



Implications of Russia-Ukraine Conflict on UAE

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Dubai Chamber of Commerce and Industry

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OUTLINE

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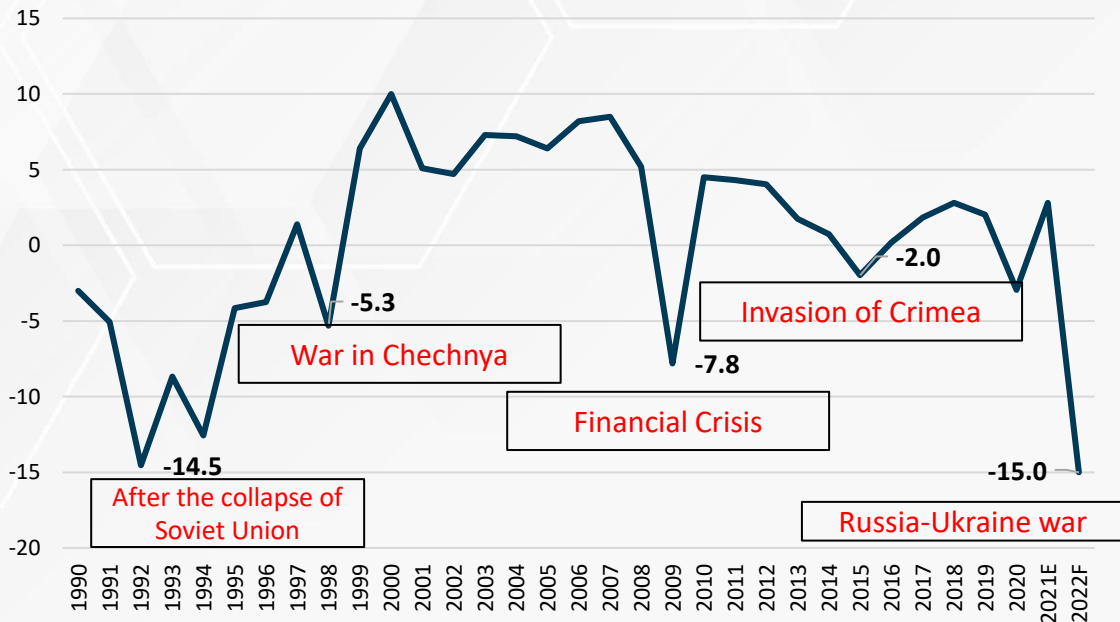
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Macroeconomic Impact

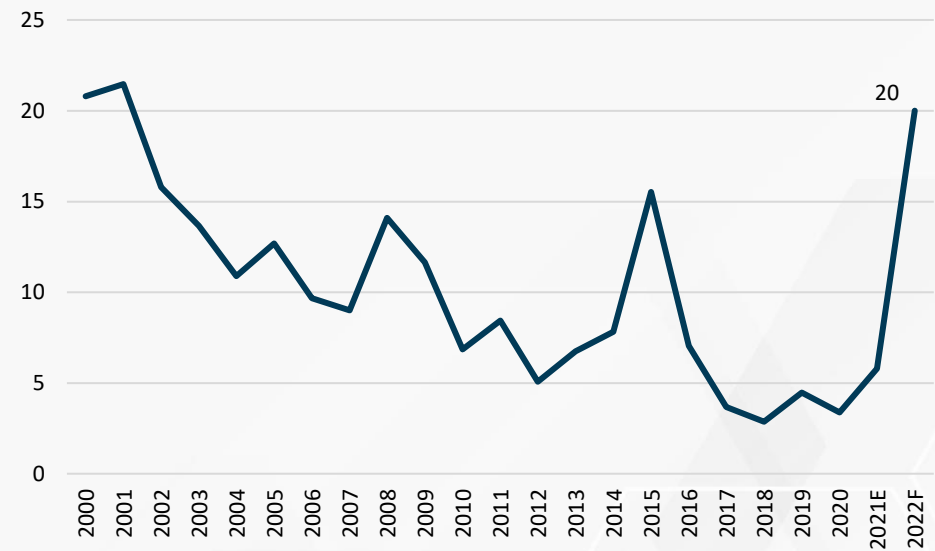
GDP and Inflation

According to the Institute of International Finance, in 2022 Russia's GDP will contract by 15% due to the severity of sanctions imposed over its invasion of Ukraine, worse than after the collapse of the Soviet Union and Financial Crisis. Moreover, inflation in Russia is forecasted to accelerate to 20% according to an independent survey of analysts requested by the Russian Central Bank, shown on March 10. High inflation will reduce consumption and imports in Russia and may affect UAE's exports to Russia.

Real GDP Growth of Russia (Y-o-Y, %)



Inflation in Russia consumer price (% annual)

