



# **IMPACT OF WESTERN SANCTIONS ON GLOBAL FOOD CRISIS AND FERTILIZER MARKET**

## **REPORT**

**of the Russia's National Coordinator for the Implementation of the Decisions  
of the UN Summit on Food Systems**

## About emergence of crisis situation on the global food market

The Russian Federation, which constantly monitors the situation on the world food market, notes the accumulation of preconditions for a global crisis in food security and access to basic-needs products. There is a clear prospect of food shortages in many countries, including the industrialized countries of the “collective West”, not only in Asia, Africa and Latin America.

International agribusiness has entered a period of global economic instability characterized by catastrophic forecasts for the industry, new harvests and livestock production. According to stock exchanges, the world is entering a period of significant increases in prices of food, including wheat and corn.

### How it all began

The unfavorable situation on the global food market has not begun yesterday or even since the start of Russia’s special military operation in Donbas. It began to take shape in February 2020, while dealing with the aftermath of the Coronavirus pandemic, when the world economy went down and the world economy had to be rebuilt.

The USA has opted for infusion of large sums of money into supporting people, individual businesses, and sectors of the economy.

In two incomplete years from February 2020 to the end of 2021, the USA money supply grew by \$5.9 trillion. The total money supply grew by 38.6 percent.

The Secretary of the Treasury recently said they made a mistake. So this is a mistake by the financial, economic authorities of the United States; it bears no relation to the Russia’s actions in Ukraine.



**This was the first step, a very serious step toward the development of an unfavorable situation on the food market, because food prices took off. That's the first one.**

**The second reason is the policy of the European countries, and first of all the European Commission in energetics.**

**The possibilities of alternative forms of energy - solar, wind, hydrogen - have begun to be exaggerated. At the same time, traditional forms of energy, including and above all hydrocarbons and coal, have begun to be depreciated. Banks stopped lending because they were under political pressure. Insurance companies stopped insuring the relevant transactions. Local authorities stopped issuing plots of land for the expansion of production, reduced the construction of specialized transport, including pipeline transport.**

**All this led to underinvestment in the global energy sector, resulting in higher prices.**

**Western Europeans have not heeded our strong requests to maintain long-term contracts for the supply of natural gas to European countries. This had a negative impact on the European energy market: prices crawled upward. As soon as gas prices crawled upward, fertilizers prices immediately increased, because a significant portion of them (primarily nitrogen fertilizers) are produced using gas as a feedstock. As soon as fertilizers prices crawled upward, many plants, including those in European countries, became unprofitable. Moreover, they began to close at all. The volume of fertilizers on the world market fell sharply, and prices rose dramatically, may be said, quite unexpectedly for many European politicians.**

**As we know, the amount of fertilizers put into the soil determines the yield. As soon as it became clear that the volume of Russian fertilizers supply to the world market could not be maintained at the same level, prices crawled even higher for both fertilizers and food. If there are no fertilizers, there is no necessary volume of agricultural production.**



Fertilizers are also necessary for the production of plant food, which makes up the majority of the food people eat, and for the meat industry, because fertilizers help grow animal feed. Experts estimate that each ton of fertilizers (in active ingredient) corresponds to the production of the amount of food that can feed 30 people a year in average. According to the OECD-FAO 2021-2030 Agricultural Outlook, the average person consumes about 2,9 th kcal per day (the energy equivalent of food intake) every day.

Further deepening of the crisis phenomena on the agrarian market is connected, first of all, with the introduction of unilateral restrictive measures of the West countries against Russia in February - March 2022. They were so widespread that they managed, as a kind of catalyst, to spur the systemic errors in the macroeconomic and food policy of industrialized countries accumulated for years. They also added new serious problems to those, which were the trigger for the impending food crisis.

The sanctions of the collective West do not take into account the fact that Russia is one of the world's major producers of food and energy resources, a net exporter of agricultural and food products for the third year in a row. Agricultural raw materials and food are now supplied to 161 countries. The export volume of food products and agricultural raw materials in 2021 was 71 million tons worth \$37.1 billion, 21% higher than in 2020 (\$30.5 billion).

Exports of food and agricultural raw materials in 2022 are projected to increase by about 6 percent over 2021 levels and will be more than \$39 billion. Grains dominated in the structure of Russian agricultural exports in 2021 both in value and in volume terms. Preliminary prospects for the new 2022 crop are mostly optimistic.

According to the Federal Customs Service, in January 2022 the physical volume of exports of Russian poultry meat increased by 39.1%, fresh and frozen fish - by 17%, seafood - by 24%. In value terms, exports in the first



quarter of 2022 were \$0.96 billion, which is more by 43.2% in comparison with the same period in 2021.

