

CONSEQUENCES OF THE COVID-19 OUTBREAK FOR THE CZECH AGRI-FOOD SECTOR IN 2020

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A brief description of current situation

Although all consequences of the COVID-19 outbreak and pandemic for the Czech agri-food sector are still not known in details or in quantitative terms, it is possible to describe these aspects at least in the form of a summary, a signal and qualitative content analysis, with reference to adequate governmental measures.

The COVID-19 outbreak has been affecting the Czech agri-food sector by the pandemic itself, and especially by general state measures taken to prevent it from spreading. Depending on the actual emergency, such measures have significantly and more negatively influenced the whole Czech economy and the overall social situation in the country. This paper is not aimed at making a thorough list of the general measures towards all sectors of the national economy. It is primarily devoted to the subset of sector-specific measures, which in a more robust way have been influencing the Czech agri-food sector, including the whole food vertical.

Consequences for the labor market in the Czech agri-food sector

Negative consequences of the pandemic itself for the sector relate to the reduction of the current labor capacities on farms and in food industry companies. The consequences have resulted from a higher incidence rate of infected workers or persons subjected to compulsory quarantine. In combination with obstacles to the employment of foreign workers (discussed later), it has been possible to provide continuous work in livestock, in spring and autumn field works, and in seasonal work in the fruit, wine, hops and vegetables sectors only with the exceptional efforts of remaining workers. In the food industry, for example, the AGROFERT holding, which controls a large part of the sector, was almost forced to suspend production in some of its enterprises (mainly poultry enterprises) due to a large number of sick employees. However, no employee had been dismissed from the holding because of COVID-19.

The situation in the Czech agri-food labor market has deteriorated due to the regulatory measures on borders, leading almost to a total ban on the cross-border movement of persons. Faced with the COVID-19 situation, the government decided to stop the program Extraordinary Job Visa since March 2020, especially for Ukrainians working in agriculture, food industry, and forestry. In spite of a short-term loosening of restrictions in June 2020, the Czech agri-food sector faced major obstacles reducing the employment and inflow of foreign workers from the Eastern and South Eastern European countries, above all from Ukraine. A major part of the Czech agriculture, including the food industry, depend on these workers almost existentially. Problems with the mobility of labor have also appeared on farms operating in two countries.

It is socially positive that the shortage of seasonal labor, particularly in spring field works, was partly averted by students. However, the workers from closed non-agricultural companies demonstrated much smaller willingness to work on farms. The Czech workers did not exactly come in great numbers to help. On the other hand, more farms rejected such workers because of their higher wage demands (in comparison with wages acceptable to workers from Ukraine) and lower labor effectiveness (manifested especially in fruit and vegetables harvests).

Nevertheless, the shortage of labor on farms has evidently led to increased pressures for higher wages, and thus to the general growth of farm costs. Higher costs of health protection (masks, etc.) and disinfection have also gave rise to the higher total costs incurred by agri-food companies. The Czech Agrarian Chamber, representing interests mainly of larger farms and holdings, has been trying to exempt all Czech farms and the first 50 employees from social payments since October 2020 until the end of the year. The chamber justifies the requirements by higher labor costs as a consequence of the closure of the borders and the care for family members or employees in obligatory quarantine.

Consequences for the structure of domestic food market

Both in the first wave in the spring and in the present second wave of the pandemic, the forced shutdown of companies in the Hotels/Restaurants/Café (HORECA) sector was a very serious problem. The shutdown has negatively affected farms and food industry companies, which have important direct business and sales links with the HORECA companies. For example, after the long-term growth in production and in the number of mini- and micro-breweries with the links to nearest local (even own) restaurants, a rapid and radical drop in demand caused serious economic troubles of these breweries. As a form of support for agri-food companies, the state now offers the brewery companies an extraordinary help in the form of consumption tax exemptions as reimbursement for spoiled (poured out) beer. A similar effect had the measure taken by the Ministry of Agriculture in the School Program for fruits and dairies to shift supply from close schools to food banks to prevent the spoilage of food.

A possible solution to the above mentioned sales problems can be found in alternative sales channels outside the HORECA sector. These can be represented by new supply links with retail chains or by links with enormously growing online services for food consumers. Nevertheless, the reorganization of sales channels would probably involve longer time and higher outlays. Only several larger and more diversified companies relatively quickly managed to reorient their sales towards online systems. Some companies even established their own e-stores. However, it is uncertain whether a larger re-organization towards online services is prospective and socially positive.

In any case, the state has been trying to compensate losses of agri-food companies affected by the COVID-19 crisis. However, the Czech Ministry of Agriculture did not take the opportunity given by EU authorities to apply for temporary support in the framework of the current European Agricultural Fund for Rural Development (EAFRD). By the way, this opportunity was taken by 13 EU countries.

Nevertheless, the Czech Ministry of Agriculture prepared exceptional state aids for agri-food companies between October and November 2020. These exceptional state aids were approved by EU authorities as the AGROCOVID support. The total amount of the AGROCOVID support is about EUR 110 million.

