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**NAMIBIAN
AGRONOMIC BOARD**

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THE IMPACT OF THE RUSSIA-UKRAINE WAR ON NAMIBIA'S CROP INDUSTRY

1. Key Messages

- The Russian Federation and Ukraine are among the most important producers of agricultural commodities and energy in the world.
- When combined, Russia and Ukraine export about 34% of the world's wheat and 73% of the world's sunflower oil, while Ukraine alone exports about 15% of the world's maize.
- In 2020, Russia ranked as the top exporter of nitrogen fertilisers, the second leading supplier of potassium, and the third-largest exporter of phosphorous fertiliser.
- Russia is a major player in global energy markets, and it is one of the world's top three crude oil producers. Russia is also the world's second-largest producer of natural gas, behind the United States, and it has the world's largest gas reserves.
- Approximately 50 countries depend on the Russian Federation and Ukraine for at least 30% of their wheat import needs – and of these, 26 countries source over 50% of their wheat imports from these two countries, including Namibia.
- In Namibia, the war between Russia and Ukraine affected the importation of wheat and fertilisers, mainly from Russia, as Namibia imports about 56% of its wheat and 5% of fertilisers from Russia, though an insignificant amount of wheat was also imported from Ukraine some years back. In Namibia, the war between these two countries resulted in a price increase for both imported and locally produced food products, and a price increase was also observed for fertilisers, fuel and gas.
- The war is likely to also affect the export of table grapes during the upcoming season – from October 2022 to January 2023 – as Namibia exported about 1% of the total table grapes exports to Russia in 2020.
- This situation implies the need for Namibia to diversify the markets, build stocks, attract investment to increase local production, explore other crops, such as oilseeds production and processing, basic food subsidies to vulnerable groups, VAT zero-rating/reduction on same staple food crops and key production inputs, increase crop farming productivity, commercial/surplus production incentives, strengthen regional block, and particularly increase intra-African trade to move products within the continent.

2. Introduction

Many countries face rising food insecurity levels due to multiple factors, such as conflict, climate change, socioeconomic conditions, natural hazards and the COVID-19 pandemic (World Bank, 2022). The growing food insecurity contributes to the reversal of progress in development, and it threatens the

attainment of food security and nutrition goals, such as the Malabo Declaration Goals and Sustainable Development Goals of ending hunger.

The Russia-Ukraine war, which started on 24 February 2022, presents a major shock to the global food markets. The escalating tensions in the Black Sea region have heightened risks on global food markets, which are already struggling with increasing prices, supply chain disruptions and a bumpy recovery from the COVID-19 pandemic (AMIS, 2022b). The channels through which the Russia-Ukraine war is impacting global food markets include reducing grain supplies, rising energy prices, increasing fertiliser prices, disrupting trade due to restrictions, and/or shutting down major ports. The impacts of the shock will worsen food price inflation pressures in global and domestic food markets, further affecting food and nutrition security, especially for the poor in low-income countries. The global inflationary pressures and multiple existing risks continue to push food prices up, affecting food access and food security. Many African countries, including Namibia, are not self-sufficient; they rely on food imports to meet domestic consumption needs.

Namibia relies heavily on import supplies from Russia, mainly for products such as wheat grain and fertiliser. At the same time, Namibia exports table grapes to this country. The disruption of trade in the Black Sea region due to the Russian-Ukraine war has disrupted global food, fertiliser and energy supplies, and this has resulted in global price hikes, of which Namibia is not spared, given that we are a net importing country. This brief discusses the impact of the Russia-Ukraine war on Namibia's crop industry and makes recommendations to soften the effects.

3. The importance of Russia and Ukraine in global food markets

The Black Sea region is an important hub for global food production and trade (Puma & Konar, 2022). Russia and Ukraine are major world producers and exporters of major grains, such as wheat, barley, corn and vegetable oils. Combined, the two countries account for about 34% of global wheat exports and about 73% of global sunflower seed oils. Figure 1 illustrates Russia and Ukraine's important roles in global food markets. The instability in food production and trade (especially exports) has far-reaching consequences on food supplies, prices and food security in import-dependent countries, such as those in Africa, including Namibia.

