# Russia-Ukraine update

## Analysis of trade and economic impacts for Irish business

04 March, 2022

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# Background

- The Russia / Ukraine situation **deteriorates dramatically in late February with Russia, despite earlier public statements, invading Ukraine.**
- The EU has been coordinating responses with member states and third country partners including the UK, US and Canada, among others.
- The EU's focus is on:
  - Protecting the **rules-based international order**.
  - Holding **Russia accountable** for its actions.
  - **Supporting Ukraine** and its people.
- **Ibec,** together with partners in **BusinessEurope,** is following developments closely and providing updates regularly.

# Summary of EU measures (4 March)

**1st package (22 February)**

**Economic restrictions on the self-proclaimed Donetsk and Luhansk ”republics”**

Financial restrictions, visa bans and asset freezes on individuals

**2nd package (24 February)**

**Broader economic sanctions on Russia and Russian individuals**

Finance, energy and transport, dual-use goods, and export control and export financing

**3rd package (28 February)**

**Financial sanctions on large financial institutions**

SWIFT exclusion and restrictions on Russia's central bank

**Restrictions on aviation**

Export ban on goods and technology and associated services. EU airspace closed to Russian owned and/or operated aircraft

**Dedicated sanctions on Belarus**

Banning export bans, export controls, dual-use goods and restrictions on individuals.

**Expanded export controls and bans**

Targeted on industrial and military technology and oil refining

**Next steps**

**Extraordinary Meeting of EU Foreign Affairs Ministers (4 March)**

Informal exchange with the US, Canada, UK, NATO and Ukraine

**Informal meeting of heads of state in Versailles, France (10-11 March)**

Exchange including review of further actions

# First package (22 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** announced the adoption of similar measures. **Taiwan** will adopt similar measures. **Switzerland** has adopted the EU measures.

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# Second package (24 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.

# Third package (28 February)

- The third round of **EU sanctions includes several common areas with the US** and **UK sanctions**:
    - Reinforced **financial sanctions,** to impact Russia's access to capital markets, the Russian financial system, and the economy as a whole, by targeting large financial institutions, such as Sberbank and VTB, as well as by curtailing the ability of entities to raise money through Western markets. (EU, US & UK)
    - Stringent **export controls** to impede Russia's access to cutting-edge technology and affect its military and industrial capabilities. (EU & US)
    - Members of the Russian elite and their families, including President Putin and Minister of Foreign Affairs Lavrov, and entities, that will face **visa bans** and **asset freezes.**
    - **Dedicated sanctions on Belarus** for its role in the conflict. (EU & US)
    - The EU prohibits the sale, supply, transfer, or export to Russia of specific goods and technologies in oil refining and introduces restrictions on the provision of related services. This hits the **Russian oil sector** and makes it impossible for Russia to upgrade its oil refineries.

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# Third package (28 February)

- EU export ban on goods and technology in the **aviation and space industry**, as well as a prohibition on the provision of insurance and reinsurance and maintenance services related to those goods and technology. The EU will also prohibit the provision of related technical and financial assistance.
- This ban will degrade one of the **key sectors in Russia's economy** and the country's connectivity, as three quarters of Russia's current commercial air fleet were built in the EU, the US and Canada.
- **Ibec** together with partners in **BusinessEurope** stress the importance of coordination. In this regard, it is important to note that this **US update** *“Countries that adopt substantially similar export restrictions are exempted from new U.S. licensing requirements for items produced in their countries. The European Union, Australia, Japan, Canada, New Zealand and the United Kingdom, have already communicated their plans for parallel actions.”*

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# Third package (28 February)

- On **financial sanctions** in particular, the West is coordinated. Allies exclude important Russian banks from the SWIFT system and ban the transactions of Russia's central bank and freeze its assets.
- The assets of more individuals close to the Russian regime are targeted, including several CEOs of Russian companies, journalists, members of the government and military forces.
- The EU closed its **airspace** to Russian planes and banned **state-owned media** Russia Today and Sputnik, as well as their subsidiaries.
- The latest sanctions cover important sectors in **Belarus**, stopping exports of products from mineral fuels to tobacco, wood and timber, cement, iron, and steel. The EU export restrictions on Russian dual-use goods are extended to Belarus and more individuals from Belarus are added in the sanction lists.
- The **restrictive measures** applied in the current context are **unprecedented** in terms of size and complexity.

