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Report Name: Russian Invasion of Ukraine - Agricultural Trade Impact on India

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Report Highlights:

Since initiating the hostilities, Vladimir Putin's Russian Federation's war of aggression against neighboring Ukraine has led to volatility in different sectors of the global economy. For India and the region, trade is disrupted in the grains, oilseeds, fertilizer, and energy sectors. Post sources inform us that some 380,000 MT of sunflower oil shipments destined for India from the Black Sea region are waylaid at ports. New purchases are being suspended for the foreseeable future due to the war. India is the largest market for Ukraine's sunflower oil, which in 2021 exported \$1.9 billion to India (out of \$5.69 billion total). Disruption of sunflower oil consignments from Ukraine will potentially offer possibilities for increased U.S.-origin soybean oil shipments to India. The crisis has also improved Indian wheat and corn export prospects in the region.

GENERAL INFORMATION

In just a few weeks, Russia's invasion of Ukraine has led to volatility in several sectors of the global economy. For India and the region, trade is being disrupted in the grains, oilseeds, fertilizer, and energy sectors, not to mention a likely disruption in India's exports of agricultural products including coffee, rice, and fruits.

PRODUCTION

Production, Processing, Shipping Disruption – Oilseeds, Sunflower: Most of Ukraine's sunflower oil industry is geared toward exports, and India accounts for approximately 30 percent of this trade to overseas markets.

FAS New Delhi's (Post) local industry sources indicate that Ukrainian crude sunflower oil prices as of March 2, 2022, are being quoted at \$1,630/metric ton (MT) cost-insurance-freight (CIF), while those with an Argentine origin are quoted at \$1,675/MT free-on-board (FOB).¹ Indian prices for crude sunflower oil (Chennai) are reported at \$1,690 per metric ton. Prices across India for refined sunflower oil now range at between \$1,914 to \$2,086 per metric ton.

Reportedly Ukrainian sunflower seed crushing plants started purchasing additional seed around February 21, but it is unclear whether any of these purchases were successfully loaded and shipped before restrictions on Ukrainian rail freight happened.

Typically, clean product tankers, chemical tankers, or even FLEXIBAG containers for smaller buyers can be utilized to ship sunflower oil to major export destinations including those in India, the European Union (EU), China, the Middle East, and North Africa, while seeds can be exported via dry-bulk vessels. On February 24, Ukraine's Ministry of Infrastructure announced that the country's military had ordered the closure of all ports. The closure of key shipping ports has stopped sunflower oil being loaded onto vessels.

IMPORTS

Trade Impact on India's Imports – Vegetable Oils, Sunflower Oil: Post sources indicate that some 380,000 MT of sunflower oil shipments destined for India from the Black Sea region are upheld at ports there. All new purchases are being suspended for the foreseeable future due to the war.

According to the SUNVIN Group of India, there is no clarity when loading of the cargoes - worth by some accounts at \$570 million at current prices - from Ukraine and Russia will resume. The current situation is pushing Indian buyers to look to replace sunflower oil with soybean oil (averaging \$1,900/MT) and palm oil which is at the same price level, resulting in an unprecedented bullish run for March and April shipment deliveries.

¹ Argentina is primarily a soybean oil producer and exporter, with its lower volume production of sunflower oil commanding higher prices.

India reportedly has had contracts for about 510,000 MT of sunflower oil from the Black Sea region for shipments in February and March, but only 130,000 MT were loaded in February. There is great uncertainty about the remaining quantity. According to data from the Solvent Extractor's Association (SEA), India imported approximately 125,024 MT of sunflower oil in November 2021, followed by 258,449 MT in December 2021, and 307,684 MT in January 2022.

With the war Russia has launched in Ukraine, the import of sunflower oil to India will come to a standstill. India imports around 70 percent of its total import of sunflower edible oil from Ukraine, around 20 percent from Russia and the balance from other countries including Argentina.

Meanwhile, India's own sunflower production has been stagnant for the past few years at around 60,000 tons (2019-2020). In the Indian market, sunflower seed is trading in Karnataka at \$659-765/MT and in Maharashtra at \$870-883 per metric ton.

India is the largest market for Ukraine's sunflower oil, which in 2021 exported \$1.9 billion to India (out of \$5.69 billion total). Russia exported \$303 million in sunflower oil to India in 2021. Shipments of more than 350,000 MT of sunflower oil to India, the world's biggest buyer, are at risk as Russia's attack on Ukraine disrupts logistics and loadings at some ports, Bloomberg News also reported.

Trade Impact on India's Imports – Vegetable Oils, Soybean and Palm Oils: Due to these disruptions to sunflower oil consignments from Ukraine, prospects are enhanced for additional purchases of U.S.-origin soybean oil shipments by India. India imports palm oil from Indonesia and Malaysia and about 85 percent of its soybean oil from Brazil and Argentina.

Low-cost palm oil is usually the dominant vegetable oil utilized in India. However, this year's Indonesian palm oil production drop, coupled with government export taxes, and the stipulation to hold back 20 percent of palm oil stock for domestic sale, as well as labor problems in Malaysia along with increasing demand from China, are driving palm oil prices to record highs. This is forcing India's oil importers to turn to usually costlier soybean and sunflower oil. Yet soybean oil supplies will be limited due to the impact of the drought on the South American soybean crop. This situation could help steer Indian buyers toward increased purchases of U.S.-origin soybean oil subject to price parity.²

The Solvent Extractors Association reports that India's soybean oil imports in January 2022, at 391,000 MT are down negligibly (0.3 percent) compared to the January 2021 volume of 392,000 metric tons. However, India's soybean oil imports expanded by 341 percent in January 2022 compared to the December 2021 volume. India's imports of soybean oil were already poised to climb notwithstanding the outbreak of hostilities in Ukraine. India has been facing a decline in domestic crushing triggered by lowered soybean meal demand and tight crush margins.

India's own domestic soybean oil prices remain firm. Higher crude vegetable oil prices are being anticipated due to supply disruption caused by this geopolitical crisis. Post is seeing soybean prices increasing to \$1,965/MT (Indian rupees – INR 1,490/10 kilogram [kg] bag) compared to \$1,781/MT (INR 1,350/10 kg bag) in February 2022.

² There is speculation within Indian industry that due to the drought situation facing the South American soybean producers and the war in Ukraine, that there potentially will likely be a large market for U.S. soybean oil in India in the near-term.

In the domestic Indian market, soybean prices will likely continue to remain high. Post expects prices of soybean (ex-Indore market) to trade in the range of \$910-1,016/MT (INR 69,000-77,000/MT in the near term). Likewise for soybean meal, as noted in the [GAIN-INDIA - \(IN2022-0018\) India, Oilseeds and Products Update](#) report, India's soybean meal exports are much less attractive (as of March 7); Kandla port (west coast of India) is quoting at FOB \$822/MT compared to Argentine soymeal (FOB) being quoted at \$526/MT, resulting in Indian soybean meal being outpriced by \$296 per metric ton.³

EXPORTS

Russia-Ukraine Crisis, Finance Minister Sitharaman Worried over Impact on India's Exports:

India's Minister of Finance Nirmala Sitharaman has expressed concern over the future of India's exports owing to the Ukraine crisis as it will jack up international freight rates and crude prices further. The minister is quoted as stating, "I am more worried about what's going to happen to our exporters, who are doing very well." The minister further expressed worry about essential Indian imports from the Black Sea region such as sunflower oil and fertilizers, for which India is dependent on the region.

Trade Impact on India's Exports – Grains, Wheat and Corn: With the Russian invasion of Ukraine, export demand for India's wheat and corn has accelerated. India's wheat exports are expected to quicken substantially in the first quarter of marketing year (MY) 2022/2023 (April-March). Post is seeing a flurry of inquiries from buyers seeking alternatives to Black Sea region shipments. India is expecting that a record harvest can supply neighboring countries, as well markets in the Middle East, Africa, and South Asia. Market sources are also reporting a resurgence in export demand for Indian corn, which had been slowing at the beginning of 2022.

After five consecutive record crops and rising mammoth government wheat inventories, both the government and private traders are keen to capitalize on any opportunity to liquidate the surplus wheat in the world market. India exported 6.12 million metric ton (MMT) of wheat in 2021 compared to 1.12 MMT a year earlier, with exports in MY 2021/2022 projected to reach 7.5 million metric tons.

Relatively firm domestic wheat prices will also ease pressure on the Indian government to procure the upcoming wheat harvest at government minimum support prices. Earlier during the second week of February, the government had estimated the upcoming wheat harvest at a record 111.2 MMT and planned to procure a record 44 MMT of wheat. With more wheat moving out due to market forces and through private channels, procurement will likely now drop to the 35-38 MMT range.

With Russia's war on Ukraine, India is likely to sell 3-4 MMT of the wheat in the first quarter of MY 2022/2023 (April-June). Export prospects in the balance for the rest of the year will depend on how long the crisis and restrictions imposed on Russia will continue during the rest of MY 2022/2023.

Notwithstanding the war in Ukraine, Post sources report continued strong export demand as Indian wheat is already very price competitive in the neighboring regional markets (including the Middle East and South Asia), based on weak domestic prices and lower sea freight cost advantages compared to wheat from other origins.

³ Previously on February 16, 2022, Kandla port quoted FOB \$785/MT compared to Argentine soymeal (FOB) quoted at \$575/MT; with Indian soybean meal already then being outpriced by \$210 per metric ton.

With global prices marching upwards and speculation about increased freight costs, India's corn export prospects during the second half of MY 2021/2022 (October-September) have improved, again mostly to the neighboring countries and South Asia. Despite negligible government procurement and stocks of corn, India has a sufficient exportable surplus due to a third consecutive record harvest and relatively weak domestic demand due to the earlier COVID-19 led slowdown in the poultry sector.

Trade Impact on India's Exports – Coffee, Tea, Other Products: India exported \$641 million in agriculture and related products in 2021. The list varies, but Ukraine and Russia are among India's top export destinations for various fresh fruit, tea, coffee, and other intermediate and bulk products including rice (basmati), sesame, grapes, and prawns (shrimp).

To date, in India fiscal year (IFY) 2021/2022 (April-January), India has exported over 6,609 MT of coffee (green, instant, and roasted) to Ukraine and about 23,519 MT of coffee to Russia.⁴ Ukraine is one of the largest coffee importers in Europe; Russia is among of the top-5 buyers of Indian coffee. Russia absorbs about 75 percent of Indian coffee exports, while Ukraine accounts for 20 percent of India's export volume.

Attachments:

No Attachments.

⁴ Coffee exports to Ukraine peaked at 7,327 MT in IFY 2018-2019; dropping in 2019-2020 to 6,947 metric tons.