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AGRICULTURAL POLICY AND EUROPEAN INTEGRATION IN SOUTHEASTERN EUROPE

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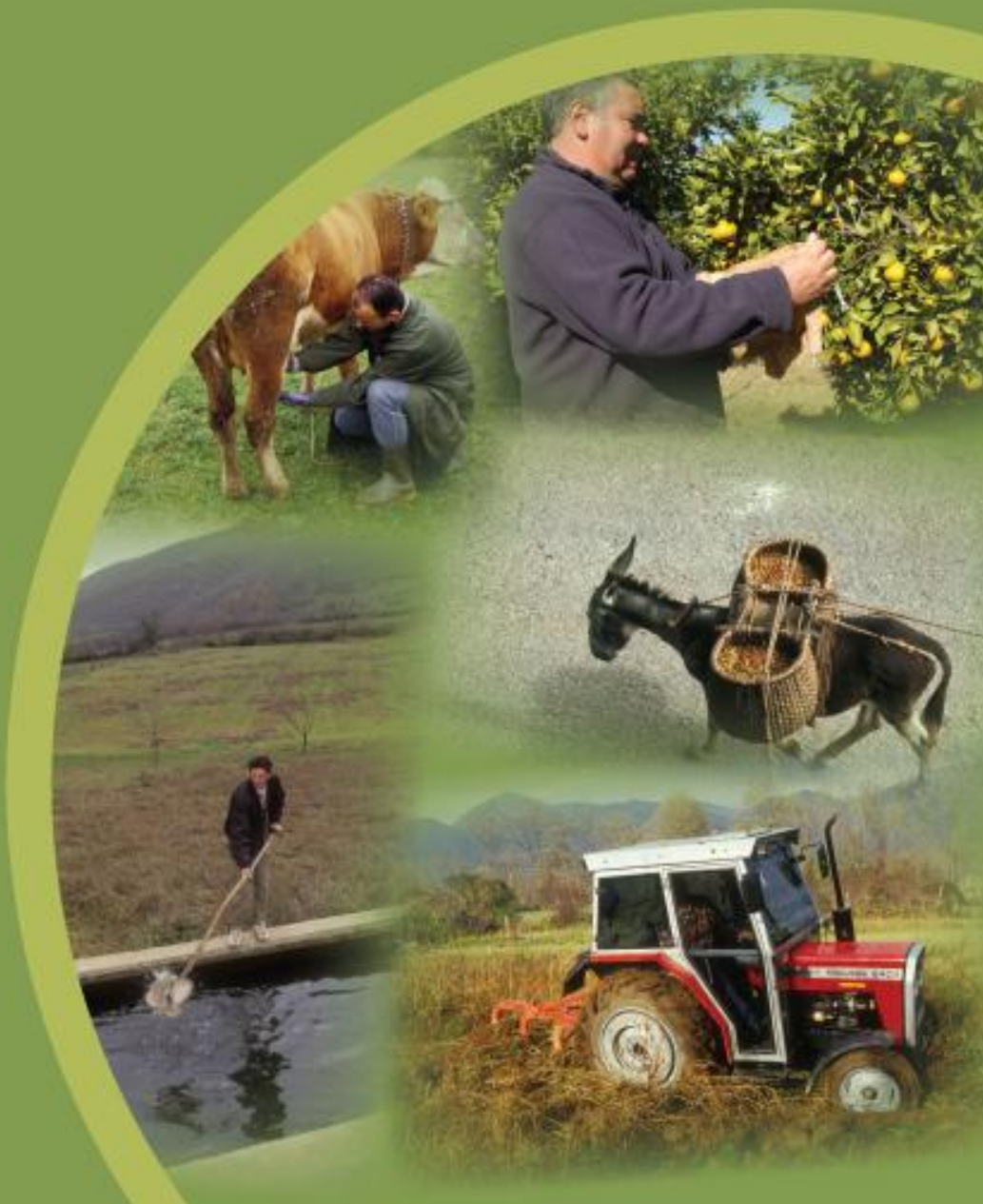

AGRICULTURAL POLICY AND EUROPEAN INTEGRATION IN SOUTHEASTERN EUROPE

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FOREWORD

The countries of the Southeastern European (SEE) region pronounced their intention to move towards integration with the European Union (EU) in order to create a stable, united, and more prosperous region. The EU integration process should foster political stability and socio-economic and sustainable development in the region. The SEE candidate and potential candidate countries, see the integration an opportunity to enhance a peaceful development through economic, political and cultural co-operation within the region itself and with the EU member states.

However, the EU integration process is a highly complex procedure, which involves the creation of new institutions and the implementation of a range of policy reforms. Given the importance of the agricultural sector in the SEE countries in the economic development at national and regional level, it is essential that the reform process contribute to increasing competitiveness, enhancing regional trade and boosting the rehabilitation of food chains. To successfully accomplish the reform process and ensure a smooth integration, it is important to develop solid networks and mechanisms for dialogue among policy makers and the research community across crucial policy areas.

The Food and Agriculture Organization of the United Nations (FAO) decided, in close cooperation with the Regional Rural Development Standing Working Group (SWG), to implement the project *"Streamlining of agriculture and rural development policies of SEE countries for EU accession"* to facilitate the establishment of such networks and mechanisms. The purpose of the project is to strengthen cooperation among policy makers and the research community in order to create an effective policy making environment and to assist the integration process. This book constitutes one of the main results of the project; it is devoted to the analysis of agricultural and rural development policy of the SEE countries in view of their chosen future EU accession.

It is a unique work in the region, which has been elaborated in close cooperation between policy makers and the research institutions in the SEE countries. It is anticipated that it will provide a valuable input for policymaking as well as a solid basis for future cooperation and continued dynamic dialogue between policymakers and the research institutions.

It is the hope of the FAO and the SWG that efforts will be made to maintain and enhance the constructive relationships created among the policy makers and research institutions in order to develop a culture of well-informed and consistent policymaking in the future.

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Assistant Director-General
Regional Representative for Europe and Central Asia

Boban Ilic
SWG Secretary General

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Part A
REGIONAL ASPECTS

Chapter A.I

OBJECTIVES AND APPROACH

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The Southeastern European region (SEE)[1] has made substantial progress towards stability, economic reforms, and European integration, which is one of the overriding political and economic challenges in the region. At the Zagreb Summit in November 2000, leaders from the European Union (EU) and the SEE countries confirmed their full commitment to the Stabilization and Association Process (SAP), led by the EU[2], and eventually full EU membership. The countries are currently divided in three groups; Croatia – an EU member since 1 July 2013; The former Yugoslav Republic of Macedonia (TFYR of Macedonia), Montenegro, Serbia and Albania - candidate countries[3] for EU membership; and Bosnia and Herzegovina, and Kosovo[4] - potential candidate countries for EU membership. In this context, the fulfilment of the EU-membership criteria is crucial.

1. Integration and development tasks of agricultural policy

SEE countries have clearly identified European integration as a political priority, defining, among other things, agricultural policy reforms and the need to modernize agriculture. The accession process entails not only enhancing competitiveness across whole agro-food chains, but more broadly, adopting a quite different model of agricultural policy more demanding in its conceptual, administrative and financial

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1 Southeastern Europe (SEE) is a geographical and political region located primarily in the Balkan Peninsula. The countries included can vary greatly due to the political economy considerations of the observer. Sovereign states that are included in this study are, Albania, Bosnia and Herzegovina, Croatia, Kosovo*, Macedonia, Montenegro and Serbia. This SEE sub region is also named Western Balkan.

2 The SAP is a strategy explicitly linked to the prospect of EU accession and is adjusted to the level of development of each of the countries concerned. In return for the offer of the prospect of accession – and assistance to achieve it – the countries of the region have undertaken to meet the political and economic requirements set for all aspirants (Copenhagen criteria).

3 The European Council granted the candidate status to Macedonia on December 2005, to Montenegro on December 2010, to Serbia on March 2012 and to Albania on 27 June 2014.

4 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence. Hereinafter referred to as "Kosovo*".

aspect. SEE agriculture and agricultural policy differs namely significantly from the structures and processes in the EU. Reforms are therefore needed to align it with the legal and institutional set-up of the EU and to integrate the country's agricultural sector into the EU single market in the most efficient manner. The various aspects of these reforms and requested modernizations are reflected in a comprehensive integration and negotiating process:

i) ***Legal harmonization*** of four main Common Agricultural Policy (CAP) regulations (Direct Payments, Single Common Market Organizations, Rural Development, Financial Rules). The country has to be able to implement these regulations on the first day of accession; policy harmonization before accession, however, is not obligatory.

ii) ***Implementation capacity upgrading***. The institutions responsible for the legal harmonization and implementation of EU CAP rules need to be strengthened or in some cases established. The implementation of the IPARD pre-accession support for agriculture and rural development serves as a test of the country's implementation capacity.

iii) ***Policy reforms and economic adjustments***. The agro-food chain and rural economies have to be modernized and prepared for a "soft landing" into the CAP framework after accession. Increasing competitiveness and providing income alternatives for rural inhabitants must be considered the main objective. Furthermore, substantial reforms of agricultural policy are required before the accession in order to prepare the beneficiaries of CAP measures and the administration for work in the institutional and economic framework of EU agricultural policy.

iv) ***Accession negotiations***. Includes a summary of the above issues as well as negotiations on the transitional periods or, in some rare cases, negotiations on permanent derogations from the EU legal framework. Agriculture is also an important part of the financial package for each candidate country, requiring intensive work and preparation.

One of the major steps is the acceptance and the implementation of the EU body of law (*Acquis Communitaire)*, as for agriculture, rural development and related issues (fisheries, food safety etc.) represent approximately 40 percent of the total *Acquis*. Therefore, the biggest challenge in the upcoming negotiation process is Chapter 11 (Agriculture and Rural Development), Chapter 12 (Fisheries), and Chapter 13 (Food Safety). Due to their common challenges and interests, the countries in the region are seeking closer co-operation among themselves at political and technical levels. An important institutional frame for co-operation in the field of agricultural and rural development policy presents the Regional Rural Development Standing Working Group in Southeast Europe (SWG)[5].

The agricultural sector, although its share in the economy has decreased since 2000, still plays a relatively important role in the SEE region in terms of both value added and employment. As subsistence agriculture still dominates in most parts of the region, farming ensures a minimum level of food security and socio-economic stability in rural areas. Therefore, the sector has an important function as a social and economic buffer for rural economies. On the other hand, policy makers are facing a number of challenges, such as low competitiveness of the agricultural sector, inadequate use of agricultural production potentials, and depopulation of rural areas.

Alongside the above-mentioned issues, European integration remains the main challenge in terms of contributing to the resolution of these developmental problems. The level of approximation of the agricultural and rural development policies in the SEE countries to EU standards is diverse and depends on the status of the countries in relation to the EU and willingness to reform and modernize domestic policy. Most of the SEE countries are already applying some CAP-like agricultural and rural development

[5] The SWG is international and intergovernmental organization which members are Ministries of Agriculture from SEE countries. More information available on the SWG web-site:seerural.org

policy instruments (Croatia[6] as a member since July 2013 is already fully implementing the CAP), while others are finalising or discussing new strategic frameworks for strengthening of the integration process and gradually introducing CAP-like policy. One of the advantages of this diverse situation is that countries which are more advanced in EU integration and harmonization process can share their valuable experience with others, in order to create synergies and accelerate the integration process and the development of rural areas in the whole region.

2. Stronger analytical work for better agricultural policy

The responsibility for implementing agricultural and rural development policy lies with the ministries of agriculture, where very often the administrative capacity is limited, not least concerning experience in dealing with the EU harmonization process. This adverse situation is further aggravated due to constant and rapid changes to the organizational structure of the ministries and frequent changes in human resources.

Despite the positive tendency in governmental budgetary support to agriculture and rural development in the region, these funds are often not efficiently used. Furthermore, in some countries there is no clear long-term agricultural and rural development strategy. Policy-making has often been dictated by short term political considerations driven by lobby groups or political affiliations; it has lacked a consistent orientation towards the EU CAP, and is only to a limited extent in line with EU agricultural and rural development policies.

It is evident, however, that political decision makers are increasingly looking for advice in agricultural economics and policy analysis on how to deal with the emerging economic and social structural crises in SEE rural areas. Problems and new requirements for EU accession and the difficulties of agricultural restructuring, require search for ideas and concepts of how to deal with the mounting obstacles of agriculture and rural areas. Consequently, reliable and systematically collected material can fulfil the knowledge gap and contribute to solving the above mentioned problems by providing policy recommendations.

In addition, a wide range of analyses, reports and studies, including policy recommendations, have been elaborated for the region by national and international academic institutions, universities and development organizations. However, in many cases these documents and knowledge have not been taken into consideration in the course of policy formulation.

Many agricultural economists and other researchers working in the field have experienced that policy makers are sceptical about the usefulness of research, meaning that there is no stable relationship between the ministries and researcher. This critical gap originates also from the fact that the majority of the academics have no tradition and skills for writing operational policy papers, which policy makers can use for informed policymaking. This is also because researchers and policy makers have often different paradigm and perception toward information, facts and languages. Important issues affecting their collaboration include lack of mutual trust and respect, different views on the use of research findings, which results in shortage of dialogue as well as understanding for political economy realities.

Thus, there is a common problem in the region regardless of the individual countries' accession status: the lack of dialogue between policy makers and researchers, on one hand, and the lack of a reliable and well systematized database, which collects all the relevant materials, data and analysis in one place for access and ease of use for policy-makers on the other. This situation contributes to the critical gap that hinders EU integration and modern agricultural "evidence based" policy.

[6] Croatia finished accession negotiations on 30 June 2011 and on 9 December 2011 signed the treaty. The ratification process, by the Parliaments of all 27 EU Member States was concluded by the end of June 2013; hence Croatia joined the EU on 1 July 2013.

3. FAO and SWG research and networking project

Despite this situation, all the governments of SEE acceding countries are committed to aligning their agricultural policies with the CAP in order to modernize and to improve the competitiveness of their agricultural sectors. For that reason, FAO and SWG joined forces in order to address the above issues and formulated and implemented jointly a project *"Streamlining of agriculture and rural development policies of SEE countries for EU accession"*[7] aimed at achieving closer coordination, and in the long run, a stable relationship between policy makers and research institutions and individual researchers dealing with analysis of agriculture policies and their impacts on the agricultural sector and rural development[8]. Above this, the project also targeted closer coordination and exchange of views between the SEE countries, which is essential for an effective decision making, administration and an accelerated accession process.

The project has assisted in raising awareness of the importance of solid and professional research and an exchange of views on agricultural economics and policies in the context of the EU integration process, especially the significance of sharing information and experiences among senior civil servants in SEE ministries of agriculture and researchers by establishing an active cooperation at national and regional level. The project has generated a stable relationship, as well as provided support and recommendations for policymaking. This will eventually lead to improved policy formulation, more efficient monitoring, impact assessments and better planning of budgetary support to the sector and in this way streamlined agricultural and rural development policies of SEE countries for EU accession.

The main stakeholders of the project were the ministries of agriculture of the participating countries, in particular the relevant departments and units dealing directly with the creation and implementation of agriculture and rural development policies, as well as policy analysis.

The second group of stakeholders were academic and research institutions and universities in the SEE region that have the analytic capacity of agricultural economics.

The third group of stakeholders consisted of representatives from civil society associations and other experts dealing with agriculture and rural development policy issues. The indirect beneficiaries should be the rural population in the participating countries, particularly the beneficiaries of the agriculture and rural development measures derived from improved policymaking.

The project implementation had three core elements: a) enhancing cooperation between policy makers and researchers in the field of agricultural policy, b) establishing an agricultural policy database with a harmonized systematization and qualification of budgetary transfers, and c) analysing the gaps and recommending policy actions to overcome the challenges. The main issues analysed per country and in the region were: 1) main characteristics and challenges of agricultural development, 2) main features of the agricultural policy, and 3) main gaps in the policy scope and design of the European integration process.

The key approach used was to foster partnerships between academics and ministry staff through national and regional workshops and dissemination of analytical reports. This was done through analysis and comparison of agricultural statistics, including the preparation and checking of data sets, and a comparative analysis using the available data from SEE and EU-27 member countries. Over the entire project duration a networking and cooperation campaign was developed and implemented. The

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7 TCP/RER/3403; starting September 2012 and ending October 2014.

8 At the 5th Meeting of the Ministers of Agriculture from South-Eastern Europe (held in the Republic of Macedonia on 11th November, 2011) the Ministers and the Heads of Delegations of the Ministries of Agriculture of the member and observer countries of the SWG concluded that they "welcome and are committed to support, strong and productive cooperation in all fields of agriculture and rural development including the cooperation among the universities, academic institutions and faculties of agriculture from South-Eastern Europe in order to increase the capacity to objectively analyze agricultural and rural development challenges and policy performance."

campaign targeted the main stakeholders and direct beneficiaries of the participating countries (public and academic institutions, civil society and the general public).

The aim of the project was not only to collect widely published documents, but also to obtain informal literature and working material. Therefore, the networking and cooperation campaign focused on dissemination of the project aims and awareness raising about the importance of collecting as much information and data as possible even with the assistance of outsiders (stakeholders, who are not directly involved in project implementation).

For this purpose the web-portal "Agricultural Policy Plus"[9], linked to the SWG website[10], was designed to make collaboration easy. All stakeholders could upload relevant documents and information to the website. This resulted in a constantly growing information source, which was then processed and specified as appropriate for further consideration.

Some of the workshops were combined with the annual Agricultural Policy Forum[11] and the Annual Working Meeting of Ministers of Agriculture from Southeastern Europe[12], and other SWG meetings. This provided an excellent platform for dissemination of project results and lessons learnt and awareness rising of stakeholders and broader audience in the most efficient way.

4. Core orientation and content of the study

This study summarizes the key results of the above mentioned FAO/SWG project, with particular emphasis on:

1. Introducing the situation and trends of agriculture and agricultural policy in Southeastern European countries, especially in comparison with the EU;
2. Attempting to identify national and regional gaps in policy, focusing on the modernization and harmonization of agricultural policy with the EU Common Agricultural Policy;
3. Defining the key principles of agricultural policy that will support the European integration process of Southeastern European countries (a regional concept and road map for policy reform and adjustments);
4. Identifying the key issues and challenges requiring policy interventions on the basis of this analysis.

The authors of this study aimed especially at achieving the following:

5. Highlight the need for consistent, comprehensive systematic agricultural policy analysis and efficient collaboration between decision makers and academia;
6. Help support decision making by providing the analyses and the fundamental principles for the agricultural policy reforms and adjustments.

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9 www.app.seerural.org

10 www.seerural.org

11 The Agricultural Policy Forum aims at supporting the process of the implementation of EU-like agricultural and rural development policies in SEE countries, specifically focusing on the integration and harmonization of the agricultural and rural sector with the EU. The purpose of the Forum is to also foster the cooperation on agricultural development issues among the SEE countries and support the research on agriculture and rural development issues towards improving the information base for policy decision-making. Representatives from the Ministries of Agriculture of the SEE countries, European Commission, different international organizations (such as FAO, GIZ, CEI, JRC, IPTS, RCC) usually participate at this event.

12 The aims of this meeting are to assure constructive and permanent cooperation among the Ministries of Agriculture on a political level within the scope of their responsibilities to the ongoing integration processes into the EU.

The study is divided in two main parts. In the first part (A) the cross-cutting analysis and conclusion are presented. After the introduction comes Chapter A.II *"Comparative analysis of agriculture and agricultural policy in Southeastern European countries in comparison with the European Union"* – provides the methodological background and some of the prominent features of the SEE region. Chapter A.III *"Gap analysis and policy recommendations"* presents the cross-country and region specific gap analysis of agriculture and rural development policies compared to the CAP using the relevant policy documents collected and made available under the project (see APP website). One of the major tools used in this process is the Agricultural Policy Measures tool, which was developed under the EU research project dealing with the agriculture and agricultural policy in Central and Eastern Europe (FP7 project with the acronym Agri-policy).

The second part (B) is a presentation of the country specific chapters, providing the main trends and situation analysis for agriculture and mainly focused on presentation of the development of agricultural policy budgetary transfers, which lead also to some conclusions about the main challenges for policy makers at the national level (Chapters B.I-B.VII).

Chapter A.II

CROSS COUNTRY ANALYSIS OF AGRICULTURE AND AGRICULTURAL POLICY OF SOUTHEASTERN EUROPEAN COUNTRIES IN COMPARISON WITH THE EUROPEAN UNION

Tina Volk[*], Miroslav Rednak[*], Emil Erjavec[**]

1. Introduction

Agriculture in the Southeastern European countries (SEEs) is very diverse in terms of natural and structural conditions, development status, and the manifold production potentials. It carries prominent historical and social components and great economic importance to rural development. There are noticeable structural and technological deficiencies. Another significant factor is the depopulation of marginal areas, which has progressed to an alarming extent, especially in the central part of the region.

Good statistical data is the basis of a proper analysis and overview of agriculture. The data from the individual countries differs widely in its scope and quality. With the exception of Croatia, which is already an EU member, no SEE country has fully harmonized its agricultural statistics with EU standards. Therefore, direct comparisons of the data and indicators between the countries are often questionable.

Agricultural policy of the countries in the region in its concept, reach and effects was first analysed in a regional context a few years ago (Volk, 2010). The results warned of a scarcity of resources, of rapidly changing courses, of policy incompatible with that of the EU, but most of all, of the difficulties in gathering data, a consequence of the poor transparency in agricultural policy implementation in the region. Has the situation changed since? How have the economic crisis and the countries decision to enter the EU influenced the design, process and implementation of agricultural policy?

This chapter is dedicated mostly to presenting the main agricultural indicators that are important in agricultural policy monitoring and analysis. They are also compared at regional and EU levels by means of comparative analysis with the intention of identifying key characteristics, differences and gaps requiring public intervention. Even though poor public databases in the region limit the potential scope of such analyses, they are nevertheless useful in discussing the orientation of agricultural policy and the ability of agriculture for economic integration into the EU.

The cross-country analysis is based on the understanding of agriculture and agricultural policy in the SEE countries as presented in the second part of the study (Chapter B.I - B.VII) and is enhanced with several additional analyses, while also accounting for the limitations imposed by data availability and quality. Special attention was given to the comparison agricultural policy in the SEEs with EU

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agricultural policy during the outrunning programming period and with the agricultural policy of certain members from the last round of EU enlargement before accession.

The quantitative analysis of agricultural policy was performed using an upgraded APM model (Rednak and Volk, 2010, Rednak et al., 2013). APM (Agricultural Policy Measures tool) is uniform classification of agricultural budgetary support which enables for a decent quantification and comparison of scope and structure of agricultural policy measures between the SEEs and with the EU. Its main aim is to answer questions about the basic orientation of agricultural policy in the SEE countries, the key measures and their implementation forms, so as to make possible the discussion of agricultural policy gaps (in Chapter A.III) as well as recommendations for effective improvements and meeting EU demands.

The chapter begins with the presentation on data sources and methodology, describing the main approaches and reservations. The main part focuses on the comparative analysis of agriculture and agricultural policy within the region and with the EU. The chapter is concluded with an overview of key findings and discussion on importance of data availability and quality for policy analysis.

2. Methodology

The cross country overview of the situation in agriculture in Albania, Bosnia and Herzegovina, Croatia, Kosovo*[1], The former Yugoslav Republic (FYR) of Macedonia, Montenegro and Serbia is based on statistical data collected by national experts (and used also in country reports presented in the second part of the book)[2]. The main data sources were state (or sub-national) statistical offices and other institutions dealing with agricultural statistics in these countries. In this framework, only some key general, agricultural and trade statistics were collected covering the period 2005-2012 (SEEs Statistics, 2014). In most SEEs not all standard sets of data on agriculture are available (farm structure, agricultural production, prices, economic accounts). Statistical methodologies still differ by country and most are not yet aligned with the Eurostat rules and definitions. Therefore, the main criterion for the selection of relative indicators used in the analysis was that the data is available for all or most of SEEs and that it offers at least minimum comparability across SEEs and with the EU data. For the EU, data from Eurostat public databases was used (EUROSTAT, 2014).

Since the datasets are mostly incomplete and some questions regarding data reliability and comparability remained open, selected relative indicators cover only some basic statistics with the aim to present at least the main profile of agriculture in the SEEs.

