1. DEVELOPMENTS ON UKRAINE

Russia continued its military pressure in the Donbas region of eastern Ukraine, with heavy attacks on Mariupol focusing on the Azovstal steel plant, from which some civilian evacuations finally occurred this week amidst what the Ukrainians described as “difficult, bloody battles.” While the Pentagon has noted that Russian progress in Donbas appears slow, Russia is also launching missiles west towards the major port of Odesa and elsewhere in Ukraine with a particular focus on railroad lines. Ukraine said it was unlikely to launch a counter-offensive before mid-June as it is waiting for additional weaponry. Russia said that the supply of weapons to Ukraine from NATO countries “do not contribute to the quick completion” of the invasion. The UK Ministry of Defence claimed that of the more than “120 battalion tactical groups, approximately 65 percent of its entire ground combat strength,” committed to the invasion, over 25 percent of those units were rendered “combat ineffective,” including elite units, noting that “[i]t will probably take years for Russia to reconstitute these forces.” The UK is donating 13 armored vehicles to Ukraine to assist in civilian evacuation operations. Belarusian forces began military drills. European Council President Charles Michel visited Chișinău, Moldova, and said the EU is considering providing military aid to the country.

House Speaker Nancy Pelosi visited Kyiv with a Congressional delegation, and UK Prime Minister Boris Johnson addressed the Ukrainian Rada (parliament), stating that “Ukraine will win . . . The so-called irresistible force of Putin’s war machine has broken on the immovable object of Ukrainian patriotism and love of country.” The US is increasingly concerned that Russia may try to annex the Donetsk and Luhansk regions through fake referendums. For his part, President Zelensky stated that he refused to allow the conflict to become a “frozen conflict” such as the situations in Transnistria (Moldova) and Abkhazia and South Ossetia (Georgia), given that Russia had violated previous agreements with Ukraine. President Biden visited a Lockheed Martin factory in Alabama to thank the workers there making anti-tank Javelin missiles being supplied to Ukraine, stating the military aid “is a direct investment in defending freedom and democracy itself. Because if you don’t stand up to dictators, history has shown us, they keep coming, they keep coming. Their appetite for power continues to grow.”

As part of its sixth sanctions package against Russia, the EU is debating a plan to ban Russian oil imports, with a goal to “break the Russian war machine,” in the words of European Council President Michel, and European Commission President Ursula von der Leyen proposing that imports of crude oil be prohibited within six months and refined products by the end of 2022. She noted, however, that some countries will need additional flexibility. Russia accounts for 25 percent of the EU’s oil imports. The ban would be broad, including banning any EU citizen or company from transporting Russian oil, insuring it, or “maintaining equipment” involved in its movement. The provision against insuring Russian oil shipments is significant; many of the world’s oil tankers are insured in companies subject to EU jurisdiction.
Hungary refused to support a ban on Russian oil; its foreign minister Peter Szijjarto said that the country’s energy supply would be “completely destroyed” by a ban, and international relations minister Zoltán Kovács promised that Hungary would veto the proposal, which needs unanimity of all 27 member states, unless crude oil imports by pipeline were exempt. The Commission is reportedly considering “an exemption or a long transition period” for Hungary and Slovakia; Bulgaria and possibly the Czech Republic may also request exemptions.

In other sanctions news, President Biden said “We’re always open to additional sanctions” as he prepared to speak with other G7 leaders. The UK banned service exports (including legal, accounting, management consulting, and PR services) to Russia, with Foreign Secretary Liz Truss stating that “[d]oing business with Putin’s regime is morally bankrupt and helps fund a war machine that is causing untold suffering across Ukraine.” The UK also announced new sanctions against 63 individuals and organizations, including state-owned Russian media organizations and other organizations the UK accused or spreading “destabilizing disinformation about Ukraine.” The EU is proposing banning three Russian state broadcasters from the EU and cutting off Sberbank from the SWIFT interbank system. European Council President Michel proposed confiscating seized Russian assets and using the proceeds to rebuild Ukraine, saying “in my opinion this is a question of fairness.” Currently the EU has frozen €30 billion in assets “linked to blacklisted Russian and Belarusan individuals.” Japan sanctioned 140 additional Russians and banned exports to Russian military firms.

China is apparently concerned about the impact of the sanctions against Russia, as it has reportedly ordered a “stress test” involving government ministries and public and privately-owned banks, of what effect similar sanctions would have on China.

