

Ukraine Crisis Presents Another Challenge for Food Security

By Japan SPOTLIGHT

The food and nutrition crisis exacerbated by the war in Ukraine has started raising uncertainty about the health of the global economy, in addition to the energy crisis. This needs to be seen from a food access and availability viewpoint through quantitative analysis. FAO Chief Economist Maximo Torero gave *Japan SPOTLIGHT* his analysis in an interview on Oct. 20, 2022.

Impact of the Ukraine Crisis on Global Food Security

JS: The war between Russia and Ukraine could have an enormous impact on food security. Both nations are major exporters of very important agricultural products. On behalf of the FAO, how do you assess the impact of this crisis on global food security?

Torero: It's firstly important to understand that before the war in Ukraine the world was already facing challenges in terms of food security and nutrition. This was driven mainly by conflict and also economic slowdowns due to Covid-19, and by climate extremes and volatility which make it more difficult for farmers to make decisions. The war in Ukraine exacerbates this situation even more and the reason is twofold. First, the Russian Federation and Ukraine are top exporters of cereals to the world – 30% of cereals. By March almost two-thirds of that was already exported but the remaining one-third exacerbated the problem. As a result, prices of cereals reached a historical high in March of this year, according to the Fao Food Price Index. This puts significant pressure on food import-dependent countries. There are around 50 countries that depend more than 30% on imported cereals from these two countries and of those, 30 depend on more than 50%.

The second component that exacerbates the situation is that the Russian Federation is the top exporter of nitrogen in the world and third for potassium – so the war has created a reduction in the supply of fertilizers. Also linked to the energy sector, the price of natural gas has increased, especially to Europe. As a result of that, the cost of fertilizers has increased, and many nitrogen production plants in Europe have closed – almost all of them. Europe was previously a net exporter of fertilizers and is now becoming an importer. Although in the month of November there has been a reduction in gas prices and fertilizer prices to pre-war levels they are still significantly higher than at the equivalent time in 2021. This has put pressure on farmers, because affordability of inputs has increased substantially. Farmers cannot afford inputs and this could affect food provision in the long run.

In summary, essentially the situation this year is one of food access, meaning that because of higher prices it is more difficult for countries and farmers and for consumers to gain access. Also, input problems in fertilizer supply are triggering the potential risk of food availability for next year.

Possible Impact on Inflation

JS: Do you think these rising food prices could trigger global inflation?

Torero: Of course. March saw the highest-ever food price index, although it has declined in the last month. Even in the month of October we saw a decline in the food price index but food prices are still higher than what they were in the same month last year. This means prices have not declined enough and that will increase the access problem for consumers.

If you look at the 62 most vulnerable countries in the world, the import bill has increased by \$24 billion this year – meaning they will be able to import a lot less and lower quality of commodities. At the global level the import bill has increase nearly \$2 trillion due to increases in food prices and currency devaluation. Now how is this related to inflation? For developing countries where food is an important share of their consumption patterns because they have lower income, of course food is a component of their overall inflation and if food prices continue to be high that will affect the food inflation of such countries.

So we need to be very careful about this. While the war in Ukraine has exacerbated this situation, prices were already increasing before the war. It's very important to understand that. Now international food commodity prices are calculated based on a limited number of commodities and are based on a basket of consumption, so those commodities are increasing and that will create food inflation – which is what we have been observing lately.

Serious Impact on Developing Countries' Economies

JS: We have heard that developing countries would suffer from this price increase and limited access to food provision compared with developed nations. Could this crisis have a much more serious impact on the social and economic situation in developing countries?

Torero: Yes, because we need to understand that developing economies, especially low- and middle-income countries, today have a significant level of indebtedness. For them it's very difficult to access financial resources. If you look at the 62 most vulnerable countries in the world we are talking about the fact that their food imports have increased by \$24 billion and there are two sources of that increase: one is the increase in food prices because they are net food importing countries, and the second source is the exchange rate evaluation.

As the dollar becomes stronger because of the policies of increase in interest rates being put in place in the United States and Europe to reduce their inflation, the currencies of developing countries – especially low- and middle-income countries – lose value. As the currency loses its value, the nation's import bills increase. Increasing import bills are affecting 1.72 billion people (in the 62 most vulnerable countries). The challenge is how we can support these countries to cope with this increase in their food import bills. So what we proposed to help was what we called the “Food Import Financing Facility” (FIFF). This basically constituted a mechanism to be implemented by the International Monetary Fund (IMF) where countries can be supported if they have a proper balance of payments and then they can be helped to cover an increase in their food import bill.

