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Milling and Grain

UKRAINE

“The question is not whether we are moving into a global food crisis - it's how large the crisis will be”

One of Ukraine's biggest food producers MHP, says that if its operations should fail, it would have a "catastrophic" impact on the country's population, adding that its survival is critical to the country.

Russia's military assault on Ukraine is expected to have significant implications for global supply chains. Both Ukraine and Russia are both major exporters of basic foodstuffs, so the war has already hit crop production, driving up prices across the world. And it is only going to get worse.

Russia and Ukraine together make up nearly a third of global wheat exports, 19% of exported corn and 80% of sunflower oil - the third most traded vegetable oil internationally.

According to the US Department of Agriculture In 2020, Ukraine alone produced 48 percent of the world's sunflower oil exports in 2020. Russia also produces enormous amounts of nutrients, like potash and phosphate - key ingredients in fertilisers, which enable plants and crops to grow.

At a time when the world is still licking its wounds post Covid, with other factors like Brexit here in the UK also having a profound effect on commodity prices, the declaration of war has seen wheat prices more than double in the space of a month.

Climate change and a fast growing global population had already been adding to the challenges that the global food production system was facing too – with all of this already taking hold well before the pandemic started.

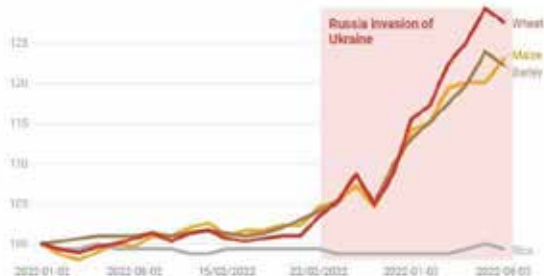
Speaking in March 2022 edition of Milling and Grain magazine, our commodities expert John Buckley spoke of the situation already not being ideal with “Ukraine’s planting fell short of target after lack of rain,” adding that, “more is needed before crops emerge from dormancy in the spring”.

Speaking of the ongoing situation, Mr Buckley also states that it is having “a more powerful influence on wheat market sentiment – maintaining the risk of higher prices until we see how this situation,” adding that, “as many analysts are pointing out, this could also affect insurance costs on Black Sea based grain vessels, raising freight costs – another factor diverting demand elsewhere.”



Wheat, maize, barley and rice price indexes

100 = price at February 1, 2022



So even before the first Russian tank rolled over the Ukrainian border, the situation in the region was by no means an ideal one.

A catastrophic impact

One of Ukraine's biggest food producers MHP, says that if its operations should fail, it would have a "catastrophic" impact on the country's population, adding that its survival is critical to the country.

The company's Australian chairman, Dr John Rich, who has been running the company from its offices in Slovenia, says that this could lead to the complete failure of Ukraine to produce anything, but also has implications globally, with consequences that he describes as being "unimaginable".

The month of March is critical for sowing wheat and other crops, and at present the situation is described as being on a knife edge, with the advancing Russian army already occupying 15 percent of the available farming land.

"If this continues, of course our ability to sow rapidly diminishes, particularly if they (the Russian army) moves into the west of the country where a large part of our operations are based," adds Dr Rich.

"For the wider world, it's simple. The price of wheat will continue to rise, the price of corn and other commodities will rise significantly, and you'll have spiralling inflation at a time when we've already had problems with the global supply chain because of Covid," he adds.

MHP has thousands of vans at its disposal which has made it an important part of the humanitarian effort. Delivering its own products and other aid has been particularly important for towns and villages that have become isolated following the invasion

where Dr Rich said some people have spent up to five days without food.

"We've been delivering ready to eat food, because people can't cook outside, and delivering to villages that have become cut off," he says. "At present, the company is operating like a war room. Frankly for the drivers going into those areas - It's like a suicide mission, particularly getting into the cities that have been under heavy attack."

"It's an enormous challenge for our staff and we have to try and incentivise people, pay them more, and guarantee to look after their family if something happens", he adds.

In addition to its poultry operations, MHP has a major presence in the country's agriculture sector, growing wheat and grain on thousands of hectares of land. The firm is also a big exporter of sunflower oil, though the company's exports ground to a halt following the invasion.

MHP has appealed for donations to its charitable foundation so they can continue to distribute food. Dr Rich explains that he was trying to cover the enormous costs of giving away poultry for free when the firm's input costs were "skyrocketing".

A shock to the global supply & cost of food

Svein Tore Holsether, Chief Executive of Yara International, which operates in more than 60 countries, has warned the situation could get even tougher. The company, which buys considerable amounts of essential raw materials from Russia, describes the situation as a shock to the global supply and cost of food, adding that fertiliser prices were already high due to soaring wholesale gas prices.

