

# ITUC Economic and Social Policy Brief:

NOTES ON GLOBAL ECONOMIC  
IMPACTS OF THE WAR  
IN UKRAINE



CLIMATE-FRIENDLY JOBS  
WAGES  
RIGHTS  
SOCIAL PROTECTION  
EQUALITY  
INCLUSION

A New Social Contract



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# War and global economic impacts

The ITUC has condemned Russia's invasion of Ukraine as a flagrant violation of international law and of Ukraine's territorial integrity as a sovereign and democratic state. It has also warned of devastating consequences beyond the borders of Ukraine and Russia. In addition to the loss of life, livelihoods and homes, workers suffer from the ongoing impacts of war and conflict beyond national borders as they seek safety and security. Unions stand for peace and for a common security framework to end the brutal conflicts taking place in every region and prevent future conflicts.

The global economic consequences of Russia's invasion are expected to hit the most vulnerable populations and countries hardest by slower economic growth and increased prices of food staples and energy costs, at a time when the world is trying to recover from the economic recession and increased inequalities exacerbated by the impacts of COVID-19 pandemic.

This is impacting not only to those countries directly involved in the conflict - the productive bottleneck effects of the pandemic have had significant effects on production and logistics chains with the reorganisation of global supply

chains, on the provision, distribution and prices of crucial goods and services and the flow and value of remittances for migrant workers in many regions of the world.

Both Russia and Ukraine are large scale producers of food, fertilisers, and oil and gas. These products constitute the basic consumption basket of workers around the world. They have also been important sources of other supply chain inputs.

According to the World Food Program<sup>1</sup>, "Conflict and violence are among the main drivers of food insecurity around the world." Conflicts destroy productive capacity, generate shortages, and induce price hikes.

Russia's invasion will further disturb global markets, have negative consequences for global grain supplies, and natural gas and fertiliser supplies. These impacts will be reflected in grain supply as the new planting season is approaching, driving up already-high food prices with serious consequences for net-food importing countries, many of which have seen an increase their indebtedness due to the pandemic.

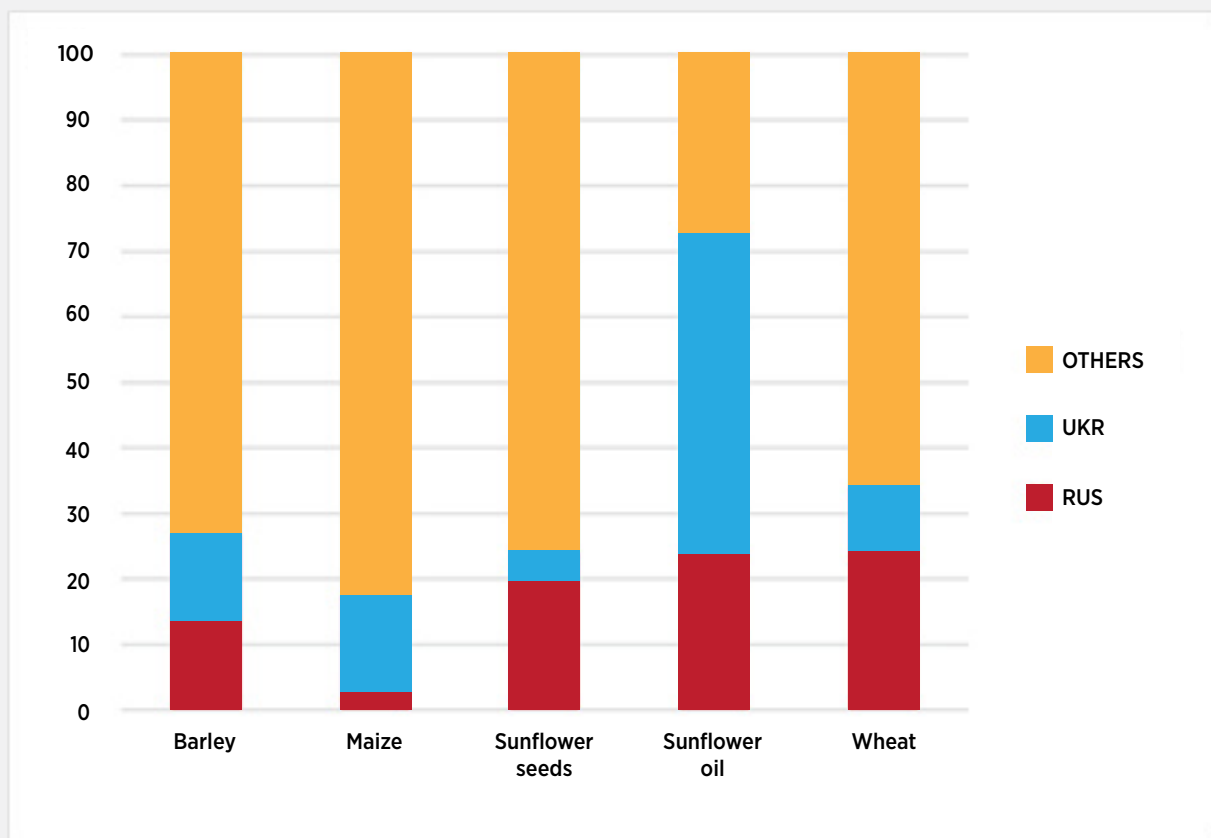
<sup>1</sup> World Food Program (2021) Extracts of the WFP management plan (2022–2024) Second consultation. [https://executiveboard.wfp.org/fr/document\\_download/WFP-0000131670](https://executiveboard.wfp.org/fr/document_download/WFP-0000131670) (Accessed 5/4/22)

