

War in Ukraine

Six months on and the conflict is creating a global crisis

MarketLine Case Study

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1. Overview

1.1. Catalyst

Over six months on from the initial Russian invasion in Ukraine in February 2022, the war remains ongoing with the effects continuing to have a damaging effect. Although Russia had planned a swift invasion this has not materialized due to the unforeseen strength of Ukrainian resistance with front lines having become stationary in recent weeks. As a result, civilians have not been able to return home and those still in Ukraine have limited access to basic facilities such as food, water, and electricity. As of August 2022, there were over six million internally displaced people in addition to the six and a half million refugees who have fled across borders to European neighbors. This situation shows little sign of getting better and instead may only get worse if no end to the war is found.

1.2. Summary

In total, it is estimated by the CIA that over 15,000 Russian soldiers have been killed whilst 45,000 have been injured, with Ukrainian figures marginally lower. These heavily depleted forces are spread across a front that totals over 1,000 kilometres. As such, the training of new competent soldiers may be crucial for both sides' chance of victory due to the current depleted numbers. In Russia, Putin has recently signed a decree boosting the authorised number of combat personnel in the Russian military buy 137,000, taking the total up to 1.15 million. Meanwhile, Ukraine has also lost significant numbers but defense minister, Oleksii Reznikov, has suggested that the army has 700,000 personnel and over a million police, border guards and gendarmerie. Nonetheless, training new soldiers is imperative and there is currently a training camp in the UK with other NATO allies contributing to sending training personnel. The aim is to train 10,000 soldiers in four months with 2,000 already trained and deployed back into the conflict.

Ukraine has historically been a globally significant exporter of grain therefore the war has had severe ramifications globally on food availability and pricing. According to the UN, Ukraine fed 400 million people globally in 2021, yet for the first five months of the war the country could not export through its major black sea shipping routes. As a result, there are now knock-on effects across the world including risk of famine, hunger emergencies, astronomical food prices, and huge government fiscal imbalances across the developing world particularly. The combination of effects from the pandemic, climate change, and now the Ukraine crisis will make the coming year or two particularly tough for a large number of countries.

A key global concern that has emerged from the Ukraine crisis is the rising energy prices. This will have an effect globally, particularly in Europe. The war in Ukraine war has impacted energy prices due to sanctions on Russia and the dependence, particularly in Europe, on Russian gas as an energy source. Reportedly prices are expected to rise globally in fossil fuels by 50% in 2022 compared to 2021. Going forward, International Crisis Group has argued that there needs to be a focus on renewables in order to help avoid dependence on Russia, in addition to the obvious environmental benefits.

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2. Ukraine crisis has become a protracted conflict situation

Over six months on from the initial Russian invasion in Ukraine in February 2022, the war remains ongoing with the effects continuing to have a damaging effect. Although Russia had planned a swift invasion, this has not materialised due to the unforeseen strength of Ukrainian resistance with front lines having become stationary in recent weeks. As a result, civilians have not been able to return home and those still in Ukraine have limited access to basic facilities such as food, water, and electricity. As of August 2022, there were over six million internally displaced people in addition to the six and a half million refugees who have fled across borders to European neighbours. This situation shows little sign of getting better and instead may only get worse if no end to the war is found.

2.1. Both sides facing military issues but no sign of the war ending

In total, it is estimated by the CIA that over 15,000 Russian soldiers have been killed whilst have been 45,000 injured, with Ukrainian figures marginally lower. These heavily depleted forces are spread across a front that totals over 1,000 kilometers. As such, the training of new competent soldiers may be crucial for both sides' chance of victory due to the current depleted numbers. In Russia, Putin recently signed a decree boosting the authorized number of combat personnel in the Russian military buy 137,000, taking the total up to 1.15 million. However, although this looks impressive it is much harder to implement this effectively. It has not been made clear whether Russian strategy will look to increase the biannual draft and focus on voluntary recruitment or incorporate pro-Russian militias in occupied areas of Ukraine into official military structures. So far, Putin has been unwilling to declare an official war and cannot conscript young men and call up reservists into combat so instead is relying on those willing to come forward, which often involves a financial incentive. If Putin were to declare a formal war, men aged 18 to 27 would be called upon, although this could be mitigated through medical exemptions or higher education enrolment. Whether Putin will call upon this is yet to be seen but if the situation continues as it is currently then he may have no choice. It is estimated that currently around half of its regiments in Ukraine are only at about 60% of original capacity in both personnel and equipment, significantly reducing their effectiveness. However, gradually, wounded soldiers are expected to be fed back into the war.

