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Agricultural trade implications of COVID-19



Supply chain disruption continues to be the main concern for agricultural trade.

For some exporters, access to, and affordability of, air freight has been significantly affected by the grounding of passenger aircraft. Horticulture, seafood and some meat and dairy exports stand to be most impacted.

Resolving air freight issues is critical for those exporters. It also presents growth opportunities.

Bulk sea freight appears to be running more smoothly, but some disruptions are being reported across container-based trade. Continued operation of seaports is a priority.

Air freight disruption remains an immediate concern

Transport costs account for around 7% of the final price of Australia's food and fibre products. Given transport's importance in getting products to market, however, producer incomes are particularly vulnerable to changes in freight costs.

A sustained 2.5 times increase in the cost of international air freight over a 3-month period, combined with a 20% increase in sea and land freight costs, could take around 2% off the total value of Australian agriculture, fisheries and forestry production (GVP).

While some air freight is carried in dedicated cargo freighters, over 80% of airfreighted exports are carried in the cargo hold of passenger aircraft ([Infrastructure Partnerships Australia, 2019](#)). Those aircraft movements have been heavily or completely constrained by international travel bans.

As a result, demand for air freight capacity has exceeded supply, causing costs to rise sharply.

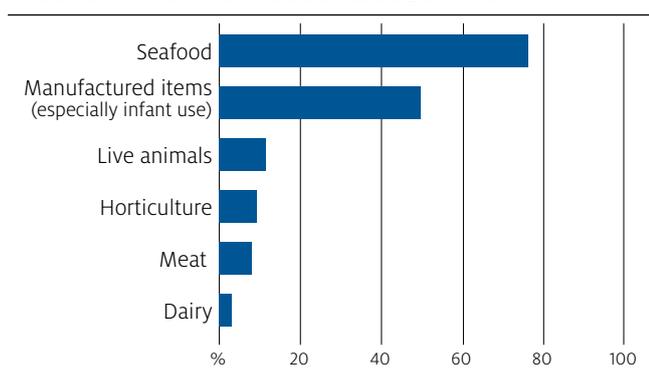
Anecdotal industry advice is that costs have increased to prohibitive levels. From around \$0.50–\$1 per kilogram to \$6.50 per kilogram. There is also reduced flexibility in routes, timing and quality of air freight.

Some commodities more reliant on air freight

Not all agricultural exports will be impacted by this situation. For example, in between 2014 and 2019, less than 3% of agricultural exports (by value) left the country by air freight, with the remainder exported by sea. However, air freight is proportionally more important for certain commodities, ranging between 76% of the value of seafood exports to 8% of meat exports (Figure 1).

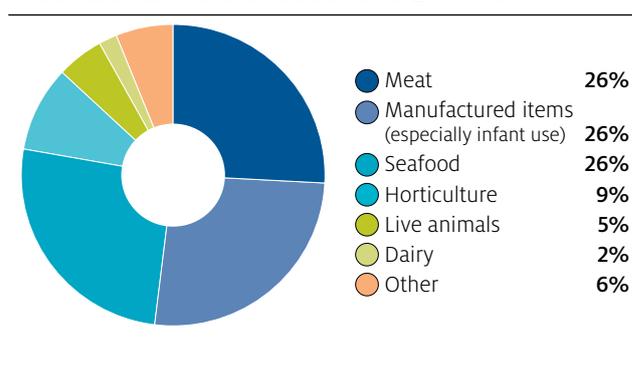
Of the total value of airfreighted product between 2014–19, close to 80% was associated with seafood, manufactured items (including infant use(dairy)) and beef exports (Figure 2).

FIGURE 1 Air share of trade value 2014–19



Source: BITRE

FIGURE 2 Air share of trade value 2014–19

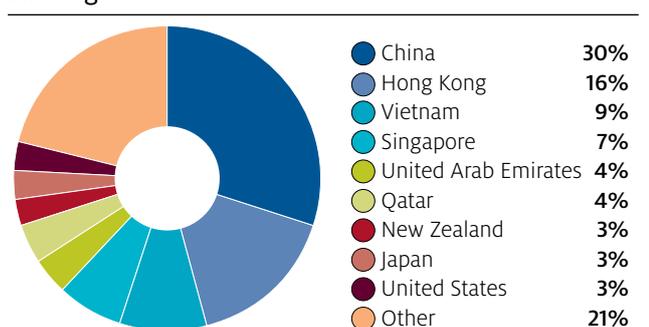


Source: BITRE

The most significant markets for airfreight are China, Hong Kong, Vietnam, Singapore, the Middle East, New Zealand, Japan and the US. Beef and sheep meat exports represent close to 40% of airfreighted export value to the US.

