

How Russia's invasion of Ukraine endangers our global food system



Life is full of unintended consequences. And unfortunately, the Russian invasion of Ukraine has provided classic proof of the old adage.

In this environment, daily events — military and political — have an increased influence over daily commodity supply, causing gyrations in prices that obscure buying decisions. Further complicating matters is filling the 7 million metric-ton gap created by the dramatic decreases in Russian-Ukraine wheat export levels. In short, prices are not only higher than historic levels, but also subject to wider swings.

Far beyond the carnage facing citizens of Ukraine, the world faces some very real and substantial costs from the war. We risk facing a hefty tuition bill for once again learning the unforeseen dangers too late.

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The immediate threat to our global food system

The threat posed to our global food system by Vladimir Putin's invasion of Ukraine has been well documented. At the core of the threat is one simple truth: the world depends upon an interconnected network of agricultural trade. No country can credibly claim complete food self-sufficiency.

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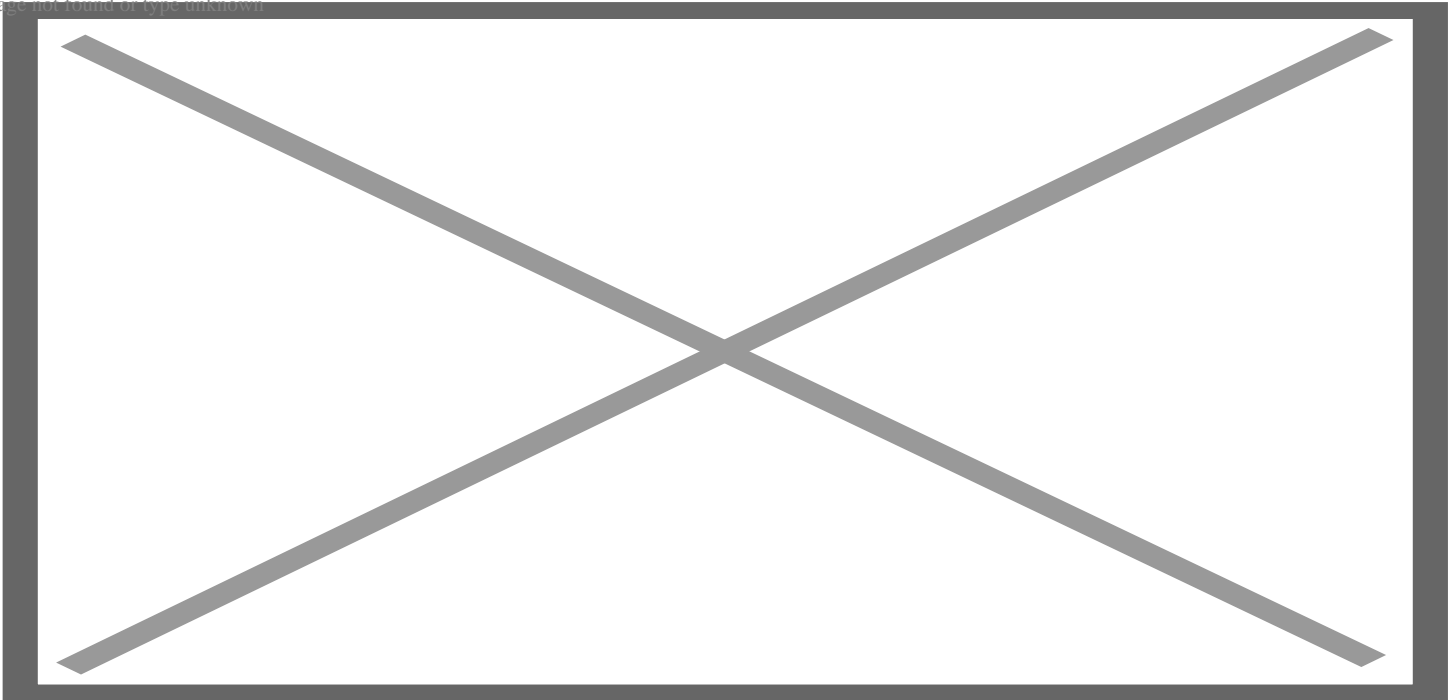
We're committed to a system based on comparative advantage, in which all nations seek to exploit their natural advantages to supply the world with the commodities and food products they produce most efficiently.

