Russia-Ukraine update

Analysis of trade and economic impacts for Irish business

25 February, 2022

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Background

- The Russia / Ukraine situation **deteriorated further in late February** and a special meeting of the European Council on Russia took place on 24 February to discuss the latest developments.
- The EU heads of states' focus is on;
  - How the EU protects the **rules-based international order**.
  - How the EU deals with Russia, notably holding **Russia accountable** for its actions.
  - How the EU will further **support Ukraine** and its people.
- The **G7** also continues to discuss and focus on the situation.
- **Ibec** together with partners in **BusinessEurope** are following developments closely and will be providing updates regularly.

Summary of the measures to date (22-23 February)

- **Common approaches** prevailed between the **EU** (see here)**, US** (see here) **and UK** (see here) in initial measures **with some differences**;
  - Imposing **financial restrictions** to cut off Russia from financial markets.
  - Imposing **restrictions on economic relations** with the non-government-controlled areas of the self-proclaimed Donetsk and Luhansk ”republics”.
  - Targeting entities and persons with **visa bans and asset freezes** involved in recognising the self-proclaimed ”republics” or in undermining or threatening the sovereignty of Ukraine.
- **US sanctions** aimed at Russian state-owned entities VEB (Bank for Development and Economic Affairs) and PSB (Public Stock Company), and 42 of their subsidiaries.
- **The UK, Australia**, **Canada** and **Japan** have also announced the adoption of similar measures. **Taiwan** has announced it will adopt similar measures.

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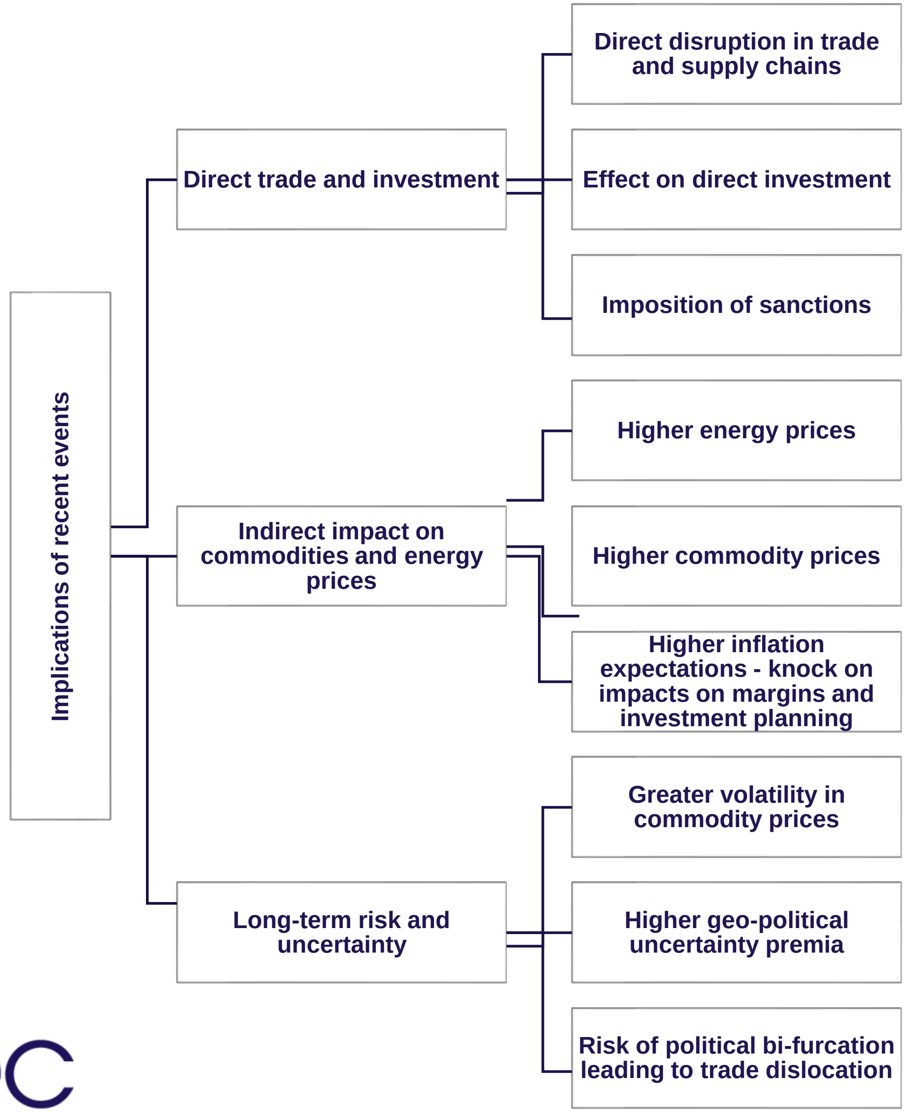
Summary of the measures to date (24-25 February)

