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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: Situation on agricultural markets, particularly following the invasion of Ukraine

Further to document 9221/22, delegations will find in the Annex a preparatory document for the discussion at the Council (Agriculture and Fisheries) meeting on 13 June that contains an update of the situation on EU agricultural markets and other related information.

Update on the situation of agricultural markets

1. The EU agricultural sector continues to be under considerable strain due to the increase in the cost of energy and other inputs already before the Russian invasion of Ukraine, accentuated by the war and its consequences on agricultural production, prices and trade. The latest figures confirm, however, that EU food supplies are not at risk thanks to the single market and the CAP, which have made the EU self-sufficient for most agricultural commodities. Meanwhile, the prices for some products have reached record levels that raise questions on food affordability for low-income households without however being able to prevent the squeeze in farmers' margins due to the disproportionate increase in the cost of inputs, notably energy and fertilizers. The seriousness of the situation was recognized by the European Council in the conclusions¹ of its last meeting on 30-31 May providing guidance to EU institutions for further action.
2. Further to the information provided to the Council on 18 May in document 9221/22 and the information to be submitted by MS and compiled in document (9870/22) concerning the situation of the internal EU agricultural markets, it is worth noting the following recent information.
 - The EU market situation for grains was positive until recently. The prices were very high for farmers and the harvest prospects quite good. Prolonged dryness in certain regions combined with heat waves during May gave rise to some worries. As a consequence, the latest Commission grain forecast has been reduced by over 2 million tonnes (from 295.8 to 293.1 million tonnes). This reduction mainly concerns barley and maize (maize was so far forecast at record production levels) and does not affect soft wheat.

¹ (EUCO 21/22)

- The prospects for EU exports continue to be very positive. EU soft wheat exports in the next season are forecast to reach 38 million tonnes, the highest level ever. This confirms the possibility for the CAP to contribute to world food security. Total grain exports (wheat, barley, maize) could reach about 54 million tonnes (slightly below the 2019/20 record of 55 million tonnes).
 - On the positive side, EU oilseed production is now expected to expand significantly thanks to the increased area (+6%, in particular with sunflower benefiting from the EFA derogation) with production forecast to expand by the same percentage. This positive development will permit the EU market to cope with lower oilseed availability from Ukraine.
 - In contrast, there is no significant change in animal products over the last two weeks. Prices remain high but still do not offset the high feed and energy cost, including for pig meat.
 - Similarly, the fruit and vegetable sector continues to be affected by rising input costs and shortages in the availability of some inputs and materials, as well as reduced export opportunities due to the continuing war.
3. Regarding the situation in Ukraine, while maize, sunflower and soyabean are still being sown, it is now estimated that the harvest could fall short by as much as 40 - 50% compared to last year and not by 20 - 30% as estimated two weeks ago. Under the circumstances, this would still be a good outcome.
4. Concerning the international aspects of cereal grain production and trade, the International Grains Council (IGC) projects world **wheat production** to contract in 2022/23 reaching 769.0 million tonnes (-1.6% y/y). Compared to last month, the outlook was revised downwards for India and the US in particular, partly offset by increases for Australia and Russia. Linked to population growth in Africa and Asia, in particular, world consumption is expected to increase moderately to 780.2 million tonnes (+0.3% y/y), potentially a new peak, including food use at 546.2 million tonnes (+0.5%). Ending stocks are estimated at a four-year low of 270.9 million tonnes (-4.0%), 50% of it attributed to China. Global trade is to edge slightly higher to 194.0 million tonnes (+0.2%), with the EU (38 million tonnes) remaining the largest exporter, followed by Russia with 37 million.

5. The projection of **maize production** 2022/23 is highly tentative at this stage due to the uncertainties in Ukraine and the still on-going harvest in South America for the 2021/22 crop. IGC projects global output to decrease to 1,183.8 million tonnes (-2.5% y/y) in 2022/23 from the record output of the previous season. Sowings were significantly delayed in the US due to unusually cold and wet weather, which makes it difficult to predict yields. Following a downward revision of productivity, production is forecast at 367.3 million tonnes (-4.3%). With reduced availabilities and high prices, maize consumption is expected to decrease by 0.6% from last season's peak to 1,200 million tonnes, including 710.2 million tonnes (-0.6%) for feed use. Ending stocks are expected to drop by 5.6% to 269 million tonnes, of which 65% is attributed to China. Due to reduced global supplies and uncertain availabilities from Ukraine, world trade is forecast to contract by 4.6% to 166.3 million tonnes in 2022/23.
6. Concerning the prospects of cereal production in major producer countries, **India** was initially expecting to harvest a record crop in 2022, however an early onset of extreme heat damaged yield potential and production forecast was cut by 6 million to 105 million tonnes (-4.2% y/y). In order to ensure domestic supplies and control food inflation, the government decided to ban wheat exports.
7. In the **USA**, winter wheat crop conditions remain mostly poor, especially for the HRW wheat. Moreover, spring wheat sowings are delayed due to overly wet and cool weather. Maize plantings have been also slower than usual so far, although works accelerated lately.
8. In **Brazil**, the official forecast indicates a record production in 2021/22 at 114.6 million tonnes, despite some concerns for dry conditions. Harvesting of the first maize crop is 85% complete, while the cutting of the second (safrinha) crop has just started. With the advancing harvest, availabilities for export are expected to increase sharply from July onwards.
9. Cereal **price movements** became more volatile again, especially for wheat. Following the export ban imposed on wheat by India, prices soared to new highs, with additional concerns coming from poor US crop conditions and harvest delays. Prices started to decrease then in response to rumours/hopes for a sea corridor to be opened for Ukrainian grain exports, the outlook for a record wheat harvest in Russia, as well as fears for economic slowdown weighing on demand. Profit taking at futures markets after recent highs added to the downward pressure.

