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From:	General Secretariat of the Council
To:	Delegations
Subject:	Market situation in particular following the invasion of Ukraine - Information from the Commission and the Member States - Exchange of views

With a view to the meeting of the Council (Agriculture and Fisheries) on 23-24 October 2023, delegations will find in the Annex a background document on the above-mentioned subject including questions proposed by the Presidency to frame the Ministerial debate.

ANNEX

1. The situation of the Union's agricultural markets continues to be affected by Russia's unprovoked invasion of Ukraine, notably by its negative impact on energy, fertiliser and feed prices, the unfolding food price inflation, and the global decrease in purchasing power because of the economic slowdown. This, together with the adverse weather conditions of the summer, the recent geopolitical developments in the Middle East that brought further uncertainty to international markets, and the prospect of persisting above-average input costs, continue to challenge the resilience of EU farming.

2. According to the Commission's short-term outlook, the combination of **tightened monetary policy** and sluggish economic growth has led to a downward revision in economic growth that would affect 2024 as well. **Energy inflation** continues to decline but reduced supplies by OPEC+ countries are expected to have an upward effect on the prices of crude oil in 2024. Natural gas prices are also likely to be increasing as we move towards the winter months, despite the 90% storage capacity reached in September. Nevertheless, the development of natural gas prices so far improved the affordability of nitrogen fertilisers.

3. While **food price inflation in the EU** came to a halt, it was still at a historically high level. Although the monthly food inflation rate started declining since July 2023, the level of prices is still a big concern for consumers as the cost of living remains elevated and prices might further evolve in light of the new harvest and uncertain developments in the Ukraine. Lower EU prices of certain commodities observed in past months supported some recovery of EU exports, for example of milk powder. In some other cases, exports continue to suffer from high global food inflation and lower EU availability, which in turn pushes prices further up for products such as olive oil and fruit. Indeed, in their written comments, five delegations report significant losses in farmers' income and loss of agriculture capital due to the above and to the adverse climatic conditions.

4. The Commission projections put the 2023/24 EU **cereal** production at 268.5 million t (4.3% below the 5-year average), mostly because of the adverse weather conditions over spring and summer that negatively affected **maize** and **barley** production in particular (-13% and -7% compared to the 5-year average). The use of cereals in the EU is stable compared to the last marketing year, but 1.4% below the 5-year average. Considering that the EU animal production overall remains relatively stable (but differentiates among species), the increase in the use of cereals for feed is expected to be rather marginal (+0.3%), while the use of cereals for biofuel production continues growing (12% above 2022/23). After a historically high level of EU cereal imports in 2022/23, they are likely to be lower in 2023/24 although still above the 5-year average. The EU oilseed production in 2023/24 is expected to reach 33 million t (11% above 5-year average), mainly due to an excellent rapeseed harvest (13.3% above 5-year average). With a production of 4.6 million t, the availability of protein crops will also be higher (7.7% above the 5-year average). EU **sugar** production in 2023/24 is forecast at 15.6 million t (close to the 5-year average), as the area planted with sugar beets, the beet yields and the sugar content of beets are expected to increase. EU production of isoglucose, which was estimated to fall by 24% in 2022/23 as a consequence of the 2022 summer drought and the high feedstock and input costs in main EU producing countries, is expected to partially recover in 2023/24. In their written comments, eleven MS confirmed the significant impact of the weather conditions and the increased production cost, stating that they, in combinations with increased imports and yields in some areas of the Union, have negatively affected the income to their producers.

