BRIEF NO.3

Global impact of war in Ukraine: Energy crisis

UN GLOBAL CRISIS RESPONSE GROUP ON FOOD, ENERGY AND FINANCE

AUGUST 2022

United Nations

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Executive summary:
Recent developments

Since the issuance of the second brief by the Global Crisis Response Group (GCRG) on 8 June 2022, the impacts of the ongoing cost-of-living crisis have been felt more deeply and widely across the world.

More people are now forecast to be pushed into food insecurity and extreme poverty by the end of 2022. The most recent operational programming update from the World Food Programme (WFP) estimates that in 2022, 345 million people will be acutely food insecure or at a high risk of food insecurity in 82 countries with a WFP operational presence, implying an increase of 47 million acutely hungry people due to the ripple effects of the war in Ukraine in all its dimensions.[1] Meanwhile, in early July, the United Nations Development Programme estimated that up to 71 million people could have already been pushed into poverty in the three months since the start of the war, with hotspots in the Balkans, Caspian Sea region and sub-Saharan Africa, particularly the Sahel.[2] As citizens in many countries begin to grapple with the cost-of-living crisis, an intensification of social protests and riots has been recorded. According to the Armed Conflict Location and Event Data Project, the number of riots worldwide increased slightly between the first and the second quarters of 2022.[3]

Prices of commodities in global markets are still high but stabilizing. The food price index of the Food and Agriculture Organization of the United Nations (FAO) declined slightly in June 2022 and is down by about 3.3 per cent from its historic high in March. Crude oil prices dipped below the $100 per barrel mark at the beginning of July and have since remained near that level. Agriculture and commodity spot indexes are now close to, and some days below, pre-war levels. Shipping costs have also slowly begun to decrease, especially for bunker and tanker ships that are the most highly correlated with commodities and that have contributed considerably to the increase in consumer prices and import costs across the board.[4]

Falling prices are key to breaking the vicious cost cycle highlighted in GCRG Brief No. 2. The fall in prices might have been influenced by bumper crops in Australia, Canada, the Russian Federation and the United States of America, as well as by optimism following the signing on 15 July 2022 of the agreement between the Russian Federation, Türkiye and Ukraine, under the auspices of the United Nations, to reintegrate grains and sunflower oil from Ukraine into global markets and facilitate unimpeded access to food and fertilizers from the Russian Federation which had been a fundamental recommendation by GCRG.[5] Recent moves may also signal less uncertainty in commodity trading and transport markets. Lastly, as at 30 June 2022, there were 27 countries with 40 measures restricting food exports; at present, there are 25 countries with around 39 measures affecting over 8 per cent of global trade. In this regard, the situation has ameliorated, yet it could be further improved.

COMMODITY PRICES REMAIN AT A HIGH LEVEL DESPITE RECENT FALLS

The global situation is still causing difficulties in all regions. The high price volatility witnessed since the pandemic, particularly in 2022, suggests that prices remain at high levels and could rise yet again. In addition, although the prices of some commodities have fallen, due to high inflation, the situation has remained tight for billions of people, whose socioeconomic prospects have deteriorated as a result. There are serious concerns about potential stagflation scenarios (low growth and high inflation) in the second half of 2022 and in 2023. In developing countries, exposure to financial shocks is increasing despite falling commodity prices. Energy markets in particular are under

1 In early 2022, 276 million people were acutely food insecure in 81 countries with a WFP operational presence, which included the 193 million people in 53 countries that were estimated in *Global Report on Food Crises* to be acutely food insecure and in need of urgent assistance in 2021 (Food Security Information Network, 2022, *Global Report on Food Crises*, available at https://www.fsinplatform.org/; WFP, 2022, Global operational response plan, Update No. 5, available at https://www.wfp.org/publications/wfp-global-operational-response-plan-update-5-june-2022).

2 UNCTAD calculations, based on data from the World Bank. See https://www.undp.org/press-releases/global-cost-living-crisis-catalyzed-war-ukraine-sending-tens-millions-poverty-warns-un-development-programme.

3 See https://acleddata.com/dashboard/#/dashboard.

4 UNCTAD, 2021, *Review of Maritime Transport 2021* (United Nations publication, Sales No. E.21.II.D.21, Geneva).

5 See https://ajot.com/news/wheat-advances-amid-strike-on-ukraine-port-export-talk-hurdles and https://news.un.org/pages/global-crisis-response-group.

stress, as the heating season approaches in the northern hemisphere.