For the quantitative analysis of budgetary support to agriculture, agricultural policy measures (APM) databases compiled for all the SEEs by national experts were used (SEEs APM Databases, 2013). In these databases all available information about agricultural policy measures is gathered at the most detail level possible, along with budgetary transfers executed in a given year. For Montenegro, the APM database contains planned funds instead of actually executed payments (there were no data on paid out funds). The analysis mostly covers the 2008-2012 period, although for some SEEs APM databases were compiled for a longer time period.

In APM databases agricultural policy measures are systemized and classified according to a common (uniform) template, which enables the cross country qualitative and quantitative analysis of implemented agricultural policies. The classification uses the current EU concept based on the policy pillars as a basic starting point, combined with the OECD classification. The EU program aspect (pillars, axes) has been applied at higher levels of aggregation, and the OECD criteria for the formation of groups or subgroups under individual pillars and particularly for defining the lowest level of

[1] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

[2] See more in the chapters B.I-B.VII.

classification (basic headings). Thus, the APM allows for a basic analysis of budgetary transfers to agriculture also according to the OECD PSE classification and vice-verse.

The APM classification is built on a hierarchical principle with the first level defining the pillar of agricultural policy, the second defining the category, and each subsequent level defining a sub-category of the previous one. A hierarchical system allows analysis at different levels of precision. In this paper, the data is analysed up to third and, in some cases up to the fourth level of the classification. Classification nomenclature up to fourth level is presented in Table A.II-1

According to the APM classification, all agricultural policy measures are grouped into three main pillars: (i) market and direct producer support measures; (ii) structural and rural development measures and (iii) general measures related to agriculture. In addition to these three pillars, the classification also includes the section *Miscellaneous transfers to agriculture*. Some similar "miscellaneous" groups also exist at lower levels of classification for items for which there is not enough information available to allocate them to the appropriate categories.

The first pillar of APM - ***Market and direct producer support measures*** - includes only those measures which influence incomes of agricultural producers and are generally not related to specific restrictions regarding the choice of production techniques and farm location. At the next level, the APM measures of the first pillar are further divided into two groups: m*arket support measures* and d*irect producer support measures*.

Budgetary expenditures for *market support measures* incorporate the measures by which the policy influences the supply and demand on the domestic market, and thereby indirectly also the prices of agricultural products. The budgetary expenditures related to these measures are divided into three groups; namely, *export subsidies*, *market interventions* and *consumer support.*

Direct producer support measures are further divided into two larger groups. The first group - *Direct payments and variable input subsidies* - contains all forms of regular *direct payments to producers*, which are further disaggregated according to implementation criteria (on output, current area/animal, fixed criteria, other criteria) and *variable input subsidies*, which are further disaggregated according to the type of input (seeds, fuel, fertilizers, insurance, etc.) The second group - *Disaster payments and other compensation to producers* - comprises payments for which producers are entitled to apply only in the event of specific circumstances. These are exceptional payments granted mostly on an ex-post basis, while the first group of measures is planned in advance and granted on a regular basis.

The second APM pillar - ***Structural and rural development measures*** - is structured into three main groups: *Improving the competitiveness of the agricultural sector*, *Improving the environment and countryside*, and *Supporting the rural economy and population*. The groups more or less follow the structure of the 2007-2013 EU rural development policy system.

The first group – *Improving the competiveness of the agricultural sector* – is divided into three sub-groups of measures in the first step, with the main criterion of division being for whom the supports are intended. The sub-group *on-farm restructuring support* merges the measures whose beneficiaries are individual agricultural holdings. The *agro-food restructuring support* group refers to the agricultural sector in a broader sense, whereas the third group contains the measures that support the restructuring of the *forestry* sector related to rural development.

The second group gathers measures aimed at *improving the environment and the countryside*. The first sub-group of this axis - *Environment and landscape targeted payments to producers* - is composed of payments granted to agricultural producers to compensate for higher costs or lower revenue due to less favourable natural conditions for agricultural production (sub-group *Payments to farmers in areas with natural handicaps*), due to environmental restrictions (sub-group *Payments to farmers in protected areas*) and due to a voluntary agro-environmental commitment that goes beyond the mandatory standards (sub-group *Agro-environment and animal welfare payments to farmers*). The second group of this axis – *Environmental payments not directly linked to agriculture* – includes payments with

environmental objectives that are not directly related to agricultural producers, such as environmental payments to forestry.

The third axis comprises the measures *supporting the rural economy and population*. This axis is composed of three groups, of which the first one - *Support to rural population directly linked to farms* - includes measures such as support for on-farm diversification into non-agricultural activities. The second group - *General support to the rural economy and population* - includes measures such as business creation, rural infrastructure and services, village renewal and similar measures, and the third group - *Building local capacity (LEADER)* through skills-acquisition, animation, preparation and the implementation of local development strategies.

Table A.II-1: APM classification of budgetary support to agriculture

MARKET AND DIRECT PRODUCER SUPPORT MEASURES
Market support measures (Export subsidies; Market intervention; Operational costs for public stockholding; Consumers support; Other)
Direct producer support measures
Direct payments and variable input subsidies
Direct payments to producers (Based on: output; current area/animal; fixed criteria-decoupled; other) *Variable input subsidies (seeds and seedlings; breeding animals; fuel; fertiliser and pesticides; interests; insurance; on-farm services; other)*
Disaster payments and other compensations to producers (based on: output; area/animal; on resource retirement; for input purchase; other)
Miscellaneous - direct producer support
STRUCTURAL AND RURAL DEVELOPMENT MEASURES
Improving the competitiveness of the agricultural sector
On farm restructuring support
On farm investment support (general; permanent crops-per hectare; land improvement; irrigation; land consolidation; other)
Other on farm restructuring support (setting up of young farmers; adapting to demanding standards; participating of farmers in food quality schemes; other)
Agro-food restructuring support
General support to agricultural sector (improving infrastructure related to agriculture; early retirement; other)
Food processing support, marketing and promotion (investments; marketing; producer groups; other)
Forestry support
Miscellaneous (competitiveness)
Improving the environment and the countryside
Environment and landscape targeted payments to producers
Payments to farmers in areas with handicaps-LFA (based on: output; on area; animal; other)
Payments to farmers in protected areas-PA (based on: output; area/animal; other)
Agro-environmental and animal welfare payments to farmers-AE (based on: output; area/animal; other criteria; non commodity criteria; first afforestation)
Environmental payments not directly linked to agriculture
Supporting rural economy and population
Support to rural population directly linked to farms (on farm diversification into non-agricultural activities; other)
General support to rural economy and population (business creation and development; rural infrastructure and village development; other)
Building local capacity (LEADER)
Miscellaneous rural development measures
GENERAL MEASURES RELATED TO AGRICULTURE
Research, development, advisory and expert services (research and development; extension; infrastructure related to vocational training; expert services)
Food safety and quality control (veterinary control; plant health control; quality control)
Other general support measures (farmer's and other non-governmental organisations; information systems; technical assistance; other)
MISCELLANEOUS AGRICULTURAL POLICY MEASURES

The third APM pillar - ***General measures related to agriculture*** - covers measures which are aimed at supporting public services related to agriculture, such as *research, development, advisory and expert*

services, *food safety and quality control* (veterinary and phytosanitary measures, quality policy, etc.) and *other general support measures* provided to agriculture collectively.[3]

To enable the comparison of agricultural policy of SEEs with the EU APM database was created for the EU as well as for some new Member States. Data for the EU was mostly taken from the OECD PSE/CSE database (2014), which is the only regular publicly available source of data where more or less complete information on budgetary support to agriculture for the EU can be found; namely, data on executed funds from the EU budget (European Commission data) which is publicly available on a regular basis as a rule only refers to policy measures under Common Agricultural Policy (CAP) and funds executed from the Community budget. Funds for co-financing policy measures from national (and sub-national) budgets as well as financing of measures entirely by the national budgets (state aid) are not included in these datasets. OECD PSE/CSE database contains data only for the EU level. Apart from that, for the Czech Republic, Slovakia, Hungary, Poland, Estonia and Slovenia, which are also OECD members, complete data is available for the period up to 2004 when these countries joined the EU.

According to OECD PSE/CSE methodology, most, but not all agricultural policy measures which are implemented in the EU are considered to be support to agriculture. Some rural development measures from the programming period 2007-2013, such as support relating to forestry (improvement of the economic value of forests; set of environment related payments to forestry), rural economy and population (business creation and development; encouragement of tourism activities; basic services for the economy and rural population; village renewal and development; conservation and upgrading of the rural heritage), building local capacity (Leader) and technical assistance are not included in the OECD database. Budgetary funds for these measures were added to the EU APM database using Commission data available in the framework of annual rural development monitoring reports (EC, 2014) supplemented by funds representing national co-financing of individual measures (different share by measure and Member State).

According to the OECD criteria, support to agriculture in the form of export subsidies affects market prices received by producers, creating a price gap that is captured by market price support (MPS) and thus do not appear among budgetary transfers to agriculture. Since we were not able to obtain reliable and comparable data on export subsidies for the EU as well as for selected member states for all the years used for the comparison with the SEEs, for this comparison export subsidies were excluded from the SEEs APM databases.

For comparison of budgetary support to agriculture between SEEs and the EU, the years 1999 and 2012 were selected. Data for 1999 illustrates the agricultural policy in the EU and selected new Member States five years before the accession and data for 2012 shows the EU policy in outrunning programming period.

The level and composition of budgetary support to agriculture in SEE countries and the EU are compared by using relative indicators. The basic relative indicator used for comparison was the absolute value of budgetary support to agriculture in EUR (total and by group of measures) divided by the total utilized agricultural area. This indicator provides an important first insight into the availability of budgetary funds for agriculture in a country and is indicative of the capacity of agricultural policy to influence agricultural development. However, this indicator can be problematic due to a different land use composition (lower or higher proportions of extensive grasslands in the land use structure, indicative of the production potential). Another difficulty with using agricultural land area to calculate the indicators for determining support levels is that the data on agricultural land is not methodologically aligned among all the SEEs and with the EU. Completely comparable data on utilized agricultural area is available only for Croatia, Serbia and Montenegro (based on Farm Structure Surveys as in the EU-27), while for Albania, Bosnia and Herzegovina, Kosovo* and the FYR of Macedonia

[3] For more methodological information about the APM tool see Rednak et al. (2013).

agricultural area is an approximation based on available data from regular annual land use statistics (see the description in the following subchapter A.II.3). However, these approximations are very likely still an overestimation, leading in turn to the indicator of support levels per hectare probably being underestimated.

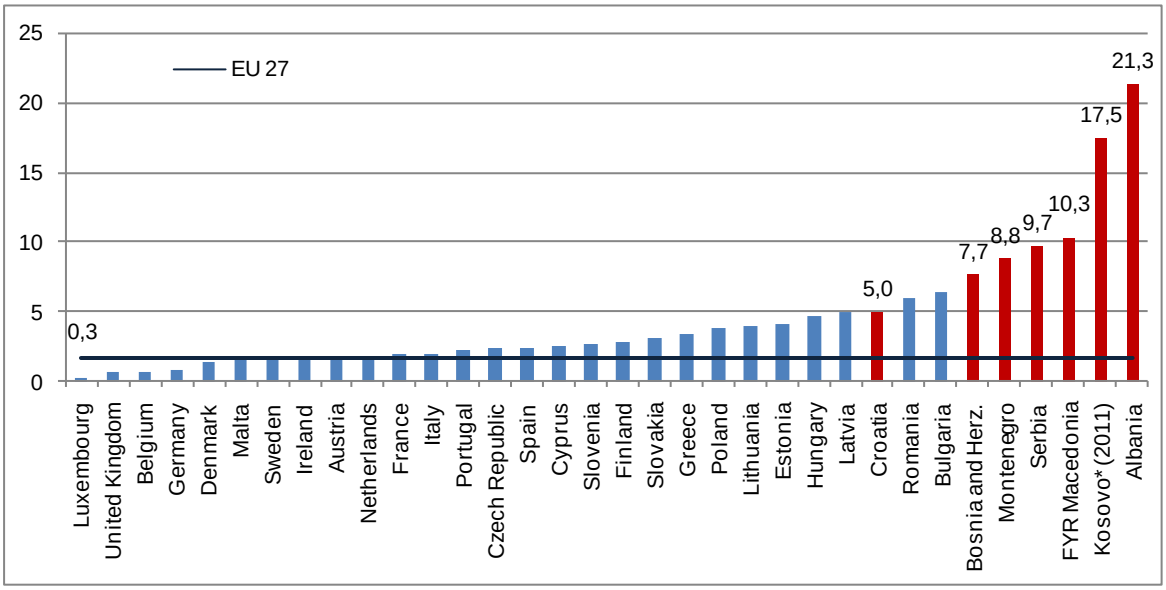
In any event, the calculations of the relative support levels are to be taken with some caution. The role of support in agriculture would most likely be better illustrated by comparing the amount of support with the total value of agricultural production, but unfortunately, we were unable to obtain reliable data on all the countries.

3. Agriculture in comparison - overview of main characteristics

3.1 Agriculture in the economy

Agriculture plays an important role in the national economies of all the SEE countries. In 2012, the share of agriculture, forestry and fishing in total national gross value added (GVA) ranged from 5 percent for Croatia to 21.3 percent for Albania which is far above the EU-27 average (1.7 percent). Only Croatia is ranked ahead of Romania and Bulgaria, while for all other SEEs these shares are higher than in any EU Member State.

Figure A.II-1: Share of agriculture, forestry and fishery in total GVA (in %), 2012, SEEs and EU



Source: EUROSTAT, SEEs Statistics

Similar relations can be found when employment in these sectors is taken in consideration. According to Labour Force Surveys, employment in agriculture, forestry and fishing accounts for about 14 percent of total employment in Croatia, 55 percent in Albania and between 17 percent and 24 percent in other SEEs. Among EU Member States only Romania (29 percent) is ranked ahead all SEEs, except Albania. On the EU-27 average this share is much lower (5 percent).

A higher proportion of agriculture in GVA and employment compared with the EU is closely related to the overall level of economic development. All SEEs still have an income per capita that is lower than the average of the EU-27 Member States (measured by GDP, both at current market prices and in purchasing power standard parity terms). In 2012, Croatia (EUR 15 600 per capita in PPS), at 61 percent, was the closest to the EU-27 average level (EUR 25 600 per capita), while according to available data in other SEEs, GDP per capita stands at about 30 percent (Albania, Bosnia and Herzegovina) to 35 percent (Serbia, TFYR of Macedonia) of the EU-27 average.

3.2 Land use

In all countries in the region, natural potential for agricultural production is extremely diverse, ranging from fertile plains and river valleys to the not very productive Karst, hilly and mountainous areas. The availability and use of land for agriculture differs by country.

In SEEs, the picture regarding actual agricultural land use is far from being clear. The only exception is Croatia, where agricultural statistics are already harmonized with Eurostat. In other countries, data on land use is still predominantly based on records, which are not updated regularly. In some countries (Bosnia and Herzegovina, the FYR of Macedonia, Montenegro, Serbia, Kosovo*), apart from total land, fallow and uncultivated land is also recorded, but only for arable land. In recent years, the share of unused arable land was 7 percent in Serbia, about 9 percent in Kosovo*, over 30 percent in the FYR of Macedonia and Montenegro and close to 50 percent in Bosnia and Herzegovina. One can expect that a difference between recorded and actually used area exists also for other agricultural land use categories. However, it is not recorded in regular land use statistics. In the countries in which arable land is not the prevailing category (Albania, Bosnia and Herzegovina, the FYR of Macedonia, Montenegro), information provided by regular annual land use statistics thus refers more to area potentially available for agriculture than to actually used agricultural area.

Table A.II-2: Agricultural land by main land use category according to annual land use statistics (in 1 000 ha), 2012, SEEs

	AL	BA	XK	MK	ME	RS	HR [1]
Arable land	409	1 006	254	414	45	3 282	904
of which fallow and uncultivated land	*:*	*476*	*24*	*137*	*14*	*219*	-
Permanent crops	78	109	7	35	16	293	79
Permanent grassland	505	1 048	97	817	451	1 478	346
Other agricultural land	213	-	-	1	3	27	3
Agricultural land, total	**1 204**	**2 163**	**358**	**1 268**	**515**	**5 053**	**1 331**

Note: [1] utilized agricultural area

Source: SEEs Statistics

Data on agricultural land use available for the countries in which Farm Structure Survey has been carried out according to Eurostat methodology in recent years (Montenegro, Serbia and the FYR of Macedonia) indicates that the difference between agricultural land recorded in annual statistics and agricultural area actually used by agricultural holdings could be quite large. In Serbia, utilized agricultural area captured by agricultural census (2012) represents about 70 percent of total agricultural land (77 percent of arable land; 64 percent of permanent crops, and 48 percent of permanent grassland). In Croatia, a similar reduction was recorded in 2005, when Croatia adjusted its land use statistics with the EU (the total agricultural area decreased by about 40 percent, arable land was reduced by 22 percent; permanent crops by 37 percent, and permanent grassland by 65 percent and since then, all agricultural land use data for Croatia refers to utilized agricultural area). In Montenegro, according to the agricultural census conducted in 2010, only 43 percent of total agricultural land recorded that year in the frame of land use statistics was actually used by agricultural holdings (14 percent of arable land, 28 percent of permanent crops, and 47 percent of permanent grassland). In the FYR of Macedonia this difference is extremely large, where according to preliminary data from 2013 Farm Structure Survey utilized agricultural area represents only 25 percent of total agricultural land (close to 60 percent of total arable land; 114 percent of permanent crops area, 50 percent of meadows and only 1 percent of pastures). According to available information, farm structure survey in the FYR of Macedonia did not take into account state owned pastures which are commonly used for seasonal grazing of sheep and cattle[4].

[4] For seasonal grazing on state-owned pastures concession to farmers is given based on animal number grazed and not per area used. Therefore there is no clear evidence about pasture area actually used by farmers.

In the EU, only agricultural area actually used by agricultural holdings is recorded regularly. Therefore, for the comparison with the EU, for Croatia, Montenegro and Serbia data on utilized agricultural area (UAA) from farm structure surveys was used, which is completely comparable with farm structure survey data on UAA for the EU. For other SEE countries, an approximation of utilized agricultural area was made based on available data. For Bosnia and Herzegovina and Kosovo* unused arable land has been subtracted from the total agricultural area to approximate the UAA. For Albania, data on agricultural land used by agricultural holdings covered by regular annual surveys is considered to be closer to UAA than total agricultural area. For the FYR of Macedonia, farm structure survey data on actually used arable land, permanent crops and meadows was taken from the farm structure survey, while pasture area in use was estimated based on data on total pasture land from regular land use statistics and combined with assessment that the same share of total pasture area is used as derived from farm structure survey for meadows (50 percent).

Table A.II-3: Utilized agricultural area; SEEs and EU-27

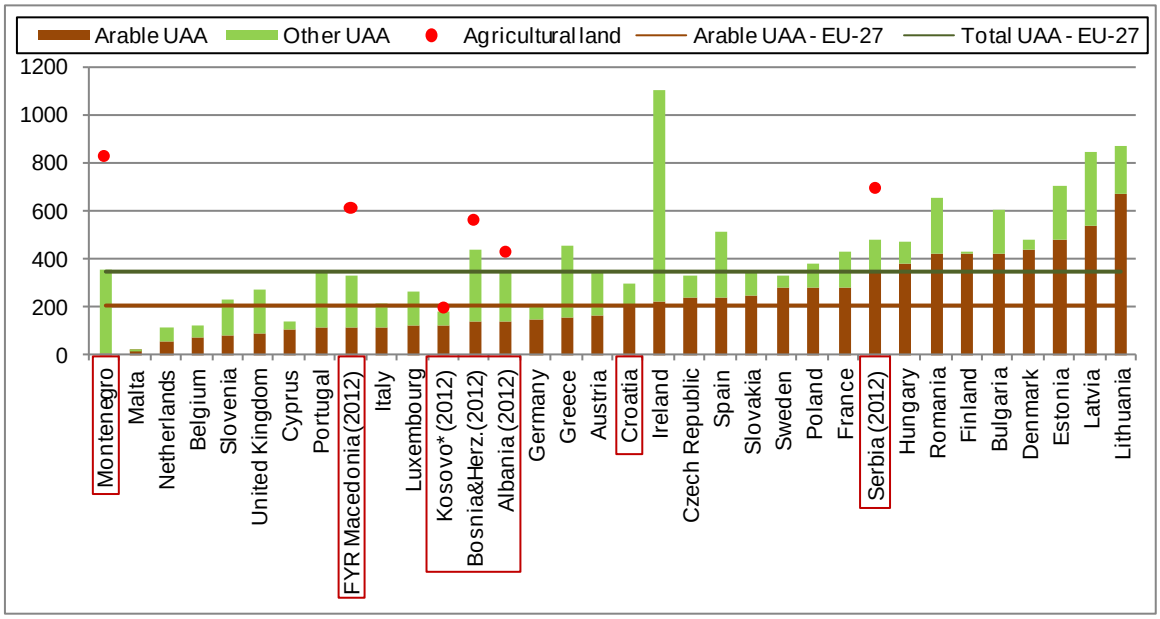
	AL[1] (2012)	BA[2] (2012)	XK[2] (2012)	MK[3] (2013)	ME[4] (2010)	RS[4] (2012)	HR[4] (2010)	EU-27[4] (2010)
Utilized agricultural area (1 000 ha)	**980**	**1 687**	**334**	**688**	**221**	**3 437**	**1 316**	**174 499**
Share of UAA in total area (%)	34	33	31	27	16	44	23	40
Share of arable land in UAA (%)	41	31	69	34	3	74	68	59
Share of permanent crops in UAA (%)	8	7	2	6	2	5	6	6
Share of permanent grassland in UAA (%)	51	62	29	60	95	21	26	35

Notes: [1] approximation (data from annual agricultural household surveys)
[2] approximation (adjusted data from annual agricultural land use statistics)
[3] approximation (data from Farm Structure Survey for actually used arable land, permanent crops and meadows and assessment of utilized pastures)
[4] data from Farm Structure Survey (Agricultural Census)

Source: SEEs Statistics, EUROSTAT

Taking into account data on available agricultural land, most SEEs have rather high natural potential for agriculture. However, if only active potential measured by utilized agricultural area per inhabitant is considered, the picture is somehow different.

Figure A.II-2: Agricultural area per 1 000 populations (in ha), 2010, SEEs and EU



Source: EUROSTAT, SEEs Statistics

Compared with the EU, only in Serbia are both total utilized agricultural area per inhabitant (0.48 ha) and arable land per inhabitant (0.35 ha) higher than the EU-27 average (0.35 ha and 0.21 ha, respectively), ranking Serbia among the upper third of EU Member States (close to France and Hungary). For Croatia, these two indicators (0.30 ha and 0.20 ha, respectively) are close to the EU-27 average, positioning Croatia somewhere in the middle of all EU Member States. According to total agricultural area per inhabitant, Bosnia and Herzegovina (0.44 ha), Montenegro (0.36 ha), Albania (0.35 ha) and the FYR of Macedonia (0.33 ha) are above the EU-27 average, while according to arable land per inhabitant all these countries, as well as Kosovo* are below the EU average with Montenegro being in last place with only 0.01 ha of arable land per inhabitant.

