

Weaponization of Grain Trade increased

- Part I Kakhovska HPP and the war
- Part II Western border and EU grains production
- Part III Grain Initiative

17 July 2023: The cancellation by Russia of the Black Sea Grain Initiative threatens global food security.

It could end Ukraine's key role in supplying Africa with sufficient food...



Part I

Kakhovska HPP and the war

Flooding, Ecocide and Residential damage act as multipliers of Russia's aggression impact on Ukraine



Kakhovska HPP and the war



Multiple consequences:

- 1) Road's damage.
- 2) Large floods of the Dnipro riverbank.
- 3) Flooding of villages on the banks of the Dnipro.
- 4) Flooding of silos along the Kakhovska dam.
- 5) Huge floods in the southern part of Kherson city.
- 6) Ecocide created by the disaster, including death of fish and other organisms
- 7) Increased probability of dangerous diseases due to floods.

Potential illness

Since Russian act of terrorism, water level in the flooded territories of Ukraine is gradually decreasing, but hundreds of square kilometers remain under water.

To date, almost 90 observation groups have been assembled, which take samples and monitor water quality in the Kherson and Mykolaiv oblasts (the first deviations have already been recorded).

Experts emphasize the prohibition of eating fish in flooded areas, as well as the need for thorough washing and heat treatment of all food products. In addition, only bottled water can be used.

According to experts, **the greatest threat today is anthrax.** The fact is that on the left bank of the Dnipro, between the villages of Korsunka and Dnipyryany, there is a 50-70-year-old cattle cemetery in which cattle with anthrax were buried. Currently this whole area is under water.

Potential illnesses: intestinal infections, hepatitis and cholera.



The situation with irrigation



Agriculture. The destruction of agricultural crops, livestock and fish resulted in agricultural losses worth \$25 million. Losses are relatively small due to the fact that the territories were under constant shelling since the beginning of the full-scale invasion.

Many fields were not in active use and a relatively small area of agricultural land was flooded.

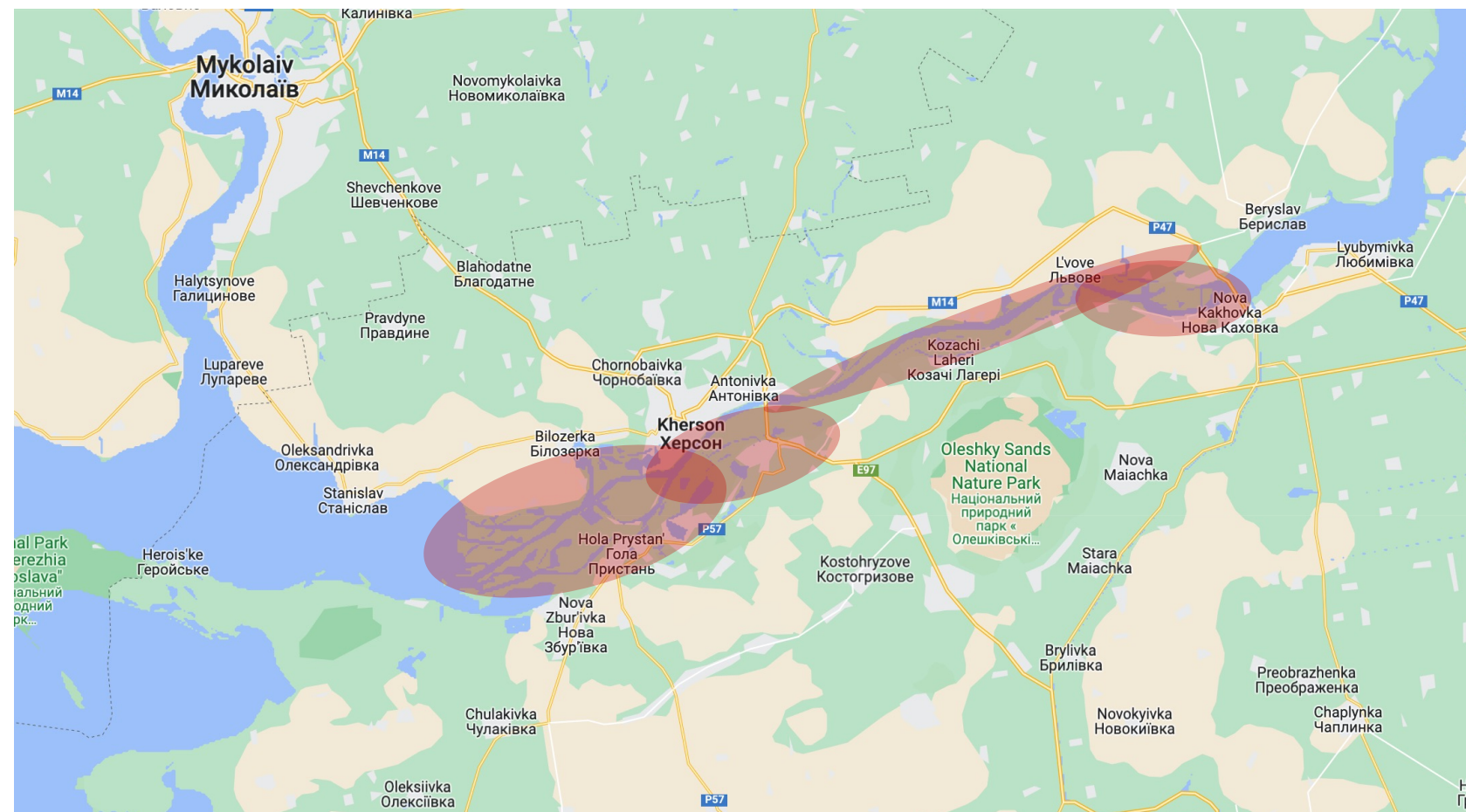
The Kakhovska reservoir was used to provide **water for irrigation systems** and livestock with a total area of 584,000 hectares (the actual area of irrigated land before the war was 262,000 hectares).

Therefore, indirect revenue **losses for crop production will increase by \$182 million per year.**

Other branches of the sector will lose up to \$49 million per year.



The situation with irrigation



According to the director of Ukrainian Agricultural Confederation – Pavlo Koval, **92% of irrigation systems in the Kherson oblast have been lost. Hundreds of farms were affected.** About 70% of the irrigation systems were lost in the Zaporizhia oblast and a certain part of other oblasts on the border with the Kherson oblast: “Kherson oblast has one of the largest areas of agricultural land: about two million. Of them, 85% is arable land that needs constant irrigation. We have lost this tool.”

Usually, the Kherson oblast produced 4 million tons of grain and oil crops. This partly formed the export potential of Ukraine. **About 9% of grain exports came from irrigated fields in the southern oblasts.** This is a loss not only for farmers but for potential importers too.



Part II

Western border and EU grains production

Vital export channels are threatened by Danube congestion,
Border blockages, and EU Farmer concerns

Supplies from the Danube at great risk



July 21th: the Bilhorod-Dnistrovsky district is under Russian attack. The target is an important infrastructure facility. The Russians fired 7 missiles at it. Unfortunately, there is damage.

According to regional media, the strike targeted the bridge over the Dniester estuary in Zatoka, which connects Odesa and Bessarabia, where three Ukrainian ports are located and currently ship Ukrainian agricultural products (Izmail, Reni and Ust-Dunaisk). There was also a hit to the grain terminals of an agricultural enterprise in Odesa region. There were people injured.