# Why can these two countries influence prices world-wide?

In a world dealing with protracted conflicts in more than a few regions, why can Ukraine and Russia influence prices at such a scale? To answer this question is important to highlight, beyond the interconnectedness of these 2 significant countries

in trade with neighbouring countries (in Central, Eastern and Western Europe), the relative size of both countries as producers of energy, fertilisers, grain and other goods and services.

## Share of Ukrainian and Russian exports to the world



Source: IFPRI

<https://www.foodsecurityportal.org/node/1919>

## Fertilisers

Russia has been the largest world exporter of fertilisers at 12.6% of the total worth US\$7 billion annually. Although not yet a major exporter, Ukraine increased its fertiliser exports by 71% in the past two years, being the country that had the largest growth. Sanctions on Belarus, due to its support for Putin's war, will also impact potassic fertiliser availability.

Erin Collier, Economist at the trade and markets division of the UN's Food and Agriculture Organization (FAO) highlights, "*Global wheat markets have been tighter this year than usual, and that is because there were reduced harvests.*" Collier points to disruption of wheat markets and price hikes due to the war.

## Grains

Ukraine is among the largest exporters of maize (US\$ 4.9 bn), of sunflower seeds (US\$ 5.3 bn) and wheat (US\$ 3.6 bn). The Russian Federation was exporting 13% of the world wheat with US\$ 7.9 billion, sunflower seeds (US\$ 2.5 bn) and was as mentioned, the world largest fertiliser exporter.

## Energy

Russia exported \$180 billion of oil and \$65 billion of gas to global markets in 2021. Intended exports to Western Europe through the US\$ 11 billion Nordstream II pipeline stopped when German and EU sanctions were imposed, however at the time of writing, Russian gas was still being imported into Europe. Russian exports of natural gas accounted for about one fifth of European gas supplies in 2021.

# How energy and grain prices affect the purchasing power of workers?

Energy prices push up the direct costs of production of agricultural commodities in two ways:

**Direct:** Petrol and gas as fuel for machinery needed for agricultural processes and transportation of product.

**Indirect:** As the main input to produce fertilisers that are crucial for agricultural production.<sup>2</sup>

Commercial agriculture is highly dependent on energy and energy-related commodities including petroleum, gas and coal as inputs. Studies by FAO, World Bank and others show that there is a long-term, significant, and positive relationship between oil price increases and food prices.

<sup>2</sup> To maintain productivity, new technological packages in agriculture require large amounts of fertilisers that demand energy in for production. US Energy Information Administration <https://www.eia.gov/todayinenergy/detail.php?id=18431>

# The impacts go beyond prices of energy and grains

Energy and food commodities have spill-over effects to other goods. The most evident are inputs or complements of other products, such as meat (beef, chicken, pork) and dairy that are dependent on both energy and grains for production. The increase of prices of staple-wage goods also spill-over to other products produced locally, affecting the level of domestic activity and employment. For

example, if grain prices rise, local production of fresh dairy products or processed meat will cost more or supplies will be reduced. The impact is also transferred to other agricultural goods that try to match profits to the main products. This is the case for grains other than wheat and maize such as soy and oats.