# Summary of the measures (2 March)

- On **financial sanctions**, the UK’s published measures refer to the ban of certain banks from the SWIFT system, restrictions on the Central Bank of Russia as well as more sanctions against individuals and entities.
- EU agrees to exclude key Russian banks from the SWIFT system, the world's dominant financial messaging system.The legislation banning certain Russian banks from the **SWIFT system** is published and will be in effect as of 12 March 2022. This ban concerns: Bank Otkritie, Novikombank, Promsvyazbank, Rossiya Bank, Sovcombank, VNESHECONOMBANK (VEB), and VTB BANK.
- It is also **prohibited to invest, participate or otherwise contribute** to future projects co-financed by the Russian Direct Investment Fund and to sell, supply, transfer or export euro denominated banknotes to Russia or to any natural or legal person, entity or body in Russia, including the government and the Central Bank of Russia, or for use in Russia.
- The **EU** will **suspend the broadcasting activities** of Sputnik’ and RT/Russia Today (RT English, RT UK, RT Germany, RT France, and RT Spanish) in the EU, or directed at the EU.
- Further sanctions against **Belarus** already announced are expected to be formally adopted today.

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# Summary of the measures (2 March)

- The Commission activates the **Temporary Protection Directive** to offer quick and effective assistance to people fleeing the war in Ukraine.
- Those fleeing the war will be granted **temporary protection** in the EU, meaning that they will be given a residence permit, and they will have access to education and to the labour market.
- There are **operational guidelines** to help Member States' manage arrivals at the borders with Ukraine efficiently, while maintaining a high level of security.
- The guidelines also recommend that Member States set up special emergency support lanes to channel humanitarian aid and recall the possibility of granting access to the EU on humanitarian grounds. More info may be found here.

# Summary of the measures (3 March)

- The EU sanctions 22 high ranked members of **Belarusian military personnel** in view of their role in the decision making and strategic planning processes that led to the Belarusian involvement in the Russian aggression against Ukraine.
- **More restrictions** introduced in the **trade of goods** used for the production or manufacturing of tobacco products, mineral fuels, bituminous substances and gaseous hydrocarbon products, potassium chloride ("potash") products, wood products, cement products, iron and steel products and rubber products.
- Further restrictions also imposed on **exports of dual-use goods and technology**, and certain advanced goods and technology which might contribute to Belarus' military, technological, defense and security development, together with restrictions on the provision of related services.

# Russian countermeasures (3 March)

- Limiting the possibility of **transferring foreign currency** abroad;
  - Exporters must sell 80% of foreign currency earnings credited from 1 January 2022.
  - The procedure for the sale of foreign currency by exporters will be established by the Central Bank of Russia.
  - Russian residents banned from providing foreign loans in foreign currency and depositing foreign currency into bank accounts outside Russia.
- Limiting the possibility of **foreign investors / foreign capital** to leave Russia;
  - Special provisions for transactions for the provision of **credits and loans** (in Rubles) and transactions entailing the emergence of ownership of securities and real estate.
  - **Permits** need to be issued by the Government Commission for the Control of Foreign Investments in Russia.
  - From 2 March, the export from Russia of **cash and/or monetary instruments** in foreign currency exceeding the equivalent of 10 thousand US dollars and calculated at the official exchange rate of the Central Bank of the Russian Federation,

