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^{th} 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^{nd} and 3^{rd} 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.
- A s 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/



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative