



Food and Agriculture
Organization of the
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World Food
Programme

PACIFIC ISLAND COUNTRIES

Impact of rising costs of food, feed, fuel, fertilizer and
finance Bulletin

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Introduction

The indirect impact of rising wheat prices and the impacts resulting from increased energy and transport costs and other goods are affecting Pacific Island Countries (PICs), significantly threatening Pacific governments' ability to maintain their current food system pathways. As people in the Pacific struggle with covering the costs of rising food and fuel prices, their food security and livelihoods are put at further risk. The Food and Agriculture Organization of the United Nations (FAO), in collaboration with the World Food Programme (WFP) and other United Nations agencies, is supporting ten Pacific Island government authorities in increasing their technical capacity to analyse, predict, plan, and respond to the impacts of the global crisis of food, energy and finance on national food systems. The joint initiative aims at strengthening data collection and analysis, government capacity and cooperation with international financial institutions (IFIs) and development partners to understand, predict and respond to the impact of the war in Ukraine on agriculture and food security. This bulletin gives a snapshot of the ongoing FAO and WFP joint work on data collection and analysis, reflecting unfolding impacts of the food, feed, fuel, fertilizer and finance (5F) crisis on agrifood systems in the Pacific throughout 2022.

Background

PICs are characterized by small economies, many dependent on tourism, remittances, foreign aid, imported food and other commodities. PICs have critical food systems that significantly contribute to the global food supply chain with commodities such as tuna. Although almost no cereals are grown, wheat-based foods and rice play a big role in the diets of their populations, substituting traditional staple foods like taro, breadfruit and cassava. PICs are increasingly dependent on international trade due to shifting consumption patterns and economic growth, making supply chains easily disrupted, simultaneously affecting both import and export activities. PICs operate under numerous bilateral and multilateral trade agreements.¹ From an export perspective, regional trade is often developed with international markets where Pacific Island communities reside (Australia, New Zealand and other inter-island migration). Exports are also traded with nations that hold relationships with the Pacific Islands through trade agreements or other political relations and inter-governmental support.

PICs face numerous challenges, among them the highest global rates of non-communicable diseases (NCDs) and food systems highly vulnerable to climate change and subsequent weather-related events, impacting livelihoods and food security. Additionally, unlike other parts of the world, the impacts of the COVID-19 pandemic are also unique for PICs, leading to a near total economic paralysis for the region, with far-reaching ramifications for agriculture and food security.

¹ Pacific Island Countries Trade Agreement (PICTA), the Cotonou Agreement, the Melanesian Spearhead Group Trade Agreement (MSG), and, most recently, the Pacific Agreement on Closer Economic Relations (PACER) Plus.

Figure 1. Origin of food imports

Commodity/products	Import source
Wheat for flour	Australia, United States of America (seldom)
Flour	Australia
Rice	China, Viet Nam, Australia, United States of America (for North Pacific region)
Sugar	Australia, New Zealand, China, Thailand, India, Fiji, Brazil
Frozen chicken	United States of America, South America, Australia, New Zealand, some European countries
Fruit and vegetables	Australia, New Zealand, United States of America, neighbouring Pacific Islands

