

The war in Ukraine and its impacts on global food and fertilizer markets

Rome and Oslo, 23 August 2022

Josef Schmidhuber
Deputy Director, Markets and Trade Division, FAO

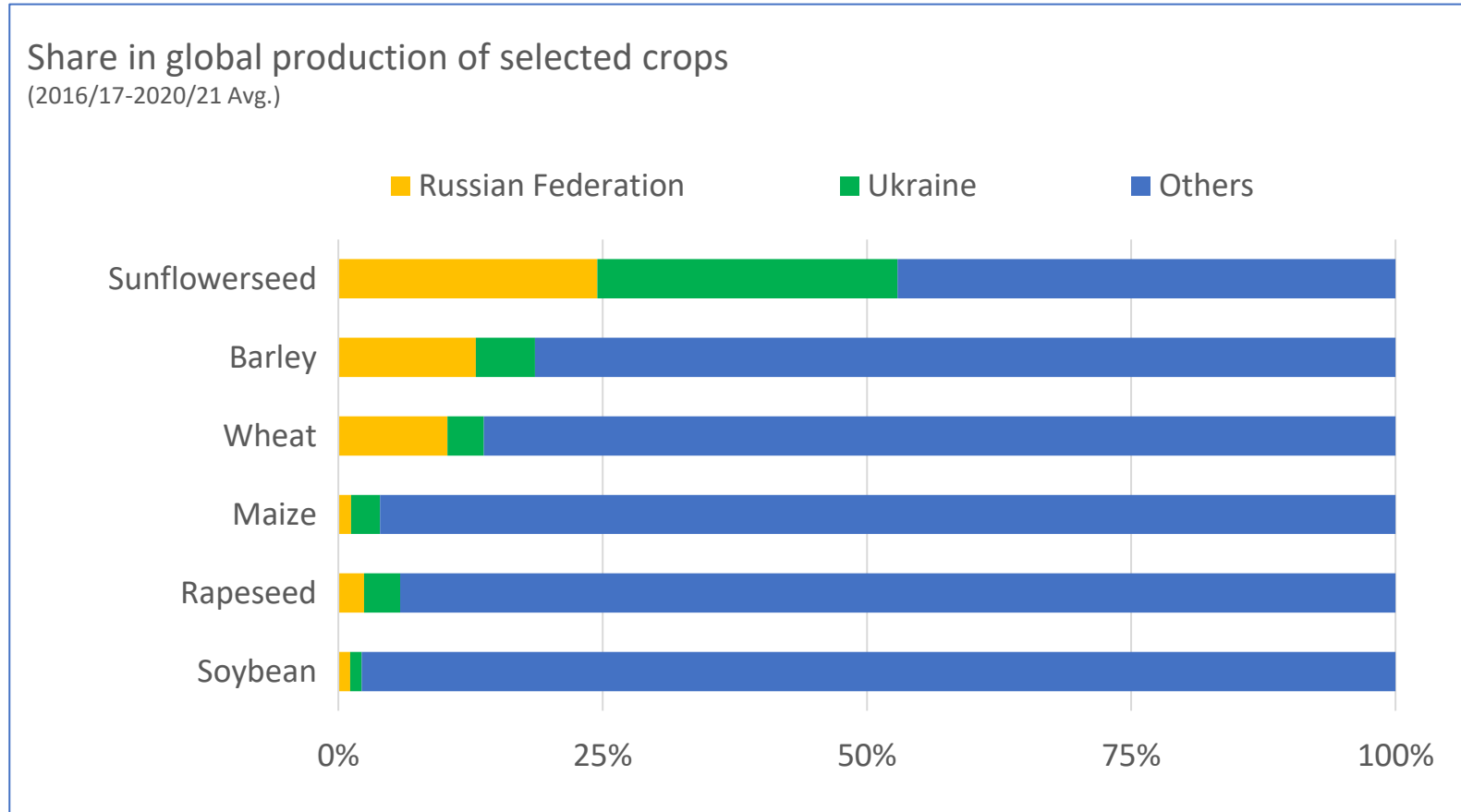
Overview

- 1. The war in Ukraine - Where we stand**
 - Market structure and importance for world markets
 - Country dependencies
- 2. The global market situation – high prices despite well supplied markets**
 - Global food prices
 - Global export supplies and import gaps
- 3. From food to fertilizers**
 - Fuel and fertilizer prices
 - Fertilizer affordability
- 4. The Food Import Financing Facility (FIFF)**
 - For whom, why, what division of labour
 - The Black Sea agreement and the FIFF
- 5. Policy recommendations**

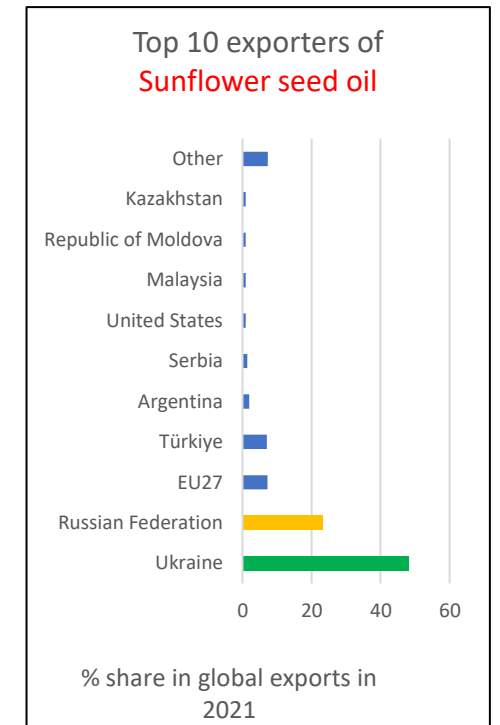
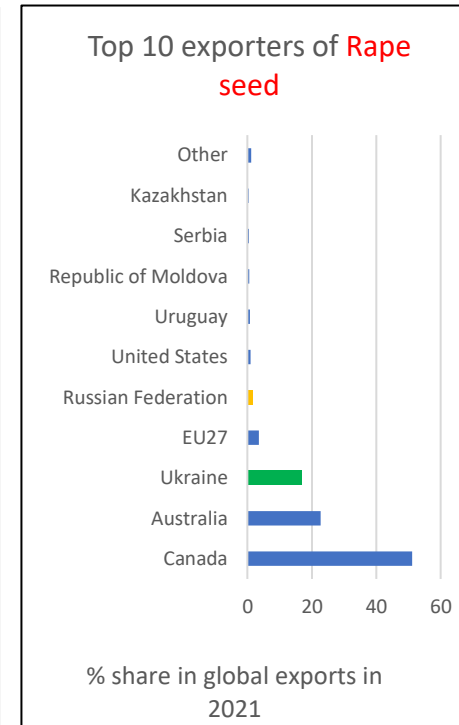
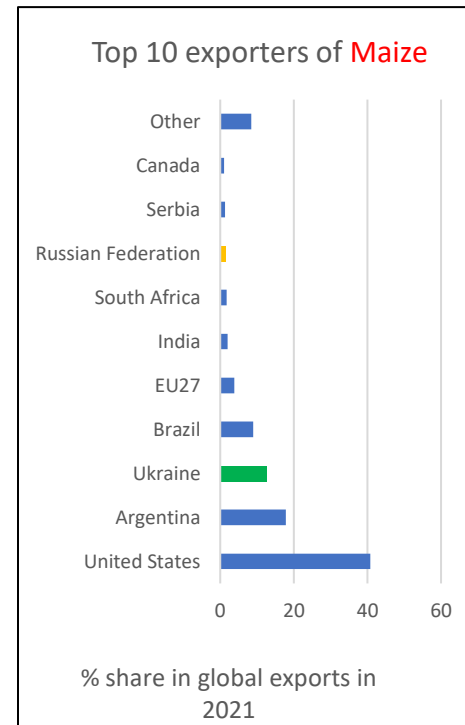
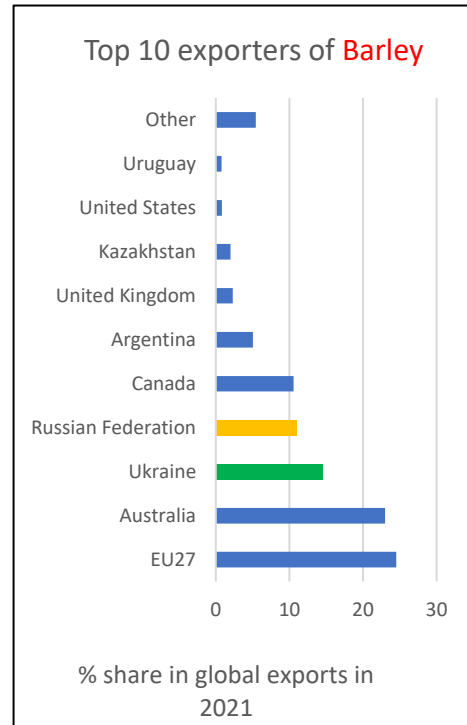
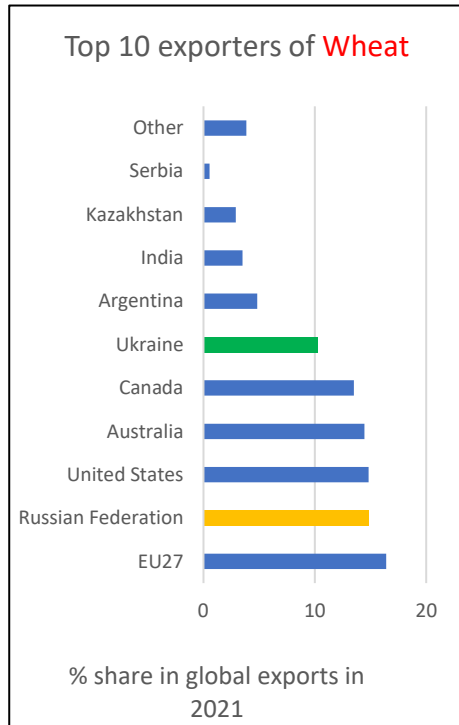
1. Where we stand:

The importance of UKR and RUS for world markets

How important are UKR and RUS for global food production?

