Food and Agriculture Organization of the United Nations

Eighth annual meeting of the Agricultural Trade Expert Network in Europe and Central Asia - Focus on Central Asia and the Trans-Caspian route

REPORT

Background

Disruptions in agrifood trade and rising food and agricultural input prices, driven by the economic fallout from the COVID-19 pandemic and exacerbated by the economic consequences of the war in Ukraine, have led to a worsening food security situation globally and in the region and volatility in markets for food and agricultural inputs. The Central Asia region already has high exposure to disruptions in trade within the region, and any additional shocks from droughts or other adverse events could result in a decline in domestic food production, further trade flow disruptions, and deterioration of food security in the region. For countries with relatively high levels of undernourishment and high dependency on food imports, any reduction in supplies due to production shortfalls or export restrictions will pose a significant threat to food security.
Since March 2022, due to disruptions in trading via Black Sea ports that have affected Central Asian exports, particularly grains from Kazakhstan, there have been discussions among policymakers and experts on finding alternative routes through Caspian ports that would offer the shortest access to European markets via the Caucasus. Therefore, the importance of the Trans-Caspian shipping route is rapidly increasing, creating an opportunity for Azerbaijan and Georgia to expand their role as a transportation hub between Central Asia and Europe. Apart from the needed investments into infrastructure development, there is also an imperative requirement for streamlining customs processes, improving transparency, launching transport-related joint ventures and optimizing intermodal infrastructure.

On 30 November 2022, FAO facilitated the 8th annual meeting of the Agricultural Trade Expert Network (ATEN), where the members of ATEN, as well as guest speakers, had the opportunity to discuss the implications of the current geopolitical situation for agrifood exports and imports in Central Asia, as well as trade opportunities for the countries along the alternative transport corridor – the Trans-Caspian route.

Agricultural Trade Expert Network (ATEN) was established in December 2014, under the auspices of FAO's Regional Initiative on Transforming food systems and facilitating market access and integration in Europe and Central Asia. The Expert Network, supported and facilitated by FAO, generates and exchanges knowledge on issues related to agricultural trade and helps to develop regional capacities in this area in the countries of Eastern Europe, Caucasus and Central Asia.

Impact of the war in Ukraine on agricultural markets and trade and countries' policy responses

The meeting started with an opening address by Iryna Kobuta, FAO Economist from the Markets and Trade Division (EST), Italy and Cheng Fang, Economist from FAO's Regional office in

Europe and Central Asia, Hungary. The opening session was followed by a presentation from Alfinura Sharafeyeva, FAO consultant, on major trends in agrifood trade flows in the Central Asian region and developments in 2022 after the beginning of the war in Ukraine. The key highlight of the presentation is that trade with the Russian Federation and intra-regional agrifood trade are critical for meeting the food needs of the populations of Central Asian countries. At the same time, most of the region's countries are highly dependent on imported food products and key agricultural inputs. Among the five Central Asian countries, Tajikistan is most dependent on imports to meet the caloric intake needs of its population. Central Asian countries import various agrifood products from the Russian Federation. Still there is a noticeable dependency of the region on sunflower-seed oil with a 10 percent share in the region's aggregate imports of this product, reaching 300 000 tonnes, with only 95 000 imported from other countries in 2021. Exports from Ukraine to Central Asia are relatively small, taking 3 percent of total agrifood imports in the Central Asian region, with malt extract ($47 million), and chicken cuts and edible offal ($46 million) accounting for the largest share of the region's agrifood imports from Ukraine in 2021.
Next, Irina Klytchnikova, Economist from the World Bank, reported that food insecurity is a significant concern across the region. Undernourishment rates may significantly increase depending on the severity of the continuing impacts of the war in Ukraine, the trade sanctions against the Russian Federation, and rising fertilizer prices. Vulnerable populations, especially women and children, will bear the brunt of the impacts. Although, as of October 2022, the worst expectations of the impact of rising commodity prices and trade disruptions on food security in the Central Asian region have not yet materialized.

The presenter highlighted that food prices were already rising in Central Asia before the war. As of March-June 2022, domestic prices on selected food products in Central Asia generally followed trends in international prices, particularly reflecting the price spikes for commodities exported by the Russian Federation (wheat flour, sugar and sunflower oil), and the effect of export restrictions by the Russian Federation and Kazakhstan on price growth. Central Asian governments have implemented steps to temper food price increases. In April 2022, to ensure food security, the government of Kazakhstan also introduced an export quota for wheat and wheat flour. The quota was subsequently lifted as of 14 September 2022.

Inna Punda, FAO Economist from the Investment Centre, discussed the main challenges of the milk and meat markets in Central Asia, using an analysis of the market disruptions due to COVID-19. The presenter highlighted that the milk and meat markets suffered due to supply chain disruptions, and as a result, there were shortages of input supplies. Combined, all the market shocks resulted in sharp increase of the food prices.

