Facing up to a changing world

Coming back from the summer recess, things have not improved tremendously in the food sector across Europe. Our industry is still impacted by the unavailability of certain raw materials (mostly sunflower oil and grains), as well as growing costs for energy. This is being met by consumer insecurity as everyone else also feels the squeeze from rising energy prices and other high-flying inflationary costs - especially for some foods. **Sebastian Emig** wonders what's next

JUST when it seemed that the pandemic had given way to hope and healing, the world economy suddenly finds itself jolted by the drumbeats of war, rising commodity prices and a return to inflation.

When Russia invaded Ukraine in February, the initial panic was felt primarily in global energy and financial markets. But as the war continues, people across the world are anxious not only about the human tragedy in Ukraine itself, but also by the skyrocketing cost of providing food for their families.

Ukraine and Russia are major agricultural producers and exporters; Ukraine alone accounts for nearly 10% of global wheat exports. Ukraine also accounts for more than a quarter of the world's production of sunflower seed. With supply disruptions and fears of more to come, sunflower oil—a major derivate of sunflower seed—is witnessing sharp price hikes. With a war raging on its soil, a breakdown of internal transportation and a blockade on its coastline by Russian warships, the country's export shipments have been cut entirely. As we went to press, Turkey had brokered a maritime ceasefire to allow the export of agricultural products from Ukraine's beleaguered ports. However, Russian rocket attacks on Odessa soon threw the success of the already-fragile new agreement into doubt.

Russia too is an agricultural exporter with major shares in the global production of sunflower seed, barley and wheat (it accounts for 18% of global wheat exports, for example). While the war hasn't touched Russian soil and no sanctions have been imposed on Russian agriculture, potential buyers will likely face problems in payments, given that a large section of the Russian banking sector has been sanctioned (key Russian banks were excluded from the SWIFT payments system in March). As a consequence, the Food and Agriculture Organization's (FAO) price index for cereals shot up by 17.1% in Spring, while its index for edible oils rose by 23.2%.

The war is inevitably driving up the cost of food production. While fuel and transportation costs have gone up, so have the prices of fertilisers, which are essential to maintain crop yields. The uptick in prices isn't surprising since the price of natural gas—a key input in producing nitrogen-based fertilisers—rose by roughly 50% during the month on fears of supply disruptions due to the Ukraine-Russia conflict. There are also worries about disruptions to global fertiliser exports caused by sanctions on Russia and Belarus. Russia is a major exporter of nitrogen, potassium and phosphorous fertilisers, while Belarus, which had been under sanctions even before the conflict in Ukraine, is a major producer of phosphorous fertilisers.

As the conflict continues, it will impact the planting of new crops in Ukraine. The continuing blockade of the country's coast and the destruction of its ports and internal transport networks will keep the pressure on global food trade. Soaring fertiliser prices, meanwhile, may dent crop yields among farmers in major fertiliser importing regions. Since shipments from Russia and Belarus face disruptions, fertiliser importers from these countries could be forced to diversify or use alternate systems to make payments to the two sanctioned countries and that may not be easy.

Diversifying imports or boosting domestic fertiliser production also creates more uncertainty in the near term and risks eroding competitive advantage, thereby raising costs. Further, as food prices rise, so does the risk of export restrictions as countries try to protect domestic supplies. In April, for example, Indonesia put restrictions on palm oil exports, citing high domestic prices. While this will increase global palm oil prices, it will also push up prices of other edible oils and fast-moving consumer goods that use edible oil (including palm oil) as inputs.

With all that in mind, it comes as no surprise that food prices - as measured by the FAO's Food Prices Index - are at their highest level since the series started in 1990. In fact, food prices are expected to rise by another 20% this year before easing in 2023.

As prices surge, those at the lower end of the income ladder will be hit the most. Low-income households typically spend a higher share of their income on food items compared to middle- and high-income families. Furthermore, low-income households spend more on food types that have ▶

risen most in price. For example, staple foods such as cereals and breads constitute a higher share of diet of poor households and have recorded strong growth in prices.

The impact of food price inflation follows a similar pattern when comparing entire countries. Developing economies typically have a higher share of food in their overall consumer baskets-and hence in their Consumer Price Index (CPI)-compared to advanced economies. For example, food and beverages acount for 54% of CPI in Ethiopia compared to just 11.6% in the United Kingdom. Consumers in these countries will likely face a bigger hit, on aggregate, from rising food inflation than their counterparts in more affluent countries. Also, food is a necessity compared to other consumer goods and a broad price rise across key food segments—as evident from the FAO indices—means that people won't be able to substitute cheaper products for more expensive items. The result may be weakened discretionary spending, especially for low-income households, and high fuel prices will only aggravate the situation.

Rising food prices come at a time when economies have just emerged bruised from two years of a pandemic. During this period, as economic activity faltered, many governments stepped up to support consumers and businesses. Consequently, debt and deficit levels have risen on average across the globe.

For developing nations, however, the deterioration in the fiscal situation also comes at a time when debt-servicing costs are set to increase as the world's major central banks tighten up their monetary policy by raising interest rates. Such fiscal stress will restrict the ability of these countries to provide relief to their people through subsidies and transfers. Currency weakness for some may raise the burden of purchasing food in the global market where most commodities are priced in dollars. These battered economies therefore run the risk of something even worse-economic and social instability. Isolated incidents of protests, driven by soaring food and fuel prices and the pandemic's economic fallout, have already been reported from various parts of the world.

All things considered, the projections for this and the following year are bleak, to say the least. For us Europeans, there's the added threat of the ongoing war in Ukraine with Russia cutting the gas supply to Europe. That creates a tremendous sense of insecurity that will make consumers think more than twice when planning their spending. According to some recent surveys in several key European markets, shoppers try to tackle inflationary increases mostly by tightening their belt when it comes to food shopping, and the first things to cross off their shopping lists might well be discretionary products.

BEST SNACKEX EVER!

In spite of the gloomy backdrop, many of you will be aware that there is also some good (no, excellent) news that I am happy to report: SNACKEX 2022 was our biggest and best show ever!

After an unfortunate delay of one year due to COVID, the show was brimming with exhibitors that were met with an unparalleled number of professional visitors. Having talked to many exhibitors, they were extremely happy with the quality of visitors and buyers, and most of them will book a stand at SNACKEX 2024, which will take place in Stockholm, Sweden.

I want to thank my entire team for their great commitment and determination to make this show such a successful event. In particular, I'd like to thank my colleague Veronica Yakicioglu who is responsible for the lion's share of the organisation and has taken the show from success to success!

We're always looking ahead and it's never too early to start preparing for the next event. We're ready to start selling stands for the Stockholm 2024 exhibition this autumn, so if you want to grab a good location, I'd advise you to do it as soon as possible.

Director General Sebastian Emig*
*in his capacity as permanent representative of Prime Consulting BXLBCN SL