- The **EU agreed initial measures** on 22 February. Further measures to *“impose massive and severe consequences”* were agreed by the European Council on 24 February with precise details pending:
    - **Economic sanctions:** Finance, energy and transport, dual-use goods, and export control and export financing.
    - **Individuals:** Visa restrictions, additional listings of Russian individuals and new listing criteria;
    - **Export ban:** A list of products banned for export to Russia will be coordinated with the US;
    - **Belarus:** A separate economic sanctions package will be adopted to target Belarus.
- **Nord Stream 2:** After **Germany** decided to halt the process of certification of Nord Stream 2 and reassess the whole project, the **US** announced that it would allow sanctions to move forward on the company responsible and its CEO, after blocking it last year using a national security waiver.
- **Next steps:** The EU is expected to prepare a third round of sanctions. While the **EU has not agreed to exclude Russia from SWIFT** despite strong support from the US, UK and some member states, it will be reconsidered if the situation escalates.

Framework for economic impact



- In the short-run the largest impacts of the crisis will be its effect on investment, potential for volatility and significant increases in key commodities prices (including energy) and the potential imposition of sanctions.
- Of these, Ireland is most exposed to the indirect impacts from higher input prices for business and households.
- Even if the crisis itself is short run it will introduce a level of significant change and uncertainty to European investment and supply chains for some time.

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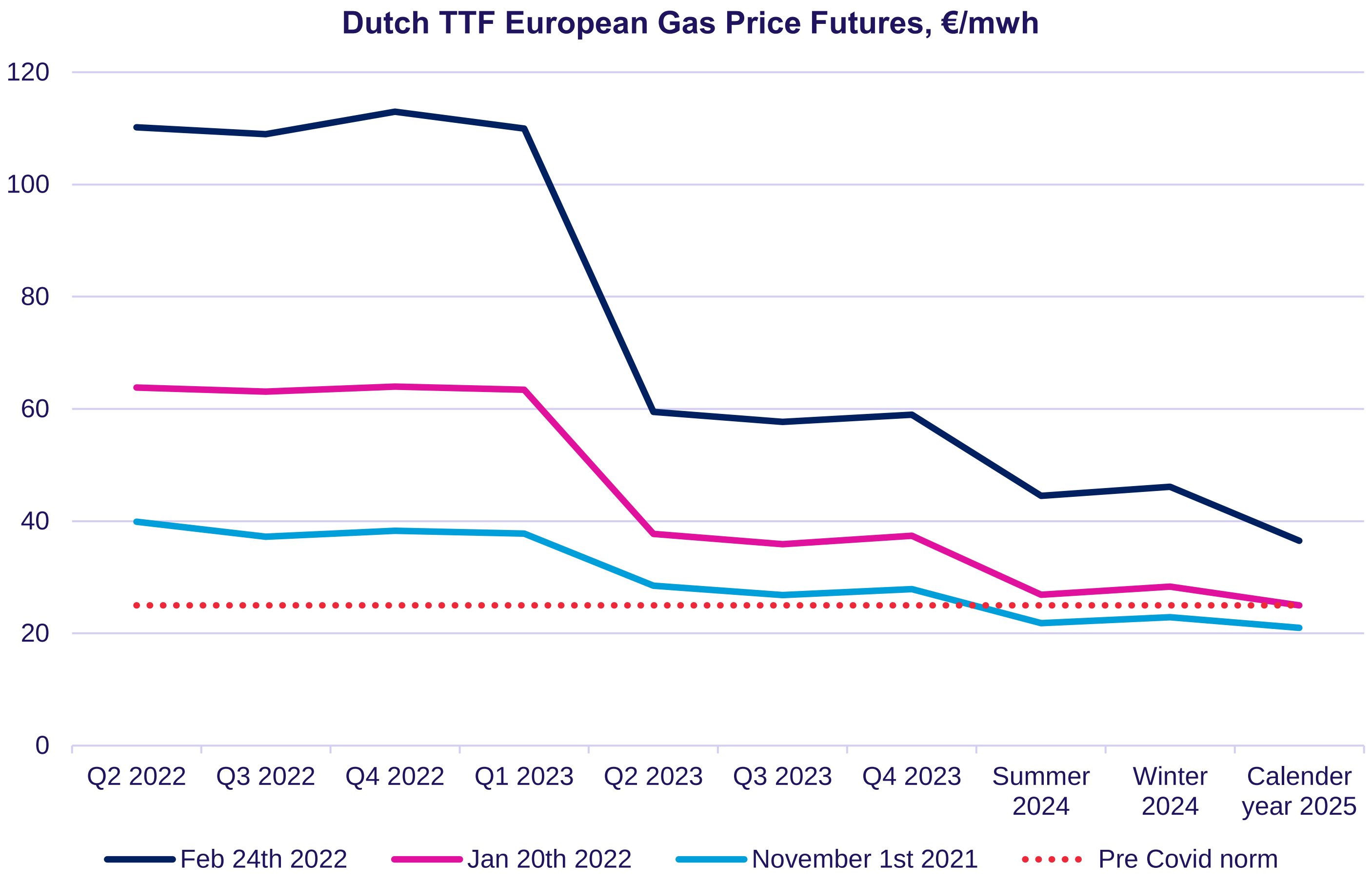
Gas prices



