European Commission

SHORT-TERM OUTLOOK

for EU agricultural markets in 2022





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While all efforts are made to provide sound market and income projections, uncertainties remain.

The contents of this publication do not necessarily reflect the position or opinion of the European Commission.

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CONTENT

OVERVIEW 2

MACROECONOMIC OUTLOOK 6

ARABLE CROPS 9

- Cereals 10
- Protein Crops 11
- Oilseeds 12
- Sugar 13

SPECIALISED CROPS 14

- Olive oil 15
- Wine 16
- Apples 17
- Oranges 18

MILK AND DAIRY PRODUCTS 19

- Milk 20
- Dairy products 21

MEAT PRODUCTS 23

- Beef and veal 24
- Pigmeat 25
- Poultry 26
- Sheep and goat meat 27

METHODOLOGY 28

OVERVIEW

This short-term market outlook is driven by the negative impact of the hot and dry weather that affected large parts of the EU, by the impact of the Russian invasion of Ukraine on energy prices, leading to concerns about inputs costs and their supply and future crop conditions, and by food price inflation, likely to also impact EU consumer decisions. This outlook is subject to a high degree of uncertainty linked to developments in Ukraine, including Ukraine's capacity to produce, store and export its commodities. Overall, it is assumed that there will be no further worsening of an already very challenging situation.

Weather conditions in the EU deteriorated exceptionally in summer 2022, one of the hottest summers in recorded history, with record hot and/or dry conditions. According to the JRC's Combined Drought Indicator, at the beginning of September 2022, 33% of the European territory was in warning conditions and 26% in alert conditions. Several countries restricted water use for irrigation and in some regions very low water reservoir levels made field irrigation impossible. Summer crop yields have been significantly affected, in particular grain maize, soybeans and sunflower.

Droughts were observed in most parts of the EU, especially in Spain, France, central and northern Italy, central Germany, and Hungary, affecting the growth of summer crops and flower fertility, resulting in lower yields. Pastures were also under stress in most European regions, linked to dry conditions, particularly in western and central Europe. In addition, heat stress to animals also contributed to lower productivity in the livestock sector.

At the same time, a combination of animal disease outbreaks (African Swine Fever, Avian flu) and high input prices weigh on the EU meat production, while meat prices are increasing as well. The EU pigmeat production notably is expected to decrease by 5% in 2022.

The Russian invasion of Ukraine makes uncertainties and economic impacts in the EU (and Ukraine, an important agri-food producer and exporter) even more visible and of bigger concern. At the moment, the most noticeable impact of the conflict is on energy markets, in particular natural gas. The price of natural gas in the EU has reached new record levels in summer, leading to additional input costs for the EU food supply chain and further fuelling inflation.

Linked to the energy price surge, another major concern for agriculture is the availability and cost of fertilisers for the upcoming season, as fertiliser industries need natural gas to produce ammonia and other nitrogen products, reducing or halting production when prices are too high. The reduced nitrogen fertiliser production capacity not only affects crop production, but other agri-food sectors as well, as by-products of the process include CO2 used by the beverage and food processing sectors.

The signature of the 'Black Sea Grain Initiative' by the United Nations, Turkey, Ukraine, and the Russian Federation on 27 July, together with the functioning of the EU Solidarity Lanes eased the pressure on international commodity prices. These allowed the resumption of Ukrainian grain exports amid the ongoing war. Trade via Solidarity Lanes remains significant, although without further infrastructure investments the limits in terms of volume are close to be reached. From May until the end of September, about 12.5 million t of grains, oilseeds and related products were transported via Solidarity Lanes. The Black Sea Grain initiative expires after 120 days but would automatically be prolonged unless any of the parties objects. There is still uncertainty surrounding the extension of the Black Sea ports agreement, which, contrary to the Solidarity Lanes, only allows for exporting grains and no imports of any kind whatsoever.

Beyond agricultural production, the war in Ukraine continues putting a break on the EU economic growth forecasts, with uncertainties about the possibilities of real GDP growth in 2023. Inflation in the euro area is also expected to remain high in 2022, at +8.1%, and continuing in 2023. Food inflation in particular reached the level of 14% in August, becoming the second contributor to inflation after energy and affecting particularly prices of essential food items such as bread, milk, eggs and cheese as well as oils and fats.

The upward pressure on producer prices is not expected to relax in the short term mainly due to ongoing uncertainties on how the war in Ukraine will unfold in the future and the ongoing impact on the price and availability of energy. These are inevitably rising production costs, along the whole food supply chain (e.g. electricity, processing, packaging, transport, cooling and heating), posing difficulties for all-size enterprises but for small and medium ones in particular.

Producer prices of agricultural commodities are expected to continue weighing on consumer prices, remaining historically high despite a decline observed in summer following the reduction of commodity prices. Farmers are under the double pressure of processors and distributors who want to preserve their operating margins, and further down the food chain by consumers who are facing increasing costs of living that may result in reduced food demand. Such a demand reduction is already expected in several sectors for the coming months, and further changes in consumer preferences could be expected to preserve disposable income, i.e. more retail shopping and less foodservice, or purchasing more 'private labels' than branded products. At global level, another visible consequence of the fight against inflation is the increase in interest rates by central banks. The strengthening of the US dollar at global level has caused a record depreciation of the euro, with an exchange rate below parity for the first time in 20 years. While this depreciation could have positive effects on trade competitiveness, as exports become cheaper, a weaker euro also implies more costly imports, not only for energy products such as oil and natural gas, but also for agricultural inputs such as feed and fertilisers. Fears of a global recession, as well as the stronger US dollar, are currently driving oil prices downwards, however OPEC+ countries have planned to cut oil production to bring prices again towards USD 100/bbl.

Looking at specific EU agricultural markets, a combination of the drought and high fertiliser prices resulting in lower application rates of P and K in particular, also contributed to lower yields for the 2022/23 harvest. As a result, total EU cereal production is now forecast to be 7.8% lower year-on-year, with maize showing the largest reduction in production: -23.7%. However, thanks to higher ending stocks in 2021/22, EU cereal exports could still grow (+6.5%), and therefore continue to contribute to global food security. For oilseeds, given high prices and the temporary derogation to allow the cultivation of certain crops on set-aside land, the area under oilseed crops is expected to reach an all-time high, however with lower yields for sunflower and soya beans, returning an increase of total oilseed production to +7.5% year-on-year. EU sugar prices reached record levels since the start of the post-quota era in October 2017, but sugar production is expected to decline by 6.9% due to hot and dry summer. EU protein crops production is estimated to increase by +1.4% year-on-year, thanks to higher yields.

Regarding specialized crops, EU olive oil production is expected to decline in 2022/23 by 25%, with a drop observed in almost all main EU producing countries, except Greece. To some extent, the lower availability is likely to be covered by increased imports while EU exports could decline, especially to some more price-sensitive markets. In addition, lower availability in main EU producing countries and ongoing pressure on consumer prices might lead to an EU consumption decline (-9%). EU wine consumption could resume its historically decreasing trend from 23 L to 22.6 L per capita. EU consumption of fresh apples is expected to go slightly down to 12 kg per capita, mainly due to a rising inflation pressure and a general reduction in fresh fruit consumption, but higher storage costs due to higher electricity price, the high production in Poland and the expected lower quality should increase the share of usable apple production used in processing. EU orange production is expected to decline to one of the lowest levels since 2015/16, due to adverse weather conditions particularly in Spain. Even though this is expected to result in higher prices, the quantities destined for fresh consumption could decrease less than that for processing.

Regarding dairy products, the drought worsened grass availability and quality, in addition to lower yields of main crops used for feed. These factors could contribute to a decline in EU milk production (-0.5%), driven by lower yield growth as well as further dairy herd reduction. The milk content (both fat and protein) could also be impacted negatively, thus reducing availability for milk processing even more. Among dairy products, only EU cream production is expected to grow, absorbing a large part of fat availability. Anticipation of even higher processing cost for drying milk powders over the winter could likely result in some tensions in the supply of butter in upcoming months, and the annual production is expected to drop. Overall, a drop of EU exports is expected, in particular driven by lower shipments of EU milk powders while domestic use of dairy products could remain stable in 2022.

EU beef production is expected to decrease by 0.6% in 2022, due mainly to a structural adjustment in the beef and dairy sector, despite high beef prices. EU exports could decrease by 1%, due to record-high domestic prices and despite good export prospects to

some existing high-value markets. EU imports from the UK and Brazil are on the rise.

Sustained high feed costs as well as African Swine Fever (ASF) continue to discourage EU pigmeat production growth, which is expected to decrease by 5% in 2022. While China is returning to its pre-ASF import levels, some EU pigmeat exports find their way to the UK and to other overseas destinations, despite high EU pigmeat prices.

EU poultry production growth continues to be limited by high input prices – especially feed and energy – and Highly Pathogenic Avian Influenza. In addition, very high EU poultry prices means less competitive exports. On the other hand, the suspension of duties on products coming from Ukraine favours poultry imports.

Despite the historically low EU sheep and goat flock, slaughterings are not expected to go down in 2022, despite differences among EU countries. EU imports should resume in 2022 and 2023 but still below pre-COVID levels, leading to sustained high domestic prices.


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KEY MESSAGES

+3.1%

expected euro area real GDP growth in 2022 in the ECB baseline

-0.9%

expected euro area real GDP growth in 2023 in the ECB "downside" scenario (vs +0.9% in the baseline)

+8.1%

expected euro area inflation in 2022 in the ECB baseline

+14.3%

EU consumer prices for food in August 2022, year-on-year

MACROECONOMIC OUTLOOK

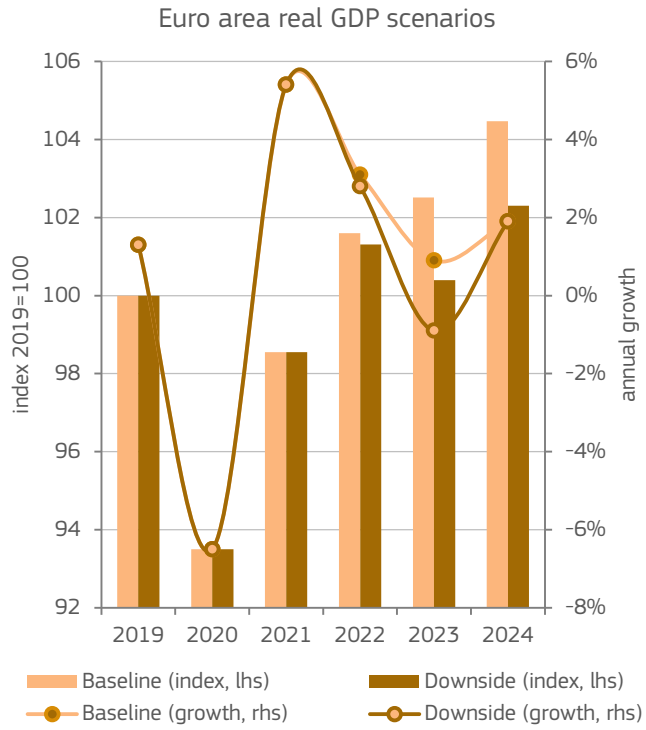
HIGHLIGHTS

Sustained adverse risks call for a further reduction of euro area's real GDP growth projection, especially if the war continues in 2023 and/or gas supplies need to be rationed.

Fossil fuel markets are due to remain very tight and prices are expected to stay high and volatile. Marginal crude oil production increases become harder and harder while, with post-COVID-19, the demand has recovered. EU natural gas prices will also remain high and volatile especially due to uncertainties in Russian supplies, pending implementation of the RePowerEU strategy to reduce dependency on fossil fuels. This could also create further price pressure on electricity prices, being an important input for farmers and the food supply chain as a whole.

High energy prices and agri-food trade disruptions caused by Russia's invasion of Ukraine exacerbate inflationary pressures throughout the supply chains, although in some sectors and some EU countries effects might be witnessed with time-lag.

MACROECONOMIC OUTLOOK



*Note: **Baseline include higher interest rates, somewhat lower oil prices owing to weaker demand and rising supply, significantly higher wholesale gas and electricity prices and depreciation of the euro.** Downside: complete cut-off of Russian gas and seaborne oil flows, with little scope for alternative sources, higher commodity prices, elevated uncertainty, weaker trade and deterioration in financing conditions. Source: European Central Bank.*

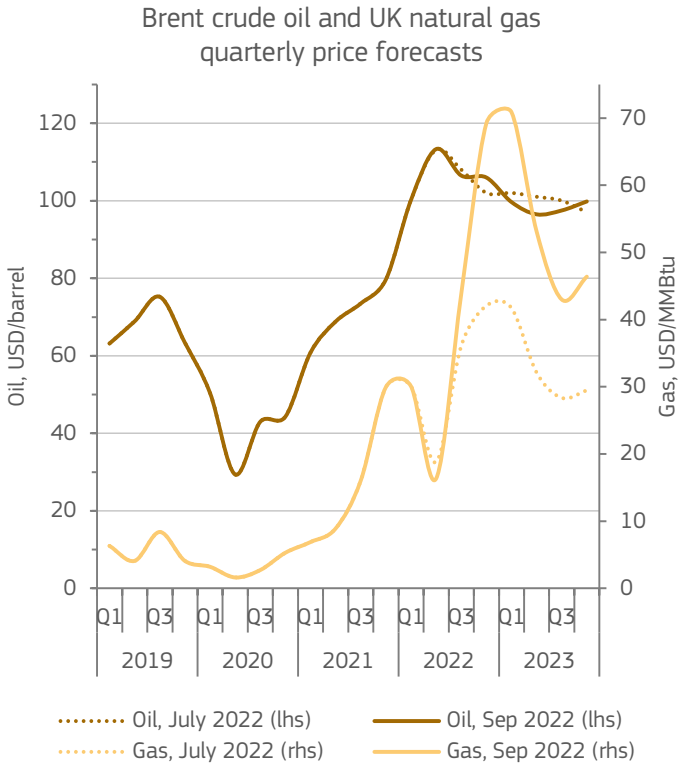
2023 GROWTH OUTLOOK REVISED DOWNWARDS AS WINTER APPROACHES

As the invasion of Ukraine by Russia continues to negatively affect the world economy, forecasters revised downwards their real GDP growth projections for the euro area from 2023 onwards, while for 2022 a solid growth is expected despite the high energy prices, due to easing of supply bottlenecks and push from services and tourism sectors. The preliminary September forecast by IHS Markit appoints to a real GDP growth of 3.1% for euro area in 2022, but much weaker economic growth in 2023 of 0.4% only, to return to a 2% increase in 2024. In the same interval, ECB's baseline[1] was revised upwards by 0.3 pp in 2022, but downwards by 1.2 pp in 2023 and 0.3 pp in 2024, confirming uncertainties about future economic growth.

Inflation in the euro area is expected to reach 8.1% in 2022 and subsequently fall to 5.5% in 2023 and to 2.4% in 2024.

However, in ECB "downside" scenario with worse impacts from the war on energy and commodity prices, the ECB foresees a much grimmer outlook, where euro area's real GDP could drop by 1.8 pp in 2023 compared to the baseline, returning a decline of 0.9%.

