

## Putin Pulls the Trigger and the West Responds Again: What Happens Now?

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On February 23, Protiviti issued a Flash Report<sup>1</sup> on Vladimir Putin’s recognition of two Ukrainian regions as “independent people’s republics,” deployment of “peacekeeping forces,” and demands that Ukraine disarm and negotiate the sovereignty of the two separatist regions. The Flash Report also summarized the sanctions that had been imposed by the West in response to Putin’s aggression.

Much has happened since then. Putin has ordered a full-scale invasion (dubbed a “special military operation”) from three directions—from the north through Belarus, the south through the Crimean Peninsula and the east from Russia itself. This coordinated attack on the land, through the air, from the sea and across cyberspace is regarded by the West as an unprovoked act of war. According to U.S. military and intelligence assessments,<sup>2</sup> Putin’s actions will result in up to 50,000 civilians killed or wounded and spawn a humanitarian crisis with up to 5 million<sup>3</sup> refugees fleeing the country if the fighting with Russian forces escalates. That doesn’t count the disruption, emotional distress and terror inflicted on millions of innocent people. And history provides powerful lessons regarding wars in Europe which have often taken unexpected turns for the worse.

### A new chapter of history is being written

Vladimir Putin has unalterably changed the narrative regarding his position as a global leader. His rhetoric, intimidation tactics and demands strike a chord with historians familiar with the prelude building up to World War II. His threats to the West of the consequences of intervention being “such as you have never seen in your entire history” have been interpreted by many as a threat to use Russia’s nuclear capability. When President Biden countered that “an attack on one is an attack on all” in referring to Article 5 of the NATO

<sup>1</sup> “The Russian Invasion of Ukraine: Its Potential Implications and Impact,” Protiviti, February 23, 2022, available at [www.protiviti.com/US-en/insights/flash-report-022322-russian-invasion-ukraine](http://www.protiviti.com/US-en/insights/flash-report-022322-russian-invasion-ukraine).

<sup>2</sup> “50,000 Casualties, 5 Million Refugees Expected if Russia Invades Ukraine –Report,” Jerusalem Post Staff, The Jerusalem Post, February 6, 2022, available at [www.jpost.com/international/article-695632](http://www.jpost.com/international/article-695632).

<sup>3</sup> The U.N. estimates up to 4 million people fleeing Ukraine if the fighting escalates; see “Refugees Fleeing Ukraine Number Nearly 12,000, , Could Reach 4 Million as Russian Invasion Intensifies: UN,” Stephen Sorace, Fox News, at [www.foxnews.com/world/refugees-ukraine-russian-invasion-united-nations](http://www.foxnews.com/world/refugees-ukraine-russian-invasion-united-nations).

alliance and that “the United States will defend every inch of NATO territory with the full force of American power,” a sobering thought occurred to older generations: Not in the last 60 years have leaders of the U.S. and Russia (then, the Soviet Union) rattled nuclear sabres at each other.

This is a very dangerous development. Ushering in a new “cold war” era can play out in ominous ways. It can lead to deployments of powerful forces being placed into proximity to each other on the European eastern border, a situation that is inherently risky. It creates the possibility of miscalculations or unintended incidents that trigger events leading to conflict that could escalate to war.

Deterrence failed with Putin not only because the West’s slow drip of sanctions was too late, but also because Russia has reportedly amassed hundreds of billions in currency and gold reserves to absorb any short-term pain the sanctions might otherwise impose. Putin may have calculated that Russia could circumvent the global banking system through the digital currency markets to further mitigate the effects of sanctions—which is what North Korea and Iran have done to sustain their regimes.

Putin could also seek assistance from China. A lifeline from China and its banks could help soften the blow of Western sanctions.<sup>4</sup> Earlier in February, Putin and Chinese President Xi Jinping announced a strategic partnership between their two countries, a “friendship” with “no ‘forbidden’ areas of cooperation.” Putin expressed support for China’s opposition to Taiwanese independence, and Xi seconded Russia’s demand that NATO end its eastward expansion.<sup>5</sup> Chinese alleviation of the impact of Western sanctions on Russia could broaden the scope of the West’s focus, further complicating the picture. However, the view of China’s intentions is mixed as at least two large Chinese state-owned banks are restricting funding for Russian purchases of commodities at the present time.<sup>6</sup> It seems unlikely that China wants to risk severing ties with Europe.<sup>7</sup>

<sup>4</sup> “China Ready to Soften Economic Blow to Russia from Ukraine Sanctions,” Edward White and Kathrin Hille, *Financial Times*, February 23, 2022, available at [www.ft.com/content/55d86391-2d05-4eb4-869c-83a7878b8942](http://www.ft.com/content/55d86391-2d05-4eb4-869c-83a7878b8942).

