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Top News - Oil

U.S. to issue more guidance on Russian oil price cap in coming days

The U.S. government plans to issue guidance in coming days on a Russian oil price cap taking effect on Dec. 5 and is ready for some "hiccups" in its implementation, a State Department official said on Thursday.

Jim Mullinax, director of the Office of Sanctions Policy and Implementation, told a panel hosted by Thomson Reuters that the government was in close touch with industry and international partners about the oil price cap, and was approaching it with a "spirit of flexibility."

The United States, its Group of Seven allies and Australia plan to cap prices of Russian sea-borne oil shipments effective Dec. 5, with a second cap on oil products kicking in Feb. 5.

The unprecedented price cap aims to block Russia from profiting from a jump in oil prices since its Feb. 24 invasion of Ukraine while ensuring that Russian oil continues flowing to global markets after a European Union ban on Russian oil imports takes effect next month.

It was not immediately clear if the new guidance would specify the cap price. The coalition agreed this month to set a fixed price for Russian oil, rather than a floating rate.

The plan calls for participating countries to deny Western-dominated oil transport services like insurance, finance, brokering and navigation to oil cargoes priced above the cap.

"I'm hoping that it's been telegraphed well, that we've been relatively transparent," Mullinax said.

"We've taken a lot of feedback from industry about how to implement this.... There's probably going to be some hiccups in the early frame," he said.

Michael Dawson, a partner with the WilmerHale law firm, said the United States, Britain and the European Union had prepared well.

"They're open and flexible to address some of the problems that arise - and there will be problems," he told the same panel.

UK hits power firms with windfall tax, hikes oil company levy

British finance minister Jeremy Hunt on Thursday unveiled plans to increase a windfall tax on oil and gas companies and extend it to power generation firms in an effort to raise tens of billions of pounds to plug a major hole in public finances.

The measures were among a string of tax increases and tighter public spending in a tough budget plan announced by Hunt in parliament.

Soaring oil and gas prices in the wake of Russia's invasion of Ukraine have sent household energy bills to record highs, triggering Britain's worst cost of living crisis in generations.

Hunt said the levy on oil and gas companies would be increased to 35% from its current rate of 25% and extended until the end of March 2028. This brings the total tax on the sector to 75%.

The windfall tax will be expanded to electricity generators with a levy of 45% being applied from Jan. 1 to revenues the government deems "extraordinary", from low carbon power generators such as wind and nuclear.

The two measures are expected to raise around 14 billion pounds for the 2023/24 fiscal year, a treasury document showed.

Shares in British renewable power generators SSE and Drax had risen around 1.5% and 5.4% respectively by the close of London trading as analysts said the tax was less onerous than feared.

SSE said a well designed levy on extraordinary profits was a reasonable measure.

"The level of certainty which comes from the announcement this afternoon will be welcomed," said Shah Jahan Khandokar, partner at law firm McDermott Will & Emery.

Shares in Centrica, which owns oil and gas production assets, 20% of Britain's nuclear fleet and Britain’s largest energy supplier British Gas, rose 5.4%.

Currently the cost of producing electricity from gas-fired power stations is usually the benchmark for setting the wholesale electricity price that helps to determine how much people pay for their energy.

This means generators of renewable and nuclear plants can benefit from high wholesale prices.

Treasury documents show the 45% tax on low-carbon power generators would apply to revenue made on power generation at an aggregate price over 75 pounds per megawatt hour (MWh).

OIL AND GAS WINDFALL

The higher windfall tax on oil and gas producers, known as the Energy Profits Levy (EPL), will take effect on Jan. 1 with the government forecasting it

would raise 40 billion pounds over the next 6 years.
The industry body Offshore Energy UK (OEUK) said the tax changes "threaten to drive out investors, drive up (oil and gas)imports and leave consumers increasingly exposed to global shortages".
Jefferies analysts, however, said that the extension of the tax's timeframe to 2028 from the end of 2025 was shorter than initially expected.
Shares of Harbour Energy, the largest North Sea producer, fell 6% while those of newly-listed Ithaca Energy dropped 4%.
Shell said in response to the announcement that "the energy sector needs to have confidence that there will now be a stable investment climate following a period of considerable uncertainty".
Ithaca has previously warned that a further windfall tax risks making field developments in the ageing basin "uneconomical".
Shell plans to spend up to 25 billion pounds ($29.5 billion) in Britain's offshore wind, low-carbon energy and oil and gas production over the next 10 years. Rival BP plans to spend 18 billion pounds by 2030 in Britain. BP previously said it will pay 2.5 billion pounds in tax in Britain this year under the 25% windfall tax. The government said that it will reduce its investment allowance plan for spending on new oil and gas extraction to 29% of all investment expenditure.

