

Crisis and Resilience: Ukraine's Food Exports in the Shadow of War

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Introduction

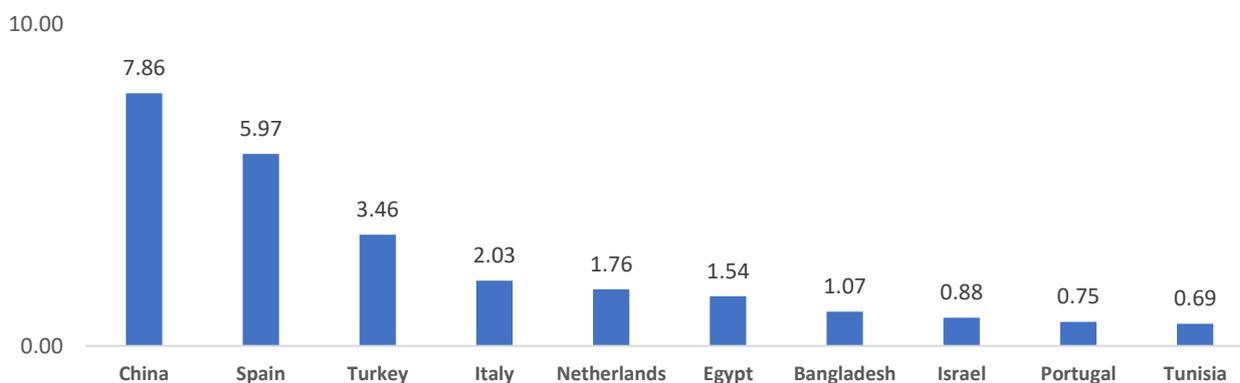
Since February 2022, when Russia started the full-scale invasion of Ukraine, the global food security has constantly faced threats. Primarily, the Black Sea ports of Ukraine were under Russian marine blockade. Consequently, Ukrainian grain was not able to reach international market due to the logistical bottleneck on its overland borders. Only the Black Sea Grain Initiative, agreed by Ukraine, Russia, Turkey, and the United Nations in July 2022, decreased the risks of food shortages and price increases. However, Russia announced termination of its participation in the grain deal on 17 July 2023.

Ukraine has made several steps to secure food exports since July 2023. The sea exports continued via Ukraine's ports on the Danube despite constant drone and missile attacks. Ukraine has also announced new grain corridor which operates without Russian involvement. Temporarily, the efforts were complicated due to export restrictions imposed by the EU neighboring countries. The article examines recent developments regarding the grain corridor from Ukraine and articulates possible solutions in the near and distant future.

Outcomes of the Grain Deal

Back in 2022, the deal was crucial to secure the global food market as millions of tons of desperately needed grain and other food products were blocked in Ukraine. Until mid-July 2023, Ukraine exported circa 33 million tons of agricultural products through the grain corridor, from three Ukrainian Black Sea seaports to 45 countries around the world.¹ China, Spain, and Turkey were the main export destinations. At the same time, considerable export volumes reached Egypt, Bangladesh, Tunisia, India, Libya, and other vulnerable food markets. Ukraine also exported circa 0.33 million of agriculture products to the Republic of Korea. As a result, through the year the UN FAO Food Price Index has gradually decreased by more than 23% from its peak at the beginning of the war in March 2022. According to the UN, Ukraine provided more than a half of World Food Program's wheat grain in 2022.²

Chart 1. Top-10 countries of destination through the Black Sea Grain Initiative (million tons exported)



Source: United Nations, <https://www.un.org/en/black-sea-grain-initiative/data>

¹ See Ukrainian Grain Association, <https://uga.ua/en/results-of-the-grain-corridor-work/>.

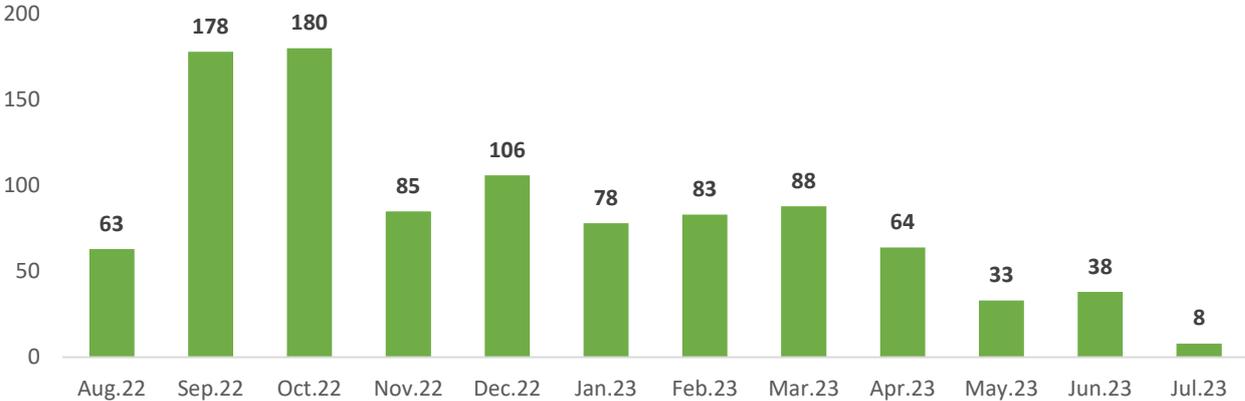
² See <https://www.europolitika.com/a-glance-to-black-sea-grain-initiative-results-of-first-year/>.