<sup>5</sup> “If Russia Invades Ukraine, Sanction China,” Aaron Arnold, *FP Insider Access*, February 17, 2022, available at <https://foreignpolicy.com/2022/02/17/russia-ukraine-china-united-states-secondary-sanctions-putin-xi/>.

<sup>6</sup> “Chinese Banks Limit Financing For Russian Commodities,” *Bloomberg*, February 25, 2022, available at [www.bloomberg.com/news/articles/2022-02-25/chinese-state-banks-restrict-financing-for-russian-commodities](http://www.bloomberg.com/news/articles/2022-02-25/chinese-state-banks-restrict-financing-for-russian-commodities).

<sup>7</sup> “Why China Is Struggling to Deal With Russia’s War in Ukraine,” Ian Johnson and Kathy Huang, *Council on Foreign Relations*, February 25, 2022, available at [www.cfr.org/in-brief/china-russia-war-ukraine-taiwan-putin-xi](http://www.cfr.org/in-brief/china-russia-war-ukraine-taiwan-putin-xi).

What is Putin's end game? Only he knows. President Biden and NATO leaders are concerned that Putin's ultimate objective is to restore the Soviet Union. That may be, but that pathway is one that leads to a global war. Even if Putin intends to pursue this direction, he must consolidate whatever gains he can muster in the Ukraine before he can move westward and northward.

Has Putin miscalculated? By all accounts, the Ukraine military has stood ground to fight. Ukraine civilians are separating from their families to assist in the defense of Kyiv, Kharkiv and their country. The Ukrainian government is putting forth a courageous effort against overwhelming force, refusing to evacuate despite offers from the West to help. Command and control continue to function. The invasion has not progressed as rapidly as expected (Kyiv was expected to fall within two days).

There are reports of Russian frustration with "viable and determined" Ukrainian resistance, forcing Moscow to commit more troops to the invasion.<sup>8</sup> This may be a reason why Putin has called on Ukraine troops to commit treason by overthrowing the government as well as displayed a willingness for talks with a Ukrainian delegation on the Belarus border. The Russians appeared to have planned tactically for a very short war amid a state of panic in Ukraine. That's not happening. The longer the war stretches out, the more strapped the Russian military will be for supplies.<sup>9</sup>

Meanwhile, Putin faces unrest on the home front as Russian citizens protest his actions, leading to a ban on the press reporting anything on the war outside of reports from official channels. Despite his attempts to rationalize this war, he is losing badly in the courts of world opinion and has been cut off from the Facebook, YouTube and Twitter platforms.<sup>10</sup> The images of women and children fleeing the onslaught and crying for help are haunting, and the heroics of brave defenders standing their ground are inspiring. These images and the world's response in support of Ukraine may have the effect of leading China to be cautious in its support of Russia, particularly as the narrative that Putin has severely miscalculated takes hold.

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<sup>8</sup> "Russia Frustrated By 'viable' Ukraine Resistance, U.S. Says," Phil Stewart and Idrees Ali, Reuters, February 26, 2022, available at [www.reuters.com/world/europe/russian-forces-frustrated-by-viable-ukrainian-resistance-us-official-2022-02-26/](http://www.reuters.com/world/europe/russian-forces-frustrated-by-viable-ukrainian-resistance-us-official-2022-02-26/).

<sup>9</sup> "Putin 'Furious' Ukraine Invasion Hasn't Been 'Easy,' EU Official Says, Citing Intel Report," Dom Calicchio, Fox News, February 26, available at [www.foxnews.com/world/putin-furious-ukraine-invasion-easy-eu-riho-terras-intel](http://www.foxnews.com/world/putin-furious-ukraine-invasion-easy-eu-riho-terras-intel).

<sup>10</sup> "Facebook, Google and Twitter limit ads over Russia's invasion of Ukraine," Shannon Bond, NPR, February 27, 2022, available at [www.npr.org/2022/02/26/1083291122/russia-ukraine-facebook-google-youtube-twitter](http://www.npr.org/2022/02/26/1083291122/russia-ukraine-facebook-google-youtube-twitter).

