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Committee on Agriculture

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**REPORT TO THE 100<sup>TH</sup> MEETING OF THE WTO COMMITTEE ON AGRICULTURE  
15-16 MARCH 2022**

**COVID-19 AND AGRICULTURE**

*Submission by FAO*

*Revision*

The following revision, dated 14 March 2022, is being circulated at the request of the Food and Agriculture Organization (FAO).

The revised version addresses some statistical errors in section 2 of the original document.

## **1 BACKGROUND**

1.1. During the first wave of the COVID-19 pandemic in 2020, countries adopted various containment measures to reduce and mitigate the spread of the disease. Such measures, while curbing the circulation of the virus, had a negative effect on the global economy, hampering production, markets and employment, and leading to a substantial increase in extreme poverty and food insecurity.<sup>1</sup> According to *The State of Food Security and Nutrition in the World (SOFI) 2021*,<sup>2</sup> global hunger increased in 2020 under the shadow of the COVID-19 pandemic, with estimates ranging from 70 to 161 million more people facing hunger in 2020 than in 2019. Moreover, in 2021, 155 million people in 55 countries/territories were in crisis or worse (IPC/CH Phase 3 or above),<sup>3</sup> an increase of around 20 million people from 2019, as per 2021 Global Report on Food Crises<sup>4</sup> report. COVID-19 and its impacts, together with conflicts and adverse weather events, were the main factors behind the deterioration in food insecurity.

1.2. The pandemic also resulted in a dual shock affecting both food supply and demand, with the measures to control the spread of the disease affecting supply chains and their various components, including production, processing, logistics, and retail. However, the efforts of governments and agricultural sector stakeholders worldwide to keep agricultural markets open and agrifood trade flowing smoothly have contributed to remarkably resilient agricultural commodity markets.

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<sup>1</sup> FAO. 2021. Agricultural trade & policy responses during the first wave of the COVID-19 pandemic in 2020. Rome. <https://www.fao.org/3/cb4553en/cb4553en.pdf>.

<sup>2</sup> FAO, IFAD, UNICEF, WFP and WHO. 2021. The State of Food Security and Nutrition in the World 2021. Transforming food systems for food security, improved nutrition and affordable healthy diets for all. Rome, FAO. <https://doi.org/10.4060/cb4474en>.

<sup>3</sup> IPC/CH Phase 3: households either have food consumption gaps that are reflected by high or above-usual acute malnutrition; or are marginally able to meet minimum food needs but only by depleting essential livelihood assets or through crisis-coping strategies.

<sup>4</sup> FSIN and Global Network Against Food Crises. 2021. Global Report on Food Crises 2021. Rome. <https://www.fsinplatform.org/sites/default/files/resources/files/GRFCpercent202021percent20050521percent20med.pdf>

1.3. The global economy showed signs of recovery in 2021 with global growth estimated at 5.9%<sup>5</sup>, after a 3.1% contraction in 2020. Global growth is expected to slow down to 4.4% in 2022. Economic recovery is uneven across countries, however, with global income inequality between-countries increasing, rolling back progress made over the past decade<sup>6</sup>. In fact, although output and investment in advanced economies are projected to return to pre-pandemic trends in 2023, in developing economies they will remain markedly below.

## **2 THE STATE OF GLOBAL FOOD MARKETS**

### **2.1 Current situation and prospects**

#### **2.1.1 Production**

2.1. According to the latest FAO estimates, world production of cereals in 2021 stood at 2,796 million tonnes, 0.7% higher from the previous year. Global production of wheat is expected to reach 775.4 million tonnes, 0.1% lower year-on-year. The forecast for global coarse grains, including maize, barley and sorghum, is pegged at 1,501 million tonnes, 1.2% higher than last year. Global rice production is seen heading towards an all-time high in 2021, sustained by yield improvements and a slight area increase in Asia. Looking ahead to the 2022 world cereal outturn, FAO's preliminary forecast for global wheat production points to a likely fourth consecutive annual increase to 790 million tonnes. The escalation of the conflict in Ukraine, however, casts some uncertainty over the final production outcomes, as disruptions to services, damage to infrastructure and population displacements could prevent farmers from attending their fields and harvesting and marketing their crops.

2.2. Regarding production of coarse grains, harvesting of the 2022 crops is to begin in the next months in the Southern Hemisphere countries, while in countries north of the equator, plantings have not yet begun. In South America, maize outputs in Argentina and Brazil in 2022 are forecast at well above-average levels, notably in Brazil where the maize output is foreseen to reach a record high of 112 million tonnes. In Southern Africa, the maize outturn is foreseen to remain above average in 2022, resting on beneficial weather conditions.

2.3. For oilseeds and derived products in 2021/22, the current forecasts point to a tightening market situation. While weather-related repercussions in global soybean and rapeseed production underpinned tight oilseed supplies, the below-potential world palm oil output was partially explained by limited migrant workforce due to COVID-19 restrictions, particularly in Malaysia.

2.4. The forecast for world sugar production in 2021/22 stands at around 173 million tonnes, slightly up from the reduced level in 2020/21. The upturn is largely based on expectations of production recoveries in the European Union and Thailand, coupled with favourable prospects in India. By contrast, production is expected to decline in China and in Brazil, the world's largest producer. The forecast for world sugar trade in 2021/22 is pegged at around 60 million tonnes, slightly down from the estimated volume in 2020/21. This mainly reflects lower exports by Brazil and India, compared with their record sales in 2020/21, while import demand, particularly from Asia, is also anticipated lower year on year.

2.5. World meat production in 2021 is forecast to rise by 4.3% year-on-year to about 352 million tonnes, principally based on expectations of a strong output rebound in Asia. Likewise, in 2021, global milk production is anticipated to expand by 1.1% to 923 million tonnes, with likely expansions in all regions, led by Asia.

#### **2.1.2 Trade**

2.6. Global trade in cereals in 2021/22 is forecast to expand by 0.9% from the 2020/21 level to 484 million tonnes. Trade in wheat is forecast at a record of 194 million tonnes, 2.5% above 2020/21 level, whereas trade in coarse grains is expected to reach 237 million tonnes, registering

<sup>5</sup> IMF. 2022. World Economic Outlook Update, January 2022. Washington, DC.  
<https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

<sup>6</sup> World Bank. 2022. Global Economic Prospects, January 2022. Washington, DC.  
<https://www.worldbank.org/en/publication/global-economic-prospects>

a 0.9% contract from the previous year. This forecast, however, does not yet assume potential impacts of the conflict in Ukraine on trade flows from Ukraine and the Russian Federation.<sup>7</sup>

2.7. Trade in rice is anticipated to sustain a third successive annual expansion in 2022 (January-December) to 53.4 million tonnes. The bumper rice harvest is expected to facilitate a third successive annual increase in international trade in rice.

2.8. World meat trade for 2021 is forecast to exceed 42 million tonnes (carcass weight equivalent), a 1.2% increase from 2020, but making the slowest pace of growth in six years. This deceleration primarily results from an anticipated import contraction in China and some leading meat importing countries in Europe, reflecting increased national availabilities, as well as an incomplete food service recovery and logistical bottlenecks, following COVID-19 related social distancing requirements.

2.9. World milk trade is also forecast to rise by 2.7%, with high import concentration in China. By contrast, several countries in East Asia, Europe and the Middle East decreased imports, reflecting lower consumer demand, quota decisions and COVID-19 market disruptions.

## 2.2 International food prices

2.10. The FAO Food Price Index (FFPI) averaged 140.7 points in February 2022, up 5.3 points (3.9%) month-on-month and as much as 20.7 points (24.1%) above its level a year ago. This represents a new all-time high (in nominal terms), exceeding the previous top of February 2011 by 3.1%. The February rise was led by increases in international vegetable oil and dairy prices, while those of cereals and meat were also up. By contrast, the sugar price sub-index fell for the third consecutive month.

