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Agricultural trade implications of COVID-19



Since March 2020, some governments have moved to restrict export of commodities such as rice, wheat and grains. These measures are founded in concern about domestic food security arising from the COVID-19 pandemic. Past experience is that trade restrictions work against global food security goals, with the effects felt most heavily by the world's poorest consumers. Fortunately, global supply of staples is currently abundant, which should help moderate the effect of COVID-related insulating measures.

Trade underpins food security and affordability

International trade is crucial to global food security. Trade allows weather and other supply risks to be shared across global production and exports, resulting in more stable prices and supply volumes globally. Over the long run, trade restrictions reduce national food security and make food supplies and prices more variable (OECD, 2017; 2015).

In the midst of a crisis, however, when supplies are short, restrictions placed on exports by significant exporting countries can keep domestic prices low. But this comes at the cost of food security in other countries as such measures 'export' higher prices and in the past have led to a significant amplification of food insecurity (Anderson et al 2014; OECD, 2016). Lower domestic prices also harm domestic producers, who also incur long-term reputational damage in international markets as a result of export restrictions.

Some countries are imposing export restrictions

Since late March, several countries have moved to impose export restrictions to shore up domestic food supplies. The focus of restrictions has been on staple commodities, like rice, wheat and some grains (Table 1). So far, no country has sought to significantly restrict the supply of animal products. In some cases, the restrictions are being imposed by a relatively small global supplier, such as Kyrgyzstan and North Macedonia. But others play a more significant role, including Vietnam in the case of rice, and Kazakhstan and Russia for wheat.

Some countries have also included measures in their domestic economic packages which reinforce distortions on global agricultural markets. The US rescue package, for example, includes an additional \$US 23.5 billion in farm aid—on top of the extra support provided since 2018 due to trade disruptions and retaliation, including the US-China trade dispute. Matthews (2020) estimates that these measures could result in up to 40% of farm incomes in the US could come from government payments—up from 10% prior to the US-China Trade Dispute (OECD, 2019).

TABLE 1 Some of the export restrictions introduced since late March (as at 15 April)

Country	Commodity	Restriction
Cambodia	Rice	Export ban, no end date
Eurasian Economic Union ^a	Sunflower seed, rye, soybeans	Export ban, 12 Apr–30 Jun
Kazakhstan	Wheat	Export quota, 200,000t/month, until 1 Sept
Kazakhstan	Wheat flour	Export quota, 70,000t/month, until 1 Sept
Kyrgyzstan	Pasta, rice, wheat, wheat flour	Export ban, end date unknown
Myanmar	Rice	Export quota, 100,000t/month, end date unknown
North Macedonia	Wheat, wheat flour	Export ban, until 30 Apr
Romania	Grain	Export ban outside the European Union
Russian Federation	Grain	Export quota ^b , 7Mt/month, Apr-Jun
Vietnam	Rice	Export ban ended on 10 Apr, export quota of 400,000t for Apr.

^a A trade block consisting of Armenia, Belarus, Kazakhstan, Kyrgyzstan and the Russian Federation. ^b Applies outside the Eurasian Economic Union.
Sources: Bloomberg, International Grains Council, Prime Minister's Office of Vietnam, Reuters, WTO.

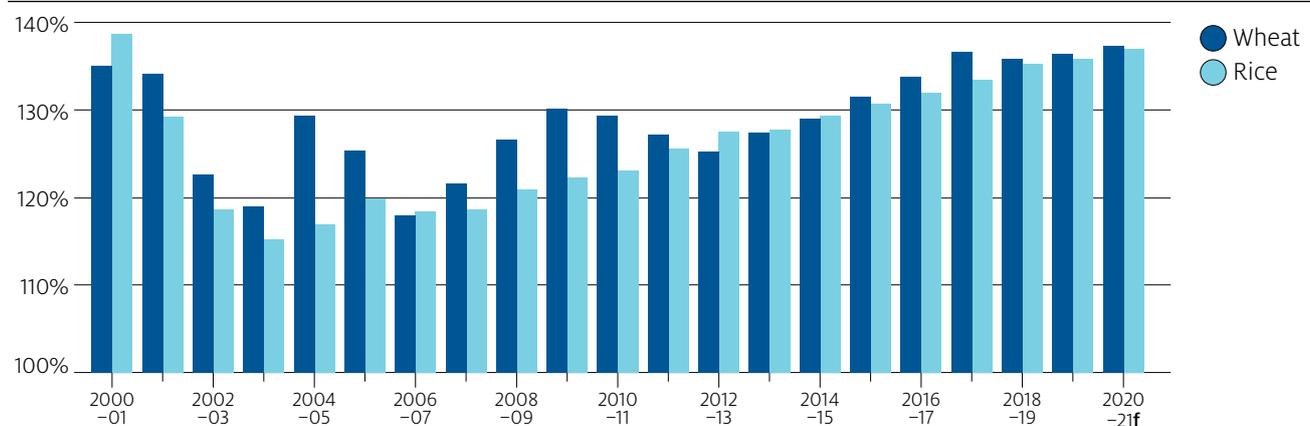
A food price crisis is not currently expected

