

The battle of the breadbasket

Examining the potential effect of the conflict in Ukraine on world food prices

by Andrew Wilkinson, Milling and Grain magazine

Known as the ‘breadbasket of Europe,’ the combined agricultural output of Russia and Ukraine accounts for nearly a third of the world’s wheat and barley, and two-thirds of the world’s export of sunflower oil.

To date, the conflict has damaged many of Ukraine’s ports and agricultural infrastructure and that is likely to limit the country’s agricultural production for years.

This is a huge issue in terms of world food prices as in addition to the already listed statistics, Ukraine is also the world’s fourth largest corn exporter, whilst it also being a major contributor to the world’s supply of rapeseed oil.

Russia and Belarus, who are both being severely limited by the imposition of western sanctions and their own export bans, account for more than 40 percent of global exports of potash – a widely used crop nutrient.

All of these statistics make this whole area, that is now largely a war-zone, a pivotal location for world food production. So, when Russian tanks rolled into Ukrainian territory on February 24, 2022, the impact was always going to send shockwaves reverberating right across the world.

Escalating food and energy prices

Now, several months down the road, the conflict is already resulting in noticeably escalating food and energy prices, with cereal prices hitting record levels in March 2022 – a direct result of limited shipments of corn and wheat during the war.

According to the World Bank, the Ukraine crisis has already had a devastating effect on the wider outlook for food prices, whilst warning that this is likely to be the case for the next three years, prompting fears that the global economy is heading for a level of poor economic growth and high inflation not seen since the 1970s.

The organisation also states that if this prediction becomes reality, then there is a real risk that persistently high commodity costs could last until the end of 2024. The Bank’s latest commodity markets outlook also indicates that over the past two years, the world had seen the biggest increase in energy prices since the oil crisis in 1973.

As a result of trade and production disruptions, the bank is forecasting a 50 percent rise in energy prices this year. It also expects the price of Brent crude oil to average US\$100 a barrel in 2022, its highest level since 2013 and an increase of more than 40 percent compared with 2021.

Whilst the costs of energy and food were likely to retreat from their current levels at some point, they are still forecast to be

above the average for the past five years at the end of 2024.

Across much of the world, the cost of cooking oils, dairy and everyday staples such as pasta have risen dramatically, with many countries seeing the biggest jump in food and fertiliser prices since 2008.

The self-preservation societies

Wheat prices have been soaring in recent weeks, with supply concerns caused by the Ukraine war worsened by a number of droughts around the world. The US Department of Agriculture forecast that global supplies for the coming crop year would fall for the first time in four years.

In addition to this, the world food price situation has no doubt been worsened by dozens of countries who have prioritised self-preservation by putting up trade barriers in the past two months.

According to an article recently published by the New York Times, this decision has been taken in nations across the world in order to protect scarce supplies of food and commodities, with these governments desperate to secure food and other commodities for their citizens amid global shortages and rising prices.

What often begins as well intended measures, export embargos often end up doing much more harm than good. Although putting them in place is a great way for a government to let its people know that they are protecting them, it is arguably little more than a knee jerk reaction.

Very much like the panic-buying that stripped grocery store shelves at various moments of the pandemic, it is widely believed that the current wave of protectionism will only compound the problems that governments are trying to mitigate.

In a somewhat unsurprising move given the circumstances,

Ukraine has limited exports of sunflower oil, wheat, oats and cattle in an attempt to protect its own war-torn economic situation. Russia has also banned sales of fertiliser, sugar and grains to other nations.

Indonesia, which produces more than half the world's palm oil, has also halted outgoing shipments, whilst Turkey has stopped exports of butter, beef, lamb, goats, maize and vegetable oils.

Not just about Ukraine

Until the end of February of this year, Ukraine exported most of its goods through seaports. Since then, the country has been forced to export by train or via its small Danube River ports. Officials have estimated that up to 25 million tonnes of grain is being left to rot in Ukrainian silos and warehouses because it cannot get out of the country.

