Implications of Ukraine Conflict on Food Access and Availability in the Eastern Africa Region

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Highlights :

- Wheat and wheat products account for one third of the average national cereal consumption in the Eastern Africa Region, with highest consumption per capita in Djibouti, Eritrea and Sudan. Yet, 84 percent of wheat demand in the region is met by imports. The invasion of Ukraine has already had a negative impact on global wheat prices, which have jumped to record high in Q1 2022, comparable to levels witnessed during the 2008 global financial crisis. In addition, Ukraine and Russia could impose export tariffs or trade restrictions including export bans on wheat to support domestic food needs, should the crisis prolong.
- Considering the size of wheat demand and overreliance on imports from Russia and Ukraine, Sudan is likely to be more severely affected by the fallout of the ongoing conflict; followed by Kenya and Ethiopia. Other countries in the region are also likely to be either directly affected (through increased prices of wheat-based products) or indirectly affected (consumption of substitute products, resulting into increase in prices of other cereals).
- In addition, Ethiopia, Sudan and South Sudan are more likely to be affected by possible wheat prices shocks as they are already facing internal socio-economic and climatic shocks–which have already led to high-food prices.
- Analysts have projected that disruptions to oil flows from Russia has the potential to push global oil prices to USD120 per barrel. The current State-backed fuel subsidies aimed at cushioning consumers (e.g. in Kenya) and price controls (Djibouti, South-Sudan) are highly unlikely to keep pace with short-term pump price inflation.

Context:

The economic fallout of Russia's invasion of Ukraine on Eastern Africa is still uncertain and to the very best speculative; yet, there are several possible knock-on effects at least in the near-term (next six months). Despite Russia and Ukraine combined maize production representing only 4 percent of global output, their contribution to export is quite significant (accounting for 14 percent of global maize exports in 2020). Russia and Ukraine are also among the leading producers and exporters of wheat and sunflower oil, the latter accounting for 18 and 40 percent of 2020 global exports, respectively.

The spring planting season in the two countries is likely to be affected by the conflict; yet, the magnitude will depend on the length and severity of the conflict and on the financial sanctions against Russia. This, in turn, can potentially disrupt global food trade, with significant consequences on food price stability in the RBN region.

A significant disruption in Ukraine and Russia's wheat production and export flows might have direct and indirect impacts on supply chain with importing countries looking for alternative trade partners or sources of grains.

The conflict is likely to affect wheat supply chains as major grain exporters – Ukraine, Russia and Romania – ship grains from ports in the Black Sea, which will continue to face disruptions from the military blockade, closure of ports and sanctions. Trade disruptions and economic sanctions on Russia could potentially limit trade with the region, leading to shortages of food and oil and higher prices in the short-term.

Wheat Exports to Eastern Africa dominated by Russia and Ukraine increase the risk of food inflation in the region

Fig. 1: Global wheat price trends

As Figure 1 shows, global wheat prices have been on the rise since end 2020 due to reduced availability of crops (following poor harvests in key exporting countries) and high demand for cereal products. The invasion of Ukraine has already had a negative impact on global wheat prices, which have jumped to record high in Q1 2022, only comparable to the 2007/2008 global financial crisis levels

Ukrainian and Russian inventories of wheat and other grains that had not been shipped before the conflict could potentially increase the pressure on already high prices. In addition, Ukraine and Russia could impose export tariffs or trade restrictions on wheat to support domestic food needs, should the crisis prolong.

Similar concerns were raised during the 2014 Russia's annexation of Crimea and the occupation by Russia-backed separatists of the eastern Donbas region; yet, markets were able to recover rapidly despite increased wheat price by 25 percent in only two months. As the current incursion is much wider compared to 2014, the risk of disruptions in wheat producing regions and higher global wheat prices are much higher.

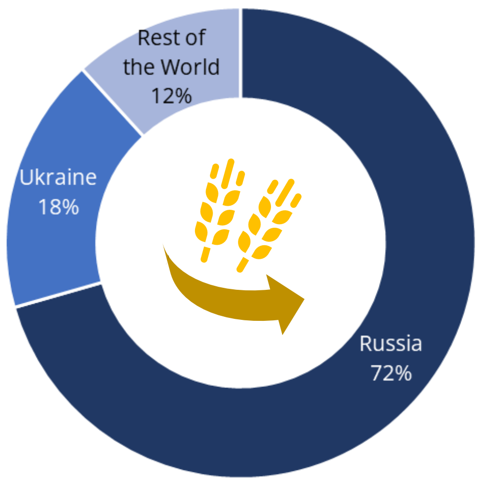
Wheat markets in the Eastern Africa region are currently well supplied. However, if markets run out of stocks and trade disruptions happen, there is potential for increased prices of wheat products in the domestic markets. The magnitude will depend on how fast the region's importers and traders will adapt and find new grain sources.