It is necessary to note that the sanction measures affect all Russian agricultural exports and have negative consequences for all countries without exception. As a responsible member of the global food market, Russia intends to continue fulfillment of its obligations under international contracts for the exports of agricultural products, fertilizers, energy and other critically important products in good faith. Moscow is well aware of the importance of supplies of socially important goods, including food, for the socioeconomic development of the states of Asia, Africa, Latin America and the Middle East, the achievement of food security indicators and the implementation of the UN Sustainable Development Goals program.

Nevertheless, economic sanctions, including the blocking of international shipments and arrests of large-capacity vessels, the inability to insure maritime transport, and the disconnection of Russian banks from the SWIFT system, have led to a breakdown in the logistical and financial chains that have existed for decades in the global trade in food commodities. Payment restrictions and logistical difficulties caused by sanctions have affected the entire global network of economic operators in the field of agricultural products. With the uncertainty reigning on exchanges and markets, some agricultural producers are even beginning to doubt the advisability of investing in the expansion of their activities.



**Global trade in agricultural products remains destabilized to this day. Cost of energy resources and fuel is rising driven by sanctions, compelling farmers to decrease cultivated areas all round resulting in a decline in the volume of agricultural products on the background of ever-increasing demand. The situation is exacerbated by low food stocks, adverse weather conditions (in particular, the prolonged drought in North America) and a general underinvestment in the industry.**



**Under these conditions, the Russian Federation was forced to take certain retaliatory restrictive economic measures affecting, among others, a number of agricultural and commodity products, in order to protect its interests in response to external restrictions. Let's hope that these measures are temporary. In general, Russian estimates are in agreement with those economic forecasts, which show the real risk of serious food shortages and even starvation in several regions of the world, primarily those critically dependent on external supplies of basic-needs products.**

### **About the Situation on the Global Agricultural Fertilizer Market due to the Western Sanctions**

**Western sanctions have severely limited Russian supplies of fertilizers to the world market, thereby undermining the possibility of successful agricultural production in many countries around the world.**

**Western sanctions do not take into account the fact that Russia is the third player on the world market of mineral fertilizers. According to Rosstat, in 2021 the production of these products in Russia increased by 5.6%, to 24.9 million tons (in the active substance). According to the data from the Federal Customs Service (FCS) and TradeMap, about 65% of products are exported.**





The European Union and the ASA account for 22% of Russian fertilizers exports. According to the Economic Forecasting Center (EFC) of Gazprombank, in 2021 the Russian share in import of fertilizers in the USA amounted 14%.

In addition to fertilizers, Russia is an important global supplier of basic raw materials for the production of fertilizers, including ammonia (potentially from June to December 2022 - about 2.5 million tons), apatite concentrate (about 1 million tons) and sulfur (about 2 million tons). At present, these supplies are also actually blocked due to the impossibility of transportation and transshipment through the territory of the Baltic States. This leads to a shortage of raw materials for fertilizers production in the world, as well as higher prices and shortages of fertilizers.

Total fertilizer sales to foreign markets, primarily nitrogen and mixed fertilizers, have been growing steadily in recent years. There is also a trend towards geographic diversification of Russian fertilizer exports, depending on demand in various foreign countries. In value terms, exports of mineral fertilizers amounted a record \$12.5 billion in 2021.

Dependence of the European market on Russian fertilizers is high: Europe gets 25% of carbamide, 15% of ammonium nitrate, a third of phosphate fertilizers and 35% of potassium from Russia. In the USA, the share of Russian supplies in imports is 6% for potassium, 20% for diammonium phosphate and 13% for carbamide. The total share of Russia and Belarus in potassium chloride supplies to the European market reached 50-60% before the sanctions against Belaruskali.

Officially the ban on Russian fertilizers, as in the case of agricultural products, has not been introduced, but the countries of the “collective West” have established restrictive quotas and additional duties preventing free access of Russian fertilizers to foreign markets.



Since the start of the special operation in Ukraine, the cost of nitrogen fertilizers in the world shot up by an average of 40-50%, phosphate and potassium fertilizers - by about 30%. Prices in the nitrogen and phosphate segments will continue to rise in the near future, but by mid-summer, subject to the normalization of logistics, prices may stabilize only if the previously imposed Western trade barriers are lifted. As for potassium chloride prices, they are likely to continue rising, as Belaruskali is still limited in the supply of its products.

