COVID-19
Report
ECLAC-FAO

16 June 2020

Preventing the COVID-19 crisis from becoming a food crisis

Urgent measures against hunger in Latin America and the Caribbean

I. COVID-19 puts food at risk[1]

- The coronavirus disease (COVID-19) pandemic affects the activities of the food system (food production, processing, distribution, marketing and consumption) and its outcomes —particularly food security and social well-being. The United Nations Secretary-General has drawn attention to the need for an immediate response to avoid a food crisis (United Nations, 2020a). This report offers policy recommendations for sustaining demand and administering the food trade during the emergency and preventing a regional food crisis should it continue.
- COVID-19 impacts reach the region through five external transmission channels: (i) the decline in the economic activity of the region's main trading partners and the effects of this, (ii) the drop in commodity prices, (iii) the interruption of global value chains, (iv) lower demand for tourism services, and (v) greater risk aversion and worsening global financial conditions (ECLAC, 2020a).
- The Food and Agriculture Organization of the United Nations (FAO) has produced a systematized analysis of the main channels of transmission of the impacts of the pandemic on food and agriculture, using a model that identifies the effects on food demand, supply and international trade (see diagram 1). The key factors in each case are:
  - **Demand**: the share of income that households spend on food and the price and income elasticities of food that affect household purchasing power and the distribution of spending among types of food.
  - **Supply**: the relative capital or labour intensity of production and the importance of fixed capital and intermediate inputs.
  - **International trade**: the effects depend on each country's position as a net importer or net exporter.

[1] The cut-off date for the information used to prepare this report is 10 June 2020.

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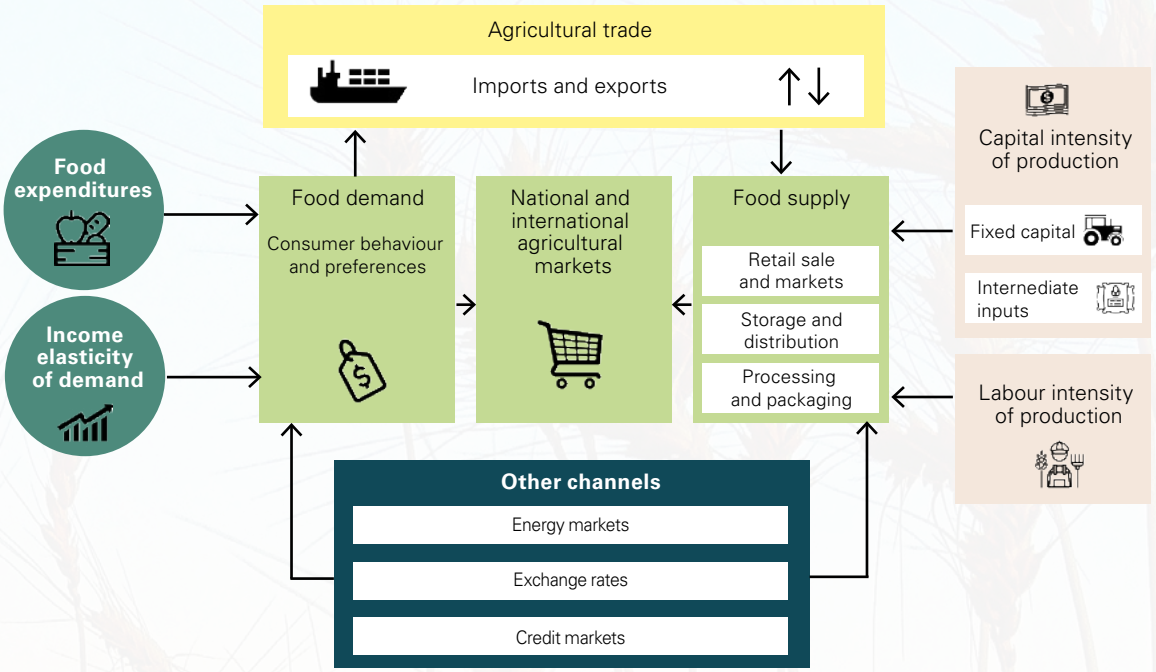
COVID-19 RESPONSE

Diagram 1 | Channels of transmission of the impacts of the COVID-19 pandemic on food and agriculture



Source: Economic Commission for Latin America and the Caribbean (ECLAC)/Food and Agriculture Organization of the United Nations (FAO), on the basis of Schmidhuber, J. Pound and B. Qiao, *COVID-19: Channels of Transmission to Food and Agriculture*, Rome, FAO, 2020.