Russia is also the largest fertilizer exporter in the world. As pre-conflict fertilizer price spikes have already contributed to the rise in food prices, further disruptions to fertilizer production or exports are likely to increase food production costs, contributing to higher food prices.

The compound effect of the drought in the Horn of Africa and the conflict in Ukraine are raising concerns of likely short-term food inflation in Eastern Africa, as the region is a net importer of wheat and sunflower oil while going through a severe drought following four back-to-back below average seasonal rains and poor agricultural production.

Wheat and wheat products account for one third of the average cereal consumption in the Eastern Africa Region, with highest consumption in Djibouti, Eritrea and Sudan. Yet, 84 percent of wheat demand in the region is met by imports. Russia and Ukraine are the region's top exporters of wheat, as they supply 90 percent of wheat imported in the region (70 and 18, respectively, Fig. 2).

Figure 2: Sources of wheat exports, Eastern Africa



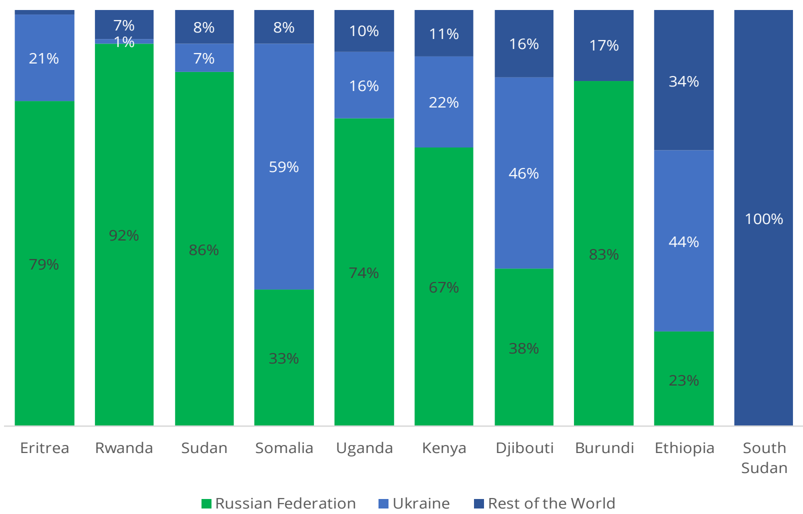
Wheat Exports to Eastern Africa dominated by Russia and Ukraine increase the risk of food inflation in the region

However, the share of wheat exports from Russia and Ukraine varies from country to country – ranging from approximately 66 percent in Ethiopia to almost 100 percent in Eritrea (Fig. 3). Considering the size of wheat demand and overreliance on imports from Russia and Ukraine, Sudan is likely to be more severely affected by the fallout of the conflict followed by Kenya and Ethiopia. Other countries in the region are also likely to be either directly affected (through increased prices of wheat-based products) or indirectly affected (consumption substitution of wheat products, resulting into increase in prices of other cereals), except for Uganda – the only maize grain sufficient country in the region.

Despite not importing wheat from Russia and Ukraine, South Sudan is likely to be indirectly affected by the fallout of the conflict as it imports wheat and maize from Uganda, Kenya and Tanzania, that, in turn import grains mainly from the two countries at conflict.

