ARCANUM GLOBAL NEWSLETTER

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Message from the Chairman

M. RON WAHID
Chairman, Arcanum

Dear Colleagues,

In our increasingly interconnected world, the ability to understand and anticipate geopolitical risks has become essential for any organization operating on a global scale. At Arcanum Global, we pride ourselves on delivering precise and actionable insights that empower business leaders to navigate the complexities of international markets with confidence. Our comprehensive risk analysis allows you to foresee potential challenges, proactively mitigate risks, and identify lucrative opportunities. By leveraging our in-depth expertise, you can ensure that your strategic decisions are not only well-informed but also positioned to capitalize on the ever-evolving global landscape.

Our commitment to providing top-tier geopolitical analysis is driven by the understanding that informed decision-making is critical to maintaining a competitive edge. Whether you are expanding into new territories, managing cross-border operations, or safeguarding against geopolitical uncertainties, Arcanum Global stands as your trusted partner. Our tailored insights enable you to adapt swiftly to changes, optimize your business strategies, and achieve sustained success in today's dynamic environment. Thank you for your continued trust and partnership. Together, we will navigate the complexities of the global market and drive your business towards greater heights.

Thank you for your continued trust and partnership.

Reflections from the Board

The War in Ukraine and its Impact on the Global Agricultural Sector

FROM
CHARLES EBERLY
Executive Vice President
Strategic Operations

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The conflict in Ukraine continues to remind us of the ways that globalized supply chains are vulnerable to disruptions across continents and sectors. It also highlights how the need to adapt to adverse circumstances presents opportunities for innovation and improved practices.

The war's ripple effects on global energy markets have continued to mount, with significant disruptions in the natural gas supply impacting economies far beyond Eastern Europe. Natural gas disruption has severely impacted the global fertilizer industry – which relies heavily on natural gas as a raw material – and therefore the stability of the worldwide agricultural sector.

Several fertilizer companies have been forced to shut down or reduce production due to the high costs and supply shortages the past few years. In September 2022, Yara International, one of the world's largest fertilizer companies, announced that it had cut its European ammonia production to about 35% of its capacity. CF Industries, a leading global fertilizer company based in the US, announced the closure of its UK operations. The industry-wide downsizing has had a cascading effect on agricultural sectors, with farmers facing increased costs for fertilizers, leading to reduced crop yields and higher food prices.

Several strategies are being used to navigate disruptions to natural gas supplies and their impact on businesses and farms, resulting in a long-term shift to more efficient farming practices. For instance, the adoption of precision agriculture technologies is gaining traction. These technologies, which include GPS-guided soil analysis and variable rate application of inputs, help farmers optimize fertilizer use and minimize waste. According to a report by MarketsandMarkets, the precision agriculture market is projected to grow from $8 billion in 2021 to over $15 billion by 2026.

We have seen that collaborative efforts and public-private partnerships are also playing a critical role in addressing these challenges. For example, the European Union has allocated approximately €1 billion to support innovation in agriculture, including funding for projects aimed at reducing fertilizer use. In the United States, the USDA has launched initiatives to promote climate-smart agriculture. Moreover, companies in the fertilizer industry are investing in research and development to create more efficient and environmentally friendly fertilizers; in this case, the Fertilizer Institute has announced a $50 million commitment to advancing nutrient stewardship and sustainability practices.

At Arcanum Global, we believe that complexity presents opportunity. By adopting new strategies and embracing sustainable practices, businesses and farms are mitigating the risks associated with natural gas disruptions and ensuring their resilience in the face of future challenges. The ability to adapt to challenges is a necessity for any business. To achieve that adaptability, the first step is understanding risks.

