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FAO REPORT TO THE 97TH MEETING OF THE WTO COMMITTEE ON AGRICULTURE "COVID-19 AND AGRICULTURE"

Submission by FAO

The following submission, dated 17 March 2021, is being circulated at the request of the Food and Agriculture Organization (FAO).

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1 BACKGROUND

1.1. 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. 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.

1.2. In its January 2021 World Economic Outlook Update, the International Monetary Fund (IMF) estimated the global economic contraction in 2020 at -3.5%.[1] The September 2020 Global Report on Food Crises estimated that there is an increase of the people classified as being in crisis or worse, according to analyses carried out between March and September 2020, compared to 2019. While it is difficult to disentangle the precise effects of COVID-19 from those of other stressors, the report's food security analysis shows that the pandemic has had a compounding effect on these pre-existing and ongoing drivers of food crises, mainly through declining economic activity related to COVID-19 restrictive measures, leading to income losses and lower household purchasing power.[2] Moreover, the 2020 edition of *State of Food Security and Nutrition in the World* (SOFI) report estimated that, depending on the economic growth scenario, an additional 83 to 132 million people might be pushed to the ranks of chronically undernourished globally in 2020 as a result of COVID-19.[3]

1.3. 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. In fact, despite IMF projects the global economy to grow 5.5% in 2021 and 4.2% 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.

1.4. 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.

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[1] IMF. 2021. World Economic Outlook Update January 2021.

[2] FSIN and Global Network Against Food Crises. 2020. Global Report on Food Crises 2020 September update: in times of COVID-19. Rome.

[3] 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.

2 THE STATE OF FOOD MARKETS AND MEDIUM-TERM OUTLOOK

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

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

2.1 FAO Food Price Index on the rise since May 2020

2.3. The FAO Food Price Index dropped between January and May 2020, possibly related to the onset of the pandemic. However, since May 2020, the Index has been on an increasing trend. In February 2021, the FAO Food Price Index average 116 points, marking the ninth month of consecutive rise and reaching its highest level since July 2014. For 2020 as a whole, the annual food price index reached a three-year high level of 98 points, 3.2% higher than in 2019, but still well below its peak of nearly 132 points registered in 2011 (Figure 1).

2.4. 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 6.5% from the 2019 average, marking the highest annual average since 2014. The FAO Vegetable Oil Price Index was up 19.3% 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%, respectively). The FAO Sugar Price Index rose by 1.1% from 2019, reflecting a tighter world sugar market in 2020.[4]

Figure 1: FAO food price index (2014-16=100)

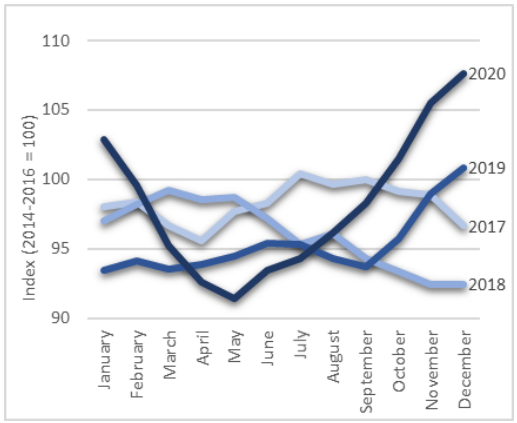
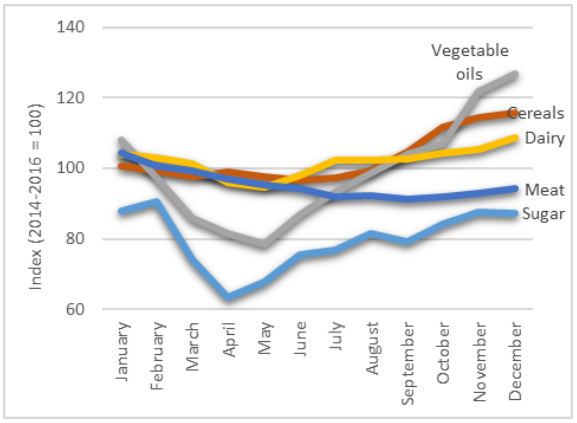


Figure 2: FAO food commodity price indices (2014-16=100)



2.2 Changes in Agricultural Trade

2.5. 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

[4] FAO Food Price Index. http://www.fao.org/worldfoodsituation/foodpricesindex/en/.

