



PRESS RELEASE

THE AGREEMENT ON CEREAL SHIPMENTS IN THE BLACK SEA WILL NOT BE ENOUGH TO SOLVE ALL THE CHALLENGES OF THE AGRI-SECTOR IN 2023

Paris, April 5, 2023 – Although the agreement concerning the cereals transit in the Black sea, first negotiated between Ukraine and Russia under the aegis of Turkey, then renewed in March, has contributed to ease the pressure on cereals supply, its effects are limited and grey areas on the food security of many countries persist. The extension of this agreement provide temporary relief to the market, but Coface believes that the serious supply tensions that emerged with the start of the war in Ukraine will persist throughout 2023.

The renewal of the agreement on the transport of cereals in the Black Sea only solves part of the agri-food sector's problems linked to the war in Ukraine

The war in Ukraine has caused lasting disruption to the maritime flows essential to the transit of wheat in the Black Sea. Flows passing through the Bosphorus strait are about 50% lower than before the war, while Russia and Ukraine account for 25% of global wheat exports. The reduction in the availability of cereals has a strong impact on certain countries that are highly dependent on imports, especially in West Africa, Central Asia, and Southeast Asia. Agricultural resources are thus a lever for Russia to put pressure on Western countries, through public opinion empathy, which is sensitive to the growing risk to food security in developing countries.

Beyond the difficulties linked to shipments, the destruction of arable land, infrastructures, and equipment in Ukraine is problematic. According to the Ukrainian Grain Association (UGA), crop areas have been reduced by 25% in 2022 compared to 2021, and forecasts for 2023 are even more pessimistic. The contamination of the land due to the bombing threatens future crops, and many chemical plants or storage facilities essential to agricultural production have been destroyed. The UN Environment Programme estimates that 618 industrial sites or critical infrastructures have been destroyed in Ukraine since the beginning of the war.

The 60-day extension of the agreement on the Black Sea grain transport corridor is a breath of fresh air for the markets, but it does not solve the long-term supply problems. The FAO food price index, which reached its highest value since 2011 in May 2022, has stabilized at high level.

According to Coface, 2023 will remain a year of strong tension between supply and demand

With an extension of the Black Sea agreement for only 2 months, the risk of supply disruptions for certain countries is still present. Moreover, while demand is likely to be subject to strong inertia, world cereal production is expected to drop by 2% for the 2022/23 season.

Persistent supply difficulties and high market prices could also reinforce protectionist reflexes on food products. Some countries could thus be tempted to reintroduce protectionist measures similar to those that came into force in 2022 (Egypt, India) to deal with inflationary pressures or food shortages.

Finally, the contraction of global cereals production should accentuate the concentration of stocks in a few key countries. In recent years, China has steadily increased its wheat stocks, and now holds more than 50% of world wheat stocks. Conversely, grains exporting countries constitute less and less stocks (7.3% of stocks in 2022, compared to 11.3% in 2010). This greater concentration will necessarily be to the detriment of the fluidity of international cereals trade, especially in a market under pressure.

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