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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Market situation in particular following the invasion of Ukraine - <i>Delegations' comments</i>

With a view to the meeting of the Special Committee on Agriculture on 23 January 2023, delegations will find in the Annex delegations' comments on the above subject.

DELEGATIONS' COMMENTS**1. CROATIA**

In order to prepare the Council debate on Market Situation, the Republic of Croatia suggests a detailed discussion regarding the trend of inflation and the significant increase in prices of agricultural and food products.

This has a particularly negative impact on the costs of food products for final consumers. These costs constitute a significant part of their total living costs. Rising prices exacerbate inflationary pressures throughout the supply chain, since agricultural production and food processing are energy-intensive activities.

At the same time, inflation has negative consequences for the CAP budget, making the viability of agricultural farms even more difficult. The rise in prices will inevitably force a number of farmers to abandon their planned investments, while others will have problems with the activities already started.

Croatia believes that it would be useful to request from the European Commission to analyse in detail the current situation, with an emphasis on price fluctuations and to explore the possibilities to adequately address these issues, including through further flexibilities of the state aid framework or improvements in the price monitoring system.

In any case, we believe that it would be appropriate to discuss this issue at the upcoming AGRIFISH Council.

2. CZECH REPUBLIC

The Czech Republic welcomes the initiative of the Swedish Presidency to continue the discussion on the situation on agricultural markets in a structured form with previously known questions, as was the custom even during the Czech Presidency. We support the Swedish Presidency in the discussion regarding the use of the agricultural crisis reserve. The development of agricultural markets continues to be strongly influenced by the high level of agricultural input prices (especially energy, fertilisers and feed). In addition to the crisis associated with Russian aggression in Ukraine, periods of drought and spreading of animal diseases such as avian influenza and African swine fever, had a direct impact on livestock breeding.

3. DENMARK

- What can the EU do to facilitate Ukraine's further integration into the European Union in the field of food and agriculture and strengthen the bilateral trade in agri-food products?
- In light of the volatile fertilizer markets, what concrete steps should the EU take to promote sustainability and circularity in nutrients and increase the supply of fertilizers?

4. FINLAND

Towards the end of 2022, producer prices levelled off and there is even a downward pressure on some products. Unfortunately, these prices do not bring relief to the poor economic situation at the farm level due to the high input prices, which have doubled or even tripled compared to their level one to two years back. For example, cereal market prices that are currently offered to producers, do not cover the present higher price of fertilizers and other inputs for 2023 production. In the animal sector, the high price of feed combined with the rising price of energy and general price inflation causes a situation that has not been seen before. In fact, this negative situation has lasted for a long time and consequences can be seen in the structure of the farms and producers' reduced willingness to invest in future production. Commercial greenhouses have limited production due to rising energy prices. At the same time, high inflation has changed consumers' behavior and they look for cheaper products.

Related to inputs, it is now important to focus on the production of the 2023/24 marketing year and to find and consider measures at the EU level to secure availability of fertilisers at prices that producers can afford. The possible risk of energy rationing (=planned cut offs in electricity distribution by suppliers) during winter months is also a concern for Finland.

Finland considers that the Commission should continue its close market surveillance on producer and input prices and take measures to balance the markets, if deemed necessary, or if security of supply of the European Union is going to be endangered. Finland is ready to consider on a case-by-case basis further exemptions to the rules of the CAP to fully utilise the production possibilities in the EU. In order to help producers to overcome the long-term poor economic situation in production, Finland sees that it is important to consider all available measures, including the agricultural reserve.

The ministerial debate in the Council could focus on the activation of the agricultural reserve and other measures helping to overcome the long-term poor profitability of agricultural production. The situation will have consequences for food supply and the achievement of the objectives of green transition if the negative trend is not reversed in time.

5. 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.

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.