[1] *ECB projections based on information up to 22 August 2022.*



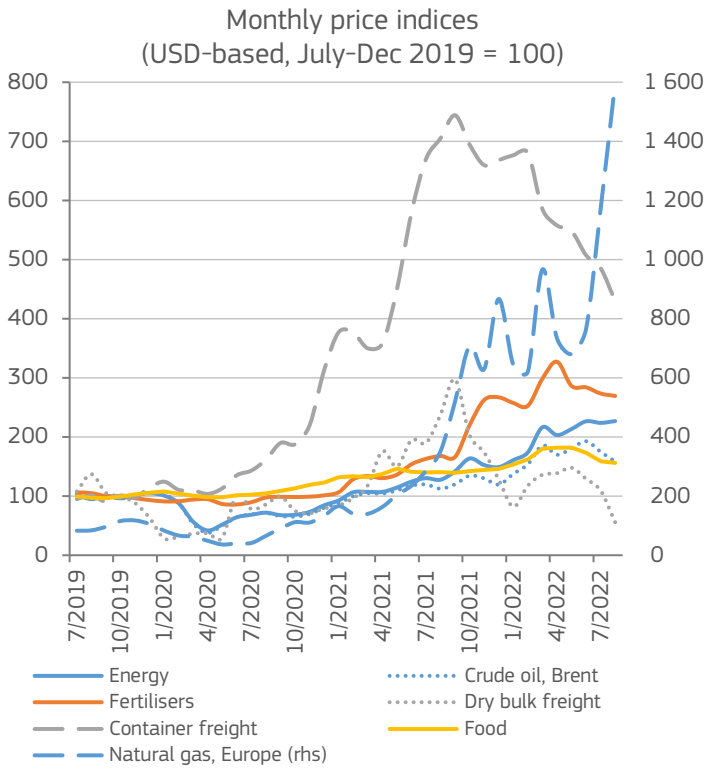
Note: 1 MMBtu is 1 million British thermal units, approximately 293.1 kilowatt hours. Source: IHS Markit.

NATURAL GAS PRICES INCREASING MASSIVELY IN WINTER

IHS Markit expects the Brent crude oil price to fluctuate around USD 100/bbl after the peak of USD 113/bbl in Q2 2022, reaching USD 99/bbl in Q4 2023. According to IHS Markit, the stabilisation of crude oil prices reflects weaker demand, slowing economic activity and fear of global recession, although OPEC+ has agreed in cutting oil production to keep prices at the level of USD 100/bbl.

On the natural gas side, this unprecedented increase in prices is driven by the shutdown of Russia's Nord Stream I pipeline, which was already running at only 20% capacity at the time of the announcement. The risk of shortages has grown considerably, despite EU countries being well on track to fill their natural gas storages according to the REPowerEU objectives for this autumn, as well as the first signs of demand reduction in the EU. The price for natural gas is expected to reach the level of USD 70/MMBtu (around €238/MWh) in Q1 2023 and remain above USD 40/MMBtu for the entirety of next year. The price for natural gas in the US and in Asia remains a lot lower than in Europe, and this leads to a high risk for EU competitiveness, especially for energy intensive products.

MACROECONOMIC OUTLOOK

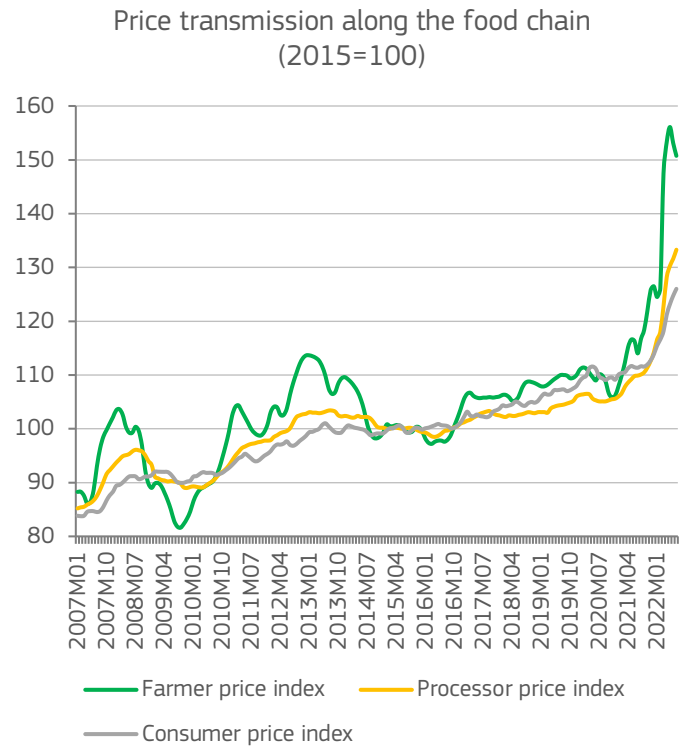


Sources: World Bank (fertilisers, energy, natural gas), Drewry (global container freight), Baltic Exchange (Dry Bulk Freight).
Note: Energy index includes oil, natural gas and coal.

EASING LOGISTICAL COSTS WHILE PRESSURE OF SOARING GAS PRICES REMAINS

While it is clear how the increasing price of natural gas can be a significant driver of input costs for businesses and of inflation for consumers, the prices of fertilisers remain 110% above 2019 levels, despite a reduction observed during summer on international markets, small for P and K, more substantial for nitrogen. The situation in the EU is different with nitrogen fertilisers prices increasing again since summer. With fertilisers companies being an energy intensive industry, the massive surge of the price of natural gas also led to a reduction in the production of ammonia and nitrogen-based fertilisers, as well as its by-products such as CO2, used by the food processing sector. In this context of very high prices, a relief comes from the logistics sector, as costs for container and dry bulk transport are on a downward trend, due to the easing of supply bottlenecks. Container prices are still 330% above 2019 level, but significantly below the peak of +644% seen in September last year. Similarly, dry bulk transport prices are even 44% lower than the 2019 level.

Regarding agricultural commodities, while in August prices were still 36% above the same month last year, expectations about a global recession, as well as the gradual resumption of international trade, in particular in the Black Sea, have brought international prices down from their earlier peaks.



Source: DG Agriculture and Rural Development, based on Eurostat.

PRODUCER PRICE INCREASES PUSHED FURTHER DOWN THE FOOD CHAIN

Since May, the EU farmer price index declined by 6 points, driven by a drop of soft wheat, maize and feed barley prices while the price of durum wheat remains high, as well as meat prices. Meanwhile, EU raw milk price continued increasing and reached more than EUR 50/100 kg. Therefore, the index remains historically high. Considering the high price of energy, together with fall in crop harvest due to drought, and related renewals of some feed and energy supply contracts by the end of the year, producer prices are likely to remain high in 2023.

At the same time, producers are under pressure from processors, and further down the food chain by distributors and consumers, which are facing continuously increasing food prices. While processor and consumer price index changes are delayed and usually not symmetrical to the change in producer prices, these are likely to continue to increase, to compensate for high producer prices but also for their own energy cost of processing, storage, and logistics, even if many EU countries will try to ease the impact of inflation on food purchases, consumer price index is likely to rise as well.

KEY MESSAGES

270.9 million t

Usable production of EU cereals in 2022/23 (-5.1%/5-year average)

+23%

EU wheat exports in 2022/2

32.2 million t

EU oilseeds production in 2022/23 (+8.5%/5-year average)

+30%

Year-on-year increase in beginning stocks of sugar at the start of 2022/23 season

ARABLE CROPS

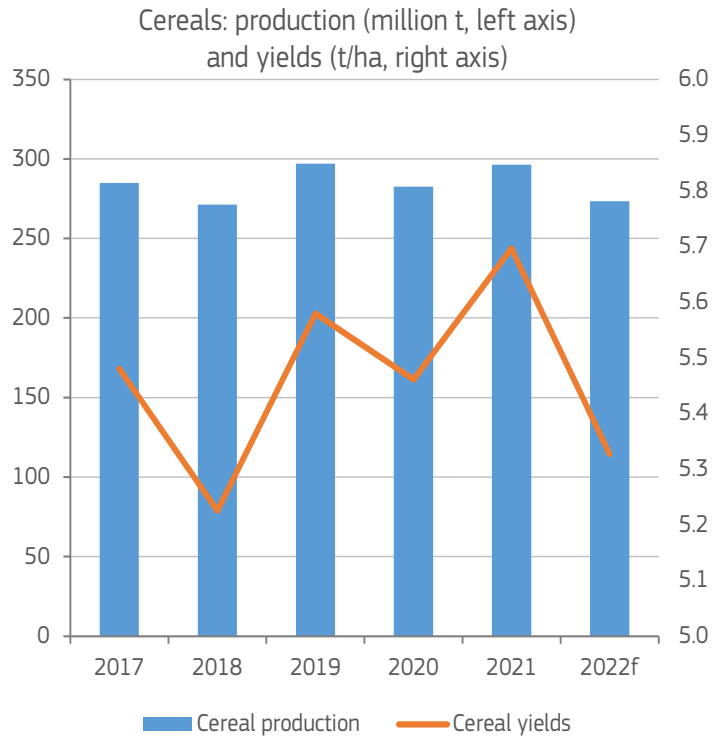
HIGHLIGHTS

The 2022/23 EU usable cereals production is projected at 270.9 million t, a 5.1% decrease over the 5-year average (and a 7.8% decrease year-on-year), not least due to the drought conditions that affected maize in particular (-19.3%/5-year average).

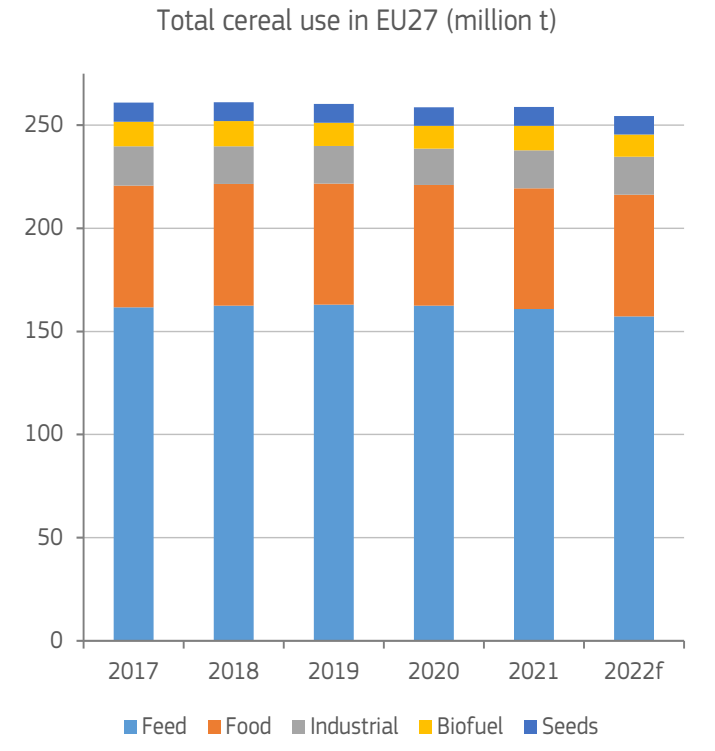
The poor harvest combined with high cereals prices and anticipated decrease in meat production is expected to reduce the use of cereals for feed by 2.3% year-on-year, while food use is expected to increase slightly (+0.7% year-on-year). However, trade of cereals could further grow, by 12.3% compared to the previous marketing year (including +6.5% of exports and +24.7% of imports). The good EU oilseed production (especially of rapeseed) is expected in 2022/23 (32.2 million t, +8.5% above 5-year average).

2022/23 EU sugar production is forecast at 15.5 million t, -5.8% below 5-year average as both beet planting area and yields were reduced. Sugar consumption is also expected to decrease due to increasing prices.

CEREALS



Source: DG Agriculture and Rural Development, based on Eurostat, MS notifications and MARS data.



Source: DG Agriculture and Rural Development, based on Eurostat and MS notifications.

DROUGHT CONDITIONS HURT PRODUCTION

Following drought conditions throughout the year and across large parts of the EU – combined with the negative impacts of fertiliser prices on the application rates – EU cereal production is expected to decrease considerably compared to the average of previous years. Despite the temporary relaxation of greening rules to allow farmers cultivate on a larger area, the area under cereals decreased by 1.3% compared to the 5-year average. At the same time, farmers were concerned about drought and input prices which impacted the area development negatively. Overall cereal yield decreased by 3.3% compared to the 5-year average. As a result, EU cereal production decreases by 5.1% compared to the 5-year average.

After record-high prices in spring and early summer – following the Russian invasion of Ukraine – cereal prices have come down, helped by the increasing shipping capacity out of Ukraine through both the Solidarity lanes and the Black Sea corridor, as well as on a record grains harvest in Russia and good production prospects in Canada, Brazil, and Argentina. Uncertainty about geo-political developments in the Black Sea region and concern about the availability of feed in the drought-stricken regions are factors that may tigger increased price volatility in the months to come. Nevertheless, total EU cereal use is decreasing substantially as an effect of high prices and reduced animal production outputs needing less feed (-1.7% year-on-year) followed by food consumption (23%). However, given the very low EU maize production and fodder shortage due to the drought, feed imports are expected to increase.

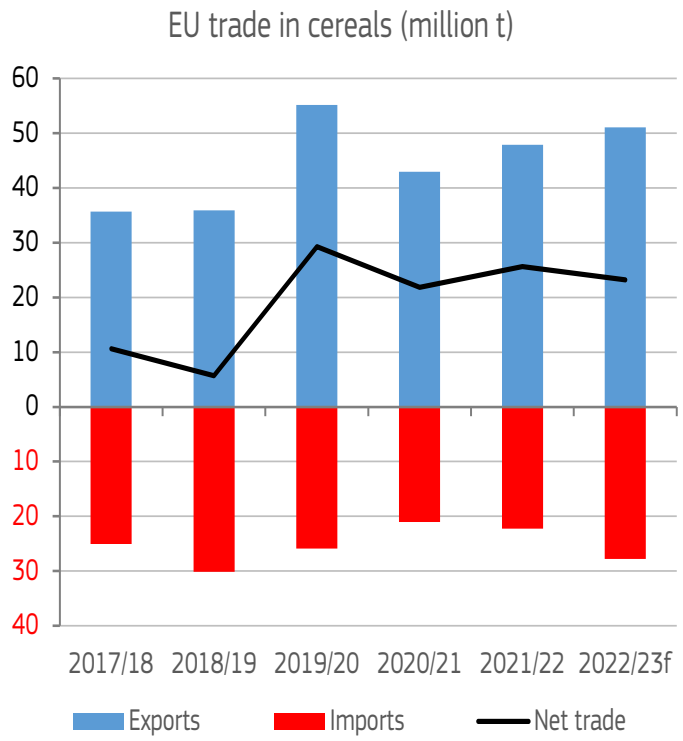
2022/23 EU CEREALS PRODUCTION OUTLOOK

In 2022/23, the total cereals production area as notified by EU countries has fallen 1.4% below the last season's level. The current area includes 22.0 million ha of soft wheat (+1.4% year-on-year), 2.2 million ha durum wheat (-0.6%), 10.5 million ha barley (+1.6%), 8.7 million ha maize (-5.9%), 2.6 million ha triticale (-2.3%), 2.4 million ha oats (-5.7%), and 1.8 million ha rye (-6.6%).

Given expected lower yields, total EU cereal production is now forecast to reach 270.9 million t (-7.8% year-on-year). Soft wheat production is forecast at 127.0 million t (-2.4%), durum wheat at 7.4 million t (-4.9%), maize at 55.5 million t (-23.7%), barley at 51.5 million t (-1.0%), triticale at 11.3 million t (-2.1%), oats at 7.6 million t (+1.9%), and rye at 7.5 million t (-4.0%).

CEREALS

EU CEREAL TRADE ON TRACK TO BE SECOND ONLY TO RECORD 2019/20



Source: DG Agriculture and Rural Development, based on Eurostat.

