

Profiteering from Ukraine war

Conceptual overview

War is historically a redistribution field full of profitable opportunities. The farther from the battlefield, the more room for maneuver, so for respected big businesses, a distant war is more profitable than one that thunders at the door. Meanwhile, petty criminals build fortunes on the carcasses of bombed-out cities.

Sad truth is that every war and every conflict has its beneficiaries. It's natural and smart to follow Winston Churchill's advice and "Never let a good crisis go to waste". But as the world gets more connected, as the powers get bigger, and the line between business and politics wears off it is becoming increasingly difficult to distinguish prudent businessmen and politicians from marauders and warmongers.

War profiteering in the past

War suppliers and arm dealers

War suppliers and arm dealers get direct profits from war, armed conflicts and general instability selling their services and goods (or "*bads*" in that case).

- Marillyn A. Hewson, Lockheed Martin CEO said during earnings call (Jan. 27, 2015): "In both of those regions [Middle East and Asia Pacific], which are growth areas for us, we expect that there is going to continue to be opportunities for us to bring our capabilities to them."
- "There are companies like [Huawei Technologies](#), which upgraded [Saddam's](#) air-defense system between the two Gulf Wars" [source](#)
- "Modern-day war profiteering has increased with the recent wars in Iraq and Afghanistan. According to an article by *USA Today* in 2011 the top 100 largest contractors sold 410 billion dollars' worth of arms and services." [source](#)
- "Just before the 2011 Franco-British air war against Libya, French and Italian companies were repairing and upgrading Libyan aircraft and armored vehicles and then the French and British air forces set about destroying them." [source](#)
- "A common sales practice after wars is to increase the marketing for any weapon used in the conflict. For this, the Falklands-Malvinas war provides another example. The Royal Navy's main long-range air defense missile was the Sea Dart. It was credited with destroying eight aircraft in the Falklands and, shortly after the war, its makers, British Aerospace, modified the standard Sea Dart advert in the military journals by simply over-stamping it "COMBAT PROVEN"." [source](#)

Control over resources

A lot of reasoning behind some wars are resource-based. By taking control over natural resources countries secure their positions on the world trade arena. That makes war an investment of sorts.

- “Prior to the [invasion of Iraq in 2003](#), oil production was controlled by the Iraqi government, and was off limits to Western companies. As of 2014, foreign owned private firms dominate Iraqi oil production.” [source](#)
- 2019: “The US announced a withdrawal of its forces from northern Syria in October, but has since said it would retain around 500 troops to guard oil facilities, along with Kurdish-led forces, who are currently the main beneficiaries of the production.” [source](#)
- “Russian forces are helping Syrians try to regain control of oil production and have their eyes on these facilities.”
 - “The two countries signed an energy co-operation agreement in 2018 giving Moscow exclusive rights to rebuild the Syrian oil and gas sector.” [source](#)

Politics and lobby

Some politicians abuse their power and work for a corporate lobby. Sometimes they even alternate between holding high government positions and lobbyist work, which is known as the “revolving door”.

- “An example of this revolving door is the case of [William J. Lynn III](#). In 2010 he was confirmed to serve as the number two man in the Pentagon after he worked as a lobbyist for Raytheon. [source](#) This example shows the process of a person joining the government, then being hired as a lobbyist, and back to government. The revolving door is still in existence to this day.”
- “Financial disclosure forms indicate that as of January 2020 51 members of Congress and their partners own between \$2.3 and \$5.8 million of stock in the top 30 corporations that sell goods and services to the U.S. military” [source](#)

Scientific Research

During wartime and long conflicts, scientific research booms. After that, some technologies enter the general market.

