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NOTE

From: General Secretariat of the Council
To: Council

Subject: Market situation
- Exchange of views

Delegations will find in Annex a note on the above-mentioned subject to be dealt with at the meeting of the Council (Agriculture and Fisheries) on 17 January 2022.

Agricultural market situation**General**

1. Although the effects of the recent surge of COVID infections remain to be seen, for the moment the EU agri-food sector has generally recovered from the COVID crisis following the gradual re-opening of food services and the lifting of restrictions on the movement of people and goods associated with the crisis. Exports recovered strongly, up 8% in value in the period January to September 2021 on the previous year. The recovery of bilateral trade with the UK, the first EU export destination, was also confirmed. However, there are important risks linked to uncertainties concerning future border controls and the impacts of free trade agreements recently signed by the UK with third countries. The effects of other trade restrictions because of international developments should also be watched closely.
2. EU agricultural markets in 2021/22 are bolstered by a dynamic global demand that resulted in a high level of world prices. The FAO food price index, reflecting world agricultural prices, was 27% higher year-on-year in November 2021. This increase of agricultural prices is reflected also in Union prices: the Eurostat price index for agricultural products is, on average, during the third quarter of 2021, 13% higher than one year ago. However, a combination of factors, among them the recovery of the global economy and an increased demand for gas, contributed to the current surge in energy prices, in particular of natural gas in Europe, which are hitting new highs. The surge in energy prices is having a strong impact on the prices of most agricultural inputs. This is notably the case for fertilizer prices that more than doubled in a year. The World Bank fertilizer index of November 2021 was 165% above the November 2020 index. Nitrogen fertilizer prices in particular are highly correlated with the price of natural gas, which is the main feedstock for the production of ammonium or urea. According to the World Bank, in November 2021, the world price of urea and of DAP (Di-Ammonium Phosphate) increased by 268% and 102% over last year respectively. High energy prices, in conjunction with the disruption of supply chains caused by COVID-19, have increased transport costs and have added to tensions on commodity markets. The latter tended to ease in the last weeks of 2021 with, for example, a fall by 30% of the Baltic Dry Index in December 2021 (bulk transport costs). The Eurostat compound feed price index for the third quarter 2021 was on average 14% above last year's value.

3. Generally, inflationary pressures have become stronger: energy, raw materials and fertilizers have seen sharp price increases during the first half of 2021 and more recently. EU food inflation has slightly accelerated since April 2021, reaching in November 2021 the level of 2.9% year-on-year. Food inflation remains well below the general inflation rate (5.2% over the same period). While the ECB projects a sharp decrease of inflation, including of its energy component, during the course of 2022, market developments in these sectors should be monitored closely.
4. During the last two sessions of the AGRI/FISH Council, nearly all MS drew attention to this situation mentioning the negative effects of rising input costs on farmers' margins in both the animal (feed costs, energy etc.) and crop sectors (fertilizers, energy etc.), with many of them calling for emergency market measures to be adopted. This is especially the case for some sectors, such as pig meat, where the increasing cost of inputs, notably of feed, and a strong supply because of other factors have squeezed profit margins to critically low levels or eliminated them.

Situation of the main sectors

5. The latest forecast for total 2021/22 EU **cereal** production is now at 291 million tonnes, a 3.4% increase year-on-year (+4.1% compared to five-year average), due in particular to the recovery of wheat production estimated at 130.6 million tonnes (+7.3% compared to five-year average). Maize production is forecast at 69.4 million tonnes, 2.1% increase year-on-year (+3.1% compared to five-year average). Given lower pig meat production in the EU, feed demand is slightly lower compared to the previous marketing year, a drop of 0.18%. EU cereal prices generally remain high due to strong global demand and worsening crop conditions in South America. The EU oilseed production is estimated at 30.5 million tonnes in 2021/22. This 7% annual increase, after the drop in 2020/21, should ease the EU market by providing larger availabilities, although rapeseed supply would remain tight due to low opening stocks. Despite the high prices, in some parts of the Union, like Finland and Romania, the low harvest is preventing producers from benefiting from them.

