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COMMITTEE ON COMMODITY PROBLEMS

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COVID-19, AGRICULTURAL MARKETS AND TRADE AND FAO's RESPONSE

Executive Summary

The COVID-19 pandemic and the measures to control its spread affected the global trading system, domestic and international supply chains and food demand alike. In response to concerns over food security and food safety worldwide, many countries immediately imposed policy measures with the aim to curb potentially adverse impacts on their agricultural markets, producers and consumers.

Despite disruptions, global food commodity markets and agricultural trade have proved resilient to the COVID-19 shock. Agricultural trade has continued to flow, global markets continue to be well supplied and prospects are favourable, at least for basic foodstuffs. The full economic and social impacts are still unfolding and as the disease continues to spread, COVID-19 will continue to be a serious source of market uncertainty with implications for demand and supply of food and agricultural commodities.

Since the onset of COVID-19, FAO has played an active role in addressing the various challenges posed by the pandemic and will continue to help mitigate its immediate impacts while working with all partners to strengthen the long-term productivity and resilience of the agri-food systems under its COVID-19 Response and Recovery Programme that was launched in July 2020.

Suggested action by the Committee

The Committee is invited to:

- Take note of the impacts of COVID-19 on agricultural markets and trade and of the high uncertainty surrounding future developments subject to the evolving nature of the pandemic and the global economic recovery.
- Provide guidance on FAO's response efforts to mitigate the immediate impacts of COVID-19 while strengthening the long-term productivity and resilience of the agri-food systems.

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I. Background

1. The COVID-19 pandemic crisis has had unprecedented effects on all dimensions of human life. The full economic and social impacts are still unfolding, as the disease continues to spread in all regions around the world.
2. On top of the death toll and overstretched health systems, the virus and the measures to contain its spread have caused a deep global economic recession, increased extreme poverty and acute and chronic food insecurity, rolling back progress made over the past decades.
3. In its January 2021 World Economic Outlook Update, the International Monetary Fund (IMF) estimated the global economic contraction in 2020 at -3.5 percent.¹ Advanced economies are estimated to have contracted by 4.9 percent year-on-year, while emerging markets and developing economies by 2.4 percent.
4. Although recent vaccine approvals and vaccination campaigns have raised hopes of a turnaround in the pandemic, renewed waves and new variants of the virus have introduced exceptional uncertainty for the 2021-2022 economic outlook. Although IMF projects the global economy to grow 5.5 percent in 2021 and 4.2 percent in 2022, the strength of the recovery is expected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis.
5. New waves of the pandemic bring with them a re-imposition of restrictions and, hence, further economic hardship against a backdrop of an already fragile global food security and nutrition situation. While massive vaccination campaigns should eventually obviate the need for economically damaging restrictions, scarce access means that immunity in low-income countries would not be achieved within 2021.
6. Global markets are expected to start recovering from the effects of the virus and the economic recession in 2021. However, in the short run, the global measures to contain the COVID-19 crisis have had implications for the demand and supply of food and agricultural commodities, and the pandemic will continue to be a source of huge market uncertainty.
7. The monitoring of market and policy responses to COVID-19 shows that agri-food systems proved to be more resilient than other sectors of the economy. This is due to exemptions from the restrictive measures and policies aimed at supporting the smooth functioning of agri-food supply chains and markets. However, acute and chronic food insecurity are expected to increase due mainly to the effects of slower economic activity, which hit the most vulnerable groups hardest through reduced employment and incomes, and migration remittances.
8. The State of Food Security and Nutrition (SOFI) 2020 estimated that, depending on the economic growth scenario, an additional 83 to 132 million people could be pushed to the ranks of chronically undernourished globally in 2020 as a result of COVID-19.²

II. Developments in Agricultural Commodity Markets

9. COVID-19 has resulted in a dual shock to commodity markets, affecting both supply and demand. On the supply side, there were widely different views on how long the shocks would last, how they would affect the international and domestic markets, and what remedial actions could best ease the impact of shocks. On the demand side, however, there was initial general agreement that

¹ IMF (2021): World Economic Outlook Update January 2021.