The AGROCOVID support can be implemented from the end of 2020 until 30th June 2021. The support can be used by any companies from the sector operating in the Czech Republic that prove at least a 25% reduction reduction in their respective food sales , year-over-year. The support can reach up to EUR 7,500 per each company and up to EUR 745 per each co-worker or employee. The total amount of the support for a single company is limited to EUR 100,000, but in the case of food and feed industry companies it can reach up to EUR 800, 000. The competent Czech state agency must ensure separate accounts for each activity of companies in the case of their diversified operations. It is obvious that the support is above all aimed at large agricultural and food industry companies. This fact is strongly criticized by Czech non-governmental organizations in the sector, especially by the Association of Private Farming and other organizations representing the interests of small and medium-sized companies. Moreover, the breweries request a reduction of the 25% limit as this food industry branch is more heavily affected by the COVID-19 crisis.

The AGROCOVID support has an impact on the following HORECA sectors (according to the estimations of the Czech Ministry of Agriculture): the monthly sales have been decreasing in meat industry by EUR 24 million, in bakeries by EUR 4 million and in breweries even by EUR 55 million (according to other sources, they amount up to EUR 50 million per month and up to EUR 150 million per year!). In the spirits industry, the yearly drop in the sales is expected to reach about EUR 100 million. Similarly, in the wine industry the drop in sales is expected to reach about EUR 76 million.

Other support aimed exclusively for the affected small and medium-sized farms are represented by the PROVOZ 2020 (OPERATION 2020) program under the auspices of the Supporting and Guarantee Agricultural and Forestry Fund (SGAFF). The support consists in the reduction of principal sums of the SGAFF loans. Farms can apply

for support up to EUR 6 000, however, the support must not overrun 50% of the unpaid principal sum of the loan. The Ministry of Agriculture invested EUR 20 million in the program. Nearly 1 700 farms applied for the support until mid- 2020.

Public support for the Czech agri-food companies in response to the COVID-19 crisis can be used even in the case of programs aimed at all sectors of the national economy if companies meet given eligibility conditions. However, according to some reports, apparently only a few agri-food companies took advantage of this opportunity. It especially concerns agri-food companies with diversified activities and with some activities in the HORECA services. They can participate in, e.g., the national program COVID – UBYTOVÁNÍ (ACCOMMODATION), in which the state provided support in the form of CZK 100–330 per room and night between March and May 2020, when all accommodation services had to be withheld. Several agri-food companies also took advantage of general support for their non-agricultural businesses in the form of interest-free loans to pay stock and avoid secondary insolvency. The impact of other general measures on the agri-food sector is now subject to review by appropriate state institutions responsible for the allocation of general support.

The Czech retail sector has been regulated according to the situation with the COVID-19 crisis. It concerns above all temporary lockdowns of all small food shops and shops with other agricultural products as well. However, the fact that large retail stores were not affected by similar restrictions sparked protests from smaller shop owners. Their non-governmental organizations have succeeded in easing some entry restrictions in the small retail sector and lifting restrictions in farm-gate sales, farm markets, and the sales of flowers.

Consequences for agri-food prices and trade

Undoubtedly, the COVID-19 pandemic has caused a price volatility on domestic agri-food markets, particularly in milk, pork, beef, fruit and vegetables sectors, as well as in potatoes markets owing to barriers in the sales of processed products (e.g., French fries). Hops and malt prices have also been negatively affected, as a result of the decreased demand for beer because of the suspension of the HORECA services. There are some indications that the worse conditions on food markets are to some extent misused by retail chains to put pressure on the price level of supplied commodities.

The agri-food trade, imports, and exports have been affected by the border restrictions caused by the pandemic. The initial delays in imports of raw materials and food because of border barriers were mostly overcome by the implementation of the so-called “green border-belts”. Problems occurred with the exports of some products, such as milk and dairy, because of temporary trade barriers in Italy and some other countries.

The COVID-19 crisis has been accompanied by disturbances in imports and the growth of consumer prices, particularly of fruit and vegetables in the summer, also as a consequence of poor yields in other EU countries. Such situation on markets has reopened and increased the interest of the society and some political par-

ties in the food self-sufficiency. Parliament members of the governing coalition parties to some extent misused the crisis to force some changes in the Food Law aimed at the elimination of the so-called dual food quality, but mainly at the obligation of retail chains to increase the share of “Czech foods” gradually from 55% up to 85% after 2025. Clearly, there were also other reasons why changes have not been accepted (including incompatibility with the EU rules), namely due to pressures by opposition parties and supported by the Economic Chamber and other experts. However, a similar idea in a milder form (“only 65%”) has been growing lately in the Czech Parliament. Moreover, according to some politicians “Czech food” should be given priority in legislation in public catering for schools, offices, hospitals, etc. However, there is a suspicion that the requirements would not comply with the current EU legislation.

It is true that the COVID-19 crisis together with other factors (Avian Influenza, African Swine Fever) has been influencing food markets in the whole EU. Nevertheless, the effects on the food markets differ in individual EU countries according to the level of competitiveness and flexibility of the agri-food companies to react on volatile market situations. It particularly concerns the pig meat market, where prices have been dramatically decreasing across Europe, and other markets, such as poultry meat, eggs, and flowers markets. The reduction of export activities caused by higher transport costs resulted in difficulties even for Czech producers of the dried fodder.

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