

have not been subject to sanctions, as has been repeatedly confirmed by the coalition of Western countries. However, the agricultural sector has suffered indirectly from the boycott of the Russian market by Western companies, which withdrew from cooperation with Russia in the areas of logistics, insurance and trade. It is worth noting that these moves were made to protect the reputation of the individual companies, and not as a result of Western governments' decisions.

Nevertheless, even though the agricultural sector was excluded from sanctions, Russia continued to increase the pressure on the West and escalated demands aimed at improving its position on this market. In fact, since the beginning of the Black Sea Grain Initiative, Moscow has threatened to terminate it (the agreement was signed for 120 days and is automatically extended, unless one of the signatories withdraws). The Russian government has presented its conditions for maintaining this mechanism after 17 July this year. These include: reintegration of the state-owned Rosselkhozbank (which is focused on providing services to the agricultural sector) into the SWIFT international inter-bank communication system, and the resumption of Russian ammonia exports through the Odesa terminal via the pipeline running from Tolyatti.

Rosselkhozbank is one of the eight Russian banks (state-owned or controlled by the Putin elite) which have been disconnected from SWIFT under Western sanctions.

” The escalation of the Kremlin’s demands is based on false accusations that the Western coalition is blocking Russian exports of agricultural products and mineral fertilisers.

Around 300 other Russian financial institutions can still use this system and carry out the financial operations of the Russian agricultural sector, as seen in recent months. Moreover, an entity cut off from SWIFT may still continue international cooperation, although the use of alternative solutions increases costs and extends transaction times.

It is important to emphasise that Rosselkhozbank has been involved in numerous scandals. Investigative journalists have repeatedly described the corruption schemes in which it has been used, including the forcible seizure of assets in the agricultural sector and even links to criminal groups. In addition, even the possibilities of the Central Bank of the Russian Federation to control this entity are limited. According to Russian media reports, in 2018 the FSB classified part of the documentation concerning the most suspicious loans granted by Rosselkhozbank when its CEO was Dmitry Patrushev (his father is Nikolai Patrushev, who then served as the head of the FSB and is now secretary of the Security Council of the Russian Federation). Dmitry Patrushev still has a great influence on the bank's operation in his present capacity as Minister of Agriculture and Chairman of the Supervisory Board of Rosselkhozbank.

In turn, the resumption of ammonia exports via Ukraine (half of Russian exports, i.e. over 2 million tonnes, were transported via this route before the invasion) is currently impossible for technical reasons. The infrastructure for its transmission was depressurised and one of the compressor stations was damaged on the front line in Kharkiv oblast on 5 June this year. Both sides are blaming each other for causing this destruction. President Volodymyr Zelensky has declared that the pipeline could be repaired if necessary. Earlier, Kyiv suggested its readiness to consider resuming the transit of Russian ammonia through Ukraine, provided that Russia agrees to include more goods and ports in the Black Sea Grain Initiative. In turn, the Ministry of Foreign Affairs of the Russian Federation has estimated that it may take up to three months to repair the pipeline, provided that it has access to it. This is not possible at the moment because the damaged section is still in the area of hostilities. The company Uralchem, which used the route through Ukraine, is currently working on alternative ways of exporting ammonia. The Taman export terminal, with an annual capacity of 2 million tonnes, is to be put into operation in the Kerch Strait at the end of 2023 and ammonia will be transported to it by rail.

Record-high grain exports

The Kremlin's complaints about difficulties with exporting Russian agricultural products contrast with the results achieved by this sector. During the season from 1 July 2022 to 30 June 2023, Russian grain exports increased by almost 30% y/y. Russia sold about 60 million tonnes externally, including almost 48 million tonnes of wheat. Russia has thus strengthened its position as a global leader in wheat exports. The increase in supplies to global markets was mainly due to the good harvest in Russia. The grain harvest in 2022 was 30% higher than a year earlier and reached 154 million tonnes, including 104 million tonnes of wheat. The relaxation of domestic market regulations, in particular the more than doubling of export quotas in 2023, to 25.5 million tonnes (compared to 11 million tonnes in the previous year; quotas were in force from 15 February to 30 June in 2021 and 2022) has also contributed to boosting exports. Despite increased grain exports, Russian warehouses remain overfilled. Grain reserves in the Russian Federation have been growing since 2021, and their level on 1 July 2023 reached a record high of around 26 million tonnes (compared to 11 million tonnes a year earlier).

The season which has just finished also saw a rapid increase in Russian exports of vegetable oils (around 35% y/y) to a level of around 6 million tonnes. Grain and vegetable oils, taken together, account for over 50% of the value of Russian agri-food exports.

Russia has also been consistently increasing the volume of mineral fertiliser exports over the past few months, after they fell by 15% to 32 million tonnes in 2022. Since

” **Russian exports of agricultural raw materials have grown dynamically. The export volume has returned to the pre-invasion level, and in the case of grain it is now definitely higher.**

the second quarter of this year, exports of these goods have remained at a level comparable to that achieved in 2021, when they hit a record-high total of 38 million tonnes. The growing export quotas in 2023 have had a large impact on the recovery of exports; in the second half of the year they will equal the volume of exports in 2021 (before the quotas were introduced) and will stand at 17.9 million tonnes (compared to 14.2 million tonnes in the second half of 2022). At the same time, the government decided to introduce export duties in 2023, which is expected to bring additional revenue to the budget. Fertiliser prices have fallen compared to the record year 2022, but they are still much higher than before the invasion.

The Russian production of nitrogen and phosphorus fertilisers increased in 2022 and in the first half of 2023. This was mainly due to growing domestic demand and the need to increase the processing of ammonia (used in the production of nitrogen fertilisers), after its transport through Odesa was suspended. In turn, the Russian production of potassium fertilisers has fallen since last year, which is largely the result of the inflow of large quantities of these goods from Belarus to Russia, after the EU introduced an embargo on Belarusian fertiliser imports in 2021.

The Putin elite's attempts to maximise profits

Due to high prices on global markets, Russia's revenues from exports of agri-food products in 2022 exceeded \$40 billion, which was 16% more than the previous year. This included an income of around \$12 billion from grain exports. Russian supplies of mineral fertilisers to global markets generated an additional income of around \$19 billion, i.e. 50% more than in 2021. In total, this segment accounted for 10% of the total value of revenues generated by Russian exports. However, global food prices have been falling since mid-2022 (in May this year wheat was over 50% cheaper than last year). This is limiting currency inflows into Russia, which are greatly needed, given the decreasing revenues from the energy sector.

The Russian agriculture, especially the grain sector (see chart), has been developing rapidly for over a decade. As revenues from this sector were growing, representatives of the Putin elite became increasingly involved in it. This led to its being consistently consolidated around large corporations linked to the Kremlin. For example, in 2022, over 70% of grain exported from Russia was controlled by the ten largest exporters (64% in 2021). Moreover, at least two of the leading grain traders are linked to Dmitry Patrushev, another two control the VTB bank managed by Andrei Kostin (a banker with close links to President Putin), and one of them is owned by Alexander Vinokurov (the son-in-law of Russian Foreign Minister Sergei Lavrov). The Putin elite are expected to further strengthen their position on this market in the coming months. Most likely, companies which they control will take over the assets of three international grain traders: Cargill, Viterra and Louis Dreyfus (these withdrew from Russia on 1 July this year). These companies together accounted for approximately 15% of Russian grain exports.

The Kremlin has also used domestic market regulations to increase income from the agricultural sector. Since 2020, the Russian government has been applying export

” Revenues from exports of agricultural products and mineral fertilisers account for about 10% of total Russian exports, and the Putin elite is the main beneficiary of this trade.

quotas and duties, as well as temporary export bans. On the one hand, these instruments are aimed at curbing the rise in food prices on the domestic market in order to ensure social stability in Russia. However, these measures are hitting producers. On the other hand, they are used to manipulate the global prices of agricultural products and mineral fertilisers. This was especially evident in the first half of 2022, when the Kremlin, by limiting the export of these goods, was fuelling concern on the international markets and thus stimulated further price increases.

Forecast: a grain corridor without Russia?

