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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject:	ANNEXES to the COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Safeguarding food security and reinforcing the resilience of food systems

Delegations will find attached document COM(2022) 133 final - ANNEXES 1 to 2.

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Brussels, 23.3.2022
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ANNEXES 1 to 2

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to the

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE
REGIONS**

Safeguarding food security and reinforcing the resilience of food systems

ANNEX 1

GLOBAL FOOD SECURITY AND THE EU AGRI-FOOD CHAIN

The situation in the EU

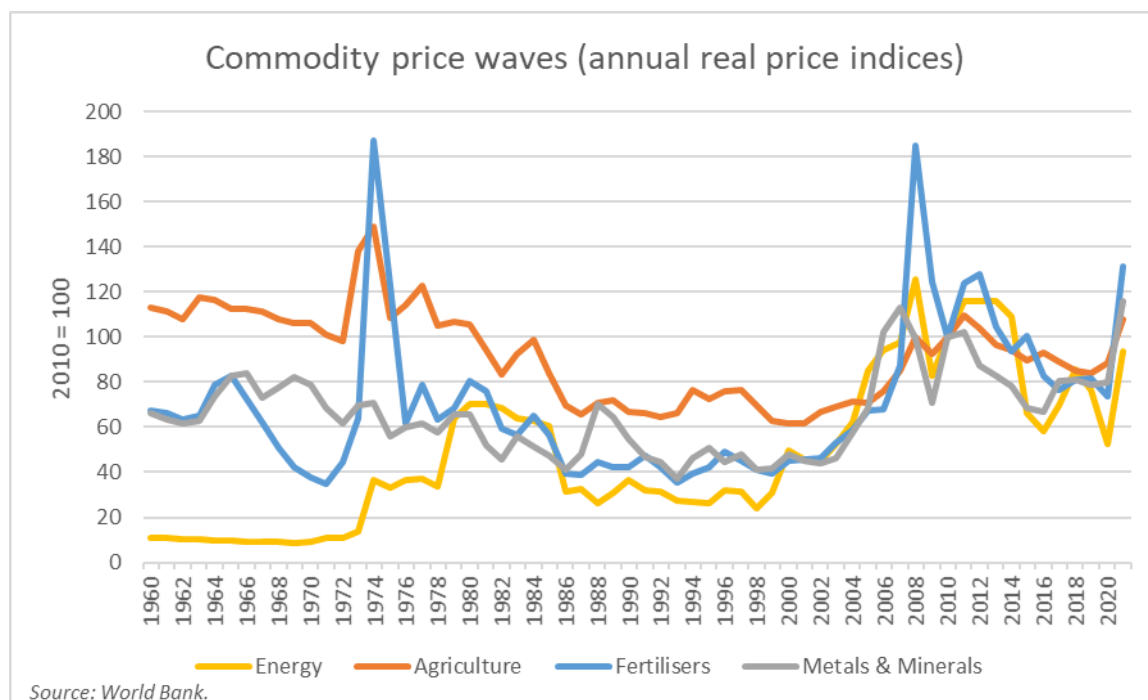
The EU is largely self-sufficient for key food products. The EU is a main wheat and barley exporter and largely covers its consumption for other staple crops such as maize or sugar. The EU is also largely self-sufficient for animal products, both dairy and meat products (except sheep and goat meat and seafood), seafood, fruit and vegetables (peaches, nectarines, apples, tomatoes, oranges).

For some specific products however, the EU is a considerable net-importer. In some cases, imported products are difficult to substitute, be it in terms of volume, import sources, quality or cost. This is the case for tropical products (tropical fruit, coffee, cocoa), fish products, feed, and a variety of additives, such as vitamins and amino acids that are key to the production of animal feed products or food. Notably, 22% of feed protein is of non-EU origin in 2021/22, but this ratio reaches 75% for oilseeds meals¹ (mainly soya).

The impact of the global commodity price surge

The current **general commodity price surge** has some similarities with the 2008 food commodity boom in terms of its generalised nature of high level, co-movement and high volatility in all commodity prices. Now, as then, the increase in input prices for agricultural products is a multiple of food price increases and exhibits once more the problem faced by producers of bottlenecks and lags in food chain price transmission, while still resulting in important food prices increases.

Graph 1. Commodity price waves



¹ EU protein feed balance sheet, DG AGRI.

However, there are some major differences between the two episodes. **Relative stock levels of major agricultural commodities are higher today.** Even though stocks of major staple commodities have slightly declined during the past four years, stock-to-use ratios are nowhere near the level that preceded the 2008-10 price spike, even when taking into account that Ukraine and Russia will not fully supply markets this marketing year.