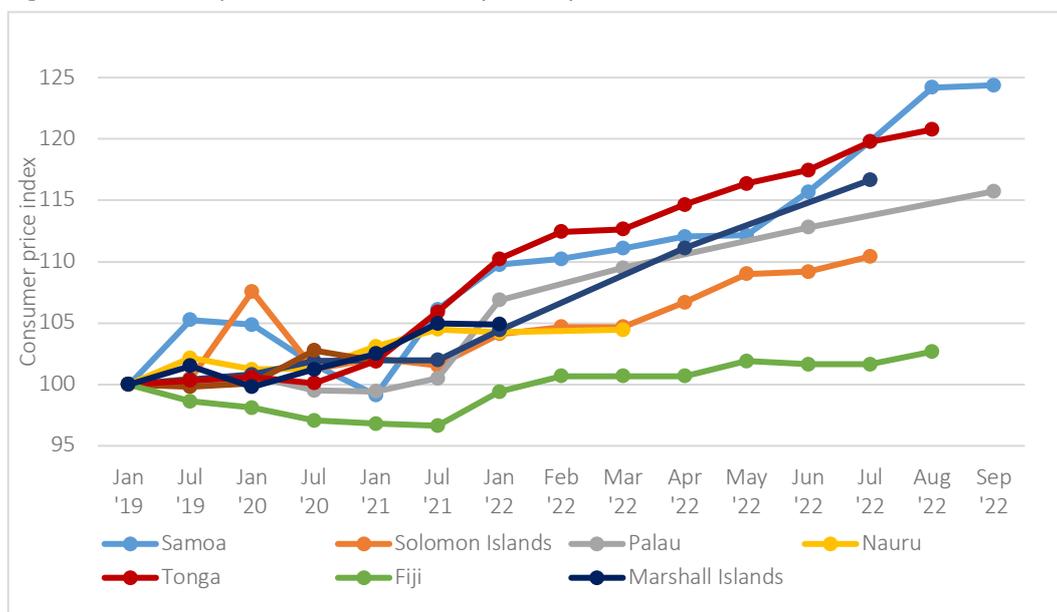
Source: Asian Development Bank (ADB). 2022. *Pacific Economic Monitor — August 2022*. Manila, ADB. <https://www.adb.org/sites/default/files/publication/814231/pem-august-2022.pdf>

Consumer prices and inflation

Many Pacific Island Countries showed increases in consumer prices in late 2021, with their consumer price index (CPI) rising to unprecedented levels by mid-2022.

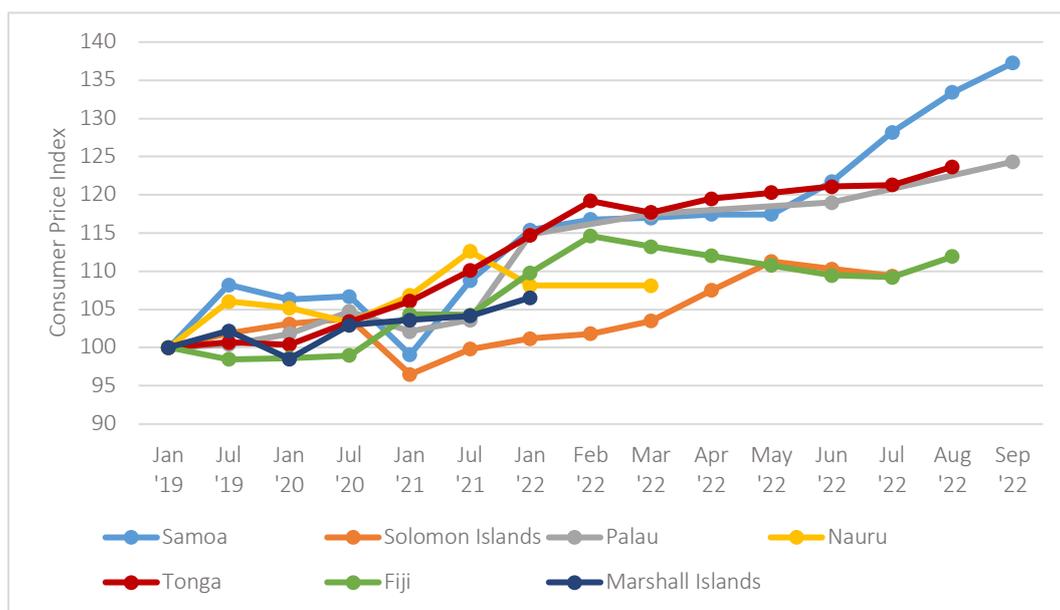
The major contributors to the increase of the CPI are transport, housing, electricity, gas and fuel, imported food (chicken, cereals, and canned food) and services directly related to changes in fuel costs. Rises are notable and worrisome, impacting not only the poorest, but also supply chains and overall cost of living of the population. All sectors (private and public, production and services) are affected, with, in some cases, reduced provision of extension and advisory services, decreased workload of government services, and shifts in population consumption patterns, ultimately affecting economic growth.