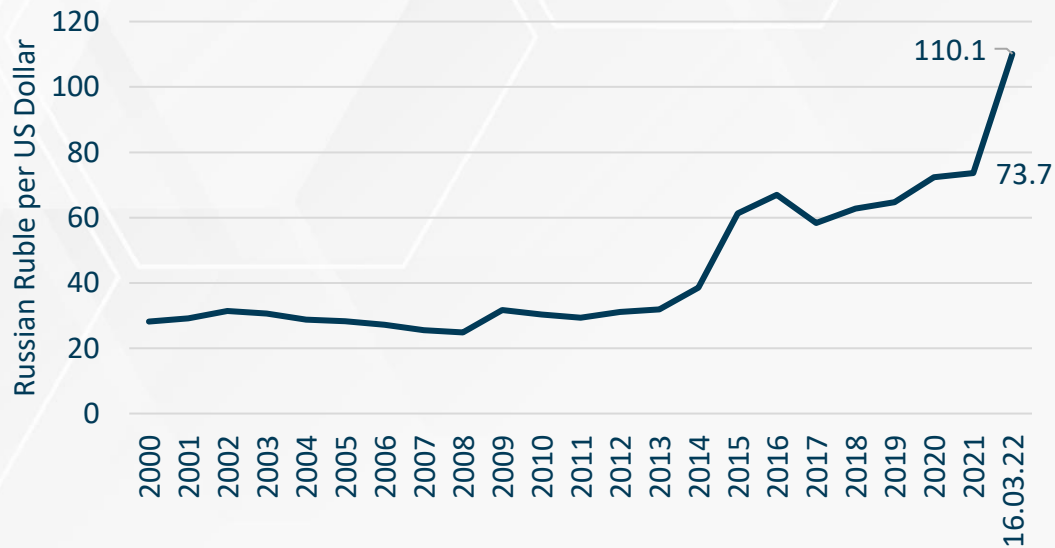


Macroeconomic Impact

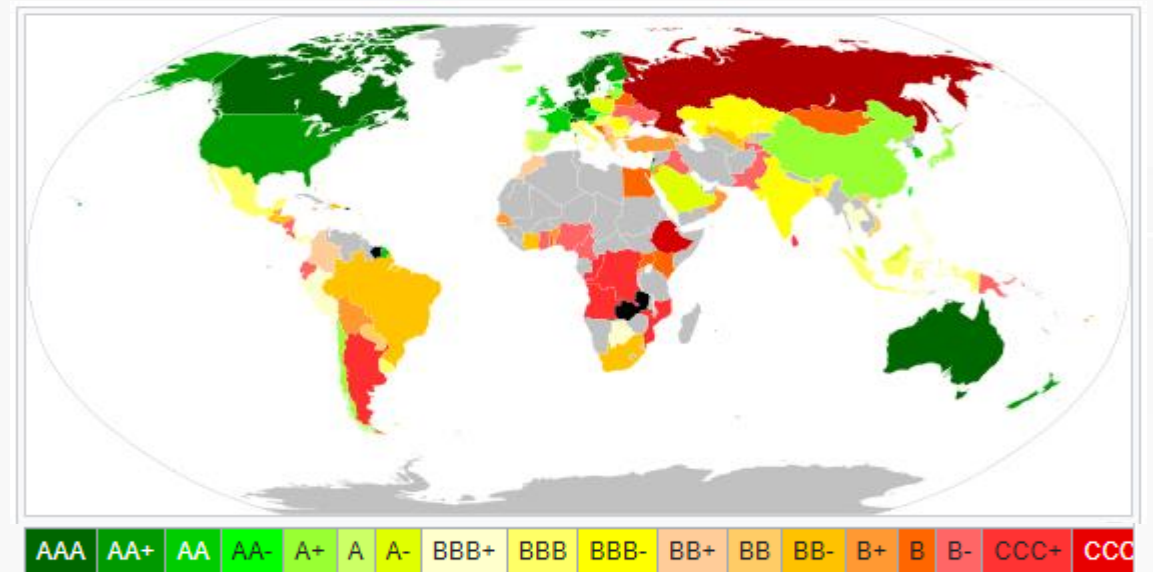
Impact on Exchange Rate and Sovereign Credit Rating

Due to the war, the Russian ruble has depreciated to a record low against the USD (1USD=110RUB). Depreciation of the ruble will make UAE's exported products to Russia expensive and will reduce the number of visitors from Russia to UAE. On March 3, S&P lowered Russia's foreign currency sovereign credit ratings to 'CCC-/C' from 'BB+/B' and the country's local currency ratings to 'CCC-/C' from 'BBB-/A-3.' Moreover, sovereign ratings remain on CreditWatch negative. The downgrade will increase the risk of default of Russian financial institutions and may indirectly impact UAE's banks.

Exchange Rate
(Russian Ruble per USD)



Sovereign Credit Rating of Russia vs. other countries
(March 2022)



Macroeconomic Impact

Impact on Global Commodity Prices and Inflation

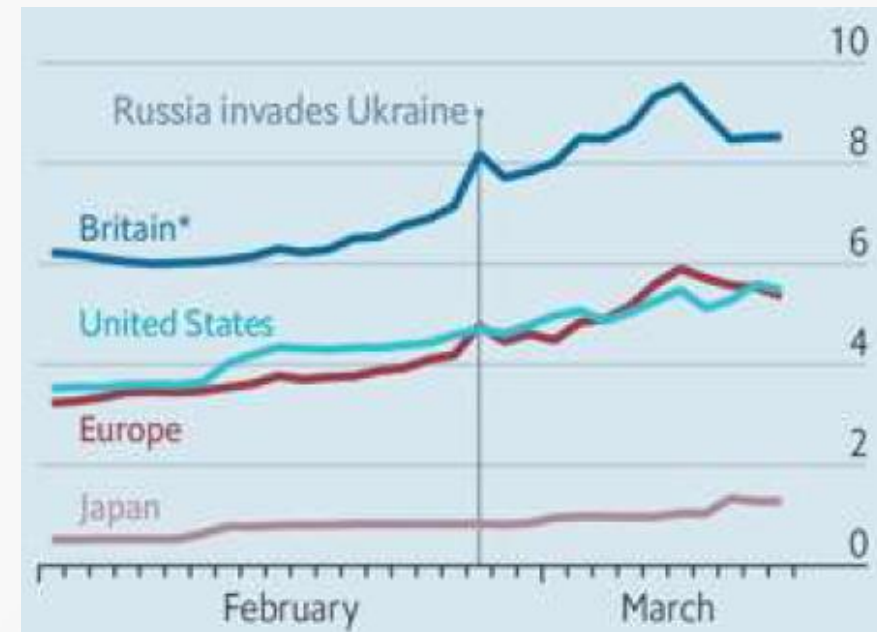
Since Russia invaded Ukraine, concerns about supply chain disruptions have pushed up prices of several commodities in the world. Energy and commodity prices including wheat and other grains have surged, adding to inflationary pressures from supply chain disruptions and the rebound from the pandemic. In addition, there will be also expected growth in the price of fertilizers and sunflower oil where Russia and Ukraine have a large share in global exports. The war has also impacted the inflation expectations of many countries. In the USA the expectation for inflation over 2022 as a whole to average 7%, up from its previous forecast of 6.3%. In the EU, inflation this year will average to 6%, well above its previous forecast of 4.4%. All this inflation pressure will impact also prices in UAE.