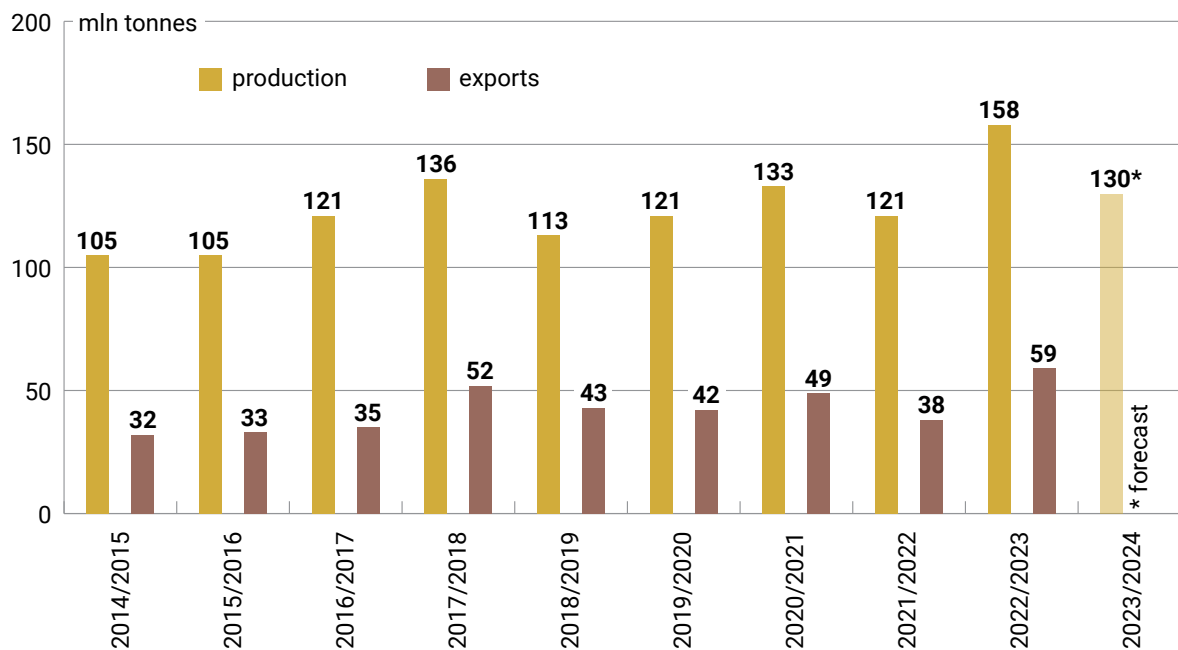
The Black Sea Grain Initiative has helped stabilise the global agricultural market and reduce the prices of agricultural raw materials, which is not beneficial for the Kremlin and the Putin elite, who are the beneficiaries of Russian grain exports. That is why Moscow, by threatening to break the agreement, is primarily attempting to engineer a rise in food prices. By escalating its demands on the West, the Kremlin is also trying to loosen restrictions and break the unity of the sanctions coalition. If the West succumbs to it and, for example, connects Rosselkhozbank to the SWIFT system, Moscow will most likely demand the same with regard to VTB (this bank is also heavily involved in the agricultural sector).

The grain deal is not beneficial for the Kremlin, but it is unlikely to terminate it mainly for fear of the reaction from Turkey and other partners from the Global South, who find the Black Sea Grain Initiative profitable. In its proposal to settle the Russian-Ukrainian conflict, China has even included a provision about the need to continue the export of Ukrainian grain through the Black Sea. It is to these countries that Moscow directs its arguments indicating that sanctions limit Russian exports. Given Russia's high dependence on cooperation with these countries, the Kremlin will certainly be reluctant to strain relations with them.

More importantly, however, even if Russia withdraws from the initiative, this will not necessarily translate into suspending Ukrainian food exports along the Black Sea route. Despite the lack of Russian guarantees and the increased risk, Ukrainian ports could continue to handle ships, although this would mean an increase in insurance costs for shipowners. This already happened in the autumn of 2022, when the Kremlin withdrew from the mechanism for a few days. However, in order to block the Black Sea route, Moscow would have to create a mine threat on it or shell Ukrainian ports, and this would be a clear attempt to destabilise the agricultural market and harm the interests of its trading

partners. In turn, failure to take any action would mean a complete loss of influence on Ukrainian grain exports and would be a sign of the Kremlin's weakness.

Chart. Russian grain production and exports in 2014–2024
(the season lasts from 1 July to 30 June)



Source: Ministry of Agriculture of the Russian Federation.