10. To assess the situation in a more comprehensive way, it is important to keep in mind the measures already proposed and adopted by the Commission to support the agricultural sector and help fulfil the EU's role as a global food provider that continues to be fully engaged in the environmental transition. They were announced for the most part in the Commission communication "Safeguarding food security and reinforcing the resilience of food systems" adopted on 23 March 2022 (COM(2022)133 final) and are summarized below:
- i) A support package of €500 million, including by making use of the crisis reserve, to support the producers most affected by the serious consequences of the war in Ukraine. On this basis, Member States could provide additional financial support to farmers to contribute to global food security, or address market disturbances due to increased input costs or trade restrictions.
 - ii) Increased advances of direct payments, as well as area- and animal-related rural development measures, to farmers as of 16 October 2022.
 - iii) Market safety-net measures to support the pigmeat market in view of the particularly difficult situation of the sector.
 - iv) An exceptional and temporary derogation to allow the production of any crops for food and feed purposes on fallow land, while maintaining the full level of the greening payment for farmers. This will enlarge the EU's production capacity in spite of the limited availability of fertile land.
 - v) The Commission has proposed a new, self-standing Temporary Crisis Framework that also covers farmers, fertilizer producers and the fisheries sector. This allows state aid to farmers affected by significant increases in input costs. Fertilizer prices and supplies for farmers will be monitored to ensure that the prospects for EU harvests are not jeopardized.
 - vi) To counteract the risk of feed shortage and increase import supplies, especially for maize, the Commission provided guidance to the Member States on making use of Article 18(4) of Regulation (EC) No 396/2005 to quickly set temporary national maximum residue levels (MRL) where justified while not undermining our safety standards.

- vii) On 20 May, the European Commission adopted a decision to gather monthly data on levels of stocks in the EU of cereals, oilseeds and rice. This is a direct follow-up of the Communication on “safeguarding food security and reinforcing the resilience of food systems” presented on 23 March. The aim is to better monitor stock levels in the current environment of high prices and perceived uncertainty about supplies.
- viii) On 20 May 2022, the Commission proposed a new exceptional and temporary measure in the framework of the Rural Development Regulation, allowing Member States to use up to 5% of their EAFRD allocations for 2021 and 2022 to compensate the farmers and/or agricultural small and medium-sized enterprises (SME) most affected by this crisis.
- ix) On 2 June, the European Commission published a regulation allowing for an internal redistribution of the EU aid under the EU school scheme to cater for displaced Ukrainian children enrolled in EU schools. The regulation invites Member States to review their requests for EU aid for the next school year, running from 1 August 2022 to 31 July 2023, in the light of the unprecedented situation calling for solidarity to ease the burden on those in the frontline for action to cater for the displaced Ukrainian children.
- x) In addition, acknowledging that the Russian invasion on Ukraine may have consequences on the programming of the future CAP, MS were invited to consider the need to review some of their initial proposals on CAP strategic plans. In particular, there could be scope to reinforce elements of the plans aiming to strengthen resilience of the sector. In particular, MS were urged to revise their CAP strategic plans with a view to support farmers in adopting practices optimizing the efficiency of fertilizers, thus reducing their use. This can be done specifically through precision farming, but also organic farming, agro-ecology and more efficient use through advice and training on nutrient management plays an important role. Member States should fully exploit the possibilities of their CAP Strategic Plan in this regard, as well as optimizing and reducing use of other inputs such as antibiotics and pesticides and engage in carbon farming.

11. In conclusion, based on the above information, and the recent guidance of the European Council, Ministers are invited to comment on possible future action to alleviate further the current situation at European and global level, and to provide any additional information they consider relevant.
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