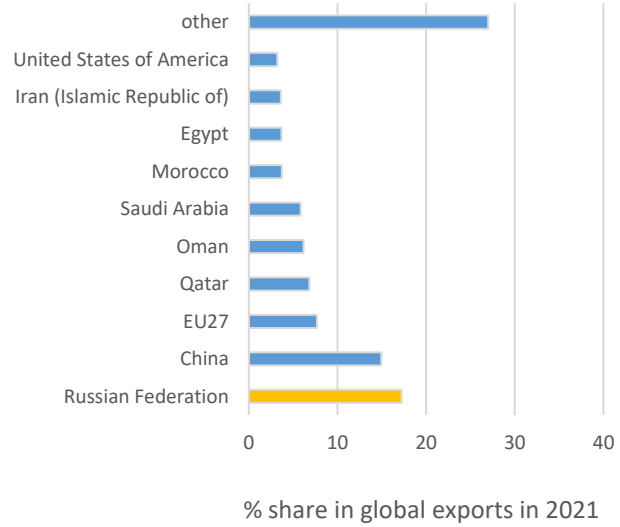


Ukraine and Russian Federation: important sources of global food supplies

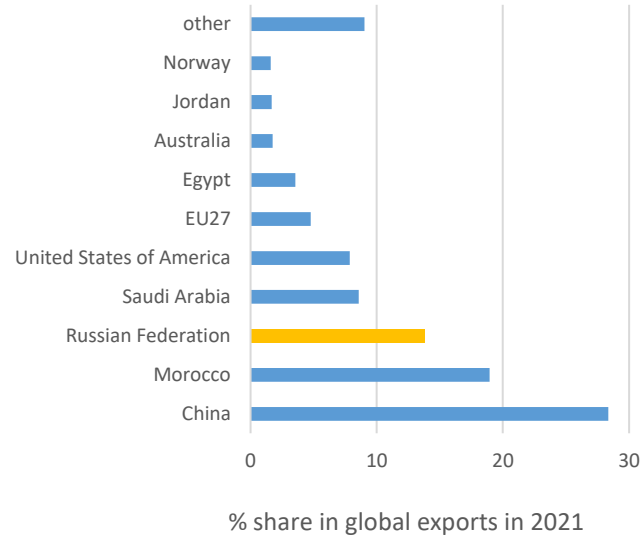


The Russian Federation: The most important source of global fertilizer supplies

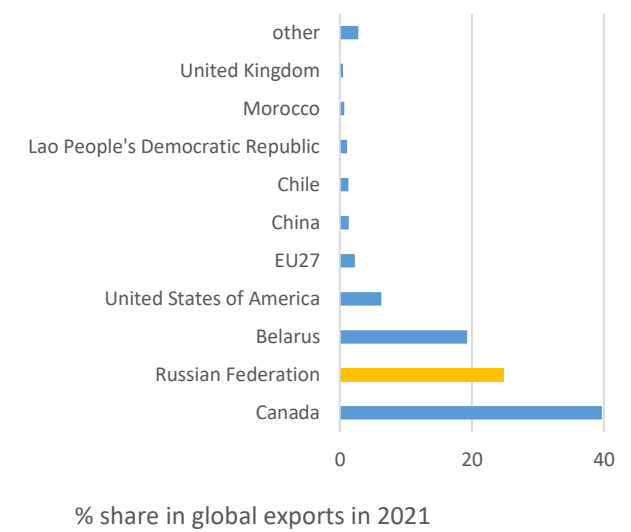
Top 10 exporters of **N-Fertilizer**



Top 10 exporters of **P-Fertilizer**

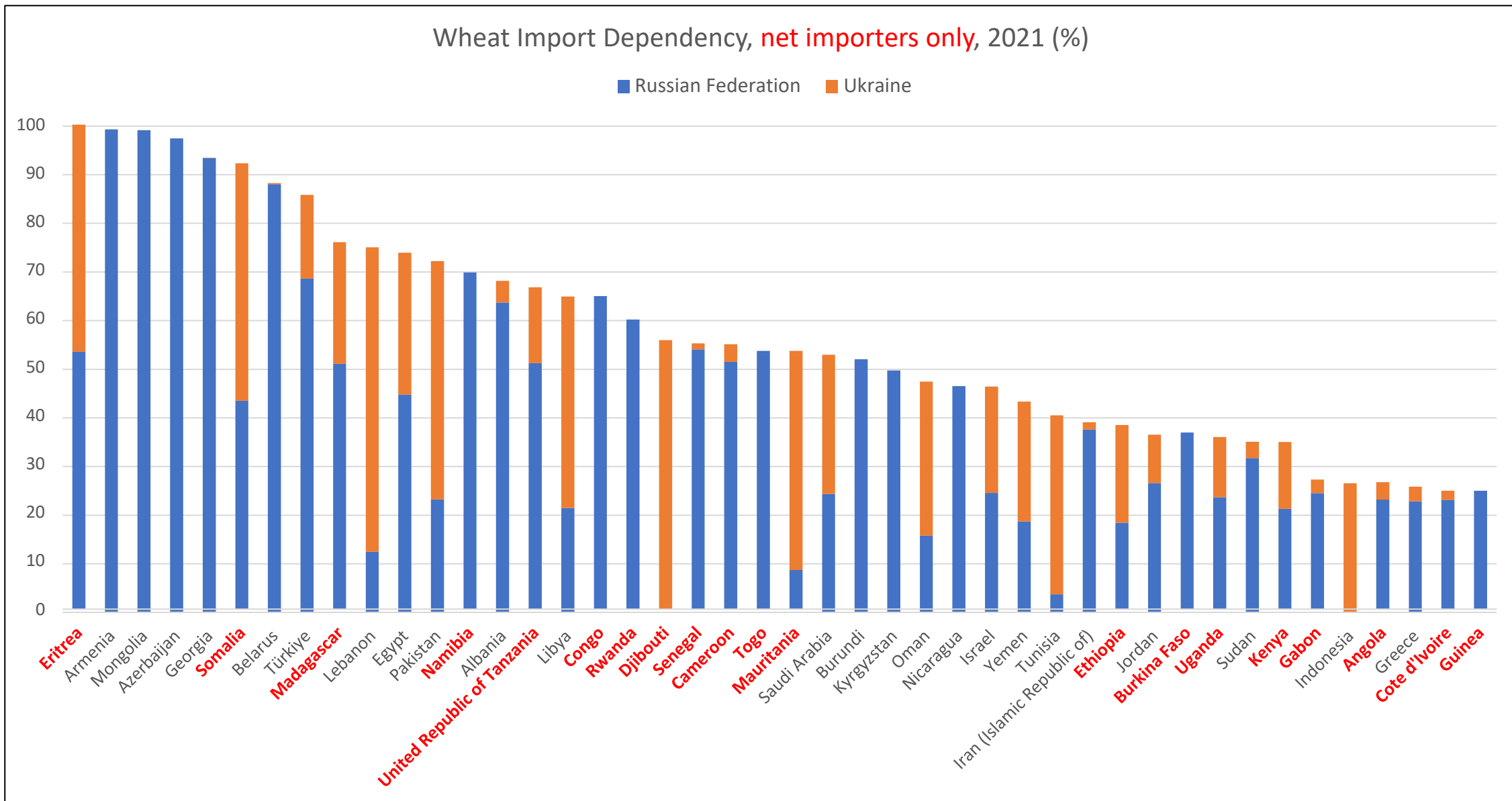