6. The EU 2021/22 **sugar** beet yield forecast is much more favourable than last season and also 2.4% above the five-year average, at 75.4 tonne per hectare. With the EU sugar beet area estimated at 1.5 million hectares, EU sugar production could reach 15.7 million tonnes, 7% more than in the previous season. World prices remained relatively high while the EU sugar exceeded the reference threshold in October 2017 reaching EUR 417 per tonne.
7. For **rice**, the EU market is relatively quiet, with stable imports, high domestic prices and good weather circumstances having contributed to a favourable harvest in September and October. The world rice market is characterised by high prices, low trade volumes and continuing disruptions from container shortages, very high shipping costs, COVID-19 bottlenecks (India Thailand, Vietnam and Cambodia), and political protests (post-coup Myanmar).
8. For **olive oil**, EU production in 2021/22 EU is forecast to be 4% below the level of the last campaign, at almost 2 million tonnes (3% below the five-year average). Despite stronger flows to the US, EU exports of olive oil remained modest in the marketing year 2020/21 compared to previous levels, although still 18% above the five-year average. Restocking in some export destinations and reopening of foodservices should contribute to higher exports while EU consumption could decline due to lower availabilities and above-average prices. In some areas of the Union, such as Croatia, the sector was affected by unfavourable weather condition, in addition to the general problem of the high input prices.
9. The **milk** market is characterised by a firm demand and tight global and EU supply. EU average raw milk prices increased in each and every month of 2021 and are now at their highest level since March 2014. EU dairy product prices are above recent and medium term references. EU cheese and whey powder exports have been the best performers this year. EU **milk** production remained stable in the first ten months of 2021. This translated in various trends across the dairy portfolio: lower production of skimmed and whole milk powder, butter, fermented milk and drinking milk versus higher production of concentrated milk, cheese and cream. EU dairy exports remained relatively stable in the first ten months of 2021, with varying trends depending on the product: lower exports of milk powder and butter versus higher exports of cheese, condensed milk and whey powder. EU raw milk prices continued their increase in October and November, reaching levels far above the five years' average. On the world market, EU prices are currently the most competitive for cheddar but the most expensive for whole milk powder and butter. Oceania prices are the most competitive for whole milk powder and US prices for butter and skimmed milk powder.

10. On the **meat** markets, EU **beef** carcass prices continue their positive trend and remain at very high levels sustained by strong demand and limited supply. The trade balance for beef and veal is positive in volume and value. The bottom of the price curve for **pig** carcass prices has passed and piglet prices are increasing, but both are still low. Producer margins further declined, while EU production increased compared to last year. The EU trade balance is positive, with high exports, even though exports to China are slowing down. Even after the end of the Christmas holidays a number of MS have reported no clear evidence that the bottom of the price curve has been reached and that the level of prices remains critically low albeit some weak signals of a turn around. In almost the whole of the EU the effects of rising feed and energy costs are being felt strongly. In this regard, in their written comments several MS, notably BG/CZ/DE/ES/HR/LV/HU/MT/PL/RO/SK, have requested emergency market measures or direct support to be provided as soon as possible. BG drew attention to the need to avoid releasing stocks onto the market at a time when prices show some signs of a turn around. In DE/ES/LT/PT/FI's view the situation justifies the monitoring and adoption of initiatives aimed at anticipating serious disturbances in agricultural markets and preparing possible courses of action.
11. Since October, EU **poultry** prices have been increasing, reaching high levels in the context of strong domestic demand and restricted production. EU exports are limited by lasting avian influenza-related restrictions while the recent wave of outbreaks (e.g. in PT) risks putting EU exports under further pressure. In addition some MS like SK continue to report increased imports from Ukraine. The situation should be monitored closely. **Egg** prices have reached their highest level this year after many weeks of stable prices supported by sustained domestic demand, increasing exports (+18%) and declining imports (-25%). Average prices are nearly 18% higher than last year although -3% below the five-year historic average. The EU **sheep** market is tight and competition is strong to secure supplies. World demand before Christmas has pushed lamb prices up further.

12. For **wine**, the adverse weather events in spring and summer 2021, alternating from frost to floods and vine diseases linked to these climatic conditions, have had an impact on the EU 2021 wine harvest. EU final production in 2021 is estimated to be 13 % lower compared to last year. France was especially hard hit by frost, with a projected fall of 29%.

However, very strong EU wine export growth has helped the market to recover. Exports reached record levels during the 2020/21 campaign (28,8 Mio Hl including 4,1 Mio Hl exported to the UK) fuelled by the easing of COVID-19 restrictions and the suspension of the US additional duties. The re-establishment of some restrictions in the HORECA sector due to the evolving COVID-19 pandemic in some Member States introduces some uncertainty in the short term.

13. Concerning the **fruit and vegetable** sector, market trends are favourable for most products with a more difficult situation on the apple market in some Member States. The apple harvest in the EU has been higher than in the previous year due to a quite generous crop in Poland and this is putting pressure on prices and increasing the share destined for processing. The ban introduced by Belarus on certain agriculture products as of 1 January 2022 can add pressure in this market with apples and pears being the products most exported. PL expects to suffer important consequences for a range of horticultural products given the high share of Belarus exports in total polish exports. EU orange production is expected to decline slightly, affected by adverse weather conditions in Italy, with fresh oranges continuing to replace the consumption of processed orange juice. Concerning international trade in fruit and vegetables, after a record year in 2020, the trade flows have been affected somewhat by Brexit: the situation recovered from difficult early months of 2021 and exports to non-EU countries are finally down by only 4% over the first 8 months year on year. However, the trade flow with UK remains a point of attention also given that the UK is expected to introduce by mid-2022, after several postponements, full border checks and certification requirements for EU exporters.

Concluding remarks

14. Even though a range of food products are enjoying record prices for a variety of reasons, producer margins continue to face significant pressure for a number of products, notably pig meat, due in particular to high input costs. The Commission is invited to complement the information provided above, in particular concerning any measures taken to alleviate the negative situation; and MS to comment whether they view the action taken or proposed as satisfactory.
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