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March 2024  
Kyiv,  
Ukraine

# READINESS OF THE UKRAINIAN AGRICULTURAL SECTOR FOR THE EU ACCESSION: PROGRESS AND PROSPECTS



# Summary

- Ukraine gained EU candidate status in June 2022. The European Commission will establish a negotiating framework by the end of 2024.
- **"Agriculture and Rural Development"** is the 11th out of 33 negotiation chapters. Given the significant size of the Ukrainian agricultural sector, this chapter may become one of the cornerstones of the negotiations between Ukraine and the European Commission.
- The study covers:
  - Analysis of the most urgent reforms - from the point of view of the European Commission
  - Assessment of the implementation of the Association Agreement
  - Further steps towards sectoral integration of Ukrainian agriculture into the European common market.



# Highlights of the EU CAP



- The EU's Common Agricultural Policy (CAP) has been in place since 1957 and was designed to
  - ensure a fair standard of living for farmers;
  - stabilise agricultural markets;
  - ensure food security;
  - promote the productivity and efficiency of agricultural production.
- The current version of the EU CAP supports farmers through **direct payments** subject to certain production conditions, including environmental ones.
- Funds under the EU CAP are mainly allocated from the following funds:
  - The European Agricultural Guarantee Fund (**EAGF**, the so-called "first component");
  - The European Agricultural Fund for Rural Development (**EAFRD**, the so-called "second component").



# "Homework" from the European Commission



# Urgent recommendations of the European Commission



Ukraine is at an **early stage of** preparation for accession under the Agriculture and Rural Development chapter.

Recommendations for the coming year:

- continue **harmonising legislation** with EU legislation in the field of agriculture and rural development;
- complete the **national strategy for the development of agriculture and rural areas for 2023-2030**;
- **monitor and record farms** in the State Agrarian Register and use it to provide financial support to agricultural producers. In addition, start preparations for the establishment of payment agencies and farm accounting systems in line with the EU standards.



# Requirements of the Association Agreement

- Annex XXXVIII to the Association Agreement contains a list of 57 legal acts (including 19 directives and 37 regulations) regulating agriculture in the EU that were to be implemented in Ukraine.
- At the time of candidate status, Ukraine had implemented most of the regulations governing quality and marketing standards for agricultural products.
- **However, most regulations related to the common market organisation and necessary for further integration of Ukrainian agriculture into the common market have not been implemented yet.**



# Monitoring and accounting of agricultural enterprises



- Effective management of public funds under the EU CAP is possible thanks to monitoring systems, the most important of which are the following:
  - **IACS** (Integrated Administration and Control System) is a system used to manage and control the distribution of direct payments to farmers under the first pillar;
  - **LPIS** (Land Parcel Identification System) is a component of IACS that serves as a digital mapping system for agricultural lands;
  - **The FADN** (Farm Accountancy Data Network) (more recently, the Farm Sustainability Data Network) was established by the European Commission to collect and analyse financial and economic data from farms across the EU.
- The Ukrainian **State Agrarian Registry** was launched in August 2022 with the assistance of the EU and is partially compliant with the **IACS**.
- **At the same time, no systems in Ukraine would serve as equivalents for LPIS and FADN.**



# National Strategy for the Development of Agriculture



- National agricultural development strategies in EU member states are tailored to the unique characteristics of each economy and are also aligned with broader EU policies, such as the EU CAP.
- **Ukraine has no policy document that meets EU standards.**
- Poland is one of the five largest beneficiaries of the EU CAP and has one of the best agricultural strategies. The list of good practices includes:
  - detailed analysis of the problem from the economic, environmental, social and demographic perspective;
  - long-term vision for the development of agriculture and rural areas;
  - defining strategic goals that go beyond the narrow scope of sectoral policy;
  - clear link between policies and strategic goals;
  - description of the monitoring process and identification of quantitative indicators to assess the extent and quality of the strategy implementation





## Next steps



# Agricultural acquis

- The EU CAP is regularly updated; accordingly, EU agricultural legislation also requires constant changes and revision. Thus, formal approximation of the agricultural legislation of the candidate countries to the European agricultural acquis plays a secondary role.
- Instead, it is the readiness to implement agricultural policy in line with the main EU principles that is crucial:
  - sustainable model of agricultural policy;
  - strategic framework of agricultural policy;
  - the amount and distribution of financial resources;
  - direct support measures for the manufacturers;
  - measures to support competitiveness;
  - environmental protection measures;
  - quality of life and employment.