Top 10 exporters of **K-Fertilizer**

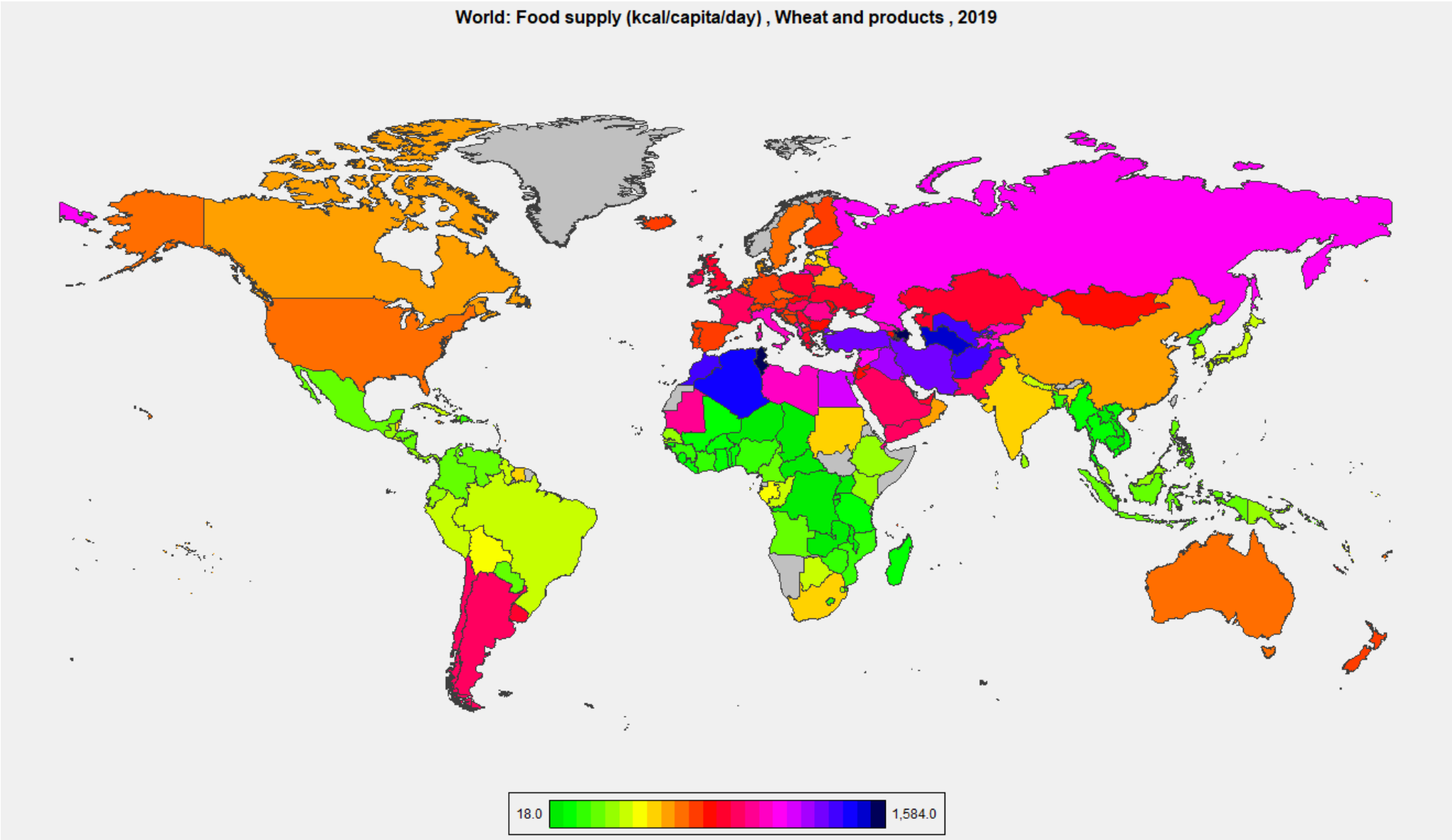


Some countries are heavily reliant on wheat imports from Ukraine and the Russian Federation

Countries in SSA are marked in red

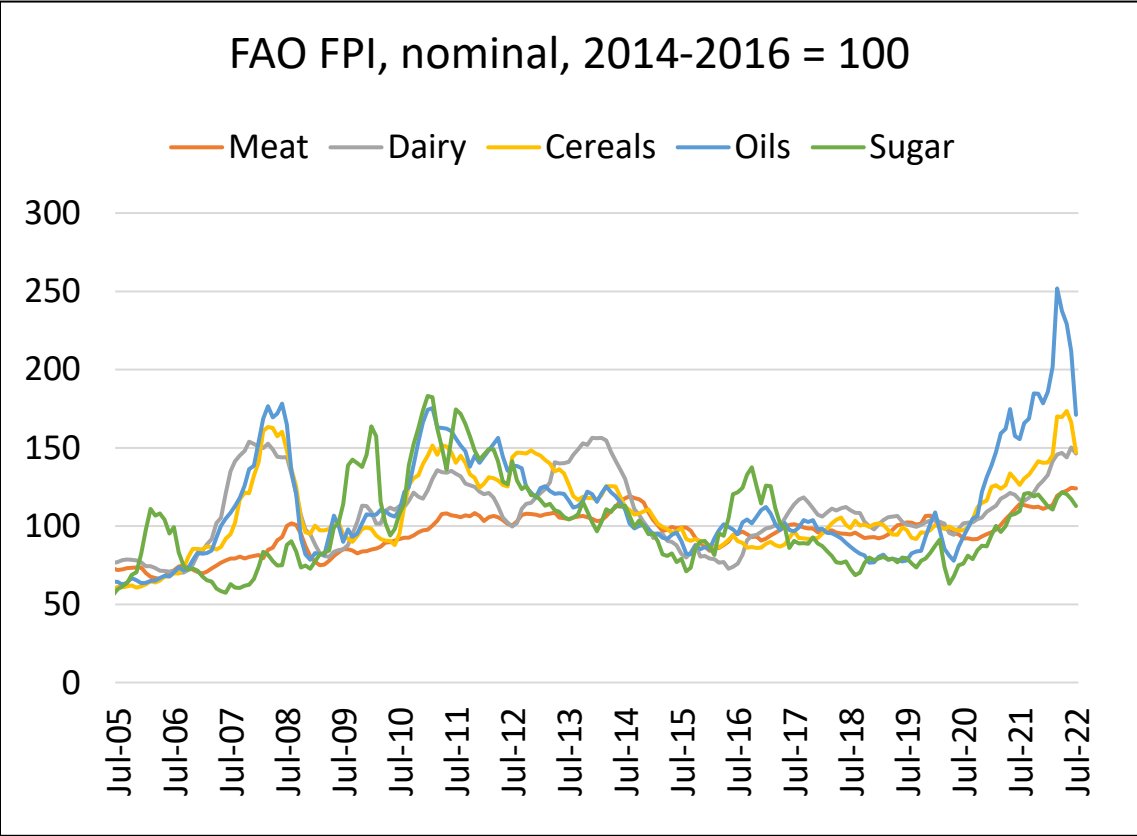
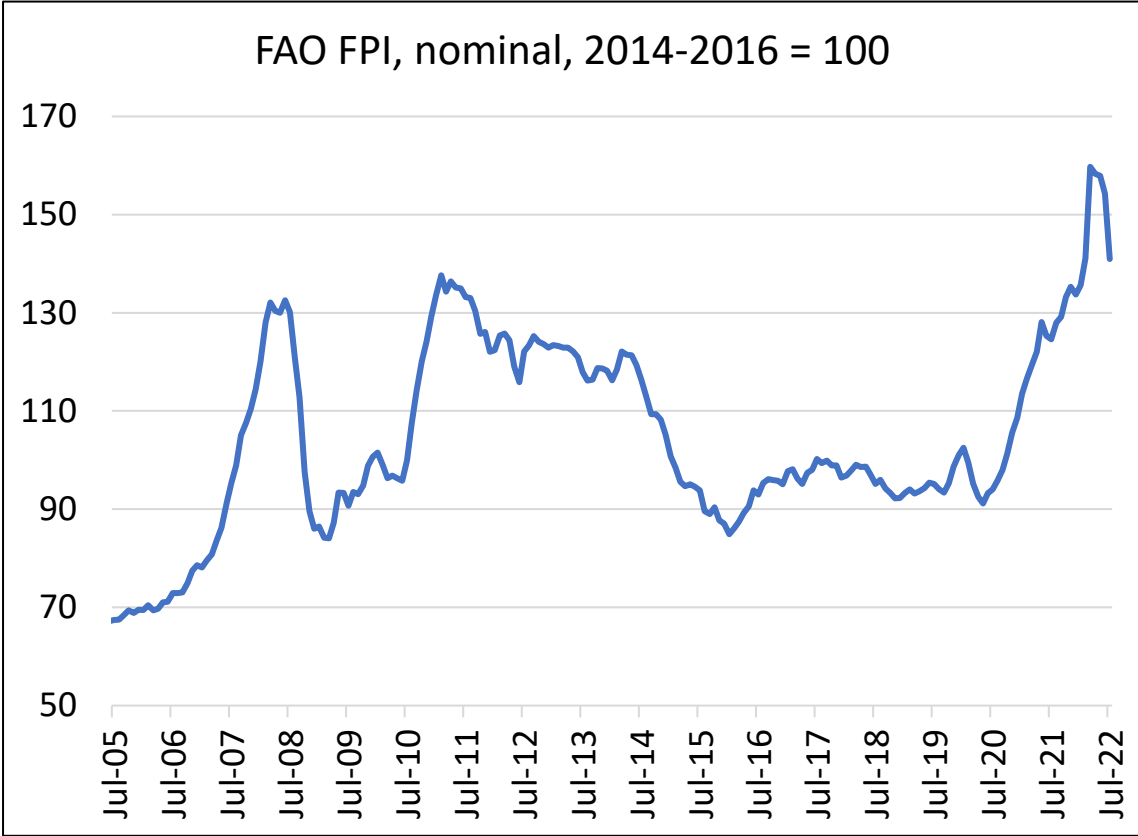


Wheat is a staple food in North Africa, but NOT so important for most countries in sub-Saharan Africa