- In many countries, agriculture and other food-related activities are being treated as essential, on a par with health care, energy and water services.
- The pandemic has shown the importance of cooperation between countries, between international agencies, and between the public and private sectors. Experience-sharing among countries enables good practices to be shared and mistakes avoided. Cooperation and coordination among international agencies can help them to respond to the support needs of countries. Public-private partnership can help to resolve bottlenecks in the food supply chain and in access to food, especially for the population suffering from hunger and extreme poverty.
- The pandemic has also shown that only the State has the capacity to facilitate, coordinate and intervene to ensure the availability of food. Hence, it is the responsibility of governments to prevent the health crisis from becoming a food crisis. To this end, multilateral cooperation mechanisms must be activated at the international level, along with cooperation between governments, businesses and their workers, and civil society organizations. Policy measures to address the crisis are constantly changing, as can be seen in the COVID-19 Observatory in Latin America and the Caribbean developed by the Economic Commission for Latin America and the Caribbean (ECLAC) (ECLAC, 2020c).

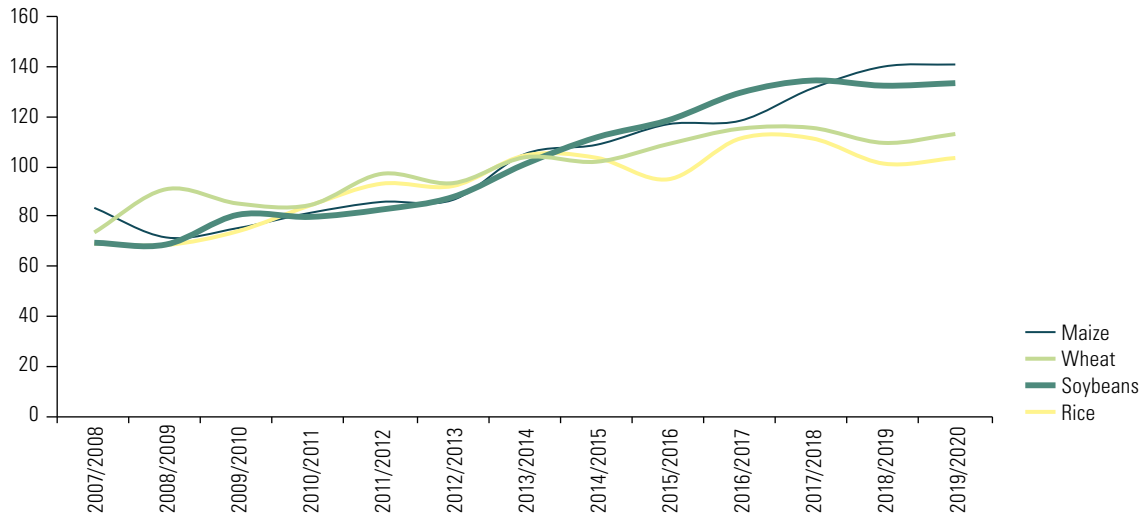
II. International markets have responded well so far, but there is no guarantee of their resilience if the pandemic continues

A. Flows and stocks

- Over the past decade, global agrifood trade[2] has been more stable and dynamic than total global trade, with cumulative average annual growth in the value of total and agrifood exports of 4.5% and 6.8%, respectively, between 2007 and 2018. The volume of trade in the main food products (rice, maize, soybeans and wheat) also increased steadily in terms of cumulative average annual growth between 2007/08 and 2019/20: 5.6% for soybeans, 4.4% for maize, 3.6% for wheat and 3.4% for rice (see figure 1).

[2] Categories 01-24 of the Harmonized Commodity Description and Coding System.