Commodity price (avg. 2021 vs. March 16)

	Avg. 2021	16-March, 2022	Growth
Crude oil, WTI (\$/bbl)	68.0	95.89	41%
Natural gas, EU (\$/mmbtu)	16.1	102.6	537%
Maize (\$/mt)	259.5	748	188%
Wheat, US HRW (\$/mt)	315.2	11,23.4	256%
Aluminum (\$/mt)	2,472.8	3,445	39%
Nickel (\$/mt)	18,465.0	41,979.5	127%
Gold (\$/troy oz)	1,799.6	1,922	7%

Inflation expectations

(retail price inflation, one-year swap rate, 2022)



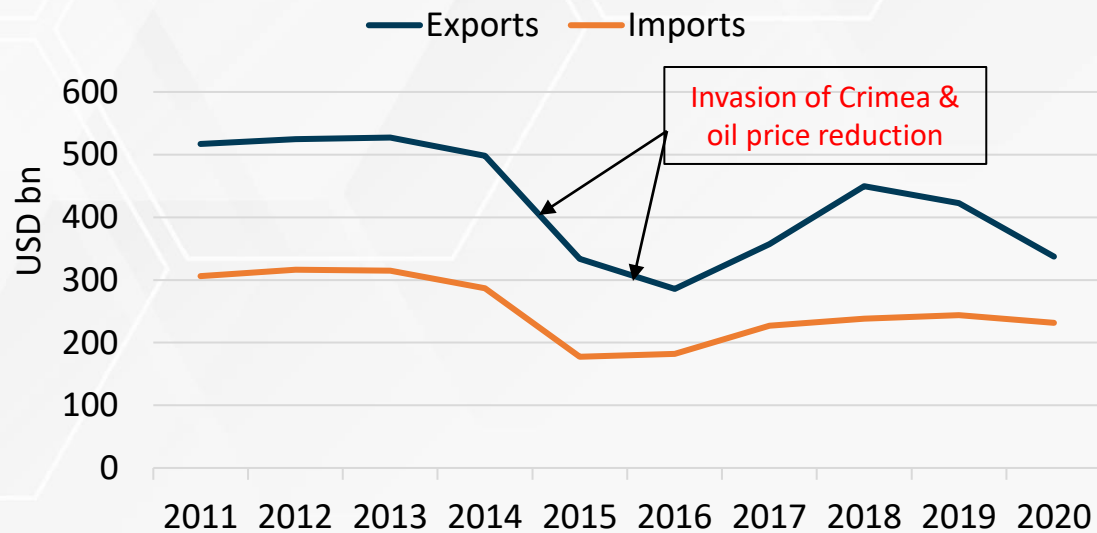
Impact on Trade

Russia Trade with the World

In 2020, Russia's ranking in global exports and imports was 16th and 22nd, respectively. Moreover, between 2011 and 2020 the average share of Russia in world exports and imports was 2.4% and 1.4%, respectively. Russia's trade with the world decreased during 2014-2016 after the invasion of Crimea and reduction in oil price, and since then never returned back to 2011-2014 levels. Russia is one of the top 10 exporters in 17 product groups and the reduction of exports of these products may impact the related sectors of the world as well as UAE.

Russia Trade with the World

(USD bn, 2011-2020)



Russia's ranking in world exports, 2020

	Share in world exports (%)	Ranking in world exports
Nickel and articles thereof	12.9	1
Fertilisers	12.6	1
Mineral fuels and oils	9.5	3
Cereals	7.8	3
Wood and articles of wood	6.1	4
Iron and steel	4.9	5
Other base metals	5.1	5
Other commodities	7.2	5
Aluminium and articles thereof	3.3	6
Precious stones and metals	4.2	6
Seafood products	4.2	6
Animal or vegetable fats and oil	3.8	7
Explosives, matches etc.	3.5	7
Copper and articles thereof	3.8	8
Pulp of wood or paper waste	2.7	9
Ores, slag and ash	1.7	10
Lead and articles thereof	2.8	10

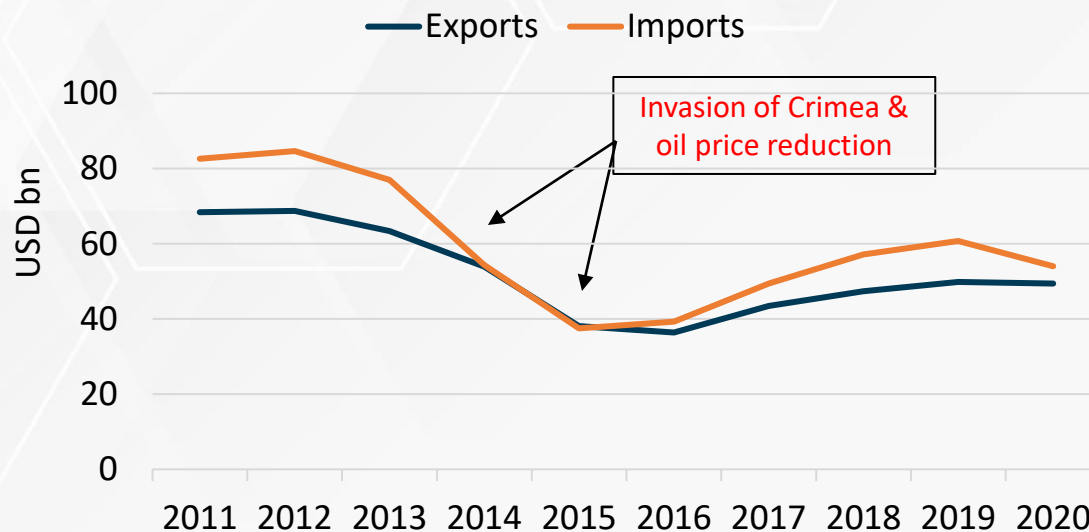
Impact on Trade

Ukraine Trade with the World

In 2020, Ukraine share in both global exports and imports was around 0.3%. The annexation of Crimea and reduction in oil price also impacted negatively Ukraine's trade in 2015. According to Trademap, only in 7 product groups Ukraine was among the top 10 exporting countries in the world and negative impact can be mainly to the food sector of many countries.

Ukraine Trade with the World

(USD bn, 2011-2021)



Ukraine's ranking in world exports, 2020

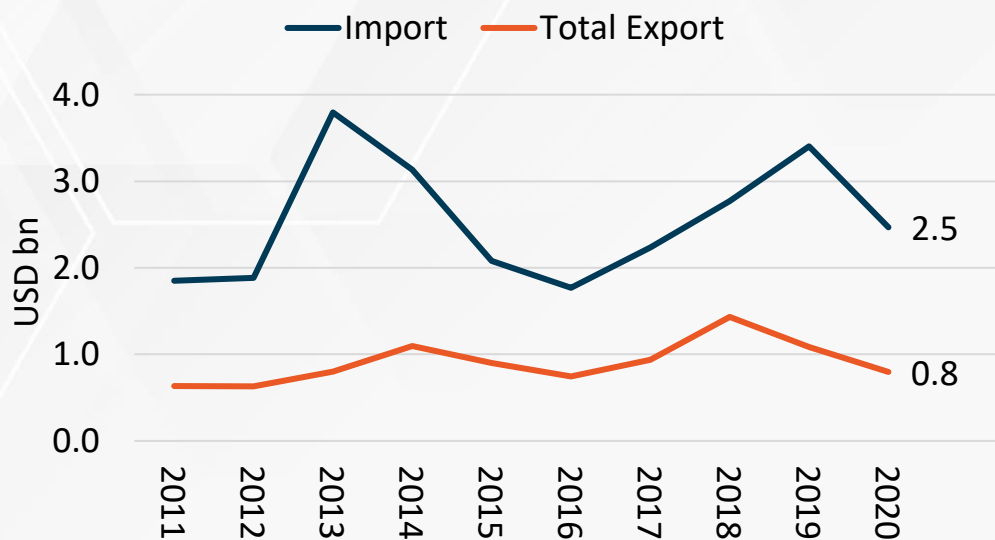
	Share in world exports (%)	Ranking in world exports
Cereals	7.9	2
Animal or vegetable fats and oils	5.6	3
Vegetable plaiting materials	3.3	6
Musical instruments	4.6	6
Oil seeds and oleaginous fruits	1.7	9
Ores, slag and ash	1.8	9