- “Siri was a spin-off of [CALO](#), a project funded by the government military development group, [DARPA](#). CALO is an acronym that stands for “Cognitive Assistant that Learns and Organizes”” [source](#)
- “Digital camera technology originally started life in early spy satellites where they were used to capture high-resolution aerial images of enemy installations.” [source](#)
- “During the 1980s, all the major military powers and many of the minor ones acquired a battlefield UAV (unmanned aerial vehicle, drones) capability, and continue to expand that capability.” [source](#) A lot of the drone technology is now used for commercial UAVs and unmanned vehicles.
- “The World Wide Web originally started life back in 1977 in the form of its forefather the Advanced Research Projects Agency Network (ARPANET). This network technology, along with TCP/IP became the technical foundation of the Internet as we know it today” [source](#)

Reconstruction and Security

War destroys infrastructure on any level. From bombed and burned buildings to blown up bridges to crumbled roads and looted facilities. After the war real estate development and reconstruction usually grow. It includes higher security that protects cargo and/or people from bunches of rebels and bandits called to life by the war. Companies can profit from

- “The best known reconstruction and logistics contractor in Iraq and Afghanistan was Halliburton, through its Kellogg, Brown and Root (KBR) subsidiary. At the outset of the two wars, Halliburton was the recipient of the Pentagon’s Logistics Civil Augmentation Program (LOGCAP) contract, an open-ended arrangement that involved coordinating a wide array of support functions for troops in the field, from setting up military bases, to maintaining equipment, to providing food and laundry services. Halliburton’s Pentagon contracts grew more than tenfold from FY2002 to FY2006 on the strength of its contracts to rebuild Iraq’s oil infrastructure and provide logistical support for U.S. troops in Iraq and Afghanistan. By August 2008 the company had received over \$30 billion for work under the LOGCAP contract.” [source](#)
- “Smaller firms also benefited from the chaotic atmosphere that prevailed in Iraq during the early years of the U.S. occupation. One such company was Custer Battles, a firm that had contracts to guard the Baghdad airport and to collect the old Iraqi currency—the dinar—so it could be destroyed. The principals in the firm had no experience in airport security and had never received a government contract. They had been the low bidders on the airport contract and promised to get started more quickly than larger, more established companies. But an Army inspection of their operations found that they had hired security guards with no prior training, hired no translators who spoke Arabic, and acquired no security dogs to detect explosives. They also lived in luxury compared to U.S. military personnel, as noted by T. Christian Miller of the Los Angeles Times, who later went on to write a book about the reconstruction effort entitled *Blood Money: Wasted Billions, Lost Lives, and Corporate Greed in Iraq*: “At a time when U.S. soldiers were still living in tents, Custer Battles had built a pool, installed air conditioning, and set up a wireless internet connection for themselves. They could afford to, with the government shoveling money at them.”” [source](#)
- Ukraine has received €4.9B aid from EU between 2014 (year of the Annexation of Crimea) and 2021 [source](#)

Doing business under sanctions

For some companies there are opportunities to make a quick buck dealing with heavily sanctioned countries on very lucrative conditions.

- “Chinese oil companies CNPC and Sinopec successfully cooperate with Syria, understanding the risks and avoiding sanctioned activities. CNPC has already invested in Syrian oil companies GPC and Al Furat Petroleum.” [source](#)
- “Russian company “[Sovracht](#)” was charged with violation of sanctions by the US Department of Justice for delivering jet fuel and transferring money to Syria in dollars through American financial services.”

Inflating Defense Budgets

Uncertain times like during war and armed conflict there is an incentive to invest in arms and defense systems. The influx of money is usually soaked up by private contractors, but it also means more operations, less scrutiny and bigger budgets for the government agencies.

- US Pentagon Budget went up from \$100B in 1948 to \$800B in 2010 [[Pasted image 20220316112806.png]]
- China's Military-Civil Fusion strategy aims to integrate all potentially applicable civil technologies (like AI, quantum computing, unmanned systems, etc.) into the military. [source](#) That in itself means bigger budgets for military and profitable opportunities for Chinese companies, but it also means that to compete with that, other players like US and Europe will do the same.
- Operation Cyclone (CIA's program to arm and finance the Afghan mujahideen in Afghanistan from 1979 to 1992) was one of the longest and most expensive covert CIA operations ever undertaken. [source](#) Funding officially began with \$695,000 in mid-1979, [source](#) was increased dramatically to \$20–\$30 million per year in 1980, and rose to \$630 million per year in 1987.