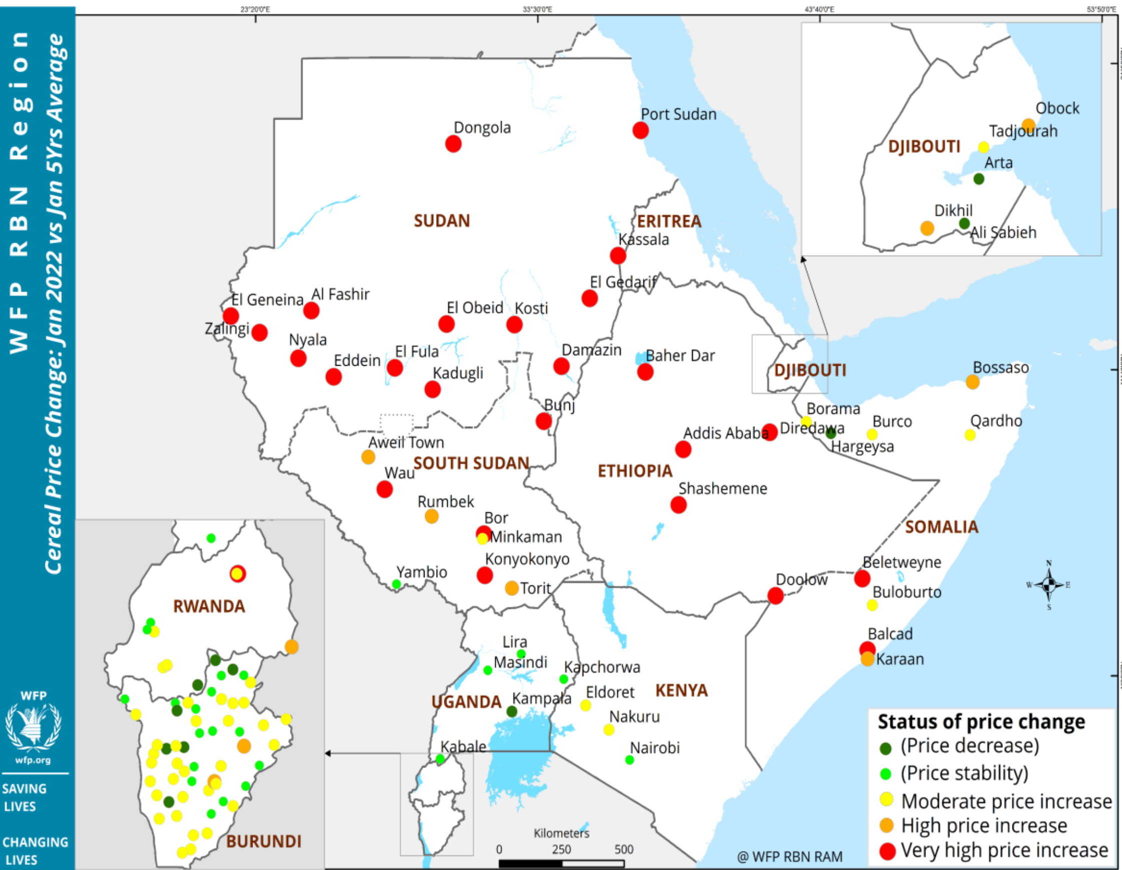
In addition, Ethiopia, Sudan and South Sudan are more likely to be affected by possible wheat prices shocks as they are already facing internal socio-economic and climatic shocks – which have already led to high food prices.

Fig. 3: Share of wheat imports to Eastern Africa



Currently, staple food prices in these countries are significantly higher than the long-term average (Fig. 4).

Fig. 4: Food prices changes compared to the long-term average

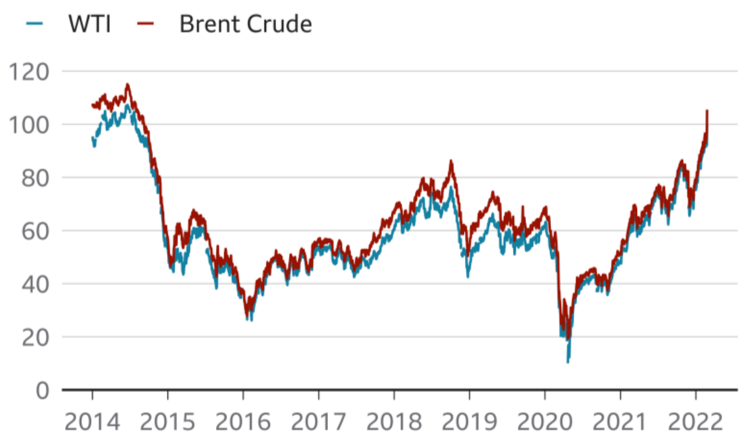


Due to higher reliance on market purchase and lower cereal substitution capacity, the urban poor in the Eat Africa who are already facing skyrocketing food prices and COVID-19 impacts on incomes will likely be the hardest hit by food price inflation.