2.11. Concerning year-on-year increases, the FAO Vegetable Oil Price sub-Index registered the sharpest increase (36.8%), followed by dairy (24.8%), meat (15.3%), cereals (14.8%) and sugar (10.4%).

Food Price Indices	Peak values (points)		Feb-22	Change	Change	Change: Feb 2022 over peak values percent
				m/m (percent)	y/y (percent)	
FAO Food Price Index	Feb-11	137.6	140.7	3.9	20.7	2.3
Cereals	Mar-08	163.3	144.8	3.0	14.8	-11.3
Oils	Jun-08	178.2	201.7	8.5	36.8	13.2
Sugar	Jan-11	183.2	110.6	-1.9	10.4	-39.6
Meat	Aug-14	119.2	112.8	1.1	15.3	-5.4
Dairy	Dec-13	156.5	141.1	6.4	24.8	-9.8

2.12. The rise in the Vegetable Oil price sub-index was driven principally by supply-side factors, especially production disruptions, stemming from unfavourable weather in some large producing countries in South America, Southeast Asia and the Black Sea regions. Palm oil sector in Malaysia also faced constraints from migrant labour shortage, resulting from travel restrictions related to the COVID-19 pandemic.

2.13. Price increases in the dairy sector were largely attributed to strong import demand, especially from Asia, and moderate increases in global export availabilities, especially from Western Europe and Oceania.

2.14. In the case of global meat prices, increased global demand, which often outstripped supply availabilities in major producing regions, led to price increases. Shortages of cattle for slaughter in South America and Oceania, in particular, were a serious concern.

<sup>7</sup> FAO is closely monitoring the developments and will assess the impacts on the 2021/22 global cereal trade in due course.

2.15. World cereal prices also increased significantly, notwithstanding positive overall production results achieved during the past 2020/21 (July-June) season, as well as expectations of record global cereal output being achieved during the ongoing 2021/22 season.

2.16. After reaching multi-year highs in the third quarter of 2021, international sugar prices declined and in February 2022, they reached the lowest level since July last year. Favourable production prospects in major exporting countries, notably India and Thailand, coupled with improved weather conditions in Brazil weighed on world sugar prices. The decline in ethanol prices from December 2021 to February in Brazil exerted further downward pressure on world sugar prices.

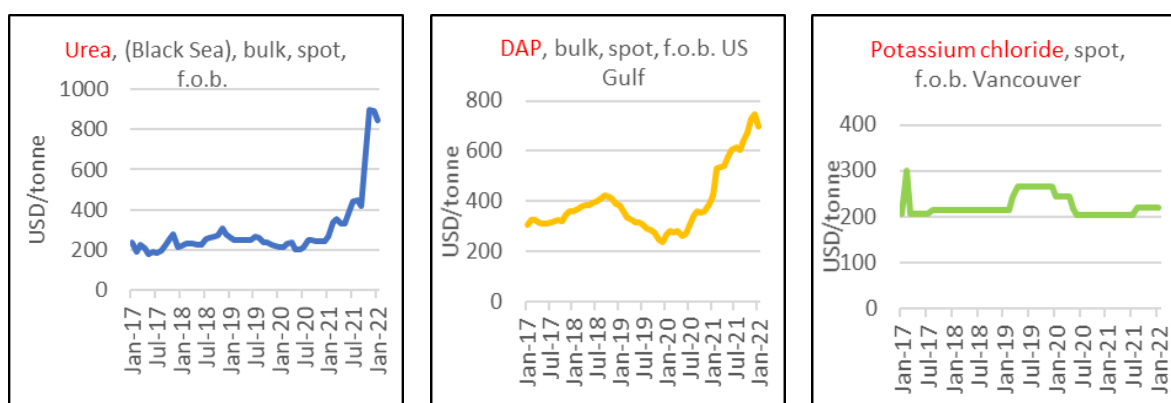
2.17. Weather uncertainty, especially arising from La Niña weather phenomenon, volatile oil and freight markets, high transport and energy costs, as well as policies that resulted in spikes in input costs, all affected important food suppliers worldwide.