The UN has said 36 countries count on Russia and Ukraine for more than half of their wheat imports, including some of the poorest and most vulnerable in the world, including Lebanon, Syria, Yemen, Somalia and Democratic Republic of Congo.

David Beasley, who heads the UN's World Food Programme which feeds 125 million people and buys half its grain from Ukraine, released a direct message to Mr Putin. "If you have any heart at all, please open these ports," he says. "This is not just about Ukraine, this is about the poorest of the poor who are on the brink of starvation as we speak."

This sentiment has also been echoed by the German foreign minister, who states that as wheat prices continue to climb, finding alternative export routes from Ukraine are urgently needed.

In comments recently published by Financial Times, German Foreign Minister Annalena Baerbock says that the G7 group of

industrialised nations was urgently seeking alternative routes for the export of Ukrainian grain.

Speaking at the conclusion of a three-day meeting of G7 foreign ministers in Germany, Mrs Baerbock echoes Mr Beasley's statement by referring to the many millions of tonnes of grain that is currently stuck in Ukrainian ports, adding that this is "grain that the world urgently needs, every tonne we can get out will help a bit to get to grips with this hunger crisis. In the situation we're in, every week counts."

Is it just the war?

Here in the UK, in addition to the pandemic we have also had to navigate the fallout from Brexit as well as various food and fuel supply issues - domestic utility bills have also recently soared skywards too.

In terms of the wider global situation, the current increase is traceable back to mid-2020 when global food prices started to rise when businesses shut down due to the Covid-19 pandemic. This in turn puts strain on supply chains thus increasing demand, states a recent article published by Reuters.

This period also saw farmers dumping milk and letting fruits and vegetables rot due to a lack of truckers to transport goods to supermarkets, where prices spiked as consumers stockpiled food.

This was also exacerbated by a shortage of migrant labour as lockdowns restricted movement, with this having a severe and far-reaching impact on crops worldwide. Throughout the pandemic, high vegetable oil prices have also helped to drive up broader food costs.

Dairy and meat prices reached a record in April, according to the UN food agency, reflecting continually increasing global demand for protein and high prices for animal feed - mainly corn and soybeans. In addition, bird flu in Europe and North America impacted egg and poultry prices.

So how bad is it?

Some observers have suggested Ukraine will be lucky to export more than another one million tonnes of wheat before the season ends, although the market must also take account of the fact its shipments prior to the invasion were running well ahead of last year.

Perhaps the biggest problem identified by most analysts is what happens to Ukraine's 2022 crops. Although what is clear is that sewn area will drop in conflict zones and areas taken by Russia.

Further issues, such as shortages of fuel and fertiliser, labour, as well as issues relating to damaged or otherwise unsafe

infrastructure, all do very little to arouse any optimism relating to the production outcomes of 2022.

A sign that the market might have overreacted to the conflict was the rapid retreat in the CBOT price in late March/early April, the front futures month breaking US\$10/bu for the first time in a month (US\$9.72 at one stage).

The FAO's Food Prices Index, a measure of the most commonly-traded food commodities, fell slightly to 158.5 points in April, from March's record high of 159.3 points. The April figure marks a 0.8% reduction in prices on month but was still 30% higher than April 2021.

Some good news...

Something that may mitigate some of the negative effects of the global food prices can be found in global production forecasts. In 2022 Europe expects a bigger rapeseed crop, with French analyst Strategie Grains estimating a potential 7.4 percent jump to around 18.2m tonnes.

This optimism is tempered however, with the fact that the new season will start with global stocks at a multi-year low of less than four million tonnes - almost half the level of two years previously with Canada's just 500,000 versus 3.44m in 2019/20.

For sunflowers, hopes of supply relief at some point in the future rest almost entirely on Europe again. Last year it raised output to 10.3m tonnes from 8.85m in 2020. Whilst both rapeseed and sunflowers are grown primarily for their high oil content, they contribute as an ingredient to the global meal supply, with just under 18 percent.

World food prices - six key points

Russia's invasion of Ukraine has dramatically worsened the outlook for food prices

This is likely to be the case for the next three years.

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Dozens of countries have thrown up trade barriers that could make things worse.

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