It is significant that President Biden stated in his February 23 speech: “... history has shown time and again how swift gains in territory eventually give way to grinding occupations, acts of mass civil disobedience and strategic dead ends.” With history as a guide, this observation conjures images of the occupation of Afghanistan which the Soviet Union aborted after more than nine years of fighting with no end in sight. With the Ukrainian people having known 30 years of independence and doing everything they can to defend their freedom, we may be about to discover how much blood and treasure Vladimir Putin is willing to sacrifice. Now a pariah on the global stage whose word cannot be taken at face value or trusted, unrelenting resistance may be the only message he will understand.

### **The West sanctions Russia**

The U.S., EU, UK and other allies and partners have announced multiple waves of sanctions against Russia in response to the invasion of Ukraine. In a largely coordinated and complementary effort, despite somewhat differing approaches, these evolving sanctions include both symbolic actions as well as more extreme actions aimed at imposing immediate disruption on the Russian economy. They include:

- Trade and economic embargoes on the Donetsk and Luhansk regions of Ukraine, similar to those that have been in place against Crimea since 2014, have been imposed by the U.S., EU and UK.
- The U.S., EU, UK and other nations (including Canada and Japan) have announced blocking sanctions against Russian individuals and entities.
  - Blocked individuals include some of the most powerful people in Russia, including Vladimir Putin and his Foreign Minister Sergei Lavrov and their family members. The EU sanctions, in fact, apply to all 351 members of the Russian State Duma and the UK has announced its intention to extend sanctions to up to 100 Russian oligarchs.
  - Several jurisdictions, including the UK, U.S., Canada and the EU, have announced curbs on “golden visas” for Russians—fast-track visas offered to wealthy individuals able to make sizeable investments in the jurisdiction from which the visa is being sought.
  - Blocked entities include a number of Russian banks and dozens of subsidiaries of these banks. The UK, followed by most other European countries, also announced a ban on the ability of the Aeroflot airline to

operate in its country and over their airspace. Delta Airlines announced that it was severing its partnership with Aeroflot.

- Both the U.S. and the UK have imposed capital market restrictions for Russian strategic industries, limiting the ability of these industries to leverage the U.S. and UK capital markets.
- The U.S., EU and UK also have expanded export controls on certain products and technology to Russia and, in the case of the EU, specifically are targeting the energy sector by making it impossible for Russia to upgrade its refineries.
- The U.S., on the same day it took action to prohibit transactions with the Central Bank of Russia (see below), also imposed sanctions on a key Russian sovereign wealth fund, the Russian Direct Investment Fund, which has exposure to the U.S. financial system, and its CEO, Kirill Dmitriev, a known Putin ally.
- In a stunning move, Switzerland announced today that it is adopting all the sanctions that the EU has imposed on Russian people and companies and is freezing their assets—a marked departure from the country's long-standing neutrality.<sup>11</sup>

The above sanctions were likely expected by and considered manageable by the Russians, who prepared well to weather some period of economic disruption. Russian reaction to date has been measured, e.g., blocking aircraft from countries that banned Aeroflot from flying over Russian airspace.

Other sanctions, including the February 22 announcement by Germany to halt certification of the Nord Stream 2 pipeline and the more recent decisions to prohibit certain Russian banks from using SWIFT, the primary cross-border payment platform, and to sanction the Russian central bank, were likely less expected. Blocking access to SWIFT and potentially sanctioning the central bank, which the West has indicated are reactions to Russia's continued escalation of the situation in Ukraine, have only previously been used against a few countries, such as Iran, Syria and North Korea, all of which are less globally significant economies than Russia's.<sup>12</sup>

<sup>11</sup> "Neutral Swiss join EU sanctions against Russia in break with past," Michael Shields and Silke Koltowitz, Reuters, February 28, 2022, available at [www.reuters.com/world/europe/neutral-swiss-adopt-sanctions-against-russia-2022-02-28/](https://www.reuters.com/world/europe/neutral-swiss-adopt-sanctions-against-russia-2022-02-28/).

<sup>12</sup> "Targeted Sanctions Against Central Banks: Current Status & Collateral Effects," Alejandro Leáñez, Association of Certified Sanctions Specialists, March 31, 2021, available at <https://sanctionsassociation.org/targeted-sanctions-against-central-banks-current-status-collateral-effects/>.

