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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: Market situation, in particular following the invasion of Ukraine
- Member states' comments

Delegations will find in the Annex delegations' written contributions for the meeting of the Council ("Agriculture and Fisheries") on 18 July 2022 as background for the agenda item on the market situation.

CONTRIBUTIONS RECEIVED FROM DELEGATIONS

1. BULGARIA

The ongoing volatility of agricultural markets as a result of the military conflict in Ukraine, makes it difficult to plan the production and marketing of agricultural products in the Republic of Bulgaria. Given the inflationary processes taking place during the recent months, there are concerns regarding the provision of food products at affordable prices for Bulgarian consumers. On the other hand, there are also concerns about the economic performance of the farms, because it is not clear whether the increased costs of production will be fully compensated by an increase in the prices of the products.

As a result of the adoption of the Regulation on the temporary liberalization of trade with Ukraine, there are some negative circumstances and consequences for the local production. Bulgaria imports very large quantities mostly of sunflowers from Ukraine, which do not transit through our country to reach the EU Member States, but are being sold on the Bulgarian market at prices that are far below the cost price of the Bulgarian grain and oil production. At the height of the harvest, the local grain and oilseed market is satisfied with the Ukrainian grain, thus collapsing the Bulgarian grain market, both in terms of purchase prices and in terms of volumes demanded. There are also concerns regarding the phytosanitary control and the quality of imported grain and sunflower.

2. FINLAND

The prices of main production inputs on farming have doubled or even tripled compared to their level one to two years back. Related to inputs, it is now important to focus for 2022/23 marketing year and to start finding ways at EU level to secure availability of fertilizers at prices that producers can afford.

During past months the producer prices have reached high levels both on arable crops and animal sectors. Unfortunately these prices do not bring relief to the poor economic situation on farms due the rising input costs. For example, cereal market prices that are currently offered for next autumn harvest do not cover the present higher price of fertilizers. In fact, this negative situation has lasted for many years and consequences can be seen on farm structure and producers willingness to invest for future production.

Due the cool weather on April and beginning of May, the spring sowings in Finland were finished during first two weeks of June. This is about 1-2 weeks later from the normal schedule depending the area and crop in question. There were major winter damages on winter wheat areas this year. The percent of the winter wheat area sown was record high, but approx. 65 % had to be resown especially in the Southern Finland. This caused an additional financial burden for arable crop producers and for example reduced the interest to take EFA areas under cultivation. Our preliminary crop area estimation indicates that cereal area is about at the same level as last year and some increase on oilseed and protein crop areas. Weather in June was favorable for spring sown cereals in Finland and if the weather continues to be normal for rest of the growing season we expect at least average crop for cereals.

In Finland the 2021 cereal crop was lowest in 30 years and now it causes a difficult situation especially for pig and poultry sectors before the next harvest is available in August. This happens at the same time when the feed prices are at a record level.

Finland considers that the Commission should continue its close market surveillance on producer and input prices and, if necessary, take measures to balance the markets and strengthen the currently weak profitability of production and security of supply of the European Union. Finland is ready to consider on a case by case basis further exemptions to the rules of the CAP to fully utilize the production possibilities in the EU

3. FRANCE

La France souhaite apporter les éléments d'informations suivants en ce qui concerne les prévisions de récolte de l'année, et la situation des marchés de manière générale.

En ce qui concerne les prévisions de récolte, il est attendu en France une production de blé tendre et d'orge en baisse, en raison d'une diminution des surfaces mais surtout des effets de la sécheresse du printemps. À dire d'experts, la production française pourrait n'être que de l'ordre de 32 à 33 Mt de blé tendre, soit un recul de 6 à 10 % par rapport à la précédente campagne, et de 11 Mt d'orge, en recul de 4,5 %. Les surfaces en maïs sont en baisse de 6%, au profit du tournesol, dont les surfaces ont augmenté de 23%. Sur ces deux cultures, il est encore trop tôt pour disposer d'estimations fiables de production ; la baisse de production de maïs serait d'1 Mt au maximum, et la hausse de production de tournesol de 0,5 Mt au maximum également.

En ce qui concerne les autres secteurs, les prix élevés de l'énergie, des engrais et de l'alimentation animale ont toujours un impact fort sur les coûts de production et la rentabilité des exploitations.