Undoubtedly, the grain deal greatly contributed to Ukraine’s resilience in the face of economic difficulties. Ukrainian agrifood companies managed to keep many traditional markets despite decline of export volumes. For example, Ukraine preserved its leadership in production of sunflower oil and its exports to Europe and Asia. As a result, in 2022 the export sales of sunflower oil made USD 5.43 billion or 78% of the 2021 level.³ The agrifood exporters remained the main source of foreign currency income (except huge international aid). Overall, the agrifood sector is still one of the pillars of the Ukraine’s economy.

What is behind the termination of the Grain Deal?

Since July 2022, the Grain Initiative agreement was prolonged three times. The last renewal for 2-months period was approved in May 2023, just before the start of Ukraine’s counter-offensive in the south of the country. It should be noted that many experts and government bodies indicated that Russia sabotaged the agreement even when it was operational. According to some estimations, agrifood exporters lost circa from USD 210 million to USD 1 billion (based on different experts) since Russian experts deliberately prolonged the procedures.⁴ Only 38 ships used the grain corridor in June 2023 and 8 ships in July 2023. The figure was a few times lower than in autumn 2022 – winter 2023. For example, there were monthly around 180 ship departures at the peak in September – October 2022. This demonstrates that the grain corridor was not fully operational in the months before its termination.

Chart 2. Number of departures from Ukraine through the grain corridor by month



Source: United Nations, <https://www.un.org/en/black-sea-grain-initiative/data>

Some stakeholders expected that Russia would not extend the agreement until the scheduled meeting between Turkish President Erdogan and Russian president Putin. However, Erdogan did not manage to persuade Putin to resume the grain deal in September 2023. According to the Turkish President, Russia was not ready to immediately return to the Black Sea Initiative. The Russian side argued that the agreed commitments were not fully fulfilled.⁵ The issue questions whether the world should accept the requirements of the aggressor which violates Ukraine’s sovereignty and international laws and blackmails the developed world with unjustified claims towards Ukraine. As for Russia, grain seems to be just another weapon to project its power and promote own interests. In July 2023, Russia organized a propagandist Russia-Africa summit where Russian president promised free grain shipments to several African countries.⁶ However, the end of

³ <https://www.kmu.gov.ua/news/zberihshy-svitove-liderstvo-u-vyrobnystvi-soniashnyku-cherez-blokuvannia-zernovoho-korydoru-ukraina-ryzkyuie-vtratyty-svitovi-rynky-zbutu-oliinoi-produktsii>.

⁴ See <https://forbes.ua/money/zolotiy-koridor-sabotazh-rosiyskikh-inspektoriv-obiyshovsya-ukrainskim-agrariyam-v-1-mlrd-30062023-14562>.

⁵ See <https://www.pravda.com.ua/eng/news/2023/09/4/7418384/>, <https://www.bloomberg.com/news/articles/2023-09-04/erdogan-eyes-progress-on-black-sea-grain-from-putin-ahead-of-g20>

⁶ See https://www.lemonde.fr/en/le-monde-africa/article/2023/07/28/russia-africa-summit-putin-promises-free-grain-shipments-to-six-countries_6069820_124.html.

Russian aggression and freedom of navigation in the Black Sea would be the best solution for poor regions of the world.

Recent developments demonstrate that Russia is not willing to negotiate neither peace with Ukraine nor grain corridor initiatives. Right on the next day after the Grain Initiative's termination, Russia started its terror against Ukraine's seaport infrastructure. As of mid-September 2023, Russian army damaged 105 seaport objects, including administrative buildings, grain warehouses, and other objects.⁷ According to the Ministry of Infrastructure of Ukraine, Russia destroyed 270 thousand tons of grain in such attacks in the first month after Grain Initiative expired.⁸ Overall, Russia intensified terror against Ukraine with drones. According to the Ukrainian Air Force, in September 2023 Russian Army launched 500 Shahed-136 kamikaze drones. For comparison, this number makes a half of all drones which attacked Ukraine in the last 6-months 'winter season'.⁹ High share of drones targeted Odesa, Reni, and other seaport cities. This might a part of a broader plan to attack critical infrastructure of Ukraine. The issue demonstrates that grain and food security are just toys for the Russian side. At the same time, Ukraine still needs more support from partners to upgrade the air protection forces and secure seaports.