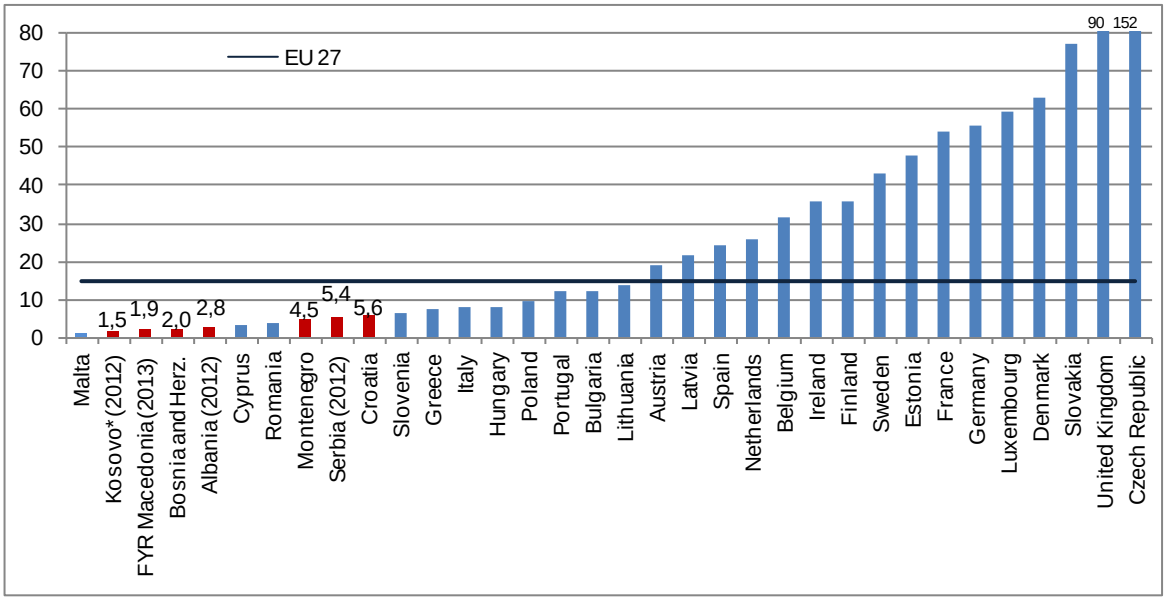
Even though the picture regarding agricultural land use in SEEs is not clear, based on all available data it can be assessed that a large proportion of agricultural land is not used for agricultural production. The share of unused agricultural land seems to be high in all land use categories, but especially in the category of permanent grassland, mostly on the account of less productive mountainous pastures which prevail in the grassland structure in all SEEs and are still mostly state owned and managed.

3.3 Farm structure

Data on farm structure, comparable with the EU, is available for Croatia, Montenegro, the FYR of Macedonia and Serbia. In Bosnia and Herzegovina only limited information on agricultural holdings and their structure was collected under pilot census carried out in 2010, while for Albania and Kosovo* some partial data on farm structure is collected annually within regular (sample) surveys on agricultural households.

A major characteristic of all the SEEs is the small average size of farms ranging from less than 3 ha in Kosovo*, the FYR of Macedonia, Bosnia and Herzegovina and Albania to about 5 ha in Montenegro, Serbia and Croatia. Compared to the EU-27 (14.5 ha per farm in 2010), in the SEEs the average farm is almost three (Croatia) to ten times smaller (Kosovo*). Kosovo*, the FYR of Macedonia, Bosnia and Herzegovina and Albania are positioned only ahead of Malta, while average size of farms in Montenegro, Serbia and Croatia is ranked also ahead of Cyprus and Romania.

Figure A.II-3: Average utilized agricultural area per agricultural holding (in ha), 2010, SEEs and EU



Source: EUROSTAT, SEEs Statistics

The small average size of farms is predominantly a consequence of a high share of farms with up to 10 ha of UAA. In Kosovo* only about 1 percent of farms operate on agricultural area larger than 10 ha,

occupying only 10 percent of total utilized agricultural area. Similar farm structure can be found also in the FYR of Macedonia. In Montenegro, Serbia and Croatia the situation is slightly better, with the share of farms with 10 ha or more being between 5 percent (Montenegro) and 11 percent (Croatia) and occupying between 57 percent (Serbia) and 71 percent (Montenegro) of all UAA. On the EU average the share of UAA on farms with above 10 ha is close to 90 percent.

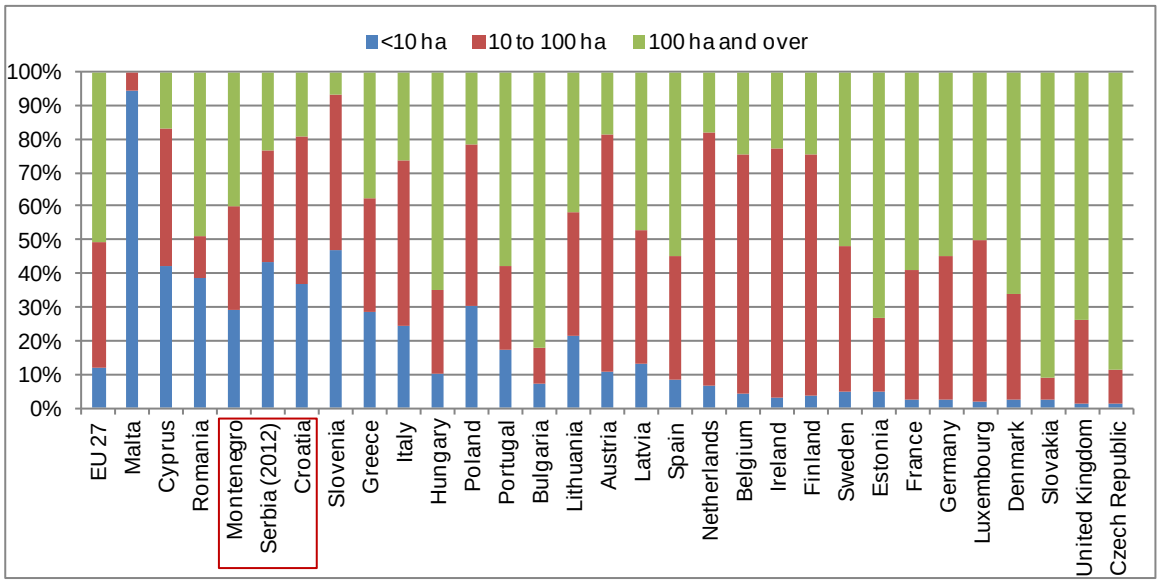
Table A.II-4: Share of holdings and area farmed by farms in size classes up to 10 ha of UAA, SEE and EU-27

	Agricultural holdings			Utilized agricultural area		
	Up to 2 ha	**Up to 5 ha**	**Up to 10 ha**	**Up to 2 ha**	**Up to 5 ha**	**Up to 10 ha**
Kosovo* (2012)	80%	96%	99%	45%	76%	90%
TFYR of Macedonia (2013)	78%	94%	98%	:	:	:
Montenegro (2010)	73%	89%	95%	10%	21%	29%
Serbia (2012)	48%	77%	92%	8%	25%	43%
Croatia (2010)	53%	76%	89%	8%	21%	37%
EU-27 (2010)	**49%**	**69%**	**80%**	**2%**	**7%**	**12%**

Source: EUROSTAT, SEEs Statistics

Especially in Montenegro, but also in Serbia and Croatia, quite a high proportion of utilized agricultural area (40 percent, 24 percent and 19 percent, respectively) is farmed by a very small number (below 1 percent) of large farms belonging to size class of 100 ha and more, mostly organized as companies and established through the privatisation process of the former collective farms. This indicates the typical dual structure of agricultural holdings with small family farms on the one hand and quite large holdings on the other hand. Within the EU, similar dual structures can be found in Cyprus, Romania, Poland, Greece, Italy and Lithuania.

Figure A.II-4: Breakdown of utilized agricultural area by farm size classes, 2010, SEEs and EU



Source: EUROSTAT, SEEs Statistics

3.4 Production and yields

In most SEEs crop output dominates agricultural production. In the FYR of Macedonia, the contribution of crop output to total gross agricultural goods' output is 75 percent; in Serbia, Bosnia and Herzegovina and Croatia over 60 percent and in Kosovo* and Montenegro about 55 percent. Only in Albania this share is 50 percent.

Table A.II-5: Share of crop and livestock output in total agricultural goods output, 2012, SEEs and EU-27

	AL	BA (2010)	XK	MK	ME (2011)	RS	HR	EU-27
Crop output	50%	63%	55%	75%	53%	62%	64%	56%
Livestock output	50%	37%	45%	25%	47%	38%	36%	44%

Source: EUROSTAT, SEEs Statistics

Regarding crop production, cereals are the most important field crop in terms of area sown in all SEEs except Montenegro, where potatoes are the dominant crop commodity. In Croatia and Serbia, apart from cereals, industrial crops (oilseeds, sugar beet) account for a relatively high proportion, while in all other countries second place is captured by vegetables. In the FYR of Macedonia, tobacco is also among the leading agricultural commodities. In most SEE fruits (including grapes) represent an important proportion of crop output.

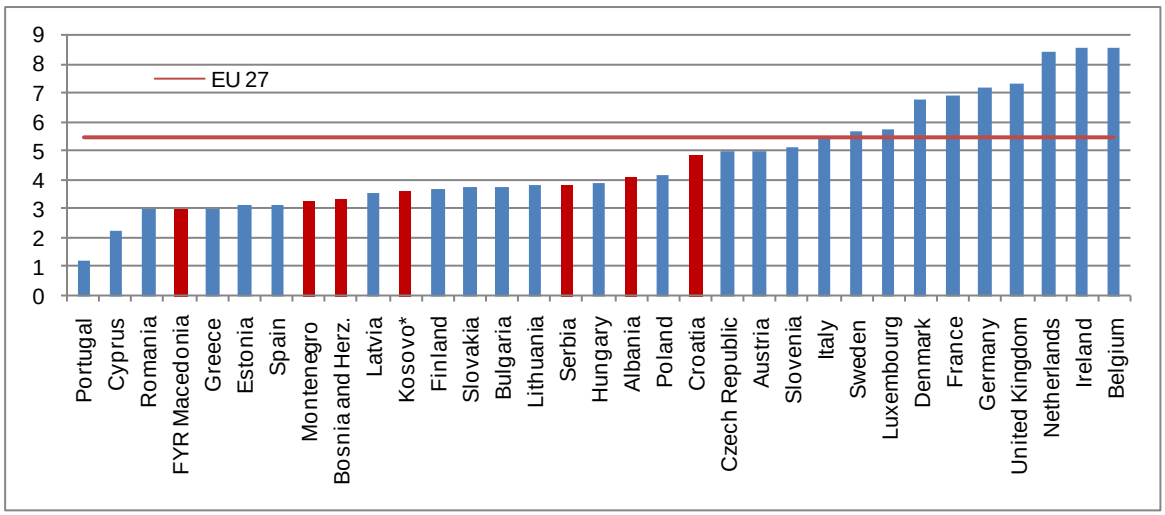
As far as animal output is concerned, cattle rearing (milk and beef production) seems to be the leading subsector in most SEEs, followed by pig meat production in Croatia and Serbia and by sheep and goats rearing in other SEEs.

Taking into account the available data, which does not provide a clear picture about the evolution of agricultural production volume for all the SEEs, it seems that generally, agricultural output has more or less stagnated since 2005 or had a slight decreasing tendency. It is also evident that in all SEEs, crop output fluctuates considerably between years mostly as a consequence of changeable weather conditions. Only Albania shows clear upward trend in both crop and animal production.

Only production of fruits (including grapes) and vegetables has increased in recent years in most SEEs. Production of potatoes has increased substantially only in Montenegro and production of tobacco in the FYR of Macedonia. Livestock output generally shows stagnation or negative developments. Cattle numbers have seen positive growth rates only in the FYR of Macedonia, while in Kosovo* only sheep and goat populations have increased since 2005. In Serbia and Bosnia and Herzegovina clear positive developments are visible only in the poultry sector (meat and eggs).

In most SEEs, average yields have been increasing constantly. From 2007-2012, average wheat yields increased the most in Croatia and Albania (by about 30 percent), followed by Bosnia and Herzegovina and Serbia (by about 20 percent). Wheat yields differ considerably by country.

Figure A.II-5: Common wheat yields (in tonnes per ha), 2010-2012 average, SEEs and EU

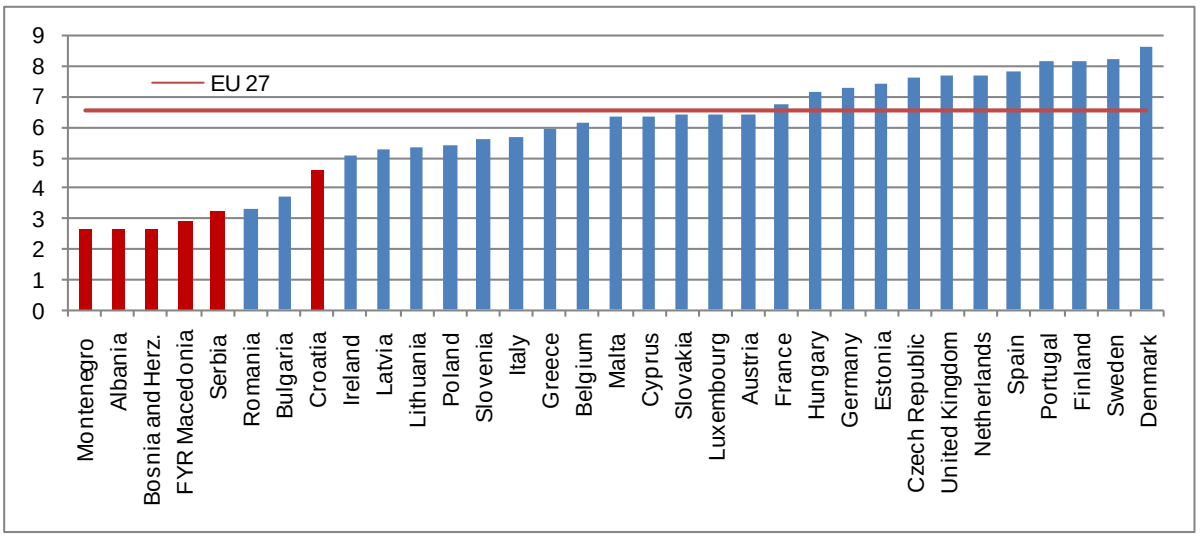


Source: EUROSTAT, SEEs Statistics

The highest wheat yields are found in Croatia, reaching about 90 percent of the EU-27 average. In other SEEs, wheat yields range from 55 percent to 66 percent (the FYR of Macedonia, Montenegro, Bosnia and Herzegovina, Kosovo*), and 70 percent to 75 percent (Serbia, Albania) of the EU-27. In Albania and Serbia average wheat yield (about 4 t/ha) already range in the second third of all EU Member States, close to Poland, Hungary and Lithuania.

In animal production, the gap between SEEs and the EU-27 is much larger compared to wheat yields and crop yields in general. Although all the SEEs recorded considerable increases in milk yields since 2005 (from about 40 percent in Croatia to about 30 percent in the FYR of Macedonia, about 20 percent in Serbia, Bosnia and Herzegovina and Albania and 10 percent in Montenegro) only Croatia, at about 70 percent of the EU-27 average, is ranked ahead of Bulgaria and Romania, while milk yields from all other SEEs are lower than in any EU Member State. The lowest milk yield compared to the EU-27 average is recorded in Montenegro, Albania and Bosnia and Herzegovina (about 40 percent of the EU-27), followed by the FYR of Macedonia (45 percent) and Serbia (50 percent).

Figure A.II-6: Cow milk yields (in tonnes per dairy cow); 2012, SEEs and EU



Note: For Albania total milk production divided by the number of all cows (no data on dairy cows).

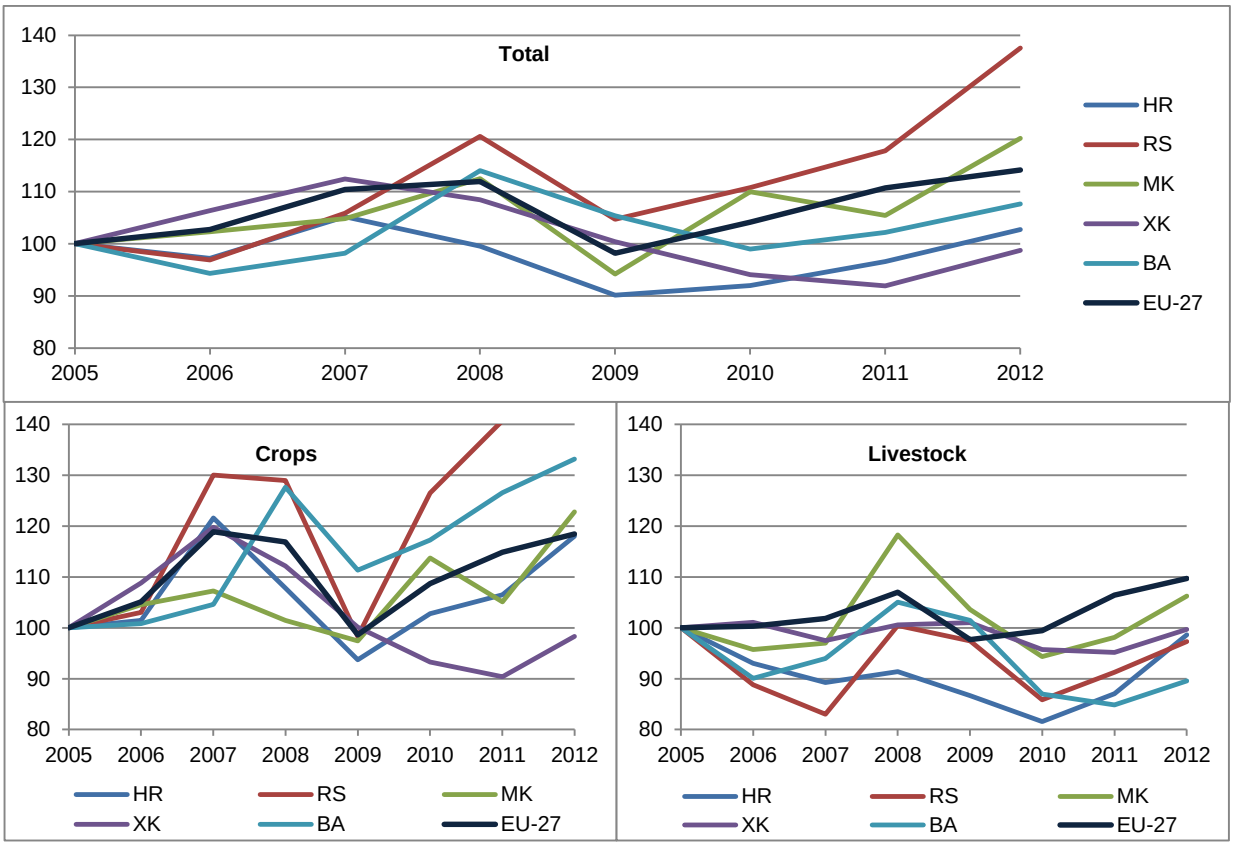
Source: EUROSTAT, SEEs Statistics

Overall low yields indicate that total factor productivity and technological level in most agricultural sub-sectors is generally still rather low. This is closely related to fragmented, small-scale farm structure and low level of specialisation. In milk production, very low yields in most SEEs can be at least partly attributed to the unclear division between dairy and other cows since most cows are used for both, meat and milk production.

3.5 Agricultural prices

Producer price indices for total agricultural production in five SEEs for which this data is available mostly show general characteristics similar to the EU-27 (high increase in 2007-2008, decrease in 2009 and upward tendency in recent years), but with more intensive fluctuations over the period influenced predominantly by changes in prices of crop output. In the period 2005-2012 agricultural producer prices increased in real terms in all countries except Kosovo*, with the highest average growth rate being recorded in Serbia and the FYR of Macedonia. In the FYR of Macedonia, the prices of both, crop and animal output had an upward tendency, while in Serbia as well as in other SEEs only producer prices of crop output have increased in real terms since 2005, while prices of animal output generally fluctuated below the 2005 price level. Kosovo* recorded negative growth rates in real terms of both crop and animal output prices.

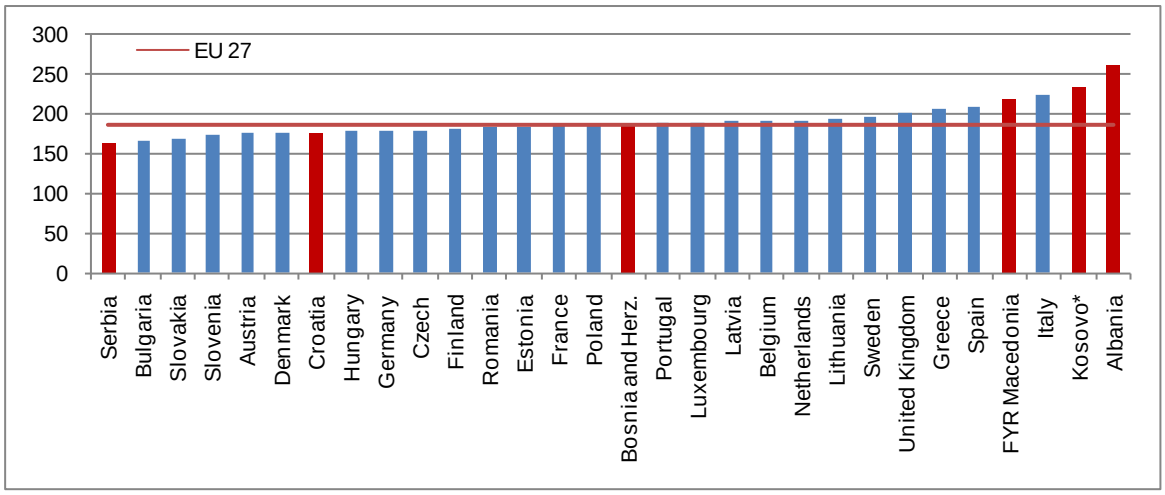
Figure A.II-7: Agricultural producer price indices (deflated; 2005=100), 2005-2012, SEEs and EU-27



Source: EUROSTAT, SEEs Statistics

Due to incomplete and not entirely harmonized data on the absolute selling prices of agricultural products across SEEs as well as EU Member States, comparison of price levels between countries is possible only for a limited set of agricultural products. The most complete and comparable data on absolute prices can be found for wheat and cow's milk, which are also the products of economic relevance for all respective countries.

Figure A.II-8: Selling prices of soft wheat (in EUR per tonne), 2010-2012 average, SEEs and EU



Source: EUROSTAT, SEEs Statistics

The absolute producer prices of wheat differ considerably by country. The lowest wheat prices among SEEs and also in comparison with the EU Member States are recorded in Serbia (about 10 percent

below EU-27 average) and Croatia (-5 percent), and the highest in Albania (+40 percent) and Kosovo* (+25 percent). Wheat prices are relatively high also in the FYR of Macedonia (20 percent above the EU-27 average), while Bosnia and Herzegovina is ranked somewhere in between. Similar assessments regarding price level by SEE and compared with the EU are valid also for maize and for Serbia and Croatia also for oilseeds.

Table A.II-6: Average producer prices of some important agricultural products (in EUR per tonne), 2010-2012 average, SEEs and EU

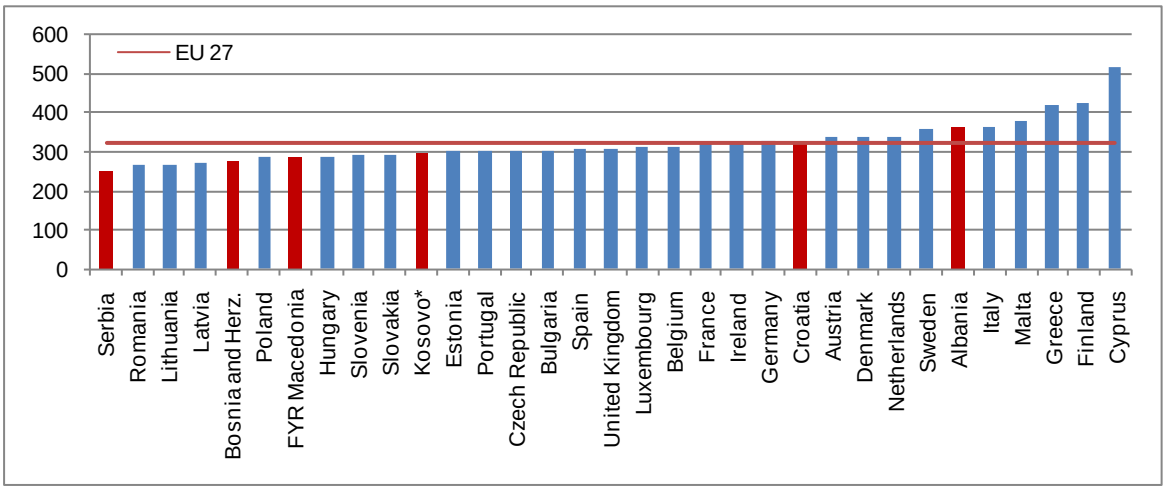
	AL	BA	XK	MK	ME	RS	HR	EU max	EU min
Common wheat	260.4	187.9	233.3	219.2	:	164.3	177.5	225.5	166.3
Corn/Maize	258.1	195.2	270.0	209.8	:	160.7	171.4	221.2	162.8
Sunflower	:	:	:	:	:	367.0	377.3	420.0	353.3
Soya bean	:	388.0	:	:	:	377.3	370.9	395.0	327.4
Potatoes	220.2	260.8	303.3	303.6	:	231.0	190.4	471.4	118.4
Pepper	327.7	295.4	583.3	269.1	:	394.0	714.3	:	:
Tomatoes	337.4	235.6	610.0	434.9	:	521.0	747.2	747.6	262.1
Young cattle	:	1 762.0	2 143.3	1 086.7	:	1 752.7	1 907.3	2 359.3	1 032.8
Veal (calves)	:	2 633.1	:	1 674.2	:	2 577.7	2 769.6	:	:
Pigs	:	1 538.6	2 120.0	1 562.0	:	1 347.7	1 280.6	2 080.8	973.1
Lambs	:	2 190.9	2 320.0	2 523.8	:	1 830.7	4 151.3	:	:
Cow's milk	364.0	275.6	297.7	288.6	:	258.0	330.0	423.2	242.3

Source: EUROSTAT, SEEs Statistics

As regards potatoes, the lowest prices are recorded in Croatia, followed by Albania and Serbia. In Bosnia and Herzegovina and the FYR of Macedonia, where potatoes are a more important crop than in other SEEs, price levels are higher, ranking these two countries in the upper third compared with the EU Member States, with prices being about twice as high as in Poland and Netherlands, the countries with the lowest potato price in the EU.