Regulation and transparency of commodity markets has been considerably enhanced since the 2008 Communication on Food prices in Europe², which was produced in the aftermath of the food price surge of 2007/2008. At the time the Commission recommended **promoting competitiveness of the food supply chain**, vigorous enforcement of competition and consumer protection rules, reviewing and where necessary **improving regulation on the functioning of the food supply chain**, improving consumer information, and discouraging speculation on agricultural commodity and derivatives markets. These recommendations have all been translated into legislative and policy action (see Annex 2), which provides a solid starting point to weather today's storm.

Impact of high energy prices on EU agriculture and fisheries

In addition to the direct exposure to the surge of **energy prices**, the food sector is exposed to the inflationary effects of a series of products and services. It is the main consumer of fertilisers and phytosanitary products, but also of machinery, food packaging materials, and is affected by the surge in transportation costs.

The impact from **rising fertilisers costs** has been particularly acute. Fertilisers represent 18% of the input costs of arable crops farms (2017-19 average). Natural gas is the main determinant for the price of nitrogen-based fertilisers. It represents 60-80% of the variable input costs for their production. High wholesale natural gas prices translate into high fertiliser prices (for nitrogen-based fertilisers as urea, prices peaked to levels similar to the levels observed during the 2007-2008 financial crisis). Some EU fertiliser producers temporarily halted their production as energy costs were too high. Prices of rock-based fertilisers (phosphate and even more so potassium) are less correlated to energy prices, although also under pressure due to the weight of Russia and Belarus in the world production.

Even though the EU imports EUR 3 billion worth of fertilizer from Russia, the reliance on imports for nitrogen-based fertilisers remains limited, with more than 90% of the EU consumption provided by the EU domestic industry. However, the industry is heavily dependent on gas of Russian origin.

The **fishery sector** is also heavily hit by the increase of price of marine fuel. The price of marine fuel is currently at a record high for the last 2 decades, it has increased by 100% compared to the average price in 2021. At this level of fuel prices, the majority of EU fleet segments are below their break-even revenue point and do not cover their operational costs. Increase of electricity costs is a major concern for the **aquaculture sector** (water pumping and circulation) and the processing sectors (production lines and storage / freezing facilities).

² COM (2008)821 final.

Farm income situation

Good production levels and prices for EU agriculture resulted in an improvement of the 2021 EU farm income per worker compared to the 2017-19 average. The **very strong increase in input costs** puts pressure on margins, particularly for livestock, notably pig meat, and aquaculture producers, who already face much higher feed costs. **The average farm income per worker is therefore expected to decline in 2022 and 2023**, erasing gains made during 2020 and 2021, with a more severe decrease for livestock producers.

Increasing costs of logistics and other inputs

Food manufacturers, traders and retailers face increased costs for transport and logistics, (in bulk, container, or air). The fall-out of COVID and the strong economic recovery that followed, congested the maritime freight capacities. With further disruption in the Black Sea, maritime freight will be under further stress. Other inputs also see their costs increase: this is the case for example for packaging costs (wooden containers +37%, paper and pulp + 26%, plastic +13%)³. The shortage of labour and difficulties to recruit in the EU food manufacturing industry is also reported to play a role (+62% job vacancy rate in manufacturing).

Rising EU food prices

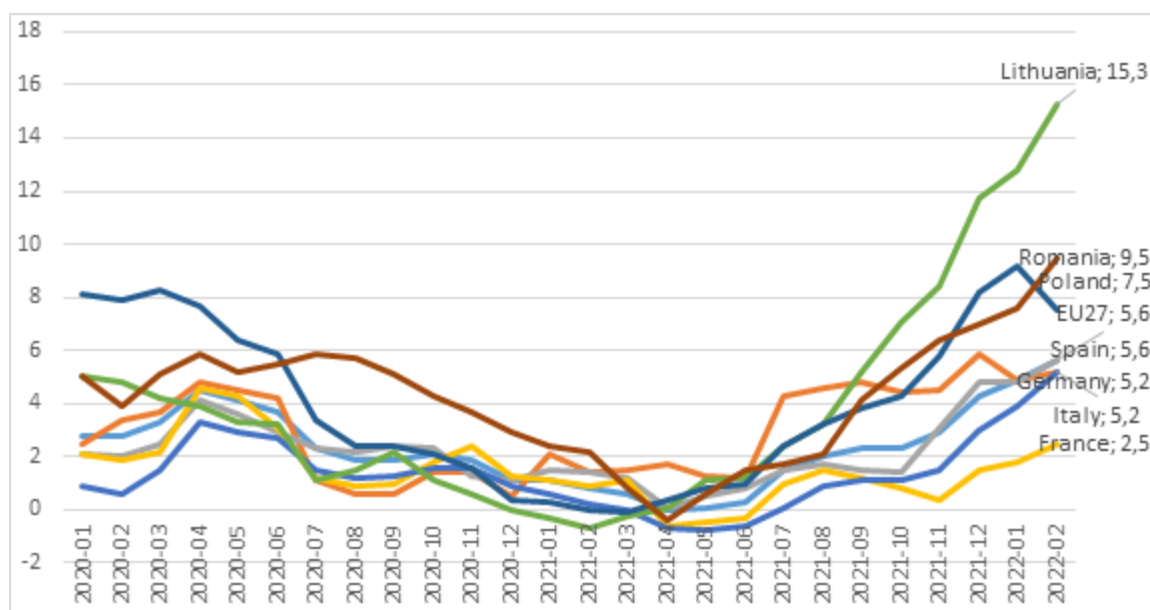
Last, but not least, since the summer of 2021, **consumer food prices have increased**, reaching 5,6% on an annual basis in February 2022, the highest rate since the beginning of the COVID-19 pandemic. Food is an important component in the overall inflation rate (HICP⁴), with a share of 16% on average in the EU-27, to which an additional 6% for catering can be added. In comparison, energy costs for housing and transport represent a 10% share in the average household basket.

