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NOTE

From:	General Secretariat of the Council
To:	Delegations
No. prev. doc.:	7099/22
Subject:	Situation on agricultural markets following the Russian invasion of Ukraine Member states' reaction to the Commission proposals

Delegations will find in the Annex delegations' written reactions to the Commission non paper contained in document 7099/22 on the handling of the situation of the agricultural sector and markets following the Russian invasion of Ukraine.

CONTRIBUTIONS RECEIVED FROM DELEGATIONS**1. CROATIA**

Croatia:

- Supports the intention of the Commission to allow the use of land lying fallow for grazing or production of protein crops, but also considers that this possibility should be available for the production of other crops as well;
- Particularly supports the introduction of a flexible State Aid Framework for the agri-food sector based on the model already implemented during COVID crisis. Beside energy prices, we also emphasize the growth of animal feed prices, especially oilseeds and cereals, which will be certainly further amplified due to the crisis in Ukraine;
- Believes that the Private storage for the pig meat sector as a stand-alone measure is not suitable for mitigating market disturbances in the pig meat sector.

2. CYPRUS

Although we find that the proposed measures in document 7099/22 are not as beneficial as expected for Cyprus to resolve the issues arising from the invasion of Ukraine by Russia, we will support the Commission initiatives. We do find though, that additional appropriate measures are needed. Such appropriate measures could be, measures identical to the measures undertaken for the COVID-19 crisis targeted for food availability and sustainability of agriculture, measures that provide additional flexibility for MS to provide State Aid and measures financed at an EU level that provide the level of flexibility to MS to be adjusted to local conditions related to the current crisis, taking into account the increased input costs (e.g. energy, feed, fertilizers, seeds cost). Thus, a possible Temporary Crisis Framework should also include the agricultural sector and should provide the necessary flexibility to address the needs of all sectors affected by the increased energy and input cost, taking into account local conditions.

In addition to the above, Member States should have the flexibility to amend the obligations on set aside/fallow land and the areas under crop rotation. Under the current framework, these areas are under the obligation to incorporate the annual production in the soil for soil management purposes but because of the crisis we suggest allowing farmers to harvest or graze animals as an additional support measure to tackle the increased cost of energy and the lack of animal feed in the global market.

3. CZECH REPUBLIC

Position of the Czech Republic

The Czech Republic welcomes the Commission's proposal to **increase advance payments** of direct payments as a solution to alleviate the economic situation of farmers.

The Czech Republic agrees with the proposal to **use fallow land** for forage and protein crop production, including an exemption from the ban on the use of **plant protection products** as an emergency measure.

We ask the European Commission for **flexibility to apply force majeure** in the form of looser conditions of demonstration on a wider scale at the geographical level of the territory.

The Czech Republic supports the activation of **Article 219**: measures against market distortions. The Czech Republic calls for the introduction of exceptional support for the pig sector, in the form of direct financial aid for pig farmers, which will lead to improved market stabilization.

The Czech Republic does not support the activation of **Article 17**: support for private storage in the pig sector. Private storage for pig meat was launched under emergency measures in 2015 and 2016 and has not been used by the Czech Republic. The current situation in the pig meat sector is not to be addressed by the activation of private storage. Support for private storage for other commodities (crop products) also does not address the current situation.

Background information:

In the current CAP implementation period, farms are obliged to set aside EFA areas for 5% of arable farmland, which includes fallow land and headland, as part of the greening component of direct payments in Pillar I. There must not be any production on these areas either by grazing or by removing biomass from the land. The Czech Republic further elaborated this obligation in Government Decree No 50/2015 and includes fallow land and buffer strips in EFAs. A list of crops that support biodiversity is established on fallow land and headland and these must not be harvested, grazed or removed from the land.

In previous periods of drought, the Czech Republic has allowed farmers to graze or use crops for fodder through force majeure. The Czech Republic considers this the most time-efficient way of dealing with the situation. Applying a legislative exemption directly in a national decree would have to go through the legislative procedure and would not allow for timely implementation.

4. FINLAND

Finland would like to thank the Presidency and the GSC for the document 7099/22. The discussion on agricultural markets at the AGRIFISH Council is most welcome.

