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## **MULTIDIMENSIONAL NATURE OF RISKS IN CONTEXT OF WAR IN UKRAINE**

REVIEW ARTICLE

### **Abstract**

This research has focused on the analysis of the international consequences of the aggravated and frustrated exports of agricultural products from Ukraine due to war events, as well as other risks associated with them. Despite the existence of the international acts that seek to, at least partially, remove uncertainties regarding the prospects for the export of grain and other crops (such as the Istanbul Initiative under the auspices of the United Nations), the number of Ukrainian grain exports have significantly decreased compared to 2021. The problem mentioned in this Article is analyzed from the perspective of the risks associated with the state of war, including the lack of interest of many insurers to consider doing business in export insurance under such circumstances. In this regard, several phenomena have been researched, such as the problem of high premiums in the context of war and political risks of civil commotions and famine, which have already occurred in various parts of the world. It is considered that the problem of aggravated or frustrated export of the Ukrainian grains represents a classical geopolitical risk. Bearing this in mind, in the context of the continuing inland, air and marine war in Ukraine, the restrictive measures against Russia and the significant international dimension of the conflict, as well as the inability of governments to guarantee the security of exports, it seems that the business of insurers with regard to covering the Ukrainian grain exports will continue to be burdened with multiple challenges.

**Keywords:** *war risk, geopolitics, war in Ukraine, grain export, United Nations, European Union.*

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## Introduction

Ukraine is one of the largest agricultural producers and exporters of grain in the world. More than half of Ukraine's territory comprises arable land and every sixth resident is employed in the agricultural sector. The Ukrainian export of agricultural products in 2021 was worth almost \$28 billion, which accounted for 41% of the overall export portfolio.<sup>2</sup> These data illustrate how important the aspect of production and export of agricultural products for the Ukrainian economy and citizens is. In addition to its undoubtedly great local significance, the Ukrainian agriculture also ranges high in the global market. In 2021, the country ranked first in terms of global exports of sunflowers (as much as 20% share of the global market), sunflower oil (36% share) and sunflower flour (41% share) and was among the top ten countries in the exports of corn, wheat, barley and rapeseed.<sup>3</sup>

In addition to security, humanitarian, political and other problems, the war in Ukraine deeply disturbed the market of agricultural products which began to reach the record prices for particular items since the end of 2021, in the light of the regional tensions.<sup>4</sup> The aim of this paper is to research and present the unfavourable manifestations of the war in Ukraine in the field of exports of agricultural products, including the effects it had on the insurance industry. In the circumstances of the risks associated with the state of war, insurers are reassessing their engagement in the conditions of aggravated or frustrated export of the Ukrainian grains. The aforementioned problematic aspects are analyzed from the perspective of geopolitical risks, noting the multidimensional consequences from the increased level of premium through shortages and intensifying of famine epidemics in the East Africa (which will be discussed in greater detail hereinafter) to the compensation of exports from other resources. In a broader problematic context, the subject-matter of analysis are also the effects of the European Union sanctions against Russia, other aspects of the insurance industry and/or the contributions of the international actors such as the United Nations. It is stated that the formal annexation of four areas occupied by the Russian army in Ukraine is not only a complicating factor for achieving sustainable peace, but also for the exploitation of those areas, that is, the normalization of agricultural production and exports, as an important thematic focus of this paper.

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<sup>2</sup> Foreign Agricultural Service of the US Department of Agriculture, Ukraine Agricultural Production and Trade, 2022, <https://www.fas.usda.gov/sites/default/files/2022-05/Ukraine-Factsheet.pdf>, visited on 1.10.2022, p. 1-2.

<sup>3</sup> Ibid.

<sup>4</sup> Thomas Glauben, Miranda Svanidze, Linde Götz, Sören Prehn, Tinoush Jamali Jaghdani, Ivan Đurić, Lena Kuhn, "The War in Ukraine, Agricultural Trade and Risks to Global Food Security", *Intereconomics* 57(3)/ 2022, p. 157.

