

Rising food protectionism: who pays the price?

Prachi Agarwal and Yohannes Ayele

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Key messages

There has been a steep rise in food prices over the last few months across most major food categories, especially oils and cereals. Several factors contributed to the rapid spikes in food prices, including the impact of the pandemic on supply chains, recent climatic events like heat waves and droughts, the Russia-Ukraine conflict, and global economic uncertainty.

Countries are exceedingly concerned that the rise in domestic food prices could curtail their efforts to maintain food security among vulnerable population groups. This has led to increasing trade protectionist measures, such as export bans.

Instead of imposing short-sighted trade policy measures to restrict food exports, countries should formulate and implement policies that address long-term structural issues.

Acronyms

FAO	Food and Agriculture Organization
FDA	Food and Drug Administration
GMC	Genetically Modified Crop
GMO	Genetically Modified Organism
GTA	Global Trade Alert
UAE	United Arab Emirates
UN	United Nations
WFP	World Food Programme

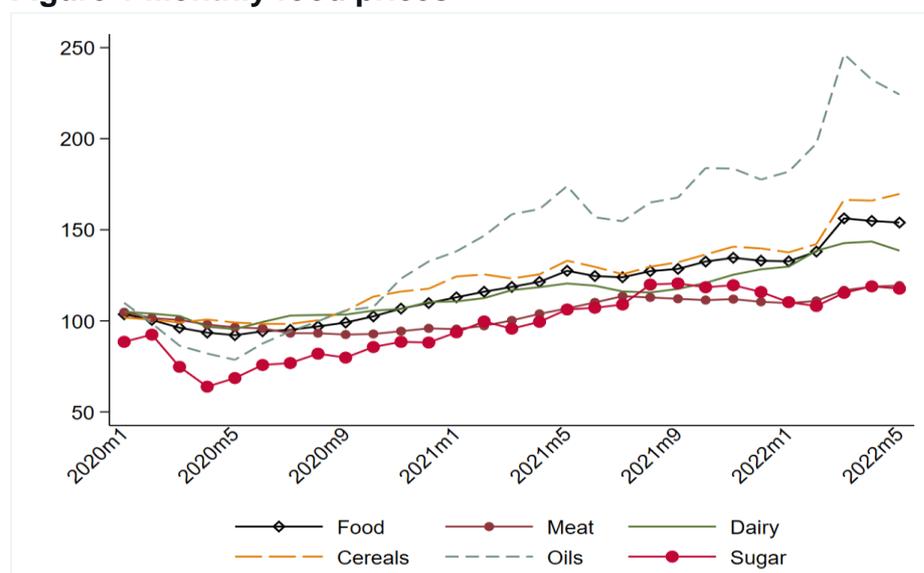
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1 What is happening?

There has been a steep rise in food prices over the last few months across most major food categories (see Figure 1). The increase is much higher in oils and cereals.¹ Several factors could have contributed to the rapid spikes in food prices, including the impact of the pandemic on supply chains, recent climatic events like heat waves and droughts, the Russia-Ukraine conflict, and the resultant global economic uncertainty.² One notable example can be made of the global wheat prices. Both Russia and Ukraine are large producers of wheat and the conflict that started in February 2022 led to massive shortages in supply, which drove wheat prices from approx. \$340 to \$490 per tonne between February 2022 to May 2022.

Figure 1 Monthly food prices



Source: FAO database

The disruption to global trade has led to a rise in food prices, and countries are exceedingly concerned that the rise in domestic food prices could curtail their efforts to maintain food security among

¹ Food prices refers to the weighted average of the five commodity group price indices—meat, dairy, cereals, oils, and sugar. The weight is the average export shares of each of the groups over 2014-2016. See <https://www.fao.org/worldfoodsituation/foodpricesindex/en/> for more detail information.

²<https://www.worldbank.org/en/news/statement/2022/05/19/joint-statement-g7-presidency-wbg-establish-global-alliance-for-food-security>

vulnerable population groups. As a result, we have seen a rise in trade protectionism in the last few months. Some recent examples include the rise in export taxes on soybean oil by Argentina, the ban on exports by Indonesia of palm oil, the Indian export ban on wheat, and the Malaysian export ban on chicken. Therefore, countries have manipulated trade policy to meet domestic needs and goals.

Trade policy can be both a part of the solution or the problem. Trade policy can, for instance, be used to allow free movement of goods and services across borders. On the contrary, as we have seen, it can be used to erect barriers that could hurt many countries at once. Recently, Ngozi Okonjo-Iweala, the Director of the World Trade Organization, has asked countries to end export restrictions on food products to combat the food crisis.³ Many countries, including India, have already pledged towards ending world hunger with the UN's World Food Programme (WFP), especially after the Russia-Ukraine conflict, but quickly backtracked on this and imposed export bans. In April 2022, the WFP reported that the number of people facing acute food insecurity doubled from 2019 to 279 million. Moreover, the conflict between Ukraine and Russia is forecasted to increase the number of people facing acute food insecurity by 33 million people, mostly in Sub-Saharan Africa.

