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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Market situation, in particular following the invasion of Ukraine *- Delegations' comments*

With a view to the Special Committee on Agriculture on 10 October 2022, delegations will find in the Annex delegations' comments on the above subject.

ANNEX

DELEGATIONS' COMMENTS

1. BULGARIA

Bulgaria will again emphasize its concern regarding the disruption of the sunflower market following the temporary EU-Ukraine trade liberalization in accordance with Regulation № 2022/870 as significant sunflower seeds qualities (over 700 000 tons) have been imported from Ukraine in Bulgaria. The intensive import continues still even after the deployment of the safe corridors for Ukrainian food exports via the Black sea. In August and September between 3000 and 10000 tons sunflower seeds were imported in our country on daily basis. About 90% of the sunflower entering the country from Ukraine is processed into crude and refined oil and into shelled sunflower seeds. For the same period, the export of sunflower from the country was around 60 thousand tons, or in other words, these volumes were not intended either for re-export or transit, but remained on the territory of the country.

There is evidence that the milk and milk products sector faces difficulties where despite the high buying prices the production decreases. The livestock sector experiences similar unstable market conditions. Although the production prices are higher than previous years, they cannot cover the increase of production costs.

Furthermore, we should also bear in mind that consumers will not be able to afford the increasing prices of animal products.

2. FINLAND

The prices of main production inputs have doubled or even tripled compared to their level one to two years back. Related to inputs, it is now important to focus on 2023/24 marketing year and to find ways at the EU level to secure availability of fertilizers at prices that producers can afford. The increasing cost of energy– especially electricity – and the possible risk of energy rationing during winter months are rising concerns in Finland.

During summer months, the producer prices reached high levels in both cereal production and the animal sector. Unfortunately, these prices do not bring relief to the poor economic situation at the farm level due to the high input prices. Prices of inputs, especially energy prices, continue to rise. For example, cereal market prices that are currently offered do not cover the present higher price of fertilizers. In the animal sector, the high price of feed combined with the rising price of energy and price inflation causes a situation that has not been seen before. In fact, this negative situation has lasted for many years and consequences can be seen in the structure of the farms and producers' willingness to invest in future production. Commercial greenhouses have already started to limit production due to rising energy prices.

Based on the current official estimate, the cereal harvest totals 3.6 million tonnes in Finland. This quantity is close to the long-term average in cereal production. It is approximately +37 % higher compared to 2021 cereal crop which was lowest in 30 years and which caused a difficult situation especially for pig and poultry sectors. This marketing year's 2022/23 crop, even when it is average, provides the cereal sector with the opportunity to raise the storage levels and to export the normal volumes of cereals.

Quality of this autumn's cereal harvest is generally good (specific weight, kernel size etc.). The average protein content of the wheat is lower than last year. The lower protein content of cereal does not cause difficulties for the industry.

Finland considers that the Commission should continue its close market surveillance on producer and input prices and, if necessary, take measures to balance the markets and strengthen the currently weak profitability of production and security of supply of the European Union. Finland is ready to consider on a case-by-case basis further exemptions to the rules of the CAP to fully utilize the production possibilities in the EU. Finland supports a prolongation of the Temporary Crisis Framework.

3. <u>FRANCE</u>

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

As far as the French harvest is concerned, soft wheat production reached 34.1 Mt, i.e. a 2.4% drop on the five-year average, and barley production reached 11.4 Mt, i.e. a 2.9% drop on the five-year average. Rapeseed production is up 10.4% to 4.5 Mt. Sunflower production is expected to be stable at 1.9 Mt despite a strong increase in acreage.

Maize production, on the other hand, is expected to fall sharply (-17%). It would be 11.3 Mt, but it is still too early to give a definitive estimate.

Grass production is in deficit almost everywhere: the cumulative production of permanent grasslands is 33% lower than in the reference period (1989-2018). This is the lowest production since 2003.