2. The global market situation – high prices despite well supplied markets.

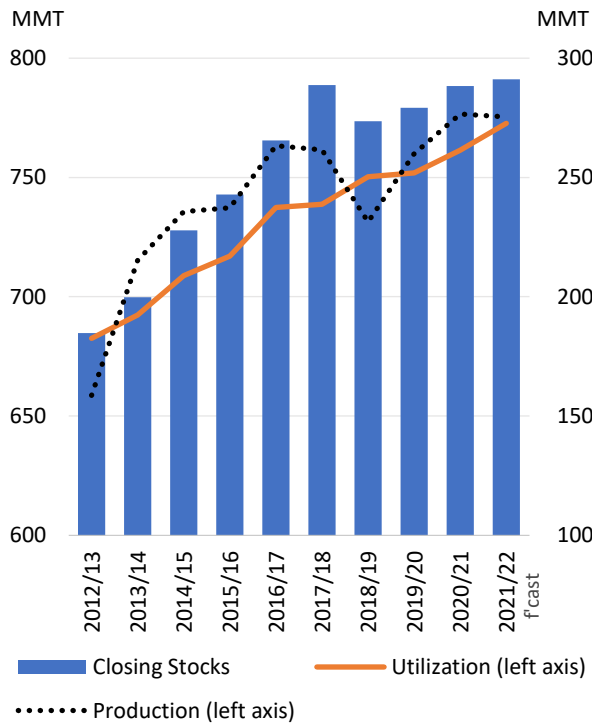
The FAO food price index reached all time high in March 2022



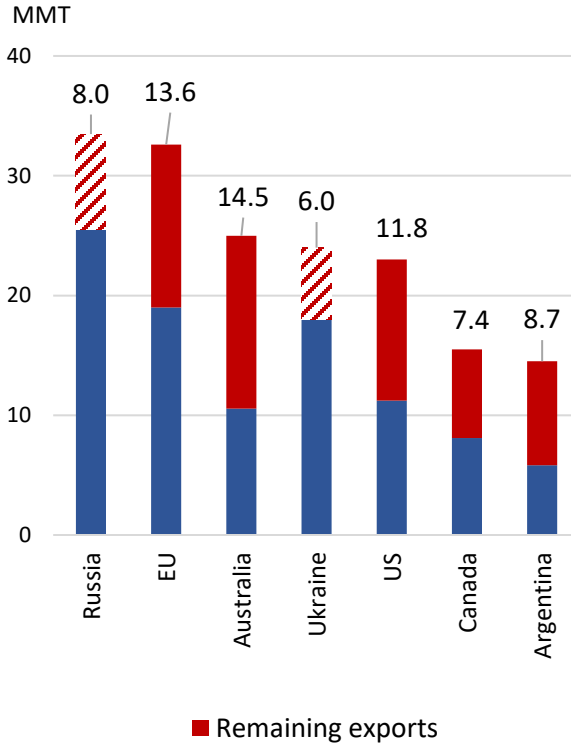
There is enough food (wheat) to go around!

Outstanding **wheat** exports and available export quantities: manageable, but a tight situation overall.

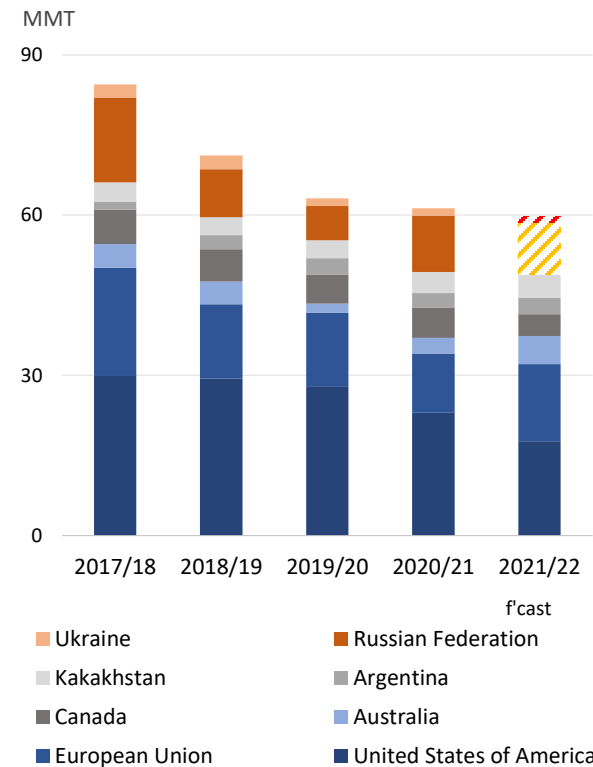
World wheat production, utilization and stocks



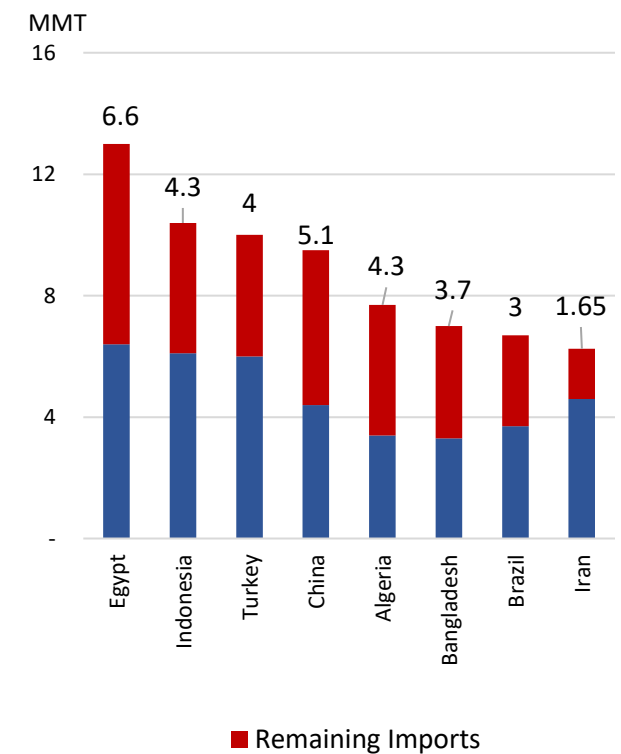
2021/22 Export forecasts of major exporters



Wheat stocks of major exporters



2021/22 Import forecasts of major importers



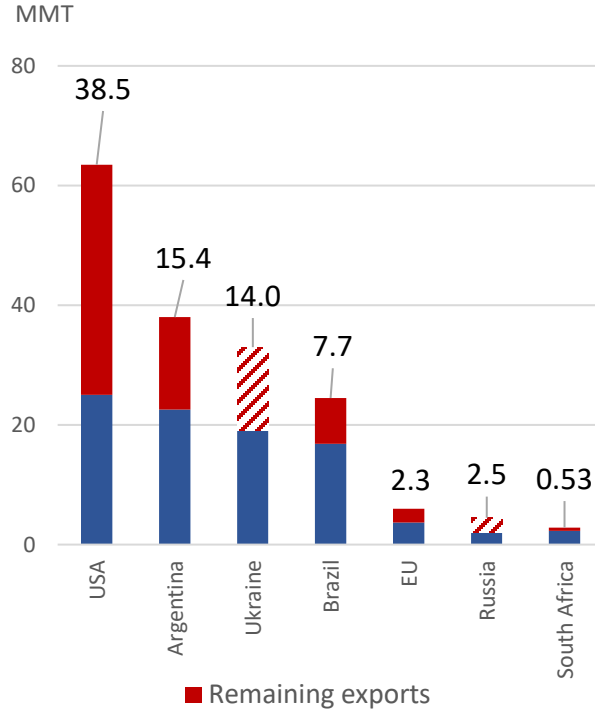
There is enough food (maize) to go around!

Outstanding **maize** available export quantities: overall, sufficient supplies globally.

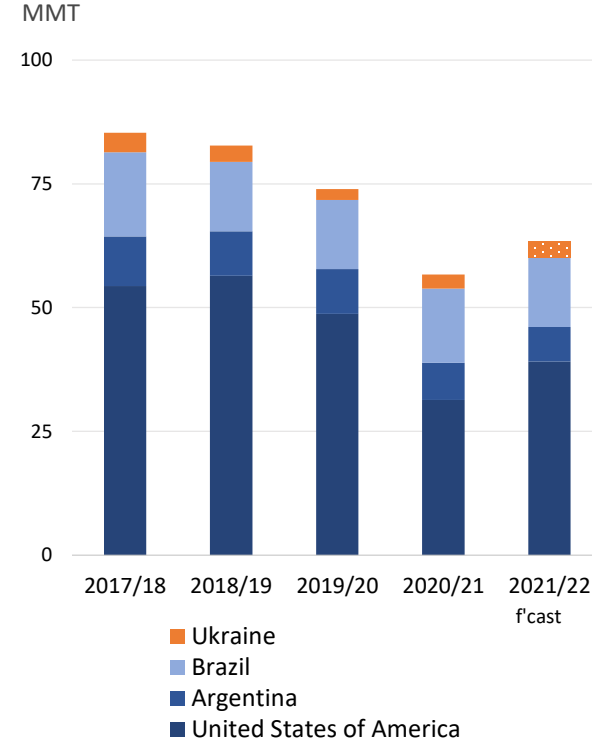
World maize production, utilization and stocks



