



Commission internal workshop on the possible impacts of enlargement Summary

This summary presents the main experts' findings of an internal workshop on the possible impact of enlargement on agricultural production and trade which was organised by DG AGRI on 4 July 2024. External experts¹ were invited to share their knowledge on the situation of the agri-food sector in the candidate countries and the possible consequences of enlargement on specific areas. This summary reflects the opinion expressed by the experts under Chatham House rules. It does not necessarily reflect the opinion of the Commission. The workshop was chaired by DG AGRI, with participants from different Commission services.

1. Overall considerations from the experts

The enlargement of the EU was overall considered an opportunity, even if there are challenges that should not be discarded, such as the possible impact on specific agricultural sectors of increased competition.

The production and export capacity of the candidate countries is a strategic asset that would strengthen the EU strategic autonomy in food, feed and soil and reinforce the role of the EU as a contributor to global food security, notably in the Middle East and North Africa. Integrating export-oriented countries should be considered in a context of geopolitical turmoil, with climate change increasing yield variability, and at a time when the agricultural demand growth is happening outside of the EU.

It was recalled that the previous enlargements had led to an increase of the EU UAA by 35% and 29.6% in 1986 and 2004 respectively, compared to the potential 26.2% increase in the event of Ukraine becoming an EU Member State. Several markets are already well integrated. Nevertheless, some sectors (such as sugar, poultry, some fruit and vegetables in the future) may face increasing imports from very competitive producers, which may force those sectors to adapt.

The participants emphasized that many unknowns should be considered when discussing the possible impacts of enlargement: the geopolitical uncertainties, the consequence of climate change, the costs of war-related damages in Ukraine, the capacity of the candidate countries to integrate the EU acquis, the level of investments taking place.

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2. State of play and experts' projections regarding agricultural production and trade

a. The European Union

From an agricultural perspective, **the EU** is currently largely self-sufficient notably in soft wheat, barley, different meats and dairy products. Meat and dairy production however rely on feed imports: maize, oilcakes and soya beans, in particular from Ukraine, in absence of sufficient production in the EU.

In the coming decade, the EU is expected to remain a significant producer of primary agricultural commodities relevant to food security with the areas dedicated to cereals and oilseeds expected to stay largely stable. There is a projected shift towards maize, with a slight increase in wheat and reduced barley production. The EU may increase its exports of soft wheat and barley while reducing imports of maize and durum wheat. The oilseeds sector is likely to experience a decrease in sunflower and rapeseed imports, while soya bean and pulses are expected to see growth. Moreover, as consumption patterns evolve, there should be a decline in the use of feed linked to dairy products and meat production. Sugar net imports are projected to decrease, potentially approaching a balanced trade scenario. Dairy exports are expected to remain stable, while the poultry sector will maintain a positive balance, with increasing production, consumption, and more export opportunities. In the pig meat market, both production and consumption would decrease, although exports would remain stable.

Due to climate change, there have been significant variations in yields and production over the years, as the weather becomes less predictable. Yields in the EU are not anticipated to increase, and certain regions are experiencing adverse climate impacts. EU consumers, increasingly more conscious and value-oriented, are also shifting their preferences and purchasing behaviour.

b. Candidate countries

The total Utilized Agricultural Area (UAA) in **Ukraine** is 42 million hectares, with 32 million hectares of arable land, of which 26 million are used for grains and oilseeds, and 6 million for other crops. Natural resources facilitate increasing production. Since the Russian invasion in 2022, the crop area has decreased by 21%. GDP also declined, and the agricultural sector has been experiencing reduced yields due to limited access to land, fertilizers, fuel, and manpower. Ukraine is a major exporter of cereals and oilseeds, with 8 600 medium size farms (200 to 2000 ha) dominating grain production in addition to big agri-holdings that control 12% of the UAA. Ukraine's livestock sector, mainly focused on milk production with meat as a secondary product, has seen a decline in the number of cattle since the 1990s, mirroring the decrease in rural households. In contrast, the poultry and egg sectors have grown consistently due to the shift from rural household to larger-scale enterprise production, although there has been a decline during the war.

In the future, maize is expected to replace wheat as it moves northward, benefiting from favourable climate conditions, and higher gross market returns. The overall trend shows that the area dedicated to oilseeds will expand at the expense of grains, driven by higher profitability due to lower logistics costs, and stronger demand in neighbouring countries. The sunflower seeds' share in the oilseed sector is projected to decrease, impacted by the rapeseeds' and soya beans' growing area.

The downward trend in total cattle numbers is expected to persist, despite increased cow yield, leading to a decline in meat production, while milk production is expected to remain relatively stable. The production levels in the poultry and egg markets are expected to recover to their 2021 levels. Any increase in production would lead to an increase in exports.

A potential EU membership entails alignment with EU production standards. As there are notable differences in pesticide and fertilizer use between Ukraine and the EU, this would impact the costs of crop and animal production.