# Summary of the measures (4 March)

- The latest **US sanctions** target numerous **Russian elites and their family members**, identifying certain property of these persons as blocked. Sanctions target Russian intelligence-directed **disinformation outlets** (Strategic Culture Foundation, InfoRos, NewsFront, and SouthFron).
- **Canada** decided to revoke Russia and Belarus' official statuses as preferential trading partners, effectively meaning that they are cut from most-favoured nation (MFN) tariff treatment. The sanctions adopted by **Canada** since the beginning of the war on Russia and Ukraine (linked to Russia's ongoing violations of Ukraine's sovereignty and territorial integrity) can be found here and here.
- The EU in several separate statements over the past days announced the **alignment with EU sanctions by other countries** including North Macedonia, Montenegro, Albania, Bosnia and Herzegovina, Iceland, Liechtenstein, Norway, as well as Ukraine.

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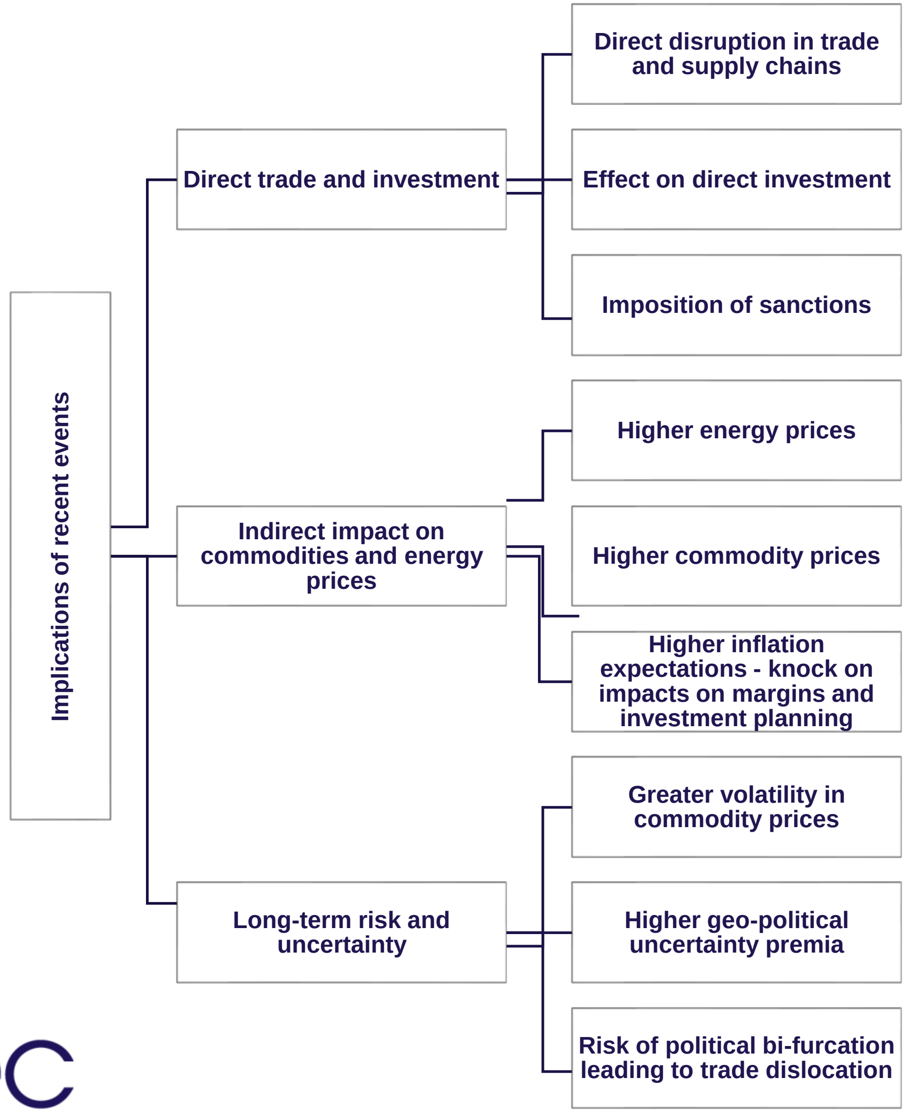
# Framework for economic impact




