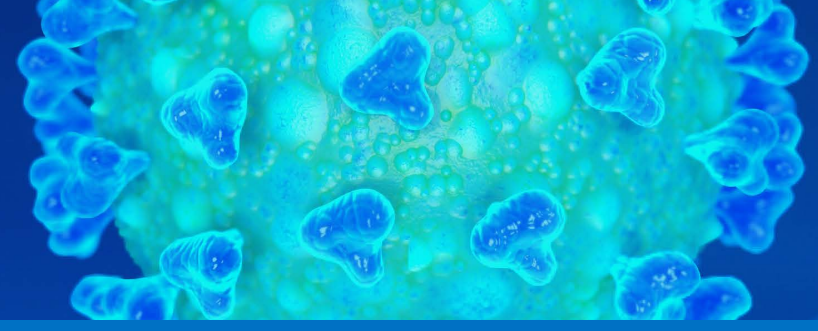


Food and Agriculture Organization of the United Nations

UNITED NATIONS

ECLAC

Food systems and COVID-19 in Latin America and the Caribbean:
Risks threatening international trade

Bulletin 3

07/05/2020

Contents

1. Editorial 1
2. Risks and threats: international agrifood trade in times of COVID-19 2
3. What should be done? Good practices in agrifood trade to face the risks of COVID-19 11
4. Interview with Mexico's Secretary of Agriculture 13
5. Resources 15
6. Key messages 17
7. References 18

1. Editorial

Risks threatening international agrifood trade in Latin America and the Caribbean

The Food and Agriculture Organization of the United Nations (FAO) and the Economic Commission for Latin America and the Caribbean (ECLAC) are pleased to provide the international community with the third version of this bulletin, which we have prepared in order to give decision-makers – in governments, the private sector and civil society – useful information and resources to support the design and implementation of actions against the effects of COVID-19 in Latin America and the Caribbean.

In the previous issue, we reviewed the lessons learned by those who have had to manage disasters. We presented a methodology for analysing and managing the crisis in food systems from a disaster risk reduction perspective.

For this new edition, we set out to identify the threats and risks affecting international agrifood trade in Latin America and the Caribbean. As the available information indicates, Latin America and the Caribbean are the source of almost 15 percent of agrifood exports in the world and, besides, the destination of about 6 percent of imports. Hence, any disruption of international agrifood trade – such as those triggered by the pandemic – can have a serious impact on food security in the countries of the region.

We know that once we are able to identify the risks (threats and vulnerabilities) faced by countries, it is easier for planners, and consequently for decision-makers, to design timely, effective, and efficient policies that benefit the most vulnerable populations. Consequently, after studying the main threats and risks to which countries are exposed, we identified the policies that can best address the many problems that have emerged in this area with the spread of the novel coronavirus.

2. Risks and threats: international agrifood trade in times of COVID-19

2.1. Structure of international agrifood trade in Latin America and the Caribbean

As pointed out in *Food security under the COVID-19 pandemic,* a recent report published by FAO-CELAC (2020,)[1] how trade affects countries depend mainly on their trade structures, both for their agrifood products and other commodities (such as energy). This structure, in conjunction with changes in international prices and exchange rates, could impact countries' imports and exports, and therefore their income, cost structure, or food availability, in different ways. The following is a classification of countries according to their trade structures, both for agrifood and energy products (see Table 1).

Table 1/ Classification of countries according to their exports and imports of energy and agrifood products

	Net exporter of agrifood products	**Net importer of agrifood products**
Net energy exporter	Bolivia (Plurinational State of) Colombia Ecuador Paraguay	Saint Vincent and the Grenadines Trinidad and Tobago Venezuela (Bolivarian Republic of)
Net energy importer	Argentina Belize Brazil Chile Costa Rica Guatemala Guyana Honduras Mexico Nicaragua Peru Uruguay	Antigua and Barbuda Bahamas Barbados Cuba Dominica El Salvador Grenada Haiti Jamaica Panama Dominican Republic Saint Kitts and Nevis Saint Lucia Suriname

Note: The average balances of each of the balances for the period 2016-2018 were used to classify the countries.
Source: FAO, based on information of Schmidhuber, Pound, and Qiao (2020).