Around the Globe with Arcanum

South America:

Argentina: President Milei's Sweeping 'RIGI' Economic Reform Aims To Attract Foreign Investment

Recent Developments

Passed in July and officially published in August, the Incentive Regime for Large Investments' (RIGI in Spanish) bill has been a significant, albeit controversial, step forward in President Milei's plan to overhaul the economically challenged business environment in Argentina. The country has dealt with currency devaluation and inflationary spirals since 2019 due to a dearth of foreign reserves, and the RIGI bill is Milei's plan to attract foreign investment by promising multinationals a generous and stable regulatory regime. The bill courts investments greater than $200 to 600 million, depending on the sector, and provides substantial tax, legal, and foreign exchange benefits under a 30-year rule stability period, addressing long-held concerns from foreign investors. Though critics have termed the rule a "new plan of Colonialism," 10 of 24 provinces, as of 3 October agreed to adhere to the bill.

Impact

- BHP and First Quantum have announced new copper mining investment initiatives and, as a product of the bill, Argentina expects energy investments to increase by at least $2.5 billion in 2025. The country's oil/natural gas and copper mining sectors are poised to be strong producers under the Milei administration.
- As of 16 October, the governor of the province of Cordoba had submitted a request to the provincial legislature to adhere to RIGI. If passed, Córdoba would become the 11th province to adhere to the bill.

North America:

Mexico: Foreign Business Community Concerned with New Judicial Reform Package

Recent Developments

Foreign investors and business groups in Mexico are fearful that the recently passed constitutional reform package that overhauls the country's corruption-plagued justice system will adversely impact the business climate in the country. The new legislation, passed in September, dictates that federal and local justices will now be chosen by popular vote rather than presidential appointment, which critics—including the United States—have denounced as a threat to democracy because the system undermines the traditional checks and balances of government. Former President Andrés Manuel López Obrador's left-wing party exercised its newly won Senate supermajority in September to enact the bill, arguing reforms were needed to make the judiciary accountable to the people, not business or organized crime.

Impact

- Organizations and business groups, such as the IMF and National Association of Manufacturers, fear these changes will lead to an inconsistent regulatory environment and impede foreign investment. A senior executive at one multinational firm informed the media that time and capital-intensive sectors such as mining, energy, and telecommunications may be particularly at risk.
- There are also concerns that instability may disrupt the 2026 renewal of the US, Mexico, Canada Free Trade Agreement (USMCA) which contributed to Mexico surpassing China as the largest U.S. trade partner in 2023. Moving forward, business confidence will likely hinge on how President Claudia Sheinbaum, an Obrador ally who officially took office on 1 October, approaches implementation of the new law, and more broadly, the regulation of multinational firms in the country.
- Mexico's Supreme Court in October agreed to review and consider a constitutional challenge to the recent judicial reforms by President Sheinbaum's predecessor, President Obrador, and his administration.

Asia:

Bangladesh: Interim Government Grants the Military Policing Powers To Boost Business, Public Confidence

Recent Developments

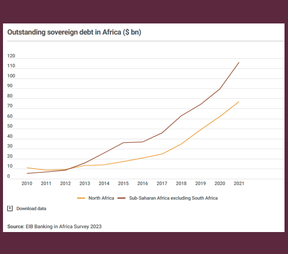
A spate of labor protests surrounding Bangladesh's lucrative garment sector sparked the interim government on 17 September to grant nationwide magisterial and policing powers to the Bangladesh Army for at least 60 days to restore law and order. The decree, which was recently amended to include the Air Force and Navy, came a week after army officers were deployed alongside police to quell labor protests at garment factories. Advisers in the interim government warned of further tough measures to dispel the "anarchy" and blamed the former ruling Awami League and Bangladesh National Party (BNP) activists for instigating the unrest. The garment industry has been the main driver of Bangladesh's above average GDP growth in the last decade and restoring business confidence in the industrial chain is a primary goal of the interim government.

Impact

- After Sheikh Hasina's 5 August ouster, police strikes left hundreds of stations deserted; though stations officially reopened on 12 August, local outlets like the Daily Star reported in early September that on-the-ground police presence remained scarce. In mid-September, the Army, Navy, and Air Force were empowered to arrest individuals, conduct searches, disperse unlawful assemblies, and use lethal force in self-defense.
- A Home Affairs Advisor in Bangladesh publicly announced on 1 October that police personnel who have failed to return to duty would be considered criminals and face legal action.

