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EUROPEAN POLICY ANALYSIS

Adjusting the CAP for new EU members: Lessons from previous enlargements

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Summary

The EU has given candidate or potential candidate status for membership to nine countries in the Western Balkans and the Eastern Partnership, without considering Türkiye. Integrating the agricultural sector has been one of the most difficult dossiers in previous enlargements and this will also be the case with the current candidate countries.

The focus of this European Policy Analysis is on the budgetary implications of enlargement and the consequences for the EU's Common Agricultural Policy. The paper reviews the ways in which the budgetary costs of previous enlargements involving large, low-income agricultural economies have been addressed. Phasing-in CAP payments to new member states as happened in the 2004/2007 and 2013 enlargements is one obvious instrument that can be used.

In the longer run, the central issue is the allocation criteria used to distribute CAP funds between member states. Changing the allocation criteria might reduce the projected transfers to the candidate countries but would also result in gainers and losers among existing member states. A discriminatory solution in which Ukraine would be treated differently for CAP funds compared to other member states could be an option, but only if Ukraine were to agree to this during the accession negotiations.

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The opinions expressed in the publication are those of the author.

1. Introduction: Towards the next enlargement

Enlargement has always been part of the DNA of the European Union (Balfour and Stratulat 2012). To date, there have been seven rounds of enlargement: from the first enlargement in 1973 to the most recent enlargement in 2013,[1] the EU grew from six to 28 member countries and then, following Brexit, to its present 27. Currently, a further ten countries have candidate or potential candidate status. These are the six Western Balkan (WB) countries – Albania, Bosnia and Herzegovina, Kosovo,[2] Montenegro, North Macedonia and Serbia, three Eastern Partnership (EaP) countries[3] – Georgia,[4] Moldova and Ukraine – and Türkiye.[5] After the 'big bang' enlargement, which included the countries of central and eastern Europe in 2004/2007, there was evident 'enlargement fatigue'. Public opinion turned increasingly against further enlargement, several member states explicitly rejected it, and the Commission was increasingly occupied with other crises.

Following the start of the Russian aggression against Ukraine in February 2022, new impetus has entered enlargement discussions. The Granada Declaration adopted at the informal European Council in October 2023, which kick-started the process to develop the Strategic Agenda 2024–2029, noted that '*Enlargement is a geo-strategic investment in peace, security, stability and prosperity.*' (Council of the EU 2023). In looking ahead to the prospect of a further enlarged Union, it noted that both the EU and future member states need to be ready:

> Aspiring members need to step up their reform efforts, notably in the area of rule of law, in line with the merit-based nature of the accession process and with the assistance of the EU. In parallel, the Union needs to lay the necessary internal groundwork and reforms.

But this twin process – reforms both in the candidate countries and in the EU itself – is easier said than done. There is limited confidence in the outcome of the accession process, despite several proposals to improve its credibility. The most recent Commission Enlargement Package, which takes stock of developments in the accession process and examines the progress made by the candidate countries, highlighted the need for accelerated progress particularly in the 'fundamentals' cluster of the negotiations covering rule of law, economic criteria and public administration (European Commission 2023a). Nor has much progress on the second strand, preparing the EU for enlargement, been visible to date.

The European Parliament adopted a resolution on '*Deepening EU integration in view of future enlargement*' in February 2024, highlighting the need for institutional and decision-making reform and a strengthened financial framework while supporting the idea of incremental pathways towards membership including gradual integration into common policies (European Parliament 2024). In March 2024, the Commission made its contribution to the debate in the form of a Communication on pre-enlargement reforms and policy reviews (European Commission 2024). It looked at the implications of a larger EU in four main areas: values, policies, budget and governance,

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1 See Council of the European Union, 'EU enlargement policy', https://www.consilium.europa.eu/en/policies/enlargement/.

2 Kosovo is currently a potential candidate. 22 EU member states have to date recognised Kosovo's declaration of independence in 2008, but Cyprus, Greece, Romania, Slovakia and Spain have not.

3 The Eastern Partnership developed as a specific eastern dimension of the European Neighbourhood Policy with six countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Georgia, Moldova and Ukraine have been granted EU candidate status and are referred to as the EaP candidates in this analysis to distinguish them from the WB candidates.

4 Georgia was given candidate status at the European Council meeting in December 2023, but the start of accession negotiations was suspended in July 2024 following perceived legislative backsliding by Georgia.

5 Accession negotiations with Türkiye started in October 2005 but in 2018 the Council decided that negotiations were at a standstill https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/turkiye_en.

with a view to preparing the ground for the pre-enlargement policy reviews announced by Commission President von der Leyen in her 2023 State of the Union address (Von der Leyen 2023). The purpose of the policy reviews will be to see how each area may need to be adapted to a larger Union. At its meeting in June 2024, the European Council set out a roadmap for future work on internal reforms (European Council 2024). This included an invitation to the Commission to present by spring 2025 in-depth policy reviews covering the four strands it identified in its Communication.

> 'Integrating the agricultural sector has been one of the most difficult dossiers in previous enlargements and this will also be the case with the current candidate countries.'

This European Policy Analysis focuses on the specific policy area of agriculture. Integrating the agricultural sector has been one of the most difficult dossiers in previous enlargements and this will also be the case with the current candidate countries. This is partly because agriculture is a highly regulated sector within the EU requiring deep-rooted reforms in institutional structures and regulatory regimes in the candidate countries. Expenditure on the EU's Common Agricultural Policy (CAP) remains one of the biggest expenditure items in the EU budget, accounting for 32% of the total in the 2021–2027 period. The CAP is a subsidy policy and makes an important contribution to farm incomes across the EU. Taking all subsidies into account, total EU support amounted to 32% of agricultural income on average in the EU in 2017-2021.[6] Importantly, due to the common financing of the CAP it results in significant net budgetary transfers between member states.

Farm incomes are low on many farms due to the structure of EU agriculture and are vulnerable to increased competition. This leads to fears that the budgetary consequences of future enlargement could result in the diversion of EU funds from existing beneficiaries in the present EU, and that access to the EU single market by Ukraine particularly might intensify competition for markets with existing EU farmers. Failure to recognise and address these concerns could see increasing popular opposition to enlargement and ultimately put the successful completion of the accession process in jeopardy.

Similar fears were expressed prior to previous enlargements where the acceding countries also had significant agricultural sectors. Examination of these previous enlargements shows that often special arrangements were made to mitigate and diffuse the immediate impacts of accession. In this paper, we examine these precedents in previous enlargements with a view to seeing if there are relevant guidelines that might be applied to future enlargements. At the same time, it is important to underline that no two enlargements are alike. Initial conditions, the accession process itself, the breadth and extent of the *acquis* to be adopted, as well as changes in the CAP itself over time, mean that each enlargement brings its own challenges. The next enlargement will be no different.

The analysis is divided into several sections. In Section 2, we look at the experiences gained in relevant previous enlargements and the special arrangements made to facilitate a smoother integration of candidate countries into the CAP. Section 3 highlights features of the future enlargement that may give rise to specific challenges. Section 4 discusses how the CAP might respond to these challenges. Section 5 concludes.

As we focus on the nine WB and EaP candidate and potential candidate countries, the potential further impacts of the EU membership of Türkiye are not discussed. Furthermore, at the time of writing Ukraine is defending itself against Russian aggression and some of its territory is under Russian control. Our analysis assumes that the war has come to an end, recognising there will be a huge reconstruction and recovery challenge, but without speculating on the future borders of a post-war Ukraine.