The SWIFT prohibition to date has not completely shut off Russia from the financial system—some banks, not all, are being blocked from SWIFT, which means while it will be more difficult for Russia to manage international trade payments, it will not be impossible. The banks blocked from SWIFT can use other payment networks, but these tend to be less efficient and less secure and come with higher transaction costs.

Sanctioning the central bank will be immediately impactful. Russia has spent years stockpiling securities, bank deposits and gold, and the actions pledged on February 27 could impact approximately 40% of Russian reserves held in North America and Europe; however, it is anyone's guess how much has already been depleted. Hard to ignore is the participation of assumed Russian allies and the potential violation of a long-held tradition of respecting the immunity of central banks.<sup>13</sup>

Indeed, media reports suggest that as early as last Thursday and continuing into the weekend, Russia citizens started queueing at banks and ATMs in search of currency, fearing the collapse of the national currency and an inability to use international payment systems.<sup>14</sup> As of Monday morning, the ruble was in freefall, the central bank more than doubled the interest rate to 20%, the stock exchange didn't open, and the government introduced mandatory hard-currency revenue sales for exporters.

The near-term view of these actions is that they may counter Putin's strategy of sanction-proofing Russia's economy as the country's ability to operate globally will be limited. The long-term view is that these moves may set a precedent for global economic sanctions. Russian authorities have made it clear that they will analyze all announced sanctions and will respond "symmetrically or asymmetrically." Many experts assume the Russian response will definitely include cyber warfare, as discussed below. Also, on February 27, Putin ordered his top officials to put the country's nuclear deterrent forces on alert.

With the escalating restrictions on traditional fiat currencies, it is important to remember that the Russians can use crypto assets to weaken the impact of the sanctions. Iran, for example, has successfully used Bitcoin mining to circumvent trade embargoes and earn hundreds of millions of dollars in cryptoassets that can be used to purchase imports and

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<sup>13</sup> "Sanctions on Russia's Central Bank Deal Direct Blow to Country's Financial Strength," Tom Fairless, The Wall Street Journal, February 27, 2022, available at [www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-02-26/card/sanctions-on-russia-s-central-bank-deal-direct-blow-to-country-s-financial-strength-AGe2bBTKmYW2bzqRnNWI](https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-02-26/card/sanctions-on-russia-s-central-bank-deal-direct-blow-to-country-s-financial-strength-AGe2bBTKmYW2bzqRnNWI).

<sup>14</sup> "Russians Search for Cash as West Imposes Sanctions on Banks," Nastassia Astrasheuskaya and Max Seddon, Financial Times, February 27, 2022, available at [www.ft.com/content/obd34bcd-52d9-4cff-9f81-33069a1851a3](https://www.ft.com/content/obd34bcd-52d9-4cff-9f81-33069a1851a3).

bypass sanctions.<sup>15</sup> This highlights a gaping hole in sanctions regimes that were developed in the pre-crypto world. In levying attempted deterrents against aggressive regimes, the West must face the new realities of the 21<sup>st</sup> century.

It is not clear that the sanctions imposed to date or under consideration will sway Putin, notwithstanding the increased likelihood that escalating sanctions will have a more immediate, damaging and possibly lasting impact on Russia and its people. The obvious sanction not yet imposed by the West is a ban on the purchase of Russian oil and gas. When or if and, more importantly, how the West would take such an action remains to be seen. Such action would likely entail modification of existing energy policies in certain countries.

In addition to government-imposed sanctions, a wave of Russian divestitures has begun. Multinational oil and gas company BP will be divesting its approximately 20 percent stake in a Russian state-owned oil firm due to Moscow's "act of aggression in Ukraine."<sup>16</sup> Shell announced today that it is exiting its partnerships with Gazprom and terminating its involvement in the Nord Stream 2 pipeline.<sup>17</sup> Also, sovereign wealth and pension funds across the globe are calling for divestiture of Russian holdings.

Finally, the International Criminal Court has placed combatants on notice that Russia's invasion of Ukraine is being monitored for war crimes and crimes against humanity, which could result in Putin being labeled a war criminal.<sup>18</sup>

## What happens now?

Our prior Flash Report<sup>19</sup> offers a discussion of the implications to markets and companies as a result of this crisis. It focused on the impact on energy and commodity prices, financial institutions, company supply chains, central bank policies and global cyber threats. Below is additional commentary regarding the implications of the crisis.