Africa:

Fallout from Kenya's Debt Financing Crisis Likely To Extend Beyond Its Borders



Recent Developments

Lingering unrest in Kenya from discontented citizens still frustrated with the country's debt-financing crisis this past summer is starting to bleed into Nigeria and is likely to spread across multiple other African countries borrowing from the International Monetary Fund (IMF) at a similar rate to Kenya; debt accounts for 68% of Kenya's GDP—higher than the 55% recommended by the World Bank and IMF. Fallout in Kenya stems from antigovernment protestors who rallied against a bill proposed (and later withdrawn) by President William Ruto after Nairobi sought to widen the tax base on essential consumption goods to cover its $80 billion dollars of debt owed to the IMF to maintain eligibility for additional financial support.

Impact

- We are most concerned about debt-induced instability in Nigeria, which has already experienced similar unrest to Kenya in August as nationwide protests rallied amidst the country's worst cost-of-living crisis and targeted economic mismanagement and corruption. Nigeria spends over a third of government revenue to pay interest on public debt while 40% of the country lives in extreme poverty.
- Other countries like Ghana and Ethiopia are likely susceptible to similar unrest, because they have structured their national budgets and debt-financing similar to that of Kenya and Nigeria. Interest payments to the IMF eat up about 27% of Kenya's overall revenue, according to a recent report from the UN Conference on Trade and Development.

Spotlight on the Arcanum Analytic Team

LARRY HENDERSON
Vice President & Head of Analytic Intelligence

Larry Henderson is the Vice President and Head of Analytic Intelligence at Arcanum Global, responsible for designing and executing intelligence analysis for private sector clients. He directs multi-source intelligence analysis by combining the fast-growing open source environment with Arcanum's on-the-ground access and influence. With over 25 years of distinguished service in the US Intelligence Community, Larry brings unparalleled expertise to his role.

During his CIA tenure, Larry served in various leadership positions, including Chief of Intelligence Analysis for the Europe and Eurasia Mission Center, where he led the analytic mission examining regional wartime developments and their impact on Allies. He also held key roles such as Chief of Intelligence Analysis for the Western Hemisphere Mission Center and Deputy Chief of Analysis for the South and Central Asia Mission Center. His extensive overseas experience includes leadership roles in the Middle East and Eastern Europe.

Before joining Arcanum, Larry was Program Director at the Center for Advanced Defense Studies (C4ADS), where he led efforts in big data mining and technology to produce data-driven reports. His notable achievements include expanding a multi-million-dollar program focused on supply chain analysis and countering sanctions evasion, conducting analytic training for the Ukrainian Government, and leading investigations resulting in numerous international sanctions designations.

Larry works at Arcanum Global to leverage his extensive intelligence experience to help businesses navigate complex geopolitical landscapes, ensuring they make informed, strategic decisions in an increasingly interconnected world. He holds an MA in National Security Studies from Georgetown University.

Analytic Deepdive

Ukraine: Privatization of State Assets Benefits Kyiv and Foreign Investors

Overview

Last May, Ukraine unblocked large-scale privatization after a period of suspension following the full-scale invasion of Russia in February 2022, creating potentially lucrative opportunities for foreign investors and a much-needed financial boost to the Ukrainian government. In 2024, Ukraine's State Property Fund planned to list 1,000 objects for sale, aiming to generate almost $100 million in revenue. For example, Europe's largest titanium and zirconium ore miner, United Mining and Chemical Company, was recently auctioned by the Ukrainian state.

Privatization has been a priority for Ukraine since its independence from the Soviet Union, and partners such as the IMF, USA, and EU have consistently recommended or required that Kyiv reduce the state's role in the economy. The vast majority of state-owned enterprises are unprofitable and are more prone to corrupt practices than private ones – serving as a net drain on state resources – while their sale injects cash into the Ukrainian budget at a time when it is needed more than ever.

