



IMPACT ANALYSIS

August 31, 2022

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RECENT DEVELOPMENTS

Monkeypox

There has been a week-on-week decline in cases in many European countries, including France, Germany, Portugal, Spain, and the UK, as well as a slowdown in some parts of the U.S.

Figure 1 — Monkeypox Global Spread
Monkeypox tally.info



War in Ukraine

Fighting remains concentrated in Eastern and Southern Ukraine, with Ukrainian forces reporting on August 29 that they have begun a counter-offensive in Kherson. However, a decisive victory in the conflict is unlikely in the short term. On August 25, Vladimir Putin signed a decree to increase the size of the Russian army by 137,000 from 2023. This makes mass mobilization in Russia less likely, but signals Russia is preparing for a long-term conflict in Ukraine. The announcement follows a new U.S. military aid package for Ukraine worth about US\$3 billion USD. However, some of the aid might not arrive in Ukraine for three years, indicating that a prolonged conflict remains the most likely scenario.

German Energy Saving Measures

In response to high energy prices and concerns over energy security, the German government has approved a set of energy-saving measures for winter.

Starting September 1:

- Public buildings, excluding institutions like hospitals, will be heated to a maximum of 19C (66.2F), and the heat may be turned off in entrances, corridors, foyers, and technical rooms.
- Public monuments and buildings will not be lit at night for aesthetic reasons.
- Trains carrying oil and coal will have priority over passenger and other goods trains.

Further legislation to reduce energy use for businesses is likely in the coming weeks.

Heatwave in China

China recently experienced its longest and most widespread heatwave on record. Increased demand for electricity and reduced supply from hydroelectric power led to major power shortages that significantly impacted business operations. Thousands of manufacturers had to cease production, including multinational corporations such as Toyota and Foxconn, the Taiwanese electronics group that supplies Apple and other large tech companies. Authorities have warned of a severe threat to the country's autumn harvest. A reduced crop yield in China could further strain global food supplies. Cooler temperatures will reduce demand and ease power rationing, but further disruption is likely in areas reliant on hydropower as winter demand increases.

Floods in Pakistan

More than one thousand people have been killed and almost 500,000 displaced as a result of flash flooding in Pakistan. The government has declared a national emergency, and the UN has appealed for US\$160 million in aid. At least 33 percent of the country has reportedly been flooded with an estimated US\$10 billion worth of damage caused. As a result, food shortages and other goods and services are highly likely. Further monsoon rains are expected in September, with more incidents of flooding possible.

Separately, Pakistan has received a US\$1.1 billion bailout from the International Monetary Fund (IMF) to prevent defaulting on its government debt.

Kenyan Presidential Election

Kenya's election commission declared William Ruto winner of the Presidential election held on August 9. Ruto received 50.49 percent of the vote. Raila Odinga, in second place, received 48.5 percent. Odinga has launched a legal challenge against the result, which Kenya's Supreme Court will rule on by September 5. Odinga's legal team alleges that a team working for Ruto hacked into the election system and replaced genuine pictures of polling station result forms with fake ones. The court will consider eight questions in total, including if polling stations were interfered with, if any candidate was disadvantaged by the postponement of eight gubernatorial and legislative elections, if vote counting met constitutional standards, and if any irregularities were substantial enough to nullify the vote. Odinga has said that he will support the court's ruling.

Election-related violence has been less severe compared to the 2007 and 2017 votes. However, Odinga's supporters will increase the risk of violent protests if the court upholds the election result or if Odinga specifically calls for demonstrations. The likelihood of protests will also increase if the court orders the election to be rerun.

Union Protests in Europe

Union and labor protests continue across much of Europe as countries continue to be affected by the ongoing cost of living crisis. For example, in France, the General Labor Confederation has announced a September 22 protest amongst healthcare workers calling for better working conditions and a September 29 protest by multiple sectors supporting higher wages. In Spain, the General Union of Workers announced that they would likely hold protests in the next one to two months if they could not work with the government to negotiate an increase in wages. Belgium and the Netherlands have also recently seen large demonstrations by workers demanding pay increases and improvements to working conditions.

The cost-of-living crisis is likely to continue, with the possibility of worsening as inflation remains high and as parts of Europe are threatened by a large spike in energy prices this winter due to a limited supply of Russian natural gas as the conflict in Ukraine continues. As a result, further increases in protests and unrest on the continent are likely in the coming months. Future protests will continue to push for wage increases to keep up with inflation. They may also target governments to pressure them into enacting measures to manage prices, such as in the case of energy costs.