July 24th: Russia attacked Danube ports with Shahed-136 drones for almost 4 hours. The shelling destroyed a hangar with grain, damaged tanks for storing other types of cargo, and caused a fire in one of the production facilities. There were people injured. A Romanian vessel was damaged during Russia's shelling of the Danube port of Reni. Maersk containers are also damaged.

The delivery of agriproducts to the Ukrainian Danube ports can be significantly complicated

Ukrainian Danube ports: results and perspectives

- ✓ The Danube ports **increased cargo handling from 5.5 mln t in 2021 to 16.5 mln t in 2022.**
- ✓ **In May 2023**, the Ukrainian ports of **the Danube handled** more than 3 mln t of cargo, which is **an absolute record** for the ports of this region.
- ✓ Following the work to maintain the declared depths and hydraulic structures in the seaports' waters, **cargo turnover is expected to reach 23 mln t in 2023.**
- ✓ To find new reserves for increasing exports of Ukrainian agricultural products, Ukraine will have **to develop the Bystre mouth**, the Ukrainian canal to the Black Sea, which **will allow it to increase exports** through the Danube **by 1 mln t to the current 2.2-2.3 mln t per month.**
- ✓ Thanks to the development of the Danube Route, grain exports through Danube ports **can be increased to 30-35 mln t per year.**



The development of the Danube ports, barge transshipment on the Danube **will reduce farmers' logistics costs from \$20 to \$10.**

In the absence of the Grain Corridor and artificial barriers to the transit of Ukrainian agricultural products through the EU, it is absolutely necessary to protect this export channel from Russian attacks.

Development of the Danube Route: needs

- ✓ **Organize anchorages in Romanian territorial waters for transshipment of grain from barges from Danube ports to large-capacity vessels** (Ukraine has a successful experience of such operations near Ochakov. Technically, this issue can be resolved if there is political will within a week).
- ✓ **Transferring the Sulina Canal in Romania to round-the-clock operation.**
- ✓ **Development of Ukraine's Bystre mouth.**

The task of the Ukrainian side is:

- ✓ **to obtain the consent of the Romanian side to take any action**, as it is mandatory under the ESPOP Convention, to which Ukraine has acceded. Ukraine is supported by the European Commission in this matter. The Ukrainian government is waiting for the new Romanian government to start working.
- ✓ **to begin consultations with the EC, Romania, and member states** of international environmental conventions on the issue of dredging the Ukrainian part of the Danube, which will provide a passable draft of 7.2 meters, on a par with the Sulina Canal on the Romanian section.
- ✓ **Ukraine and Romania agreed on coordination efforts** to improve and develop export capacities through the channels of the Danube River. It is planned to cooperate with the EBRD regarding the development of the Danube port cluster.



Strikes, money, demands

- **February 13th: The Polish government** decided to pay its farmers 150-250 zlotys per tonne of grain sold for losses caused by the large volume of Ukrainian grain exports.
- **March 22th: The European Commission (EC)** allocates €10 million to **Romania**, about €17 million to **Bulgaria**, and €30 million to **Poland**.
- **March 30th:** The **Polish** Ministry of Agriculture and the farmers' association AgroUnion agreed on subsidies to farmers and grain traders in the amount of 100-200 zlotys (\$23-\$46) for the transportation of one ton of wheat, corn and rapeseed to Baltic ports. This decision must be approved by the EC.
- **April 3th: EU-5 countries** called for more funds to help European farmers and to speed up the development of transport infrastructure with Ukraine.
- **April 12th: Bulgaria** demands additional protection for its farmers, in addition to €16.75 million.
- **April 21th: The Polish government** approved the allocation of about € 2.2 billion to help its farmers.
- **May 4th: Bulgaria** received €16 million in compensation from the EU and asked for another €50 million, even though Bulgarian grain producers receive hundreds of millions of euros in direct European subsidies.
- **May 6th:** the EC approves a €435 million aid program for **Poland's** grain sector.
- **May 10th: Moldovan** farmers claim that they are facing bankruptcy and that their losses amounted to over \$112 million.
- **May 12th: EU-5 countries** again appealed to the EC to adapt the level of support for farmers to actual losses and to allocate additional funds to help farmers.
- **May 31th: Hungary** asked the EU for financial support for local farmers to facilitate the transportation of grain stocks that remained in storage until this year's harvest.
- **June 26th:** The EU has approved the distribution of a total amount of €100 million among **Poland, Hungary, Romania, Slovakia and Bulgaria** after Poland and Hungary finally lifted obstacles to the transit of Ukrainian agricultural goods. **Polish farmers will receive €40 million.** Now the Polish government will be able to increase assistance to farmers by 200% by allocating funds from its own budget.

Strikes, money, demands

- **However, the strikes continue.** In particular, several times in recent months, Polish farmers have gone on strike at the largest checkpoint, Dorohusk-Yahodyn, demanding a ban on the import of our agricultural products and additional preferences from their government. The Polish side temporarily did not process trucks from Ukraine. Only vehicles with humanitarian cargo were allowed to enter Ukraine. Buses and private vehicles were allowed to cross in both directions as usual.
- **Business** representatives **continue to complain** that the clearance process on the Polish side is extremely slow.
- The study, which was conducted in April-May, identified **restrictions on the import of Ukrainian agricultural products by Poland, Slovakia, Hungary and Bulgaria as one of the main problems**, along with long queues and lack of parking spaces at checkpoints.
- Representatives of the transport business also complain about the obstacles created by the Polish side in the form of additional documents that are not required by other EU countries.
- **A similar picture can be observed at the borders with all Ukraine's European neighbors.**



Strikes, money, demands

- ✓ **The time required to cross the border** for trucks that require veterinary control, including food, can be **up to 10 days**. The waiting time for other cargo **can be 5-10 days or even longer**.
- ✓ Ukrainian legislation stipulates that **customs clearance of goods should be carried out within 4 hours of arrival at the checkpoint**, but this is currently extremely difficult to fulfill, in particular because **the EU side is extremely slow, including due to strikes in EU-5 countries**.
- ✓ **For Ukraine**, these are **direct losses amounting to hundreds of thousands of euros per month**, a reason to change routes, a reason for possible duplication of business branches in other countries, etc.
- ✓ Such delays result in **direct losses for EU countries**. A significant amount of traffic that is delayed at the crossing points is cargo bound for a number of EU countries. These are, in particular, the cargoes of manufacturing companies with European investments that process the same European goods in Ukraine.



- ✓ A queue of **3,500 vehicles** has accumulated **at the Yahodyn checkpoint**.
- ✓ **The Krakivets-Korchava checkpoint allows approximately 117 trucks to pass through per day**, although previously this figure reached 440 trucks.
- ✓ **The situation at other checkpoints is not better.**

The situation at the customs undermines the possibility of applying the EU-Ukraine Agreement on the Carriage of Goods by Road, as well as Regulation (EU) No. 2022/870 on temporary measures for trade liberalization.



Other challenges

Recall that in April four of these five countries banned imports of various agricultural products from Ukraine, citing pressure on their own farmers. The EU had previously relaxed all import duties on Ukrainian products to support the country in the war. In response to the unilateral bans, the European Commission introduced a safeguard measure which allowed these products to enter the EU, provided that they did not stay in these frontline countries. In return, the four countries in question were obliged to end their bans. The current safeguard measure is set to expire on 15 September.

EU agriculture ministers will meet on Tuesday (25 July) in Brussels, with the issue of imports from Ukraine a major focus.

During the council meeting Poland, which will also be speaking on behalf of Bulgaria, Hungary, Romania and Slovakia, will inform ministers of the impacts of Ukrainian imports on their farm markets as a result of Russia's aggression against Ukraine.

And Polish prime minister Mateusz Morawiecki is already threatening to reintroduce a ban on imports from Ukraine if the safeguard measure is not extended beyond September.

Poland will hold a general election later this year, and the farming sector represents a key element of the ruling party's political base. The threat of an import ban risks creating further tensions, both between Warsaw and Kyiv, but also between EU member states, some of whom are critical of how these frontline countries responded with their unilateral measures.

While Russia tries to completely blockade Ukrainian maritime routes, **on July 19 Bulgaria, Hungary, Poland, Romania and Slovakia (EU members) asked the EU to extend a ban on Ukrainian grain imports beyond a September 15 deadline.**

- Transit cargoes would still be allowed;
- Ban covers Ukrainian wheat, maize, rapeseed and sunflower seeds;
- Five countries also discussed potential adding items to ban list.

The Ukrainian government has categorically protested the ban, which it considers discriminatory, and said that Ukraine may apply mirror measures.

Ukraine is now facing a difficult political job to convince the World to stop falling for Russian blackmail and ensure uninterrupted food supplies. It is very important not to allow Russia to weaponize the grain.

The UN work on ways to move Ukrainian grain to the world after Russia halted a Deal

The thorny issue of how to get food products out of Ukraine — and help farmers in neighboring EU countries compete with a glut of cheap grain — **is threatening to shake the 27-nation bloc's unity in supporting Kyiv as it battles Russia's invasion.**

The United Nations Security Council plans to meet Wednesday at Ukraine's request to discuss **Russia's attacks on the Ukrainian port city of Odesa and its attempts to "weaponize" food supplies.**

Barbara Woodward, Britain's U.N. ambassador and the council's current president, announced the meeting Tuesday, saying Russia has ramped up attacks on grain stores in Odesa and across Ukraine while its "sabotage" of the Black Sea Grain Deal had increased wheat prices by 8%. The United States would look at putting more money toward silos and other storage so Ukraine's grain harvests "don't rot while they wait to reach global markets" and would focus in part on helping farmers get access to finance.



- ✓ **No decision was taken in the 25 July 2023 EU Agricultural Ministers' Meeting on extending the ban beyond mid-September 2023.**

EU works on ways to move Ukrainian grain to the world after Russia halted a Deal

Agriculture Commissioner Janusz Wojciechowski said the European Commission, the EU's executive arm, would look at the possibility of financial support for transport companies, but Europe's economic powerhouse, Germany, opposes such a move.

“What is not possible is to take the money from Brussels as compensation for the burden, but at the same time close the border to Ukraine, in part even for products that were allowed to be transported legally before the war“, German Agriculture Minister Cem Özdemir said at a meeting of agriculture officials in Brussels, and added “in the end, this leads to the fact that solidarity with Ukraine is undermined. The only one who is happy is Vladimir Putin”.

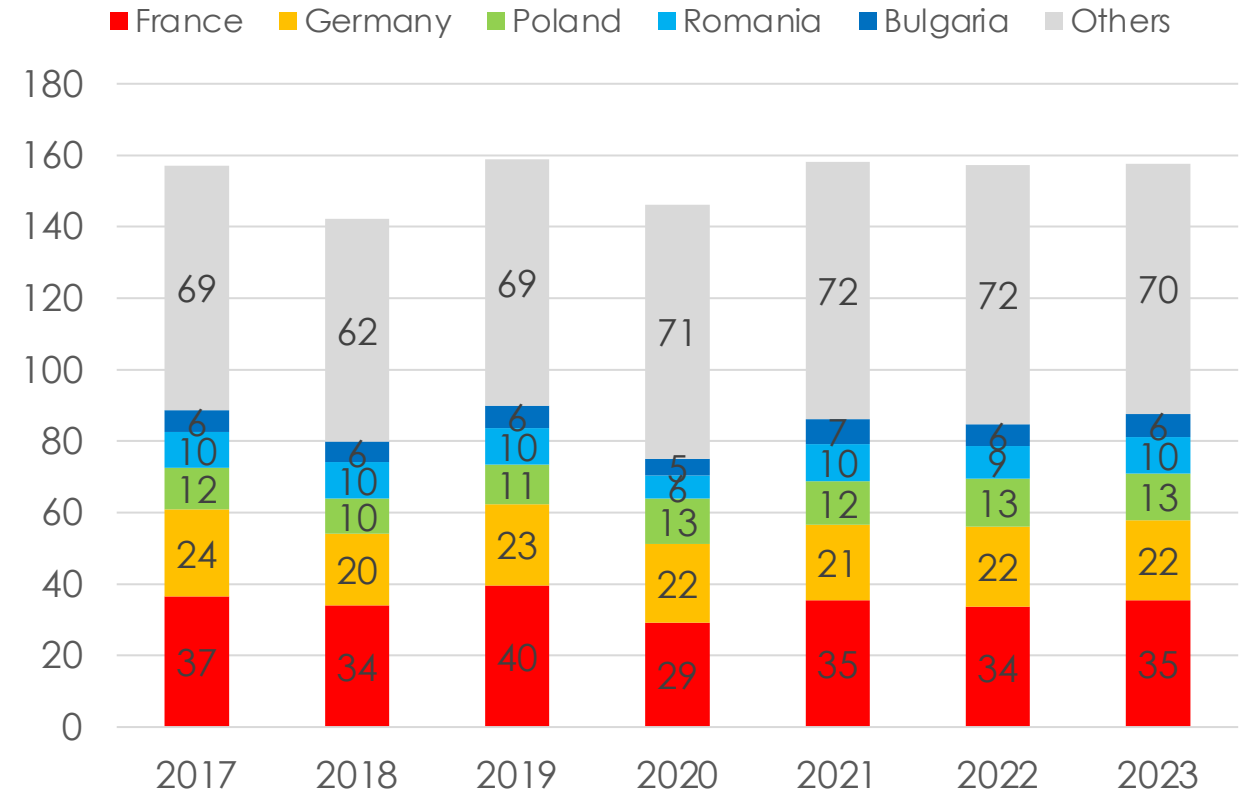
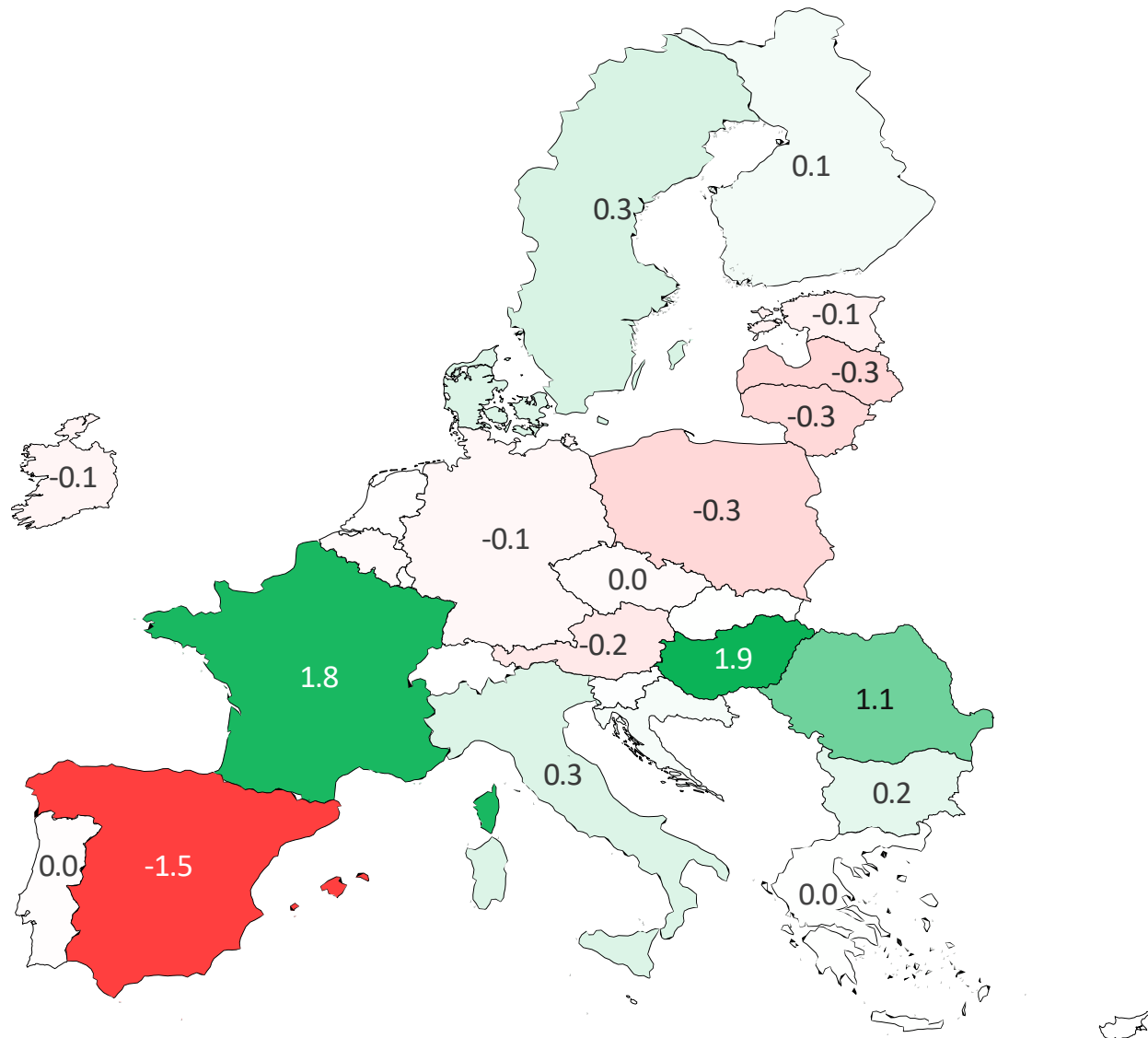
(Lisa Bryant, Voice of America (VOA), 25 July 2023)

