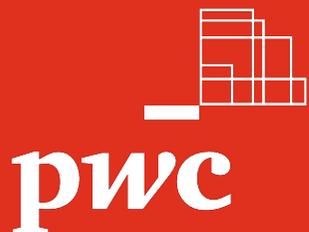


War in Ukraine

Situational Awareness Briefing

8 August 2023



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Situational Awareness – Briefing as of 8 August 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.

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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 Ukrainian counteroffensive is continuing, albeit at a slow pace and at great cost, and succeeded for the first time in occupying Russian strongholds in the first defense line were. The main thrust continues along the central sector of the Zaporizhzhia front, while fighting has mostly reduced to skirmishes elsewhere.



Forecast

Russia continues to target Ukrainian grain export infrastructure // The end of the grain deal is threatening food security in the Middle East // The European Union warns that Russia seeks to weaponise food exports // The US and Mongolia will deepen cooperation on rare earths



Operations (Focus: Cyber)

Microsoft Teams was allegedly targeted by Russian hackers // Ukrainian hackers reportedly attacked the phones of Russian marines with a virus // Names of US military officers to train Ukrainian jet pilots were leaked by a Russian hacker group



Inside-out view on reconstruction efforts in Ukraine

Advisory Council on Economic Policy has been established. // Government of Ukraine approved the Assets Recovery Strategy for 2023-2025 // Electronic public procurement system to be used for projects funded by international organisations // The Ukrainian Government has endorsed the expansion of qualified activities within Diia.City (special tax and legal zone)



People

Nearly half of Ukrainian refugees intend to stay in Germany // 700,000 Ukrainian children have been abducted to Russia // The Russian Parliament seeks stricter laws for evasion of military draft.



Finance (Focus: Sanctions)

The EU lifts sanctions against former Ukrainian Prosecutor General // Iran and Pakistan seek pipeline deal despite possible US sanctions // The European Union imposes further sanctions against Belarussian individuals.

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



Key takeaways

- Ukrainian forces continue to advance albeit at a very slow pace. Those advances are very costly in men and materiel. Several additional tanks and armored vehicles delivered by western states were lost.
- Russian forces are currently building up forces in the vicinity of Kupiansk. A future Russian offensive is likely to occur in this sector.

Current topics

Current situation in the Russo-Ukrainian War

The Ukrainian strategic counteroffensive continues along multiple sections of the Zaporizhzhia front. Ukrainian forces advanced on the Kherson front this week on a line between Ostriv and Dachi. Ukrainian forces now hold most islands in the Dnieper Delta and by improving their positions on the southern bank can attempt to mass forces to increase pressure on the Russian line. Further east in the Kamyanske and Robotyne sector (Tokmak direction) minor Ukrainian advances occurred. Ukrainian forces are battling at the outskirts of Robotyne, an important stronghold in the first Russian defense line. Russian defensive works in the area prove a significant obstacle.

Battles also continued at other sections of the front. At Pryjutne and Staromajorske, another important Russian stronghold, Ukrainian forces managed to advance. They occupied Staromajorske while some of the offensive forces were diverted east and attempt to circumvent major Russian fortifications on the Novodonetzke line. At Avdivivka as well as at Bakhmut combat operation have reduced to minor skirmishes as both sides consolidate their holdings. Further north, minor Russian attacks in the vicinity of Kreminna in the direction of Torske as well as in the direction Kupiansk occurred. It seems Russian forces are now emphasizing the northern sector as considerable reserves are being diverted to the area of Kupiansk. This may herald preparatory measures for a future Russian offensive in the north that aims at forcing Ukrainian reserves to be diverted away from the struggle in the south.