Member States are affected differently, depending on their respective national economic context, on the structure of their food supply chains, and on national consumer demand patterns.

³ <https://www.fooddrinkeurope.eu/wp-content/uploads/2022/03/Economic-Bulletin-on-Input-Costs-NovDec-2021-FINAL-public-version.pdf>

⁴ Harmonised index of consumer prices.

Graph 2: Food price inflation by Member State



Source: *Eurostat* (selected Member States).

Ukraine, Russia and global food security

The Russian invasion in Ukraine came on top of already tense (energy) commodity markets and inflationary pressures.⁵ Moreover, it impacts global food security: **Ukraine and Russia** are major players in the global grains and oilseeds market. Ukraine accounts for 10% of the world wheat market, 13% of the barley market, 15% of the maize market, and is the most important player in the market for sunflower oil (over 50% of world trade). As far as Russia is concerned, these figures are respectively 24% (wheat), 14% (barley) and 23% (sunflower oil). Russia is also a major exporter of white fish, in particular Alaska Pollock for the processing industry (16% of the supply).

North Africa and the Middle East import over 50% of their cereal needs from Ukraine and Russia. Eastern African countries import 72% of their cereals from Russia and 18% from Ukraine. Ukraine is also an important supplier of (feed) maize to the European Union and China.

Ukraine is the EU's fourth biggest food supplier and a key source of cereals (52% of EU maize imports, 19% of soft wheat), vegetable oils (23% of EU imports) and oilseeds (22% of EU imports, especially rapeseed 72% of EU imports). Russia exports less to the EU.

Given Ukraine's weight in international trade, the disruption of Ukraine's agricultural production and logistics, in combination with an increase in the costs of freight and insurance, has major **repercussions on world markets**, and therefore on the prices of grains. Since the beginning of the conflict, a sharp rise in world prices of cereals has

⁵ An extensive analysis can be found in the information note of the United Nations Food and Agriculture Organisation "The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict", 11 March 2022, <https://www.fao.org/3/cb9013en/cb9013en.pdf>, or in "The Ukraine Conflict and Global Food Price Scares", R. Vos, J. Glauber, M. Hernandez, and D. Laborde, 1 March, 2022, <https://www.foodsecurityportal.org/node/1921>.

already been recorded, higher than 2007/2008 prices. This situation not only puts at risk the food supply to the Ukrainian population, but also the food security of those non-EU countries dependent on imports of commodities from Ukraine.

Ukraine’s agricultural production potential is heavily impacted by the Russian invasion on the country. In addition to the human toll, the destruction and dangers of warfare, there is a shortage of labour to work farms and fields including in neighbouring Member States. Essential inputs are scarce and difficult or impossible to obtain. In Ukraine, the ability to sow spring crops and harvest both spring and winter crops in 2022 will be decisive and the impact of the war is likely to extend over several years, not in the last place due to war damage on infrastructure and logistical facilities. In Russia, while production is not harmed by war, uncertainty remains as to its ability to export large quantities via the Black Sea.

Food security in a global context

Food security continues to be of growing concern on the planet. The United Nations have highlighted that climate change and biodiversity loss represent the major global threat to food security⁶. FAO reports that 811 million people remain chronically undernourished and a combination of drivers are challenging progress towards reaching sustainable development goal No. 2 ‘Zero Hunger’. Climate change is expected to worsen the situation in absence of effective mitigation and adaptation measures. Rising food prices have an immediate effect on citizens in developing as well as least developed countries dependent on food purchases. The **FAO Food Price Index**, tracking monthly changes in international commodity prices, **indicates an increasingly difficult situation**: it averaged 140.7 points in February 2022, its **highest point ever**, 3.1 points above the previous top of February 2011.