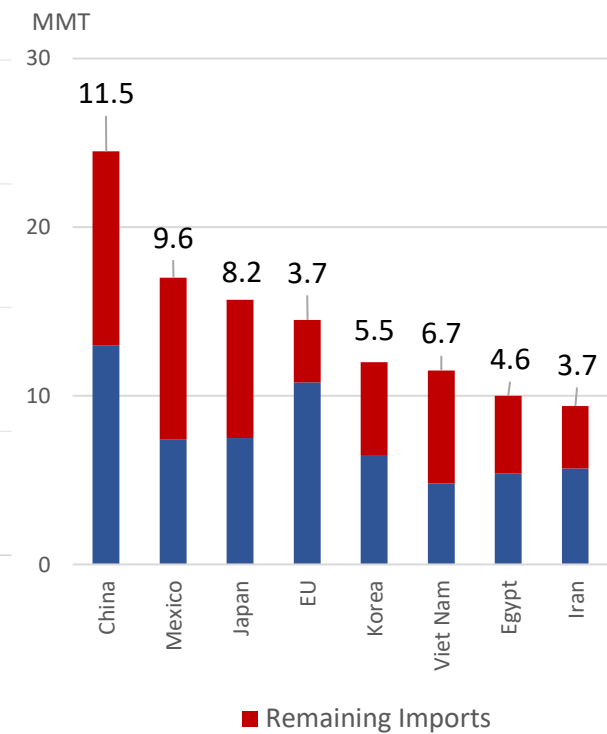
2021/22 Export forecasts of major exporters



Stocks held by the major maize exporters

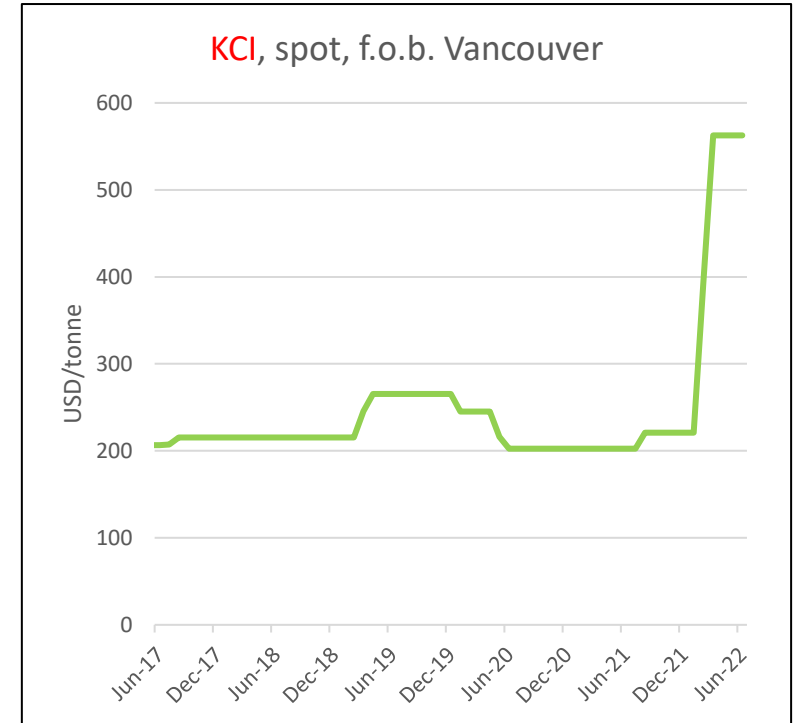
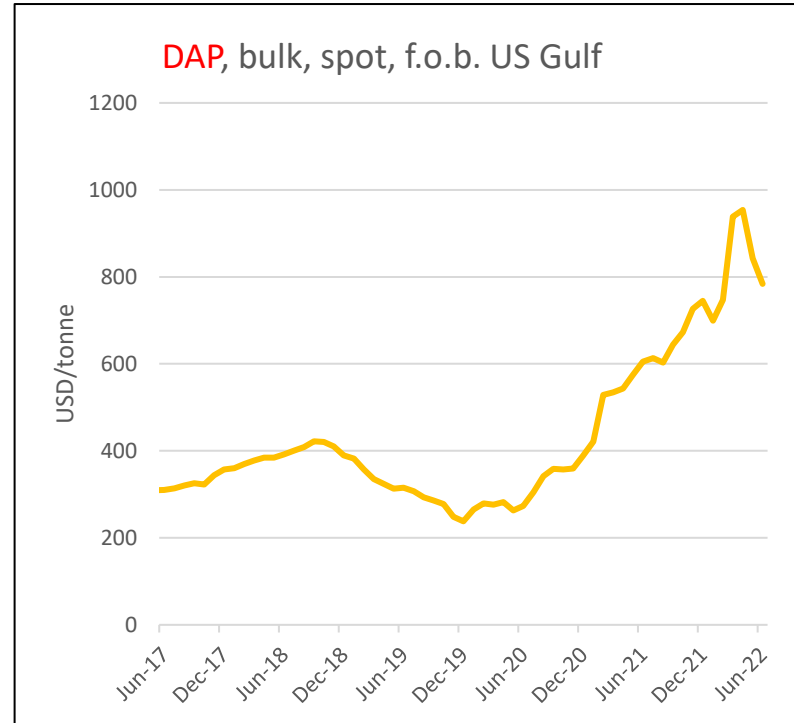
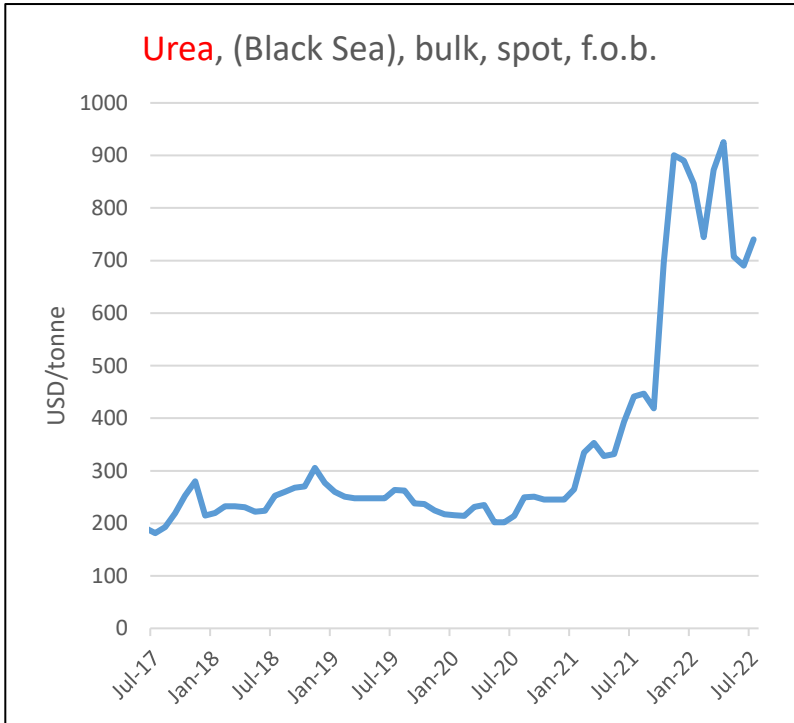


2021/22 Import forecasts of major importers



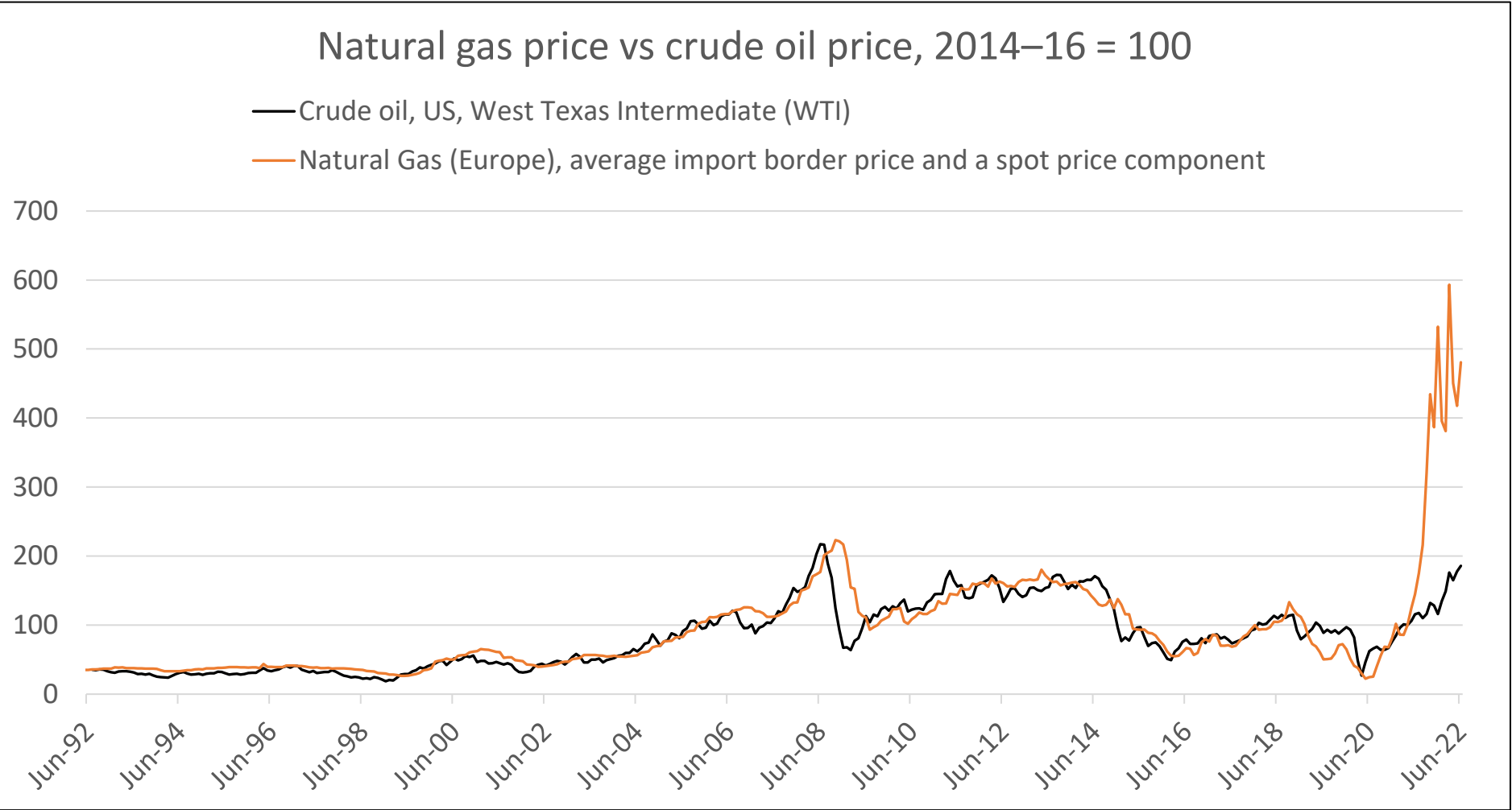
3. From food to fertilizers. High energy prices to sustain high food and fertilizer prices