Shady business

War and especially war-destroyed countries are fertile ground for shady deals and dirty deeds.

- In Syria shady businessmen do everything “from melting down steel ripped from its shattered cities to brokering oil deals forbidden under international sanctions, to selling hotel rooms to aid workers” [source](#)
- “Damascus's best-known luxury hotel *The Four Seasons* has been additionally fortified by the UN, whose staff stayed there throughout the war. Rooms start at €487 a night with a junior suite going for €718. Syrian government employees earn about €36 a month.” [source](#)

Current profiteering

The same is going on today.

War Suppliers and Arm Dealers

- “defense contractor's and cybersecurity stocks climb since the conflict in Ukraine started” [source](#) - “Some 2,000 of those British weapons – known as MBT-NLAWs, or Main Battle Tank Next-generation Light Anti-tank Weapons – have currently been shipped at a so-far undisclosed cost. Developed as a [joint Swedish-British project](#), the MBT-NLAWs are manufactured by Saab, and are shoulder-launched for use against tanks at a short range of up to 200 meters, making them something of a last-ditch system. NLAWs have already been sold to ten countries. One of the less obvious aspects of the current crisis is that while this sale alone, with its rapid export to Ukraine, will do a fair bit to promote the potential of NLAWs, an actual war would be even more useful in boosting sales – especially if NLAWs turned out to be effective against the latest Russian tanks.” [source](#)

Control over resources

Replacing Russia (and Ukraine)

Russia was one of the biggest importers of natural resources like oil and gas, and crops.

Oil and gas

- higher oil prices are good for oil companies that sell oil: since the beginning of escalation in Dec21 when the barrel of Brent crude oil was around \$71.5 the price went up and peaked at \$123.70 on March 8th — 72% growth. [source](#)
- US wants to sell gas to Europe
 - American Petroleum Institute (API) that represents nearly 600 members of American natural gas and oil industry reacted to Ukraine invasion in less than 12 hours
 - The statement suggests that the American energy sector wants to sell to Europe: “API condemns Russia’s invasion into Ukraine, and American natural gas and oil producers have a critical role to play in supporting our European allies with access to a stable supply of reliable and affordable energy.” [source](#)
 - “With both geopolitical tensions and energy costs rising, American energy leadership can serve as a stabilizing force while strengthening global energy security. Our industry is committed to working with the administration to do everything possible to minimize any impacts on U.S. consumers while supporting our allies overseas.” [source](#)

Steel

- “The EU, coordinating with the G7, is moving to prohibit the import of key goods in the iron and steel sector from the Russian Federation.” [source](#)
- “The EU buys gems and jewelry (\$22 bn), iron and steel products (\$3.8 bn), and more from Russia.” [source](#)
- “Indian exporters of iron and steel, jewelry, chemicals, plastics, aluminum, marine products and machinery are gearing up to increase their shipments to the European Union (EU) to try and fill a shortfall caused by disruptions to Russian exports.” [source](#)

Rocket engines

- Russia halted deliveries of RD-180 rocket engines to US [source](#)
- “Back in 2014, after Russia’s annexation of Crimea ULA, a joint venture between Boeing and Lockheed Martin, had ultimately selected Jeff Bezos’ Blue Origin to develop the new engine BE-4.” [source](#)
- “In the meantime, NASA has other options to get to the ISS, in the form of the agency’s other big commercial partner, SpaceX” [source](#)

Fertilizers

- “India has commissioned three new urea plants with a combined capacity of 1.27 million tonnes, which are set to come on-stream by the first quarter of the next fiscal, said Varun Gogia, vice president of ICRA (Investment Information and Credit Rating Agency of India).” That, along with the government’s agreement to source urea from OMIFCO of Oman should help strengthen supply.” [source](#)