## **Geopolitical Nature of Risk**

The war that began with the attack on Ukraine on 24 February 2022 has caused large human, material and other damages including, according to the United Nations, the largest refugee crisis in Europe since the end of the World War II and thousands of victims.<sup>5</sup> The European Union responded to the escalation by introducing several packages of sanctions against Russia, on a scale that represents a precedent since its foundation;<sup>6</sup> moreover, in a kind of geopolitical manoeuvre, the EU recognized the prospect of membership for Kyiv and Chisinau, something it had refrained from for the previous two decades.<sup>7</sup> The things mentioned speak in favour of the major regional geostrategic changes that occurred as a result of the adverse event. As early as March 2022, the European External Action Service, referring in part to the adoption of the Strategic Compass Security Act, especially bearing in mind the war in Ukraine, noted through an official statement that the military activities contributed to the "late birth of the geopolitical European Union".<sup>8</sup>

Considering the size of Ukraine, as well as their global relevance (especially as an agricultural producer and exporter), the consequences of the escalation soon began to be felt on the markets worldwide. In Ethiopia, which faced a catastrophic famine in 2022, the price of sunflower oil (mainly supplied from Ukraine or Russia) jumped by as much as 215% by the beginning of March 2022, as a direct and immediate consequence of the war in the Eastern Europe.<sup>9</sup> This is an extremely large economic blow to a country that, according to many parameters, is at the back of the world in terms of economic development indicators. Moreover, it illustrates the importance of Ukraine as a peculiar agricultural power, not only in the European, but also in wider international frameworks. The unavailability and high price of items that were otherwise hard to come by in countries like Ethiopia triggered the deepening of the famine phenomenon in the East Africa.

However, the inadequate supply of Ukrainian agricultural products and crops is not limited only to the immediate region, not even to the East Africa. In fact, according to research conducted by the financial institute CFA (Chartered Financial Analyst), the uncertain supply of food and grain from Ukraine (and Russia) represents

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<sup>5</sup> Julian Vierlinger, UN: Ukraine refugee crisis is Europe's biggest since WWII, 2022, <https://www.atlanticcouncil.org/blogs/ukrainealert/un-ukraine-refugee-crisis-is-europes-biggest-since-wwii/>, visited on 20.9.2022.

<sup>6</sup> Miloš Petrović, "European Union and Ukraine: the strategic partnership leading to (some) where?", *Međunarodni problemi* LXXIV 1/2022, p. 75–101.

<sup>7</sup> Jessica Parker, Joe Inwood, Steve Rosenberg, EU awards Ukraine and Moldova candidate status, 2022, <https://www.bbc.com/news/world-europe-61891467>, visited on 1.10.2022.

<sup>8</sup> EEAS, Europe in the Interregnum: our geopolitical awakening after Ukraine, 2022, [https://www.eeas.europa.eu/eeas/europe-interregnum-our-geopolitical-awakening-after-ukraine\\_en](https://www.eeas.europa.eu/eeas/europe-interregnum-our-geopolitical-awakening-after-ukraine_en), visited on 6.10.2022.

<sup>9</sup> Jameel Observatory, Oxfam International, Save the Children International, A Dangerous Delay 2: The Cost of Inaction (Report), 2022.

one of the largest actual geopolitical risks, whereat the so-called civil strife risk index (Civil Strife Risk Index - CSRI) was developed.<sup>10</sup> Based on the intersection of five elements (percentage of total grain imports from Russia or Ukraine, share of the population at increased risk of uncertain food supply, youth unemployment rate, share of mobile users in the general population and democracy index), the author concludes that the following countries are most susceptible to the risks of civil unrest (top 10 locations): Republic of Congo, United Arab Emirates, Saudi Arabia, Belarus, Lebanon, Nicaragua, Tajikistan, Turkey, Armenia and Egypt.<sup>11</sup> This analysis points to the fact that the aggravated or reduced supply of grains from Ukraine and Russia has the potential to, in a synergistic effect with other adverse elements, fuel the social dissatisfaction in societies in different parts of the world. To that effect, the adverse manifestations of war are associated with a global increase of geopolitical risks, where the societies with systemic problems (poverty, unemployment, rigid political systems) are particularly vulnerable. In fact, major geopolitical and geo-economics crises, such as this one, not only generate new challenges, but expose and deepen the existing problems, which can fuel the escalation of various types of conflicts in many societies that are on the edge of socio-economic functioning.

