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ANALYSIS

Russia Weaponizes Grain Trade Against Ukraine

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Abstract

The Black Sea Grain Initiative, which had allowed Ukraine to export grain from its ports, was terminated by Russia on July 27. This article analyzes the consequences of termination and Ukraine's options, as well as Russia's conditions for restarting the agreement. It is unlikely that these demands will be met, so resumption of the grain deal is doubtful. Instead, Russia has weaponized grain trade against Ukraine.

Background

The February 2022 invasion of Ukraine was followed by Russia's blockade of Ukraine's Black Sea ports. In the early days after the invasion, Ukraine also mined its ports to prevent the advance of the invasion, with the net result that grain exports through the Black Sea effectively dropped to zero. During the 2020/21 marketing year, Ukraine was a significant exporter of wheat, accounting for about eight percent of world wheat trade and 13 percent of world corn exports (USDA 2022a).

Three consequences ensued from the tight global grain market. First, more than a dozen countries enacted grain export bans to protect their domestic supplies. Second, the cutoff of Ukrainian grain exports exacerbated tight global supplies as world consumption exceeded production, leading to higher prices. In March 2022, wheat futures spiked to \$460 per metric ton in the European Union and \$539 per metric ton in the United States. From that high point, wheat prices drifted downward for the remainder of the year (USDA 2022b). By December 2022, futures' prices in the EU were \$332 per metric ton and \$385 per metric ton in the United States (USDA 2022c). Third, the World Food Program (WFP) received only half of the usual volume from grain donors in the first half of 2022. In addition, due to higher global prices, the WFP was unable to purchase as much grain as previously. In June 2022, it had to suspend grain deliveries to 1.7 million people in South Sudan, a region on the brink of widespread famine (WFP 2022). Due to the ripple effects of the Ukraine war, in 2022 the number of acutely food-insecure people in the world rose by an estimated 181 million people across 41 countries (FAO 2022).

In late July 2022, a deal brokered by Turkey and the United Nations allowed Ukrainian grain to leave three key Ukrainian ports in the Black Sea: Odesa, Chornomorsk, and Pivdennyi. According to this agreement, called the Black Sea Grain Initiative, Ukrainian ships loaded with grain were permitted to navigate to Turkey for unloading. However, Russia did not allow vessels to register for departure from Pivdennyi, the large

est of the ports. From Turkey, the ships would return to Ukrainian ports after being inspected by teams from Russia, Turkey, and the United Nations to ensure that weapons were not being transported to Ukraine. The initial July 2022 agreement was valid for 120 days but was extended in November 2022 (120 days), March 2023 (60 days), and May 2023 (60 days). As a result of the grain deal, between August 2022 and July 2023 Ukraine was able to export about 33 million metric tons of grain from its ports, of which about 27 million were corn, although wheat was also exported (Seddon, Foy, and Samson 2023).

On June 26, 2023, the Joint Coordination Centre in Istanbul stopped issuing permits for ships to participate in the grain deal because Russia stopped inspecting ships as required as part of the process. After June 26, not one of the 29 ships that had applied for passage had their applications approved, and only 13 ships that had prior permission were allowed to sail (TASS 2023a). On July 17, Russia announced that it was terminating the grain deal, a move that the Biden administration termed "irresponsible" and "unconscionable" (Birnbbaum and Lamothe 2023). Russia did, however, hold out the prospect of returning to the deal if certain conditions were met (Masih 2023).

Russian Complaints

Russia had been dubious about the grain agreement from the beginning. Russia's skepticism about the deal was evidenced by its suspension of participation in October 2022 after suffering an attack on its Black Sea Fleet. It also suspended its participation for one day in November 2022, causing an immediate spike in global grain prices. Russia alleged that Ukrainian grain was being sent not to poor nations, but rather to rich countries in the EU, thereby earning it revenue that could be used to fight. Specifically, Russia alleged that only 10 percent of the corn and 40 percent of the wheat exported by Ukraine was destined for poor nations, with the rest being sent to rich countries.