Crops

- Russia and Ukraine together account for as much as a third of the world's wheat and barley supply [source](#)
- Wheat price surged past an all-time record of \$11.50 per bushel at the beginning of March [source](#)
- Most of the World Food Programme's (WFP) wheat supply is obtained from Ukraine. [source](#)

Politics and lobby

- "Countries receiving inflows of money redirected away from Russia will see their economies grow faster than projected prior to the Russia-Ukraine conflict. The likely top candidate for foreign money that would've flowed into Russia will be the U.S., as evidenced by the recent rally in the value of the U.S. dollar. The dollar index has rallied nearly 3% since Russia's invasion of Ukraine began. Other liberal democracies where property rights are protected, such as those in Europe, should also expect to see beneficial inflows." [source](#)
- "Facing a slew of domestic headaches and declining global influence, Washington desperately needs a war to fix its own problems. Stoking tension on the Russia-Ukraine border would be effective to drive a wedge between Moscow and NATO, and thus unite the allies and intensify their military dependence on the United States." [source](#)
- China will become Russia's almost exclusive partner as an international isolation grows (see *the Olympics video*)
- Russia's gains
 - more power to Putin
 - improved approval ratings: "The Russian leader saw an increased approval rating from 69 percent in January 2022, to 71 percent in February, 2022. That is the highest Putin's approval rating has hit in Levada Center polling since May 2018, when he scored a 79 percent approval rating" [source](#)
 - "A separate telephone poll conducted last week suggested 58 percent of Russians approve of the invasion, while 23 percent oppose it." [source](#)
 - excuse to hit on independent media [source](#)
 - Ekho Moskvy, one of Russia's oldest independent radio stations, was closed permanently
 - Dozhd — the country's most popular independent channel announced its closure
 - Meduza, a leading international investigative outlet, and Radio Svoboda were also outlawed by the country's media regulator, Roskomnadzor
 - In concert, the Duma passed a bill introducing sentences of up to 15 years in prison for intentionally spreading what they deem as "fake" information about military action.

- Using terms like “invasion,” “attack,” or “act of war” were explicitly mentioned as unacceptable by the authorities.
- excuse to continue repressions
 - “President Vladimir V. Putin on 16 of March referred to pro-Western Russians as “scum and traitors” who needed to be removed from society” [source](#)
- Russia may gain some negotiating advantages, for example, over Syria “cross-border mechanism <...> that permits the provision of aid into Idlib via the Bab al-Hawa crossing is up for a renewal vote in July and the chances of a Russian veto have never been greater” [source](#)

Scientific research

- Brain drain: “Some countries’ economies could benefit from highly skilled Russian and Ukrainian workers leaving their homes and migrating to more favorable locations.” [source](#)

Reconstruction and Security

It’s uncertain who and when will rebuild Ukraine but it’s obvious that the damage is huge. EU approved emergency aid of €1.2B [source](#)

Doing business under sanctions

- “Countries including Mexico and Turkey, which have not imposed sanctions, could also get an economic boost. “They could benefit from increased trade and act as a go-between for Russia and the rest of the global economy,” Wright says. Put another way, if a product from Russia is required somewhere in the world, a non-sanctioning country could profit by purchasing the product from Russia and then reselling it.” [source](#)

Inflating defense budgets

No one will spend money on arms, spies and security in a world that goes along well. But in the face of war, everybody wants to arm themselves to the teeth.

- “Germany declared that it had decided to spend over 100 billion euros (\$112.7 billion) on its military” [source](#)

Shady business

- “Goldman Sachs is pitching clients on the opportunity to take advantage of Russia’s war-crippled economy by buying its debt securities low now and selling them high later. <...> it is very different from the public face Goldman is putting on its relationship with Russia <...> portraying its actions as supportive of America’s effort to stop Russian President Vladimir Putin” [source](#)

Businesses leave Russia

Businesses leave Russia. Some fear secondary sanctions, some follow their hearts and their customer’s hearts. For example, clothes retailer Uniqlo initially didn’t want to suspend operations in Russia, stating that “Russians need clothes” but following the consumers’ boycotts the company changed their decision.