Meanwhile, Ukraine has also lost significant numbers but defence minister, Oleksii Reznikov, has suggested that the army has 700,000 personnel and over a million if police, border guards and gendarmerie are included. Nonetheless, training new soldiers is imperative and there is currently a training camp in the UK with other NATO allies contributing to sending training personnel. The aim is to train 10,000 soldiers in four months with 2,000 already trained and deployed back into the conflict. Prior to training many of these recruits have no prior military experience thus training involves an intensive course into basic military practice. Although this level of training is not close to what British and American soldiers would receive it may be crucial to gaining an advantage over new Russian recruits. Whilst previously Russian military had comprehensive training, new volunteers will be limited. Furthermore, it should be noted that motivation for soldiers who are fighting for national survival tends to be higher than invasion and this combined with basic training may give Ukraine the upper hand.

Figure 1: Russia is facing military manpower issues

Source: US News

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2.1.1. Ukraine looking to launch a counter offensive whilst Russia is weak

Ukraine forces have looked to provide a counter offensive in recent days in southern parts of the country particularly around the city of Kherson. Forces reportedly managed to break through the first line of Russian forces, but it has been argued that breaking through the second line with more mechanized units will provide the real test. If successful then further gains would be possible with potential advances to the Dnieper River, northeast of Kherson, leaving Russian soldiers there with little means of retreat. Currently, Russian families who were placed in Kherson by occupiers have fled to Crimea and other areas of Russian occupied Ukraine as the battle for the city has begun. Although the initial signs seem positive it will be a long battle in the coming month or two before winter and may be a crucial battle in the future of this war. Zelensky has already turned his vision to Crimea, stating last week that "Crimea is Ukraine. And we will return it. Whatever the path may be." This indicates newfound confidence in the mission which had previously aimed to stop Russian advances. Although regaining Crimea seems unlikely the threats may worry the Russians for whom Crimea is immensely valuable, both symbolically but also in practical terms with the port of Sevastopol.

These coups illustrate how violence in the region is increasing political pressure but also demonstrates the lack of accountability governments have with their citizens, a major factor behind the establishment of armed groups in the region with some of those neglected turning to conflict. Peace agreements have continued to fail because governments do not have the funds to fulfill the development promised to tackle social and economic crises. Mamadou Touré, the Ivorian minister of youth, claimed the Ivory Coast will not repeat the mistakes of Mali and Burkina Faso where the lack of a social response and an absent state fostered growing conflict. He stated that the government was looking to ensure young people in the north are "neither neglected nor forgotten" with plans to spend \$5.5 billion on social programs in the coming years. However, despite these promises the government has recently blamed jihadist attacks in the country on the Fulani ethnic group, a traditionally rural herding population. This has been happening in Ghana too where forces have killed animals belonging to Fulani herders and sometimes herders themselves. These claims are largely baseless and do nothing but fall into the same traps of Mali and Burkina Faso where stigmatization and neglect of certain groups ignites and fuels conflict instead of alleviating it.

Figure 2: Ukraine has sought to push back Russian forces in Kherson



Source: Al Jazeera

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2.2. Despite Putin's intentions war has united Ukraine

Putin believed invasion in Ukraine would break national spirit resulting in limited resistance and a procession of Russian forces to Kyiv. However, in fact, the invasion seems to have done the opposite and united the country more than ever before. Ukrainian presidential advisor, Serhiy Leshchenko, suggested unity on this level was unexpected stating "War has touched every Ukrainian. That mobilization has helped us become self-sufficient. For the very first time since gaining independence in 1991, we believe we are a subject in world politics. And we are influencing the entire northern hemisphere". This is supported by polling and sociological-analysis firm, Rating, who since 2012 have asked Ukrainians whether they support independence. Back in 2012 just two thirds were supportive of the Ukrainian national state, yet in 2022 this was said to be 97% with Ukrainian national identity having been hugely strengthened by the war, not weakened. Furthermore, 60% now deem themselves European up from just a third previously whilst 92% think they will win the war. This national spirit will be crucial to any chance of future success.

However, despite this the country is facing financial issues. Physical damage is estimated to be north of \$100 billion with the government running a monthly budget deficit of over \$5 billion met by a combination of quantitative easing, foreign loans, and external aid. However, more international support is needed, yet due to the global crises facing other countries, in part caused by the conflict, increased foreign financial support may not be provided. To continue this war financial resources will be as crucial as military manpower and a solution will need to be found.

3. War is worsening food insecurity and poverty globally

Ukraine has historically been a globally significant exporter of grain therefore the war has had severe ramifications globally on food availability and pricing. According to the UN, Ukraine fed 400 million people globally in 2021, yet for the first five months of the war the country could not export through its major black sea shipping routes. As a result, there are now knock-on effects across the world including risk of famine, hunger emergencies, astronomical food prices, and huge government fiscal imbalances across the developing world particularly. The combination of effects from the pandemic, climate change, and now the Ukraine crisis will make the coming year or two particularly tough for a large number of countries.