The IMF has adopted this mechanism, which it calls the “Global Food Crisis and Food Shock Window”. It was approved on Oct. 5 and it is being implemented through the IMF mechanism approved by the board. Now the other element that we need to be careful of is that because of the increase in the food input bill and the lack of access to food this could also put pressure on countries and cause higher levels of social unrest. But our major concern this year is the food access issue for these vulnerable countries.

Long-Term Impacts

JS: As the war continues, perhaps its impacts will be increasingly serious. It might be very difficult for you to estimate the long-term impacts because we don't know yet when the war will end. But could you give a rough estimate of how serious this situation will be if the war is prolonged another year or so?

Torero: We must understand that we are in a world that already had 828 million people in 2021 that were chronically undernourished. There have been 150 million people more chronically undernourished because of Covid-19 in the last two years. In addition, in 2021 the world had 2.3 billion people that were moderately or severely food insecure. That is 350 million more compared to before the outbreak of Covid-19 – and in

a world where 3.1 billion people don't have access to a healthy diet. So in this context you have the exacerbation of the war in Ukraine and for sure the number of chronically undernourished people will increase and the number of people who don't have access to healthy diets will increase.

The question is how severe these will be and how much will it affect the future. Our initial projections were that the war in Ukraine will increase the number of undernourished people by 7.6 million and could rise even to 13 million more people. So in a moderate scenario we're expecting 7.6 million people to be chronically undernourished and in the severe scenario we were expecting 13 million people. We are now moving towards the severe scenario which projects a potential risk of food availability for 2023.

This is because of the second component that I referred to before, that of increasing import prices of fertilizers. If fertilizer prices continue to be as high as they are today and if there are more problems with global supply, then countries will produce less or with lower yields and that will affect food availability in 2023. This can further exacerbate the situation. The risk is that next year we will have a food access problem coupled with a food availability problem, which we are desperate to avoid. One of the commodities that was doing pretty well this year was rice. But with the increasing import prices the area planted for next year has reduced, and also you have the terrible flooding that happened in Pakistan which is the fourth main exporter of rice. And also you have export restrictions being imposed by India and as a result of that the price of rice is starting to increase. We need to track rice very closely because it is a major staple for Africa which is at the same time the first importer of rice in the world. Luckily the level of rice stocks is pretty high so that could help us to cope but we need to be very careful to track this commodity. The impact will be extremely important and if we look at the regular perspective in terms of today's baseline, the major impact will take place in the Asia-Pacific region followed by sub-Saharan Africa, and followed by the near east and North Africa for the year to come.

Prospect of International Cooperation in Resolving the Food Crisis

JS: What do you think about the possibility of international cooperation to mitigate this situation?

Torero: There are several initiatives in place. The secretary general of the United Nations created what we call the "Global Crises Response Group" which focuses on food, energy and financing. The secretary general was able to build the Black Sea Agreement (an agreement between Ukraine and Turkey and the Russian Federation and Turkey) which has been successful this year in delivering more than 10 million metric tons of cereals from Ukraine to the world. If you look at the distribution of mobility of grains as a result of the Black Sea Agreement, 50% is feed while 50% is food. As we accelerate the process the feed is increasing a little bit more than food and of that 25% or thereabouts is coming to low-income and lower middle-income countries.

This means that the agreement has helped to resolve the problem of farmers in Ukraine because they were able to export their grain. It has also helped to resolve the storage capacity issue because they were having restrictions on their storage capacity for the new harvest. It also helped to increase availability of cereals which is why initially prices fell a little bit, but now cereal prices have started to increase again because the agreement has to be renewed in November. If the agreement is renewed in November, we hope that the prices will reduce more but it is clear this alone won't resolve the food access problem. That is why we welcome the "Global Food Crisis and Food Shock Window" initiative of the IMF which is consistent with our food import financing facility proposal. So that's one area of international cooperation that has been progressing as a result of this agreement which we hope can be renewed.

There are also other initiatives. One is called the Global Alliance for Food Security (GAFS) Initiative led by the German government and the G7 which is trying to bring some coordination across different players and trying to bring some investment for emergencies and also for long-term and medium-term development. We also have the French Food and Agriculture Resilience Mission (FARM) Initiative and also an initiative from the BRICs and an initiative from the US which is trying to coordinate and bring countries on board to start a process of agrifood system transformation. Of course, you have interventions by the multilateral development banks, by the IMF and by many other multilateral and regional banks.

