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NOTE

From:	General Secretariat of the Council
To:	Council
Subject:	Agricultural market situation - Presentation by the Commission - Exchange of views

With a view to the discussion of the above subject during the meeting of the Council (Agriculture and Fisheries) on 20 July 2020, the annexed note contains a description of the general situation (Annex A) together with relevant information provided by delegations (Annex B).

ANNEX A

GENERAL SITUATION

A. OVERVIEW

1. In **2019** agricultural markets and prices paid to farmers were relatively stable compared to the higher volatility observed in previous years, despite various geopolitical challenges that affected EU agricultural exports. This was true in particular for dairy, pork, poultry, cereal and sheep and goat meat, whereas some other sectors such as sugar, beef, olive oil, wine and certain fruit and vegetables were still facing difficulties because of increased EU production, trade disputes (e.g. the Airbus case and the Russian ban), preference given to neighbouring countries, uncertainties in relation to Brexit and, more generally, the situation on international markets.

2. In **2020** agricultural markets started off normally and without major problems but were later affected by the unprecedented **COVID-19** pandemic and, to some extent, by adverse weather conditions in spring which had an impact on production capacity and, indirectly, on farm income. Still, despite initial fears caused by the lockdown and the closure of food service industries, as well as by internal cross border restrictions and difficulties in international exchanges, the effects of increased demands on hygiene and the scarcity of production factors such as labour, **the food supply sector responded successfully** to the immediate challenge and continued to provide adequate food supplies to the European population. The adoption of measures such as green lanes at borders to keep food flowing across Europe, the qualification of seasonal workers as critical in order to allow cross border movement, and flexibility on financial instruments played an important role in this respect.

3. Following the unanimous request of Member States, the Commission adopted further **market measures** under Regulation 1308/2013, such as private storage for dairy products, flexibility for market support programmes for wine and fruit and vegetables and exceptional derogations from competition rules applicable to milk powder and the potato sector. Most importantly, it also proposed the adoption by the Council and the European Parliament of amendments to the Regulation 1305/2013 allowing MS to provide direct income support through their **rural development** programmes, in response to the COVID 19 outbreak. Still, Member States report continuing pressure in certain sectors, particularly poultry, pork, wine, apiculture, olive oil, some fruit and vegetables and dairy, in particular cheese.

4. In addition to the negative consequences of the COVID 19 outbreak, which could also entail additional controls, import declarations, laboratory tests and certification guarantees imposed on EU **exports** by some important trading partners such as China, the increased tariffs levied on European agri-food exports by the US as a result of the Airbus case and the Russian ban continue to affect particular sectors of agriculture in certain regions.

5. Generally, trade with the **UK** declined more than with other partners at the beginning of 2020, compared to the same period in 2019. This decline strongly affects the total EU trade figures.

6. In conclusion, initial fears that the COVID 19 pandemic could pose a real threat to the security of food supplies in Europe, inter alia due to the prospect of being isolated from the international market, did not materialize. On the contrary, an initial analysis of European self-sufficiency statistics, including imports and exports, proved the CAP's capacity to provide a strong shield to the safety and security of Europe's food and nutrition, even in times of major disruption in international exchanges. The CAP is robust enough to ensure **resilience** and adequate supplies in major product categories such as cereals, meat, milk and dairy products, and in almost all categories of processed food, and to protect against the effects of major disruptions in international movements and exchanges. Still, in one area or the other there, are problems that merit further attention in the ongoing and any future reform processes.

B. DETAIL[1]

7. **EU cereal production** in the current period (2019/2020) is expected to reach 286.3 million tonnes, 4.5% more than the 5-year average, but is then expected to slightly decline to 287.8 million tonnes over the 2020/2021 period. In the **EU oilseed sector**, rapeseed production for 2019/2020 is expected to reach a 12-year low at 14.9 million tonnes. This is due to a reduction in production area. Oilseed plantings are then expected to recover to 10.5 million ha in 2020/2021. Imports will increase by 13%. Production of **protein crops** should increase to 4.5 million tonnes, 4% more compared to last year, driven by good market prospects for food and feed purposes.