<https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>

² FAO, IFAD, UNICEF, WFP and WHO. 2020. The State of Food Security and Nutrition in the World 2020. Transforming food systems for affordable healthy diets. Rome, FAO. <https://doi.org/10.4060/ca9692en>

agricultural demand and trade growth would slow down due to contraction in economic activity, rising unemployment and income losses.

10. The efforts of governments worldwide to keep agricultural markets open and trade in food flowing smoothly have contributed to the remarkable resilience of agricultural commodity markets. However, in many developing countries, disruptions have emerged at national and regional levels and continue to pose challenges.

11. Food commodity markets have faced major uncertainties related to COVID-19, adding to the challenges posed by the African swine fever (ASF) disease, the desert locust crisis and the more frequent and extreme climate-related events. Nevertheless, global markets remained well supplied and prospects are favourable, at least for basic foodstuffs. For instance, cereal production, utilization and trade are all estimated to have been higher in 2019/2020 than in the previous years and are expected to grow further in 2020/21 (Table 1)³.

Table 1: World cereal market situation

World cereal market						
	2016/17	2017/18	2018/19	2019/20 estimate	2020/21 forecast	
					Previous (03 Dec 2020)	Current (04 Feb 2021)
<i>(million tonnes)</i>						
Production	2,661.3	2,693.6	2,647.8	2,707.9	2,741.7	2,744.3
Supply	3,449.0	3,516.2	3,504.5	3,540.4	3,614.2	3,564.2
Utilization	2,624.2	2,654.1	2,689.2	2,709.7	2,744.4	2,761.4
Trade	407.7	423.8	412.1	440.1	454.6	465.2
Ending Stocks	822.6	856.8	832.5	819.9	866.4	802.1
<i>(percent)</i>						
World stock-to-use ratio	31.0	31.9	30.7	29.7	30.7	28.3
Major exporters' stock-to- disappearance ratio	17.8	18.3	18.9	18.1	18.0	17.2

Source: FAO Cereal Supply and Demand Brief, 4 February 2021, <http://www.fao.org/worldfoodsituation/csdb/en/>

12. Commodities other than cereals have been more affected by the pandemic. Oilcrops experienced a COVID-19-related stagnation of demand in the food and non-food sectors in 2019/20 and sugar consumption declined in 2019/20 due to the lockdown and containment measures. For dairy products, international prices, measured by the FAO Dairy Price Index, fell between February and May 2020, largely due to a slump in global import demand, caused by logistical bottlenecks, reduced sales by food services, and market uncertainty. Regarding meat, the pace of production expansion across all meat types was moderated by pandemic-related disruptions to production processes and producers' output restraints to balance supply under uncertain demand, despite government stimulus packages targeting the industry. Similarly, there has been an overall reduced fishing activity due to COVID-19-related restrictions on fishing vessel crews and poor market conditions. Fish supply, consumption and trade revenues are all estimated to have declined in 2020 due to the impact of the containment measures on demand, logistics, prices, labour and business planning. Global aquaculture production is expected to fall for the first time in many years.⁴

³ FAO Cereal Supply and Demand Brief, 4 February 2021 <http://www.fao.org/worldfoodsituation/csdb/en/>

⁴ FAO. 2020. Food Outlook - Biannual Report on Global Food Markets – November 2020. Rome. <https://doi.org/10.4060/cb1993en>

13. The market effects of the pandemic on fisheries in particular have brought about several far-reaching changes, many of which are likely to persist in the long term. Aggregate prices for 2020, as measured by the Fish Price Index, are down year-on-year for most traded species. The importance of retail sales has significantly increased at the expense of food services, as the hospitality sector has remained subdued. Consumers, who are trying to limit visits to grocery stores and are concerned about future lockdowns, have shifted their seafood preferences towards preserved and prepared products, while demand for fresh fish has waned. The economic downturn and rising unemployment are affecting household incomes, with demand for luxury products such as lobster weakening.⁵