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.[5]

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

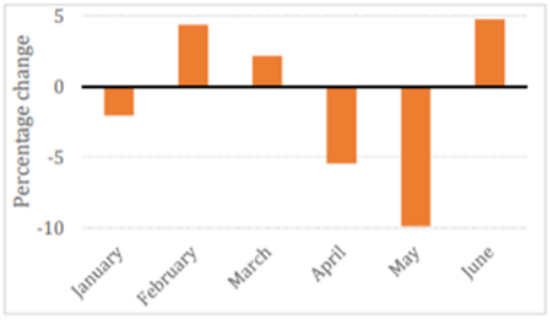
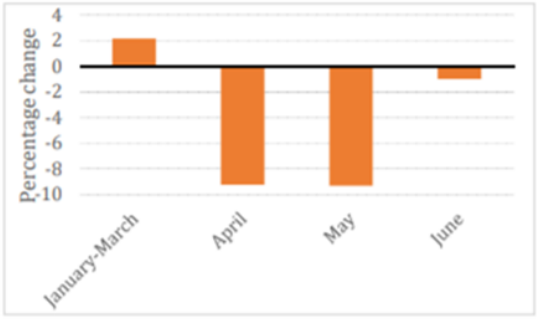


Figure 4: Percentage change in the number of active import flows, world, January to June 2020 compared to the same period average in 2018/19



2.3 Medium-term Outlook

2.6. Recent FAO projections[6] confirm the weakening of demand growth over the coming decade. Per capita consumption of many commodities is foreseen to be flat at the global level, making population growth the main driver of consumption growth. The projected demand growth is expected to be matched by efficiency gains in crop and livestock production, keeping inflation-adjusted agricultural prices roughly at current levels. International trade will remain essential for food security in food-importing countries, and for rural livelihoods in food-exporting countries. The simulations also indicate that in the short run the global measures to contain the COVID-19 outbreak have implications for demand and supply of agricultural commodities. The pandemic will continue to be a source of uncertainty in the markets.

2.7. According to the medium-term projections, prices of main agricultural commodities are expected to remain broadly flat to 2029 as increases in demand are expected to be met by efficiency gains in production. Inflation-adjusted prices are projected to dip in 2020, recover through 2026 and then resume their declining trend. Given the confirmed new wave of the pandemic, which is hitting developing countries particularly hard and is causing renewed lockdowns and restrictions in high income countries, the timing and magnitude of global economic recovery remains uncertain.

2.8. On the trade front, while some countries imposed trade-restrictions with the objective to curb potentially adverse effects of the pandemic on domestic agricultural markets, fortunately most of these measures were temporary and short-lived. Experiences from past crises have proven that trade restriction measures should be avoided, as they generally generate market uncertainty and can result in sudden price spikes and increased price volatility. They can also result in loss of confidence in global markets, especially by importing countries. It is important that governments avoid resorting to these measures and, instead, ensure that markets are open and trade continues to flow smoothly. This is essential for the proper functioning of agri-food supply chains.

3 POLICY RECOMMENDATIONS

3.1. Building on past experiences and drawing on related policy interventions, a number of policy actions can be highlighted in order to overcome the immediate impacts caused by the COVID-19 pandemic and build back better.

- **Support and update monitoring systems and innovation in collecting real time data and analysis**: Monitoring systems should be updated to provide timely information and analysis regarding agri-food systems and vulnerable groups. Such systems will allow the

[5] Forthcoming. Agricultural trade and policy responses during the first wave of the COVID-19 pandemic in 2020. Rome, FAO.

[6] The projections presented in this document are an update of the OECD-FAO Agricultural Outlook 2020-2029, launched in July 2020.

identification of vulnerability hotspots and critical nodes and bottlenecks in agri-food systems as well as risk monitoring and evaluation of actions and policies.

- **Link short- and long-term policy actions and investments**: Policy action should link emergency response to long-term sustainable development. The pandemic provides an opportunity to repurpose policies and investments in support of agri-food systems which will go beyond addressing current needs but also set the foundations of long-term recovery. Transforming agri-food systems and addressing structural constraints is key to building resilience of systems and individuals and for facing future pandemics.

- **Improve policy coordination and addressing long-term structural issues**: Policy coordination among key institutional actors (in food, agriculture, health, finance, security, and planning) is central to addressing the consequences of the pandemic but also for catalysing long term action towards recovery. Successful policy coordination requires that coordinating bodies have a clear mandate and authority going beyond emergency response to building resilience and tackling structural issues and vulnerabilities.

- **Recovery must be inclusive**: In the spirit of the 2030 Agenda, policy response for both short-term relief and longer-term recovery should focus on the most vulnerable and leaving no one behind. Interventions should explicitly recognize the specific constraints faced by women in their multiple roles.

- **Keep trade open and ensure international cooperation**: One of the key lessons learned from the pandemic so far is that international cooperation should be strengthen and unilateral actions should be avoided. However, cooperation should also include provisions for elimination of obstacles and friction in border crossing, which have been the cause of delays, shortages and waste.

- **Reduce the negative impacts of malnutrition on COVID-19 morbidity and mortality and the impacts of the COVID-19 economic crisis on nutrition**: Tackling undernutrition, obesity and diet-related non-communicable diseases is key as they contribute to increased COVID-19 morbidity and mortality. However, reduction in consumption of nutritious foods is one of the key coping strategies of households in the face of loss of income caused by the pandemic, compounding the negative impact of the pandemic.

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