3.1. Developing countries are particularly at risk from the knock-on effects of the war.

In 2022, it has been estimated by the UN that around 180 million people will be facing a food crisis and worsening conditions are expected in 41 of the 53 countries where data was available. Furthermore, 19 million additional people will be facing issues of chronic undernourishment directly as a result of the lower food imports from Ukraine and Russia, with the situation only expected to get worse. A key factor in the crisis is rising fertilizer prices due to a reduction in supply from Russia and Belarus as well as rising energy costs and trade restrictions. Furthermore, it takes new fertilizer plants two years to become operational and therefore this crisis cannot be helped through a quick boost to production. Due to this, global food production is expected to face significant issues in 2023 as well with this restricting supply despite rising demand. For instance, rice is a staple in many diets across the world and usually available at low cost, but this is expected to see a dramatic rise in price which will lead to huge global issues in terms of hunger and famine.

This exacerbates a negative trend of recent years where poverty has been getting worse amidst the pandemic and climate change issues. The UN World Food Programme (WFP) has estimated that the number of food insecure people has doubled from 135 million in 2020 to 276 million at the start of 2022, with this expected to rise further to 323 million by the end of 2022 with the effects of the war. According to the World Bank the number of people living in extreme poverty has increased by 77 million people since 2019, whilst the total number facing acute hunger insecurity is now 193 million. In total the average household has lost 1.5% in real income since the start of the war from the prices of corn and wheat alone.

It is not just the poorest at risk, but many considered 'non-poor' are at risk of slipping into this category amidst worsening conditions and without safety nets or social provisions, the number in poverty will only increase. For example, this impacts farmers, especially small-scale ones, as rising fertilizer prices means it can now be more expensive than the grains being sold making business unprofitable. The livelihoods of over two billion small producers, farm laborers, rural workers and their families are therefore deemed at risk as they are likely to struggle to afford a healthy diet due to a shortage of jobs and rising prices. Those particularly at risk are informal workers, micro-entrepreneurs and unskilled workers who have little to fall back on

3.2. Sub-Saharan Africa is the region most at risk but there will be a global effect

Looking at the impact regionally, it is estimated in Africa that 58 million people living marginally above the poverty line are vulnerable due to the effects of the war in Ukraine. Sub-Saharan Africa is particularly at risk and is the region with the highest countries facing the 'perfect storm' where poverty, energy, and financial issues all will have a dramatic effect. Reportedly half of the region's population are at risk to all three factors. Debt is an issue for governments and citizens across the region with a high risk of debt distress expected if no external support is provided. Specifically, in East Africa severe drought means severe famine could be on the way with 14 million estimated to be on the verge of starvation by the WFP. This could rise to over 20 million if no urgent action is taken. Furthermore, in the Sahel food security is at its highest level since 2014 with up to 18 million facing food security issues. In total almost 60 million additional people of sub-Saharan Africa are anticipated to fall into poverty this year alone.

Figure 3: Food shortages likely to create famine like conditions in regions across the world



Source: Vatican news

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The Middle East and North Africa (MENA) region is particularly exposed to the energy and finance dimensions. Firstly, the war has caused fuel prices to rise hugely, which has had a significant impact despite the abundance of energy firms in the region. Furthermore, food prices have had an impact with the region dependent on Russia and Ukraine's wheat, corn and sunflower oil, Egypt for example imports 80% of its wheat. As a result, extreme poverty could rise by 2.8 million people with Syrian refugees particularly hard hit with minimal safety nets to help mitigate the rising costs.

Elsewhere in Asia effects will also be felt. In South Asia approximately half a billion people are at risk from food and financial dimension of the crisis with rice a staple in regional cuisine. Furthermore, heatwaves due to climate change have exacerbated crop issues and there is a very real risk of food shortages. In East Asia, the largest countries are not as exposed as the smaller ones although rising prices will still impact the domestic economies. Smaller countries particularly developing states in the Pacific will feel the effects worst off with total extreme poverty expected to increase by 2.5 million in the region and poverty by 8.5 million.

Meanwhile in Latin America and the Caribbean the larger countries will also be less exposed than the smaller ones, but 19 countries are at risk of all three (energy, food, finance) factors, the second largest number after sub-Saharan Africa. In Central America, prices are significantly higher than the five-year average with staples such as maize rising significantly exposing 13 million people to food security issues.

4. Energy prices have soared creating an energy crisis

A key global concern that has emerged from the Ukraine crisis is the rising energy prices. Although touched upon previously, this section will look specifically how this will have an effect globally, particularly in Europe. The war in Ukraine has impacted energy prices due to sanctions on Russia and the dependence, particularly in Europe, on Russian gas as an energy source. Reportedly prices are expected to rise globally in fossil fuels by 50% in 2022 compared to 2021. Going forward, International Crisis Group has argued that there needs to be a focus on renewables in order to help avoid dependence on Russia, in addition to the obvious environmental benefits.