Chinese Research Ship Leaves Sri Lanka

A Chinese military research ship departed from Sri Lanka's Hambantota port following a week-long stay. India protested the ship's arrival, fearing the vessel would be utilized to monitor Indian maritime installations. India also worried that the ship's arrival might establish a precedent for the Chinese, allowing them to continue to use the port for military activity.

The ship's arrival illustrates the difficulty for countries in the region, such as Sri Lanka, that must contend with increasing tensions between China and India, two countries with significant influence in the area. Sri Lanka has been forced to balance a relationship with India, which has provided abundant aid through its ongoing economic and social crisis, and China, which presently holds a 10 percent share of Sri Lanka's foreign debt. As a result, the country will continue to require multiple aid forms from India. However, for Sri Lanka to receive crucial support from the International Monetary Fund (IMF), China will also have to agree to debt restructuring measures.

Though tensions have slightly decreased, India and China also continue to face off in a border dispute in the Himalayan region. A January 2020 skirmish at the border resulted in injuries for both Chinese and Indian troops.

Competition between India and China will likely continue escalating in the Indo-Pacific region. Moreover, with both governments actively involved in activities in multiple neighboring countries, other nations may be forced to engage in complex diplomatic decision-making, contributing to further regional economic and social instability.

A CLOSER LOOK...

Italy General Election

Italy will hold a general election on September 25. Current polling indicates the far-right Brothers of Italy party, led by Giorgia Meloni, will win the election. Meloni will become Italy's youngest and first female Prime Minister if she wins. She would likely form a coalition with the Northern League, led by Matteo Salvini, and Forza Italia, led by former Prime Minister Silvio Berlusconi. While Meloni compares her party to the U.S. Republican and British Conservative parties, a Brothers of Italy-led coalition would be a largely far-right government. The coalition has promised populist policies such as increases in the minimum wage, tax cuts, increased pensions, and control of immigration.

There are concerns that this coalition would take a much more combative approach to The European Union (EU). Meloni is known to admire Hungary's Prime Minister, Viktor Orbán, and the Brothers of Italy are allied with the Polish Law and Justice (PiS) party in the European Parliament. Both Orbán's Fidesz government and the PiS have made unpredictable and unpopular policy decisions, frequently clashing with the EU over various policies related to immigration, democratic rights, and security.

It is also feared that a Brothers of Italy-led government would be more sympathetic towards Russia. Meloni has previously praised Vladimir Putin but has more recently been critical of Russia's invasion stating that she supports the supply of weapons to Ukraine. Nevertheless, according to opinion poll data, Italians are the least likely in Europe to blame Russia for the war in Ukraine, with Italy reliant on Russia for around 25 percent of its natural gas needs. However, with energy security a significant concern across Europe, support for Ukraine is likely to be tested through the winter. There are also concerns over Russian interference in the Italian election to make a more pro-Russian government outcome more likely.

If the Brothers of Italy win the election, there will be an increased risk of political and economic instability and unrest. The country has a debt-to-GDP ratio of over 150 percent (the second highest in the EU), and its borrowing costs are increasing. Any combative stance toward the EU risks losing access to EU financing, potentially impact the economy and debt sustainability.

Crime and Violence in Mexican Tourist Region

The States within Mexico's Yucatan Peninsula, Campeche, Yucatan, and Quintana Roo, typically see far lower rates of violence and crime than the rest of the country. However, in recent years, popular tourist destinations like Cancun, Cozumel, Playa de Carmen, and Tulum have experienced a sharp rise in crime resulting in a U.S. Department of State (DoS) travel warning for Quintana Roo. Furthermore, Statista, a company specializing in market and consumer data, now lists Cancun as the 12th most dangerous city in the world and the 6th most dangerous city in Mexico.

Over the past three years, several violent crimes in the area have received international media attention. For example, in January of this year, three Canadian citizens and suspected drug traffickers were gunned down in Playa del Carmen, killing two and wounding the third. Two months later, a shooting at a Cancun bar left one dead and three wounded, including a Brazilian citizen. And according to a recent Overseas Security Advisory Council (OSAC) analysis, two recent kidnappings in Tulum demonstrate an escalation in violence in Mexico's "Riviera Maya" tourist areas.

