



Agri-food markets and trade policy in the time of COVID-19¹

Policy makers are grappling with uncertainties surrounding the impacts of COVID-19 on food supply, demand and trade, and identifying the most appropriate measures to ensure that this pandemic does not translate into a food crisis. In fact, disease outbreaks can affect supply and demand through various channels. They can lead to a reduction in the labour force (including seasonal and migrant workers), affecting land preparation, planting, crop maintenance and harvesting (Gunjal & Senahoun, 2016); and also affect employment in labour intensive industries and contribute to shifting production from cash to food crops (FAO and UNAIDS, 2003) and impact household incomes and food security (United Nations, 2004). Policy responses to deal with such disruptions can aggravate the situations and exacerbate their market impacts, as was the case in the 2007–2008 global food price crisis. While the scale of the COVID-19 pandemic is unlike any other crisis in recent history, the policy responses available to governments against actual or perceived disruptions in the agri-food markets are similar to those taken during previous crises. These include the 2007–08 food price crisis and the epidemics of Ebola (West Africa, 2014), Severe acute respiratory syndrome (SARS) (East Asia, 2003), HIV/AIDS (Africa, 1990s, 2000s), plague (South Asia, 1994) and cholera (Latin America, 1991). Drawing from these experiences, this note draws lessons and examines different policy measures, with the aim to support informed policy decision-making in this difficult time of COVID-19. It should be noted that while the paper does not identify the policy space available to governments under the World Trade Organization (WTO) agreements, any policy decision taken by governments should be compatible with international trade rules and the country commitments.

KEY MESSAGES

- Policy measures should aim to address actual rather than perceived demand and supply disruptions; enhanced market transparency and coordination with all concerned actors are critical in this regard.
- Experiences from past crises have demonstrated that avoiding trade-restrictive measures can be equally important to direct forms of support to consumers and producers.
- Following international guidelines on safe travel and trade corridors can help keep agri-food supply chains alive, mitigate food supply disruptions, and promote food security.

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TABLE 1 | Policy objectives and typical policy responses during food and health crises

POLICY OBJECTIVE		TYPICAL POLICY RESPONSES	SUGGESTED BEST PRACTICES
Supply Side	Ensure sufficient domestic supply	<ul style="list-style-type: none"> • Export restrictions • Expansion of domestic procurement 	<ul style="list-style-type: none"> • Avoid pre-emptive export restrictions • Avoid expansion of stock procurement where stock levels are already high • Encourage market transparency and international governance mechanisms
	Ensure food safety	<ul style="list-style-type: none"> • Import bans 	<ul style="list-style-type: none"> • Avoid blanket import bans • Encourage travel and trade corridors, following WHO recommendations
	Support producers, particularly poor/smallholders	<ul style="list-style-type: none"> • Input subsidies to expand production • Direct income transfers 	<ul style="list-style-type: none"> • Avoid excessive subsidization, which may exacerbate market volatility • Encourage balanced and time-bound domestic support measures to maintain adequate production levels and farmers' income
Demand Side	Contain rising prices	<ul style="list-style-type: none"> • Lowering of import tariffs • Domestic price controls 	<ul style="list-style-type: none"> • Avoid excessive imports' stockpiling • Encourage lowering import tariffs • Encourage careful price controls' design in partnership with private sector, if used
	Support poor consumers	<ul style="list-style-type: none"> • Cash transfers • Food aid/ transfers 	<ul style="list-style-type: none"> • Encourage cash transfers and/or domestic food aid, adapted to the current context²

BEST PRACTICES TO MEET CURRENT POLICY OBJECTIVES

1. To ensure sufficient domestic food supplies:

Avoid export restrictions, particularly by major exporting countries. The 2007–2008 experience of cascading export restrictions by major food commodity exporters (e.g. India, China, Viet Nam and Pakistan for rice; the Russian Federation, Ukraine and Argentina, for wheat) has demonstrated that this policy response can destabilize international markets (Sharma, 2011). As countries followed the first movers, upward price movements were amplified (contributing 52 percent to the increased price of rice and 18 percent for wheat and maize) and market volatility exacerbated (Anderson, Ivanic and Martin, 2013). This proved particularly damaging to poor import-dependent countries, and to the efforts of humanitarian agencies to procure supplies. Moreover, in the medium to long run, lower and volatile prices and uncertain policy environment created disincentives for producers to invest in the countries that imposed export restrictions.