Higher fertilizer prices: Spot prices for N,P,K have spiked



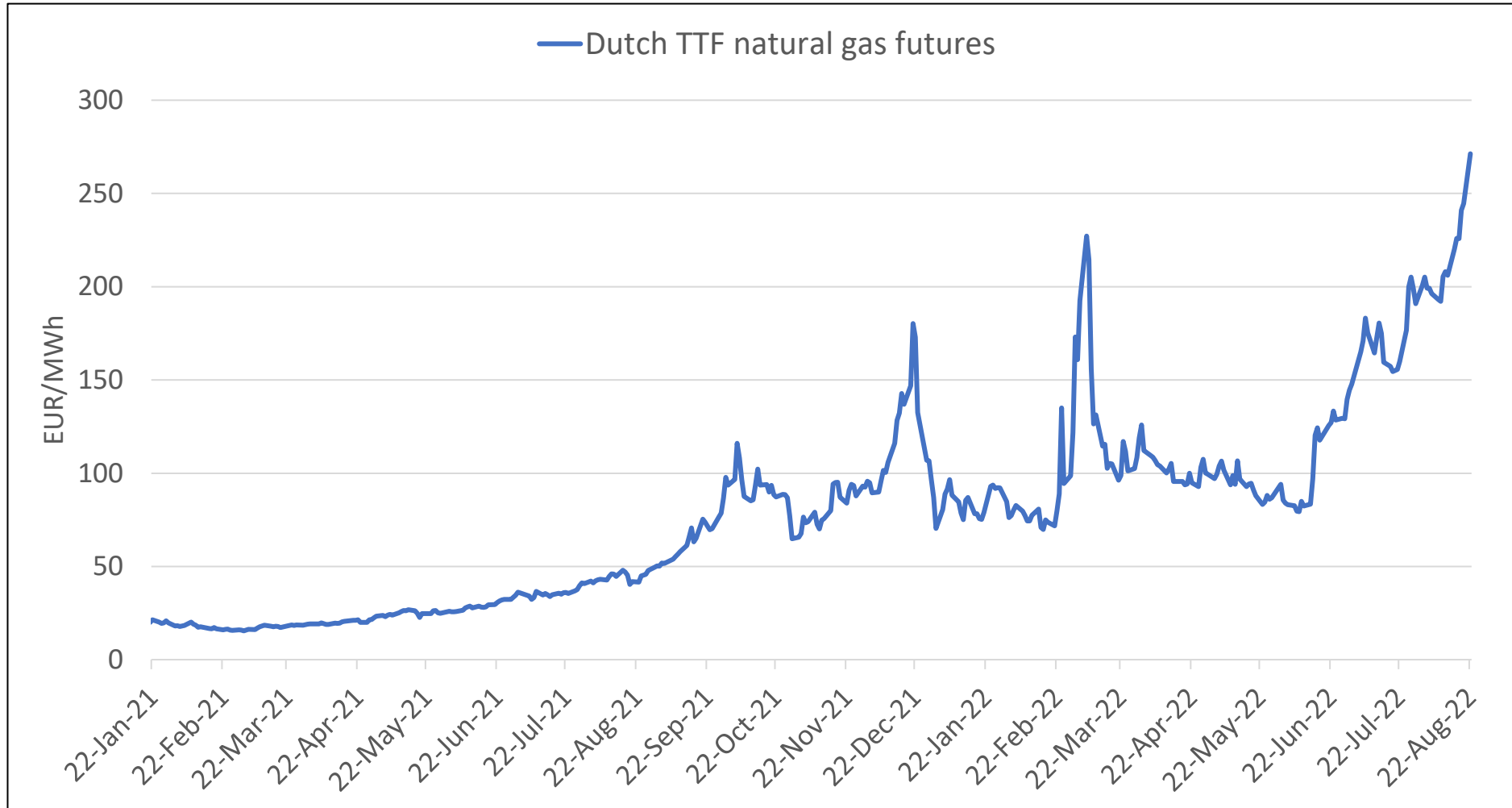
Source: Index Mundi, tradingeconomics

High prices for natural gas mean high prices for N-fertilizer



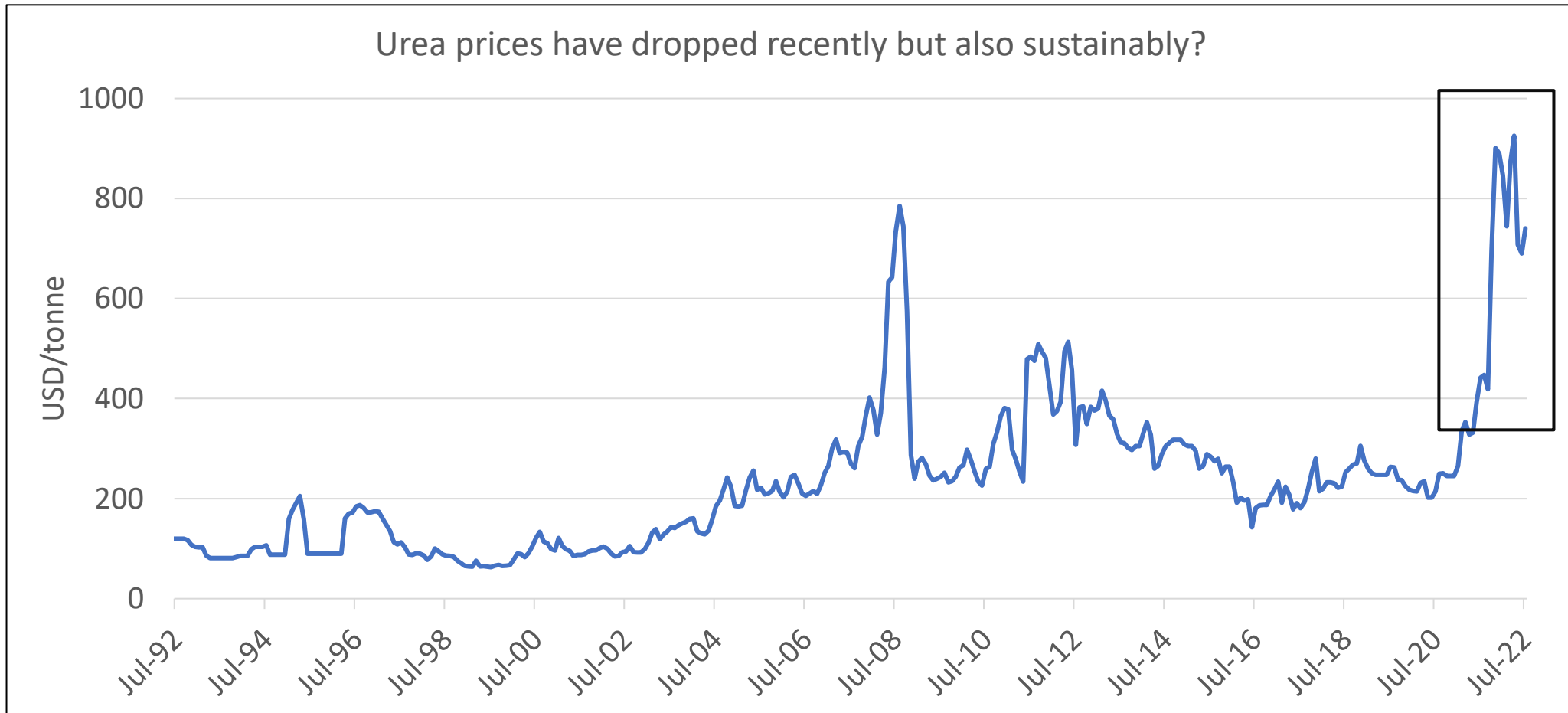
Source: Index Mundi

European natural gas price hits its all-time high



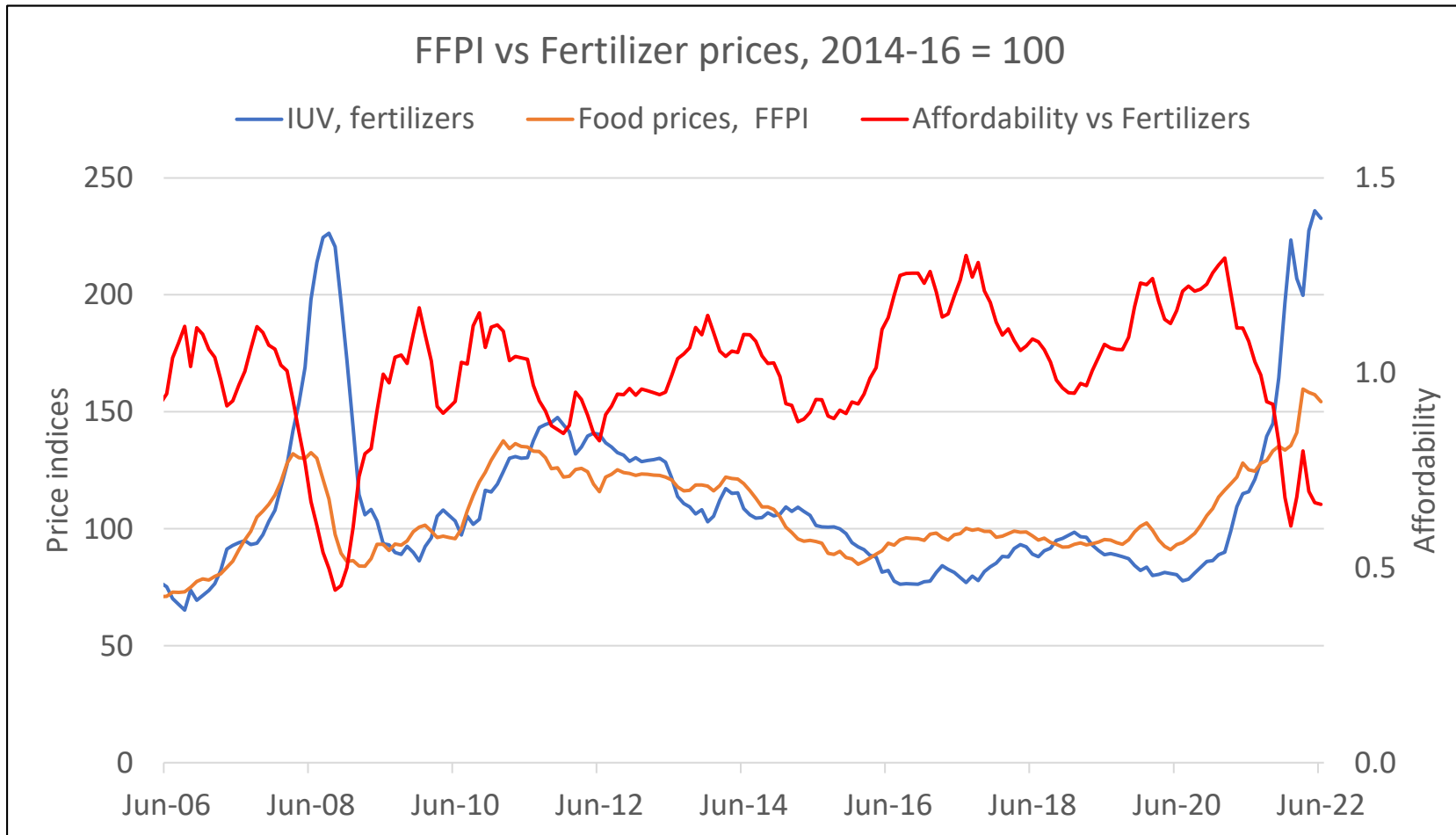