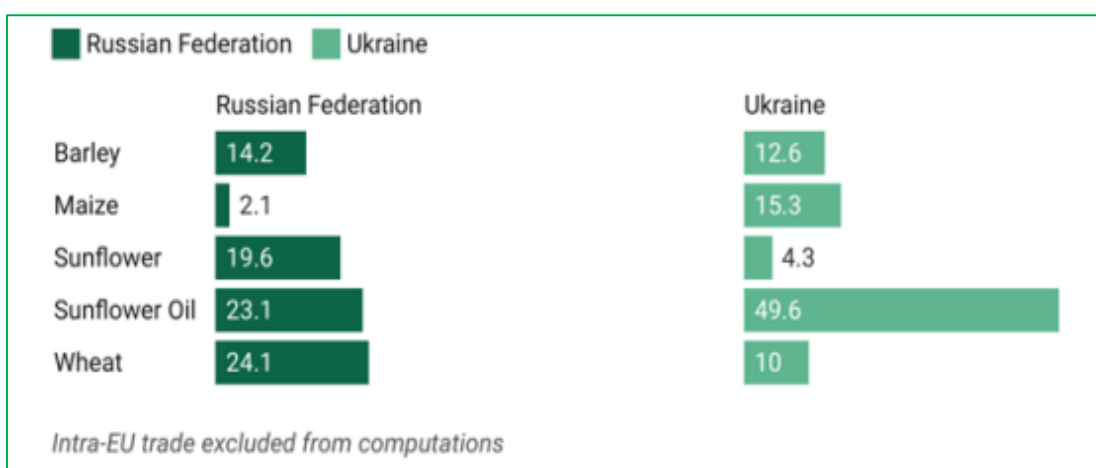


Figure 1: Russia and Ukraine's share of global trade, 2018-2020. Source: Own construction based on COMTRADE data (Glauber & Laborde, 2022).

4. Implications on food supply

Russia is the world's third-largest wheat producer. Russia and Ukraine produce about 17% of the world's maize, 34% of the world's wheat and 74% of the world's sunflower oil (International Trade Centre, 2022). Either due to this war, sanctions or war-hampered production, a substantial share of these food products has been removed from global markets. Importantly, staple grains and edible oils are highly substitutable, meaning these production deficits have put upward pressure on all world prices for nearly all food items.

According to the Namibian Agronomic Board (NAB) (2020), Namibia's wheat demand for 2020 was 137 337 tonnes, with local production representing 8% (11 498 MT) and imports 92% (125 838 MT). Namibia mainly imports wheat grain from Russia, though small quantities were imported from Ukraine in 2018. In 2020, Namibia imported 81 934 MT of wheat grain from Russia, representing 56% of the total. The remaining portion of total wheat import was from the USA (13%), South Africa (11%), Germany (9%), Canada (7%) and Andorra (0.1%) (International Trade Centre, 2022). Furthermore, Namibia exports table grapes to Russia – and in 2020, a total of 183 MT was exported, representing 1% of the total (International Trade Centre, 2022).

Therefore, the Russia-Ukraine war has disrupted the wheat grain supply to Namibia – and at the moment, Namibia mainly imports wheat grain from South Africa. It is also expected that exports of table grapes to Russia may be disrupted during the upcoming harvesting season, which normally starts from October to January each year, though Namibia has several alternative markets in Europe and is currently exploring market opportunities in China.

5. Implications on food prices

The Russia-Ukraine war adds inflationary pressures to already-soaring global food prices, which have surged since the outbreak of the war. The impacts of rising global food prices present high food and nutrition risks for millions of poor populations, particularly in many African countries, including Namibia, that depend on markets for food supplies.

The 2021 World Economic Outlook report shows that in the first quarter of 2021, the rise in global staple food prices explained about 40% of overall consumer price increases in low-income countries. In 2021 (before Russia invaded Ukraine), the global wheat price stood at R3 831.00/ton (IndexMundi, 2022), and it has now increased by 40% to about R6 347.00/ton in 2022 (Dlamini, 2022). From November 2021 to January 2022, the domestic wheat grain floor price in Namibia was N\$6 771.11/ton, representing a 12% increase in comparison to the 2020/2021 price, which was N\$5 940.00/ton (NAB, 2021/2022).

In March 2022, the biggest grain processor in Namibia announced price increases for maize meals (3%), pasta and bread (3%), wheat flour (6%), rice (3%) and sugar (3%), effective from 25 April 2022 (Shante, 2022). White maize grain prices have also increased on the back of the ongoing war – by 11% in March 2022, and the current SAFEX spot price is about R4 690 per ton (JSE, 2022). During the same period last year, it was about R3 226 per ton, which shows an increase of 31%. The domestic floor price for locally produced white maize grain is currently N\$6 358.82 per ton at import parity (NAB, 2022). At the same time last year, it was N\$4 570, which indicates an increase of 28%.

