

Conflict Update # 20

April 1st, 2022

Conflict Assessment

Russia Blames Ukraine For Cross-Border Attack On Fuel Depot - A Russian fuel depot not far from the Ukrainian border has exploded and Russian officials say Ukrainian forces used helicopters to attack the facility.

Ukrainian defense officials declined to comment directly on reports that Ukrainian forces were behind the attack.

The Kremlin may intend to capture Donetsk and Luhansk Oblasts before seeking to negotiate a Kremlin-favorable ceasefire and claim that Russia has achieved its war aims. The Kremlin's initial false justification for its unprovoked invasion of Ukraine was to protect the DNR and LNR from Ukraine and enable them to seize their "claimed" territory. They are attempting to gloss over the failure of Russia's initial campaign for a domestic Russian audience and have in fact been forced to alter their operations after the failure of the initial campaign.

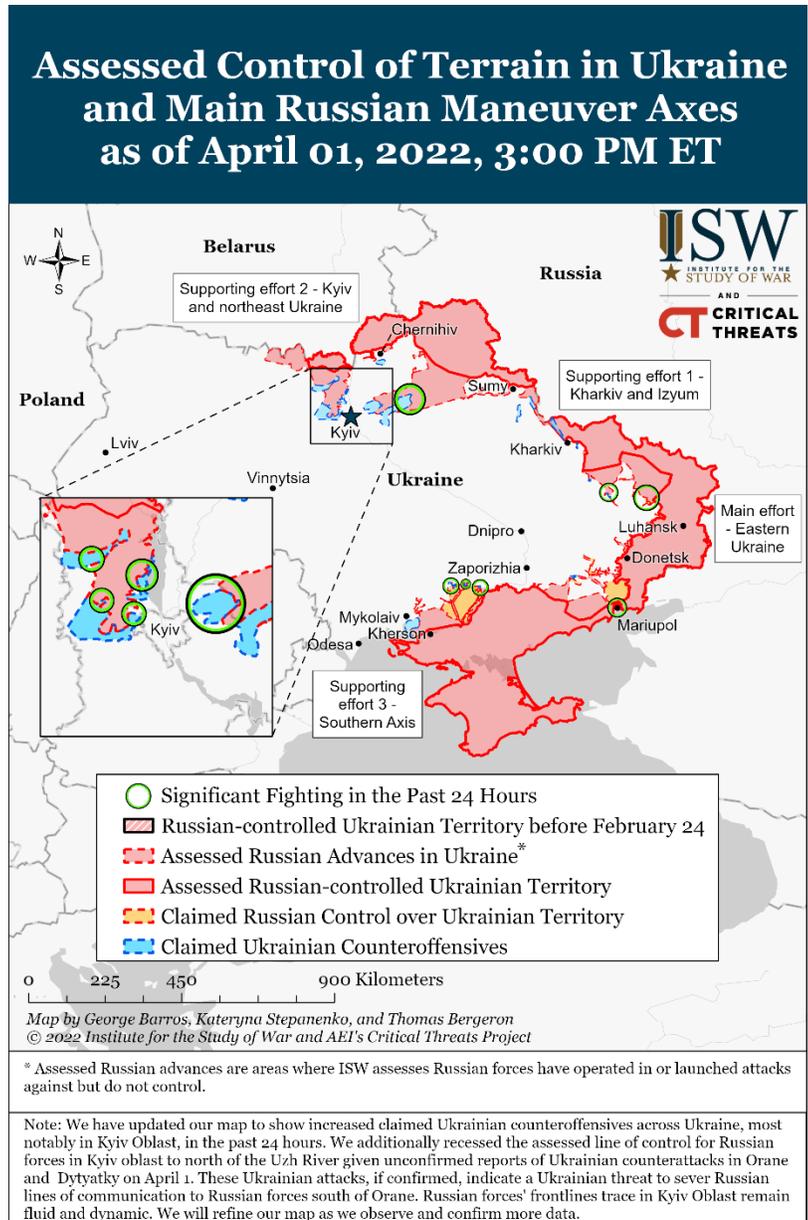
Kremlin claims that Russian forces solely attacked northeastern Ukraine to degrade Ukrainian forces before achieving the "main goal" of capturing Donetsk and Luhansk Oblasts – such as statements made by the Russian General Staff on March 25 – are false.

