it to Snake. Similar malware was also reportedly found on government computers in Belgium, Ukraine and Switzerland.
- Both studies indicated that generative AI has an important role to play in processing security events, so that defenders can better manage their workloads and detect threats faster.



Key Considerations

Sanctions Screening Activities

- Screening solutions generate increasing number of alerts (especially banks must deal with the increased workload)
- Appropriateness and effectiveness of sanctions screening measures in identifying sanctioned parties and activities must be ensured. Complex ownership structures complicate the proper identification of involved parties (OFAC 50% rule)
- Trade transactions with Russia and Belarus must be reviewed

Sanctions Compliance Governance

- Sanctions Compliance Governance as a key requirement increasingly in the focus of regulatory authorities
- Robustness of Sanctions Compliance Management System and sanctions controls to counter the current and new sanctions regulations
- Adequateness of internal safeguards to prevent sanctions circumvention activities

Current topics

Russian Tycoon sues to free Superyacht From UK

Russian oligarch Sergei Naumenko has filed a lawsuit in the High Court of England and Wales, demanding that the Department for Transport cancel the seizure of his 58.5-metre superyacht Phi worth EUR 43.5 mn and pay damages. The seizure of the Phi superyacht in March 2022, while the vessel was in London. At the time, the British government said that the detention and arrest of Phi did not require evidence or suspicion that its owner was closely linked to the Putin regime - it was enough that he was a Russian citizen.

EU prepares 11th package of sanctions

The EU has begun discussions on the 11th package of sanctions against Russia. It is aimed at closing the loopholes for circumventing the sanctions imposed earlier and, in particular, at the countries that help Russia in this. The new sanctions may be the first to target China. There is also information that the EU is proposing to blacklist a number of companies from countries that reportedly help Russia circumvent the sanctions imposed earlier. These countries include: China, Iran, Kazakhstan, Uzbekistan, Armenia, Turkey, and the UAE.

The new sanctions also stipulate that oil tankers will be prohibited from unloading at sea or arriving at ports with GPS trackers turned off, an attempt to counteract the circumvention of G7 restrictions on Russian oil trade. The EU will stop transiting most of its exports through Russia, including high-tech products and aircraft parts.

Russia has EUR 1 bn worth of sanctioned goods left

Goods worth more than EUR 1bn from sanctioned EU countries have "disappeared" during transit to Russia's economic partners and may have entered the Russian economy, the Financial Times reports.

Open data showed that only about half of the EUR 2 bn worth of controlled dual-use goods sent from the EU actually reached their declared destinations in Kazakhstan, Kyrgyzstan and Armenia. These goods, which the EU believes could be used by military or intelligence services and are subject to export controls, may have entered Russia directly from the EU under the pretext that they were only in transit. A disproportionately large share of the "ghost" exports that never reached their official destination came from the Baltic states bordering Russia and Belarus.

For some specific categories of goods, such as gas turbines, soldering irons and radio broadcasting equipment, import data show that almost none of the goods shipped from the EU reached their destination.

Preliminary Assessment

- Furthermore, during the G7 meeting, Japan has been leading fresh efforts to diversify supply chains away from China by building partnerships with low- and middle-income countries through investment and aid.

- The discrepancy in the records suggests that Russia circumvented the broad sanctions by using intermediaries, agents or suppliers to indicate false destinations in EU customs declarations. This method helped Moscow maintain access to critical European products, including aircraft components, optical equipment and gas turbines.

General remarks



- The information contained in this briefing is prepared by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. It is for general guidance on matters of interest, and intended for the personal use of the reader only and in connection to the PwC Webcast series “War in Ukraine” or based on individual consent in the context of an existing client relationship. This informational material shall not be deemed to establish a contractual relationship between PwC and the reader. Further distribution requires the explicit consent of PwC.
- The information contained in the briefing is selected with due care. We have made every attempt to ensure that the information contained in this briefing has been obtained and arranged with due care. No representation or warranty of any kind (whether expressed or implied) is given by PwC as to the accuracy or completeness of the information contained within this briefing.
- PwC accepts no liability for any actions taken as response hereto. The information is provided on the understanding that the authors are not herein engaged in rendering legal, accounting, tax or other professional advice or services. As such, it should not be used as a substitute for consultation.
- PwC reserves the right to change or update at any time the briefing without prior notice.
- This briefing may contain references to public sources (e.g. media outlets) maintained by third parties. PwC has no control or influence over the content of such sources. The information from such sources have neither been checked nor approved by PwC in any way. References do not mean that PwC adopts the content behind the reference or link as its own. Therefore, PwC does not assume, for whatever legal reason, any responsibility for the content of the websites of third parties.