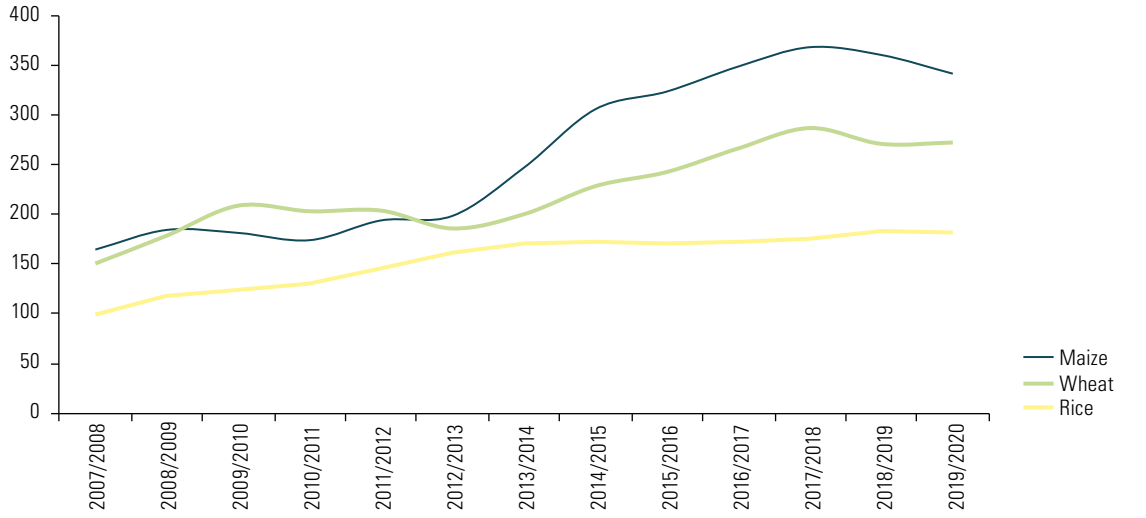
Figure 1 | Global trade in rice, maize, soybean and wheat, 2007/2008–2019/2020
(Average indices: 100=2012 /2013–2014/2015, based on trade volumes)



Source: Agricultural Market Information System (AMIS)/Food and Agriculture Organization of the United Nations (FAO), "Market Database: Supply and Demand Overview" [online] https://app.amis-outlook.org [accessed on 30 April 2020].

- The pandemic has broken out at a time when stocks of the main cereals for food security (rice, maize and wheat) are high (see figure 2). Between 2007/08 and 2019/20, stocks increased at a cumulative average annual rate of 6.3% for maize, 5.2% for rice and 5.1% for wheat. At the onset of the crisis, the global food system was well supplied with the main staple goods owing to stockpiling and good harvests in South America and elsewhere (OECD, 2020). With a record grain harvest in Brazil, for example, the value of agricultural production in 2020 is expected to be the highest for 31 years (Government of Brazil, 2020).

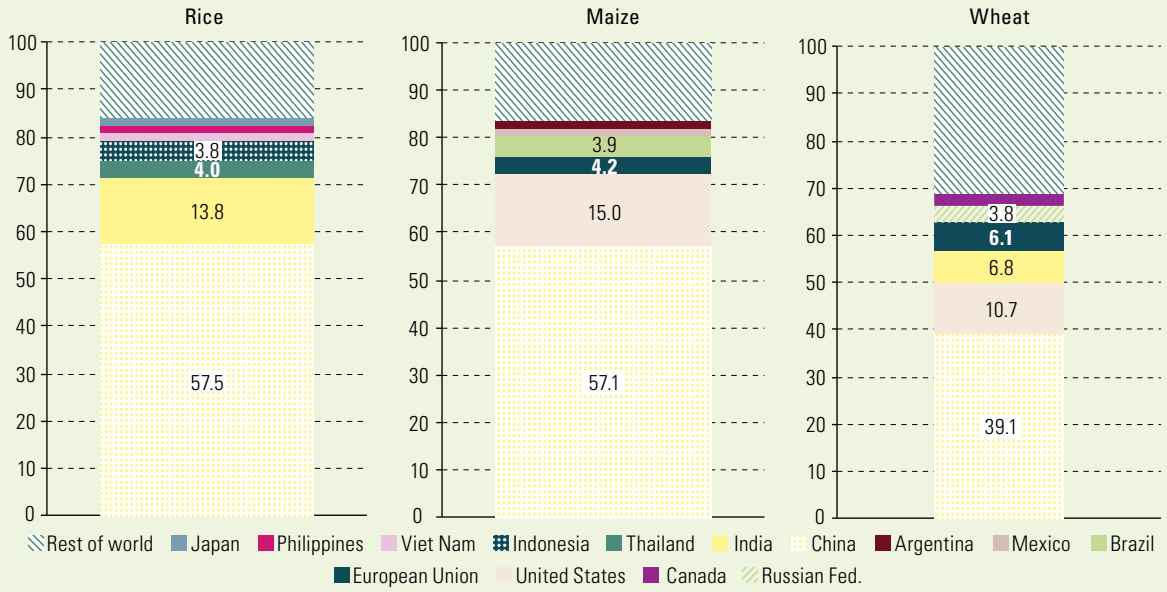
Figure 2 | Global stocks of rice, maize and wheat, 2010/2011–2019/2020
(Millions of tons)



Source: Agricultural Market Information System (AMIS)/Food and Agriculture Organization of the United Nations (FAO), "Market Database: Supply and Demand Overview" [online] https://app.amis-outlook.org [accessed on 30 April 2020].