Chart of the day

Top News - Agriculture

Black Sea grain export deal extended, but Russia wants more on fertiliser exports

A deal aimed at easing global food shortages by helping Ukraine export its agricultural products from Black Sea ports was extended for four months on Thursday, though Russia said its own demands were yet to be fully addressed.
The agreement, initially reached in July, created a protected transit corridor and was designed to alleviate shortages by allowing exports to resume from three ports in Ukraine, a major producer of grains and oilseeds.
"I welcome the agreement by all parties to continue the Black Sea grain initiative to facilitate the safe navigation of export of grain, foodstuffs and fertilisers from Ukraine," UN Secretary General Antonio Guterres said in a statement.
The UN, he said, was also "fully committed to removing the remaining obstacles to exporting food and fertilisers from (Russia)" - a part of the deal Moscow sees as critical.
Russia's foreign ministry confirmed the extension of the deal for 120 days starting from Nov. 18, without any changes to the current one.
President Volodymyr Zelenskiy said that since Aug 1, more than 450 ships had carried 11 million tonnes of Ukrainian grain and other foodstuffs around the world.

"Tens of millions of people, primarily in African countries, have been saved from starvation ... food prices are significantly lower than they would be without our food exports," he said in a video address.
The export of Russian ammonia via a pipeline to the Black Sea has not yet been agreed as part of the renewal, two sources familiar with discussions told Reuters. But Russia would continue efforts to resume those exports, one of the sources added. Ammonia is an important ingredient in fertiliser.
Zelenskiy said in September he would only back the idea of reopening ammonia exports through Ukraine if Moscow handed back prisoners of war, an idea the Kremlin rejected.
"The renewal of the (deal) ... is good news for global food security and for the developing world," tweeted Rebeca Grynspan, secretary-general of the U.N. Conference on Trade and Development. "Solving the fertiliser crunch must come next."
The 120-day extension was less than the one-year sought by the United Nations and Ukraine. Russia said earlier this week that the current duration period of the deal seems "justified.".

GLOBAL FOOD PRICE CRISIS
A drop in Ukrainian shipments following Russia's invasion in late February played a role in the global food price crisis but other important drivers include the COVID-19 pandemic and continued climate shocks.
Since July, some 11.1 million tonnes of agricultural products have been shipped under the deal, including 4.5 million tonnes of corn and 3.2 million tonnes of wheat.
Chicago wheat prices fell following the news of the extension. The benchmark contract was down 2% and corn was down 1.3%.
"This is bearish for the market because it removes remaining doubts and we have something clear for the coming four months," one French trader said.
"However, the fact that it is only for four months ... means that uncertainty will resume in four months, with people wondering whether Russia will sign an extension or not."
Ukraine and Russia are major global grain exporters. Russia is the world's largest wheat exporter and a major supplier of fertilisers to global markets.
Since July, Moscow has repeatedly said its shipments of grain and fertilisers, though not directly targeted, are constrained because sanctions make it harder for exporters to process payments or to obtain vessels and insurance.
Moscow presumed that the Russian concerns related to easier conditions for its exports would be fully taken into account in coming months, its foreign ministry said.

Argentina exchange says rain needed soon to avert soy planting cuts
Argentina farmers could reduce the area they plant with soy if more rain does not bring relief to drought-plagued farmlands soon, the Buenos Aires grains exchange said Thursday as it forecast moderate showers in parts of the country's farm belt.
A prolonged drought has forced farmers to delay planting soy, which is only 12% complete, versus 29% at the same date last year. The current crop's total planted area is projected at 16.7 million hectares (41.3 million acres), the exchange said.
Argentina is the world's top soy oil and meal exporter.
In a weekly climate report, the Buenos Aires grains exchange forecast moderate rains of 1 to 7.5 cm (0.4 to 3 inches) in the western and northern parts of the most important farmlands, while the southern region would receive less than a centimeter.
The dry conditions forced the exchange last week to cut its estimates for the country's current wheat harvest to 12.4 million tonnes, down from an initial 20.5 million tonnes seen at the campaign's onset, before the drought's toll was evident.
As of Wednesday, the exchange reported that farmers had harvested 10% of the 2022/23 wheat crop.
Corn producers, meanwhile, have planted 23.6% of the 7.3 million hectares that the exchange estimates for the 2022/23 season.