The agricultural sector is very important for the **Western Balkans countries (Albania, Montenegro, North Macedonia, Serbia)**, constituting 8% to 20% of each country's economy. Agricultural trade has been increasing in these countries, as well as yields and outputs. Overall crop production is limited in the Western Balkans due to arable land limitations, with the exception of Serbia. Albania and Serbia have the highest cereal yields in the region, matching or exceeding the EU average. The dairy sector has a significant share of the agricultural output. The yields for fruits and vegetables align more closely with the EU average, with Albania and North Macedonia specialising in these crops. Regarding trade, Serbia stands out as the sole net exporter, with well-developed sectors in oilseeds, cereals, fruits and nuts. Additionally, Serbia reexports from neighbouring countries.

Countries in the Western Balkans may be expected to make steady progress in agricultural development, sectoral competitiveness and governance. Continual investment, increased trade, and improved logistics are likely to enhance trade performance. Yields in cow milk and cereals have potential for improvement, while fruits and vegetables, and high livestock yields may offer export opportunities. The relative competitive advantage in a few agricultural products could be leveraged to enhance trade: processed raspberries in Serbia, high-quality wine in North Macedonia, lamb meat in Montenegro.

The Western Balkans face growing challenges related to climate change and are particularly vulnerable to extreme droughts, floods and wildfires. Infrastructure remains a major obstacle to improving trade. The lack of cold chains, high-quality roads, and waterways negatively impacts exports. There is a need to improve the efficiency of the work of advisory services and inspection services to avoid situations when many products have been rejected at borders for not meeting EU standards. Stimulating investments is needed to overcome these shortcomings.

3. Main opportunities and threats identified by the experts for agricultural specific markets

a. Grain and oilseeds

With climate change bringing higher yields variability and an EU demand projected to remain stable, or even decreasing when it comes to feed due to lower meat production, Ukraine has the capacity to play a significant role in contributing to the EU and global food security. This will depend on the extent of available agricultural land in Ukraine, the availability of labour, the level of investments in fertilisers and harvesting facilities, as well as the capacity of Ukraine to develop well-functioning supply chains to export. Africa and Asia's growing markets may offer more attractive opportunities than the EU in the future, even if Ukraine becomes a Member State. This notably depends on the capacity of Ukrainian farmers to reduce the existing quality gap between Ukrainian and EU products.

b. Sugar

The EU is structurally a net importer of sugar. The Ukrainian sugar industry is vertically integrated and controlled by a few agro-holdings. It benefits from sugar beets grown on rich chernozem soil, although yields are globally lower than those recorded in major beet-producing EU Member States. Ukraine joining the EU may directly impact neighbouring Member States and indirectly those farther away with possible increased competition between major European producers to supply Southern European Member States which face structural sugar deficits. This will depend on Ukraine's recovery and sugar production capacity, as well as Ukraine's sugar industry capacity to competitively export to other non-EU markets. The fact that sugar production is controlled by a few agro-holdings allows for large and rapid scale shifts in crop production, depending on the relative profitability of sugar when compared to other agricultural commodities in a given moment.

c. Meats

The lessons learnt from previous enlargement is that poultry production moved to Eastern Member States and to some extent to Southern ones. This was not the case for pork as Eastern Member States could not get full access to the international export market due to ASF. Beef was always a small market in Eastern Member States. Ukraine has already transitioned from a poultry net importer to exporter, due to highly consolidated and integrated industry. Its poultry production prices are close to those of Brazil. Its access to cereals, oilseeds, and its proximity to markets position Ukraine as the potential EU's leading low-cost producer. Serbia shows also potential to develop its poultry sector. Affordable land prices could attract investments from Western Europe to develop Ukraine's beef industry. The meat sector in other candidate countries may be expected to benefit from increased funding to modernise, resembling the dynamics in Central and Eastern Europe during the previous enlargements.

d. Fruits and vegetables

Enlargement may create opportunities for EU fruit and vegetable producers, as the economic growth in the candidate countries will bring new customers. The cost of production in candidate countries is significantly lower than in EU Member States, however quality and phytosanitary standards are not comparable. By overcoming obstacles related to machinery and expertise, and leveraging favourable weather conditions and fertile soil, a competitive fruit and vegetables sector may be developed in candidate countries, depending also on post-harvest management and investments in logistics infrastructure to improve product quality. Some of the sensitive fruit items, predominantly sourced from Ukraine, include pears, apples, melons, grapes, strawberries, apricots, plums, and cherries. As for vegetables, notable ones include cabbage, onions, cucumbers, garlic, peppers, eggplants, and pumpkins. Experience from past enlargements show that the production of candidate countries may target the standard production while current EU Member States would focus on premium products.

e. Dairy

The prospect of Ukraine joining the EU may create opportunities for its dairy sector to attract foreign investments, although it is still primarily driven by Ukrainian capital, and to increase its productivity and quality level. Industrial dairy farms in Ukraine have a yearly milk production per cow slightly below the EU average while approximately 50% of their milk meets EU quality standards. The rest of the dairy sector is nevertheless primarily subsistence focused. Similar to previous enlargements, this type of production is expected to phase out.

Overall, the integration of the Ukrainian dairy sector is seen as a mutually advantageous scenario.