FT BOARD DIRECTOR

EVENT SUMMARY

THE BUSINESS IMPACT OF THE WAR IN UKRAINE

15 JUNE

SPEAKERS

Jonathan Derbyshire, executive opinion editor, Financial Times
Brooke Masters, US investment and industry editor, Financial Times
Peggy Hollinger, international business editor, Financial Times
Dan Thomas, chief UK business correspondent, Financial Times

In the latest FT Board Director, Jonathan Derbyshire, FT executive opinion editor, moderated a discussion and Q&A on the impact on business of the war in Ukraine. In particular the panel looked at, as Derbyshire put it, "how business is navigating the crisis as it reshapes supply chains and injects further uncertainty into an already cloudy outlook for the global economy". On the panel were three FT journalists: Brooke Masters, US investment and industry editor, Peggy Hollinger, international business editor, and Daniel Thomas, chief UK business correspondent.

Here are the highlights.

A STRETCHED GLOBAL SUPPLY CHAIN IS STRETCHED EVEN MORE

Hollinger said the Ukraine war had stretched global supply chains that were already under strain from the effects of the Covid-19 pandemic. Russia and Ukraine were central to the flow of goods. Russia is a major source of titanium and aluminium for the aerospace industry and it controls a fifth of the global air cargo business, while Ukraine is one of the biggest providers of grain and other foods while its 105,000 lorry drivers are an important part of logistics in Europe and beyond.

GLOOM AND DOOM: THE EFFECT OF THE WAR ON UK, EUROPEAN AND US COMPANIES

Thomas said the effect on the UK had been serious, adding to the challenging economic environment caused by the pandemic and Brexit. "We're potentially seeing a move back to the bad old days of the 1970s when the UK was the sick man of Europe. We are seeing this toxic mix of poor labour relations, worsening real incomes and spiralling inflation. That inflation links directly to Russia and Ukraine."

Hollinger said that inflation and the soaring cost of energy troubled European business. She said companies faced a "double whammy": the cost of transitioning to sustainable energy and now the cost of turning away from Russian oil and gas.

Masters said US companies were less severely affected, not least because the country has its own sources of energy. She did point out, however, that American groups with European divisions have been hit.

WHY THE WAR SIGNALS THE END OF GLOBALISATION FOR NOW

In March, Larry Fink, chairman of BlackRock, the world's biggest asset manager, sent his annual letter to shareholders. Masters said Fink declared that the 30-year trend towards greater globalisation was over. She said companies would have to "rethink extended supply chains" and "if you are going to sell in Europe, you should be making your products in Europe".

"One of the things [the Russia situation] is doing is making people think, 'OK we had to cut Russia off: can we set ourselves up in a way that we can produce locally if something bad happens?'," Masters said.

Hollinger said that while the current phase of globalisation may be ending, "that doesn't mean globalisation is completely going to unravel". She said: "When I talk to European executives, they have no intention of withdrawing. They still want to be multinational and global."

She has also spoken to cargo and container companies and asked how many clients had begun to switch to suppliers at home (reshoring) or closer to home (nearshoring). A typical response is: "We hear a lot of talk but we're not seeing trade flows move that much yet."

WILL THE UKRAINE WAR AFFECT INVESTMENT IN ESG AIMS?

Thomas said: "I think the ESG agenda has taken a knock [and there are] very few companies who aren't wargaming a recession." He said most boardrooms were "trying to work out what happens when we go into two quarters of negative growth and real incomes fall through the floor. That's where their mindset is right now, not whether they can get better at ESG".

Hollinger "slightly disagreed", observing that "when it comes to reducing carbon emissions, that part of ESG is still very much alive". Also, she said that defence companies were being welcomed back into the ESG fold. Before the war, some banks refused to do business with companies that had as little as 5 per cent of revenue from arms sales. Now, she said, banks and others recognised that "maybe defending your nation and having the capability to defend your nation is the 'social' in ESG."

THE UPSIDE OF THE WAR FOR BORIS JOHNSON: IT HIDES THE IMPACT OF BREXIT

According to Thomas, "the Johnson government is slightly fortunate because the impact of Brexit has been disguised first by the pandemic and now by the war in Ukraine".