In general, the Ukrainian offensives have lost their momentum. They continue to get stuck in the first Russian defense line and lack the force, ammunition and air support necessary to achieve a decisive breakthrough. However, Ukraine has yet to commit the majority of its forces as it keeps eight fully manned and equipped brigades in reserve to exploit a potential breakthrough. In addition, for the first time since the commencement of the Ukrainian offensive, several important Russian strongholds in the first defense line were successfully occupied. To increase the likelihood of success of the Ukrainian offensive heated debates rage in European capitals to provide Ukraine with strategic cruise missiles to enable it to strike logistics centers deep within the Russian Federation in an attempt to cripple Russian supply efforts. Currently Ukraine can only attack targets up to 300km inside Russia. One attack that raised international attention was an unmanned surface drone attack on a Russian oil tanker. Kiev also announced that all Russian ports in the Black Sea were designated as war zones and warned that ships under any flag can be subject to attacks.

Coup d'état in Niger

In Niger, a former French colony, President Mohamed Bazoum has been removed from power by a group of generals and colonels on July 26. The coup speaker, colonel major Amadou Abdramane, accused the incumbent government of having caused a deteriorating security situation and an environment of bad governance. Coup forces closed the Nigerien borders, declared a nationwide curfew and suspended all operations of government ministries until further notice. Over the past decade, land-locked Niger, has become a pivotal ally for Western powers seeking to help fight insurgencies and terrorist organizations in the Sahel. Niger was also a key ally of the European Union in efforts to reduce irregular migration from sub-Saharan Africa. As a result, Niger was facing growing animosity from the new juntas in charge in Mali and Burkina Faso. France had moved troops to Niger from Mali last year after its relations with interim authorities there soured. It has also withdrawn special forces from Burkina Faso amid similar tensions. In the aftermath of the coup, General Abdourahmane Tiani was declared the leader of the coup forces. Several Western states demanded the reinstatement of president Bazoum. ECOWAS (Economic Community of West African States) issued an ultimatum to the coup forces that threatened invasion if president Bazoum is not released by August 6. As a result, Burkina Faso and Mali issued a statement that such intervention would be considered as an act of war. Pro and anti-coup demonstrators have clashed in several towns throughout Niger. As the coup forces are openly receiving support from Russia through Wagner mercenaries it has become clear that the coup, similar to those in Mali and Burkina Faso, are part of a wider Russian plan to exert control in the region.

Overall Geopolitical Assessment (2 of 2)



