



25 February 2022

Minister of Foreign Affairs

For information by

28 February 2022

## Industry level risks and exposure to Russia and Ukraine markets

**BRIEFING** Overview Submission

**PURPOSE** To provide a summary of MFAT/MPI engagement with New Zealand businesses that have export relationships with Russia.

## Tukunga tūtohua – Recommended referrals

Prime Minister	For information by	28 February 2022
Minister for National Security and Intelligence	For information by	28 February 2022
Minister of Finance	For information by	28 February 2022
Minister Responsible for the GCSB	For information by	28 February 2022
Minister Responsible for the NZSIS	For information by	28 February 2022
Minister for Oceans and Fisheries	For information by	28 February 2022
Minister of Agriculture	For information by	28 February 2022
Minister for Trade and Export Growth	For information by	28 February 2022
Associate Minister of Foreign Affairs	For information by	28 February 2022

## Taipitopito whakapā – Contact details

NAME	ROLE	DIVISION	WORK PHONE
Geoff King	Senior Economist	Economic Division	s9(2)(a)
Taha Macpherson	Divisional Manager	Europe Division	

## Mā te Tari Minita e whakakī – Minister's Office to complete

Approved

Noted

Referred

Needs amendment

Declined

Withdrawn

Overtaken by events

See Minister's notes

**Comments**

## Pito matua – Key points

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- Aotearoa New Zealand's limited bilateral trade with Russia will mean that only a few businesses are at risk of being caught by market disruptions resulting from either conflict or economic sanctions.
- The Russian market is considered a small but significant niche market which is highly profitable for many of our export companies.
- s9(2)(b)(ii)
- While the majority of businesses indicated that they would be able to manage any potential market disruption, some smaller firms indicated that this would cause significant financial strain, given the importance of the market and the inability to divert product to alternative channels.
- s9(2)(b)(ii)
- None of the businesses concerned indicated that they have any direct exposure to a conflict scenario within Ukraine.
- At this stage all businesses are monitoring the situation carefully and many are undertaking contingency planning based on a number of potential scenarios. These are likely to result from being caught up in economic sanctions from EU and the US disrupting access to the market and the ability to access the Russian banking system.
- Officials (MFAT, MPI and NZTE) are planning to hold a virtual meeting to brief companies that export to Russia on Tuesday 1 March.

Rob Taylor  
for Secretary of Foreign Affairs and Trade

## Tūtohu – Recommendations

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It is recommended that you:

- 1 **Note** that Aotearoa New Zealand's bilateral trade with Russia is small and equates to 0.5 percent of New Zealand's total export trade. **Yes / No**
- 2 **Note** that while the majority of businesses indicate they would be able to manage market disruptions, some businesses could experience significant financial strain given the importance of the Russian market and the inability to divert their product to alternative channels. **Yes / No**
- 3 **Note** businesses are undertaking contingency planning based on a number of potential scenarios. **Yes / No**
- 4 **Refer** a copy of this submission to the Prime Minister and Minister for National Security and Intelligence, Minister of Finance, Minister Responsible for the NZSIS and GCSB, Minister of Agriculture and for Trade and Export Growth, and Associate Minister of Foreign Affairs for their information. **Yes / No**

Hon Nanaia Mahuta  
Minister of Foreign Affairs / Minita Take Aorere

Date:        /        /

## Pūrongo – Report

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1. MFAT and MPI officials have been engaging with a wide range of New Zealand export companies with financial investment or export trade relationships in the Russian and Ukrainian market.
2. The purpose of the meetings was to understand the level of business exposure and financial risk should market access be disrupted by Russia invading Ukraine. Businesses also shared what preparations were being undertaken as contingency measures.

### **New Zealand's Bilateral Trade with Russia is very small**

3. Russia was New Zealand's 27<sup>th</sup> largest export trading partner in the year ending June 2021, with goods exports totalling \$293 million (0.5% of New Zealand's total). Half of this comes from butter exports (\$147.9 million). Apples (\$26.7 million), seafood (\$22.4 million), wine (\$15.2 million) and medical equipment (\$15.2) are the other the only other export sectors of significance.
4. Prior to 2021, almost all imports from Russia were crude oil - over 90%. The closure of the Marsden Point oil refinery will mean that New Zealand will be switching to refined petroleum products from alternative markets in future. The last significant crude oil shipment from Russia was in January 2021.
5. Trade with Ukraine is even smaller, with exports totalling \$17 million (mainly seafood and dairy) and imports of \$25.4 million (mainly sunflower seed oil and tobacco).

### **The level of exposure and risk to the Russian and Ukraine markets varies between companies**

6. It is difficult to estimate the total number of New Zealand companies with business relationships within Russia and Ukraine.<sup>s9(2)(b)(ii)</sup>
7. For most companies, the Russian market represents a small, but sometimes significant part of their business. For most industries, the market is highly profitable, with significant growth prospects. In particular, for some sectors, it is also an important destination for lower grade product (particularly for horticulture and seafood) which can be difficult to re-direct to other markets. Despite this, most companies have indicated that any potential market disruption would be manageable, albeit highly inconvenient to their business.
8. <sup>s9(2)(b)(ii)</sup>

s9(2)(b)(ii)

Typically there are around 450 Russian / Ukrainian crew operating on these vessels on a six month rotation. There is little ability for these companies to substitute labour from other sources should access to overseas crew disappear. These companies have written directly to the Minister of Fisheries outlining their concerns.

11. These industry operators advise that these trawlers support export revenue of approximately \$400m per annum and support a large number of onshore jobs in smaller centres such as Bluff, Timaru, Nelson and Napier. <sup>s9(2)(b)(ii)</sup>

### **Businesses are undertaking contingency planning**

12. None of the businesses concerned indicated that they have any direct exposure to conflict within Ukraine itself. Many employ staff within Russia, although amongst the companies MFAT has spoken to, all these staff are Russian nationals. Therefore at this stage while all businesses are monitoring the situation carefully most see no immediate major concerns.
13. However, many are undertaking contingency planning based on a number of potential scenarios, likely to result from economic sanctions from the European Union and the United States disrupting access to the Russian market.
14. Disruption to access to international payments systems was cited as one of the largest threat to New Zealand companies operating in the Russian market. Removing Russia from the SWIFT messaging network used by banks for international money transfers has been proposed as a potential sanction by the US and EU. Such a measure would make export trade highly challenging. Equally, many exporters have their domestic relationships through the Australian owned banks (ANZ, ASB, BNZ and Westpac), further increasing the risk of being caught by potential Australian sanctions. As a result, some companies with a presence in Russia are holding additional cash in their Russian bank accounts to ensure wages can be made, should financial restrictions prevent international transfers.
15. Financial market volatility also represents a significant threat to the export trade over the medium term. The Russian Rouble has depreciated by 14.6 percent since the beginning of the year. With most exporters pricing their product in US dollars, many exporters are concerned this will make their products uncompetitive in the local market.

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