[6] Commission, 'CAP expenditure', https://agriculture.ec.europa.eu/data-and-analysis/financing/cap-expenditure_en.

2. Agricultural lessons from previous enlargements

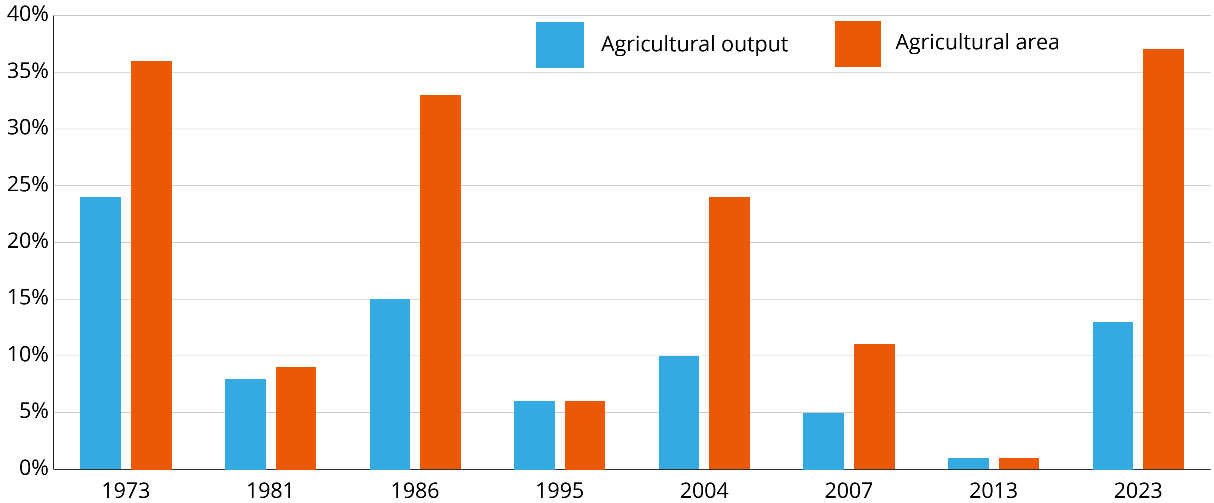
Successive waves of EU enlargement are shown in Table 1. The agricultural significance of previous enlargements is presented in Figure 1. This shows the change in both agricultural output and agricultural area due to each enlargement relative to the size of these indicators in the EU as it was at the time of that enlargement. The largest enlargement both as a share of the EU's agricultural output and agricultural area was the first one in 1973, which reflects the small number of initial EU member states and the large relative importance of the UK. The graph underplays the importance of the 'big bang' enlargement in the 2000s where the candidate countries entered the EU in two waves even though this was treated as a single enlargement process. If we combine these two waves, the 'big bang' enlargement increased the agricultural output of the then EU-15 by 16% and its agricultural area by 38%, not too dissimilar to the 1973 enlargement.

Table 1. **Successive waves of EU enlargement**

Year	Accession countries
1973	Denmark, Ireland and the United Kingdom
1981	Greece
1986	Portugal and Spain
1995	Austria, Finland and Sweden
2004	Czechia, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia
2007	Bulgaria and Romania
2013	Croatia

The scale of the future enlargement with nine accession countries is shown using 2021/2022 data. In terms both of agricultural output and area, the future enlargement is very similar to both the Iberian and 'big bang' enlargements. Based on these comparisons and previous experience, the scale of the future enlargement looks quite manageable. However, other issues such as the impact of enlargement on net budget transfers as well as the net trade position in agri-food of candidate countries also play an important role. Taking these criteria into account, the 1986 enlargement (when Spanish accession was the particular concern) and the 2004/2007 accessions shed light on how the EU has negotiated with candidate countries and the extent to which it has been prepared to change its policies, or not, to accommodate new members.

Figure 1. **Agricultural significance of previous and future EU enlargements**



Source: Eurostat for agricultural output 1995 onwards and various sources for earlier years; FAOSTAT data for agricultural area, as well as for agricultural output for 2021 (in order to avoid distortions due to the war for Ukraine) and agricultural area for 2022 for the candidate countries.

2.1 The Iberian enlargement in 1986

There are striking parallels between the negotiations on Spanish and Portugues accession (which started in 1978 and were completed in 1985) and the current enlargement process. In addition to the impact on agricultural output and area shown in Figure 1, these accessions increased the number of holdings by 50% and the number of farmers and farm workers by 35%. By the late 1970s, the costs of the CAP were spiralling out of control, in part because production had responded to high support prices. Spain, in particular, was seen as a potentially significant competitor, specifically for Mediterranean products such as fruits and vegetables, olive oil and wine. Around 30% of Spain's population at the time worked in agriculture, and wages and productivity were low, but there was clearly significant scope to expand production:

> So, to make enlargement affordable, the Community had to reform the CAP or increase contributions to the EU budget (Ruano 2003). [7]

At the time of the Iberian enlargement, the CAP accounted for 73% of EU budget expenditure. Reform of the CAP and reform of EU financing were even more interlinked than today. Lorena Ruano, who has analysed the common agricultural policy and the EU's enlargement to Eastern and Central Europe in comparison with the Spanish case, observes that the accession negotiations were initially hijacked by disputes over the scale and contributions to the EU budget. These were eventually resolved by decisions at the European Council meeting in Stuttgart in June 1983 that led to agreement at the Fontainebleau summit in June 1984 to increase the VAT ceiling from 1% to 1.4% of the harmonized VAT base, while also agreeing a formula to reduce the UK's net contribution to the EU budget.

Only after there was agreement to a budget increase was the Commission able to propose a negotiating mandate for agriculture. The Stuttgart budget conclusions had insisted on the need to control expenditure, not least on the CAP in light of the proposed enlargement. In July 1983 the Commission responded with proposals to strengthen the principle of guarantee thresholds by introducing quotas in the milk sector (European Commission 1983). In October 1983 the Council agreed to changes in the *acquis communautaire* for fruits and vegetables, olive oil and wine in light of enlargement. The negotiating mandate for agriculture was finally agreed in February 1984, although proposals on wine and olive oil were only presented at the end of 1984, very close to the deadline for concluding negotiations.[8] By March 1985 the detailed negotiations were largely concluded. The agreed arrangements for accession were included in the Treaty of Accession signed in June 1985.

The general principle was that price alignments between the candidate countries and EU common prices should occur over a seven-year period (Official Journal of the European Union 1985). Tariffs on agricultural products were also removed over a seven-year period, though with extensions up to ten years for the most competitive products. A Supplementary Trade Mechanism (STM) was established covering sensitive exports from Spain and Portugal to the existing Community as well as some agricultural exports from the Community to these countries which imposed indicative ceilings on the volume of trade for ten years after accession.

Ruano describes the negotiations for three sensitive products, olive oil, fruits and vegetables, and wine, from a Spanish perspective:

In the case of **olive oil**, the EU support price was double the Spanish price and a Spanish accession would lead to a significant export surplus. Extending the EU olive oil regime to Spain was clearly going to be very expensive. The EU proposed a long transition period of ten years during which Spanish prices would gradually approach EU levels. Spain also agreed to introduce production quotas for olive oil to control the volume of production, with the reference quantity

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7 Ruano's insightful paper on the Spanish accession is a helpful source for this discussion.

