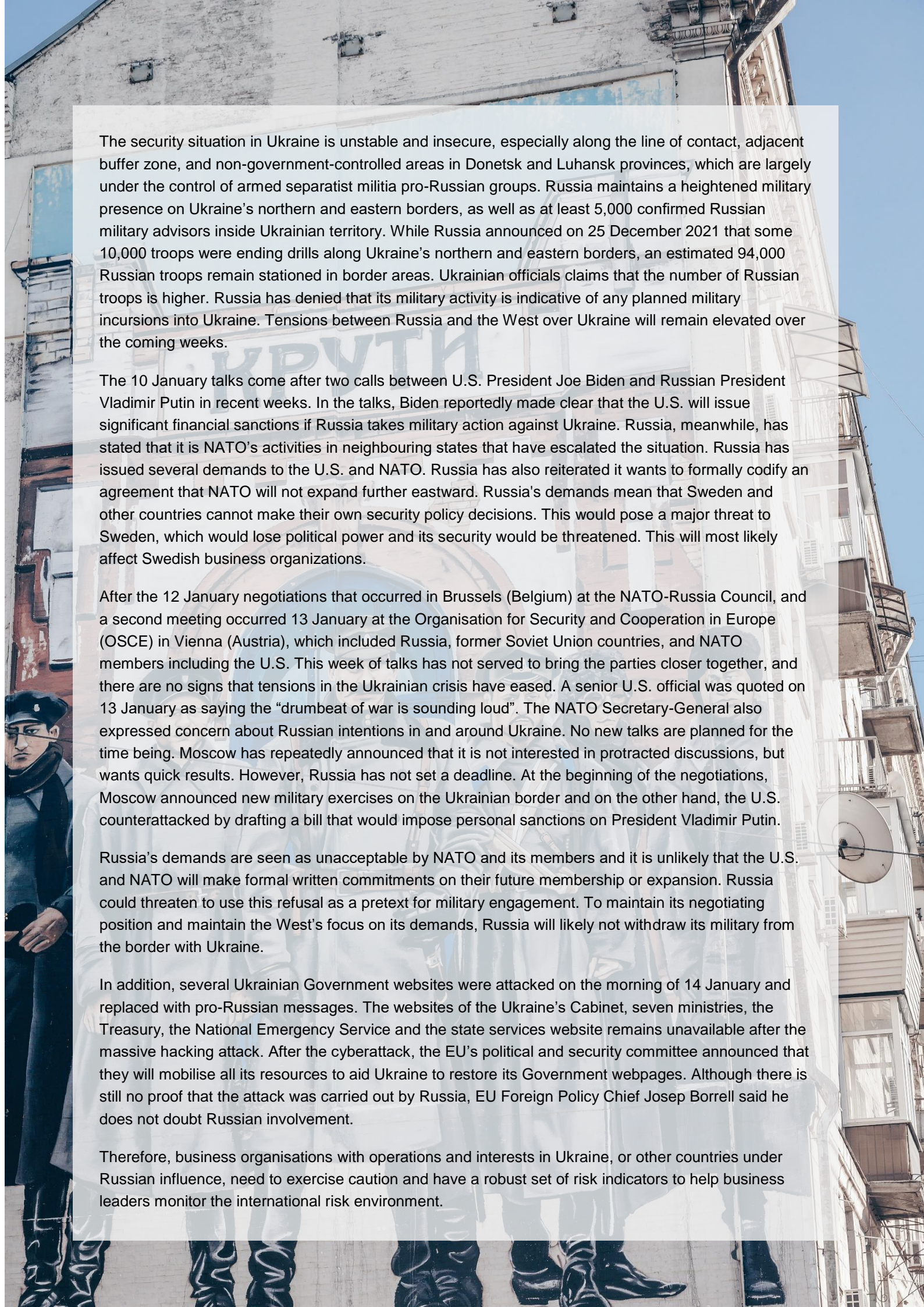




# UKRAINE CRISIS AND THE CONFLICT WITH RUSSIA



The security situation in Ukraine is unstable and insecure, especially along the line of contact, adjacent buffer zone, and non-government-controlled areas in Donetsk and Luhansk provinces, which are largely under the control of armed separatist militia pro-Russian groups. Russia maintains a heightened military presence on Ukraine's northern and eastern borders, as well as at least 5,000 confirmed Russian military advisors inside Ukrainian territory. While Russia announced on 25 December 2021 that some 10,000 troops were ending drills along Ukraine's northern and eastern borders, an estimated 94,000 Russian troops remain stationed in border areas. Ukrainian officials claim that the number of Russian troops is higher. Russia has denied that its military activity is indicative of any planned military incursions into Ukraine. Tensions between Russia and the West over Ukraine will remain elevated over the coming weeks.

