

RUSSIA/UKRAINE: Grain deal extension likely despite contentious talks

- An eventual extension of the Black Sea Grain Initiative (BSGI) is likely as neither party has interest in obstructing the deal.
- Russia prefers a short-term extension, as renegotiations give Moscow some leverage over Ukraine and its international allies.
- Even with the grain deal in place, Ukraine's agricultural sector faces multiple challenges and will likely see a further drop in grain harvest and exports.

Following a meeting on 13 March by representatives from Ukraine, Russia, Turkey, and the United Nations (UN), the Russian side stated that the grain deal, set to expire on 18 March, was extended for another 60 days. However, the extension has not been confirmed by Turkey or the UN, while Ukraine appears to be sticking to its demand for a 120-day extension.

Russia calls for re-evaluation of the deal after only two months based on progress in improving conditions for the export of its agricultural products and fertilizers. While international sanctions do not directly apply to Russia's food and fertilizer exports, Moscow points to indirect effects of sanctions, which reportedly complicate financial transactions, crediting, insurance, and logistics operations for traders of Russian grain. The issue holds political significance for President Vladimir Putin, who noted during his [recent address](#) to the Federal Assembly that the country's grain exports will reach record-breaking levels of 55-60mn tons.

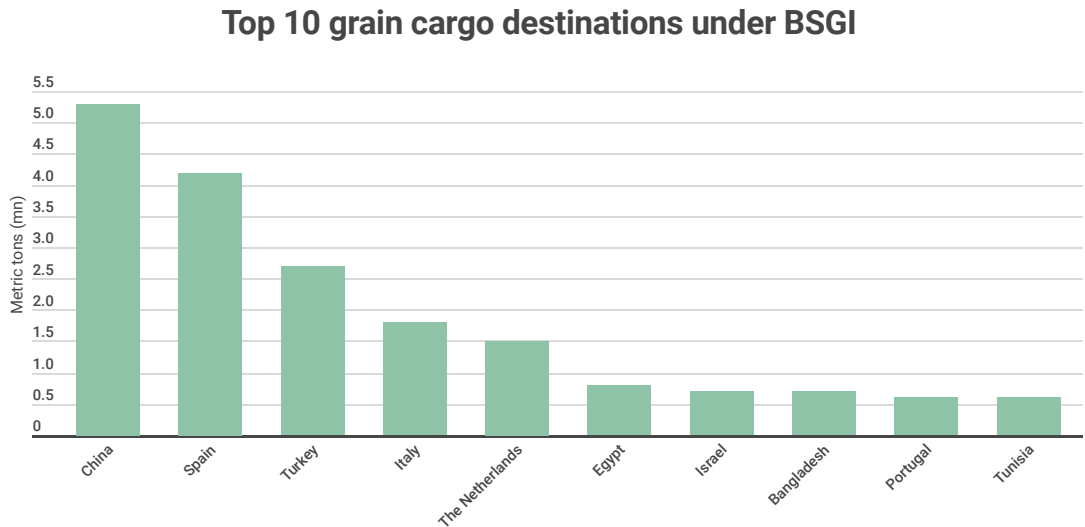
Russia likely to keep the deal alive (for now)

From the strategic standpoint, regular negotiations on the grain deal extension gives Moscow an opportunity to chip away at sanctions, possibly expanding its requirements at every iteration. Also, as one of the security guarantors of an agreement of global importance, the issue allows the Kremlin to portray the country as a responsible and influential global power at home and abroad. Finally, the grain deal gives Russia some leverage over global food prices, and by extension inflation levels. By withdrawing or suspending its participation in the initiative or undermining the safety of the corridor, Moscow could put pressure not only on Ukraine but also the West.

However, at this point, the Kremlin does not seem to have much political interest in terminating the deal. Recall that Russia had suspended its participation in the Black Sea Grain Initiative (BSGI) for a few days in late October/early November, but promptly returned to the deal as Ukraine had been continuing grain shipments through the corridor with the support of Turkey and the UN. This indicated that Moscow had no intention of using military means to interrupt the passage of commercial vessels through the corridor. However, the calculation on the Russian side might change if Ukrainian forces launched new attacks on Crimea or at least posed significant military threat to the peninsula.

It is also noteworthy that China has been the largest benefactor of the deal and has received more than 21% (or 5.3mn tons) of total grain shipments through the grain corridor since last August. Given Moscow's growing reliance on, and cooperation with, China, a deliberate obstruction of the deal might be counterproductive. Similarly, the grain deal also

benefits developing countries across Africa and Southeast Asia, where Moscow has been on a diplomatic charm offensive to expand relations and influence.



Source: United Nations (as of 14 March, 2023)

Ukraine’s agricultural capacity eroding

Russia has other means to limit Ukraine’s ability to export grain, which is an important source of hard revenue to its embattled economy. For example, Kyiv has been accusing Moscow of deliberately limiting the capacity of the grain corridor by not providing enough ship inspectors from its side. Also, vast areas of agricultural land in Ukraine are unavailable for cultivation due to shelling, mining, or occupation. In addition, Ukraine’s agricultural equipment and logistics facilities have suffered significant damages, while the sector faces major labor shortages due to emigration and mobilization. In addition, electricity supplies have been also unstable due to recurring air strikes. As of mid-March, Ukraine’s grain exports during the 2022/23 harvest season shrank by around a quarter compared to the previous season. A long list of challenges clouds the outlook for Ukraine’s grain harvest and exports going forward.

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