Spain: Primary Production (Non-Dairy)

Market Report

April 2021

Prepared by the New Zealand Embassy, Madrid.

Summary

- Spain's primary sector continues operating largely undisrupted and generated a record-high €35 billion in 2020. It was also one of the few sectors that avoided job cuts, ending the year with more registered workers than in 2019.
- 2020 saw mixed fortunes for the Spanish meat industry. Pork performed exceptionally well, largely on the back of strong exports mainly to China. Poultry suffered heavy losses - 20% of annual turnover - but production remained stable and the sector is highly focused on internationalization.
- Annual sheep meat production declined by 6% to 114,306t. The sector recovered somewhat over the course of the year thanks to strengthened household consumption and a solid export performance. The live sheep trade to the MENA (Mideast and North Africa) region has become an increasingly important outlet for producers and there is also growing interest in expanding exports to Asian markets.
- Beef farmers have similarly looked overseas to compensate for shrinking domestic sales including through live exports mainly to MENA countries. Work is also underway to open new markets for Spanish beef in various Asian nations.
- Management of the substantial wine surpluses generated by a combination of sluggish demand and a bumper harvest is the biggest challenge facing the sector. Spain is pushing for additional EU financial support separate from member states´ NSPs (National Wine Support Programme) and the EU´s agricultural crisis reserve fund.
- Fruit and vegetable exports saw an 8% rise in value, hitting €14.5 billion in 2020. Growing competition from third-country imports remains a major concern, since the sector is heavily dependent on the EU market. January's severe snowstorm caused significant damage in numerous inland areas that could result in shortages in some fruit and vegetable crops.
- Recent weeks have seen farming protests resume in different parts of Spain over longstanding concerns such as low food prices, rising production costs, heightened EU environmental requirements or existing trade barriers. Additional specific concerns include the potential impact of the new CAP on particular regions, a recent nationwide ban on wolf hunting, and the possible negative implications the future *Nutri-Score* labelling system could have on certain traditional agri-food products like olive oil, Iberico ham or cheese.

Report

The primary sector has been considered an "essential" industry throughout the pandemic and will retain this strategic status for as long as the state of alarm remains in place. The current emergency period declared last 25 October runs until 9 May and may be further extended depending on the evolution of the epidemiological situation. Overall, the sector continues operating with minimal disruptions, especially compared to branches like hospitality (-24%), retail trade (-26%) or construction (-16%), which suffered sharp drops in business activity in 2020. The sector generated a record-high €35 billion – 3.4% of value added, the highest figure since 2004 - and was one of the few segments that avoided job cuts, ending the year with more registered workers than in 2019.

The Ministry of Agriculture, Food and Environment has seen an 11% rise in its annual budget (€8.5bn) under the government´s new spending plans. Increased funding is envisaged for initiatives to promote digitalisation, innovation, efficient irrigation, generational replacement, and a greater presence of women in rural areas. Agriculture Minister Luis Planas recently commented: "The focus will be on boosting competitiveness and sustainability in the agriculture, fishing and agri-food industries". Priorities this year include the **final adoption of a food chain law** (some reforms were completed last year and the bill is already in parliament), securing a broad consensus on Spain´s **CAP national strategic plan** (the government wants to send Brussels a draft before summer), and **the passing of a food waste law** to reduce food losses along the production and supply chains.

Meat

2020 saw mixed fortunes for the Spanish meat industry. **Pork** performed extremely well overall, apart from specific high-end segments like Iberico products (ie cured pork) and suckling piglets, which were badly hit by restaurant and hotel closures. Annual production increased by 8% to 5 million tons. Exports reached an all-time high both in volume (3Mt) and value terms (€7.6 billion), driven largely by robust Chinese demand, responsible for 47% of total Spanish pork exports. Bans were imposed by numerous Asian nations – most notably China - on pork imports from various EU producer countries like Germany, Poland or Romania affected by African swine fever (ASF) outbreaks, but not on Spain.