New grain corridor?

Since July 2023, Ukraine sought to resume grain exports without any deals with its enemy despite lack of public approval from its allies. On 10 August 2023, Ukraine announced a new temporary route (so called "humanitarian corridor") for trade vessels to its Black Sea ports. As a result, first vessels left the Ukrainian seaport in mid-August. At the same time, the first ships risked calling to Ukrainian seaports only in September. In mid-September 2023, the first Resilient Africa vessel left the seaport of Chornomorsk with 3 thousand tons of wheat. It was one of the first vessels that reached Chornomorsk through a temporary corridor secured by the Ukrainian Navy.¹⁰ Nevertheless, more than 30 ships have already called at Odesa and other nearby seaports since mid-September. Ukrainian side informs that the cargoes included circa 1 million tons of grain.¹¹ Ukraine has managed to extend it to other types of cargoes. Several vessels carried ocean containers and iron ore, but such shipments are still minor in comparison to agrifood exports. The sustainability of the new corridor is still uncertain, but time can confirm its safety. Ukraine confidently promotes the idea that the grain corridor is fully operational without Russia.

As of mid-October 2023, Ukraine has also proven credibility of a military solution. The Armed Forces of Ukraine has recently successfully attacked naval bases and vessels of the Russian Black Sea Fleet. Ukrainian Army successfully used British-French cruise missiles to destroy the Black Sea Fleet's headquarters in Sevastopol, Ukrainian city occupied by Russia since 2014. Several Russian battleships were destroyed right in a dry dock in Sevastopol, some were also damaged close to the harbor. As a result, the Russians partially moved its fleet to Novorossiysk, city on the Russian territory. Altogether, Ukraine has managed to keep Russian fleet far from the trade routes. According to some experts, Ukraine is currently winning the Battle of the Black Sea.¹² James Heapey, the British Minister of State for the Armed Forces, articulated the functional

⁷ See <https://www.ukrinform.ua/rubric-economy/3760882-ataki-rosii-na-ukrainski-porti-poskodili-105-obektiv-infrastrukturi.html>.

⁸ See <https://www.unian.ua/war/viyana-v-ukrajini-ataka-droniv-na-odesku-oblast-znishchila-zerno-yake-priznachalosya-dlya-dvoh-krajin-novini-odesi-12369276.html>.

⁹ See <https://uatv.ua/uk/rf-zapustyla-po-ukrayini-za-veresen-500-droniv-kamikadze-zsu-potribno-bilshe-zbroyi-proty-bpla-ignat/>.

¹⁰ See <https://interfax.com.ua/news/general/935756-amp.html>, www.bloomberg.com/news/articles/2023-09-19/wheat-extends-drop-with-ukraine-s-black-sea-grain-ships-in-focus.

¹¹ See <https://www.bloomberg.com/news/articles/2023-10-18/ukraine-s-risky-bet-pays-off-with-ships-streaming-to-its-ports>.

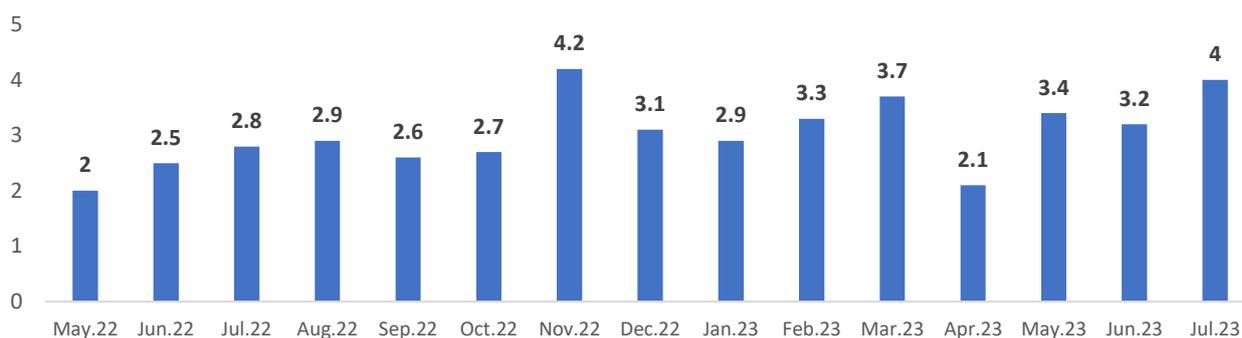
¹² See <https://www.atlanticcouncil.org/blogs/ukrainealert/putins-fleet-retreats-ukraine-is-winning-the-battle-of-the-black-sea/>.

defeat of the Russian Black Fleet.¹³ This demonstrates that more weapons to support Ukraine's sovereignty would also contribute to the global food security. Moreover, Ukraine needs to liberate the occupied Crimea to secure the Black Sea trade.