³ <https://www.ft.com/content/bc81e1ae-821b-4f9d-8baa-a93c96e0a91a>

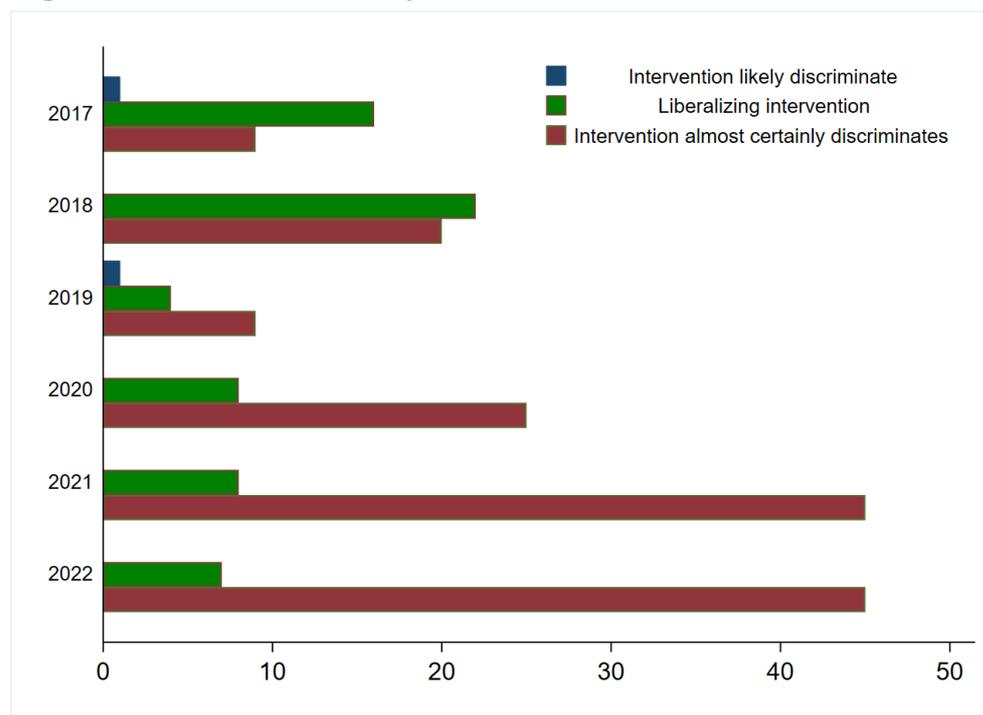
2 What does the data say?

The Global Trade Alert (GTA) database by St. Gallen University summarises the trade policy measures taken by countries that directly affect the agri-food sector, including, *inter alia*, export bans, export taxes, export licensing requirements, price stabilization measures, export-related non-tariff measures, export quotas, and local export supply requirements.⁴

2.1 Food trade restrictive measures

Although the media paid more attention to food export restrictions following the Russia-Ukraine conflict, data reveals that prior to the conflict, many trade restriction measures had already been in place for several years (Figure 2). For instance, over the last six years, countries have passed 155 policy measures that are still active and affect the food sector. Among these, only 65 policy measures liberalize food exports while the rest restrict food exports. Furthermore, data shows an increasing trend in food export restriction policies that rapidly gathered pace in 2021 and 2022 as a direct result of rising global uncertainty amidst the pandemic and the Ukraine conflict.

⁴ For the purpose of this analysis we restrict the study of trade policy measures that were still in force in May 2022.

Figure 2 Food Trade Policy events 2017-2022

Source: Global Trade Alert database⁵

2.2 Who is imposing these measures and why is it important?

As the world recovered from the first two waves of the pandemic, ten countries imposed 45 food restrictive policy measures in 2021, which increased to 19 countries in the first half of 2022.

The share of trade covered by these countries in world exports of these food products was 7.3% in 2021 and 18.36% in 2022,⁶ showing an increasing trend that impacted a larger number of countries that were reliant on imports of food products to maintain food security (see Table 1). The larger the share of the country passing the export restriction in the global exports market, the bigger the impact would be on international prices and supply. For example, Indonesia supplies 50% of the world's global supply of fats and oil, therefore when it imposed three restrictive measures on these products, millions of livelihoods were negatively impacted. Indonesia imposed export tax on palm oil, provided \$500 million under a price stabilisation scheme for cooking gas, and imposed export licensing requirements on crude palm oil and used cooking oil.