Top News - Metals

Australia's OZ Minerals backs BHP's improved $6.5 bln offer
BHP Group Ltd has delivered a A$9.6 billion ($6.5 billion) bid for copper and gold producer OZ Minerals as the mining major moves to take advantage of rising global demand for metals used in clean energy and electric cars.
In what could be the largest mining deal in Australia

in 11 years, BHP made a new cash offer of A$28.25 per share on Friday that was 13% higher than a A$25 per share proposal rejected in early August as "opportunistic" and undervalued.

If the deal goes through, it would be the largest mining buyout in Australia since Barrick Gold bought Equinox Minerals in 2011 for $5.78 billion, according to Dealogic data.

OZ Minerals shares shot 4.14% higher on Friday to $27.93, its highest point since April. BHP's shares rose 0.6% to $44.06 against a 0.3% gain in Australia's S&P/ASX200.

The bid was recommended by the OZ Minerals board in the absence of a higher offer.

The new offer is a 49.3% premium to OZ Minerals' A$18.92 trading price in August before BHP's first bid emerged.

BHP's second bid comes amid strong demand for battery metals due to the surging popularity of electric vehicles. Buyout activity has been ramping up in the mining sector, emphasised by Rio Tinto's recent play for Canada's Turquoise Hill to gain control of its Mongolian copper mine.

If OZ Minerals deal goes through, it would allow BHP to consolidate copper assets in South Australia. OZ's mines Prominent Hill and Carrapateena lie next door to BHP's Olympic Dam mine and smelting operations.

The deal would also add to BHP's Western Australia nickel operations, from which it already has a deal to supply Tesla Inc and and Toyota.

OZ said in September it would invest more than $1 billion in its West Musgrave mine in Western Australia. The mine is expected to produce about 35,000 tonnes of nickel and 41,000 tonnes of copper annually in its first five years of production.

"I don't think these are the most amazing assets in the world, but there are synergies for BHP, and it's easier to develop projects in Australia than some other jurisdictions," said Andy Forster, senior investment officer at Argo Investments, which has holdings in BHP. BHP has said its revised offer is its "best and final" in the absence of a competing proposal. OZ Minerals decided to grant BHP exclusive due diligence for a month starting from Nov. 21.

"BHP's revised proposal is a clear reflection of OZ Minerals' unique set of highly strategic, quality assets ... growth pipeline of copper and nickel assets in strong demand due to global electrification," said Chief Executive Officer Andrew Cole of OZ Minerals.

COLUMN-LME tightens restraints as nickel turns unruly again: Andy Home

London Metal Exchange (LME) nickel trading has

MARKET MONITOR as of 07:39 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$81.75 / bbl	0.13%	8.70%
NYMEX RBOB Gasoline	$2.45 / gallon	-0.32%	9.80%
ICE Gas Oil	$960.50 / tonne	0.47%	44.00%
NYMEX Natural Gas	$6.19 / mmBtu	-2.78%	66.01%
Spot Gold	$1,763.90 / ounce	0.17%	-3.53%
TRPC coal API 2 / Dec, 22	$191 / tonne	-6.37%	55.28%
Carbon ECX EUA / Dec, 22	€72.40 / tonne	-1.38%	-10.23%
Dutch gas day-ahead	€100.00 / Mwh	-1.96%	50.38%
CBOT Corn	$6.70 / bushel	-0.34%	12.90%
CBOT Wheat	$8.07 / bushel	-0.41%	4.67%
Malaysia Palm Oil (3M)	RM3,845 / tonne	-4.40%	-18.14%
Index (Total Return)	**Close 17 Nov**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	299.63	-1.82%	21.30%
Rogers International	30.1	-0.43%	29.16%
U.S. Stocks - Dow	33,546.32	-0.02%	-7.68%
U.S. Dollar Index	106.52	-0.16%	10.99%
U.S. Bond Index (DJ)	391.55	-3.52%	-17.04%

turned wild again this week.
On Monday LME three-month nickel surged back above the $30,000 a tonne level for the first time since June and briefly breached the new 15% daily limit on price movement.
After peaking at $31,275 on Tuesday, the highest since early May, the price has subsequently imploded, retreating to $25,800 a tonne.
The LME has reacted by raising initial margins by 28% to $6,100 a tonne from Friday's close and by stepping up market surveillance activity.
Both the exchange and nickel market are now paying the price of the March meltdown, when the LME suspended trading and cancelled trades in a decision now being challenged in the British courts.
With funds giving devilish nickel a wide berth, trading liquidity on both the LME and the Shanghai Futures Exchange (ShFE) has shrunk significantly, injecting yet more volatility into a market that is prone to wild price swings at the best of times.