The 10 January talks come after two calls between U.S. President Joe Biden and Russian President Vladimir Putin in recent weeks. In the talks, Biden reportedly made clear that the U.S. will issue significant financial sanctions if Russia takes military action against Ukraine. Russia, meanwhile, has stated that it is NATO's activities in neighbouring states that have escalated the situation. Russia has issued several demands to the U.S. and NATO. Russia has also reiterated it wants to formally codify an agreement that NATO will not expand further eastward. Russia's demands mean that Sweden and other countries cannot make their own security policy decisions. This would pose a major threat to Sweden, which would lose political power and its security would be threatened. This will most likely affect Swedish business organizations.

After the 12 January negotiations that occurred in Brussels (Belgium) at the NATO-Russia Council, and a second meeting occurred 13 January at the Organisation for Security and Cooperation in Europe (OSCE) in Vienna (Austria), which included Russia, former Soviet Union countries, and NATO members including the U.S. This week of talks has not served to bring the parties closer together, and there are no signs that tensions in the Ukrainian crisis have eased. A senior U.S. official was quoted on 13 January as saying the "drumbeat of war is sounding loud". The NATO Secretary-General also expressed concern about Russian intentions in and around Ukraine. No new talks are planned for the time being. Moscow has repeatedly announced that it is not interested in protracted discussions, but wants quick results. However, Russia has not set a deadline. At the beginning of the negotiations, Moscow announced new military exercises on the Ukrainian border and on the other hand, the U.S. counterattacked by drafting a bill that would impose personal sanctions on President Vladimir Putin.

Russia's demands are seen as unacceptable by NATO and its members and it is unlikely that the U.S. and NATO will make formal written commitments on their future membership or expansion. Russia could threaten to use this refusal as a pretext for military engagement. To maintain its negotiating position and maintain the West's focus on its demands, Russia will likely not withdraw its military from the border with Ukraine.

In addition, several Ukrainian Government websites were attacked on the morning of 14 January and replaced with pro-Russian messages. The websites of the Ukraine's Cabinet, seven ministries, the Treasury, the National Emergency Service and the state services website remains unavailable after the massive hacking attack. After the cyberattack, the EU's political and security committee announced that they will mobilise all its resources to aid Ukraine to restore its Government webpages. Although there is still no proof that the attack was carried out by Russia, EU Foreign Policy Chief Josep Borrell said he does not doubt Russian involvement.

Therefore, business organisations with operations and interests in Ukraine, or other countries under Russian influence, need to exercise caution and have a robust set of risk indicators to help business leaders monitor the international risk environment.

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# UKRAINE CRISIS AND THE ONGOING CONFLICT WITH RUSSIA

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## POLITICAL OVERVIEW

Ukraine is currently facing multiple challenges and the political developments have been a matter of concern for international politicians and investors since the Maidan Revolution, also known as the Revolution of Dignity. On 21st November 2013 the pro-Russian government of President Viktor Yanukovich decided not signing the Association Agreement between Ukraine and the European Union. This decision provoked massive demonstrations among Ukraine with more than 12 percent of the country's population taking part in the protests. However, the demonstrators soon included other causes encouraged by the general discontent, challenging corruption and the lack of transparency in the country. Following a violent crackdown by Ukrainian security forces, even more people participated in the demonstrations and the conflict escalated, causing President Yanukovich fled the country in February 2014.

Since then, Ukraine has become a priority partner for the EU countries with the signing of the EU-Ukraine Association Agreement (AA) including a Deep and Comprehensive Free Trade Area in 2014, which has been in force since 2017.

The current Ukrainian President, Volodymyr Zelensky, was elected in 2019 and was seen as an opportunity to break with the corrupt oligarchic clans, which have traditionally controlled politics in post-Soviet countries, towards a more Western system with appropriate checks and balances. Although this was originally the approach, President Zelensky has recently deviated to a similar style of rule as his predecessors, switching to a more vertical power structure. Zelensky affirms that these policies are required to combat the country's endemic corruption, which would be a prerequisite for full integration into the European Community. However, EU membership is unlikely if Zelensky develops a power structure of

patronage and democratic processes in Ukraine are undermined.