En 2023, les surfaces de **céréales** d'hiver sont estimées à 6,7 millions d'hectares : elles augmenteraient par rapport à 2022 (+1 %) et par rapport à la moyenne 2018-2022 (+1 %). Les surfaces consacrées aux semis de colza d'hiver sont estimées à 1,3 million d'hectares, en hausse par rapport à 2022 (+5 %) et par rapport à la moyenne 2018-2022 (+ 6,5 %). La récolte 2022 de blé tendre est confirmée à 33,7 millions de tonnes, alors que la production de maïs (semences comprises) est revue à la baisse, à 10,8 Mt, en lien avec une diminution du rendement et un transfert de surfaces du maïs grain vers le maïs fourrage. Concernant le maïs fourrage, le rendement (104,9 q/ha) et la production (13,4 Mt) sont en recul. Le rendement des betteraves industrielles est également révisé à la baisse, à 78,5 t/ha, pour une production à 31,6 Mt.

Des inquiétudes sont soulevées par les semenciers qui après une mauvaise année de récolte (liée à la sécheresse) en 2022 ont puisé dans leurs stocks pour couvrir les semis 2023 (surtout pour le maïs). Une mauvaise récolte de semences en 2023 serait catastrophique pour les semis 2024.

La France a été affectée en 2021-2022 par une **épizootie d'influenza aviaire**. Cet épisode est sans précédent. Pour la première fois la région Pays de la Loire, la deuxième région avicole de France et bassin de génétique, a été touchée, et plus de 21 millions d'animaux ont été abattus contre 3,5 millions lors de la crise 2021-2022. Les autorités en lien avec l'ensemble de la filière surveillent avec la plus grande attention l'arrivée de nouveaux foyers. À la date du 16 janvier 2023, 275 foyers en élevage ont été confirmés depuis le 1^{er} août 2022. Face à cette épizootie, les conséquences économiques sur les filières avicoles, notamment sur la production de palmipèdes et de volailles festives dont les bassins de production et de génétique ont été fortement impactés, sont suivies avec attention.

En ce qui concerne la **filière biologique**, la situation économique et géopolitique perturbée de ces deux dernières années la fragilise. Cette crise est principalement liée au contrecoup de la crise du COVID-19 qui, après avoir profité au secteur biologique durant les confinements de l'année 2020, a plutôt entraîné depuis une baisse de pouvoir d'achat des consommateurs et des changements d'habitudes alimentaires notamment au détriment des produits de qualité. A la suite de la guerre en Ukraine, le déséquilibre entre offre et demande de produits biologiques s'est accentué, du fait d'une inflation générale sur les produits alimentaires de 5,3 % au 1^{er} semestre 2022, qui, bien que moins importante sur les produits biologiques, contraint les ménages à diminuer la qualité de leurs achats alimentaires. Le 1^{er} semestre 2022 a ainsi été marqué par une diminution des ventes de produits biologiques (ventes bio à poids fixe en grandes et moyennes surfaces en diminution de 6,0 % en valeur au 1^{er} semestre 2022 par rapport au 1^{er} semestre 2021) et du chiffre d'affaires des magasins spécialisés bio (recul de 15 % au 1^{er} semestre 2022 par rapport au 1^{er} semestre 2021). La prise de risque liée au passage à la production biologique pour les opérateurs économiques est donc désormais plus importante que par le passé, ce qui entraîne un ralentissement des conversions, mais aussi pour certains secteurs, en particulier l'élevage, un mouvement de dé-conversion qui pourrait se poursuivre. La nécessité du renouvellement des moteurs de croissance du secteur du bio est donc prégnante.