Most exporters utilise airfreight throughout the year. But for horticulture, there is a peak period (by value) over summer, from October to March. For seafood, there are peaks associated with export of crustaceans (summer) and, in the next 6 months, for salmon and tuna. For those exporters with an approaching and limited export window, continued disruptions are particularly concerning.

FIGURE 3 Important markets and products for air freight



Country	Main items over next 6 months
China	Seafood, manufactured items (especially infant use)
Hong Kong	Seafood, manufactured items (especially infant use)
Vietnam	Seafood
Singapore	Meat, horticulture
United Arab Emirates	Meat, horticulture
Qatar	Meat
Japan	Meat, seafood
USA	Meat, seafood, crude materials
New Zealand	Live animals, horticulture

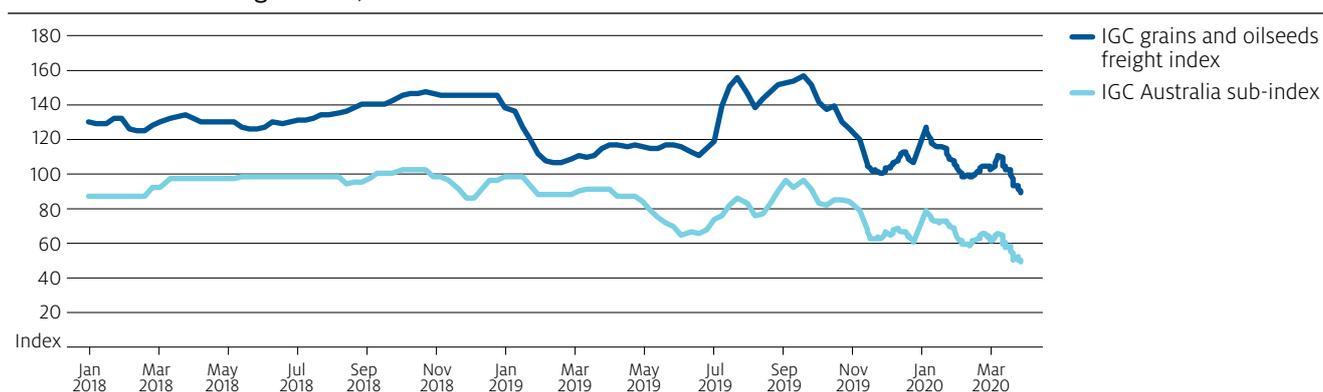
Source: BITRE

Resolving air freight issues is critical for all existing air freight exporters. It also presents export growth opportunities given the value that will be placed on reliable supply. This export pathway has seen strong growth recently. Since 2014, the value of agricultural goods air freighted has increased by over 12% annually.

Other freight appears to be moving more smoothly

At this stage, exports by sea appear to be proceeding more smoothly. Bulk sea cargo freight costs for grain out of Fremantle have fallen by 35% since the beginning of the year (Figure 4). This is due to falling oil prices (IGC Australian Freight Rates Sub-index, 2 Jan 2020 to 26 Mar 2020).

FIGURE 4 Ocean freight rates, indices



Note: January 2013 = 100.
Source: International Grains Council.

Some concerns have been raised regarding the availability of containers. Data on shipping arrivals indicates that after the typical February slowdown, March arrivals have remained low, potentially restricting the supply of containers. Similarly, the number of import declarations for January and February 2020 from sea freight is below last year, and the 5-year average (Figure 6).

With China coming back online, shortages may resolve. Global containerised freight prices are a cause for some optimism. They are starting to fall after initial increases in January. The Global Container Index, that tracks weekly container prices, shows that prices rose around 1% from the end of December 2019 to mid-January 2020 (from \$US 1,446 to \$US 1,581). However, this January peak remained below a similar peak in January 2019, when the index rose to \$US 1,603. It has subsequently fallen to end March 2020 by 11%.