Impact on Trade

UAE Trade with Russia and Ukraine

Russia and Ukraine do not have a significant share in UAE's total trade. In particular, between 2011 and 2020 the average share of Russia and Ukraine in UAE's total imports and total exports was 1% and 0.6%, respectively. However, there are some products such as cereals, animal/vegetable oil, cocoa preparations and other base metal, where the share of Russia and Ukraine in UAE's trade is more than 12%. The recent war might impact the UAE's trade of these products.

UAE Trade with Russia and Ukraine
(USD bn, 2011-2021)



Russia's and Ukraine's share in UAE trade, 2020 (top 5 products with the largest share in UAE trade)

Imported products from Russia and Ukraine	UAE Imports from Russia and Ukraine (USD mn)	Share of Russia and Ukraine in UAE imports
Cereals	245	21%
Animal/vegetable fats & oils	67	14%
Cocoa, cocoa preparations	72	13%
Other base metals	6	13%
Iron & steel	317	9%

Exported products to Russia and Ukraine	UAE Total Exports to Russia and Ukraine (USD mn)	Share of Russia and Ukraine in UAE's total exports
Other base metals	0.7	12%
Musical instruments	4.3	9%
Special yarns, wedding etc.	12.0	9%
Cereals	11.9	9%
Inorganic chemicals	14.3	7%

Impact on Trade

Diversification of UAE's re-exports and exports

Russia and Ukraine are one the largest export and re-export partners of UAE in below mentioned products and the war may reduce UAE's exports of these products. Therefore, it is recommended for UAE companies to diversify their exports to the countries shown in the last column of each table.

UAE re-exports to Russia and Ukraine, 2020

(diversification for UAE's top re-exported and high share products)

Product name	UAE re-exports to RUS+UKR	Product share in total UAE re-export to RUS+UKR	RUS+UKR share in UAE re-export to world	Countries to diversify UAE's re-exports
Other aircraft (e.g. helicopters, aeroplanes)	\$7.9 mn	2%	79%	China, South Africa, Kenya, Indonesia
Other vessels (e.g. warships & lifeboats)	\$7.2 mn	2%	66%	India, Oman, Cyprus, China, Malta
Wadding of textile materials & articles of it	\$5.3 mn	1%	33%	Oman, Kuwait, China, Iraq, Jordan
Other plastic plates, sheets, film, foil & strip	\$5.0 mn	1%	9%	Iraq, Turkey, India, Malaysia, Egypt

UAE exports to Russia and Ukraine, 2020

(diversification for UAE's top exported and high share products)

Product name	UAE exports to RUS+UKR	Product share in total UAE export to RUS+UKR	RUS+UKR share in UAE export to world	Countries to diversify UAE's exports
Waste and scrap of precious metal	\$36.1 mn	12%	21%	Germany, Belgium, Japan, UK
Tea, whether or not flavored.	\$26.5 mn	9%	8%	Iraq, Kuwait, Libya, Kyrgyzstan
Machinery for spraying liquids/ powders	\$15.6 mn	5%	11%	USA, Belgium, India, Thailand
Rare-earth metals (e.g. yttrium or scandium)	\$11.5 mn	4%	100%	China, Japan, USA, Turkey, India

Impact on Trade

UAE Export Opportunities to CIS

Russia has significant share in CIS imports of many products from the world. Due to sanctions Russia's exports of these products to CIS will be reduced. UAE traders may use this situation as an opportunity to increase the exports/re-exports to CIS. In particular there is a huge opportunity in below products where CIS imports from world and UAE exports to the world were more \$300 mln and Russia had share of more than 30% and UAE had share between 0-2% in CIS imports from the world.

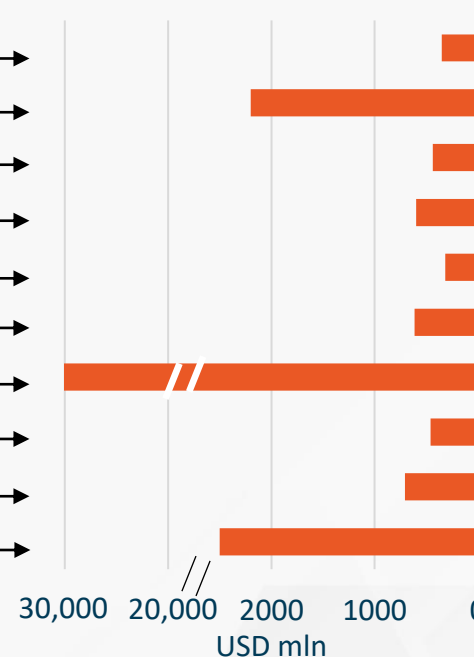
UAE's Export Opportunities to CIS, 2020



CIS Imports from World



UAE Exports to World



Russia Share in CIS Imports

37%
30%
51%
58%
55%
65%
74%
40%
53%
77%

UAE Share in CIS Imports

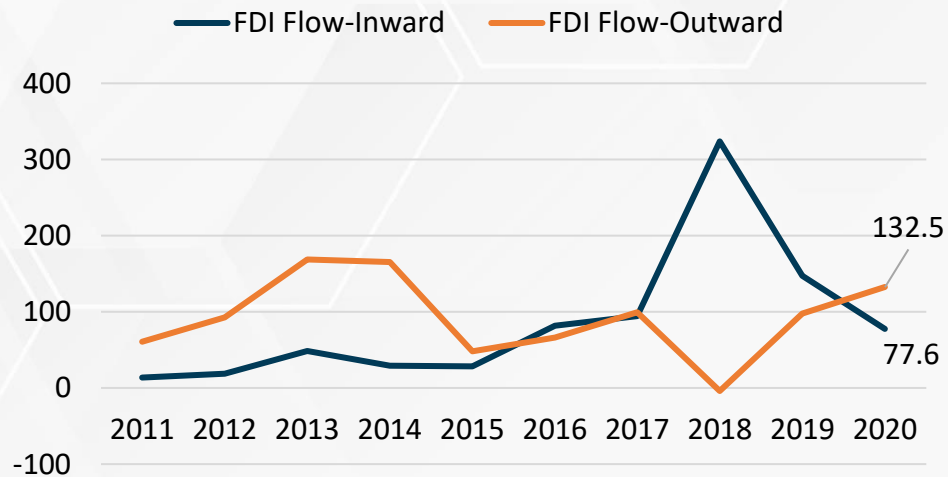
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Impact on Investment