<sup>15</sup> "How Iran Uses Bitcoin Mining to Evade Sanctions and 'Export' Millions of Barrels of Oil," Dr. Tom Robinson, Elliptic, May 21, 2021, available at [www.elliptic.co/blog/how-iran-uses-bitcoin-mining-to-evade-sanctions](http://www.elliptic.co/blog/how-iran-uses-bitcoin-mining-to-evade-sanctions).

<sup>16</sup> "BP divesting stake in Russian oil giant over Ukraine invasion," Joseph Choi, The Hill, February 27, 2022, available at <https://thehill.com/policy/energy-environment/596041-bp-offloading-stake-in-russian-oil-giant>.

<sup>17</sup> "Shell will exit partnerships with Gazprom and end its involvement in the Nord Stream 2 pipeline," Chris Liakos, CNN, February 28, 2022, available at [www.cnn.com/europe/live-news/ukraine-russia-news-02-28-22/h\\_6cbc03e68e5743b84303776ec42a4ffe](http://www.cnn.com/europe/live-news/ukraine-russia-news-02-28-22/h_6cbc03e68e5743b84303776ec42a4ffe).

<sup>18</sup> "Crime Watch: ICC Prosecutor is Monitoring Ukraine Invasion," Mike Corder, AP News, February 26, 2022, available at [https://apnews.com/hub/russia-ukraine?utm\\_source=apnewsnav&utm\\_medium=featured](https://apnews.com/hub/russia-ukraine?utm_source=apnewsnav&utm_medium=featured).

<sup>19</sup> "The Russian Invasion of Ukraine: Its Potential Implications and Impact," Protiviti, February 23, 2022, available at [www.protiviti.com/US-en/insights/flash-report-022322-russian-invasion-ukraine](http://www.protiviti.com/US-en/insights/flash-report-022322-russian-invasion-ukraine).

***The fallout of war.*** A massive humanitarian crisis is developing as the world views haunting images of women and children fleeing the onslaught. As one observer noted, the unfolding crisis could result in “the greatest displacement of European people since the aftermath of World War II.”<sup>20</sup> The West must brace itself for the migration resulting from this tragedy. To date, more than 500,000 Ukrainians have fled their country.

In addition, there are European, Asian and U.S. companies operating in Ukraine and Russia. Their operations will be affected. Many companies have ceased operations in Ukraine pending resolution of hostilities.<sup>21</sup> Apple Pay no longer works for many in Russia.<sup>22</sup> Companies operating in Russia are assessing the impact of the sanctions on their ability to operate as well as the reputational aspects of doing business there.

As the dominoes fall from the sanctions’ effects, the West faces consequences. As reported in our prior Flash Report, there will be a boost to energy and food prices. But now there is the additional impact of excluding certain Russian banks from the SWIFT messaging system. That move by the West could cause missed payments and overdrafts on the same scale as the 2008 financial crisis. As one observer noted, “Banks’ inability to make payments due to their exclusion from SWIFT is the same as Lehman’s inability to make payments due to its clearing bank’s unwillingness to send payments on its behalf.”<sup>23</sup> This can pose challenges for banks, particularly those in Austria, Italy and France that are the world’s most exposed to Russia.<sup>24</sup> But other banks are exposed as well, e.g., Reuters reported today that Citigroup disclosed total exposure of loans, securities and funding commitments to Russia of nearly \$10 billion.<sup>25</sup> The Russian bond market took a nosedive again today and the cost of buying derivatives that insure against a Russian debt default soared as holders of Russian debt

<sup>20</sup> “Opinion: We might be on the verge of the greatest displacement of Europeans since World War II,” Catherine Rampell, *The Washington Post*, February 24, 2022, [www.washingtonpost.com/opinions/2022/02/24/ukraine-invasion-could-produce-greatest-refugee-crisis-since-world-war-ii/](https://www.washingtonpost.com/opinions/2022/02/24/ukraine-invasion-could-produce-greatest-refugee-crisis-since-world-war-ii/).

<sup>21</sup> “Companies Shut Ukraine Operations, Assess Impact of Sanctions on Russia,” Jacob Gronholt-Pederson and Yadarisa Shabong, *Reuters*, February 24, 2022, available at [www.reuters.com/business/companies-shut-ukraine-operations-watch-sanctions-russia-attacks-2022-02-24/](https://www.reuters.com/business/companies-shut-ukraine-operations-watch-sanctions-russia-attacks-2022-02-24/).