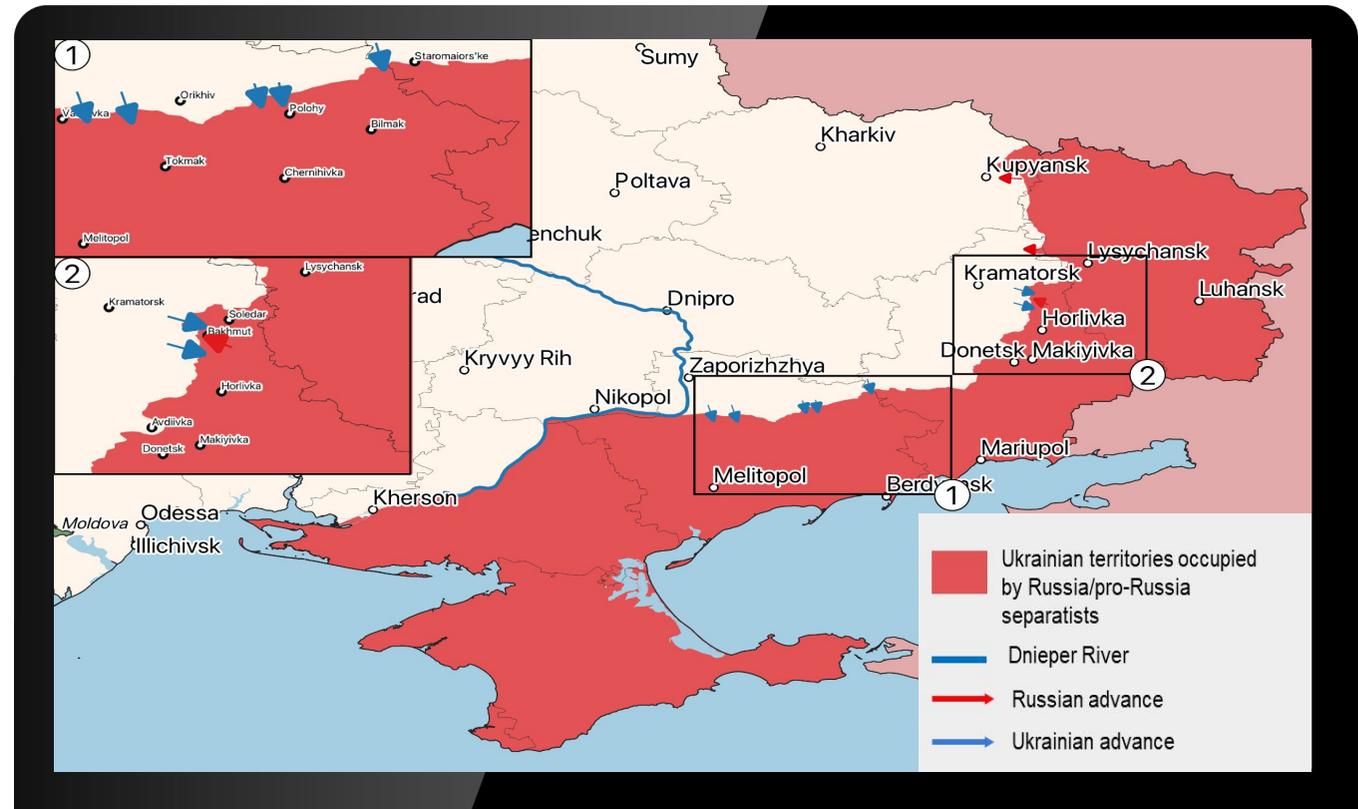
Key takeaways

- The Ukrainian offensive continues to make limited gains in the central sector of the Zaporizhzhia front.
- Russia appears to be preparing for a counteroffensive at Kupiansk, which could necessitate the diversion of Ukrainian forces and hinder progress of the Ukrainian counteroffensive.

Selected upcoming events

- 22 - 24 August - BRICS Summit: an international relations conference attended by the heads of state or heads of government of the five member states Brazil, Russia, India, China and South Africa.
- 11 - 12 October: Zagreb, Croatia, will host the International Conference of Humanitarian Demining Donors in Ukraine. The conference will serve as a platform to mobilize additional international support and resources for demining initiatives in Ukraine.

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





Donor activity - update

- On August 2, 2023, Ukraine and Japan started a new bilateral Financial Dialogue. Japan's aid reached USD 7.6 bln, of which in July of this year, Japan unblocked a USD 1.5 bln World Bank loan for Development Policy. Also, Japan made a financial contribution to MIGA in the amount of USD 23 mln to cover military risks when investing in Ukraine.
- The Government of Croatia, after signing with the World Food Program (WFP) a Memorandum dedicated to surveying agricultural land of Ukraine, donated EUR 1 mln to the WFP (UN) to help Ukrainian farmers resume work in the regions most suffered from explosive remnants of war.
- In July 2023, the state budget of Ukraine received USD 5.3 bln in external financing, including: the European Union – USD 1.67 bln (concessional financing, the sixth tranche within the framework of large-scale macro-financial assistance for 2023); Japan – USD 1.5 bln (concessional financing raised through the ADVANCE Ukraine Trust Fund of the World Bank); United States of America - USD 1.25 bln (grant, part of the fifth additional financing within the framework of the World Bank project "PEACE in Ukraine"); International Monetary Fund - about USD 890 mln (concessional financing based on the results of the successful first review of the program under Extended Fund Facility).
- According to the Ministry of Economy of Ukraine, there is already an agreement with donors on the allocation of USD 244 mln to Ukraine and the provision of special equipment to Ukraine for the needs of humanitarian demining. The necessary equipment will be provided by Japan, Canada, Korea, Switzerland, Lithuania, Howard Buffett Foundation, UNDP and others.