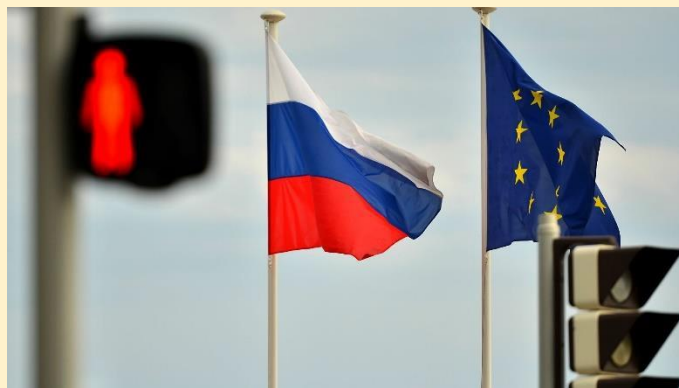
Already since the beginning of March 2022, several major logistics companies have refused to carry Russian cargo. Since March 1, the three largest sea container carriers - Swiss Mediterranean Shipping Company (MSC), Danish Maersk and French CMA CGM - has stopped transportation of cargo from Russia, including mineral fertilizers. There are also significant problems with chartering ships for bulk and liquid cargo, which is directly related to the transportation of fertilizers. Exporters have faced the fact that consumers in Europe are wary of the risks associated with buying fertilizers. Experts note that supplies in certain sectors are supported only by smaller ships from countries that have not imposed sanctions against Russia.

As for the “prohibitive” anti-dumping duties on mineral fertilizers from Russia, the USA imposed duties on Russian carbamide-ammonia mixture from January 2022: for Akron - 9.66%, Eurochem - 9.84%, in Europe - from the fall of 2019. In April 2021, Washington imposed duties on imports of phosphate fertilizers from Russia: 9.19% for Phosagro, 47.05% for Eurochem, and 17.2% for other producers.





In addition, on April 8, 2022, the European Union adopted the 5th package of sanctions against the Russian Federation, which also includes measures against mineral fertilizers and basic raw materials for their production.



This document provides for the following restrictions:

- Quotas were established on supplies of potassium, complex fertilizers and potassium-containing fertilizers produced in Russia to the European market for a year (until 10.07.2023);
- A ban was approved on the purchase, import and transfer of potassium, complex fertilizers and potassium-containing fertilizers produced in Russia and exceeding the quotas specified in the document;
- A ban was introduced on the provision of technical, brokerage and other services related to the supply, production and maintenance and/or use of Russian products and technologies, including fertilizers.

The key negative effect of the restrictions is that they threaten the supply of Russian fertilizers to countries outside the European Union (including developing and poor countries, where starvation is already an acute problem), as the existing logistics and financial chains are disrupted.

Russian fertilizer producing companies fell under separate restrictive measures due to the inclusion of beneficiaries and top management of Russian mineral fertilizer producing and exporting companies in personal sanctions lists. In recent months, leading figures in the Russian mineral fertilizer industry - beneficiaries and top management of EuroChem, PhosAgro, Uralchem, Uralkali, and Akron - have been included on the EU and UK sanctions lists. Most of them, being subjected to the sanctions, gave up control in their



companies and left management positions. Despite the corporate changes made and the termination of ties with the sanctioned individuals, these companies are still experiencing difficulties and restrictions in their work, which are reflected in the following:

- various formal and informal sanctions restrictions that affect buyers' willingness to interact with Russian suppliers;
- refusal of transport companies to provide transport for shipments of Russian origin (even if the shipments themselves and/or the companies-owners are not under sanctions);
- refusal to insure shipments from Russia;
- complicating ship calls to Russian ports;
- difficult financial support of transactions due to extended bank compliance procedures, etc.

The general confusion with logistics and the application of sanctions on Russian cargoes, including mineral fertilizers, provoked a drop in exports. At the same time, transport leverage is growing, shipments are becoming smaller, customs procedures are longer, and cargo has to be "pushed through" in manual mode. Exports decreased by 30-50% relative to the level of previous years. Russian fertilizer producers can completely redirect volumes from Europe, given that Latin America and Asia have always been among the key consumers. The redistribution of fertilizer flows between markets will take up to six months, contributing toward high fertilizer prices, which are already above the maximum levels of previous years.

Recognizing the miscalculations of the sanctions policy, its key ideologues, represented by the USA authorities, have already begun to introduce special exemptions for agricultural products and fertilizers, explaining it by humanitarian purposes. Thus, as early as March 2022, a special general license was issued authorizing all transactions necessary in normal



trade practice for the export or re-export of agricultural goods, including fertilizers, from, to or in transit through Russia. The UN Secretary General called on the UN Conference on Trade and Development (UNCTAD) to engage with Russia and other interested countries to help solve the food problem.

### **What is to be done?**

In order to prevent worsening of the global food crisis, it seems advisable to agree as soon as possible on an international legal mechanism that would completely remove food, fertilizers and raw materials for their production from the sanctions. The UN should take measures to ensure “market freedom” for the international trade in fertilizers, recognizing fertilizers as a commodity necessary to meet the basic humanitarian needs of humanity as soon as possible.

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In conclusion, the Western sanctions policy, unless alternative measures are taken, will ultimately lead to an irreparable destabilization of the world food market and have a negative impact on people’s well-being. Comprehensive measures need to be taken at the level of the UN and its bodies to minimize the damage primarily to the least developed and least protected countries and social groups.