“I think this gives us a lot of hope that we will not have to put into use our own, unilateral solutions”, Polish Agriculture Minister Robert Telus said, referring to extending the grain ban. (Mike Corder, Washington Post, 25 July 2023)

“The longer this war continues, the more dangerous its consequences, including the possibility of a wider conflict. For the sake of the Ukrainian people and for the sake of our global community, this senseless, unjustified war must stop”.

(Under-Secretary-General Rosemary DiCarlo in [remarks](#) to the Security Council meeting on Ukraine, 17 July '23)

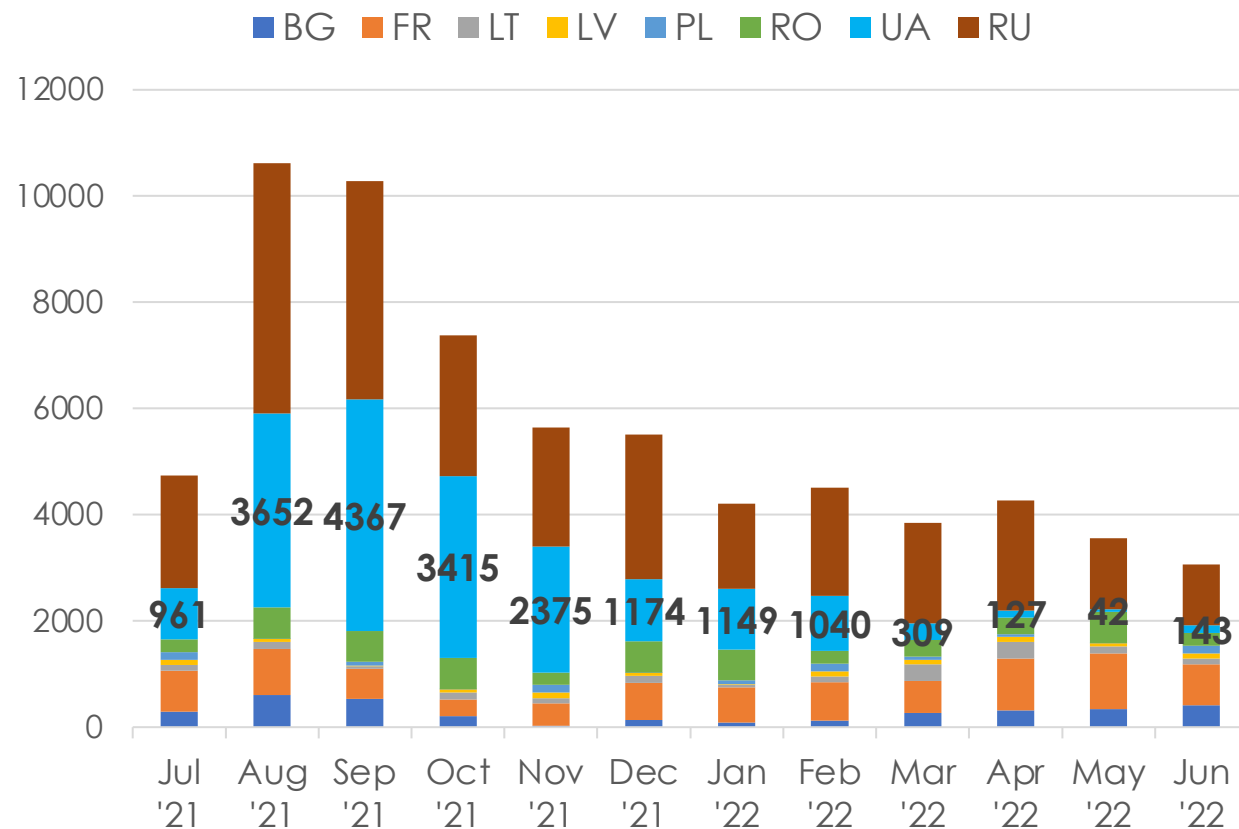
EU-27: change in wheat harvest 2023 VS 2022 (mln t)