Current concerns revolve mainly around preserving Spain´s ASF-free status and diversifying export markets to reduce vulnerability to country-specific shocks. The government initially downplayed the risk of the virus spreading here, but subsequently acknowledged that the German ASF outbreaks could lead to increased flows of live slaughter pigs from Germany and is now stressing the importance of implementing heightened biosecurity measures on farms, pig transport and among hunters travelling to ASF-affected areas. With some media reports suggesting a recent rise in live German pig imports, producer associations are urging operators to put an end to these "high-risk" imports. Spanish pork firms are also thinking hard about developing a stronger presence in Japan, the Philippines and South Korea to cap exposure to the Chinese market, where demand for imported pork is expected to fall as China eradicates the disease within its own borders and rebuilds swine herds.

Poultry production remained stable (+0.7%) at 1.7Mt despite a sizeable drop in sales early in the pandemic, since 25% of poultry consumption is channeled through the HRI sector. Producers managed oversupplies by adopting exceptional measures such as freezing or exporting product at lower-than-market prices. Annual losses ranged between €500-600m – approximately 20% of yearly turnover – according to industry estimates. Immediate priorities are focused primarily on internationalisation. Leading industry body Propollo recently concluded an agreement with the Spanish Trade and Investment Promotion Agency (ICEX) to boost poultry exports through different initiatives including training workshops and international promotional activities. Under the alliance, companies may use the *Poultry from Spain* quality seal when marketing products overseas and the sector will be included in ICEX´s *Foods & Wines from Spain* programme.

Meanwhile, **sheep meat and beef** struggled due to their heavier reliance on the hospitality industry. Sheep meat production closed the year at 114,306t – 6% less than 2019. Sheep farmers were hit especially hard, seeing sales dip 70% last spring while Spain was under full lockdown, but partially recovered as the year progressed on the back of increased household consumption and stronger foreign sales in EU and third-country markets. Businesses invested heavily in e-commerce and various buy-local campaigns.

As reported previously, the sector has been among the major beneficiaries of public subsidies. The government and authorities from the main producing regions have thus far provided over €15m in direct aid. This assistance is complementary to other funding available through Spain´s CAP budget and compatible with the private storage aid (PSA) support introduced by the EU Commission last April, where Spain was the only member state to tap into the scheme for sheep meat, requesting 140t. The Balearic regional government recently announced further aid (eg marketing, transportation and storage) which includes sheep breeders and other regions may consider similar measures depending on future market developments.

The **live sheep trade to the Middle East and North Africa (MENA) region** became an increasingly significant outlet for producers. Live exports reached near-record highs in 2020, as Spain exported 1.3 million live sheep from January-November. While Libya remained the principal client (30%, 385,000 head), Saudi Arabia (20%, 250,000 head) and Jordan (16%, 204,000 head) emerged as new important markets. With Spain still under varying degrees of lockdown and the HRI sector operating at limited capacity for the foreseeable future, farmers will be keen to further promote this channel as a complementary source of income.

There is likewise **strong interest in expanding sheep meat exports to Asian markets**. The main interprofessional organisation *Interovic* recently confirmed plans to initiate sales and marketing activities in Japan when conditions permit, and negotiations are reportedly underway with China to negotiate market access for Spanish sheep meat. The sector also sees attractive opportunities in Canada and the U.S., although these markets are perceived as "more complicated". We anticipate a stronger focus on this activity given its greater commercial potential and comparatively fewer health risks vis-à-vis the live trade.

Beef production declined 2.6% to 677,000t. Spain was the main beneficiary of PSA, requesting 598t for beef – nearly 30% of all EU-27 applications. However, the EU Commission suspended the scheme in July due to the small number of requests received. Under growing pressure from beef farmers, the government has since pushed hard for additional market support measures for the sector not limited solely to PSA – so far without success.

