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NOTE

From:	General Secretariat of the Council
To:	Council
Subject:	Market situation, in particular following the invasion of Ukraine

Delegations will find in the Annex a summary of the situation on the main EU agricultural markets, in particular following the invasion of Ukraine, with a view to the ministerial discussion in the Council ("Agriculture and Fisheries") on 18 July 2022.

The Presidency proposes that the exchange of views should focus on the following two questions in order to verify the current situation and to evaluate further steps:

1. How do the Member States view the prospects for this year's harvest in the light of the crisis in Ukraine, with a view to stabilising cereal supplies to meet both intra-EU and global demand?

2. What experience do Member States have in preparing for the implementation of the exceptional adjustment aid for producers in the agricultural sectors or other measures that have been or are to be taken? What other measures would the member states suggest?

ANNEX

Agricultural market situation

Introduction

1. In the context of the war in Ukraine, the economic situation in the agricultural sector is currently very difficult.

2. The current blockade of the Black Sea ports by Russia has caused a shortfall in Ukrainian exports of basic cereals. Prices hit record highs on the market although some relaxation was observed in recent weeks. Compound feed producers, as well as downstream processors, demand raw materials that are difficult to obtain due to limited supply and high prices. The impact of the Russian aggression in Ukraine on energy and agricultural input markets is also significant. Russia is a major exporter of oil and natural gas. In general, agriculture and its global supply chains are dependent on fossil fuels (oil and natural gas).

3. High input prices have a major impact on agricultural production and downstream manufacturing. In this respect, the most energy-intensive sectors are the most affected. Other sectors of agricultural production, especially those with higher added value, are also facing economic problems due to increasing input prices. The situation is not expected to improve in the short term. From a food security perspective, the situation could prove to be challenging if these trends persist, but food security and food supply are not at threat in the EU at the moment, thanks to the resilience of the EU food supply chains. The EU Solidarity Lanes and relevant matchmaking platforms have been established to help to export commodities from Ukraine.

Situation in the main sectors

4. In terms of specific EU agricultural markets, the dry and hot weather has put significant pressure on some arable crops. Production of **cereals** is now expected to be 2.5% lower than in 2021. Sunflower yields are expected to be particularly good, resulting in a 6.9% annual increase in production, and reaching a new record of 11 million t. Sugar production is expected to decline by 5% annually, but remain in line with a 5-year average and stocks are at a sufficient level. Use of arable crops for biofuel are expected to be stable as post-pandemic fuel demand recovery has been curbed by high prices.

5. EU **oilseed** areas for the 2022/23 harvest have increased substantially (7.5% year on year) due to high prices and the temporary derogation to allow the sowing of crops on fallow land. In particular, sunflower plantings increased the most due to their low water and fertilisation requirements. EU oilseed production is forecast at 32.1 million t (+7.8% / 5 year average), including a record 11.1 million t of sunflower seed, allowing to compensate for the loss of supplies from Ukraine.

6. The 2022/23 EU **sugar** marketing season is expected to start with beginning stocks of 1.9 million t (+58% above last season). The production is forecast at 15.8 million t, in line with a 5-year average, while consumption is expected to remain stable.

7. The 2021/22 EU **olive oil** production increase of 11% was supported by a higher oil content of olives. Above-average EU producer prices of olive oil are likely to remain due to sustained high input and transportation costs, and high prices of other oils and fats. EU exports are forecast to decline compared to a record level last year while some recovery in EU consumption is expected. Ending stocks could be lower than expected, moving towards a likely below-average EU production in 2022/23.

8. Despite the decrease of EU **wine** production and imports in 2021/22, consumption is expected to increase by 5% to 23 l per capita due to lower exports and decreased use of vinified production for “other uses” (distillation, vinegar, brandies). When buying, consumers increasingly pay attention to the origin of wine, followed by taste and brand.

9. 2022 EU per capita consumption of **fresh peaches and nectarines** is due to increase to 6.1 kg (still below the long-term average) despite the lower purchasing power. This could be thanks to a higher production, the good weather and the return of tourism.

10. After a very good season in 2021 with high production, good consumption, great quality and low stocks, EU production of **tomatoes** in 2022 is expected to decrease by 9% to 16.5 million t. The production for processing is forecast to drop by 14% and production for fresh consumption by 3% year-on-year. The lower production is due to drought, lower expected demand, switching to alternative, more profitable crops and lower planting in greenhouses due to very high energy costs.

11. EU **dairy** prices are at record levels. While EU SMP and WMP prices remain relatively stable (but high) and whey prices show some decline, others continue increasing. These developments support EU raw milk prices at record levels. Despite this, farms’ margins remain tight because of high input costs. Due to the dry and warm weather conditions during spring – which affected grass quality and availability and other feed components – milk yield development in the EU could be lower than expected earlier in 2022 (0.4%), also affected by reduced feed use as a result of high feed cost. Combined with a smaller dairy herd (-1%), EU milk deliveries are therefore expected to drop by 0.6% in 2022. The lower grass quality and lower feed use due to availability and cost are likely to decrease also the milk fat and protein content, thus reducing the availability of milk solids for processing even further. EU cheese and cream production could continue to grow and reduce milk fat availability for butter and WMP production. An increase in cheese exports is expected, and domestic use of dairy products could grow slightly in 2022 (0.3%), assuming sustained retail sales and foodservice recovery, as well as limited transmission of high producer prices along the chain towards consumers.

12. Regarding **meat**, EU beef production is expected to decrease by 0.5% in 2022, due mainly to a structural adjustment in the beef and dairy sector, despite high prices. EU exports should increase mainly to existing high-value markets but are constrained by record-high domestic prices. EU imports are on the rise due to Brazilian supply. Increasing concerns for the environment, reduced export prospects, sustained high input costs and African Swine Fever (ASF) are due to annul the high pigmeat price incentive and result in a decreased production. The EU supplied China during 2 years of the acute ASF crisis, while now the UK again becomes EU's first export destination. EU poultry production is due to stabilise in 2022. The EU broiler price is high enough to compensate for the high input costs and Highly Pathogenic Avian Influenza continues spreading, among other factors. Trade with the UK resumes pre-Brexit levels but the EU is losing share in some export markets. Imports are expected to partially recover to 2016-19 levels, although trade flows with Ukraine bring some upward uncertainty. Despite the historical low EU sheep and goat flock, the numbers sent for slaughter are expected to stabilise in 2022. Trade should resume but still at relatively low levels, leading to sustained high domestic prices.

Conclusion

13. The Russian invasion of Ukraine has significantly disturbed global and EU agricultural markets and created global food insecurity in the post-Covid recovery period already marked by inflationary pressures concerning energy, raw materials, fertilizers, and freight. Global agricultural prices have risen by 30% since the invasion began, although some relaxation has been observed in recent weeks. Weather conditions in the EU, in particular the prolonged dry period affecting several regions, are creating further challenges for the new harvest, which is expected to be lower than foreseen initially.

14. While the EU is largely self-sufficient for food, with a massive agri-food trade surplus, and the EU single market can once again be expected to prove its ability to absorb shocks, there are increasing concerns about affordability due to high prices and inflationary pressures. Food consumption in volume might seem unchanged but a downgrading of consumption in value is expected, as some consumers and food processors may move away from higher value products to cheaper ones.