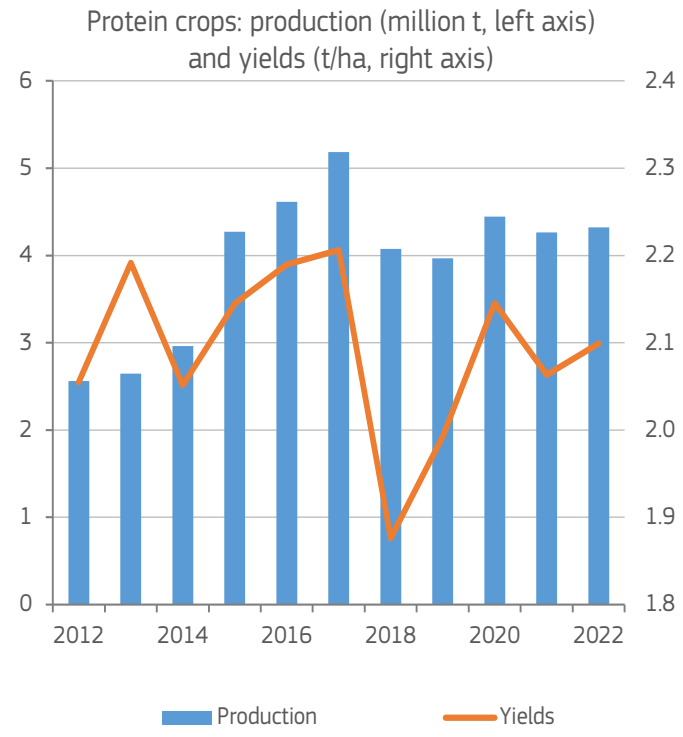
EU cereal trade are forecast to increase substantially over the current season (+12% over 2021/22), to reach a total turnover of 78.8 million t. If realised, this would be the second highest season of EU cereal trade, after 81.0 million t in 2019/20.

Exports are expected to reach 51.0 million t, which is 6.5% and 20.9% above, respectively, last season and 5-year average. In particular, soft wheat exports are forecast to reach 36.0 million t, (+23.0% year-on-year) thanks to relatively high production and higher beginning stocks.

Imports are expected to increase even more, by 24.7% year-on-year to 27.8 million t. Due to sharp reduction in local production, maize imports are forecast to grow by 28.7% year-on-year and by 21.2% over trimmed 5-year average, to 21.0 million t.

PROTEIN CROPS

EU PROTEIN CROP PRODUCTION ON THE INCREASE DESPITE A SLIGHT DECLINE IN AREA



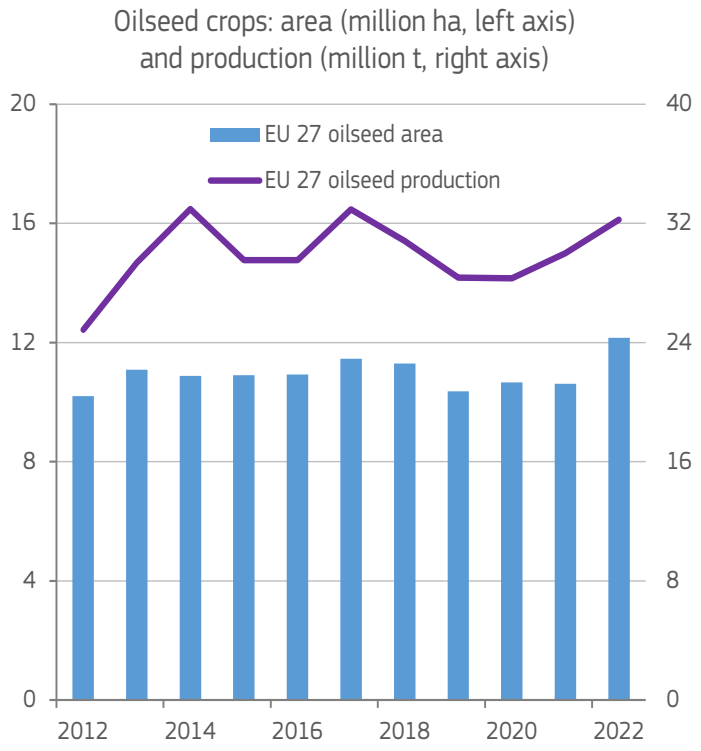
Source: DG Agriculture and Rural Development, based on Eurostat, MS notifications and MARS data.

Plantings of protein crops in 2022 have remained at a similar level of a year ago (2.05 million ha, -0.4%). However, thanks to higher expected yields despite the challenging growth conditions, 2022/23 EU protein crop production is estimated to grow and reach 4.32 million t (+1.4% year-on-year).

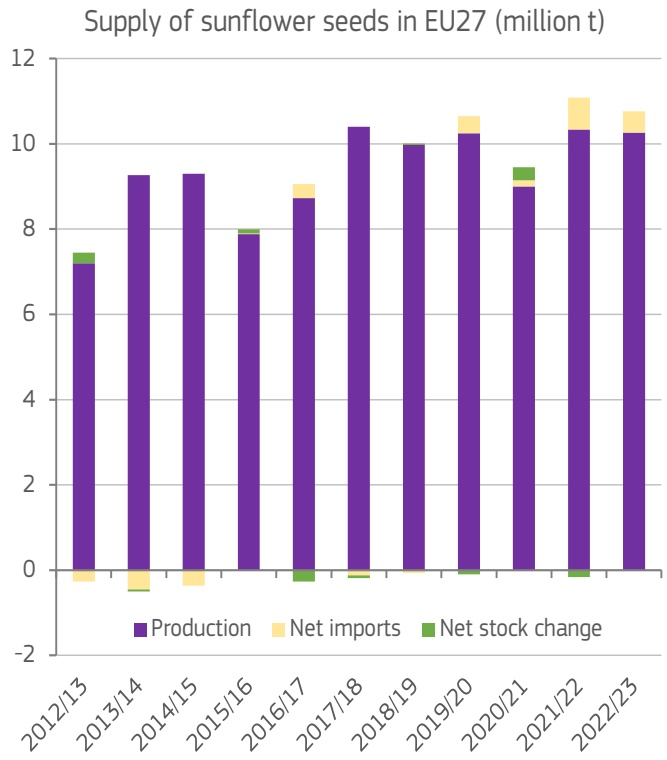
Production of peas is estimated to increase to 1.92 million t (+5.3% year-on-year) and that of broad peas to 1.14 million t (+1.4% year on year).

With a general decline in feed demand, feed use of protein crops overall is forecast to decline in 2022.23 by 1.3% to 3.27 million t.

OILSEEDS



Source: DG Agriculture and Rural Development, based on Eurostat, MS notifications and MARS data.



Source: DG Agriculture and Rural Development, based on Eurostat and MS notifications.

MODEST HARVEST INCREASE GIVEN RECORD PLANTING AREA

The area under oilseed crops in the EU reached an all-time high in marketing year 2022/23 of 12.2 million ha, compared to previous record of 11.5 million ha in 2017. Drivers for this development were soaring prices of oilseeds and especially vegetable oils and the temporary derogation to allow cultivation of certain crops on set-aside land. Most growth in area was recorded for soya beans +18.8% year-on-year) and sunflower (+17.4%). In the context of surging fertilisers prices, the nitrogen fixing crops such as soya beans looks to have gained farmers' interest.

Significant expansion in the oilseeds area (+14.6% year-on-year), however, is not expected to lead to a proportional gain in production due to drought induced lower yields for sunflower (-15.4% year-on-year) and soya beans (-14.5%); only rapeseed yields increased slightly (+1.8% year-on-year). Total EU oilseed production is expected to increase +7.5% year-on-year to 32.2 million t (30.1 million t five-year trimmed average).

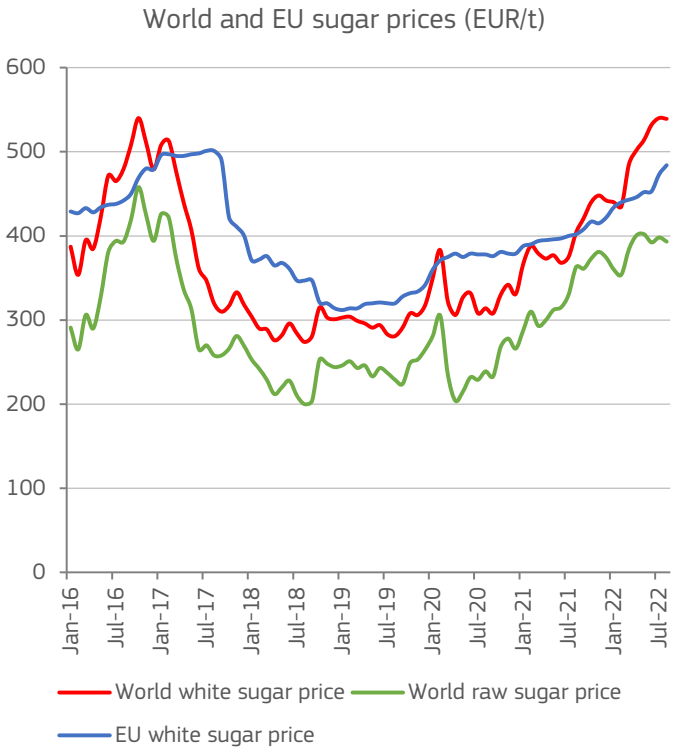
On the back of the higher EU oilseed production (compared to 2021/22), EU crushing could still increase by +1.8% year-on-year, allowing total EU meals production (29.6 million t) to exceed the 5-year average (29.2 million t). Likewise, EU vegetable oils production is expected to grow by 2.6% year-on-year to 16.2 million t, also above past production levels (15.6 million is the five-year average).

While production of rapeseed oil is expected to increase (+5.9% year-on-year to 9.3 million t), sunflower oil production is now due to decrease by 1.3 % year-on-year to 4.0 million t. Very exceptional sunflower imports from Ukraine during the last six months are slowing down as crushing facilities are reopening in Ukraine and less seeds would be available for exports. At the same time Ukraine is expecting to have a lower harvest, by more than 40%.

DOMESTIC USE OF OILSEEDS ON THE UPSIDE

The expected increases in domestic oilseed production are sufficient to allow the domestic use of oilseeds to increase to 50.7 million t (+1.7% year-on-year) despite a reduction in net imports to 18.4 million t (-8.4% year-on-year). As regards rapeseed, the significant increase in production (17.0 million t in 2021/22 to 19.3 million t in 2022/23) and the reduction in imports (from 5.6 million t to 4.5 million t) allows a level of domestic use of 23.5 million t that is 6.0% above the previous season, and 4.9% above the 5-year average.

SUGAR



Source: DG Agriculture and Rural Development, based on MS notifications.

EU PRICE AT ITS HIGHEST POST-QUOTA LEVEL

In 2021/22, EU sugar production reached 16.65 million t, well above the previous disease-stricken season (+14.5%) and above a 5-year average.

World sugar prices have continued growing and reached around USD 550/t by mid-2022, its highest level since early 2017. The EU sugar price has also grown and reached EUR 484/t in August, a record price of the post-quota era, which started in October 2017. Additionally, due to the depreciation of the euro against the US dollar, the EU sugar price reached a discount of EUR 65/t compared to the world price, and a premium of EUR 25/t compared to a year ago.

The relatively good affordability, the increase of the EU population driven by an inflow of Ukrainian refugees has increased uses of sugar, to an estimated 16.8 million t in 2021/22 (5.6% above 2020/21). Additionally, some demand may have been generated by short-term increase of sugar price expectations due to increasing costs for energy intensive sugar processing.

With higher domestic demand, EU sugar imports in 2021/22 are expected to grow by 6.6% to 1.4 million t, while exports should decrease by 2.3%.

Source: DG Agriculture and Rural Development, based on Eurostat.

SUGAR BEET YIELDS HIT BY DROUGHT IN 2022/23

Due to severe summer drought in many EU regions, sugar beet yield forecast for the 2022/23 EU crop is 4% below the last season but in line with a 5-year trimmed average (73.2 t/ha). With the EU sugar beet area estimated at 1.43 million ha (also a decrease of 4% compared to last season), EU sugar beet production could reach 105 million t (7.7% below the current season).

Due to hot and dry summer, sugar beet in some EU regions might provide higher than average sugar content. Therefore, EU sugar production is forecast to drop by only 6.9% and could reach 15.5 million t in 2022/23.

2022/23 human consumption of sugar in the EU is expected to decline slightly (-1.6%) due to inflationary pressures and potential demand frontloading.

2022/23 EU imports are expected to increase, given the limited EU availability. For the same reason, EU exports are not expected to increase, despite attractive world prices. Ending stocks are expected to decline to 1.3 million t, which is a low, but not critical level.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KEY MESSAGES

Olive oil: -25%

EU olive oil production in 2022/23

Wine: +1.5%

EU wine production in 2022/23

Apples: +18%

EU apples destined for processing

Oranges: +20%

EU fresh oranges imports

SPECIALISED CROPS

HIGHLIGHTS

EU olive oil production is expected to decline in 2022/23 by 25%, with a drop observed in almost all main EU producing countries, except EL. To some extent, the lower availability is likely to be covered by increased imports while EU exports could decline, especially into some more price-sensitive markets. In addition, lower availability in main EU producing countries and ongoing pressure on consumer prices might lead to the EU consumption decline (-9%).

Contrarily to the olive oil, 2022/23 EU wine production is forecast to increase (+1.5% year-on-year). The final production figures will be determined by water and thermal stress, impacting both quantity and quality of grapes, and potentially leading to an early harvest. EU consumption could resume its historically decreasing trend from 23 L to 22.6 L per capita after two years of perturbations due to the COVID-19.

2022/23 EU consumption of fresh apples is expected to go slightly down to 12 kg per capita, mainly due to a rising inflation pressure and a general reduction in fresh fruit consumption. The higher electricity price, the high production in PL and the expected lower quality should increase the share of usable apple production used in processing. EU orange production is expected to decline in 2022/23 to one of the lowest levels since 2015/16, due to adverse weather conditions particularly in ES. Despite the low orange production and expected higher prices, the amount for fresh consumption could decrease less than that for processing.

OLIVE OIL

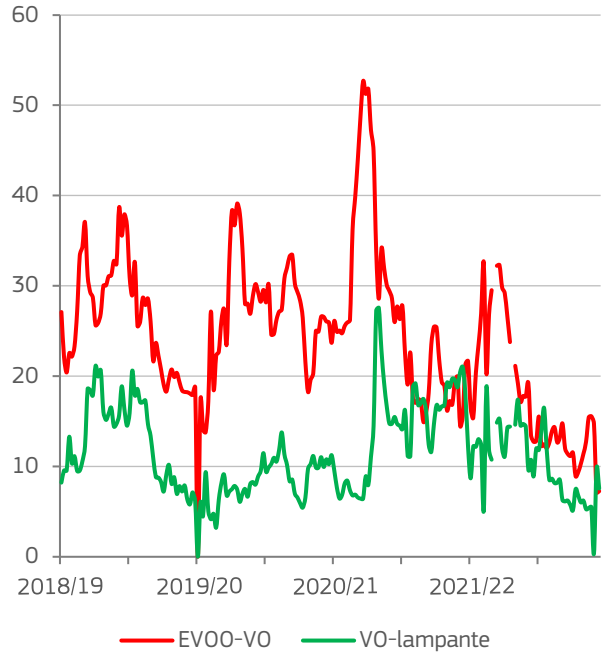
2021/22 EU EXPORTS ABOVE EXPECTATIONS

Despite an initial expectation of EU exports to be reduced by 4% in 2021/22, shipments in Oct-Jun remained around 1% below the same period last year. Increasing exports to the US and China (incl. July) compensated for losses in other main export destinations (Brazil, Canada, Japan, Australia), together with increasing shipments to some growing destinations. Therefore, 2021/22 EU exports could be similar as last year, further supported by the euro/dollar exchange rate, and still a competitive price compared to other vegetable oils. On the contrary, EU imports continue declining, as the main provider (Tunisia) likely keeps certain stocks in its domestic market, and they therefore could only reach around 145 000 t.