Le marché européen de la pomme subit également les conséquences de la diminution des exportations vers la Biélorussie et l'Ukraine, qui se traduisent notamment par une hausse des stocks. La situation de ce marché doit être suivie avec attention.

En ce qui concerne l'aide exceptionnelle mise en place dans le cadre de l'article 219 de l'OCM, la France a fait le choix de soutenir le secteur de l'élevage, toutes filières confondues. L'aide exceptionnelle permet la prise en charge d'une partie de la hausse du coût de l'alimentation animale sur une période de 4 mois. Cette aide au coût de l'alimentation animale est financée pour partie par les crédits européens, cofinancés à hauteur de 200% comme l'autorise le règlement, et pour partie par des crédits nationaux dans le cadre d'un dispositif d'aide d'État notifié. Le principal défi reste la mise en œuvre de ces dispositifs et le paiement des aides dans les délais impartis par le règlement.

France wishes to provide the following information on the crop forecasts for the year and the market situation in general.

As far as the harvest forecast is concerned, wheat and barley production in France is expected to fall, due to a reduction in the area under cultivation but above all to the effects of the spring drought. According to experts, French production could only be in the order of 32 to 33 Mt of wheat, i.e. a drop of 6 to 10% compared to the previous campaign, and 11 Mt of barley, down by 4.5%. Maize planted area is down by 6%, to the benefit of sunflowers, whose area has increased by 23%. For both, it is still too early to have reliable production estimates; the drop in maize production would be a maximum of 1 Mt, and the increase in sunflower production would also be a maximum of 0.5 Mt.

In other sectors, high energy, fertiliser and feed prices are still having a strong impact on production costs and farm profitability.

The European apple market is also suffering from the consequences of the decrease in exports to Belarus and Ukraine, which are reflected in increased stocks. The situation on this market needs to be closely monitored.

As regards the exceptional support set up in the framework of Article 219 of the CMO, France has chosen to support the husbandry sector, all species included. The exceptional support allows for the coverage of part of the increase in the cost of animal feed over a period of 4 months. This support for the cost of animal feed is financed partly by European credits, co-financed up to 200% as authorised by the regulation, and partly by national credits within the framework of a notified state aid scheme. The main challenge remains the implementation of these schemes and the payment within the time limits set by the regulation.

4. IRELAND

Fertilisers - update

Ireland remains concerned regarding fertiliser cost and availability.

The price for CAN fertiliser has increased by €80-100 per tonne this week. Representatives of the fertiliser industry have stated that further increases in gas prices have an implication for production. While it was envisaged that the gas price pressure would ease for the summer months this is not the case.

5. ITALY

Situation of agricultural sectors in Italy

The general situation that, since the beginning of the year, has hit the agricultural sector as a result of both the geo-political situation of the war in Ukraine and the consequences of the recovery from the pandemic, which have caused dizzying increases in the costs of energy inputs, feed, fertilizers, has not subsided.

Such a scenario is aggravated by the lack of rainfall, accompanied by scorching temperatures from the beginning of summer, which will also force the rationing of water for irrigation.

This has a negative impact on consumer prices, causing inflation to rise significantly.

Cereals

As far as wheat is concerned, crops are underway and, although the problems of spring drought have partly affected yields, especially in the south of the country, the harvest should be of good quality even if of lower quantity than in the past.

Negative outlook for spring sowing crops (rice, corn, beetroot, legumes) which suffer greatly from the state of water scarcity which, if it were to persist, would strongly affect crops.

In relation to the conflict-related issues, in particular the availability of cereals from Ukraine, given the deadlock for the unblocking of ports, it would be appropriate for the EU to identify rapid storage areas, at the EU-Ukraine borders, in order to use (recover) the new harvest at the end of August/September.

Fruit and vegetables.

The climatic situation, with the dramatic drought is affecting the whole country, particularly accentuated in the North, where 50% of production is at risk, especially for fruit and vegetable production.

In particular, if it does not rain in the coming weeks, the production of industrial tomatoes will be compromised, as well as all vegetable crops.

For summer fruits, in particular melons and watermelons, a reduction in production of 30 to 40% is expected.