Source: tradingeconomics.com

Urea prices are high also by historical standards



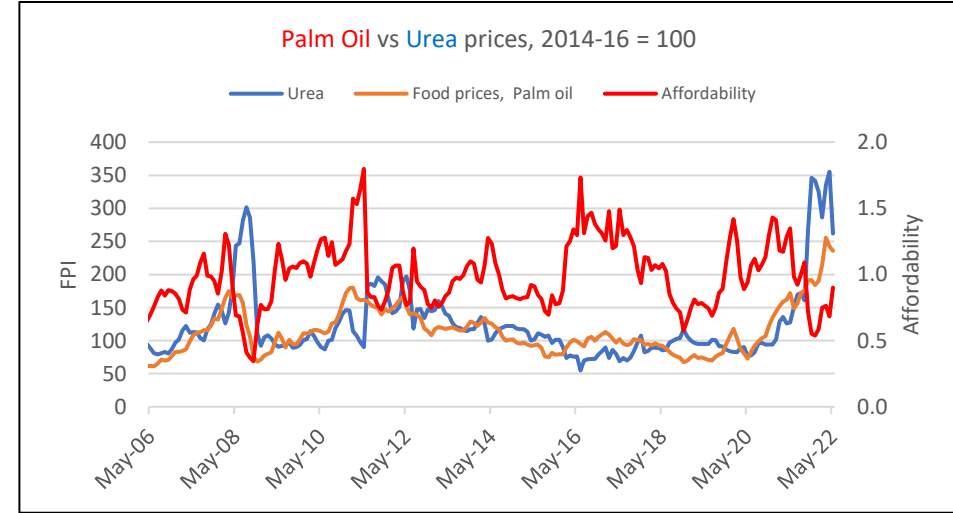
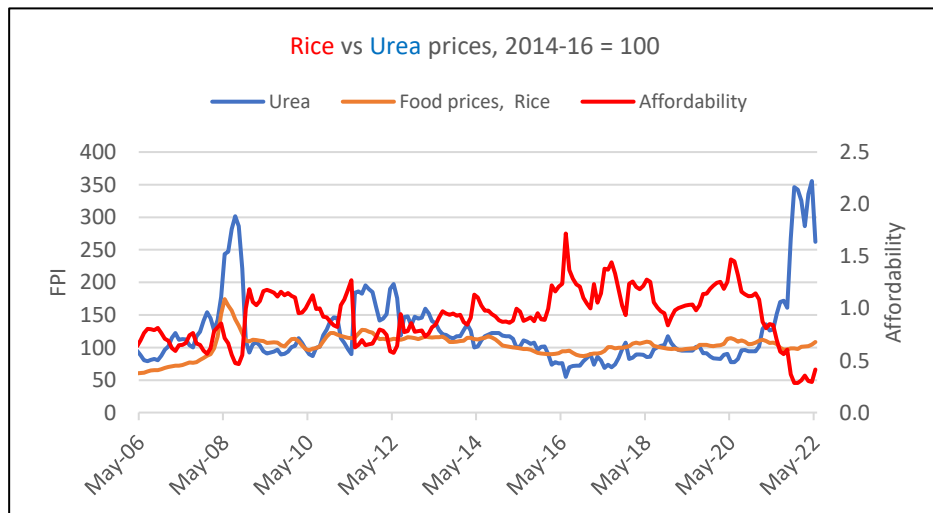
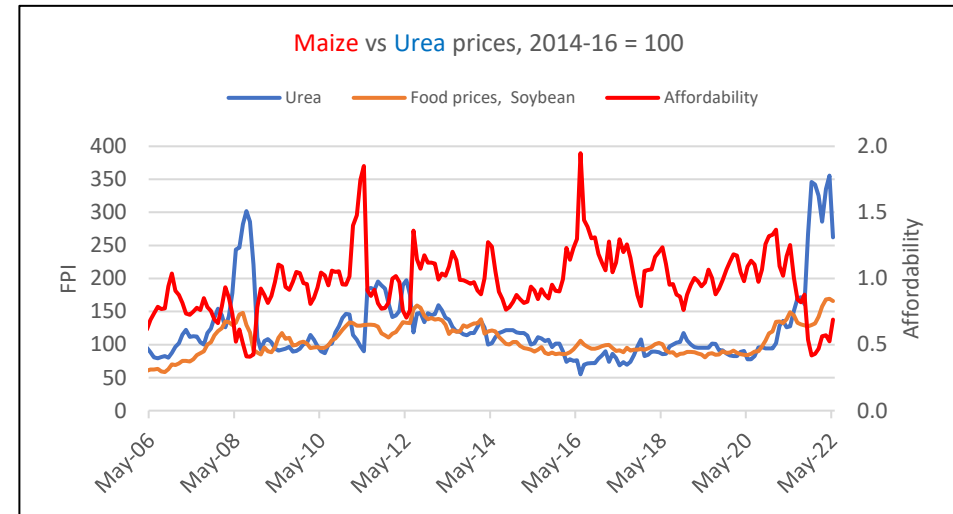
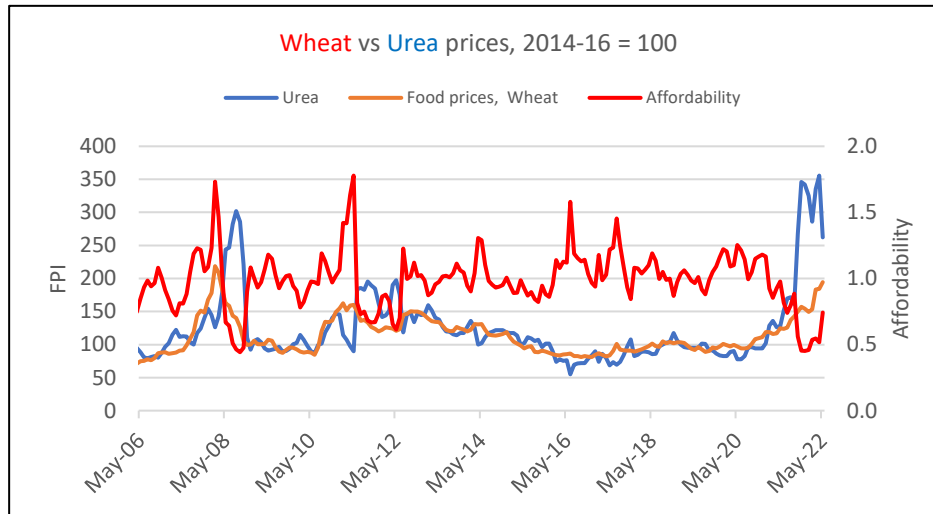
Source: Bloomberg, TDM, and author's calculations

Overall fertilizer affordability continues to decline ...



