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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: Agricultural market situation
- Information from the Commission
- Exchange of views

The annexed note contains a description of the general situation on agricultural markets in 2021 and a short description of the medium term outlook sector by sector.

A. Introduction

1. The EU agri-food sector has generally shown resilience to the closure of food services and to other restrictions in the movement of people and goods associated with the **COVID-19** crisis. EU Member States have reported major disruptions in established demand and supply patterns as well as in consumption and retail/distribution patterns with higher retail sales and home consumption partially compensating for losses in food services. The emerging pattern seems to be one of reinforcement of some pre-existing trends, such as an increase in e-commerce, greater demand for locally produced food and short supply chains, rather than a complete overhaul of the food system. With a dynamic global demand and the reopening of food services expected once the vaccination campaign is sufficiently advanced, prospects for EU agricultural markets seem to be favourable in 2021/22. The increase in the cost of animal feed caused by a sudden surge in the global demand is likely to be short-lived and should level off once the massive imports by China reconstructing its pig herds has come to an end.
2. Uncertainties related to trade relations with the **United States** have significantly abated with the arrival of a new US administration and the conclusion of the EU-UK Trade and Cooperation Agreement in late 2020. Nevertheless, commerce with the US is not without friction despite the guarantee of duty-free/quota-free access and the EU-US agreement in early March to suspend tariffs related to civil aircraft disputes needs to be confirmed and extended. Furthermore, the uncertainties surrounding recovery from the pandemic and the severe implications they may have call for continued vigilance.

3. Under “normal” assumptions, the outlook for the **medium term** is also favourable. The EU economy should recover to its pre-COVID-19 level by 2023 and the global economy is expected to rebound in 2021-2022 and level off at an annual growth of 3% by 2030, increasing global demand and supporting EU exports. However, while the “macro” picture may appear to allow for some optimism, continuing vigilance and attention is required to address the sometimes severe implications of the ongoing crisis in specific markets and regions as well as other specific problems such as the challenge of containing the spread of African Swine Fever and Avian Influenza. The Council should continue to monitor these developments very closely.

B. Situation of the main sectors at European level

4. In 2020/21 EU trade flows in **cereals** are expected to decrease to 44.3 million tonnes for exports and 22.6 million tonnes for imports, down 26% and 10% respectively compared to the high levels of 2019/20. This would be the result of a significant decrease in soft wheat exports (-27%), whereas maize and soya bean imports could go down to 16.5 and 14.6 million tonnes respectively. Although the overall EU cereal stock-to-use ratio is expected to remain stable at 16.5% year-on-year, prices for the main cereals have been on the rise in recent months paralleling the global price increase driven by declining stock-to-use ratios for certain commodities and high demand, notably for animal feed from China. Given the slight increase in the sown areas of winter cereals, **the outlook for EU cereal production in 2021/22** would be quite fair and the expected 5.3% year-on-year increase in total production should help to stabilize prices. Total EU production could reach 292.5 million tonnes with soft wheat forecasted at 126.7, barley at 56.3 and maize at 71.2 million tonnes. Production of other coarse grains could decline to 30.7 million tonnes (-7% year-on-year). Total EU feed demand could reach 163.2 million tonnes (+0.7% compared to 2020/21). Concerning the **medium-term prospects**, EU cereal production is expected to remain stable at around 277 million tonnes thanks to increasing yields and in spite of a projected reduction in acreage in favour of pasture, fodder and protein crops. The areas for barley and wheat are projected to decrease, while maize areas should compensate for this by meeting the demand for cereal feed. Domestic use should stabilize at 260 million tonnes whereas the position of EU exports should be strengthened due to converging EU and world prices and proximity to importing markets.