# The impact on workers in countries not directly involved in the war

Countries that import energy or grain are already being required to pay higher prices. The impacts are direct and almost immediate. These tend to have a long-term effects due to the inflationary inertia generated, until other goods in the production chain adjust. Since the reaction to the slow-down of inflation is delayed, the erosion of the purchasing power of wages remains for the longer term, unless and until these adjust upwards.

For food exporting countries, the rise in international prices initially helps to improve exports. However, it may have a negative impact on domestic prices, since local producers of exportable goods expect that the domestic market

pays the same price of the international export-led prices, with the deduction of transport costs. The benefit is outpaced by the internal dynamics, unless governments introduce export taxes, price ceilings or guaranteed supply for the domestic market.

# Energy and food prices affect government revenues and fiscal space

CHANGE IN PRICES BY PERCENTAGE			
Commodity	Unit	Feb 22/21	Feb 22/20
<i>Crude oil, average</i>	(\$/bbl)	54,70%	75,30%
<i>Natural gas, Europe</i>	(\$/mmbtu)	342,10%	836,40%
<i>Soybeans</i>	(\$/mt)	14,40%	76,10%
<i>Soybeans oil</i>	(\$/mt)	42,00%	99,40%
<i>Sunflower oil</i>	(\$/mt)	8,10%	78,90%
<i>Maize</i>	(\$/mt)	19,30%	73,40%
<i>Wheat, US HRW</i>	(\$/mt)	34,90%	81,40%
<i>Meat, chicken</i>	(\$/kg)	56,60%	50,90%

Source: WB commodity prices

<https://thedocs.worldbank.org/en/doc/5d903e848db1d1b83e0ec8f744e55570-0350012021/related/CMO-Pink-Sheet-March-2022.pdf>

As is clear from the World Bank commodity prices table, all the main commodities saw increases in relation to the year before that well surpass the rise in household incomes. Many are not fully accounted for in the local consumer price index, but will soon be.

Indebted countries will face the pressure of higher interest rates on top of higher prices. The MENA

region (Middle East and North African countries), such as Egypt, Sudan, Lebanon, Tunisia and Morocco, have foreign debt levels above 70 percent of their GDP, and at the same time are large importers of food. The additional stress on households will increase social tensions and potentially lead to large protests. Foreign debt is also a problem in other regions and is exacerbated by price instability.

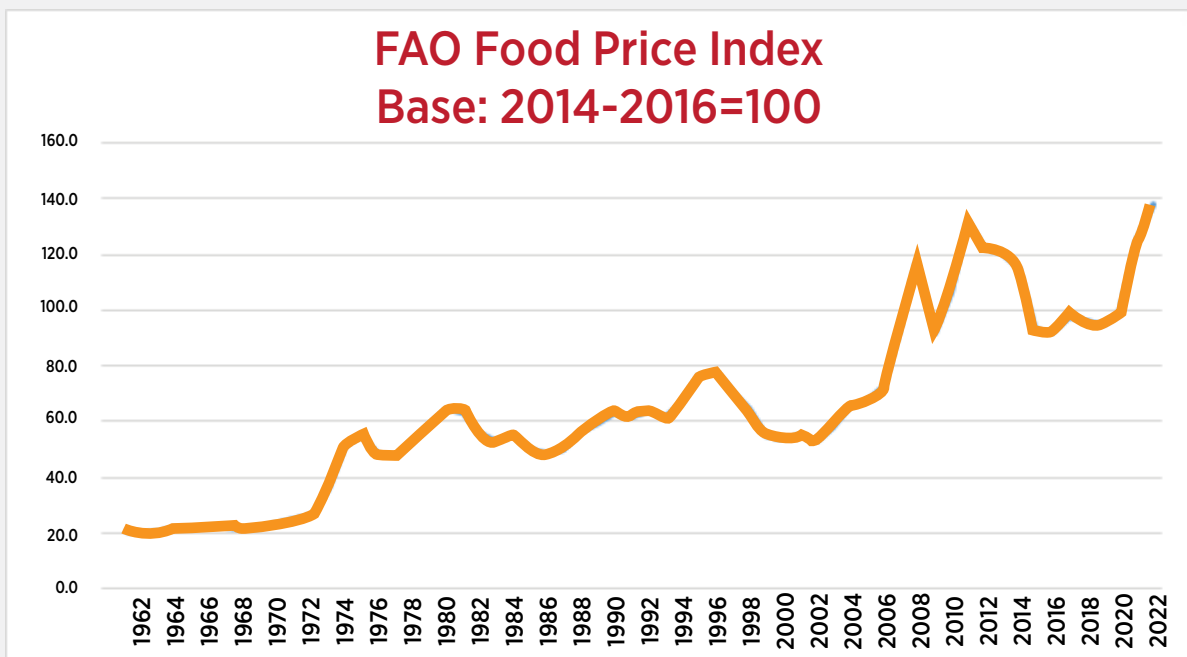
The conflict is generating a number of inevitable and justified sanctions which range from banning the participation of teams and athletes or artists in events, to those that are specifically economic. These include the prohibition by some countries of export to Russia of vehicles and machinery that may be of double use (civilian and military); Russian flights have been banned in US, EU, UK, and Canadian airspace; and assets of the Russian Central Bank that constitute its foreign currency reserves are frozen. Other impacts include removal of banks from the SWIFT mechanism used to move funds across countries and Russian efforts to force buying countries to for pay Russian energy in Roubles. These will have disruptive effects aggravating the bottlenecks generated during the pandemic.

