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Implications for businesses: Transport and logistics

Ukraine: A conflict that changed the world

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Lloyd's Futureset

The impact of the crisis on macroeconomic themes will be felt across all industries to varying degrees.

Inflationary pressures associated with supply chain issues, such as costs of materials, labour and logistics are mounting, with companies considering a number of solutions to maintain revenue and profitability. For instance, oil and gas producers and food manufacturers will be the most impacted by inflation, largely due to Russia and Ukraine having dominant positions as major exporters of key raw materials across these industries.

Other industries may need to change business models as a result of subtle changes in trading behaviours. As each nation becomes more focused on developing domestic production to avoid geopolitical risks, transportation and logistics companies will likely need to evolve to accommodate a lower demand for international trade but growing interest in national logistics solutions.

With ESG becoming an increasingly prominent topic on corporates' risk agendas, significant resources are being allocated to dedicated ESG teams across multinational corporations to develop risk management strategies. With increased awareness and potential scrutiny from employees, customers and stakeholders, businesses could incur significant costs to adhere to ESG standards.

In order to meet public expectations, thousands of companies have exited from or paused Russian operations. Those that continue to conduct business in Russia face potential reputational damage in the affected region, which could lead to economic repercussions (for example a. decline in business due to global boycotts). Corporates are also spending significantly more on due diligence and compliance reviews to ensure any direct or indirect relationships with Russia are identified and replaced.

Aon Global Risk Management Survey

Aon's 2021 Global Risk Management Survey illustrates today's traditional and emerging corporate risk portfolio. The Survey collates responses of over 2,300 risk managers from 16 industries, spread across varying territories and company sizes. In 2021 respondents selected and rated 10 top risks that their organizations were facing:

01	Cyber Attacks / Data Breach
02	Business Interruption
03	Economic Slowdown / Slow Recovery
04	Commodity Price Risk / Scarcity of Materials
05	Damage to Reputation / Brand
06	Regulatory / Legislative Changes
07	Pandemic Risk / Health Crises
08	Supply Chain or Distribution Failure
09	Increasing Competition
10	Failure to Innovate / Meet Client Needs

The following analysis breaks down the results of this survey by industry sector and considers how each sector's risk profile has changed as a result of the conflict in Ukraine. Risks highlighted in bold indicate risks that will be further amplified by effects of the crisis.

Overview

The following table summarises the implications of each of the market forces explored in this report to businesses over the short to long term. These are assessed in greater detail over the following pages for the different industry groups expected to be most impacted by the crisis.

	Cyber	Supply chain	Food security	Climate transition	Energy security	ESG	Public sentiment
Banks and financial institutions	Minimal	Minimal	Minimal	Minimal	Minimal	Significant	Medium → Significant
Construction and manufacturing	Minimal	Medium → Significant	Minimal	Minimal	Medium → Significant	Medium	Minimal
Energy	Medium	Significant	Minimal	Significant	Significant	Medium → Minimal	Significant → Medium
Food and beverages	Minimal	Significant	Significant	Minimal	Medium	Minimal	Medium → Minimal
Public sector and healthcare	Significant → Medium	Minimal	Significant → Medium	Significant	Minimal	Minimal	Significant
Technology	Medium → Significant	Minimal	Medium	Medium	Minimal	Minimal	Minimal
Transportation and logistics	Significant → Medium	Minimal	Medium	Medium	Significant → Medium	Minimal	Minimal

Key:
- **Minimal:** Market forces will have no or minimal impact on the industry
- **Medium:** Market forces will have an indirect impact on the industry
- **Significant:** Market forces will have a clear, adverse impact on the industry

Transportation and logistics

Cyber	Supply chain	Food security	Climate transition	Energy security	ESG	Public sentiment
Significant → Medium	Minimal	Medium	Medium	Significant → Medium	Minimal	Minimal

Global insurance premium: $178bn

Aon 2021 Top 10 Global Risks
(Risks in **Bold** are likely to be further amplified by effects of the Ukraine crisis):