Rising costs of production such as energy prices (electricity, fuels) and exceptionally high fertilizer prices as well as high feed prices accompanied by a poor grain harvest in Finland in 2021 are some of the problems all the agricultural sectors are facing. The Ukrainian crisis has already brought record high production input prices to an ever higher level. The prices of production inputs have doubled or even tripled, but there has been only a slight increase in the prices of agricultural products, especially in the pig meat sector. Finland stresses that the increase in cereal prices does not cover the higher price of fertilizers. The latest development is that the fertilizer companies have ceased to accept further orders as the price of fertilizers and their availability is very unclear for the rest of the spring.

Finland supports the measures proposed by the Commission.

Finland supports the activation of the agricultural crisis reserve. Finland sees that more information is needed on how the funds should be allocated and what kind of conditions the support would involve. The system must not be too difficult to implement or artificial in content. Fast measures affecting farmers' income are needed.

With respect to the proposals to fully exploit the EU's production potential in the next growing season, Finland sees that oilseed crops could be cultivated in addition to protein crops in fallow areas and EFA areas. Finland sees that use of plant protection products and fertilizers should also be allowed in these areas.

Finland considers that specific targeted state aid measures are needed for the agricultural (and fisheries) sectors. They could exceptionally take the form of top-ups for existing EU or national payments in order to allow for a rapid delivery of the aid to recipients.

Finland considers that the Commission should continue its close market surveillance and, if necessary, take measures to balance the markets and strengthen the profitability of production and security of supply of the European Union.

5. ITALY

In Italy we have registered concerns for the shortage of some commodities (in particular for cereals, oilseeds, protein crops as well as fertilisers) and for the high cost of production inputs (energy, fuel, fertilisers and feed). In this context, the Commission Non-paper does not address all our requests.

State Aid Temporary Crisis Framework to support the EU economy in the context of Russia's invasion of Ukraine

Direct grants, tax and payments advances or other forms of aid such as repayable advances, guarantees and loans (debt restructuring), should be foreseen for the agriculture and fisheries sector as well until the end of 2023.

Arable lands

A general derogation is needed for 2022 and 2023, which allows that all surfaces lying fallow or under ecological focus area (irrespective of the juridical obligation) can be sown. This derogation must include the cultivation of protein crops and other crops as cereals and oilseeds (sunflower).

Moreover, a temporary exemption from crop rotation/diversification obligations should be provided as well.

Direct payments

The proposed increased level of advances of direct payments and rural development is acceptable.

In addition, it should be foreseen the possibility to increase the budget for coupled payments for those sectors affected by the crisis (i.e. cereals, oilseeds, protein crops), with the possibility to derogate temporarily from any commitments (e.g. Blair House agreements).

National Strategic Plan

The National Strategic Plan and its interventions should be modified and adapted, according to the new crisis circumstances, with all the necessary flexibility to reach the Green Deal targets.

Pig meat sector

The private storage measure is not appropriate at this moment, because market prices are increasing and such measure may lead to an additional increase in price inflation.

In our view, the pig meat sector needs specific measures to compensate the increased costs of inputs (feed and energy).

Import regimes

Regarding the import of cereals, oilseeds, protein crops and fertilizers, flexibility should be needed for production requirements and duty to be paid, as well as the possibility to temporarily increase the import quotas for specific commodities.

Increase of fund for the most deprived people and refugees

It should be given more flexibility to the Member States, to withdrawn food products from the market for a free distribution to the most deprived people and refugees. The Commission has to consider an increase of financial resources at European level and giving flexibility to MS to address this challenge.

6. HUNGARY

Hungary welcomes the Commission's intention to introduce different types of measures to address the market situation and food security considerations in the aftermath of Ukraine invasion.

Measure under Article 219 of the CMO Regulation

Hungary supports the introduction of a measure under Article 219 of the CMO Regulation. As regards the financial issues, we are not against activating the crisis reserve, but underline that it should be the last resort. Therefore, we call upon the Commission to analyse the possibilities of using assigned revenues as it is stated in the basic act. Furthermore, we suggest to observe the possibilities of using budgetary margins too.

As regards the distribution of funds between Member States, we believe that Member States' different geographical locations, the volume of the Member State's agricultural production contributing to European food security, the heaviest increase in input costs and the Member States' export and import relations with Ukraine could be taken into account.