## Conflict with Russia

In March 2014, as a result of the ousting of the president Yanukovich after the Maidan Revolution, Russian troops took over control of the Ukrainian region of Crimea, before formally annexing the peninsula after the inhabitants of Crimea voted to join the Russian Federation in a controversial local referendum, considered illegal by Ukraine.

The crisis aggravated ethnic divisions in the area, and two months later pro-Russian separatists captured large parts of the Donetsk and Luhansk eastern regions of Ukraine, also known as the Donbas. Since then there has been a severe deterioration of the human rights situation, access issues and a serious economic decline in Crimea. An estimated 10,400 people have been killed and more than 24,000 injured in the conflict since April 2014.

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2014



In recent months, Russia has carried out military exercises with Belarus near the Polish border and has positioned a large military force along its border with Ukraine, as well as continuing to present new military assets that are claimed to provide significant advantages over Western military capabilities. U.S. intelligence estimates that Russia could launch a military offensive in Ukraine within months by accumulating as many as 175,000 troops along the border. This recent event has intensified tensions in Russia's relations with both the U.S. and Europe and has raised broader concerns about Russia's intentions elsewhere in Eastern Europe. A Russian incursion into a NATO country would appeal also a response from the NATO allies. The military-related incidents are the most profound example of an ongoing trend over Russia's instruments of power. Meanwhile, European countries and the U.S. continue to counter these efforts by providing military support to Ukraine, which continues to hold Russian proxies in their positions in Donbass.

*The increase of diplomatic tensions are complicating further cooperation within Europe, U.S. and Russia elsewhere including on issues of terrorism and arms control. This is causing significant international risks for companies like the interruption of investments and production, especially in the energy sector. For this reason, companies should continue to exercise caution and have a robust set of risk indicators to help business leaders monitor the international risk environment.*

175,000  
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placed in the  
Ukrainian-  
Russian  
border

Moreover, tensions continue to grow, as Russia perceives NATO's eastward expansion into its former Soviet sphere of influence as a threat and does not want Ukraine ever to be allowed to join NATO. For this reason, Russia has formally demanded NATO not admit new members. However, NATO allies state that talks with potential new members are taking place because of Russian aggression, not the other way around. NATO has no immediate plans to admit Ukraine, but claims that Russia cannot dictate its relations with other sovereign states. Russia's demands are seen as unacceptable by NATO and its members and it is unlikely that the U.S. and NATO will make formal written commitments on their future membership or expansion. Russia could threaten to use this refusal as a pretext for military engagement.

It is very likely that we are witnessing the biggest challenge to the European security order in a long time. Russia likely sees a window of opportunity to act harshly and aggressively now to achieve its goals, as it believes the EU is demoralized and weakened by divisions over migration, Angela Merkel's withdrawal and French President focused on getting re-elected. Russia also sees the U.S. weakened and more interested in China than in Europe.



## IMPACTS IN SWEDEN

Russian demands for the suspension of NATO's military alliance expansion would also affect Sweden, which could prevent Sweden from applying for NATO membership in the future.

In recent years, Sweden has initiated and intensified a series of military collaborations not only with Finland, but also with NATO and individual NATO countries. The reason for these partnerships is precisely the assessment that Russia is perceived as a growing and potential threat.

Russia demands the right to a sphere of interest with legally binding guarantees, but in reality it is a Russian veto on security policy developments in its neighbors states. Russia's demands mean that Sweden and other countries cannot make their own security policy decisions. This would pose a major threat to Sweden, which would lose political power and its security would be threatened.

Politically, the NATO issue is always present in the Swedish domestic debate. Sweden has a long tradition of non-alignment, but due to recent events and Russian demands, Swedish citizens' support for the country's NATO membership may increase due to the security threat.