VOLATILITY TRAP

The fund exodus after March has left a liquidity vacuum and a self-reinforcing volatility trap in the nickel market.
"A lack of risk capital lowers market participation, driving down liquidity and exacerbating volatility, and further discouraging potential lenders and investors, reinforcing lower participation and higher volatility," Goldman Sachs warned in April. ("A financially constrained physical market", April 3, 2022)
LME nickel trading volumes have fallen steeply since March. October's average daily volumes of 32,811 were down 54% year on year and the lowest tally in at least a decade. Year-to-date nickel volumes are 24% below last year's equivalent period, the scale of decline flattered by strong trading activity in January and February.
The collapse in participation is even more stark in Shanghai, where ShFE volumes have collapsed by 71% over the first 10 months of 2022. Open interest at the end of October was 41% lower than October 2021.
While low liquidity has created outright price volatility in London, time spreads have been becalmed.
In Shanghai, by contrast, it's the spreads that are particularly unruly, the drop in liquidity coinciding with ultra-low exchange stocks and a long-running backwardation structure.
ShFE's registered inventory stands at only 4,634 tonnes and has been below 10,000 tonnes since April last year, creating a rolling squeeze that preceded the turmoil in London this year. The exchange hopes to repair liquidity by expanding its limited list of deliverable brands to include nickel briquettes.
But until inventory and volumes rebuild, time-spread turbulence and perma-backwardation are becoming the new normal in the Shanghai market.

RUMOUR MILL

Trading conditions in both London and Shanghai are accentuating price swings in a market that is not short of potential news triggers.
The sharp rally was at various points justified by Indonesia's plans to increase export tariffs (already known), a fire at an Indonesian producer (quickly denied) and possible disruption to Nornickel's flow of materials from its mines in Russia to its refinery in Finland.
The latter turned out to be at least partially true, with Finnish rail operator VR Group suspending Russian freight from next year, though Nornickel is examining other transport options, including by sea.
The search for a plausible bull price trigger also uncovered a minor tailings leak at Prony Resources' Goro plant in New Caledonia, which will run at a reduced rate over the fourth quarter.
None of this 'news' helps to explain nickel's 40% rally since the start of November. Rather, it underlines the ease with which rumours can roil an illiquid market.
And nickel is particularly sensitive to news flow right now. The status of Russian metal looms large, not only because Nornickel is a big producer, but also because it produces the type of nickel - Class I refined - that is traded on both the LME and ShFE.
The LME has decided not to suspend Russian nickel, but the threat of government sanctions will remain as long as Russia continues what it terms its "special military operation" in Ukraine.
Such uncertainty around a key cog in the global supply chain would translate into volatile pricing at the best of times. In the current low-volume futures market, it's a recipe for more wildness ahead.
So, too, might be the recent purchases of December call options with upside strikes such as $30,000 (now showing open interest of 489 lots), $35,000 (360 lots) and even $55,000 (25 lots).
A manifestation of bullish exuberance or a potential bull trap if the price starts motoring upwards again?
The size of these positions wouldn't normally be enough to generate an options accelerator effect on a bull price move, but with trading volumes where

they are, anything seems possible with this market.

MARKET DISCONNECT

The physical nickel market is booming as it gears up to meet the new demand stream from electric vehicle batteries, but it is simultaneously losing the capacity to hedge its growing price exposure.

This disconnect has been building for several years. None of the nickel flowing from Indonesia, the world's new production hub, towards China's giant battery sector is in a form of the metal that can be delivered against either the LME or ShFE.

This mismatch of paper and physical markets was a key contributor to the March mayhem. Tsingshan Group's huge short position against its equally huge production stream was simply too big for a market defined by a shrinking Class I segment of the supply chain.

Events in March and the resulting drain in liquidity have accelerated the price fragmentation.

The long-term solution would be the evolution of different exchange-traded contracts for intermediate products such as ferro-nickel, mixed hydroxide payables or nickel sulphate.

