



Council of the
European Union

Brussels, 18 June 2021
(OR. en)

9912/21

AGRI 286
AGRIFIN 69
AGRIORG 66

NOTE

From: General Secretariat of the Council
To: Delegations

Subject: Agricultural market situation
- Exchange of views

With a view to facilitating the upcoming discussion on the agricultural market situation during the next Council meeting, delegations can find in the Annex a note prepared on the basis of information received from the Commission and from Member States.

A. Introduction

1. In line with the information published in April 2021 (document ST 7560/21), the EU agri-food sector has continued its recovery following the gradual re-opening of food services and the lifting of the restrictions on the movement of people and goods associated with the COVID-19 crisis. Prospects for EU agricultural markets continue to look favourable in 2021/22, fostered by a dynamic global demand that has resulted in record world prices, to some extent also reflected in Union prices, and in view of the confirmation of the EU-US agreement on the permanent lifting of tariffs related to civil aircraft disputes
2. However, some MS reported serious problems in specific sectors and regions significantly affecting the income of producers such as in the case of fruit and vegetables and wine, where the severe frost during April destroyed a large part of the production in wide areas and extreme heat waves affected negatively the quality of the remaining crop. Despite the improvement in prices, the spread of African Swine Fever and Avian Influenza and high feed prices continue to affect the recovery of meat sectors, which had suffered most significantly due to the closure of the HORECA sector. Finally, concerning trade with the UK, the negative effects of the new relationship established after the end of the transition period started to become visible. However, imports were more affected than exports. The Council should continue to monitor these developments very closely.

B. Situation of the main sectors¹

3. Despite cold weather at the beginning of spring, the warm weather and showers observed since last month have put Europe on course for good **cereal and oilseed** yields overall. The EU 2021/22 cereals harvest is projected at 290.5 million tonnes, which is 4.3% higher than the five-year trimmed average. **Soft wheat** production is forecast at 126.2 million tonnes (+7.7% year-on-year) while maize production is projected at 71 million tonnes (+6 million tonnes compared to the last marketing year). EU **cereal** prices remain high. However, they follow world prices and seem to stabilise or even decrease depending on the location. French (Rouen) milling wheat price was at EUR 206.5 per tonne on the last update received (-15.4% month-on-month and +5.7% year-on-year). Romanian (Constanza) maize price was at EUR 214.1 per tonne on the last update received (-11.9% in one month and +30% compared to one year ago). **EU oilseeds production** is projected to reach to 30.3 million tonnes for marketing year 2021/22, on favourable crops developments, including for rapeseed which is in good condition, despite delayed growth due to the cold spring. EU oilseeds prices continue to be at a high on increased biofuels demand given the easing of travel restrictions, strong imports from China and tight oilseeds stock worldwide (at five-year low). Weather concerns (dryness) in the Americas add further pressure on the market.
4. For **rice**, the EU market is relatively quiet, with low imports, high domestic prices and the planting season having finished under good weather circumstances. The world rice market is characterised by high prices, low trade volumes and continuing disruptions from container shortages, very high shipping costs, COVID-19 bottlenecks (India), and political protests (Myanmar).
5. For **sugar**, world prices remained relatively high supported by a delayed harvest in Brazil and increased buying by commodity funds. The EU sugar price has reached a three-year high at EUR 394 per tonne for March (+ EUR 4 per tonne compared to the previous month).

¹ Based on the Commission and Member States' input.

6. For **olive oil**, EU production is estimated at 1.4 million tonnes for marketing year 2020/21, lower than initially expected, as a result of extreme weather conditions during summer 2020. Rain deficit in Spain could be an issue for marketing year 2021/22, although it is too early to tell. In terms of prices, the extra virgin olive oil category has remained above the five-year average across Member States for the last seven weeks.
7. For **dairy**, the EU **milk market** is well balanced by April 2021. Milk deliveries are flat this year (although slightly expanding since March). EU raw milk prices increased in spring, against the seasonal pattern (prices improved between January and April, which is an unprecedented development). Prices of most EU dairy commodities increased at a double-digit rate in the first five months of the year. Global demand is robust overall, notably for **EU cheese**.

However, Member States, notably **Spain**, reported that the increase of between 25 and 60% in the international market price of animal feed, notably soya bean meal but also maize, wheat and barley, despite the observed slowdown of recent weeks, are having a particularly negative impact on the narrow margins of dairy farms, which are experiencing serious difficulties as they are unable to transfer the additional cost to the next links in the agri-food chain. It would therefore be very important to monitor the profit margins of livestock farms, especially those of dairy farms, and to take action as necessary.

8. **Meat** markets are performing well. All prices (**beef, pigmeat, poultry, sheep**) are clearly above last year's and the five-year average. High feed costs are a main concern of the animal production sector. Falling pigmeat prices in China are also a concern, given the sensitivity of the sector following last year's significant drop in prices. In certain parts of Union, such as in **Latvia** and **Spain** the livestock sector continues to be vulnerable in the face of reduced production and increased input costs that lower producers' income.