8 'As other candidates to EC membership had already discovered, what proved decisive in the Spanish case was not so much the bilateral negotiations between Brussels and Madrid, but rather the discussions between existing member states, which had to reach an agreement first regarding the cost of enlargement and the ensuing burden-sharing.' (Powell 2015).

based on historical production levels, which lasted for seven years. In return, Spain got a concession to delay the opening of its market for non-olive oil oils and oilseeds.

Tariff reductions for **fruits and vegetables** were also extended to ten years. These products were also covered by the STM that limited the volume of certain products that could be exported to EU countries during the transition. In accepting these conditions, the Spanish were given the right to establish equivalent import quotas for dairy, beef, wheat and other products that were sensitive for Spain.

The wine sector was a good example where negotiations with Spain had to wait until internal differences within the EU over wine sector reform were resolved. The EU had an enormous 'wine lake' problem at the time which it attempted to deal with through compulsory distillation and incentives to reduce the vineyard area, which incurred significant expenditure. Spain, with the largest vineyard area in the world, was expected to exacerbate this surplus problem. Production limits had been proposed but were opposed by Italy. In the end, the EU agreed to a change in the rules governing when compulsory distillation could take place that effectively required Spain to distil a much higher volume of wine than France or Italy (Ruano 2003), but without addressing the underlying problem in the wine sector.

The example of the Iberian enlargement illustrates several important adjustment mechanisms to ease the integration of significant but low-income agricultural exporters into the CAP. These mechanisms included gradual transition periods for policy alignment as well as temporary safeguard clauses on post-accession export volumes. They also involved changes to the CAP *acquis* to reinforce a more stringent price policy to control CAP expenditure.

Ultimately, there was also agreement to increase own resources for the EU budget, which was intended, in part, to secure the financial ability to cope with extending the CAP to the candidate countries. Although the Iberian enlargement was only a contributing factor, CAP expenditure increased significantly from €20.4 billion in 1985 to €34.1 billion in 1992 when the next significant CAP reform under Agriculture Commission Ray MacSharry was announced.[9]

'In fact, as members, both countries were successful in negotiating shorter transition periods for olive oil, wine, and fruits and vegetables, than foreseen in the accession treaty.'

In conclusion, we can quote Powell's (2015) summary that, although many experts saw Brussels as imposing 'a punishing treaty of accession', both Spain and Portugal took the advice of Margaret Thatcher who advised that it was wiser to join the club as soon as possible and then to fight to improve accession conditions from within. In fact, as members, both countries were successful in negotiating shorter transition periods for olive oil, wine, and fruits and vegetables, than foreseen in the accession treaty.

2.2 The enlargement in 2004/2007

The 2004/2007 enlargement had much in common with the Iberian accession. The candidate countries were much poorer than existing member states with large agricultural sectors and projected to be net beneficiaries of budget transfers. Enlargement was expected to increase the agricultural area of the EU-15 by 43% and the agricultural workforce by 116%, but the Union's GDP by only 5% (European Commission 1995). However, the competitiveness of agriculture and the agri-food chain was seen as generally much lower than the EU average (European Commission 2002c), in part because of the unfavourable farm structure in the candidate countries with a large number of small and semi-subsistence holdings. The cost of enlargement under existing CAP rules, after a period of transition and adjustment, was estimated at ECU 12 billion compared to a projected agricultural expenditure of ECU 42 billion for EU-15 (European Commission 1995).

[9] Figures from Commission, 'CAP expenditure in the total EU expenditure', https://agriculture.ec.europa.eu/data-and-analysis/financing/cap-expenditure_en.

To limit the budgetary cost of enlargement, the Commission initially argued for continuing with the approach introduced in the 1992 MacSharry CAP reform, the first large-scale reform of the common agricultural policy which introduced a shift from market support to producer support. The approach thus consisted in lowering agricultural support prices and providing compensation through additional direct income payments to existing EU farmers who would be adversely affected (European Commission 1995). Lowering internal prices towards world market levels reduced the gap in prices with the candidate countries at the time of accession and thus smoothed their integration.

However, because no major price cuts for farm products were expected in the candidate countries, there would be no reason to provide compensation in the form of direct payments to farmers in these countries as they had suffered no losses. Instead, the Commission suggested that the money would be better used for additional programmes of structural improvement in agriculture and downstream sectors. It also noted that a strong increase in incomes for farmers alone in the candidate countries through receipt of direct payments, which would in some cases even supplement price increases that they could anticipate receiving, would risk creating income disparities within these countries that could lead to social unrest.

These ideas were carried into the Commission's *Agenda 2000* Communication, a comprehensive document that addressed the development of Union policies and the challenge of enlargement, and also proposed a financial framework for the period 2000–2006 (European Commission 1997). For agricultural policy, the Communication proposed deepening and extending the 1992 reform through further shifts from market price support to direct payments, and by developing a coherent rural policy to accompany this process. This framework introduced the two-pillar structure of the CAP, where Pillar 1 finances direct payments and market support measures, and Pillar 2 finances rural development measures. The Communication again reiterated that

> […] there would be no need during this period to provide direct income support such as that resulting from the 1992 CAP reform.

The European Council meeting in Berlin in March 1999 adopted the Multi-annual Financial Framework (MFF) for the 2000–2006 period. The MFF was presented in two parts: one for the EU-15, and one for the newly acceding member states on the working assumption that six countries would join in 2002 while the remaining countries would join later. Then the Helsinki European Council meeting in December 1999 agreed to open accession negotiations with six additional countries. The Gothenburg European Council in June 2001 set a target to complete the accession negotiations by the end of 2002, with the aim of enabling new member states to participate in the 2004 European Parliament elections. The European Council meeting in Laeken in December 2001 acknowledged that Bulgaria and Romania would require more time to prepare for accession and aimed to admit them once they were ready. This effectively confirmed that they would not be part of the 2004 enlargement wave.

These changes in the expected scope and timing of enlargement had to be accommodated within the expenditure parameters foreseen in the Berlin MFF scenario where the negotiating chapters on agriculture and structural policies had significant budgetary components. The Commission proposed a financial framework for enlargement in January 2002 that assumed the accession of up to ten new member states by 2004 (European Commission 2002b). This was accompanied by an issues paper that spelled out the implications for agriculture (European Commission 2002c). It included the following proposals which were later endorsed by the Council and integrated into the Treaty of Accession:

- Production quotas for common market organisation commodities under a supply management regime (milk, sugar, potato starch) were based on a reference period 1995–1999. This period disadvantaged the candidate countries as production and consumption had declined during their transition to market economies. The EU rejected their proposed alternative reference period 1987–1989 on the basis that production levels at that time reflected central planning and could not be taken as indicating production capacity in a market context. The 1995–1997 reference period was confirmed (Baker 2003).

- The Berlin MFF did not allow for the extension of direct payments to the candidate countries, but they all demanded to be fully integrated into this aspect of the CAP on accession. The Commission therefore proposed a phased introduction of direct payments financed by the CAP Pillar 1. In a first step, direct payments would be introduced in the new member states equivalent to a level of 25% in 2004, 30% in 2005 and 35% in 2006 of the then system. In a second step after 2006, direct payments would be organised to ensure that the new member states reached 100% of the support level then applicable in 2013. The candidate countries were given the possibility to add national top-ups to these payments which could be financed by using part of a country's Pillar 2 rural development funding ceiling (Baker 2003).

- Direct payments at this time were coupled payments linked to areas planted or the number of heads of animals. There was also a need to set base areas and reference yields or animal numbers for the individual sectors to determine the level of total payments. Here again, the Commission chose to use recent years to set these parameters when production in the candidate countries had declined (Baker 2003).