5. Due to a sharp increase in demand, mainly from China, and despite record global production of soya beans, **oilseed** prices on world markets rose significantly in the last months and global stocks are estimated to be 22% lower compared to 2019/20. In the EU, higher oil prices, particularly for rapeseed oil, drove crushing margins up. This year, EU stocks-to-use ratio for oilseeds is expected to hit a record low at 4.6% (-39%/5-year average). EU oilseeds imports are projected to remain high with soya bean and meal imports on the decline due to their lower relative competitiveness compared to rapeseed and sunflower. Year-on-year, EU crushing of rapeseed is due to increase slightly to 21.5 million tonnes. In 2021/22 an increase in total production for oilseeds reaching 30.4 million tonnes is expected (+10.5% year-on year) in spite of difficult conditions during the sowing period. Sown areas for soya beans and sunflower are due to increase given their current high profitability. Consumption is also due to increase thanks to higher demand for feed and the recovery of oil use for food and biofuel. In the **medium term**, the rapeseed area is expected to slow its decline and total EU production should increase slightly thanks to rising sunflower and soy production.
6. The total EU **protein crop production** reached 4.3 million tonnes in 2020/21 (+7.9% year-on-year) and, unless hampered by adverse weather incidents, is projected to increase further by 5.2% year-on-year in 2021/22, mainly driven by increased demand for food and less for feed. Strong growth is projected for the **medium term** both in terms of area and yield improvements with consumption projected to increase by 30% until 2030.
7. **EU sugar production** in 2020/21 is estimated at a 5-year low of 14.4 million tonnes (12% below 2019/20), mainly due to widespread yellowing disease in FR. EU prices remained stable in 2020 but did increase to a 3-year high of EUR 388/t in January 2021. Overall, consumption is expected to remain stable and, as a result, the 2020/21 ending stocks are forecast to reach 1.1 million tonnes compared to 2.2 million tonnes at the beginning of the marketing year. Imports are forecast to be similar to the previous year while EU exports could slightly increase and reach 1.2 million tonnes. Sown areas for the next campaign are close to those of the ongoing one while yields are expected to recover due to beneficial cold spells in February and improved disease control. In the **medium term** EU sugar area is expected to stabilise and production to increase to 16.2 million tonnes by 2030. Human consumption of sugar should decline further but competitive prices should allow the EU to become a net exporter.

8. The EU dairy sector proved its resilience during the COVID-19 crisis in 2020. Despite the continuing decline in the EU dairy herd by an additional 1.1%, EU **milk production** in 2020 increased by 1.7% supported by a strong annual yield growth of 2.8%. These trends are expected to continue in 2021 (1% contraction of the dairy herd, 1% increase in total milk production, 2% improvement in yields). Production may increase more in individual Member States (IE, PL, IT). Current concerns of rising feed costs should be outweighed provided good weather conditions during spring and summer allow producers to grow good quality fodder on-farm. Since the beginning of 2021, EU **dairy prices** are on an increasing trend. This is supported by both sustained world demand and domestic use. Butter and whey powder prices recorded the highest increase (around 13%), followed by WMP (11%) and SMP (9%). EU raw milk price approached EUR 35/100 kg in January, well above the 5-year average. Despite increasing domestic prices, the EU remains competitive on the world market, notably for butter and WMP. EU **SMP and butter exports** could grow by 6% and 4% respectively while whey exports could increase by 5%. Concerning cheese, the progressive recovery of food services should allow for an increase in cheese consumption by 1% and cheese production is expected to take a 21% share of the extra milk produced in 2021. **Cheese exports** could continue growing by an additional 4%, reaching more than 1.4 million tonnes (+33% over last 10 years). **In the medium term** sustainability and animal welfare objectives could translate into more moderate milk production growth (+0.6%). The share of organic milk is expected to reach 10% in 2030. The largest share of the increase in EU milk production would flow into cheese processing (and whey products) while a slowing decline in liquid milk consumption would provide support for the production of fresh dairy products. The EU is projected to remain the world's largest dairy exporter.
9. EU **beef production** decreased in 2020 by 1.2%, mainly due to changes in IT, ES, AT and BE, and the decrease is expected to continue by -0.9% in 2021 because of structural adjustments in the beef and dairy sectors combined with lower demand stemming from a decrease (-2.5%) in apparent consumption in 2020 (down to 10.3 kg per capita) and -1% in 2021 (in spite of the expected recovery in the second half of the year). Beef exports improved by 1.8% in 2020 driven by shipments to high-value markets and should continue to increase in 2021 thanks to recent trade agreements (e.g. Canada, Japan). Imports plummeted in 2020 (-21%) due to the closure of food services and are expected to recover only by 2% in 2021. **In the medium term**, imports could slowly rise following the gradual increase of tariff rate quotas stemming from recently concluded free-trade agreements.