Users would then have a financial structure within which to tailor their product-specific price exposure.

It's far from clear, however, whether the new battery-facing parts of the nickel industry have sufficiently evolved to create standardised alternative price methodologies.

Until they do, the LME and the ShFE are going to have to manage their troublesome nickel markets.

More restraints may be necessary.

The opinions expressed here are those of the author, a columnist for Reuters.

Top News - Carbon & Power

U.N. carbon market talks to drag beyond COP27 as deals elusive

Talks to establish carbon offset markets to allow countries to buy credits to partly achieve their climate pledges are set to drag on beyond the COP27 summit and into next year, according to observers and a negotiator in the U.N. talks.

It might still be years before countries can offset their emissions with credits based on greenhouse gas-reducing projects elsewhere, under an international carbon market first called for in Article 6 of the 2015 Paris climate accord.

"After years of negotiations about whether carbon markets under the Paris Agreement would actually exist, now they are at the stage of actually setting them up," said Jonathan Crook, policy analyst at the non-profit Carbon Market Watch.

A draft document of around 60 pages, published on Wednesday, outlined how inter-country carbon trading might function, but it is riddled with sections still up for debate and pointers to future decisions.

"The Article 6 texts are all open," Andrea Bonzanni, international policy director at the International Emissions Trading Association (IETA), said on Thursday.

Pedro Barata, carbon markets specialist at the Environmental Defense Fund, said that while he was impressed by the size of the draft document, he said it was clear that "this is not leading up to a decision here that would clear away all of this."

Key outstanding issues include the extent to which countries' registries, or digital ledgers of carbon trades, might be exposed to outside scrutiny.

Matt Williams from the Energy and Climate Intelligence Unit said he was worried about transparency and the potential for double-counting the same credit in two countries.

The slow progress in the carbon markets talks comes as countries struggle to agree a long list of climate issues while the scheduled end of the summit on Friday looms.

"It's a step forward, but I don't know that it's (the) big jump that was probably needed," said one negotiator who declined to be named.

Wednesday's draft document only referred to the subsection of Article 6 that deals with how countries can use the carbon market.

Talks on another subsection linked to the interaction of countries' carbon credit registries and the so-called voluntary carbon market, where carbon offsets are already traded between private parties, are also lagging. A draft negotiating text that delegates had expected at midday on Thursday still had not been circulated at the time of writing. Part of those rules, to define what constitutes a carbon removal project, are likely to be scrapped and redrafted ahead of more talks in 2023, observers said.

"There is also an opportunity for Article 6... to set a high bar on transparency and integrity that would improve on the wild west of unregulated voluntary carbon markets," Crook said.

latest models to the country.

Australia proposes to require cleaner gasoline by 2025, with aid to refiners

The Australian government is proposing to tighten gasoline quality requirements by 2025 in line with most other rich countries, with further aid to the country's two refiners, Ampol Ltd and Viva Energy, to meet the new standard.
Its proposal brings forward by two years the preliminary, undefined plan of the previous government, which lost office in May.
In a proposal released on Friday seeking to meet emissions standards called Euro 6d, the government said its preferred option would be to reduce aromatics in 95 RON gasoline, a premium grade, to a maximum of 35%, with no change to 91 RON and 98 RON gasoline.
The Federal Chamber of Automotive Industries (FCAI) has long said Australia needs higher quality fuels in order to spur car manufacturers to send their latest models to the country.
"Currently, we have some of the worse quality petrol in the advanced world," FCAI Chief Executive Tony Weber said in a statement.
He welcomed the proposed action on 95 RON gasoline but said the other grades needed to be adressed, too.
The government said that if it went ahead with its preferred option, it would provide A$26 million ($17 million) each to Ampol and Viva to upgrade their Lytton and Geelong refineries, respectively, to meet the Euro 6d standard.
That assistance would come on top of A$125 million that the government is providing each of the refiners to upgrade their plants to produce ultra-low sulfur gasoline by the end of 2024.
Responses to the proposal are due by Dec. 16.
A Viva spokesperson said the refiner would need time to review the government's options. Ampol had no immediate comment.