While key customers of Ukrainian and Russian wheat reportedly have stocks for some months, **price increases are already felt** in countries that are in a precarious situation such as Syria and Lebanon, as well as in Algeria.

In 2021, global food insecurity achieved unprecedented levels, with over 161 million people requiring urgent food assistance, and almost 0.6 million experiencing famine-like conditions. This situation may deteriorate further if food prices keep increasing.

⁶ <https://www.ipcc.ch/srccl/chapter/chapter-5/>, <https://www.fao.org/documents/card/en/c/ca3129en/>.

ANNEX 2

FOLLOW-UP TO THE 2008 COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - FOOD PRICES IN EUROPE (COM/2008/0821 FINAL)

Recommendations 2008 communication	Follow-up
Promote the competitiveness of the food supply chain	<p>Successive CAP reforms (2008, 2013, 2021)</p> <p>The High-Level Forum for a better functioning food supply chain (2010-2019).</p> <p>Free Trade Agreements (e.g. Japan, Vietnam, Singapore, Canada, Mexico, SADC-EPA) resulting in market opening and reduction of non-tariff barriers for food exports.</p> <p>Market Surveillance and establishment of the Single Market Enforcement Task Force.</p> <p>InvestEU: support to agri-food SMEs via the EEN network and access to finance instruments.</p> <p>EU Partnership for Skills in agri-food</p> <p>EU Code of Conduct on responsible food business and marketing practices.</p>
Ensure a vigorous and coherent enforcement of competition and consumer protection rules in the food supply markets by the European Commission and National Competition and Consumer Authorities	<p>The Commission intervened in and sanctioned restrictions of parallel trade in a number of cases in the food markets.</p> <p>The Commission and National Competition Authorities stopped a number of national protectionist initiatives on food products.</p> <p>The Commission authorised some mergers in agricultural inputs (e.g. crop protection products) and some food and drink products (e.g. dairy, beer) subject to remedies protecting price competition and choice and innovation.</p> <p>Comprehensive Commission study on the concentration of the modern retail sector and on how choice and innovation made available to the consumers on shop shelves evolved during 2004-2012.ⁱ</p>
Review at national and/or EU level, as appropriate, regulations that have been identified as potentially problematic for the	Report of the Agricultural Markets Task Force Improving market outcomes – enhancing the position of farmers in the supply chain (2016) ⁱⁱ

<p>functioning of the food supply chain</p>	<p>Clarification of competition provisions in the CMO Regulationⁱⁱⁱ (Common Organisation of the Markets), 2018, 2021.</p> <p>Directive (EU) 2019/633 of the European Parliament and of the Council of 17 April 2019 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain.</p> <p>Simplification of food safety regulations including Fitness Check on the General Food Law Regulation.</p>
<p>Provide better information to consumers, public authorities and market operators by setting up a permanent European monitoring of food prices and the supply chain</p>	<p>Establishment of 6 agricultural Market Observatories^{iv} and an AGRIFOOD data portal.</p> <p>Publication of regular Short Term Outlook reports^v.</p> <p>Establishment of the Eurostat's Food Price Monitoring Tool^{vi}</p> <p>Improved provisions in terms of market transparency for agricultural products (Commission Regulation (EU) 2019/1746; 2021 amendments to the CMO¹).</p> <p>Establishment of the international Agricultural Markets Information System (AMIS - see section 3): Eurostat data on food prices</p>
<p>Examine measures to discourage speculation to the detriment of commercial operators in agricultural commodity markets</p>	<p>Directive 2014/65/EU of the European Parliament and of the Council strengthening investor protection and improving the functioning of financial markets making them more efficient, resilient and transparent.</p> <p>Directive (EU) 2021/338 of the European Parliament and of the Council amends Directive 2014/65/EU, to help the recovery from the COVID-19 crisis.</p> <p>Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse.</p> <p>Regulation (EU) No 648/2012 of the European Parliament and the Council on OTC derivatives, central counterparties and trade repositories applies to a broad range of OTC derivatives,</p>

	including certain commodity derivatives increasing the transparency of OTC traded commodity derivatives.
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- ⁱ https://ec.europa.eu/competition/sectors/agriculture/retail_study_report_en.pdf .
 - ⁱⁱ https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/amtf-report-improving-markets-outcomes_en.pdf
 - ⁱⁱⁱ Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products
 - ^{iv} https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/markets/overviews/market-observatories_en
 - ^v https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/markets/outlook/short-term_en
 - ^{vi} https://ec.europa.eu/growth/sectors/food-and-drink-industry/competitiveness-european-food-industry/european-food-prices-monitoring-tool_en