



Pause on agribusiness investment as COVID-19 eats away at certainties



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 **Quick read**

Introduction

Efforts to contain the coronavirus means agribusiness investment is in suspended animation. Should the global economic pause be ended within a relatively short timeframe, there is reason to believe that business as usual will return. If disruption is more prolonged, certain types of investment are likely to suffer.

Henry Wilkes, a London-based agricultural investment advisor working with Farrelly & Mitchell on a Spanish food-based project believes new investments are vulnerable. "Will investors start to see distressed assets crop up, and choose those ahead of pioneering or greenfield possibilities? If so, why should they opt for riskier early stage projects, if there are proven opportunities available?"

It is an evolving situation, and the consensus among investment funds appears to be about playing the waiting game, but the potential emergence of distressed assets is undoubtedly a motivator. If there is to be growth and investment opportunities in food and agribusiness in the short to medium term, this looks a likely channel.

Specialised produce vulnerable

With guidance in short supply, what can we deduce? What is apparent is that farming businesses serving niche and specialised products for restaurants and other catering outlets are highly exposed. If lockdown doesn't work and restaurants do not reopen in a conventional manner, can these businesses adapt? Wilkes cited the example of a goat cheese manufacturer he spoke to recently who serves high-restaurants in the UK. That individual says his business will run out of money within three months. Meanwhile in southern Europe, berry producers are under similar pressure, as restaurant demand has suddenly vanished.

- Distressed assets investment may dominate ahead of new greenfield developments
- Specialised products are highly exposed, particularly until restaurants fully re-open & recover
- Countries are taking drastic measures to ensure plentiful domestic supplies of certain products
- Curb on movement of crop labour is causing logistical challenges for distribution and export
- Some agri-food businesses on the value chain impacted negatively, while others too busy, due for example to a surge in online orders
- Contamination a high risk. If an employee infected, whole operation faces 2-week closure
- Optimism in resilience of fruit value supply chain, but cereals to surge in buying/ stockpiling
- If the virus is not successfully contained, additional government intervention required

Governments move to protect key food interests

Countries are taking drastic measures to ensure plentiful domestic supplies of certain products. Turkey, for example, has banned lemon exports, as citizens are using it more for intake of vitamin C to combat the virus. The curb on movement of traditional crop labour looks set to cause a dearth of fruit pickers not to mention severe logistical challenges for distribution and export. Governments have recognised this in the past week and are acting to anticipate a worst-case scenario. Spain approved a decree to secure sufficient agricultural workers during social movement restrictions, targeting upcoming stone fruit and strawberry harvests. Spanish agricultural minister Luis Planas



stated, in announcing the decision, the “significant source of revenue” coming from agricultural exports to the European market, which represents around a third of Spain’s agricultural production.

What is different about the protection of this harvest is that eligible workers’ place of residence must be located in close proximity to the workplace. Italy may have to take similar action. It currently expects to be without one third of its usual 350,000 seasonal workforce, putting strawberry, cherry and peach harvests at risk. Germany has opted to open its borders to foreign agricultural workers (300,000 such workers employed in 2019) in a bid to save its asparagus crop, among others. Meanwhile France has reached out to its unemployed population to bridge the gap as has the UK, who usually employs around 60,000 seasonal workers per year.

Government interventions can breathe confidence into investment, confidence that had been receding badly since mid-March

Even had the coronavirus not happened, aggravating circumstances still existed. For example, in the UK, the wet autumn saw less wheat sown, while across Europe the ongoing dry spell has compounded the problem for that crop.

The UK, in the process of departing from the European Union, must deal with an additional layer of complexity. Now that it no longer benefits from EU subsidies, will it recognise the need to support local farmers during the crisis?



Farming businesses serving niche and specialised products for restaurants and other catering outlets are highly exposed

Financial threat to fruit and veg industries

Pierre Heidebroek, an agribusiness consultant based in Belgium, has a family interest in the fruit industry in the south of Spain. Like Wilkes, he notes how difficult the current scenario is for companies who are not in basic commodities as there is less uptake in specialised products. This is having a knock-on effect in terms of labour.

Currently there are too many labourers on some farms because of the COVID-19- induced downturn on specialised food products. However, these labourers can’t be sent home due to lockdown restrictions.

Heidebroek expects to see ‘tensions and general challenges for those working in fresh vegetables and seasonal fruit – particularly due to food waste.’

What is also becoming obvious is that some people on the value chain are impacted negatively, while others are simply too busy, due for example to a surge in online orders

The Polish experience

Food Processing is the techniques or methods used to convert fresh food into food products. Processing is carried out to obtain certain goals for the food such as improving taste or prolonging shelf life. But there is The virus impact has also been felt in terms of religious and national food culture. In Saudi for example, it’s expected that traditional eating habits around Ramadan will be affected by perishable food availability.

Meanwhile, Warsaw-based agribusiness consultant **Marek Komorowski** says, “In Poland, Easter is quite a big thing. Sales of seasonal chocolates such as Easter eggs were impacted because people were not meeting up so didn’t give them as gifts.”

Komorowski says Poland is weathering the pandemic reasonably well but the main concerns centre around labour, the labour it exports for harvesting in other nations and the safety of the labour force in food and agribusiness back home.

“The main threat for food processors and manufacturers is the risk of contamination - if an employee gets infected the whole operation must close down for two weeks.”

Whole communities who rely on their contribution to seasonal labour abroad are also feeling the pinch. Poland has been a supplier of food and agribusiness labour to western Europe for decades, while the domestic food processing industry is itself heavily reliant on eastern European labour.



This may be impacted, particularly in terms of seasonal produce such as grapes (for wine), strawberries and so on. In Poland there is reliance on Ukraine for labour. Officially there are about 1 million workers from the Ukraine, but unofficially it is probably double that.”

Fear of prolonged disruption

The biggest fear for the fruit and veg producers is undoubtedly the prospect of a prolonged disruption. Agricultural deals generally close at the end of the year so this could impact the price of assets for funds that must close at year-end.

As with all other sectors, the food and agribusiness industries wait to see if a plateau in infections arrives and subsequent government planning on how to react once that plateau sustains.

The fruit and veg sector has a 2-4 day logistics value chain and not much is expected to change for now. Tropical fruits can be grown in Argentina or Spain without a huge difference in price, so much will depend on how the customer base evolves. Overall, there is optimism in the resilience of the fruit value supply chain, although cereals are expected to see a surge in buying and stockpiling.

If governments can continue to sufficiently relax regulations to enable adequate workforces, while medically the number of coronavirus cases plateaus, much of the sector can survive intact, and previous investment conditions revive. If the virus is not successfully contained, additional intervention may be required.

Conclusion

COVID-19 has introduced hugely disruptive challenges to a 'Just in Time'-oriented food supply chain previously perceived as being almost bulletproof. There is a threat to investment in new and innovative development in food and agribusiness sectors as distressed assets become the safer bet. Meanwhile governments are having to work hard to respond to problems affecting food supply such as the halting of migrant seasonal labour, and the survival of the food service sector.



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