Increase in Crude oil prices expected to drive further food price inflation in the region

Russia is the world's largest exporter of oil to global markets and the second largest crude oil exporter behind Saudi Arabia. It is currently unclear what the impact of sanctions will be on energy flows and how long any potential supply losses will last. However, if crude oil exports from Russia decline because of the conflict and ensuing sanctions, crude oil prices could remain high for the better part of the year because of increased demand/competition.

Figure 5: Brent Crude and WTI Oil Price, 2014-2022



Global demand for oil has outpaced production growth as economies slowly rebound from the COVID-19 pandemic, leaving the market with a small buffer to mitigate an oil supply shock should there be significant disruption in Russian fossil fuel exports.

Global crude oil prices breached the USD 100 mark for the first time since 2014 in reaction to the Russian invasion of Ukraine. Analysts have projected that disruptions to oil flows from Russia has the potential to push global oil prices to USD 120 per barrel. This comes at a time when the crude oil price has been increasing since last year when it rose from USD 60/barrel progressively to the current USD100+/ barrel amid a confluence of factors, including the pandemic and limited supply and growing geopolitical tensions.

The prospects of costlier crude oil is more concerning in the region as it will have much wider welfare impacts beyond the pump price, reflected through increased production and transports costs. Fuel and transport costs account for 30 percent of food prices in the region and therefore high fuel prices will automatically be pushed to consumers. The current State-backed fuel subsidies aimed at cushioning consumers (e.g. in Kenya) and price controls (Djibouti, South Sudan) are highly unlikely to keep pace with short-term pump price inflation.

Container terminal of the Port of Odessa, Ukraine that has been closed because of conflict.

Conclusions

A disruption to Russia's and Ukraine's exports could potentially lower the volume of wheat trade with Eastern Africa, requiring major wheat importers (Ethiopia, Kenya and Sudan) to diversify external wheat supply from other sources (exporters) in order to meet domestic demand. This might potentially lead to higher domestic prices.

The ongoing crisis adds an upside risk to the regional food price inflation, which is already elevated in countries facing domestic shocks; either/or drought, economic crisis and conflict (Ethiopia, Kenya, South Sudan) and countries where wheat demand is almost exclusively met through imports (Sudan, Djibouti and Eritrea).

The scale of the potential upswing in regional grain prices will depend on the magnitude of possible trade disruptions and the time it will take for regional grain handlers to find alternative sources of wheat.

The possibility of using country-level grain reserves to buffer wheat price shocks could also be envisioned especially in Kenya, Uganda and Ethiopia; however this scenario is less likely in Sudan, South Sudan, Djibouti, Eritrea –which are net wheat importers.

The Russia-Ukraine conflict comes at a time when the drought in the Eastern Horn of Africa has already put up the pressure on prices. High food prices in the region is expected to persist if not escalate particularly in the localised areas affected by drought, in urban areas (where markets are the main source of food and there is less consumption substitution capacity) and in countries facing mounting economic crises and internal conflict.

The fallout of the Russia-Ukraine crisis is more likely be felt in the short-term, but could smoothen out in the long-run as the markets self-correct and alternative sources of wheat potentially fill potential the gaps. In addition, prospects of acute shortage of wheat is not highly likely as there will be accelerated market mopping up of available domestic stocks while other wheat exporting countries (such as Canada, Australia and the United States) move to benefit from potential near-term surge in demand and prices.

The welfare impacts of increased fuel prices will be longer and widespread across the region through knock-on effect on the prices of nearly all products. Fuel shortages can also be envisioned in countries facing mounting economic crisis like Burundi, South Sudan and Sudan. The budgets of oil-producing Sudan and South Sudan could temporarily get boosted from the rising crude oil prices. However, countries with significant exports of primary agricultural and horticultural products to Russia like Kenya and Ethiopia could loose on the vital foreign exchange reserves because of sanctions in addition to affecting low income workers in the affected sectors and industries with consequential negative impacts on household purchasing power and affordability of diets from markets.


Motorists queue to buy fuel in Juba in 2014 due to fuel shortages

Sources :

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Eastern African Countries (under WFP RBN):

Kenya, Uganda, Rwanda, Burundi, Somalia, Ethiopia, Djibouti, Eritrea, Sudan & South Sudan

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