- Fears in the CEECs of large-scale foreign ownership of farmland were met by transitional measures which limited the ability of EU nationals to own farmland in the candidate countries for limited periods (ranging from seven to 12 years) after accession.

- Though not specifically related to the CAP, the accession treaty allowed for the use of a general safeguard clause for three years after accession in case of a severe market disruption due to imports from the new member states (and vice versa).

A big difference between the Eastern and the Iberian enlargements was that the CAP budget was already decided and fixed when the agricultural negotiations were taking place with the CEECs. Furthermore, successive reforms had shifted the balance in CAP expenditure away from market support expenditure to area-based payments. So, the question for the negotiations was how to design transitional arrangements that limited the exposure of the EU budget to increases in expenditure on direct payments beyond what had already been budgeted for. The dilemma was exacerbated by the decision to include ten countries in the first wave rather than the original six. It was further exacerbated when the EU negotiators had to quickly give way on their first preferred option, which was not to extend direct payments at all to farmers in the accession countries.

Once the principle was accepted that farmers in the accession countries would also be entitled to receive area-based direct payments, the budget ceiling was observed by (a) choosing reference periods which minimised the projected direct payment amounts. (b) by devising a transition period which pushed the full budgetary impact beyond the end-year for the budget agreement, and (c) because accession itself was delayed from 2002 to 2004 which was a further source of savings. Finding the resources to pay for the full implementation of direct payments at the end of the ten-year period was left for negotiations on another MFF.

These terms, largely driven by the budget constraint, were perceived as harsh by the candidate countries. When coupled payments were substituted by decoupled payments following the 2003 Mid Term Review of the CAP implemented from 2005, the average decoupled direct payment per hectare in the candidate countries was well below the average for the EU-15, reflecting the unfavourable baselines.[10] This was greatly resented by the new member states as evidently unfair.
In the negotiations on the MFF for the periods 2014–2020 and 2021–2027 the issue of external convergence, or the levelling of Pillar 1 amounts per hectare across member states, was put firmly on the agenda by the newer member states. They have had some success, although full realisation of a uniform payment amount per hectare has yet to be achieved.

To summarise, previous enlargements involving large, low-income agricultural economies have been

[10] On average, after full phasing-in, average payments per ha were around €205/ha in the EU-12 compared to €300/ha in the EU-15, with the differences ranged from around €100/ha in Latvia to €410/ha in Italy (European Commission 2011, Figure 5).

facilitated through a variety of mechanisms, even though some were perceived as clearly unfair by the new member states. These included modifying the CAP *acquis communautaire* to minimise the expenditure impacts of enlargement, adopting lengthy transition periods before full entitlements were phased in, choosing base periods for entitlements that limited expenditure commitments, adopting safeguard clauses that limited sensitive trade flows for a transition period, and increasing the CAP budget to fund new commitments. The relevance of these measures to the forthcoming enlargement is explored later in this analysis.

3. Agricultural challenges for the next enlargement

The way in which the CAP has adjusted to the accession of new member states in previous enlargements is informative. But there will be differences between the previous agricultural enlargements and an enlargement to include the Western Balkans and Ukraine. This section looks at a selection of issues relevant to assessing the pressures faced by agricultural policy in the forthcoming accessions.

3.1 Relative income levels

In economic terms, there are some indications that the current candidate countries are somewhat poorer today than the candidate countries were at the start of the 'big bang' enlargement. Table 2 compares the two groups of countries in terms of GDP per capita measured in constant 2004 US dollars.

Ukraine has a GDP per capita today that is very close to what Bulgaria and Romania had in 2004, though much less than Poland and Hungary. Serbia and Montenegro are the candidates with the highest GDP per capita today but still below many of the CEECs in 2004. Also, the average GDP per capita of the EU-15 in 2004 was higher than that of the EU-27 in 2023. A full comparison would need to take account of other factors such as human capital stock, infrastructure quality and demographics, as well as the economic consequences of the Russian invasion of Ukraine. However, focusing particularly on the comparison between Ukraine in 2023 and Bulgaria and Romania in 2004, the EU has successfully absorbed large, poorer countries previously compared to the current candidates.

Table 2. **Comparison of GDP per capita between candidate countries in 2004/2007 and 2023, measured in 2004 US dollars**

	2004		2023
Bulgaria	3,390	Albania	5,412
Czechia	11,750	Bosnia	5,449
Estonia	8,914	Georgia	5,252
Cyprus	23,793	Kosovo	3,844
Latvia	6,379	Moldova	4,301
Lithuania	6,700	Montenegro	7,772
Hungary	10,302	N. Macedonia	5,269
Malta	15,197	Serbia	7,347
Poland	6,681	Ukraine	3,351
Romania	3,495		
Slovenia	17,233		
Slovakia	10,691		
Memo item		*Memo item*	
EU-15	33,834	EU-27	26,402

Source: World Bank Databank. Nominal GDP per capita in 2023 converted to 2004 US dollars using the change in the US GDP deflator between those years. EU15 GDP per capita from Eurostat in euro, converted to USD using the 2004 USD/EUR exchange rate from the European Central Bank.

3.2 Agricultural structures

Agricultural characteristics of the candidate countries are shown in Table 3 for the year 2021 to avoid distortions due to the war in Ukraine. The main message from the table is that Ukraine is the dominant player in the agricultural enlargement, accounting for 75% of the combined agricultural area and 55% of the combined agricultural employment. All candidate countries have a high share of agricultural employment (apart from Montenegro) but there are particularly high shares in Moldova, Georgia and Albania. These shares are comparable to Spain in the 1986 enlargement and Romania in the 2007 enlargement.

The agricultural contribution to GDP exceeds 10% in Moldova, Ukraine and Albania. A first impression of relative labour productivity in agriculture is derived by comparing the share of agriculture in employment with its share in GDP. While the shares are closely balanced in Montenegro, indicating comparable labour productivity (and thus incomes) in the farm and non-farm sectors, this is not the case for any of

Table 3. **Agricultural characteristics of the candidate countries**

Country	Agricultural area 2021 (thousand ha)	Total employment in agriculture 2021 (thousands)	Agricultural employment 2021 (% of total employment)	Agricultural Gross Value Added 2021 (% of GDP)	Total number of holdings, thousands (most recent year)	Estimated average farm size (hectares)
Albania	1,136	425	36.2%	18.4%	352.1 (2015)	3.4
Bosnia and Herzegovina	2,263	134	12.2%	5.0%	363.4 (2013)	6.0
Kosovo	252	50	14.0%	9.0%	130.7 (2014)	1.9
Montenegro	256	17	7.5%	7.1%	43.8 (2016)	11.8
North Macedonia	1,260	87	11.6%	6.5%	178.1 (2016)	7.1
Serbia	3,485	439	14.6%	6.3%	564.0 (2018)	6.1
Moldova	2,275	368	57.8%	10.6%	902.2 (2011)	2.5
Georgia	2,380	671	41.1%	7.2%	642.2 (2014)	1.2
Ukraine	41,311	2,667	15.3%	10.9%	Private owners 6,900 (2020) Agricultural enterprises 61 (2021) Top 70 farms (2017)	4.5 367 86,000
Total	54,618	4,858				

Sources: Agricultural area and employment from FAOSTAT, agricultural employment data are based on modelled ILO estimates; Shares of agriculture in total employment and in GDP from World Bank Database; Number of holdings in Western Balkan countries from Agricultural Policy Plus http://app.seerural.org/agricultural-statistics/ which is also the source of other statistics on Kosovo. Number of holdings in Moldova from the 2011 Agricultural Census published by the Moldovan National Bureau of Statistics. Number of private holdings and area farmed in Ukraine from Matvieiev (2023), number and area farmed of agricultural enterprises from Régnier and Catallo (2024) while top 70 holdings data from National Investment Council of Ukraine (2018). Otherwise, estimated average holding size calculated by dividing the agricultural area by the number of holdings.