Considering the comprehensive nature of restrictive measures initiated by the European Union, the mutual sanctioning of the two parties resulted in significant disruptions in the level of prices and turnover of goods and services in numerous areas. In addition to the European Union, sanctions against Russia were introduced by the United States of America and a number of other actors in the world, with the aim of using economic means to reduce Russia's ability to lead war in a neighbouring country. In other words, sanctions actually have the function of an economic weapon that seeks to inflict damage on the attacker.<sup>12</sup> Restrictive measures are primarily aimed at the following segments: (a) financial sector - ban on participation of Russian banks in the SWIFT international communication system, restrictions on the central bank of Russia, freezing of funds, blocking of loans by insurers, etc.; (b) the transport sector – ban on the export of goods, technologies and services in the domain of the aviation industry, ban on the use of EU airspace for the Russian airlines, etc.; (c) technology – banning the export of products such as microchips; (d) media – ban on Russia Today (RT) and Sputnik media content; (e) individual sanctions for politicians, businessmen and the so-called oligarchs.<sup>13</sup>

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<sup>10</sup> Joachim Klement, *The Russia–Ukraine War and Other Geopolitical Risks*, 2022, <https://blogs.cfainstitute.org/investor/2022/03/18/the-russia-ukraine-war-and-other-geopolitical-risks/>, visited on: 15. 10. 2022.

<sup>11</sup> Ibid.

<sup>12</sup> Robert Wihtol, *From the bookshelf: The economic weapon: the rise of sanctions as a tool of modern war*, 2022, <https://www.aspistrategist.org.au/from-the-bookshelf-the-economic-weapon-the-rise-of-sanctions-as-a-tool-of-modern-war/>, visited on 20. 9. 2022.

<sup>13</sup> Funk Gruppe, *The economic impact of war in Ukraine*, 2022, <https://www.funk-gruppe.de/en/corporate-blog/international/conflict-in-ukraine>, visited on 24. 9. 2022.

As for the scope of insurance coverage in those areas, it depends on the wording of restrictive clauses, that is, whether or not the possibility of application in those cases is foreseen in sufficient detail, and if so, to what extent and in what manner.<sup>14</sup> For example, the sixth package of sanctions against Russia adopted in June 2022 directly mentions the insurance sector. It refers to a complete prohibition on maritime imports of crude oil and refined oil products within 6 to 8 months.<sup>15</sup> As stipulated, after a transitional period of several months, European companies shall not insure and finance the carriage of oil to third countries, especially by sea, which should negatively affect the availability of those products originating from Russia in the rest of the world, bearing in mind the significant transportation-intermediary role of European entities in this regard.<sup>16</sup> The extent of the damage caused by the sanctions against Russia is not fully known since the conflict is still actual. As for the efforts to contain the war, they can be said to have been mostly unsuccessful, bearing in mind that the war shows no signs of abating.

The consulting company *MarshMcLennan-MML* has analyzed the overall consequences of war in Ukraine and those of Russia's trade isolation. In terms of political risks, MML has particularly singled out the one of expropriation and blocking of assets, which adversely affects supply chains; then there are the risks related to trade loans (especially in the light of the blockade of Russian banks' operations on the international market), the peril of cyber attacks, risks associated with energy sources (such as rising gas prices, insufficient availability of energy sources from Russia and the impossibility of timely compensation from other sources) countries); jeopardising property (in Russia and Ukraine), etc.<sup>17</sup>

The conquest of a large part of the Ukrainian coast, in addition to the loss of control over the three basic elements of statehood (territory, population and sovereign authority) in that area also resulted in the impossibility of placing the Ukrainian goods on the world market. In addition, the areas that are the subject of the fiercest fighting (Donetsk, Luhansk, Zaporozhye, Kherson and Kharkiv regions) include some of the most grain-rich parts of Ukraine. On the other hand, the south-western coastal territories, with central Odessa as the largest Ukrainian port city, have not been occupied in the course of the war so far, which in theory leaves some opportunities for the Ukrainian side to carry out export-import activities. However, the specific

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<sup>14</sup> Ibid.

<sup>15</sup> European Commission, Russia's war on Ukraine: EU adopts sixth package of sanctions against Russia, 2022, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_2802](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_2802), visited on 22 September 2022. Also: Miloš Petrović, Review on individual parts Regulations Council European union 22/879, Insurance Trends Journal 2/2022.