<sup>22</sup> “U.S. Sanctions Shut Down Apple Pay in Russia,” Joe Wituschek, *iMore*, February 25, 2022, available at [www.imore.com/us-sanctions-shut-down-apple-pay-russia](https://www.imore.com/us-sanctions-shut-down-apple-pay-russia).

<sup>23</sup> “Warning: Tossing Russian Banks From the International System Could Backfire,” Larry Light, Chief Investment Officer, February 28, 2022, available at [www.ai-cio.com/news/warning-tossing-russian-banks-from-the-international-system-could-backfire/?utm\\_source=rss-feed&utm\\_medium=news&utm\\_campaign=feed](https://www.ai-cio.com/news/warning-tossing-russian-banks-from-the-international-system-could-backfire/?utm_source=rss-feed&utm_medium=news&utm_campaign=feed).

<sup>24</sup> “Europe’s Banks Brace for Russia Fallout While U.S. Banks See Limited Pain,” Lawrence White et al, *Reuters*, February 24, 2022, available at [www.reuters.com/business/finance/contagion-sanctions-europes-banks-brace-russia-fallout-2022-02-22/](https://www.reuters.com/business/finance/contagion-sanctions-europes-banks-brace-russia-fallout-2022-02-22/).

<sup>25</sup> “Citigroup Says Total Russian Exposure Nearly \$10 Billion,” David Henry and Niket Nishant, *Reuters*, February 28, 2022, [www.reuters.com/business/finance/citigroup-flags-54-bln-exposure-russian-assets-2022-02-28/](https://www.reuters.com/business/finance/citigroup-flags-54-bln-exposure-russian-assets-2022-02-28/).



braced themselves for the possibility that the sanctions could push Moscow to default on its debt for the first time since 1998.<sup>26</sup>

Belarus may join the Russians in the conflict, which would result in similar sanctions on an economy less prepared than Russia to deal with it. The U.S. has suspended embassy operations in Belarus and has allowed the initiation of evacuations of embassy families from Moscow.

Russian and Ukrainian delegations met at the Belarus border today. The meeting lasted for several hours and concluded as an initial round of negotiations to discuss a cessation of hostilities within Ukraine. The respective delegations returned to their capitals for consultation. Another round of negotiations is expected.<sup>27</sup> Meanwhile, the war rages on with Russia launching a fierce rocket attack on the city of Kharkiv even as the meeting was in process and reportedly sending hundreds of mercenaries into Kyiv to decapitate the Ukrainian government.<sup>28</sup>

***Energy market implications.*** The Ukraine war exacerbates the energy debate in the EU by adding uncertainty regarding the strength of European economic expansion as well as the global outlook by fueling inflationary pressures through higher global energy prices. Disruption of Russian energy exports could temporarily contribute to rising prices. As Russia is the source of 10% of the world's energy and more than a third of European energy, a curtailment of energy exports may be a source of pain over the short term. Germany, Poland and the Baltic states are likely to experience more negative impacts than countries that depend less on Russian energy sources. Germany has halted certification on the Nord Stream 2 pipeline which would have doubled the volume of Russian gas to the country. The U.S. also rescinded a security waiver on the pipeline.

A development worth watching is whether continued Russian aggression prompts a shift in energy policy in the West to destabilize the Russian economy by increasing global production to drive global oil prices below Russia's breakeven point. From the standpoint of bringing Putin's source of financing to its knees, this strategy could be the most potent

<sup>26</sup> "Russian Bonds Tumble as New Sanctions Trigger Default Fears," Tommy Stubbington et al, Financial Times, February 28, 2022, available at [www.ft.com/content/7a72d966-15ee-424a-bc62-1f46980827d4](http://www.ft.com/content/7a72d966-15ee-424a-bc62-1f46980827d4).

<sup>27</sup> "Explosions in Kyiv as Russia-Ukraine Talks in Belarus Come to a Close," Helen Regan et al, CNN, February 29, 2022, available at [www.cnn.com/2022/02/28/europe/ukraine-russia-invasion-monday-intl-hnk/index.html](http://www.cnn.com/2022/02/28/europe/ukraine-russia-invasion-monday-intl-hnk/index.html).