# Experience of the Balkan candidate countries



- Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia have EU candidate status.
- Key barriers to further sectoral integration:
  - poor quality of the national agricultural development strategy or its inconsistent implementation;
  - lack of administrative capacity for monitoring and evaluation;
  - lack of funds for direct support of farmers and investment in agricultural production;
  - a centralised (as opposed to the European bottom-up) approach to policies to improve the quality of life.
- **In general, the agricultural policies of the Western Balkan countries are in line with the EU CAP in terms of commitments and planning rather than in terms of actual policies implemented.**



# Ukraine's readiness for accession



- Most of the legal acts regulating the quality of agricultural products were implemented after signing the Association Agreement.
- At the same time, legislation regulating agricultural production within the domestic market has not been implemented yet.
- In particular, we are talking about:
  - protecting agricultural (mostly small) producers from unfair practices;
  - a vision for the future of the EU CAP and rules for financial support for national plans developed under the EU CAP;
  - rules governing direct payments to farmers and rules for financing, management, and monitoring of the main agricultural support funds;
  - assistance and compensation related to the joint organisation of agricultural markets;
  - rules for monitoring and accounting in agricultural production;
  - promotion of agricultural products from the EU;
  - EU rules on the marketing of certain agricultural products;
  - rules governing the production and sale of genetically modified products;
  - rules governing the use of pesticides and fertilisers;
  - regulation of competition in agricultural markets.



# Expert opinion

- The Centre for Economic Strategy interviewed Ukrainian and Polish experts and agribusiness representatives, as well as representatives of the European Commission.
- Some possible priority areas for further integration of the Ukrainian agricultural sector into the European common market:
  - **Implementation of legislation aimed at creating a general framework for the functioning of the agricultural market:** This includes Directive 2019/633, which aims to prevent unfair practices and primarily aims to protect small buyers and suppliers.
  - **Expanding the system of state aid to farmers. The** legal and regulatory framework governing state support for agricultural producers is much less detailed and provides a narrower range of instruments than EU legislation.
  - **Monitoring and reporting.** According to the updated EU CAP principles, state aid is not directly linked to production volumes but is conditional on meeting several requirements. Under this model, monitoring and reporting play a crucial role.
  - **Adoption of European production standards.** Most of Ukraine's European integration initiatives in agricultural production have focused on introducing standards for marketing agricultural products. However, increasing trade with the EU will also require compliance with European production practices.
  - **Defining a strategic export model.** According to the Polish expert, a model of EU integration in which Ukraine continues to focus - at least temporarily - on non-EU countries could speed up accession. At the same time, EC representatives point out that the above strategy will require revision of trade agreements between the EU and third countries.



**So, what's next?**



## Potential areas of focus

- Ukraine has implemented legislation on livestock welfare. Still, legislation on organic products, genetic engineering in agriculture, and the use of pesticides and fertilisers (including nitrate) is only partially in line with European standards. **Further approximation to European legislation is needed to regulate agricultural standards, not just the quality of finished goods.**
- The level and quality of state aid to farmers do not meet European standards. **The first step is to implement the necessary legal framework.**
- The National Strategy for the Development of Agriculture in Ukraine will determine the future of the agricultural sector in the Internal Market. **Ukraine needs to develop and adopt a relevant programme document.** At the same time, we must avoid the mistakes made by the Western Balkan countries.