14. The FAO Food Price Index dropped between January and May 2020, possibly related to the onset of the pandemic. Since May 2020, the FAO Food Price Index has been increasing and averaged 107.5 points in December 2020. For 2020 as a whole, the annual food price index reached a three-year high level of 97.9 points, 3.1 percent higher than in 2019, but still well below its peak of 131.9 points registered in 2011 (Figure 1).⁶

15. Among the sub-indices of the food price index (Figure 2), the price indices of sugar and vegetable oils declined rapidly in the beginning of 2020 and recovered strongly in the second half of the year. Fluctuations of the cereal, dairy and meat sub-indices were comparably less pronounced in the first half of 2020. For 2020 as a whole, the FAO Cereal Price Index was up 6.6 percent from the 2019 average, marking the highest annual average since 2014. The FAO Vegetable Oil Price Index was up 19.1 percent from 2019, marking a three-year high. The FAO Dairy Price Index and FAO Meat Price Index both dropped from 2019 (by 1.0 and 4.5 percent, respectively). The FAO Sugar Price Index rose by 1.1 percent from 2019, reflecting a tighter world sugar market in 2020.⁷

Figure 1: FAO food price index (2014-2016=100)

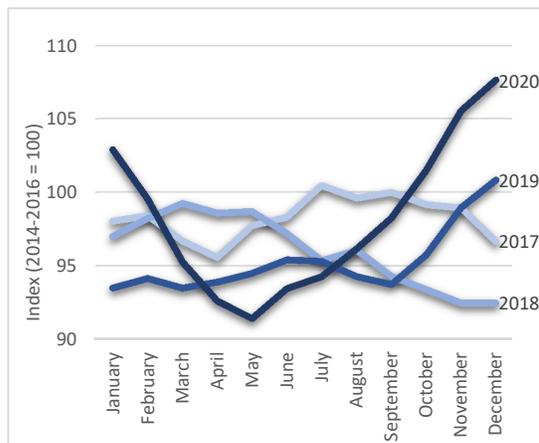
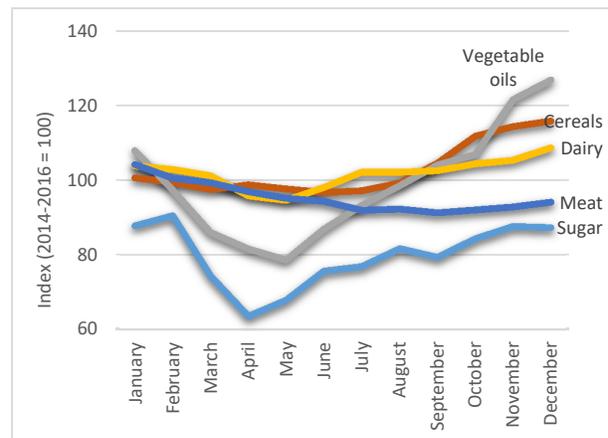


Figure 2: FAO food commodity price indices (2014-2016=100)



Source: FAO Food Price Index. <http://www.fao.org/worldfoodsituation/foodpricesindex/en/> (January 2021).

16. The COVID-19 pandemic will continue to be a source of uncertainty in the markets. Recent FAO projections indicate that in the short run, the global measures to contain the spread of the disease would have implications for demand and supply of food and agricultural commodities.

17. Subject to COVID-19 related scenario assumptions on value chain disruptions and economic growth and recovery, the severe income losses caused by the pandemic are estimated to have

⁵ FAO. 2020. Food Outlook - Biannual Report on Global Food Markets – November 2020. Rome. <https://doi.org/10.4060/cb1993en>

⁶ FAO Food Price Index. <http://www.fao.org/worldfoodsituation/foodpricesindex/en/> (accessed January 2021)

⁷ FAO Food Price Index. <http://www.fao.org/worldfoodsituation/foodpricesindex/en/> (accessed January 2021)

interrupted the growth of food consumption in 2020. In particular, the demand for vegetable oils and livestock products are estimated to have been affected, most severely in low-income countries. Consumption of staple foods was found to be impacted less, as households tend to spend a larger share of their reduced income on relatively cheaper cereals, roots and tubers and pulses to cover their basic food needs. In the near term, because of the pandemic, the predominance of staple-based diets, particularly in low-income countries, is therefore projected to increase. This could have serious nutritional implications for poor and vulnerable populations.