10. For **wine**, following a year of accumulated market disturbances (US tariffs, COVID-19 pandemic and closure of HORECA, Brexit), the wine market is showing some signals of an expected recovery. Following the final data received from the Member States, wine production for the present marketing year is 9% higher than last year's. However, this spring unexpected cold weather conditions entailed the dramatic damages in many vineyards in Europe. This could lead to significant decrease of the yield, although, it is currently difficult to have a clear picture of the frost impact. As regards EU wine trade, and although between August 2020 and February 2021 the volume and value of wine exports was slightly lower (-4% and -7% respectively; 6.5 billion against 7 billion in value at the end of February 2020), a significant increase of the export volume and value was recorded in March (of about 24% and 26% respectively compared to the previous month and also higher than the five-year average)
11. Still, **France, Italy and Greece** reported that the wine sector, as well as the fruit and vegetable sector, were seriously affected by the extended frost observed in spring with considerable negative impact on the processing industry and, inevitably, on exporting activities. **Hungary, Bulgaria and Croatia** also noted a considerable negative effect of the frost on several fruit sectors and on potatoes with Croatia further reporting significant damage to beehives.

12. Indeed, concerning **fruit and vegetables**, following the out of season frost in April, a significant shortage of **peaches, nectarines and apricots** is to be expected for this summer season, with one of the smallest European harvests in 30 years and an estimated drop by 35%-40% on the five-year average. Not surprisingly, the first prices reported by those Member States where the season has started are higher than average. Prices for **apples and oranges** have been above average throughout the season (April monthly EU average prices at EUR 0.8/kg for both, respectively at 30% and 10% higher than five-year average). They have been more volatile for **tomatoes**, where prices picked up after a difficult winter due to a cold snap at the beginning of the year and April EU average prices were in line with the five-year average at around EUR 1/kg. On the other hand, some Member States, notably **Bulgaria** and **Spain**, reported drops in the wholesale and retail prices of **potatoes, melons and water melons** of around 30%, 22.6% and 39.7% on an annual basis respectively. Specifically for tomatoes and summer fruit, Members States are reporting increasing pressure over a number of years from third country imports, namely from Turkey and Morocco, and request revisiting import arrangements.
13. Regarding **international trade in fruit and vegetables**, after a record year in 2020, the trade flows over the first two months of 2021 were subdued with both import and export values recording double digit decreases, year on year. This is in line with other agri-food sectors and is heavily impacted by the end of the transition period with the UK and the difficulties faced by exporters and importers with the new trade relationship between the EU and UK.

14. Indeed, since the end of the transition period, **trade between the EU and the UK** decreased sharply. In January, which is a month with typically lower trade, EU agri-food exports to UK reached a value of 2.5 billion EUR, 23% lower than the average performance in January for the last four years. Whether this relates to the implementation of the TCA, COVID and its restrictions, less demand in UK due to stocks, or diversion to other markets, is difficult to disentangle. EU agri-food imports from the UK in value in January 2021 are instead 66% lower than the same monthly import average for the four years before. This significant drop could be related in part to some difficulties UK operators experienced (or feared to experience) at the EU borders relating to SPS and administrative formalities. In February 2021, EU exports to UK attained EUR 2.9 billion, 11% lower than the four-year average for the same month, pointing to a partial recovery of trade. EU imports from UK however remained below average, attaining only EUR 733 million or 42% lower than the four-year average for February. There were no clear signs of trade diversion in the UK. UK exports to Rest of the World (not incl. EU) were a bit lower than usual (-5%) in January, while 3% higher in February. Likewise for UK imports from Rest of the World: 4% lower in January than on average and 5% higher in February. For March 2021, EU exports to UK reached EUR 3.7 billion, close to the normal figures (0.6% higher than the four-year average for March), while EU imports from UK remained somewhat depressed (25% lower than the four-year average for March), reaching EUR 1 billion. Meanwhile, UK exports to countries other than the EU in March were 9% higher than the average for the last four years, while their imports were 10% higher, so there seem to be some signs of trade displacement.

C. Concluding remarks

15. In conclusion, the **Commission** is invited to complement the above information during the Council meeting, if necessary, and to possibly refer to any action taken or planned to be taken to address specific problems, taking into account Member States requests such as, for example, the extension also for 2021 of the exceptional measures for fruit and vegetables and the provision of additional aid to affected producers or producers organizations through activation of Articles 219 and 221 of the single CMO Regulation, including the possibility to provide state aid. **Member States** are invited, in turn, to comment on the information provided by the Commission and, without repeating what is already contained in this preparatory document, to provide any other information they consider necessary.
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