

The Black Sea Grain Initiative: Implications for Central and Eastern Europe

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Introduction

Russia invaded Ukraine and started a war on February 24, 2022. This unprecedented geopolitical unjustified event dramatically changed the conditions of the World society and the nature of international relations.

Since February 2022, Ukraine's capacity to harvest and export plant products has been weakened by the aggression launched against it by Russia. Ukraine is the world's largest producer of sunflower seeds and a major exporter of wheat, rapeseed, barley, vegetable oil, and corn. Indirect losses suffered by Ukrainian agriculture due to reduced production, increased production costs, disruption of supply chains, and lower prices of exported products were estimated at USD 23.3 billion in June 2022 (Cherevko 2023: 12).

Russia's aggression against Ukraine also threatens global food security. Many food-importing countries, many of which fall into the category of low-income food-deficit countries, rely on Ukrainian food supplies to meet domestic demand. Some of these countries are also plagued by internal conflicts and experience precarious situations in terms of food security. Some of them are also mainly dependent on Ukrainian imports of wheat such as Lebanon and Tunisia (Al-Saidi 2023: 2). For these countries, it is imperative to find other sources of supply to meet their needs.

The Place of Ukraine in the world agriculture

Ukraine is among the world's largest producers and exporters of field crops, particularly grains and oilseeds. Over the past five years, Ukraine has accounted for an average of ten percent of the world's wheat production (Eisele 2022). Ukraine ranks fifth among world wheat exporters. Ukraine plays a key role in supplying wheat to international markets, particularly in the Middle East and North Africa region, where wheat is the main staple food.

Ukraine also produces and exports large quantities of other cereals, especially barley. Ukraine accounts for a total of twenty percent of the world's barley production, being the fourth largest exporter. Ukraine is also the world's largest producer of sunflower seeds. Ukraine accounts for twenty-five percent of the world's export of sunflower oil. In terms of maize production, Ukraine accounts for less than three percent of the world's total production and is the world's third-largest maize exporter (Mustafa 2022: 1).

Given the importance of Ukraine in the global agricultural commodity and input markets, Russia's aggression against Ukraine had a dramatic impact on the sustainability of producers and consumers. Furthermore, there are concerns about the risk that the harvests will not take place due to the ongoing war. In addition, the war led to the closure of part of the ports and establishments ensuring the crushing of oilseeds, which affects exports. Lower grain and oilseed volumes exported from Ukraine are driving up international food and feed prices.

Since more than half of Ukrainian crop production is exported, the logistics of the export chain play a key role. Before the Russian aggression, more than ninety percent of Ukrainian exports of vegetable products were shipped by sea from the ports of the Sea of Azov and the Black Sea. These ports are inaccessible today due to their illegal occupancy by Russia. The other channels used for export – road, rail, and river routes – are not adapted to absorb the same volumes as seaports. Consequently, professionals estimate that only around twenty percent of the usual quantities are exported today [Barnley 2022]. Damage to some storage and processing facilities is another factor delaying and limiting agricultural exports from Ukraine.

Another consequence of the Russian aggression over Ukraine is the increase in prices of food products. Its lowest availability combined with rising energy costs drives up the prices of agricultural products on international markets.

In March 2022, the FAO food price index reached its highest level since 1990 with 159.7 points. The rise in prices was particularly noticeable in the case of vegetable oil and cereals. Fragile populations in low-income, food-deficit countries, who spend a large part of their income on food, are particularly vulnerable to these price spikes.

The Black Sea Grain Initiative

Since the start of Russia's invasion of Ukraine in February 2022, Ukrainian grain exports have been severely disrupted. For more than four months, Russian military ships blocked Ukrainian Black Sea ports.

On July 22, 2022, the United Nations (UN) and Turkey negotiated an agreement to open a safe maritime humanitarian corridor in the Black Sea named the Black Sea Grain Initiative through the utilization of three Ukrainian ports: Chornomorsk, Odesa, and Pivdennyi. As part of the agreement, a Joint Coordination Center (JCC) has been established in Istanbul, to monitor the implementation of the Initiative. The JCC monitors the movement of commercial vessels and ensures compliance with the procedures developed through the Initiative for shipments to and from Ukrainian ports. The JCC comprises representatives of Ukraine, the Russian Federation, Turkey, and the United Nations.

The Initiative is focused on exporting grain, other foodstuffs, and fertilizers from Ukraine. Since its implementation, some twenty-eight million metric tons of grain and food have been

delivered to forty-five countries in over thousand six hundred journeys back and forth helping to bring down global food prices and stabilizing the markets. During the first two terms, the WFP (World Food Programme) has also shipped over half a million metric tons of wheat in direct support of its humanitarian operations in Afghanistan, the Horn of Africa, and Yemen. More than sixty-five percent of Black Sea Grain Initiative wheat exports went to developing countries. Maize is exported in almost equal proportions to developed and developing countries.