The EU consumer price of olive oil continues increasing but at a lower rate than other vegetable oils (+12% year-on-year in August) which supports growing demand, combined with a recovery of tourism. Therefore, 2021/22 EU consumption could grow by 11% as anticipated in the previous outlook report.

Increasing production costs in addition to an overall pressure on fat markets contribute to a diminishing producer price differential across olive oil categories. In August, ES national price of extra virgin olive reached close to EUR 400/100kg (38% above 5-year average), closely followed by virgin (EUR 385/100kg) and lampante category (EUR 377/100kg).

Price differentials between different categories of olive oil in Spain (EUR/100 kg)



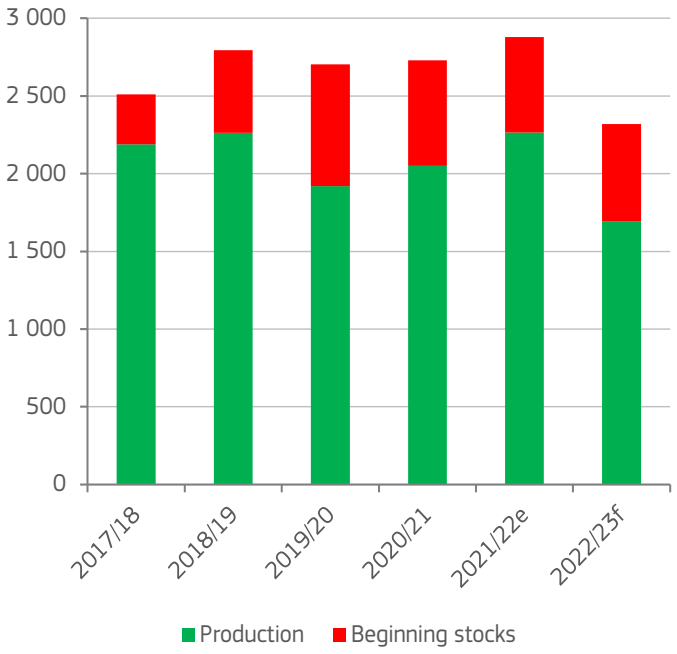
Note: EVOO – extra virgin olive oil, VO – virgin olive oil
Source: DG Agriculture and Rural Development, based on MS notification.

LOWER THAN EXPECTED 2022/23 EU PRODUCTION

Heat during the flowering period, combined with water deficit during the olives' growth phase negatively impacted 2022/23 EU olive oil production both in volume and quality. In ES and IT, production reduction could be around 30%. In the case of PT, adverse weather conditions and off-year in alternate bearing cycle, could to some extent be offset by the production in more intensive systems located in Alentejo, less affected by drought. Nevertheless, it could still be almost 40% below last year. Among main EU producing countries, only EL could recover, providing supplies for the internal market. However, 2022/23 EU olive oil production might only reach 1.7 million t (25% below last year, and 20% below 5–year average). Despite high ending stocks of the previous season (625000t), the initial availability in 2022/23 could be the lowest compared to the previous 5 marketing years.

An expected good harvest in Tunisia (around 250 000 t), could allow some stock release, and therefore higher EU imports are expected (200 000 t) while EU exports could drop by 10%, assuming worsening economic outlook, thus a lower demand in more price-sensitive markets. In addition, lower availability in main EU producing countries and ongoing pressure on consumer prices might lead to the EU consumption decline (-9%). Overall, ending stocks might be reduced by around 45% (to close to 350 000 t).

Initial availability of olive oil in the EU (1 000t)



Source: DG Agriculture and Rural Development, based on MS notifications and publicly available information.

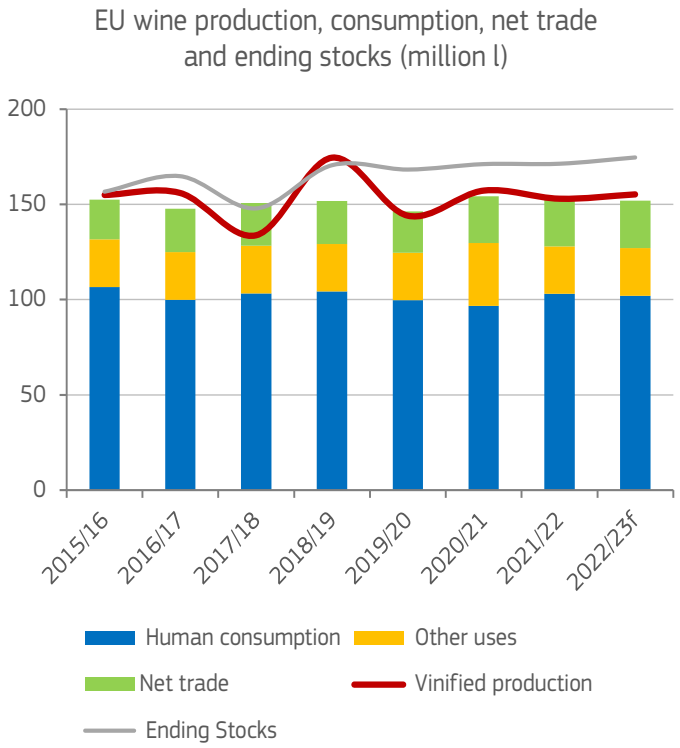
WINE

2022/23 EU WINE PRODUCTION AND ITS QUALITY ABOVE AVERAGE

In 2022/23, EU wine production is estimated to be 2.5% above 5-year average (+1.5% year-on-year), and so it could reach around 155 million hl. This is mainly due to a larger production expected in FR (around +15% year-on-year). This is likely to compensate for the drop in ES (-10% year-on-year) while overall volume in IT should remain close to 2021/22 marketing year.

The final production figures will be determined by water and thermal stress, impacting both quantity and quality of grapes, and potentially leading to an early harvest. Above-average temperatures lasting for weeks could decrease the total production, but could also increase the quality of wine in 2022/23 marketing year due to a significant reduction of fungal infections.

2022/23 EU wine consumption could decrease by 2% year-on-year (from 23 l to 22.6 l per capita). To some extent, this change can partly be explained by change in the EU population. At the same time, this marks a return closer to a longer-term trend.



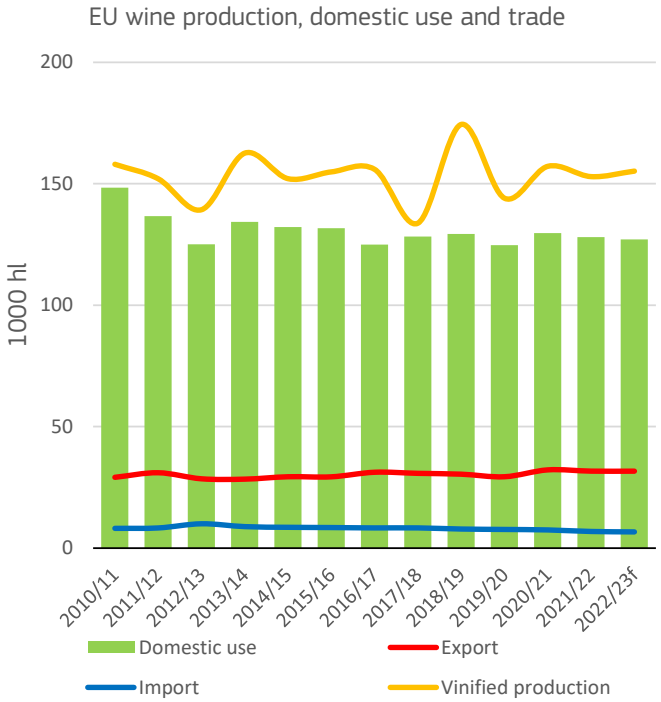
Source: DG Agriculture and Rural Development, based on Eurostat.

HIGH AND STABLE EU WINE EXPORT

2022/23 EU wine exports, driven by quality wines which cover more than two thirds, are expected to remain on the same level as the last marketing year (31.6 million hl, 2.3% above 5-year average. The main EU export markets in 2022/23 could remain the US (with a current share of 30% in value) and the UK (18%), followed by Switzerland, Canada and China. EU shipments of PDO and PGI wines to Russian Federation are decreasing both in terms of volume and value but increasing flows of cheaper wines could offset the decline overall.

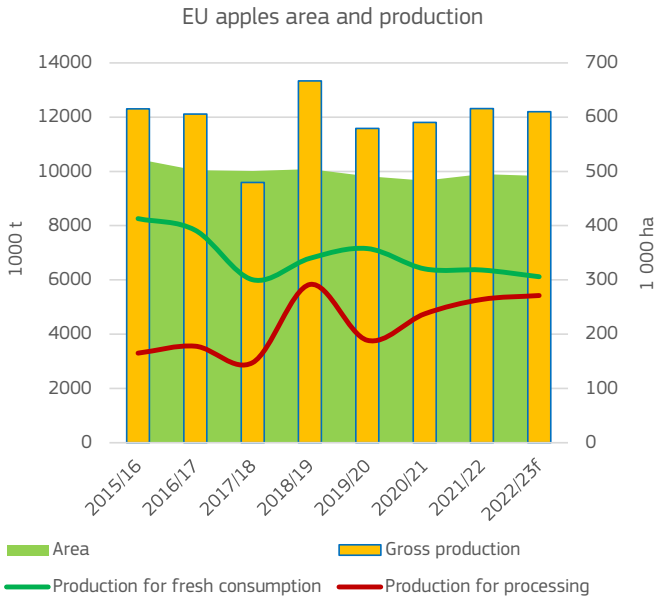
EU exports of varietal wines and "other wines" are expected to follow an increasing trend. However, this might be affected negatively if rising costs of energy, transport and costs of packaging are sustained.

2022/23 EU wine imports are forecast to follow a declining longer-term trend, driven by a drop of imports of PDO wines. They are expected to decrease to 6.7 million hl (-2.5% year-on-year and 12% below 5-year average).



Source: DG Agriculture and Rural Development, based on Eurostat and MS notifications.

APPLES

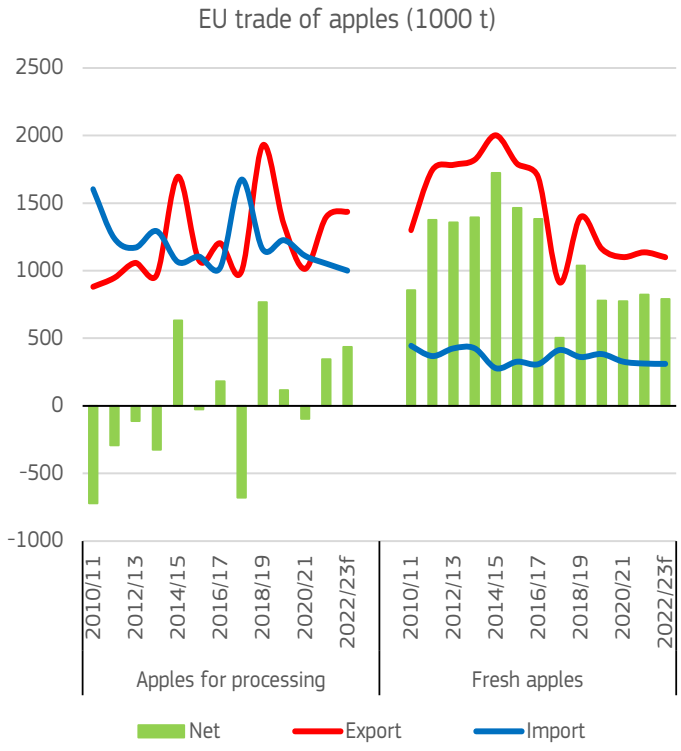


Source: DG Agriculture and Rural Development, based on Eurostat.

RECORD SHARE OF APPLES FOR PROCESSING

2022/23 EU apple production is expected to be around 12.2 million t (similar level as last year, 2.5% above 5-year average). On one hand this is driven by, for a second year in a row, a quite generous crop expected in PL due to favourable weather conditions whereas. On the other hand, the heatwave, drought and the irrigation restrictions in Western and Southern Europe during summer months would have resulted in a lower than usual production, with apples of a smaller size, with less colour but of a higher sugar content. In the EU, around 6.1 million t of apples are expected to be sold for fresh consumption (-4% year-on-year and 6% below 5-year average).

The increase of electricity price (particularly relevant for the storage cost of the sector), the high production in PL, together with the expected lower quality, should increase the share of usable production used in processing. In volume terms, this is expected to be 5.4 million t (18% above 5-year average). In PL, as high as 75% is estimated to go to processing. EU apple processing sector should likely absorb this increase as China is expected to have a 20% lower production due to weather issues.



Source: DG Agriculture and Rural Development, based on Eurostat.

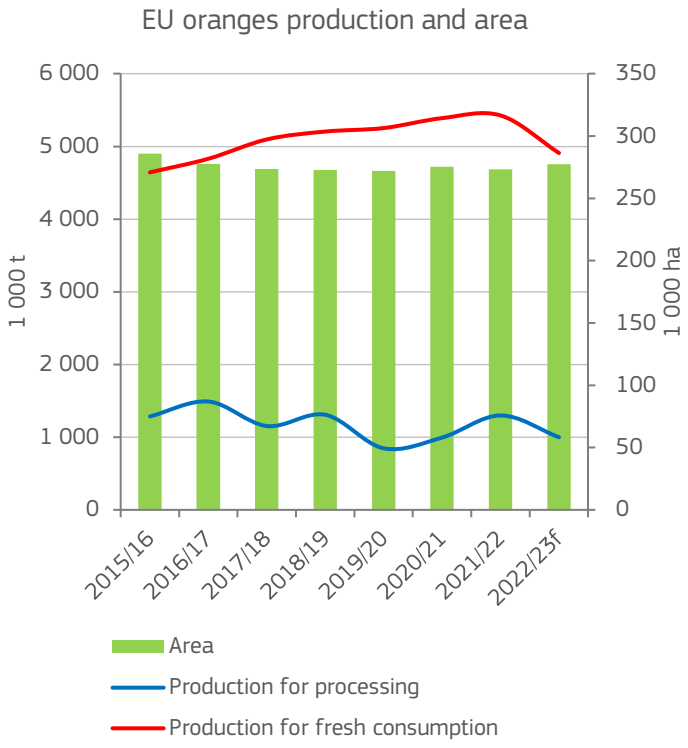
DECREASE IN EU CONSUMPTION OF FRESH APPLES

EU consumption of fresh apples is expected to go down in 2022/23 to 12 kg per capita (compared to 12.2 kg in 2021/22). This is mainly due to rising inflation pressures and a general reduction in fresh fruit consumption already observed in the first half of the year. The lower consumption would also be in line with a lower availability of the fresh produce as mentioned above. At the same time, EU apparent consumption of processed apples is expected to be high (11 kg per capita) which is in line with a long-term increasing trend (10% above 5-year average).

An expected high availability of apples for processing could help to increase EU exports of processed apples in 2022/23 by 3% (15% above 5-year average) and weigh on imports of those products. These are likely to decrease by 5%. EU imports of processed apples are in line with a declining long-term trend (14% below 5-year average).

EU exports of fresh apples could decrease by 3% year-on-year (3% below 5-year average), driven by increasing energy and transport costs. On the other hand, EU imports of fresh fruits are expected to remain on the same level as in 2021/22, and so 13% below 5-year average. As a result, ending stocks could drop by 23% year-on-year.