As regards the conditions of using the measure, Hungary believes that Member States should be provided with great flexibility in designing their measures to their specific needs. Member States should decide on which sector they intend to support.

Measure under article 17 of the CMO regulation

Hungary can agree to the introduction of private storage aid in the pig meat sector, however we are not convinced that it will be able to appropriately handle the crisis situation.

Allowing EFA land lying fallow to be used for grazing or production of protein crops

Hungary agrees and fully supports allowing EFA land lying fallow to be used for grazing and producing protein crops.

We are of the opinion, that cultivating other crops, such as nitrogen-fixing crops, feed grains or fodder should also be allowed in ecological focus areas in order to ensure food security. To make this measure effective, using pesticides should be possible on ecological focus areas and crop diversification rules may be treated in a more flexible manner. Therefore, we ask the Commission to provide Member States with a temporary derogation from the pesticide use ban on ecological focus areas till the end of this year. This would very much increase European feed production, which is very much needed in the current situation to provide food security.

Allowing for increased levels of advances

Hungary agrees with allowing increased levels of advanced payments for direct payments and area- and animal-related rural development measures to be paid to farmers as of 16 October 2022.

Temporary Crisis Framework

Hungary is convinced that the scope of the framework should include agriculture as a separate sub-frame. In our opinion besides gas and electricity prices, all types of input/operational costs such as feed costs, seed and fertiliser prices should also be included. This sub-frame may work as a ‘de minimis’ aid, but without loading the individual de minimis ceiling of the affected undertaking.

7. IRELAND

The continuing Russian military action against Ukraine is illegal and immoral. Ireland has announced contributions totalling €20 million in humanitarian assistance to support key humanitarian partners in Ukraine and neighbouring countries in responding to the crisis.

Impact on European Agriculture

The impact of the Russian invasion of Ukraine requires a strong flexible European Response. This is essential considering the impact on primary producers in terms of availability and increased costs of inputs such as feed, fertilisers and energy as well as supply chain disruption, and the possible impact on food security. Agricultural production across the EU is facing an unprecedented crisis, with serious concerns on the availability and price of key inputs, including fertiliser, animal feed and fuel. Shortages and high costs may impact both the economic viability of farms and their ability to feed animals and produce food over the next year. There will be a need for flexible, tailored responses across sectors and sub-sectors, and the existing instruments do not provide possibilities to cover every eventuality. A range of possible options are needed, with higher individual support ceilings, to effectively target support to mitigate key vulnerabilities in agri-food supply chains. For example, there may be a need to provide for targeted animal welfare supports, supports for farm restructuring, farm income support, support for specific crops or fodder growth; or supports for businesses providing goods or services which are essential to the effective operation of the food supply chain. Furthermore as the impact of the illegal invasion by Russia evolves the European response must also do so.

Inputs/Fertiliser

In relation to the possibility of extending the requirement to provide monthly stocks of food and feed it should be noted that we do not have a legal basis for this and are currently collecting it on a voluntary basis. It is important that while transparent data is required that the management of it does not contribute to speculation or unnecessary panic. It would be helpful if the overall issue of supply could be considered at a European level. Nationally Ireland is monitoring the stocks at the national level and reporting on the overall situation.

Fertiliser supply is the biggest concern with current and especially future availability being of most concern. There are concerns in particular about BASF force majeure. Ireland imports all fertiliser and it is vital that we continue to have access to this critical input.

Increased advances for Direct payment and RDP measures

Ireland would strongly support this proposal.

EFA Land Lying fallow

Considering the current circumstances Ireland would welcome a derogation of the current greening requirements and considers this is justified. Flexibility to allow those hectares to be cut and saved as winter fodder would be welcomed. Ireland considers that in addition to using these areas for grazing or production of protein crops it should also be possible to allow these hectares to be cut and saved as winter fodder. It is also considered that there should be flexibility to derogate from crop diversification requirements.

Market Support Measures

Ireland would welcome the introduction of the market support measures - Article 219 (exceptional aid) and private storage aid for pigmeat. However we would need to receive further details to allow us to consider this proposal further. In particular further information regarding distribution, priorities and conditionality is required. It will be important that there is sufficient flexibility to allow Member States take their own choices about what measures would be most appropriate for them to implement. In light of planting deadlines the process for taking decisions and approving Member States choices need to be simple and rapid.