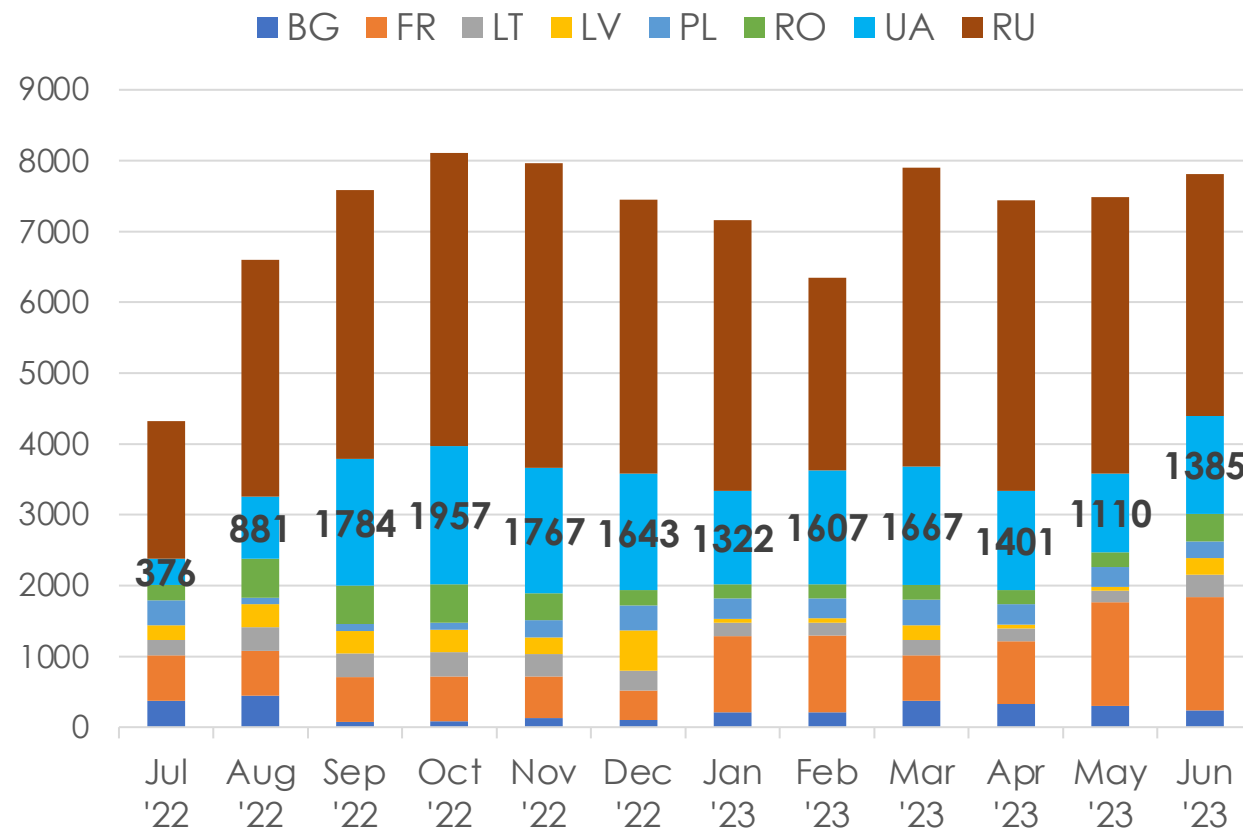
- Market participants continue to lower their crop forecasts for the EU-27.
- Barva Invest analysts believe that the forecasts will hardly be revised in the future.

Wheat: competitors of Ukraine

Monthly exports in 2021/22 MY, kt



Monthly exports in 2022/23 MY, kt



- **Ukraine** is starting the season without sea exports, which will limit export opportunities.
- **France, Romania, and Russia** have had a large harvest, and they did not have time to export all of the old crop.
- **The main importers** could cover their basic needs without Ukraine, setting a bad precedent for future UA exports.

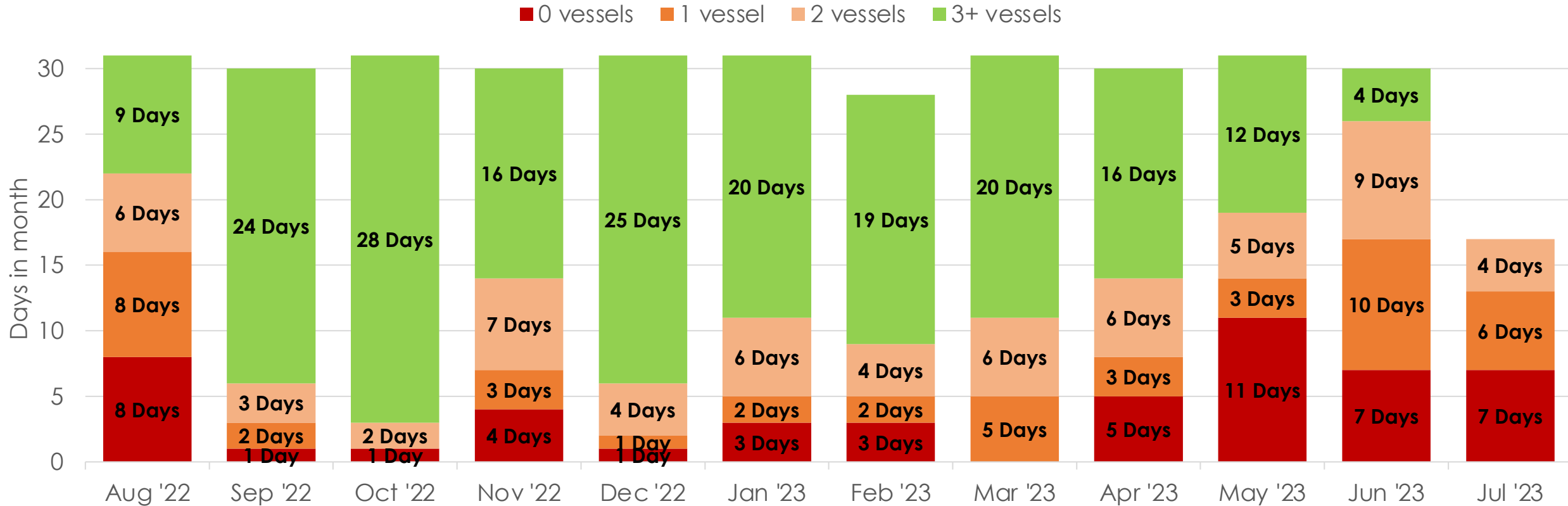


Part III

Grain Initiative

Ukraine's biggest grain export corridor by far is the Black Sea
Now vitally threatened by Russia

How many days Inspections cleared less than 3 vessels



July 17 was the last day of the Grain Initiative. Russia announced that it was suspending its participation until the Western countries fulfilled their demands. That was official end of Ukrainian grain exports by deep-sea ports. But de-facto Grain Initiative was broken by Russia much earlier.

In 47 days from June 1 to July 17 only 56 vessels passed Bosphorus and left Black Sea. 14 days (30%) there were no vessels cleared the Inspections, 16 days (34%) when was cleared only 1 vessel and 13 days (28%) when 2 vessels. There were only 4 days when Russia let more than 2 vessels leave Black Sea. Such pace effectively stopped Ukrainian sea export as a reliable route.

Russian weaponization of grain

Could it be worse?! A problem without a solution: **is RU weaponisation applied in full after June 1?!**

The cut-off on July 17 could not have even more devastating effects: it just extended the export uncertainty and, hence, increased investment fears, and MENA market share losses.