Source: FAO, TDM, author's calculations

... but urea affordability has taken a recent turn to the upside



Source: FAO, TDM, author's calculations

4. Back to the food markets:

The need for a Food Import Financing Facility (FIFF)

The basics of the FIFF

What is it?

- Special import credit line for the most vulnerable countries, BoP support for food imports
- Emergency measure to respond to the special challenges arising from the 2022 food price crisis

Why a FIFF?

- 2021: Soaring costs for food imports, higher US dollar exchange rates, growing debt crisis, resulting in high and rising food import bills, which threaten food security.
- FIBs rise only on account of higher prices, not volumes. More dollars, fewer calories.
- 2022: forecast that vulnerable countries see outright contraction in FIBs, demand “destruction”. They are already food insecure and hence could see further increases in undernourishment.
- Black Sea agreement fixes availability, but not access!

Why the focus on the demand side?

- Current crisis is mainly an access crisis, there is enough food to go around, but there is a lack of purchasing power.
- The FIFF is a demand-side measure addressing a demand-side problem

The basics of the FIFF

What would it cost?

- Maximum credit volume: ~US\$ 25 billion. For a concessional loan at 4% interest discount, this amounts to actual costs of US\$1 billion/a.

Why now?

- Help countries in crisis master their BoP challenges without sacrificing food imports
- Sustain food imports for LIC and LMIC without risking further increases in world food prices
- Avert the otherwise anticipated collapse in food imports in 2022 in the most vulnerable countries (LDCs in particular)

Who would be eligible

- 62 countries, 1.8 billion people
- Net food importing LICs, LMICs, and IDA countries as well as countries in acute BoP crisis

Who is eligible?

Income Group	FIFF eligible countries
Low	Mozambique, Syrian Arab Republic, Ethiopia, Guinea, Gambia, Liberia, Somalia, Yemen, Mali, Eritrea, Rwanda, Sierra Leone, Afghanistan ,Niger, Democratic Republic of the Congo, Burkina Faso, Sudan, Burundi, Central African Republic, South Sudan, Democratic People's Republic of Korea, Togo
Lower-Middle	Djibouti, Tunisia, Samoa, Mongolia, Bhutan, El Salvador, Kyrgyzstan, Sao Tome and Principe, Lesotho, Uzbekistan, Philippines, Cabo Verde, Egypt, Bangladesh, Viet Nam, Timor-Leste, Benin ,Senegal, Congo, Nepal, Pakistan, Comoros, Mauritania, Kenya, Sri Lanka*, Tajikistan, Lao People's Democratic Republic, Angola, Cameroon, Haiti, Nigeria, Zimbabwe, Cambodia, Lebanon
Upper-Middle (IDA only)	Grenada, Tonga, Maldives, Saint Lucia, Dominica, Saint Vincent and the Grenadines

Where are the FIFF details?

<https://www.fao.org/3/cb9445en/cb9445en.pdf>

<https://www.fao.org/3/cb9444en/cb9444en.pdf>

The basics of the FIFF

What are its main features/advantages?

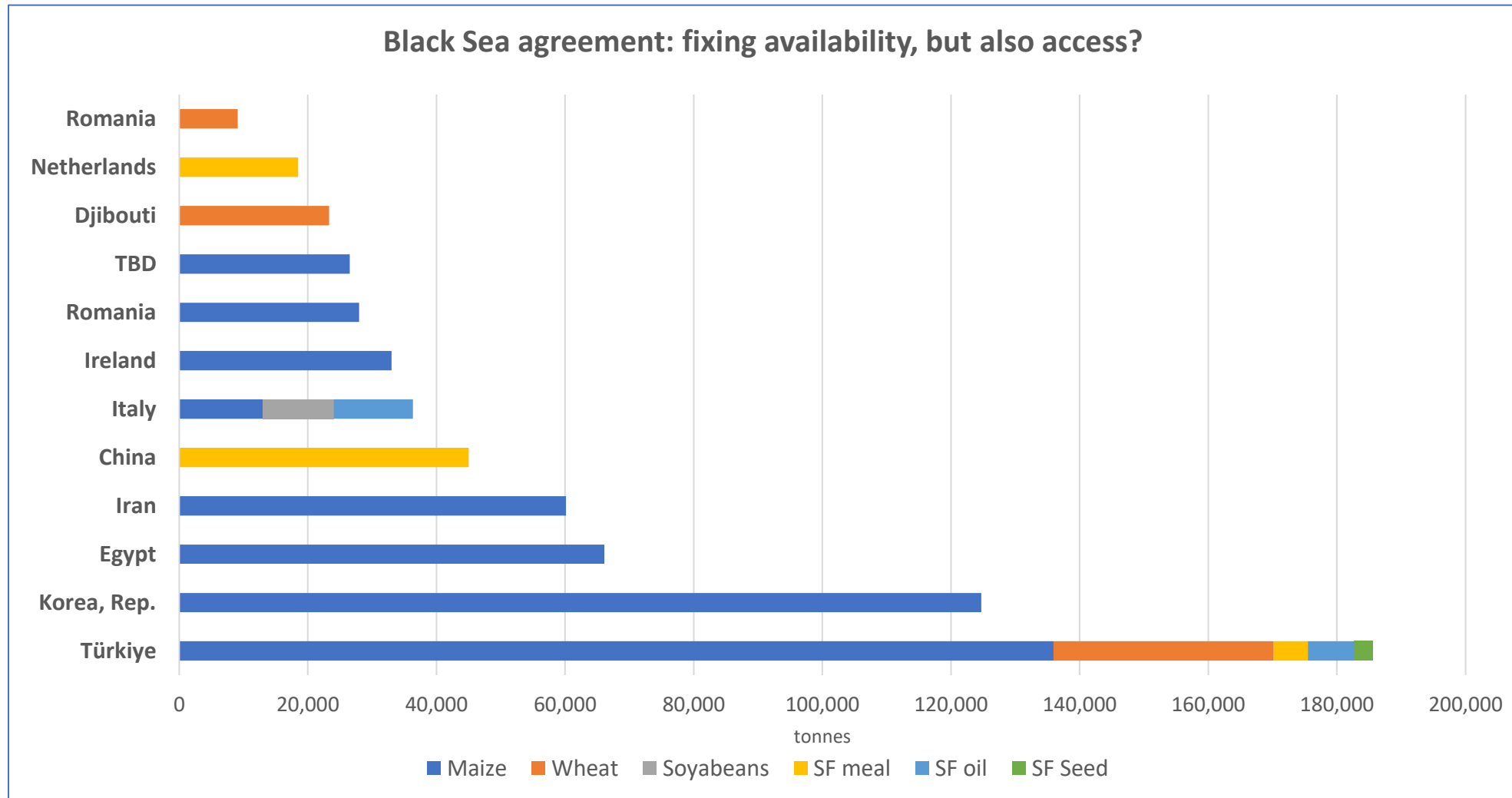
1. Strictly needs-driven: limited to net food importers in the low and lower middle-income country group (plus selected IDA beneficiaries).
2. Addresses the problem: Demand side solution for a demand related problem, i.e., providing access to food in a food access crisis.
3. Limited side-effects/distortions for world markets: Even at a max funding volume (US\$ 25 billion), the impacts on world market prices would remain limited (~15% price increase).
4. Easy to administer. BoP support at country level.
5. Easy to scale (more countries, etc.), but NOT to be extended to supply-constrained markets (fertilizer)
6. Smart conditionality: Eligible countries to commit to added investments in agricultural productivity, thus reduces future import needs. Act as an “automatic stabilizer”; it is fully consistent with the Malabo declaration and agriculture-led growth.
7. Covers the entire diet, not only cereals (as the CIF did).

What is the envisaged division of labour?

1. FAO: propose, analyze, monitor, early-warn, i.e., cover all normative aspects
2. IMF/IFIs: implement and finance: i.e., all operational tasks

The FIFF as a complement to the Black sea grain initiative

Black sea grain initiative: Addresses availability, but also access?



Based on: <https://www.un.org/en/black-sea-grain-initiative/vessel-movements>, 21.08.2022

5. Policy recommendations

Policy recommendations

1. Keep trade open for food, fuel, and fertilizer.
2. Avoid ad hoc policy reactions, export restrictions.
3. Diversify food supplies, import sources.
4. Implement a food import financing facility (FIFF) for the poorest and most affected countries.
5. Support vulnerable groups, provide humanitarian assistance.
6. Strengthen market transparency and dialogue, provide timely information.

Thank you!