Russia-UAE Bilateral Investment

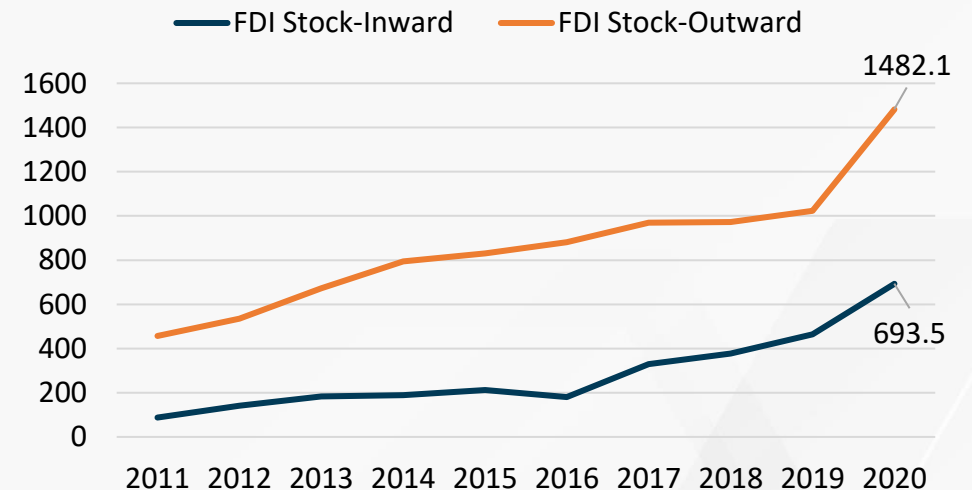
The analyses show that in general Russia's investment in UAE is higher than UAE's investment in Russia. Moreover, the share of Russia in UAE's investment is less than 1%. Current and upcoming sanctions against Russia will impact UAE's FDI Stock in Russia, worth of USD 693 mln and also reduce Russia's FDI flow into UAE, worth of USD 92.7 mln (average, 2011-2020).

Russia's FDI Flow with UAE, USD mln



0.7%	Russia's share in total UAE FDI Flow-Inward in 2020
0.4%	Russia's share in total UAE FDI Flow-Outward in 2020

Russia's FDI Stock with UAE, USD mln



0.9%	Russia's share in total UAE FDI Stock-Inward in 2020
0.3%	Russia's share in total UAE FDI Stock-Outward in 2020

Impact on Investment

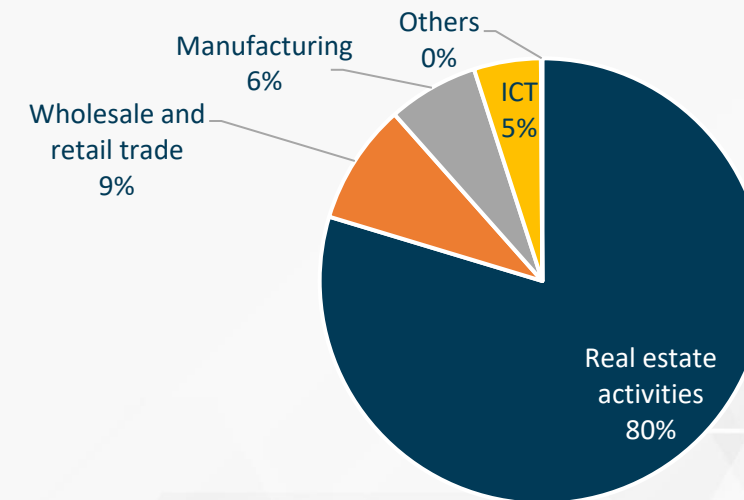
Russia-UAE Bilateral Investment by Sector

Leading UAE companies have significantly invested in the Russian economy over the past many years. One of the biggest investors Mubadala has invested in about 50 companies of Russia. The current sanctions against Russia might impact the financials of these companies. According to the latest available data, Russians mainly invested in the real estate sector of UAE. The economic difficulty in Russia may impact negatively UAE's real estate sector in the long run.

Major UAE Companies investing in Russia by sector

Company Name	Sectors
Emirates Glass	Ports development
Waha Capital	Infrastructure development
Abu Dhabi Investment Company	Glass manufacture
Arabtec Holding	Maritime Transport
DAMAC Properties	Real estate activities
RAKEEN	Aviation
Eagle Hills Properties LLC	Construction
Sahara Telecom	ICT
Mubadala	Exploration for oil and natural gas
Dubai World Group	Air transport of passengers and cargo
Fly Emirates	Investing in the helicopter industry
Tawazun	Investing in petrochemicals Sector
ADNOC	Investing in healthcare Sector

Russia's FDI Stock in UAE by sector, % share, 2016



Impact on Food

Role of Belarus, Russia and Ukraine (BRU) in UAE's Food Security

In 2020, the share of BRU in UAE's F&B imports was 4.1% and none of these countries were among the top UAE's F&B imports from the world. However, there are some products that UAE needs to diversify imports in order to avoid Food Security risks. The risk is the highest in sunflower seed oil because BRU has 77% share in UAE imports and almost 60% share in global exports. Moreover, there are moderate risks in wheat, flax, barley and maize where the share of BRU in world exports and in UAE imports is double-digit. In other below mentioned products, BRU countries do not have a significant share in world exports and there are many countries for UAE to diversify imports.

