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Financial Shockwaves

Eight 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, many 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 particular vulnerability of China, Russia, and India (among others) to American economic muscle. Typically, oil importers are forced to hold large amounts of dollars in their banks in order to complete their purchases. This, in turn, allows the American dollar to serve as a de facto world currency. China has accelerated diplomatic efforts to persuade Saudi Arabia, the world's second 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, and 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/Multilateral Investment Treaties:** Russia is party to a number of treaties providing for arbitration of disputes involving nationalization and restrictions on export of capital. As with previous arbitration cases against Venezuela, Iran and Russia, prosecuting a case under one of these treaties can be time-consuming—though it may be the best avenue for recovery. Once an arbitration award against the Russian government is rendered, the next step for prevailing companies is...



4. **...A Global Fabergé Egg Hunt.** An award against Russia is enforceable through courts outside of Russia in one or more of the 165+ jurisdictions which are signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, one challenge will be to identify assets of the Russian state outside Russian territory and subject to collection. 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 Debt Rapids:** Contrary to widespread fears, a recent Russian payment of \$117 million due on sovereign debt was made in dollars, rather than devalued rubles, staving off an immediate debt default. However, Russia has more than \$400 million in debt 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 continue to exacerbate pressure on Russia’s government bonds, which have climbed to a 13.6 percent yield. Further, Russian corporations, which owe four times more than their government, may 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 of companies 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, we are in an unusual moment, when macroeconomic and geopolitical factors impact local businesses more than at other times. As the world navigates sanctions, wars and rumors of war, keeping an eye on the big picture will be more important than ever.

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