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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Market situation in particular following the invasion of Ukraine - <i>Delegations' comments</i>

With a view to the meeting of the Special Committee on Agriculture on 23 January 2023, delegations will find in the Annex delegations' comments on the above subject.

DELEGATIONS' COMMENTS**1. CROATIA**

In order to prepare the Council debate on Market Situation, the Republic of Croatia suggests a detailed discussion regarding the trend of inflation and the significant increase in prices of agricultural and food products.

This has a particularly negative impact on the costs of food products for final consumers. These costs constitute a significant part of their total living costs. Rising prices exacerbate inflationary pressures throughout the supply chain, since agricultural production and food processing are energy-intensive activities.

At the same time, inflation has negative consequences for the CAP budget, making the viability of agricultural farms even more difficult. The rise in prices will inevitably force a number of farmers to abandon their planned investments, while others will have problems with the activities already started.

Croatia believes that it would be useful to request from the European Commission to analyse in detail the current situation, with an emphasis on price fluctuations and to explore the possibilities to adequately address these issues, including through further flexibilities of the state aid framework or improvements in the price monitoring system.

In any case, we believe that it would be appropriate to discuss this issue at the upcoming AGRIFISH Council.

2. CZECH REPUBLIC

The Czech Republic welcomes the initiative of the Swedish Presidency to continue the discussion on the situation on agricultural markets in a structured form with previously known questions, as was the custom even during the Czech Presidency. We support the Swedish Presidency in the discussion regarding the use of the agricultural crisis reserve. The development of agricultural markets continues to be strongly influenced by the high level of agricultural input prices (especially energy, fertilisers and feed). In addition to the crisis associated with Russian aggression in Ukraine, periods of drought and spreading of animal diseases such as avian influenza and African swine fever, had a direct impact on livestock breeding.

3. DENMARK

- What can the EU do to facilitate Ukraine's further integration into the European Union in the field of food and agriculture and strengthen the bilateral trade in agri-food products?
- In light of the volatile fertilizer markets, what concrete steps should the EU take to promote sustainability and circularity in nutrients and increase the supply of fertilizers?

4. FINLAND

Towards the end of 2022, producer prices levelled off and there is even a downward pressure on some products. Unfortunately, these prices do not bring relief to the poor economic situation at the farm level due to the high input prices, which have doubled or even tripled compared to their level one to two years back. For example, cereal market prices that are currently offered to producers, do not cover the present higher price of fertilizers and other inputs for 2023 production. In the animal sector, the high price of feed combined with the rising price of energy and general price inflation causes a situation that has not been seen before. In fact, this negative situation has lasted for a long time and consequences can be seen in the structure of the farms and producers' reduced willingness to invest in future production. Commercial greenhouses have limited production due to rising energy prices. At the same time, high inflation has changed consumers' behavior and they look for cheaper products.

Related to inputs, it is now important to focus on the production of the 2023/24 marketing year and to find and consider measures at the EU level to secure availability of fertilisers at prices that producers can afford. The possible risk of energy rationing (=planned cut offs in electricity distribution by suppliers) during winter months is also a concern for Finland.

Finland considers that the Commission should continue its close market surveillance on producer and input prices and take measures to balance the markets, if deemed necessary, or if security of supply of the European Union is going to be endangered. Finland is ready to consider on a case-by-case basis further exemptions to the rules of the CAP to fully utilise the production possibilities in the EU. In order to help producers to overcome the long-term poor economic situation in production, Finland sees that it is important to consider all available measures, including the agricultural reserve.

The ministerial debate in the Council could focus on the activation of the agricultural reserve and other measures helping to overcome the long-term poor profitability of agricultural production. The situation will have consequences for food supply and the achievement of the objectives of green transition if the negative trend is not reversed in time.

5. LATVIA

Agricultural and food businesses are under pressure of prolonged crisis, that marks the start of the new year 2023. It should be noted the nature and impact of the crisis vary from one EU country to another. The market pressures the Member States must cope with vary and are particularly difficult and complex for small economies and markets.

According to Eurostat data on inflation monthly rates in all EU Member States for the product group "Energy", which includes electricity, gas, fuels, and heat energy, in Latvia and the Baltic States as a whole price increases of energy are much higher than the EU average. This has been the situation since May 2022. In August 2022, the point was reached where the energy inflation gap between the EU average and Latvia was the widest (LV: +67% compared to August 2021; EU: +37.5% compared to August 2021). In November 2022, Latvia and the Baltic States continue to experience higher energy inflation than the EU average (LV: +51.7% compared to November 2021; EU: +33.3% compared to November 2021).

In some sectors, there is a downward trend in product prices, for example, the price for farm-gate raw milk in Latvia in December 2022 (0.483 EUR/kg) was down 1.5% compared to the price in November. Raw milk price in Latvia has been decreasing already for 3 consecutive months, dropping in total by 3% since August 2022. Credit, feed, electricity, fuels, and other costs continue to rise, but the purchase price of milk in Latvia is one of the lowest, with a downward trend. According to the industry, in January 2023 Latvia is experiencing the sharpest ever monthly fall in the farm-gate milk price, which will have a significant impact on the financial stability of milk producers. The January milk price will be by as much as 20-30% lower than in December 2022.