Beef producers similarly looked overseas to compensate for shrinking domestic sales including through live exports mainly to MENA countries. Some 3,500-4,500 cattle are being shipped weekly, mostly without incident, although Turkey and Libya recently rejected two shipments containing 2,700 animals on suspicion of bluetongue disease. The cargo departed Spain shortly before Christmas but returned earlier this month following a lengthy Mediterranean odyssey. Spanish veterinary officials recommended the sacrifice of the animals after carrying out an inspection and concluding that they were unfit to travel and could not be readmitted into Spain because neither Turkey nor Libya were on the list of third countries authorised to export live animals to the EU.

The issue has generated some media attention. Animal rights groups and industry have criticised the government over its handling of the matter, particularly since it later transpired that the animals were reportedly not tested for bluetongue. 900 have already been slaughtered and the remaining 1,800 will be killed shortly. Beyond the immediate economic losses, the biggest fear among operators is the potential domino effect on other livestock exports – e.g. sheep – during peak demand season with Eid-ul-Fitr (end of Ramadan) fast approaching, since port authorities are reporting a slowdown in operations.

Industry operators have described short-term expectations as "uncertain". Leading inter-professional organisation *Provacuno* recently obtained EU approval to implement *What Wonderful Beef 2.0*, a campaign to promote Spanish beef in third countries. The three-year plan will specifically target four Asian and Middle Eastern countries – Japan, Vietnam, UAE and Saudi Arabia. However, the recent opening of new Asian markets (e.g. Japan, the Philippines) for Spanish beef exports is widely considered insufficient to offset the ongoing closure of the Algerian market. Algeria, Spain´s largest non-EU beef customer, suspended red meat imports last June to stimulate domestic production but still permits live imports. Hopes are pinned on an eventual return to a new normal.

<u>Wine</u>

Managing the substantial surpluses generated by a combination of sluggish demand and a bumper harvest is arguably the biggest short-term challenge facing the sector. Spain produced 37m hectolitres of wine in 2020, a 12% increase compared to the previous year. Total stocks including stockpiles from past seasons reached 55m hL. Domestic consumption (9m hL) plummeted 20% due to widespread closures in the HRI sector, the collapse of tourism and the cancellation of thousands of festivities across Spain.

Total annual exports dropped by 6% in volume to 20m hL, and 4% in value to €2.6bn, with the decline in export earnings estimated at €100m. This is attributed largely to the impact of coronavirus lockdown measures and other factors like a new Russian wine law in effect since last June aimed at protecting local production which has sunk bulk wine imports (Spain was Russia´s largest supplier), and the maintenance of U.S. tariffs on certain Spanish still wines Winemakers have celebrated the temporary suspension of tariffs, which in 2020 alone caused an estimated 10% drop in the value of Spanish wine exports to the U.S.

A strong Q4 export performance avoided further damage. The sharpest falls in value terms were observed in sales to Russia (-52%), China (-28%) and Mexico (-29%). By contrast, export values held up relatively well in major northern European markets, particularly the Netherlands (13%), the UK (14%) and Germany (3%). Although figures are not yet available, indications are that annual export volumes to Ireland and various Nordic countries – Sweden, Norway and Finland – rose spectacularly.

Industry players have highlighted the "inadequacy" of market regulation measures adopted thus far, reiterating earlier calls for specific additional EU funding. However, considerable internal differences persist regarding distribution of aid. Last summer, the government adopted an extraordinary €91m relief package funded mainly through Spain´s Wine National Support Programme (NSP) which included crisis distillation, PSA and green harvesting measures aimed at reducing surpluses. Maximum grape yields per hectare were also lowered (e.g. 20,000 kg for whites and 18,000 kg for reds) to balance supply and demand. These funds have quickly dried up and the sector demands more support.

The Spanish Wine Federation, *FEV,* and different regulatory councils both consider the current overproduction a structural issue that cannot be truly addressed with the limited funds available and clearly favour PSA over distillation. Conversely, the main farming groups see distillation as the most effective tool to help wine growers and have characterised PSA as "kicking the can down the road". Only a permanent withdrawal of wine stocks from the market in their view can alleviate the problem. The government believes there is limited scope for extra aid under Spain´s NSP allocation (€202m this year), and continues to press the EU Commission for additional financial support beyond a more flexible use of member states´ NSPs and without having to tap into the EU´s agricultural crisis reserve fund.

