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Special Communications

COMMENTARY ON SARS-COV-2 AND AGRICULTURAL POLICY

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Few weeks after its discovery, a newly observed virus (SARS-CoV-2) has begun to spread globally. Everyone is concerned about immediate and long-term health effects the virus can cause. Thus, enormous disruptions in social and economic activities take place everywhere either due to individual initiatives or imposed by public authorities. Currently, it is impossible to assess how long this pandemic will last and how many humans will be affected. Most governments in Europe and elsewhere initiated strategies to curb its further spread and save lives. Quite unprecedented measures include the closure of borders within the European Union and further mobility restrictions. Following scientific advice, working remotely, cancelling meetings and conferences as well as getting used to online teaching and virtual encounters is now part of our daily routine in academia. Which strategy will be the best in balancing human health, maintaining public healthcare systems, and limiting economic losses can only be assessed in several months at best. Although human lives and health are seen as the highest priority, from the perspective of an agricultural economist the effects of the SARS-CoV-2 pandemic on the agricultural sector, agricultural markets and agricultural policy deserve attention.

Economic effects might be classified into two categories: direct effects for agricultural producers and indirect effects for rural households, in particular, those depending on remittances. While the effects at the level of agricultural producers might be roughly grouped into demand- and supply-driven, migration-dependent rural households might be affected by labour market disruptions in destination countries. In the latter category, a drop in income will definitely negatively affect households' livelihood. Regarding agricultural producers, it will be more difficult to assess the net effect.

Once again, the globalised nature of agricultural and food markets becomes obvious when we look at news reports on the East African flower producers who could not export anymore, missing East and Southeast European seasonal workers in the West European agriculture or shrinking exports of the European dairy products to China. Immediately visible effects at the level of farmers and farm businesses are mainly related to demand shocks. However, these demand shocks are not universal. The drop in demand for services such as dining out or the collapsing food provision for schools and childcare facilities is affecting producers of particular outputs which are mainly consumed out of home. At the same time, other producers and segments benefited from increasing stockpiling on the part of consumers. More or less voluntarily, consumers increased their cooking activities and prepared more meals at home than in the previous months. Some news even report an increase in consumption of alcoholic beverages. As far as supply is concerned, reduced availability of seasonal labour or lack thereof due to mobility restrictions is expected to result in a smaller harvest and supply of fruits and vegetables later this year. Given the dynamics of the regulatory framework and initiatives to substitute labour, it remains open how large the reduction in supply will be. At the same time, agricultural supply chains are less interlinked compared to the manufacturing sector. In comparison to product value, trade costs are relatively high and limit the share of internationally traded output. Furthermore, farmers are less dependent on supplies and externally produced inputs or compartments. All these different factors taken together illustrate that it is crucial to consider the net effect before a final assessment of the SARS-CoV-2 effects on the agricultural sector could be drawn seriously.

Regarding remittance-dependent rural households, the prospects will be most likely grimmer. Construction projects have been put on hold and the mobility of migrants has been heavily restricted, which affects income earning opportunities directly. At the same time, migrants are provided with the weakest social protection, which makes them more vulnerable to shocks. Finally, working and housing conditions of low-paid labourers in agriculture and agribusiness often do not allow to work remotely or keep distance. The risk of infections seems to be relatively high compared to other sectors, which has direct effects on the quality of life. As a consequence, remittance streams have collapsed and the financial standing of remittance-receiving households will worsen. Again, the precise implications can only be assessed in the months to come. Farmers without financial reserves might be forced to leave the sector. Migrant families which heavily depend on remittances might face hardships. Depending on opportunities and strategies, it is difficult to predict whether these relations will be re-established once all of the mobility restrictions are lifted.

Finally, government interventions which caused disruption to agricultural markets is something that agricultural economists should be worried about. Temporary price controls have been introduced in some Balkan countries. Governments of Russia, Ukraine, Kazakhstan, Serbia, and, temporarily, Romania, introduced export restrictions on cereals and flour. These are just a few examples and it might

be the case that other governments implement similar measures. The experience of previous export bans imposed during the last two decades clearly demonstrates that such measures neither benefit farmers nor aim at keeping the food prices low. On the contrary, flexible and transparent markets are best suited to cushion temporal deviations. Instead, governments should think of less distortive measures to secure food supply for households in need or secure stable markets for producers and processors. Public stockholding, if filled before the crisis, is just one option.

From an academic perspective, new research questions emerge from this pandemic:

- Socio-economic consequences for farm businesses and rural households need to be analysed. Currently, lobby groups heavily promote the negative consequences for agribusiness in order to justify national and EU support. Unfortunately, data will become available with sometimes substantial delays and a comprehensive assessment of income changes will be available after political decisions have been taken. Nevertheless, it will be important to understand how farms and households managed the current crisis. Whether they have been able to cushion disruptions and by which means or whether they experienced bigger disruptions. The analysis of sometimes complex substitution relationships and the differentiation between short- and long-run effects will be challenging.
- Quickly introduced support programmes need to be evaluated and lessons learned for the future. Given the continuing efforts to curb further spread of the virus, state interventions aim at stimulating economic activities and demand while maintaining social distancing and limiting international movement of persons. Thorough policy evaluations need to consider both objectives. In particular, the inherently conflicting goals might impose challenges for the instruments' assessment.
- Changes in consumer behaviour and demand need to be quantified and their persistence needs to be analysed. How quickly and to what extent will consumers re-establish their out of home consumption? Have "crisis diets" been healthier and what has been the effect of less physical activity during the lockdown?

From a political and societal perspective, this pandemic will trigger the following public debates:

- Are there lessons to be learned for risk management at the administrative level? Which actors within the Common Agricultural Policy and related policy domains should be responsible for which decisions also regarding phytosanitary issues, such as African swine fever or other pests and animal diseases?
- A new discussion of regionalisation versus globalisation needs to be stimulated. Does our society accept the trade-off between potentially higher prices of a more regionalised food production system? If so, who defines the limits of an increase in food prices? To what extent can we include resilience aspects in our neoclassical economic models? If a more regionalised food system is socially preferred, what would be the best political instruments to achieve such a system at minimum distortions to the various food, non-food, and financial markets?

- The conditions for low-paid labour in agriculture and agribusiness should not escape our attention once serious infections are no longer a threat. Currently, the working and living conditions of seasonal or permanent workers are often criticised. Expectations of continuously cheap meat, fruits, vegetables, and other labour-intensive food might need to be put up for debate. Similarly, more attention might be devoted to the practices of employers to use loopholes between national labour regulations within the European Union.

Finally, our theoretical toolbox needs to be critically assessed. How suitable are our models to deal with abrupt changes and shocks? Classical assumptions of marginal changes will not hold when analysing reactions on agricultural or labour markets during a lockdown. Similarly, the *ceteris paribus* assumption is not defensible if many things change at the same time. More systematic approaches might offer more suitable opportunities to analyse complex and abrupt changes.

To conclude, this pandemic has dramatically changed our economies and lives. A transition to new economic relationships and social routines seems more likely than a perfect reestablishment of the pre-SARS-CoV-2 reality. By providing expertise and stimulating debates, agricultural economists can contribute to a healthier and more resilient society.

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