If economics alone didn't create such an integrated marketplace, our tastes would. Consumers everywhere simply want to have a wide variety of foods all the time, regardless of local growing seasons.

That fundamental reality of modern life has made Russia and Ukraine critical elements of the global food system.

The rich productive capacity of each nation has firmly established them as critical providers of a range of commodities, notably wheat, sunflower oil (see below chart), barley and corn.

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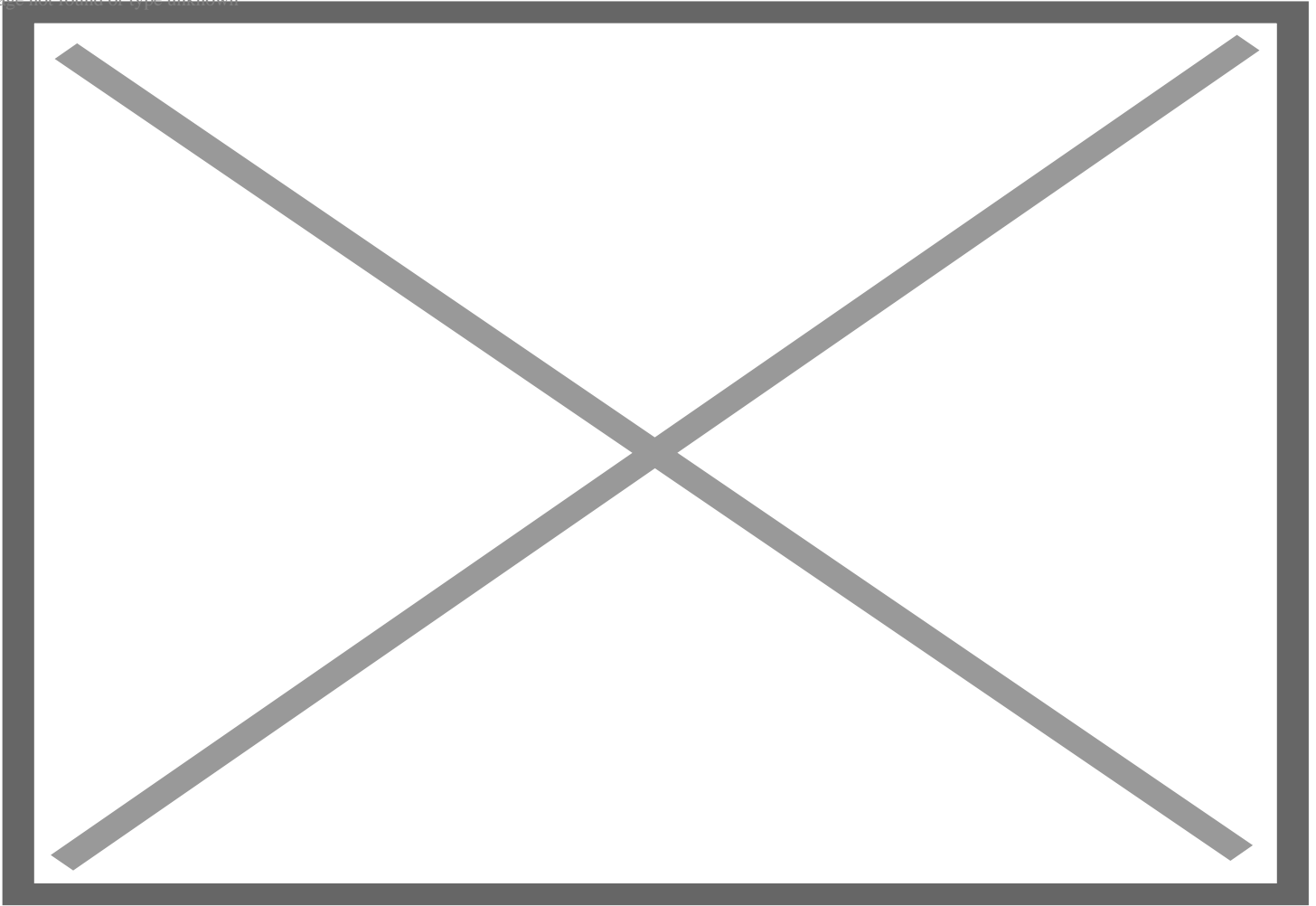


The charts and graphs that accompany this post paint a sobering picture of just how significant Russia and Ukraine are to our modern food system – and suggest why both economic experts and political leaders are so concerned with more than just the carnage of battle.