### 2.3 Fertilizer prices

2.18. Prices of fertilizers have also surged throughout the last year (Figure 1). Prices for urea, a key N-fertilizer, have more than trebled over the past 12 months, e.g., nominal quotations for black sea spot prices (bulk) have risen from USD 265/tonne in January 2021 to USD 846/tonne in January 2022.

2.19. Prices for phosphorous fertilizer (P) have risen in tandem. Those for diammonium phosphate, or DAP, a key composite P fertilizer, have raised from USD 421/tonne to USD 699/tonne over the same period. Clearly, the price increase for DAP fertilizer also reflects higher prices for the N-component. There was, however, also an equal effect from higher P-fertilizer prices, which is estimated to have accounted for about 50% of the overall increase in DAP prices. On the other hand, prices for potash (K-fertilizer) remained less affected over the past 12 months.

**Figure 1: Recent trends in fertilizer prices**



Source: Index Mundi.

2.20. The reasons behind such growth include the introduction of certain trade measures, the high cost of transportation, and the high level of energy prices. For instance, in response to rising global demand for fertilizers and rising domestic prices, some key suppliers have responded with export restrictions placing further upward pressure on international fertilizer prices (especially in late 2021). Concerning transportation costs, the COVID-19 pandemic has caused widespread disruptions in international supply chains, resulting in higher freight costs and longer transit times (see section below). Finally, the high and rising price for natural gas played a pivotal role, for instance in the production of N-fertilizer.

2.21. High and volatile fertilizer prices have given rise to concerns about low fertilizer availability in 2022/23, with potentially adverse effects on food production and food security. For instance, in poorer countries, fertilizer use could decline fast, with farmers facing lower availabilities and be forced to reduce applications.

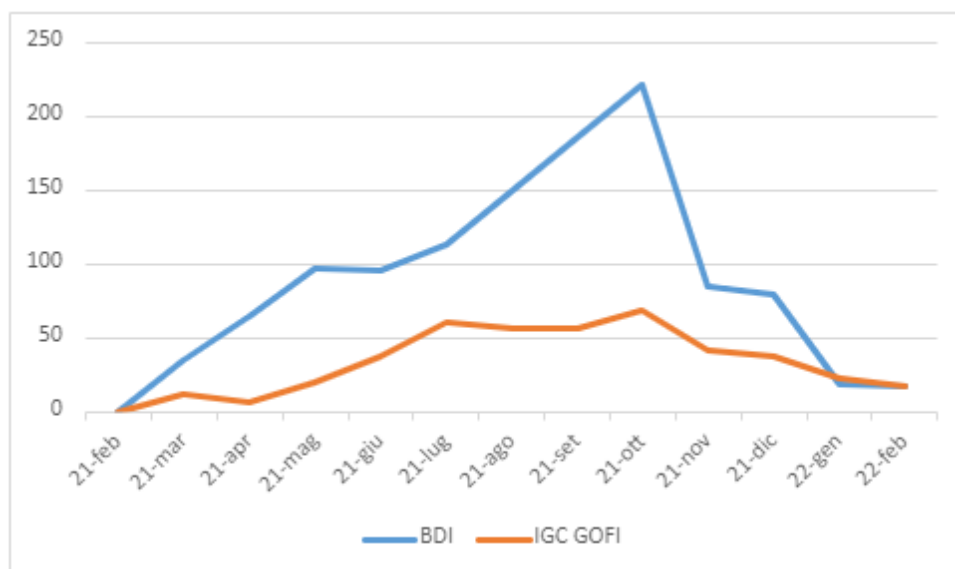
## 2.4 Trade costs

2.22. Building on steep gains in the first quarter of 2021, freight costs rose rapidly from May to October 2021, with the Baltic Dry Index (BDI) rising by 44% and the IGC Grains and Oilseeds Freight Index (GOFI) increased by 53%. These increases were largely a reflection of buoyant grains and oilseeds trade, upturn in coal import demand against the rising natural gas prices and expectations for global dry bulk fleet supply to fall in 2022.

