Impact of Russia-Ukraine Crisis on Global Supply Chains & Relocation

As a result of the COVID-19 pandemic, supply chains—vast networks of resources, money, information, and people that companies rely on to get goods or services to consumers—were already in deep disarray, resulting in massive shortages, disruptions, and price inflation.

Now, just over one month following Russia's invasion, we are already feeling the immediate effects as the war continues to weaken and disrupt global supply chains. So, how does this bode for companies planning and executing employee relocations in 2022 and the coming years?

Businesses around the globe continue to grapple with inflation brought on by the pandemic as well as skyrocketing energy prices brought on by disruptions to the supply chain, severe sanctions and travel restrictions, as well as rare metal and natural gas shortages needed to sustain production of key technologies. With limited resources and a growing number of uncertainties, companies with defined relocation programs might want to rethink their budgets to include a higher number of exceptions. But, just how many businesses are actually being affected?

Business Insights

According to a report from Dun & Bradstreet, 374,000 businesses worldwide rely on Russian suppliers—90% of these businesses are based in the U.S. About 241,000 businesses rely on Ukrainian suppliers and 93% are based in the U.S.

Top insights of the report include that...

- There are 14,745 Tier 1, and 7.6M Tier 2 supplier relationships with Russian entities globally.
- 25 countries have a high dependency on Russia and Ukraine for a variety of commodities.

While the international domino effect of global dependencies on businesses in the Ukraine region is already being felt, it may not be as imminently catastrophic as some predicted.

Long-Lasting Global Impact

Because Russia only accounts for less than 2% of global gross domestic product, and Ukraine only 0.14%, the direct impact on global supply chains is minimal—except in a few very important areas.

However, the invasion of Ukraine could drastically reshape global supply chains on a much larger scale, leaving a long-lasting global impact in its wake and changing the landscape of employee relocations forever.

In addition to exacerbating the energy crisis, the disruption of trade routes, freight costs and inaccessibility of critical raw materials could, ultimately, derail long-term economic growth and add to inflationary pressure.

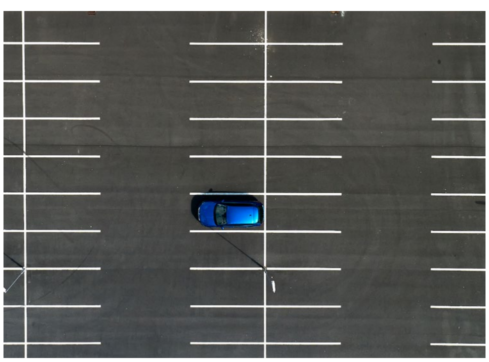
So, which industries are bearing the brunt of the supply chain issues, exacerbated by the Russian-Ukraine crisis? Corporate employee relocations may be directly affected, in one way or another, by the new challenges facing energy, travel and automotive supply chains, just to name a few. Let's talk about it...

War Impact on Energy & Fuel Prices

The most obvious impact of the war, felt by consumers around the globe, is regarding energy. Russia provides nearly 40% of Europe's natural gas supply and 65% of Germany's. It is the third-largest oil exporter in the world, accounting for 7% of all crude oil and petroleum product imports into the United States.

After the Biden administration signaled it would stop importing Russian oil, the price of crude topped $130 per barrel for the first time in 13 years, and consumers in some parts of the U.S. have seen average gasoline prices rise above $5 per gallon.

For relocating employees, there's no doubt that this impact will translate to increased fuel surcharges, a transportation expense calculated based on the cost of diesel fuel that is added to help movers offset fuel prices.



War Impact on Automotive Transportation

As if the automotive industry wasn't already in shambles due to a global chip shortage, Ukraine supplies about 50% of the world's neon gas, which is used to produce the semiconductor chips.

Governments and large corporations are now scrambling to obtain alternative supplies, but the supply is tightening and prices have dramatically increased.

The added strain to automotive supply chains, fueled by the chip shortage, will ultimately lead to increased challenges in finding rental cars for employees and require further planning in advance.

War Impact on Agri-Commodities

Less obvious, but still largely devastating, is the war's impact on agri-food supply chains. Russia is the world's largest supplier of wheat and both Russia and Ukraine together account for more than 25% of the world's trade in wheat, about 20% of corn sales and 80% of sunflower oil export.

Several countries, including Kazakhstan and Tanzania, import more than 90% of their wheat from Russia. This war has the potential to disrupt the still-recovering global food supply chain and endanger the livelihoods of millions of people.

War Impact on Trade

Additionally, Russia's invasion of Ukraine has also had a devastating impact on global trade movements. The conflict has set off a scramble among global companies as they cut off trade with Russia to comply with the most far-reaching sanctions imposed on a major economic power since the end of the Cold War.

Shipping ports around the Black Sea have closed, halting dozens of cargo vessels and supply-chain management experts predict that we're going to see massive increases in shipping rates—potentially tripling rates for both ocean carriers and airfreight.

But, the more immediate effects are likely to be felt in air shipments between Asia and Europe. After 36 countries, including EU members, the U.S., and Canada, closed their airspace to Russian aircraft, Russia retaliated with the same restrictions. As a result, goods transported by air freight from China to Europe or the Eastern U.S. may need to be rerouted or use slower or more expensive modes of transportation.

What Next?

Gone are the days when companies were able to separate business from geopolitics.

Because the war in Ukraine is still ongoing, there's no way to know for certain how long the sanctions will remain in place or whether companies that have chosen to leave Russia will return.

Although we are still watching the events unfold, it's safe to say that global supply chains, and therefore global relocation, will never be the same again. Until businesses can catch up to the latest supply-chain shock, it's likely that both companies and employees will feel the pain in the form of rising prices across most industries.

In order to be prepared, companies with defined relocation programs would be smart to revise current relocation and compensation packages to match current market demands. Additionally, companies should expect a higher number of exceptions impacting overall relocation budgets in order to accommodate for higher fuel prices, food costs, rental car availability & fees, travel fees, shipping fees, etc.

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