<sup>28</sup> "Kremlin 'Sends More than 400 Mercenaries from Private Militia into Kyiv to Assassinate President Zelensky and His Government'—With Group Told Peace Talks Are 'Smoke and Mirrors'," Lawrence Dollimore, Daily Mail, February 27, 2022, available at [www.dailymail.co.uk/news/article-10558749/Kremlin-sends-400-mercenaries-Kyiv-assassinate-President-Zelensky.html](http://www.dailymail.co.uk/news/article-10558749/Kremlin-sends-400-mercenaries-Kyiv-assassinate-President-Zelensky.html).

weapon the West has available. It need not detract from the transition to renewables but would be a strategic move to eliminate global dependence on Russian oil.

At the present time, Russian energy giant Rosneft is not being targeted by the sanctions package; however, as noted above, BP has announced it is divesting its 19.75% stake in the company and BP's CEO and former CEO have resigned from the Rosneft board, effective immediately. Nor is the state-owned Gazprom, the world's largest natural gas company and parent company of Nord Stream 2 AG, a registered Swiss firm. However, as noted earlier, Shell announced today that it is terminating its relationship with Gazprom and its involvement in the pipeline. The West's concerns about lessening the impact of sanctions on global energy markets and rising energy costs have led it to focus primarily on financial institutions, strategic industries and individuals. The West's objective is to harm Russia's economy, not its own. Given high oil and gas prices, cutting off Russian oil and gas without replacement from other sources could drive global prices up. That trend would benefit Putin's war machine. That said, Gazprom is one of the targeted institutions noted above that has debt/equity restrictions which can impair its capital program.<sup>29</sup>

Solidarity in the EU to stay the course in facing this crisis is key. The Ukraine calamity will likely change the tactical approaches on conventional energy sources and relationships among EU members. France, for instance, no later than 15 days ago, announced six new nuclear reactors, positioning it to become the regional energy supplier over the next several decades.

***Technology implications.*** Going forward, several points are worth noting from a technology standpoint:

- Social media companies will be tested by how rigorous and fulsome they are in removing Russian disinformation from their platforms.<sup>30</sup> Russia continues to disseminate bizarre explanations and rationales for its actions. As noted earlier, several platforms have already acted to remove disinformation about the war.

<sup>29</sup> "New U.S. Sanctions on Russia Not Expected to Severely Target Energy Sector – Politico," Reuters, February 24, 2022, available at [www.reuters.com/world/new-us-sanctions-russia-not-expected-severely-target-energy-sector-politico-2022-02-24/](https://www.reuters.com/world/new-us-sanctions-russia-not-expected-severely-target-energy-sector-politico-2022-02-24/).

<sup>30</sup> "Social Media Platforms on the Defensive as Russian-Based Disinformation About Ukraine Spreads," Rebecca Kern et al, Politico, February 24, available at [www.politico.com/news/2022/02/24/social-media-platforms-russia-ukraine-disinformation-00011559](https://www.politico.com/news/2022/02/24/social-media-platforms-russia-ukraine-disinformation-00011559).

- Russia will likely face a drain in technology talent as firms providing such talent may pull back their support for developing new products or purchasing products produced in Russia.
- Ukraine is known as a top location for technology talent and with that talent now diverted, countries like India may benefit from the fallout.
- The strength and impact of the sanctions are affected by Russia's continuing relationship with China as well as their preparations over the years for withstanding sanctions since the last set of sanctions resulting from the annexation of Crimea.
- Over time, lack of access to U.S. software and semiconductor machinery will create formidable challenges for Russia.
- In the sanctions package, there are exclusions related to applications for aviation and maritime safety as well as smartphone exports so long as they are not shipped to Russian government employees or state-owned enterprises. These exclusions will be very difficult, if not impossible, to enforce.

### Cybersecurity is a priority

As part of the invasion, Ukrainian computer networks have been hit with a data-wiping malware program as Russia invades. Several Ukraine government websites have been targeted with distributed denial-of-service (DDoS) attacks, reportedly to distract the public and government cybersecurity workers and hamstring Ukrainian communications.<sup>31</sup> As a countermeasure, Ukraine has called for "digital talents" to create "an IT army" of hackers to hit Russian targets.<sup>32</sup> The current plan is to attack 31 Russian targets, including government agencies, IP addresses, storage devices, and mail servers, as well as large corporations supporting critical infrastructure, several banks, and Russian email portal and search engine Yandex.<sup>33</sup>

As Ukrainian systems are targeted, critical infrastructure and businesses around the world are at risk. The malware affecting Ukraine's systems could spread, adding risk of increased ransomware attacks. Historically, Russian state-sponsored advanced persistent threats

<sup>31</sup> "Second Data Wiper Attack Hits Ukraine Computer Networks," Catalin Cimpanu, The Record, February 23, 2022, available at <https://therecord.media/second-data-wiper-attack-hits-ukraine-computer-networks/>.