Figure 2. Consumer price index 2019–2022 by country



Source: Authors' own elaboration.

Figure 3. Consumer price index (food only) 2019–2022 by country



Source: Authors' own elaboration.

Food prices

In many cases, price increases to date in 2022 were equal to or greater than the price increases witnessed over the past two years of the COVID-19 pandemic.

High food prices tend to bring about two contrasting phenomena: 1) households tend to increase their production and consumption of local produce as we have seen through focus group discussions across Samoa, Palau and Nauru; and 2) consumers opt for cheaper, often less healthy, food options. This is often the case with more vulnerable families and those without access to arable land.

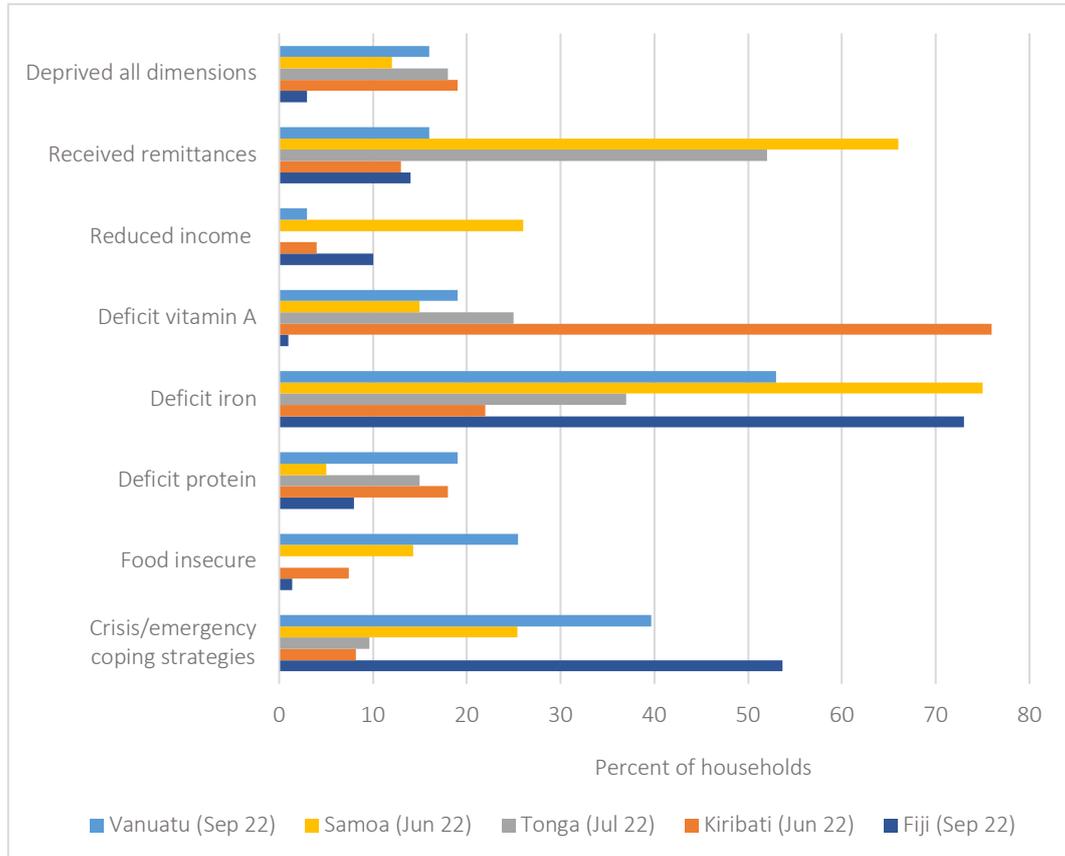
Data from nationally determined nutritious food baskets show that in some countries it is 50 percent more expensive to procure healthy meals for one's family than it was a year ago.

