

## The Impacts and Policy Implications of Russia’s Aggression against Ukraine on Agricultural Markets

### What’s the issue?

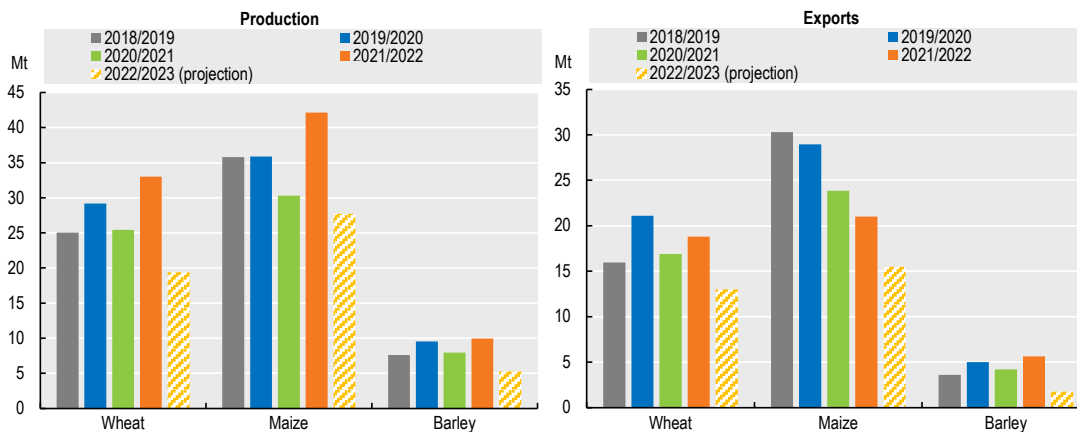
Ukraine is the world’s largest producer of sunflower seed, as well as a key exporter of wheat (world’s 5<sup>th</sup> largest), maize (3<sup>rd</sup>), barley (4<sup>th</sup>), rapeseed (3<sup>rd</sup>) and vegetable oil (3<sup>rd</sup>) ([OECD-FAO Agricultural Outlook 2022-2031](#)).<sup>1</sup> Since February 2022, the Russian Federation’s (hereafter “Russia”) large-scale aggression against Ukraine has been undermining the latter’s capacity to harvest and export crops (Figure 1).

The [International Grain Council](#) (IGC) projects that Ukraine’s production of the main crops (i.e. barley, maize, rapeseed, soybean and wheat) will be 37% lower in 2022 compared to last year due to direct damage of winter crops caused by active fighting, detritus from the war preventing planting of the spring crops, and high input costs.

Ukraine’s grain exports are projected to drop by 35% year over year as its seaports – the main route for its grain shipments – have been blocked due to the ongoing war or Russian occupation. Reduced export capacity from Ukraine has been contributing to higher global food prices in the first half of 2022, raising food security concerns notably in key importer countries in the Near East and North Africa.<sup>2</sup>

Russia is also a key producer and exporter of arable crops, and plays an important role in global energy and fertiliser markets. International energy and fertiliser prices have increased following Russia’s aggression against Ukraine and the resulting uncertainty related to the availability of Russian energy and fertiliser.<sup>3</sup> As the agri-food sector is highly-energy intensive, rising energy and fertiliser prices are translating into higher production costs and contributing to food price increases.

**Figure 1. Ukraine’s production and exports of main cereals**



Source: [International Grain Council](#), 2022.

<sup>1</sup> Data are based on the average over the past five years (2016/17 to 2020/21 Avg.)

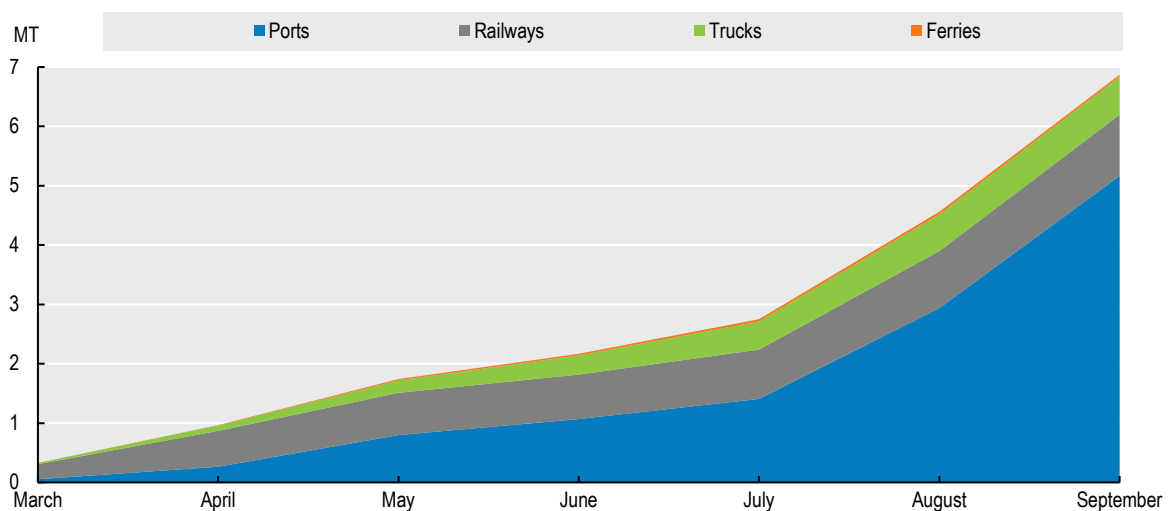
<sup>2</sup> In March 2022, the [FAO Food Price Index](#) (FFPI) reached its highest level on record since 1990 at 159.7 points. The FFPI retreated slightly in the following months to reach 138 in August 2022, though still 8% above its value in the corresponding month in the previous year.