- 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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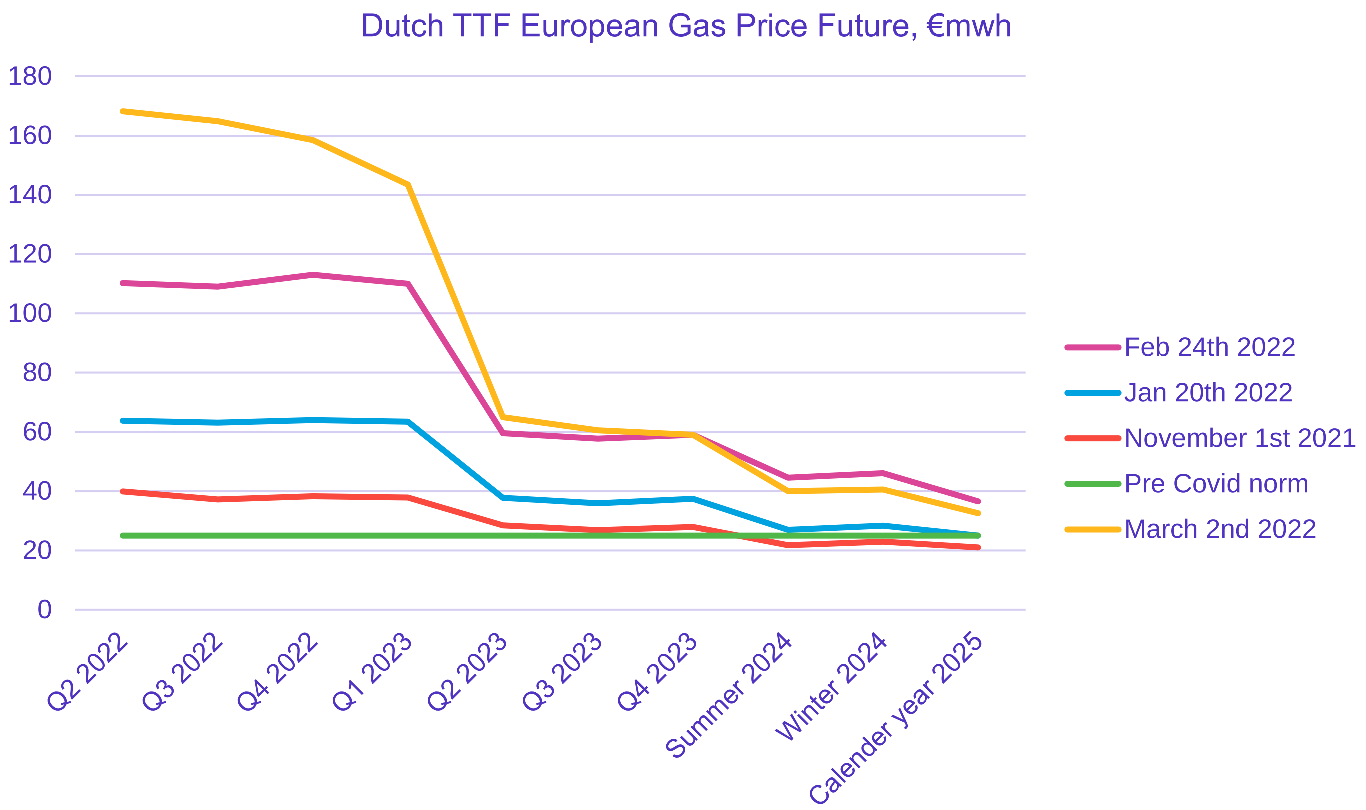
# Gas prices