Most consumers have not seen commodity price declines translated into lower inflation rates. Inflation continued to accelerate worldwide in July 2022, with strong correlations with the income levels of countries; even while inflation is breaking multidecade records in advanced economies, developing countries and the least developed countries in particular are experiencing even higher levels of inflation. However, as food and, especially, energy prices are a major component of recent inflation metrics in many economies, it is possible that the metrics in some large economies may stabilize in the near future.

Food prices have fallen, yet are still high, above pre-pandemic levels, and the fertilizer shortage remains a concern.[6] Prices were already high at the beginning of January 2022, and increases have been broad based, affecting almost all food categories. It is noteworthy that, since the beginning of 2020, the vegetable oil price index has more than doubled, that of cereals has increased by over 60 per cent and that of sugar by over 50 per cent.[7] In addition, as highlighted in GCRG Brief No. 2, if fertilizer shortages continue, the food access crisis in 2022 will be exacerbated by a food availability crisis in 2023.

The consequences of the crisis include worsening nutrition and health outcomes that have been building up over the last two years. In 2020, almost 3.1 billion people could not afford a healthy diet, up by 112 million compared with in 2019, due to the impact of the coronavirus disease (COVID-19) pandemic and related measures.[8] The cost-of-living crisis, and soaring food prices, make it even more challenging for increasing numbers of people to afford a minimally nutritious and healthy diet. Before the outbreak of the war in Ukraine, the number of chronically undernourished people had already grown by about 150 million since 2019, with up to 828 million people in 2021 affected by chronic hunger (long-term or persistent inability to meet food consumption requirements).[9] In connection with such persistent inadequate consumption, there is also a significant and widening gender gap; in 2021, the gender gap in food insecurity was one percentage point higher than in 2020, with 31.9 per cent of women worldwide moderately or severely food insecure, compared with 27.6 per cent of men.[10] Projections are that in 2022, the number of vulnerable women for whom WFP will provide essential prevention and treatment services has increased by almost 50 per cent.

In particular, pregnant and nursing women are at a high risk of malnutrition and food insecurity. The United Nations Children's Fund reports a rapid increase in the number of young children experiencing severe wasting, the most serious form of malnutrition, which has significant implications for life expectancies and well-being.[11] An increased cost of living leads people to find coping strategies, such as purchasing cheaper and less nutritious food, consuming less diverse diets or skipping meals. This has serious long-term implications for people's health, with social and economic consequences across societies.

There are growing fears of a looming economic slowdown that, coupled with high inflation, might imply a return to stagflation at the end of 2022 or in 2023. Consumer price indices keep climbing, consumer sentiment is deteriorating and leading industrial indicators in many countries suggest a slowdown in production. However, the signals are not altogether clear: unemployment is still falling in some major markets; and UNCTAD model data on gross domestic product show signals of a slowdown but this has yet to gather pace.

6 See https://www.spglobal.com/spdji/en/indices/commodities/sp-gsci/#overview.

7 See https://www.fao.org/worldfoodsituation/foodpricesindex/en/.

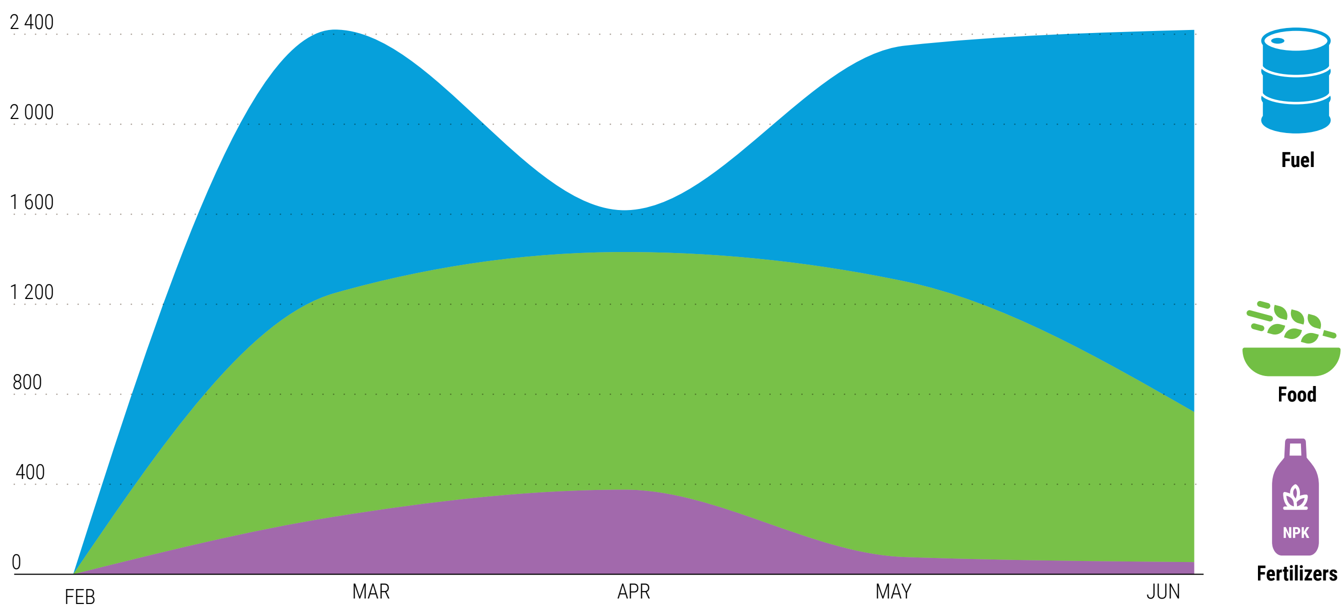
8 FAO, ed., 2022, *The State of Food Security and Nutrition in the World 2022: Repurposing Food and Agricultural Policies to Make Healthy Diets More Affordable* (Rome).