Discussants to the first session of the meeting, the ATEN experts from Georgia, Kazakhstan, Uzbekistan, confirmed the increasing food prices as a result of the market uncertainty and the unfolding war in Ukraine. Particularly, there was price spikes for wheat flour in all three countries, as well as sugar prices in Kazakhstan and Uzbekistan. Countries had to adopt policies to control the minimum price ceilings, find alternative suppliers of sugar, specifically increase imports from Brazil. Additionally, Kazakh officials supported the initiative to increase sugar beet plantings by three times and guaranteed subsidies to the sugar beet industry over the next four years. Also, discussants reported that countries faced disruptions in logistics and transportation due to the war in Ukraine, which forced countries to search alternative routes, such as the Trans-Caspian transportation route.

Trade facilitation measures and opportunities for the development of the Trans-Caspian transportation corridor

Hence, the second session was dedicated to the discussion of trade facilitation initiatives in Central Asian countries, as well as the development of alternative transportation routes in Central Asia that would avoid traditional routes through the Russian Federation. Moreover, the session opened the floor for the discussion of the opportunities for Azerbaijan and Georgia that arise with the development of the Trans-Caspian route.

Zulfia Karimova, representative from the Central Asia Regional Economic Cooperation (CAREC) Program, Asian Development Bank, stated that the overland route through the Russian Federation and Ukraine has always been a popular option for transit goods between Europe and Central Asia. However, the ongoing war in Ukraine and the sanctions to the Russian Federation caused many negative consequences, such as:

- diversion of transit away from Russian and Ukrainian territory;
- higher freight cost due to surge in transport insurance;
- diverted traffic resulted in a surge of traffic to Black Sea ports such as Constanta and Varna, but created long dwell time and long queues;
- it is also challenging for overseas suppliers to use the Baltic seaports such as Klaipeda and Riga as they need to transit across Russian territory.

The presenter has noted that despite the optimistic discussions, the Trans-Caspian route is perceived to be cumbersome and expensive. The need to use multi-modal modes implies extra fees in trans-loading onto and off vessels and additional paperwork and is subject to delays due to adverse weather.

Hence, there is still a need for collaborative work on the development and streamlining the transportation via the Trans-Caspian route, but also for finding other efficient alternative transport corridors. For, example, through Türkiye, Mersin-Samsun route is a possibility. International traders can send the goods to Mersin seaport in Türkiye, transport them to Samsun at the Black Sea, and then continue to Poti in Georgia. The issues are that the infrastructure, assets and professionals may not be available on the alternative route. For instance, the shipment of live cattle to Central Asia requires specialized vehicles, equipment and staff to manage the process, otherwise the livestock will suffer or even die. When transit across the Russian Federation is impossible, the transit countries in the alternative route do not have the capacity to conduct those shipments.

Another issue related to transportation via different trade routes is the need for real-time information communications. Track and trace are paramount since shipping food items often involve time-sensitive deliveries. The region requires a stronger and more effective means of exchanging information. Transparent communication is especially needed between international freight forwarders, shippers, customs brokers, customs administrations, and the logistics players, such as land border agencies, seaport authorities, shipping companies, railways operators etc. Currently, the Central Asia Regional Economic Cooperation (CAREC) Program is working towards implementing a regional harmonized electronic system to control the movement of goods in transit through the member states. This initiative would contribute to trade facilitation in the region.

Leila Batyrbekova, Advisor-Representative in EU, ICP “Transport Corridor Europe-Caucasus-Asia “TRACECA”, shared that despite some increase in trade along the Trans-Caspian route in 2022 as compared to 2021, the actual container shipments along this route by rail were lower than historical trade. In 2022, volumes of tomato paste and frozen chicken increased among the food product shipments along this route. The critical issue of lower use of the Trans-Caspian route is small containerization. Hence, the potential use of the route for shipments from Asia to Europe is not fulfilled. Collaborative work of the governments, international agencies and other stakeholders, as well as improved infrastructure, are the critical factors in developing this route. The expert from Azerbaijan, Elchin Atababayev, mentioned that the transit cargo volume of Azerbaijan via the trans-Caspian corridor increased by 75 percent in 2022 (from 8-9 million tons in 2021 to 14 million tons in 2022). Zalina Enikeeva from the University of Central Asia shared that Kyrgyzstan is building several new routes. Also, as part of the TRACECA program, Kyrgyzstan is receiving support in developing four transport corridors. The country actively participates in the discussions on improving cross-border trade and is a beneficiary of support from the CAREC program.

Challenges and opportunities: Perspective of agribusiness

In the concluding session, Tilek Zhumaliev from Kyrgyz Agency of Development and Investment and Alfiya Musina, Country Director, USAID’s Trade Central Asia Activity, Uzbekistan, shared their opinions on the policy responses of the governments to the food markets crisis. Both speakers highlighted the importance of an open dialogue between the governments and agribusiness to ensure a collaborative approach to addressing the food security issues in the region.

Meeting wrap-up

The meeting helped to understand better the current trends and challenges affecting agrifood trade and food security in Central Asia and outlined possible responses. ATEN members, as well as guest speakers from various international organizations/programmes (World Bank, CAREC, TRACECA), have had an opportunity to engage in a dialogue on the effectiveness of the adopted trade-related measures in response to the market volatility and further directions for agrifood trade policies and strategies in the region. Additionally, the USAID representative proposed to organize a follow-up joint event in 2023.

Prepared by ATEN Secretariat.