Note: The statistical data are uncertain and other sources give different figures, also due to using different statistical concepts (e.g. agricultural area vs utilised agricultural area). DG AGRI provides estimates on its webpage 'Agriculture in the enlargement countries' for the year 2019 which however only cover some of the Western Balkan countries and not the Eastern Partnership countries.

the other countries. Moldova and Georgia have particularly high disparities. This points to the high likelihood of labour out-migration from agriculture and farm consolidation. This is confirmed by the last column which calculates an estimated average size of holding. Data on the number of holdings is uncertain, and the average size of holding has little meaning in countries (such as Ukraine) with a highly differentiated farm structure divided between large agro-holdings, family farms and rural households that have been given small plots of land following privatisation mainly used for own consumption (Régnier and Catallo 2024). For other countries, the data confirm that on average holding sizes are small with only Montenegro an outlier in this respect.

These data on low labour productivity and incomes in agriculture and small holding size underline that a strong case can be made both for income support and investment in modernisation and rural development in the agricultural sectors in the candidate countries. This will be relevant when we come to discuss CAP budget transfers to the candidate countries later in this paper.

3.3 Trade and competition

We currently lack studies on the likely impact of further enlargement on EU agricultural markets. The Commission has yet to produce an analysis of the likely agricultural impact of enlargement, similar to the Agricultural Strategy Paper (European Commission 1995) and impact assessment (European Commission 2002a) published at the outset of negotiations with the CEECs. Agri-food exports from the candidate countries already have largely tariff-free access to the EU market, apart from products subject to a safeguards regime. Full membership would result in the removal of remaining sanitary and phytosanitary restrictions which could give a further boost to exports, particularly of animal products. On the other hand, full membership will require that the accession countries implement the same food safety, pesticide, water quality, nature protection, animal welfare and external trade instruments as apply to EU farmers. Implementing these measures is likely to raise their production costs.

Ukraine is the dominant agricultural supplier among the candidate countries. The question for EU farmers is whether it is better to have Ukrainian farmers inside the Union subject to the same rules and obligations as apply to them, or with the ability to export to the EU (albeit with sensitive products subject to tariff rate quotas (TRQs) but still able to enter the EU market if duties are paid) without having to meet the requirements (apart from food safety standards) that EU farmers face.

> 'Accession is not only about competition: greater availability of coarse grains and oilseeds will benefit the EU livestock sector [...].'

Accession is not only about competition: greater availability of coarse grains and oilseeds will benefit the EU livestock sector even if it increases competition for EU arable farmers, and the positive impact of EU membership on Ukrainian incomes will increase the demand for EU agri-food exports. Nor is it only the interests of farmers that count. Ukrainian membership would increase EU self-sufficiency for several key commodities. For those who argue that food security can be equated to food self-sufficiency, this would represent a significant improvement in the food security of EU citizens. As a significant producer of fertiliser, Ukraine would also contribute to improving the EU's strategic autonomy when it comes to food production.

Ukraine is currently a country at war. Some of the additional pressure on EU markets from Ukrainian exports recently results from the restrictions on Ukraine's traditional sea routes for exports which would presumably no longer apply when the war ends. But the consequences of the war will continue to be felt for some considerable time. On the demand side, domestic demand is depressed by the sizeable emigration and internal migration. On the supply side, the agricultural area controlled by the Ukrainian authorities at the end of the war is unknown. Much of that land will require investment in de-mining and there is a high risk of chemical contamination due to the ongoing fighting. One of Russia's aims is to destroy Ukraine's transport and storage infrastructure which will take time to rebuild. Much of other types of productive capital, such as irrigation facilities and machinery, has been destroyed. Depending on when the war ends, much of this work of reconstruction and recovery may take place during the pre-accession period, but there can be the potential for a significant supply response once rebuilding is complete.

3.4 Budgetary cost

All candidate and potential candidate countries have a much lower income per head than the present EU member states (Table 2). Their low labour productivity and incomes in agriculture and small holding size has already been noted. A strong case can thus be made both for income support and for investment in modernisation and rural development in their agricultural sectors (Table 3). There is no question that they will be net beneficiaries from the EU budget, with significant transfers coming both through cohesion funds and the CAP. There have been several published estimates of the likely impact of enlargement on the CAP budget under existing rules and policies (Busch and Sultan 2023; Emerson 2023a; 2023b; Lindner, Nguyen, and Hansum 2023; Rant, Mrak, and Marinč 2020). In addition, there is a widely cited reference in a *Financial Times* article to an unpublished study by the Council Secretariat that adding nine new members (not including Türkiye) would add €257 billion to MFF spending under existing rules requiring a 21% increase in the EU budget (i.e., an increase from €1.21 trillion for the current 2021–2027 MFF in commitments to a total of €1.47 trillion).[11] The scale of these estimates is compared in Table 5. Details of the methodologies behind these estimates is provided in Annex 1.

[11] Financial Times, 'EU estimates Ukraine entitled to €186 billion after accession', 4 October 2023.

Table 5. **Estimates of CAP gross transfers to the candidate countries following accession under current CAP rules (1)**

Study	Coverage	Estimated CAP transfer (€ billion)
Council Secretariat (2023)	Ukraine	13.8
	Western Balkans + Georgia and Moldova	4.3
	Total	18.1
Emerson (2022)	Ukraine	10.4
Lindner et al. (2023)	Ukraine	7.6
	Western Balkans + Moldova	2.2
	Total	9.8
Busch and Sultan (2023)	Ukraine	10–13
Rant et al. (2020)	Western Balkans	11.3
Matthews (this analysis)	Ukraine	13.4

Sources: See details in Annex 1.

Note: The phrase 'current CAP rules' is interpreted differently in different studies. For example, external convergence is not yet complete in the CAP 2023-2027. Some estimates assume these differences in Pillar 1 payments per hectare between member states will continue in the next MFF and also apply to the candidate countries. Other estimates interpret 'current CAP rules' to imply that full external convergence will be achieved and will also apply to new member states.

These studies show varying estimates of the impact of future enlargement on the CAP budget, in part due to coverage and methodological differences. They are all 'static' estimates, meaning that they calculate likely expenditure based on the policies and rules currently in force. They do not account for dynamic changes such as the impact of the economic growth trajectory of the accession countries between now and the date of accession (of importance for cohesion receipts). They are also estimates of gross transfers. Net receipts would be somewhat lower taking account of additional revenue from the new member states, while Linder et al. note that the funding for pre-accession assistance should also be netted out. Rules and policies under the CAP may also be modified during the accession negotiations, something we examine later in this analysis.

3.5 Preparedness for enlargement in candidate countries

A complicating factor for the next enlargement is that the Union *acquis* becomes ever more comprehensive over time. This is not least the case for agricultural and food legislation where additional objectives for agri-food policy have become more prominent. In earlier enlargements, the *acquis* consisted principally of the common market organisations. Since then, the reform of the CAP has led to the introduction of direct payments which requires a detailed infrastructure (e.g. Land Parcel Identification System (LPIS) and the Integrated Administration and Control System (IACS)) for implementation. There has also been an explosion of legislation on food safety, on environmental issues, on pesticide use, and on animal welfare. There has been a further growth in legislation as part of the European Green Deal, particularly around climate policy but also nature and biodiversity policy and the role of renewable energy.