Food security, nutrition and livelihoods

Since 2020, WFP has been monitoring food security, nutrition and the livelihood situation for Fiji, Vanuatu, Tonga, Kiribati and Samoa. A significant proportion of households have a poor to borderline food consumption score in Vanuatu (36 percent) whereas in Samoa and Kiribati, households reduced their intake of fruits and vegetables, due to issues with supply chains coupled with inflation on most basic commodities. Overall, there is a notable shift in household consumption patterns to address financial needs, resulting in an inadequate intake of iron, protein and vitamin A. In addition, the methods used to obtain food might not be sustainable in the long term. A critical concern is the increase in negative coping strategies that is being identified in all countries during the second half of 2022. While the households were initially spending their savings and borrowing money during the first quarter of the year, they have now resorted to reducing their health and education expenses, depleting their assets (Samoa) or begging (Vanuatu), which have immediate negative consequences but are also making them

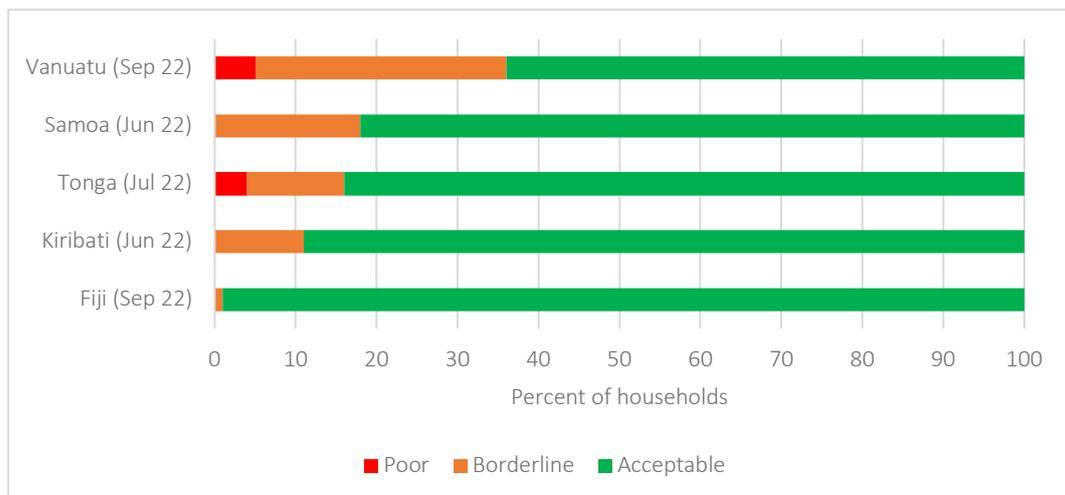
extremely vulnerable to future shocks. In such a context, remittances play a pivotal role in supporting households' income, with Tonga and Samoa showing the highest rates of households receiving remittances (52 percent and 66 percent respectively).

Figure 4. Food security, nutrition and livelihoods situation (June–September 2022)



Source: Authors' own elaboration.

Figure 5. Food consumption score (June–September 2022)

