Polish and Ukrainian Agriculture in a Common Europe

After Russia's aggression against Ukraine in February 2022, Ukraine's accession to the European Union became a geopolitical necessity. We also know it's a settled process: in June 2022, the European Council granted Ukraine candidate status, and two years later, on June 25, 2024, formal accession negotiations were opened. The accession process will likely take many years, and Ukraine's membership will require the consent of all EU member states. However, such a long timeframe does not absolve us from starting preparations for Ukraine's integration into European structures right now. It is necessary to identify and analyze risks and challenges, and to recognize and assess the opportunities that integrating Ukraine's economy will create.

One of the biggest challenges, both for the current and future Common Agricultural Policy (CAP), will be integrating Ukraine's agricultural sector into the European single market. Efficiently carrying out this process will require efforts and reforms from all partners, including Poland and Ukraine. The Common Agricultural Policy itself will also have to change.

What does Polish and Ukrainian agriculture look like now, and how should it evolve over the coming years during Ukraine's accession process? The goal is for these changes to benefit the strategic food self-sufficiency of the European Union and provide good prospects for the agricultural sectors of both countries. What role can the CAP play in this process?

These were the topics of discussion at the 182nd mBank-CASE Seminar titled "Polish and Ukrainian Agriculture in a Common Europe," which took place on September 26, 2024. The seminar featured renowned agricultural economists: Wawrzyniec Czubak (University of Life Sciences in Poznań), Sławomir Kalinowski (Institute of Rural and Agricultural Development, Polish Academy of Sciences), Grzegorz Kozieja (BNP Paribas Bank Poland), and Grzegorz Brodziak (Goodvalley Agro S.A.).

Agriculture is important for both Ukraine and Poland

It is worth starting by recalling three common features of agriculture in both countries. First, both have a high level of food self-sufficiency, which is not common worldwide or within the European Union. In some products, both countries have significant production surpluses (discussed below). The second important feature is that the agricultural sector is economically and socially important for both countries, serving as a major employment sector. The third feature—both countries are significant agricultural exporters, but they do not strongly compete with each other in the EU.

Agriculture plays a significant role in both countries. In both Poland and Ukraine, the share of agricultural land in the total land area is very high (59.4% and 68.5%, respectively). However, Ukraine has 22 times more agricultural land than Poland, although about 20% of it has been unusable due to the war. When adding all the agricultural land in EU countries, Ukraine's land constitutes the equivalent of 22% of the EU's total. If Ukraine were already a member of the Union, its agricultural land would represent 18% of the entire EU (Czubak and Kalinowski). A striking comparison is that Ukraine ranks 9th in the world in terms of agricultural land, while Poland ranks 4th in the EU (after France, Spain, and Germany). However, France, the leading country in Europe, has nearly half as much agricultural land as Ukraine (Kozieja).

Currently, Ukrainian agriculture accounts for 10.9% of Ukraine's GDP; in Poland, the figure is much lower—2.4%—but still significantly higher than the EU average (1.4%). However, it should be noted that, while Poland experienced significant economic growth post-communism (with GDP per capita increasing 10.2 times between 1991-2023), Ukraine saw only a 2.7 times increase (Czubak and

Kalinowski). With Poland's dynamic economic development, its economic structure fundamentally changed. Ukraine still faces such changes.

Employment in agriculture is also significant in both countries: 2.7 million people in Ukraine (15% of total employment) and 1.2 million people in Poland (8.4%). In the European Union, only 4.5% of the workforce is employed in agriculture (9.3 million people) (Czubak, Kalinowski, and Brodziak). These data show that both Poland and Ukraine have large agricultural sectors, which sets them apart in the EU, and this will continue to matter for the EU's single market as Ukraine becomes a member.

The agricultural sectors of Ukraine and Poland are different

Currently, Ukrainian agriculture is underfunded. Czubak and Kalinowski’s analysis shows that "the technical equipment of land and labor in Ukraine, compared to Poland and EU countries, is several times lower. Similarly, production intensity, measured by the use of inputs, is lower." However, this means that Ukraine has enormous development potential, which could be unlocked by integration into the single market and the inclusion of its agricultural sector in the CAP. Czubak and Kalinowski remind us that in the 20 years of Poland's membership in the EU, under the CAP, Poland received €80 billion, of which €51 billion went toward direct payments and more than €25 billion for structural transformation in agriculture and rural areas. These funds, combined with access to the single market, provided a strong development impulse for the agricultural and food sector. From 2004 to the end of 2023, agricultural production in Poland increased by about one-third (Kozieja). Poland is now the largest agricultural producer among countries that joined the EU after 2004, and it has become the fifth-largest agricultural producer in Europe (behind France, Germany, Spain, and Italy). Poland ranks first in the EU in poultry and egg production, third in cereals production (behind France and Germany), and fourth in oilseed production.