Past events, such as the food price crisis of 2007-08, show that export restrictions can have a material impact on markets. In that situation, the price of wheat, coarse grains, rice and oilseed crops increased sharply—aided by the use of restrictive policies in some countries. The effects were most felt by net food importing countries with low trade barriers (OECD 2016).

Based on the situation as it currently stands, it is reasonable to expect a different outcome this time.

One reason is that the global supply and demand situation is different. In 2007 and 2008, droughts in major exports led to a contraction in supply of some cereals (except rice), contributing to an underlying upward trend in world prices. This time, global supplies are much more plentiful and there is no evidence to suggest a contraction in global supply in the current situation (AMIS 2020, IGC 2020). In fact, in 2020-21, wheat and rice supplies, as a percentage of consumption, are forecast to reach near 20-year highs (Figure 1). Furthermore, with Chinese pig production still recovering from African Swine Fever, feed demand remains lower than would otherwise be the case. So whilst some countries are imposing restrictions, the effects should be buffered to some extent by supply elsewhere.

Markets now also have much better access to information than in 2007 and 2008. Market transparency has improved significantly, leading to better decision making.

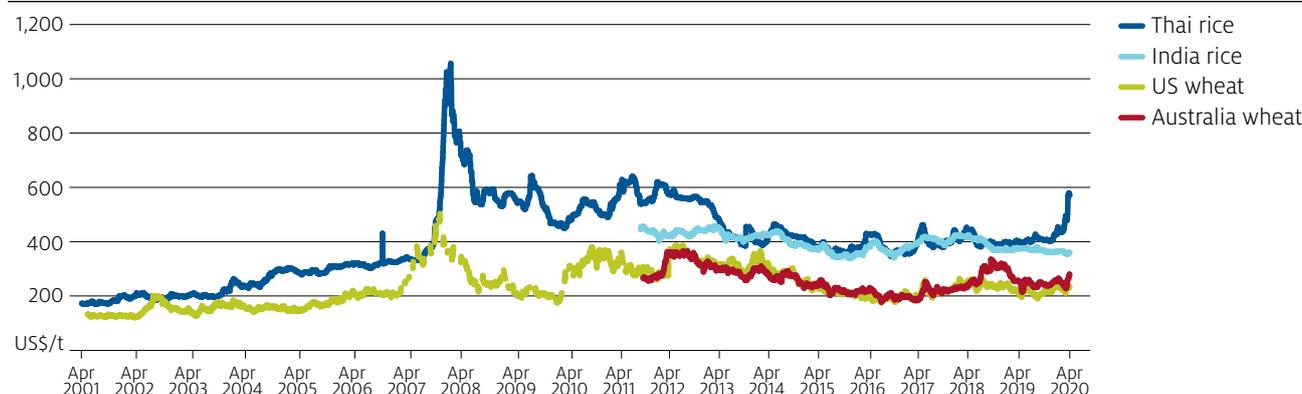
FIGURE 1 Global rice and wheat supplies as a percentage of consumption, 2000–01 to 2020–21

Sources: ABARES, International Grains Council, USDA

We may see short-term price rises

Whilst a global food price crisis is not currently likely, we may see an increase in prices for some staple products. However any increase is likely to be short-lived due to the pressure that the favourable supply outlook and high stock levels will place on markets. In rice markets, restrictions on supply in Vietnam have not influenced Indian rice export prices (a major exporter). Nor has there been a reaction in global wheat export prices (Figure 2).

FIGURE 2 Export prices for rice and wheat, 2001 to 2020



Source: International Grains Council

However, whilst any price effect should be short lived, it's important to remember that restrictions work against global food security, affordability and regional security. Whilst the measures may be founded in a genuine concern, their use should be avoided. It will be particularly important to ensure that insulating measures implemented during the COVID-19 situation do not become more long-lived.

For Australia, the overall impact on domestic food supplies from these trade policy measures will likely be small. If global prices do not rise, prices in domestic markets are unlikely to change over and above exchange rate movements. If they do rise, for wheat it is likely that expected moderation in prices will be delayed. For rice, prices may rise. With supplies still available however, it may mean that supply chains need to adjust to alternative sources, causing some delays in the interim. Overall the impact on Australian consumers will be limited and will not impact food security.

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