"We were already in a difficult situation before the war... and now its additional disruption to the supply chains and we're getting close to the most important part of this season for the Northern hemisphere, where a lot of fertiliser needs to move on and that will quite likely be impacted," says Mr Holsether, speaking in a recent interview with the BBC.

"Half the world's population gets food as a result of fertilisers... and if that's removed from the field for some crops, will drop by 50 percent," he adds. "For me, it's not whether we are moving into a global food crisis - it's how large the crisis will be."

Mr Holsether describes the war as "a catastrophe on top of a catastrophe" that will increase food insecurity in poorer countries, highlighting just how vulnerable to shocks the global food supply chain now is.

"We have to keep in mind that in the last two years, there's been



an increase of 100 million more people that go to bed hungry... so for this to come on top of it is really worrying," he adds.

Countries are hoarding supplies

A further issue that is further adding to the situation is that panic buying is back. However, in this instance rather than individuals hoarding toilet paper and cleaning products, national governments are the guilty parties who, in the wake of Russia's invasion of Ukraine, are hoarding food supplies. US officials are warning that such behaviour could prove catastrophic for the global food supply, which is still recovering from the pandemic's effects.

Since the invasion in late February, ports and supply routes have been all but closed and sanctions have blocked Russian exports to many of the world's major economies. This has prompted governments across Europe, Africa and the Middle East to scramble for a new source of nutrition for millions of people.

To make matters worse, many of the countries who could help fill those voids — including Hungary, Argentina and Turkey — have placed restrictions on exports of key food products, arguing they need to keep enough supply for their own populations.

China has also signalled that it will likely hold back on rice exports, another major source of global nutrition, as food insecurity grows. Beijing already holds half of the world's wheat supply in storage and its panic buying is further driving up prices.

Mitigating the disaster

EU Council declaration in Versailles on food security following the Russian invasion of Ukraine, was strongly welcomed by FEFAC, a body that represents the EU compound feed and premix manufacturers.

The European Commission publication on a contingency plan for ensuring food supply and food security clearly highlighted the vulnerability of the EU feed sector regarding imports of protein-rich feed materials and essential feed additives.

"We will improve our food security by reducing our dependencies on key imported agricultural products and inputs, in particular by increasing the EU production of plant-based proteins."

For many years FEFAC supported EU actions and initiatives to strengthen the EU's food and feed sector resilience, based on 'lessons learnt' during the Covid pandemic and the EU Protein Plan first published in 2018.

However, as agricultural ministers discuss the possibility of

turning more land over to agriculture, environmental experts are warning that the debate is being hijacked by those with ulterior, vested interests, prompting a conflict between food security and sustainability.

After an informal meeting of European agricultural ministers, it was announced that the bloc will consider actions designed to sure-up European food security, "securing and freeing up Europe's production capacity in 2022". These proposed measures include sowing fallow land with protein crops, with the implication being that these would plug the gap that Black Sea imports will leave in feed supplies.

Copa and Cogeca held a coordination meeting with their members on the humanitarian situation arising from the war in Ukraine and on the first responses provided by the extraordinary meeting of the AGRIFISH Council organised by the French Presidency.

Christiane Lambert, Copa President, insisted that there isn't a conflict between maintaining the two objectives of delivering a food policy that promotes both security and sustainability, "Since the Russian government is using food security as a weapon, we must counter it with a food shield. As with energy, in agriculture we strongly believe that it is possible to strengthen our strategic autonomy while continuing to make progress on sustainability.

"Pitting these two dimensions against each other, as we have heard in Brussels in recent days, is unproductive. We need to rearm our agriculture today to face these two major crises at the same time: the war in Ukraine and climate change."

A paradigm shift is needed

Copa and Cogeca both state that food security is highly strategic and still very relevant. A paradigm shift is needed in the way Brussels thinks about agriculture, starting with the objectives set out in the Farm to Fork. Farmers and cooperatives are now waiting for concrete guidelines and actions as a solution to food, energy, climate, and environmental challenges.

As the current President of the AGRIFISH Council, French Minister Denormandie, declared at the end of a recent meeting of the Council, it is urgent to unleash the potential of European agriculture to mitigate the effects of this war.

Copa and Cogeca are asking to be able to cultivate all available land in 2022 to compensate for the blockage of Russian and Ukrainian production. Everything must be done to prevent disruptions in supply chains, which will inevitably lead to shortages in certain parts of the world, which is an essential question of food sovereignty and democratic stability.