Newly reelected French President Emmanuel Macron spoke with President Putin; according to the Russian readout of the call, Putin spoke of “crimes of the Ukrainian military” and said that global food security “is complicated by the sanctions measures of western countries” while wanting “unimpeded functioning of the global logistics and transport infrastructure” -- measures that would require lifting of some sanctions, even as agricultural exports remain exempt from sanctions. President Zelensky spoke with German President Frank-Walter Steinmeier, easing recent tensions between the countries and noting that Ukraine expects Germany support to be “intensified.”

Finally, the US Treasury’s Office of Foreign Assets Control published a comprehensive set of regulations related to the sanctions against Russia from 2014 and 2017 after its invasion of Crimea, with “additional interpretive and definitional guidance” as well as publishing a total of 13 general licenses offering exemptions from those sanctions.

2. RECORD US TRADE DEFICIT IN MARCH

The US recorded a new record trade deficit of $109.8 billion in March -- 22 percent above February’s figure -- driven by demand for computers, vehicles, and oil. Exports rose 5.6 percent, but the value of imports rose even more at 10.3 percent. Net exports—or exports minus imports—contributed -3.2 percentage points to the 1.4 percent decline in real gross domestic product (GDP) for the first quarter of 2022. Imports are a subtraction in the calculation of GDP, which measures domestic production. Large
price increases in exported and imported goods also impacted the negative contribution of net exports to real GDP.

3. US CROP PLANTING LEVELS FALLING

According to USDA’s weekly National Agricultural Summary for the week ending May 1, current planting levels of some major US crops are lower than last year. Fourteen percent of corn had been planted (28 percentage points behind last year at this point), eight percent of soybeans (14 percentage points behind), 23 percent of winter wheat (three percentage points behind), 20 percent of sorghum (equal to last year), 45 percent of oats (25 percentage points behind), and thirty-six percent of barley (14 percentage points behind). Both drought (in the West) and rainy conditions elsewhere are contributing to the shortfalls. If the trend continues, it could impact food prices later in the year, particularly given the global shortages of grains because of the war in Ukraine.

4. IMPACT OF UKRAINE WAR ON JAPAN’S SECURITY AND ECONOMIC POSTURE

Three international visits by senior Japanese officials underscore the impact of the Russian invasion of Ukraine not only for Japan’s security and economy but for the Asia-Pacific region as a whole. Prime Minister Fumio Kishida met with British Prime Minister Johnson and stated “Ukraine [today] may be East Asia tomorrow,” calling for greater recognition of the impact of the invasion in Asia and terming the invasion “an egregious violation of international law.” Specifically asked about Taiwan, Kishida said “We must collaborate with our allies and like-minded countries, and never tolerate a unilateral attempt to change the status quo by the use of force in the Indo-Pacific, especially in east Asia.” Johnson (whose government is seeking to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), responded that “We in the UK recognise that our security in Europe is indivisible from the security, our collective security, in the Asia-Pacific, in the Indo-Pacific region. And there is direct read across from the actions of autocratic, coercive powers in Europe, to what may happen in east Asia.” Another highlight of the visit was the signing of a mutual access agreement for the countries’ militaries.

Visiting Washington, Minister of Economy, Trade, and Industry Koichi Hagiuda stated that “Japan has limited resources and it is difficult for us to immediately align ourselves” with the US (and likely EU) ban on Russian oil imports. Hagiuda met with Energy Secretary Jennifer Granholm and asked the US to raise its production of liquified natural gas (LNG) as a way to reduce energy supplies from Russia. (Japan currently receives LNG not only from the US but from the Sakhalin-2 project, which would reportedly cost $15 billion to replace.) After a separate meeting with Commerce Secretary Gina Raimondo focusing on semiconductor cooperation, Raimondo said that “[a]s the world is destabilising after the war in Ukraine, coordination with like-minded countries is becoming more and more important. [These] talks served as a major step towards advancing the Japan-US relationship.”

Also visiting Washington, Defense Minister Nobuo Kishi met with Defense Secretary Lloyd Austin, and the defense chiefs agreed to “align the two countries’ security strategies,” as Japan prepares to increase its defense spending, perhaps raising it to 2 percent of GDP, significantly above current levels, and to release a revised National Security Strategy later this year. Secretary Austin said Russian behavior “has
implications ‘far beyond Europe’ because of the challenge it represents to the rules-based order,” while China “threatens to undermine the "common norms, values and institutions that underpin that order.”’” Meanwhile, the amphibious assault ship USS Wasp reportedly sailed near the Scarborough Shoal reef 140 miles from the Philippines, claimed by both the Philippines and China, in conjunction with bilateral US-Philippine annual training exercises and as part of the Navy’s regular “freedom of navigation operations.”