8. In 2019, **EU milk collections** grew by only 0.4%, the lowest growth since 2012. 2020 started strongly and peaked as usual in spring during the current pandemic. Growth is expected to slow down, averaging 0.7% for the whole of 2020 due to the restrictive measures affecting collection logistics and feed deliveries but mainly due to dairy herd decline with cow slaughtering expected to accelerate. In addition, labour force availability considerations may favour less labour-intensive dairy products.

9. 2020 EU **cheese consumption** may show slight growth (0.3%) and exports could also continue increasing thanks to demand in Asian markets, leading to an overall cheese production increase. However, the closure of the HORECA[2] sector has impacted high-value cheeses.

10. **EU beef production declined** in 2019 due to lower prices and herd reductions. It declined further in 2020 due to the same factors and the coronavirus outbreak which led to a reduction in slaughtering in Q2 and constrained production and demand for high-value cuts. Some recovery is expected in the second half of 2020 leading to an overall reduction of 1.7% for the whole year.

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[1] Based on the Short Term Outlook for EU Agricultural Markets in 2020 published by the Commission in April and June 2020 and comments from MS.
[2] HORECA - Hotelier, Restaurant, Catering Sector

11. **Poultry production** continued to grow in 2019 thanks to increasing demand. Growth is expected to continue in 2020 due to consumers replacing expensive meats with poultry. Imports from neighbouring countries also continued to be high. Certain varieties of meat such as duck or pigeon were affected by the closure of restaurants. In addition, certain Member States report that problems are persisting on their markets and request additional measures.

12. **Pig meat production** grew slightly this year (+0.5%) with sustained demand from Asia, especially China, due to the impact of the African Swine Fever. EU exports are expected to grow by 12%, after an increase of 17% in 2019. The sector should not be significantly affected by the ongoing pandemic except in cases with particular characteristics. However, EU consumption is expected to be impaired by higher price volatility, favouring other meats. Certain Member States report a deteriorating market situation for pigmeat leading to oversupply and to decreasing prices compared to the previous year.

13. The **EU sheep and goat meat sector** has been affected by the coronavirus crisis, with seasonal demand at Easter and Ramadan failing to materialise. EU production for the whole of 2020 should be 1.5% lower.

14. The 2019/2020 **EU sugar production** is expected to decline slightly to 17.4 million tonnes due to a reduction in area. Consumption is expected to slightly drop due to lockdowns across the EU and closure of food service outlets, despite some increase in home consumption. The next year is expected to bring about a further 2% decrease in sugar beet area related to the difficult market conditions of the last two years, production however is expected to be close that of the current year. **Isoglucose** production in 2019/20 and in 2020/21 is forecast to remain at the low levels observed since the end of the production quotas. Consumption in 2019/20 could decrease slightly further due to lower sales of soft drinks (-5%).

15. The situation of the **olive oil and table olive sector** is difficult despite overall EU consumption that could grow by 6% and dynamic trade to all export destinations. Pressure was largely due to exceptionally high harvests, triggering weak prices, especially in the main producer Member State (ES) but also due to the particularly negative effects of the US measures for this sector. In 2020/21 EU production is expected to be around 2.3 million tonnes.

16. Due to the COVID-19 measures, **wine** consumption and exports are forecast to decrease in 2019/20 creating significant pressure on the sector. On the contrary, wine intended for 'other uses' (e.g. vinegar, brandies etc.) is expected to increase 32% compared to a 5-year average, thanks to the exceptional measures allowing crisis distillation.

17. As regards **fruit and vegetables**, EU **tomato production** is expected to remain stable in 2020, although consumption of fresh tomatoes is expected to decline slightly. Due to adverse climatic conditions in 2020, but also structurally low prices in the previous years that affected production potential, **peach and nectarine** production in 2020 is forecast to be a record low. Although this is expected to increase prices, EU consumption and exports will be affected negatively by 23% compared to the 5-year average. Prices for **apples** are expected to remain high due to the lower than average 2019/2020 production, which is forecast to continue in 2020/2021 following adverse weather conditions.