The main international trade activities in the region can be classified into two categories: on the one hand, countries that are typically exporters of agricultural products, whose products are labour – or machine – intensive, such as those of the Southern Cone; and, on the other, countries that import agricultural and energy products – mainly located in the Caribbean – that depend on food imports to satisfy domestic supply, an issue that makes them particularly vulnerable to disruptions in the food chain.

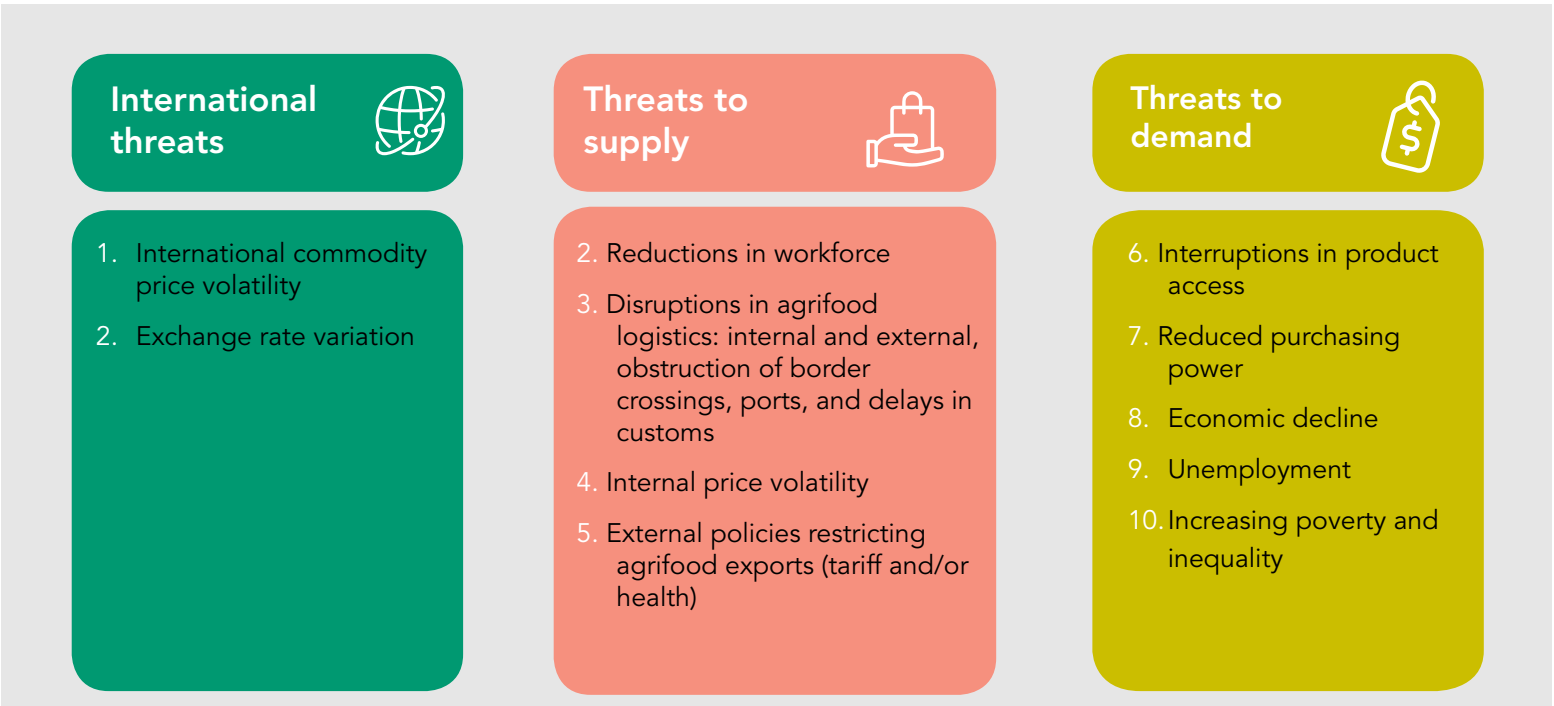
[1] For more information: http://www.fao.org/fileadmin/user_upload/rlc/docs/covid19/Boletin-FAO-CELAC.pdf

2.2 Threats putting international agrifood trade at risk

The FAO-CELAC report cited above states that, although the outlook for food production and stocks is generally positive, disruptions in international agrifood trade could have severe impacts on the food security of the countries in the region.

