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NOTE

From: General Secretariat of the Council
To: Council

Subject: Market situation
- Exchange of views

Delegations will find in Annex a note on the above subject to be discussed during the meeting of the Council (Agriculture and Fisheries) on 15 November 2021.

Agricultural market situation¹

General

1. The EU agri-food sector has generally 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. As expected, demand from the US and China, the second and third destinations of EU agri-food products, steered EU exports, especially in dairy, pigmeat and olive oil. The recovery of bilateral trade with the UK, the first EU export destination, was also confirmed. However this needs further follow-up considering that there are still frictions and uncertainties concerning future border controls and that the results of free trade agreement recently signed by the UK with third countries need to be awaited.
2. Until a few months ago, prospects for the EU agricultural markets in 2021/22 looked quite favourable, bolstered by a dynamic global demand that resulted in record world prices, reflected to some extent also in Union prices. However, as very many Member States² (MS) have indicated, a combination of factors, among them the recovery of the EU, US and Chinese economies, contributed to the current surge of energy prices, in particular of natural gas in Europe, which are hitting new highs, and have a strong impact on the prices of the main agriculture inputs, notably fertiliser prices that almost doubled in a year. The World Bank fertiliser index of September 2021 was 77% above the 2020 index. High energy prices in conjunction with the disruption of supply chains caused by the spread of the COVID-19 Delta variant initially in Asia, have increased transport costs and have added to the tensions on commodity markets. For some sectors, such as pig meat, the increasing cost of inputs, notably of feed, has squeezed profit margins beyond acceptable levels.

¹ Based on the Commission's short-term Outlook and Member States' comments (doc. 13698/21).

² Including BG/CZ/DK/DE/EE/IE/ES/HR/CY/LV/LT/MT/PL/PT/RO/SK/FI

A majority of MS³ have drawn attention to this situation. Generally, inflationary pressures have become stronger: energy, raw materials, fertilisers and, most strikingly, freight have seen sharp price increases during the first half of 2021 and more recently. While the ECB remains optimistic on that front, market developments in these sectors should be monitored closely.

Situation of the main sectors

3. Despite cold weather at the beginning of spring, that, along with other factors, have contributed to the current high prices for feed, the warm weather and showers observed since early summer have put Europe on course for good **cereal and oilseed** yields overall. The total 2021/22 EU cereals production is projected at 292.2 million tonnes, a 5.1% increase year-on-year (+4.9%/5-year average), due in particular to the recovery of the wheat production estimated at 132 million t (+7.9%/5-year average). Soft wheat and maize production are sharing in this increase. EU cereal prices generally remain high. The good harvest, could provide enough supply of wheat for feed use but the high prices together with favourable conditions for pasture (with the exception of the Iberian peninsula) are expected to keep the use of cereals for feed stable at 162.2 million tonnes. The EU oilseed production is estimated at 30.4 million tonnes in 2021/22. This 10% annual increase, after the drop in 2020/21, should ease the EU market by providing larger availabilities although rapeseed supply would remain tight due to low beginning stocks.
4. The EU 2021/22 **sugar** beet yield forecast is much more favourable than last season and also 3% above the 5-year average, at 75.1 t/ha. With the EU sugar beet area estimated at 1.5 million ha, EU sugar beet production could reach 113 million tonnes, 13.6% more than in the outgoing season. World prices remained relatively high while the EU sugar price has reached a three-year high in early spring.
5. For **rice**, the EU market is relatively quiet, with low imports, high domestic prices and good weather circumstances during the planting season. 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).