The war's rippling effects

When the flow of those commodities is interrupted – by war or any other factor – the effects ripple across the entire global food system. As just one example, the conflict has promoted a dramatic increase in insurance costs for shipping commodities in the region, effectively altering if not limiting trade flows. And the longer the interruption continues, the greater the uncertainty that fuels steady and often sharp increases in commodity prices.

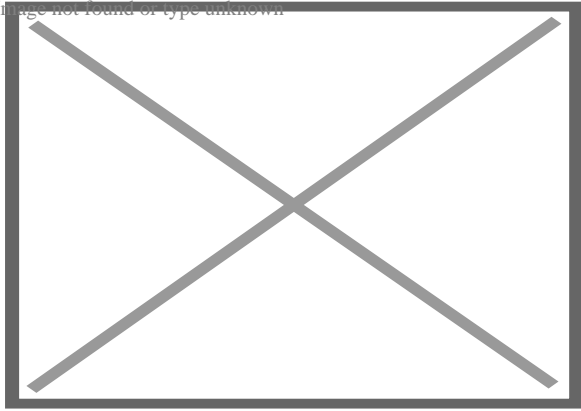
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How long prices will remain at current historically high levels is almost impossible to predict. Normally, high prices trigger increased production. But these aren't normal times. Open conflict obviously will affect how much land in the embattled region is planted for next year's crop.

Equally important, the corollary effects of rising energy prices also will complicate decision-making by producers everywhere who face dramatic increases in the cost of fuel for field equipment and especially the fertilizers needed to produce the best possible production levels.

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Other producers of food grains, feed grains, and oilseeds around the world may not farm under the sounds of guns, but they can't escape these high costs.

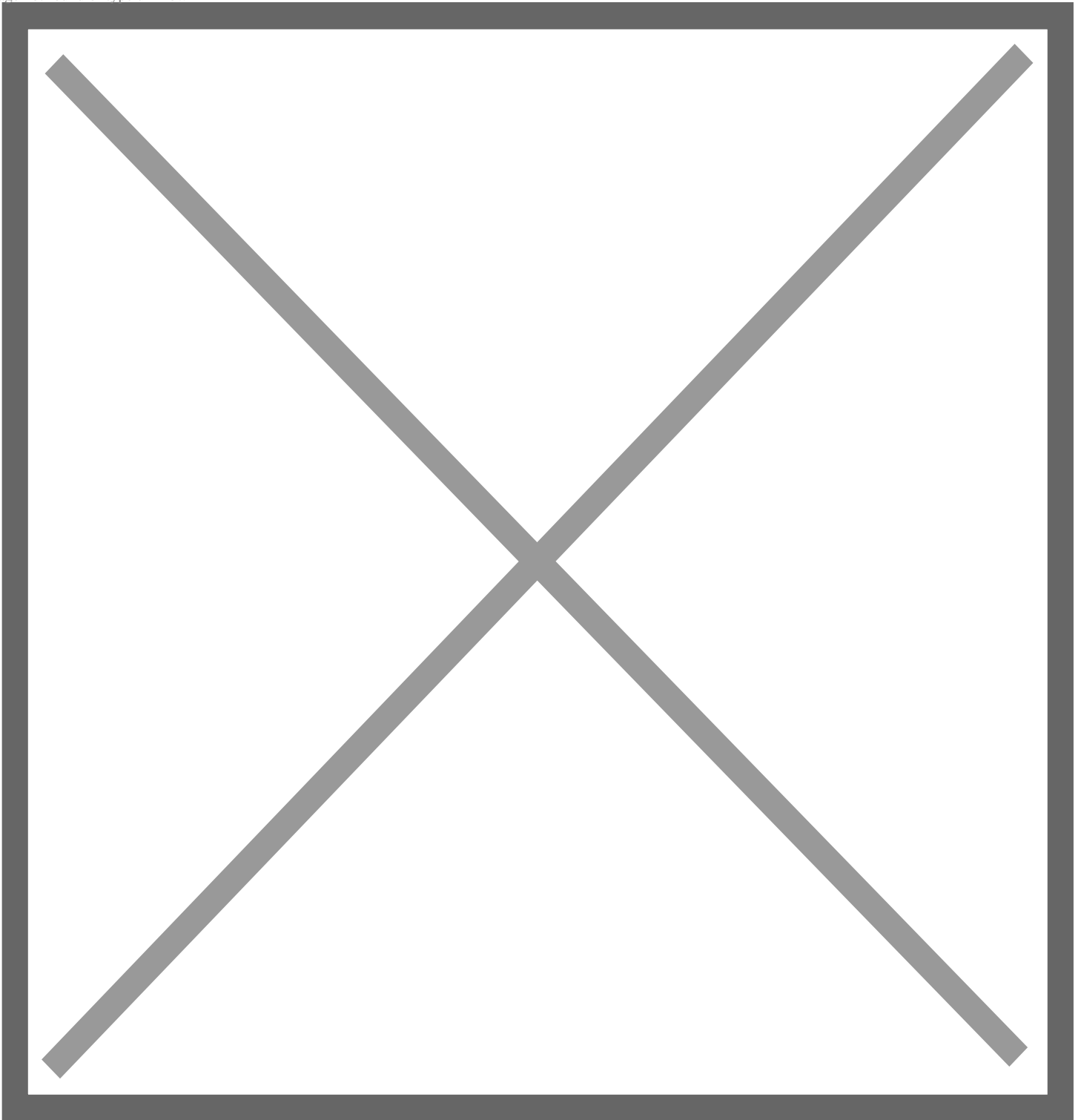
Production uncertainties – and price volatility – measured in months if not years will be among the most significant unintended consequences of the conflict. In the modern, interconnected food system, uncertainty translates into risk – and higher costs and higher prices for everyone.