Current topics

Advisory Council on Economic Policy has been established

The Ministry of Economy of Ukraine conducted the inaugural meeting of the Advisory Council on Economic Policy, which was attended by prominent international economists. The Council's participants will provide recommendations to the Ministry to ensure the rapid recovery and development of Ukraine's economy. Notably, the Advisory Council will include distinguished economists and Nobel laureates in economics such as Roger Myerson, chief economists of the International Monetary Fund Kenneth Rogoff, and the President of the Center for Economic Policy Research (CEPR) Beatrice Weder di Mauro, among others.

Government of Ukraine approved the Assets Recovery Strategy for 2023-2025

On August 1, 2023, the Government of Ukraine approved the Assets Recovery Strategy for 2023-2025, a significant component in fulfilling Ukraine's commitments to the European Union. The Strategy outlines the course of state policy for implementing a comprehensive model of repatriating illicit assets back to Ukraine. This document will also serve as the foundation for developing mechanisms to provide compensations and reimbursements for damages caused to Ukraine.

Electronic public procurement system to be used for projects funded by international organisations

Procurement funded by international organisations (contributing to Ukrainian recovery in particular), will be able to take place through "Prozorro", an electronic public procurement system. This new procedure will combine a major principle of full transparency with the ability to flexibly adjust procurement to the requirements of a specific donor.

The Ukrainian Government has endorsed the expansion of qualified activities within Diia.City (special tax and legal zone)

The Ukrainian Government has endorsed the expansion of qualified activities within Diia.City - a special tax and legal environment that fosters a favorable climate for IT business development in Ukraine. Henceforth, companies engaged in the design or repair of unmanned aerial, water, ground vehicles, or their components can join the ecosystem. Additionally, companies providing unmanned vehicle piloting training will also be eligible. This move enables companies and developers to benefit from all the advantages offered by Diia.City, such as reduced taxes, tools for venture investment, and flexible employment options, including GIG contracts.

- On 26th of July the first meeting of the interdepartmental working group on the preparation of the Ukrainian Plan within the framework of the Ukrainian Facility Program - a financial instrument from the European Union - took place. The financial instrument will encompass three main components: financial support in the form of grants and loans (estimated at EUR 38 bln); investment support, including risk insurance for foreign investors (EUR 8 bln); and technical support (expert assistance in reforms, support for municipalities, civil society, and other forms of bilateral aid). The Ukraine Plan will outline a comprehensive vision for recovery and development over the next four years, focusing on key blocks, including macro-financial recovery scenarios, major reforms, sectoral reforms, human capital, business climate, financial markets, etc. The Concept of the Plan is currently being finalized and is expected to be completed by the end of August. The finalisation of the Ukrainian Plan is planned by October 31, 2023.
- A Memorandum on Cooperation has been signed between the Ministry of Community Development, Territorial Planning and Infrastructure of Ukraine and the USAID Economic Support to Ukraine project (USAID ERA). The memorandum envisages USAID ERA's involvement in projects aimed at increasing Ukraine's export potential, particularly through the development of export logistics infrastructure. USAID ERA is expected to support the attraction of additional funding from international financial organizations for logistics recovery and development projects.



General context

Considerations on implications for businesses along the PESTEL framework

P Political	Russia continues to target Ukrainian grain export infrastructure, EU warns of weaponisation of food
E Economic	The US and Mongolia will deepen cooperation on rare earths
S Social	The end of the grain deal is threatening food security in the Middle East
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

Russia continues to target Ukrainian grain export infrastructure

After suspending the “grain deal” which was brokered by Turkey and secured the continued Export of Ukrainian wheat through the Black Sea, Russia had targeted port infrastructure in the Ukrainian city of Odessa. On August 3 it was reported, that Russian drone strikes also damaged a Ukrainian port on the Danube river, just off the border with Romania. This marks a escalation of Russia’s war of aggression against its neighbour, and has sparked wide international criticism, as it threatens food security in developing countries.

The end of the grain deal is threatening food security in the Middle East

As was reported by the Associated Press, several countries in the wider Middle East region are at risk of food insecurity due to Russia’s exiting the grain deal. After the grain deal was suspended, food prices soared. Countries that are already highly food insecure like Egypt, Lebanon, and Pakistan are expected to be severely hit by higher food prices. In these countries, the respective governments are already struggling to finance their populations’ dietary needs. In recent years, rising food prices have begun to significantly burden government budgets.