Photos published
by Ukrainian Ministry
for Restoration

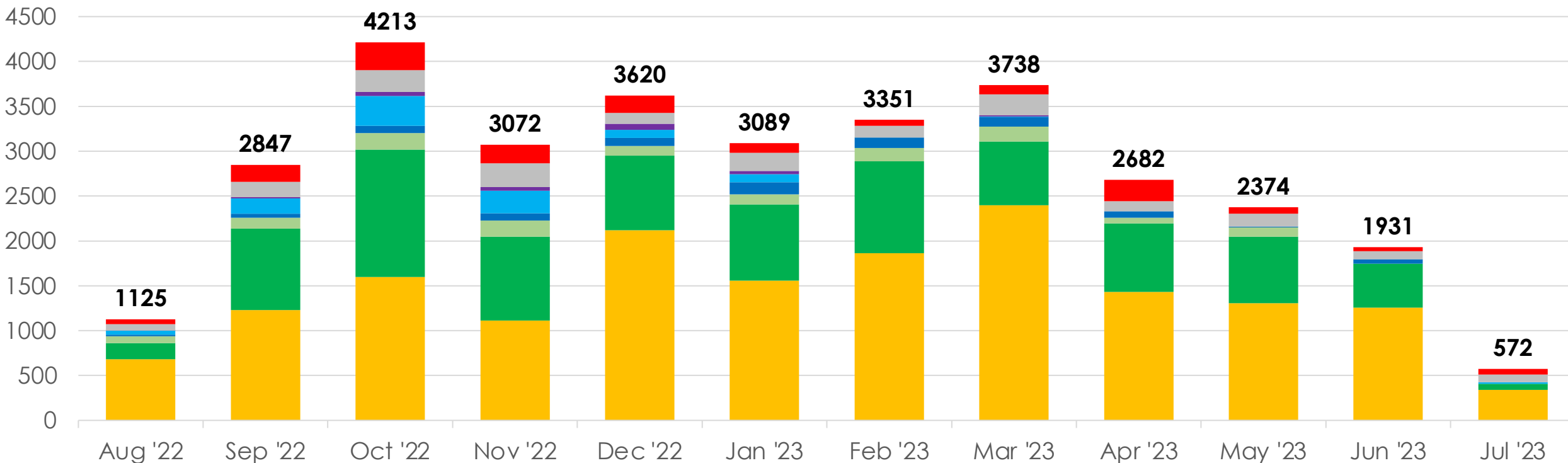
After suspending its participation in the Grain Initiative, Russia began daily missile attacks on Ukrainian ports. In particular, the grain infrastructure of international and Ukrainian traders and carriers Kernel, Viterro, and CMA CGM Group was damaged.

In the port of Chornomorsk, **60 kt of grain were also destroyed, which was to be shipped through the Grain corridor** 60 days ago, according to Mykola Solsky, Minister of Agricultural Policy.

According to rough estimates, grain losses exceed \$12 million.

Ukrainian crop that passed inspections outside the Black Sea (kt)

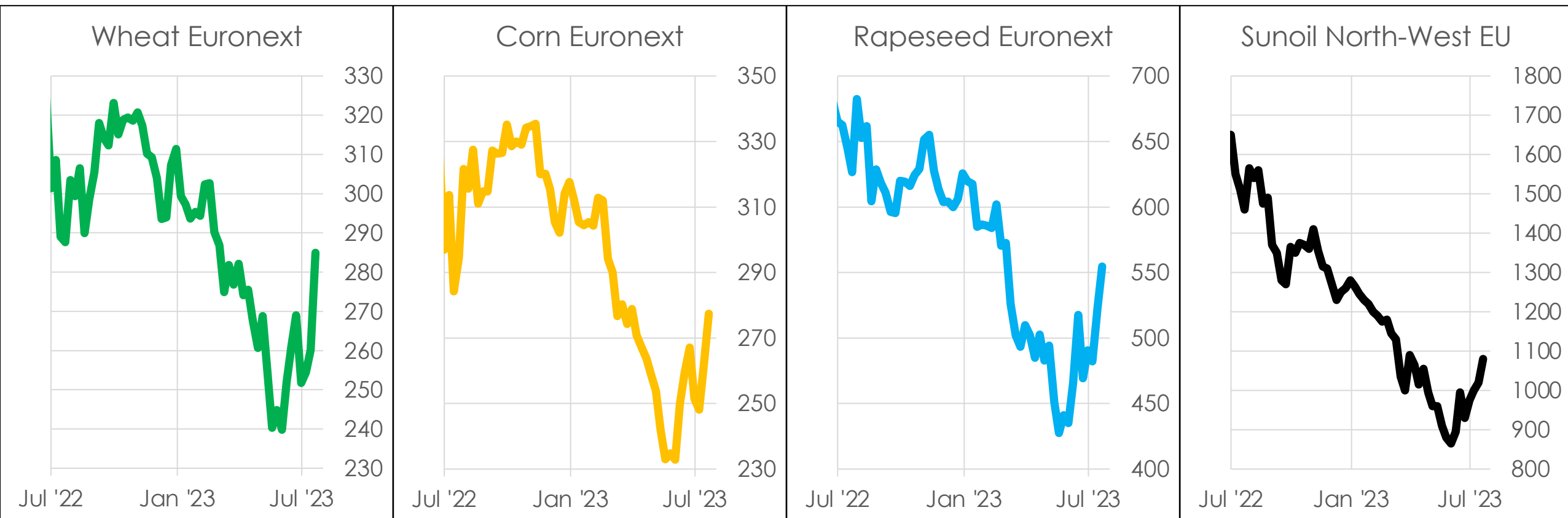
■ Corn
 ■ Wheat
 ■ Barley
 ■ Soybeans
 ■ Rapeseed
 ■ Sunseed
 ■ Sunmeal
 ■ Sunoil
 ■ Total



Due to Russia's actions, Ukraine's exports by sea began to decline month after month, reaching only 572 kt of grains and oilseeds in 17 days of July. As of mid-July, Ukraine still had 4.8 mln t of corn from the previous harvest to export. A new harvest of wheat, barley, and rapeseed is already appearing, as well as corn, soybeans, and sunflower expected in the Autumn.

The total export potential of Ukraine's future harvest is estimated at 43.4 mln t by USDA, although the Ukrainian consulting company Barva Invest has a much higher forecast of 48.7 mln t.

Price surge (\$/t)