The sector needs flexibility in the implementation of operational programmes, as already requested.

Wine

The wine sector also continues to suffer from rising input costs and shortages of materials, which force farmers to be unable to meet the commitments they made at the time under the CMO programmes, the non-compliance with commitments of which entails the application of sanctions.

For these reasons, it would be desirable to provide for derogations, as established in the years 2020 and 2021, which would allow the extension of the duration of the authorizations for new vineyard plantings expiring in 2022, as well as the implementation of restructuring and conversion of vineyards.

Animal husbandry milk and meat

For the livestock sectors, apart from the general problem of the increase in input costs, it should be noted that the particular and serious situation linked to the persistence of high temperatures creates considerable inconvenience in the normal management of farming, due to the drop in production and the high critical issues on animal welfare. This criticality is even more accentuated by the water shortage, so all the cooling systems that are normally present and active in the stables during the period of the hot season are lost.

6. LATVIA

The situation on agricultural markets continues to be markedly unfavourable with a dramatic increase at the beginning of the Russian Federation's military aggression against Ukraine, for example, the price of fodder grains.

In the first quarter of 2022, the price of electricity in Latvia increased by 59%, diesel fuel by 32%, mineral fertilizer by 143%, and the price of fodder (forage grain, complete feed and supplementary feed for poultry, pigs and cattle, as well as protein concentrate) by 38% higher than in the 1st quarter of the previous year. Data for the 2nd quarter of the year are not yet available.

The purchase price of fodder wheat in Latvia in May 2022 (365.98 EUR/t) was 96% higher, for fodder barley (354.27 EUR/t) - 103% higher than a year ago. In the first week of June, the price of fodder wheat in Latvia was 360.00 EUR/t, which is 78% more than a year ago. By 78%, the price of fodder wheat in Latvia was almost as high as the price of food wheat (368.38 EUR/t).

At the same time, the most up-to-date information on pork meat weekly prices indicates that the price of pork grade E is volatile, but with a downward trend: the average purchase price of pork grade E reached 182.87 EUR/100 kg in the third week of June, an increase of 2.3% compared to the previous week. In Latvia, on June 13, 2022, the average purchase price of pork (class E) was 4.1% higher than a year ago.

In May 2022, the price of beef (R bulls) in Latvia was 363.88 EUR/100 kg - 2% lower than in April and 55% higher than a year ago.

In Latvia, the trend of price increases for all products of the livestock sector remains, however, this cannot compensate for the increase in the cost of production resources (forage grain - wheat, barley and oats, as well as electricity, natural gas, diesel fuel, mineral fertilizers), which farms in the sector continue to face every day.

There is still a situation in the market where the price of production resources increases faster than the price of production: within one month (in May compared to April), Latvia's purchase price for fodder wheat increased by 10%, reaching the price of food wheat, while the price of pork increased by 5%, the price of raw milk - by 5%, the price of poultry meat - by 3%, whereas the price of beef decreased - by 2%.

AREI's weekly data on grain prices in Latvia show a decrease in the price of fodder wheat in the month of May. In the fourth week of May and the first week of June, the price of fodder wheat decreased by 2% and 3% on a weekly basis, respectively, and in the first week of June, the price of fodder wheat in Latvia was 360.00 EUR/t, which is 78% higher than a year ago.

In the sector of pig farming and poultry, as well as in the sector of covered areas of vegetable cultivation, there is a clear difference between the changes in the price of production and the price of production resources - the price of products does not keep up with the rapid increase in production resources. The prices of production resources, taking into account the cost structure in the pig farming and poultry sectors, have increased by 100% and 39% respectively in March 2022 compared to March 2021, but the increase in pork prices during this period reached only 9%, chicken meat - 10% and for eggs – 15%. In general, the cost of fodder, as well as heating and electricity, has increased significantly in the pig farming sector. On the other hand, in poultry farms, the largest share is the cost of fodder.

In the covered area horticulture sector, the prices of production inputs, taking into account the cost structure in this sector, in March 2022 compared to March 2021, have increased by 70%. On the other hand, the increase in the prices of vegetables in covered areas is much smaller: for tomatoes - by 10%, long cucumbers - by 7%, while for short cucumbers it has decreased by 11%. In general, the covered area horticulture sector is significantly affected by the rise in heating costs.

