Diverging strategies emerge as geopolitical risks rise in food & agri

Geopolitical risks are gaining importance in the food and agriculture sector, prompting calls for the development of more formal risk policies. However, the business leaders we spoke to are tackling the issue in different ways

A grain packing warehouse

When dependencies become vulnerabilities

Running a global food and agriculture business means being reliant on many things, including weather, politics, economics and technology. But with heightened geopolitical uncertainty, such dependencies are viewed in a different light. Or as former ECB President Mario Draghi put it, “dependencies are becoming vulnerabilities”.

What dependencies concern companies most, and how are they responding? Between March and May 2025, we interviewed global food, beverage, and agribusiness leaders and analysed data and earnings reports to provide a broader perspective.

The key geopolitical risks that the F&A sector is concerned about

Geopolitical risks have been rising in the ranks of risk surveys among company executives, including those working in Food & Agri. In our conversations with decision-makers, US trade policy emerged as the top concern – likely due to the timing of our discussions – but the war in Ukraine, Red Sea shipping disruptions, and rising cybersecurity threats were also frequently cited.

Geopolitical uncertainties also add to volatility in commodity and FX markets. “Price volatility for agricultural commodities and key inputs like fertiliser is very common. Still, increased tensions have accelerated the up- and downswings and can lead to big jumps and drops overnight”, said an EU-based supplier of agricultural inputs.

The most important indirect risk from geopolitical events, such as the trade war, is how they impact consumer and business confidence. US consumer confidence dropped to its second-lowest reading in April since the 1950s, raising concerns about consumer spending, especially among the companies that are closest to the consumer. When food and beverage processors hold back their investments, that’s worrying for their equipment suppliers.

While conversations predominantly focus on what’s happening around us now. It makes sense to look ahead for risks that are on the horizon. This is where a more formal framework to identify and assess risks would be helpful. For example, geopolitical risks centred around China and Taiwan have the potential to significantly impact the sector, with China a dominant player in food and agri, both in terms of supply and demand.

While geopolitical uncertainty brings challenges, it also creates opportunities – especially for traders who thrive on volatility. As one major trader put it: “As a physical merchant, any impact could be a risk or an opportunity. If you know how to manage, you differentiate yourself from competitors.”

If governments take additional steps to ensure food security, this also creates opportunities for the industry.

How is the F&A sector dealing with the geopolitical environment?

Elevated risks prompt corporates to strengthen, introduce or at least consider a more formal framework when it comes to assessing and dealing with geopolitical risks. A common approach for managing geopolitical risk is the 4R framework, which includes risk assessment, risk reduction, ringfencing and rapid response. When it comes to the sector players we spoke to, their focus appears to be mostly on risk assessment and risk reduction.

It also becomes clear that businesses manage geopolitical risks very differently, depending on their nature, size, and location. Some use formal frameworks with scenario analysis on everything with a material financial impact, while others rely on informal discussions or reactionary measures. The approach varies based on the significance of the risk and willingness to invest time and capital.

European companies are on average more exposed to shifts because the EU is more open to trade and has a bigger dependency on energy, raw materials and technology, relative to other regions.

As we've pointed out earlier, there is also an element where business leaders are more optimistic than economists, who tend to focus more on risks. Some food companies shared that they were preparing for the possibility of tariffs for more than a year. But there is a segment of business leaders who believe their company won't be negatively impacted. However, this obviously doesn't always turn out to be the case. One business leader we spoke to said, "I thought we were safe" when discussing the reason for not taking action ahead of the announcement of reciprocal tariffs from the US. However, this still may turn out to be the right decision considering the legal action we are seeing with these reciprocal tariffs.

The tariff threat: adaptation to US tariffs in full swing but no drastic actions yet

In recent earnings calls, many food and beverage companies, such as JBS, Heineken and AAK (a Swedish plant-based oils and fats company), indicate that their localised production model helps to reduce the tariff impact. Companies more affected, such as Diageo and Pernod Ricard, are managing pricing, inventory, and supply chains to mitigate effects. Overall, it seems that businesses believe they can adapt without major changes. Not knowing where tariffs eventually end up also makes them more inclined to adopt a 'wait-and-see' approach than to do anything drastic.