En ce qui concerne la **viticulture**, la production 2022 est au-dessus de la moyenne quinquennale mais fait face à de fortes difficultés locales. Selon les dernières estimations établies au 1^{er} novembre 2022, la production viticole 2022 s'élèverait à 45,4 millions d'hectolitres. La récolte dépasserait de 6 % la moyenne 2017-2021. Cette situation nationale masque cependant des disparités selon les bassins de production. Des accidents climatiques (le gel et la grêle) ont touché cette année les vignobles du Bordelais, des Charentes et du Sud-Ouest plus largement, ainsi que le Val de Loire. Le déficit de pluie à partir du printemps et les fortes chaleurs à l'été ont réduit le potentiel dans plusieurs bassins, notamment dans le Sud-Ouest et en Alsace. Les précipitations tardives à la fin de l'été ont eu en revanche une incidence positive sur les volumes de production dans les Charentes et en Languedoc-Roussillon.

Ces disparités régionales concernant également la commercialisation des vins et plus généralement la situation économique des entreprises viticoles. La reprise remarquée après les deux premières années de la crise sanitaire ne doit pas masquer les difficultés au vignoble. La baisse tendancielle de consommation de vin depuis plusieurs décennies sur le marché intérieur, encore accélérée depuis la crise COVID-19 et en particulier sur les vins rouges, conjuguée aux difficultés de commercialisation vers les pays tiers (isolement de la Chine, contentieux Airbus-Boeing avec les États-Unis), mettent certains vignobles en grande difficulté. Les outils de régulation existants risquent de n'être ni suffisants ni assez réactifs face à ces crises, le tout dans un contexte de renchérissement général de l'énergie et de difficultés d'approvisionnement pour les intrants et les consommables.

Courtesy translation

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

The high prices of energy, fertilisers and animal feed still have a strong impact on production costs and farm profitability.

In 2023, winter **cereal** areas are estimated at 6.7 million hectares, an increase of 1 % from 2022 and from the 2018-2022 average. The areas dedicated to sowing of winter rapeseed are estimated at 1.3 million hectares, an increase of 5 % from 2022 and from 6,5 % from the 2018-2022 average. The 2022 wheat harvest is confirmed at 33.7 million tonnes, while maize production (including seed) is revised downwards to 10.8 Mt, due to a decrease in yields and a transfer of land from grain maize to feed maize. As for forage maize, yields (104.9 q/ha) and production (13.4 Mt) have been declining.

The yield of industrial beet is also revised downwards, to 78.5 t/ha, for a production of 31.6 Mt. Concerns are raised by seed companies who, after a poor harvest year (due to drought) in 2022, have drawn on their stocks to cover 2023 sowings (especially for maize). A poor seed harvest in 2023 would be catastrophic for 2024 sowings.

France has been affected in 2021-2022 by **avian influenza**. This episode is unprecedented. For the first time, Pays de la Loire, the second largest poultry region in France and genetic basin, was affected, and more than 21 million animals were slaughtered compared to 3.5 million during the 2021-2022 crisis. The authorities, in conjunction with the entire industry, are keeping a close eye on the arrival of new outbreaks. On January 16, 275 outbreaks in farms had been confirmed since August 1, 2022. Faced with this epizootic, the economic consequences on the poultry industry, particularly on the production of palmipeds and festive poultry, whose production and genetic basins have been strongly impacted, are being closely monitored.

The **organic sector** is weakened by the disrupted economic and geopolitical situation of the last two years. This crisis is mainly linked to repercussions of the COVID-19 crisis, which first has been beneficial to the organic sector during the lockdowns of the year 2020, has then led to a decrease of the consumer purchasing power and changes in eating habits, particularly to the detriment of quality products. Following the war in Ukraine, the imbalance between supply and demand for organic products has increased, due to a general inflation on food products of 5.3 % in the first half of 2022, which, although less important on organic products, forces households to reduce the quality of their food purchases. The first half of 2022 was thus marked by a decline in organic product sales (a decrease of 6 % in value from the first half of 2021 considering the fixed-weight organic sales in large and medium-sized stores) and in the turnover of organic specialist shops (a decrease of 15 % compared to the first half of 2021). The risk taken when it comes to switch to organic production for economic operators is therefore now greater than in the past, leading to a slowdown in conversions, but also, for some sectors, particularly livestock farming, a movement of return to conventional production which could continue. The need to renew the growth drivers of the organic sector is therefore pressing.