Russian forces on the Kharkiv axis have abandoned efforts to take the city. Their new objectives are likely to (i) pin Ukrainian mechanized forces in place, and (ii) drive southeast to link up with Russian forces in Luhansk Oblast.

Their forces captured Izyum (southeast of Kharkiv) on April 1 after attempting to do so since at least March 7.

Their forces, including elements redeployed from the Sumy axis in the past week, will likely continue offensive operations in the coming days in an effort to cut off Ukrainian forces on the line of contact in Donbas.

Ineffective missiles - Russia has launched somewhere around \$1.5 billion in rockets and missiles into Ukraine, and \$600 million of them have gone poof without ever reaching the ground in Ukraine.



Russia's Supply Chain – Russia can't afford to replace the resources they are burning, their industrial base can't handle it. If the Ukraine continues to push Russian forces backwards, there will come a time when they have to withdraw, simply because they can't handle the status quo, either economically, or in terms of human loss of his own troops, that's probably the reason they are easing up on Kyiv and anything in the north and west. If Russia shifts their remaining troops to the east, the supply route is shortened drastically (and they also need reinforcements to hold against the Ukrainian counter-offensive).

The main objective now seems to be to try to hold the coastal strip on the Sea of Azov and turn it into a Russian lake. While Russia may control (at present) the Kerch strait and has the Black Sea fleet, the remainder of their fleet can't access it because Turkey is blocking any warships from transiting the Bosphorus which means two of their submarines are stuck in the Mediterranean.

Ukrainian forces are now shelling Russian targets inside Russia. This indicates two elements

- (i) they now have the necessary weapons to reach into Russia and
- (ii) they are taking out Russian supply chain routes and depots to the east of Ukraine.

Watch this space.

Financial

Make Russia Pay – As of March 24, KSE Institute – an analytical unit of the Kyiv School of Economics in Ukraine's capital – estimated that the destruction from the war has caused **\$62.9 billion** in damage. KSE Institute, which compiled data as part of its "Russia Will Pay" project, reported that at least 4,431 residential buildings, 92 factories and warehouses, 378 institutions of secondary and higher education, 138 health care institutions, 12 airports, seven thermal power plants and hydroelectric power plants have been damaged, destroyed, or seized.

Global economic losses amount to **\$543-600 billion**, KSE added.

Ukraine President Volodymyr Zelenskyy has launched a government project to compensate citizens whose real estate has been destroyed in the Russian invasion, the president announced in a speech Friday.

Ukraine's government has already "started accepting applications for compensation for the destroyed real estate of our citizens," he said, according to an English translation from the presidential office. "The state will return to our people everything that the occupiers destroyed - houses, apartments, etc."

Chinese Factory Activity Falls to Two-Year Low Due to COVID Outbreak - Chinese factory activity dropped at the fastest pace in two years in March 2022. Production and demand fell sharply thanks to the latest COVID-19 outbreaks and the economic impact of Russia's invasion of Ukraine on Feb. 24.

The Caixin manufacturing purchasing managers index (PMI) was 48.1, the steepest rate of contraction since February 2020. Forecasts prepared by Investing.com predicted a figure of 50, while the previous month's reading was 50.4. The 50-point index mark separates growth from contraction.

National Bureau of Statistics data from the day before showed that the manufacturing PMI was 49.5 and the non-manufacturing PMI was 48.4.