- **Stocks are concentrated in a small number of countries, notably China and the United States**. In the annual averages for the period 2015/16–2019/20, China held 57% of rice and maize stocks and 39% of wheat stocks. The United States was the second largest stock holder of maize (15%) and wheat (11%), and India was the second largest stock holder of rice (14%) and the third largest of wheat (7%). Rice stocks were concentrated in Asian countries, while maize stocks in Argentina, Brazil and Mexico were among the top six in the last decade, accounting for 7.5% of the total, half that of the United States (see figure 3).

Figure 3 Distribution of cereal stocks by country, annual average, 2015/16–2019/20
(Percentages)

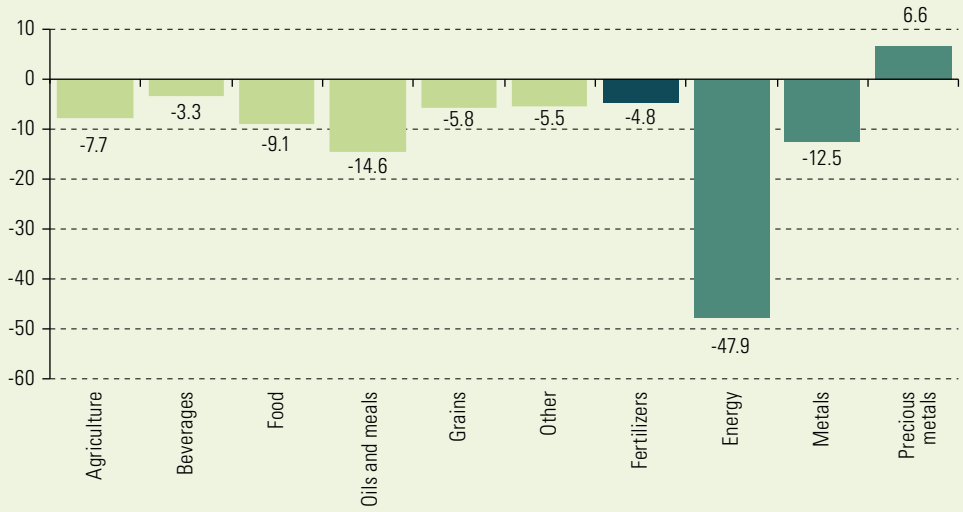


Source: Agricultural Market Information System (AMIS)/Food and Agriculture Organization of the United Nations (FAO), "Market Database: Supply and Demand Overview" [online] https://app.amis-outlook.org [accessed on 30 April 2020].

B. International prices

- The COVID-19 crisis was preceded by relative price stability from mid-2016, following strong volatility between 2007 and 2011 and high prices between 2011 and 2015. At present, trends in food production are favourable, especially for the cereals that form the basis of the world's diet.
- The emergency has coincided with a downturn in international prices for most commodity groups (see figure 4). On average, food prices fell by 9.1% between January and April 2020, compared with declines of 12.5% in metal prices and 47.9% in energy prices.