As far as **viticulture** is concerned, the 2022 production is above the last five-year average but faces strong local difficulties. According to the latest estimates made on 1 November 2022, wine production in 2022 would amount to 45.4 million hectolitres. The harvest would exceed the 2017-2021 average by 6 %. This national situation, however, masks disparities according to the production basins. Climatic accidents (frost and hail) have affected the vineyards of Bordeaux, the Charentes and the South West more widely this year, as well as the Loire Valley. The lack of rain from spring onwards and the high temperatures in the summer reduced the potential in several basins, notably in the South-West and Alsace. Late summer rainfall, on the other hand, had a positive impact on production volumes in the Charentes and Languedoc-Roussillon.

These regional disparities also concern the marketing of wines and more generally the economic situation of wine companies. The recovery noticed after the first two years of the sanitary crisis should not mask the difficulties in the vineyard. The downward trend in wine consumption for several decades on the domestic market, which has accelerated since the COVID-19 crisis and in particular for red wines, combined with marketing difficulties towards third countries (isolation of China, Airbus-Boeing dispute with the United States), are putting some vineyards in great difficulty. The existing regulatory tools risk being neither sufficient nor sufficiently reactive to these crises, all in a context of a general rise in energy prices and supply difficulties for inputs and consumables.

6. LATVIA

Agricultural and food businesses are under pressure of prolonged crisis, that marks the start of the new year 2023. It should be noted the nature and impact of the crisis vary from one EU country to another. The market pressures the Member States must cope with vary and are particularly difficult and complex for small economies and markets.

According to Eurostat data on inflation monthly rates in all EU Member States for the product group "Energy", which includes electricity, gas, fuels, and heat energy, in Latvia and the Baltic States as a whole price increases of energy are much higher than the EU average. This has been the situation since May 2022. In August 2022, the point was reached where the energy inflation gap between the EU average and Latvia was the widest (LV: +67% compared to August 2021; EU: +37.5% compared to August 2021). In November 2022, Latvia and the Baltic States continue to experience higher energy inflation than the EU average (LV: +51.7% compared to November 2021; EU: +33.3% compared to November 2021).

In some sectors, there is a downward trend in product prices, for example, the price for farm-gate raw milk in Latvia in December 2022 (0.483 EUR/kg) was down 1.5% compared to the price in November. Raw milk price in Latvia has been decreasing already for 3 consecutive months, dropping in total by 3% since August 2022. Credit, feed, electricity, fuels, and other costs continue to rise, but the purchase price of milk in Latvia is one of the lowest, with a downward trend. According to the industry, in January 2023 Latvia is experiencing the sharpest ever monthly fall in the farm-gate milk price, which will have a significant impact on the financial stability of milk producers. The January milk price will be by as much as 20-30% lower than in December 2022.

Latvia is of opinion that it is time to use Agricultural Reserve to support farmers. This is a crisis caused by the rise of production costs and therefore, it is crucial that the Commission distributes the Agricultural Reserve fund among the Member States based on market data. It must provide that Member States that are the most hit by the crisis – receive appropriate Agricultural Reserve funding. The main criteria for distribution must be the rise of the price of energy resources and not the direct payment envelopes.

7. POLAND

On the **cereal** market, the outbreak of the war in Ukraine initially caused a dynamic increase in prices, with their highest levels recorded in May 2022. In the following months, cereal prices gradually decreased, most significantly in July 2022. In October, cereal prices rose again, while from November cereal prices began to fall.

In week 1 of 2023 (2-8.01) **wheat** for consumption cost an average of PLN 1,430/tonne and was cheaper than a month earlier by about 5%, while compared to the first week of January last year, it was more expensive by more than 7%. The average price of maize at the beginning of January this year amounted to PLN 1,349/tonne and was over 1% lower than a month earlier, but at the same time it was 28% higher than a year ago.