Despite underfunding, Ukrainian agriculture has a huge competitive advantage. Land—its quantity and quality—is a fundamental resource in agriculture (along with capital and labor). Ukraine has some of the most fertile soils in the world—chernozem and chestnut soils cover 2/3 of the country (and Ukrainian chernozem constitutes about 30% of the world’s supply of these soils!). Chernozem is ideal for growing a wide range of crops, from cereals (wheat, corn) to oilseeds like sunflower and rapeseed. Poland, on the other hand, has poorer soils, predominantly of the 3rd and 4th class, making it less competitive in cereal production. However, Poland has an advantage over Ukraine in the production of industrial crops: sugar beets, potatoes, and fruits.

Plant production dominates Ukrainian agriculture. In terms of livestock production, beef—which is important in Poland—has little relevance in Ukraine.

The agricultural structures of the two countries also differ markedly. In Poland, only 3% of entities have over 100 hectares of land, while in Ukraine, 42% of enterprises control over 100 hectares. The size of a farm is crucial for its productivity (enabling mechanization, fertilization, etc.). Ukraine has a dual agricultural structure: (1) small and medium-sized individual farms and (2) large agricultural enterprises (including agroholdings). The former occupy 48% of agricultural land and generate 46% of agricultural production, employing 82% of those working in the sector. Despite their limited capital resources, individual farms play a key role in the domestic food supply and local economies, but they often lease their land to large enterprises.

Agroholdings (formally agricultural-food companies), of which there are 118, and large agricultural enterprises control 52% of Ukraine's agricultural land and produce 54% of total agricultural output, yet they employ only 18% of the agricultural workforce. The 20 largest agricultural enterprises own a total of 6.5 million hectares of land. Thanks to their capital and access to modern technologies, agroholdings are more efficient and are displacing smaller farms from the market. Large agricultural enterprises are also export-oriented, focusing on grains and oilseeds.

In contrast, in Poland, 99% of agricultural entities are individual farms, while agricultural enterprises account for only 1%. Of all farms, 75% operate on up to 10 hectares of agricultural land, and about 85% have less than 20 hectares. Only 39,000 agricultural entities (out of 1.317 million) farm over 50 hectares, with only 13,000 exceeding 100 hectares. Unlike Ukraine, Polish agriculture is highly fragmented.

Regarding the concentration of agricultural land by farm size (which determines competitiveness in the agricultural market), the share of farms with over 100 hectares in Poland accounts for 22% of the country's total agricultural land, compared to an average of 52% in the EU and 96% in Ukraine. In mass production of agricultural raw materials, Ukraine's agrarian structure provides a competitive advantage (Czubak and Kalinowski).

Polish and Ukrainian Agriculture in a Common Europe: Risks and Opportunities

Ukraine's EU membership will pose a significant challenge to the major agricultural producers in the current EU. The development of Ukrainian agriculture during the accession process and afterward must not come at the expense of agricultural growth in the EU. All seminar participants agreed that sustainable development and mutual benefits for both sides are crucial. Excessive competition, which could harm European farmers, especially in neighboring countries, must be avoided. The development of Ukrainian agriculture should be based on synergy, leveraging exchanges of experiences, technologies, and scientific cooperation.

Experts stressed that the risks must be recognized, and Ukraine's membership in the EU should be preceded by sufficiently long negotiations and transition periods, as emphasized by Brodziak. Trade liberalization with Ukraine must be accompanied by changes in production standards in that country.

Despite the large financial resources flowing from the EU into Polish agriculture, its full modernization and increased competitiveness require further efforts, especially structural changes, argued Czubak and Kalinowski.

Poland can build a strong position in the international food market, according to Kozieja. The development of the agricultural and food industry is supported by Poland's favorable geographic location in Europe. With a well-developed road network, goods can be transported to almost all major population centers in Europe within a day.