7. POLAND

The prices of cereals in Poland, depending on the type of grain, are on average higher than last year even by about 80%. Pig prices during the last twelve months increased by more than 32%, but compared to mid-February 2022, the increase is about 60%. During the last twelve months prices of cattle and poultry (chickens) increased by about 50%, the price of milk increased by more than 40%, table eggs by 24%, and the price of rapeseed more than doubled. Agricultural products prices now reach historically high levels, but production costs are also historically high. Despite the increase in pigmeat prices, production of pigs for slaughter in Poland remains unprofitable. Since mid-May 2022, a gradual decline in beef prices has been recorded, and the increase in prices for poultry has slowed down. Poland implemented exceptional adjustment aid under Art. 219 of Regulation 1308/2013 for producers of dessert apples and pigs. In the 2021/2022 season the impact of the war in Ukraine on the Polish grain market was limited and was manifested only in price increases and minor disruptions in foreign trade. In the 2022/2023 season, the scale of this impact will be greater. It is estimated that compared to the 2021/2022 season, this year's grain harvest will be lower and will amount to 31-33 million tonnes.

8. PORTUGAL

Position on the questions proposed by the Presidency

Question 1)

So far, Portugal didn't face raw material supply disruptions, but operators had to develop a huge effort to identify alternative origins and also alternative products.

In the current context, there is still a crisis situation in the agri-food sector due to the increased costs of production factors, followed by the Russia/Ukraine conflict, which aggravated the increase in the price of raw materials for animal feed, energy, fuel, fertilizers.

The high dependence of Portugal from the external market (European internal market, but also from third countries) for the supply of these raw materials, namely cereals for animal feed, aggravated by energy dependence, whose price has also increased, lead to a negative impact on the production costs, especially for livestock farms, which have been bearing high costs in animal feed.

It is also noted that, although the upward pressure of prices is evident for products such as cereals, production decisions are being compromised by the high costs of installation and maintenance of crops, associated with uncertainty about the price at harvest time.

Market situation in Portugal

According to INE, the National Statistics Institute, agricultural forecasts as at 31 May point to the normal establishment of spring crops in an environment strongly marked by drought, rising input costs, higher prices for agricultural products and the suspension of trade with Russia and Ukraine.

Despite the worsening of the meteorological drought situation, with 98.5% of the territory in severe and extreme drought, there are only occasional irrigation restrictions in hydro-agricultural facilities in two southern regions of the country, and the volume of water stored in the main reservoirs with hydro-agricultural facilities is at 67% of total capacity, which has not been a limiting factor for the establishment of irrigated annual crops.

- Autumn/Winter cereals: According to INE, the impact of drought on yields is expected to correspond to a decrease between 10% and 15%, which, combined with a historically low sown area, will worsen dependence on external supplies. Overall, forecasts indicate a general decrease in the productivity of staple cereals by 10%, 15% for durum wheat and oats. For late sowings, fears remain that much of the crop will have higher harvest costs than revenue, either because of low production or higher fuel costs.

- Spring/summer cereals: in maize, a fundamental cereal in livestock production, an increase of 5% in the area sown is forecast, which will have little impact on meeting supply needs (on average, national production represents 25% of domestic consumption). The external supply of maize to Portugal was 41% assured by imports from Ukraine (average 2012-2021), a country that was the main national supplier. The rupture of this source of supply has forced the search for alternatives on the world market. In the first two months of the war, maize imports from Canada, Brazil and Poland increased significantly, reaching 140,000 tonnes, compensating in this way the suspension of trade with Ukraine. In many producing regions (LVT), most producers opted for shorter cycle varieties, as they wanted to reduce production costs (less irrigation and less need for drying in a dryer). The 5% decrease in rice area (from 29 to 27 thousand ha) was exclusively due to the maintenance works of the irrigation channels in the southern region (Sado basin).
- Vineyards and fruit trees: in general, the vineyards showed a good vegetative development; in Algarve, irrigation with greater appropriations and frequency in citrus orchards returned, which consequently will contribute to an increase in production costs; the fruit trees were generally developing normally, although, particularly in stone fruits, the weather conditions were not favourable, and productivity decreases of 15% in cherry and 10% in peach are expected.
- Livestock sector: there was some reduction in the consumption of industrial feed, compared to the same period last year, due to the price increase. Situations were reported, in the central area of Portugal, of acquisition of animals to manure the land as an alternative to fertilizers, whose price has been increasing significantly; The weather conditions in May and in the two previous months were favourable to the development of pastures, allowing to overcome the growing difficulties caused by the drought that occurred until March and minimizing the use of hay and industrial feed. Some dairy farms cultivated grain corn in areas usually set aside or increased the area of corn silage with dual-purpose varieties, deciding later on the destination of the production.