2.23. Logistical and weather-related challenges also featured, notably in China, where stricter COVID-19-related rules increased vessel turnaround times and worsened congestion at local ports. According to data from Lloyd's List Intelligence, as of late October 2021, around 7% of the global bulk fleet was waiting at Chinese ports to either load or discharge cargo. Delivery costs on the main grains and oilseeds routes, comprising of marine fuel and other associated charges, also surged from May to October. Freight markets lacked clear direction at times, as new waves of COVID-19 infections in some countries led to supply and demand uncertainties.

2.24. Freight costs, as measured by GOFI and BDI (Figure 2), have fallen after peaking at a 13-year in early October 2021, but ocean freight costs remained high at historically high elevated levels in February 2022, with prices across the grains and oilseeds carrying segments averaging around 75% higher year-on-year.

**Figure 2. Freight costs by GOFI and BDI**



Note: Percentage change based on monthly average values

Source: AMIS Market Monitor # 96, March 2022.

2.25. During the COVID-19 pandemic, different containment measures globally hampered the normal operations of government authorities involved in the provision of certificates and other licenses and approvals needed for trading agricultural products (including SPS certificates).<sup>8</sup>

2.26. Moreover, in many parts of the world, additional health controls at border crossing, including screening of drivers and disinfection of cargo vehicles, implied longer clearance times and higher costs in trading across borders.

2.27. To facilitate trade in agrifood during the pandemic several countries implemented measures to accept electronic version of phytosanitary and veterinary certificates, and simplified import licensing procedures for selected products.<sup>9</sup>

<sup>8</sup> FAO. 2021. Agricultural trade & policy responses during the first wave of the COVID-19 pandemic in 2020. Rome. <https://www.fao.org/3/cb4553en/cb4553en.pdf>.

<sup>9</sup> *Ibid.*

2.28. Likewise, some countries made advances in digitalizing government procedures, and some regions established corridors that allowed for increased automation and more efficient data sharing among customs and related authorities, at selected border crossings and for a selected list of essential products, including food.

### **3 FAO'S RECOMMENDATIONS**

3.1. While the full economic and social impacts of the pandemic are still unfolding, the disease continues to spread and represent a significant source of uncertainty for agrifood markets and trade.

3.2. To reduce risks to food security, governments need to continue implementing measures to support vulnerable population groups. In this regard, safety nets and social protection programmes, including domestic food aid and cash transfers, could help support consumption during times of high food prices, reduced incomes and higher inequality.

3.3. Likewise, investing in marketing and trade infrastructure will be crucial. These include last mile infrastructure, electricity and water provision, as well as ICT service provision. Concerning the latter, adequate regulatory and institutional frameworks to further digitalize trade procedures and supply chain operations, such as electronic certificates, will be needed.

3.4. Countries also need to support agricultural development by enhancing productivity and expanding market access for farmers and rural SMEs. This requires investments in R&D, training and extension, as well as programs promoting access to quality inputs (including seeds, fertilizers, and machinery).

3.5. Lastly, it is important to keep markets open and ensure uninterrupted and efficient trade flows, including through efforts to stir cooperation among countries to reduce trade restrictions, improving transparency in markets, and strengthening international governance and coordination mechanisms in customs procedures and application of SPS measures.

3.6. In this regard, initiatives such as FAO's Global Information and Early Warning System (GIEWS) and the G20 Agricultural Market Information System (AMIS) play a crucial role by providing timely and reliable data and information on global food markets and the most recent policy developments. This is important for transparency in market conditions and policy changes. Furthermore, the Rapid Response Forum (RRF) of AMIS provides a unique platform for promoting early discussion about critical market conditions and ways to address them.

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