<sup>16</sup> Ibid.

<sup>17</sup> MarshMcLennan, Russia-Ukraine conflict: Overview of risk considerations, 2022, <https://www.marsh.com/nl/en/risks/geopolitical-risk-russia-ukraine-conflict/insights/russia-ukraine-conflict-overview-of-risk-considerations.html>, visited on 2. 10. 2022.



(which affects as many as 23 million people) has been much worsened probably, at least partly, due to drastically reduced exports from Ukraine and Russia, which in peacetime provided close to 90% of grain to that part of the world. It also brought about the consequential increase in price of grain by about 20% (and much more, for certain items) in one of the poorest areas of the world.<sup>21</sup> Five months after the start of war in Ukraine, it was estimated that as many as 22 million tons of grain were retained in the country, from the previous year alone, as well as millions of tons of this year's crops, and the Ukrainian authorities even launched allegations of massive and illegal resale of their grain by Russia to third countries.<sup>22</sup> Although the problem has been mitigated by the export of Ukrainian grains through the Romanian port of Constanta (over a million tons in 2022), via the Danube and through land crossings, no closer alternative to export through the local Black Sea ports could be found.<sup>23</sup> Bearing in mind the international significance of Ukraine as a grower and exporter of food products, the author of this paper proceeds to provide a review of the first institutional attempt to address one aspect of the war in Ukraine, namely through the initiative for the safe transport of grain and food from Ukrainian ports under the auspices of the United Nations.

### **Significance of Istanbul Initiative in Starting Exports from Ukrainian Ports**

Further in the text, we have analyzed the contents of the Initiative for the safe transportation of grain and food from Ukrainian ports (hereinafter: the Initiative, the Istanbul Initiative), which was established between the conflicting parties in the second half of July 2022, with the mediation of Turkey, and at the suggestion of the United Nations.<sup>24</sup> The initiative is based on international acts such as SOLAS (International Convention for the Protection of Life at Sea) and ISPS, which regulate the international safety of vessels and ports with the aim of ensuring safe navigation for the export of grain, food and fertilizers from the ports of Odessa, Chernomorsk and Yuzhny ( paragraphs 2–3). The act recognizes the role of the United Nations in ensuring the conditions for the exchange of views on the initiative and assistance with regard to the implementation of the provisions (paragraph 4).

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<sup>21</sup> Jameel Observatory, Oxfam International, Save the Children International, A Dangerous Delay 2: The Cost of Inaction (Report), 2022.

<sup>22</sup> Joe Brian Harper, Ukrainian cereals captured, and a new harvest begins, 2022, <https://www.dw.com/sr/ukrajinske-%C5%B0itarice-zarobljene-a-nova-%C5%BEetva-po%C4%8Dinje/a-62454722>, visited on 17. 10.2022.

<sup>23</sup> Ibid.

<sup>24</sup> Further in the text being analyzed provisions of Istanbul act, the content of which is available on to this link: [https://en.wikisource.org/wiki/Initiative\\_on\\_the\\_Safe\\_Transportation\\_of\\_Grain\\_and\\_Food-stuffs\\_from\\_Ukrainian\\_Ports](https://en.wikisource.org/wiki/Initiative_on_the_Safe_Transportation_of_Grain_and_Food-stuffs_from_Ukrainian_Ports)

According to the provisions of the Initiative, all involved parties will provide security guarantees to ensure navigation, whereby the establishment of a coordination body (Joint Coordination Center, JCC), composed of representatives of the two parties and the United Nations, will be in charge of supervising and coordinating activities (section A). To this effect, joint responsibility is envisaged in the implementation of the activities within the newly created humanitarian shipping corridor. Inspection teams, made up of representatives of the aforementioned actors, will check cargo and personnel going to or from Ukrainian ports (section B). This aspect alone speaks of an unfavourable situation, which stems from the fact that detailed inspection supervision, especially among untrustworthy parties in the conflict, requires a lot of time. Subjecting numerous vessels to detailed checks means that exports have limited prospects, given the resources and time required to verify each cargo by all the relevant (mutually distrustful) parties.