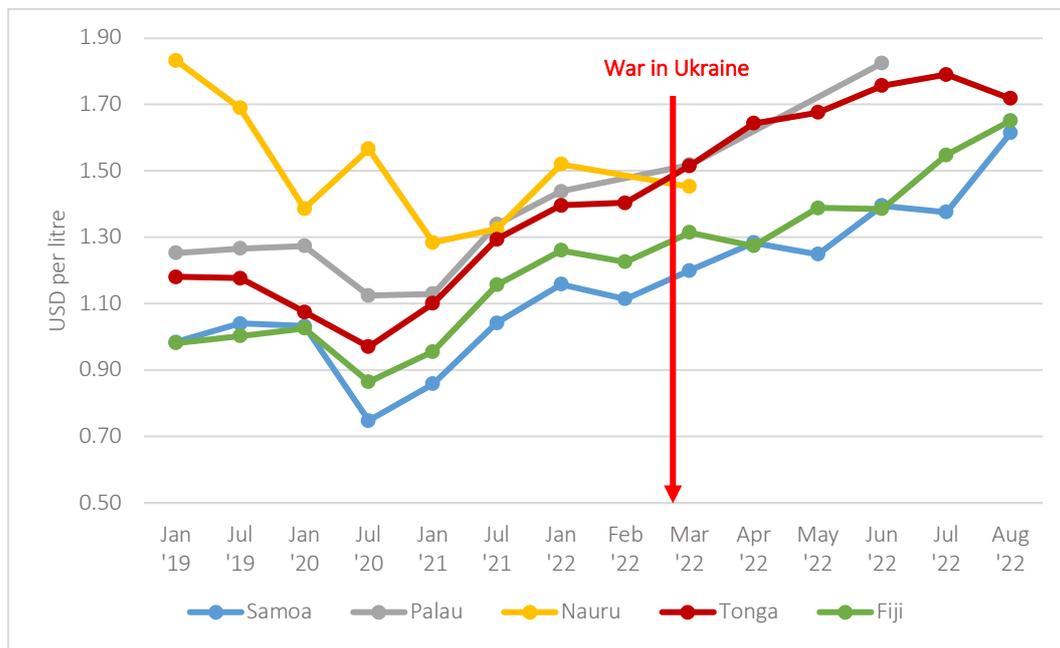


Source: Authors' own elaboration.

Fuel prices

Perhaps the most notable impact of the 5F crisis in the Pacific has been the sharp rise in fuel costs, which in Samoa has seen a doubling of the cost of fuel since January 2021. The primary impact of high fuel prices is on the import bill, increasing trade deficits and feeding inflation. Fuel prices act as a surcharge on household income, reducing discretionary income and the volume of household consumption expenditure. Businesses experience rising input costs, but since consumer prices are often hard to adjust in the short run, full cost increases cannot be passed fully onto final prices. High oil prices tend to hamper the government's ability to provide services to the population. Operational costs of running schools, hospitals and offices, transporting people and goods, and importing materials all increase.

Figure 6. Fuel prices in 2019–2022 (USD per litre)



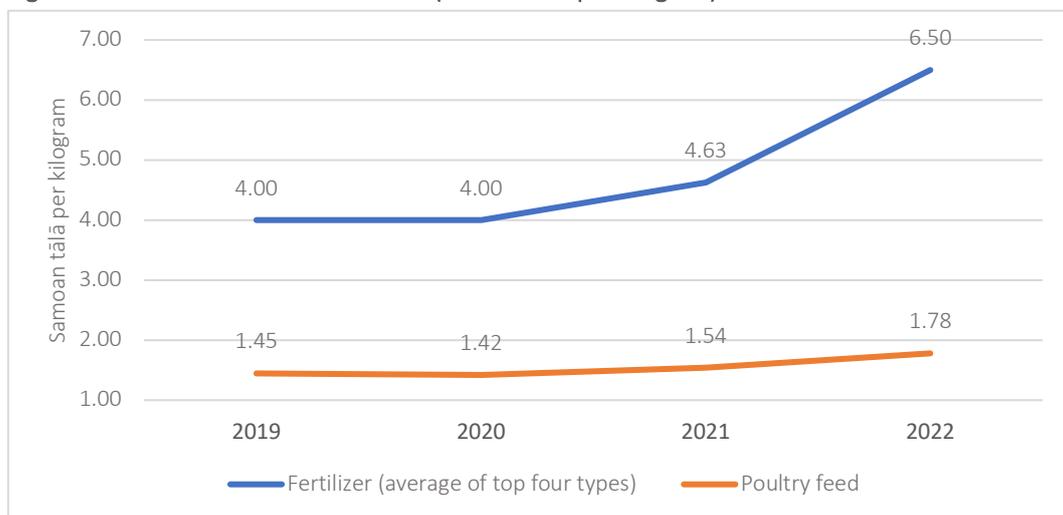
Source: Authors' own elaboration.