The domestic floor price of locally produced pearl millet (mahangu) increased from N\$5 327 last year to N\$6 333 this year, which shows an increase of 6% higher than last year. Prices of vegetable oils increased by 35.3% in April 2022, compared to the 13.9% recorded during the same time last year (Maihapa, 2022). According to the Namibian Statistics Agency (2022), food inflation increased from 4.6% in March 2022 to 5.7% in April 2022.

6. Implications on fertiliser and energy

The Black Sea region is a major exporter of nitrogen, potassium and phosphorous fertilisers. Russia and Belarus are major exporters of fertilisers. Fertiliser prices surged to above US\$200 per ton when Russia invaded Ukraine, even though they were already at historically high levels before the war. The scarcity of fertiliser adversely affects global food systems when some or all of the 13% of global corn and 12% of global wheat exports from Ukraine could be lost (Puma & Konar, 2022). The high fertiliser prices have knock-on effects on food systems in Namibia, which is still struggling to recover from the impacts of the multiple risks facing the world.

The upward trend in fertiliser prices makes it difficult for many Namibian farmers to access fertilisers, impacting their potential harvests and food supplies. Namibia does not produce fertiliser – and in 2020, the country imported fertilisers worth US\$1 173 000 from Russia, which represented about 4.5% of the country's total fertiliser import (ICT, 2022). Although the largest amount of fertiliser was imported from South Africa during the same year (94.5%; worth US\$24 700 000), it is worth noting that South Africa also imports about 11.3% of its fertilisers from Russia – just slightly lower than Saudi Arabia and China, who provides 28.2% and 12.1%, respectively (ICT, 2022). In South Africa, which is Namibia's biggest source, from March 2021 to March 2022, domestic fertiliser prices for KCL, Urea and MAP increased by 134.6% (from R6 821/ton to R16 001/ton), 129.5% (from R8 123/ton to R18 644/ton) and 73.2% (from R11 190/ton to R19 382/ton), respectively (NAMC, 2022). Due to the high fertiliser prices, the demand is likely to drop because most crop farmers, especially the smallholder farmers, are no longer able to afford it, and they may opt to plant without fertilisers. This decline is likely to negatively impact crop production in terms of yield and, eventually, low domestic food supply.

Russia is the largest natural gas exporter and the second-largest exporter of crude oil. The Russia-Ukraine war and economic sanctions imposed on Russia are disrupting global energy markets, and oil

prices are expected to soar. With freight costs usually related to fuel prices, this has directly impacted the shipping and logistical costs, transmitting them to the prices of inputs (such as fertiliser) and food commodities. The increase in input prices, such as fertiliser, which was already high before the war, has significantly affected access to improved inputs by farmers in Namibia, affecting the progress in transforming food systems to become resilient to shocks. In the short-term global food, prices are expected to continue increasing due to the uncertainty, further negatively impacting global food security (AMIS, 2022b).

According to Simonis Storm (2022), the prices of petrol and diesel in Namibia increased by 51% and 60%, respectively, over the last 12 months (March 2021 – April 2022). In May 2022, the government eventually reduced the prices to relieve the pressure on consumers; however, the prices remain 36.1% higher than 12 months ago. Domestic fuel prices are linked to factors such as international crude oil price (US\$ per barrel) and the R/\$ exchange rate.

Therefore, the high fuel prices applied upward pressure on food prices for all Namibians, and the entire agriculture sector (livestock, poultry, piggery, and crops) was not an exception. Moreover, fuel price increases have ripple effects on many other sectors in Namibia. It is not just the cost of transport that increased but also the prices of basic food items and other services that require transportation.

7. What does it mean to Namibian key industry players and policymakers?

A. Farmers

As alluded to above, the Russia-Ukraine war has caused trade tension in the black-sea corridor, which will constrain the supply and availability of fertilisers in Namibia. This will affect all farmers, as they rely on imported fertilisers to produce crops for human and animal consumption. The impact of fertiliser and fuel price hikes has been transmitted to food retail prices, thus impacting consumer prices in a short-term period. Exporters of table grapes should consider looking for alternative markets for their products during this upcoming season – even though the volumes exported to Russia are insignificant. Farmers should also take advantage of the war and increase local production of wheat and other new crops that are currently not produced in Namibia but are in high demand. Finally, farmers should focus on increasing productivity to make up for the high cost of production, instead of increasing the prices of their products, since consumers are generally sensitive to high prices, which may encourage end consumers to go for cheaper substitutes.