18. The medium-term implications for food consumption will depend on the economic recovery path in the world, as well as the wider socio-economic impact of the pandemic. Global agricultural production is projected to increase by 13 percent between 2017/2019 (three-year average) and 2029, a slower rate than during the previous decade. However, the global medium-term picture masks possible short-term negative effects on food and agricultural production in individual countries.

19. A country-by-country analysis shows that COVID-19 related movement restrictions, including border crossings, have caused disruptions to the flow of purchased, and particularly imported, farm inputs, which may have affected yields and production. If movement restrictions, especially cross-border, continue because of further waves of virus infections, this would exert a downward pressure on production in 2021. In the medium term, agricultural production would continue to undergo structural shifts from food to feed crops and livestock production in the coming decade. However, COVID-19 seems to have resulted in a temporary slowdown in this transition in 2020, but the trend is expected to resume from 2021 onwards.

20. According to the medium-term projections, prices of main agricultural commodities would remain broadly flat to 2029, as projected increases in demand are expected to be met by efficiency gains in production. Nevertheless, given the new wave of the pandemic, which is hitting many developing countries particularly hard and is causing renewed lockdowns and restrictions in high-income countries, the timing and magnitude of the global economic recovery remains uncertain.

III. Changes in Agricultural Trade

21. International trade in food and agriculture plays an important role in global food security. However, COVID-19 and the measures to control its spread have put under stress the global trading system and affected many supply chain related activities, including production, processing, logistics, and retailing. Border and travel restrictions often led to shortages in agricultural labour, affected the level of trade activity and limited access to, and availability of, inputs, including seeds, fertilizers and pesticides. In addition, labour-intensive segments of the food industry (such as processing facilities) have been running at lower capacity due to shutdowns and partial closures in an effort to minimize the transmission of the virus.

22. Regarding the logistics sector, impacts have been manifold and varying depending on the product. The severe decline in commercial flights affected the distribution of many perishable food products, namely fruits and vegetables, while problems also emerged in maritime freight and at the harbours, as countries globally modified their operation protocols, ranging from quarantine measures to additional requirement of documentation and examination. Disruptions have also been reported in relation to container and truck transport, following reductions in service operations.^{8,9}

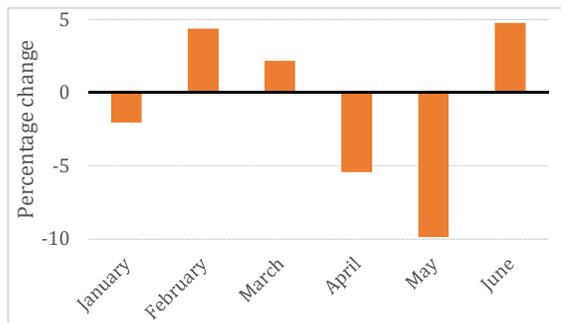
23. The global economic recession that followed the pandemic was associated with significant reductions in income and consumer spending that affected the demand for food products. Restrictions on the movement of people and the closure of restaurants and food services induced rapid changes in consumption patterns.

⁸ OECD. 2020. COVID-19 and international trade: Issues and actions. Paris: OECD.

⁹ Schmidhuber, J. 2020. COVID-19: From a Global Health Crisis to a Global Food Crisis? In: FAO. 2020. Food Outlook - Biannual Report on Global Food Markets – June 2020. Rome. <https://doi.org/10.4060/ca9509en>