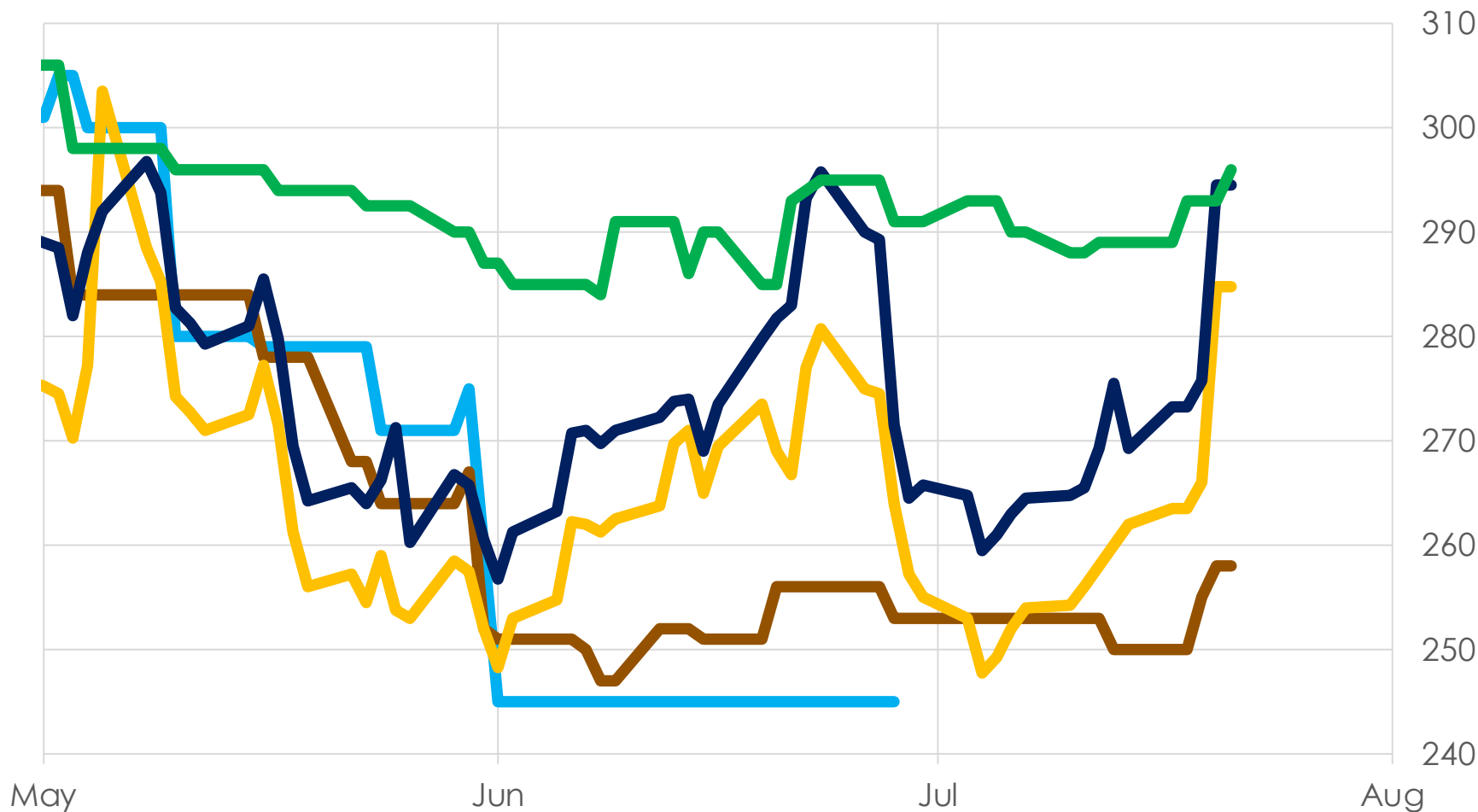


The majority of global market participants expected that the Grain Initiative might not be extended, so the first reaction on July 17 was restrained. But on Tuesday, 18 of July, prices skyrocketed, reacting not only to stoppage of Ukrainian deep-sea exports, but also to Russia's shelling of Ukraine's port infrastructure and Russia's statement that ships heading to Ukrainian ports would be considered potential weapons carriers. On Friday 21 of July, the prices dropped, as Russia has not yet gone further than its statements about enemy vessels.

Russia's threats remain a global geopolitical risk to world prices.

Wheat prices in Egypt port (C&F \$/t)

—Ukraine —Russia —Romania —France —Australia



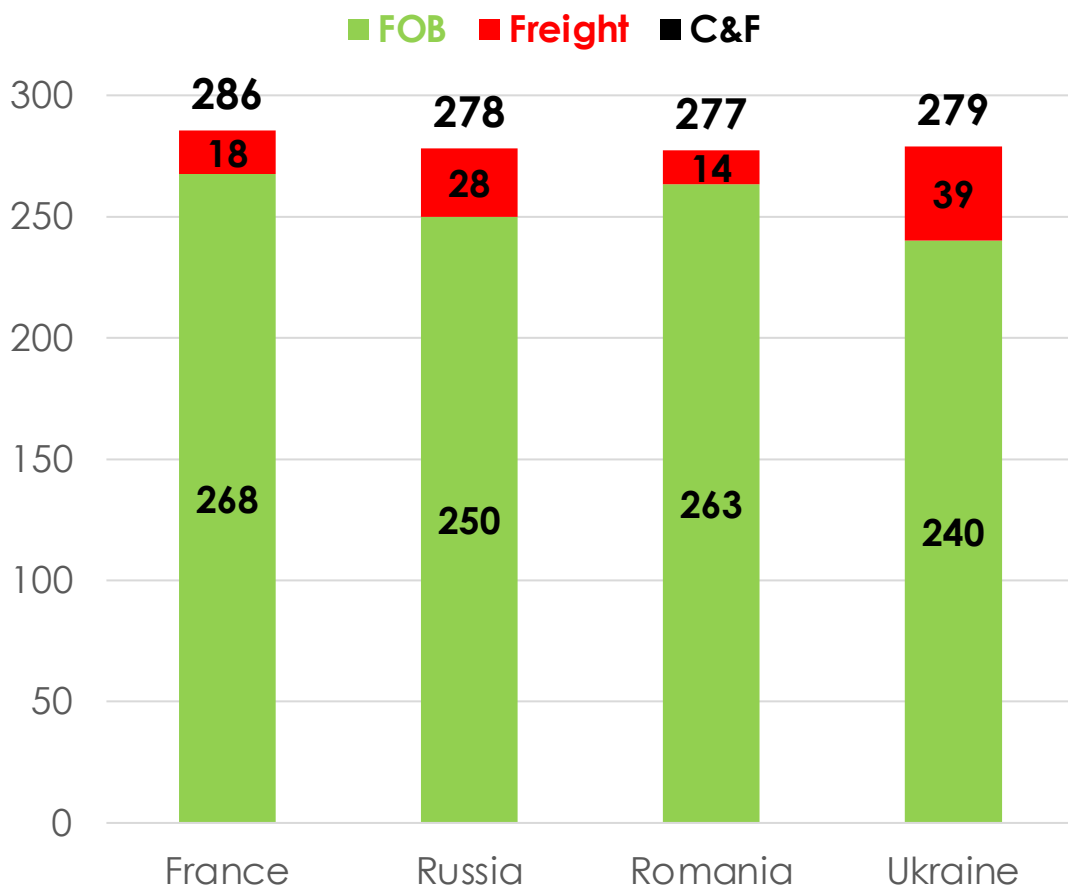
310 Global wheat prices have been slowly declining since late spring. The main factor was the realization that a new harvest in the Northern Hemisphere was approaching and that physical supply would soon be available.

280 On the other hand, the fact that not all countries had favorable weather prevented the price from falling rapidly.

270 **Russia's statements led to a sharp rise in prices in just a few days**, which caught importers by surprise. In recent months, Egypt could buy wheat at 250-270 \$/t, but after **July 17**, prices temporarily rose to 285-295 \$/t.

240

C&F price of wheat to Egypt (data on 15 of May)



While Ukrainian prices should be the same as those of competitors at the destination, **higher logistics costs mean lower prices for farmers.**

Before 24.2.22 Ukrainian freight was almost equal to Romanian. In May 2023 Ukraine had on average 39 \$/t, which is 2.8 times more than should be.