The act underlines that all activities in Ukrainian territorial waters fall under the domain of Ukrainian's responsibility, whereby the parties undertake not to attack commercial or civilian vessels, or port facilities covered by the Initiative. The act additionally foresees the possibility of removing mines of conflicting parties in order to ensure access to ports (section C). Although there is not much mention of the mine removal segment in the public media, it is undoubtedly an important item that would improve the safety of navigation. In general, the security of the humanitarian corridor is of great importance for all actors, including the insurers who, given the coverage options available to them, can contribute to risk assessment and security improvement. The expertise of insurance companies can also be applied in a wider, institutional context, e.g. in the capacity of an advisor during the creation and formulation of various protocols and documents, such as those related to the Istanbul Act.

For commercial vessels, prior registration with the JCC shall be required and the parties shall also agree on a communication-operational plan so as to avoid additional disagreements. The remote traffic monitoring shall be carried out, with a ban on the close approach of military vessels and other similar capacities except with the special consent of the JCC (sections D - E). In the event of emergency or deviations from the rules on a vessel within the humanitarian corridor, with the consent of the JCC and according to the provisions of international navigation standards, assistance shall be provided to the endangered vessel and appropriate inspection conducted, depending on the situation in question (section F). All merchant vessels covered by the Istanbul Initiative shall be subject to inspections by an inspection team at ports designated by Turkey near the straits (Section G). Although cargo inspection is justified in a humanitarian sense (even required), on the other hand, that aspect can be used as an argument by some of the parties to slow down the departure of the Black Sea area and make the already complex export from Ukrainian ports more difficult and complicated. In other words, technical processes can be used for activities



that can be connected with (geo) politics, which represents an unfavourable manifestation of this great conflict.

The final clauses define the time validity of the act (120 days from signing by all parties, with an automatic extension to the same period, except in the case of a decision by one of the parties to amend or cancel the act - section H), as well as the aspect of the disclaimer of responsibility of the United Nations (section I). The Act was signed in Istanbul on 22 July 2022. A document of identical content, without a Ukrainian representative, was also signed by the Russian side.

Within a week of the signing of the Act, on 29 July, the first three ships left Chernomorsk and Odessa for Ireland, the United Kingdom and Turkey with a total of 58,000 tons of corn. The Ukrainian side initially observed the three-vessel-a-day rule for security reasons but, within two or three days, already 68 ships with 1.2 million tons of cargo (mainly food) were waiting to pass through the humanitarian corridor.<sup>25</sup> According to the EU data, before the war, Ukraine exported about 90% of grain and oilseeds through Black Sea ports and the 70 million tons of the crops that Ukraine has to offer cannot be exported at such a pace, not even through freight wagons or river ships, of which there is not sufficient number.<sup>26</sup> In this sense, the excessive dependence of Ukraine on the Black Sea ports, in the context of the war, turned into a wider economic, political and humanitarian issue.

One month after the agreement was reached in Istanbul - in the second part of August 2022, experts assessed that exports worked sloppily, that it was much too expensive due to insurance requirements, that the agreement was not respected (for example, the Odessa region was shelled only one day after signing the Act) and only about thirty ships left Ukrainian ports carrying about 600,000 tons of grain, which only partially satisfied the demands of the world market.<sup>27</sup> The company BPG "Shipping", which has been organizing container transport to war zones like Yemen for years, has stated that only a small number of ships were equipped to operate in hazardous regions like Odessa and that the insurance premium level stemming from the high risk perception significantly increases costs, compared to other countries and areas, thus reducing their international competitiveness.<sup>28</sup> "When the grain agreement was signed, insurance companies expected a premium of 4% to 5% of the value of goods for seven days. Today (a month later, auth, note) this amount equals 1-1.5 percent, which still is 200,000 to 270,000 dollars per ship per week," said the company's representatives. They added that due to the control

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<sup>25</sup> Diana Rožić (agencies), Daily only three ships with Ukrainian grains, 2022, <https://www.dw.com/sr/dnevno-samo-tri-broda-sa-ukrajinskim-%C5%B5Eitaricama/a-62730340>, visited on September 22, 2022.

<sup>26</sup> Ibid.

<sup>27</sup> Eugen Taize, Black Sea: Ukrainian grain more always little, po high prices, 2022, <https://www.dw.com/sr/crno-more-ukrajinskij-%C5%B5Eita-jo-%C5%A1-uvek-malo-po-visokoj-ceni/a-62879578>, visited on 10/9/2022.