Alternative routes

Ukraine's international partners has put many efforts to widen the logistical bottleneck for grain exports. In May 2022, the European Commission launched the Solidarity Lanes Action Plan that should support alternative routes (rail, road, inland water) for goods. According to European Commission, Ukrainian exports through Solidarity Lanes reached circa 52 million tons of grain, oilseeds, and other related products in March 2022 – September 2023. Besides, Ukraine exported over 42 million tones of non-agriculture products (ores, wood, etc). It is estimated that the Solidarity Lanes also generated EURO 38 billion for Ukrainian businesses.

Export of grain, oilseeds, and other related products through the Solidarity Lanes, million tones



Source: European Commission based on the Ukrainian customs registers¹⁴

Several logistical issues still limit the capacity of alternative export routes. Before February 2022, 70% of goods were exported through the seaports of Ukraine. The railway and road infrastructure were not ready to digest new volumes of products. First of all, the border crossings were not planned for such high volumes of goods. Second, Ukraine and EU have different track gauge which limits free movement of railway wagons. Finally, there is not enough logistical capacity on the European side.¹⁵

The European Commission mobilized circa EURO 1 billion (together with financial institutions like World Bank, European Investment Bank, European Bank for Reconstruction and Development) to support this logistical initiative.¹⁶ The projects within the Solidarity Lanes envision investment in capacity of infrastructure objects. In June 2023, EURO 250 million were invested in nine Solidarity Lanes projects to improve cross-border connections between Ukraine, EU, and Moldova. In the long-term period, such steps will increase the capacity of overland routes. Such steps de facto mean infrastructural integration of Ukraine into the European Union. The EU contributes to the stability of Ukraine's economy and stabilizes the global food market.

Nevertheless, the agrifood sector is also an important issue of national policy in the EU member states. Therefore, the EU has temporarily experienced lack of unity regarding imports from Ukraine. Several countries that are on the export routes of Ukrainian agriculture products informed about market distortions due to large volume of Ukrainian imports. In April 2023, several EU Member States introduced unilateral restrictions that decreased Ukrainian exports through the Solidarity Lanes twice. However, the European Commission balanced the interests of Ukraine and EU Member States. As a result, the European Commission introduced exceptional and temporary preventive measures on limited imports for five Member States, including Poland,

¹³ See <https://news.liga.net/en/politics/news/chernomorskiy-flot-rf-poterpel-porajenie-on-vynujden-razoytis-v-porty-ministr-britanii>.

¹⁴ See https://eu-solidarity-ukraine.ec.europa.eu/eu-assistance-ukraine/eu-ukraine-solidarity-lanes_en.

¹⁵ See <https://niss.gov.ua/doslidzhennya/ekonomika/problemy-eksportnykh-perevezhen-zaliznychnym-transportom-ukrayiny>.

¹⁶ See https://eu-solidarity-ukraine.ec.europa.eu/eu-assistance-ukraine/eu-ukraine-solidarity-lanes_en.

Hungary, Slovakia, Romania, and Bulgaria until mid-September 2023.¹⁷ In Poland the issue became political because of the parliamentary elections in October 2023, as local farmers were important electorate of the ruling party. Polish government refused to lift the restrictions in September, but both parties (Ukraine and Poland) agreed to find a solution. Nevertheless, this seems to be just a brief episode that would not undermine overall efforts to support agrifood exports from Ukraine.

Conclusions

In 2022, the Grain Initiative was an important measure to provide the world with urgently needed food products. At that point, the deal also contributed into resilience of Ukraine's economy. However, the termination of the deal by Russia has become a critical point that brought more attention to other solutions. First, Ukraine has managed to organize sea export routes only under own control thanks to successful warfare in the Black Sea. A military solution which requires more weapons from the allies can perfectly secure new grain corridor now and end the war in the future. At the same time, Ukraine continues exports via alternative routes, including railway. In this area, Ukraine is supported by infrastructure efforts of the European Union. The combination of such military and infrastructure measures will guarantee that Ukraine remains a crucial player in global food security.

¹⁷ See https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4497 and https://neighbourhood-enlargement.ec.europa.eu/news/commission-adopts-exceptional-and-temporary-preventive-measures-limited-imports-ukraine-2023-05-02_en.

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