This will increase pressure on China insofar as not alienating its western customers, primarily in the US and EU. This factory weakening will be exacerbated should EU and US demand for Chinese exports shrink – together they account for **68%** of China's trade. These facts will be lost on neither China nor the West.

The ruble is back. Russia's currency rebounded this week to roughly its pre-invasion value — but that doesn't mean everything's fine and dandy in the Russian economy.

Even if the West doesn't impose stricter sanctions, Russia's GDP is expected to contract by as much as 15% over the next year as the country enters a steep recession, according to a projection from the Institute of International Finance, which is tracking the country's economy.

- This is due in part to an expected sharp "demand contraction." In other words, in a sanctioned economy people have both less money and less stuff to buy.
- That means the Russian people are suffering economically, even if the ruble is stable.

The currency's rise from the grave is putting political pressure on the White House to enact more sanctions.

Widening of Conflict

Solomon Islands - The "Framework Agreement" with China transforms the Solomon Islands into a Pacific flashpoint - In recent days, the Solomon Islands has once again been the subject of intense focus since a leaked draft security agreement with the People's Republic of China (PRC) began circulating on social media. If finalized, the "Framework Agreement" would permit enormous PRC inroads into Solomon Islands, turning the island nation into a Pacific flashpoint.

It would allow China to operate large-scale and varied military and intelligence operations and become heavily involved in maintaining civic order through the deployment of "police, armed police, military personnel and other law enforcement and armed forces." The Solomon Islands' sovereignty would supposedly be protected by thinly detailed triggers and powers controlling Chinese intervention, such as the power of activation for the agreement and "consent" for Chinese naval visits being retained by the Solomon Islands' government. Yet the inclusion of the phrase that supposedly gives both nations power to act "according to its own needs" has escalated concerns about what might result if this agreement comes into force. The agreement would also provide all Chinese personnel "legal and judicial immunity," and costs would be decided "through friendly consultation by the Parties." All of these extensive activities and powers would also remain "confidential" to any third parties according to the draft agreement.

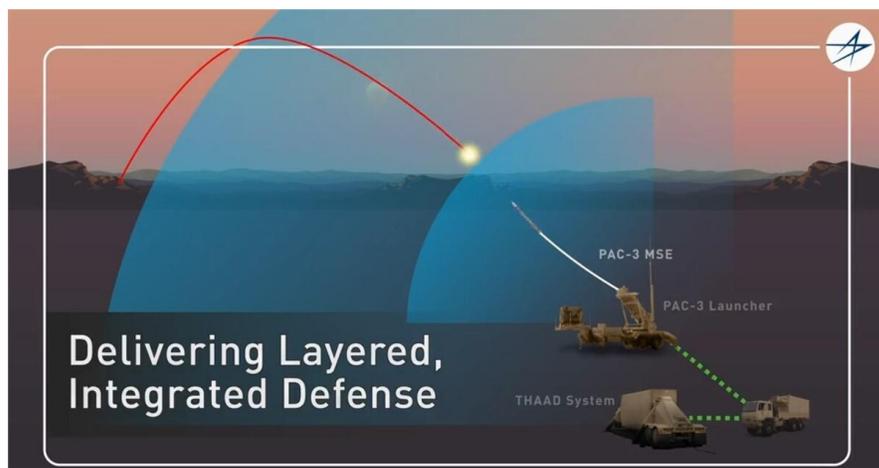
The geopolitical impacts of this agreement, if activated, would be game-changing for regional security. The fast-approaching 80th anniversary of the epic World War II battle for Guadalcanal underscores the singular importance of the Solomon Islands to secure Australia, New Zealand, Papua New Guinea (particularly the emerging nation of Bougainville that lies just north of the Solomon Islands' border), New Caledonia, Vanuatu, and Fiji, and the region beyond the Solomon Islands' nearest neighbors. It is worth reflecting on how costly that battle was to all sides with Solomon Islanders still contending with residual and dangerous military detritus.

