



Council of the  
European Union

Brussels, 12 November 2020  
(OR. en)

12708/20

AGRI 407  
AGRIFIN 108  
AGRIORG 99

**NOTE**

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From: General Secretariat of the Council

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To: Delegations

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Subject: Agricultural market situation

- Presentation by the Commission
- Exchange of views

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The annexed note contains a description of the general situation on agricultural markets.

GENERAL SITUATION

**A. Introduction.**

1. The agri-food sector proved to be resilient throughout the first phase of the COVID-19 crisis, despite severe challenges arising in particular from the closure of the food service sector, restrictions on movement of goods and workers, changes in retail and consumer consumption patterns, etc. Good cooperation between all EU stakeholders resulted in a wide range of initiatives taken to confront the crisis and succeeded in maintaining the smooth operation of the food supply chain and food security for citizens.
2. The crisis overshadowed many other factors impacting agri-food markets, including the uncertainty over the future trading relationship with the United Kingdom as from 1 January 2021, the difficult climatic conditions that prevailed during summer, the ongoing spread of the African Swine Fever and trade tensions with third countries. As the EU enters into a difficult winter due to the second wave of COVID 19, which has already caused the closure or significant restrictions for the hotel, restaurant and catering sector (HORECA), it is opportune for the Council to have a closer look at the overall market situation and that at Member State and regional level, where relevant, and to identify current and future challenges and possible initiatives that could be taken to address them.

## **B. Situation of the main sectors at European level**

3. Due to significant adverse conditions over the summer, **EU cereal production** for the period 2020/2021 is expected to be reduced in comparison to the current one, which reached 274.3 million tonnes, 2.6 million below the 5-year average, with wheat production at 115.5 million tonnes and maize production at 63.1 million tonnes. Concerning the trade balance of cereals during 2020/2021, exports will be lower due to a significant reduction of wheat exports whereas imports will be slightly higher due to an increase of maize imports. Total EU cereal consumption is due to decrease slightly in 2020/21 compared to the current marketing year (-0.7% year-on-year). Concerning the **EU oilseed sector**, rapeseed production is expected to recover slightly in 2020/2021 compared to the current period reaching 15.8 million tonnes, still significantly below the 5-year average. Production of **protein crops** should increase to 4.5 million tonnes, 4% more compared to last year, driven by good market prospects as regards demand for feed, due to lower availability of cereals.
4. Compared with 2019, growth of **EU milk collections** remains strong in 2020; collections could increase by 1.4%. This growth is driven by an increase in yield and a lower herd reduction rate because of delayed seasonal slaughtering. Dairy prices remained stable and even increased (butter) after the initial drop due to the COVID-19 outbreak. This will further support EU exports, mainly in WMP, SMP and butter. The structurally declining trend of drinking milk production has been halted in 2020 due to increased domestic and export demand. In 2021, adjustments of some distribution channels (e.g. e-commerce, takeaways) are expected to support the recovery of dairy consumption. Drinking milk consumption should get back to its normal decreasing trend. The pace of production in 2021 remains uncertain, even if it is very likely that the high growth rates of 2020 would be hard to repeat in the face of a slow rate of economic and, consequently, demand recovery. It could still grow by 0.8%.

5. **EU consumption of cheese** continues to be impacted negatively by foodservice closures, which could result in an overall decline in 2020 (over -0.2%). Global demand for EU cheeses remains positive, with increasing shipments to Japan, Switzerland, South Korea and Ukraine, more than compensating for the losses in the US market. EU exports are expected to grow by 5%, supported by a production increase of 0.7%. Prospects for 2021 on the other hand remain uncertain due to the renewed closure of the HORECA sector and the unpredictability of developments in the COVID-19 crisis.
6. **EU beef production declined** in the first half of 2020 by 2.4% year-on-year because of COVID-19 measures and a lower demand from foodservices. With the reopening of the food service sector, demand recovered with a sizeable effect on prices. Thus, overall, reduction for 2020 is forecast to be limited to 1.4%. Still the renewed closure of the HORECA sector in a number of MS and the continuation of the COVID-19 crisis do not permit a safe prediction for the future.
7. **Poultry production** continued growing in 2020 by 1.0%. Higher production was supported by prior investments and by the shift in demand from other meats to poultry during lockdown. EU exports and imports are expected to decline by 6% and 12% respectively. Both were projected to recover during 2021 but this is now uncertain. The apparent consumption should increase in 2020 up to 23.7 kg per capita (+1.5%)
8. Despite positive initial indications, **pig meat production** will finally decline by 0.5% in 2020, a trend that is expected to continue in 2021. Contrary to very positive predictions due to demand from China, because of the discovery of African swine fever in wild boar overall growth of EU exports was limited to only 2%. The apparent consumption of pig meat is projected to decline to 32.8 kg per capita in 2020 (-1.1%) and prices remain in general under pressure.

9. **EU sheep and goat meat** production declined by 3% compared to last year, a trend likely to continue in 2021 reflecting lower demand from foodservices and home consumption during festive periods and supply shortages due to uncertainty linked to trade and weather conditions. The apparent consumption should decline in 2020 (-4%), down to 1.3 kg per capita.
10. **EU sugar production** in 2020 declined due to adverse weather conditions to 15.9 million tonnes a reduction in area. Consumption also dropped due to lockdowns across the EU and closure of food service outlets despite some increase in home consumption. The next year is expected to bring about a further 2% decrease in the sugar beet area related to the difficult market conditions of the last two year but production is expected to be close to that of the current year. 2020/21 imports are forecast to be similar to the previous year while EU exports could slightly increase and reach 1.2 million tonnes.
11. The situation on the **olive oil and table olive** market continues to be challenging, largely due to continuing high harvests and the negative effects of the US measures on this sector. EU olive oil exports continue to grow, however, even though their value is reduced. Despite lower usage by the tourism and food services industry, domestic consumption increased in the main producing regions.
12. Regarding other specialized crops, strong demand in 2019/20 for fresh oranges – in part to substitute for the consumption of processed orange juice – led to increased imports (possibly reaching 1 million tonnes), with exports dropping by 15%. Due to favourable weather conditions, the 2020/21 EU orange production could reach the same high level as two years ago (around 6.5 million tonnes). The 2020/21 EU apple production is forecast to reach 11.5 million tonnes (-2% on 5-year average). With the previous marketing year's stock almost cleared, the market seems well balanced for the upcoming season. A low availability of peaches and nectarines and high prices have led to a sharp drop in the EU consumption of fresh peaches in 2020. EU imports of fresh tomatoes are expected to continue to increase in 2020 (+7%), driven by a growth of imports from Turkey and to a lesser extent from Morocco.