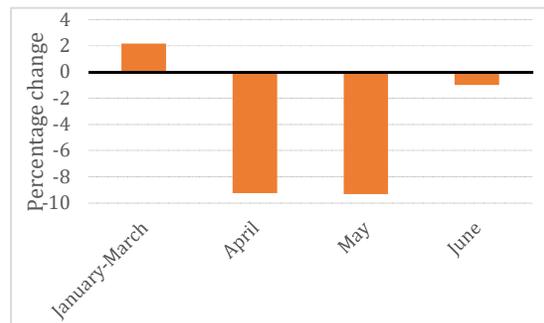
24. However, despite all this, food and agricultural trade and global value chains have proved resilient to the COVID-19 shock, especially in basic foodstuffs. Although changes in global agricultural trade in the first half of 2020 compared to the same period in 2019 remained limited, the pandemic still had pronounced short-term effects on the patterns of trade in agricultural and food products. World import values (Figure 3) and the number of trade flows (Figure 4) declined considerably in April and May 2020, but recovered already in June. While disruptions of the global trade in basic foods such as cereals, oilseeds, fruits and vegetables remained minimal, products affected by shifts in consumption patterns (e.g. beverages and fish) and non-food commodities (e.g. cotton, tobacco, live plants and cut flowers), experienced sharper declines in trade values during the first months of the pandemic.¹⁰

Figure 3: Percentage change of world agricultural and food import values, January to June 2020 compared to the same month average in 2018/19



Source: FAO

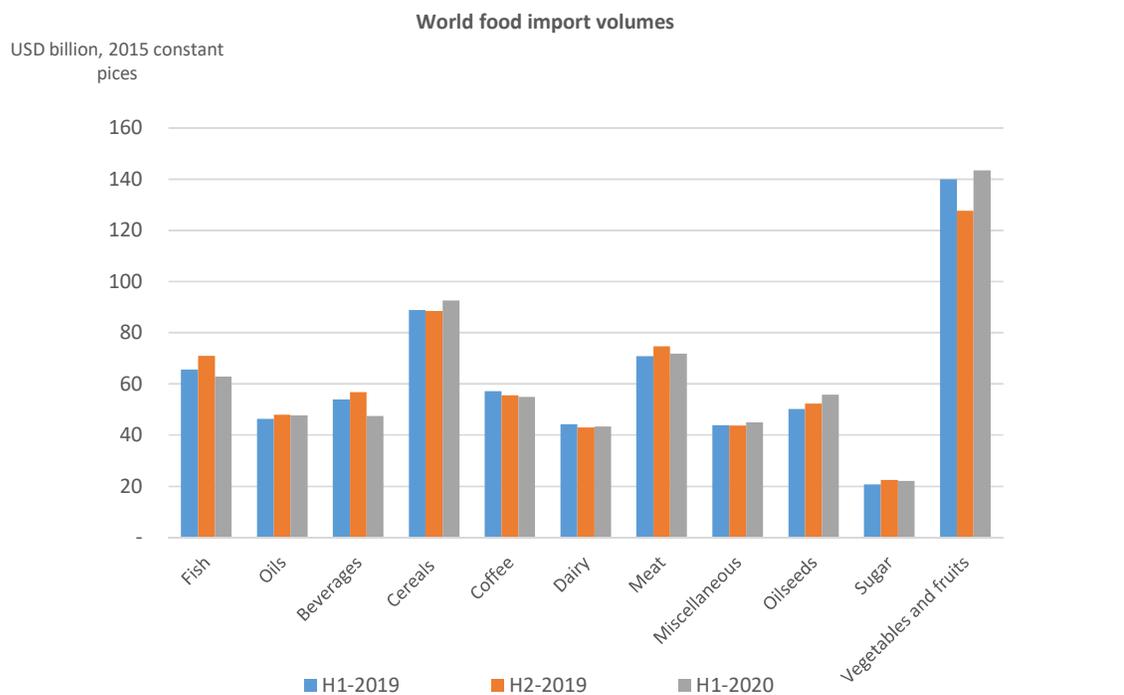
Figure 4: Percentage change in the number of active import flows, world, January to June 2020 compared to the same period average in 2018/19



Source: FAO

25. Overall, global trade in food in the first half of 2020 slightly exceeded its level of the same period in 2019. Imports of staple foodstuffs, such as cereals, oilseeds and vegetable oils, sugar and fruits and vegetables, recorded an increase in the first half of 2020 in both value and volume terms (Figure 5). However, the imports of other food products, namely highly income elastic commodities, such as beverages and fish, declined.