B. Processors

Local importers or processors, especially those importing large volumes of wheat grain from Russia, may face difficulties in accessing the right amount of wheat grains required to keep them in business due to logistical challenges. Hence, they must consider looking for alternative sources/suppliers of wheat grain to be imported. Processors may be forced to search for alternative suppliers, a process that would require new logistical arrangements that could be costly.

C. Consumers

Namibians are already experiencing increasing food prices for most staple foods, such as maize, wheat, pearl millet, rice, vegetable oil and sugar. The current situation between Russia and Ukraine is most likely going to have an impact on the cost of the production and distribution of food – and ultimately on the end-user (consumers). This is eminent for wheat products, such as bread and vegetable oils, which will affect products such as cooking and animal products, especially poultry and pork, as they are heavy consumers of vegetable oils/protein meal products.

D. Policymakers

Policymakers will be faced with the responsibility to address the challenges brought about by the war and ensure all stakeholders in the country work in harmony to address the challenges and upkeep the economy of the country. They are further expected to develop strategies to stabilise the economic activities of the country and protect vulnerable citizens from any shocks that will lead to food insecurity and economic destabilisation.

8. Conclusion

Overall, the Russia-Ukraine war is spreading inflationary dynamics – even in countries that are not major trading partners of the two. The interconnectedness of global food markets makes many vulnerable countries, particularly those in Africa, feel the impact of the shock. The war affects food security in Namibia in four ways:

1. Disruption of cereals and vegetable oils supplies, of which Russia and Ukraine are major producers.
2. Disruption (or threat) of energy supply from Russia is causing soaring coal, oil and gas prices, thus rising energy costs. This eventually, directly and indirectly, raises the price of food, as they raise the cost of production, transport and fertilisers, whose production is energy-intensive.
3. Russia's decision to ban exports of fertilisers as retaliation for western sanctions adds to the pressure.
4. Finally, the uncertainty caused by the war discourages investment, delays economic recovery and reduces earning prospects.
5. The poor and vulnerable populations that spend a significant portion of their incomes on food face the brunt of surging food prices, triggered by the war. The war in Ukraine also provides an opportunity for African countries to strengthen their food production and trade systems.

9. Recommendations

The following policy response and mitigation measures are recommended to stabilise the negative impact of the Russia- Ukraine war on the Namibian crop industry:

A. Short Term

- Importers should look for alternative sources of wheat grain and fertilisers with assistance from agencies and ministries responsible for trade.
- Government should speed up the leasing of green scheme projects so that production of wheat and maize can commence, targeting to start with winter wheat and later with summer maize and sunflower.
- Government must operationalise the vegetable oil processing plant at Shadikongoro Green Scheme Irrigation Project, and increase its production capacity over time.
- Government must consider giving production incentives, such as zero-rating/reducing VAT on selected staple food products and key production inputs, to stabilise food prices.
- Government should support local production of organic fertilisers that may be cheaper than inorganic fertilisers.
- The Government to introduce a basic food subsidy to stabilise food prices in the country – but alone, they are not sufficient and sustainable.
- Farmers must increase productivity to cater for the increase in production cost, as end consumers are sensitive to exorbitant prices, given the reduced disposable income.

B. Medium Term

- Producers to invest in increased productivity and production of commodities, such as wheat and maize, which are typically imported but which could be produced locally on a 100% basis.
- Namibia needs to diversify its imported food and fertiliser sources, including strengthening regional trade opportunities.
- Ensuring functional strategic food reserves is critical for Namibia to stabilise its food supplies and prices to support domestic food availability and affordability.
- The Russia-Ukraine war also presents opportunities. Specifically, the increase in food prices and reduction in oilseed production is likely to significantly increase demand for crops that Namibians can produce, such as groundnuts, sunflower, canola and soya beans, for processing into edible oils, and the by-product can be used as animal feed into other industries.
- Namibia should strengthen regional integration and cooperation through intra-Africa agricultural trade.

C. Long Term

- Namibia should transform its food system and increase investments in local food production, value addition, as well as intra-regional food and agricultural inputs trade, taking advantage of the growing African market enabled by the African Continental Free Trade Agreement.
- Increase the country's staple grain storage capacity to at least 200 000 MT or one year supply.
- Attract investments into basic agricultural inputs (seeds, fertilisers and agrochemicals) and local production.

- Scaled-up measures and investments (including adaptation to climate change variability and extremes) are required to increase productivity in strategic food surplus production zones across the country.
- Invest in research and development across the crop value chain to explore opportunities and provide solutions to challenges faced by the industry.

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