State Aids

Ireland supports the proposal to introduce a Temporary State Aid Framework for the Ukraine Crisis. The current proposal is welcome but further improvements are needed. The provisions in the Covid Temporary State Aid Framework are more generous in a number of criteria including with regard to the provision of liquidity support through grants, taking account of turnover and the length of time for the provision of liquidity needs.

8. LATVIA

Russia's invasion of Ukraine has already seriously affected and will continue to affect the agricultural and food sectors as well as the entire food supply chain to the final consumer.

All essential inputs and raw materials are affected by price increases and accessibility as such.

Overall Latvia **supports the Commission's proposed actions** to address this critical situation faced by agri-food sectors and **looks forward to the Commission's Communication on food security and reinforcing the resilience of food systems** with detailed information and outline of the proposed solutions.

However, regarding the Commission's proposal for monthly reports of private stocks of essential commodities for food and feed, a further clarification is needed on both the data aggregation and reporting mechanism and on the exact products to be covered by this reporting.

In addition to the solutions indicated by the Commission, Latvia considers that the following measures and actions are necessary:

- The Commission should examine the possibilities of **supporting the establishment, maintenance and restoration of commodities and food reserves in each Member State.**
- **With regard to the Green Deal**, the Commission's promised assessment of the impact of the crisis on food security is awaited and, whether there is a **need for fixed-term adjustments as long as food stability is ensured.**
- Latvia supports the Commission's proposal allowing EFA land lying fallow to be used for grazing or production of protein crops in line with the conclusions of the EUCO, but at the same time Latvia believes that **fallow land should be allowed for crop and cereal production as well, which is currently particularly important in the context of food and feed security.**
- **Market measures can be implemented under both Article 219 and Article 221 of the CMO Regulation.**
- Latvia welcomes the Commission Communication "Temporary Crisis Framework for State Aid measures to support the economy following Russia's military aggression against Ukraine". However, Latvia deems necessary to ensure **a direct grant** compensating an increase of oil product costs (fuel) and not only costs of gas and electricity, as currently envisaged in Temporary Crisis Framework. Finally, we believe, that **specific rules are required to provide direct grant in order to compensate rise in prices of raw materials** like fertilizers, feed, oils, metals for packaging, etc. in agriculture, fishery, processing of agricultural products, forestry sector.

9. POLAND

- ***Two market support measures:***

- ✓ ***A measure under Article 219 of the CMO Regulation.***

The crisis reserve should be allocated to support those sectors where there is a real threat of production reduction as a result of a drastic increase in production costs, changes in price ratios or restrictions in access to sales markets. In the pigmeat sector, such support for farmers would complement the Commission's planned release of private storage aid.

- ✓ ***A measure under article 17 of the CMO regulation to introduce private storage aid for the pigmeat sector.***

Poland supports the implementation of private storage aid for the pigmeat sector. However, in Poland's opinion due to the current market situation - rising prices - the implementation of this measure is delayed.

- ***Extending the requirement for Member States to communicate monthly data of private stocks of essential commodities for food and feed.***

and

- ***Problems that have emerged due to the crisis which have impacted on intra- and extra-EU trade in agri-food products.***

Close monitoring of cereal trade with third countries should be introduced and the message from EU level about the current and projected market situation strengthened.

- ***Allowing EFA land lying fallow to be used for grazing or production of protein crops in line with the conclusions of the EUCO.***

According to the document, the Commission is considering allowing the use of fallow land, considered an EFA ecological focus area, for grazing or the production of protein crops. However, in the current situation, related to the migration of people from Ukraine to the EU and the threat to food security, it seems that the proposed derogation should be extended in such a way as to allow farmers even more flexibility in production, and not only this year, but also in the future. Therefore, it is considered necessary to:

- ✓ derogate from the obligation to fallow land and from the prohibition of the use of plant protection products in nitrogen-fixing crops and in catch crops under the current greening;
- ✓ derogate in Strategic Plans, in GAEC 8 concerning the allocation of 4% of arable land to non-productive features and areas, from the obligation to fallow land and allow this percentage (4%) to be achieved by nitrogen-fixing crops and catch crops with the possible use of plant protection products.
- ***Allowing for increased levels of advances of direct payments and area- and animal-related rural development measures to be paid to farmers as of 16 October 2022.***

Poland supports increased levels of advances of direct payments and area- and animal- related rural development measures to be paid to farmers as of 16 October 2022.