<sup>3</sup> The [World Bank fertilizer price index](#) peaked at 255 points in April 2022, down to 209.8 in August 2022, though still 60% above its value in the corresponding month in the previous year.

## What should policy makers do?

- **Facilitate exports from Ukraine:** In the short run, the focus should be on enabling agricultural exports from Ukraine.
  - **Enable the use of Black Sea ports:** Ukraine's ports at the Black Sea are the main exports channels for cereals and oilseeds. However, these ports are affected by military activities or are mined. On 22 July 2022, Ukraine and Russia each signed an [UN-backed deal](#) with Türkiye to allow grain exports from three Ukrainian ports at the Black Sea (i.e. Odessa, Chernomorsk and Yuzhny). The re-opening of these ports has so far increased grain export volumes to about 5 million tonnes (Mt) per month – up from 1-2 Mt per month when ports were closed – and eased the upward pressure on international prices (Figure 2).<sup>4</sup> However, according to the [IGC](#), Ukraine's export capacity would need to rise to about 7 Mt per month to free sufficient space for the incoming harvests, and for farmers to earn enough income to cover production costs to plant next season. Several challenges remain for further increase in grain exports from Black Sea ports including continued Russian military activity, damaged port logistics, and high insurance costs.
  - **Facilitate exports via alternative routes:** by a) stream-lining administrative procedures at the land borders of Ukraine, b) improving road and railway connections, c) increasing capacity of river ports on the Danube, and d) providing access to ports in other countries (e.g. Constanta in Romania or Gdansk in Poland) for Ukrainian products brought by rail or road. Exports of Ukrainian grains by road and rail have partly offset the loss in sea exports since the beginning of the war. However, accessible and functioning seaports are key, as there are constraints in further expanding exports through alternative routes (Figure 2).

**Figure 2. Monthly agricultural exports from Ukraine by export channel (March-September 2022)**



Source: [Ministry of Agrarian Policy and Food of Ukraine \(2022\)](#).

- **Keep trade in food and agricultural inputs open:** Some countries have implemented policies in response to the market effects of Russia's large-scale aggression against Ukraine with the aim of insulating domestic markets from the significant increases in the international food and input prices ([OECD Agricultural Policy Monitoring and Evaluation 2022](#)). Fertilisers and agricultural commodities have been clearly exempted from any sanctions imposed on Russia. Although export bans and other trade restrictions can temper domestic price increases, they further accelerate price spikes on international markets and undermine the trust that countries have in the reliability of the international trading system as a source of supply. For this reason, export restrictions should be avoided and, where already implemented, should be dismantled as soon as possible. In contrast, reductions in import barriers and

<sup>4</sup> International prices of wheat and maize fell in July, by 15% and 11%, respectively, largely in response to the announcement of the Black Sea Initiative. However, that price drop has already slowed in August for wheat, and completely stopped in the case of maize (AMIS, 2022).



simplification of trade procedures can facilitate trade and the functioning of international markets and should be made permanent to the extent possible.

- *Strengthen market transparency:* Market transparency and policy dialogue should be strengthened, as they play key roles when agricultural markets are under uncertainty and need to adjust to shocks affecting supply and demand. G20 initiatives such as the [Agricultural Market Information System](#) (AMIS) play a critical role in improving market transparency.
- *Prepare recovery plan for Ukraine:* [Kyiv School of Economics](#) estimated direct damages to Ukraine's agricultural sector, including damages to land, infrastructure and machinery at USD 4.3 billion as of June 2022. Without the restoration of lost assets, Ukraine will not be able to return to its place in global agricultural markets. Several discussions are already taking place to help Ukraine recover from the war damages, including within the OECD. The OECD is supporting the Ukrainian Government in the development and implementation of a recovery plan for the agribusiness sector. In parallel, the OECD is preparing an action plan to support Ukraine.

### Further reading

OECD (2022), The impacts and policy implications of Russia's aggression against Ukraine on agricultural markets, <https://www.oecd.org/ukraine-hub/policy-responses/the-impacts-and-policy-implications-of-russia-s-aggression-against-ukraine-on-agricultural-markets-0030a4cd/#biblio-d1e804>.