Accession is a moving target as the EU adds to its body of legislation all the time. The higher standards required by new legislation are often associated with higher costs. But the legislation must be incorporated into national law and enforced before a candidate joins the EU. This disjunction between the timing of the costs and benefits of accession is an important negative incentive for the candidate countries to pursue these reforms.

Under the revised enlargement methodology (European Commission 2020), the *acquis* chapters are divided into six clusters. Agriculture is in Cluster 5 along with food safety, fisheries, cohesion and budgetary provisions. Negotiations on each cluster open after a country fulfils the opening benchmarks set out in the Council's negotiating

Table 6. **Level of preparedness of candidate countries to adopt the *acquis* with respect to agriculture and rural development**

Country	Status	Commission evaluation of progress on agriculture and rural development chapter
Albania	Candidate status granted June 2014. Accession negotiations began in July 2022.	Some level of preparation in agriculture and rural development but major steps towards alignment are still required.
Bosnia and Herzegovina	Candidate status granted December 2022. Required to meet 14 key priorities before the Commission will recommend opening accession negotiations.	Made no progress in 2023 in the resources, agriculture and cohesion cluster where preparation is mostly at an early stage.
Kosovo	Potential candidate and must make progress on the normalisation of relations with Serbia before it can become a candidate.	Has made limited progress on agriculture and some progress on food safety, veterinary and phytosanitary policy.
Montenegro	Candidate status granted December 2010. Accession negotiations opened in 2012. All chapters in cluster 5 (resources, agriculture and cohesion) have been opened.	Moderately well prepared in the area of agriculture and rural development.
North Macedonia	Candidate status granted December 2005. Accession negotiations opened in July 2022.	Moderately prepared in most areas of cluster 5 on resources, agriculture and cohesion.
Serbia	Candidate status granted March 2012. Accession negotiations began in 2014.	Two of the five chapters in cluster 5 have been opened and the Commission has assessed that opening benchmarks have been met for the agriculture and rural development chapter.
Georgia	Candidate status granted December 2023. Required to fulfil 12 priorities to make progress on its accession process.	At an early stage of preparation in the chapters on agriculture and rural development.
Moldova	Candidate status granted June 2022. Accession negotiations began in June 2024.	At an early stage of preparation in agriculture and rural development.
Ukraine	Candidate status granted June 2022. Accession negotiations began in June 2024.	At an early stage of preparation in the area of agriculture and rural development.

Source: European Commission (2023a).

mandate. The Commission uses the following assessment scale to describe the state of play: early stage, some level of preparation, moderately prepared, good level of preparation and well advanced. The Commission's 2023 enlargement package (European Commission 2023a) provides a snapshot of how well prepared the candidate countries are to adopt the *acquis* with respect to agriculture and rural development. The assessment suggests that most of the candidate countries are only at the very start of this process (Table 6).

4. Preparing the CAP for the next enlargement

It is not only the candidate countries that must undertake further reforms. The EU must also prepare itself for enlargement. In the Commission's Communication on pre-enlargement reforms and policy reviews in June 2024 (European Commission 2024), it noted four factors that had contributed to the success of previous enlargements: adjusting EU policies ahead of accession; a rigorous accession process ensuring enlargement countries are fully prepared prior to accession; targeted assistance; complemented, where needed, by transitional periods after accession, such as the phasing-in of funds and access to the EU labour market.

This section focuses on the changes that might be made to the CAP to facilitate a successful accession, drawing on the lessons of previous enlargements. The Commission Communication considers the impact of enlargement on already evolving EU policies, including the CAP. However, its prescriptions for agricultural policy are in very general terms, as seen in the following quotation:

> One of the key challenges of future enlargement, will be to strengthen the EU's common agricultural policy's ability to support a sustainable

> and competitive agri-food production model, while accommodating the needs of farmers and fishers in both current and future Member States as well as the variety of farming models in a wider Union. This will have to be managed in a way that the internal market, the Common Agricultural Policy (CAP) as well as the Common Fisheries Policy (CFP) are preserved, without creating undue shocks or major disruption towards achieving its policy objectives. […]
>
> The objectives of the CAP remain valid in a wider Union. Enlargement will require a thorough assessment of its long-term effects on the viability and sustainability of agricultural policies in an EU 30+, paying appropriate attention to the size and structure of agricultural holdings, the structure of agriculture in each economy, coupled with the diversity of agriculture models, and bearing in mind the long-term socio-economic and environmental challenges the sector faces. Ensuring a level playing field for the agricultural sector between current and future Member States will be essential.

Elsewhere, under the budget heading, the Commission notes that enlargement is an opportunity – but not the trigger – to review the financial sustainability and modernisation of key policy/spending areas including agriculture and rural development. It underlines that EU policies and programmes may need to be redesigned for the next MFF, independently of the enlargement context. The options for the upcoming review of agricultural policy will now be sketched.

The main concern is that extending the CAP as it stands in 2024 to the nine WB and EaP candidate and potential candidate countries is simply unaffordable.[12] There is no budgetary problem with enlargement if the existing member states are willing to pay for it. But given the likely budgetary context, with many demands competing for limited resources, this hardly seems plausible. The MFF budget is under huge pressure from competing expenditure demands such as security and defence, energy and industrial decarbonisation, migration pressures, and the need to repay the borrowing for the Next Generation EU programme. Efforts to introduce new own resources – which might allow an increased EU budget to be financed without having to directly ask member states to provide additional funds – have not so far been productive, apart from the introduction of a levy on non-recycled plastic packaging waste. There will also be a huge need to finance post-war reconstruction and recovery in Ukraine to which the EU will be expected to make a major contribution either inside or outside the MFF, and these costs will arise irrespective of Ukrainian membership.

'There is no budgetary problem with enlargement if the existing member states are willing to pay for it. But given the likely budgetary context, with many demands competing for limited resources, this hardly seems plausible.'

For the CAP, there are two strands to the debate. One is the overall size of future transfers to individual member states (which will depend both on the allocation of MFF funds to the CAP and on the allocation rules for the distribution of CAP funds under CAP Pillar 1 and Pillar 2). The other issue is the framework of rules set in CAP legislation which determines the uses to which member states including the accession countries can put these funds. The allocation rule along with the size of the CAP budget is the central issue in determining the budgetary burden of enlargement and the impact on farmers in the current member states. The way in which CAP funds are spent within a member state (for example, whether they are capped or not, or used for income support or environmental purposes) is highly relevant to the value added and effectiveness of this spending, but it is not relevant to the budgetary burden of enlargement.

We proceed on the assumption that the CAP budget will not be increased, or at least not sufficiently to permit the continuation of payments

[12] Arrangements for further trade liberalisation and access to the single market are negotiated in Chapter 1 of the *acquis* 'free movement of goods' and are not relevant to the CAP negotiations.

to both old and new member states under current rules. This will require either a reduction in the CAP transfers to existing member states and EU farmers, or the introduction of a discriminatory regime where (some of) the new member states are treated differently. The latter is ruled out by the Commission (see the quotation from the Communication above) as it insists on the need for a level playing field between current and future members. Several options have been proposed, but not all address the central issue.