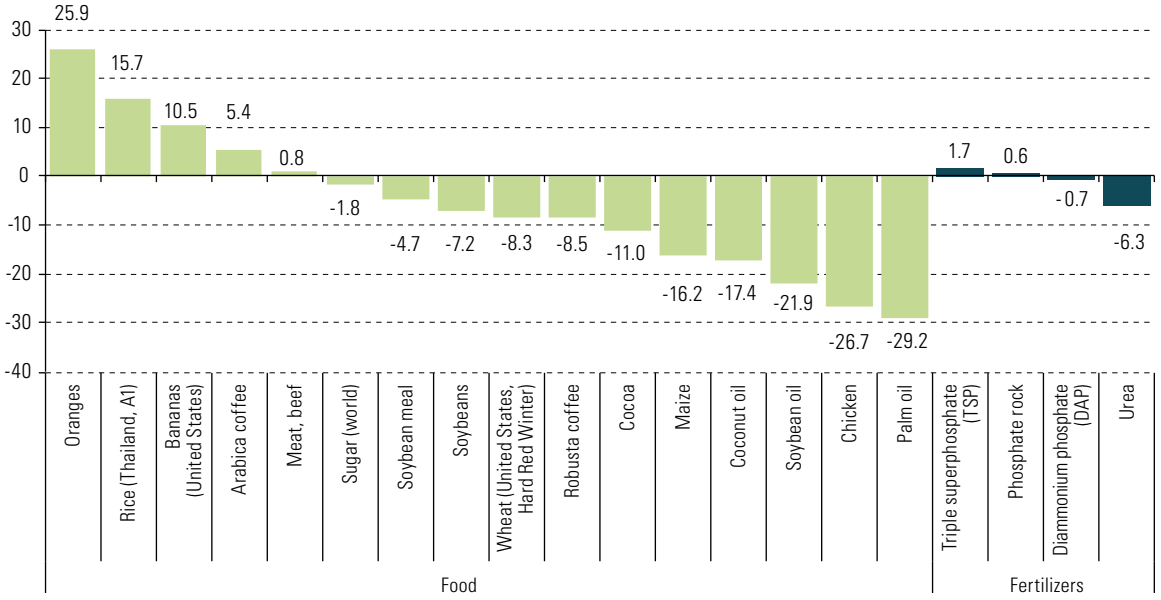
Figure 4 Prices of major commodity groups, January–May 2020
(Percentage change)



Source: World Bank, "World Bank Commodities Price Data (The Pink Sheet)", 2 June 2020 [online] http://pubdocs.worldbank.org/en/774651591120179792/CMO-Pink-Sheet-June-2020.pdf.

- Most food prices have taken an overall downward trend (see figure 5). Rice was the only major product essential to food security to record an international price rise between January and May 2020 (15.7%). Meanwhile, the prices of wheat and maize fell, by 8.3% and 16.2%, respectively.

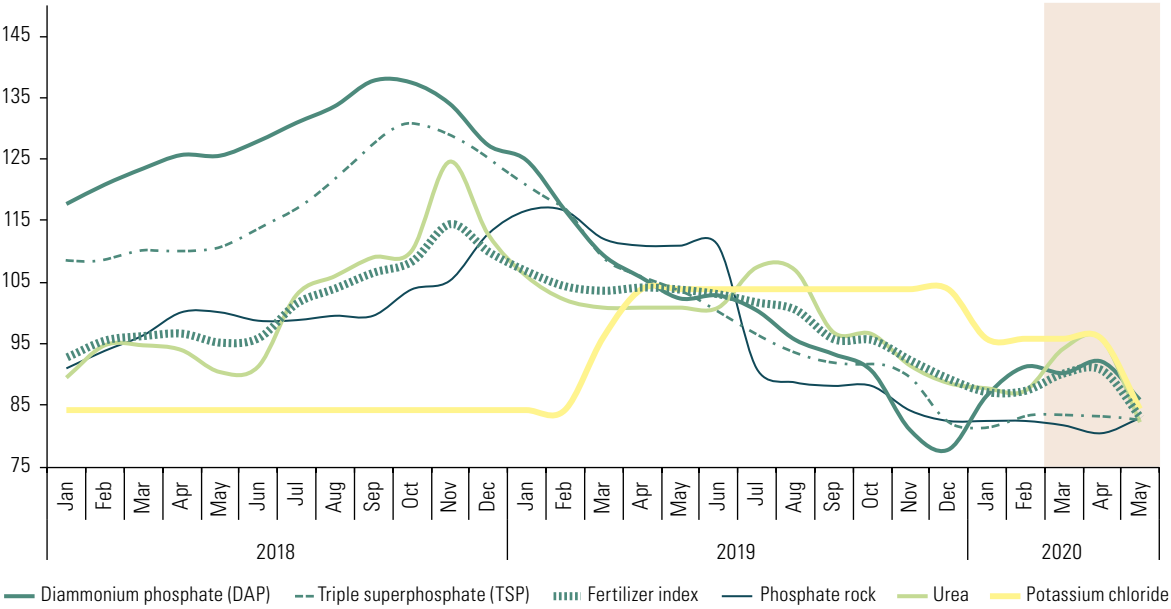
Figure 5 | Prices of agricultural products and fertilizers, January–May 2020
(Percentage change)



Source: World Bank, "World Bank Commodities Price Data (The Pink Sheet)", 2 June 2020 [online] http://pubdocs.worldbank.org/en/774651591120179792/CMO-Pink-Sheet-June-2020.pdf.