Below, we present in chronological order the threats that can potentially put international agrifood trade at risk (See Figure 1):[2]

Figure 1/ Threats to international agrifood trade



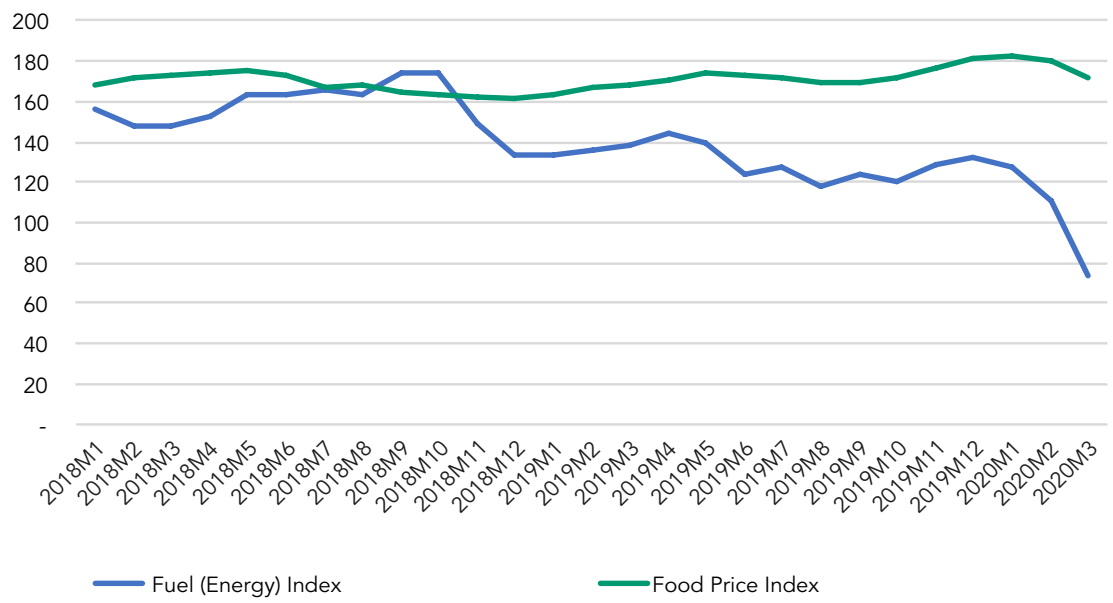
[2] "Threat" is defined as a process or phenomenon that can cause death, health effects, property damage, socio-economic disruption or environmental damage.

International threats

International threats refer to threats resulting from international price and exchange rate fluctuations. Thus, since January of this year, a significant fall in the prices of energy products (oil, gas, and coal, among others) has been observed, which was accentuated in March due to a general reduction of productive activities in the world. The group of countries most affected by this threat is expected to be the net energy exporters. In contrast, this situation could have positive effects for countries importing this type of goods, because they could see their costs reduced.

On the other hand, according to FAO (2020), food prices also show a drop, although less pronounced than energy prices. The variation in the terms of trade reinforces the above-described scenario. For net exporting countries, the fall in the prices of these goods implies worsening in the terms of trade. This trend has been dragging on for some time and, although it showed signs of a relative recovery in recent months, these countries could be hurt again.