The Solomon Islands lie 2,000 miles (or under four hours by plane) east of northern Australia. They traverse critical shipping and communication lanes, so, as in 1942, their control by a hostile power is a threat to the defenses of Australia and beyond. The Framework Agreement would permit a considerable People's Liberation Army (PLA) military presence in the Solomon Islands (civil disorder would likely provide the pretext for PLA entry in the Solomon Islands) and it would permit the PLA Navy routine ship visits and logistical replenishment.

Should this proceed and China constructs a South Pacific naval base, it will be the equivalent of the US Hawaii base - and in the same theatre of contest.

Pakistan - Pakistani Prime Minister Imran Khan rejected opposition calls for him to resign and accused an unnamed Western country of backing moves to oust him because he had visited Moscow recently for talks with President Vladimir Putin.

US THAAD Missile System - The THAAD system is intended to deal mainly with tactical medium-range missiles both inside and outside the Earth's atmosphere by intercepting them and destroying them – not by explosives, but by colliding with the incoming missile at hypersonic speeds, which delivers a bigger impact than a blast wave. This requires precision tracking and guidance of a very high order, but it greatly reduces the danger of detonating conventional warheads or disintegrating a nuclear warhead.



The new integration of the PAC-3 MSE into the THAAD system not only means that THAAD has another missile in its catalog, it also makes the PAC-3 more effective by allowing it to intercept at longer range. This makes it strike the target at a higher speed and buys time for other missiles to intercept if the first one misses.

At first glance, a missile defense system seems pretty simple. Radar detects an incoming missile, an anti-missile is launched, then it's guided in for the kill. Ideally, the best system is one where every attacking missile is destroyed by an anti-missile at a ratio of one-to-one.

In practice, a missile defense system has to be much more flexible and layered. This means that different missiles are needed to counter different threats, such as short, medium, and long-range missiles or ones that fly at different altitudes. It also needs to provide multiple layers of defense to catch missiles before they reach their target.

With upgrades successfully tested in New Mexico March 29th, THAAD is a defensive missile system and shortly ready to be updated in NATO sites.

Armenia - Armenian PM Discusses Karabakh Escalation With Putin After Deadly Skirmish Reported. The Russian Defense Ministry says Azerbaijani armed forces entered a zone policed by Russian peacekeepers in the Nagorno-Karabakh region in violation of a Moscow-brokered cease-fire agreement that ended a six-week war in 2020.

The Defense Ministry in Moscow also accused Azerbaijani troops of using Turkish-made drones to strike troops in Nagorno-Karabakh, while the Russian Foreign Ministry expressed "extreme concern" over the spiraling tensions in the region.

Russia also said it had called on Azerbaijan to withdraw its troops and called on the parties to the conflict to show restraint and ensure compliance with the agreements reached by Armenia, Azerbaijan, and Russia.

The command of the Russian peacekeeping contingent is also taking measures to resolve the situation and return the troops to their original position, the Russian military said.

Moscow deployed almost 2,000 peacekeepers to the region after the cease-fire, reaffirming its role as chief power broker in a volatile part of the former Soviet Union where Turkey also wields influence through its alliance with Azerbaijan.

Armenia and Azerbaijan are scheduled to hold peace talks next week. Armenia, who do not trust the Turks, are insisting on other mediators being placed.

This distrust harks back to the Armenian massacre at the hands of the Turks in the previous century.

European Gas and Oil Lines

Russia and the European Union are locked into an intimate economic relationship by the web of gas pipelines depicted in this map by Samuel Bailey. On the one hand, without the gas that flows through these pipelines, many European countries — including Germany and Italy — would be bereft of energy resources. And yet as critical as Russian fuel imports are to Europe's energy mix, those very same exports are in a way even more critical to the Russian economy, as they offer a huge share of the country's foreign currency earnings. As events in Ukraine and elsewhere drive tensions between Moscow and Brussels, both sides remain locked into this energy trade by the basic geographical reality that gas can only flow where the pipelines go.