ORANGES



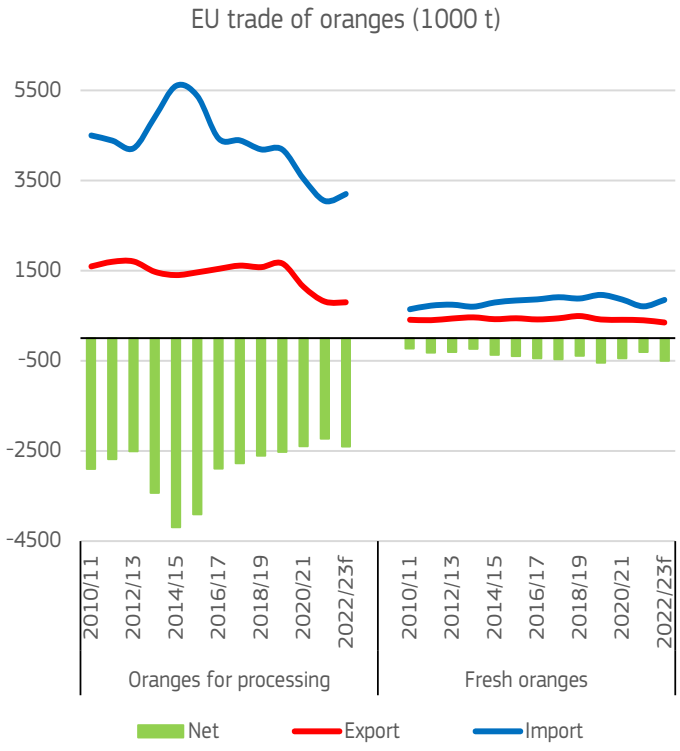
Source: DG Agriculture and Rural Development, based on Eurostat.

LOW EU PRODUCTION FORECAST FOR 2022/23

In 2022/23, EU orange production is expected to decline by 12% year-on-year to one of the lowest crop levels in the last years. It could reach 5.9 million t (7% below 5-year average). This low production is driven by a 20% drop in ES (still accounting however for more than a half of the EU production) due to an excessive rainfall during the flowering and setting phases of the fruit followed by extremely high temperatures in later stages; as well as restrictions on irrigations in some regions during the heatwave hitting the EU during over the summer.

Despite the low orange production (and resulting expected higher prices), the amount destined to fresh consumption could be relatively maintained (83% of total production) while some drop is likely to occur for the processing. In total, 4.9 million t of the EU orange production are expected to be consumed fresh (7% below 5-year average), and the remaining part (around 1 million t) could go into processing (13% below 5-year average).

EU per capita consumption of fresh oranges should go down to 12 kg (compared to 12.8 kg in 2021/22) because of the lower availability as well as a generally lower consumption expected due to the increasing inflation and worsened economic outlook.



Source: DG Agriculture and Rural Development, based on Eurostat.

REBOUND IN EU IMPORTS OF FRESH ORANGES

EU imports of fresh oranges are expected to recover to 850 000 t (+20% year-on-year, 4% below 5-year average) after the decrease experienced in 2021/22 caused by large volumes and low prices in ES, lower production and exports from Egypt as well as decrease from South Africa due to the transition in SPS requirements. The expected increase during 2022/23 campaign is based on assumption of a lower availability of the EU produce (and consequently higher prices) and the fact that now traders of South African oranges have adapted to the new SPS requirements.

On the contrary, EU exports of fresh oranges should further decrease to 350 000 t (-12% year-on-year, 17% below 5-year average) driven by a lower EU production (especially in ES) and competitions from extra-EU exports markets like UK and Switzerland.

EU imports of processed oranges (in contrast to a downward trend) are expected to increase to 3.2 million t (+5% year-on-year and 20% below 5-year average) to compensate for a low domestic production while the exports are expected to remain unchanged.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KEY MESSAGES

Reduced milk solids

constraining milk processing

-0.5%

EU milk collection in 2022

-7%

EU exports drop driven by losses in milk powders (in milk equivalent)

Stable domestic use

despite rising prices

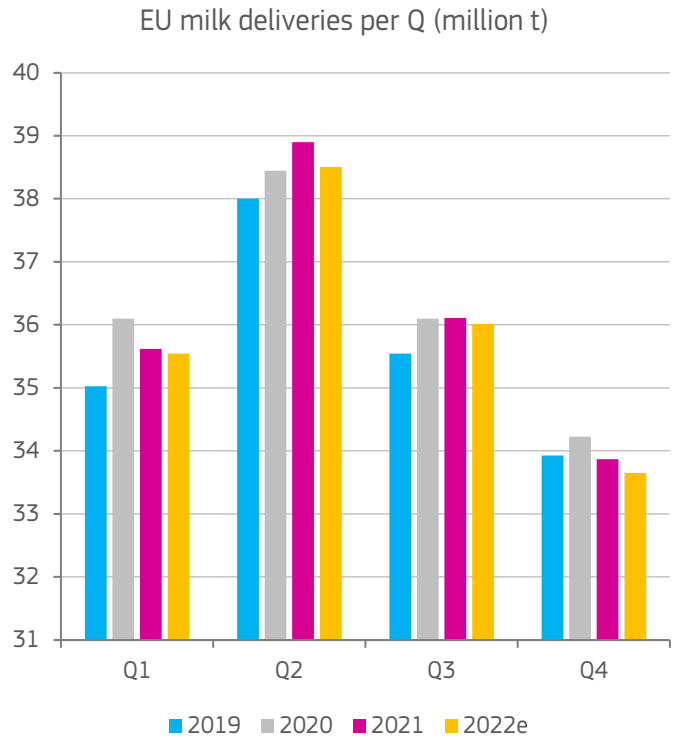
MILK AND DAIRY PRODUCTS

HIGHLIGHTS

Hot and dry weather over the summer worsened grass availability and quality, in addition to lower yields of main crops used for feed. Many farmers already used part of their winter feed in summer, leading to lower yield growth (0.4%) as well as further herd reduction (-0.9%). The milk content (both fat and protein) could be impacted also negatively, thus worsening the milk processing outlook even more. Among all dairy products, only EU cream production could grow, absorbing a large part of the fat availability. Anticipation of even higher processing costs of drying milk powders could likely cover for some current shortages for butter, but the production is expected to drop. EU cheese production could again become a preferred option, driven by a high price, while both exports and domestic use remain stable. The competitiveness of EU milk powders is suffering from prevailing high prices, hampering exports and therefore preventing production growth despite a positive growth of whey and SMP domestic use.

In 2023, the start of the year could remain challenging for farmers when coping with high input costs, and a likely weaker demand. Assuming normal weather conditions, it is expected that the yield growth could be slightly higher (0.6%) and could compensate for further dairy herd reduction (-0.8%). As a result, EU milk collection could drop modestly by 0.2%.

MILK

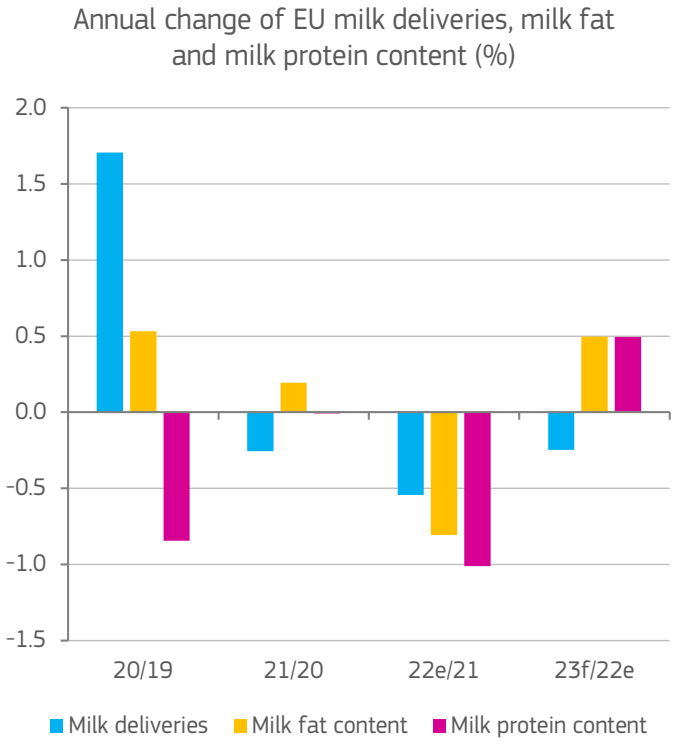


Source: DG Agriculture and Rural Development, based on MS notifications.

2022 EU MILK COLLECTION GROWTH NEGATIVE

Over the summer, hot and dry weather contributed to a lower biomass formation, resulting both in lower grass availability and quality. Among the biggest EU producing regions, FR, DE, Benelux and Southern Europe were impacted the most while the situation remained relatively positive in PL, IE and DK. In addition to hampered grass quality, feed crops were also impacted negatively. On some occasions, farmers already used feed to be stored for winter months, to sustain certain production levels. Also, farmers opted for anticipated slaughterings or shortening of lactation to adjust to future feed availability. Therefore, it is likely that cows' slaughterings further grow in addition to Jan-Jun developments (+23% in ES, 20% in IE, 13% IT, 5% PL).

Hot and dry weather created a considerable stress for cows, leading to a lower fertility rate, as well as lower productivity. Thus, the yield growth is expected to remain below 2021 (0.4%), and the dairy herd reduction could be the same as anticipated previously. While some production recovered in July, the downward trend is likely to stay, and therefore Q3 and Q4 milk production could remain negative (-0.3% and -0.6% respectively), resulting in an annual EU milk collection decline of 0.5%. Some growth is likely to occur in PL (+2%) and DK (+0.5%), while IT and NL could sustain the production level of 2021. However, this would not compensate for production losses in FR and DE, and to a lower extent in IE.



Source: DG Agriculture and Rural Development based on Eurostat.

NO EU MILK PRODUCTION RECOVERY IN 2023

Feed quality and availability and the heat body stress impacted negatively also milk fat and protein content. In Jan-Jul, they recorded even stronger drops than the production (-1.2% in both cases, while EU milk deliveries dropped by 0.5%). This implies a lower availability of milk solids for processing, and thus contributing to an already worsened dairy production outlook.

With the further expected decline of EU milk deliveries, milk fat and protein availability will continue declining, even more if certain nutrients are not provided due to the lack of their availability or not being in a satisfactory amount in the feed. Therefore, it is expected that milk fat content could drop by 0.8% while milk protein content even more (1%).

In 2023, especially the start of the year could remain challenging for many farmers when providing feed and coping with high input costs, in addition to potentially weaker consumer demand following rising food inflation. However, assuming normal weather conditions, it is expected that the yield growth could be slightly higher (+0.6%). This could to some extent compensate for further dairy herd reduction (-0.8%) which seems to be a pattern now, following structural changes in some EU countries. As a result, EU milk collection could drop by 0.2% next year.

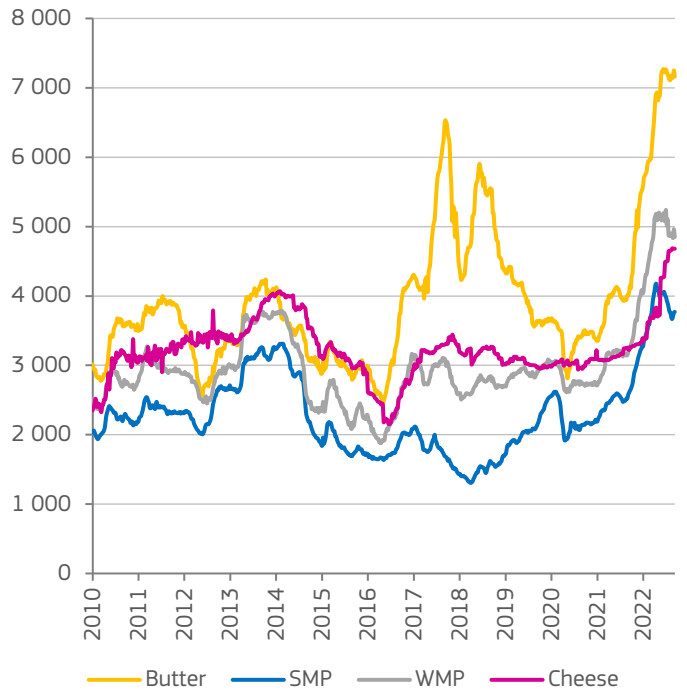
MILK

EU CHEESE PRICES ON RISE

Rising input costs, tight EU and global milk supply continue supporting raw milk and dairy prices while global dairy demand remains weaker (especially driven by lower demand of China). In case of the EU, raw milk prices have been above EUR 50/100kg since July. In August, they were 43% above previous years' levels. However, the situation differs per EU countries, and this could also shape their milk production development in upcoming months, considering the level to which producer price increases could compensate for an increase in input prices. For example, in DE the raw milk price follows the similar trend as in the EU overall while in FR, the price in August is only 20% above the same month last year.

Since the end of June, EU prices for SMP and WMP have been slowly declining but remain at a very high level, and above the level of prices of our main competitors, despite a relative advantage gained from the current euro-dollar exchange rate. High EU SMP and butter prices are expected to contribute to high EU raw milk prices. Cheese prices have increased since mid-June (by mid-September), ranging from 5% (Edam) to 10% (Emmental), and reaching more than 30% price increase since the beginning of the year. EU butter prices remain relatively stable. Only the EU price of whey powders is declining, impacted by a weaker export demand.

EU weekly dairy prices (EUR/t)



Source: DG Agriculture and Rural Development based on MS notifications.

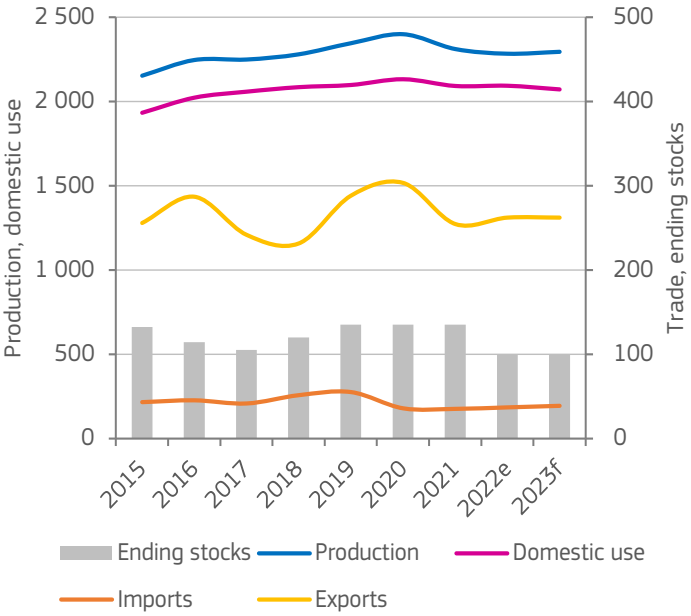
DAIRY PRODUCTS

LOWER AVAILABILITY OF BUTTER IN THE EU

The price competitiveness of EU dairy products, the cost structure of different milk processing options and reduced milk fat and protein availability shape production trends observed in dairy products. In Jan-Jul, EU cream processing grew (+1%) despite reduced fat availability, while EU cheese and butter production dropped (-1% and -2% respectively). Given the negative trend in exports, it is likely that most of the cream ended up in the domestic market. This pattern in milk fat processing likely created some tensions, especially in the butter market. Some more milk fat might be used in butter-SMP processing to cover for a butter lower supply despite continuous increasing of processing costs. Nevertheless, EU butter production could drop by around 1%, while the exports could grow (+3%). Domestic use could remain stable, also due to still high prices of vegetable oils which are preventing their substitution for butter.

In 2023, a slight increase of EU butter production could be expected (+0.5%) which could keep 2022 export volumes. If prices of vegetable oils go down with improved global situation, some drop in EU butter use could be expected as butter prices might not react as quickly.

EU butter balance sheet (1 000 t)



Source: DG Agriculture and Rural Development, based on Eurostat.