- Excluding bananas and arabica coffee, whose international prices climbed by 10.5% and 5.4%, respectively, key products in the region's export basket also saw their international prices fall between January and May 2020. This was the case for soybean complex products —soybean cake (-4.7%), soybeans (-7.2%), soybean oil (-21.9%)— and for robusta coffee (-8.5%) and cocoa (-11.0%).
- **Global fertilizer markets**, in which prices have trended downward since late 2018, saw a partial reversal of that decline in early 2020 (see figure 6).

Figure 6 | International fertilizer prices, monthly, 2018–2020
(Index: 100=2019 average)



Source: World Bank, "World Bank Commodities Price Data (The Pink Sheet)", 2 June 2020 [online] http://pubdocs.worldbank.org/en/774651591120179792/CMO-Pink-Sheet-June-2020.pdf.

III. Warning signs in national food markets

A. The supply side: preventing production and distribution failures

- The very nature of the food industry allows it to adapt better to the crisis than the average economic sector.
- Unlike the manufacturing sector, its global value chains are simpler and more resilient. In general, foodstuffs are produced by companies in just one country and have few (or substitutable) ingredients, while, in the event that they are exported, services are provided by a small number of foreign companies (insurance, transportation, marketing or others). This contrasts with the global value chains of other industries that are spread over a wide geographical area, with products crossing several borders before they reach the final consumer.
- There is very limited scope for teleworking in the food sector and the economic vulnerability of agricultural workers to supply shocks is comparatively low.
- Disruptions in the payment chain have specific consequences for the agricultural sector, which is characterized by a multiplicity of actors, thousands —in some countries, millions— of small, informal agricultural companies that produce primary goods, dependence on climate and on other public goods, long biological cycles and price volatility, in addition to other uncertainties and risks. To keep their supply chains moving, governments have set up coordination arrangements with the private sector.
- To **ensure financing for productive activities**, loan repayments by the campesino agriculture sector have been automatically postponed and development banks have been capitalized to help the agricultural sector (as in Chile); export tax rebates have been granted to improve firms' liquidity (as in Ecuador); and public procurement programmes for basic foodstuffs have been launched with guaranteed minimum prices (in Mexico it has been applied to maize, among other staples).
- The food supply can also be affected by **breaks in the supply chain resulting from logistical problems**. The large wholesale markets and the network of local retail markets (including farmer's markets, street markets and supermarkets) are particularly vulnerable, because they are places where thousands of workers and consumers are concentrated. Health protocols must be established and enforced in these links in the food chain that are particularly exposed to the pandemic. Protecting the health of agro-industry workers is another priority. Examples of warnings about food supply chain disruptions in countries of the region reported in the press are given in table 1.

Table 1 | Latin America and the Caribbean (11 countries): food supply chain disruption warnings

Activity	Examples of disruption warnings
Agricultural production	Colombia: Colombian Farmers' Association (SAC), "Drama en el campo: no hay quién compre y las cosechas se pierden", 25 May 2020 [online] https://sac.org.co/drama-en-el-campo-no-hay-quien-compre-y-las-cosechas-se-pierden/. Cuba: agricultural production down as a result of lower incomes and the closure of the tourism sector.
Harvest management and storage	Brazil: coronavirus puts pressure on milk producer prices. Uruguay: Todo el Campo, "Se decretó la liquidación de Citrícola Salteña con afectación a miles de familias", 21 May 2020 [online] http://www.todoelcampo.com.uy/se-decreto-la-liquidacion-de-citricola-saltena-con-afectacion-a-miles-de-familias-15?nid=43220.
Indictment	Mexico: El Sudcalifornian, "Incierto el panorama de producción para los trigueros; no hay precio", 24 May 2020 [online] https://www.elsudcalifornian.com.mx/local/incierto-el-panorama-para-los-trigueros-no-hay-precio-5270708.html. El Salvador: Canal 12, "Ganaderos de Nueva Concepción afectados por la cuarentena: los procesadores artesanales de leche de Chalatenango no tienen a quién venderle la producción", 22 May 2020 [online] https://www.canal12.com.sv/actualidad/-88605.
Transportation and collection centres (logistics)	Costa Rica: El Observador, "8 días de cierre en la frontera norte aumentan incertidumbre y empresarios piden acudir a vía diplomática", 26 May 2020 [online] https://observador.cr/noticia/8-dias-de-cierre-en-la-frontera-norte-aumentan-incertidumbre-y-empresarios-piden-acudir-a-via-diplomatica/. Colombia: Contexto Ganadero, "Falta de transporte preocupa a productores de Nariño en medio de la pandemia", 26 May 2020 [online] https://www.contextoganadero.com/regiones/falta-de-transporte-preocupa-productores-de-narino-en-medio-de-la-pandemia.