The Initiative has been credited with helping to calm global food prices, which reached heights in March 2022. Cereal prices rose particularly sharply. Both the Solidarity Corridors (roads created by the EU to help Ukraine export its agricultural products) and the Black Sea Grain Initiative have particularly contributed to lower prices. The Black Sea Grain Initiative was extended by all parties on 19 March 2023. The Black Sea Grain Initiative is supposed to be renewed in mid-May 2023.

Consequences of the Black Sea Initiative for Central and Eastern European Countries

Based on the Black Sea Grain Initiative, the European Union had suspended in May 2022, for one year, customs duties on all products imported from Ukraine and had organized itself to allow it to export its cereal stocks following the invasion of the country by Russia.

Neighboring European states with Ukraine, such as Hungary, Poland, and Slovakia, have seen increased arrivals of corn, wheat, or sunflower from Ukraine. These products are not only cheaper than those produced in the European Union but also exempted from customs duties. This led to farmer protests and among others to the resignation of the Polish Minister of Agriculture.

Accordingly, the grain markets of Romania, Poland, Hungary, and Slovakia have also undergone dramatic changes. Exports from Ukraine have increased in CEE countries. In Poland, exports increased from USD 14 mln to USD 646 mln Concerning Hungary, from USD 8 to USD 401 mln (Kraiev: 2023). In CEE countries this led to major demonstrations of the farming population of these countries.

For this reason, regarding Poland, on April 17, its government passed a decision on a regulation that prohibits the entry of grain and dozens of other types of food into Poland. The ban applies to grain, sugar, dried fodder, seeds, hops, flax and hemp, fruit and vegetables, processed fruit and vegetable products, wine, beef and veal, milk and milk products, pork, mutton and goat meat, eggs, poultry meat, ethyl alcohol of agricultural origin, honey and derivated products (Rozporządzenie ministra rozwoju i technologii 1 z dnia 15 kwietnia 2023 r. w sprawie zakazu przywozu z Ukrainy produktów rolnych). Nevertheless, Polish authorities

underlined that they would continue to support Ukraine unconditionally. In addition to the ban on food imports from Ukraine, Polish authorities promised to purchase grain at double price of the market price and to provide subsidies for fertilizers.

The Ukrainian Minister for Agricultural Policy immediately criticized the Polish governmental decision underlining that Polish farmers are certainly facing a difficult situation, but Ukrainian farmers are facing more problems. The European Commission was informed about the ban from the media. The European Commission reminded immediately that EU member states cannot unilaterally take trade decisions as they affect the entire EU market. This would mean that this decision is not in line with EU law. The EU regulation on duty-free trade with Ukraine does not provide for such sudden, unilateral decisions to suspend imports. The ban on transit is contrary to the principles of the Union. Not only does Poland prohibit the import of Ukrainian cereals but also Bulgaria, Hungary, Romania, and Slovakia. However, these countries continue to authorize the transit of this food under conditions. From a European perspective, Brussels wants to authorize temporary restrictions on imports to unblock the situation. Finally, the European Commission said it would take emergency "preventive measures" for wheat, maize, sunflower seeds, and rapeseed, compensating local farmers (Pronina: 2023) and only allowing the grain to enter the five previously mentioned countries from Ukraine only if they are intended for export to other EU members or the rest of the world.

Poland has certainly been one of the most determined supporters of Ukraine since the start of the war, but it is entering an electoral cycle with legislative elections scheduled for the fall. However, the electoral strongholds of the ultra-conservative PiS (Prawo i Sprawiedliwosc – Law&Justice) in power are mainly in the countryside. A similar scenario is taking place in Slovakia where elections will take place on September 30. Regarding Hungary, its government's Ukrainian-skeptical policy is continued through the economic dimension.

Finding and prospects

In a globalized Ukrainian crisis, the grain export issue alone symbolizes the diplomatic-economic arm-wrestling behind the military arm-wrestling between Ukraine and Russia. If Russia is not giving its agreement in Mid May to continue the Black Sea Grain Initiative, then Moscow will lose the support of African countries.

Moscow intends to oppose the renewal of the agreement if its conditions are not met, even if only partially. These conditions are provided below: the removal of obstacles to its fertilizer exports, the reconnection to the Swift international banking system of the Russian bank specializing in Rosselkhozbank agriculture, the resumption of deliveries to Russia of agricultural machinery and spare parts, the lifting of obstacles to ship insurance and access

to foreign ports, the unfreezing of assets of Russian companies linked to the agricultural sector and the resumption of operation of the Togliatti-Odessa pipeline.

The problems created by the Black Sea Grain Initiative are also threatening the position of Ukraine as a future member of the European Union. If its candidature would be accepted, then the European market would be flooded with Ukrainian products, something that CEE countries would not accept.

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