Top News - Dry Freight

ANALYSIS-Ukraine lacks viable plan B to boost grain exports via rail, road or river

Ukraine has few viable options currently to boost grain exports by rail, road or river barge anytime soon if a United Nations-brokered deal with Moscow to export by sea runs into trouble.
Ukraine is one of the world's leading grain and oilseed exporters and a Russian blockade of its ports after Moscow invaded its southern neighbour in February triggered higher global prices for basic foods.
The UN-brokered deal reached in July allowed grain shipments to resume. But Russian support for the pact has wavered in recent weeks and Moscow even temporarily withdrew at the end of October. This has put the deal's long-term future in doubt even after it was extended on Thursday for 120 days.
Moscow said it expected all its concerns related to Russian exports of food and fertilisers to be addressed in that period.
Kyiv had sought a one-year extension.
Ukraine has shipped grain by truck and train via its western border and through small Danube river ports in the south west. But the capacity on those routes is much smaller than from its sea ports - meaning there is no significant plan B if the sea corridor falters.
The maximum export capacity via these routes is 2.7 million tonnes per month, data from industry group Coceral shows, versus around 6 million tonnes that were exported via Ukraine’s Black Sea ports before the invasion.
Ukraine Grain Association (UGA) head Nikolay Gorbachov said exports via the Danube River could perhaps be increased by a third to 2 million tonnes per month but, beyond that, significant gains including via rail and truck are not feasible.
"Rail and truck capacity can maybe be increased 3-5% but no more, because the infrastructure of Europe can't absorb our grain. They are not ready on truck, on rail, on river barge, on storage, to accept this grain at volume," he said.
There has been some progress since the conflict began, with grain exports via rail, truck and river barge reaching 7.1 million tonnes between July and September versus 4.25 million between March and June, data issued by UGA showed.
The figures also show exports via river barge to Romania nearly doubled over the period, rising from 2.55 million tonnes to 4.7 million and far exceeding the increases via rail and truck.
Those initial increases were however based mostly on improving the efficiency of the existing logistics system - not on building new routes or equipment.
Danube ports would not attract large investments, as logistics through Black Sea ports are much cheaper and so if and when those ports reopen,

they could quickly make new capacity on the Danube obsolete, Gorbachov said. The same applies to truck and rail infrastructure, he added.

Ukraine more than doubled its exports of grain via rail before the sea corridor was agreed, peaking at 940,000 tonnes in July, said Valeriy Tkachev, deputy head of the commercial department of Ukraine railways company Ukrzaliznytsia. Rail exports dropped back down after cheaper sea shipments resumed under the deal.

Industry analysts and experts say transporting grains via rail from Ukraine to neighbouring Poland is slow and expensive for several reasons: cumbersome border controls, the need to reload trains due to different rail gauge sizes, inadequate re-loading equipment, limited border storage and rail fleet capacity, and slow rail cargo traffic.

"At present we are shipping some 0.5 million a month from Ukraine and if we don't get technical assistance from the European Union (as) promised, we can't really do more," Polish Deputy Prime Minister and Agriculture Minister Henryk Kowalczyk told Reuters.

SOLIDARITY LANES

In May, the EU proposed a "solidarity lanes" initiative to streamline and prioritise the passage of grains via Ukraine's western borders.

The plan involved pooling rail cars and logistics equipment, simplifying customs and inspections, scrapping import duties and concluding a road transport agreement with Ukraine. But problems remain, industry experts said.

"They don't have (enough) wagons (for transporting grain), they have limited capacity of the network itself," said Tkachev.

Before the grain export agreement, attention was fixed mainly on expanding loading terminals on Ukraine's western border, he said. But Tkachev said this could not solve the core problem of lack of port capacity in the countries closest to Ukraine.

"We went the wrong way – we all focused on our border crossings, (without understanding) how this cargo will be absorbed," he said, referring to the lack of capacity to move the grain once it had arrived in neighbouring countries.

EXPLAINER-Can Ukraine's grain deal ease the global food crisis?

A deal to free up vital grain exports from Ukraine's southern Black Sea ports - which had been due to expire on Nov. 19 - was extended on Thursday for 120 days.

The agreement, originally reached in July, created a protected sea transit corridor and was designed to alleviate global food shortages by allowing exports to resume from three ports in Ukraine, a major producer of grains and oilseeds.

Here are some of the issues:

WHAT HAS BEEN EXPORTED?

The pact created a safe shipping channel for exports from three ports in Ukraine.

So far, some 11.1 million tonnes of agricultural products have been shipped, including 4.5 million tonnes of corn.

Shipments of wheat have reached 3.2 million tonnes, or 29% of the total. Other commodities shipped include rapeseed, sunflower oil, sunflower meal and barley.