Russia threatens to cut off European gas supply

- Gas is still flowing to Europe despite a Friday deadline for gas payments to be made in rubles. Germany has called this "blackmail" and insists on paying in euros or dollars.

Fuel interruptions - If you're Egypt, if you're Tanzania, if you're Kenya, the low-income countries with huge import bills, this is a very, very dangerous situation.

The very worst-case scenario, one we have to contemplate now, is that there will be a flat-out interruption of supply, a so-called stock-out, where countries run out of key fuels, like diesel, which for low-income countries are vital not just for driving tractors, but for generators, which are the backup power source when the electricity grid fails.

Containment

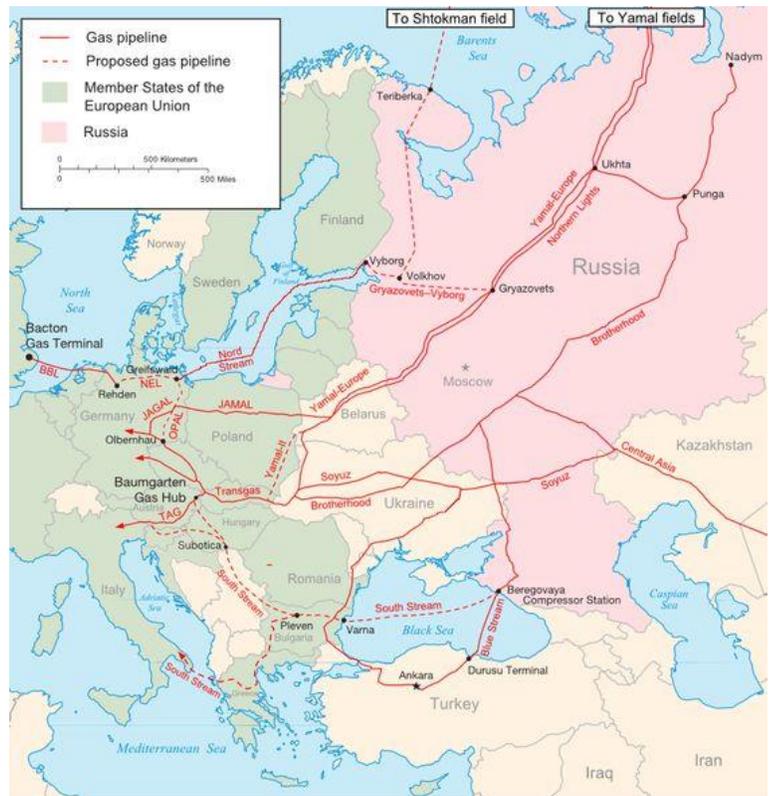
Australia to send armored vehicles to Ukraine after request - Prime Minister Scott Morrison says Australia will send armored Bushmaster vehicles to Ukraine after President Volodymyr Zelenskyy specifically asked for them while appealing to Australian lawmakers for more help in Ukraine's war against Russia.

What new weapons has Ukraine obtained? – Ukraine has signaled it has new weaponry that will enable it to strike further at Russian forces and into Russia proper. It appears to be the latest SAM systems as well as longer-range artillery and missiles.

Ukraine will soon be able to better protect its skies and cities from Russian attacks because it expects "super modern" military equipment from the United States and Britain, Ukraine's ambassador to Japan, Sergiy Korsunsky, said today.

"They still have superiority in the air, in airplanes and missiles, and we expect to begin to receive super-modern equipment from the United States and Britain to protect our skies and our cities," Korsunsky told a news conference.

"When they fire cruise missiles from a long distance away, we cannot get to the launch place. We have to intercept them. Now we will be able to and that's why we need this modern equipment."