Many countries rely on energy subsidies<sup>3</sup> for their internal markets, especially for domestic

consumption. Several countries subsidise internal food prices, generating similar effects. To maintain the purchasing power of households in the event of price increases, the amount of the subsidies would have to be raised.

Alternatively, price controls can be utilised to address rising costs and distribution effects on the incomes of lower income households. Not all the governments have the possibility or will to impose or ensure compliance of price controls to reduce the negative impacts.

The FAO Food Price Index hit a record high in February 2021, exceeding the previous record of February 2011. The index rose 3.9 percent from January and 20.7 percent from February 2021. Vegetable oil, dairy, cereal, and meat price increases all contributed to the continued surge. All these, before the war was declared.



Source: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

<sup>3</sup> There are many discussions around the role of energy subsidies, that mainly focus on fossil fuels, but the discussion will not be stressed here.



# How is the world being affected?

The impacts are going to be significant, especially in the face of the need for strong and equitable strategies to recover from the COVID-19 pandemic.

- The high proportion of agriculture and food in total global output, consumption, employment and trade, and as the basis of government revenues, heightens the vulnerability of countries to volatility in international food prices in low income and emerging economies. Similar dynamics apply to energy prices for exporting and importing countries.
- Food importers will witness higher prices and negative trade imbalances.
- Food exporters will face the tensions between fulfilling the domestic markets and windfall gains from exports, with inflationary pressures - despite the improved terms of trade.
- Many destinations of Ukrainian exports of wheat are going to face social tensions as a result of price increases. According to UN's FAO, the main destinations of Ukrainian wheat in 2019 were Egypt, Indonesia, Bangladesh, Turkey, and Tunisia. Increases in the price of wheat can bring about widespread instability, so the invasion of Ukraine by Russia could have a ripple effect across the world in many ways.
- Indebted countries with limited fiscal space will face serious difficulties to service their debts and maintain a reasonable level of provision of social goods and services.
- The resources of multilateral food-assistance programs (FAO, WFP, UNDP) will be affected by the soaring prices of the products they usually allocate.
- Erosion of fiscal sustainability will occur in indebted and importing countries.
- Exporters and intermediaries will make windfall gains, over those they already made in the last two years - at the expense of household incomes. Just four commodity trading companies handle most of the global trade in grain.
- Speculative operations, even smuggling or stockpiling of grain, may take place, with disruptive social effects.

# Action and policy recommendations to address the impacts on workers

In the context of real income reductions workers must strengthen international solidarity and unity to overcome the pressures that will emerge through reinforcing:

- Social dialogue to tackle price hikes of food and energy that affect goods and services that are consumed mainly by workers and low-income households.
- Evidence-based analysis to match wage negotiations (especially to raise minimum wages) with the cost of living and the consumption basket of wage earners.
- Job and income protection.
- Increase social protection measures to target the most vulnerable of the population, including poor and low income households and those already under the burden of debt.
- Propose and support initiatives of targeted price controls to mitigate world-prices-led inflation including best practice of bodies such as grain boards.
- Regulation of and price controls on oil and gas profits to avoid price gouging of energy production and distribution as well as to ensure the delivery of national and sectoral climate targets to reduce dependence on fossil fuels.
- Progressive taxation reforms that implement base corporate tax rates, wealth taxes and Financial Transaction Taxes (FTT) in order to curb financial speculation and illicit financial flows and ensure sufficient public revenues to support recovery strategies.

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