The threat of immediate hunger

But another, more pernicious effect of the conflict remains to be addressed: the very real threat of immediate hunger to millions – or more – of the world's hungriest and neediest people.

Remember, wheat is the food of the here and now.

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Most often, it's the daily bread sustaining a majority of our world's population, especially in the less economically developed areas of Africa, the Middle East, and other areas currently dependent on wheat

from Russia and Ukraine.

And feed grains and meal from oilseeds are tomorrow's food staples.

Oilseeds go into the feed rations that produce animal protein – a kind of investment in the protein-rich foods making up a greater share in more economically advanced markets.

But whether you live in an economically advanced country or lesser developed, disruptions of these commodities that threaten hunger become very real and very immediate for all.

[su_panel color="#3A3A3A" border="1px solid #3A3A3A" radius="2" text_align="left"]**Just how important are Russia and Ukraine to world agriculture? Probably more than you think:**

The two nations account for a combined 80 percent of global sunflower seed oil and meal...

- Sunflowers account for about 9 percent of the vegetable oils consumed worldwide, mostly for cooking and processed foods
- Linoleic acid from sunflower oil is in skincare products to lock in moisture, reduce inflammation and promote healing
- Competing suppliers face price pressures of their own, with lower acreages in Brazil and Canada and export restrictions in Indonesia

...30 percent of global wheat production...

- Russia is the world's largest exporter of wheat, accounting for over 19 percent of global wheat trade, worth roughly \$8 billion
- Ukraine accounts for about 9 percent of the market, with sales of roughly \$3.6 billion. Almost 41 percent of Ukraine's wheat exports go to African countries
- In comparison, the U.S. and Canada each provide 14 percent of world wheat exports, worth about \$13 billion in total

...30 percent of world barley trade and 16 percent of global corn exports.

Sources: FAS/USDA; S&P Global Market Intelligence GTAS Forecasting[/su_panel]

The bottom line

After decades of slow but steady improvements in global food security, the conflict in Ukraine threatens to disrupt our global food system in ways that damage everyone. The smooth trade flows that make food available and affordable to literally billions of people will be disrupted. Producers will face greater uncertainty and higher costs that cloud the outlook for filling to supply the void created by war. Commodity and food prices will continue to face an unrelenting upward spiral. And millions more will face greater food insecurity – and a very real risk of greater hunger.

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