⁵ https://www.globaltradealert.org/data_extraction

⁶ Up till May 2022.

Table 1 Food export restriction by countries in each year (GTA database)

Country	2021			2022		
	No. of HS6 lines	No. of Policy measures	Share in global export	No. of HS6 lines	No. of Policy measures	Share in global export
Argentina	122	25	3.96	16	4	14.01
Australia				17	1	2.46
Belarus				2	2	0.19
Brazil	4	3	0.24			
China				4	2	1.25
EU				24	3	15.44
Egypt				7	2	1.10
Ghana				2	1	0.02
India	2	2	12.01	1	1	18.38
Indonesia	5	2	48.31	17	5	46.18
Japan				11	4	1.47
Kenya	2	2	3.00			
Malawi	1	1	0.04			
Malaysia	1	1	31.95			
Mexico	1	1	0.00	10	2	0.00
Pakistan				1	1	0.00
Russia	3	2	17.00	19	7	10.51
South Africa				5	1	14.13
Switzerland				1	1	0.88
Turkey	11	6	10.14	15	3	2.27
Ukraine				44	3	5.91
UK				9	1	9.80
USA				10	1	8.42
Total	152	45	7.31	215	45	18.36

Note: Share in global export is calculated as the share of exports of the country in targeted products to global exports of the same products. E.g., if Argentina puts export restriction on wheat, the share will be Argentina's export of wheat to the world divided by total world export of wheat.

2.3 What export measures are countries taking?

Food export restriction policies have taken different forms, such as export taxes, export bans, and export licensing requirements. Export taxes and export licensing requirements are allowed under multilateral arrangements, however some measures such as export

bans and quantitative restrictions are not permitted, with few exceptions on temporary and non-discriminatory bases.⁷ Countries are increasingly using export bans to combat the rise in food prices (see Table 2). For example, India's export ban on wheat. The share of trade affected by this measure increased from 1.4% in 2021 to 14% in the first five months of 2022. Furthermore, countries that introduced the export tax in 2022 include South Africa, Argentina, Indonesia, and Russia, where the total share of their combined exports to the world in products affected by the measure is 22.6%. In addition, Russia introduced a temporary export quota on sunflower oil and sunflower meal exports.

Table 2 Food export restriction by measures (GTA database)

Type of Restriction	2021				2022			
	No. of HS6 lines	No. of Policy measures	No. of Countries	Share in global exports	No. of HS6 lines	No. of Policy measures	No. of Countries	Share in global exports
Export Ban	2	2	2	1.41	129	24	14	13.99
Export Tax	128	28	4	6.69	26	7	4	22.60
Export Licensing	8	4	3	7.74	39	6	6	14.66
Export NTM	1	1	1	3.00				
Export Q	3	2	2	10.78	2	1	1	15.44
Export local					2	1	1	55.26
Export Stabilization	10	8	3	3.84	17	6	4	0.98
Total	152	45	15	7.31	215	45	30	18.06

2.4 Who is impacted by export restrictions on food?

Although the motives for imposing such food export restrictions could vary by country, the recent restrictions are primarily targeted to control domestic prices. For countries that impose export restriction

⁷ https://www.wto.org/english/tratop_e/covid19_e/export_prohibitions_report_e.pdf

measures, food prices may reduce for the domestic consumers as firms may decide to increase their domestic supply at the expense of the international market. As export restrictions in general create a price differential between domestic and international market, it adversely impacts farmers as they are unable to enjoy the potential windfalls from the rise in international prices. This also disincentivises any rise in agrarian productivity and discourages new investment in the sector that could raise efficiency and output. Farmer distress is also likely to increase as a result. For instance, farmer distress is already very high in India, especially after the farmer protests in 2020.

In addition, export restrictive trade policies aimed at protecting the domestic consumer may also trigger a response by other countries leading to a multiplier effect.⁸ This is the beggar-thy-neighbour domino effect⁹ that will exacerbate the world food crisis. But are these export restrictions only imposed to meet domestic food security? Perhaps, some countries realised that food exports can be used as a strategic tool to extend soft power on partner countries. For example, India imposed an export ban on wheat, but allowed exports to continue under special provisions to its South Asian partners Bangladesh and Sri Lanka, as well as the United Arab Emirates (UAE). What is particularly interesting is that these countries were already the largest importers of Indian wheat even before the ban. At least in the case for Sri Lanka, where people are facing massive food shortages and forced to skip at least a meal a day to manage the supply, India has stepped in with its generous aid and help. But is this for Sri Lanka's benefit, or for India's own benefit, i.e. to counter the growing dominance of Chinese investment in her backyard (South Asia)?