The macroeconomic effects of energy price increases have direct consequences on the daily lives of Pacific Islanders; the impacts of high oil prices are felt in both urban and rural areas. Urban dwellers spend more on direct consumption of electricity and fuel, while rural dwellers bear the increased costs of transportation required to take goods to markets and bring food and other necessities where they live. In Palau, fuel prices increased 53 percent between January 2019 and June 2022. Palau fuel imports weigh 13 percent of gross domestic product (GDP), one of the highest in the Pacific and similar to Tuvalu and Niue. In Samoa, fuel rose 44 percent in recent months, and in Nauru liquified petroleum gas bottle prices increased 41 percent, compared with 2021. The resulting impacts on food systems are increased food production costs, shifts in food production patterns leading to reduced volumes of production and decreased self-consumption, and possible impacts on coastal fish stocks due to shifts from offshore to closer fishing zones. Even though fuel prices have settled somewhat from July/August peaks, they remain high and there will be limited impact of this decrease on the food prices.

Fertilizers and animal feed prices

The Russian Federation and China are the top two producers of nitrogen, phosphorus and potassium (NPK) fertilizers, and China is the largest supplier of fertilizers (nitrogen) in the Asia-Pacific Region, weighing approximately 65 percent of exports. In the Pacific, Australia is the sixth largest global importer of fertilizer and plans to develop domestic production of urea, with 50 percent of production being meant for export in the Asia-Pacific Region. The situation advocates for strengthening supply chain networks between PICs to create opportunities for regionalized trade and enhanced cooperation for fertilizer sourcing. Fertilizer prices have risen sharply in 2022, increasing up to 50 percent, mostly affecting commercial and semi-commercial farmers, leading some of them to reduce their cropped areas (up to 25 percent less cropped area in some places in Palau) or reduce the use of fertilizers, shifting to organic alternatives. Such coping mechanisms are likely to reduce food availability.

Figure 7. Samoa fertilizer and feed costs (Samoan tālā per kilogram)



Source: Authors' own elaboration.

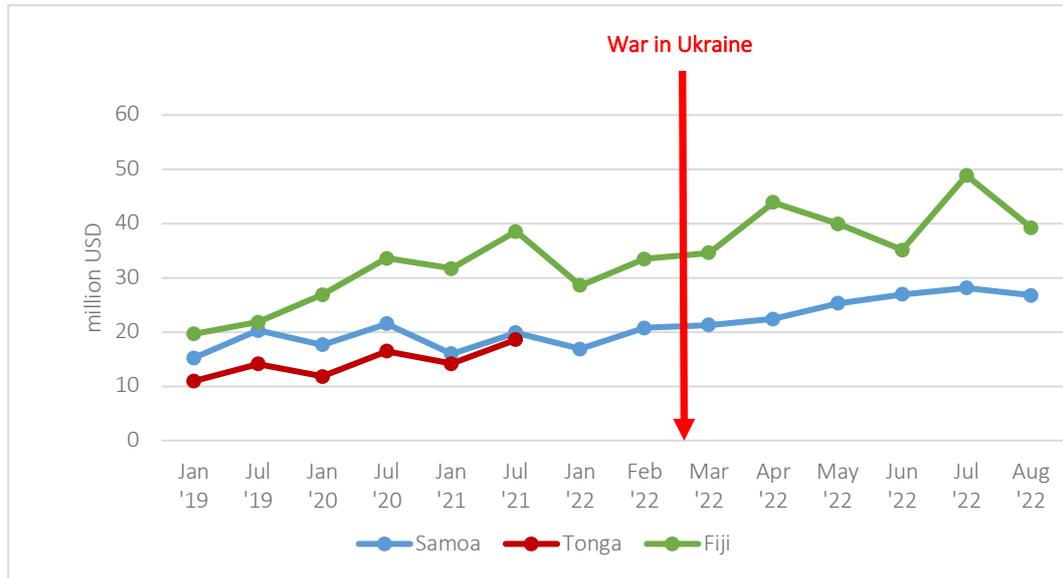
Animal feed prices, mostly for pigs and poultry, have increased up to 20 percent in the past year. Commercial-sized operations, such as poultry farms, are affected as they often directly import large quantities of feed for their production needs as well as semi-commercial animal breeders. Some focus group discussions highlighted that, to cope with the increase in feed, livestock owners might sell their animals because they could not afford the feed. Other small-scale producers are minimally impacted as they use locally produced feed from coconut or recycled agriculture and kitchen waste to raise pigs and poultry.