The share of Belarus, Russia and Ukraine in selected food trade of the world and UAE, 2020

	Share of BRU in world exports	Share of BRU in UAE imports	UAE imports from BRU	Risk Level	Countries/products to diversify imports
Sunflower seed oil	59%	77%	\$66 mn	High	Turkey, Netherlands or replace with canola oil
Wheat & meslin	26%	54%	\$202,607 mn	Medium	USA, Canada, France, India
Linseed (flax)	24%	33%	\$245 mn	Medium	Canada, Kazakhstan, Belgium
Eggs	4%	30%	\$35,798 mn	Low	Netherlands, Germany, Poland, Turkey
Barley	24%	26%	\$24,715 mn	Medium	France, Australia, Canada
Starches; inulin	1%	26%	\$5,269 mn	Low	Thailand, Viet Nam, Germany
Sugar confectionery, without cocoa	4%	24%	\$39,216 mn	Low	Germany, China, Mexico, Belgium
Grain sorghum	1%	23%	\$722 mn	Low	USA, Argentina, Australia
Chocolate & other food with cocoa	4%	15%	\$72,541 mn	Low	Germany, Belgium, Italy
Maize (corn)	15%	12%	\$15,614 mn	Medium	USA, Argentina, Brazil
Total (F&B)	3.7%	4.1%	\$571,983 mn		

	High Food Security Risk		Medium Food Security Risk		Low Food Security Risk
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Impact on Logistics

Impact on freight rates

Restrictive measures on airspace, contractor uncertainty and security concerns are complicating all trade routes going through Russia and Ukraine. The two countries are a key geographical component of the Eurasian Land Bridge. Dubai can play an important logistic hub for air and ocean transportation between Europe and Asia.

Russia-Ukraine War Impact on Rail Transportation, Air and Ocean Freights

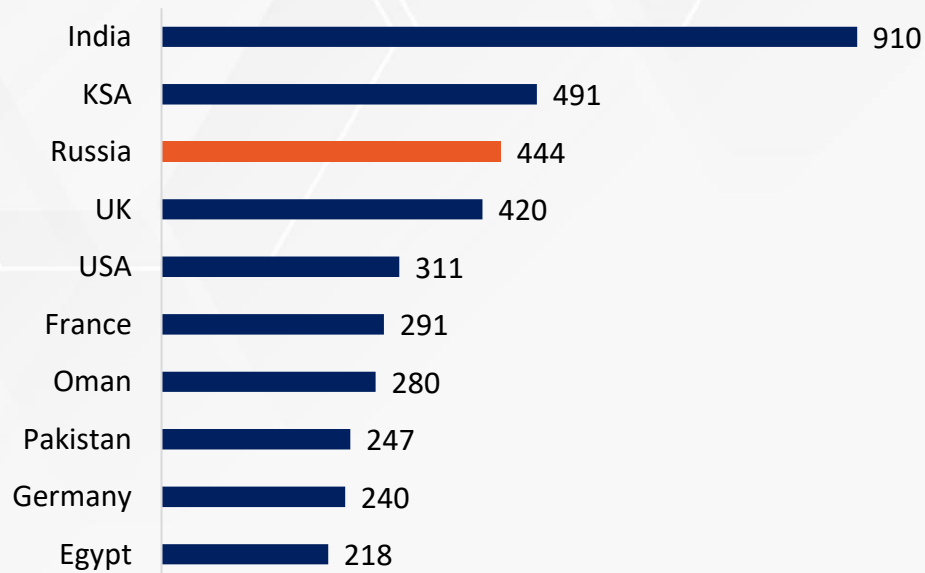
	According to UNCTAD, in 2021, 1.5 million ocean containers of cargo were shipped by rail west from China to Europe. If the volumes currently going by container rail were added to the Asia–Europe ocean freight demand, this would mean a 5% to 8% increase in an already congested trade route.
	Due to the war Russian airspace is closed to 36 countries and vice versa, some freight forwarders mention that it is risky to book overland shipments between Asia and Europe. The war will have a negative impact on global air freight capacity and raise air cargo prices as carriers are forced to take longer routes and pay for expensive fuel.
	Due to higher fuel costs and rerouting efforts, current container shipping carrying capacity is being constrained and the war may lead to even higher freight rates. The disruption has already been felt across smaller tankers, which are key for the Black Sea and Baltic Sea regional oil trade. Black Sea–Med Aframax and Suezmax tanker earnings jumped from about \$10,000 per day on 18 February 2022, to over \$170,000 per day on 25 February 2022.

Impact on Tourism

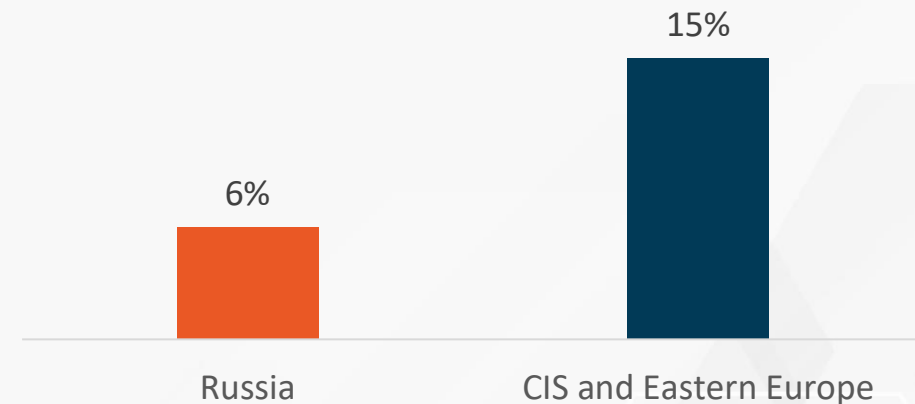
Russia's Role in Dubai's Tourism

In 2021, Dubai welcomed 7.28 million tourists from all over the world and 444,000 visitors came from Russia, ranking 3rd among source markets. Moreover, the share of CIS and Eastern European countries in Dubai's total visitors recorded 15% in 2021. The economies of CIS and Eastern European countries are highly dependent on Russia and the recent Russia-Ukraine conflict will depreciate the currencies of these countries and may have significant negative impact on the number of total visitors in Dubai and reduce visitor spending.