9 Ibid.

10 Ibid.

11 See https://www.unicef.org/press-releases/global-hunger-crisis-pushing-one-child-severe-malnutrition-every-minute-15-crisis.

War drives up trade deficit in selected commodities for low-income countries, 2022
(Millions of dollars)



Source: UNCTAD calculations.
Note: Calculations are of changes in trade balances due to changes in the prices of corn, maize, sorghum, barley, soybean oil, sunflower oil, fertilizers, crude oil, gas and coal

Stagflation would ultimately accelerate the cost-of-living crisis by reducing household income, straining countries' fiscal spaces and increasing financial market pressures.

Financial conditions in developing countries are still worsening despite the fall in commodity prices, due to a strengthening United States dollar. Since the beginning of 2022, the currencies of developing economies have depreciated by 5.1 per cent against the dollar; with a depreciation of 2.1 per cent in June.[12] In the same period, the yield of sovereign bonds from these economies increased by 162 basis points; with an increase of 64 basis points in June.[13] As a result, developing country debts and import bills are coming under further pressure. By June 2022, the trade deficit of low-income countries was about 2.5 billion higher than it might have been if the prices of key commodities had stayed at pre-war levels.[14]
In addition, in the 62 most vulnerable countries, food import bills have increased by $24.6 billion since the start of the war.[15] The International Monetary Fund now suggests that not only are 60 per cent of low-income countries in debt distress or facing a high risk of debt distress, but so also are 30 per cent of middle-income countries (see figure).[16]

Energy prices are still high, above pre-war levels, suggesting further turmoil in energy markets, with significant global implications. The present brief addresses this issue.

12 UNCTAD calculations, based on data from Refinitiv.
Notes: Calculations are unweighted averages of nominal exchange rate fluctuations of the currencies of 138 developing economies against the dollar between 1 January and 5 July 2022 and include data for common currency areas (e.g. East Caribbean dollar, Central African CFA franc and West African CFA franc).

13 Ibid.
Notes: Calculations are unweighted averages of bond yields issued by 59 developing economies between 1 January and 5 July 2022. Country yield is estimated as the unweighted average yield of bonds per country. Bonds covered are instruments with principals denominated in either dollars or euros with maturities after 1 March 2022. For Eurobond instruments issued under both regulation S and rule 144A, instruments issued under the latter are excluded to avoid duplication.

14 UNCTAD calculations.

15 FAO, 2022, A global food import financing facility: Responding to soaring food import costs and addressing the needs of the most exposed, available at https://www.fao.org/3/cb9445en/cb9445en.pdf.

16 See https://blogs.imf.org/2022/07/13/facing-a-darkening-economic-outlook-how-the-g20-can-respond/.

GLOBAL ENERGY MARKET AT THE CROSSROADS

The world is in the grip of a major energy crisis, with countries worldwide affected by extremely high and volatile prices, particularly of fossil fuels. This situation has acted as a crucible for recent trends in the energy market. Over the preceding two years, the energy market experienced extreme price volatility, such as during the pandemic, when demand was reduced and supply contracted; the ensuing surge in demand outpaced supply. The war in Ukraine has further disrupted fossil fuel supplies and the overall market, in which the Russian Federation is the leading exporter of natural gas and the second largest exporter of oil.

Rising energy prices may price out many developing countries, with a high level of impact on the most vulnerable citizens, from energy markets. Such a situation is already impacting hard-won gains in the provision of access to energy and the reduction of energy poverty, and progress had already been set back due to the pandemic. This dynamic is compounded by the food and finance crises also experienced in these countries due to the war in Ukraine and the pandemic, which have placed significant social and fiscal pressure on countries. A potential "scramble for fuel", in which only those countries paying the highest price can gain access, would be devastating for a multilateral system based on trust and proportionality.