<sup>28</sup> Ibid.

mechanism in Turkish territorial waters that delayed the dates of delivery, according to their estimates, the cost of a ton of cargo from Odessa and other Ukrainian ports is, according to their estimates, higher by \$25–35 compared to Romanian ports.<sup>29</sup> Such indicators not only harm Ukraine's war-torn economy, but continue to reduce the availability of food in the regions that are highly dependent on it.

Aggravated exports and/or the increased risks and prices have a disincentive effect on the marketing of Ukrainian agricultural products globally. Moreover, there are allegations that Russia suppresses Ukrainian exports in some countries with its own exports.<sup>30</sup> The fact that these are perishable goods with a limited shelf life also makes it difficult for Ukraine to reach at least a large part of its pre-war exports of grain, corn and other crops and products. Bearing in mind that the mentioned aspects are of no small strategic relevance for the Ukrainian economy, the situation is all the more worrisome, especially since, at the moment of writing these lines, there is no option of at least a temporary suspension of war activities.

Since reaching the grain export agreement until the first week of October 2022, Ukrainian ports exported 6.4 million tons of agricultural products, with about 150,000 tons of wheat sent from Chernomorsk to Ethiopia under the United Nations World Food Program (where catastrophic droughts affected a large part of the population), as well as to war-affected areas such as Yemen and Afghanistan.<sup>31</sup> In this sense, it can be stated that there was some progress regarding the possibility of marketing Ukrainian agricultural products, especially from the second month after signing of the agreement. However, it should be noted that this is still below the real capacity, taking into account the Ukrainian offer and the export possibilities.

The reasons for somewhat improved export performance should be sought in the export enforcement procedures that have been established since the first half of August. Under one of the procedures, vessels exporting Ukrainian grain are protected by a buffer zone of 10 nautical miles, which should encourage carriers and insurers to step up their activities in Ukrainian ports.<sup>32</sup> London insurance companies such as Ascot (linked with Lloyd's) have devised a mechanism for grain traders, to provide insurance coverage of \$50 million per delivery through the humanitarian corridor and Hiscox has announced the formation of a special consortium that would focus on the insurance of vessels within the area covered by the Istanbul

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<sup>29</sup> Ibid.

<sup>30</sup> Alexandra Prokopenko, Why Is Russia Jeopardizing the Ukraine Grain Deal?, 2022, <https://carnegieendowment.org/politika/87930>, visited on 11. 10. 2022.

<sup>31</sup> Reuters, U.N. ship carrying Ukrainian wheat heads to Ethiopia, 2022, <https://www.reuters.com/world/africa/un-ship-carrying-ukrainian-wheat-heads-ethiopia-2022-10-07/>, visited on 1. 10. 2022.

<sup>32</sup> Jonathan Saul, Michelle Nichols, Insurers Get Safety Assurances for Ships Exporting Ukraine Grain Through Black Sea, 2022, <https://www.insurancejournal.com/news/international/2022/08/09/679248.htm>, visited on 15. 10. 2022.

Initiative.<sup>33</sup> The gradual involvement of insurance companies in these activities may be an indication of a more predictable supply of Ukrainian agricultural products at the global level, despite all the problems and uncertainties related to the phenomenon of war and its associated risks. However, the Russian president's announcement that the country will close Ukrainian grain export corridors if they become used for "terrorist attacks"<sup>34</sup> is discouraging not only for humanitarian efforts, but also for the vessel insurers who are gradually and cautiously considering business conditions in the troubled Black Sea waters. The message of the Russian president should not be underestimated, especially since it came only a few weeks before the November deadline for the (automatic) renewal of the functioning of the Istanbul Initiative.

