

Food/Energy Security and Global Markets

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This article is an edited version of the paper originally written for the Valdai Discussion Club: <https://valdaiclub.com/a/highlights/food-energy-security-and-global-markets/>

DOI: 10.31278/1810-6374-2023-21-1-111-113

Current geopolitical divisions are causing global markets to stop functioning normally. Markets themselves have become fragmented, supply chains are more unsafe, and incentives to invest in and expand production have weakened.

Such concerns apply to many goods, but the most important are the energy and food markets, which are critical for all countries. Food and energy are linked. For example, the production of fertilizers, a necessary aspect of modern agriculture, is an energy-intensive process. Therefore, fertilizer prices are largely dependent on the cost of energy products.

In turn, food in many countries is the major component of consumer spending. On the other hand, the general acceleration of inflation increases production costs, including those for the mining industry. So, a feedback loop is created between these markets, and inflationary pressure increases.

Since the beginning of 2022, the total cost of energy resources in the world has increased by almost 40 percent. The cost of raw agricultural materials grew by 20 percent in May-June. Since then, prices have declined, but how sustainable this decline will be is a big question.

Apparently, amid the current geopolitical and economic shocks, the global economy has entered a long period of turbulence and structural transformation. To some extent, this period is similar to that of the 1970s, but the current possibilities for an anti-crisis policy in most countries are much more limited. The high level of accumulated debt and the need to tighten monetary policy complicate the use of traditional economic policy instruments.

All this means that in the coming years energy and food prices will remain high, that is, higher than what we have got used to in recent years. This suggests that food and energy security will objectively decline, and poverty will increase.

Usually, in such a situation, the point is raised that it is necessary to provide social support and protect vulnerable segments of the population, as well as to support poor countries. However, this is only a temporary solution to the problem. Long-term solutions imply necessary measures to increase the offer, namely, to invest in the expansion of production, ensure efficient logistics, and reduce costs. Remarkably, investments in the global oil industry were halved from 2014 to 2021 amid the stigmatization of the commodity sectors and the growing popularity of the ESG agenda. In a way, this created preconditions for the current energy crisis.

However, it is important not only to “diagnose the illness” and determine its causes but also to understand what each nation can do in the current conditions to solve global problems.

Last year, Russia exported hydrocarbons worth over \$210 billion and food worth more than \$30 billion. This year, Russia has faced unprecedented sanctions pressure from Western countries. Attempts to limit supplies from Russia in the absence of alternative sources of supply, which did not receive investment in previous years, have led to an increase in world prices.

For Russia, rising prices have compensated for the decline in energy exports, but this situation cannot be sustainable in the long term. Without the restoration of supplies, including new markets, export earnings will decline. The imposed sanctions and restrictions will most likely lead to a surplus in oil and gas production in the coming years, primarily due to logistics restrictions.

Petroleum and gas chemistry, the processing of raw materials and production of more complex products can be used as one of the elements of a strategy to overcome these limitations. Iran has used this strategy with relative success. Another example is LNG. Big LNG projects are likely to be reviewed and postponed due to sanctions. A possible alternative is to develop new production facilities for ammonia and methanol. Technologically, these are simpler production facilities; there are more opportunities to replace Western technology. The transportation of ammonia is easier than LNG. It is also important to support the construction of new infrastructure that will support the reorientation of raw materials exports to alternative markets.

Food exports from Russia remain concentrated in the countries of the former USSR and in individual national markets (China, Turkey, etc.). Meanwhile, there is a significant potential for expanding food supplies to African countries and the export of halal products to Islamic countries. This will have a positive impact on food and energy security around the world.