In the case of **rapeseed**, its price has been steadily increasing since August 2021, and reached its highest level in May 2022 - PLN 4,720/tonne. After the harvest, the price of rapeseed dropped significantly to around PLN 3,100-3,200/tonne. Currently, i.e. in the first week of January, rapeseed cost an average of PLN 2,891/tonne and was about 4% cheaper than a month earlier and 11% cheaper than in January 2022.

The price of **pigs**, as in the case of cereals, was growing very dynamically for several weeks after the outbreak of the war in Ukraine - from PLN 4.17/kg of live weight in mid-February last year to PLN 6.80/kg of live weight in mid-March last year. However, pig prices reached the highest level in mid-September last year (it was the highest level in history), and amounted to approx. PLN 7.90/kg of live weight. However, from the end of September to November last year pig prices fell to the level of about PLN 7.00 per kg of live weight. The second half of November and the beginning of December last year showed an increase in the purchase prices of these animals. In week 1 of this year, pigs for slaughter cost on average PLN 7.52/kg of live weight, i.e. more than 3% less than a month earlier, but at the same time 68% more than at the beginning of January last year.

In turn, the price of **cattle** has been gradually increasing since April 2021, reaching the highest level in May 2022 (PLN 11.68/kg of live weight). In the following months, cattle prices dropped and since September they stabilised at an average level of about PLN 11.0/kg of live weight. At the beginning of January this year the average price of cattle amounted to PLN 10.89/kg and was 1.5% higher than a month ago and about 18% higher than a year ago.

After a very dynamic increase in the period March - April of the last year (by more than 30%) purchase prices of **chickens** in the following months stabilized at the level of about PLN 6.05 – 6.15/kg of live weight. However, since October last year, there has been a decline in the prices of chickens. In week 1 of 2023 the average purchase price of chickens amounted to PLN 5.67/kg of live weight, i.e. about 3% lower than at the beginning of December last year, but at the same time about 30% higher than a year ago.

In the case of **milk**, its buying-in price has been steadily increasing since the middle of last year. In November last year (currently available data), the average purchase price of milk was PLN 2.74/kg, which meant an increase of 4% compared to October and of over 65% compared to November 2021.

In 2022, imports of agri-food products **Ukraine** to Poland increased almost 3 times, i.e. to EUR 2.42 billion, and Ukraine became the second largest supplier of agri-food products to the Polish market after Germany (mainly sunflower oil, soybean oil, maize and rapeseed).

The biggest problem we are currently experiencing is on the cereal market, in particular maize. It manifests itself in price drops accompanied by a significant increase in agricultural production costs. The prices of agricultural inputs, including fertilisers and fuel, have increased dramatically. Despite the reductions observed in recent months, fertiliser prices in December 2022 were still 65.8% higher than a year earlier, including nitrogen fertilisers by 62.8%. For comparison, in the "peak" month, i.e. in September 2022, the increase in the total prices of fertilisers was 143.8% y/y, including 194.2% for nitrogen fertilizers. At the same time maize prices at the Eastern border are even 15% lower than the average price of cereals in the country. The storage and transport infrastructure is used to its full capacity, especially in the regions of the country bordering with Ukraine, and Ukrainian maize goes to domestic feed processing plants, because the overland transport of grain of Ukrainian origin to Western Europe is unprofitable. This situation results in a reduction in demand for Polish cereals and causes social unrest.

8. SPAIN

With regard to the item on the situation of agricultural markets, on this occasion from the Spanish Delegation, we do not plan to make a written contribution beforehand, as we did in the last AGRIFISH.

However, for this item, we consider it useful and interesting, in order to extend and focus the discussion, if the Commission could give us some information about the current situation of the EU levels of stocks and supplies of agricultural raw materials, taking into account the functioning of the solidarity lanes and Black Sea ports.