Producer prices of tomatoes and peppers, as representatives of vegetables, which is an important sector in all SEEs (except Croatia), differ considerably by country. Bosnia and Herzegovina, the FYR of Macedonia and Albania are among the SEEs with the lowest price levels of both tomatoes and peppers, followed by Serbia. In all these countries, producer prices of tomatoes are comparable with price levels of EU Member States with the lowest prices of tomato produced in the open (ranked between Poland and Greece).

Figure A.II-9: Selling prices of raw cow's milk (in EUR per tonne), 2010-2012 average, SEEs and EU



Source: EUROSTAT, SEEs Statistics

Selling prices of raw cow's milk are low in Serbia compared to other SEEs and the EU Member States (about 20 percent below the EU-27 average). Rather low prices (about 10 percent to 15 percent below the EU-27 average milk price) are recorded also for Bosnia and Herzegovina, the FYR of Macedonia and Kosovo*, while Croatia and Albania are ranked closer to the countries with the highest milk prices in the EU (and above EU-27 average). Across the SEEs, Serbia and Bosnia and Herzegovina are among countries with lower producer prices also for the other main livestock products. These two countries have the lowest prices for lamb among SEEs; the price of young cattle is lower only in the FYR of Macedonia, and pig prices are lower only in Croatia. Compared with the EU, all SEEs have rather low producer prices of lamb, relatively high pig prices, and except the FYR of Macedonia, also rather high producer prices for cattle.

After analysing sets of products, the general assessment is that only in Serbia are producer prices of most agricultural commodities generally rather low compared with the countries in the region as well as with the majority of EU Member States. On the other hand, producer price levels in Albania and Kosovo* seem to be among the highest in the region and close to EU Member States with the highest prices. Other SEEs are somewhere in between with lower prices recorded only for a very limited set of agricultural products (cereals, oilseeds in Croatia, some vegetables in the FYR of Macedonia, lambs in Bosnia and Herzegovina).

3.6 Agro-food trade

In all SEEs, the agro-food sector is an important contributor to the country's total external trade of goods, both exports and imports. In 2012, the proportion of agro-food exports to total exports of goods ranged from 5 percent (Albania) to 24 percent (Serbia), while agro-food imports contributed between 8 percent (Serbia) and 25 percent (Montenegro) to total imports[5]. These proportions are larger than in the EU-27 (both below 7 percent).

Table A.II-7: Share of agro-food products in external trade of goods, 2012, SEEs and EU-27

	AL	BA	XK	MK	ME	RS	HR	EU-27
Share in exports	5.4%	7.9%	7.7%	15.2%	15.5%	23.7%	12.9%	6.6%
Share in imports	15.8%	15.8%	23.0%	13.4%	25.0%	7.7%	12.2%	6.5%

Source: EUROSTAT, SEEs Statistics

Serbia is the only net exporter of agro food products among SEEs and its trade balance has improved considerably since 2005. Agro-food exports are increasing at a higher rate than imports also in other SEEs, except in the FYR of Macedonia, resulting in an improved export-to-import cover ratio; however, trade deficits are constantly growing.

Table A.II-8: Agro-food trade (in EUR million), SEEs

	Exports		Imports		Trade balance		Export/Import ratio	
	2005	2012	2005	2012	2005	2012	2005	2012
Croatia	740.0	1 239.9	1 299.0	1 970.7	-559.0	-730.9	57.0	62.9
Albania	41.9	82.9	369.1	618.4	-327.2	-535.5	11.4	13.4
Bosnia and Herzegovina	117.9	317.4	1 006.2	1 426.3	-888.3	-1 108.8	11.7	22.3
Kosovo*	7.8	20.6	285.6	572.7	-277.8	-552.1	2.7	3.6
TFYR of Macedonia	274.4	470.3	340.1	672.9	-65.7	-202.6	80.7	69.9
Montenegro[1]	37.4	56.7	312.7	443.4	-275.3	-386.7	12.0	12.8
Serbia	731.7	2 094.2	622.0	1 137.8	109.7	956.4	117.6	184.1

Notes: [1] 2007 data instead of 2005, Source: SEEs Statistics

[5] External trade figures presented in this chapter cover agro-food trade according to the Combine Nomenclature of Customs Tariffs (CNCT 01 to CNCT 24).

The export-to-import cover ratios differ by country, with the lowest being in Kosovo* (about 4 percent in 2012), followed by Montenegro and Albania (about 13 percent) and the highest in the FYR of Macedonia (70 percent) and Croatia (63 percent). Bosnia and Herzegovina is showing the biggest improvement in this indicator since 2005, but still its agro-food exports cover less than 25 percent of imports. In most SEEs, exports are predominantly represented by raw materials and rather low value-added (processed) products. In agro-food exports composition, different products are ranked among the most important export categories by country.

The most dispersed composition of exports can be found in Croatia with the shares of processed food products being higher than in other SEEs. In 2012, Croatia recorded the highest percentage of exports in sugars and confectionary and miscellaneous edible preparations, followed by cereals which altogether represented about one third of total exports. Also in Bosnia and Herzegovina the leading export tariff group is sugars and confectionary (even that there is no production of sugar beet in the country), while the second place belongs to dairy products, followed by fats and oils. These three groups accounted for about 45 percent of total agro-food exports. A similar share of first three tariff groups was also recorded in Serbia with cereals being the most important export commodity followed by fruits and beverages. In all other SEEs the proportion of the first three tariff groups to total agro-food exports is higher than 50 percent, ranging from about 51 percent in the FYR of Macedonia to about 70 percent in Kosovo*.

Wine and other beverages have the highest shares in agro-food exports of Montenegro (over 40 percent) and Kosovo* and are important also for the FYR of Macedonia where tobacco is the main export commodity. Albania was the only country to record oilseeds and meat preparations as the largest two export categories (accounting for more than 50 percent of its exports of agro-food goods), represented mostly by niche products such as medical and oleaginous herbs and seeds, and frog legs, respectively.

Table A.II-9: Breakdown of agro-food exports by the first three tariff groups, 2012, SEEs

AL	BA	XK	MK	ME	RS	HR
(CNCT 12) Oilseeds 25.0%	(CNCT 17) Sugars and confectionary 18.5%	(CNCT 22) Beverages, spirits, vinegar 34.4%	(CNCT 24) Tobacco 24.4%	(CNCT 22) Beverages, spirits, vinegar 41.0%	(CNCT 10) Cereals 24.9%	(CNCT 17) Sugars and confectionary 12.6%
(CNCT 16) Meat preparations 22.8%	(CNCT 04) Dairy produce, eggs, honey 15.1%	(CNCT 11) Products of the milling industry 26.3%	(CNCT 22) Beverages, spirits, vinegar 15.2%	(CNCT 02) Meat 7.7%	(CNCT 08) Edible fruit and nuts 13.8%	(CNCT 21) Miscellaneous edible preparations 10.5%
(CNCT 07) Edible vegetables 9.3%	(CNCT 15) Fats and oils 12.2%	(CNCT 07) Edible vegetables 8.8%	(CNCT 07) Edible vegetables 10.9%	(CNCT 19) Preparations of cereals 6.8%	(CNCT 22) Beverages, spirits, vinegar 8.0%	(CNCT 10) Cereals 9.8%

Source: SEEs Statistics

The composition of agro-food imports is much more dispersed than exports. Meat and meat preparations, cereals and its preparations, and beverages and tobacco are among the most represented groups in agro-food goods imports in most SEEs. Oils are important import categories in Albania and the FYR of Macedonia, while in Serbia fruits are among the leading import groups.

For most SEEs, other countries in the region (SEEs) and the EU-27 are the main trading partners, accounting for the largest shares of both imports and exports of agro-food goods. As far as exports are concerned, except Albania and Serbia, countries in the region are ranked ahead of the EU-27, representing between nearly 50 percent (The FYR of Macedonia) to over 80 percent (Kosovo*) of the total agro-food exports in 2012. Albania recorded by far the highest percentage of exports going to the EU-27 (71 percent in 2012), followed by Serbia (50 percent). Regarding imports, the countries in the

region are the most important trading partners for Montenegro and Bosnia and Herzegovina, while for Albania, Serbia and the FYR of Macedonia imports of agro-food goods originating from EU-27 represent the highest shares. Kosovo* imports agro-food goods predominantly from other countries than EU-27 and SEEs.

Table A.II-10: Regional breakdown of agro-food trade (in %), 2012, SEEs

	Exports			Imports		
	EU-27	**SEE**	**Other**	**EU-27**	**SEE**	**Other**
Albania	70.7	20.7	8.6	51.7	13.8	34.5
Bosnia and Herzegovina	19.1	77.0	3.9	40.0	54.5	5.5
Kosovo*	15.5	80.6	3.9	35.5	17.6	46.9
TFYR of Macedonia	39.6	47.1	13.4	45.3	31.0	23.7
Montenegro	8.4	74.9	16.7	27.1	64.5	8.4
Serbia	50.1	40.7	9.2	44.5	22.5	3.4
Croatia	:	:	:	:	:	:

Source: SEEs Statistics

Apart from Serbia, which has positive trade balance also with the EU-27, each of the SEEs ran a trade deficit with the EU-27, and this deficit shows an increasing tendency.

4. The scope and structure of agricultural support

4.1 Institutional framework

The institutional frameworks of agricultural policy in the SEEs are quite similar (see Chapters B.I-B.VII). The national ministries of agriculture are the highest instances, usually having authority over forestry and, in some cases, over water management as well[6]. Unlike in the EU, however, trade policy and usually also internal market measures are not within the authority of the respective ministries; rather, they are part of integrated economic policies for which economic or trade ministries are responsible. In some countries a variety of policy instruments are also implemented and funded at regional and local levels (e.g. Vojvodina in Serbia, cantons in the Bosnian Federation). For the implementation of agricultural policy, the SEEs are in the process of forming paying agencies that will also handle the EU pre-accession support (IPARD).

The legal foundation of agricultural policy is usually a general law defining the objectives, mechanisms, instruments and implementation of agricultural policy. Gradually, the principles and mechanisms of the EU Common Agricultural Policy are being adopted into agricultural legislation in all the SEEs. The implementation of agricultural policy is based on annual regulations, while programming is a process involving medium-term agricultural and rural development strategies and national operative programmes. The number and structure of documents varies from country to country; what they do have in common is that they are all politically important documents receiving significant public attention and that they are increasingly following EU concepts in topics, objectives, measures and the general approach. Often, they are prepared with the help of international donor projects and experts. How all of this is implemented, however, is another matter.

4.2 Total budgetary expenditure for the agro-food sector and rural areas

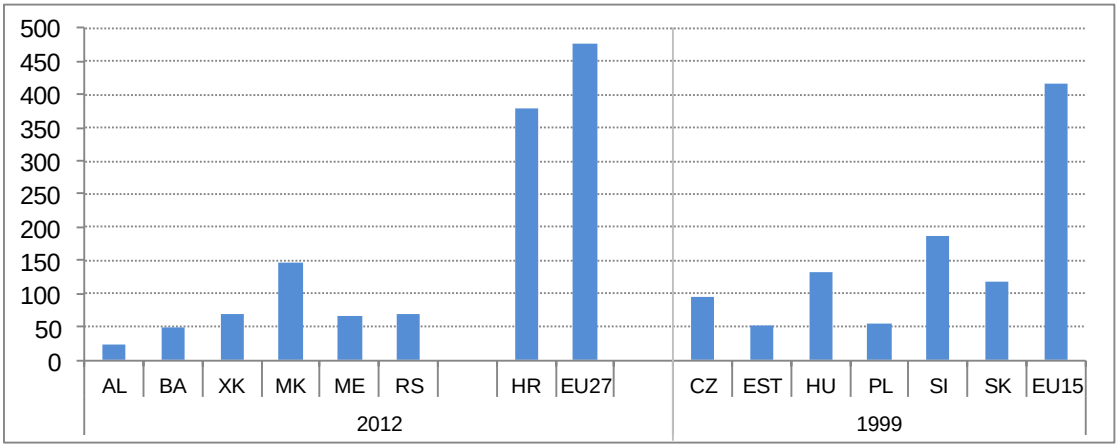
The relative level of budgetary support to agriculture

In SEEs, with the exception of Croatia (and the FYR of Macedonia), the relative level of total budgetary support to agriculture is rather low compared to the EU-27. In 2012, the budgetary support per hectare

[6] The exception is Bosnia and Herzegovina, where both key entities - Republic of Srbska and Bosnian Federation - are practically independent in implementing agricultural policy.

of utilized agricultural area (UAA) amounted to about EUR 25 in Albania (lowest of all), EUR 50 in Bosnia and Herzegovina, EUR 70 in Kosovo*, Montenegro and Serbia, and to about EUR 150 in the FYR of Macedonia. This is a reflection of the relatively low budget considering the total agricultural land area in these countries and suggests the rather limited potential to address development issues with these funds.

Figure A.II-10: Total budgetary expenditure for agro-food sector and rural areas[1] (in EUR per ha UAA), SEEs and EU

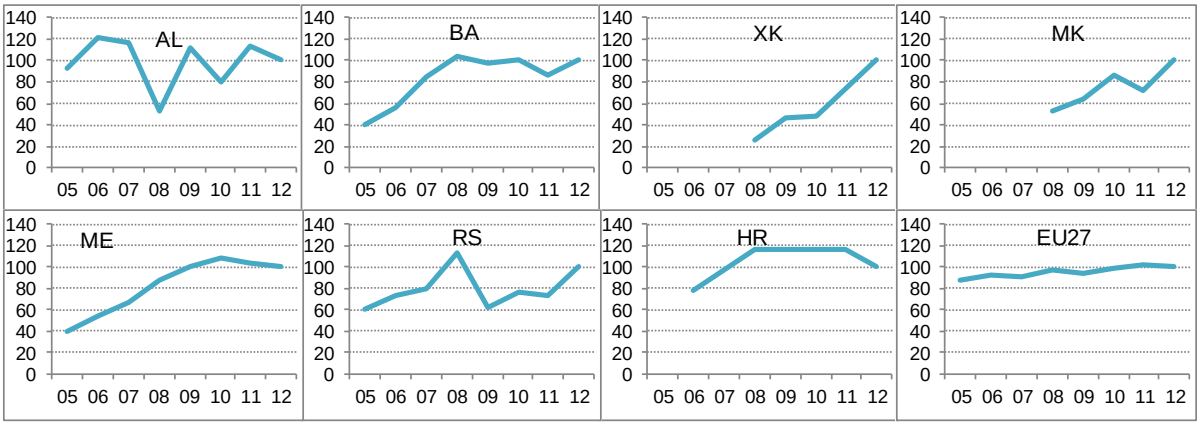


Note: [1]Export subsidies not included
Source: SEEs APM Databases, OECD PSE/CSE Database, EC

In a way, it is no surprise: if the actual level of budgetary support in the SEEs is compared with the pre-accession levels of support in certain new member states (Czech Republic, Estonia, Hungary, Poland, Slovenia, Slovakia), it can be seen that five years before accession, the situation in these countries was quite similar to the current situation in the SEEs.

It is a fact that in less developed transition economies, the agricultural budget is usually modest, also due to prioritising other (social and economic) issues, and this is certainly true for SEEs. It must, however, be emphasized that Croatia is a clear exception. It is economically the most developed country among SEEs and from 2013 also EU Member State, and its agriculture was supported by much higher budgetary funds than in other SEEs even before accession.

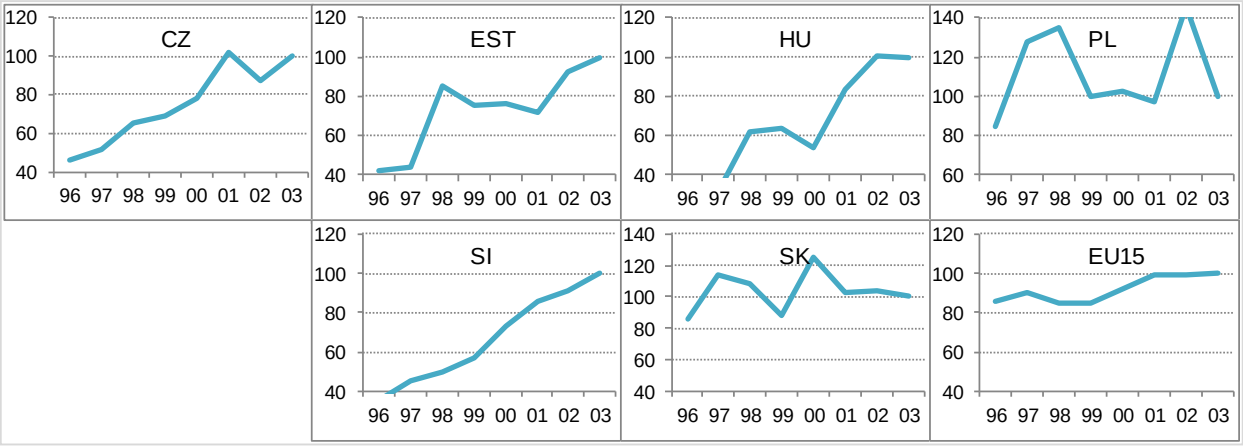
Figure A.II-11: Evolution of total budgetary expenditure for agro-food sector and rural areas[1], 2008-2012 (2012=100), SEEs and EU-27



Note: [1]Export subsidies not included
Source: SEEs APM Databases, OECD PSE/CSE Database, EC

In the development of total budgetary support to agriculture in the region several different patterns can be observed. In Albania, and Serbia, there are significant fluctuations in levels of support, while Kosovo* and the FYR of Macedonia display strong upwards trends. A slight downwards trend in recent years is visible in Bosnia and Herzegovina, Montenegro, Serbia and Croatia.

Figure A.II-12: Evolution of total budgetary expenditure for agro-food sector and rural areas[1], 1999-2003 (index, 2003=100), EU-15 and some Member States



Note: [1]Export subsidies not included

Source: OECD PSE/CSE Database

In the selected EU Member States, in the pre-accession period budgetary support to agriculture generally revealed an upwards trend. Adjustment to EU policy inevitably leads to increases in budget expenditure. Governments usually devote special attention to agriculture; they wish to prepare producers for the single market, increase the pre- and post-accession absorption of EU funds, and sometimes also improve their position in accession negotiations.

The severe economic crisis that has struck the SEEs in recent years has made predicted – and in some cases, promised – increases in agricultural budget resources rather difficult. The economic crisis is probably also one of the main reasons for fluctuations or stagnation in budgetary support in some of the SEE countries.

The composition of budgetary support to agriculture

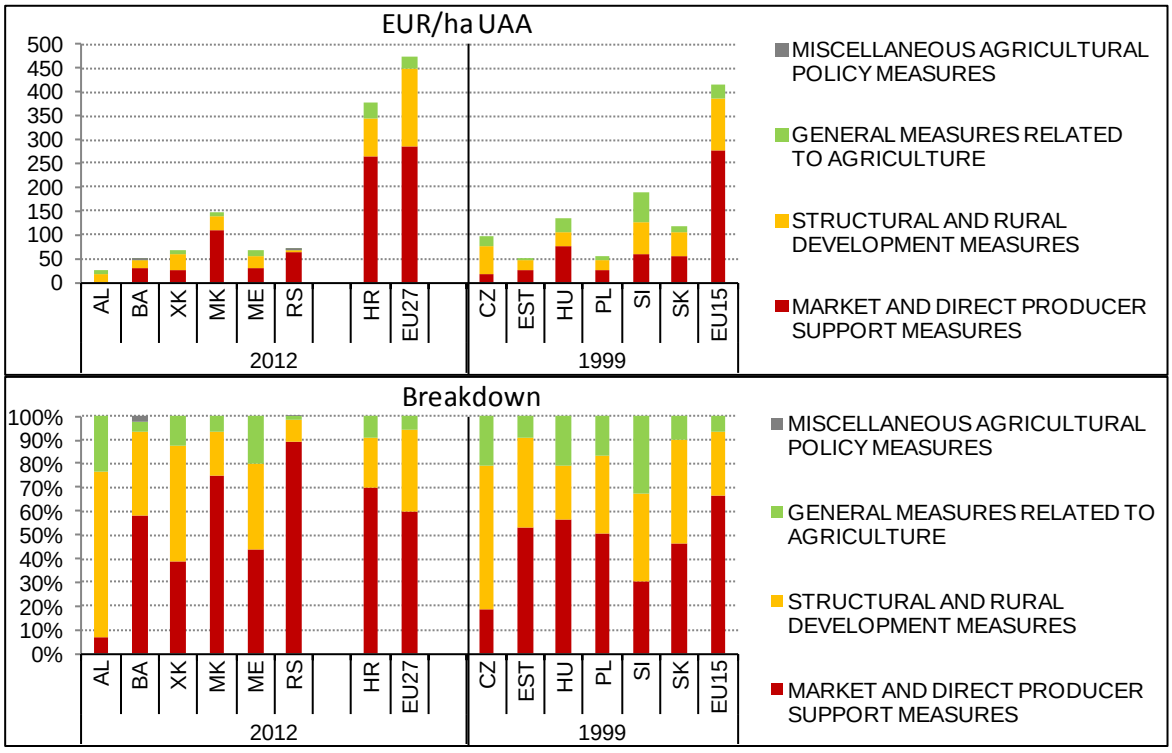
The composition of the total support to agriculture varies significantly between countries. Generally, it can be noticed that the larger the total budget, the larger also the share of funds for market and direct producer support measures (first pillar measures). Thus, the share of this policy pillar is relatively high in Serbia, the FYR of Macedonia, and Croatia. In these countries, this share is higher than in the EU and higher than it was in the new Member States before accession.

It would seem that SEEs channel all increases in agricultural budget almost exclusively into direct production and income support for farmers.

Structural and rural development measures (second pillar) and general agriculture support measures (third pillar) generally rank lower than production support, with the exception of Albania and Kosovo*, but the actual amounts in these two countries are fairly low.

Especially in Albania, but also in Kosovo*, a considerable part of the funding for agricultural support measures is derived from donations which are mostly focused in rural development.