HOW MIGHT THE AGREEMENT CHANGE?

The 120-day extension was less than the one-year sought by both the United Nations and Ukraine.

Kyiv had separately sought to have the agreement expanded to include more ports, although that was not concluded at this stage.

The three ports involved in the deal - Odesa, Chornomorsk and Pivdennyi - have the combined capacity to ship around three million tonnes a month.

Ukraine wanted to include the ports of the southern Mykolaiv region, which provided 35% of Ukrainian food exports before Russia's invasion.

Mykolaiv was Ukraine's second-largest grain terminal according to 2021 shipment data so its addition would allow for a much larger volume of grains and oilseeds to be shipped.

Ukraine had also sought a streamlined inspection regime.

Russia has previously said its consent to extend the Black Sea grain deal depended on support for its own grain and fertiliser exports. Russia is a major agricultural producer and the world's largest exporter of wheat.

Among its demands, Russia is believed to have wanted the West to ease restrictions on state agriculture lender Rosselkhozbank, a move that should help facilitate more Russian exports.

Russia's foreign ministry confirmed the 120-day extension without any changes to the current deal. It added that Moscow presumed its concerns about easier conditions for its grain and fertiliser exports would be fully taken into account in the coming period.

Turkish President Tayyip Erdogan, who has been a pivotal player in reaching the deal, said Russian grain exports could be processed into flour in Turkey and then shipped to Africa to help relieve food shortages there.

HAS IT ALLEVIATED THE FOOD CRISIS?

A drop in shipments from major exporter Ukraine has played a role in this year's global food price crisis, but there are also other important drivers.

These include the COVID-19 pandemic and the climate shocks which continue to challenge agricultural production, mostly recently droughts in both Argentina and the United States.

The corridor has led to a partial recovery in shipments from Ukraine but they remain well below pre-invasion levels and will not fully recover for the foreseeable future.

Transporting grains to ports there remains challenging and expensive, while Ukrainian farmers have reduced sowings of crops such as wheat after in many cases selling last year's crops at a loss, with domestic prices remaining very low.

HAS IT DRIVEN DOWN GLOBAL WHEAT PRICES?

Prices of wheat on the Chicago Board of Trade rose sharply in the aftermath of Russia's Feb. 24 invasion of Ukraine but are now around pre-conflict levels.

Ukraine's ability to export millions of tonnes of wheat through the corridor has been one element driving down prices.

Other factors include a record crop in major exporter Russia this year, the gloomy global economic outlook and a strong dollar.

But prices for wheat-based food staples such as bread and noodles remain well above pre-invasion levels in many developing countries despite the decline in Chicago futures, due to weak local currencies and higher energy prices which have raised costs such as transport and packaging.

WHAT ABOUT SEA MINES?

Russia and Ukraine accuse each other of planting the many naval mines that now float around the Black Sea. These pose a significant threat and were cited as the one thing feared by a crew member on the Sierra Leone-flagged Razoni, the first ship to pass through the corridor on Aug. 1.

The mines have drifted far from Ukraine's shores, with Romanian, Bulgarian and Turkish military diving teams defusing some that have ended up in their waters.

It could take months to clear them and there was not enough time to do so before the grains pact came into effect.

WHAT ABOUT INSURANCE?

The Istanbul based Joint Coordination Centre, which oversees the deal and is made up of Turkish, Russian, Ukrainian and U.N. officials, in August published procedures on the shipping channel, which aims to alleviate concerns of insurers and shipowners.

Insurers initially said they were willing to provide cover if there were arrangements for international navy escorts and a clear strategy to deal with sea mines.

Since then, they have created clauses for providing cover, including provisos that ships need to stay inside the corridor when transiting or risk invalidating their policies.

Following the July 22 agreement, Lloyd's of London insurer Ascot and broker Marsh set up a marine cargo and war insurance facility for grain and food products moving out of Ukrainian Black Sea ports with $50 million cover per voyage.

