

The impact of the Russia-Ukraine conflict on food security. Challenges and opportunities for the Southern Cone

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The Russian invasion of Ukraine, the extension of the conflict, the reaction of the West, the still uncertain position of China, have and will have disruptive impacts on an already complex international scenario. In a hard-hit world, emerging from the COVID-19 pandemic and in a context where the fight against global hunger has shown a setback in recent years, concerns about food security are increasing, particularly in the many countries that depend, fundamentally, on imports to feed their populations.

From the point of view of agri-food trade (among other issues), concerns about the immediate effects of this war are logical. The conflict occurs in a market that was already in a situation of tightness between supply and demand, due to a combination of factors, including the extraordinary growth in Chinese demand and poor harvests due to adverse weather conditions in producer countries, which reduced stocks worldwide and, together with disruptions in supply chains, resulted in a large increase in the international prices of agricultural commodities.

Russia and Ukraine are both key players in some of these markets as they are among the largest exporters of wheat, maize, and sunflower oil. They account for 78% of world trade in sunflower oil, 28% of trade in wheat and 19% in corn. Further most, Russia is one of the world's leading energy suppliers with a 20% share of global gas exports (representing 40% of EU imports) and 11% of oil, and a major supplier of fertilizers (15% of world exports of nitrogenous fertilizers and 17% of potash fertilizers).

The Russian invasion of Ukraine presents multiple risks for the world market for grains, energy, and agricultural inputs. The most obvious is linked to trade and logistics, the immediate consequence of which is the disruption of trade flows, since ports are closed and logistics operators do not want to work in the Black Sea area, while, at the same time, production and transportation infrastructure has been destroyed. In turn, the responses of the West, the sanctions imposed on Russia, have an impact on trade flows since the payment chains with the countries in conflict are also interrupted.

Thus, the impacts on world food security are quite clear. The drastic decrease in grain exports from these two large suppliers has caused a new upward rally in prices, which are at record levels. A recent FAO report indicates that the prices of agricultural commodities (already high before the war) are reaching a new peak, currently being 94% above the 2017-2021 average (CSIS, March 2022 and Rosales, 03/22/2022). The situation is even more worrying for many countries in Africa, the Middle East, and Southeast Asia, which get 50% or more of their wheat imports from Russia and Ukraine (many of which are already food insecure).

On the other hand, the impact in terms of the energy and fertilizer markets also generates disruptions in the agri-food markets, which are highly dependent on both,

and in which Russia plays a crucial role as a supplier. Depending on their levels of dependency, different countries are affected to different degrees. In our region, dependence on potash fertilizers imported from Russia is around 20% for Argentina, more than 40% for Brazil and Uruguay, and 50% for Paraguay (Laborde 2022). High prices and the need to find a replacement for the supply of fertilizers pose important challenges and may have consequences on the region's productivity levels.

And, as a corollary, several countries (including Argentina but also Hungary, Indonesia and Turkey, in addition to the countries in conflict) are applying restrictive measures on exports, further limiting trade flows in agri-food markets. Importers, at the same time, loosen market access requirements and advance purchases to establish emergency reserves. Thus, as it has happened in previous food security crises, concerns over food supply and high prices lead countries to adopt uncoordinated unilateral measures that deepen shortages and aggravate the situation. It is very important, then, coordination actions by international organizations, and that net exporters send signals of calm to the international market.

In the short term, the absence of Russia and Ukraine in the market has effects on the availability and prices of agricultural products of great importance (such as wheat and corn) and on energy and fertilizers. But, in addition, it is likely that these effects will continue over time, even assuming an end or decrease in the intensity of the conflict (which is not yet clear), given the probable persistence of sanctions against Russia by the international community.

However, doubts arise regarding the limitations that may exist on economic sanctions and their duration (Rosales, 03/22/2022). Russia is also a major exporter of minerals, contributing 10% of the world's copper and aluminum, 25% of nickel and 50% of US uranium imports. For the time being, many Western countries have not adopted restrictive measures on their energy purchases from Russia, on which they are highly dependent.