DAIRY PRODUCTS

STABLE CHEESE AND FDP EXPORTS IN 2022

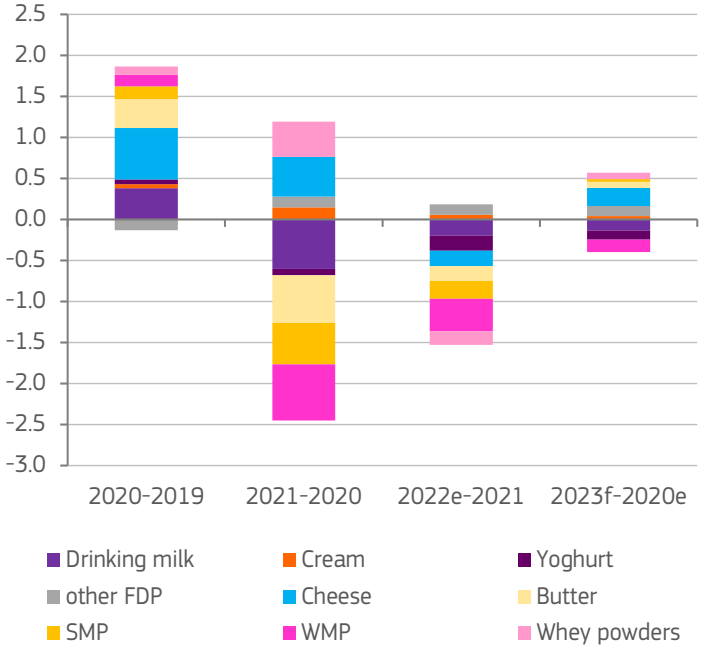
Because more milk could be channelled to butter and SMP production in upcoming months, EU cheese production might be weaker before it restarts the growth towards the end of the year, supported by high prices. As a result, EU cheese production growth could be slightly negative in 2022 (-0.5%), with stable exports and domestic use which could to some extent react to rising food inflation.

In 2023, EU cheese production could grow by around 0.6% which would support some slight recovery of exports (0.4%), while EU use may remain stable.

Among traditional dairy products, drinking milk is likely to continue its declining production trend in 2022 (-1%), but even a stronger decline could be expected in yoghurts (-2.5%). In both cases, the external demand is weak, and combined with lower cream shipments, EU FDP exports could remain stable at -best. Therefore, the reduced production would be translated to a lower EU consumption (-0.7%), returning to pre-COVID declining trends.

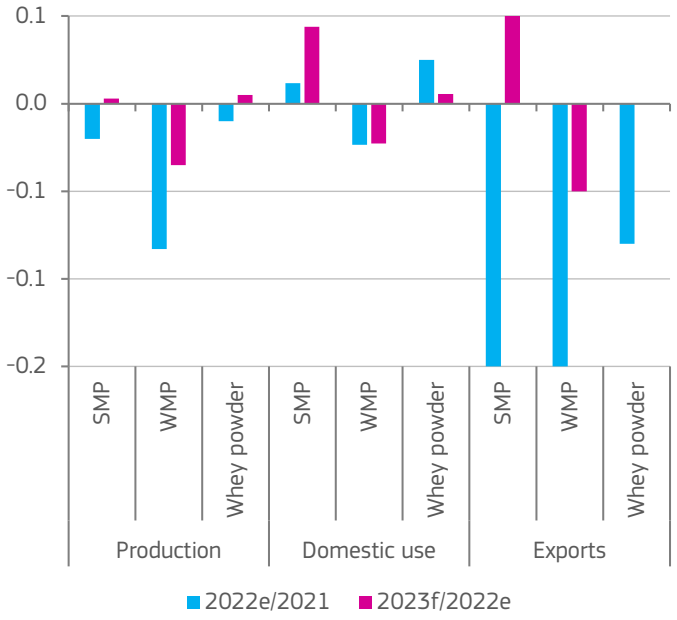
Next year, EU FDP production and consumption trends are likely to remain the same, with some recovery expected in EU exports. This could be supported by some recovery of Chinese demand, especially in foodservice.

Annual change of production of selected dairy products in the EU (million t of milk equivalent)



Source: DG Agriculture and Rural Development, based on Eurostat.

Annual change of EU production, domestic use and exports of milk powders (million t of milk equivalent)



Source: DG Agriculture and Rural Development, based on Eurostat.

LOWER EU MILK POWDER EXPORTS

Despite an initial expectation for whey powders to grow, the weaker external demand is likely to lead to a lower production in 2022 (-1%) while the cheaper price compared to other milk powders could support the domestic use growth (+2.5%). High energy cost of drying towers contributes to rising prices of SMP and WMP and this could to some extent translate into some production decline in 2022 (-2% and -8% respectively). In both cases, EU exports could drop (-15% for both) due to low EU competitiveness. At the same time, lower WMP demand from China leads to products' mix change in New Zealand (more milk into butter and SMP), and so creates further constraints for EU exports. In case of SMP, domestic use could grow slightly, and as the exports might remain week, stocks might increase (+60 000 t). As WMP domestic processing (into confectionery for exports in particular) remains weak, a decline of around 2 % is expected.

In 2023, some slight recovery of EU whey and SMP production is expected. In case of the former, the growth (0.5%) could support the further increasing domestic use (0.6%) while exports are likely to remain stable. The growth of SMP production could provide availability for higher exports (+5%) and increasing domestic use (+4%), assuming some price relaxation. EU WMP market could remain negatively impacted overall by a lower competitiveness.

KEY MESSAGES

-0.6%

EU beef production in 2022

-5%

EU pigmeat production in 2022

+27%

poultry price Jan-mid-Sep 2022 year-on-year

+10%

EU sheep imports on the rise

MEAT PRODUCTS

HIGHLIGHTS

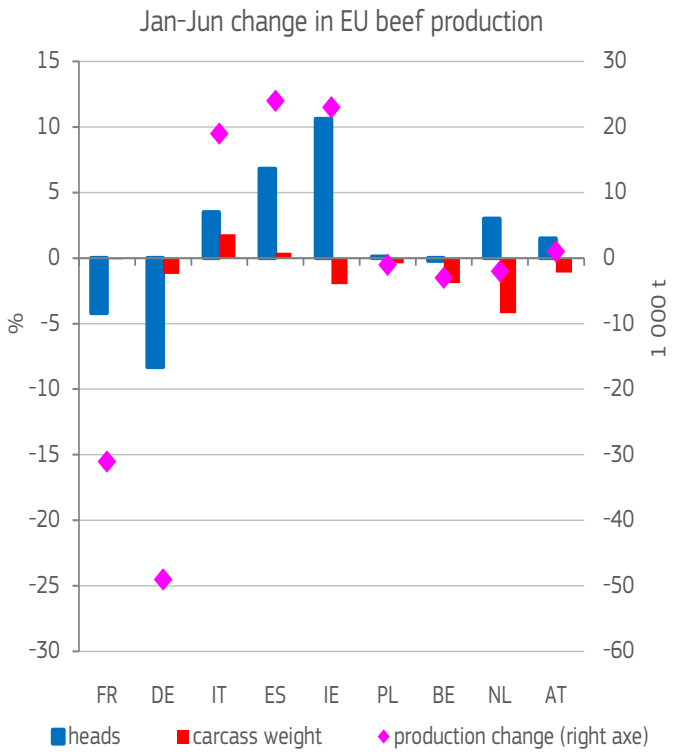
EU beef production is expected to decrease by 0.6% in 2022, due mainly to a structural adjustment in the beef and dairy sector, despite high beef prices. EU exports should decrease by 1%, due to record-high domestic prices and despite good export prospects to some existing high-value markets. EU imports from the UK and Brazil are on the rise.

Sustained high feed costs as well as African Swine Fever (ASF) continue preventing EU pigmeat production growth. While China is resuming pre-ASF import levels, some EU pigmeat exports find their way to the UK and other overseas destinations, despite high EU pigmeat prices.

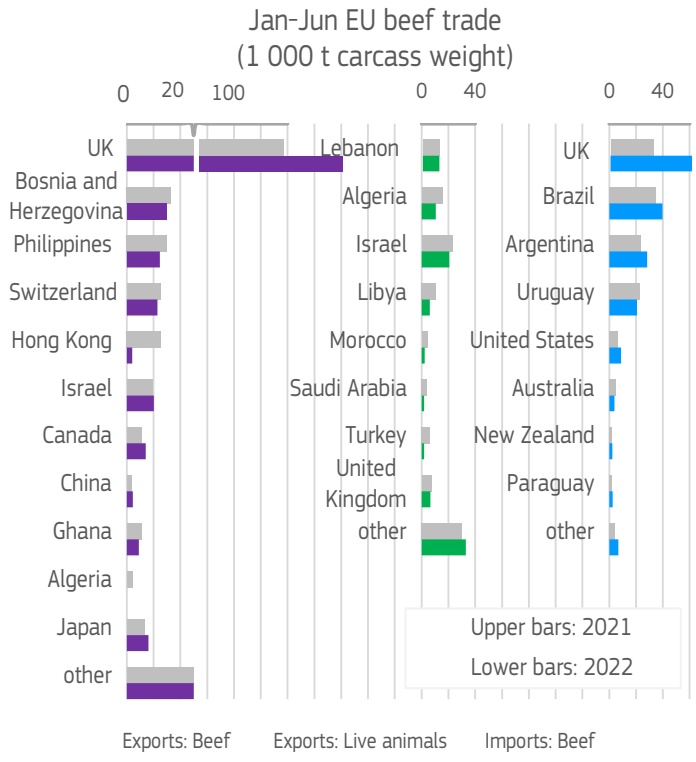
EU poultry production growth continues to be limited by high input prices – especially feed and energy – and Highly Pathogenic Avian Influenza. In addition, very high EU poultry prices means relatively less competitive exports. On the other hand, the suspension of duties on products coming from Ukraine favours poultry imports.

Despite the historical low EU sheep and goat flock, slaughterings are not expected to go down in 2022 but large differences among EU countries exist. EU imports should resume in 2022 by 10% and another 4% next year, still below pre-COVID levels, leading to sustained high domestic prices. Trade should further resume in 2023.

BEEF AND VEAL



Source: DG Agriculture and Rural Development, based on MS notifications.



Source: DG Agriculture and Rural Development, based on Eurostat.

EU BEEF PRICES STAY AT RECORD LEVEL

The strong EU beef price increase, that started already half-way 2021, reached in May 2022 a level of almost EUR 500/100kg and continued at this high level during the next four months. This is more than EUR 100 higher compared to the average price in previous years.

In Jan-Jun, EU beef production declined by 0.6% year--on--year. The number of animals slaughtered increased by 0.4% but this was overtaken by a decrease of 1% on average in carcass weight. This could indicate a partly anticipation of slaughterings of the second half of 2022 to the first half. This aggregated decline though hides different dynamics among EU countries. FR and DE show clearly the effect of the decline in cow numbers over the years, resulting in a lower potential to slaughter animals. On the contrary, IT, ES and IE saw their cow numbers upward in the last years and can therefore slaughter more animals.

Continuing high feed prices and lower availability of forage may lead to additional slaughterings by the end of the year, similar to the high level in the second half of 2021. Therefore, overall production is expected to continue the declining path in 2022 by 0.6% and stabilise in 2023 if feed availability turns back to normal levels.

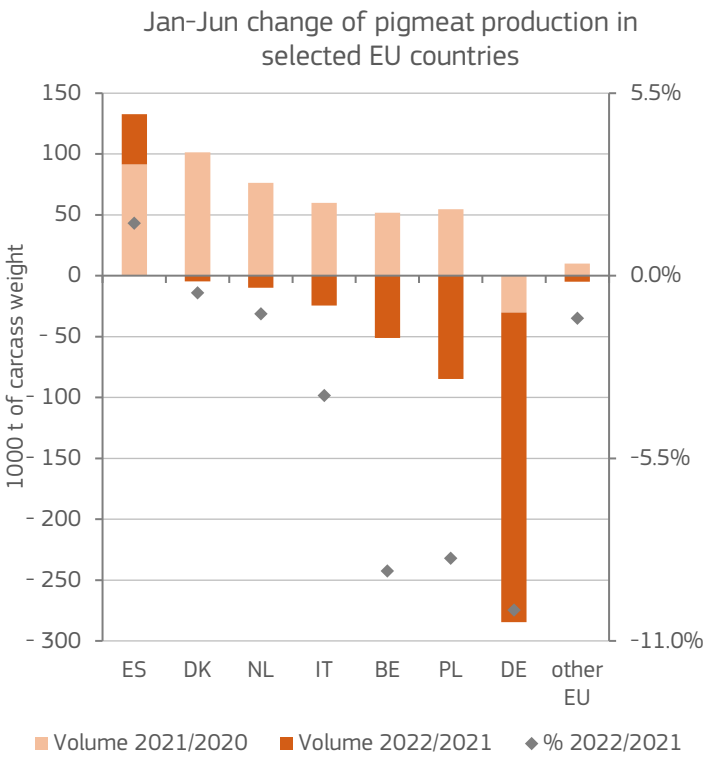
EXPORTS TO HIGH-VALUE MARKETS IMPROVE, WHILE IMPORTS FROM THE UK ALMOST DOUBLE

In Jan-Jun, EU beef exports decreased by -2.4%[2] compared to the same period in 2021. EU shipments to certain high-value markets such as Canada (+28% in Jan-Jun), Japan (+22%) and UK (+18%) are doing very well despite the high EU prices. Other destinations such as Israel are also growing while Bosnia-Herzegovina (-10%), the Philippines (-18%) and Switzerland (-10%) are showing negative trends. Exports to Hong Kong are cut back by 84%, which started already before the price surge in the EU. For the whole year, EU beef exports are expected to decrease by 1%, constrained by limited domestic availability and the continuation of relatively high domestic prices and only slightly coming back in 2023.

EU live exports declined by 16% in the period Jan-Jun 2022. Live trade with almost all major partners turned to red (Israel) or became even more red (Libya, Algeria, Morocco, Turkey). On the other hand, shipments to Jordan and newcomer Egypt are evolving positively. Overall, a decline of 15% is foreseen in 2022, depending on the level of the beef price. In the first half of 2022, the EU imported 32% or 42 000t more beef than in 2021, mainly driven by an almost doubling of imports from the UK. By the end of 2022, EU imports are expected to recover by 25% (after two years of lower imports) due to the reopening of foodservices in the EU, a faster recovery of exports by the UK and Brazil, and additional imports from Argentina.

[2] *Export data for June 2022 to UK were adjusted*

PIGMEAT



Source: DG Agriculture and Rural Development, based on Eurostat.

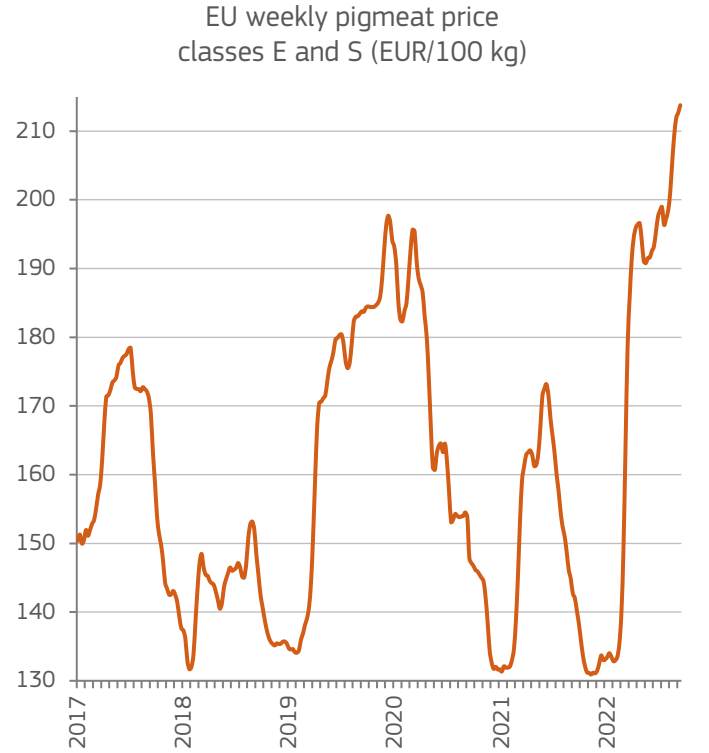
SUSTAINED HIGH FEED COSTS AND AFRICAN SWINE FEVER TO PUSH PRODUCTION DOWN

EU pigmeat production is due to decrease by 5% in 2022. Among EU countries, DE, PL, BE, RO and IT are the most impacted, NL and FR to a lesser extent. African Swine Fever (ASF) is still taking a heavy toll on DE production (-10% in Jan-Jun 2022 year-on-year). Moreover, ES production growth (+1.6%) does not seem as strong as in 2021 (+3.7%).

