

# The impact of the Ukraine war on food and agriculture is becoming apparent

The war in Ukraine has many ramifications across the food chain. Consequences include the disruption of business operations and trade flows, higher commodity and energy prices and a deteriorating economic outlook. The impact is trickling down to many food & agriculture companies in Europe and elsewhere



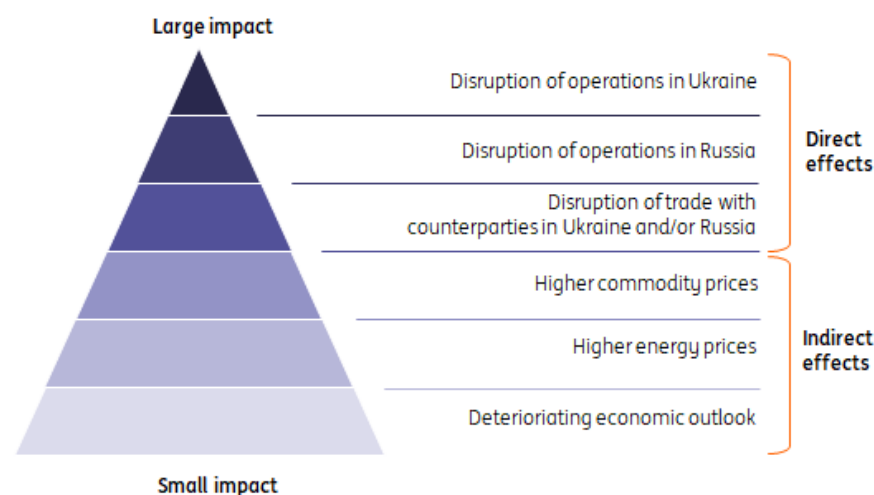
A modern grain processing plant in central Ukraine. The picture is from last year

## Many food & agri companies will be impacted by the war

With every new day of the war, it becomes increasingly clearer that the implications for the food and agricultural sector are profound. Both Ukraine and Russia are global powerhouses in the grains and oilseeds complex as well as being large consumer markets for food products. Food companies operating in Ukraine are, of course, facing the largest negative impact. But that impact is broad and many companies across the food value chain have already experienced or will experience effects from the war. Although it's impossible to grasp the complete picture right now, we want to take the first steps in distinguishing six ways in which food companies can be impacted as well as identifying subsequent consequences and how companies could react.

## The war in Ukraine impacts food & agri companies in multiple ways

Potential effects on food and agri companies ranked by order of magnitude; one company can be part of multiple 'layers'



Source: ING Research

### 1 Multinational companies operating in the region face a dilemma

The people of Ukraine, and the companies that are operating in the country, are facing an unimaginable crisis. And for those national and multinational food producers in the country, it's impossible to see how the situation will be once the fighting stops. Worries about local food supplies continue to rise on a daily basis.

For foreign food manufacturers and traders with operations in Russia, the situation is complex but on a different level. On the one hand, these companies are facing the impact of sanctions and a deteriorating economic situation. On the other, there is increased demand for products sourced from or produced in Russia because food imports have decreased.

#### Main consequence

Major uncertainty and obstacles for companies to conduct business.

#### How will food companies react?

Because of the war, many international food companies in Ukraine have temporarily closed their operations while some have also suspended exports to Russia. If the security situation allows it, there will be pressure to reopen facilities in Ukraine as food is a basic need. But, for western companies in particular, the question of their future presence in Ukraine and/or Russia is on the table. Companies will have to decide whether to keep operating in the region, decrease operations or leave the market completely. Their course of action will depend on multiple things including the development of the conflict and the safety situation, the importance of these markets in terms of supply or demand and reputational considerations.

## 2 Sanctions and trade flow disruptions create difficulties for importers and exporters

Logistical difficulties are a key challenge for many food & agri companies trading with counterparts in Ukraine and Russia. The closure of Ukrainian ports and the security situation on the Black Sea are some major examples. Although food products are excluded from the financial sanctions, importers and exporters can still experience difficulties with settling payments in case their trade partners work with sanctioned Russian banks.

### Main consequence

Disruption in shipments of food products leads to supply issues across different regions with governments likely to intervene in markets to secure domestic food supplies.

### How will food companies react?

Importers of agricultural commodities [will look for alternative markets to source their grains and vegetable oils](#). Exporters will be looking for ways to continue trading, but due to the mounting difficulties products destined for Russia and Ukraine will be diverted to other markets. This in turn can lead to excess supply elsewhere. Over time European exporters will likely decrease their exposure to Russia in case of a prolonged conflict and enduring sanctions.

## Ukraine and Russia mainly export grains and sunflower oil to the Middle-East, Asia, and Europe

|                                  |            |    | Wheat         |    | Corn         |    | Barley |    | Sunflower oil |  |
|----------------------------------|------------|----|---------------|----|--------------|----|--------|----|---------------|--|
| Russia                           |            |    |               |    |              |    |        |    |               |  |
| Total exports (2020, US\$m)      |            |    | 7,918         |    | 395          |    | 899    |    | 2,472         |  |
| Top three destinations (% share) |            |    |               |    |              |    |        |    |               |  |
|                                  | Egypt      | 23 | Turkey        | 29 | Saudi Arabia | 57 | China  | 23 |               |  |
|                                  | Turkey     | 21 | Viet Nam      | 23 | Jordan       | 8  | Turkey | 18 |               |  |
|                                  | Bangladesh | 5  | Rep. of Korea | 12 | Turkey       | 8  | India  | 13 |               |  |
| Ukraine                          |            |    |               |    |              |    |        |    |               |  |
| Total exports (2020, US\$m)      |            |    | 3,594         |    | 4,885        |    | 878    |    | 4,703         |  |
| Top three destinations (% share) |            |    |               |    |              |    |        |    |               |  |
|                                  | Egypt      | 17 | EU            | 30 | China        | 54 | India  | 31 |               |  |
|                                  | Indonesia  | 15 | China         | 28 | Saudi Arabia | 13 | EU     | 30 |               |  |
|                                  | Bangladesh | 8  | Egypt         | 10 | Libya        | 8  | China  | 20 |               |  |