Figure A.II-13: Total budgetary expenditure for agro-food sector and rural areas by APM pillars[1], SEEs and EU

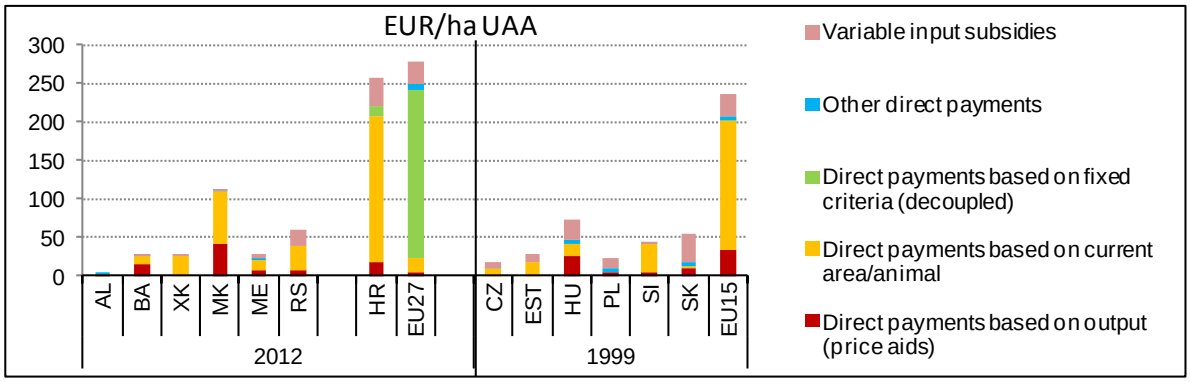


Note: [1]Export subsidies not included, Source: SEEs APM Databases, OECD PSE/CSE Database, EC

4.3 Market and direct producer support measures

In the context of the first pillar of agricultural policy, the largest proportion of funds by far belongs to direct producer support measures. In the year 2012, some market support measures (intervention buying-in) existed only in Croatia (3 percent of total first pillar's funds), Bosnia and Herzegovina (3 percent) and Montenegro (6 percent). This points to the conclusion that market price policy is not significant in the region, which in a way is understandable since most of the countries are decisively net importers of food, whereas these measures are more typical of countries with food surpluses (and without a broader policy of direct payments), such as the EU before 1992. Detailed analysis is thus focused only on the part of first pillar that is related to direct producer support measures.

Figure A.II-14: Direct producer support by group of measures, SEEs and EU

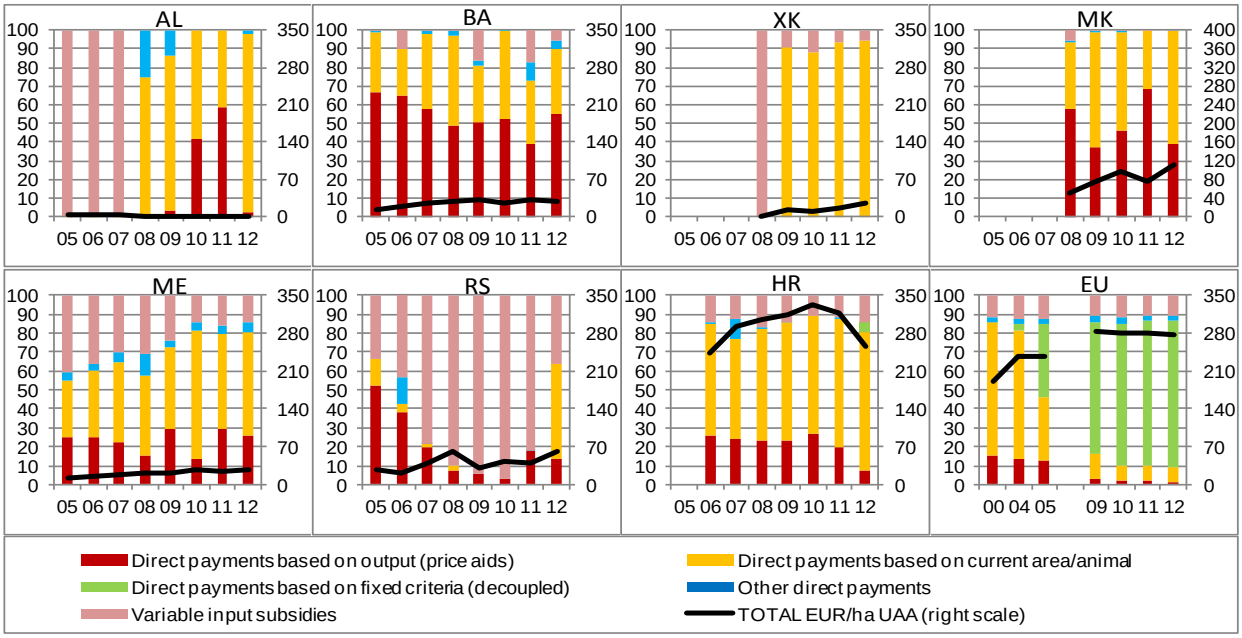


Source: SEEs APM Databases, OECD PSE/CSE Database, EC

The levels and especially the structure of direct producer support measures vary considerably between the countries. In Albania, funds for this group of measures are very modest (less than EUR 2 per ha). In Kosovo*, Bosnia and Herzegovina and Montenegro, these funds are higher, but stay below EUR 30 per hectare. Five years prior to accession, similarly low levels were recorded in Czech Republic, Poland and Estonia. The level of direct producer support in Serbia is around EUR 60 per hectare which is comparable to that in Slovakia and Slovenia, while the FYR of Macedonia with about EUR 110 is comparable to Hungary five years prior to its accession. Here too, Croatia with around EUR 260 per hectare is exception: the direct producer support per hectare is considerably higher than it was in other new Member States in the pre-accession period.

Most countries in the region show an upwards trend of funds for direct producer support measures in most recent years (with some fluctuations, particularly in Serbia and the FYR of Macedonia). These are also the funds that contributed most to the overall evolution of total budget for agriculture. It is interesting to note that in Croatia five years prior to accession (2008), the level of direct support per hectare exceeded the EU average; since 2010, it has been decreasing to reach the EU comparable level in 2012.

Figure A.II-15: Evolution of expenditure (in EUR/ha UAA) and composition of direct producer support measures (in %), SEEs and EU



Source: SEEs APM Databases, OECD PSE/CSE Database, EC

The composition of direct producer support measures generally did not change much throughout the years. The largest share belongs to different forms of direct payments to producers. The only exception is Serbia, where in previous years the majority of payments had a form of variable input subsidies.

Compared with the EU, all SEEs have considerably different structure of direct payments. Direct payments per output (price supplements), obsolete in the EU, is very common in Bosnia and Herzegovina and the FYR of Macedonia. In Montenegro and Kosovo*, in the recent year also in Serbia, the majority of payments had a form of area and per head payments linked to specific commodities, the form which in the EU has been implemented on larger scale only before the CAP reform in 2003. On the other hand, the decoupled payments based on historical rights, which now in the EU represent more than 70 percent of direct producer support measures, have so far been introduced only in Croatia in the last year prior to accession.

Interesting results are obtained by comparing the distribution of direct producer support funds by commodity groups and commodities

Table A.II-11: Distribution of funds for direct producer support measures by commodity groups and commodities, 2012, SEEs

AL	BA	XK	MK	ME	RS	HR
Sheep & goats 70%	Milk 54%	Wheat 46%	Tobacco 27%	Cattle 33%	All arable crops 43%	All crops 55%
Milk 17%	All arable crops 8%	Milk 25%	Sheep & goats 15%	Milk 31%	All crops 34%	All products 14%
Other animal products 6%	Cattle 8%	Sheep & goats 16%	Grapes 14%	Sheep & goats 19%	Milk 14%	Cattle 10%
Cattle 2%	Wheat 4%	Grain maize 7%	All arable crops 13%	Crops 14%	All livestock 8%	Milk 6%
Vegetables 2%	Pigs 3%	Animal products 4%	Cattle 10%	Potatoes 2%		De-coupled 5%
Olive oil 2%	Vegetables 3%	Sunflower 1%	Milk 7%	Tobacco 1%		Sheep & goats 3%
	Fruits 3%		Vegetables 6%			Tobacco 2%
	Forage plants 3%		Pigs 2%			Pigs 1%
	Poultry 2%		Other animal products 2%			Sugar beet 1%
	All products 2%		Vegetables 1%			Forage plants 1%
	Other 9%		Other 3%			Other 1%

Source: SEEs APM Database

In Albania, Bosnia and Herzegovina, and Montenegro, the majority of funds are allocated to the animal sector; in Kosovo*, both sectors are supported quite evenly, and in Serbia, the FYR of Macedonia, and Croatia, most of the funds are intended for crop production. Such a structure can only partly be explained by differences in production structures – it is probably largely due to different priorities of the agricultural policy of each individual country.

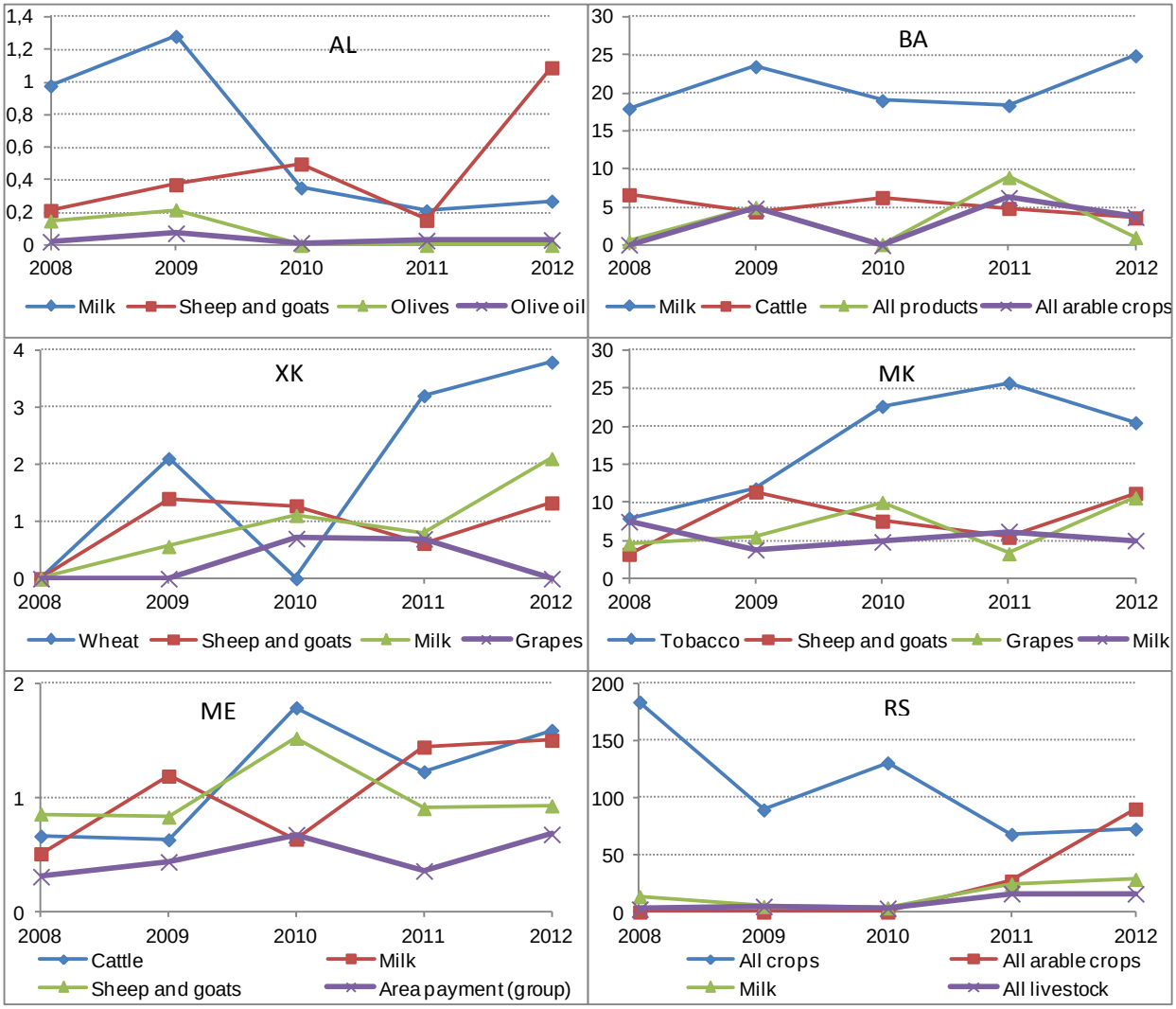
Large difference between countries can be found also in the number of commodities and commodity groups that are being supported. This number is particularly high in Bosnia and Herzegovina, the FYR of Macedonia and also in Croatia. In most SEEs, such support is granted also to commodities which in the EU have never been supported by direct payments (e.g. pigs and poultry). Before accession, Croatia had reduced the number of supported products significantly; additionally, a large part of coupled payments was replaced by less coupled or decoupled payments (all crops payments). Due to a large number of different direct payment schemes in most SEEs, available funds are highly dispersed which influence its effectiveness and increase the administrative burden.

An interesting question is how direct support is allocated among agricultural producers. Certain national experts have reported that in some cases, the criteria for allocation of funds to producers are such that only a small number of holdings can meet them. As a rule, the criteria favour larger producers and, in some cases, those who are selling their products to organized purchasers (dairies, slaughter houses, the milling industry).

One of the main characteristics of the direct support policy of all SEEs is its instability. Figure A.II-16 shows the absolute levels of direct payments by country and sector for five consecutive years. For each SEE, five commodities or commodity groups that have received the most funds is presented. The figure

may not be overly clear, but it does allow for an easy reading of the fluctuations of payment levels through the years. There are probably many reasons for such substantial changes in direct support to key sectors, ranging from payment delays from year to year to altered payments schemes. However, these fluctuations are unfavourable to producers. Besides directly influencing their revenue, it also make difficult to plan long-term development.

Figure A.II-16: Direct payments by the most represented commodity groups (in EUR million), 2008-2012, SEEs

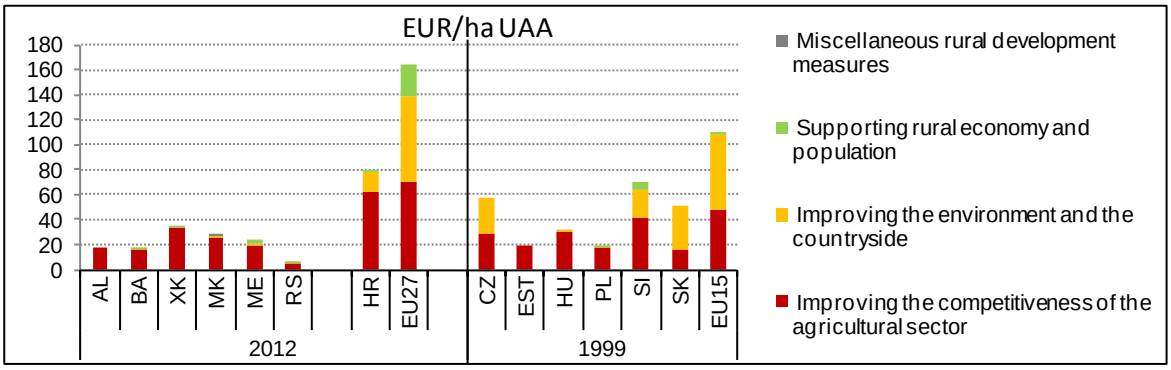


Source: SEEs APM Databases

4.4 Structural and rural development measures

As is evident from the general structure of budgetary transfers to agriculture (Figure A.II-13), the funds for structural and rural development measures are significantly lower than those for direct producer support in most SEEs. In 2012, the total funds for this policy pillar amounted to around EUR 20 per hectare in most of the countries, which is only about 10 percent of the level recorded in EU-27 in the same year. A similar situation was observed in Poland and Estonia five years prior to accession. However, in Slovenia, the Czech Republic, and Slovakia, the pre-accession budget for structural and rural development measures was much higher than it is now in the SEEs – EUR 50 to 70 per hectare, which is comparable only to Croatia in the year 2012. In Serbia, these funds were particularly low (only EUR 6 per ha in 2012).

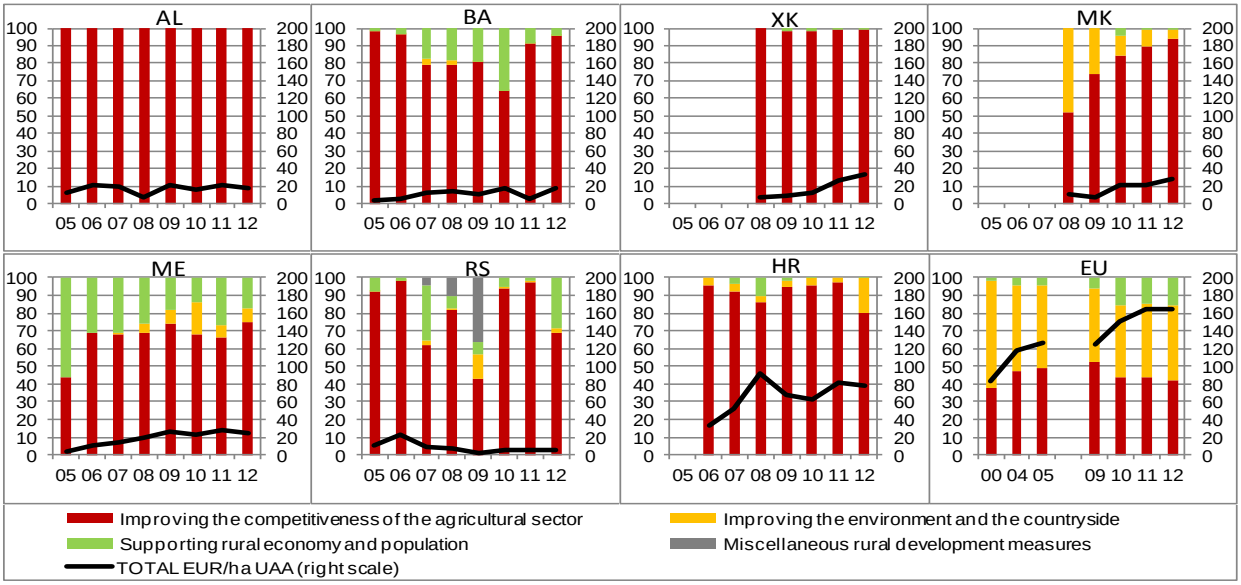
Figure A.II-17: Structural and rural development measures – composition by group of measures, SEEs and EU



Source: SEEs APM Databases, OECD PSE/CSE Database, EC

It is important to note that most of the countries have not experienced noticeable increases in funds for structural and rural development measures in recent years. Only Kosovo* and (until 2009) Montenegro are characterized by more or less constant upwards trend. Albania, Bosnia and Herzegovina, and the FYR of Macedonia show fluctuation through the years, while Serbia has even experienced decline.

Figure A.II-18: Evolution of expenditure (in EUR/ha UAA) and composition of structural and rural development measures (in %), SEEs and EU



Source: SEEs APM Databases, OECD PSE/CSE Database, EC

Especially in recent years, the bulk of the funds from this policy pillar belong to the group of measures intended for improving the competitiveness of agriculture, while other two aspects of rural development policy (e.g. the environment and rural economy and population) are given lesser attention. This differs significantly from the EU where almost equal shares of funds for this policy pillar (around 40 percent) are dedicated to increase competitiveness and to the environment related measures.

Through the years, different support measures were applied by country. In 2012, Bosnia and Herzegovina, Montenegro, Serbia, and Croatia assigned most funds to on-farm investment support, predominantly for investments in permanent crops plantations. In Albania and the FYR of Macedonia, the general support to agricultural sector in the form of investments in irrigation infrastructure and water management constituted the largest part, virtually all of. All of the SEEs allocated part of the

funds to food processing support as well as marketing and promotion during the course of at least one year, but with the exception of Croatia, the amounts were relatively low.

Funds intended for improving the environment and the countryside are negligible in most SEEs. On the other hand, in the year 2012, the EU averaged around EUR 70 per hectare to this group of measures in the form of payments to farmers in less favoured areas as well as agro-environmental and animal welfare payments. Only Croatia had any considerable payments of this kind (around EUR 15 per ha); in other SEEs, there were only attempts to introduce certain environmental payments, mostly in the form of support for organic farming and local genetic resources.

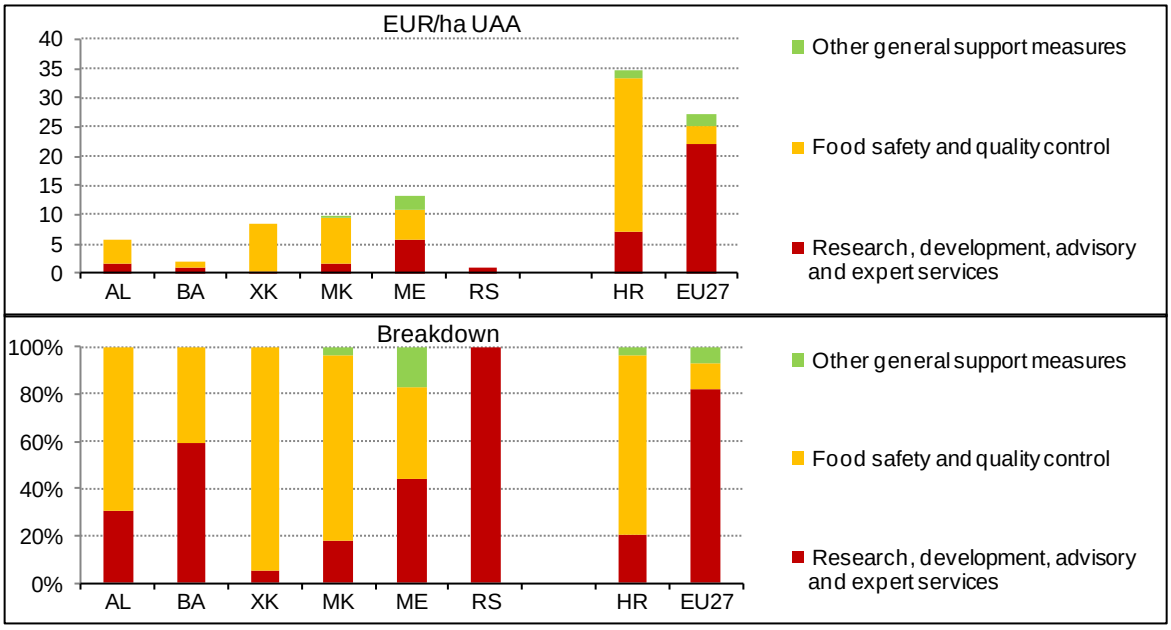
The most challenging question from the perspective of balanced territorial development of SEEs is the lack of measures to support less favoured areas (LFA). LFAs are strongly represented in all SEEs and are as a rule facing also serious demographic and social problems (depopulation, rural poverty).

Funds for supporting rural economy and population are also relatively modest. Bosnia and Herzegovina, Montenegro, and Serbia financed some infrastructural projects in rural areas, as well as investments for on-farm diversification of economic activities (e.g. rural truism). In other countries, there were practically no such measures. This would not bear such significance if rural areas would be adequately supported by regional policy measures. However, in SEEs this is not a case. Despite there being no comprehensive analysis of the matter, national experts attest to problems in this area; it is a fact that agricultural development issues cannot be resolved without more intensive efforts to increase employment opportunities of rural population outside agriculture.

4.5 General support measures

In most SEEs data on general support measures is unreliable and, in some countries even incomplete (Serbia). Measures captured by this policy pillar, such as general support to research, development, advisory and expert services for agriculture, public financing of measures in the field of food safety and food quality (veterinary, phytosanitary measures) and other measures of a general character are mostly in the shadow of other agricultural policy pillars. In the EU many of these measures belong to state aid and are not financed by the Community budget. Funds for this policy pillar are generally relatively low also in the EU (about EUR 30 per hectare).

Figure A.II-19: General support measures – composition by groups of measures, 2012, SEEs and EU



Source: SEEs APM Databases, OECD PSE/CSE Database, EC

In most SEEs, food safety and quality control receives the largest part of funds in this policy pillar. These shares are particularly high in Kosovo*, the FYR of Macedonia, Croatia and Albania. In Bosnia and Herzegovina, and Montenegro apart from food safety and quality control also the proportion of the budget for research, development, advisory and expert services is relatively high. However, taking into account the overall modest budget for general measures, all these services are supported with fairly low amounts. In all countries, the majority of funds are used for financing institutions providing extension and expert services.