- ***Temporary Crisis Framework.***

The outbreak of the war led to increased prices of fuels, energy and plant protection products. The sharp increases in the prices of cereals and rapeseed are caused by the panic on the market resulting from the fact that the exports of food and feed grains from Ukraine and Russia which are the world's main grain exporters, has practically ceased. The port infrastructure on the Black Sea is not functioning, moreover, Ukraine has introduced licensed exports of basic agricultural products, including wheat and maize. The increase in production costs is compensated by the increase in cereal prices only to a certain extent. The collapse of the supply of cereals to the world market on the part of Ukraine and Russia makes it necessary to increase the productivity / production of cereals, among others in the EU, including Poland, which is the third biggest producer of cereals in the EU, in order to replace the above-mentioned shortages both on the European and global market. The current high prices of fertilizers may influence the decisions of farmers to limit the cultivation of cereals, which will translate into maintaining high prices of grain and uncertainty on the market, and problems with the sufficient supply of consumption cereals and feed components both on the EU and global market. This, in turn, will reduce livestock production (pigmeat, poultry) and increase inflationary pressure, e.g. in Poland, hitting mainly the least affluent social groups.

The above justifies the need for aid to farmers in relation to the prices of fertilizers and fodder.

- *Other issues*

The war in Ukraine has changed the environment in which we operate. Food security and food sovereignty have come to the fore. Although the long-term goal of sustainable production, climate protection is still important, today we understand better that it cannot be achieved at the expense of food security.

During the pandemic crisis, European supply systems were not sufficiently resilient and food marketing channels were weak. The strategic plans of the CAP are to implement long-term goals important for the EU. Although the situation at the moment is not the best, the actions envisaged in the Strategic Plans should increase the resilience of the food system, e.g. to disturbances in the markets of agricultural inputs, energy and agricultural raw materials. Such a role is played by, among others, activities promoting the optimization of fertilizer consumption, or production related payments.

For this reason, the CAP Strategic Plans should be adopted as soon as possible, which would provide an element of stability for farms regardless of the prevailing international situation. Although the current situation does not fundamentally change the long-term threats and challenges of the EU, in the process of negotiating the content of the National Strategic Plans with the Commission, particular attention should be paid to the goal of maintaining and even increasing the production of EU agriculture in both the medium and long term. It should be assumed that the negative consequences of the Russian attack on Ukraine for the global balance of grains and food prices may turn out to be relatively permanent.

At the same time, it is also necessary to look for instruments at the EU level that are highly flexible and can be activated in an emergency. An example of such an approach can be the Exceptional Temporary Support for Farmers, Micro, Small and Medium-sized Enterprises especially affected by the COVID 19 crisis.

10. ROMANIA

Most agricultural sectors in Romania are influenced by market fluctuations generated by events in Ukraine, as well as uncontrolled increases in prices for energy, gas, electricity, gasoline, diesel.

The fertilizer, cereals, crop production, poultry, poultry, beef, sheep, fruit and vegetable sectors, but also the feed sector, where price growth has reached an unprecedented level, and are particularly affected and there are prospects for the livestock sector to record large production losses and bankruptcy of many producers. The feed crisis is of course most affecting the pork sector, which continues to be in the most critical situation.

Rising energy and gas prices have led to large losses for producers, further aggravating the situation in the pig sector. Thus, in the period 2020 - 2022, the price of natural gas increased by 91.7% and for electricity by 137.2%, the share of the cost of electricity from the total production cost increased by at 3.38% in 2020, at 8.08% in 2022.

As a result, the production cost increased from 6.60 RON / kg in 2020 to 7.60 RON / kg in 2022, the loss can no longer be recovered. As for the prices of Class E pig carcasses, they continued to fall from EUR 130.34 / 100 kg in the first week of February 2022, which is 1.7% lower than in January a.c., and 9.7% lower than in December 2021.

Romanian producers are affected by intra-Community trade, which places pork meat on the Romanian market below the production costs of domestic producers.