He said Brexit was still "front of mind for a lot of manufacturers", mainly because of supply chains and labour shortages. It is hard to "find the right people to come into the country to do the jobs that need doing", he said.

THE WAR IS FORCING COMPANIES TO RETHINK RELIANCE ON CHINA

Masters said many companies were aiming to deglobalise and to reduce reliance on China in particular. This would be hard. She pointed to research by McKinsey, the management consultancy, which indicated that business now realised the difficulty of switching to alternative low-cost markets. Masters said: "You can't just move a factory. You have to move all its suppliers as well."

WHY EVERY BRITON SHOULD BE THANKING THE QUEEN

Thomas said the UK had enjoyed "a six-month golden period where a kind of normality resumed". As Covid-19 abated, people have been shopping and travelling again (WH Smith, the newsagent, has been "selling more magazines and sandwiches than ever"). "We can thank the Queen because the Platinum Jubilee celebrations single-handedly kept us out of recession for another three months," he added.

QUESTIONS FROM THE ONLINE AUDIENCE

What are the consequences of the war for airlines in eastern Europe and Russia? Will the big winners be Turkish Airlines and Emirates? What effect have you seen on aircraft leasing companies?

Hollinger said that, discounting domestic travel, Russia accounted for only 5.7 per cent of European flights before the pandemic. The implications for passenger traffic "are not that devastating".

She said Turkish Airlines would be a winner from any fallout arising from the war. In addition European airlines had a problem because they now "have to fly around Ukraine and Russia". This forced airlines to lengthen journeys to Asia, raising costs further.

Hollinger also said leasing companies were having a challenging time, not least because 500 of their aircraft, worth $10 billion, are stranded in Russia.

Will a return to "local" rather than "global" increase inflation as production efficiency declines?

Masters said the evidence was not yet clear. "It could go both ways," she said. She said "definitions of 'cheaper' are changing". It would be cheaper to move production to Vietnam but only because of the lack of workers' rights. In the age of ESG such a move may no longer be desirable.

With regard to building factories, she said "new" was likely to be "more efficient". "There may be a cost, but once you do it, it might actually be cheaper," she said.

Hollinger backed this view and said new factories would be filled with digital, automated and robotic technology. In addition, companies can expect to have lower transport costs and lower carbon costs.

Looking to the future, what kind of business partner can Russia or Russian companies be for western companies?

Masters said she had spoken to a seasoned investor in emerging markets who had invested in Russia in the past. They said it would be "crazy" to consider going back now because "we have no idea what will replace Putin, if something does".

There is another view. Hollinger said the west was still collaborating with Russia in space. "We still have cosmonauts and astronauts living on the International Space Station." She said space experts "were fairly confident that ultimately Russia would come back into collaboration, at least in space. The experts said: 'This is the next great frontier, the next great economy. It's in everybody's interest not to have a war in space'".

Which skills will rise in value as businesses navigate change?

Hollinger said without hesitation: "Supply chain. If you're a procurement director, you could charge what you want, I suspect."

Masters said "interpersonal, human skills". "If you are going to have to sort out new relationships and set up whole new supply chains, you're going to have to negotiate with local governments, local unions and get agreement."

Do you think the west made mistakes before the war and in responding to it?

Hollinger said: "It's been obvious for years that Putin was not a cuddly western democratic leader." She pointed to the alleged state-ordered murders, including the poisonings in Salisbury, Wiltshire, of Sergei and Yulia Skripal and others. Investing there was always a risk. "Did people really invest in Russia not thinking there was a greater risk than in Italy or Germany?"

Thomas said it was known that London has been "a laundromat", a "Russian playground" where dirty Russian money was spent on houses, restaurants and schools. Given this, "questions have to be asked now about why we didn't spot" the dangers earlier.

What are the implications of the war for cryptocurrencies and the traditional financial sector?

Masters said cryptocurrencies were "very much a speculative asset" and are "vulnerable" to high inflation. She asked: "If you can get real interest from your bank account, why do crypto?" Also, the idea that cryptocurrencies are free from government interference is in question in the wake of the war.

As far as the traditional financial sector is concerned, Masters said banks had learnt their lesson from wilfully ignoring the sanctions on Iran, and so things have "gone relatively smoothly" for them.