### **Worsening of Hunger Issue**

According to a report prepared for the needs of the World Bank, disruptions that can be linked to the war in Ukraine and that concern global trade and economy are observed in the market of basic living products (especially food and energy), within the logistics networks, supply chains and foreign direct investments (FDI) and special sectors, which reduces the volume of world trade by 1%, global gross domestic product by 0.7%, with the fact that economically less developed countries can expect about a 1% drop.<sup>35</sup> These are significantly unfavourable geo-economic indicators. The impossibility of conducting the agricultural production in Ukraine and its export to the world market, as a result of taking possession of Ukrainian territories and blockade of its territorial waters, are a partial cause of the aforementioned signs of recession. Before the war, Ukraine was the main exporter of wheat to developing countries and the stoppage of exports particularly affected certain countries in Africa and the Middle East.<sup>36</sup> The director of the World Food Program of the United Nations said that there was no doubt that food in various forms was used as a weapon in the conflict of war, following on from an earlier statement that the closed port in Odessa represented a "declaration of war on the world's food security" which could result in "hunger, unrest and migration in the whole world".<sup>37</sup>

According to the annual report ordered by the insurance consulting company Willis Towers Watson (WTW) and prepared by Oxford Analytics, in 2022 China,

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<sup>33</sup> Ibid.

<sup>34</sup> Beta, Putin: Corridors for export Ukrainian grain they could be closed, <https://beta.rs/en/170113-putin-koridori-za-izvoz-ukrajinskij-zita-mogli-bi-da-budu-zatvoreni>, visited on October 18, 2022.

<sup>35</sup> Ruta, Michele (editor), *The Impact of the War in Ukraine on Global Trade and Investment*. World Bank, Washington, 2022.

<sup>36</sup> Diana Roščić (agencies), Daily only three ships with Ukrainian grains, 2022, <https://www.dw.com/sr/dnevno-samo-tri-broda-sa-ukrajinskim-%C5%BEitaricama/a-62730340>, visited on September 22, 2022.

<sup>37</sup> Astrid Prange, Food is a weapon in the war in Ukraine?, 2022, <https://www.dw.com/sr/hrana-je-oru-%C5%BEje-u-ratu-u-ukrajini/a-61948085>, visited on 10/10/2022.

the United States, the United Kingdom and the European Union are for the first time among the seven countries/entities with the highest degree of losses due to political risks, which can primarily be linked to the consequences of trade sanctions against Russia, Belarus, China, etc.<sup>38</sup> The absolute majority of the respondents included in the research answered that the aspect of geopolitical risks was included in business strategies, with an especially noticeable growth of particular services in the last few years and with 58% of the respondents using the risk analysis scenarios (intended for situations where the perception of the occurrence of risks is elevated) whereas 48% used the insurance against political risks (which represents almost twice the number compared to 2019, when such aspect accounted for 25%).<sup>39</sup> And how do the respondents of that study view the circumstances of the war?

It is interesting that the respondents of the research that was published in March 2022 (when the war had already started, after several months of debate about the certainty of such an act) did not consider the danger of a Russian attack as a priority risk, but on the contrary: this risk was ranked the lowest (the first was for e.g. distancing from China), although the respondents who ranked the risk high considered it a potentially big problem, especially for Europe and its energy supply, while those who did not rank it high were probably guided by the belief that Russia would not attack and the fact that less than 3% of European FDI was realized in Russia. So this did not cause significant concern.<sup>40 41</sup>

As for the international claims filed to insurers with regard to the war in Ukraine, the damage estimates so far were in the tens of billions of dollars, with the largest compensation claims being those in the domain of the aviation industry and political risks.<sup>42</sup> For example, comprehensive aircraft leasing coverage contracts (war clauses and AAR clauses) apply to about 400 commercial aircraft (valued at about \$10 billion) leased by Russian airlines before the war, which remained in Ukraine. The Air Lease Corp stated that they had been writing off "captured" aircrafts in Russia, about 800 million dollars worth and that they would seek compensation from insurance companies.<sup>43</sup> Moreover, it is expected that global insurers and reinsurers will settle

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<sup>38</sup> Oxford Analytica, How are leading companies managing today's political risks?, 2022 Survey and report, WTW, pp. 13-15.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid, p. 17.

<sup>41</sup> For OECD estimates in terms of consequence availability gain from Ukraine and Russia and the price according to the model risks see : OECD, The impacts and policy implications of Russia's aggression against Ukraine on agricultural markets, 2022, <https://www.oecd-ilibrary.org/docserver/0030a4cd-en.pdf?expires=1666090734&id=id&accname=guest&checksum=3BB6513ADCAD07D2B71C7F7A05EF8A5F>, visited on 15.10.2022

<sup>42</sup> Allianz, Ukraine invasion: claims activity manageable, but uncertain, 2022, <https://www.agcs.allianz.com/news-and-insights/expert-risk-articles/claims-report-22-ukraine-invasion.html>, visited on 3. 10. 2022.