I think the only way we can have success within those international cooperation initiatives is if there is coordination. Our belief is that it is essential and central to coordinate initiatives so that we can gain complementarities and reduce overlapping. That is the only way I see this being able to help us to cope and to start the process of agri-system transformation that we need to put in place. Because we need to properly target all the different types of interventions and initiatives to specifically resolve problems. At FAO we are focusing on efficiency gains. For example, to resolve the problem of fertilizers, our proposal was to develop soil nutrition maps so that we can better target and reduce waste of fertilizers by identifying the proper blending. This is basically the difference between what the plant needs and what the soil has, so that we can satisfy the gap of nutrients.

We are also looking into improving the targeting of social protection programs because there are significant new hotspots of food insecurity that need targeting. It's not a traditional way so all the social protection programs need to update their rosters.

Third, we are looking at responding to the emergency situation in Ukraine, including by increasing storage capacity, protecting the seed banks and helping agriculture to continue to be produced throughout the country. All these require close coordination between the different multilateral organizations so that we can push a strategic and well-targeted plan to be able to cope with this situation. Finally, we believe we need to strengthen the efforts to reduce food loss and waste at the world level this not only will increase availability of fruits and vegetables but at the same time reduce GHG and improve the efficiency in the use of our natural resources.

FAO's Engagement with SDGs

JS: Regardless of the situation in Ukraine we have the issue of the SDGs. You mentioned that food provision had come to a critical point even before the Ukraine war started. I am curious as to what kind of work the FAO is doing for SDGs in light of food security?

Torero: If we look at the key SDGs – the ones that the FAO is custodian of – our mission is to focus on SDG2 which is hunger, and clearly we are far from achieving zero hunger which is what was agreed to achieve by 2030. Today we have 828 million people chronically undernourished and the number is increasing rather than reducing. If we continue this trend, we won't be able to achieve SDG2. Of course SDG1 is also a priority for us. We have observed that extreme poverty has also increased because of Covid-19, according to the World Bank. If we look at all the other SDG related to nutrition, we also see with very rare exceptions like breastfeeding that we are not on track and on path to achieve these SDGs. So what the FAO is doing is to try to accelerate agrifood systems transformation, working on better production, better nutrition, better environment and better life leaving no one behind.

The idea of those four betters is essentially that we need to accelerate productivity in such a way that we also have quality food and access to healthy diets but we need to do it in a sustainable way for the environment, in a manner conducive to achieving better lives. To achieve those we have our accelerators, which involve data, innovation and technology and also the complements which include governance, institution and building human capital. The FAO is trying to bring all these together in its Hand-in-Hand Initiative. The Hand-in-Hand (HIH) Initiative supports the implementation of nationally led, ambitious programs to accelerate agrifood systems transformations by eradicating poverty (SDG1), ending hunger and malnutrition (SDG2), and reducing inequalities (SDG10). It uses advanced geospatial modeling and analytics, as well as a robust partnership-building approach to accelerate the market-based transformation of agrifood systems – to raise incomes, improve the nutritional status and well-being of poor and vulnerable populations, and strengthen resilience to climate change. The Initiative prioritizes countries and territories where poverty and hunger are highest, national capacities are limited, or operational difficulties are greatest due to natural or man-made crises. Areas of intervention have included developing value chains for priority commodities, building agro-industries and efficient water management systems, introducing digital services and precision agriculture, reducing food losses and waste, and addressing climate challenges and weather risks. As of today we are working in 54 countries and 20 of those countries are bringing their investment

plans to target those areas where the FAO is planning the role of matchmaking to attract investment to those areas. So that's our means of implementation and if we are successful we will have 20 countries and up to 54 in the following year working toward accelerating the process of agrifood system transformation.

The other means of implementation is the hub of the food systems summit set up last year by the secretary general, and we are working toward transformation of the food system. Also, we have been working on country assessments after the dialogues that were developed where countries had developed their own plans of agricultural system transformation, which are complemented with country assessments. In this way we are working to develop investment plans so that we can accelerate that process.

Then we have two new strategies: One on climate change and one on science and innovation. These are part of our overall strategic framework and designed to accelerate the agrifood system transformation using technology and innovation, while being sustainable and finding ways through which agriculture can mitigate its significant greenhouse gas emissions, especially methane. This also involves finding ways in which agriculture can capture GHG emissions and help to achieve the climate change goals that we have in place.

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