- Gas spot price futures had over the past decade varied between €20/mwh and €30/mwh.
- Shortages this winter have seen rapid spikes. But futures markets had expected a gradual return to under €40/mwh by Q2 2022 in November and even by early Jan of 2022 by the first half of 2023.
- Futures prices, although highly volatile, are now not seeing a return to sub €40/mwh before 2024.
- Whilst the situation remains volatile the market does point to gas prices being higher for longer.

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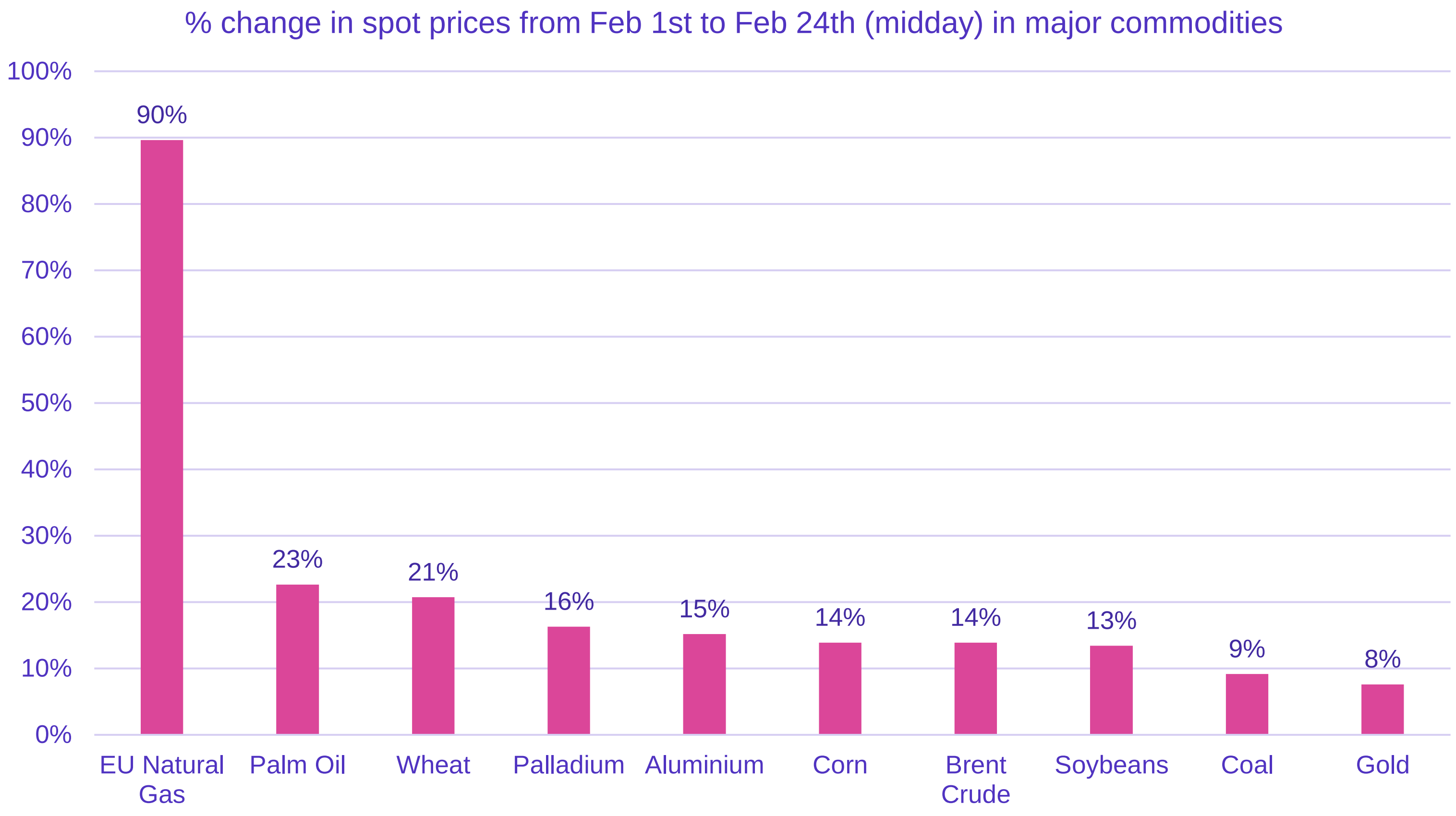
Commodities prices



