



Ukraine / Russia Conflict: Procurement Implications

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Context

This live document summaries the key procurement implications brought about as a consequence of the deplorable situation within Ukraine. The primary focus is the impact on the Collaborative Procurement Work Programme but is supplemented by wider contextual issues.

COVID-19, Brexit, extreme weather, and price instability have all presented significant challenges to supply chains. The ongoing conflict in Ukraine applies additional supply chain challenges to already strained supply chains.

It is estimated that the conflict will cost the global economy at least \$400bn (£300bn) this year, according to [expert projections](#). Global growth is set to take a significant hit but European countries will be the most exposed to the economic impact of the Russian invasion, analysis by the Economist Intelligence Unit (EIU) found.

Gas and Electricity

The current situation facing the UK is not a question of security of gas supply, but high gas prices set by international markets. The UK was already in the midst of a global energy crisis, before the Ukraine and Russia conflict, where prices had reached record market highs.

Unlike other countries in Europe, the UK is in no way dependent on the Russian gas supply. Our single largest source of gas is from the UK Continental Shelf and the vast majority of imports come from reliable suppliers such as Norway. There are no gas pipelines directly linking the UK with Russia and imports from Russia made up less than 4% of the total UK gas supply in 2021.

Both Corona Energy and EDF have confirmed that they have no trading or any other relationship with Gazprom or any of the Russian oil and gas producers.

We have been working with DRG and have developed a 2-year purchasing strategy to ensure any risk exposure is minimised. Monthly reports and budget forecast figures are continuing to be provided to DRG, CNE and energy managers.

Liquid Fuels

Petrol/diesel are currently seeing a huge price hike, hitting historic highs. These prices were already seeing increases before the Ukraine/Russia situation; however, these have continued to rise due to concerns around supply and increases in the global cost of oil.

The market is currently experiencing severe supply chain issues, however, YourNRG's suppliers/importers have guaranteed that they will be able to deliver contracted volumes to NEPO Customers, provided that customers stick to their usual buying patterns and avoid any panic buying. Any unusual ordering activity will be questioned and refused by the supplier, as this could have an impact on supplies to other NEPO Customers. YourNRG suppliers/importers are avoiding any supply from Russia, hence the worry around supply shortages.

The pricing continues to be priced on a weekly mechanism, however, there may be the need to move to a daily mechanism if the supply situation worsens.

Food

Russia and Ukraine produce 29% of global wheat supplies. Ukraine has some of the most fertile soil in Europe and it is the third-largest exporter of corn. It is also a primary exporter of sunflower, sunflower oil, barley, corn, potatoes, and rice. 70% of the global supply of sunflower seeds (oil) is produced by Ukraine and shipments have now stopped. The alternative is rapeseed, which is now rapidly escalating in cost.

Russia and Ukraine are also significant producers of the world's fertiliser needs.

There is a poultry crisis in the UK and Europe, largely driven by increases in production costs (feed, energy and processing items). Ukraine is one of the largest exporters of Chicken, suppliers are currently struggling to get enough live birds on the open market to fulfil their commitments. Other suppliers are trying to fill the void by buying available birds in Eastern Europe, at an increased price.



Working on the assumption of disrupted supplies of understandable resistance within the west to procure from many such sources, a dramatic and sustained impact on both the cost, availability and yield of a plethora of items is expected. The impact will be deep-rooted and will be felt across the short, medium and long term.

Distribution costs at a local, national and international level will rise in line with the comments above on Liquid Fuels. Paired with the shortages of key skilled workers and manual workers, the cost-of-living crisis - the pressure on food suppliers and the hospitality sector is widely expected to be profound.

Fleet

Russia accounts for 40% of the production of palladium which has been in deficit long before the Russia-Ukraine conflict. The risk to palladium is becoming too costly for the automotive industry, and the metal's use in catalytic converters forces change to another more cost-effective metal such as platinum. Around 25% of palladium can routinely be substituted for platinum in diesel catalytic converters, according to the USGS, with that proportion potentially climbing to as much as 50% in some applications. But Russia is also the world's second-largest producer of platinum.

Ukraine is the world's largest neon exporter and that's essential to chip production so deeper semi-conductor issues are forecasted. Further semi-conductor shortages used for car and electronics production are forecasted. Several car factories have shut down in Germany as semiconductor shortages are exacerbated further. General parts shortages have begun to impact vehicle production schedules, with wiring loom shortages being particularly caused by the conflict.

ICT

Cryoin is a Ukrainian company that makes neon gas, which is used to power lasers that etch patterns into computer chips. It supplies companies in Europe, Japan, Korea, China, and Taiwan, but most of its neon is shipped to the US. Disruption to Cryoin's supply could be being felt around the world as the production was [halted](#).

Russian aggression in Ukraine is making the industry nervous that these shortages could be intensified by a repeat of 2014 when prices for neon gas spiked by 600 per cent. Ukraine produces around 70% of global neon gas exports.

We must also be mindful of potential profiteering such as those incidents widely reported and being attributed to Brexit and the pandemic. Even in these uncertain times, not all areas will be affected equally.

Disaster Recovery

The conflict and its evolution may have ramifications above, or hopefully below, our current comprehension. Supply chain disruption, supplier viability and demand changes are currently local, national and international pressures. Further escalation and the consequence of the UK, with NATO being drawn further into the conflict would bring more fundamental and pertinent issues. Cognisance of current DR plans and refreshing such plans where applicable is good practice in many areas.

Cyber Security

The National Cyber Security Centre has heightened the threat level of targeted cyber-attacks on UK organisations.

NEPO are encouraging and working with our suppliers to adhere to the updated protection [guidance](#) produced as a result. We are all reminded to remain diligent when it comes to day-to-day activities. Any messages, attachments, links and/or download requests should be handled with caution.

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