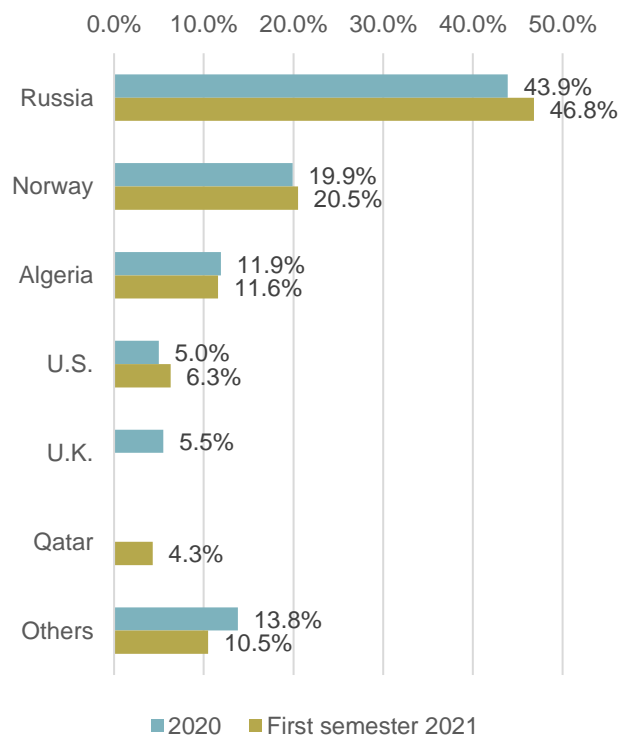
Russia's actions may therefore provoke precisely what the country wants to avoid, more countries seeking NATO protection.

## Russia-Ukraine energy conflict

Today, Russia provides more than one-third of gas supplies to Europe through the Nord Stream pipelines, which pass through Ukraine. However, since Russia and Germany are planning to build Nord Stream 2, a pipeline that will supply Germany with gas directly from Russia, Ukraine's economy and sovereignty have again felt threatened by Russia.

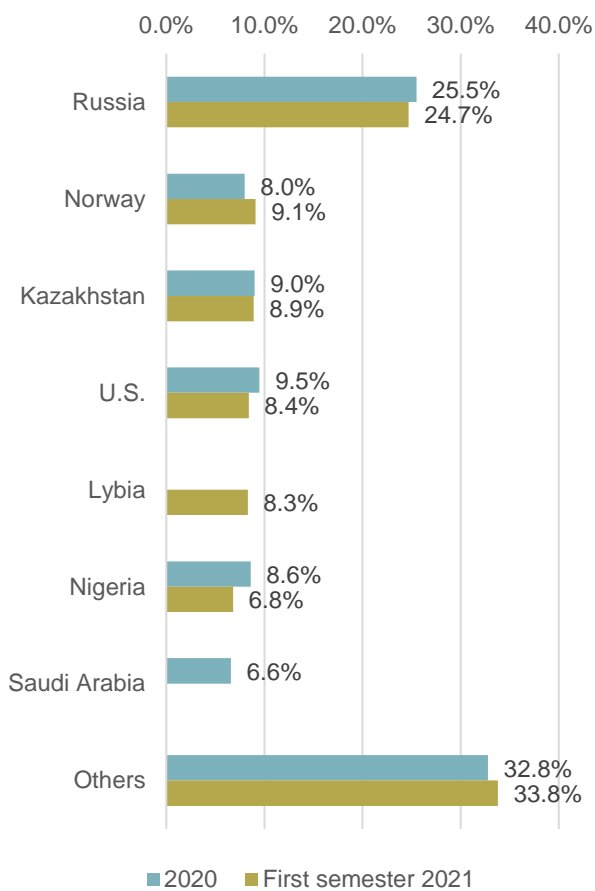
The new pipeline will make the old transit route through Ukraine obsolete, depriving Ukraine of gas transit fees, around a 4 percent of its GDP. In addition to the loss of transit fees, Ukraine claims that with the construction of Nord Stream 2 Russia would gain power over Europe and leave them unprotected. This is because if Russia blackmails Europe into turning off the gas supply tap, this would further increase energy prices in Europe. Consequently, Europe could be influenced and may give Russia the green light on its operations and influence in Ukraine. For these reasons, Ukraine has accused Russia of weaponizing energy for political purposes, which has deprived Ukraine, along with the EU, of access to energy supplies. Although Russia has denied these accusations.

## EU main trading supplier of natural gas



In addition, the EU has also recently recognized the urgent need to reduce Russia's independence in terms of imports of crude oil, natural gas and solid fuels. Crude oil is the largest imported energy product in the EU, 69.8 percent of total EU energy imports in 2021, ahead of natural gas in gaseous state, 19.3 percent. Russia is the largest supplier to the EU in petroleum oils, and especially in natural gas.

### EU main trading suppliers of petroleum oil



Nevertheless, Germany has yet to approve the implementation of Nord Stream 2 pipeline and this will take time due to bureaucratic hurdles and the need to convince the Green Party in the coalition government to support the project. Once completed, the pipeline would be subject to Brussels legislation designed to encourage competition in a free market in the EU. This might force Gazprom, the Russian gas conglomerate, to undergo an unbundling process and, consequently, this might dilute its monopoly.