<sup>43</sup> Ibid.

a large part of claims associated with political risk and violent situations by insuring cargo and vessels. In May 2022, over a hundred of ships were trapped in the Ukrainian ports, with the danger threatening not only from damage or destruction as a result of the war, but also due to the impossibility of proper maintenance, departure of the crew, etc.<sup>44</sup> Unfortunately, the lack of perspective when it comes to ending the conflict complicates matters in the sense that perhaps a large part of the claims will eventually result in total damage. Although the Istanbul Initiative has at least reversed the stagnation, it should be borne in mind that it refers only to one (unoccupied) coastal part of Ukraine, whereas the situation regarding insurance activities in other coastal areas is even more uncertain and problematic, considering the attempts to annex them to Russia that caused widespread international opposition.<sup>45</sup>

## Conclusion

Considering the destructive consequences, the intensity of conflict and the geographical proximity (in relation to the position of Serbia), the war in Ukraine represents a multidimensional risk for the insurance industry. Political risks reflect in the fact that the usual government guarantees in the circumstances of war, sanctions and unrest do not have the guarantee capacities as in the peacetime period. The risks associated with the war in Ukraine are broad and have wide-ranging international consequences. Insurance losses have so far been the highest in the aviation industry and vessel insurance, but it should be borne in mind that data cannot be collected for many areas because of the actuality of conflict, so there is no complete picture. This applies not only to many devastated areas of Ukraine, but also to Russia, which is under a broad international economic embargo, due to which many projects and activities had to be suspended or postponed and insurance policies cancelled or collected as a total loss from reinsurers.

The immediate damage caused by war activities in the agricultural sector as of June 2022 was estimated at around 4.3 billion dollars and, by the time of writing this paper, it is much higher than that. The particularly worrying fact is that Ukraine cannot even count on a return to peacetime amounts without the recapture of its occupied territories and property, unless agricultural production is significantly improved in the unoccupied parts of the country.<sup>46</sup> The months-long blocking of exports from Ukrainian ports contributed to disruptions in the prices of agricultural

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<sup>44</sup> Ibid.

<sup>45</sup> UN News, Ukraine: UN General Assembly demands Russia reverse course on 'attempted illegal annexation', 2022, <https://news.un.org/en/story/2022/10/1129492>, visited on 13. 10. 2022.

<sup>46</sup> OECD, The impacts and policy implications of Russia's aggression against Ukraine on agricultural markets, 2022, <https://www.oecd-ilibrary.org/docserver/0030a4cd-en.pdf?expires=1666090734&id=id&acc-name=guest&checksum=3BB6513ADCAD07D2B71C7F7A05EF8A5F>, visited on 15. 10. 2022.

products, but also in their availability in the regions that are extremely dependent on the supply channels. The East African famine epidemics, caused by catastrophic droughts in the region, was further aggravated by the unavailability and high prices of Ukrainian agricultural products. This is just one proof that the war is a global adverse event.

The establishment of a humanitarian zone for the export of Ukrainian grains based on the provisions of the Istanbul Initiative has at least partially contributed to the alleviation of shortages and rising prices of agricultural products on the international market. Preservation of the security and functionality of the corridor, in addition to the obvious relevance for the Ukrainian economy, is also of interest for the insurers who are ready to engage in the turbulent area. Unfortunately, bearing in mind the fluctuating course of the war, the prospect of preserving the waterway is far from foreseeable. To make matters more complicated, most of the remaining Ukrainian coast has been occupied by Russia. In this sense, the prospects for increasing exports through Ukrainian ports, which is of fundamental significance for Ukraine as an agricultural power, seems like a distant and uncertain goal at the moment. This has significant and lasting adverse effects not only on Ukraine, but on many other countries and regions. However, the agricultural sector is only one of many that is directly and indirectly affected by the destruction of war. The lack of perspective when it comes to the end of conflict will continue to manifest itself in the increase of damages, which will undeniably continue to affect the global insurance industry.

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