5. The Commission also estimates that following the record low EU **olive oil** production in 2022/23, no full recovery of production is expected in 2023/24 too, due to adverse weather conditions, as it would likely reach only around 1.5 million t. Combined with lower beginning stocks, prices stay at record high levels, which are likely to continue having a negative impacts in 2023/24 on EU exports (-10%) and further reduce EU consumption (-6%). The EU **wine** production in 2023/24 could decline as well (around 6%). EU consumption of wine could follow its decreasing trend while other uses could grow, supported by crisis distillation. As a result, EU imports will continue declining while EU exports could remain stable, following relatively high volumes traded last year. The adverse weather conditions are also likely to have a negative impact on EU apple production in 2023/24 (-2.4% year-on-year) and orange production (-2%). In both cases, the reported quality is low, and consequently more fruit is anticipated to be channelled to processing. This is also driven by still high storage costs. Lower availability of fresh **apples and oranges**, combined with high consumer prices are likely to push their consumption further down. EU exports of fresh fruit are expected to decline while imports could grow, more in the case of apples which could recover from low levels. In their written comments, four Member states reported reduced income for their producers for a number of other products, such as cherries, chestnuts, berries, vegetables, wine and some organic farming products, because of lower consumption or reduced production caused by adverse weather condition and increased imports, with one providing emergency support.

6. Despite continuously declining EU raw milk prices since the beginning of the year, EU **milk** deliveries remain rather stable and are estimated by the Commission to increase by 0.3% in 2023. Weather conditions have been more favourable than in the challenging 2022, which helps to reduce feed costs and contribute to better feed quality, thereby also increasing the solids content of milk (+0.2%) and supporting a 1% increase in milk yield. While global demand for **dairy products** is still relatively tight, lower EU dairy prices are expected to support a recovery of some exports, especially of milk powders. EU cheese and whey production is likely to benefit from higher milk availability and competitive prices. In both cases, this could support an increase in EU exports of +1.5% and +4.5%, respectively. Despite the decreasing dairy cow herd, and assuming normal weather conditions, EU milk supply is forecast by the Commission to remain relatively stable in 2024 too (+0.2% year-on-year). Although energy and fertilizer prices are over the peak of 2022 and on a decreasing trend, they are still high compared to last year's. This, combined with decreasing raw milk prices, still high inflation in the EU and globally, and increasing interest rates, create uncertainty over margins for dairy farmers in 2024. In their written comments, five delegations report lower farmgate prices for dairy products, which reduced the income of producers further.

7. The Commission also estimates that per capita **meat** consumption in the EU is likely to go down by 1.5% in 2023 due to price inflation and lower supply on the market. EU **beef** production is expected to decrease further by -3.1% in 2023, mainly due to a structural adjustment in the beef and dairy sector and low margins. EU imports could go down due to low production in the UK, while South America does not fully compensate for losses of imports from the UK. EU exports continue struggling with high domestic prices.

A smaller breeding herd as well as African Swine Fever (ASF) are pushing EU **pigmeat** production further down by 6.6% in 2023, despite lower feed prices. Sustained domestic demand and lower demand from China slow down EU exports by 16% in 2023. EU poultry production could benefit from a recovery of 3.3% in 2023 thanks to being one of the cheaper sources of dietary animal protein available. On the other hand, EU **poultry** prices make exports less competitive. Brazil, Ukraine and Thailand are sending substantial volumes to the EU (+12%), while the UK records a massive decline. The historically low EU **sheep** flock pushes slaughterings down by -1.8% in 2023. Sustained demand and high domestic prices favour more imports from New Zealand and the UK (+15% in 2023). In their written comments, two MS report an higher or stable price of beef, three a decrease of livestock production due to animal diseases, and three lower production and exports of pork. One delegation referred to a reduction in the consumption of beef. Finally, one delegation reported a dramatic reduction in the numbers of livestock due to recent catastrophic floods in a major agricultural production area.

Having in mind the above, the Presidency would like to ask delegations to address the following questions during the Ministerial debate.

1) **In the light of recent developments, notably the war in the Ukraine and the recent conflict in the Middle East, and their potential impact on the outlook of agricultural markets, what do you consider to be the main challenges facing EU agricultural markets in the coming months?**

2) **In relation to the above, do you consider that the tools included in the CAP strategic plans are flexible enough to effectively address the potentially serious negative impact they may cause on the European agricultural sector?**