Avoid pre-emptive expansion of stock procurement, particularly where stocks are already high, and discourage private hoarding. Increasing stock purchases by governments when stocks are already high can lower availability on international markets and put upward pressure on prices. Ensuring the full scope of social protection measures is beyond the scope of this policy brief

Food stockpiling by consumers or other private actors can have similar effects. In 2007–2008, governments tried to address the latter in several ways: e.g. the Philippines introduced a task force to seek out and penalize hoarders, while Ecuador set up policy checks across the food supply chain (Demeke, Maetz and Pangrazio, 2009).

Strengthen international market transparency and governance mechanisms, e.g. the Agricultural Market Information System (AMIS). Policy and stock management decisions should be based on timely and credible data on domestic and global supplies and prices. Improving market transparency and the availability of up-to-date data and information is imperative, particularly in periods of crisis when panic-driven reactions can aggravate trade disruptions. An excellent initiative in this regard is the Agricultural Market Information System (AMIS), an inter-agency platform launched by the G20 in 2011, and housed at FAO, to enhance food market transparency and promote the coordination of policy action in times of market uncertainty. More information on AMIS can be accessed at this link: <http://www.amis-outlook.org/>

2. To ensure safety of food supplies:

Avoid blanket import restrictions. Cross-border movement of people and goods might increase the challenges of managing infectious diseases (WTO and WHO, 2002). In the past, countries managed outbreak control by implementing trade and travel restrictions (e.g. banning imports from Peru during the 1991 cholera outbreak (WHO, 2020), India during the 1994 plague outbreak (Brahmbhatt and Dutta, 2008), and Guinea during the 2014 Ebola outbreak (FAO, 2016). While, in exceptional cases, these measures might be required to protect human, animal or plant health, they should be limited in time and try to minimize disruption to international trade and ensure food availability and access (WTO and WHO, 2002).

Enable safe travel and trade corridors: To avoid disruptions to food supply chains, safe trade and travel corridors should be established according to the World Health Organization (WHO), alongside with market chain incentives, guarantees and reassuring messages for all market-chain actors (FAO, 2016).

3. To promote domestic production and/or protect farmer incomes:

Ensure careful design of programmes providing productive safety nets (e.g. input vouchers/subsidies, minimum support prices, debt relief, etc.). Following disease outbreaks, domestic support measures to maintain adequate levels of domestic production and farmers' income might be used to support the economy and ensure food security (FAO, 2016). In 2007–08, many countries used a mix of policy instruments (e.g. higher procurement prices; subsidies on fuel, electricity, irrigation and fertilizers) and improved financial services to support production and income (Demeke, Maetz and Pangrazio, 2009). These measures should be time-bound, and appropriate for the specific disruption in a given context. While they may boost domestic production, significant resources and implementation capacities required raise concerns about their sustainability and effectiveness as well as about international trade. Countries should design this type of policies in a way that they do not affect international markets and, instead, should seek to promote inter-regional trade. While purchasing locally produced products helps to reduce physical distance, it should not disrupt trade flows.

Provide direct benefit transfers to farmers where possible. Supporting farmers' incomes can also be achieved through direct payments, de-coupled from production decisions, as a potentially more cost-efficient approach. However, their viability depends on the access of the poor to financial services.

4. To contain rising consumer prices:

Lower tariffs and taxes on imported food, but avoid stockpiling imported food, particularly where world stocks are high. In 2007–08, many countries lowered or removed duties (e.g. India, Indonesia, Morocco, Nigeria and Burkina Faso) and taxes on imported food (e.g. Brazil, Mongolia, the Congo, Madagascar, Kenya, Ethiopia) (Demeke, Maetz and Pangrazio, 2009). This may be effective to boost domestic food availability, lower consumer prices in the short term and contain inflation especially in times of currency devaluation. However, if countries stockpile large volumes of imported food, this can be a counter-productive strategy. If several countries adopt the policy simultaneously, and particularly when they are large importers, it can create higher global demand and exacerbate the initial increase in world prices that triggered the policy response in the first place (Demeke, Maetz and Pangrazio, 2009).

Ensure careful design of price control measures, if used, in partnership with the private sector. In 2007–08, many countries aimed to control prices at some or all stages of the value chain (e.g. Sri Lanka, Senegal, Malawi, Malaysia and Pakistan) (Demeke, Maetz and Pangrazio, 2009). While this policy can allow governments to monitor prices in formal marketing channels, it is extremely complex to implement. It requires sufficient product availability to meet the demand at the government fixed prices and sufficient fiscal capacity to procure grains and/or subsidize downstream value chain actors. It is important that controls be implemented for few products and for a limited time, as prices fixed at low levels are likely to encourage informal marketing channels and discourage domestic production in the medium to long run. The policy should only be considered under extreme price volatility situations.

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