Reducing payments. The higher end of the figures discussed for the likely gross transfer of CAP funds to the WB and EaP countries applying current policy rules following a successful enlargement is of the order of €18 billion annually (of which just under €14 billion would be allocated to Ukraine). This compares to programmed CAP spending of €54 billion annually under the current MFF,[13] or a 34% increase in spending. Assuming that the CAP budget is not increased by this amount, one option to manage the accessions while maintaining the current allocation rules would be to uniformly reduce the level of CAP payments.

In practice, this would mean reducing the payment rate per hectare for direct payments in Pillar 1 and making a corresponding *pro rata* reduction in Pillar 2 ceilings. This has the merit of treating all member states, both new and existing, equally. It implies that existing EU farmers would receive reduced payments. They might argue that they are being asked to pay for an enlargement that is fundamentally driven by geopolitical considerations even if there will also be economic benefits for the Union as a whole. Reducing payments per hectare will also disturb the delicate balance of net beneficiaries and contributors under the CAP. For both reasons, political opposition to this option from those who would lose can be expected. If sufficiently strong and widespread, it could jeopardize the success of the enlargement process itself.

Capping payments. Capping payments refers to imposing a maximum ceiling on the amount of direct payments an individual farm can receive, regardless of its size. This option is put forward particularly in the context of Ukrainian accession given the differentiated farm size structure in that country and its large agro-holdings. The Commissioner for Agriculture, Janusz Wojciechowski, has referred to mandatory capping to cope with the accession of Ukraine.[14] It appears also be the favoured option of the Strategic Dialogue on the Future of Agriculture (Strohschneider 2024). Its report notes:

> The income support policy needs to be changed to meet current and future challenges, promote employment and to support the ongoing transition of agri-food systems towards more sustainable, competitive, profitable, and diverse futures. **This is also essential in order to make the CAP fit for purpose in the context of the EU's enlargement process** (emphasis added).

There are of course several good reasons why payments to large farms should be capped. EU taxpayers would likely be outraged by the thought that they would be financing several million euros in payments to large agro-holdings owned by wealthy business people. But reducing the budgetary cost of enlargement is not an additional reason for capping. This is because capping affects the way a member state uses and distributes the CAP resources that are made available to it. It does not affect the underlying allocation principle for Pillar 1 payments which would remain determined by the size of a country's potentially eligible area (PEA) (see Annex 1 for further discussion).

Capping would only influence the budgetary outcome of enlargement if the policy were also integrated into the allocation principle for CAP Pillar 1 funds. Pillar 1 payments could be distributed between member states, not based on their total PEA, but rather the agricultural area managed by farms below a defined payment threshold. This logic is not embraced by the Report of the Strategic Dialogue on the Future of Agriculture. This principle would indeed reduce projected CAP payments to Ukraine. But it would

[13] European Commission, 'Common Agricultural Policy – performance', https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/programme-performance-statements/common-agricultural-policy-performance_en.

[14] Euractiv, 'Agri commissioner calls for ceiling on CAP payments to large farms', 14 December 2023.

also mean that current member states with a disproportionate amount of land managed by large agro-holdings would experience a disproportionate reduction in their CAP receipts. Whether these countries would be prepared to accept a disproportionate hit of this kind, relative to an across-the board reduction in agricultural payments affecting all current member states equally, is a moot question. It would also create a perverse incentive structure for member states, as they would be very tempted to collude with artificial arrangements to break up large holdings, on paper if not in reality, because this would also attract additional resources from the EU budget.

Phase out direct payments in favour of agri-environment-climate payments and payments for agroecological practices. This proposal to reform the CAP finds favour with green and environmental groups. The argument is that extension of the CAP to new members requires that we accelerate the repurposing of CAP support to underpin the transition to more sustainable agricultural practices. This argument is not so much about CAP funding (indeed, it implicitly assumes that funding would remain in place also for the new members) but rather about how CAP funds are used. It is a continuation of the debate in the two previous MFF programming periods around the objectives of EU agricultural policy and what we should be supporting with CAP money. While a much-needed debate, it is not obvious how enlargement *per se* should determine the outcome of that debate. As for capping, this option refers to the use made of the direct payment ceilings allocated to member countries. If the allocation principle itself is not changed, it would have no impact on the budgetary cost of enlargement.

Revising the criteria for the allocation of CAP payments between member states. We argue that the budgetary cost for the CAP of enlargement will be determined by the overall size of the CAP budget in the MFF and the rules for allocating this CAP budget between the member states. The criteria for allocating Pillar 2 funds are opaque. Allocations appear to be largely path-dependent but with some cohesion rationale, in that higher-income countries with better agricultural structures receive a lower share of their CAP receipts in the form of Pillar 2 funds and vice versa. Pillar 1 funds are allocated based on the relative share of a country's PEA (potentially eligible area) in the EU total multiplied by a historically determined payment per eligible hectare. Over time, there is a move towards a uniform payment per eligible hectare across countries (external convergence), so in the next MFF it is very possible that member state allocations will be solely determined by relative shares in the EU PEA. On both sets of criteria, Ukraine would expect to be a major beneficiary of CAP funds.

A possible CAP reform would be to alter the allocation criteria, at least for Pillar 1 payments. For example, given that the CAP increasingly has environmental objectives, one might introduce criteria related to the share of protected landscapes or the extent of carbon stored in soils. Focusing on the income objective, one could limit the PEA to the share managed by smaller farms, as suggested above in the discussion on capping. Whatever alternative criteria for allocating Pillar 1 funds might be decided, they would only reduce the budget burden of enlargement on existing member states if they resulted in a lower share of payments going to Ukraine and the other candidates than they would receive under the existing PEA criterion. The drawback with introducing alternative allocation criteria is that it implies that funding is shifted among the current member states as well as between the accession countries and current member states. Getting the agreement of those member states that might lose from a new allocation mechanism could be problematic.

Phasing in direct payments. An obvious proposal which will almost certainly be implemented is to follow the practice in the last three enlargements and to stagger the introduction of direct payments over a ten-year transition period. This would mean, for example, that if the candidate countries were to become members by, say, 2032, the full cost of CAP subsidies would not be felt until 2042 which is two MFFs hence. This approach does not avoid the cost of enlargement, but it pushes it into the future.

Forego direct payments partly or completely. If it is desired to lower the cost of enlargement, one option is to treat the candidate countries differently. The mechanism used to lower the budgetary cost of the 2004/2007 enlargements depended on setting low reference levels for the quantities of production eligible for coupled support. This mechanism is no longer available since most direct payments are decoupled and support has shifted to area-based payments. But one could envisage an outcome where payment rates were set lower for the candidate countries. The demand for differential treatment will focus particularly on Ukraine, given its dominant role in the next agricultural enlargement. But why would Ukraine agree to limit its access even partially to direct payments as part of its accession negotiations? By partial access is meant that Ukraine would not insist on receiving the same level of direct payments per hectare as other member states, or it might agree to limit the potentially eligible area to which direct payments applied (for example, excluding land managed by large agro-holdings as suggested above). It would not be Ukraine's preferred choice in the negotiations, but could it be an option?

If it became clear that the budgetary costs of the CAP were an insuperable obstacle to successfully concluding the accession negotiations, Ukraine might decide that the higher objective of achieving membership trumped the full receipt of direct payments. It might reason that its large agro-holdings do not need direct payments either for income support or to be competitive. There will anyway be large inflows of funding into Ukraine for reconstruction and recovery for some time. In that context, insisting on the right to full direct payments under the CAP may seem counter-productive and short-sighted when it is the overall transfer of funds that is the key variable. A concession on direct payments would also give Ukraine leverage to seek other concessions in return that may be more meaningful for it. Such concessions could concern areas completely outside of agriculture, but Ukraine could be interested to limit the possibility for EU nationals to purchase Ukrainian farmland, for example. In this situation, it would be up to the Ukrainian authorities to define what their negotiating interests are.