Given the odds that input prices stay high in 2023 and that ASF continues triggering strong responses in affected countries, the EU pigmeat production is expected to decrease further slightly, by another 0.7%.

With high input costs, the pressure on margins is not fading away, which adds on top of an otherwise lack of attractiveness of this sector for young farmers.

EU pigmeat domestic use may decrease by 1.9% in 2022, averaging at 32.1 kg per capita. Expected to remain stable in 2023, EU domestic use would average at 32 kg per capita.



Source: DG Agriculture and Rural Development, based on Eurostat.

HIGH PRICES HAMPER COMPETITIVENESS ON WORLD MARKETS

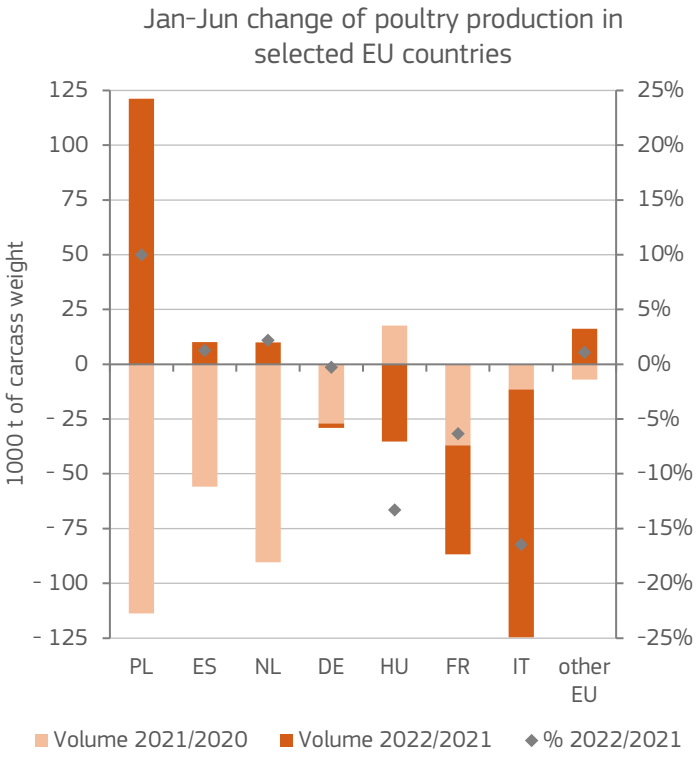
Supported by strong demand and tight supply, EU pigmeat prices continue evolving fast at record levels: during mid-Jul-mid-Sep 2022, they were 28% above 2017-2021 average, year-on-year. This makes exported EU pigmeat relatively less competitive.

EU pigmeat exports to the UK are due to continue recovering (+5.3% in Jan-May 2022 year-on-year), whereas exports to China stabilise at 2017-2018 levels (-72% in Jan-Jun). To bring domestic pigmeat prices down and ease the market, the Chinese government released some pigmeat stocks. This move is not likely to mitigate the sharp reduction in EU exports to China.

EU pigmeat exports are being diverted to other destinations like Japan (+45% in Jan-Jun), the Philippines (+40%), the US (+35%) and Australia (+66%). Overall, EU pigmeat exports may decrease by 17% in 2022 and 3% in 2023.

EU pigmeat imports from the UK have not yet fully recovered: assuming a 30% increase in 2022, they would still be 29% below 2017-2019 average. Overall, EU pigmeat imports are expected to increase by 27% in 2022 and 17% in 2023.

POULTRY



Source: DG Agriculture and Rural Development, based on Eurostat.

2022 PRODUCTION TO DECREASE AMID HIGH INPUT COSTS AND AVIAN INFLUENZA

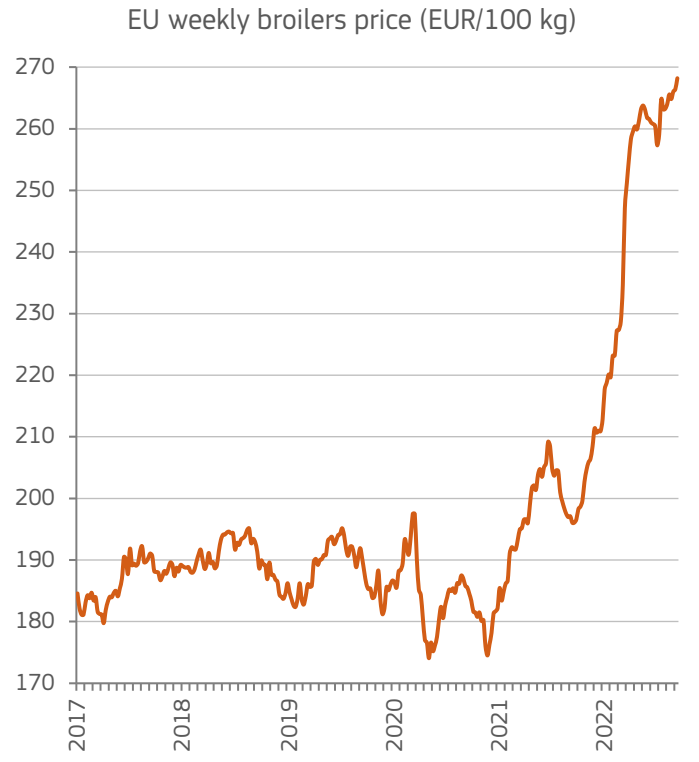
EU poultry production is supported by the relative affordability of this meat – especially in times of high inflation, as well as by the relaxation of COVID-19-related measures – effectively unleashing demand from foodservice. Despite relatively good demand, only moderate growth is expected in major producing EU countries, due to high input costs: PL, ES and DE (together +4.6% in Jan-Jun 2022 year-on-year).

Highly Pathogenic Avian Influenza (HPAI) has had devastating effects on the sector in some other EU countries, where the production is expected to decrease severely, especially IT, FR and HU (together -11%).

The sector heavily depends on maize as a source of feed, with a poor 2022 harvest but availability of volumes to be imported from Ukraine.

Overall, the EU poultry production is due to drop slightly by 0.9% in 2022 and 0.4% in 2023.

EU poultry domestic use is expected to increase slightly in 2022, by 1.1%: it is likely to remain stable at 23.4 kg per capita. In 2023, EU domestic use may remain stable, averaging at 23.3 kg per capita.



Source: DG Agriculture and Rural Development, based on MS notifications

DUE TO HIGH PRICES EU POULTRY EXPORTS STRUGGLE

The combination of strong demand, tight supply, high input costs and overall inflation have been leading to strikingly high poultry prices, well above 2017-2021 average (+38% in mid-Jul-mid-Sep, year-on-year).

EU poultry exports to the UK are due to increase by 20% in 2022 (4% above 2017-2019 average). On the other hand, high EU prices help competitors like Brazil gain some EU market shares, especially in Africa and in Asia.

Overall, EU poultry exports are expected to decrease by 2.2% in 2022 and remain almost stable in 2023.

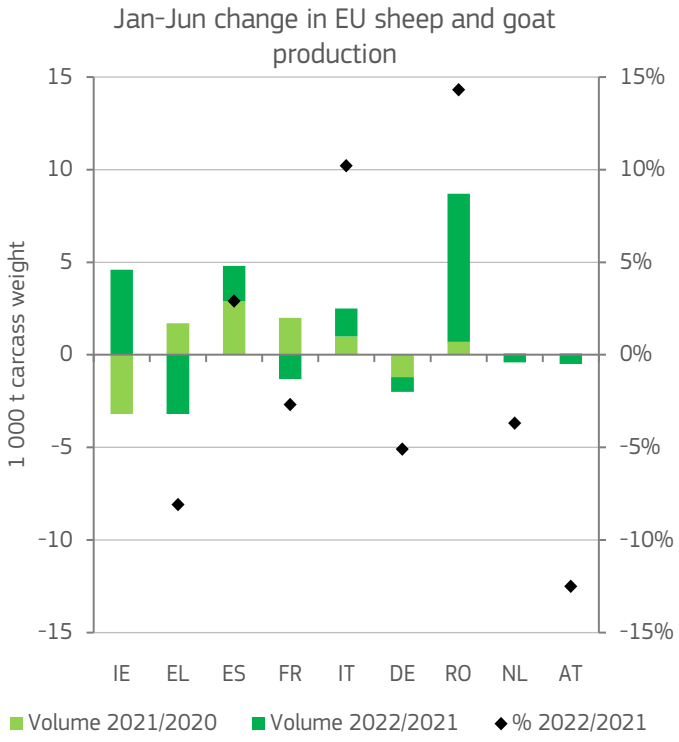
This shift of destinations makes the divide between volumes and value traded wider, due to different preferences amongst EU partners, the UK importing more valuable cuts.

Highly competitive Brazil is expected to export to the EU 35% more poultry in 2022. Imports from the UK fluctuated in the recent months and may increase by 10% (15% below 2017-2019 average). Benefitting from a suspension of duties, Ukraine is already exporting to the EU higher volumes than in 2021 and that trend is set to continue until the first half of 2023.

Overall, EU poultry imports are expected to increase by 29% in 2022 and 7.7% in 2023.

SHEEP/GOAT MEAT

STABLE SHEEP AND GOAT MEAT PRODUCTION

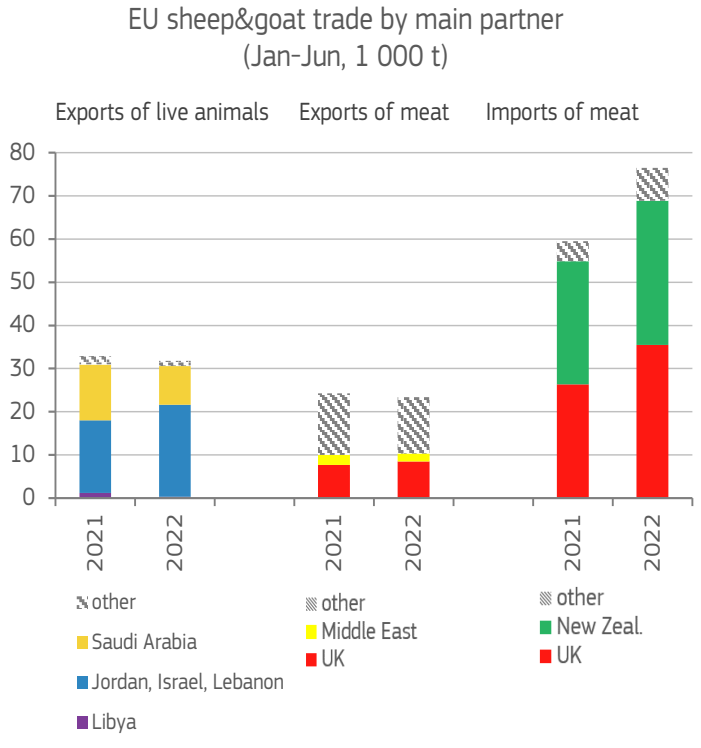


Source: DG Agriculture and Rural Development, based on Eurostat

EU heavy lamb prices in 2022 remain at unprecedented high levels, fluctuating between EUR 700 and EUR 750/100 kg. After the decline in the beginning of the year, prices reached again record levels during Easter until the beginning of July, followed by a slight decline. The main reason for this high price level is the low domestic supply against a sustained demand in the EU.

In the period Jan-Jun 2022, EU sheep and goat slaughterings were up 2.7% year-on-year, despite a decreasing flock. This increase is mainly driven by IR and RO (lamb slaughterings in April).

The substantial reduction of the flock over the years limits production increases in certain EU countries, despite favourable prices. On the other hand, high feed prices and lower availability of forage may favour some additional slaughterings and lighter slaughter weights. Overall, a slowdown in slaughterings is expected in the second half of 2022, resulting in a small production increase of 0.5% by the end of 2022, which is likely to contribute to sustained high domestic prices.



Source: DG Agriculture and Rural Development, based on Eurostat.

HIGH DOMESTIC PRICES LIMIT EXPORTS IN 2022

EU sheep meat exports decreased by 3.7% in the first half of 2022 compared to the same period last year. A shortage in domestic supply, continuing trade frictions with the UK and relatively high EU prices are expected to push exports 3% downward in 2022 and stabilise at lower level in 2023.

EU exports of live animals decreased in the same period by -3.4%. All main destinations are recording decreases, except Jordan and Israel, the latter confirming its position as a new outlet for live exports. RO is expected to further redirect part of its excess live animals to EL and BG due to the very remunerating prices instead of exporting them to non-EU countries. Overall, exports of live animals are set to decline by 5% in 2022 due to high domestic prices and the difficult transport situation through the Black Sea.

EU imports of sheep meat continued increasing in Q2 2022 and registered in total 28% more imports in the first half of 2022. Shipments from the UK to the EU recorded a recovery of 34%, while imports from New Zealand also increased momentum by 17% (or + 4 875 t) despite the high shipping costs and the close-by Asian markets. Assuming no change in trade frictions with the UK, EU imports could reach 10% increase this year and an additional 4% next year.

METHODOLOGY

This outlook takes into account the most recent macroeconomic information and the domestic and international market developments and expectations. Data is subject to retrospective review.

The balance sheets refer to six calendar years for meat and dairy and six marketing years for crops and fruit and vegetables.

SOURCES

- DG Economic and Financial Affairs, European Economic Forecast[1]
- Eurosystem staff macroeconomic projections for the euro area[2]
- IHS Markit
  - DataInsight database
  - Commodity Price Watch
- World Bank, Commodity Markets[3]
- Nord Stream network data[4]
- Freightos,[5] global container freight rate index, cited by Statista[6]
- Baltic dry index,[7] cited by Statista[8]
- Eurostat
  - Agricultural production yearly for historical data and monthly data for previous and current year for meat and dairy production
  - Farm livestock survey
  - Gross Indigenous Production (GIP) forecast for meat
  - Early estimates for crop products
- Comext database (extra and intra-EU trade statistics)

  Due to some inconsistencies in intra-EU trade reporting, intra-trade is based on export figures only, i.e. imports of France are calculated as extra-EU imports plus exports of EU partners to France. This with the exception of the UK that still remains in the intra-EU trade reporting, even though it is not part anymore of the EU since February 2020 and therefore included in extra-EU trade figures. For trade with the UK, only the declaration of the Member States is considered, both imports and exports.
- Global Trade Atlas (GTA, global trade statistics, including UK trade)
- Weekly commodity prices communicated to DG Agriculture and Rural Development by the Member States.

Macroeconomic forecast is based on sources provided by the European Central Bank, with additional insights from IHS Markit.

Production forecast for current and next year is based, depending on the sector, on Eurostat monthly data, official estimates of ministries, national statistical institutes, national or European organisations, MS notifications to DG Agriculture and Rural Development and on the Crop Monitoring and Yield Forecasting projections (JRC MARS AGRI4CAST[9]) in the case of cereals; on expert forecasts for Gross Indigenous Production (in heads) sent by Member States (MS) to Eurostat in the case of meat; on monthly milk deliveries for dairy. The estimated and forecasted external trade figures are derived from the latest monthly data available by applying trends and annual profiles as well as from trade licences and import quotas, when applicable.

