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NOTE

Origine:	Secrétariat général du Conseil
Destinataire:	Conseil
Objet:	Situation des marchés agricoles, notamment suite à l'invasion de l'Ukraine

Les délégations trouveront en annexe une synthèse de la situation actuelle des marchés agricoles européens en vue de la préparation du débat au sein du Conseil « Agriculture et pêche » du 24 mai.

La présidence suggère de baser l'échange de vues au Conseil sur les deux questions suivantes:

1. Outre les informations annexées, comment la situation des filières a-t-elle évolué dans votre pays depuis début avril, et quels sont les principales difficultés auxquelles les opérateurs sont confrontés au quotidien ? Quels sont les points sur lesquels il conviendra d'être vigilants au niveau européen dans les prochains mois, et le cas échéant agir?
2. Comment prévoyez-vous de mettre en œuvre les mesures adoptées au niveau européen ? Rencontrez-vous des difficultés opérationnelles et si oui lesquelles?

Agricultural market situation

Introduction

1. The Russian invasion of Ukraine has put considerable additional strain on EU agricultural markets already facing significant pressure before the war. While the agri-food sector generally withstood the COVID-19 crisis well, inflationary pressures concerning energy, raw materials, fertilizers, and freight increased sharply in 2021 and more recently. Member States report¹ considerable additional increases in recent months, stating that despite the parallel increase in the prices of several agricultural products, farmers' margins continue to be squeezed. Fertilizer prices, in particular, increased by 225% between 2020 and March 2022 and there may be a need to find ways to secure the availability of sufficient quantities for the next growing season. While countries were gradually lifting COVID-19 containment measures in Q1 2022, the Russian invasion of Ukraine brought new shocks and uncertainties to global markets, with the EU particularly exposed to the conflict, due to its proximity and its trade relationships with Russia and Ukraine. In 2022, real GDP growth is estimated to remain below 3.7% in the ECB baseline scenario and 2.3% if the economic impacts of the conflict are more severe. Energy prices are prominent drivers of inflation in 2022 with inflation forecasted at 5.1% (2.1% in 2023). EU consumer prices for food are expected to increase by 5.6% this year. This situation raises, inter alia, questions on food affordability for low-income households. In some Member States this is more pronounced.

¹ Doc. ST 8931/22

2. Ukraine had become a major player in the global grain and seed oil market in the past decades. Before the war, Ukraine accounted for 10% of global wheat and 15% of global maize trade, and about a half of global sunflower oil trade. The war has affected global agricultural markets and trade very significantly, creating uncertainty and fundamental food security concerns in large parts of the world. A worst-case scenario entailing no exports from Ukraine in the 2022/23 campaign would lead to some 20 million tonnes of wheat missing on the global market. Nevertheless, thanks to the single market and the CAP, the EU is largely self-sufficient for most agricultural commodities and food supplies are not at risk. Still, reduced imports of maize, wheat, rapeseed and sunflower oil, and meals from Ukraine will have an impact, especially on feed prices and for the EU food processing industry. Livestock producers are looking for alternative supplies and adjusting feed rations to address the high cost, but compensating for the lack of imports of maize from Ukraine is not easy. Not only conventional but especially GM-free livestock production systems could be hit by current developments. This impacts organic dairy production and, in some cases total milk production. On the other hand, reduced imports of sunflower oil could create opportunities for other products, such as olive oil for cooking. The main concern, therefore, remains the level of prices. As a result of the war, commodity prices (from energy to fertilizers to wheat to soybeans) have skyrocketed. They are expected to remain high this year and will further weigh on pre-existing increasing inflation levels. This situation raises questions about the farmers' capacity to purchase fertilizers and feed and to pay their energy bills, particularly for farmers with energy-intensive and feed-intensive farms. Several Member States have reported that the increase in commodity prices, even though considerable, still does not cover the higher cost of inputs, putting many farmers under additional pressure.

Situation in the main sectors

3. In terms of the outlook for specific markets, domestic **cereal** prices surged in the past weeks for all main cereals (wheat, maize, barley) and are expected to remain particularly high this year and in 2023. Because the winter and most of the spring wheat was already sown in the EU when the war broke out, the wheat production area for the 2022 harvest (2022/23 campaign) is projected to increase by 0.3% only year-on-year. Other crops, notably maize, are nevertheless expected to increase their production thanks to the combined effect of high prices and increased use of land. The total 2021/22 EU production is estimated at 293.1 million tonnes, a 4.2% increase year-on-year (+4.9%/5-year average), due in particular to the recovery of the wheat production estimated at 130 million tonnes (+6.8%/5-year average). The warm winter and average weather conditions during spring (with the exception of dryness observed in certain regions) had originally set Europe on course for good cereals yields. However, dry conditions in most of the EU in May have already negatively affected winter crops in southern France, Germany, Poland, Hungary, and Romania. This might result in a downward revision of yield potentials of most crops, especially if dry conditions continue into June. Romania reports expecting the yields to fall by 10-15% due to the drought. Until early May, cereal production in 2022/23 was expected to increase to 295.8 million tonnes (+0.9% year-on-year). However, there is still a need to assess the impact of the current dry conditions, especially if they were to continue.

A good harvest could provide enough supply of wheat for food and feed use but the high prices together with average conditions for pasture (with the exception of drought-affected regions) are expected to keep the use of cereals for feed lower than the current season (at 159.1 million tonnes compared to 160.9 million tonnes for the current season). The result would be EU grains exports 31% higher (55.5 million tonnes) and EU grains imports 41% lower (14.0 million tonnes) in the 2022/23 campaigns compared to the five-year trimmed average. This is equivalent to an increase in net exports by 12.9 million to 41.4 million tonnes, 45% more compared to marketing year 2021/22.