By all accounts, crime in the area directly correlates with the drug trade and other criminal enterprises, and there is no indication that tourists are targeted specifically. However, the growing violence between competing criminal groups is beginning to spill into tourist areas. In addition, the DoS only lists Campeche and Yucatan on the "Exercise Normal Precautions" list and has moved Quintana Roo to the "Exercise Increased Caution" list. The DoS's travel advisory website states the following:

"Criminal activity and violence may occur in any location, at any time, including in popular tourist destinations. Travelers should maintain a high level of situational awareness, avoid areas where illicit activities occur, and promptly depart from potentially dangerous situations. While not directed at tourists, shootings between rival gangs have injured innocent bystanders.

There are no restrictions on travel for U.S. government employees in Quintana Roo state. However, personnel is advised to exercise increased situational awareness after dark in downtown areas of Cancun, Tulum, and Playa del Carmen and to remain in well-lit pedestrian streets and tourist zones."

Some experts pose that the increase in violence and the subsequent incursion into tourist zones was created when high-ranking Sinaloa Cartel member Leticia Rodriguez Zara was arrested in 2017. Since her arrest, several groups of varying sizes have been in violent competition for the illicit markets. The Jalisco Cartel New Generation (CJNG), Sinaloa Cartel, Los Zetas, and the Gulf Cartel remain the power roles in the region; however, smaller groups, such as the Los Pelones Gang and the Riviera Maya, also operate in the area. In the past, a strong criminal authority could shield tourist areas from its violent tactics. However, the power vacuum has emboldened criminal groups in to achieve and maintain dominance.

It is unclear how long rising crime rates will continue in the Yucatan Peninsula. What is clear is that a growing number of organizations and agencies are taking notice. Earlier this year and in preparation for the summer tourist season, the Mexican Government deployed over three hundred soldiers to the area to combat the increasing crime rate and protect tourists. Finally, the recent OSAC report warns that brazen acts of violent crime have taken place in broad daylight in areas frequented by tourists and may have spillover effects for private-sector security.

Ukrainian Nuclear Plant

As the war in Ukraine continues, international concern has focused on the Zaporizhzhia nuclear power plant. Zaporizhzhia, the largest nuclear power plant in Europe, has been on the front line of conflict between Ukrainian and Russian troops for the past few weeks. Currently, Zaporizhzhia is controlled by Russian forces but operated by Ukrainian engineers and staff. The facility has so far sustained no significant damage from shelling, but all reactors have been disconnected from the power grid due to small fires. Both Ukraine and Russia blame each other for the shelling.

An incident at Zaporizhzhia would have consequences across Europe, potentially spreading radioactive material across the continent. This is not an unprecedented situation; the Chernobyl disaster in 1986 irradiated a large area and is still unsafe to visit. As a precaution, civilians living near Zaporizhzhia have reportedly been taking iodine tablets, which can be used to help block the body's absorption of iodine radiation in the event of a nuclear disaster. Russia has so far refused to return the power plant to Ukrainian authorities and has been accused of storing weaponry at the facility, using it as cover for its military strikes.

President Biden has called for Russia and Ukraine to agree on a demilitarized zone surrounding the plant and for Russia to allow the International Atomic Energy Agency (IAEA) to inspect the facility. Russia has agreed to an IAEA visit but has not agreed to a ceasefire with Ukraine around the facility. This is the first time the IAEA will be inspecting a nuclear facility in an active warzone. The inspectors arrived in Kyiv on August 30 and are scheduled to inspect Zaporizhzhia soon.

A Kremlin spokesperson welcomed the visit, stating: "We have been waiting for this mission for a long time, we consider it necessary," and assuring the inspection team's safety instead of a ceasefire. The Kremlin has not always been open to this visit and may be using this as an opportunity to positively influence Russia's perception; Zaporizhzhia can be used as leverage in negotiations and propaganda for Russia. Zaporizhzhia previously supplied around 20% of Ukraine's energy, only heightening its importance to the conflict.

With the IAEA inspection not yet completed, it remains to be seen how, or if, Russia will agree to solve the situation surrounding Zaporizhzhia. International organizations have advocated for a controlled shutdown of the plant, almost completely removing the risk of a nuclear disaster. The Ukrainian government has stated its intention to regain control of Zaporizhzhia. However, Russia has not publicly stated its intentions for the facility or hinted at potential outcomes.

For the time being, Zaporizhzhia is an extremely delicate situation but can potentially to be a source of cooperation in the conflict. The risk of nuclear disaster has not yet been addressed and heavily depends on the actions of the Russian government and military. Regardless, international pressure will likely increase after the IAEA completes its inspection of Zaporizhzhia and releases its findings on the situation to the public.



IMPACT ANALYSIS

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