Benefits

- **Increased productivity:** A comprehensive study of Ukraine's state-owned manufacturing firms published in Comparative Economic Studies demonstrated that from 1989-2013, majority privatization increased multi-factor productivity by an average of 16-18% after six years, or 17-33% if the buyer is foreign – representing considerable opportunities for a high return on investment.
- **Reduction of corrupt practices:** Selling state assets to foreign investors helps take companies out of Ukraine's informal networks and into the hands of entities who are more likely to prioritize efficiency. For example, the head of Ukraine's State Property fund claimed in 2019 that $3.75 billion had been "siphoned off" since 2004 from state-owned energy company Centrenergo, including through corrupt business practices such as over-paying suppliers for coal.
- **Budget Revenue:** The sale of state-owned companies helps to reduce their burden on the state and generates badly needed revenue to help Ukraine maintain financial solvency amidst Russia's invasion. Another example of a company slated for large-scale privatization is JSC "Ukrainian Energy Machines" – one of the largest turbine construction companies in the world.

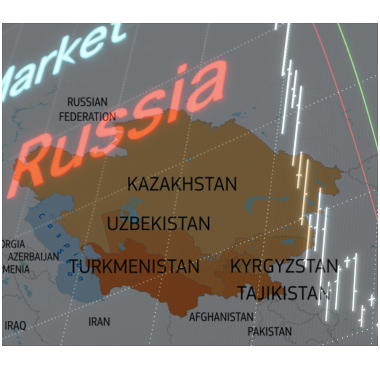
Challenges

- **Quality and Stakeholder Resistance:** State-owned enterprises put up for sale in Ukraine are often in a poor state, and sometimes beholden to powerful interests who have historically proven effective at retaining their influence and hindering privatization efforts.
- **War Damage:** Many assets scheduled for privatization have been damaged by Russian attacks, or are located in an area with a high rate of conflict incidents. For example, Kyiv sought to sell the government stake for above-mentioned energy company Centrenergo for over $212m in 2018, but – since the full-scale invasion – all three of Centrenergo's thermal power plants have been occupied or destroyed by Russia.
- **Political Risks:** Everyday Ukrainians have bitter memories of the privatization programs of the 1990s, when a handful of well-positioned figures were able to exploit the public voucher program and become Ukraine's oligarchs.

With a team of dedicated analysts equipped with cutting-edge intelligence tools and an extensive on-the-ground network in Ukraine, Arcanum Global is uniquely positioned to navigate these challenges and help foreign companies support Ukraine's development and take advantage of the significant opportunities that it offers.

Sanctions Watch

Central Asia: Fertile Landscape for Sanctions Circumvention to Russia



Some firms operating in Central Asia continue to re-export Western goods to Russia in probable violation of US and European sanctions, making it difficult to completely isolate Russia's economy. To date, a number of companies from Kazakhstan, Kyrgyzstan, and Uzbekistan, in particular, have been blacklisted by the US and/or EU for violation of Russia related sanctions, and the risk of trade complications looms even larger since the December 2023 establishment of US secondary sanctions on financial institutions; these secondary sanctions target financial institutions that facilitate transactions to the benefit of Russia's military-industrial base and were expanded on 12 June to reflect "the Kremlin's increasing use of Russia's entire economy to support its war in Ukraine."

- Kazakhstan and Kyrgyzstan, as part of the Eurasian Economic Union (EAEU), benefit from tariff-free trade with Russia. Goods imported from the West into these countries can be re-exported to Russia under this framework, sometimes with minimal checks.
- Uzbekistan appears to be playing a lesser role in the re-export of Western goods to Russia, however, it is increasingly positioning itself as a hub for transit between Russia and China, welcoming transportation development from a major company that has been accused of facilitating the smuggling of goods in Kyrgyzstan. Uzbekistan also has shown a 64 percent increase in freight transport to Russia in Q3 of 2024, probably due to secondary sanctions disrupting transactions between Russian and Chinese companies that probably relate to dual-use goods.
- While Western sanctions have had some impact on Russia's economy, European exports to Central Asia in some categories continue to rise, and Robin Brooks of the Brookings Institute estimated in September that trans-shipments from Central Asia and the Caucasus to Moscow have been sufficient to offset "at least half" of the post-invasion decline of Western exports to Russia.
- Western sanctions authorities have taken a seemingly calibrated approach to the implementation of sanctions against firms in Central Asia, which may be due to several considerations. Policymakers are probably mindful that European companies seek to find alternative buyers after the loss of most of the Russian market – which amounted to about $104 billion in 2021. Importantly, authorities must overcome an evidentiary burden before blacklisting firms that are suspected of violating sanctions, and the process of demonstrating sanctions violations has become even more complicated as evasion schemes become increasingly sophisticated.
- Moreover, the EU has demonstrated a clear desire to deepen its relationship with Central Asia and facilitate the region's diversification of trade partnerships away from their historical reliance on Russia and China – reflected in the EU Parliament's "Strategy on Central Asia" adopted in January 2024 – and this effort may be complicated if Central Asian governments believe sanctions have been applied too broadly.
- Though not an apparent economic policy tool leveraged by Western capitals, enabling Russia to import some goods that are not useful for the defense industry or able to enhance overall productivity may in fact worsen structural problems in the Russian economy because the degrading ruble and sanctions-related trade complications will likely continue to raise the cost of imports, accelerating inflationary trends that Russia's Central Bank is already struggling to contain.