The European Union warns that Russia seeks to weaponise food exports

The European Union’s High Representative for Foreign Affairs and Security Policy, Josep Borell, warned that Russia seeks to create dependencies with providing vulnerable countries with cheap grain. In a letter to G20 and developing countries, Borell urged for a unified approach to push Russia to return to the grain deal and to stop attacking Ukrainian agricultural infrastructure.

The US and Mongolia will deepen cooperation on rare earths

On a recent visit to the United States, Mongolian Prime Minister, Oyun-Erdene Luvsannamsrai, announced his country would deepen its cooperation with the US in the field of rare earths mining. The Central Asian country has large deposits of rare earths and copper, which are crucial for advanced technology as well as electric vehicles. The announcement comes less than a month after the Chinese government imposed a new rule that demands its domestic producers of rare earths obtain exporting licenses for Germanium and Gallium which demands amid fears that China could further restrict exports of critical resources as tensions with the US are rising.

Preliminary Assessment

- By promising cheap grain to vulnerable countries, Russia could ask for favours in return, as for example votes in the United Nations in favour of Russian interests.
- Already in the past has China restricted exports of rare earths and critical minerals. In 2010, it banned exports of rare earths to Japan due to a dispute over the Senkaku/Diaoyu islands. With the US increasingly restricting the export of advanced technology to China, it is feasibly that the country would retaliate.



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

Nearly half of Ukrainian refugees intend to stay in Germany

According to a study by German Institute for Economic Research (DIW), 44% of Ukrainians who fled to Germany due to the war in their home country intend to stay long-term. This marks an increase of five percentage points from the previous round of interviews conducted in the summer of 2022. Ukrainians are currently the second largest immigrant demographic in Germany, with 1.1mn who entered the country in 2022 alone. Of those immigrants nearly two thirds are women and 35% are minors. Men take up a significantly smaller share of refugees as there are tougher restrictions for men to leave the country.

700,000 Ukrainian children have been abducted to Russia

According to the official numbers from the Russian government, 700,000 Ukrainian children have been forcefully taken to Russia since the beginning of the war. These numbers were presented on 30 July in a report compiled by Russian children's commissioner Maria Lvova-Belova against whom the International Criminal Court issued an arrest warrant. While the Russian government claims to take up orphans and children abandoned during the war, it is generally considered a conscious war strategy by the Russian government to abduct children, raise them as Russians and diminish Ukraine's future generation.

The Russian Parliament seeks stricter laws for evasion of military draft

The State Duma, Russia's lower house of parliament, intends to pass a law in autumn which will allow judges to sentence males who avoid military draft to half a million roubles or up to five years in prison. Recently it was reported that relatives of those already mobilised had demanded rotations soldiers serving on the frontlines in Ukraine. On 25 July, media reported that Russia would extend the maximum age of draftees from 27 to 30 years. The law will be in effect from January 2024 and will require every Russian male aged 18 to 30 to serve one year of military service. Failing to already there have been speculations that the Russian government could plan another round of mobilisations in order to stave off the Ukrainian counteroffensive. Former Russian President and current Deputy Chairman of the Security Council, Dmitry Medvedev said that so far this year 231,000 personnel had been contracted. In April 2023, a new online draft platform was launched. Those who have been served their draft letters are also prohibited from leaving the country under the new legislation.

Preliminary Assessment

- According to the report, 18% of those polled had found a job. Also, there is a high participation in integration and language courses, making Ukrainian refugees more employable. Three-quarters of refugees are taking or have already completed German courses. However, there are roadblocks to even higher participation in the job market, as finding work is harder for women with children, who make up the bulk of Ukrainian refugees.