5. Conclusions

In conclusion, the CAP is a subsidy policy focused on specific objectives. Because of its common financing it also acts as a redistributive financial mechanism between EU member states. The next enlargement can potentially disturb the current equilibrium of net transfers due to the CAP among member states. Unless there is a corresponding increase in the CAP budget in the next MFF, which seems unlikely, then including the projected budget costs of enlargement in the MFF will result in lower payments to farmers in current member states.

'Unless there is a corresponding increase in the CAP budget in the next MFF, which seems unlikely, then including the projected budget costs of enlargement in the MFF will result in lower payments to farmers in current member states.'

A similar dilemma occurred in previous enlargements where the accession countries were low-income countries with many unproductive small holdings but with a considerable potential to increase agricultural output. The Iberian enlargement in 1986 took place when the CAP was still based on regulating market prices. The accession agreement provided for a long transition period for sensitive products before the full benefits of the CAP were reaped (this transition period was later shortened once Spain and Portugal became member states), temporary safeguards were used for trade in sensitive products to avoid market disruption, changes were made to the CAP *acquis* particularly for Mediterranean products to limit expenditure, but the CAP budget was also increased to finance the enlargement.

The eastern enlargement in 2004/2007 took place in the context of a firm budget constraint as the CAP budget had been agreed some years previously. The Commission's original proposal to meet the cost of enlargement within this budget constraint was to refuse to extend CAP direct payments to farmers in the candidate countries. The candidate countries quickly shot down this idea. Instead, the accession agreement provided for the phasing-in of these payments over a ten-year transition period, thus pushing the full cost into the negotiations on a future MFF. The agreement also used a base period that significantly reduced the value of these payments even when fully phased-in, while also constraining production of commodities produced under quotas. The integration of these countries into the EU agricultural market was eased by bilateral preferential trade agreements which had broadly liberalised agri-food trade prior to accession. Provision was made in the Treaty of Accession for a general safeguards clause (not limited to agri-food products) which could be invoked for a three-year transition period if severe market disruption occurred as a result of imports from the new member states.

The next enlargement will also take place under a budget constraint although its precise nature is not yet determined. As in previous enlargements, the candidate countries have many small-scale low-productivity farms where both income support and funds for modernisation can be justified. However, Ukraine stands out because much of its agricultural area is managed by large agro-holdings which are already competitive suppliers to the world market. The precise arrangements for extending EU agricultural policy support to the candidate countries will be determined in the accession negotiations. While some lessons can be learned from previous enlargements, each enlargement faces its own challenges and needs to find its own solutions. Phasing-in CAP payments to the new member states as happened in the 2004/2007 and 2013 enlargements is one obvious instrument that can be used.

In the longer run, the central issue is the allocation criteria used to distribute CAP funds between member states. It is possible, but not guaranteed, that under alternative allocation criteria Ukraine and the other candidate countries might benefit less from CAP funds than under current allocation rules. This solution would also result in gainers and losers among existing member states. A discriminatory solution in which Ukraine would be treated differently for CAP funds compared to other member states could be an option, even if the Commission appears to have ruled it out. It is a solution that Ukraine would have to agree to in the accession negotiations. Whether it would be prepared to agree would presumably depend on what other negotiating issues are on the table.

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Annex 1. Methodologies behind estimates of the budget cost of including the candidate countries in the CAP under current rules

It is relatively straightforward to estimate the impact of extending the CAP to the candidate countries under present rules once the parameter values are chosen. My own estimate of the CAP cost of Ukrainian accession is as follows. I assume that under current rules there will be full external convergence of Pillar 1 payments per hectare in the next MFF and that this would also apply to new member states.

The ceiling for CAP Pillar 1 payments is the potentially eligible area (PEA) times the average support per hectare. The PEA is 91% of the utilised agricultural area (UAA) for the EU as a whole (European Commission 2023b). Assuming Ukraine's UAA at its pre-war figure of 41.5 million hectares and that it would receive the average EU support per hectare of €255 in 2021 (European Commission 2023b) would yield Pillar 1 receipts of €9.6 billion as a maximalist position. There is no similar allocation mechanism for Pillar 2 payments, but an estimate can be made using a key based on average receipts per hectare, or per head of population, or per farmer in existing member states. The newer member states are unlikely to agree that Ukraine would be treated more favourably than they were in their accession negotiations, so we take Poland as the comparator. Poland's Pillar 2 receipts under the 2021–2027 MFF (excluding NGEU receipts) are just over €1.3 annually and Poland has a UAA of 14.5 million ha. Grossing up to Ukraine's UAA gives projected Pillar 2 receipts of €3.8 billion. Using these assumptions Ukraine's total CAP receipts would be €13.4 billion.

This figure corresponds very closely to the Council Secretariat's estimate of €13.8 billion (see footnote 11). As this study is not published, it is not possible to make a more direct comparison between the two estimates.

We now briefly summarize the other studies included in Table 5. The Emerson (2023a) paper looks at the 'static' budgetary impact of Ukrainian accession only, based on the cases of Poland and Romania as comparator states, supposing it were a member state today. Starting with the 2022 budget results, the method is to apply the key variables that determine budgetary allocations and scale the 2022 budget results for these countries to fit the candidate countries. He estimates that Ukraine would benefit from net receipts of around €18.9 billion annually, compared to the leaked Council estimate of €26 billion annually. His estimate of agricultural subsidies is €10.4 billion compares to the Council's estimate of €13.8 billion annually. Emerson (2023b) attributes these differences to the Council making maximalist assumptions of Ukraine's land area and population whereas his estimate is based on more cautious estimates. It is further possible that the Council study includes full external convergence of CAP Pillar 1 payments where Emerson's estimate is based on the lower CAP payments per hectare received by Poland and particularly Romania.[15] A caveat is that this study does not take account of the Western Balkans accession.

Lindner et al. (2023) examine the impact of the accession of both Ukraine and the Western Balkans applying the budgetary rules and data of 2021. They estimate that additional spending for Ukraine on this basis would amount to €13.2 billion annually, and for the Western Balkans and Moldova an additional €5.8 billion, or €19 billion annually in total. Of this total, €9.8 billion would be due to agricultural subsidies (€7.6 billion for Ukraine alone).[16]

Busch and Sultan (2023), like Emerson, only look at the budget implication of Ukraine membership. They estimate that the financial consequences of full membership based on the 2021–2027 MFF would be between €130 and €190 billion over the seven-year period, depending on the assumptions made about the arable land area and population size (where this upper estimate is very close to the leaked Council estimate). They estimate that agricultural subsidies would amount to between €70 and €90 billion (or between €10 and €13 billion annually).

[15] His figure of €10.4 billion in CAP receipts would increase to €11.9 billion if based on the Polish figure for the 2021 value of CAP Pillar 1 payments per hectare alone (€230 per ha), which in turn is still lower than the EU figure of €255 per ha.

[16] It is not obvious why this figure is so much lower than either the Council or Emerson's estimates as the paper is not explicit about the parameters used to make this estimate.

Rant et al. (2020) only consider the impact of Western Balkans enlargement. They calculate that additional agricultural subsidies could amount to €11.3 billion annually, largely due to assuming very high rural development receipts. This figure is almost three times as high as the Council's estimate. This is likely due to their methodology which calculates future payments based on a regression relationship between income per head and CAP payments in the current member states.