01	**Economic Slowdown / Slow Recovery**
02	**Cyber Attacks / Data Breach**
03	**Business Interruption**
04	Pandemic Risk / Health Crises
05	**Political Risk**
06	**Regulatory / Legislative Changes**
07	**Supply Chain or Distribution Failure**
08	**Damage to Reputation / Brand**
09	Accelerated Rates of Change in Market Factors
10	Property Damage

Economies are identifying new trading routes in light of the conflict. However, we may see long-term reduced trading activity globally as countries target self-sufficiency, especially across energy and food markets.

Short term: The Ukraine crisis has disrupted key trade routes – blockades imposed on Black Sea ports have halted the activities of dozens of ships. Meanwhile, Ukrainian and Russian mariners amount to around 15% of the global shipping workforce. In the short term, this is likely to reduce the availability of skilled labour in the industry, with businesses having to attract (and invest in training) a new labour force.

In the aviation industry, aircraft lessors have been greatly impacted by the confiscation of planes in Russia, with the Russian leadership nationalising aircraft stuck in the country. From a financial perspective, lessors are well protected, whereas their capital providers could be negatively affected with billion-dollar assets stranded in Russia in an industry that was already crippled by the effects of the pandemic.

Another short-term risk that organisations face is the increased frequency of cyber attacks, both due to the potential scale of disruption to supply chains and their relatively immature cyber security solutions as compared to other industries (e.g. financial institutions).

Transportation and logistics (continued)

Medium term: With Russia excluded from Western trade, new routes are emerging between Russia and Asia, and between the West and Gulf or Central America, as companies seek to sustain import levels of energy, food, and raw material commodities for business continuity. Although new routes are forming, nations are also looking at ways to achieve some degree of self-sustainability. Transport and logistic services could be struck with a potential loss of demand in the short term due to deglobalisation.

Global multinational companies are looking at ways to develop domestic production and manufacturing to limit exposures to international risks such as conflict. In the medium to long term, we could see reduced activity from ships and increase in demand for train and motor trade (both national and transregional). The magnitude of impact on the aviation industry is less profound, as sanctions do not have a big impact on airlines.

Long term: Independence from global markets is also emerging with regards to energy security. Gas-dependent countries are realigning to traditional energy classes such as coal in order to continue meeting domestic demand. In the long term, they may look to develop sustainable renewable solutions. As such, there may be a potential reduced need for oil and gas transportation in the future and a corresponding decrease in demand for transport and logistic services. The aviation industry has learned lessons from the pandemic, particularly in relation to disaster planning. Larger airline organisations, especially national airlines, are more resilient to the impacts of the crisis due to their contribution to their economies.

Case study: Delays at the Yantian terminal in Shenzhen, one of the world's largest container terminals, has put a significant strain on the global shipping industry, worsening supply chain delays for manufacturers and retailers globally. After a week-long closure in late May, productivity has only returned to about 70% of normal levels.

More likely scenarios | Less likely scenarios

01 Defensive push-back	02 Protracted conflict	03 Annexation	04 Collapse of Ukraine	05 Escalation
– Companies utilise a mixed slate of energy sources to minimise business commodity price shocks and business continuity risks – Companies look to invest in electric solutions to reduce spend on fuel and gas	– Ships carrying food supplies, raw ingredients and/or fertiliser could be attacked, thus disrupting the distribution of supply	– Blocked ports continue to limit ease of trade across supply chains; increased activity in domestic transport as economies seek to become self-sufficient	– End operations of seafarers in Black Sea region – focus on sea trade with US and development of train-related trade with EU states	– Organisations directly impacted by cyber conflict may need to rebuild their entire IT infrastructure, impacting global distribution and supply chains – Disruption of key materials for electric vehicle production impacts trading performance and operations – Destruction of renewable projects leads to increased dependency on oil and gas at inflated prices

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