Sky-high prices and growing social discontent are putting many Governments under pressure. However, even short-term energy-related decisions can have important long-term consequences. In this context, the best policies will mix urgency and strategy. Without such policies, there is a risk that some countries, especially those without adequate funding, might, under pressure, set a course for high-emission, expensive energy in future.

At this juncture, the international community must jointly take stock of how to manage the crisis in a way that safeguards meeting the target in the Paris Agreement of not exceeding a global rise of 1.5°C above pre-industrial temperatures. Multilateral action is critical, yet each country and region will need to develop a tailored response, in accordance with current human capacity, infrastructure, access to finance and localized challenges.

ENERGY POLICY MEASURES MUST BALANCE THE NEED FOR URGENCY AND LONG-TERM SUSTAINABLE DEVELOPMENT

Measures are divided into short-term, medium-term and long-term policies which, notwithstanding their duration, must be undertaken today in order to be successful.

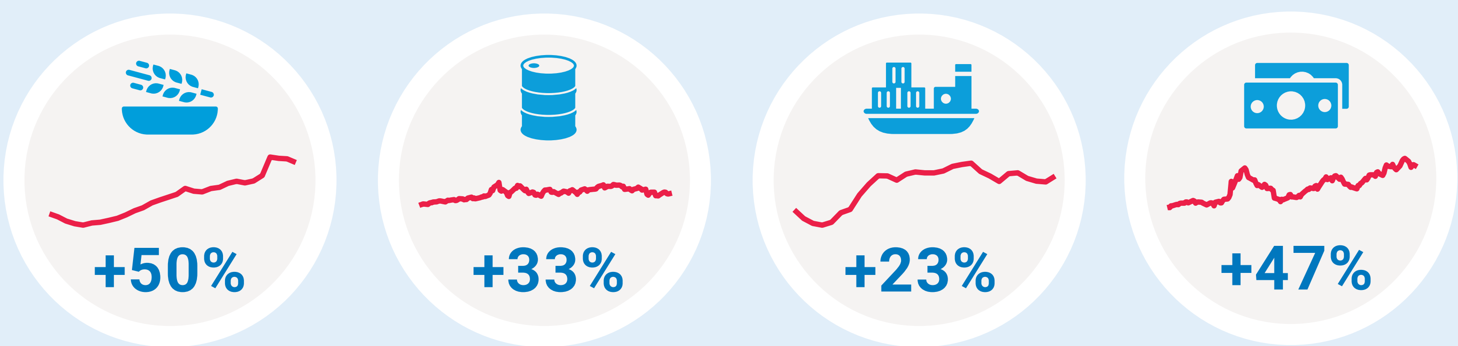
In the short-term, countries, especially developed countries, must seek to manage energy demand. This may be done through the implementation of new technologies and behavioural changes related to the use of heating, cooling and mobility. Energy efficiency and demand reduction have the additional benefit of being the fastest and most cost-effective and quick-win interventions through which to mitigate energy price impacts in the immediate term. Developing countries will be pressed to ensure the energy they have powers business to sustain the economy and also reaches all citizens, targeting vulnerable populations, to provide solutions for accessing and affording energy. High energy prices on their own add pressure to reduce demand, yet the right policies are needed in order to ensure that such a reduction is controlled, strategic and equitable.

Medium-term and long-term measures in government energy policy and investment must align with the Sustainable Development Goals and the Paris Agreement. The crisis has emphasized the need for energy resilience and a push for renewable energy sources.

High fossil fuel prices serve as an opportunity in the renewable energy transition; although renewable energy prices have also significantly increased, the comparative increase in fossil fuel prices renders the renewable energy sources cost competitive. To accelerate this transition, a focus on policies and framework conditions is required, to attract investment to expand clean energy access through on-grid connections and decentralized, off-grid solutions. Addressing potential bottlenecks in the renewable energy supply chain and fairly and sustainably capturing its benefits will also be key.

Most importantly, confident, no-regrets leadership is needed to steer the world on a course to meet the 1.5°C target, ensuring a just transition.

Pulse of the global crisis



FOOD PRICES
Since Jan 2020

CRUDE OIL PRICE
Since Jan 2022

SHIPPING PRICES
Since Jan 2022

EMERGING MARKETS: SOVEREIGN BOND SPREAD
Since Jan 2022

Source: Global Crisis Response Group.

Note: Food prices are based on the FAO food price index and shipping prices are based on the Clarksons Research sea index.

Source: Adobe Stock ©AS Photo Project

Energy-related measures:

Short-term, medium-term and long-term policies

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