4. Regarding **oilseeds**, EU prices have skyrocketed since the Russian invasion of Ukraine, with rapeseed and sunflower seed prices exceeding EUR 1000/tonne. The 2021/22 harvest is estimated at 30.2 million tonnes. This is a 10% annual increase, after the drop in 2020/21, and should ease the EU market by providing larger availabilities, although rapeseed supply would remain tight due to low beginning stocks. Sunflower seed production increased 16.2% year-on-year to 10.5 million tonnes in 2021/2022. Sunflowers require less nitrogen input than other crops and farmers may favour sunflower over maize this year. However, this will not compensate for the missing imports of oil from Ukraine. The rapeseed market, which is less concerned since the vast majority of rapeseed imports from Ukraine already took place this season, is nevertheless impacted with rapeseed prices exceeding 1 000 EUR/tonne at the end of March.
5. The EU 2021/22 **sugar** beet yield forecast is much more favourable than last season and also 3% above the 5-year average, at 76.1 t/ha. With the EU sugar beet area estimated at 1.4 million ha, EU sugar production is estimated at 16.6 million tonnes, well above the previous season (+14%) and in line with the 5-year average. This increase is mainly due to a sharp rebound in sugar beet yields in France. Consumption is expected to increase, but still remain below production, thus leading to higher ending stocks of the campaign.
6. 2021/22 EU **olive oil** production should reach almost 2.3 million t (+10% year-on-year). Increasing inputs, packaging and transport costs, and a higher demand for olive oil to substitute other vegetable oils that are currently adding price pressure in the olive oil market, keeping prices above average across the main producing Member States. The substitution of other vegetable fats could drive EU olive oil consumption up (+7%) while EU exports are set to decrease slightly by 3% year-on-year.

7. EU **wine** consumption (affected by the Covid-19 measures) is expected to recover in 2021/22 with a 5% increase year-on-year to 22.7 l per capita. According to the most recent figures, EU wine production in 2021/22 remained relatively high, close to 154 million hl (but still down - by 7% compared to the previous production). Due to the strong demand in the US, and provided the increase in EU exports observed over the first 7 months of the current campaign would continue, EU wine exports are expected to increase by +8% year-on-year in 2021/22 to reach the record high level of 32 million hl.
8. The total EU production of **apples** remains high, close to 12 million tonnes (+2% year-on-year). Current high stocks and a slowdown in exports of fresh apples due, inter-alia, to an import ban from Belarus from January to April 2022 are expected to increase the share of apples going into processing. The positive consumption effect from the COVID-19 pandemic has faded away, resulting in lower per capita consumption of fresh apples as expected (12.1 kg). Poland reports that a partial lifting of the import ban by Belarus for certain fruit and vegetables has caused a slight recovery in the apple trade.
9. Total EU production of **oranges** has recently been revised downwards to slightly above 6 million tonnes due to lower production in Italy hit by bad weather conditions and resulting in high prices for fresh oranges and a shorter campaign. Prices in Spain, by far the most important EU producer, have been average this season but with a drop in April. Most of EU production is consumed fresh but per capita consumption is expected to decrease to 12.9 kg in line with reduced supply and reversal of the positive effect of the COVID-19 pandemic.

10. In 2021, the EU **milk** sector experienced unprecedented developments. Raw milk prices untypically grew throughout the whole year. Yet, milk deliveries dropped by -0.4%, for the first time since 2009. Rising costs slowed milk yield growth (+1.2%) and led to a stronger than expected dairy herd reduction (-1.5%). EU milk deliveries could continue declining at least in the first half of 2022, before recovering slightly at the end of the year. Overall, this could result in flat milk deliveries for the whole year. Feed affordability could keep the yield growth at a similar rate as last year (+1%), while the EU dairy herd could be further reduced (-1%). Rising inflation and input costs are likely to result in upward pressure on consumer prices also for dairy products. While EU cheese and butter consumption could still increase slightly, the use of milk powders is expected to be reduced with some replacements taking place with cheaper proteins. Overall, the cheese and whey production stream could continue being the preferred option while some production recovery is expected for SMP.
11. Regarding **meat**, some good news came from the pigmeat sector where prices strongly increased in the past weeks, although some MS have reported that prices recently decreased or remained stable in their markets. However, high feed and energy costs keep producer margins under pressure. EU exports should also decrease due to the lasting effects of the African swine fever situation in spite of recovering exports to the UK and improved market shares in some other destinations. Overall, EU pigmeat production is expected to move downwards in 2022. Several Member States have confirmed this trend. Concerning poultry, production is projected to increase slightly in 2022 supported by high prices, despite high input costs, Avian influenza outbreaks and the negative impact of the war in Ukraine on exports. Additional imports from the UK, Brazil, Thailand, and China may replace imports from Ukraine. Beef production is expected to decrease in 2022, due mainly to a structural adjustment in the beef and dairy sector, despite high prices and increasing demand in the export market. A historically low sheep and goat flock is due to result in a production decline of 2% in 2022. In the current context, purchased feed-intensive production models will suffer more than extensive production models. Trade should resume but still at relatively low levels, leading to sustained high domestic prices.

Conclusion

12. The CAP and the proper functioning of the Single Market without restrictions are helping to absorb the economic shock, ensuring food security for EU citizens and income support for EU farmers. The adaptation to rapid changes stemming from the war in Ukraine and the consequent price surge both in input and output markets will be challenging in the short term, with an impact on trade flows and supply chains, in agriculture and beyond. It could create opportunities in the long term, with the EU becoming less dependent on imports of inputs, diversifying its energy sources, and promoting an even more sustainable food system. In the short term, a good 2022 EU grain harvest combined with lower demand for feed and biofuel would contribute to limiting the negative impact on the global grain markets of the expected lack of grain exports from Ukraine.
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