In particular, the situation of the livestock sector, which has to cope with rising feed costs due to the combined effect of drought and high agricultural input costs, is closely monitored.

Generally speaking, the main difficulty is linked to the high prices of energy and fertilisers, which always have a strong impact on production costs and the profitability of all farms.

With regard to fertilisers in particular, tensions are high with major supply problems, which could have repercussions on crop rotation and France's export capacities (especially for wheat). According to some experts, to date, the nitrogen supply rate is 10 to 20% lower than in previous years.

4. <u>LATVIA</u>

All agricultural sectors are adversely affected by the extraordinary rise in input prices, some sectors are more affected than others.

The agri-food sector is caught between two millstones: the costs of production and the purchasing power of consumers. Latvian agricultural and food producers' incomes from the sale of their products cannot compensate for the increase in prices of inputs, raw materials, and services needed for the production process. This unfavorable situation is not expected to change within a short time.

Prices of the most important inputs in Latvia are still rising, and for some inputs (in particular electricity and animal feed) the rate of increase is also picking up.

Farmers in the livestock sector, with their high feed and energy requirements, are in a very difficult situation. However, the arable sectors also face major challenges due to high fuel and fertilizer prices.

In the second quarter of 2022, compared to the first quarter of 2022, the price for mineral fertilizers increased by 7% (by 152% higher than in the 2nd quarter of the previous year), and for plant protection products - by 3% (by 40% higher than in the 2nd quarter of the previous year), for electricity - by 38% (by 101% higher than in the 2nd quarter of the previous year), for diesel fuel - by 27% (by 58% higher than in the 2nd quarter of the previous year) and animal feed (feed grains, complete and supplementary feed, protein concentrate) - by 28% (by 69% higher than in the 2nd quarter of the previous year).

The reduction in feed grain prices at the beginning of the harvest season (July – August) was temporary and too small. The most up-to-date information on the weekly price of feed wheat indicates that the price continues to increase for three consecutive weeks in September - now reaching almost 300 €/t again.

Prices of products have also increased to varying degrees across commodity markets. However, the increase in production costs has been more significant and far exceeds the increase in output. For example, in the pigmeat sector, there is still a pronounced gap between output price indices and input price indices, and this has been persisting for a long time. The pigmeat price index in July 2022 was 134 at the same time electricity price index – 221, animal feed price index – 184, and diesel fuel price index – 167 (2018.01.01. = 100). From the beginning of 2022 onwards, input price indices increased much more rapidly and significantly, which means that the price of output does not reflect the increase in production costs, as producers have difficulties in passing on prices along the food chain.

In the poultry and dairy sector, there is also a divergence between output prices and input prices, and it can be observed that the increase in the price indices of products is lower than the increase in input price indices.

Extreme input prices are undoubtedly a considerable strain on producers and several processing companies that have been in operation for decades are ceasing production or shutting down completely.

5. POLAND

The increase in gas, fuel and electricity prices also translated into a significant increase in the prices of other agricultural inputs, such as fertilizers. An important factor significantly affecting the agricultural markets, in particular the cereals market and the vegetable oil market, is the war in Ukraine, which broke the supply chains of the aforementioned products and resulted in a very large increase in their prices.

On agricultural markets, especially from the end of February this year, i.e. since the outbreak of the war in Ukraine, there has been an increase in the prices of agricultural products, most of them reaching levels so far not recorded in history. The increase in the prices of agricultural products observed this year to some extent compensates farmers for the increased production costs.

Cereals

In the case of cereals, since the outbreak of the war in Ukraine, there has been an approximately 20% increase in prices. The average price of wheat for consumption increased from about PLN 1,260 per tonne to about PLN 1,516 per tonne (in the period of 19-25 September this year), i.e. by over 20%, at the same time, feed maize went up by 29% to the level of PLN 1,412 PLN per tonne. However, compared to the second half of September last year, wheat for consumption is currently over 50% more expensive. A similar growth applies to other types of cereals. The only exception is the price of maize for feed which increased by about 27% during the year. Compared to September 2020, the price of cereals has increased more than twofold. Blocking grain exports from Ukraine via Black Sea ports raised concerns of the agricultural community about the impact on the domestic market of increased imports of Ukrainian cereals by land to the EU.