¹⁰ FAO. Forthcoming. COVID-19 pandemic: Impacts on agricultural trade and policy responses.

Figure 5: World food import volumes (Billion USD, 2015 constant prices)**Keyword Descriptions**

Fish: Fish, crustaceans, molluscs and preparations thereof

Oils: Animal and vegetable oils, fats and waxes

Beverages: Beverages

Cereals: Cereals and cereal preparations

Coffee: Coffee, tea, cocoa, spices and manufactures thereof

Dairy: Dairy products and birds' eggs

Meat: Meat and meat preparations

Miscellaneous: Miscellaneous edible products and preparations

Oilseeds: Oilseeds and oleaginous fruits

Sugar: Sugar, sugar preparations and honey

Vegetables and fruits: Vegetables and fruits

Note: H1 indicates the first half of a year, H2 the second half.

Source: FAO. 2020. Food Outlook – Biannual Report on Global Food Markets – November 2020. Rome.

<https://doi.org/10.4060/cb1993en>.

26. The pandemic and its effects on agricultural value chains and the global trading system induced concerns over food security and food safety worldwide. Many countries immediately imposed policy measures to curb potentially adverse impacts on their agricultural markets. Most of the policy responses were temporary and covered a wide range of measures, including export restrictions, lowering of import barriers, and domestic measures.

27. Some major exporting countries imposed export bans or quotas on specific commodities, such as wheat and wheat flour, with the aim of ensuring sufficient supplies to domestic consumers and stable prices. These were generally limited and short-lived. Such measures can alter the balance between global food supply and demand, especially if implemented by important players in the world food markets. In the 2007-2008 global food price crisis, panic-driven export bans and rapid escalation in food stock procurement through facilitated imports exacerbated price volatility. The results of these measures proved damaging particularly for low-income food-deficit countries (LIFDCs).

28. From the onset of the pandemic, FAO has been highlighting the importance of keeping markets open, trade flowing smoothly and supply chains functioning properly in order to avert the pandemic causing a global food security crisis. For example, the Agricultural Market Information System (AMIS) and the Global Information and Early Warning System (GIEWS) played a crucial role

during the pandemic, providing timely and valuable data and information on the global food markets. This has allowed informed policy decisions.

29. On the import side, a few countries imposed import restrictions or introduced requirements for certificates attesting negative COVID-19 test results for the shipments. In most cases, such measures were temporary in their application. To facilitate availability of critical food items and contain potential food price increases, many countries lowered existing import-restricting measures, including tariffs and technical regulations. Likewise, some countries temporarily relaxed Technical Barriers to Trade (TBT) measures on food products, including on content and labelling requirements and standards.

30. Moreover, several countries increased flexibilities and efficiencies in trade-related procedures and implemented measures to facilitate the flow of agricultural goods and foodstuffs. Acknowledging the role of COVID-19 containment measures in hampering trade operations, including the need to provide certificates and other licenses and approvals for trading agricultural products, governments implemented measures to accept electronic phytosanitary and veterinary certificates on a temporary basis, and simplified import-licensing procedures for selected products.¹¹

31. Measures to support producers and other value chain actors differed among countries. In high-income countries, policies mainly aimed to protect the incomes of farmers and processors through direct transfers and loans and promoted food procurement for domestic food aid. They also aimed to support importers and exporters to overcome international logistics and marketing disruptions, for example, through airfreight assistance programmes.

32. Some developing countries aimed to support specific groups of farmers through input subsidies or direct transfers to ensure sufficient domestic availability by expanding food reserves (comprising both imports and domestic procurement), and consumers through domestic price controls and stock release from national reserves.