Figure 2/ Monthly change (in %) in world food and fuel price indices, 2018-2020

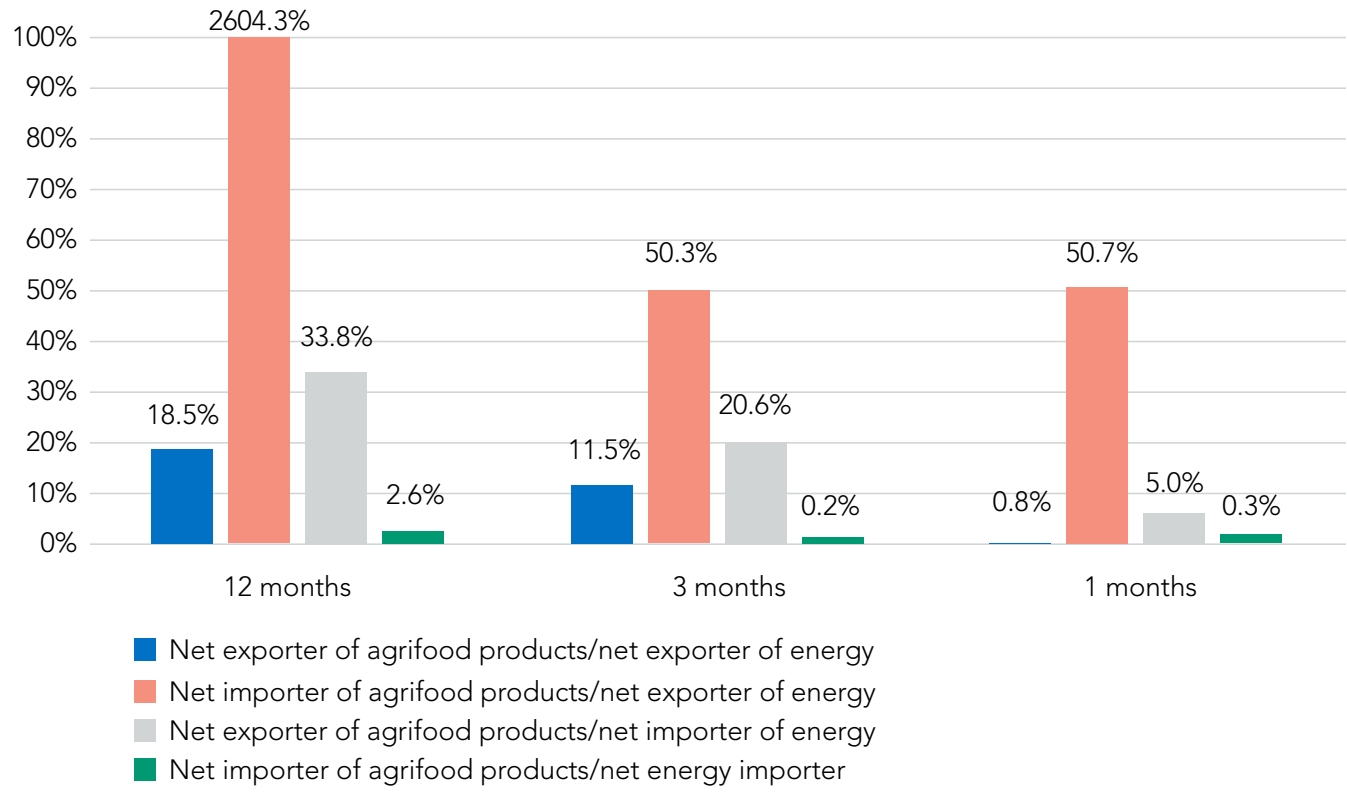


Source: International Monetary Fund (IMF) (2020) and FAO (2020)

In the last three months, the exchange market has been highly volatile, resulting in a depreciation of the countries' local currencies in the region, the most affected being Argentina, Brazil, Chile, Colombia, the Bolivarian Republic of Venezuela, Haiti and Mexico. Although this behaviour has tended to stabilize in the last month, it could have a positive or negative impact on local economies, depending on whether they are importing or exporting countries. That said, although some exporting countries could benefit from this depreciation (as a result of the increase in better-priced currencies), in general terms the importing countries should see their cost structure affected negatively by this rise.

The Bolivarian Republic of Venezuela is one of the countries that have shown the greatest depreciation, being part of the group of agrifood importing and energy exporting countries. Countries with fixed exchange rates, although part of this analysis, will not see their import goods become more expensive because of this. Instability in this market could encourage governments, through stakeholders, to implement price controls to reduce, in part, the uncertainty of this market.

Figure 3/ Change (in %) in exchange rates by country group, 2019-2020



Source: FAO, based on figures from Bloomberg and central banks.
* 12 months includes change April 2020 versus April 2019
** 3 months includes change April 2020 versus February 2020
*** 1 month includes variation April 2020 versus March 2020

Analysing the effects by country group, according to the classification proposed in Table 1, we obtain the following:

Table 2/ Effects in countries according to classification

	Net exporter of agrifood products	Net importer of agrifood products
Net energy exporter	• Lower international energy and food prices will affect the income of these countries. • Currency depreciation can stimulate the flow of food exports and this, in turn, can affect domestic availability and prices, and generate incentives to establish barriers to exports in order to meet domestic food demand. • In the medium term, these restrictions may lead to higher international food prices. However, with good prospects for commodity stocks and crops, this scenario is unlikely.	• Although these countries are benefiting from lower food prices, significantly lower international energy prices are negatively affecting their export earnings. • This situation weakens their capacity to import sufficient food on international markets. • At the same time, high currency depreciation make imports more expensive, reducing food availability and prices.
Net energy importer	• These countries benefit from a significant fall in energy prices, although being food exporters they may see parts of their income affected by price reductions of the agrifood products they export. • The depreciation of their currencies stimulates their agrifood product exports. While this may help to boost the economy, it encourages exports, which may affect availability and domestic prices. However, with good stock and crop prospects, this scenario is unlikely.	• Lower international prices of energy and agrifood products benefits this group of countries. • However, their currencies depreciation can make imports more expensive and thus increase the prices of food and productive activities.

Source: FAO, based on information of Schmidhuber, Pound y Qiao (2020).

Threats to supply

The disruption of international trade supply chains, which affects exports, is one of the main threats to supply. It can lead to upward pressure on prices or product shortages, which put at risk the food security of both importing and exporting countries, which depend on these revenues.

In the first stage of production, **restrictions on agrifood workers for health reasons is one of the threats,** that specifically impacts labour-intensive products such as fruits and vegetables; unlike grain production, which is highly mechanised. This can lead to countries exporting these products, reducing their production and therefore their exports. These measures could be detrimental to international trade and food security, as they generate disruptions in exports, affecting the income of exporting countries and the availability of food in import-dependent countries. Besides, the agricultural sector accounts for between 10 and 20 percent of regional employment (depending on the source) and, as a result, in this crisis, workers are exposed to the virus and are vulnerable to losing their mostly informal and low-paying jobs. Similar concerns are evident in several countries of the region and this effect may negatively affect workers' income and the country.[3]

Another threat to supply comes from **disruptions in the logistics of exported products,** whether these are internal (displacement of producers and intermediaries, disruptions in national roads) or external, which can disrupt supply chains, through border roadblocks or closures of ports and airports. Given that maritime transport accounts for over 90 percent of global trade, port closures cause major disruptions, and low export volumes and values, which negatively impact income-dependent producers, and consumers and their access to food. An example of this was Argentina's beef exports, which were practically halted due to port difficulties in Chinese territory generated by the quarantine measures in early April this year. As a result, China acquired only 15 percent of what it used to buy. However, given the strong mechanisation of ports – which do not need many workers present – these measures, depending on the case, could be unnecessary.[4]

Small island developing states (SIDS) are particularly vulnerable to logistics disruptions and customs delays, as they specialize in exporting perishable labour-intensive foods. Consequently, the World Customs Organization (WCO)[5] calls for coordinated border management to prevent food losses.

Among the main measures to mitigate the effects of the pandemic, the same organization points out the following:

- digitalization of procedures;
- priority for exports and imports of products, and services declared as essential; and
- minimum number of operating personnel.

Supply is also subject to external trade decisions, which in turn threaten domestic food price stability. So far, 80 countries have introduced export bans or restrictions as a result of COVID-19, and 17 of these have focused restrictions on food exports. For example, Kazakhstan and Russian Federation – two of the largest wheat and wheat flour exporters – banned exports of that product along with others, such as carrots, sugar, and potatoes.[6] Viet Nam temporarily suspended new rice export contracts and Serbia stopped its sunflower oil flow. Although most of these measures are temporary,[7] they can lead to a short-term increase in supply and a price decrease in the domestic markets of these countries. On the other hand, in international market, these restrictions alter trade flows, causing a decrease in supply and a rise in prices due to the scarcity of the product, with a negative impact on importing countries, which depend on international prices and their equivalents in local currencies.

[3] For more information: https://www.prensalibre.com/ciudades/retalhuleu/cosecha-de-tabaco-podria-perderse-por-falta-de-trabajadores-que-le-temen-al-coronavirus/
[4] For more information: https://foreignpolicy.com/2020/04/14/how-to-stop-food-crisis-coronavirus-economy-trade/
[5] For more information: http://www.wcoomd.org
[6] For more information: https://time.com/5827804/russia-wheat-food-shortage/
[7] For more information: https://www.wto.org/english/tratop_e/covid19_e/export_prohibitions_report_e.pdf and https://www.wto.org/spanish/news_s/news20_s/rese_23apr20_s.htm
World Trade Organization (WTO)

Threats to demand

During the first days of the pandemic, restaurants, resorts, and other businesses closed, which resulted in reduced demand for food, and accumulation and waste of food stocks. These threats should end when health restrictions end.

