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Ukrainian Invasion Adds to Chaos for Global Supply Chains

Russia's military incursion is severing key supply chains and setting off a scramble among global companies to comply with new sanctions.

By Ana Swanson

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WASHINGTON — The Russian invasion of Ukraine has rattled global supply chains that are still in disarray from the pandemic, adding to surging costs, prolonged deliveries and other challenges for companies trying to move goods around the world.

The clash in Ukraine, a large country at the nexus of Europe and Asia, has caused some flights to be canceled or rerouted, putting pressure on cargo capacity and raising concerns about further supply chain disruptions. It is putting at risk global supplies of products like platinum, aluminum, sunflower oil and steel, and shuttering factories in Europe, Ukraine and Russia. And it has sent energy prices soaring, further raising shipping costs.

The conflict is also setting 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.

The new challenges follow more than two years of disruptions, delays and higher prices for beleaguered companies that use global supply chains to move products around the world. And while the economic implications of the war and sweeping sanctions on Russia are not yet clear, many industries are bracing for a bad situation to get worse.

“Global supply chains are already hurting and stressed because of the pandemic,” said Laura Rabinowitz, a trade lawyer at Greenberg Traurig. She said the effects would vary for specific industries and depend on the length of the invasion, but the impacts would be magnified because of an already-vulnerable supply chain.

“There's still tremendous port congestion in the United States. Freight costs are very high. Factory closures in Asia are still an issue,” she said.

Companies with complex global supply chains, like automakers, are already feeling the effects. Volkswagen said Tuesday that shortages of parts would force it to slow production at its main factory in Wolfsburg and several other German plants, while BMW said it would curtail production at facilities in Germany, Austria and Britain.

Automakers could see shortages of other key materials. Ukraine and Russia are both substantial sources for palladium and platinum, used in catalytic converters, as well as aluminum, steel and chrome.

Semiconductor manufacturers are warily eyeing global stocks of neon, xenon and palladium, necessary to manufacture their products. Makers of potato chips and cosmetics could face shortages of sunflower oil, the bulk of which is produced in Russia and Ukraine.

And if the conflict is prolonged, it could threaten the summer wheat harvest, which flows into bread, pasta and packaged food for vast numbers of people, especially in Europe, North Africa and the Middle East. Food prices have already skyrocketed because of disruptions in the global supply chain, increasing the risk of social unrest in poorer countries.

On Tuesday, the global shipping giant Maersk announced that it would temporarily suspend all shipments to and from Russia by ocean, air and rail, with the exception of food and medicine. Ocean Network Express, Hapag-Lloyd and MSC, the world's other major ocean carriers, have announced similar suspensions.

Russia accounts for about a fifth of the global trade in natural gas, and both Russia and Ukraine are major exporters of wheat, barley, corn and fertilizer.

"The war just makes the worldwide situation for commodities more dire," said Christopher F. Graham, a partner at White and Williams.

Jennifer McKeown, the head of global economics service at Capital Economics, said the global economy appeared relatively insulated from the conflict. But she said shortages of materials like palladium and xenon, used in semiconductor and auto production, could add to current difficulties for those industries. Semiconductor shortages have halted production at car plants and other facilities, fueling price increases and weighing on sales.

"That could add to the shortages that we're already seeing, exacerbate those shortages, and end up causing further damage to global growth," she said.

International companies are also trying to comply with sweeping financial sanctions and export controls imposed by Europe, the United States and a number of other countries that have clamped down on flows of goods and money in and out of Russia.

In just a few days, Western governments moved to exclude certain Russian banks from using the SWIFT messaging system, limit the Russian central bank's ability to prop up the ruble, cut off shipments of high-tech goods and freeze the global assets of Russian oligarchs.

The Biden administration said the technology restrictions alone would stop about a fifth of Russian imports. But the impact on trade from the financial curbs is likely to be even larger, cutting off Russia's imports from and exports to nearly all of its major trading partners, said Eswar Prasad, a professor of trade policy at Cornell University.

“Even when trade flows may take place directly between Russia and its trading partners, the reality is that payments often have to go through a Western-dominated financial system, and usually have to go through a Western currency,” he said.

In a statement on Saturday, the president of the European Commission, Ursula von der Leyen, said that Europe and its allies were “resolved to continue imposing massive costs on Russia” and that disconnecting Russian banks from SWIFT would also halt Russian trade.

“Cutting banks off will stop them from conducting most of their financial transactions worldwide and effectively block Russian exports and imports,” she said.

The economic consequences of these moves are not yet entirely clear. Russia accounts for less than 2 percent of global domestic product, so the implications for other countries may be somewhat limited.

The departures board displayed flight cancellations at Sheremetyevo Airport in Moscow on Monday. Sergey Ponomarev for The New York Times

But for the Russian government and the economy, both of which are heavily dependent on trade to generate revenue, the impact could be catastrophic. Capitol Economics has estimated Russian gross domestic product could contract by 5 percent this year, a change that in isolation would knock just 0.2 percentage points off global growth.

Caroline Bain, chief commodities economist at Capitol Economics, said financial sanctions were halting the trade of metals and agricultural commodities, likely exacerbating strains in global supply chains.

The Russia-Ukraine War and the Global Economy

Rising concerns. Russia's attack on Ukraine has started reverberating across the globe, adding to the stock market's woes and spooking investors. The conflict could cause dizzying spikes in prices for energy and food, and severely affect various countries and industries.

Credit Suisse and Société Generale have suspended financing for commodity trading with Russia, as has the Industrial and Commercial Bank of China, she said.

"There could be quite a bit of self-sanctioning going on. Obviously people are quite nervous about taking up contracts on Russian commodities when everything is so uncertain," Ms. Bain said. While governments haven't released many specifics on what kind of trades will be allowed, she added, "our understanding is that all trade apart from energy is being targeted."

The conflict may also ripple through some industries by disrupting the flight networks that companies use to deliver goods globally.

Shipping ports around the Black Sea have closed, halting dozens of cargo vessels. But the more immediate effects are likely to be felt in air shipments between Asia and Europe, which now have to divert around Russian airspace, said Eytan Buchman, the chief marketing officer of the Freightos Group, a digital freight booking platform.

Western Europe and Russia have imposed reciprocal flight bans, bringing travel between the two regions to a halt. On Monday, Jen Psaki, the White House press secretary, said a U.S. ban on Russian flights was "not off the table."

As shipping planes divert around Russian airspace, they will take longer and spend more on fuel, and they may opt for smaller and lighter loads as a result, Mr. Buchman said. "Especially on the air cargo side, it will have a big impact."

Already, flights along major trade routes have slowed somewhat, according to an analysis by Flexport, a logistics company. Flights between New Delhi and London, for example, were about 8 percent longer on average between Wednesday and Sunday than similar flights three months prior, data from Flightradar24, an aviation tracking firm, showed.

Longer trip times could create cascading delays and backlogs for industries that depend on airfreight, including electronics, semiconductors and fast fashion.

So far, though, the effects of the flight bans have been limited. For passenger airlines, there were already relatively few tourists traveling between Europe and Asia, where many countries have strict coronavirus policies.

Cargo carriers are nimble, said John Grant, a senior consultant with OAG, an aviation advisory and data firm. “They can move with demand, so I suspect there will be limited immediate impact.”

Niraj Chokshi, Jack Ewing and Jeanna Smialek contributed reporting.