An important factor in the future of Polish and Ukrainian agricultural sectors in the EU is the different structure of agricultural exports and export destinations. For Ukraine, as Kozieja pointed out, the most important products in agricultural exports are basic agricultural raw materials: grains, vegetable oils, and oilseeds. Between 2019 and 2023, these products accounted for over 80% of total agricultural export revenues. The main export destinations for Ukrainian grains are China (21.8% in 2021), Egypt (9.7%), Turkey (6.9%), and Indonesia (5.8%), with the first EU countries being Spain (4.8%) and the Netherlands (4.4%) in fifth and sixth place.

In contrast to Ukrainian exports, dominated by grains and vegetable oils, Polish exports are more diversified. As Kozieja showed, 10 product groups account for 80% of the value of Polish exports. The largest include meat, cereal products, and grains (collectively accounting for about 30% of exports). The top four export products are poultry, bread, chocolate, and animal feed ingredients. The main export destinations, stable for many years, are Germany (25%), the UK (10%), France, Italy, and the Netherlands.

A different view of the export directions of both countries—by continent—shows that Ukraine exports its agricultural products mainly to Asia (49.2% of export revenues), while Europe is a smaller importer (37.3% of total agricultural exports). The geographical structure of Polish exports is fundamentally different: 88.3% of its agricultural and food exports go to Europe.

According to Kozieja, Ukraine's accession to the EU will not automatically redirect Ukrainian exports to the Polish market. The key markets for Ukrainian agricultural raw materials will remain its current customers: Asia, Turkey, Africa, and the Middle East. These regions will see rising demand for agricultural products, as the populations of Asia and Africa are expected to increase by 600 million people over the next decade, with another 600 million by 2040. Moreover, non-European markets accept lower quality and phytosanitary standards than Europe.

Poland could benefit from Ukraine's EU membership by expanding its transportation infrastructure, ports, and trade to handle the transport of Ukrainian agricultural goods. Previously, this transport was seen as a problem, noted Kozieja, but Poland's position, located between a large producer of raw materials and wealthy European markets, presents opportunities for Polish entrepreneurs. Poland can offer its eastern neighbor an attractive proposition without harming the local market.

What Common Agricultural Policy (CAP)?

G. Brodziak stressed that not only will the CAP need to be reformed in light of Ukraine's membership, but reforms have been under discussion for some time. Changes in decision-making processes within the EU are necessary, as the current unanimity rule is unsustainable. A shift to qualified majority voting in important decisions will be required. Changes in EU financing, securing its borders, and other areas will also be needed.

There is a need for dialogue about the future of agriculture in the EU and the development of a common vision for the future of European agriculture and its food system. This conversation is already overdue, as indicated by responses to questions from seminar participants. In particular, Brodziak believes it is essential to develop ways to support agriculture that respect the planet's limits and its ecosystem. There also needs to be a discussion about the future of the European food system in a competitive world.

Ukraine's accession to the EU will increase the EU's agricultural area by almost a quarter, strengthening the EU's strategic food autonomy and opening the market—including the agricultural market—to 24-35 million Ukrainians (estimates for the post-war period) (Kozieja and Brodziak). However, Ukraine will also be a large market for producers from EU countries, especially a large market for Polish brands. This will be supported by the experience of numerous Ukrainian war refugees and economic migrants living and working in Poland. Even before the war in Ukraine, as Kozieja noted, Polish brands, such as dairy processing companies, were already present in this market.

In the context of Ukraine's accession, we face decisions about financing agriculture in an expanded European Union. Without changes, current EU members will have to accept reduced funding for their agriculture from the CAP budget, said Brodziak. An alternative is a separate budget for Ukraine, based on different principles, combining regular EU funds with reconstruction funds from sources like the USA or even frozen Russian assets in the West.

The key challenge for the CAP after 2027 is reforming the subsidy system, simplifying the system, and promoting environmentally and climate-friendly practices. There is discussion, Brodziak said, about gradually replacing the current basic income support (subsidies) linked to farm size with financial incentives for "providing services beneficial to the environment and society" and degressive payments, mandatory upper limits, or additional payments for the first hectares for all member states. A major change is on the horizon.

In conclusion, the seminar emphasized that Ukraine's accession to the European Union presents both risks and opportunities for Poland. The extent to which we can neutralize the risks and capitalize on the opportunities will depend on wise national policies, supported by the CAP and other EU support instruments.

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