In fact, even with the July 2022 grain deal in place, Ukraine did reorient its grain trade toward Europe due to the ease of shipment (rail, truck, barge) and because

of higher demand in Europe. Due to the destruction and mining of Ukrainian farms, Russian theft of Ukrainian grain and farm machinery, and Ukraine's conscription of men who would otherwise have been farming, Ukrainian grain production fell during 2022. As a result of the war, between 20 and 30 percent of the areas where winter wheat was sown went unharvested during the 2022/23 season. As a result, exports declined by more than one-third compared to the pre-war period. Total Ukrainian wheat exports were reported at 16.8 million metric tons and corn exports at 30.3 million metric tons for the 2022/23 season (Sobolev 2023).

Russia complained that while Ukraine was able to export its grain, Russia experienced difficulties exporting its own grain. For the past year, Russia has consistently criticized the agreement for only benefiting the Ukrainian side. Yet Russian claims are not supported by concrete data. Russia had a wheat harvest in excess of 100 million metric tons for the first time in 2022, which allowed it to lead the world in wheat exports during the 2022/23 agricultural year at more than 45 million metric tons, also a record high for Russia. Russia shipped grain to more than 100 countries. These data do not suggest that Russia suffered from restrictions on its grain exports.

Russian leaders further complained that their companies faced difficulty in completing transactions, shipping, and insurance. Russia had difficulty completing grain and fertilizer transactions because they were no longer part of the SWIFT system. To get around this, Russia initially insisted that transactions be completed in rubles. Later, it indicated that it would develop an alternative to SWIFT, an initiative that did not go far. Western cargo companies refused to carry or offload Russian grain, while Western insurance companies would not insure Russian cargo. Eventually, Western nations created loopholes that allowed Russian grain to be shipped and offloaded. In December 2022, Russia's United Grain company announced that it intended to establish its own fleet of bulk carriers for grain shipments, ordering the construction of 14 ships, with the first delivery in late 2025 or early 2026 (*Oreanda News* 2022). It also intended to buy five bulk carriers on the secondary international market. Russian exporters sought insurance from both domestic insurers and non-Western companies.

What Russia Wants

Russia has long complained that the Black Sea Grain Initiative favored Ukraine and that Russia received few tangible benefits from it. Moscow has indicated that it will consider renewing the grain deal if several conditions are met: (1) Rossel'khozbank to the SWIFT global payment system; (2) the unblocking of Russian

food and fertilizer exporters' overseas assets; (3) free access to Western markets for Russian grain and fertilizer sales (although the access to Western agricultural markets has not been directly blocked by Western governments for Russia, there are restrictions on individuals who may own a grain or fertilizer company); (4) the reopening of the ammonia pipeline that flows from Pivdennyi; (5) the lifting of restrictions on purchases of agricultural machinery and spare parts from the West; and (6) assurance that grain is being exported from Ukraine for humanitarian aid and not commercial gain.

Winners and Losers

One winner from the termination, at least in his own mind, is Russian President Vladimir Putin. Putin for months denounced the grain deal as one-sided and claimed that Russia got little from the deal other than favorable public relations for its "humanitarian" gesture. In July 2023, Putin convened a summit with African leaders in St. Petersburg during which he hoped to show African support for his war in Ukraine. However, only 17 African leaders attended, down from 43 in 2022, which Putin blamed on the West, accusing the latter of interference. At the summit, Putin said that Russia would deliver 25,000 to 50,000 tons of free grain each to Burkina Faso, the Central African Republic, Eritrea, Mali, Somalia, and Zimbabwe in the next three to four months (Troianovski and Walsh 2023). His offer to supply free grain to selected African nations is probably seen as a win by Putin, even though the promised volumes are rather small and Russia has a poor track record of humanitarian assistance (Dixon and Houreld 2023).