Source: Comtrade database, ING Research

## 3 Global prices of grains, oilseeds, and fertiliser are rising

Food companies entered 2022 on the back of a wave of higher commodity prices, not least for grains and oilseeds, and this trend hasn't abated. Input costs for arable farmers are also increasing as [sanctions against Belarus and Russia have a big impact on fertiliser supply chains](#). The importance of the Black Sea region for grains and oilseeds production and the disruptions in trade flows drive up prices for food companies that don't trade directly with Russia or Ukraine. Together these things make it very difficult to predict crop prices going forward which also leads to more market volatility.

### Main consequence

A further rise in grain, vegetable oil and fertiliser prices leads to even more cost inflation in food supply chains and buying decisions get more complicated due to more market volatility.

### How will food companies react?

The impact of higher prices will mainly be felt by companies in the feed industry, the baking industry, brewers and producers of vegetable oils and spreads due to their heavy reliance on grains and oilseeds. Once their current procurement contracts terminate, companies don't have many other options than to pay higher prices and try to pass them on to their customers. Passing on costs will be necessary given the narrow margins in the sector, but it can be difficult nevertheless because food companies already had such conversations with their customers over the last couple of months. In some cases, companies will look to possibly reformulate products by substituting sunflower oil with palm oil to be able to keep up production, for example.

## Wheat prices have sharply increased during last week

Euronext Paris Milling Wheat future, in euro per ton, June 2021 – 3 march 2022



Source: Macrobond, ING Research

## 4 Trade disruptions lead to additional demand for crops in other producing regions

When speaking about the impact of the conflict, it is obvious that it predominantly has a negative impact on food & agri companies. But it also leads to more demand and higher prices for grains and vegetable oils from other regions. For example, Asian palm oil producers and suppliers and Australian wheat producers and suppliers are experiencing additional last-minute demand. It seems reasonable to assume that during the 2022/23 season producers around the world will certainly look for ways to ramp up production and provide an alternative for the drop in supply. But supply in other regions cannot go up instantly and it can certainly not fully replace the high yield crops from the Black Sea Region. The elevated costs of fertiliser along with limitations on availability pose a real downward risk for producers on crop yields.

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## Conflict trickles down to all European food companies through higher energy bills

Higher energy prices are an indirect effect which is especially relevant for European food manufacturers. Data for the Netherlands shows that on average energy costs make up 1-3% of total costs in food manufacturing. But those figures are from 2019 and it is reasonable to assume that the current share is higher as wholesale energy prices have increased sharply since that time. On top of that, higher energy prices will also trickle down to food manufacturers through [higher fuel costs](#) and through their procurement because they buy a relatively large share of their inputs from more energy-intensive sectors such as agriculture and the packaging industry.

### Main consequence

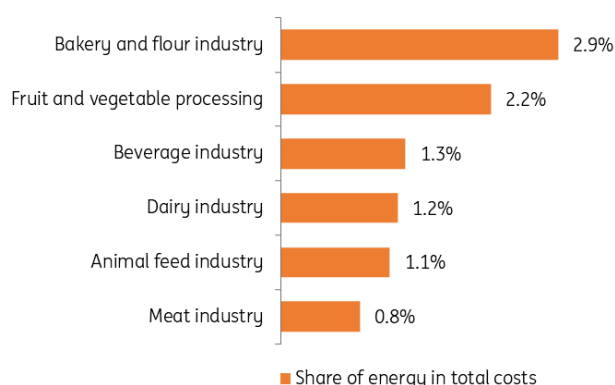
Rising energy prices put more cost pressure on food manufacturers.

### How will food companies react?

In the short term, food manufacturers will try to pass on higher energy costs. For companies that are relatively dependent on gas, it can be useful to prepare for a scenario in which Russia's energy supply to Europe is cut off. The surge in energy prices might eventually make investments in energy efficiency more attractive and stimulate companies to move from gas-powered production processes to other energy sources. This will also depend on whether governments will react with more supportive policies and subsidies.

## Industrial bakers and flour mills have relatively high energy costs

Based on data for Dutch food manufacturers, 2019



Source: CBS, ING Research

## 6 A worsening macro-economic outlook to weigh on growth for food companies

It's still too early to put concrete numbers on the consequences of war in Ukraine for key economic indicators given the uncertainty around the situation. It's a huge concern for Europe and we've written about that [here](#).

## Main consequence

Lower economic growth in countries that are most exposed to the conflict can negatively impact household consumption.

## How will food companies react?

For some food manufacturers, it can be a reason to re-evaluate their growth forecasts for this year. For others, it can be a motivation to double down on their growth ambitions in countries that are not so negatively impacted by the conflict.

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