4.1. Europe's dependency on Russian gas has created domestic crises amidst rising costs

These effects have been felt in Europe particularly. The dependence on Russian natural gas has created hugely rising costs with prices of natural gas rising by 1,000% since 2020. Although not all countries depend on Russia for gas, limited supply leads to countries seeking to search from other sources which subsequently creates greater competition and drives prices up. Furthermore, just this week Moscow had initially halted supplies through the Nord stream 1 pipeline due to maintenance issues, but then stated that flows would not be resumed until sanctions are lifted. Kremlin spokesperson, Dmitry Peskov, blamed issues with supplies on these sanctions demonstrating the new strategy to force the EU to lift sanctions. This has caused further spikes in price with the price of gas now trading at the equivalent of over \$1,000 dollars a barrel for oil, an astronomical sum. Furthermore, Putin has argued that sanctions are crippling the global economy by suggesting you cannot isolate Russia as he shows no new signs of ending the war in Ukraine.

This has left European governments with domestic crises where they're forced to either help its population financially to afford rising energy costs or plunge the economy into recession with consumers unable to spend freely due to rising everyday costs. Both scenarios will generate further inflation which is already crippling households across the continent. Going forward the amount of money countries will be able to give to Ukraine to support the war may also be brought into question. In the US, midterm elections could see a reduction in aid which may lead to the EU having to boost finances or perhaps follow suit which would cripple Ukraine and hand victory to Russia. The coming months in Europe may therefore be critical in the coming months to the outcome of the wars.

4.1.1. The UK has particularly felt the impact on rising prices creating cost of living crisis

In the UK, the rising energy costs have been particularly high. The crisis stems from Europe's dependency on Russia for energy supplies causing utility providers to up their prices. While the UK does not depend on Russian gas, its connection by pipeline to the European market, which previously imported 40% from Russia, has had ramifications. The need to diversify the continent's energy supply has never been more evident. This must be part of future energy policies across the continent. Analysis from Cornwall Insight claims energy prices will rise significantly more than predicted from next month. From January 2023, the consultancy anticipates the average household monthly cost for to rise to GBP355 (\$407) from GBP165 (\$189) currently, which is already high, whilst April's cap now expected to hit GBP5,341 (\$6,271), a 20.6% increase on the most recent forecast of GBP4,427 (\$5,198).

Octopus energy founder, Greg Jackson, told the BBC that the current package needs to be improved after these new forecasts with the current GBP16 billion (\$18.3 billion) packages now "not sufficient". Calls for a windfall tax on energy firms has been proposed but new prime minister Liz Truss has argued against this suggesting it will put firms off investing in Britain. Instead, she is proposing a package to freeze household gas and electricity prices at around GBP2,500 (\$2,861) based on the current cap of GBP1,971 (\$2,256), which is expected to cost the government GBP100 billion (\$114 billion).

Figure 4: Prime minister, Liz Truss, has declared on freeze on energy costs but scepticism remains



Source: BBC

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However, this will still see a huge annual rise in costs for average households in what leader of the opposition, Keir Starmer, labelled leaving the consumer to foot the bill whilst fossil fuel companies continue to make record breaking multi-million-pound profits. It is likely to be a long hard winter for many in the country and this may lead to questions over the government.

When compared to France, it is clear how ineffective the UK government have been. When looking at the approach compared to other countries the mishandling of the crisis is evident. In France, there was a 'tariff shield' put in place by the government in January 2022 to limit the increase in electricity bills for individuals and government. This cap is limited to a 4% annual increase. Wholesale gas prices were also frozen to October 2021 levels, despite the cost of wholesale national gas rising by 38%. As a result, consumers have been largely protected from external events.

5. Appendix

5.1. Abbreviations and acronyms

B2B – Business to Business

B2C – Business to Consumer

5.2. Sources

US News

<https://www.usnews.com/news/world-report/articles/2022-08-31/how-russian-corruption-is-foiling-putins-army-in-ukraine>

Al Jazeera

<https://www.aljazeera.com/news/2022/3/2/russian-military-says-has-control-of-kherson-in-southern-ukraine>

BBC

<https://www.bbc.com/news/business-62800390>

Vatican News

<https://www.vaticannews.va/en/world/news/2022-05/ukraine-war-human-rights-watch-imports-wheat-hunger-poverty.html>

5.3. Further reading

Ukraine Conflict: Executive Briefing – Thematic Analysis published by MarketLine

Energy Consumption – Europe – Industry Profile published by MarketLine

Energy Consumption – Global – Industry Profile published by MarketLine

6. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

7. About MarketLine

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