⁸ https://www.wto.org/english/res_e/reser_e/ersd201208_e.pdf

3 Conclusion and recommendations

The recent spike in food export restrictions by several countries is aimed at combating the recent rise in domestic food prices. While export restrictions may reduce domestic prices, at least in the short run, they are likely to worsen the global food crisis as more countries take measures to protect their consumers, or reciprocate. Indeed, export restrictions are counterproductive as they reduce the income of farmers who would have otherwise received higher revenues from the global market. This is particularly important for small and medium-sized farmers that are already in distress. Furthermore, under normal circumstances, a rise in the price of a good would lead to a simultaneous rise in its supply that would reduce the price of the good on the market. However, an export ban would reduce the incentive for producers to increase supply or even put their products in the market, which would contribute to the decline of food prices. In the long run, it may also negatively affect incentives to invest, and it may affect the overall supply of the product. What can then be done?

It can be recommended that, instead of imposing short-sighted trade policy measures to restrict food exports, countries should formulate and implement policies that address long-term structural issues. Perhaps countries can provide affordable food-storage infrastructure to farmers to increase stockpiling during peak seasons, in order to help meet demand during low seasons. If the overall aim of export restrictions on food is to control the rise in domestic prices, governments could directly provide cash benefits to consumers to compensate for increases in the cost of food. In the case where export restrictions are imposed to meet immediate domestic food shortages, affected farmers could be compensated through subsidies in farm inputs such as fertilizers, water, energy, in addition to direct tax benefits for the impacted year.

Another possible, yet controversial solution could be to lift restrictions on the imports of genetically-modified crops (GMCs) that will not only increase supply and ease inflationary pressures, but would also raise

the crop yield over the medium term and reduce the use of toxic herbicides. This move could then lead to fewer export bans to maintain domestic supply of affordable food in countries such as Argentina, India, Indonesia, Kazakhstan, and Malaysia.

In the US, 80% of maize and 90% of soy grown are already genetically modified. However, over the past years, questions have been raised about their safety for human consumption, but many believe that this concern could be due to the lack of information about GMCs.¹⁰ The US Food and Drug Administration (FDA) has taken several steps to ensure GMCs are safe for human, plant and animal health. GMCs, however, continue to be banned by most of the EU members¹¹ that require mandatory labelling of food products in case of genetically modified organism (GMO) traces.

A substantial part of the global grain production is also used for biofuel production. For instance, nearly 30% of the US maize and 7% of the EU grain production is destined for ethanol production, which means this grain is not used for food consumption. Similarly, between 34% to 48% of sugar production in Brazil is used for ethanol production. This decision is taken by individual firms and is enough to severely affect world sugar markets and stock trends. In 2021, biodiesel production in Argentina consumed more than 1.3 million metric tons of soybean oil that could have been used for exports and stabilizing international prices. Governments provide large subsidies and tax incentives for ethanol production. While it may have positive environmental implications, it adds pressure on the price for food. Perhaps a temporary restraint on such tax incentives could help shift some production towards food crop and combat the rise in food prices.

Other steps that can ease the food crisis faced by the world today include:

- Facilitation of food supply chains by creating “green channels” in storage, transportation, wholesaling and retailing services could ease supply-side pressures
- Regulating input markets to ensure affordable access (seeds, feed, fertilisers, pesticides, etc.)

¹⁰ <https://www.fda.gov/food/agricultural-biotechnology/how-gmos-are-regulated-food-and-plant-safety-united-states>

¹¹ 19 out of the 27 members have voted to partially or fully ban GMOs including France, Germany, Austria, Greece, Hungary, the Netherlands, Latvia, Lithuania, Luxembourg, Bulgaria, Poland, Denmark, Malta, Slovenia, Italy, and Croatia.

- Proper dissemination of information and relevant price indicators could reduce panic buying and hoarding
- Closer monitoring of food markets could provide early indicators and prevent wild speculations in commodity futures trading
- Application of safety nets and greater government procurement of food to ensure the most vulnerable populations are fed through public distribution systems.

If we are to learn anything from the 2008 crisis of rice, it is that unilateral trade bans are only going to worsen the dire situation the world is in. What the world needs is a cooperative step to increase food security in countries that are dependent on food imports, especially after the pandemic. In fact, recently, the G7 countries, along with the World Bank have pledged to undertake a concerted response to the unfolding global food crisis by helping countries to build stronger food systems and gradually transition to a sustainable agricultural production base.¹² This response could be in the form of contributing financial and other resources to support vulnerable countries. Moreover, large exporters need to be mindful of imposing export restrictions on food as they can have large and far-reaching effects on poverty and nutrition.

¹² <https://www.worldbank.org/en/news/statement/2022/05/19/joint-statement-g7-presidency-wbg-establish-the-global-alliance-for-food-security>