What is Ukraine doing? – Ukrainian forces have been very adept at introducing novel tactics in their campaign against invading Russian forces. They have;

- relocated jets to highways where they operate from, to avoid Russian airport shelling
- switched tracking systems on and off, to avoid Russian tracking abilities
- employed a “Shoot and Scoot” practice where they attack and “disappear” before Russian return fire can fix their location(s)
- deployed multiple networks of ground spotters who alert command centers of incoming missiles and aircraft
- attacked food trucks and oil bowsers front and rear in Russian convoys
- offered bounties to Russians who defect
- picked off fuel transport and supply lines
- deployed small, slow flying unmanned drones to identify and destroy Russian advances and convoys, with the Russians fearful that conventional blocking systems against these drones will also affect their own aircraft
- empowered non-commissioned officers and ground troops to make battlefield decisions whereas the Russians allow only senior officers to make calls, perhaps a reason as to why so many Russian generals, colonels and field staff are being killed
- stealthily stretched out their opponents across wide physical areas, to marginalize them
- figured out Russian flight routes and positioned two-man ground to air missile teams along these paths to shoot down fighter jets and helicopters
- changed street names in cities with Russians mistakenly routing into “killing zones”
- where they are annihilated or forced into surrender
- these Ukrainian “killing grounds” are designed so that Russian tanks and APC’s cannot reverse or swing out, due to soft bog on either side of the track, they then become stationary targets for anti-tank projectiles, including basic RPGs (rocket propelled grenades)
- captured huge amounts of Russian ordnance as Russian soldiers and combatants flee. These vehicles are similar to their own, having been manufactured in Russia, and then drafted into service with Ukrainian units

S300 Anti-Aircraft system – The US is trying to broker transfer of S300 anti-aircraft missile systems from neighboring ex-Soviet states to Ukraine. Russian-made and replaced in some areas with the later S400 system, it remains one of the world’s premier anti-aircraft missile defense packages. Image to the right shows the system.

It is deployed in many countries who are Russian arms buyers, including Iran, India, China, Vietnam and a number of existing NATO member-states.

The S-300 system was introduced in 1979 to defend against aircraft and cruise missiles for Soviet Air Defense Forces. Subsequent variations were developed to intercept ballistic missiles.

Sanctions

With Russia threatening to cut off the supply of vital gas and oil, European governments are dusting off rationing plans that bring back memories of the 1973 energy crisis.

Russia's S300 surface-to-air missile system

Primary purpose is the defence of large military complexes and population centres. Capable of engaging multiple aircraft at different altitudes, drones and cruise missiles

THE MOBILE SYSTEM
Altitude 10 metres-27,000 metres
Engages up to 6 targets simultaneously

Vertical launcher

FLAP LID radar
Tracks up to 12 targets

THE MISSILE
Length 7.5m
Diameter 0.519m
Weight 1,900kg
Warhead 145kg
Range 120miles
Speed 4,700mph



The Syrian deal (agreed in 2007). To supply 4-6 S300 batteries and 144 operational missiles. Worth \$900 million

Chinese exports to Russia are slowing as the ruble swings in value, there is clear evidence of a ripple effect that Western sanctions over Russia's invasion of Ukraine are having in China, even as it sticks by its neighbor diplomatically.

EU - EU has warned China against backing Russia's Ukraine War. Top EU officials warned China's leader Xi Jinping at a virtual summit Friday that any attempt to aid Russia's war in Ukraine could hurt business ties between the two economic superpowers.

Kazakhstan - Top Official Says Kazakhstan Won't Help Russia Evade Western Sanctions.

Russian bank ban effects - The really big bazooka was the announcement of sanctions against the Russian Central Bank, something never seen before.

Sanctions have been imposed against the Russian Central Bank, the equivalent of the Fed in Russia, and similar to what was imposed against Iran and Venezuela. But Russia is a far bigger proposition. It's a G20 country in good standing. It has foreign exchange reserves of \$500 billion, at least, which are being frozen in New York and in the financial centers in Europe.

