

## War impact, beyond oil

### What is the issue?

The economic impact of Russia's war in Ukraine is not confined to oil. It extends as much as upto agricultural commodities and fertilisers.

### How the Russian invasion of Ukraine will impact commodity prices?

- Russia is the
  - world's third biggest oil producer (after the US and Saudi Arabia)
  - second biggest natural gas (after the US) producer
  - second largest exporter of wheat.
  - just behind Australia and Indonesia in coal export.
- Ukraine is the
  - 4<sup>th</sup> largest exporter of Wheat.
  - world's third largest exporter of corn/maize.
- Ukraine and Russia are also the top two exporters of sunflower oil.
- Russia and Belarus are the world's 2<sup>nd</sup> and 3<sup>rd</sup> largest producers of muriate of potash (MOP).
- All this shows that Russia's war on Ukraine will not stop at driving up prices of Brent crude and international coal to unprecedented levels.

### Why the price increases?

- Shipping got disrupted through the Black and Azov Seas
- Russian banks being cut off from the international payments system
- The shutting down of ports in the Black Sea have made the prices of wheat and corn traded at Chicago Board of Trade soar to the highest since March 2008.

### What does that mean for India?

- **Wheat** - Skyrocketing global prices have made Indian wheat exports very competitive.
- India is in a position to at least partially fill the void left by Russia and Ukraine.
- Wheat from Gujarat, Rajasthan and Uttar Pradesh is now being sold for Rs 2,400-2,450 per quintal as against Rs 2,100 15 days ago.
- This is above the government's minimum support price (MSP) of Rs 2,015/quintal.
- **Vegetable oils and oilseeds** - The prices of vegetable oils and oilseeds are also skyrocketing.
- It includes sunflower oil and its immediate competitor, soyabean.
- The benefits of it should flow to mustard growers in Rajasthan and UP, who are set to market their crop.
- Mustard prices are ruling at Rs 6,500-plus per quintal, which is again above the MSP of Rs 5,050.
- Palm oil in Malaysia has also hit all-time-highs.

- **Cotton** - Increase in Brent Oil prices will make synthetic fibres costlier.
- As a result the prices of cotton and agri-commodities that can be diverted for production of ethanol (sugar and corn) or bio-diesel (palm and soyabean oil) will increase.
- High prices (above MSP) and a good monsoon (hopefully) will induce farmers to expand the cultivation of cotton, soyabean, groundnut, sesamum and sunflower in the upcoming kharif planting season.
- That will help us achieve the goal of crop diversification.

## What are the challenges associated?

- The ongoing Black Sea tensions are impacting fertiliser prices as well.
- India wholly imports MOP. Out of the total 5 mt imported in 2020-21, nearly a third came from Belarus and Russia.
- International prices of other fertilisers (urea, di-ammonium phosphate and complexes) and their raw materials have also gone up.
- These commodities essentially track crude and gas prices.
- With supplies from there virtually choked, more quantities would have to be procured from other origins such as Canada, Jordan and Israel.
- It doesn't help when China is also India's largest supplier of urea and second largest of DAP (after Saudi Arabia).

## Will this affect our food Security?

- High prices could result in lower government procurement of Wheat this time.
- India has already shipped out 5.04 mt of the cereal in April-December 2021.
- A lot of wheat from western and central India may end up getting exported rather than procured in the Food Corporation of India's godowns.
- This in turn will put pressure on public stocks.
- As a result the FCI's granaries will not overflow.
- The free grain scheme introduced following the Covid-19-induced lockdown will end this month with the conclusion of state elections in UP.
- So, the government has to impose some kind of a tariff or other restrictions on exports to carefully manage both its own stocks and also the overall domestic availability position in wheat.

## Reference

1. <https://indianexpress.com/article/explained/explained-beyond-crude-prices-ukraine-russia-oil-cost-7799959/>