33. Throughout the spread of the pandemic, through joint ministerial declarations and statements, many countries have made non-binding commitments to refrain from trade-restricting measures. Such international political commitments played an important role in the coordination of a global response to the crisis and in deterring countries from taking unilateral measures that may harm the food security situation in other countries.¹²

IV. FAO's Response to COVID-19

34. The COVID-19 outbreak triggered widespread concerns about the potential impact of COVID-19 on agri-food systems as well as fears as to whether global markets would still be able to meet food demands of countries that depend on trade for the food security of their populations. Since the onset of the pandemic, FAO has played an active and leading role in the process of informing policy decisions by implementing an array of tools to support policy analyses and assess the impact of COVID-19 on food and agriculture, value chains, food prices, and food security across the globe. These included technical papers and policy briefs, timely data and information on market and policy developments, information on crop calendars and lessons from past crises on policy responses to mitigate disruptions to food systems.

35. Furthermore, FAO has convened and participated in many high-level meetings and events to ensure countries designate food and agriculture as providers of essential services, promote coordinated responses, and avoid taking counterproductive measures. FAO has also issued joint statements with other international organizations in an effort to mitigate the impacts of COVID-19 on food trade and markets. On 31 March 2021, the FAO Director-General, together with the Directors-General of the

¹¹ FAO. Forthcoming. COVID-19 pandemic: Impacts on agricultural trade and policy responses.

¹² FAO. Forthcoming. COVID-19 pandemic: Impacts on agricultural trade and policy responses.

World Health Organization (WHO) and the World Trade Organization (WTO) issued a Joint Statement¹³ urging countries not to use export restrictions and calling for solidarity and acting responsibly. On 21 April 2020, on the occasion of the Extraordinary G20 Agriculture Ministers' Meeting convened under the Saudi Arabia Presidency, FAO together with the International Fund for Agricultural Development (IFAD), the World Bank and the World Food Programme (WFP) issued a Joint Statement¹⁴ on COVID-19 Impacts on Food Security and Nutrition.

36. Anticipating the possibility of a prolonged COVID-19 crisis with potentially severe impacts on incomes, lives and livelihoods, as well as on food security and nutrition, FAO conducted a comprehensive, bottom-up risk assessment in the second quarter of 2020. The assessment aimed to identify, country by country and region by region, the most likely or most hazardous threats to food availability and accessibility and to food and agriculture production and distribution systems in the near term and through the period of recovery. Based on this review, FAO developed its COVID-19 Response and Recovery Programme, which was launched on 14 July 2020. The COVID-19 Response and Recovery Programme presents a flexible and modular plan of action, which aims to mitigate the immediate impacts of the pandemic while strengthening the long-term productivity and resilience of agri-food systems.

37. The Programme addresses the following seven priority areas:
- a) **The Global Humanitarian Response Plan:** Addressing the impacts of COVID-19 and safeguarding livelihoods on food-crisis contexts.
 - b) **Data for Decision Making:** Ensuring quality data and analysis for effective policy support to food systems and Zero Hunger.
 - c) **Economic Inclusion and Social Protection to Reduce Poverty:** Pro-poor COVID-19 responses for an inclusive post-pandemic economic recovery.
 - d) **Trade and Food Safety Standards:** Facilitating and accelerating food and agricultural trade during COVID-19 and beyond.
 - e) **Boosting smallholder Resilience for Recovery:** Protecting the most vulnerable, promoting economic recovery and enhancing risk management capacities.
 - f) **Preventing the Next Zoonotic Pandemic:** Strengthening and extending the One Health approach to avert animal-origin pandemics.
 - g) **Food Systems Transformation:** "Building to transform" during response and recovery.

38. For the implementation of the Programme, FAO is working with the Members and all partners to ensure coordination and inclusivity, as well as immediate and lasting results. COVID-19 is a global challenge that requires a global response.

¹³ Joint Statement by QU Dongyu, Tedros Adhanom Ghebreyesus and Roberto Azevedo, Directors-General of FAO, WHO and WTO: <http://www.fao.org/news/story/en/item/1268719/>

¹⁴ FAO, IFAD, World Bank and WFP Joint Statement on COVID-19 Impacts on Food Security and Nutrition: <http://www.fao.org/news/story/en/item/1272058/>