This sanction is totally indiscriminate and is a bludgeoning attack on the Russian financial system, on the Russian currency. The big question mark really is whether or not the West will move — and this is a question for the Europeans — to sanctioning, blockading, boycotting Russia's export of oil and gas. That is the open question so far. (Adam Tooze).

Impacts

Euro zone inflation surged to 7.5% in March, hitting another record high with months still left before it is set to peak, making grim reading for the European Central Bank, which needs to reconcile sky-high prices with vanishing economic growth.

Latvia - Latvian Railway fears severe impact from dropping volumes. The lack of traffic from Belarus and Russia, which is impossible to replace fully, and the continuously dropping rail freight volumes have the Latvian Railway cornered. According to the Latvian transport minister Tālis Linkaits, the national railway company is prepared for all possible scenarios, with the worst one including even the termination of 600 employment contracts.

Netherlands - Dutch infrastructure manager ProRail has indicated that rail projects will be severely affected by the war in Ukraine. In March and April, three trainloads of rails did not arrive due to the war. Consultations are currently taking place with the Ministry of Infrastructure and Water Management, other public clients, contractors and suppliers about the measures to allow work and tenders to continue as much as possible.

Czech Republic warning - The Czech Foreign Ministry urged Russian diplomats to step down so that they are not accomplices to Moscow's "apocalyptic destruction" of Ukraine.

In an open letter posted on Twitter on April 1, the ministry said it was imploring "those of you who have a conscience and who maintain the capacity to recognize evil: take yourself out of this circle of accomplices."

"When the dust of this unjust war finally settles, these elites will be held accountable for war crimes. Russia will face consequences of the responsibility of an apocalyptic destruction of its sovereign neighbor," the letter, written in both English and Russian, said.

The Czech President was previously a staunch friend to Putin and supported authoritarian rule around the world.

Hungary - Prime Minister Viktor Orbán, an icon for the global right who has transformed Hungary into a self-styled "illiberal democracy," faces his toughest election bid since returning to power in 2010. Polls show his party ahead by around 5% against a broad coalition of opposition parties that joined forces in a desperate bid to defeat him.

With support for neighboring Ukraine running high, Orbán's close ties with Vladimir Putin and his spoiler role inside the trans-Atlantic alliance have come under new scrutiny in the final stretch of the campaign. (Axios).

Orbán's intransigence is isolating Hungary even from its right-wing allies in central and eastern Europe.

A meeting of the central European "Visegrad Group" was canceled this week after Poland and the Czech Republic pulled out to protest Hungary's war response.

Polish President Andrzej Duda, an erstwhile Orbán ally, said this week that Hungary's approach to Russia's aggression was "hard for me to understand" and would be "very costly for Hungary."

Russian Tech Workers - are leaving Russia for more stable pastures. The costs of Putin's war are vast and often incalculable, especially in Ukraine. But in Russia, they amount to more than just the sting of heavy Western sanctions. Increasingly, the cost of war includes talent.

Young Russian workers, specifically in the tech field, are fleeing the nation in droves. In short, fears of ongoing political and economic instability have sparked a massive brain drain.

Meanwhile, tech firms with international customers are relocating to avoid sanctions and the stigma of conducting Russia-related business. The brain drain is not necessarily surprising given the global hunger for tech workers, which Russia produces almost as many of as it does oil and vodka. A 2020 Global Skills Index report found Russians scored highest in technology and data science proficiency.

So where are these workers headed? High-end talent holding fancy European Union visas has fled to Poland, Latvia, and Lithuania. Others have decamped to Armenia, Georgia, and former Soviet republics in Central Asia, where Russians don't need a visa. In total, an astounding number of tech workers are in mass exodus:

- In just five weeks since war broke out, 70,000 computer specialists have emigrated from Russia, according to one estimate cited by the Associated Press.
- Through April, another 100,000 tech workers could leave the country, Sergei Plugotarenko, head of industry lobbying group the Russian Association for Electronic Communications, told a parliamentary committee last week, the AP reported.

