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Financial Shockwaves

8 Key Business Takeaways From Russia's War

Economic ripples of Russia's invasion of Ukraine will permeate the financial, energy, retail, and agricultural sectors, among others. (A link to a related King & Spalding webinar is located [here](#).) While the full effects of the financial mushroom cloud will only become clear with time, here are eight takeaways emerging as war grinds on:

- 1. Rise of the Petroyuan:** Since 1974, most international contracts for oil and gas shipments have required payment in dollars. Western sanctions on Russia cut off the country's access to dollars—spotlighting this vulnerability of China, Russia, and India to American economic muscle. Typically, countries are forced to hold large amounts of dollars in their banks in order to purchase oil. This, in turn, allows the American dollar to serve as the ultimate de facto world currency. China has accelerated diplomatic efforts to persuade Saudi Arabia, the world's third largest petroleum producer, to denominate its oil contracts in yuan, and Russia has signaled that it will require payments of gas by "unfriendly" (sanctioning) countries in rubles. Significant petroyuan inroads against the petrodollar could produce a tectonic shift in the world's current economic order—markedly affecting U.S. inflation, interest rates and costs of imports.
- 2. Foreign Asset Nationalization:** Russia's government has authorized local airlines to seize \$12.5 billion worth of leased Western-built aircraft. United Russia, the country's ruling party, also announced a draft law providing for the involuntary bankruptcy sale of assets left behind by departing parent companies based in "unfriendly" countries. A similar statute effectively allows theft of patent rights, but in practice the law has been expanded to permit broad infringement of trademarks and copyrights. Companies with assets in Russia whose joint venture or subsidiary are assets seized may begin turning to their rights under investment agreements with a Russian governmental entity or...
- 3. ...Bilateral Investment Treaties:** Russia is party to a multitude of treaties providing for arbitration of disputes involving nationalization. As with previous arbitration cases against Venezuela, Iran and Russia, prosecuting a case under one of these treaties can be expensive to litigate and take years to wind through arbitration courts. Moreover, Russia does not have such a treaty with the United States, and it previously declared its refusal to ratify the Energy Charter Treaty. Thus, getting in front of an



arbitration tribunal may require clearing preliminary hurdles. Once arbitration awards against Russia are rendered, the next step for prevailing companies is...

4. **...A Global Fabergé Egg Hunt.** An arbitration award against Russia is worth little without assets located outside the federation that are subject to seizure and execution. Finding assets not already seized by sanctioning governments may prove difficult. Nations friendly to Russia, such as China or India, likely hold the bulk of unseized Russian assets, but those nations may not cooperate with Western companies seeking to attach Russian property to satisfy judgments. Asset location—which may require navigation of layers of corporate entities (as was the case with Venezuela’s Citgo)—will become an essential skill when arbitrations reach the execution stage.
5. **Running Sovereign Debt Rapids:** Russia announced on March 17 that it was making a \$117 million coupon payment on its foreign debt. These payments have been made in dollars, rather than devalued rubles, staving off an immediate debt default. However, Russia has another \$488 million in Eurobond payments coming due in the next ten weeks, and a \$2 billion bond that will mature in April. Whether Russia has the ability to convert oil and gas revenues to dollars on this scale, particularly given its newly limited marketplace, will have important implications for the many investment funds with exposed positions in Russia’s sovereign debt. This will only continue to exacerbate the price of Russia’s government bonds which as of last week were selling for just 12 cents on the dollar—a far cry from their status as frequently traded assets last month. Further, Russian corporations, which owe four times more than their government, may decide to default for identical or independent reasons.
6. **Over a Barrel:** Energy prices jumped as the U.S. and other countries (and some businesses) embargoed Russian oil, driving inflationary pressures at home. While the present crude spike is a godsend for E&P and midstream companies that have languished for the past decade, costs associated with this rise are likely to show up in Chapter 11 filings that will lay some degree of blame on the macroeconomic factors of inflation and interest rates exacerbated by reactions to Russia’s war.
7. **“War, Riot, or Act of God”:** Businesses with suppliers or customers in Russia or Ukraine—big players particularly in the agriculture sector—will be evaluating *force majeure* clauses in their contracts to determine whether those contracts are terminable due to the effect of war on the contract’s purpose.
8. **Points 1-7 Are In Flux:** Longfellow’s old line, “All things must change, to something new, to something strange” has never been more relevant. The immediate fate of Ukraine, and long-term ripples already set in motion, are in a great deal of flux.

While successful businesses remain vigilant about their immediate economic environment, Western businesses are in an unusual moment, when macroeconomic and geopolitical factors impact local businesses more than they used to. As the world navigates sanctions, war, and overall extreme tension, keeping an eye on the big picture will be more important than ever.



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