

Russia's war on Ukraine: Implications for EU commodity imports from Russia

Russia is a major global commodity producer and exporter. The country's invasion of Ukraine has already pushed commodity prices to historically high levels, and could also lead to commodity shortages. This situation may cause considerable economic damage, with far-reaching consequences for EU industry.

Background

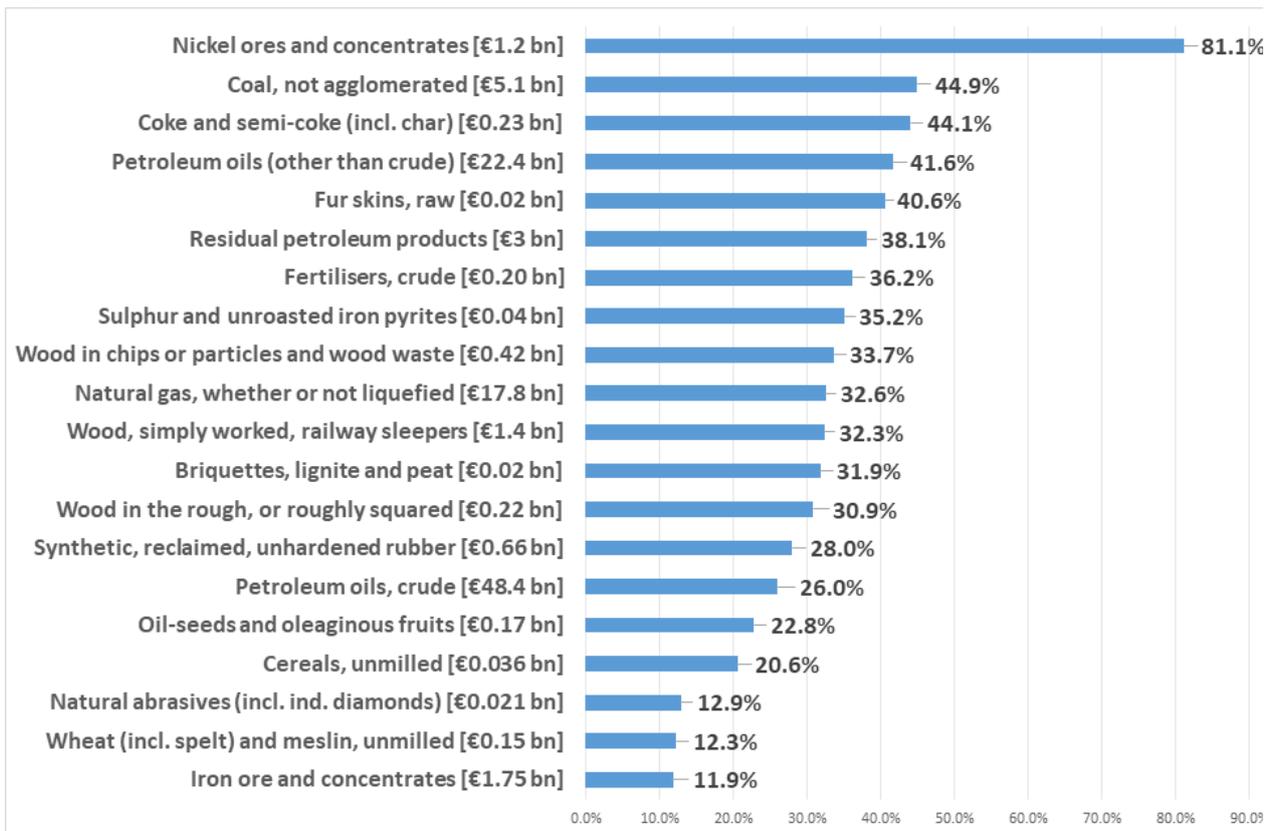
Richly endowed with [natural resources](#), Russia plays a crucial role in global energy, raw materials and agricultural markets. [In 2021](#), it was the second global producer and net exporter of crude oil, the second producer and first net exporter of natural gas, and the sixth producer and third net exporter of coal. Supply chains around the world, meanwhile, rely on Russia for its metal exports. The country is, for instance, the top producer of palladium (40 % of world production), a metal used in [catalytic converters](#) and for chemical production and petroleum refining. Palladium belongs to the platinum-group metals, which are on the EU's [critical raw materials](#) list. Russia is also a top agricultural commodity producer. With a considerable part of its territory within the [Eurasian wheat belt](#), Russia boasts around 25 % of global arable land. It overtook the EU in 2016 to become the world's largest wheat exporter, and is [expected](#) to increase its lead by 2030. In 2021 Russia was the world's top exporter of nitrogen [fertilisers](#), and ranked second for phosphorous and potassium fertilisers. It is also a major source of materials used to produce fertilisers in Europe (e.g. natural gas for nitrogen fertilisers). Lastly, Russia is, by far, the world's most forested country, hosting [20 %](#) of the global forest area.