Rapeseed

Price of rapeseed is currently on average around PLN 2,884 per tonne, implying a 7,4% drop compared to the end of February this year, but compared to September 2021 (PLN 1,670 per tonne), rapeseed is now 72% more expensive, and compared to September 2020 (PLN 1,623 per tonne) rapeseed price is 78% higher.

Pigs for slaughter

The average purchase price of pigs for slaughter has currently reached the highest level in history, amounting to PLN 7.88 per kg of live weight. It was an increase of about 90% compared to the price at the end of February this year, which then amounted to PLN 4.17 per kg. However, compared to September 2021, the purchase price of pigs is currently higher by 83%, and compared to the same period in 2020, pigs are more expensive by approximately 72%. Pig numbers are declining. According to preliminary data of the Central Statistical Office of Poland (GUS), in June 2022 pig population amounted to 9,611.2 thousand heads, showing a decrease by 12.9% compared to the same period last year. Stock reduction occurred in all groups of pigs, in particular in the group of covered sows, where it amounted to 17.6%. The lack of profitability of production is influenced by the rising costs of production, including grain and fodder. In August 2022, the price of the complete mix for fattening pigs was higher by over 47% y/y, and from February this year it increased by over 20%.

Cattle for slaughter

Purchase prices of cattle have been increasing systematically since June 2021. Currently, the average purchase price of cattle is PLN 10.95 per kg of live weight and has increased since the end of February this year by 12%, and compared to September 2021, cattle price increased by about 38%, it was also about 74% higher than in September 2020.

Poultry for slaughter

Poultry prices have been on increase since the beginning of 2021. Since the end of February this year, the average purchase price of chickens has increased significantly, by about 34%, to the current level (in the period 19-25 September this year) amounting to PLN 6.13 per kg. This is one of the historically highest levels of purchase prices for chickens. However, the most dynamic increase in prices took place in March and April this year, followed by price stabilisation at the level of about PLN 6.10 per kg since July this year. Compared to September 2021 (3.97 PLN per kg), the purchase price of poultry is now 55% higher, and compared to the same period 2 years ago (3.23 PLN per kg), the price increase was 90%.

Milk

Systematic and quite dynamic price increase, especially since February this year is also observed in the case of milk. The average purchase price of raw milk in July (currently available prices for July this year) was PLN 2.40 per kg, about 30% higher compared to February this year. Compared to July 2021, the purchase price of milk increased by about 60% and compared to July 2020 this increase was about 80%.

Apples

In the current season, apple production in Poland will amount to over 4.2 million tonnes, which will be the national record. In view of the expected record high level apple production in Poland and the limited possibilities of exporting dessert apples to the markets of third countries in connection with the Russian embargo and the consequences of Russia's aggression in Ukraine, disruptions on the domestic and EU market of these fruits should be expected. Still a significant amount of apples, which hit the Russian market before the 2014/2015 season, do not find buyers on the markets of other third countries. As a consequence, apples that previously entered the dessert fruit market were processed. The prices of apples for processing, however, do not cover the growing costs of fruit production (increases in energy and labour costs). Finding alternative markets to such a large recipient as Russia remains a big challenge, not only because of the scale of the problem, but in particular because of the specificity of the product range.

The situation on the dessert apple market may deteriorate further in the coming months due to rising electricity costs, which may force apple suppliers to give up storing them in cold stores. As a consequence, there is an increase in the supply of apples in the period immediately or shortly after their harvest. Moreover, apple producers report growing problems related to the deficit of seasonal workers from third countries.