Top 10 Source Markets for Visitors to Dubai (‘000 visitors, 2021)



Share of Russia and CIS and Eastern Europe in Dubai's Total Visitors in 2021



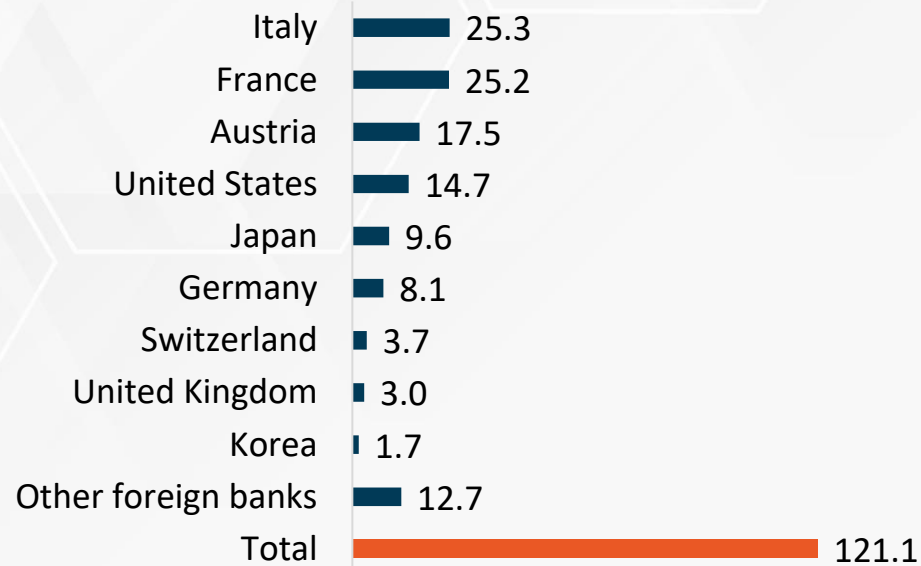
Impact on Finance

Russian and Ukrainian Debts in Foreign Banks

According to Bank for International Settlements, Russian debt in foreign banks is around USD 121 bn, which can create risks to banks outside Russia and create 2008-style liquidity crisis. Italy and France's banks are the most exposed to financial institutions in Russia and each has outstanding claims of about USD 25 bn, while Austria has USD 17.5 bn. Ukraine has relatively low bank debts, but it has USD 60 bn of bond debt which is downgraded to junk status. According to S&P, UAE banks have limited exposure to Russian/Ukrainian banks, but the war might have an indirect impact on UAE banks. Apart from banks, all companies that owed money by Russian and Ukrainian businesses are going to struggle to get repaid, which may also impact UAE businesses.

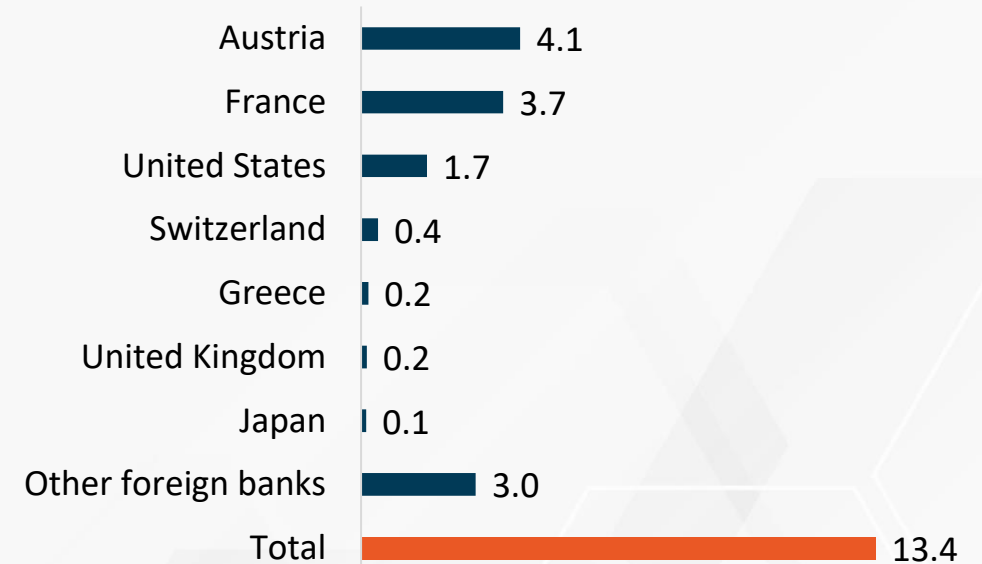
Russian Debt in Foreign Banks

(top countries, USD bn, as of end of September 2021)



Ukrainian Debt in Foreign Banks

(top countries, USD bn, as of end of September 2021)