According to Eurostat, Portugal recorded an increase in input costs of 6.2%, during the first quarter of 2022, mainly as a result of increases in the price of fertilisers (+21.2%), energy (+17.4%) and animal feed (+9.2%), having, on an annual basis, increased its costs by 27.4%, between the first quarter of 2021 and 2022. It was also found that the price of fertilisers almost doubled (+96.2%) and the price of energy increased by 55.6%, with animal feed suffering a 22.9% increase.

On the other hand, the price of agricultural products in Portugal increased by only 5.24%, with the highest increases for cereals (+41.5%), oilseeds (+51.7%), as well as cattle (+24.2%), poultry (+22.2%) and milk (+21.4%).

Question 2A)

In the framework of the invasion of the Ukraine, the EU defined support measures in response, namely the Exceptional adjustment aid for producers in the agricultural sectors (Delegated Regulation 2022/467 of 23 March) and the Temporary and exceptional support measure under the EAFRD (EP and Council Regulation (EU) 2022/1033 of 29 June).

- Delegated Regulation No 2022/467 gave Member States the possibility of a financial grant to support producers involved in activities that contribute to food security or correct market imbalances, allowing for the necessary adjustment. Portugal chose to support the sectors most impacted by the costs of maintaining activity and by the need to face up to competing markets: Pork, Poultry and Eggs, Cow's Milk.
- In this uncertain context, it is very important to have instruments to help farmers in their decisions to produce and maintain adequate levels of food supply. The publication of EP and Council Regulation 2022/1033, which allows Member States to act with exceptional support measures under the EAFRD, is to be welcomed. With this support, in addition to the Exceptional Measure under the Crisis Reserve, Portugal is currently assessing the distribution of the amount available among the different sectors, taking into consideration the following aspects:

- Extensive livestock farming: beef cattle, sheep and goats - is intended to offset increased costs with the purchase of compound feed, whose supply needs have been aggravated by the reduced forage capacity of farms due to the drought experienced in mainland Portugal
- Adjustment of market supply: Fruit-growing (as well as Wine) - support for OPs for pears, apples or small fruits, products identified as the most impacted by the loss of destination markets and the increase in domestic EU supply,
- Other plant sectors - irrigated/rainfed temporary crops and irrigated/rainfed permanent crops, affected by rising fertiliser and energy costs.

Question 2B)

Notwithstanding the importance of exceptional support and regulatory instruments in minimising the impact of the crisis on the agricultural and agri-food sectors, it is clear that the resources made available are very small in relation to the actual impact of this disruption, as well as the risks it poses in terms of food supply, and thus have a limited effect.

It should also be noted that most of these instruments reuse existing financial envelopes, whether the crisis reserve, which results from the direct payments envelope, or the EAFRD, which is limited to a percentage of the envelopes allocated to the Member States, as well as referring to the sphere of state aid or national supplementation by the Member States, which carries the risk of distorting competition between farmers in Member States with different budgetary capacities.

In this sense, it is necessary to sensitize the COM so that, if the conflict continues, it considers the maintenance of the flexibilities previously introduced; it is also necessary to consider the allocation of new EU resources to meet the challenges that may arise, not considering state aid as the only solution.

With regard to solidarity lanes, Portugal has a large deficit in cereals. The available storage capacity is allocated to satisfy production and domestic consumption, and is privately owned.

In this sense, cereal storage capacity is very limited and aligned with national consumption needs, and there is no additional storage capacity, as is the case in countries more geared towards production for export.

Portugal is interested in collaborating, and particularly in helping re-establish trade channels from Ukraine, of which we are relevant customers, particularly for maize.