A second winner is Russia's grain producers and exporters. Once the termination of the grain deal was announced, the Russian Grain Union firmly supported the decision. A few days after termination, Putin claimed that Russia's grain producers had lost upwards of \$1.2 billion USD from the deal due to lower domestic prices, lower international prices, and higher insurance and transaction costs (*TASS* 2023b). Russian grain futures jumped nine percent the day after termination of the grain deal was announced, which benefits grain producers, although in August prices began to decline.

Aside from Ukraine, perhaps the biggest losers from the termination of the grain deal are poor African nations that depend on food assistance and food imports. In 2023, the Horn of Africa is experiencing a severe drought, so it needs food assistance. At the summit, African leaders expressed support for the grain deal and hoped to see it restored (Dixon 2023).

Ukraine's Options

The ending of the grain deal creates difficulties for Ukraine. The day after termination, Russia warned

Ukraine that any of its ships passing through the Black Sea would be considered military targets. Ukraine followed suit. The implication is that without the deal in place, it is very difficult for ships to enter or leave Ukrainian ports. As of mid-September 2023, Ukraine had sent two ships with grain across the Black Sea to Istanbul, but the volume of grain was minuscule compared to what had previously been transported and what Ukraine needs to clear excess reserves.

One option for Ukraine is to ship grain from ports on the Danube. Since the invasion, the canals leading into and out of the Danube ports have been dredged to make them deeper, allowing larger and heavier cargo ships to traverse them. By May 2022, Ukraine was moving more than 2 million tons per month along the Danube. Yet that figure is low when you consider that Ukraine is expecting its 2023 grain harvest to total around 44 million tons (Hudson and Galouchka 2023). The day after the grain deal was terminated, Russian missiles attacked the Danube port of Reni, on the border with Romania, a signal that this passageway was not entirely secure. Prior to the war, ports on the Danube accounted for only 1.5 percent of Ukraine's grain trade (*The Economist* 2023). If Black Sea transit is no longer viable, ports on the Danube will undoubtedly grow in importance, but grain is still likely to pile up because river transit does not have the same capacity as sea transport.

A related issue is that the land transport that connects Danube ports to the rest of Ukraine often experiences bottlenecks. There is a single rail line and numerous bridges that Russia has repeatedly attacked with drones and missiles. When those are put out of action, there is a road that runs parallel to the rail line, but the traffic jams from increased volume can stretch for dozens of miles. There are plans to widen the road and increase capacity on the rail line, but such projects will take time. While the Danube ports help to relieve the pressure, the cost of exporting from them has risen from \$12 to \$150 per ton, and Ukrainian grain producers were already grappling with slender profit margins and reduced production (*The Economist* 2023).

Grain exports are further complicated by Russia's repeated missile attacks against Ukraine's grain infrastructure, ports, and grain terminals where grain has been stored since the grain deal ended. One apparent motive is to undermine Ukraine's ability to export grain. Another is to improve Russia's position as a global wheat supplier by harming a major competitor.

Ukraine also faces pressure on political support from certain EU members. In spring 2023, Poland, Hungary, Slovakia, Bulgaria, and Romania restricted imports of Ukrainian grain following protests by farmers that Ukrainian imports had produced a grain glut and driven down domestic prices. The European Commission