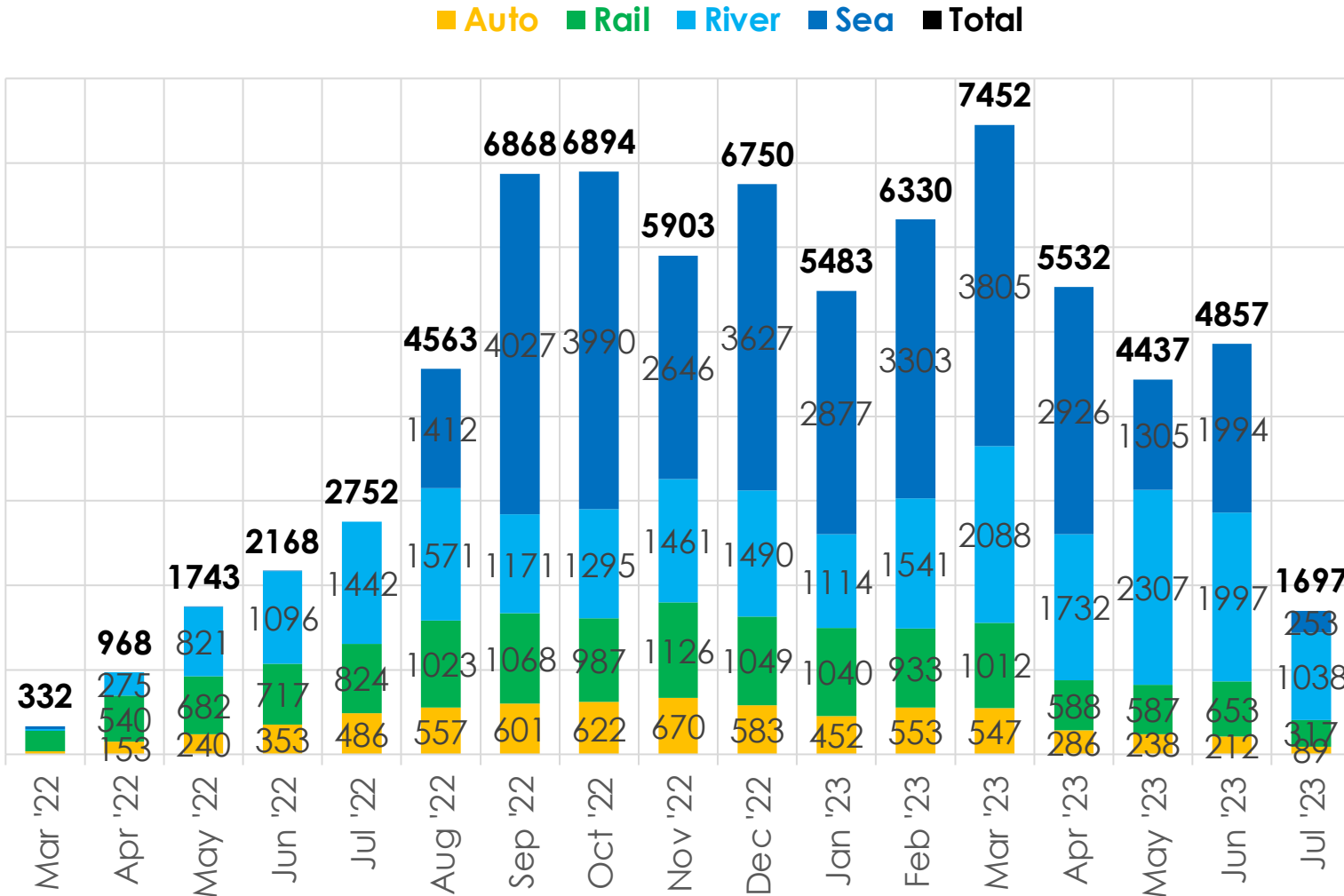
As an example, as of May 15, 2023, competitive offers of wheat for delivery to Egypt were in the range of 277-280 \$/t. Due to the usual cost of freight, the price in Romania on FOB basis (wheat loaded on the ship) was 263 \$/t, while in Ukraine it was 240 \$/t, 13-14 \$/t lower. Given the much more expensive process of transshipment to the vessel than before the war, the farmer received even less money.

Russian shelling of Odesa region infrastructure and information about their preparations for a false flag operation in the Black Sea after the disruption of the Grain Deal led to:

- ships quickly left the port of Reni and reached the right bank, where the territory of Romania begins, almost 30 vessels stopped at the port of Izmail;
- shipowners are consulting with insurance companies on the safety of calls to Ukrainian ports. Some operators are already cancelling voyages to Romania and Bulgaria to protect crews and vessels;
- increased tension and nervousness among shipowners, insurers, importers and brokers;
- the cost of risk insurance is expected to rise (currently in the process of formation, the market is watching and evaluating).



Ukrainian grains and oilseeds exports by transport mode (kt)



Logistics remains a major problem for Ukraine. Although local businesses have significantly expanded the capacity of alternative routes, they still do not allow all the grain to be exported during the key period.

As a result, the supply inside Ukraine remains consistently high and prevents the purchase price from rising. When the traditional active export period passes (the first months after the harvest), demand from importers weakens, and Ukraine still has a large harvest to sell.

But **with the loss of access to maritime exports, the situation becomes twice as bad**, as seaports accounted for about 40-50% of exports even before the Russian sabotage.

The EU must help keeping all routes open!

Ukrainian exports by river ports are in danger



2 non-transit routes to the river ports
Both have bridges, vulnerable to rocket attacks
Russia knows it and regularly hits it

In the absence of exports through deep-water ports, the main logistical burden will fall on river ports. Small-tonnage vessels cannot carry grain far, but at least they can bring grain to North Africa and the Middle East. Also, the functioning of river logistics makes it possible to transport grain to the deep-water ports of Romania and Bulgaria.

However, these export alternative routs are threatened by Russia. In particular, there are vulnerabilities like bridges on both roads to the river ports, which Russia has already attacked and may continue to do so, which could almost stop the supply of Ukrainian grain to the world.

The only ways to move Ukrainian grain to the world

The EU ministers gathered in Brussels for the first time since Russia pulled the plug on the wartime deal that allowed grain to flow from Ukraine to countries in Africa, the Middle East and parts of Asia, where hunger is a growing threat and food prices are high.

That leaves routes by river, road and rail through Europe as the only ways for Ukraine, a major global supplier of wheat, barley, corn and vegetable oil, to export its products. But recent attacks are raising questions about a crucial route through the Danube River, which has carried millions of tons of Ukrainian food to Romania's Black Sea ports every month.

The road and rail routes through neighboring countries have stirred anger from local farmers faced with a glut of Ukrainian grain that has driven down prices and hurt their livelihoods. It's not ideal for agriculture-dependent Ukraine either, whose growers face higher transportation costs and lower capacity.

“We need to consider the support for the transport. This is necessary”, Wojciechowski said , and added “I will present this position in the commission that we should find the solution. How to support the transport costs using also the EU money”.

Lithuania's agriculture minister, Kęstutis Navickas, suggested that export procedures for grain could be shifted from the Ukraine-Polish border to Lithuanian and other Baltic ports as a way of preventing grain from getting stuck in countries near Ukraine. Germany's Özdemir appeared to support that plan.

“I’m sure the friends from the Baltics would be happy to help and then transport to where it’s needed in the Global South”, Özdemir said.