³ Including BE/BG/CZ/DK/DE/IE/ES/HR/CY/LV/LT/HU/AT/PL/RO/SK/FI

6. For **olive oil**, EU production is 2021/22 EU is forecast to be at the level of the last campaign (at around 2 million tonnes). Despite stronger flows to the US, the EU export growth remains modest but above average. Restocking in some export destinations and reopening of foodservices should contribute to higher exports while EU consumption could decline due to lower availabilities and above-average prices. In some areas of the Union, such as Croatia, the sector was affected by unfavourable weather condition, in addition to the general problem of the high input prices.
7. EU **milk** production remained stable in the first half of 2021 and is projected to continue so in the third quarter with higher deliveries during the fourth leading to a 0.3% increase in milk collection compared to 2020. Yields are growing by 1.3%, slower than anticipated due to lower purchased feed affordability. Drinking milk production is expected to get back to the pre-COVID-19 declining trend but exports of fresh dairy products should increase. EU raw milk prices remained rather flat since April supported by stable EU cheese prices and a recent increase in other EU dairy prices due to Chinese demand in particular. With an expected slowdown of Chinese demand, potentially lower demand in some more price-sensitive markets, and more EU milk supply in upcoming months, the seasonal winter increase of EU milk price is likely to be limited. Cheese, together with cream, continued being the main processing options, supported by good EU exports. However, more butter and SMP are expected to be produced in the upcoming months, likely to cover domestic demand, as EU prices are currently less competitive in the world markets (especially in price-sensitive markets in Africa and Asia that reduced their demand).

8. Whereas **meat** markets were performing well during the first half of the year, the situation has changed in recent months, basically due to the squeeze in profits resulting from rising feed costs (cereals, oilseeds and oilcakes) and higher input prices. In certain parts of the Union, the livestock sector continues to be vulnerable in the face of reduced production and increased cost. For the **pigmeat** sector, the situation is even more serious given the current oversupply on the EU market, which is responsible for driving prices further down amid high feed costs. However, that situation might improve by the end of 2021, as the production increase should slow down. Export increases to several destinations are expected to continue compensating the reduction of exports to the UK. Still, falling pigmeat prices in China continue to be a concern, given the sensitivity of the sector following last year's significant drop in prices.
9. EU **beef** production is expected to decrease moderately in 2021, mainly due to a reduction of herds in the beef and dairy sector combined with lower demand from food services. Exports to high-value markets, such as Japan, Norway and Hong-Kong, are increasing, while exports to the UK show an important decline due to trade frictions. Lasting effects of Avian Influenza (AI), reduced foodservices demand and high feed costs hinder EU **poultry** production, which is expected to decrease by about 1% in 2021. EU trade partners apply AI-related bans, which negatively impact exports in 2021. The prospects for a largely positive trade balance in 2022 are not overshadowed by the forthcoming entry into force of the UK's SPS checks. The EU **sheep meat** market faces strong global and domestic supply shortages (EU production +1.3%), leading to relatively high prices. Exports from New Zealand are partly redirected to Asia, while facing at the same time higher shipping costs. The current trade situation between the EU and the UK continues to add downward pressure on exports and imports.

10. For **wine**, following the final data received from MS, production for the present marketing year is 9% higher than last year's. As regards EU wine trade, the situation was slowly stabilizing with a significant increase of the export volume and value recorded in spring. At the same time a number of MS⁴ reported that the **fruit and vegetable** sector was seriously affected by unfavourable weather conditions in spring and thereafter. Indeed, for peaches, nectarines and apricots one of the smallest European harvests in 30 years was expected with an estimated drop by 35%-40% on the five-year average. The apple harvest, on the other hand, is assumed to be very good, putting pressure on prices, as Poland reports, but keeping consumption strong. The EU orange production is expected to decline slightly, affected in Italy by adverse weather conditions, with fresh oranges continuing to replace the consumption of processed orange juice. Concerning international trade in fruit and vegetables, after a record year in 2020, the trade flows over the early months of 2021 were subdued with both import and export values recording double digit decreases, year on year, mainly due to Brexit. The situation improved thereafter but it still calls for vigilance to deal with the causes of friction at UK border controls.

Concluding remarks

11. In conclusion, the Commission is invited to complement the above information during the Council meeting, if necessary, and possibly to refer to any action taken or planned to be taken to address specific problems, taking into account Member States' requests and comments. Member States are invited, in turn, to comment on the information provided by the Commission, without repeating what is already contained in this preparatory document, and their written comments, and to provide any other information they consider necessary.

⁴ ES/HR/IT/CY/PL