For companies that rely on exports to the US, increasing their US presence is the most far-reaching option in their playbook. But "by itself, an import tariff of 10% won't convince processing companies to open a production facility in the US", said a Belgian supplier to the food industry. A beverage company added: "We would consider buying production assets in the US, but would need to see higher tariffs to justify this". Tariff uncertainty also complicates the task of pricing assets accurately.

Building more resilient supply chains means higher costs for businesses

Resilience has been a buzzword ever since Covid-19. But executives acknowledge that resilience comes at a cost. "The costs of diversifying suppliers include quality concerns, plus that we keep more working capital in case of new suppliers", said an EU supplier of agricultural inputs.

Ingredion, a food ingredients company, flagged rising costs from the trade war in its latest earnings call: "There's definitely going to be some supply chain disruptions. We do anticipate that we'll probably be holding some inventories more and that we'll be reconfiguring or moving around some supply chain routes. And whenever you rebuild those, you're going to have incremental costs."

Backing their words with action

Food companies in North America and Europe are clearly holding more inventory. Inventory days – the amount of time a company sits on inventory before it's sold – has trended higher in both regions for food companies. In Europe, between 2015 and 2019, the average inventory days for the industry stood at just over 74, which increased to an average of almost 82 between 2020-24, according to Bloomberg data. A similar trend was seen in North America.

This aligns with what corporate leaders told us – they're holding unusually high inventories. For the US, this will be a trend that has only continued into 2025, with businesses front-loading imports and building inventories in the lead up to the implementation of tariffs. Obviously, in terms of tariffs, front-loading imports is only a temporary solution.

Managing risk through hedging

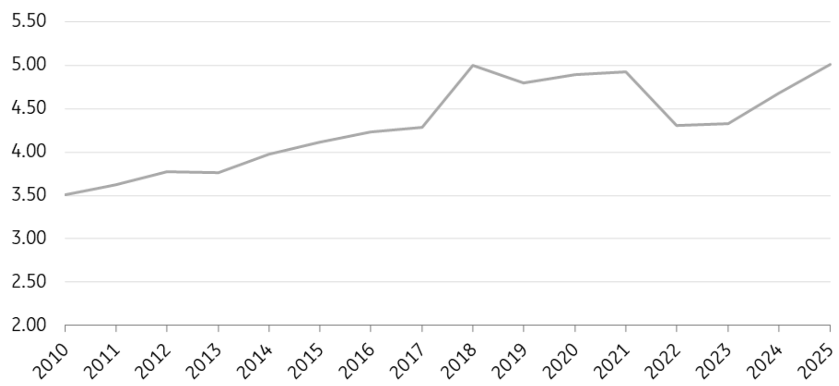
Geopolitical events can lead to a significant amount of volatility in financial markets. Businesses can try to offset some of this volatility by putting in place financial hedges for certain exposures, providing them with more certainty. Naturally, one would think that turmoil in markets would see businesses hedging more. However, most of the business leaders we spoke to have not changed their policies when it comes to hedging, whether that is FX or commodities.

There are several reasons why businesses may leave their policy unchanged despite more volatility. An exposure may be relatively small, and so the effort in carrying out financial hedges may not be worth it, or possibly a business is naturally hedged through the structure of its commercial deals. Or maybe there is also an element where decision-makers don't want to make a call in case it turns out to be the wrong decision. Having an out-of-the-money hedge could raise more eyebrows internally than taking no action and being exposed to market movements.

However, importantly, while hedging gives some certainty to businesses, it can also lead to liquidity issues for companies. Large swings in prices can leave businesses exposed to large margin calls. This can lead to significant liquidity drains for a business. This was something seen following Russia's invasion of Ukraine. The volatility in commodity markets saw market participants take a step back from derivative markets, given the potential for large margin calls. This is evident in looking at the aggregate open interest in several agri commodity markets, with it falling in 2022 and only returning to pre-2022 levels this year. This tallies with our conversations with business leaders, who said that increased volatility has not led them to increase hedging activity.