As Brexit took place on 31 January 2020, market outlooks reflect the current EU-27 composition for the whole reporting period. This is valid for all markets except sugar for which EU-27 balance sheets are produced only from 2019/2020 not to disclose confidential information on UK sugar stocks.

Following the conclusion of the EU-UK Trade and Co-operation Agreement in December 2020, forecasts for 2022 calendar year assume duty-free/quota-free trade between the two.

Trade forecast is based on latest data available until 15th of the month preceding the publication date.

Although the UK is considered a third country partner of the EU since January 2021, EU countries continue reporting trade flows to/from the Northern Ireland in INTRASTAT database while flows to/from Great Britain are reported in the database for extra-EU partners. However, the UK figures are consolidated with a delay to reflect reporting for Northern Ireland (70 days instead of 45).

[1] https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/spring-2022-economic-forecast_en

[2] https://www.ecb.europa.eu/pub/projections/html/ecb.projections202206_eurosystemstaff~2299e41f1e.en.html

[3] https://www.worldbank.org/en/research/commodity-markets

[4] https://www.nord-stream.info/

[5] Freightos compiles the Global Container Freight Rate Index on the basis of real-time business data. It represents a market rate for freight for any given shipping lane for a 40' container. https://www.freightos.com/

[6] https://www.statista.com/statistics/1250636/global-container-freight-index/

[7] The Baltic Dry Index is reported daily by the Baltic Exchange in London. The index provides a benchmark for the price of moving the major raw materials by sea. https://balticexchange.com/en/data-services/market-information0/dry-services.html

[8] https://www.statista.com/statistics/1035941/baltic-dry-index/

[9] http://mars.jrc.ec.europa.eu/mars/About-us/AGRI4CAST/Crop-Monitoring-and-Yield-Forecasting

Because of this delay in EU trade data completeness, the period covered by trade data might differ from the period for which monthly production data is available (usually 45 days after the end of month, depending on the source). However, some individual data for other extra-EU partners might already be available as described above.

Price transmission along the food chain: main data source for individual indices is Eurostat (Food price monitoring tool). However, EU farmer price indices are not available before January 2015. Before this date, the monthly change is estimated based on Member States data weighted by their share in the agricultural output. Latest Eurostat monthly indices for EU farmer prices are available in June 2021. Since this date, the index is estimated based on cereals, sugar, milk, meat, tomatoes and apples monthly prices weighted by annual production (updated by the latest edition of short-term outlook: https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/markets/outlook/short-term_en).

ARABLE CROPS

Crop areas

For MS in which data is not yet available, a percentage variation is estimated on the basis of those MS which communicated data or area is estimated through the trimmed average of the last five marketing years or assuming no changes compared to the previous year.

Yields

MS estimates or AGRI4CAST projections are used if available. If these data are not available, preferably the yield trend over the 12 last years is retained, otherwise the trimmed average of the last five marketing years is used.

Trade

Cereal trade figures include cereals as such, plus flour and groats (in cereal equivalent). In the former editions of the Short-term Outlook, maize trade included additional processed products. This has been revised backward and the balance is closed via an adjustment of the processing demand.

Balance sheets

They are based on a marketing year starting with the harvest: July/June for cereals and Oct/Sept for sugar. Thus, area, yield and production figures of crops refer to the year of harvest.

Cereals

Human consumption, seed use and other industrial use is based on historic relations regarding population and planted area in the relevant marketing year. Feed use is based on calculations. Forecast is based on information about the ethanol production development. Stocks are closing the balance for cereals[10]. Intervention stocks equal official figures of the Directorate-General for Agriculture and Rural Development for the past and estimates based on past experience for the current marketing year, if applicable.

Oilseeds

The balance sheets include rape, soya beans and sunflower seed meal and oil, plus palm oil. Stock data represent own estimates based on expert judgement and market information. Thus, the balances close on the domestic use. A coefficient is used to determine the share of oilseeds used in the crushing industry. These crushing coefficients range from 94% to 98% for rapeseed, 89-91% for soya beans and 85-89% for sunflower seed. The balance sheets are interlinked, as oilseeds are crushed into meals and oils on the basis of processing coefficients, used to determine the percentage of meals and oils obtained from oilseeds in the crushing process. These processing coefficients equal 57% for rape meal, 79% for soya bean meal and 55% for sunflower meal and 41% for rape oil, 20% for soya bean oil and 42% for sunflower oil.

Sugar

For sugar beet area, yield and production, the procedure is similar to the other arable crops. It includes sugar beets for sugar production and for ethanol production. The balance sheet includes only sugar beet production processed into sugar[11] and white sugar. The link with white sugar production is made through the white sugar production as notified under the Common Market Organisation (CMO) for sugar. The presented balances do only consider sugar expressed in white sugar equivalent (e.g. no isoglucose) and take into account sugar beet production outside of the quota (up to 2016/17). Trade of products containing sugar is reported under net exports in processed products under domestic uses of white sugar. These are estimated by applying conversion coefficients to trade volumes of over 400 processed food products. Industrial and biofuel use is based on historical data and projections based on information about ethanol production development. Stocks are taken from Member States notifications when they become available and therefore the balance closes over human consumption. When Member State information on stocks is not yet available for the projections, they are closing the balance. The reported stocks include carry-forward sugar (up to 2016/17).

For confidentiality reasons with regard to Member States notifications on stocks, EU+UK sugar balances are presented in this report up to 2019/20. For the same reason, only change in EU stocks is presented for 2020/21.

Isoglucose

Production and stocks data originate from MS notifications under the Common Market Organisation (CMO) when they

[10] For all crops this refers to a situation as of end-June, which may differ from other balances, e.g. IGC for maize, USDA for corn.

[11] Sugar beet production processed directly into ethanol is not accounted for in the white sugar production.

become available. The balance closes over consumption. 2019/20 estimates and 2020/21 forecast are based on trends and experts' judgment.

Biodiesel

The balance sheet is based on calendar year. Production data comes from Eurostat. Data covers production from various feedstocks, including vegetable oils, used cooking oils, animal fats and waste (e.g. tall oil). Consumption includes fuel use data from Eurostat and own estimates of biodiesel for other uses. Trade figures include trade of pure biodiesel as well as biodiesel in blends. Biodiesel traded in blends is estimated using blending coefficients. Stock data is not available and therefore changes in stocks are presented as closing variable. Estimates and forecast are based on trends and experts' judgment.

Ethanol

The balance sheet is based on calendar year. Production and consumption data is taken from MS notifications. To these data, an estimate is added for ethanol produced from non-agricultural waste directed to fuel use. Production data covers production from various feedstocks, including cereals, sugar (beet) and molasses, other agricultural feedstocks (e.g. wine and potatoes) and (non-)agricultural residues and waste (e.g. straw). Consumption includes fuel use, use for food and beverages, and industrial and other use. Trade data covers undenatured and denatured ethyl alcohol, applying a conversion coefficient to pure alcohol of 92%, and excludes trade in blends. Stocks are the closing variable. 2019 estimates and 2020 forecast are based on trends and experts' judgment.

SPECIALISED CROPS

Olive oil

The balance sheet is based on a campaign starting with the harvest: October/September.

Production estimates present MS notifications for an ongoing campaign. Exports and imports are based on seasonal trends and trends observed in previous years in main export destinations. Consumption estimates take into account different trends in main producing countries (Spain, Italy, Greece and Portugal) and the rest of the EU. In the former, the link between a variation of annual production and consumption change is taken into account. The balance closes on ending stocks.

Wine

The balance sheet is based on a campaign from August to July.

The forecast of vinified production is based on MS notifications for an ongoing campaign. An estimate of the vinified production used for 'other uses' is based on total vinified production as well as the consumer demand for products such as vermouth, cleaning products etc.

Exports and imports are based on trends and market expertise.

Consumption estimates take into account different trends in main consuming countries (Spain, Italy, France and Germany) and the rest of the EU. The balance closes on ending stocks.

Apples

The balance sheet is based on marketing year starting with the harvest: August/July. It includes apples both for fresh consumption and for processing.

The forecast of total apple production is based on forecasts of national or European sectoral organisations. These data, as well as last years' production and consumption, are used to estimate use of apples for processing.

When MS information on stocks is available via World Apple and Pear Association (WAPA), the balance closes on consumption.

Exports and imports are based on seasonal trends and trends observed in previous years in main export destinations. Trade of processed apples is expressed in fresh apple equivalent. The conversion coefficients used to convert processed products into fresh apple weight rates vary between 1.3 and 6[12].

Tomatoes

The balance sheet is based on a calendar year It includes tomatoes both for fresh consumption and for processing.

The total production of tomatoes consists of the production of 'tomatoes for fresh consumption' and the production of 'tomatoes for processing'. Eurostat is used for the production of fresh tomatoes and World Tomato Processing Council figures for the production of tomatoes for processing.

The production forecast for fresh tomatoes is based on trends and market expertise. The forecast for tomatoes for processing is based on forecasts from the World Tomato Processing Council.

Trade of processed tomatoes is expressed in fresh tomato equivalent. Conversion coefficients used to convert processed products into fresh tomato weights vary between 1.13 and.19.5[13].

Trade projections are based on production, consumption estimates and trends observed in previous years in main export destinations.

Stocks of both fresh and processed tomatoes are assumed to be zero. Consumption is calculated as a residual. This implies that stock changes are included in consumption figures.

Peaches and Nectarines

The balance sheet is based on a calendar year. It includes peaches and nectarines both for fresh consumption and for processing.

[12] Conversion coefficients are laid down in Working Document 'Handbook for compiling supply balance sheets – fruits (ESTAT/ASA/PE/641rev3_WPM)

[13] Conversion coefficients are laid down in Working Document 'Handbook for compiling supply balance sheets – vegetables (ESTAT/ASA/PE/640rev3_WPM)

Historical data are based on Eurostat. The total production of peaches and nectarines adds up the production of 'peaches' and the production of 'nectarines'. The production of peaches and nectarines for fresh consumption is calculated as the total production of peaches and nectarines minus peaches for processing.

The production forecast is based on estimated production changes by Europeche and applied to the Eurostat data.

Trade of processed peaches is expressed in fresh peach equivalent (conversion coefficient is 1 for all processed products, but 6 for dried peaches and nectarines). Projections are based on information about production and trends in consumption as well as trends in main export destinations.

Stocks of fresh peaches are assumed zero. Consumption is calculated as a residual.

Oranges

The balance sheet is based on a campaign starting with the harvest: October/September. The balance sheet includes fresh oranges and processed oranges (mainly juice and jams) and is expressed in fresh equivalent.

Area, yield and production data comes from Eurostat. Own estimates are used for oranges produced for processing. Trade of processed oranges is estimated using conversion coefficients into fresh equivalent[14]. No stock data is currently available. The balance closes over apparent consumption. Forecast is based on trends and experts' judgment.

MEAT

The meat balance sheets cover the beef, pig, poultry, sheep and goat meat categories. Trade data is divided into live animals and meat products ('fresh and chilled', 'frozen', 'salted' and 'prepared'). The offal and fat categories are excluded (with the exception of pork lard). All data is expressed in carcass weight equivalent unless specified otherwise[15].

Production forecast for the year 2022 is based on annual and monthly data on slaughtering, Member States expert forecast, on the trends in livestock numbers and meat consumption patterns. Net production refers to data on slaughtering taking place in the registered slaughterhouses as well as in other establishments. The other slaughterings are subject to constant reviews; therefore, data on the net production might be sensitive to these changes. GIP is calculated as net production plus live exports minus live imports. Consumption is calculated as a residual, i.e. sum of production plus imports less exports plus stock change.

[14] Conversion coefficients are laid down in Working Document 'Handbook for compiling supply balance sheets – vegetables (ESTAT/ASA/PE/640rev3_WPM)

[15] Carcasses of bovine animals, pigs, sheep, goats and poultry are defined at point 3 ('carcass weight' at point 4) of Annex I of Regulation (EC) No 1165/2008 concerning livestock and meat statistics. For more details as regards the conversion coefficients of product weight into carcass weight equivalent please refer to the Eurostat document ASA/TE/F/655.

MILK AND DAIRY PRODUCTS

The commodity balance sheets cover production of dairy products taking place in dairy processing plants and so far do not include on-farm production.

Total EU production of dairy products and in particular for SMP and WMP is estimated, where necessary since the concentration in the dairy processing industry has resulted in an increasing number of Member States not publishing their (monthly) production statistics due to confidentiality.

Dairy products production for year 2021 is based on Eurostat annual statistics, estimates for 2022 are based on the available monthly statistics, taking into account the country coverage and sample characteristics (therefore not fully comparable to reported monthly figures by Eurostat, and based on the comparison of trends between annual and monthly databases in past). Forecast for 2023 is based on current market developments, price expectations, the trends stemming from the medium-term projections and on consumption patterns. Assumptions are made on the dairy herd and cow milk yield, milk demand for direct sales, feed and on-farm use, and milk fat and protein content developments.

Milk uses for dairy products are balanced with availabilities of total milk fat and proteins through a 'residual approach'.

2023 market forecast is first made for milk deliveries and the production of dairy products. The forecast production figures are then converted into protein and fat equivalents and subtracted from the available dairy fat and protein of the milk delivered. In the dairy products balances, consumption is calculated as a residual, i.e. sum of production plus imports less exports plus stock change. Knowledge of private (commercial) stocks and consumption levels is incomplete or lacking for most dairy products. The developments in domestic use may hide considerable changes in private (industry/trade) stocks.

Trade is expressed in milk equivalent using the total solid methodology accounting for the non-fat and protein components of milk such as lactose. As a consequence, the milk coefficient of cheese (composed of fat and protein only) is lower with this methodology (3.58) than when accounting for fat and protein only (5.97). The other coefficients used are: 6.57 for butter, 7.57 for SMP, 7.56 for WMP, 7.48 for whey powder, 0.85 for drinking milk, 3.21 for cream and 0.98 for yogurts.

In the case of butter, trade flows under inward and outward processing are extracted from trade figures in the butter balance sheet. As those regimes are not reported for flows to/from UK, for imports under inward processing a coefficient of 30% is applied for EU imports from the UK and a coefficient of 20% for EU exports to the UK to account for outward processing. Those values are then extracted from the EU trade flows. This methodology might change when the respective regimes will start to be reported.

DATA

Balance sheets for the EU and production figures at Member State level are available on Europa:
https://ec.europa.eu/info/food-farming-fisheries/farming facts-and-figures/markets/outlook/short-term_en

ABBREVIATIONS

ASF	african swine fever
AT	Austria
bbl	barrel (approximately 159 litres)
BE	Belgium
BG	Bulgaria
BSE	bovine spongiform encephalopathy
CAP	Common Agricultural Policy
CY	Cyprus
CZ	Czechia
DE	Germany
DK	Denmark
ECB	European Central Bank
ECDC	European Centre for Disease Prevention and Control
EE	Estonia
EL	Greece
ES	Spain
EU	European Union
EUR	euro
EVOO	extra virgin olive oil
FDP	fresh dairy products
FI	Finland
FMD	foot-and-mouth disease
FR	France
GDP	gross domestic product
GIP	gross indigenous production
GM	genetically modified
HPAI	highly pathogenic avian influenza
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MMBtu	million British thermal units (approximately 293.1 kilowatt hours)
MS	member states
MT	Malta
NL	Netherlands
PL	Poland
pp	percentage point
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
SMP	skimmed milk powder
SPS	sanitary and phytosanitary measures
STO	short term outlook
TTF	Title Transfer Facility
UK	United Kingdom
US	United States
USD	US dollar
VAT	value-added tax
WB	World Bank
WMP	whole milk powder
WOAH	World Organisation for Animal Health (founded as OIE)

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