Latvia is of opinion that it is time to use Agricultural Reserve to support farmers. This is a crisis caused by the rise of production costs and therefore, it is crucial that the Commission distributes the Agricultural Reserve fund among the Member States based on market data. It must provide that Member States that are the most hit by the crisis – receive appropriate Agricultural Reserve funding. The main criteria for distribution must be the rise of the price of energy resources and not the direct payment envelopes.

6. **POLAND**

On the **cereal** market, the outbreak of the war in Ukraine initially caused a dynamic increase in prices, with their highest levels recorded in May 2022. In the following months, cereal prices gradually decreased, most significantly in July 2022. In October, cereal prices rose again, while from November cereal prices began to fall.

In week 1 of 2023 (2-8.01) **wheat** for consumption cost an average of PLN 1,430/tonne and was cheaper than a month earlier by about 5%, while compared to the first week of January last year, it was more expensive by more than 7%. The average price of maize at the beginning of January this year amounted to PLN 1,349/tonne and was over 1% lower than a month earlier, but at the same time it was 28% higher than a year ago.

In the case of **rapeseed**, its price has been steadily increasing since August 2021, and reached its highest level in May 2022 - PLN 4,720/tonne. After the harvest, the price of rapeseed dropped significantly to around PLN 3,100-3,200/tonne. Currently, i.e. in the first week of January, rapeseed cost an average of PLN 2,891/tonne and was about 4% cheaper than a month earlier and 11% cheaper than in January 2022.

The price of **pigs**, as in the case of cereals, was growing very dynamically for several weeks after the outbreak of the war in Ukraine - from PLN 4.17/kg of live weight in mid-February last year to PLN 6.80/kg of live weight in mid-March last year. However, pig prices reached the highest level in mid-September last year (it was the highest level in history), and amounted to approx. PLN 7.90/kg of live weight. However, from the end of September to November last year pig prices fell to the level of about PLN 7.00 per kg of live weight. The second half of November and the beginning of December last year showed an increase in the purchase prices of these animals. In week 1 of this year, pigs for slaughter cost on average PLN 7.52/kg of live weight, i.e. more than 3% less than a month earlier, but at the same time 68% more than at the beginning of January last year.

In turn, the price of **cattle** has been gradually increasing since April 2021, reaching the highest level in May 2022 (PLN 11.68/kg of live weight). In the following months, cattle prices dropped and since September they stabilised at an average level of about PLN 11.0/kg of live weight. At the beginning of January this year the average price of cattle amounted to PLN 10.89/kg and was 1.5% higher than a month ago and about 18% higher than a year ago.

After a very dynamic increase in the period March - April of the last year (by more than 30%) purchase prices of **chickens** in the following months stabilized at the level of about PLN 6.05 – 6.15/kg of live weight. However, since October last year, there has been a decline in the prices of chickens. In week 1 of 2023 the average purchase price of chickens amounted to PLN 5.67/kg of live weight, i.e. about 3% lower than at the beginning of December last year, but at the same time about 30% higher than a year ago.

In the case of **milk**, its buying-in price has been steadily increasing since the middle of last year. In November last year (currently available data), the average purchase price of milk was PLN 2.74/kg, which meant an increase of 4% compared to October and of over 65% compared to November 2021.

In 2022, imports of agri-food products **Ukraine** to Poland increased almost 3 times, i.e. to EUR 2.42 billion, and Ukraine became the second largest supplier of agri-food products to the Polish market after Germany (mainly sunflower oil, soybean oil, maize and rapeseed).

The biggest problem we are currently experiencing is on the cereal market, in particular maize. It manifests itself in price drops accompanied by a significant increase in agricultural production costs. The prices of agricultural inputs, including fertilisers and fuel, have increased dramatically. Despite the reductions observed in recent months, fertiliser prices in December 2022 were still 65.8% higher than a year earlier, including nitrogen fertilisers by 62.8%. For comparison, in the "peak" month, i.e. in September 2022, the increase in the total prices of fertilisers was 143.8% y/y, including 194.2% for nitrogen fertilizers. At the same time maize prices at the Eastern border are even 15% lower than the average price of cereals in the country. The storage and transport infrastructure is used to its full capacity, especially in the regions of the country bordering with Ukraine, and Ukrainian maize goes to domestic feed processing plants, because the overland transport of grain of Ukrainian origin to Western Europe is unprofitable. This situation results in a reduction in demand for Polish cereals and causes social unrest.

7. SPAIN

With regard to the item on the situation of agricultural markets, on this occasion from the Spanish Delegation, we do not plan to make a written contribution beforehand, as we did in the last AGRIFISH.

However, for this item, we consider it useful and interesting, in order to extend and focus the discussion, if the Commission could give us some information about the current situation of the EU levels of stocks and supplies of agricultural raw materials, taking into account the functioning of the solidarity lanes and Black Sea ports.