Russia already has numerous pipelines traveling to Europe via the Baltic Sea, overland routes through Eastern Europe and, similar to the Baltic Sea, two lines traveling to Europe via the Black Sea and Turkey. If Russia wants terms and more favourable treatment from Western Europe, it can cut off Baltic Sea and Black Sea supplies, forcing gas supplies through Eastern Europe, which will lead to higher prices due to transit fees. If Russia wants the same from Eastern Europe, it can simply cut off supplies via overland routes while still selling natural gas to Western Europe via the Baltic and Black Seas. With the Nord Stream 2 pipeline, Russia has an element of strategic depth for its instruments of economic power, which could be extended to provide strategic depth for its diplomatic, information and military instruments as well. European countries have limited tools to effectively balance Russia's geopolitical and economic instruments.

*The political and energy insecurity undermines the enabling environment for business, leads to greater vulnerability, and limits the sustainability of economic growth. Businesses should be including these risks in their planning for 2022, and thoroughly understand the implications to them, and their suppliers.*





## UKRAINE ECONOMIC OVERVIEW

In 2014, after the Russian annexation of Crimea and the occupation of the Donbass region by Russian troops and Russian-backed separatists, Ukraine faced significant economic and financial challenges and continues to require investments. Many industrial plants located in occupied territories are unable to meet its big consumer market, one of the biggest in the EU with approximately 43.6 million people.

In 2020 Ukraine faced an economic recession of 4 percent of its GDP mainly due to the consequences of the global pandemic and the paralysis of international markets. Economic growth in 2021 recovered mildly and GDP growth is expected to be 3 percent.

A favorable external demand of commodities, combined with price appreciation, has led to a significant rise in Ukraine's exports of goods, up 37.5 percent in the January-October 2021 period compared to the same period last year. The Ukrainian currency, hryvnia was revalued due to hard currency revenues. This contributed to the stability of the balance of trade. However, the share of Ukrainian goods exports in the world's export is estimated to be only 0.3 percent in 2021. Ukraine's most important export industries are information technology, agriculture, chemicals and fertilizers, and steel products. The Ukraine's IT-sector is becoming

relevant and attracting foreign investors. The EU is Ukraine's largest trading partner. The main EU exports to Ukraine are machinery, chemicals, and agriculture and food products while Ukraine's key exports to the EU include agriculture and food products, metallurgy and mineral products. The key sectors in Ukraine requiring particular IP attention are pharmaceuticals, agrichemicals, software, consumer electronics and the music and film industries.

The Ukrainian Government embraced the unexpected revenues from export and import operations by prioritizing spending and stimulating investment and consumer demand rather than balancing the general budget. In 2021, Government spending is expected to be \$77.5 billion, approximately 41 percent of its GDP. On the other hand, the deficit is estimated to have reached 3.5 percent of GDP in 2021.

Despite the favorable external trade conditions and generous Government investment policies, The GDP per capita in Ukraine at \$4,384, which the lowest indicator in Europe. Therefore, despite being one of the largest consumer markets in Europe, the spending power of Ukrainians is low and this affects foreign investment. Ukraine will most likely risk a significant decline in foreign trade and investment in 2022 if the country continues with the same policies and retains the old institutions and structure of the economy.



## RISKS OF DOING BUSINESS IN UKRAINE

In addition to the high political risk and economic situation, businesses and international investors are concerned about the following challenges when doing businesses in Ukraine:

-  Bribery and endemic corruption
-  Lack of transparency in tax and customs institutions
-  Judicial system subject to political pressure and business disputes resolved unfairly
-  Not efficient regulatory system
-  High tax rates
-  Corporate financial information is often unavailable and when available often unreliable
-  Organised crime
-  Inadequate protection of intellectual property rights
-  Physical and cyber conflict with Russia

### Corruption

Government integrity is severely compromised and corruption within state-owned enterprises is of particular concern especially in energy and defence sectors. Corruption is spread and accepted by the major part of Ukraine's population. Although the Government took several initial steps in 2019 to address Ukraine's systemic corruption, reform will be a long process. The progress toward reforms is being significantly stalled by the oligarchs and the politicians they support. The lack of corruption-related prosecutions evidences this problem, together with the non-privatisation of state-owned enterprises indirectly controlled by oligarchic business interests.

### Organised crime

Ukraine has had a strong presence of organized mafia-type groups since the dissolution of the Soviet Union. Although their presence has declined over the years, many continue to operate. Mafia groups in the country have significant political influence and access to multiple levels of the state. In the Donbass region, for example, several criminal groups have been extensively involved in both political mobilization and financing separatist campaigns.