By 15 March 2022, the EU had adopted [four packages of restrictive measures](#) against Russia, affecting trade flows among other areas. The fourth package includes an EU import ban on some steel products and denies Russian products and services [most-favoured-nation treatment](#) on EU markets (meaning that Russia may be subject to higher tariffs and import bans). The US has also targeted Russia with similar, [far-reaching sanctions](#). So far, Russia's exports of commodities to the EU have been [spared](#) the sort of comprehensive trade bans imposed on other sectors, but this could change. From its side, on 10 March 2022, Russia imposed retaliatory [export bans](#) (on [48 countries](#), including the EU Member States and the US) on more than 200 products. These include some manufactured products, such as cars, railway carriages, telecoms, and electrical and agricultural equipment, as well as some commodities such as [wood and timber](#), with repercussions for many sectors. For now, [energy and raw materials](#) – such as metals – are not covered by the ban. Extending the list to these could have [grave consequences](#) for EU industry and for its green and digital transformation. Russia is also considering [withdrawing from the WTO](#), which would likely complicate trade still further.

Main commodities imported by the EU from Russia

The EU imported commodities worth €108.3 billion from Russia in 2021, a sum representing 65 % of all goods it imported from Russia that year. Energy commodities represented 91 % of [commodity](#) imports (€98.9 billion), raw materials 7 % (€7.3 billion) and food commodities 2 % (€2.1 billion). Imports of the top 20 commodities for which the EU depended on Russia most in 2021 (Figure 1) totalled €103.4 billion, representing 95 % of EU imports from Russia. The highest dependency rate was for [nickel ores](#). Nickel is used for many products ([mainly](#) stainless steel, a range of alloys, [electroplating](#) and the fast-growing electric vehicle battery market). In 2021, Russia was the world's third biggest nickel producer, [mining](#) 250 000 tonnes (9.2 % of global production). A number of energy commodities (natural gas, oil, coal) also feature prominently in this ranking. Coke and iron ore, two materials used in [steelmaking](#) are in the top 20. [Iron ore](#) is also mainly used in steelmaking, through the [blast furnace route](#). [Sulphur](#), used mainly to produce sulphuric acid, is of prime importance for many industrial sectors. Synthetic [rubber](#) is used to produce tyres and other consumer goods.

Figure 1 – Top 20 EU commodity imports from Russia, 2021



Source: Eurostat (dataset [DS-018995](#)), extracted on 17 March 2022.

Potential impact on EU industry

The future magnitude of the impact of Russia's war on the EU economy is largely unknown, depending not least on the duration of the war and on the policy responses made. While [commodity prices](#) started from historically elevated levels owing to strong demand, they have recently reached or neared record highs. Agricultural commodity prices had been rising steadily since 2020, and the [FAO food price index](#) reached an all-time high in February 2022. The war is likely to keep commodity prices high, which is [expected](#) to exert even stronger inflationary pressures. Together with supply-chain disruptions, and high energy and oil prices squeezing incomes, this situation could cause a global [stagflationary shock](#).

The OECD's initial [simulations](#) after two weeks of conflict suggested that global growth could be reduced by over 1 percentage point, and global inflation could rise by close to 2.5 percentage points in the first full year from the start of Russia's invasion. Energy-intensive industries (such as chemicals and steel manufacturing, fertilisers and transport) are expected to be impacted by higher prices and/or possible disruptions in the availability of energy products, possibly causing [industry shutdowns](#). By 8 March 2022, high power prices resulting from surging gas prices had [already](#) taken 900 000 tonnes of aluminium and 700 000 tonnes of zinc smelting capacity offline in Europe. Furthermore, higher prices, metal shortages, and also logistics problems, could severely affect other industries (e.g. electric vehicle production).

Global supply chains, in which the EU is [highly integrated](#), were already under [pandemic-induced stress](#). The war may help to [reconfigure supply chains permanently](#), particularly if it causes closer alignment of China and Russia. Experts also consider that the war may rupture the [Belt and Road Initiative](#): the declining use of the Russian transport infrastructure that supports supply chain links between the EU and Asia is a case in point. This reconfiguration may come in the form of a tightening of supply chains or '[friendshoring](#)'. If the oil shock of the 1970s can offer a [guide to the future](#), accelerated [innovation](#) and the use of alternative energy sources are likely to become the new, transformational forces for EU industry. However, it has first to weather the deteriorating economic climate, the shock to supply chains, and surging oil and energy prices.

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