CONTRIBUTIONS RECEIVED FROM DELEGATIONS

1. SPAIN

- The situation in the **olive oil** sector is getting worse, due to the record level of stocks at the beginning of the marketing year and the uncertainty on the world market. On top of that, the COVID crisis has further aggravated the situation. In Spain, despite the high level of marketed quantities, oil prices and farmers' incomes are even below those of previous marketing years. The situation is extremely difficult.

- At national level, Spain is working on a package of measures in three main areas: supply and demand balance; improving the traceability and the quality of the product and, in the medium term, the use of the CAP instruments in order to ensure the future of the sector.

- Spain welcomes the inclusion of olive oil sector in **Article 167** of the CMO regulation, in the framework of the Regulation on CAP transitional rules. This provision will allow the development of national legislation on marketing rules with a view to rebalancing supply and demand. It is of the utmost importance that this provision comes into force immediately after the publication of the Transitional Regulation, so that the national legislation can be implemented before the next marketing year, for which a large harvest is expected.

- Additional uncertainties are looming over the in **olive oil** and **table olive** sectors due to the announcement of US Trade Representative of the review of tariff headings and the increase in import duties.

- Spain would also like to underline the difficult market situation in the **wine** sector. It is foreseeable that the crisis will persist until the complete recovery of the HORECA sector and of external trade. In Spain the recently approved exceptional measures have been very welcomed by the sector, but we are convinced that they are clearly insufficient as regards their budget. We will continue to ask the Commission for additional EU funds in 2021, since the negative effects from the Covid-19 crisis will extend beyond 2020. Moreover, it is of vital importance to avoid a cut in national programme funds for 2021 as a result of the MFF negotiations.

- Finally, Spain would like to bring to the attention of the Council its concern about the new phytosanitary requirements unilaterally imposed by Brazil on its imports of **plums** from Spain. Brazil is Spain's main market outside the EU and accounts for 17% of Spanish plum exports. In this regard, Spain has made a request to the Commission for specific support measures, based on Article 221 of Regulation 1308/2013, pending the progress in negotiations with Brazil.

2. <u>FRANCE</u>

- France would like to bring to the attention of the Council the difficult situation of the following sectors: wine, veal, poultry and pigmeat, industrial potatoes, milk and sugar. These are essentially sectors heavily affected by the Covid-19 crisis for which France has repeatedly requested additional measures in the framework of the CMO at European level.

- In the **wine sector**, the effects of the Covid-19 crisis have been compounded by a very difficult export situation for several months, particularly in connection with the American surcharges implemented as part of the Airbus dispute.

- As regards **veal and poultry meat**, the stocks built up due to the fall in demand for mass catering are weighing on the markets; the pork sector is facing tensions due to the closure of certain slaughterhouses (due to staff contamination with Covid-19).

- The industrial **potato** sector is also facing a lack of remunerative outlets to dispose of stocks not used due to the crisis.

- The **dairy** sector has benefited from crisis management measures, the effects of which must be monitored.

- Finally, the **sugar sector** has been overproducing since the end of the quotas and its development should continue to be closely monitored.

3. CYPRUS

- Cyprus would like point out to the Council that the restrictive measures taken from March 2020 and that still apply in the HORECA sector, due to the Covid-19 pandemic, created a reduced demand for agricultural products. Cyprus has a very big dependence on tourism and at this point in time only 10% of our hotels are in operation with minimum bookings. Furthermore, the situation is not expected to change drastically in the next 2-3 months. Some examples of sectors that have been affected by the situation described above are the following:

- For **pig meat** the sector was selling at prices below cost at the end of May. Decreased demand is expected to continue in the HORECA sector over the summer period while excess production will be available in autumn. The Commission is encouraged to reconsider the pig meat data and any measures taken and to include the pig meat sector as well.