- The businesses probably didn't have enough time to approve with their shareholders the potential losses, that might suggest that they have calculated and found profits in leaving the Russian market: "they may have calculated that if they don't do it, they're going to turn off customers, workers, and shareholders, and their market value will go down, or if they do it, their market value will go up. <...> if it's the latter [doing a morally right thing and risking the profits], they should really be consulting their shareholders, which would take longer, of course." — [Oliver D. Hart](#), the Lewis P. and Linda L. Geysler University Professor and a winner of the 2016 Nobel Memorial Prize in Economic Sciences [source](#)
- Charity craze. Some people use that as a marketing and PR tool to draw attention to themselves and their businesses. How many donations will never get to Ukrainians? And more charity means opportunities for whitewashing the public image of shady individuals and organizations.

More consequences and thoughts

- Crises strengthen populist positions, since the loud, emotional and extreme promises get a lot of attention.
- Fear is also a good excuse for redirecting tax money away from the public well-being, so we might see that.
- Maybe that's why we don't see real, quick political and diplomatic action to end the conflict. Maybe some corporations use this war to instill fear in the voters to grow defense budgets, to create volatility that is profitable for traders, to destabilize certain sectors of the global economy — crops, steel, oil, natural gas, etc. — and weaken competition.
- Media gets a lot of attention, as people are glued to screens. Information warfare continues. [source](#)
- Another dangerous consequence is the decline of the international organizations power that could empower some players to foul more: "This places the international community in a distinctly new strategic environment, in which long-standing multilateral institutions and mechanisms traditionally relied upon to mediate and de-escalate are more or less impotent. The U.N. Security Council had little value before the invasion of Ukraine, but it is now worthless." [source](#)

Other interesting points

- "The Center for International Policy's Sustainable Defense Task Force has outlined an approach that could save over \$1.2 trillion over the next decade by adopting a more realistic approach to the challenges posed by Russia and China; relying more on allies to address security risks in their own regions; pursuing diplomatic solutions to actual and potential nuclear proliferation in Iran and North Korea; rolling back the Pentagon's \$1.7 trillion, three decade long nuclear rearmament program; and cutting excess bureaucracy, including reducing the Pentagon's employment of over 600,000 private contract personnel." [source](#)
- Why use sanctions that don't work?
 - Western sanctions might be creating a *Suicide Squad* of heavily sanctioned countries that can do business together. Imagine what the vast manpower of China and India can do, using their production superpowers, fueled by Syrian, Iranian and Russian oil and gas.

- “Assad has so far not conceded to any of the demands made by the international community in U.N. Security Council Resolution 2254 and has no intentions of changing his behavior.” [source](#)

Conclusion

For most of the twentieth century, people tried to convey to world leaders that peace is more important than wealth. It seems that this mission must continue in the twenty-first century.

Additional Materials:

- [Companies Making the Most Off of War | Time](#)
- [How Sanctions on Russia Will Hurt—and Help—the World’s Economies](#)
- [Surprised by corporate reaction against Russia?](#)
- [The economic war on Syria: Why Europe risks losing](#)
- [Europe Is Re-arming, and Its Defense Firms Stand to Profit](#)
- [A Comprehensive Review of the Effectiveness of US and EU Sanctions on Syria](#)
- [Estimated worldwide budget for unmanned aerial vehicles \(drones\) from 2014 to 2023](#)
- [Russia’s Invasion Will Boost 2023 Defense Budget, Top Democrat Says](#)
- [Why the defense industry could be the most transformative market for startups](#)
- [America pays four billion dollars to Afghan forces; Who is watching?](#)