10. EU **pigmeat production** increased by 1.2% in 2020, driven by export demand (up 18%) mainly from China. The outbreak of African Swine Fever in DE mid-September resulted in immediate import bans by China, South Korea and Japan but other EU countries filled the gap and EU exports were able to continue at lower but still high levels. Prices started to decline in the second half of 2020 due to COVID-19 restrictions in slaughterhouses and the decline was accelerated by the ASF discovery in DE. Still, at the beginning of 2021 they started recovering and, overall, production in 2021 is set to increase by 0,7% while the apparent consumption is projected to recover to 32.7 kg per capita (+1.4%). In **the medium term**, environmental concerns, the risk of ASF and changes in consumer preferences are likely to constrain EU pigmeat. The EU should continue to be a dominant supplier in the world market but is not expected to rebound to the record levels of 2019-2020.
11. EU **poultry production** grew by only 1% in 2020 and a similar modest growth is forecast for 2021. The COVID-19 closure of food services resulted in accumulated stocks that continue to weigh on the market and the recent increase in feed costs added to the pressure. The detection of Avian Influenza in 18 EU countries so far significantly affected production and export potential as several countries closed their doors to chicken parts from the EU. In 2020 poultry exports declined sharply by 7% and they are expected to recover very slowly in 2021, resulting in an overall increase of merely 1.5% in 2021. In **the medium term**, however, poultry meat is projected to grow steadily as consumers see it as a healthy and sustainable product and poultry production is expected to be the only meat category to grow. Exports should continue to benefit from specific higher value bone-in cuts and imports would grow in line with the availability of tariff rate quotas.
12. Contrary to the figures for the first half of 2020, EU **sheep and goat meat** production increased by 2% in 2020, mainly due to the important share of on-farm slaughter in RO. However, COVID-19 measures continue to affect the market and it is yet unclear how this situation will impact the seasonal demand for religious festivities in spring 2021. The market continues to face strong global and domestic supply shortages (-1.6% reduction in the availability of sheepmeat in the EU), leading to relatively high prices. Exports of NZ lamb are partly redirected to Asia and the EU-UK trade relation adds uncertainty to the final picture. In **the medium term**, production and consumption of sheep and goat meat in the EU are projected to remain stable. Exports of live animals are due to decrease while imports are expected to grow but remain well below available tariff rate quotas.

13. Despite the closure of food services and limited tourism, consumption of **olive oil** in 2020 showed some growth thanks to increasing retail sales. Growth is expected to continue in 2020/21 (+3%). Still, the situation on the market continues to be challenging, largely due to continuing high harvests, notably in ES. In 2020/21 EU production could reach 2.1 million tonnes (+10% compared to 2019/20) in spite of losses in IT and EL due to weather events. EU prices have started to show signs of recovery but in ES and EL are still 12% and 11% respectively below the 5-year average. A further increase of shipments to China, Japan and the US is expected to compensate for losses in Canada, Australia, UK and Brazil allowing EU exports to continue at the historically high level of the last campaign. The outlook for the **medium term** is positive. The post-COVID-19 economic recovery should lead to an increase in exports and total EU production is due to grow, driven by increasing yields.
14. EU **wine** production and consumption are expected to remain stable in 2020/21 at around 158 million hl (-5% compared to the 5-year average) and 24.8 l per capita respectively. The closure of restaurants and the reduction of gatherings and celebrations reduced the demand for higher segment wines and favoured relatively cheaper wines pushing up imports (notably from South America) which could grow by 5% in 2020/21. The Commission has allowed 7 million hl to go into crisis distillation and the market could be further relieved by an expected increase of 3% in exports driven by the lifting of US import tariffs. In the **medium term**, a slight decline in EU wine production is expected in spite of higher demand for wines with a geographical indication and the sector's continuing efforts to adapt to changing lifestyles and consumer preferences.

15. Regarding other specialized crops, the production of **oranges** increased by 8% in 2020/21 despite a decline in area by 1%. Thanks to the high demand for citrus fruit during the COVID-19 crisis the consumption of fresh oranges is expected to remain high in 2020/21: 12.9 kg per capita (+4% compared to 2019/20), 5.4 million tonnes in total. Exports of fresh oranges are also expected to increase (+17% compared to last year) and imports to decrease (-5%). In the **medium term** production of oranges is due to grow slightly and an increasing preference for fresh juice over concentrates should increase imports to fill the gap in the demand for oranges for processing. The 2020/21 EU **apple** production remains stable at 11.5 million tonnes (-3% on 5-year average). Thanks to the increased consumption at home during the COVID-19 pandemic, per capita consumption should remain at the high level of 15.4 kg (11% above the last 5-year average) and the market for the upcoming season well balanced. In the **medium term** apple production is projected to remain stable with an increase in the consumption of fresh fruit to the detriment of apples going into processing. In contrast the EU consumption of **peaches and nectarines** should decline due to competition from other summer and tropical fruit. Still, EU exports of processed peaches are expected to increase, driven by growing global demand. EU imports of **fresh tomatoes** are expected to continue to increase, driven by a growth of imports from Turkey and to a lesser extent from Morocco. Strong foreign competition should lead to a slight decline in production in the medium term too.