- 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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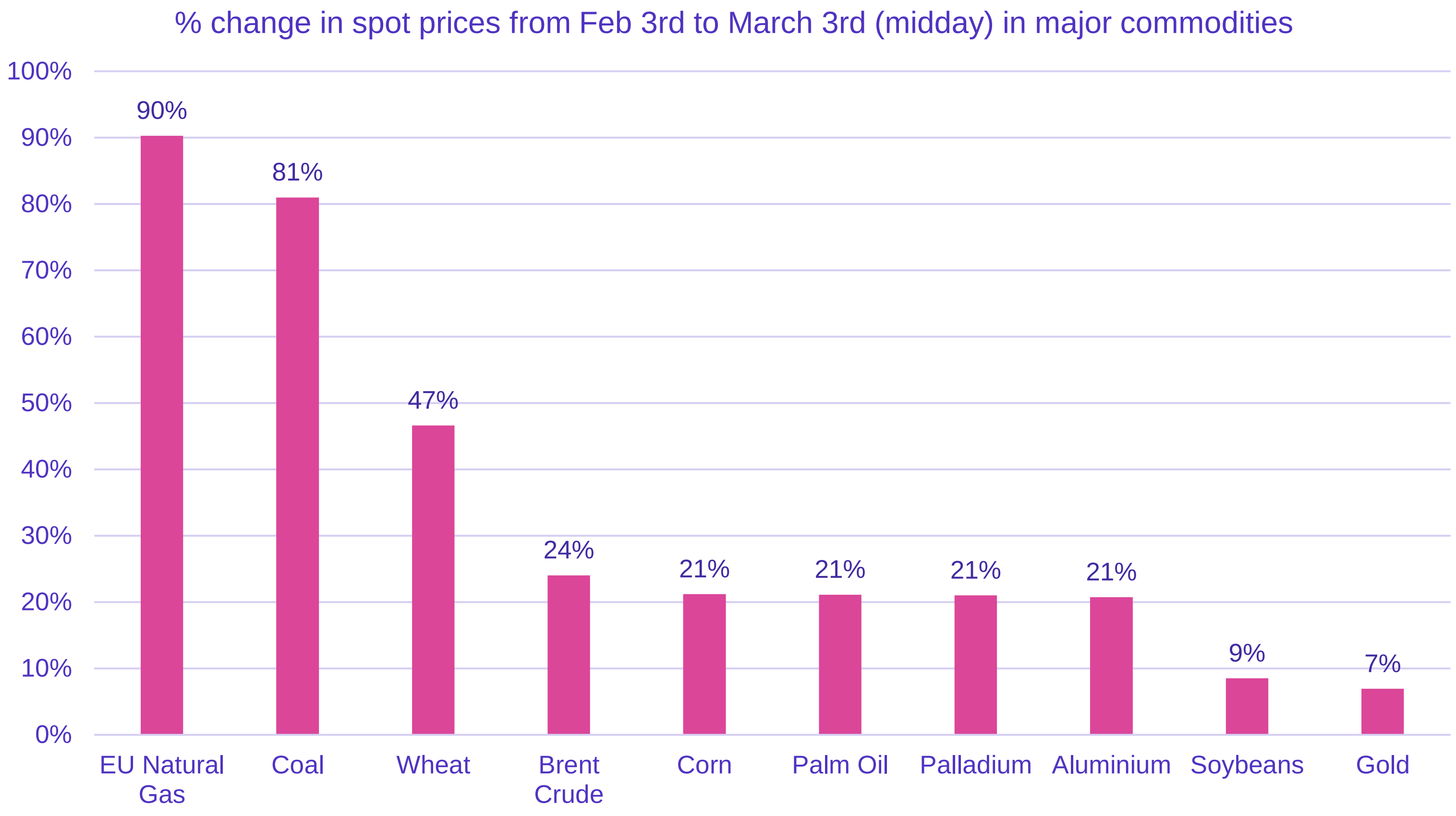
# Commodities prices




- 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.

# 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.

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