In terms of arms trafficking, Ukraine has one of the largest markets in Europe. Although it has long been a key link in the global arms trade, its role has only intensified since the beginning of the conflict in eastern Ukraine. The country is also one of the largest source countries for forced labourers in Europe.

### **Cyberattacks and information security threat**

Ukraine presents a hostile cybersecurity environment, having spent four years under a sustained campaign of cyberattacks, largely from Russia-based hacking groups, starting in 2014. About 288,000 cyber-attacks took place in the first 10 months of 2021, according to official figures, with 397,000 in 2020.

Large-scale malware operations, which appear to have been undertaken to gather data and disrupt business rather than for financial gain, have been launched against domestic and foreign businesses in Ukraine, including those in energy, transport and mining. Companies linked to critical national infrastructure are particularly high-profile targets. Companies or individuals closely linked to the government may also be subject to targeted attacks from pro-Russia activist groups.

Severe attacks on Ukraine's power grid have occurred twice. In December 2015, more than 225,000 people lost power across Ukraine in an attack, and in December 2016, parts of Kiev experienced another power blackout following a similar attack targeting a Ukrainian utility company. In June 2017, government and business computer systems in Ukraine were hit by the ransomware *NotPetya* cyberattack. This ransomware attack, attributed to Russia, spread to computer systems

worldwide and caused billions of dollars in damages, swamped the systems of many organisations, including banks, government ministries and airports. In July 2018, the security services claimed to have thwarted an attempt to hack a chlorine distribution plant.

Therefore, companies operating in Ukraine or with personnel deploying in the country should establish IT and security proper procedures beforehand. 2Secure recommend:



Only bring essential devices into Ukraine. It is inadvisable to bring any personal devices and only bring clean electronic devices with limited access to internal networks.



Ensure all devices you bring into the country are well secured through strong passwords, and that all storage devices have full disk encryption. Turn off Wi-Fi and Bluetooth when not in use.



Ensure all software, including anti-virus protection, is up-to-date prior to travel; avoid updating software while away.



Keep devices on your person as much as possible. If left unattended, ensure devices are powered down and well secured. If using hotel safes, secure them with a secondary device only ununlockable by you.



Comply with local legislation, including requests to inspect your devices upon arrival. If this occurs, inform your IT department as soon as possible and exercise caution when using the device afterwards. Power off devices prior to approaching customs.



PHOTO: UNSPLASH/LUKE STACKPOOLE

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2SECURE

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RECOMMENDS

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1.

The situation in Ukraine is unstable and can change quickly. Business leaders with operations and interests in Ukraine, or other countries under Russian sphere of influence, must continue to exercise caution and have a robust set of risk indicators to help business leaders monitor the international risk environment.

2.

Companies with interests in Ukraine, or other countries under Russian influence, should understand the complexity of the environment to successfully navigate the current uncertainty. Ensure your business or risk-consulting partners develop a detailed scenario plan for possible eventualities in the coming months.

3.

To reduce supply chain disruptions related to the Ukraine crisis and the Russia espionage threat, it is critical for companies to be well prepared with cost-effective third-party oversight and risk management, maintaining a strategic and responsible partnership across supply chains.

4.

Companies operating in Ukraine or with personnel deploying in the country should establish IT and security procedures before deployment due to the high risk of cyberattacks. When an incident occurs, be sure you know what to do and have tested all elements of your plan. Assess the incident and implement the protective response measures. Consider the option of not paying the ransom and the need to preserve evidence for authorities. Only turn off devices if they cannot be disconnected from the network. If you have been affected by a cyber incident, or suffered an information breach, contact 2Secure and we will help you with essential crisis management activities.

5.

Due to high tension between Russia and Ukraine, companies must have incident response systems and 24/7 emergency support for employees working in, and travelling to Ukraine, as well as neighbouring countries. This should include real-time monitoring of security incidents as they occur, as well as proactive notification to employees of incidents in their vicinity. Travel risk management solutions are equally applicable for travelling personnel, as well as those employees and consultants permanently based in Ukraine. If your personnel is travelling to the Donbass region, ensure proper pre-deployment training to minimise their risk exposure.

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Visit our [website](#) for more information on how 2Secure can support you with your international security and risk management needs.

We provide bespoke and tailored analysis, trend monitoring, enterprise risk management support, training, and risk assessments on a variety of issues and locations around the world.

[Email](#) or call our experts for an obligation free discussion today.

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