The arable crops sector has also suffered significant imbalances, accentuated by the prolonged pedological drought, which has affected Romanian farmers for more than two years, the water deficit continuing to reduce agricultural production in different regions and now, but especially in southern and southeastern areas as well as in the Moldavian Plateau.

All these elements have determined a drastic decrease in the profit margins of the Romanian producers from most sectors, which cannot recover economically and risk abandoning the production with catastrophic effects for the food security of the Romanian citizens and not only.

11. SPAIN

With regard to the list of measures contemplated by the Commission in document st07099/22, and discussed in the framework of the SCA at its meeting today 14 March, Spain would like to convey the following:

- We welcome the fact that many of our proposals made in the SCA on 7 March are included in the Commission's non-paper.
- Measures such as allowing an increase in the levels of pay advances for direct payments and for rural development measures granted by area or head of livestock, or the possibility of allowing the Ecological Focus Area (EFA) lands to be used for grazing or protein crop production, are essential in the current situation.
- We consider it very useful to make progress on the obligation for Member States to report monthly data on private stocks of basic food and feed commodities. In this regard, we believe that it would be necessary to have legislation at EU level (perhaps through the amendment of the Transparency Regulation) that establishes binding obligations for operators. This is the only way to avoid situations of misinformation that inevitably lead to situations of speculation such as those we have been experiencing in recent days.
- With regard to the measures to be implemented within the framework of article 219 of the Single CMO Regulation, we expect them to address the financial problem faced by livestock farms in our country as a result of the increase in production costs (raw materials, fuel and other energy costs) resulting from the war. In this respect, we must not forget that many of the sectors were already suffering from increases in the prices of raw materials for animal feed, which were further exacerbated in the case of Spain by the effects of the drought.

In this respect, when talking about target sectors for financial support, it does not seem appropriate a priori to exclude certain sectors, particularly considering the high degree of exposure of our country to the difficulties arising from the war. However, we can prioritise those considered most affected, such as the dairy sector (cow's, sheep's and goat's milk), the poultry sector (which is also very energy-intensive) and beef cattle. However, when distributing support internally, differentiating factors between sectors and within each sector should be taken into account, such as the difficulty of passing on costs along the chain or the strength or weakness of organisational cohesion and the sectoral structure itself, so that the least resilient farms whose viability is most at risk are the ones to receive it. Prioritisation criteria should also include the importance of the sectors as suppliers of essential foodstuffs whose supply deficit or excessive price increases could cause a social alarm of food shortages.

For these reasons, it is very important that Member States can count on sufficient subsidiarity in the distribution of funds on their territory, both in terms of "target sectors" and in the establishment of the conditions for receiving aid.

- With regard to the Commission's proposal to activate the private storage of pigmeat (the regulation will be voted on in the Management Committee on 17 March), we have already stated that we do not believe it to be the most appropriate measure for dealing with this crisis, which is fundamentally related to the cost and supply of raw materials. A measure of this nature is more appropriate for situations of imbalance between supply and demand characterised by an excess of the former, which is not the case here. The initiative may lead to further increases in consumer prices, which have already been rising recently. However, we will not oppose any market measures proposed by the Commission.
- We welcome the approach of a new "autonomous temporary crisis framework" for this situation. However, we believe that a situation as exceptional as the present one, which affects the entire EU market, should not be dealt with through the use of state aid to the agricultural sector. This option would only increase tensions in the single market.

- We miss the following measures:
 - o The possibility of making exceptions when applying the crop diversification requirements of greening, in order to allow the maximum percentages of crops to be removed to increase their productive capacity in the face of situations of supply difficulties.
 - o In the same spirit, consider flexibility in the application of the future CAP with regard to non-productive areas (flexibility in complying with the percentages established in the future GAEC 8) and, furthermore, allow adjustments in national strategic plans so that, on a temporary basis, percentages or conditions of non-productive areas can be adjusted downwards, as well as in crop rotation/diversification requirements.
 - o Measures for the use of funds from the second pillar of the CAP that, like those applied during the pandemic, allow for greater resilience of the agricultural sector.
- Furthermore, we miss a clear and unequivocal signal that the EU will prioritise food supply over the use of these raw materials for biofuels. The RepowerEU Communication could be a good instrument to address this issue.