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

Microsoft Teams was allegedly targeted by Russian hackers

According to Microsoft, the company was recently targeted by Russian state-backed hackers in a number of phishing attacks. According to a Reuters report, attackers pretended to be from Microsoft's technical support and sought to gain access to users' login information in Microsoft Teams chats. According to Microsoft, "fewer than 40 unique global organizations" were targeted by the attackers since last May. The hacking group behind the attacks, according to Microsoft, is Midnight Blizzard or APT29, which is based in Russia and is linked to the country's foreign intelligence service according to the UK and U.S. governments. Midnight Blizzard has been targeting European and American companies and NGOs since 2018.

Ukrainian hackers reportedly attacked the phones of Russian marines with a virus

Ukrainian hackers reportedly sent a virus to the phones of Russian marines that steals confidential information. Russian marines, including commanders, received messages on Viber, Telegram, WhatsApp with congratulations video on the Russian Navy Day. The messages sent to the Russians contained a "Trojan" virus that took information from phones and redirected it to Ukrainian servers. Reportedly, the flow of confidential information from Russian phones continues.

Names of US military officers to train Ukrainian jet pilots were leaked by a Russian hacker group

Russian hackers from the AresLeaks group have hacked into Pentagon servers and declassified the names of US military officers who are tasked with training Ukrainian pilots to fly F-16 fighter jets. Earlier it was reported that the first American F-16 fighters could be delivered to the Armed Forces of Ukraine in early 2024 or even in September of this year. The US authorities refused to supply this equipment to Kyiv for a long time.

Preliminary Assessment

- At the same time, the servers of three Russian government websites were down, including the website of the Eurasian Economic Union. "The mentioned video was also posted on them and access to classified information was obtained," an intelligence report says.



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

The EU lifts sanctions against former Ukrainian Prosecutor General

The European Court of Justice will lift sanctions against the former Ukrainian Prosecutor General, Viktor Pshonka and his son. The Court stated that the decision was based upon "errors in the EU Council's assessments" and doubts that they were based on a sufficiently "solid factual basis." Further, the judgement voiced doubt whether the Ukrainian judicial administration sufficiently "respects the right to defense in local criminal proceedings". The sanctions against Pshonka were initially imposed in 2014 for embezzlement of public funds. At the same time, a number of previous ministers and their deputies were implicated in similar cases.

Iran and Pakistan seek pipeline deal despite possible US sanctions

According to Voice of America, the governments of Iran and Pakistan seek to complete a pipeline intended to transport Iranian natural gas to the energy-deprived South Asian Nation. The project has been decades in the making with talks having begun in the mid-1990s. The project was launched in 2013 but work on the Pakistani side of the border had halted after pressure from the United States, who claimed it could violate sanctions imposed on Iran due to its nuclear programme. According to the Iranian government, the country has completed its part of the deal having constructed the nearly 2,700 kilometres of the pipeline on its side of the border. In previous years, the Pakistani government had been deterred by the threat of US sanctions. But according to the contract, Pakistan must complete the pipeline on its side of the border by March 2024 or else face an USD 18bn penalty. According to AP, a Pakistani delegation to Washington in March pleaded the US to either abstain from sanctioning the country or helping pay the fine payable to Iran. According to a Pakistani newspaper, the US is still reviewing the request.

The European Union imposes further sanctions against Belarussian individuals

The European Council on August 3 imposed a new round of sanctions against 38 Belarussian individuals and 3 entities. Further, an export ban against firearms, aviation and space industry was extended. The new legislation was adopted due to Belarussian President Alexander Lukashenko's regime continuing to committing human rights violations and "brutal repression against all segments of the Belarussian society." The list of sanctioned individuals includes prison officers implicated in the torture of inmates as well as representatives of the judiciary who prosecuted pro-democracy activists, journalists, and members of the civil society. Overall, EU sanctions against Belarus now apply to 233 individuals and 37 entities.

Preliminary Assessment

- In addition to the economic sanctions against Russia, the EU has applied various types of measures in response to Russia's "destabilisation" of Ukraine. These include: restrictions on economic relations with the illegally annexed Crimea and the city of Sevastopol, as well as the non-government controlled areas of Donetsk and Luhansk regions; individual restrictive measures (asset freezes and travel restrictions) against a wide range of individuals and legal entities; and diplomatic measures.

General remarks



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