

Backwash from the Russian invasion of Ukraine could greatly impact US agriculture

The invasion of Europe's breadbasket (Ukraine) by Vladimir Putin's Russian troops raises questions for agriculture that would have been unthinkable a couple of months ago. What impact will the war of aggression against the people of Ukraine have on crop, fuel, and fertilizer prices? In addition, how will Putin respond to pressure from the US, the European Union (EU) and much of the rest of the world?

Both Ukraine and Russia are major agricultural exporters. It seems there is a significant probability that, just as Germany put a stop to the construction of Nord Stream 2 natural gas pipeline connecting Russian gas fields to Germany and its pipelines, the US and the EU will likely work to limit agricultural exports from Russia and any occupied areas of Ukraine. If this happens, how might Putin respond?

We think we can identify some of the answers to these questions with a degree of certainty. In other areas, not so much. But our goal in writing this column is to identify the range of issues that we will probably have to face in the coming months.

We can be sure that Putin will unleash his corps of internet hackers on banks, utility providers, and international firms in the US and the EU. Less than a year ago the Colonial Pipeline hack by a Russian group created problems for a significant swath of the US East Coast. The challenge will be for all firms to harden their electronic systems and maintain isolated backup copies so they can quickly resume operation.

Will this war drive the price of primary agricultural commodities upward? Ag Secretary Vilsack has said he is more concerned about fertilizer prices in the US than the price of commodities like wheat. We need to be persuaded. To see why, let's look at the data.

In the 2010 crop-marketing year (from the harvest in 2010 to the harvest of the 2011), Russia and Ukraine accounted for 5.5 percent of corn exports—virtually all these exports came from Ukraine. By the 2020 crop year the two accounted for 15.4 percent of corn exports, a not insignificant share of the world corn market.

For comparison, in 2010 the US was responsible for 50.8 percent of world corn exports. By 2020 the US market share had fallen to 38.7 percent.

Turning to wheat, in 2010 Russia and Ukraine accounted for 6.2 percent of world wheat exports. In the 2020 crop year, they were responsible for 27.6 percent of world wheat exports. The US export share fell from 26.4 percent to 13.3 percent.

So, what happens to that grain in the middle of the war in Ukraine? We see hints that Russia might try to avoid international crop export sanctions by making a deal with China and shipping the grains primarily by rail, so the grain never has to leave Russia until it crosses the border into China.

If that were to take place, the US would probably capture markets formerly served by Russia.

It is likely that any grain embargo would only be imposed on occupied areas of Ukraine, but that is the least of the potential problems. Armies can muck up agricultural areas, reducing production. If the war drags on, who is going to conduct the harvest? We are talking about 4 months from now and harvesting the wheat crop may be the least of their worries. Where will they get the fuel? And more importantly, will any unoccupied areas of Ukraine include a seaport or other transportation hub and how will they move the crop?

Market participants do not like uncertainty and will hedge their bets accounting for what they see as the most likely scenario when the 2022 winter wheat crop is harvested. If the market consensus is that there will be a shortage of grain, prices will rise. At the same time, we have to wonder whether any price increase will be large enough to cover higher fuel and fertilizer prices.

The US and EU agricultural sectors will need to plan a full court press to pick up the markets that Russia may be excluded from, and Ukraine may not have the harvest or infrastructure to serve its international customers.

To this mix of uncertainty for agriculture producers and consumers, we need to remember that a Farm Bill is coming up in 2023.

We would not be surprised if most farmers feel like a bronc rider at the rodeo. They are probably in for an unpredictable ride over the next year. The big question is “where will they land?”

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