- For **olive oil**, the limited demand from the HORECA sector affects also olive oil sales, as a significant quantity remains unsold. The price has been decreasing due to limited demand but also due to oversupply in other EU countries.

- For the **wine** sector, the measures taken over the last months due to the Covid-19 pandemic are having a significant impact. Still, the sector is not expecting to recover until the HORECA business is back to normal. Therefore, additional funds should be made available in 2021 to support the wine sector.

4. LATVIA

- Latvia would like to point out to the Council the deteriorating trend in the market situation for **pigmeat**, with prices decreasing again (minus 14% over recent weeks) and the report by the sector of the first cases of rejected purchases of pigs for slaughter, in certain slaughterhouses, due to market oversaturation.

- As regards the **dairy sector**, Latvia notes that producer prices for milk decreased considerably in May, i.e. by approx. 10% compared to April. Also in June a further slight decrease of 0.4% in milk price has been observed. Concerns over further developments remain, in particular with regard to export performance and the Covid-19 related situation on our export markets, given that exports are of major importance for the Latvian dairy sector.

- Finally, due to **adverse weather conditions**, the **cereals** sector is reporting that large areas are waterlogged, which will hinder harvesting and reduce the harvested volumes.

5. HUNGARY

- As regards the **dairy sector**, Hungary considers that the list of eligible products for private storage aid should be extended to UHT milk. Including UHT milk on the list of eligible products for private storage is justified by the fact that the milk quota regime has been abolished and it would be a cost effective instrument as it would not require cooling capacities.

- Hungary would like to point out the difficulties it is facing in the **poultry sector**, which are further aggravated by intensively increasing imports from third countries. To handle the surplus, Hungary requests that the Commission consider extending the scope of private storage aid to the poultry sector.

- Hungary welcomes all the efforts that have been made until now by the Commission in the **wine sector**. Hungarian vine-growers and winemakers can successfully use those measures and derogations. Due to the disruption of the HORECA and tourism sector, the wine sector is still suffering from significant losses. Hungary considers that all those measures would be more effective if the Commission extended their application to the 2021 financial year.

- Hungary would like to inform the Council that, in view of the **drought** experienced this year, it has initiated a request to the Commission for a temporary derogation from certain greening rules, mainly for crop diversification, land lying fallow and catch crops.

6. POLAND

- Poland would like to bring to the attention of the Council its request made several times to the Commission regarding the need for intervention measures in the **poultry sector**. It points out that purchase and sale prices on the poultry meat market remain very low. The average monthly purchase price of broiler chickens in June 2020 was 9.5% lower than the price from the same period last year. Also, the average monthly selling price of chicken carcasses in June 2020, though being higher compared to the price in May 2020, still is 7% lower than last year. Despite this slight increase, purchasing and selling prices in the 26th week of 2020 are still at low level.

- Poland notes that the situation on the **pigmeat sector** also requires discussion. After a very short period of price stabilization we will again see a downward trend in purchase prices. In the 27th week the purchase price for pigs is 20% lower compared to the price offered at the beginning of March this year and 9% lower than last year. In this regard, Poland requests a renewed analysis regarding the possibility of launching intervention on this market.

- Finally, Poland requests that the situation **on the dairy and dairy products sector** continue to be closely monitored. The persistent significant demand for dairy products, mainly from China, in conjunction with subsidies for the storage of butter, skimmed milk powder and cheese has contributed to the stabilization of selling prices, which have stopped falling since the end of May. However, this did not transfer to the purchase price of milk, which is still falling.

7. ROMANIA

- Romania would like to express its concern to the Council about the effects of the COVID-19 crisis on the **pork, poultry and milk markets**. As a result of the imbalance between supply and demand caused by the closure of HORECA and the catering industry in recent months, restrictions on the movement of agricultural workers and animals and other restrictive measures caused by African Swine Fever in pigs, producers are going through a difficult time.

- At the same time, Romania would like to signal to the Council a sharp decline in stocks and the lack of availability of certain types of **feed.** All these aspects have a significant negative impact on the margins of the sectors and compromise the financial viability of farmers.