However, the Economic Commission for Latin America and the Caribbean (ECLAC) projects that global demand for regional exports will contract by 14.8 percent in the short to medium term compared to 2019,[8] mainly due to a 24.4 percent drop in exports to China, in agrifood products (from Argentina, Brazil, Uruguay, and Paraguay) and mining products (from Chile and Peru). Exports to the European Union and the United States of America are projected to fall by 16.1 percent and 11.6 percent, respectively, as a result of a slowdown in GDP growth (-5.3 percent projected for the region in 2020).

The projected regional unemployment figures are also relevant: 11.5 percent in 2020, a 3.4 percent increase over 2019. Also, poverty is expected to increase by 4.4 percent in 2020, which means an increase of 28.7 million people living in poverty. These projections, coupled with negative economic growth, directly impact household consumption decisions.

Potentially higher levels of poverty will limit access to essential goods and services, such as food and health services. These types of threats are not yet observed quantitatively in countries, but various negative effects are expected in the future; it is important to know them to prepare mitigation measures.

[8] https://www.cepal.org/es/publicaciones/45445-dimensionar-efectos-covid-19-pensar-la-reactivacion

© FAO/Max Valencia

2.3 Risk of disruption of international agrifood trade in Latin America and the Caribbean

The risk analysis[9] of the countries is based on the above-mentioned threats, as well as the vulnerabilities described below.

2.3.1 Import dependence level

The import dependence level originates vulnerability in three ways:

- **Dependence on import ratio:** Caribbean countries are highly vulnerable. For example, in Haiti, over 30 percent of total imports are agrifood goods. In Antigua and Barbuda, Cuba, Saint Lucia, and Barbados, agricultural imports are 20 percent higher than total imports (see Figure 4).[10] On the other hand, net exporters of food and energy are less vulnerable. In Colombia, Ecuador, Paraguay, and the Plurinational State of Bolivia, agrifood imports account for about 10 percent of total imports (of goods). In countries that are net exporters of food and net importers of energy, the degree of vulnerability is varied, as in Belize, Guyana, and Nicaragua, which are moderately vulnerable; Peru, Chile, Brazil, Mexico, and Argentina are less exposed.

- **Dependence on partners:** The region, and in particular Mexico and the Caribbean, is highly dependent on agricultural imports from three areas heavily affected by COVID-19: the United States of America, the European Union and China. To date, there have been no direct logistical risks, but chains passing through these areas will experience a higher than normal degree of stress.

- **Dependence on agricultural commodities:** An analysis of the commodity class level reveals some specific vulnerability. In Figure 4, the weight of imports in the domestic supply (local production + imports + stock variations - exports) can be observed. In general, net food exporters are less vulnerable, which is noted in a transversal manner. However, some exporters show vulnerability in their local cereal supply. For example, Costa Rica, Honduras, Peru, Colombia, and Chile are highly dependent on cereal imports, especially wheat. Meanwhile, Belize shows vulnerability in its local milk supply. On the other hand, food-importing countries show strength in their local supply of fruits and vegetables. In Grenada, Jamaica, Bahamas, Dominica, Cuba, the Dominican Republic, Haiti, and Suriname, domestic fruit and vegetable production sustains local supply, although they are highly dependent on cereal, meat and milk imports, with few exceptions.

2.3.2 Exports dependence level

The exports dependence level turns into vulnerability in two ways:

- **Dependence on export ratio:** Some countries in the region are highly dependent on the income generated by exports, as is the case of Uruguay, Argentina, Costa Rica, and Paraguay, where more than 50 percent of the value of exports comes from agricultural products (see Figure 5). Countries exporting metals or oil, such as Peru, Chile, and the Bolivarian Republic of Venezuela, do not depend exclusively on the income generated by agricultural exports. Some Caribbean countries, such as Haiti, the Bahamas, and Antigua and Barbuda, are very little dependent on exports.

- **Dependence on partners:** For agricultural exports, the region depends on three areas heavily affected by COVID-19: the United States of America, the European Union and China (see Figure 5). Central American countries are more dependent on exports to the United States of America