Until now, the changes in the general services funds are mostly due to the increased funds for food safety issues, partly forced by the European integration process and the need to increase institutional capacity to meet EU standards in this field. The budgetary funds for knowledge generation and its transfer to agricultural producers are generally not increasing (except in Kosovo*) indicating that the awareness of the importance of knowledge for the development of agriculture is still low.

5. Conclusions

Based on the empirical analysis, the essential features of agriculture and agricultural policy of SEE countries as compared to the EU's may generally be summarized in the following key observations:

Agriculture

- Agriculture in all SEEs is of substantially greater economic importance than in the EU Member States, which is reflected in the sector's large contribution to the GVA (5-21 percent) and to employment (14-55 percent) as well as to foreign trade. Agriculture is also an important factor in maintaining social equilibrium since it employs a large part of the rural population.
- The geographical features in SEEs are very diverse; natural resources for agriculture are manifold in Serbia which has a larger share of agricultural land than other SEEs and most EU members, as well as more agricultural land (and arable land in particular) per capita.
- Natural production potential is relatively poorly used in the SEE countries. The available data reveals a persistently large proportion of uncultivated arable land (10-50 percent) as well as unused or poorly used permanent grassland, especially low-productivity pastures. Grasslands are of particular importance in Montenegro and the FYR of Macedonia, as well as in Bosnia and Herzegovina.
- Typical of all SEE countries is a dispersed size structure of agricultural holdings. The average farm size (1.5-5.6 ha) is comparable only to very smallest in the EU (all SEEs are ranked between Malta and Slovenia). Small farms prevail in total number in all SEEs, and in Albania, Kosovo*, and the FYR of Macedonia, they represent the dominant share in total utilized agricultural area as well. In Montenegro, Croatia, and Serbia, beside small family farms, there are also a small numbers of very large holdings occupying quite considerable proportion of total agricultural area (20-40 percent).
- Crop output predominates in total agricultural production (50-74 percent). Agricultural production volume varies widely from year to year with no discernible trends (excepting Albania whose production is increasing). The average yields of major crops as well as milk are largely below the level of EU-27.
- The prices of agricultural products in SEE countries mostly follow price developments in the EU, indicating that their agricultural markets are relatively open. The producer price levels of basic agricultural products are generally lower in Serbia and Bosnia and Herzegovina and relatively high in Albania and Kosovo*. Compared to the EU, the crop output prices are somewhat more competitive, while the prices of livestock products are typically higher than in most EU Member States.

- With the exception of Serbia, all SEEs are net importers of agro-food products. The Serbian foreign trade surplus has been increasing in recent years (with an export-to-import cover ratio close to 200 percent), with positive trade balance being recorded in vast majority of agro-food product groups. The trade balance of agro-food products is decidedly negative in Kosovo*, Montenegro, Albania and Bosnia and Herzegovina, with an export-to-import cover ratio of 5-22 percent and deficits in nearly all agro-food products. In Croatia and the FYR of Macedonia, the export-to-import cover ratio is substantially higher (about 60 percent and 75 percent, respectively), with Croatia having a trade surplus in a larger number of products than the FYR of Macedonia. Products of plant origin predominate in the export of all SEEs. The most important trading partners of all SEEs are countries in the region and the EU.

Agricultural policy

- In recent years, all SEEs have adopted long or mid-term strategic documents, in which objectives and priorities for agriculture and rural development were set. In general, programming documents are more or less harmonized with EU principles.
- In most SEEs, budgetary funds for agriculture varies considerably from year to year, but generally with an upwards tendency. The overall levels of budgetary support measured per hectare of utilized agricultural area differ by country (from about EUR 25 per ha in Albania to EUR 150 in the FYR of Macedonia, and EUR 380 in Croatia). In most countries (except Croatia) these levels are much lower compared with the actual level in EU-27 (about EUR 480 per ha).
- In the composition of total budgetary funds for agriculture in most SEEs (except Albania and Kosovo*) direct producer support has the highest share (40-90 percent). The dominant form of direct support in most SEEs is commodity-linked payments per area or per animal. Direct support is also implemented in the form of price supplements (dominant in Bosnia and Herzegovina, important also in the FYR of Macedonia) and variable input subsidies. Direct producer support also represents the highest share in the structure of the EU-27 agricultural budget (about 60 percent), but most funds are paid out as production de-coupled flat rate payments. The relative level of direct support (about EUR 280 per ha of UAA) is much higher than in SEEs (from below EUR 5 per ha in Albania to about EUR 110 per ha in the FYR of Macedonia, and EUR 260 per ha in Croatia).
- In SEEs, the level of budgetary funds for structural and rural development support (from below EUR 10 per ha of UAA in Serbia to about EUR 35 per ha in Kosovo*, and EUR 80 per ha in Croatia) is generally below the level of funds for first pillar measures. Under this (second) policy pillar, the vast majority of funds (75-100 percent) are used for improving the competitiveness of agro-food sector providing support for on-farm investments, irrigation infrastructure, water management, and similar measures. Environment related measures and measures aimed at supporting rural economy and population are not implemented on a larger scale in any SEE (except Croatia). In the EU-27, all three basic group of measures (competitiveness, environment, rural areas) are represented more equally (43 percent; 42 percent; 15 percent), and the relative level of support from this policy pillar (about EUR 165 per ha) is much higher than in any SEEs.
- Financing of general services for agriculture represents the smallest share of total agricultural budget in all SEEs, and also the relative level of funds earmarked for this policy pillar is modest. These funds are partly used for financing of veterinary and phytosanitary services and partly for supporting agricultural research, extension and expert services and institutions.
- Generally speaking, it can be said that agricultural policy implemented in SEEs is not aligned with the actual agricultural policy in the EU in any aspect (except in Croatia already being EU member). On the other hand, the relative level of budgetary support as well as its composition

is quite comparable to that recorded in some new Member States in the period before accession to the EU (1999), but since then CAP has been reformed considerably.

- Annual regulations governing implementation of agricultural policy as well as the analysis of budgetary support to agriculture indicate that the actual agricultural policy of the SEEs is predominantly characterized by a production and sector approach; agricultural production and producers are the main concern, whiles other elements of the agro-food chains as well as environmental and broader rural development issues, are less commonly addressed.

Final remarks on the data issue

When the results of cross-country comparative analysis are assessed, one must take in consideration the fact that in order to get a clear picture about agriculture and agricultural policy in this region a great deal of data and information is needed, but this is still not available or its reliability is questionable.

In all SEEs, except Croatia, which is already a member of the EU, the process of improvement and harmonization of agricultural statistics with EU requirements is still on the way. For Croatia, the harmonization of agricultural statistics was a benchmark for the start of EU accession negotiations on agriculture. Although in recent years some progress has been achieved in all SEEs, there is still much to be done before agricultural statistics will be fully harmonized with the EU. The FYR of Macedonia has progressed the most in this field, while agricultural statistics in Albania seems to be the less reliable.

Land use statistics are among the most problematic statistical fields in all SEEs. Data on actual land use is not clear even in the countries in which the farm structure survey was conducted according to EU regulations (The FYR of Macedonia, Montenegro, and Serbia). There is a large discrepancy between data from the regular annual land use statistics which is still the base for assessment of crop production and the utilized agricultural area recorded by farm structure survey. This difference indicates that the current data on crop production (and average yields) is likely not completely reliable in any SEE. Some countries still do not have reliable (and comparable) data, while some have none at all, in certain other important fields of agricultural statistics (farm structure statistics in Albania, Bosnia and Herzegovina, Kosovo*; livestock production in Kosovo* and Bosnia and Herzegovina; price statistics in Montenegro and Albania). Complete and reliable primary agricultural statistics (production, prices) are also a prerequisite for compiling economic accounts for agriculture, which most SEEs still lack (Albania, Serbia, Montenegro, Bosnia and Herzegovina).

As regards budgetary support to agriculture the main problem is that data on the actually executed payments is not regularly and systematically collected and presented in any country. Publicly available information is mostly limited to programs for financial support to agriculture as a legal document for the implementation of agricultural policy in the particular year. Data on paid-out funds is generally not publicly available and thus huge efforts are needed to obtain complete data on the detail level needed for comparison across years and countries.

In this context, in all SEEs, one of the main topics to be addressed is the improvement of agricultural statistics and the policy implementation database. Reliable and harmonized data is pre-requisite for solid agriculture and agricultural policy analysis and monitoring which can then be used also for policy programming and implementation.

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Chapter A.III

GAP ANALYSIS AND RECOMMENDATIONS

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1. Motivation and focus

The present study provides a systematic overview of the situation and trends in agriculture and agricultural policy in Southeastern European (SEE) countries. The overview put special emphasis on the comparison between key policy indicators within the region as well as with the European Union (EU) agriculture and Common agricultural policy (CAP). A detailed analysis of the individual countries is presented in the second part of the study (Chapters B.I-B.VII). The first part of the study provides a comprehensive cross-country comparative analysis (Chapter A.II), enabling the identification of certain common features of the agriculture of the region and the development of recommendations to shape agricultural policy in the future.

This chapter attempts to describe the gaps that define the development and integration process of agriculture in the SEE countries and to develop recommendations of agricultural policy in the region. Specific natural conditions, farm structures, historical circumstances, and different economic and political situations have resulted in significant differences between the countries, and even more perhaps between regions within a country. The degree of European integration also differs widely between countries since the observed region includes EU members (Croatia) as well as current candidate countries (The former Yugoslav Republic of Macedonia, Serbia, Montenegro, Albania) and potential EU candidates (Bosnia and Herzegovina, Kosovo*[1]) resulting in different attitudes and needs regarding the adoption of CAP principles and mechanisms.

The most common mistake made by candidate countries during the integration process is that the decisions to integrate some of the fundamental policy instruments to be ready for CAP implementation are taken at a very late stage in the integration process, which leads to the country not being able to

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[1] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

benefit fully from these policy measures from the date of accession. This situation is a reflection of the political dynamics and the economic context as well as the fact that the goal – adopting the CAP – is a moving target. However, experience from the most recent EU enlargements shows that the candidate countries must adopt and implement key strategic decisions about the CAP adjustment before the negotiation process can be finalized. It is also evident that the earlier such decisions are taken and implemented the better the country is prepared for full participation in the CAP.

The purpose of this first part of the chapter is thus to identify the main gaps and provide clear, simple and operational key principles of future agricultural policy that are generally valid for the region. These principles should support the preparation of detailed action plans for modernization of national agricultural policy and road maps for the harmonization of policy instruments with the CAP.

The ambition of the first part of this chapter is also to develop the strategic approach to how to get the most out of the integration process. Also in the pre-accession period, acceding countries could benefit from selected EU policy instruments that can be directly beneficial to the realization of national policy priorities concerning developing agriculture and rural areas and, in the long run, preparing domestic agriculture for accession and increasing capacity for absorption after accession.

The recommendations are based on the analyses, individual authors' expertise, and the cooperation between the research community and the individual countries' ministries of agriculture.[2] The recommendations are based on the fundamental principles for good strategic policymaking and design in accordance with the policy cycle and the concept of evidence based policymaking. They also emphasise the importance of solid framework conditions and identify the most critical policy measures in this regard.

One of the intentions of this is to demonstrate the importance of solid cooperation between policymakers and academic agricultural economics in supporting the decision making process in SEE agricultural policy. The discussion of this issue composes the second part of the chapter dealing with the analysis of gaps and developing recommendations for more efficient support to policy analysis. The history of previous EU enlargements shows that an efficient European integration process in the field of agriculture requires *evidence based policy*; i.e. public policy supported by objective evidence and relying on scientifically rigorous studies to identify effective policy measures and practices. The chapter consequently concludes with recommendations on how to improve the efficiency of analytical support institutions. The provision of solid data and analysis, policy comparisons, reform conceptualization, and impact assessments of different proposals and solutions, both internally in the country and in communication with European institutions and Member States, is crucial to the success of the integration process and the modernization of agricultural policy. The chapter concludes with final remarks.

2. The principles of modern agricultural policy - regional SEE approach

2.1 Key agricultural development challenges

Establishing a benchmark for evaluating the gaps in agriculture and rural areas is not a straightforward task. Aims are often subject to different notions that are difficult to realize in a given context. The gaps are therefore mainly derived from the country specific studies and exchange of view with officials from the concerned ministries and national research experts during the elaboration of the study.

[2] The recommendations are based on the experiences of the acceding countries from the last round of EU enlargement (2004-2013, especially Croatia), with EU negotiations and with the reforms adopted during the accession preparation period. They are also based on numerous discussions the authors have held after 2003 while the national agricultural development strategies were being developed in the region.

Agriculture still ranks among the most important sectors of the national economy in SEE countries, with significant contributions to the economic and social stability. Its role, however, is not as much one of economic development as being a social buffer in the economic crisis prevalent in the region. Factor productivity in the region is significantly lower than the EU average, mostly due to slow farm consolidation processes and inefficient use of production factors. In particular, the depopulation of certain regions and the absorption of surplus labour from the farm sector in others is a major issue in the development of agriculture and rural areas of most SEE countries. Agro-food chains are facing problems in creating market institutions, establishing marketing and distribution chains, meeting EU quality, veterinary, health and hygiene, and phyto-sanitary standards.

The general conclusion of the analysis is that progress has been made in the development of agriculture in the SEE region as a whole in the recent years. However, much remains to be done to prepare the respective agricultural sectors for the competitive pressures of the modern global economy and – particularly relevant to this study – for EU accession. The main challenges for the development of agriculture are summarised in the following 11 points.

Resources

1. Natural constraints and unused land potential

The SEE region is characterised by a north-south disparity in terms of agricultural development potential. The Danube Basin in the North has one of the best agricultural potentials in Europe, while the potential of the Dinaric mountain range, which extends all the way to the Mediterranean, is limited only to certain areas along rivers and to specific products. The natural potential is not fully realized in the Northern part of the region but unused potential is even more of a problem in the central and southern regions, which include several depopulated, fallow, and even abandoned areas. The situation was only aggravated by the conflicts in the nineties, and in some areas, the depopulation and abandonment of agriculture have advanced to an irreversible degree. These areas particularly concern permanent grassland with potential for livestock rearing but also extensive fruit production and forestry. The main challenge for these areas is that to a large extent they are areas with natural constraints (mountainous areas) and weak infrastructure.

2. Human and capital factor limitations

The SEE is an unevenly populated region. Although it is difficult to provide a general assessment, there is evidence that the farm population is relatively old and the workforce is poorly educated, which is an additional impediment to development. The capital infrastructure (buildings and machinery) is also relatively outdated and in certain areas seriously outdated. Substantial investments will be required to modernize production in such areas, while some areas have experienced capital investments and good agro-food chain organization are highly successful in crop production. Livestock production is generally declining. The dairy industry, although very important, is based on suboptimal genetic resources and, above all, on poor animal feeding and has failed to achieve higher productivity and larger stocks despite significant support.

3. Land fragmentation and bimodal farm structures

The history of development, inheritance and land reforms in the socialist and transitional period has led to the particularly unfavourable conditions reflected in farm size and land fragmentation. Small farms predominate, in some areas even in the form of subsistence farms lacking the resources for economically viable production. In many cases, fragmented land parcels present additional difficulties, as do the areas with land mines, which has resulted in abandoning production and habitation altogether in certain cases, especially in the karst regions (closer to the Adriatic) and, to a lesser degree, in the mountainous areas. The land market in these areas is not functioning.

In the more favourable flatlands, on the other hand, there is an increasing disparity between small family farms, which are inferior in size and efficiency, and preserved large ex-socialist holdings, now

privatized and transformed into large companies. Although the number of these companies is limited, they tend to further expand their size of land and dominate the agricultural production in the regions where they are present, threatening social stability and balance.

Production and productivity

4. Low productivity and technological gaps

Low productivity is largely an underestimated problem in the region. The technological gap affecting all aspects of production is real. Certainly, there are also some very high level facilities and farms, but these serve merely to highlight the regions' overall underdevelopment in all key productivity indicators (yields, labour and capital productivity). The situation is better in the North than in the South. In the northern parts, crop production also exceeds livestock production in terms of productivity and technology. The latter demonstrates a gap that reflects the need for better knowledge and better private and public knowledge transfer services. Dissemination of knowledge as well as shortage of capital are among the most serious challenges to deal with.

5. Low concentration and specialization of production

The region is heavily characterised by subsistence farming as well as low concentration and specialization of production. This situation may have beneficial social implications in certain areas during the economic crisis acting as a buffer against unemployment, but the real concern is that there are no significant signs of structural changes that would enable small farms to gradually develop and grow, concentrate and specialise, and thus achieve a better market position and welfare. There are examples of growth but they are demonstrating anomalies, such as family pig farms only using expensive feed or dairy farms based on purchased hay, which is quite inconceivable in more developed economies. In this regard, too, livestock production is lagging behind crop production, which is more efficient.

6. Relatively poor production performance

All the aforementioned limiting factors mean that total agricultural production and individual production activity is unsatisfactory; however, there are considerable differences between countries, regions, and sectors. The reasons for this weak performance are varied and not easy to deal with in the short term and without substantial changes in the focus of national strategies and policy measures. The challenges particularly relate to dealing with the low level of knowledge and education of farmers, weak extension services and deficient rural financial services to facilitate introduction of modern production methods and investments in new technology.

The challenges also relate to the processing sector, which is characterized by relatively weak market performance and high transaction costs due to fragmentation and a low level of integration in the value chains. This situation makes it difficult to ensure an adequate supply for local and regional retailers due to the products not being competitive in either price or quality in relation to imported products, even in cases where one would expect the SEE countries to fully cover their own needs, considering their potential (e.g. meat, vegetables).

The main challenges in this regard will be to improve the functioning of value chains in terms of reducing transaction costs and improving product quality through innovation and investments in new technology. Furthermore, the challenge will be to improve the responsiveness of supply chains to ensure an effective transfer of market signals from the markets to processors and primary producers through innovation and knowledge transfer and solid cooperation between the private sector and research institutions.

The agro-food supply chain

7. Weak agribusiness

The analyses show that post-harvest treatment and processing of raw materials into the final food products is a weak link in the agricultural production and market systems of SEE countries. Examples from other countries, sometimes even within the region, show that the purchase of agricultural produce based on contractual arrangements between farmers and processors/wholesale businesses, which include requirements for meeting both quantity and quality standards, function as an important push factor for agricultural development. Only a few players in the region meet the standards of modern agro-food chains. Particularly in the economically less developed regions, the agribusiness, upstream and downstream industry, and specific rural finance institutions are only now in the process of being established. It is worrying that many businesses do not strive to build sustainable, integrated supply systems based on local raw materials, but prefer imported materials solely for short-term economic reasons.

While at first glance this is not a problem in itself, experience shows that it is detrimental to the development of local production, both in terms of quantity and quality, as well as traceability, and consumer trust. The distrust in food production and marketing towards domestic products results not only from the mentality of agribusiness, but also from the producers' unwillingness and inability to enter into binding relationships – either producers' groups or contractual arrangements – and to forge mutual ties within the industry.

Regional success stories demonstrate that the real issue is the development of trustful relations with local and regional agricultural producers. Sustainable, long-term food production arrangements are characterised by well-defined supply chains based on local products and activities and building on trust among the players in the supply chain, including domestic and foreign consumers.

8. Poor horizontal and vertical integration

The poor organization of production in agro-food chains is a worrying aspect of SEE agriculture, which has a long tradition of agricultural cooperatives – an idea strongly diluted and damaged during the socialist period. Although there are cases of good cooperation through cooperatives and horizontal integration (true horizontal integration, which is the basis of agriculture in the developed world) the practice seems unable to establish itself on a broader scale. The organization of producers in producers groups or cooperatives is very limited due to strong resistance from producers based on past experience, and cooperatives are mostly either economically insignificant or limited to purchasing raw materials and supplying inputs.

Good producers are able to secure their own paths to consumers or processors and consequently do not necessarily have an interest in joining a cooperative or producers group. However, although it may appear that such producers may not benefit from association with economically weaker producers, these producers still represent a large share of market supplies which will be marketed on conditions that may also be detrimental to the more developed producers. The main challenge is thus to promote the advantages, also for good producers, of better organization of supply through cooperation and production planning to manage both quantity, quality and through concentration of supply to strengthening bargaining position.

Vertical integration is very limited due to a lack of trust between suppliers and buyers and market intransparency. The individualistic attitude of agricultural producers is also evident in the creation of permanent business relations with the processing industry. Such relations are only present in certain sectors (e.g. poultry, partially in dairy sector), but not where they would be most expected; namely, in fruit and vegetable production. The challenge will be to improve the functioning of the market through better transparency about market prices and consumer demands and to ensure solid legal and administrative conditions for regulating contractual obligations.

Prices and trade

9. Low price and quality competitiveness

Price analyses have shown that only certain production activities in certain countries are sufficiently price-competitive to increase their business volume, but even in these cases, the scope for development is limited due to inadequate market structures and poor economies of scale. Rare are the producers that actually manage to market their products outside the SEE region. Consequently, exports are minimal and most of it stays within the region. Particularly worrying, however, is the impact of low and varying quality on competitiveness. Despite certain positive examples in this area, the lack of traceability, product standards, and post-harvest handling and processing demanded by the modern retail sector and in foreign trade are serious impediments to general progress. The issue of product quality, including technological improvement and development of high quality specialities, is not sufficiently recognized.

10. Foreign trade dependency

Except for Serbia, all SEE countries are net importers of food, some even to an extent that makes it macro economically irrational. Currently, the high dependence on imports is not a threat to food security since the developed retail sector imports from other countries, particularly from the more developed countries of the region (e.g. Serbia and Croatia). However, high dependence on imports remains a worrying indicator of underdeveloped agriculture and agro-food chains, which is problematic especially because the countries are not utilizing their natural and human potentials. With the exception of a few countries, food production is not officially recognized as a national priority, and where it is, the realization of the potentials is not very evident.

Rural and regional characteristics

11. Depopulation, weak social situation and presence of rural poverty

Settlement patterns in the SEE are undergoing dramatic changes. Large numbers of villages, residential and industrial buildings scattered over the majority of the region are either abandoned or likely to be in the course of the next decade. The post-socialist transition period was particularly harmful in this regard, particularly because the previous model of relatively decentralized industrial and food processing activities collapsed. The resulting deficit in agricultural and general economic development has left the majority of the rural population unable to find any employment in their local area and has driven away the workforce. This in turn has led to the collapse of part-time farming that was previously an important contributor to the rural economy.

Rural poverty is a real issue in rural areas of the SEE. The aforementioned factors contribute to its existence, as does the lack of employment opportunities in rural areas. Much of the more dynamic and capable part of the population is emigrating from these areas, which contributes to social and economic decline and increased poverty.

There are areas displaying certain progress, but they are few and should not obscure the fact that depopulation is increasing in several areas of the SEE. Most rural areas in the region are de-privileged and have no real mid-term prospects. Rural development as such is absent. The European definition of rural development does not apply to the SEEs where rural development is not supported by proper regional initiatives and cohesion. Rural poverty and depopulation require particular attention and decisive government action to stem or reverse the situation. The main challenge is to promote the creation of additional economic activities in those areas by developing the untapped potential available in terms of local human and natural resources.

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From this analysis stems the fact that the agricultural sector and rural areas of the SEE have considerable development needs. The modernization and development of agriculture and related development of rural economic activities have the potential to improve significantly the prospects of these areas and must become the core of all strategic plans for developing agriculture and rural areas in the region. The issues discussed above led to the identification of the following key targets of future agricultural and rural development policies:

a. **Improvement of the general framework conditions;**
b. **Land management reforms;**
c. **Income improvements and stabilization;**
d. **Innovation and efficient knowledge transfer;**
e. **Modernization of agriculture and agro-food sectors;**
f. **Better horizontal and vertical integration of producers and processors;**
g. **More efficient use and protection of natural resources;**
h. **Rural poverty elimination, and small farmers issues;**
i. **A more territorially balanced approach.**

The realization of these targets is only possible with significant improvement in the general framework conditions for agriculture and rural areas and a solid and stable agricultural and rural development policy. There is evidence from theory and practice that countries with weak framework conditions see only limited impact, even if they have comprehensive strategic programs and generous budget support. Political instability, pragmatism or resistance to pursuing and implementing strategic goals and measures have created a level of unpredictability for farmers and businesses that can seriously compromise the development of these sectors. Legal transparency and enforcement of the law (including dealing with informality), establishment of efficient rural credit systems and respect of contractual obligations are equally critical for the development of the agro-food sectors and rural areas and could accelerate structural changes and realization of the targets.

