



# Implications for businesses: Food and beverages

Ukraine: A conflict that changed the world

July 2022

## 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
<b>Banks and financial institutions</b>	Minimal	Minimal	Minimal	Minimal	Minimal	Significant	Medium → Significant
<b>Construction and manufacturing</b>	Minimal	Medium → Significant	Minimal	Minimal	Medium → Significant	Medium	Minimal
<b>Energy</b>	Medium	Significant	Minimal	Significant	Significant	Medium → Minimal	Significant → Medium
<b>Food and beverages</b>	Minimal	Significant	Significant	Minimal	Medium	Minimal	Medium → Minimal
<b>Public sector and healthcare</b>	Significant → Medium	Minimal	Significant → Medium	Significant	Minimal	Minimal	Significant
<b>Technology</b>	Medium → Significant	Minimal	Medium	Medium	Minimal	Minimal	Minimal
<b>Transportation and logistics</b>	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

## Food and beverages

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

Global insurance premium: \$80bn

### Aon 2021 Top 10 Global Risks

(Risks in **Bold** are likely to be further amplified by effects of the Ukraine crisis):

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

**With Ukraine and Russia both being significant exporters of raw food ingredients such as wheat, the crisis has exposed fragilities in supply chains and identified the need for other economies to diversify.**

**Short term:** When sourcing ingredients from multiple international suppliers, countries may need to become more vigilant with food safety requirements due to the risk of lower quality harmful products entering food networks. Some corporations have chosen to continue operations in Russia in order to support citizens with essential goods. This has led to reputational backlash risk amongst employees, stakeholders and customers who argue that corporations are only continuing operations for commercial gains.



Large food producers have been marginally impacted due to profit margin compression. Their concern is focused on the sustainability of sourcing their foods in the medium to long term

Investment consultant



## Food and beverages (continued)

**Medium to long term:** The impacts of the conflict on global food supplies may be further exacerbated by droughts (especially in the Americas), causing insufficient key ingredients and materials to be produced. The dual effects of the conflict and drought has led to a number of food and beverage organisations investing in R&D and potential process changes to adapt to the “new normal” and become more self-sufficient.

**Case study: Nestle** has continued production of certain products such as baby food and water, but have paused certain “luxury” products such as coffee and chocolate, presenting logistical and reputational risks as raised above.

### More likely scenarios

### Less likely scenarios

01 Defensive push-back	02 Protracted conflict	03 Annexation	04 Collapse of Ukraine	05 Escalation
<ul style="list-style-type: none"> <li>– Restart trade with Russia, who are a significant wheat exporter; companies with continued operations in Russia (to provide essentials to the citizens) may face reputational backlash</li> <li>– Increasing number of LTAs with suppliers to lock in supply and price</li> <li>– Diversify options for food suppliers, and develop technology or solutions to improve domestic production</li> <li>– Reform trade links with Russia to import raw ingredients (e.g. wheat); trade with Ukraine as ports begin to reopen</li> </ul>	<ul style="list-style-type: none"> <li>– Pause production of meats and “luxury” foods</li> <li>– Significant subsidies for investment in food and agri tech to develop domestic production of raw ingredients</li> <li>– Abandonment of key agricultural land in Ukraine as territories become “no mans land”</li> </ul>	<ul style="list-style-type: none"> <li>– Businesses have to restructure their operating models to incorporate cheaper food ingredients</li> <li>– With certain key ingredients such as sunflower oil coming mainly from Ukraine, global markets may be challenged in the way they make foods with alternative ingredients</li> <li>– Manufacturers find multiple sources of raw ingredients to build a smoother supply chain that isn't reliant on Russia</li> <li>– Relaxation of food safety requirements to expand options for imports</li> </ul>	<ul style="list-style-type: none"> <li>– Governments allow by-pass of sanctions for multinationals' production of necessary goods in Russia and other annexed countries e.g. baby formula</li> <li>– Retailers unable to maintain price points, leading to significant price increases for customers; Increased use of cheaper, lower quality suppliers</li> <li>– The agriculture industry may focus innovation efforts on food and agri technologies to produce raw ingredients domestically, including more sustainable agricultural methods (crop technologies)</li> </ul>	<ul style="list-style-type: none"> <li>– Food manufacturers may focus production on low-cost foods to meet minimum nutrition requirements</li> <li>– Draw back on production of energy-intensive products (e.g. meats)</li> </ul>

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