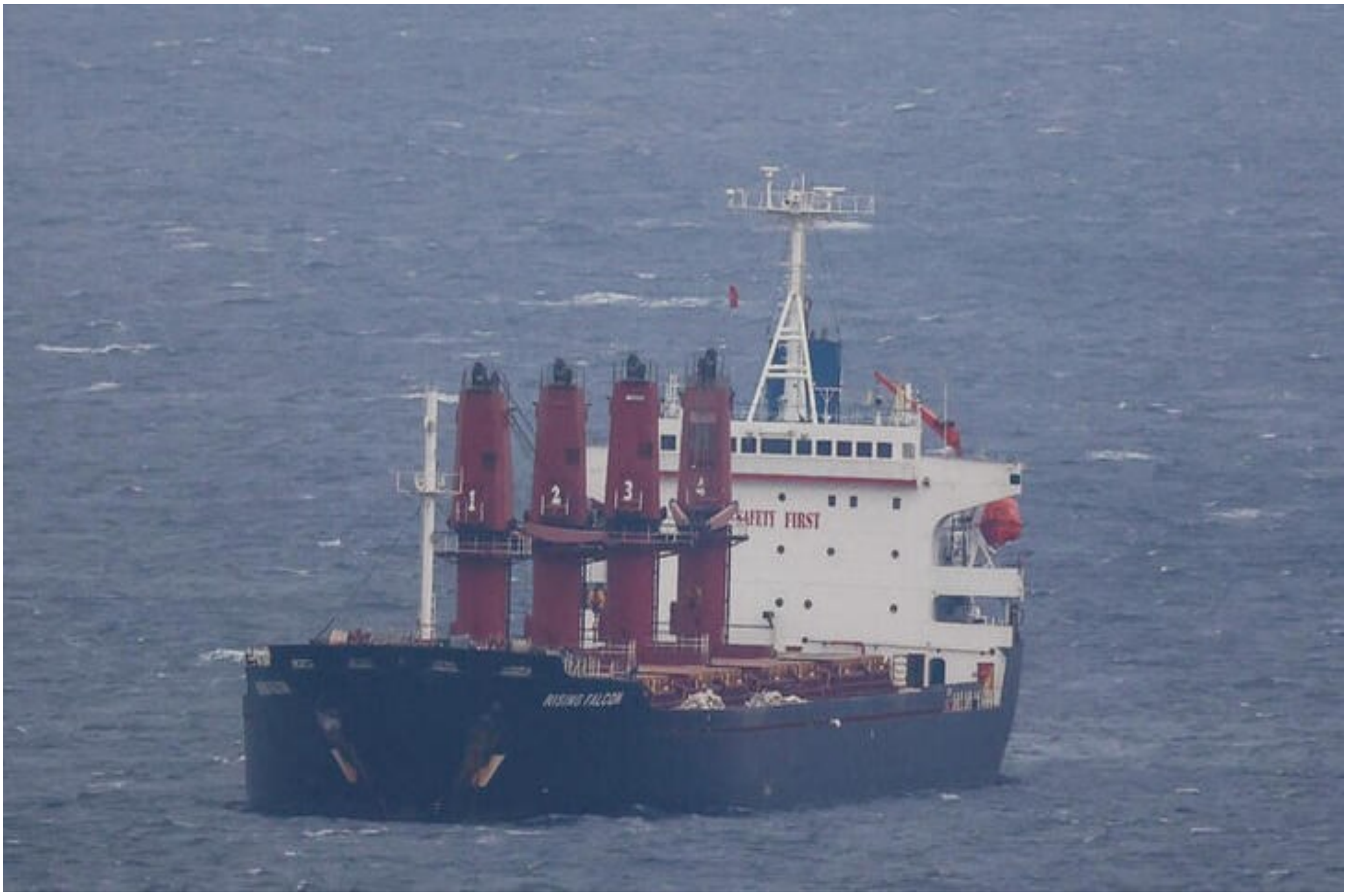
The cost of overall insurance for ships sailing into Ukrainian ports - which includes separate segments of cover - is nevertheless likely to remain steep.

WHAT ABOUT CREWS?

In September, Ukraine implemented a decree allowing its seafarers to leave the country despite wartime restrictions, a move aimed at freeing up vital manpower for both Ukrainian grain exports and the wider global shipping industry.

At the start of the conflict there were around 2,000 seafarers from all over the world stranded in Ukrainian ports. The International Chamber of Shipping association estimated that figure had fallen to some 346 mariners as of Oct. 27.

Picture of the Day



The St Vincent and Grenadines-flagged bulk carrier Rising Falcon is pictured in the Black Sea, north of the Bosphorus Strait, in Istanbul, Turkey. REUTERS/Yoruk Isik

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(Inside Commodities is compiled by Rupali Shukla in Bengaluru)

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