- While Ireland only imports some commodities from Russia and Ukraine directly, the events of recent weeks have driven increased commodities prices globally.
- This impact has been particularly acute in gas prices but there have been significant increases in food commodities and rare metals.
- On food commodities in particular Russia accounts for over 1/5th of global wheat production and Ukraine accounts for around ¼ of Ireland's Maize imports.
- On the metals side, recent increases have particularly impacted on non-ferrous metals (e.g. aluminium, copper, palladium) where Russia is a major global supplier.
- Even where Ireland is not a direct importer from the region – importers are likely to feel the impact of price increases on global markets.

Commodities imports from Ukraine and Russia

Share of direct imports from:	Russia					Ukraine					
	Germany	Ireland	France	NLD	Poland	Germany	Ireland	France	Italy	NLD	Poland
All products	2.5%	0.4%	1.4%	3.8%	6.0%	0.2%	0.1%	0.1%	0.4%	1.1%	2.5%
Wheat	0.2%	0.0%	0.0%	0.3%	0.0%	0.2%	0.0%	0.9%	2.8%	1.1%	0.2%
Maize	0.3%	2.1%	0.1%	0.2%	0.0%	26.1%	27.7%	5.6%	57.2%	13.3%	0.3%
Other cereals	1.1%	0.0%	0.0%	0.5%	5.6%	0.6%	0.2%	0.0%	1.0%	20.1%	1.1%
Oil seeds	0.5%	0.0%	0.2%	0.6%	4.0%	6.8%	0.0%	15.7%	12.4%	17.6%	0.5%
Petroleum	24.5%	5.8%	12.7%	21.2%	53.8%	0.0%	0.0%	0.0%	0.0%	0.1%	24.5%
Iron and Steel	1.3%	0.0%	0.4%	1.4%	5.9%	0.6%	0.3%	0.1%	0.7%	4.6%	1.3%
Non-Ferrous metals	7.4%	0.0%	1.7%	15.2%	9.2%	0.1%	0.0%	0.0%	0.0%	0.3%	7.4%

- European imports from Russia are relatively small following previous rounds of sanctions.
- The major impact on commodities will be on global supply and the secondary role of that in global commodities prices.
- However, Russia is a major supplier of petroleum, Iron and Steel and Non-Ferrous metals (aluminium, copper, etc)
- Ukraine is also a small share of overall EU imports. However, it is a major supplier of some commodities such as Corn/Maize, other cereals, oily seeds (flax, sunflower, soy, etc) and Iron and steel.

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Ireland trade links with Ukraine and Russia

- Ireland has €70 million of exports to Ukraine of which roughly €50 million is Bio-Pharma. On the import side €73 million of Ireland's €84 million in goods imports from Ukraine consists of Maize imports. This is over one-quarter of all of Ireland's imports of Maize.

- When it comes to services, Ukraine accounts for around 0.25% of total exports (€650 million). Unfortunately we don't have the breakdown of that data but it is likely to be a mix of technology and financial services.

- Ireland imports 0.4% of our total goods from Russia. At a product level our major exposures to direct import disruption are fertilizers (20%), wood (5%) coal and petroleum (5%) and animal feed (3%).

- When it comes to goods exports, previous rounds of sanctions have reduced trade links. Ireland exports €370 million of goods to Russia (out of a total of over €160 billion). The goods categories most exposed to any trade disruption would be Irish whiskey, €30 million of food exports and a further €90 million in ores and scrap metal. Our largest export category is Bio-Pharma with €100 million of exports, but this is out of a total of over €100 billion.

- On the services side Russia accounts for 1% of total exports (€3.4 billion). Unfortunately we don't have the breakdown of that data but it is likely to be a mix of technology and financial services.

- However, **the major real economic impact will be the indirect impact on the economy through the crisis related increases in European energy and commodity prices**. The ECB estimate, for example, that a 10% shortfall in gas supply would reduce the size of the eurozone economy by almost 1%. Russia currently provides around 30% of European Gas.