Table 1 (concluded)

Activity	Examples of disruption warnings
Distribution to wholesalers and retailers	Brazil: COVID-19 causes a 9.6% drop in sales in wholesale markets in São Paulo. Peru: "Lima: Gran Mercado Mayorista cerrará de manera parcial por el coronavirus", 21 May 2020 [online] https://www.peru-retail.com/lima-gran-mercado-mayorista-cerrara-de-manera-parcial-por-el-coronavirus/.
Commerce: supermarkets and corner shops	Costa Rica: El Mundo, "87% de las pymes cayeron o detuvieron su actividad como resultado de la crisis del COVID-19", 13 May 2020 [online] https://www.elmundo.cr/economia-y-negocios/87-de-las-pymes-cayeron-o-detuvieron-su-actividad-como-resultado-de-la-crisis-del-covid-19/. Antigua and Barbuda: Curfew and opening time restrictions have affected the sales of supermarkets and food businesses.
Consumers	Chile: Mercopress, "Protestas en barrios populares de Santiago de Chile reclamando trabajo y alimentos", 26 May 2020 [online] https://es.mercopress.com/2020/05/26/protestas-en-barrios-populares-de-santiago-de-chile-reclamando-trabajo-y-alimentos. Argentina: La Nación, "Coronavirus: el Gobierno no logra comprar alimentos y peligra el abastecimiento, 6 May 2020 [online] https://www.lanacion.com.ar/economia/coronavirus-gobierno-no-logra-comprar-alimentos-peligra-nid2362168.

Source: Food and Agriculture Organization of the United Nations (FAO), Regional Office for Latin America and the Caribbean, on the basis of information from the above-mentioned media reports.

B. The demand side: less purchasing power and changes in diet

1. Less purchasing power

- The global economic recession will increase poverty and hunger and other forms of food insecurity, especially in countries with weak social safety nets. ECLAC expects the GDP of Latin America and the Caribbean to contract by at least 5.3% in 2020, with sharper falls in Mexico (-6.5%) and South America (-5.2%) than in the Caribbean (-2.5%) and Central America as a whole (-2.3%).
- In Latin America, ECLAC (2020a) estimates that if the effects of COVID-19 lead the economically active population to lose 5% of their income, poverty could increase by 3.5 percentage points, while extreme poverty is expected to rise by 2.3 percentage points, equivalent to 13.5% of the region's population, the highest incidence in the last two decades. This means that 15.9 million more people could fall into extreme poverty, bringing the total to 83.4 million people in 2020 (see figure 7).

Figure 7 | Latin America: per capita GDP and extreme poverty, 2001–2020[a]