To prevent any further outflow, Putin this week signed legislation eliminating all income taxes until 2024 for Russian IT company employees. (The Motley Fool).

Computers - Expected computer shortages throughout the world. Even though the Covid-19 pandemic saw a boom in PC sales due to remote working and learning, Russia's invasion of Ukraine in late February has disrupted supply chains for computer assembly lines, with drastic shortages predicted in the short term.

World Food Supply Interruptions - The shock to the world food supply is much more significant than to the world's energy supply, because Russia and Ukraine together add up to close to 30 percent of wheat supply, a very large percentage of vegetable oils, which are crucial for food production and preservation around the globe, and sunflower oil, 80 percent of which comes out of the Black Sea region. There is very serious concern about the ability of low-income countries to afford basic foodstuffs through the autumn, fall and into winter. It's particularly the Middle East, North Africa and Sub-Saharan Africa who are really going to be in the crosshairs because of these pressures. (Adam Tooze).

Future Geopolitical Alignment

Russia & friends - Russia is isolated from the West, but not the rest. Foreign Minister Sergei Lavrov's friendly visits to the world's two biggest countries — India today and China yesterday — suggest that Russia is not as isolated as suggested.

While in China, Lavrov said Russia, China and other like-minded countries would “move towards a multipolar, just, democratic world order.”

Leaders from countries including Brazil, Pakistan and South Africa, have signaled their reluctance to join in any anti-Russia blocs. While the sanctions on Russia are crippling, they're limited mainly to NATO members and other close U.S. allies like Australia, Japan and South Korea.

India & China - India is trying to pry Sri Lanka loose from China's embrace. Sri Lanka, which adopted the Chinese model of infrastructure-led growth in the early 2000s on the premise that it would generate jobs and usher in prosperity, is today on the brink of collapse.

India is trying to reassert its traditional influence in South Asia, wary of Chinese attempts to control strategic ports in Sri Lanka. A Sri Lankan expert says it is caught in a Chinese “strategic diplomatic trap.”

India's Foreign Minister Subrahmanyam Jaishankar was in Sri Lanka this week to offer help to the struggling Sri Lankan economy in an attempt to pry it away from a decades-long Chinese embrace.

Sri Lanka is part of China's BRI with its port of Colombo having been financed by China as part of the wider Chinese “New Silk Road.” Obsessing over this development, together with the Chinese BRI routing north of India through Pakistan, Prime Minister Modi rushed to meet with then President Trump, to determine how to combat these Chinese moves, which meeting did not deliver any political relief or resolution for India.

The flip side of course is India is part of BRICS (**B**razil, **R**ussia, **I**ndia, **C**hina and **S**outh Africa), which places them in an unfavorable position. They are trying to loosen a Chinese grip on their doorstep yet will not criticize China for its (verbal) support of Russia, nor exercise a yes vote in the UN against Russia.

India is also part of **QUAD** (Australia, India, Japan and the US) whose activities have ramped up again of late. QUAD was supposed to establish an "Asian Arc of Democracy," envisioned to ultimately include countries in Central Asia, Mongolia, the Korean Peninsula, and other countries in Southeast Asia: "virtually all the countries on China's periphery, except for China itself."

India and China have been engaged in an ongoing and at times military conflict along the Indian/Chinese border to the north.

It appears that India wants to have its cake and eat it.

Watch this space.

Geoglobalization - We are seeing a lasting reshaping of the world economy, but this war is just part of a broader set of forces that are doing that reconfiguring of globalization.

More fundamental, really, is the antagonism between the United States and China. What we are going to see is globalization in a new key, if you like, a new mode of globalization, with a new sort of politics, and without some of the, if you like, cultural aspirations, the promises of convergence and harmony. (**Geoglobalization** is our “new” term).