approved a moratorium on the sale of Ukrainian grain until June 5 (subsequently extended to September 15). Following the termination of the grain deal with Russia, President Zelensky called on the European Union not to restrict Ukrainian grain exports. Poland, however, indicated that it would extend its ban on the sale of Ukrainian grain in Poland beyond September 15 if the European Commission did not extend the original deadline. The Polish government said that it was not against transit of Ukrainian grain through Poland, but "we say no to the destabilization of Polish agriculture" (*TASS* 2023c). On September 12, the Polish prime minister issued an ultimatum to the European Commission: extend the prohibition on the sale of Ukrainian grain beyond September 15 or we will do it ourselves (*TASS* 2023e). Poland was joined by Romania, where farmers threatened a national strike if the import ban on Ukrainian grain was not extended (*TASS* 2023f). Hungary and Bulgaria decided to extend the ban to the end of the year, not waiting for the European Commission to issue guidance (*TASS* 2023g). Prior to September 15, Ukraine indicated it might have to file a complaint with the World Trade Organization (*TASS* 2023h). On September 15, the European Commission lifted the ban on Ukrainian grain imports, a decision supported by the majority of EU members (Bond et al. 2023). Poland, Slovakia, and Hungary stated that they would unilaterally continue the import ban (Ives and Gupta 2023). Poland expressed that it was not interested in a short-term extension of the ban, speaking instead of an "indefinite" term to protect Polish farmers (*TASS* 2023i). The ban does not cover the transport of Ukrainian grain through those countries.

Outlook

Since Russia's July 2023 termination of the grain deal, Turkey and the UN have tried to restart Russia's participation. Presidents Erdoğan and Putin met in early September to discuss restarting the grain deal, but without success. Putin and his spokespeople have indicated that Russia is ready to rejoin the deal after the West follows through on promises that Russia feels have gone unfulfilled. Essentially, in return for restarting the grain deal, Russia wants to undo the current sanctions regime. That outcome is unlikely.

Moreover, Moscow has made clear that it has no intention of restarting the grain deal unless its conditions regarding the payment system, transportation, and insurance are met. The Kremlin wants the concessions frontloaded. For instance, in early September, the UN indicated that a subsidiary to Russia's agricultural bank could apply for access to SWIFT and have access within 30 days as part of a deal to restart Ukraine's grain exports. The Kremlin rejected the offer, stating that it

does “not contain any new elements” and “cannot serve as a foundation” for restoring Russia’s exports to normal (*Reuters* 2023a).

Meanwhile, Russia is acting unilaterally. It hopes to inflict as much damage on the Ukrainian economy as possible. Russia’s attacks on Ukraine’s grain infrastructure are intended to undermine Ukraine’s ability to export and deprive it of revenue. The termination of the grain deal means that the bulk of Ukraine grain will be sent to Europe, where domestic political opposition to Ukrainian grain is high. If Ukraine cannot export its grain, Ukrainian farmers’ motivation to plant the 2024 crop will be diminished because each hectare planted will represent a monetary loss—when before the war, agriculture accounted for about 10 percent of Ukraine’s GDP. Ukraine is trying to establish an alternative route by sending ships from Chornomorsk to Istanbul, hugging the coastline and staying in Ukraine’s territorial waters. The first cargo ships arrived in Chornomorsk in mid-September. There is no guarantee, of course, that Russia will respect territorial waters, as the entire Black Sea is increasingly militarized. As of early-November 2023, more than 700,000 tons of grain have left Ukrain-

ian ports via the alternative route following the termination of the 2022 grain deal (*Reuters* 2023b).

Furthermore, markets in Africa are being poached by Russia. Putin reached an agreement with Turkey and Qatar whereby Russia would sell one million tons of grain to Turkey at advantageous prices and Turkey would then transport it to poor nations with financing for shipment and insurance from Qatar. Russian officials indicated that the grain did not represent a substitute for the grain deal with Ukraine, but rather was intended to help poor nations (*TASS* 2023d). In reality, however, Russia wanted to supplant Ukraine as a supplier, thereby depriving Kyiv of needed export markets. In essence, Putin is working for the collapse of Ukraine’s agricultural economy.

Weaponizing food trade is no different from Russia’s weaponization of energy supplies during winter or its curtailment of trade with “unfriendly” nations. It is no different from the abduction of Ukrainian children or the indiscriminate bombing of civilian residences, hospitals, and schools. We should recognize that the termination of the grain deal represents the opening of a new phase of aggression against Ukraine.

About the Author

Stephen K. Wegren is University Distinguished Professor and Professor of Political Science at Southern Methodist University, Dallas, Texas, USA.

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