

# How Russia's Attack on Ukraine is Impacting Supply Chains



A look at how the crisis in Ukraine could impact the world's supply chains.

Highly interconnected, the world's supply chains are susceptible to shocks and disruptions that may not even happen in close proximity to the actual manufacturing, sourcing or distribution of goods. This was immediately obvious when China's manufacturing centers were among the earliest to be impacted by the COVID-19 pandemic in early 2020, and it could happen again as the Russia-Ukraine conflict persists.

In "[The Russia Ukraine War Could Have Dire Impacts On Global Supply Chains](#)," ARC Advisory Group's Steve Banker writes about the diverse ways that this conflict could impact global supply chains. Some of the key impacts could include (but aren't limited to) higher transportation costs, rising electricity rates and interruptions to the commodity supply chains that companies worldwide rely on.

"While rising gas prices drive up the price of transportation, rising natural gas prices also affect global supply chains," Banker writes. "Natural gas has become increasingly important in generating electricity. In the US, for example, natural gas accounted for 40% of total utility-scale U.S. electricity generation in 2020."

He says that rising electricity prices can cut into the profits of manufacturers, distributors and retailers who rely on this form of energy to power their facilities. "Energy cost increases, in turn, often lead these companies to raise their prices," Banker adds. "This is particularly true in Europe, where Russia is the largest provider of natural gas to Europe, providing about 35% of its supply."

While the impacts of disruption of trade between the U.S., Europe, Russia and Ukraine are "miniscule in comparison" to the disruption of trade with China that occurred because of the pandemic, Banker warns that the impacts could still be significant. For example, the conflict could squeeze metal markets.

"Russia controls roughly 10% of global copper reserves and is also a significant producer of nickel and platinum," he points out. "Nickel has been trading at an 11-year high, and further price increases for aluminum are likely with any disruption in supply caused by the conflict."

## Stressing Already-Fragile Supply Chains

According to [Bloomberg](#), the Russia-Ukraine conflict could add to the supply chain woes that many organizations worldwide have been dealing with since the early stages of the pandemic. These problems escalated in 2021 as world economies opened back up, consumer spending increased and companies were concurrently dealing with a labor shortage, new COVID outbreaks and other constraints.

The invasion is sending yet another ripple through these already-vulnerable supply networks. "International companies from cigarette makers to auto manufacturers and beverage bottlers are shutting down production in Ukraine as Russian armed forces roll into the country, adding further strain to fragile global supply chains," [Bloomberg](#) points out.

For example, Coca-Cola HBC shut down operations in the country and sent staff home, joining a growing list of firms

including Carlsberg AS, Nestle SA and AB InBev Efes, a joint venture between Anheuser-Busch InBev NV and Anadolu Efes, to halt local production because of the fighting.

“Russian aggression in Ukraine compounds stresses on supply chains already stretched by coronavirus infections, travel restrictions and shortages of key components such as microchips,” Bloomberg notes, adding that transportation of goods from China to Europe will be also impacted as shipments pass through the region.

### **New Shortages Ahead?**

The *Wall Street Journal* says the crisis is also impacting Ukraine’s and Russia’s vast commodity exports, sending the price of oil, natural gas, wheat and sunflower oil up. “Shipping from Ukrainian ports, an important corridor for grain, metal and Russian oil shipments to the rest of the world, has all but ceased,” *WSJ* reports.

“Economists and business leaders fear this will hit supply chains that rely on components and little-known commodities from Russia such as neon gas and palladium, important ingredients to make semiconductors,” the publication adds. “Industries such as car manufacturing have already been disrupted by a surge in demand after the easing of pandemic lockdowns and persistent production bottlenecks.”

Some executives caution that it is too early to know how lasting the blows to supply chains will prove to be, *WSJ* adds, and that the effects of the war and sanctions are still unclear and that many companies can rely on stockpiles of parts and raw materials. “Companies have bounced back from crises quicker than anticipated in the past,” the publication adds, noting that the semiconductor shortage could escalate as a result of the attacks and resultant crisis.

“The disruption of commodity and raw materials supplies from Russia and Ukraine,” *WSJ* reports, “could worsen a global semiconductor shortage that has already been roiling businesses worldwide.”