Finance

Except for those countries using the United States dollar (USD) as their national currency, the appreciation of the USD has a continued negative impact on agrifood systems, through increasing import and energy costs hence ultimately increasing hardship for the vulnerable households. In PICs, remittances make up a substantial amount of people's individual income, especially in Samoa and Tonga, where more than half of the population receive them. In Samoa, private remittances have increased steadily over the last three years, especially this year with a

64 percent increase in the first semester of 2022, supporting household consumption and expanding foreign exchange reserves.

Figure 8. Gross remittances in 2019–2022 (in million USD)



Source: Authors' own elaboration.

The changes in the tax revenues in the past three years, and overall economic downturn, negatively impact government capacities to implement their food system pathways, especially in a context of high inflation. It is evident throughout the Pacific that despite intentions to do so, public budgets are not in a strong position to execute desired agriculture investments and social protection programmes.

Many Pacific governments have unveiled public relief measures in response to these rising price pressures. These include tax exemptions and waiver of import duties on selected key commodity items such as staple foods and fuel (Fiji, Papua New Guinea, Solomon Islands), and subsidies for the cost of public utilities, notably electricity, as well as for fuel (Nauru, Papua New Guinea, Solomon Islands, Tonga). Other countries have generally increased government spending and are pursuing expansionary fiscal policy (Cook Islands) or are increasing government borrowing requirements (Samoa) or passing supplementary budgets (Vanuatu). There are also direct income support measures in the form of wage and pension adjustments (Cook Islands) and ex-gratia payments for public employees to ease higher living costs (Nauru).

Source: Asian Development Bank. 2022. *Pacific Economic Monitor — August 2022*. Manila, ADB. <https://www.adb.org/sites/default/files/publication/814231/pem-august-2022.pdf>

Recommendations

The current crisis presents an opportunity to truly strengthen food systems pathways and rejuvenate traditional agrifood systems that can alleviate nutritional deficiencies and counteract NCD prevalence. In the short term, the priority is mitigation of food security shocks through country led programmes, boosting production and market-oriented initiatives, ensuring that, 1) both food producers and consumers have equitable access to improving their food security and livelihoods; and 2) increases in productivity are not achieved at the expense of the environment.

To governments

To tackle the current situation, governments should set their monetary and exchange rate policies to be used to control inflation and their fiscal policy should be used to cushion the impact on the population, ensure food security, and prevent inflation from spreading to other economic sectors. Enhancing social protection through targeted safety net transfers has shown more effective than subsidies on fuel, utilities and others, as such subsidies often benefit the better off far more than the poorest. To realize their visions and advance their national food systems pathways, PIC governments could consider, in the short term, investing in:

- i) sustainable nutritious and healthier food production and livelihoods enhancement, whilst preserving natural resources and increase renewable sources of energy;
- ii) where possible, substitutions of heavily reliant imports, such as chicken and flour-based products;
- iii) innovations to both improve productivity and reduce exposure to chemical and fertilizer supply shocks, and to safeguard food production without the need for excessive use of inputs, water, and energy;
- iv) social protection measures that assure the most marginalized populations are properly supported.

In the medium to long term, to support resilient agrifood systems, governments will have to ensure agroecosystem diversity, address gender disparities in agriculture and rural communities, sustain agrifood system transition, and strengthen necessary food price monitoring tools, that are critical to allow raising the alarm of pending food shocks or crises, to be combined with anticipatory actions and preventative measures that strengthen food systems in advance.

To donors

Donors should come under a coordinated and convergent manner to:

- i) allocate immediate funding to address the impacts of the 5F crisis in the short term to address food security and nutrition, and the livelihoods needs of the poorest;
- ii) ensure multi-year funding that would allow humanitarian/development agencies and governments to strengthen food systems transformation pathways and ensure sustainable and inclusive economic growth;
- iii) support strengthening of early warning systems, regarding economic shocks and setting up Anticipatory Action and forecast-based financing schemes to be aligned with resilience and longer-term DRR planning in the region;
- iv) support both humanitarian/development agencies and governments to expand the coverage of the existing social protection systems, strengthening them and allowing shock-responsive social protection to be set up.



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