Framework conditions cover a broad range of policy areas, which are not only in the hands of agricultural decision makers. However, they are essential in modern agricultural policymaking. Inter-governmental cooperation ensuring appropriate framework conditions for the agricultural sector and rural areas is consequently a critical pre-condition for achieving the goals set out in the national strategic plans.

2.2 Gaps of actual policy

To what extent has the current agricultural policy of Southeastern European countries been successful in addressing the above-mentioned challenges of agriculture and rural areas and in realizing the targets? The agricultural policies of the SEE countries and their main characteristics were described in Part B and summarized in the challenges in Chapter A.III-2.1 above. Some of the key characteristics and challenges are assessed in more detail in this chapter to facilitate the understanding of the subsequent recommendations.

Weak realization of policy programs

The weakest link in current agricultural policy in SEEs is the low level of realization of strategic plans. Actual measures and budgetary payments often diverge from the strategically planned activities. The analysis shows a general lack of consistency in SEEs agricultural policies. This may partly be attributed to the long economic crisis in the region, which seems difficult to overcome, but also to the political instability of some countries. This situation makes it difficult to achieve the set goals. The SEE countries undoubtedly lack a stable agricultural policy as well as a true strategy of reforms and adjustments to EU

requirements. Notwithstanding the differences among the countries, the pragmatic *ad-hoc* approach to defining measures is still generally prevalent.

A discontinuity and instability in the actions of decision makers, political as well as senior management in the ministries, is typical of SEEs agricultural policy. This situation has made it difficult to ensure an efficient public service applying the policy cycle and evidence based policymaking. This is not specific to the agricultural policymaking in the SEEs but still an important feature of the institutional aspect of agricultural policy management that deserves particular attention.

The strategic documents on agricultural policy in the SEE countries usually include similar issues as those discussed above on development issues, albeit with varying emphasis. The most prominent documents include a sector-based approach, boosting production, and stronger market orientation. On the other hand, addressing structural and technological deficits, rural poverty, and the issues of small farms and areas with difficult agricultural conditions is less common. There is a strong production orientation of the policies, while environmental issues are addressed only briefly, which in a way is understandable considering the economic situation and level of environmental awareness in these countries.

The level of agricultural policy funding?

The overall amount of funds for agricultural policy in the SEE countries mostly shows a growing trend, although following the onset of the economic crisis in 2008, this trend has stopped or even reversed in some countries, lowering the agricultural policy budget to below pre-2008 levels. Relatively speaking, these budgets are comparable to those of some candidate countries from the last round of EU enlargement in the period before accession. Except for Croatia they are also significantly lower than what EU members provide to their agricultural sectors, particularly due to the historically strong support to agriculture under the CAP.

What is important for SEE agricultural policies is, whether the available funds make it possible to address the many structural and developmental challenges discussed in the previous chapter. This is a difficult question because of the complexity and interrelation between the challenges to be addressed, not to mention that it is unclear to what extent the current type and level of public interventions will have a tangible effect.

With the current limited funding, it is impossible to address all challenges. This situation is only expected to change slowly in parallel with progress towards EU integration and the availability of IPARD funding. In light of this, the key is to ensure rigorous priority setting (identification of the most critical challenges) and especially the identification of a combination of policy measures from framework conditions to sector specific measures that are designed to support each other to achieve coherence and complementarities.

The limited success of agricultural policy in the SEEs is partly due to the administrative weaknesses and a lack of determination in applying this rigorous approach. The already limited funds are largely income- and sector-oriented (geared towards specific production activities). Agricultural policy is first of all understood as a mean of addressing the needs of the individual interest groups of agricultural producers, in order to compensate for lower incomes and indirectly improve competitiveness. There is a tendency to direct any increase agricultural budgets towards increasing existing direct payments along with the introduction of new forms of direct payments targeting additional sectors.

Direct payments – desired but too pragmatically designed policy

The types of direct payments that are used in SEE countries include input subsidies, support based on the quantity of products sold and per animal and per area payments. The structure of the measures varies by country; the policy is generally dissimilar to current and previous forms of CAP instruments and measures.

Several types of input subsidies are applied, although they are slowly being discontinued (judging mostly by the planned changes in agricultural policy). Support based on the quantity of products sold is a common measure, which is found especially in the dairy sector. This is one of the most important agricultural policy payments in the SEE countries. In some cases, the aid amounts to 25 percent or even more of the producer price.

Per animal and per area payments are increasingly applied, but the underlying measures and their implementation diverge considerably from the CAP. There is a growing tendency to award direct payments mostly to larger market oriented producers, leaving out small farms and producers that do not sell through conventional market channels. During the economic crisis, some countries appear to have used these stricter criteria to compensate for reductions in the agricultural budget by excluding small producers, although in some countries such criteria are used to target income support only to economically viable producers producing for the market to forge structural development.

Agricultural policy holds that the purpose of direct payments is to balance income from farming, to compensate for higher production costs or, in more modern understanding (also in CAP), to pay for public goods. Consequently, such direct payments are intended for all producers that bring some economic or non-commodity output.

The rationale of limiting direct payments only to larger market oriented producers, from the viewpoint of decision makers, is mostly to provide incentives to increase marketed production, to improve competitiveness and to forge structural development. Under normal circumstances this is an acceptable approach. However, the higher the minimum threshold is, the larger the proportion of funds allocated to large producers and the more farmers and resources (land) are excluded from the support. In light of overall agricultural development, and provision of public goods related to agriculture (environment, territorial/social) the efficiency of such support schemes is low, perhaps even negative, because large producers should be capable of exploiting their competitive advantage (economy of scale) and manage with very limited support or without support at all. Whenever restrictions are applied in such schemes, the optimal approach would be to set minimum ceilings at a level of an economic viable farm size and/or to provide public goods (resource management), while at the same time setting maximum ceilings for support to large producers (an approach also applied in the EU).

Due to the large number of small producers in the SEEs, the environmental impact (management of natural resources, biodiversity, etc.), as well as the social impact of excluding local communities from direct payments without providing other means of support can have serious consequences unless alternative support measures are put in place. Such alternative support could consist of support to gradually phasing out production (particularly targeting elderly farmers) or support to conversion to other economic activities. There are also examples in some countries of non-agriculture related social welfare schemes providing a certain level of income to very small vulnerable rural households. However, due to budgetary limits and undeveloped social grant schemes for the rural, agricultural population, these schemes are not particularly realistic. Therefore, it is important to have a non-exclusive approach to direct payments as long as alternative schemes are not in place. All producers should be treated equally, also taking into consideration the principle of equal competitive conditions.

A common and critical tendency is to support sectors not supported in the EU, such as the pork and poultry sectors and, as mentioned above, the output support in dairy, but also the wheat sector. This can prove particularly critical for countries that are already in the process of accession negotiations and are thus closer to accession.

The administration and control of direct payments is one of the key requirements that countries need to comply with before accession. Some countries already have a farm register and animal identification systems, but the need to update these systems has become critical. In addition, supervision is inadequate in the identification of agricultural land (LPIS system) for which producers claim direct payments, and some countries are resorting to various pragmatic and not always transparent or efficient solutions.

Market measures – no clear role defined

Market and price support measures are very limited in scope in SEE countries. This is understandable considering they are net importers of food and lack historical experience in this regard. The absence of such measures is justified in a net importing market bound to free trade agreements, where the possibilities to use market and price support measures are limited. Nevertheless, in the light of the registered food price volatility in the region there is a need to consider measures to stabilize markets in situations with excessive seasonal price fluctuations.

Rural development still second ranking

As a general rule, agricultural budgets are not development-oriented. This statement is based on the low absolute amounts of funds for rural development, the only agricultural policy pillar with an aspect of development. Among the measures for rural development policy, investment support for agricultural holdings predominates, but they too are limited in availability and scope for all producers and sectors. In the identification of key issues, the importance of efficient supply chain management is specifically underlined. Agricultural policy funds are rarely devoted to this matter although funds are also allocated to investments in the processing industry, in particular in countries where the IPARD is available.

This is also true for large-scale infrastructure projects (irrigation systems, roads, waste management, land consolidation, etc.) despite the fact that they are among the most critical challenges. A common factor for these kinds of investments is also that they are not solely under the responsibility of the ministry of agriculture and therefore require inter-governmental cooperation and coordination to accomplish.

In some key sectors, such as wine and fruit production, which have the potential to become competitive in both domestic and export markets, there is a substantial overall need for renovation and restoration of production potential; i.e. replacing old plantations with new stocks and varieties and upgrading production systems and methods. However, the overall strategic vision and planning of actions for developing these sectors are often lacking or not very well developed, and investment support is limited.

Agro-environmental support is very limited due not only to scarce budget resources, but also due to different social priorities and the relatively weak position of interest groups. Therefore, the integration of environmental issues into agricultural policy is still in its infancy. Considering the large number of mountainous, hilly, and other areas with limited production conditions, a more favourable attitude towards the matter could have been expected. This is a policy area of high importance and extensively supported under the CAP and the SEEs need to start preparation for these measures sooner rather than later to be ready to benefit from them on accession.

The social situation of small farms and the significant presence of rural poverty, particularly in less favoured areas, are among the key issues identified in the analysis. The agricultural policy of the SEEs acknowledges these problems but does little to tackle them. This may be partly due to the complexity of these issues, which often are under the responsibility of several public authorities or institutions and consequently partly beyond the scope of rural development policies. Nevertheless, rural development policy offers a range of measures, which can help to deal with these challenges.

In the EU, less favoured area (LFA) compensatory payments are among the most important measures to address these problems and provide an opportunity for people to stay in the area and continue to use available resources and maintain traditional production. Less favoured area support is indeed financially and technically very demanding and takes a certain time to implement. However, agricultural policymakers in the region should consider ways to start using this policy measure to address these problems up front, both to address the issue of less favoured small farmers in these areas and to prepare for accession.

General services – no practical actions

General agricultural services, especially those concerned with developing and disseminating knowledge are generally poorly funded, although agricultural innovation and knowledge transfer is a critical challenge for the whole region. Advisory services and knowledge transfer are issues often addressed at political level. However, practical actions to facilitate the necessary development and modernization of the services remain limited without a clear strategic perspective. This is also to some extent the case for agricultural faculties, which are only rarely capable of fulfilling a role as contributors to innovation and knowledge transfer which should be expected in the process of developing modern agriculture.

The necessary technological process cannot happen spontaneously in such a generally underdeveloped agriculture. Both public and private institutions, educational systems and advisory services play a crucial role in resolving this challenge.

2.3 Guidance for new orientation of policy

Concept: development-oriented agricultural policy with CAP as a benchmark

The most important recommendation for the SEE countries is to adopt and expand the concept of development-oriented agricultural policy to effectively address the key policy targets outlined in Chapter A.III-2.1. Redefining development in all its aspects and making it sustainable must become a key strategic priority. Based on the defined targets, a development-oriented approach is understood in its economic sense as efficient exploitation of natural and organizational potentials, improved productivity, improved agro-food chain efficiency, fostering cooperation, and support to structural changes, particularly land reforms which all together brings significant increase of the welfare of the rural population. Development must include a well-defined environmental and social perspective and regionally balanced development.

There are no obvious alternatives to a decisive development orientation. In this regard, European integration and adoption of the European Common Agricultural Policy objectives and instruments may serve as a good motive and catalyst for change. The CAP is a demanding and moving target for the SEE countries, but has the potential to introduce an active and positive attitude towards agriculture and functioning as both a development model and a benchmark. The gradual introduction of elements of the CAP will facilitate the modernization of agriculture and public administration as well as the adoption of EU legislation, and consequently speed up the EU integration process.

Regardless of their legitimate criticism of the complexity of the CAP, the SEE countries may benefit from selected CAP policy instruments also in the pre-accession period, which could provide the necessary stimulus for wider change to agriculture and rural areas. The latest EU enlargement gives both positive and negative examples of what European funds and practices may bring to less developed agricultures. Those countries that have actively prepared the agricultural sector for accession through gradual integration of CAP measures and applied a proper combination of economic incentives and public funds, have enabled their agricultural and rural sectors to integrate faster and take full advantage of the opportunities the CAP offers. A timely adoption of this approach and learning from these examples has the potential to spark the development of SEE agriculture and rural areas.

Implementing a policy based on elements of the CAP in a simplified manner could be a solid basis for implementation of the development oriented approach to address the targets identified above for the SEE countries in the pre-accession period and a good stepping stone for intensifying the integration process.

Despite all other uncertainties and big dilemmas in integrating the CAP (as a moving target) in national policies, the current CAP framework will on many points still be relevant for the region at the time of its accession. It comprises – notwithstanding the objective of accession – a broad range of rural development measures relevant to address all development issues of the region (economic,

environmental, and social). It also provides a framework for certain kinds of area payments in the form of the basic payments scheme, "greening" payments, top-ups for young farmers, schemes for small farmers as well as certain coupled per animal and per area payments. It is important to emphasise that the past reforms of these schemes have shown that fundamental administrative procedures and mechanisms will not be changed dramatically over time. In past enlargements, the most successful countries were those that ensured a timely build-up of institutions necessary for CAP implementation and at the same time prepared producers for the procedures and levels of supports that apply upon accession.

In adopting elements of the CAP, attention must also be given to policies that will remain a matter of national policy even after accession, such as state aid (or Pillar III in the described APM methodology). General agricultural services are often ignored and not recognized as important, whereas in fact they are a crucial element of agricultural policy. They particularly concern institutional development and support for agricultural knowledge and innovation systems, food safety, quality policy, and other important aspects of the development of agriculture and rural areas. In building up a development oriented policy and administration, it would seem beneficial to give special attention to public advisory and educational services and to increase investment into development-oriented research.

When the SEEs start implementing a development oriented approach with the CAP as a benchmark – excluding Croatia of course, which is already a member of the EU – they need to establish a road map; a strategy for adopting and developing policies and measures. This is not unlike what the European Commission is demanding of candidate countries (e.g. Montenegro); i.e. a strategy and action plan for EU integration outlining how the country foresees the transition from the actual policy measures to the adoption of CAP instruments on accession.

This approach reinforces the suggested model of gradual adaptation. A clear road map for the implementation of agricultural policy reforms, incorporating the expected EU integration process, identifying the steps for a systematic implementation of strategies is a precondition for the efficient adjustment of agriculture. In the following some concepts and ideas on how to facilitate such a rational adjustment of policy are discussed.

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The main objective of the road map should be a gradual and rational adaptation to the CAP with all the rights and responsibilities. Domestic producers need to be gradually confronted with the market conditions that apply to EU producers, found also in the vicinity of the region.

Based on the challenges identified in Chapter A.III-2.1 and the set of available EU and domestic policy instruments, a policy matrix is presented below (Table A.III-1), linking key targets with operational objectives and potential measures in order to facilitate the development of national strategies and road maps.

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The following part focuses on certain policy measures that are crucial for achieving the targets. In line with the approach of introducing development-oriented policies in the framework of the EU integration process, this discussion is mostly concentrated on policy measures that are part of the CAP benchmark. It is also important to emphasize the importance of improvement of general framework conditions, which merits particular attention in policymaking. These framework conditions are discussed in relation to the policy areas outlined below.

Table A.III-1: Policy matrix of targeted reforms and key measures for SEE agricultural policy in the pre-accession period

Reform priorities and targets	***Operative objectives***	***Measures***
a. *Improvement of general framework conditions*	- Ensuring rule of law - Stronger transparency in public procedures - Transparent and predictable business environment - Ensuring appropriate financial conditions for the rural businesses and households - Stability and consistency in the policy implementation - Strategic programming and fulfilment of agreed targets and policies	- Upgrading and modernization of public administration and institutions - Transparent public procurement policy - Transparent policy implementation - Targeted focus on developing anti-corruption behaviour of administration in agriculture - Support for strengthening of rural financing (rules and institutions) - Introduction of all elements of policy cycle in agricultural policy
b. *Land management reforms*	- Land consolidation - Farm size increase of viable farms - Improvement of land quality - Better water management - Better access to agricultural land	- Land law favouring structural changes and solutions to reduce fragmentation - Agrarian operations - Support for irrigation - Support for land and forest roads
c. *Income improvements and stabilization*	- Gradual introduction and harmonization of direct payments policy with the CAP schemes to enable implementation of the instruments after accession - Ensuring the comparable competitiveness status of domestic agricultural producer with the EU - Support for development of agriculture - Stabilization of income - Provision of public goods	- Gradual harmonization of the direct payments with the CAP - Introduction of head and area payments (limitation of number of payments, equal treatment of producers) - Small farmers support - LFA support - Introduction of different market and risk management tools
d. *Innovation and efficient knowledge transfer*	- Transfer of new or existing innovations adapted to the local and regional conditions - Transfer of knowledge to the direct producers, producers group and agro-food chains	- Targeted research programs - Support for extension and training - Knowledge networking support - Establishment of demonstration centres for agro-food activities - Knowledge incubators
e. *Modernization of agriculture and agro-food sectors*	- Productivity increase in agriculture and food sectors - Improvement of capital structure in agriculture (buildings, mechanization, perennial crops, breeding animals) - Specialization of production activities - Human resources training and development	- Farm investment support - Support for food processing industry - Young farmers support - Support for renovation of permanent crops - Animal breeding support programs (breeding organizations, infrastructure) - Young breeding animals acquisition support
f. *Better horizontal and vertical integration of producers and processors*	- Improvement of value added in the agro-food sector - Improvement of market position of agricultural producers (increase of economics of scale) - Improvement quality of agro-food products - Higher share of value added products - Better visibility of domestic products on internal and external markets	- Start up support for producer groups - Legal regulation of producer organizations - Support for investment in post-harvesting product activities, collecting and logistic of agricultural products - Support for market infrastructure and short food supply chains - Support for quality product policy and quality schemes - Support for promotional activities
g. *More efficient use and protection of natural resources*	- Protection of LFA - Protection of soil, water and biodiversity - Keeping of traditional cultural landscapes - Sustainable improvement of agricultural production technologies	- Support for LFA - Selected agro-environmental measures (organic farming, etc.) - Introduction of cross compliance rules for direct payments - Support for plant and animal genetic resources
h. *Rural poverty elimination and small farmers issue*	- Increase awareness about rural poverty and small farmers issue - Contribution to social inclusion and security of rural population - Creation of new job opportunities and income sources - Recognition and improvement of situation of different minorities and de-privileged social groups; - Search for development opportunities for small farms	- Active regional and cohesion policy - Improvement of social security for farming population - Support for ethnic and social minorities - Gender support - Diversification of income activities on rural households - Support for social services entrepreneurship - Special support for small farmers - Small farmers investment policy
i. *A more territorially balanced approach*	- Ensuring of basic living conditions for rural population - Re-vitalization of depopulated regions - Creation of new job opportunities - Ensuring basic infrastructure (roads, water, etc.) - Ensuring basic educational opportunities close to the living place - Promote and develop local initiatives - Protection and use of natural and cultural sites	- Resettlement programs - Support for LFA areas - Various regional and cohesion policy instruments - Leader approach - support for local action groups - Support to investments in infrastructure - Village renewal programs - Support of cultural and natural heritage

The focus on rural development

To achieve the targets set in the national strategies, the agricultural policy of SEE countries must be more focused on rural development. In this regard, the SEE countries should use the opportunity of the IPARD policy framework to develop their own concepts for support priorities for rural development – select and define measures in line with the national needs and priorities. It may not be possible to address all priorities within the IPARD framework, which offers a limited number of rural development measures. Therefore, it may be necessary for rural development measures to be supported by the national budget to complement the IPARD measures. In choosing such complementary measures, it would be appropriate to select measures that are compatible with EU rural development policy (bearing in mind the EU integration process). This will also facilitate the process of developing uniform strategies, implementing structures and procedures.

Support for the modernization of agro-food sectors must become the first priority of rural development policy to enhance the sectors' competitiveness. However, developing a sound and efficient investment support policy would also require the general framework conditions to be optimal. This concerns first of all the conditions for obtaining credits. Financing institutions are particularly reluctant to provide credits to small and medium-sized farms and businesses that cannot provide sufficient collateral for the loans. Furthermore, the availability of modern advisory services and knowledge transfer in strategic management and business planning is critical for the producers and small businesses. These issues require substantial attention in the SEE countries in order to obtain the anticipated effect of the investment support policy measures to achieve real progress in this regard.

Fragmented land ownership (including unresolved ownership issues), displaced populations, and a need for extensive land reforms are all difficult challenges facing agriculture in the SEE countries. Large efforts are required, most of all institutionally in the form of land law and land management reforms. In particular, the complex issues concerning land ownership must be resolved in most countries to reduce the fragmentation of agricultural land. If these problems cannot be resolved through legislation reforming land laws due to established fundamental rights, other policy measures within the legal framework for agricultural policy management could be considered. Experience from other countries provides good examples of obligations on the use of agricultural land, for instance the obligation for the owner to reside on the farm or to keep the land undivided for the use for agricultural purposes through appropriate tenancy laws governing the relations between more owners.

One of the general framework conditions is the presence of well-functioning basic infrastructure. In some parts of the region, there is a substantial need to establish or renovating basic agricultural, but also common infrastructure, access roads, water systems, irrigation and drainage systems, etc. This will require substantial public funds for infrastructure investments to be planned and agreed through the involvement of several central as well as local authorities.

Furthermore, knowledge development and transfer deserve special attention. The national research policy should promote research in innovation of products, production methods and modern technology, and effective systems for knowledge transfer through efficient extension and other business advisory services to farmers and the processing sectors should be established. This will require some institutional changes as well as reinforcing public and private services with new methods of financing.

The importance of strategic investment in market channels and food processing which could contribute to greater efficiency for both agriculture and the overall rural economy has often been stated. Such measures may be expensive and not without risk. However, targeted investments in the establishment of, for instance, a proper fruit and vegetable cold storage, a new logistics centre for crops, renovation of outdated production capacities for permanent crops, such as orchards and vineyards, and supporting investments in modern processing animal products, all based on local production, could accelerate the establishment of competitive agro-food chains. They could also substantially accelerate the modernization and development of agriculture and have a visible impact on the development of rural areas.

Most production sectors are characterised by a large number of very small producers who still represent a relatively large share of the production. It is thus necessary to develop a mix of rural development measures to support the development, restructuring and organization of small farmers. Often, the problems of small producers have been used as a justification for increasing production oriented public support. However, this does not solve their problems and may even aggravate them. Inevitably, there must be a social dimension to the measures because of the importance of this group in the social fabric of rural areas. Direct income support to small farmers should, if applied, be complemented by measures promoting regional cohesion and, within the concept of EU rural development, promoting economic diversification, both on farm and non-farm activities, through small-scale investments to improve the technology and product quality. The promotion of the organization of producers in producer groups or cooperatives and development of local value chains to improve their market position is one of the important elements of the mix of measures to address the issue of small farmers.

In the candidate countries, a greater role should be given to agro-environment measures and support to LFAs not only in regard to the integration process but also to addressing the inter-related problems of environmental protection and depopulation and abandonment of natural resources. In these areas an appropriate combination of LFA payments and other rural development support mechanism could produce an important benefit to these areas in term of increased economic activities as well as protection of natural resources.

As suggested already, increased support cannot be expected to have a significant impact without an appropriate legal and institutional framework providing favourable conditions for the development of agriculture and rural areas as well as fostering a comprehensive cooperation and partnership among all public and private agricultural institutions.

Direct payments policy

A range of various direct payments schemes are used in the SEE countries, most of which are more or less incompatible with the CAP. It would be appropriate to outline a few fundamental principles for the implementation of future direct payment policy in the process of aligning the policies to the CAP.

First of all, direct payment schemes that are inconsistent with the EU direct payment schemes should gradually be phased out. Secondly, existing schemes having some elements compatible with EU schemes (e.g. per animal and area payments) should be gradually adapted to apply the same criteria and administrative mechanisms as the related EU schemes in line with the establishment of the administrative capacity and instruments (IACS, LIPS, registers, etc.) necessary to manage such a scheme. Thirdly, new direct payment schemes should apply the criteria and administrative mechanisms applicable to similar EU schemes.