Keeping seaports open is a priority. With governments enacting further measures around crew on shipping vessels and overall port management, there is uncertainty in the outlook. On average, around 25% of Australia’s non-grain sea freight is shipped from April to June.

FIGURE 5 Vessel arrivals

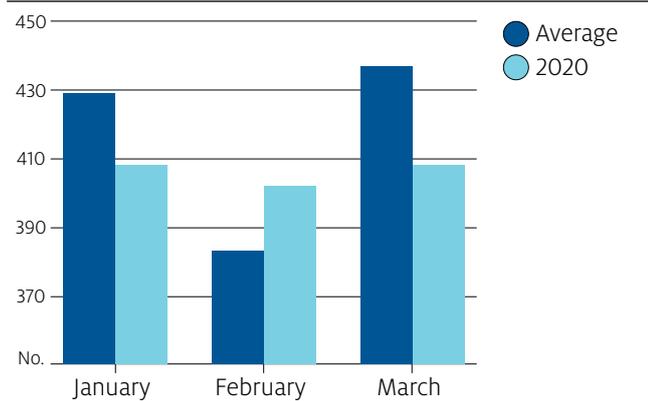
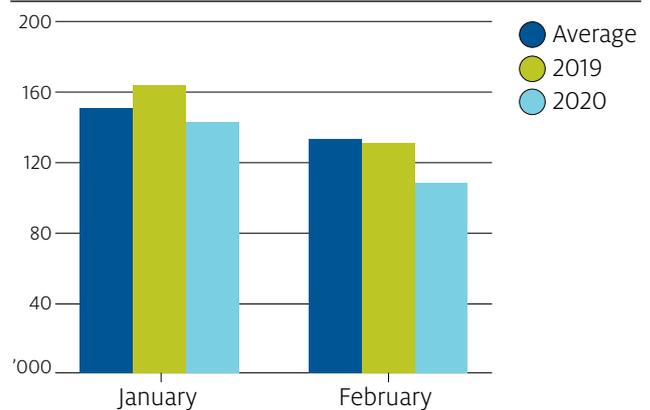


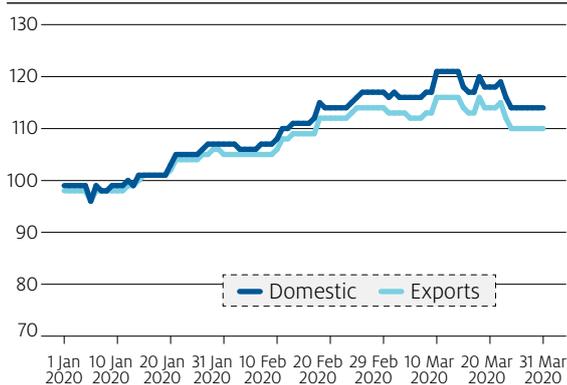
FIGURE 6 Import declarations



Continued price softening but slowing

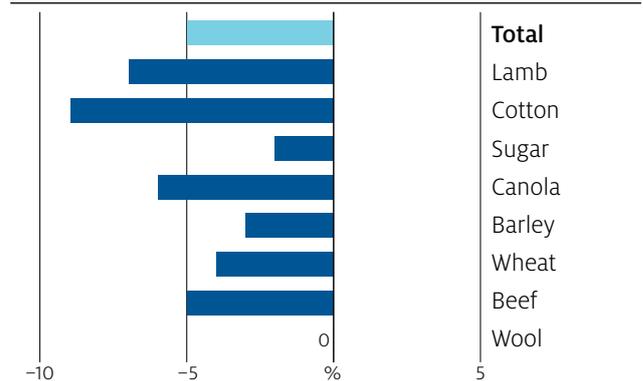
Agricultural prices continue to soften as a result of the COVID-19 pandemic. However, the rates of fall have slowed. Some of this price softening was expected due to underlying global supplies. But the pandemic has also contributed.

FIGURE 7 Daily price moves selected commodities (30 March)



Source: ABARES

FIGURE 8 Weekly price moves selected commodities (30 March)



Source: ABARES