<sup>32</sup> "Ukraine Official Urges 'IT Army' of World's Digital Talent to Attack Russian Energy and Financial Firms," Slashdot, February 27, 2022, <https://it.slashdot.org/story/22/02/27/0015257/ukraine-official-urges-it-army-of-worlds-digital-talent-to-attack-russian-energy-and-financial-firms>.

<sup>33</sup> "Ukraine Recruits 'IT Army' to Hack Russian Entities, Lists 31 Targets," Lawrence Abrams, Bleeping Computer, February 26, 2022, available at [www.bleepingcomputer.com/news/security/ukraine-recruits-it-army-to-hack-russian-entities-lists-31-targets/](http://www.bleepingcomputer.com/news/security/ukraine-recruits-it-army-to-hack-russian-entities-lists-31-targets/).

(APTs) actors have used sophisticated cyber capabilities to target a variety of U.S. and international critical infrastructure organizations, including those in the defense industrial base as well as the healthcare and public health, energy, telecommunications, and government facilities sectors.

On the cyber front, it would be a mistake to focus exclusively on cyber activity coming out of Russia. Ukraine and the West must recognize that the proxy web is central to the Kremlin's cyber strategy and operations, and so is the Russian government's deployment of hackers based abroad. As deniability is important to the Kremlin, the West should focus its intelligence forces on identifying Russian proxies operating in cyberspace when assessing and preparing for Russian state cyber threats.<sup>34</sup>

Last week, NATO Secretary General Jens Stoltenberg warned Russia that a serious cyberattack could trigger Article 5 of NATO's founding treaty, in which "an attack against one ally is treated as an attack against all."<sup>35</sup> This is an important point, as it is unlikely that Putin will take the hits from the SWIFT sanctions discussed earlier and the actions against Russia's central bank sitting down and without responding with reprisals. These actions by the West have increased the likelihood of cyberattacks, which could widen the Russian invasion of Ukraine into a much broader conflict.

Businesses and governmental agencies responsible for critical infrastructure and high-profile targets should ensure they are adequately prepared with best practice prevention, detection and incident response measures to deal with Russian APTs.

## Concluding comments

The world has changed. A new cold war era has begun, as President Biden proclaimed a "complete rupture" now exists in U.S. and Russian relations. A pariah with a nuclear capability is threatening other nations. He has initiated an unprovoked war. His end game is not entirely clear, and he has likely underestimated the resolve of the Ukrainian people as well as overestimated his military's capabilities. Unrest is starting to build in Russia. Some Russian oligarchs are calling for an end to the conflict.<sup>36</sup> Western leaders have toed the line

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<sup>34</sup> "Russia's Cyber Threat to Ukraine is Vast—and Underestimated," Justin Sherman, Wired, February 24, available at [www.wired.com/story/russias-cyber-threat-to-ukraine-is-vast-and-underestimated/](http://www.wired.com/story/russias-cyber-threat-to-ukraine-is-vast-and-underestimated/).

<sup>35</sup> "Russia-Ukraine Conflict: NATO Chief Warns Russia that Cyber Attacks Can Trigger NATO Charter Article 5," Global News, February 25, 2022, available at <https://globalnews.ca/video/8646550/russia-ukraine-conflict-nato-chief-wars-russia-that-cyber-attacks-can-trigger-nato-charter-article-5>.

<sup>36</sup> "Two Russian Oligarchs Call for an End to Putin's War," Charles Riley, CNN Business, February 28, 2022, available at [www.cnn.com/2022/02/28/business/oligarchs-russia-ukraine-fridman-deripaska/index.html](http://www.cnn.com/2022/02/28/business/oligarchs-russia-ukraine-fridman-deripaska/index.html).

on the eastern European border where NATO countries peer eastward into Russian territory and are taking measures to shore up defenses along that border. The irony is that Putin's fears of a stronger, more unified Europe have become a self-fulfilling prophecy through his own actions.

The situation remains fluid and we can expect new developments every day for the time being. Companies and government agencies responsible for critical infrastructure assets should remain on high alert to cyberattacks.

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## About Protiviti

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