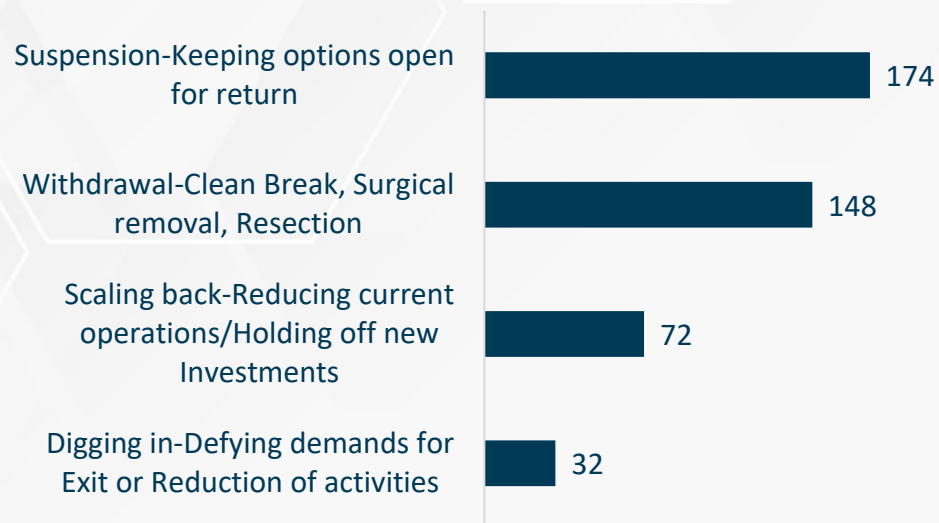


Impact on Business

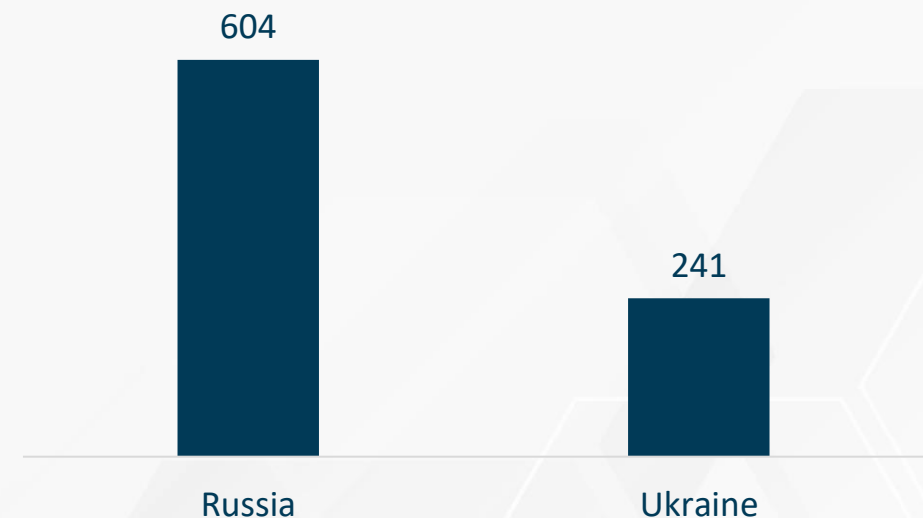
Companies that have left Russia

Hundreds of Western businesses have curtailed or completely stopped operating in Russia since the invasion of Ukraine. Some countries in the Russian neighborhood are planning to attract those companies to be a new hub for CIS countries. Many companies that left Russia already have offices in Dubai serving mainly the Middle East region, however, Dubai may play also an important role in becoming a hub for Western companies to serve CIS region. Furthermore, as per the latest Dubai Chamber data, there are 604 Russian and 241 Ukrainian investors that are holding 100% share or less in companies registered in Dubai. It is expected that with the current sanctions against Russia and the difficult economic situation in Ukraine, many investors may want open their companies in Dubai.

Number of Foreign Companies leaving Russia (as of March 16, 2022)



Number of companies with Russian and Ukrainian investment in Dubai (shareholder, based on DC membership data as of March 16, 2022)



Conclusions

Macro impact

	Macro impact	Trade	Investment
Direct Impact	<ul style="list-style-type: none"> -Higher prices for commodities may accelerate inflation for products imported from Russia/Ukraine to UAE. -The war will create disruption in the supply chain, especially in products that Russia or Ukraine have high global export share. -Depreciation of the Russian ruble will impact UAE exports to Russia. 	<ul style="list-style-type: none"> -The impact on trade is not significant since between 2011 and 2020 the average share of Rus+Ukr in UAE's total imports and total exports was 1% and 0.6%, respectively. -However, in some products such as cereals, animal/vegetable oil, cocoa preparations and other base metal, the share of Russia and Ukraine in UAE's total trade is more than 12%. 	<ul style="list-style-type: none"> -Russia's share in UAE's FDI is less than 1%. The sanctions against Russia may impact UAE's FDI Stock in Russia and also may reduce Russia's FDI flow into UAE. -Currently, many Russian oligarchs are buying properties in UAE to avoid the impact of sanctions, but in the long-run investment in real estate may go down.
Indirect Impact	<ul style="list-style-type: none"> -Russia's contribution to global GDP is just 1.7%, meaning the pain to world economy will not be that significant. -The Russia-Ukraine war will have a significant economic shock to CIS countries, due to the low remittances and trade from Russia and it may indirectly impact UAE. 	<ul style="list-style-type: none"> -Russia has >12% share in global exports of nickel and fertilizer, this may impact the related sectors of the world and also indirectly UAE. -Due to sanctions Russia's exports to CIS may go down and UAE may use this as an opportunity to increase its exports to CIS. The opportunity is high in gold, washing prep., sugar, chocolate, plastics, aluminum and paper 	<ul style="list-style-type: none"> -Russia is one of the biggest investors in CIS. The current situation will reduce the investment in that region and may indirectly impact UAE. -Many FDI to Russia from other countries may come to Dubai.
Recommendations	<ul style="list-style-type: none"> -To avoid price hikes in products imported from Rus/Ukr, help traders/manufactures of UAE to find alternative sources. -Cooperate and communicate with UAE banks/companies regarding the risk of default of Russian companies. 	<ul style="list-style-type: none"> -Diversify imports in strategic food products (e.g. wheat, sunflower oil, maize). -Diversify exports in aircraft, machinery, textile, tea and other products. -Help UAE companies to expand exports to CIS. 	<ul style="list-style-type: none"> -Provide some incentives to reduce long-term impact on real estate. -Dubai can be a new hub for CIS and attract more FDI.

Conclusions

Sectoral impact

	Food	Logistics	Tourism	Finance	Business
Direct Impact	<p>-The Share of Bel-Rus-Ukr in UAE's F&B import was 4.1% in 2020.</p> <p>-The risk is high in imports of sunflower seed oil, wheat, flax, barley and maize where the share of Bel-Rus-Ukr is high in UAE imports.</p>	<p>-Delays in shipments originating from Rus-Ukr and problems in payments for logistics services.</p>	<p>In 2021, 444,000 visitors came from Russia to Dubai, ranking 3rd among source markets and a share of 6%. The recent conflict will reduce the number of visitors from Russia and reduce visitor spending.</p>	<p>-UAE banks have limited exposure to Russian or Ukrainian banks.</p> <p>-UAE companies that owed money by Russian and Ukrainian businesses are going to struggle to get repaid.</p>	<p>Hundreds of Western companies left Russia. It is expected that with the current sanctions against Russia and a difficult economic situation in Ukraine, many investors may want to open their companies in Dubai.</p>
Indirect Impact	<p>-The war might have an indirect impact on the food supply chain of the UAE, in particular in imports manufactured food from other countries.</p> <p>-If Russia occupies South of Ukraine, it will use grain as a new "food weapon" to create artificial food crisis and impact to the long term growth of global food price.</p>	<p>-High increase in global rail transportation, air freight and ocean freight, that will indirectly impact UAE's logistics cost.</p> <p>-Dubai's role as a logistic hub for trade between Asia and Europe will increase.</p>	<p>-Since the economies of CIS and Eastern European countries are highly dependent on Russia, there will be a reduction in the number of tourists arriving Dubai from this region.</p> <p>-Indirect effect on Dubai restaurants and hotels.</p>	<p>-The war might have an indirect impact on UAE banks because Russian debt in foreign banks is around USD 121 bn.</p> <p>-UAE financial institutions involved in trade with Russia could also become subject to Western sanctions rules.</p>	<p>Problems for UAE companies that works with western companies in Russia.</p>
Recommendations	<p>Diversify imports or replace with alternative products produced locally (e.g. replace sunflower oil with canola oil).</p>	<p>Cooperate with logistics companies to avoid the artificial shifts in the shipping costs.</p>	<p>Provide a visa free entrance to other countries to fill the gap.</p>	<p>UAE banks should closely monitor foreign banks that have significant exposure to Russia.</p>	<p>Attract Western and Russian companies that are leaving Russia to Dubai.</p>

Thank you