- Large areas cultivated with cereals in Romania have been affected by the accentuated pedological **drought** this year. Romania is currently ready to adopt the necessary regulatory measures, by establishing a state aid scheme to compensate for losses caused to farmers by granting lump sum compensatory payments from the amount of expenses incurred in the period from the establishment of crops in autumn 2019 to April 2020 inclusive.

- Romania requested the issuance of a Commission decision derogating from Article 44 (1) of Regulation (EU) no. 1307/2013, in accordance with Article 69 (1) of that Regulation, as regards crop diversification for payment for agricultural practices beneficial for the climate and the environment, the application year 2020. Romania considers that compliance with the relevant thresholds for crop diversification within the requirements to pay for climate-friendly and environmentally beneficial agricultural practices, in the context of the widespread pedological drought, would require additional, unforeseen efforts and a disproportionate burden on farmers and the national administration if such a decision were not taken.

- Regarding the situation of the **wine** market, given the decrease in consumption and the drastic strangulation of the main wine marketing channels, Romania would like to inform the Council that Bulgaria/Romania are the joint signatories of a letter to the COM, reiterating the urgent need for action in the EU, due to the need to maintain at least at current level the competitiveness of vine growers and their ability to cope with future economic losses. It calls for a more flexible approach to the use of funds that have not been spent on national support programmes. The aid should be provided in the form of a grant to help the most affected winegrowers and to mitigate the economic consequences of the COVID-19 pandemic on the market.

APPENDIX

JOINT DECLARATION OF BULGARIA, HUNGARY, POLAND, ROMANIA AND SLOVAKIA ON THE HONEY MARKET SITUATION

The unusual situation caused by the COVID-19 pandemic has created extreme difficulties for almost all agricultural and food sectors and required urgent measures and actions to overcome the disturbances, to stabilize the markets and to ensure the sustainability of agricultural and food production.

We appreciate the efforts of the European Commission to respond quickly and comprehensively to the effects of the pandemic, as well as the flexibility provided by Implementing Regulation (EU) 2020/600 to introduce a derogation in the application of support schemes in various sectors, including the beekeeping sector.

However, we would like to draw the attention of the Commission to the situation in the beekeeping sector which is facing serious challenges even before the COVID-19 crisis.

In the recent years, honey has been systematically imported into the EU at extremely low prices, and this trend continues today.

Imports of honey from China and Ukraine, not having the same quality standards and at low prices, put significant pressure on market prices of EU-produced honey. Due to higher production costs in the Member States, EU honey production is uncompetitive and it is sold at prices close to production costs or below them.

As stated in the conclusion of the Commission's report[3] on the implementation of beekeeping programs of 17.12.2019, in terms of profitability of the sector as a whole, average prices in the EU have not increased, while production costs are rising and import prices are falling. These costs are estimated in the report at EUR 3.90 / tonne, while the average import prices in the EU from third countries are 2.0 - 2.2 EUR / kg[4].

All this creates difficulties and risks for the sector, which makes a significant contribution to the objectives of the CAP and is important for the whole agricultural activity.

In view of the above, we appeal to the European Commission to pay special attention to the beekeeping sector and to take urgent measures to support the stabilization of the honey market, using all possible tools, including the implementation of emergency measures under Article 219 of Regulation 1308/2013, the activation of safeguard clauses on import agreements with Ukraine and China or any other measures.

We call upon the European Commission once again to consider amending the Honey Directive (2001/110/EC) with regard to the labelling of the origin of blended honey. This will ensure better traceability of products, will create greater confidence for European consumers in their quality and safety, will prevent consumers from being misled and establish fair marketing practices. In addition we consider it is appropriate to add on the label the percentage of honey from individual countries. In order to indicate "country of origin ...", the percentage of honey on the label of a given batch of honey shall be not less than 70%.

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3 Report from the Commission to the European Parliament and Council on the implementation of apiculture programmes (COM(2019) 635 final, 17. 12. 2019

4 Eurostat data