The future scenario will depend, among other issues, on two elements. The effectiveness of the sanctions against Russia, and even the possibility of also applying them to those who maintain commercial relations with this country; and the role of China, especially its capacity to absorb the exports that Russia cannot place in other destinations. In the extreme, we could be heading towards a bifurcation in the international financial and commercial system, consolidating two spheres of influence, as in the past, but in a scenario never seen before.

In this sense, the position of China becomes decisive. In the words of Osvaldo Rosales, "China has important ties with Russia, but its economic, commercial, investment and technological ties are much more relevant with the West. China is facing critical decisions sooner than expected..." (03/22/2202, p. 9). What seems clear is that the world to come will be more multipolar, and with greater geopolitical constraints on trade and investment flows. Volatility and uncertainty will dominate the agri-food trade scenario.

Also in this direction, the impact on the multilateral trade system, already weakened and challenged, raises a strong question regarding the role of the WTO as a common network for a managed globalization based on rules. It is likely that this will be very difficult to sustain and that the bilateral trade relations will deepen, where concessions

and restrictions will be observed beyond those stipulated in the existing regulatory framework.

For the countries within our region, as net food exporters, the conflict represents challenges, but also great opportunities in the international market. In the short term, the main world importers are turning to the region to meet their food needs, in the absence of Russia and Ukraine, even relaxing sanitary and phytosanitary requirements and reducing tariffs for our products. In addition to the positive impact on exports, this situation unmasks Europe's "green protectionism" and places us before the possibility of consolidating these access advantages for the future. Likewise, it opens opportunities for biofuels and biotechnology, which have faced restrictions until now.

To increase export volumes and take advantage of the space left by Russia and Ukraine in the grain market in the short term, it will be necessary to solve supply problems, not only of fertilizers but also of seeds (for example, in the case of sunflowers) and fuels. But given their dynamic and innovative production model, Argentina, Brazil, Paraguay and Uruguay have agriculture that is less intensive in the use of inputs and the early adoption of technologies that favor a more efficient use of inputs and resources (such as precision), and they are better prepared to face this scenario than their competitors, giving rise to a situation that we could call "increased comparative advantages". The signals to be provided to local producers regarding national trade policies for the next campaign will be decisive. Faced with such an uncertain international scenario, it is important to offer a framework of predictability in the domestic sphere that encourages investment. More investment will bring greater exports, greater resources for the states and more employment, contributions that are especially relevant in times of economic crisis.

However, the implications of the conflict must be analyzed in a medium- and long-term scenario. The countries of the region are facing an opportunity to consolidate themselves as reliable world food suppliers. This conflict is exposing the fragility of reputations of countries. The growing concern for food security will be highly conditioned, in the future, by armed conflicts and threatened regions. Thus, the possibility of rebuilding South American regionalism around the concept of "region of peace" strongly emerges again.

The new scenario may be conducive to the continuation or relaunch of trade negotiations that were stalled, such as the Mercosur-Canada agreement or even with the EU and EFTA. Trade issues, but especially geopolitical ones, linked to the need to generate a "containment" network in the face of the weakening of multilateralism and growing bipolarity, can give new dynamism to the foreign relations agenda.

Although issues related to climate change are likely to be relegated to the background for the duration of the conflict, the trends and concerns that have shaped this agenda in recent decades will continue to be present. Therefore, it is important that countries within the region continue working on a joint approach to the sustainability of our agri-food production.

In this volatile context marked by uncertainty, the countries of the Southern Cone can play a key role in terms of providing food for the world, which would have a positive impact on their international insertion in the short and long term. But more than ever they need to work together to win the trust of importing countries, quite a challenge

given their very divergent situation in terms of domestic policies. For this reason, it is necessary to clarify and make these policies transparent, and to act with pragmatism, promoting the understanding of what this opportunity can represent for the development of the region.

Readings

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