Sanction Evasion Schemes

Arcanum Global has identified some common sanctions evasion schemes and tactics used by intermediaries and businesses intent on conducting trade with Russia and is well-positioned to assist firms strengthen their in-house due diligence programs:

- **Setting up new entities or shell companies:** New companies are often set up in Central Asia to serve as intermediaries for exporting goods to Russia. These companies often don't have any prior connections to the original business, making it harder to trace them back to the sanctioned Russian entities.
- **Use of banking loopholes:** To avoid sanctions, smaller and less scrutinized financial institutions are sometimes used for transactions. Additionally, Russia has increasingly resorted to barter trade or payments in local currencies rather than using the US dollar or euros.
- **Falsified documentation, trading data, and invoicing:** Exporters misclassify goods in customs paperwork to avoid triggering sanctions red flags. Goods destined for Russia may be described as destined for domestic use or for other non-sanctioned countries. Companies also may under-report or modify the nature of the goods being exported to reduce

Tradecraft and Technology Corner

TIPS: Enhancing Your Analytic Tradecraft

Quality Information Check (QIC)

Evaluating the quality of information used to inform business decisionmakers in today's global environment is a critical analytic tradecraft exercise. It is all the more important as open-source analysts confront a dynamic disinformation and misinformation landscape and navigate an increasingly Artificial Intelligence (AI) informed print and social media ecosystem that can muddy fact from fiction.

At Arcanum Global Intelligence, we lean in on a human centric quality of information check (QIC) process that places a premium on the critical eye of our expert analysts. Our team uses a tried and tested methodology to determine the accuracy and reliability of our sources and then transparently communicates the strengths and gaps of our information to business leaders. This gives clients a clear understanding of what Arcanum Global "knows" and what "we do not know" when making high-stakes decisions that affect company profit margins.

Any good QIC—be it testing a well-placed human source, the user of an active social media account, or other key information streams—requires an analyst to:

1. Obtain a thorough understanding of the source and the acquisition process. Is the source of the information an expert in the field? How was the information, if from a human source, obtained? Has the source provided accurate information in the past?
2. Consider corroborating information. Cross-check the information with other reliable sources, such as industry newsletters.
3. Identify the most compelling sources for your project. Is the information current? Is it fact, opinion, or propaganda? Has the information been peer reviewed and supported by evidence?
4. Review the more ambiguous reports and caveat appropriately. Can you identify a bias in the information outlet? Was the source article funded by an outside institution? Fundamentally, is the information obtained meant to influence as well as inform?
5. Place a level of confidence on each source used in the project.

This exercise can be done individually or as a team and is designed to gain confidence in the authority of the author or source of the acquired information, as well as identify any underlying bias that may influence the analytic judgments of our finished business intelligence products. Our in-house QIC process showcases the commitment to analytic rigor at Arcanum Global Intelligence, where source quality underpins every analytic piece that leaves our production floor and enters a C-suite for decisions.

FROM
LARRY HENDERSON
Vice President & Head of Analytic Intelligence

A Magellan Company
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