Market participation in agri commodity markets fell in 2022

Annual average aggregate open interest (m contracts)

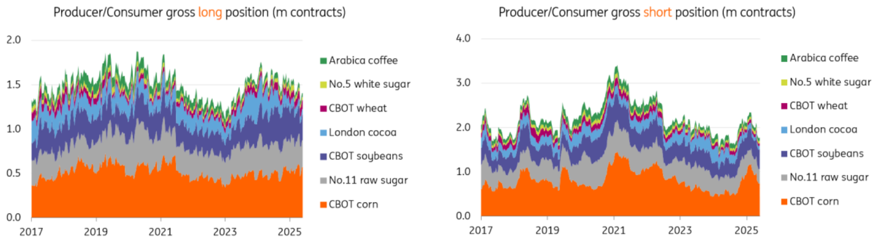


Source: CME, ICE, Euronext, ING Research

Note: includes CBOT corn, CBOT soybean, CBOT wheat, Euronext milling wheat, Euronext maize, ICE No.11 raw sugar, ICE No.5 white sugar, London cocoa, ICE Arabica

We can dig deeper into positioning data by looking at the Commitments of Traders report, which gives a breakdown of positions by category, including commercial positioning, which should include producers and consumers. This data shows that participants are less active in hedging in the futures market, so again ties in with the view that the increased volatility has not led to increased hedging when it comes to agri commodities. If anything, increased volatility could see businesses hedge less.

Commercial positioning in agri commodities suggests we are seeing less hedging from the sector



Source: CFTC, ICE, ING Research

Geopolitical uncertainty puts food security more firmly on the map

Geopolitical tensions expose existing dependencies in critical sectors like food & agriculture. This became especially apparent in developing countries after the war between Russia and Ukraine broke out. But Western businesses and policy-makers have also become more aware of the risks, as Draghi put it: “Key dependencies are becoming geopolitical vulnerabilities”. This leads to a fundamental shift in thinking. A global manufacturer of food processing equipment commented: “Food security is now also being discussed in countries where it wasn’t a big topic before. Geopolitical uncertainty leads to more localisation of food production. We see increased investment and a redrawing of the food production map, partially government-supported.”

Stronger calls at the EU level for more coordination and increased preparedness are an example. Some countries go further and take additional actions. European countries like Poland, Finland and Norway are building larger food inventories, and Sweden could join them. Meanwhile, Asian countries for whom it was already quite common to keep strategic food stocks are pushing to expand those.

China, the world’s largest importer of farm goods, announced an increase in its agricultural stockpile budget earlier this year. In India and Indonesia, government rice inventories have reached record levels. Such inventories serve as a shock absorber and give governments some control over food inflation. But in a world where bilateral deal-making is gaining importance, having food surpluses is also a powerful tool that provides countries with leverage.

Increased focus on food security holds promises and risks for food & agri businesses

How does such a fundamental shift materialise at the company level? Apart from the impact on demand, it might benefit companies in other ways: first, through a more favourable regulatory environment (take, for example, the EU Commission Omnibus proposals). Second, it might be easier for companies to attract investments since farmland, infrastructure and technology are all strategic assets. Third, in countries with secure food stocks, companies often play a role in keeping these stocks.

While the companies that we spoke to consider the renewed focus on food security as positive, we believe there are some strings attached. First, any increase in stockpiling activities can have (unintended) consequences, including abrupt price movements and market distortions. Second, additional activity from wealthier nations to secure more food supplies is often at the expense of less developed economies. That could fuel conflicts and additional geopolitical instability, especially as it goes hand-in-hand with reduced spending on development aid.

Third, in a more fragmented world, there will be more scrutiny from governments on foreign investments in strategic assets like farmland and port infrastructure, and corporate mergers, such as between Bunge and Viterra.

Conclusion: Heightened risks warrant a more formalised approach to risks

Geopolitics features more prominently on the list of 'known unknowns' of food & agri companies. In some respects, companies are making different decisions, like keeping higher inventories. When we look ahead, more focus on food security combined with less rule stability, increased protectionism, and more frequent extreme weather events implies that more unexpected challenges will arise.

Because ordinary dependencies can quickly turn into vulnerabilities, it will require decision makers to constantly evaluate risks and events. The most prudent way to do this is to ensure that they have a formal and robust framework in place to identify and monitor potential risks.

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