

What is a war loss?

by dr Tomasz Luterek

The valuation of war losses

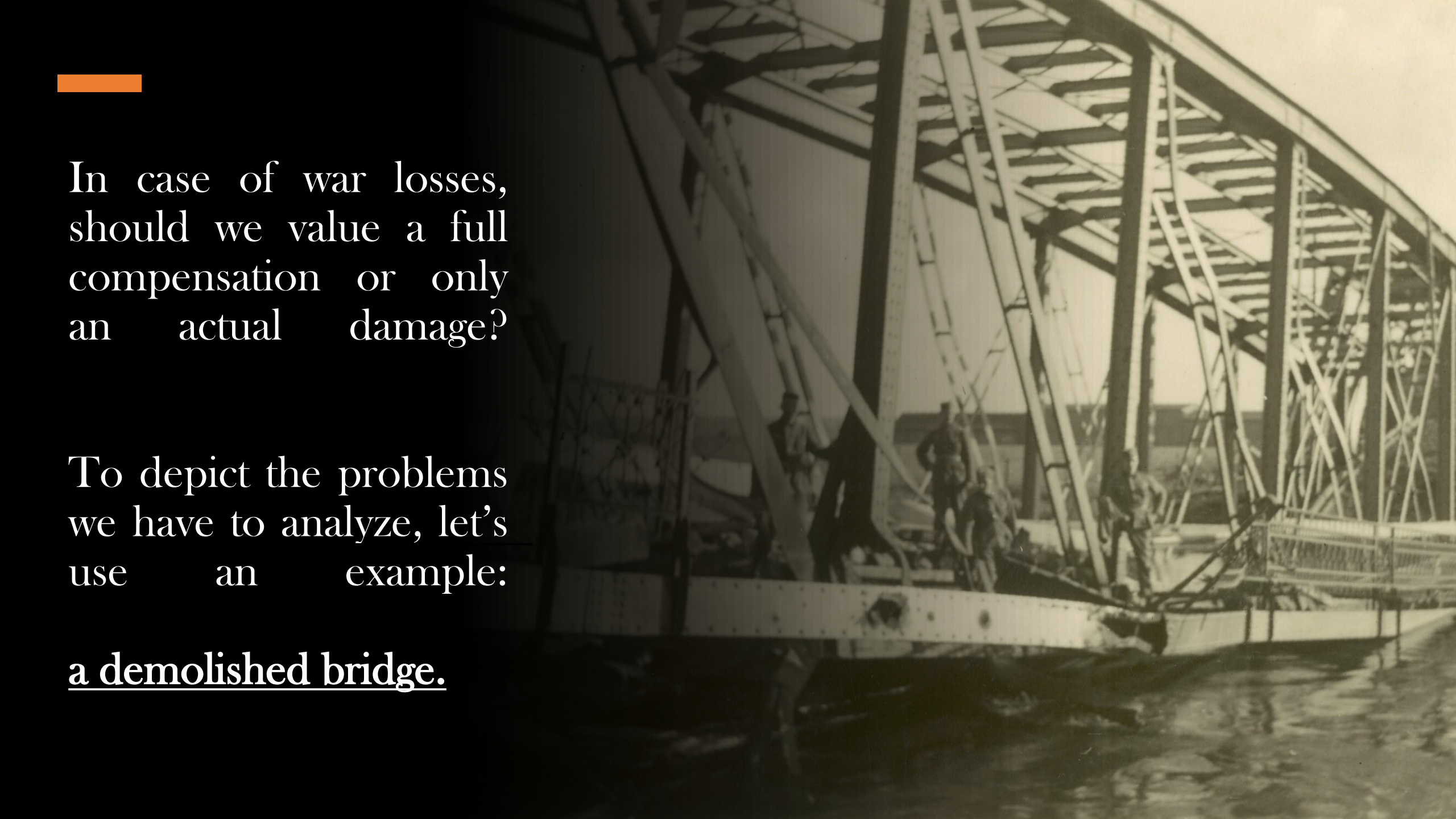
- Since the war in the former Yugoslavia in the 1990s, it seemed in Europe that wars no longer concern this continent, that disputes and conflicts there are resolved by using peaceful methods. The conflict between Ukraine and Russia in 2014, and especially in 2022 showed that this is not the case.
- The war in Ukraine causes very measurable war losses. Losses concern various categories of goods, both tangible and intangible. How to count all this?

What is a war loss? How to qualify it?

Without answers to these fundamental questions, it is not possible to carry out a valuation. The nature of war losses is very complex and has changed over the years.

Since Roman times, compensation for damage on legal ground includes:

- the actual damage (damnum emergens) - the losses suffered by the injured party,
- lost profits (lucrum cessans) - the benefits that an injured party could have achieved if they had not been harmed.



In case of war losses,
should we value a full
compensation or only
an actual damage?

To depict the problems
we have to analyze, let's
use an example:

a demolished bridge.

Our subject of valuation is one old decapitalized bridge, which required renovation, yet it had been still in use and served as a crossing.

- Will we value it according to current reconstruction costs?
- Will we take into account the degree of wear?
- Will the valuation date be the date of destruction?
- What about the compensation for the period of time from demolition of the bridge to its rebuilding?
- What about the compensation for the companies that could not function due to the lack of commute?

In case of this particular bridge, we are talking about the replacement value, which is also called sometimes the insurance value. It is understandable while talking about the transportation infrastructural objects as these kind of objects rarely appear in the market turnover.

Yet, what happens in case of properties that are common in the market, such as flats, residential houses, service buildings?

- Does a compensation computed as the loss of replacement value also apply here?
- What about the loss of real estate market value?



Ecological losses

- What about ecological losses?
- What about areas requiring reclamation?
- What about the areas that will be cleared of mines?



The Baltic Sea – a chemical weapon

During World War II, the Germans dumped huge amounts of chemical weapons and dangerous substances in the Baltic Sea. After the war, the Allies also dumped poisonous substances in the Baltic Sea.

- Who should pay for these real ecological losses today?



These are the effects of war, they do not end with the end of hostilities, they affect many years, decades. They affect individual citizens of the state parties to the conflict - their businesses, companies, enterprises that had to reduce production or relocate it.

- Do they deserve compensation for this?
- What about the companies that made money from the war? Should they pay war wealth tax?

What about other countries?

- Two Polish citizens were killed on the territory of Poland by Ukrainian rockets - is this a war loss?
- Countries that support Ukraine have allocated large funds for this purpose - is this a war loss?
- Are contracts with Russian partners terminated as part of the sanctions a war loss for Western companies?
- Should Germany get compensation for the damaged Nord Stream pipeline - is this a war loss?

Intangible goods

- What about personal goods?
- Can such categories of goods be classified as war losses?
- How to value goods such as life, health, mental health?

The vast majority of these goods are non-compensable. Human life or health cannot be restored. One can only mitigate the financial consequences of such losses.

War is politics in its purest form

- We must remember that when preparing the valuation of war losses, we will be threatened by political pressure.
- Before property appraisers proceed with the valuation, the opinion of politicians, philosophers, economists and lawyers is necessary. All of them should, together with the valuers, define what is subject to valuation in the context of war losses.
- Without such preparation, this may translate into political problems and ultimately make it difficult to determine the value of war losses.