Fruits and vegetables

Fruit and vegetable exports rose 8% in value to €14.5bn last year despite a slight drop in export volume (13Mt, -2.8%). The sector remained heavily dependent on the EU market, which represented 94% of total foreign sales. The year was also marked by strong price volatility and disparate outcomes in the different campaigns given the wide diversity of products cultivated. Domestic consumption increased up to 40% during the initial stages of lockdown as Spaniards looked for fresh, healthy vitamin-rich foods, driving up the prices of numerous goods including citrus fruit and certain cruciferous vegetables. Internal demand, however, stabilised in the latter half of the year.

Within specific categories, peppers were the largest vegetable export (845,000t, €1.1bn), followed by lettuce (766,000t, €644m) and tomatoes (728,000t, €934m). Peach and nectarine exports both grew significantly in value terms - €397m and €451m respectively - despite 20% drops in volumes. Cherry exports dipped 30% in both volume (20,200t) and value (€64m).

Concerns over the delays in the EU-UK post-Brexit agreement were present throughout the year, given the importance of the British market for the sector (the third largest, worth nearly €2bn). Leading industry body FEPEX welcomed the last-minute deal, which should save the sector some €200m in annual customs duties, but there is still unease about how the industry will adjust to the new regulatory and border settings to be enforced between January-March 2022.

Growing competition from third-country imports also remains a major concern. FEPEX has emphasised that over 60% of Spanish fruit and vegetable imports last year came from non-EU countries and had a deep impact on strategic crops, as they overlap with Spain´s growing season. The sector has been vocal about the need for the EU to implement a "fairer" trade policy that corrects the unfair competition currently faced by Spanish and other EU crops, and we expect this protectionist instinct to continue.

Filomena, the heaviest snow-storm in 50 years that covered much of Spain in snow in January, may cause shortages in some fruit and vegetable crops. Inland areas were worst affected due to lower night-time temperatures, while damage in coastal regions was generally more localised. Parts of Andalusia with significant vegetable acreage such as Almeria and Granada reportedly suffered significant damage to numerous crops including tomatoes, peppers, cucumbers, aubergines and courgettes.

Comment

Recent weeks have seen a resumption of farming protests in different parts of Spain which could be the prelude to a contentious spring – pandemic permitting. Olive growers, farmers, producers and hauliers took to the streets and roads of some twenty provinces earlier in March to denounce the "extremely precarious" situation facing them. Though the nature and number of grievances vary greatly between sectors/regions, most share common elements including low food prices, rising production costs, heightened EU environmental requirements and existing trade barriers which allegedly perpetuate their disadvantaged position as the weakest link in the agri-food chain.

The latest protests are being driven by further specific concerns. Andalusian farming organisations have already announced fresh demonstrations as soon as mobility restrictions are lifted. Andalusia, Spain´s largest agricultural region and biggest recipient of CAP funds, considers the current proposals put forward by the government for the completion of Spain´s CAP strategic plan highly detrimental to its interests.

Likewise, tobacco growers from Extremadura (southwest) recently staged roadblocks stressing the need to preserve aid for the sector under the future CAP. They fear that an eventual reduction in the number of productive regions could lead to their exclusion from future CAP benefits. Equally, cattle and sheep breeders from northern regions most vulnerable to wolf attacks – Castile-Leon, Galicia, Asturias and Cantabria – are angry over the government´s recent decision to ban wolf hunting across Spain, while the forthcoming implementation of the *Nutri-Score* labelling system later this year is meeting stiff resistance from a range of actors within the agri-food industry, especially olive oil, Iberico ham and cheese producers, concerned about the potential negative ramifications such a scheme could have for these local staples.

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