A. Per capita GDP and extreme poverty rate
(dollars and percentages)

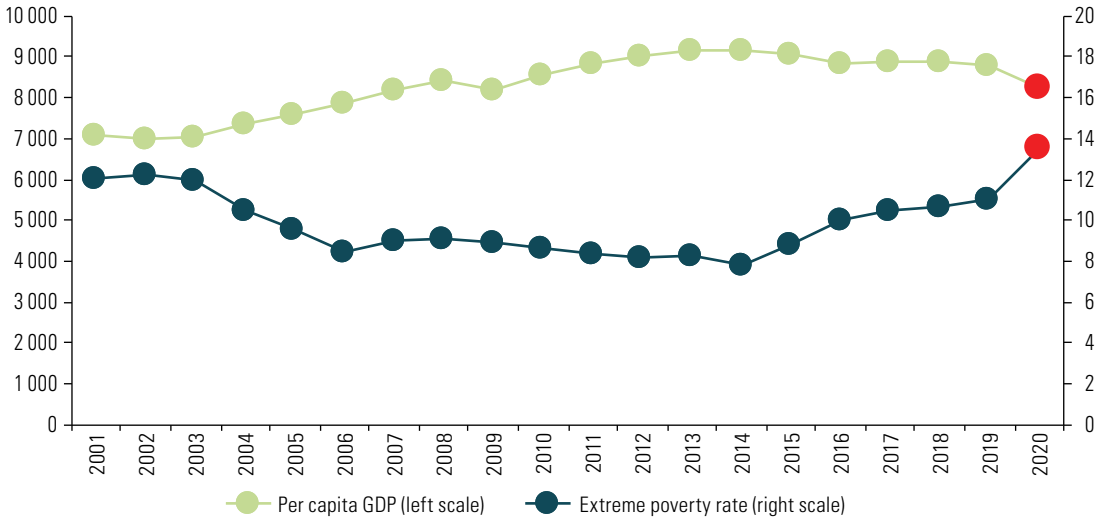
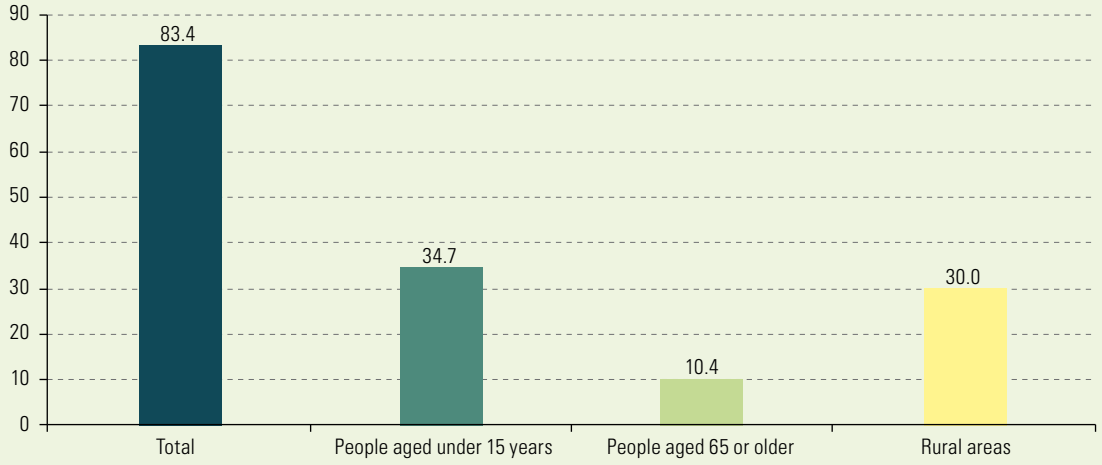


Figure 7 (concluded)

B. Estimates of people living in poverty in 2020
(millions)

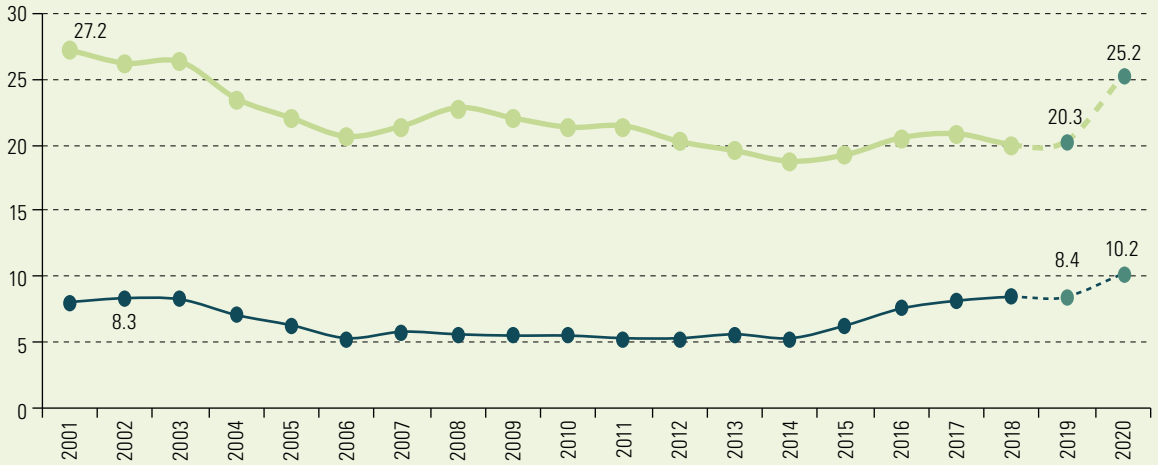


Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The figures for 2019 and 2020 are estimates.

- The rise in extreme poverty during 2020, in absolute and relative terms, steepens the trend observed since 2014/15, especially in urban extreme poverty. The number of people living in extreme poverty could reach 53.4 million in urban areas and 30 million in rural areas (see figure 8).

Figure 8 | Latin America: rural and urban extreme poverty rates, 2001–2020[a]

A. Share of the population living in extreme poverty
(percentages)



B. Persons living in extreme poverty
(thousands)