It is important to emphasise that the implementation of the same criteria and mechanisms does not imply that the EU eligibility criteria or the level of support must necessarily be the same. The most important step is to build up the capacity and experience in managing such schemes, while the definition of eligible beneficiaries and the level of support can easily be adapted later or on accession. However, the candidate countries should ensure that the level of support for each individual measure does not exceed EU levels, which could at the time of accession result in negative implications for farmers' income.

There has been a tendency to introduce direct payment schemes purely based on national political consideration ignoring their incompatibility in the context of the EU integration process. Introducing such measures at the time of accession negotiations sends the wrong signals to both domestic producers and to the EU. This issue is particularly important for candidate countries that have already started accession negotiations.

Which forms of direct payments would therefore be most appropriate taking into account both the national political goals for supporting agricultural producers and the objective of engaging in the EU

integration process? The EU direct payment Regulation offers a set of direct payment schemes including the basic payment scheme, payments to small farmers, to young farmers, for environmentally friendly practises, to farmers in areas with natural constraints as well as certain coupled payments (per animal or per area). It appears that these types of payment schemes offer a sufficiently large range of instruments for direct payments, to address any of the needs for such schemes identified in the candidate countries. A favourable solution, which may also function as a bridge between the existing instruments and harmonized direct payments schemes, would be to introduce recognized CAP like coupled per animal and per area payments. Their introduction is within the range of reforms acceptable to agricultural policy makers and stakeholders in the initial phase of harmonization. It helps to prevent wrong practices and is given the right signals to the producers and the EU. Finally, it prepares the ground for a gradual introduction and harmonized implementation of the full concept of direct payments support after accession. These countries should thus consider starting to gradually implement this type of schemes, when deciding on reforming existing or introducing new schemes, while simultaneously making positive progress towards EU integration.

Along with the introduction of EU compatible payment schemes, mostly based on per animal and per area payments, the need to establish the IACS (Integrated Administrative and Control System) and other administrative tools as a basis for the implementation of such payments becomes increasingly important. Besides contributing to establishing administrative procedures in line with EU regulations, adequate control and monitoring of payments will also be beneficial to domestic stakeholders.

Finally, when deciding on the policy for direct payments, it is important to strike a reasonable balance between schemes addressing specific needs for support to specific groups of producers (e.g. small farmers) or areas (natural constraints, protection of the environment etc.) ensuring a fair distribution of the benefits of the policy to all types of producers.

Limited approach in market mechanisms

Foreign trade mechanisms are governed by bilateral and multilateral foreign trade agreements. Non-EU countries in the region are members of CEFTA, have special trade agreements with the EU and are already World Trade Organization (WTO) members or will be in the future. CEFTA guarantees the free trade of food within the region; EU agreements provide preferential status for trade for acceding countries with the EU and WTO gives a less distorting policy framework for its members. The signed agreements ensure a larger and more unified market access as well as relatively strong competition – a growth opportunity for the more efficient.

Internal market measures were important elements of the past EU policy to support producer prices and promote an increase in production to increase self-sufficiency. With the change of status from net importer to net exporter and the changing international trade agreements, such policies in the EU were reduced to the level of safety nets for critical market situations. The era of market interventions is over (globally), and their introduction in the pre-accession period would send the wrong signals to producers, not to mention that it would be a misplaced investment of already short agricultural funds.

In the SEE countries, the topic of stabilizing markets is often discussed. Some measures, mostly state purchase of products at the time of harvest, are implemented by the state commodity reserves. The current legislation and prices deviate significantly from EU regulations. Previous enlargements have shown that such institutions must either be reorganised into market intervention agencies following EU legislation or simply assume a strategic crisis management role outside the remits of agricultural policy.

The CAP, nevertheless, offers market management measures such as private storage aid, some types of public intervention and trade safeguard measures based on WTO rules. The challenge facing the SEE countries will be to consider market management mechanisms which can provide a reasonable safety net against excessive market disturbances within the existing budget constraints while respecting the principles of the CAP and international trade agreements.

Other measures could also be considered to attenuate the impact of, in particular, seasonal fluctuations on producers, including production and income risk management and production insurance mechanisms. Some measures to lower production insurance premiums for agricultural producers already exist but could be further developed.

Marketing standards and quality policy measures are integral elements of EU market management and gradual introduction of marketing standards and quality policy measures and their harmonization with EU regulations is an important element of the EU integration process. In this process, it could be beneficial for both the domestic markets and foreign trade to introduce EU marketing standards and quality measures for relevant product sectors already in the pre-accession period.

3. The efficient policy analytical support

3.1 The EU experience and gaps in SEEs

Evidence-based policy is an integral part of modern policymaking. In the process of European integration, which entails radical policy reforms and complex negotiations, it becomes even more essential. Previous EU enlargements have taught us that the demand for policy analytical support increases dramatically during the accession process. Good statistical analysis, impact assessments, as well as support for planning agricultural policy reforms, can significantly improve agricultural policy decision making.

In the following section, a brief introduction is made of how policy analytical support is organised in the EU Member States and what the roles of individual actors are. This serves as a basis for evaluating the situation in SEE countries and discussing necessary changes in the form of recommendations within a conceptual framework.

The role of policy analytical support in the EU Member States

In the EU, ministries of agriculture are responsible for the policy cycle as a whole and for determining all the phases in particular. However, the way ministries are organized and the way they operate prevent them from fully and effectively handling all of the phases of the cycle, making it necessary to rely on external support, especially from agricultural economists, institutions as well as individuals. This need for support may be ascribed in particular to the monitoring and evaluation phases of the policy cycle having both a short-term and a long-term dimension, as well to the various skills and methods required to conduct analyses and formulate proposals.

Various ministerial departments are capable of providing efficient short- and mid-term analytical support, especially for decisions where the political context, political sensitivity, or influences of political stakeholders must be considered. A ministry will usually ask for additional expertise and outsource part of its work. For instance, the following are typically part of modern agricultural policy and are commonly outsourced, mainly to academic institutions:

- *Impact assessments* of policy proposals or changing economic environment (trade regimes, market outlooks): quantitative agricultural economics assessments with the help of modern science-based tools;
- *Green reports*: annual reports – monitoring of the situation in agriculture and agricultural policy based on agricultural statistics, policy descriptions and budgetary transfers;
- *Farm accountancy* (bookkeeping, FADN): developing, servicing and using the system.

EU Member States have different models for providing external analytical support to the ministry of agriculture. Public (academic) research institutions are working on the basis of concession agreements, long- and short-term contracts with the government and other beneficiaries. They have close ties to the ministry, which often holds the property rights to the output. This model is most common, consistent

and probably also most successful among Member States; examples include LEI (Netherlands), TEAGASC (Ireland), KIS (Slovenia), VUZE (Czech Republic), AKI (Hungary), LVAEI (Latvia), LAEI (Lithuania). Most (with the sole exception of LEI) are state-run, and part of their task is to provide expert services to the ministry. Such institutes also handle a large portion of monitoring activities such as submitting green reports, managing the FADN and performing farm cost calculations.

Individual researchers or groups of researchers (chairs, institutes) at universities are the most prevalent method of organizing analytical support in countries without public research institutes. Constant monitoring and consulting are typically not among their duties. However, they do perform impact assessments and evaluations, as well as more specific, basic scientific research. The ministries tender their services on a project basis. It is an emerging tendency that universities gradually lose their technical research capacities to provide expert work for ministries as well as in other fields because of a change of orientation toward more basic research.

Private research and consulting bodies are gaining importance, but are still less representative for analytical support. The only field in which the role of private consulting bodies is significantly growing is the evaluation of rural development programs.

State of the art in the SEE countries

The cooperation on this work has shown that ministries from SEE countries are aware of the policy cycle requirements. This is evident from the work on the legal and strategic documents concerning agricultural policy where elements of the approach are increasingly applied, but also from clear expressions of political will. The latter contain problem identification, policy formulations, and recently sometimes also development of financial planning of budgetary resources, while formulations regarding implementing rules are usually done internally in the ministries.

Monitoring is rarely used, evaluation even less, except in countries already implementing the IPARD. Precisely these two phases of the policy cycle are – in developed countries – based on well-designed and professionally performed analytical support, and are usually also supported by external expertise. The absence of comparable results of monitoring and evaluation suggests that systematic analytical support systems have not been established in the region. Finally, weak analytical support is still another major factor for the quality of agricultural policy decision making in the SEE.

In the course of the work on this study, the cooperation between the ministries of agriculture and academic institutions in SEE countries was analysed in detail and reinforced. The common denominator of all the discussions was the mutual recognition of the importance of analytical support for agricultural policy decision making and evidence based policy.

In the SEE region, ministry departments, certain agricultural economic institutions, and a small circle of individuals without permanent arrangements with the ministries currently provide analytical support. It is a fact that the agricultural policy decision-making process in the region does not yet have sufficient agricultural economics analytical support.

In order to reach the desired outcome in the EU integration process and to form an efficient and evidence based agricultural policy, improvements at the organizational and operational levels are necessary. A system without permanent institutions, staff and financial resources cannot provide ongoing efficient services. Furthermore, a model based only on individual university researchers cannot be successful due to the scholars' other obligations.

There is an increasing need for in-depth analytical services which the internal departments within the ministries of agriculture will not have the capacity to deliver. The recruitment of competent and reliable staff for analytical support teams willing to work on policy matters has become increasingly difficult not only for public institutes, but also for private research institutes and universities.

3.2 New role of analytical support in SEE countries

For a successful modernization and integration process, the role of agricultural economists and their activities to support evidence based policy and to provide efficient analytical support has to be further strengthened.

Analytical support activities in the field of agriculture are a result of intensive cooperation between government bodies and external, mainly, academic institutions. Both partners have a mutual responsibility for the scope and quality of analytical support. Solid data, analytical skills, and political support are regarded as important elements of evidence based policy and the policy cycle approach in the modernization and integration process, also in the field of agriculture. The understanding of facts, past performances and changes gained through policy impact analyses (ex-post, ex-ante) has the potential to support and improve decision-making. Decision makers require support on certain key issues in the form of expert opinions and studies. Experts in domestic and European agricultural policy can assist in carrying out the analysis of the situation, the comparison with the EU situation, and the preparation of sound, evidence based justifications for agricultural policy reforms.

An important analytical support activity is to establish a system of monitoring as a part of the agricultural policy cycle in the EU pre-accession period. In the past this led many candidate countries to establish EU-like monitoring systems during these periods, producing so-called “green reports” on the state of agriculture and agricultural policy to be presented to the government, parliament, and the general public. The system of green reports connects the harmonization and the comparison of statistics, measures and budgetary transfers and the negotiation process with the general monitoring process and an efficient policy cycle. In some countries, this type of work has constituted an important step towards making the agricultural policy formulation and decision-making process more consistent and transparent.

This area of analytical support is also characterised by strong international cooperation. OECD, FAO, the European Commission and the European Parliament all demand national data and facts as well as several types of national and regional impact assessments. This cooperation is important for increasing and standardizing the body of data and empirical tools and the exchange of knowledge, and for putting national views into a broader context.

The necessary agricultural policy reform and the EU integration process will inevitably cause greater demand for analytical support. Efficient management and continuous investments into educating professionals is an important part of the modernization of agricultural policy that can contribute to developing agriculture and rural areas. Assistance is needed in all stages of the policy cycle, most of all in monitoring, evaluation and programming.

In light of the above, it is recommend that the SEE acceding countries establish a permanent regional cooperation for the analysis and monitoring of agricultural policy, following the example of the OECD's forum for transition and emerging countries in agriculture during the 1990s. The establishment of a regional database and forum for exchange of expert opinion on agricultural policy would facilitate the comparison and development of policy measures and could contribute significantly to agricultural policy decision making and the integration process in the region.

The national and regional platforms established through this work can serve as a solid basis for implementing and reinforcing such permanent cooperation and for strengthening the network and capacity for analysing and designing agricultural policy in the region.

4. Final remarks on proposed orientation

The strategic priorities and targets proposed in this study are by nature similar to those identified in the respective agricultural policy strategic documents of SEE countries while emphasising specific aspect and approaches considered essential for effective policymaking. In these strategic documents

governments recognize the importance of development orientation through the identified challenges and policy objectives, but the practical implementation of these objectives remains limited.

The development of the agricultural sector and rural areas requires consistent commitment and efforts, as well as capital, both financial and human, in the form of well-trained and dedicated experts who seek and share solutions, coordinate and execute the policy measures. The responsibility for this lies on the one hand with the private sector, with its financial institutions and agro-food organizations, and on the other with public decision makers to establish the appropriate legal and institutional environment as well as support structures.

Development oriented policymaking relies on solid long term strategic planning, identifies tailored policy solutions, endeavours to optimise the mix of policy measures and promotes private-public partnerships. It is thus recommended that this approach be increasingly introduced in agricultural and rural development policymaking in the SEE countries to address the enormous challenges lying ahead. This approach provides the tools for developing an agricultural sector capable of using the natural resources in a sustainable manner and releasing the potential for producing competitive high quality products as well as fostering balanced rural economic development in the region.

EU integration is a key objective of all countries in the region. Alignment with the EU CAP is a major challenge, but also an opportunity to modernize agricultural policy. However, alignment of legislation and procedures is not in itself an achievement as long as it is not fully integrated into national policymaking and implementation. Until then it remains merely a cumbersome and expensive exercise. This may be the reason why many countries delay full integration until a very late stage in the negotiation process. Experience from previous accessions has shown that the acceding countries are not yet ready for full participation in CAP schemes, which means that they are not able to benefit fully from the substantial funds becoming available.

A rational and gradual introduction of the elements of the CAP and administrative procedures that takes into account the various possibilities and needs of the countries can contribute to the development of an effective and coherent policy and implementation. The key principle to be observed in this process is to start implementing selected elements of the CAP, which will provide an immediate benefit to the country. Above the stronger role of support to farm and agro-food chain modernization and introduction of per animal and area payments, this could include starting implementation of harmonized CAP marketing standards and quality policy measures in key sectors. Such measures would strengthen the market position of these products, or selection of specific elements of agro-environment policy such as organic production to develop the existing potential in this field. Pursuing this approach would provide practical experience in genuine CAP implementation, both in the private sector and in public administration, and send a clear signal to the EU that the country is serious about the EU integration process.

Besides revealing gaps and forming suggestions, special attention has been given to strengthening cooperation between ministries and agricultural economists experienced in agricultural policy support. This study is the result of this cooperation. The work has been very engaging for the experts from ministries and academia in the network established in its course. It is thus strongly recommended that the established network becomes a permanent platform for regional cooperation and exchange of ideas and experience in the field of agricultural and rural development policy analysis and monitoring. Such a forum will undoubtedly contribute to the improvement of evidence-based policymaking, to facilitate the harmonization of policies in the region and to strengthen the EU integration process in the area of agriculture and rural development.

The FAO and the SWG therefore invite the SEE governments and international donors to support the consolidation of this platform and the strengthening of its analytical capacity to facilitate agricultural and rural development policymaking in the region with the perspective of EU integration. It is the hope of the FAO and the SWG that the EU will also recognize and support these efforts.

Part B
COUNTRY ASPECTS

Chapter B.I

AGRICULTURE AND AGRICULTURAL POLICY IN ALBANIA

Edvin Zhllima*, Grigor Gjeci**, Drini Imami*

1. Introduction

The future alignment of the Albania's agriculture and rural development policy with the CAP requires a new vision for policymaking as well as a new approach to the design of policy measures, similar to the transformation carried by the new Member States before accession.

In this context, understanding the diversity and complex structure of the national agricultural policies and comparing them with the actual complexity of agricultural policies in the EU is a necessary prerequisite for rational decision-making in agriculture.

The purpose of this chapter is to provide a profile of Albanian agriculture and agricultural policy based on an analysis of key statistical indicators and other data in the light of the European integration process. The main objective is to evaluate the general strengths and weaknesses of Albanian agriculture as well as main differences in policy design and implementation in comparison with the EU.

The main sources of data used in the study were Albanian Institute of Statistics (INSTAT) and Ministry of Agriculture, Rural Development and Water Management (MARDWA). Data analysis was carried in close collaboration with the Department of Agriculture and Rural Policies in MARDWA, the Department of Finance and the Paying Agency. The period of coverage for the analysis is 2007 to 2012.

For a comparative review of budgetary policies, a common template for classification of agricultural policy measures (APM tool) was used (Rednak et al., 2013). APM database was created for the period 2007-2012.

The structure of the chapter consists of four sub-chapters, as follows. The second sub-chapter provides a review of the agricultural sector by evaluating the importance of agriculture in the economy, agricultural output and its structure, agricultural prices and agro-food trade by country and commodity. The third sub-chapter provides an overview of agricultural policy based on a comparative analysis of the agricultural policy budgetary transfers. The last sub-chapter provides recommendations underlying policy-related issues that act as constraints on Albanian efforts to align its policies with the EU.

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2. Agriculture

2.1 Agricultural profile

Albania has been characterized by relative macroeconomic stability over the recent years. However, economic growth slowed down from an average of 4.7 percent in the period 2007-2011 to 1.5 percent in 2012. Inflation has not exceeded 3.6 percent during the recent years. Albanian GDP is about EUR 3 400 per capita.

Table B.I-1: Selected macroeconomic indicators, 2007-2012, Albania

	Units	2007	2008	2009	2010	2011	2012
GDP (at current prices)	mill. EUR	7 828	8 870	8 725	8 878	9 235	9 671
Economic growth	%	5.9	7.5	3.3	3.8	3.1	1.5
GDP per capita	EUR	2 669	3 056	3 030	3 109	3 261	3 415
GDP per capita in PPS	EUR	6 280	6 994	7 197	7 385	7 692	7 924
Inflation	%	2.9	3.4	2.3	3.6	3.5	2.1
Unemployment rate	%	13.2	12.5	13.6	13.5	13.3	13.5

Source: INSTAT

Agriculture remains one of the most important sectors in the Albanian economy. In 2012, agriculture contributed 21.3 percent to country's Gross Value Added (GVA), and around 55 percent of employed people are employed in agriculture, which are very high shares[1] also in comparison with the countries in the region (see Chapter A.II).

Table B.I-2: Agriculture contribution in economy, 2007-2012, Albania

	2007	2008	2009	2010	2011	2012
Share in total GVA (%)	19.0	18.7	18.7	20.2	20.4	21.3
Share in total employment (%)	57.7	58.4	55.2	55.3	54.6	55.0
GVA/Employee (EUR)	2 469	2 612	2 946	3 027	3 180	3 639
GVA real growth rate (%)	2.7	7.1	1.9	7.9	3.3	9.0

Source: INSTAT

The annual real growth rate of the agricultural sector's GVA has been significant since 2007, marking strong growth every second year (3.3 percent in 2011, 9 percent in 2012). However, labour productivity in agriculture measured by GVA per employee (about EUR 3 600) remains low compared to the overall economy (EUR 8 700 per employee).

From the total area of 2 875 000 ha about 1 204 000 ha is agricultural land (MARDWA, 2013). About 1 237 000 ha or 43 percent of total area is covered by forests, and the rest 437 000 ha is other land.

In 2012, there were about 350 000 agricultural holdings in Albania which operate on about 980 000 ha of agricultural land. In the recent years there has been an increase in farm size but the agricultural area per holding in Albania is still very low at only 2.8 ha. Agricultural area includes the available rather than the used pastures and meadows which indicate that the average farm size measured by utilised agricultural area would be even smaller. Pastures and meadows are still mostly state managed and only partly given for rent to the livestock farmers. A large part of these areas are not accessed by farms.

In 2012, agricultural output reached EUR 1 340 million, which is an increase of 8 percent compared with 2007. Livestock output value was 10 percent lower in 2012 than in 2007, whereas field crop production increased by 21 percent in the same period. The biggest factor for maintaining positive growth of agricultural output is the fruit sector which recorded growth of 67 percent during the 2007-2012 period.

[1] Both shares should be taken cautiously - given the high informality that characterizes the agriculture sector, and gaps in agriculture information systems, the GVA and employment cannot be very accurate.

These trends caused a change in the agricultural output structure. The livestock sector still represents half of all agricultural output, although its share in total agricultural output has decreased from 60 percent in 2007 to 50 percent in 2012.

Table B.I-3: Value of agriculture products (in EUR million[1]), 2007-2012, Albania

	2007	2008	2009	2010	2011	2012	2012/2007
Total agriculture	**1 239**	**1 264**	**1 159**	**1 238**	**1 283**	**1 340**	**108**
Livestock	745	705	639	647	664	669	90
Field crops	335	371	345	385	401	405	121
Fruit trees	159	187	175	206	218	266	167
Sectors composition							
Livestock	60%	56%	55%	52%	52%	50%	
Field crops	27%	29%	30%	31%	31%	30%	
Fruit trees	13%	15%	15%	17%	17%	20%	

Note: [1] Official exchange rate from Bank of Albania was used to convert values from ALL to EUR.

Source: INSTAT

Agricultural yields are greatly influenced by the overall low technology level and poor associated infrastructure. Observing the yields of some selected products such as wheat, potatoes, and cow's milk, there have been large differences compared to the EU. The wheat yields (2010-2012 average: 4.1 tonnes per ha) and potato yields (24.1 tonnes per ha) do not differ much from that in most EU member states, while the cow's milk yield (2 664 kg per cow) is lower than in any EU Member State (see Chapter A.II).

Animal production in Albania is performing poorly for various reasons, such as high prices of imported animal feed, scarcity and low quality of animal feed due to high feeding costs and poor skills in animal husbandry (IPARD, 2013).

Producer prices of agricultural products are relatively high compared with the prices in the EU, particularly in the livestock sector (see Annex B.I-3 and Chapter A.II).

2.2 Agro-food trade

In the 2007-2012 period, Albanian agro-food exports have been increasing significantly – by an average of 10 percent per year – reaching EUR 82.9 million in 2012. Imports on the other hand have been increasing by 4 percent per year on average. The export to import ratio has improved from 10.8 percent in 2007 to 15.4 percent in 2012, since exports increased more than imports for the given period.

Table B.I-4: Agro-food international trade (in EUR million), 2007-2012, Albania

	2007	2008	2009	2010	2011	2012	2012/2007
Export	54.8	54.5	51.5	58.9	71.5	82.9	151
Import	503.9	590.3	519.8	577.1	597.0	618.4	123
Trade Balance	-449.1	-535.8	-468.3	-518.2	-525.5	-535.5	119
Export/Import ratio	10.8%	9.2%	10.9%	11.4%	13.6%	15.4%	

Source: General Directory of Customs, Albania

In 2012, agro-food imports represented about 16 percent of total imports of goods, while the share of agro-food products in total exports was 5.4 percent.

The three most important export commodities are canned fish (commodity group Meat preparations - CT 16), medicinal plants, especially sage (commodity group Oilseeds – CT 12) and vegetables (commodity group Edible vegetables, plants, root, tubers – CT 7). In 2012, the first three commodity groups represented almost 60 percent of total agro-food exports. Not surprisingly, imports are more diversified than exports. The most important import commodity groups are cereals (CT 10), especially

wheat, beverages (CT 22), vegetable oil (CT 15) and meat (CT 2) covering about 40 percent of Albanian agro-food imports. Wheat is very important for the industry of flour and bakery as well as animal feed production.

Table B.I-5: Main export / import commodity groups, 2012, Albania

Export			Import		
Commodity group	**EUR mill**	**Share**	**Commodity group**	**EUR mill**	**Share**
Oilseeds, oleaginous fruits (12)	20.4	25.0%	Cereals (10)	94.7	15.3%
Meat preparations (16)	18.9	22.8%	Beverages, spirits and vinegar (22)	69.0	11.2%
Edible vegetables, plants, roots, tubers (7)	7.8	9.3%	Animal or vegetable fats and oils (15)	48.0	7.8%
			Meat and edible meat offal (2)	48.0	7.8%

Source: General Directory of Customs, Albania

Export and import destinations are strongly related to geographical access, migration and economic cooperation. The main agro-food export partner of Albania is Italy with 32.2 percent of total agro-food exports in 2012. Other important export partners are Greece, Kosovo* and Germany; these four countries together covered 65 percent of Albanian agro-food exports in 2012. On regards to imports, Italy is again the most important partner, followed by Greece, Russia and Brazil. These four countries together covered 43 percent of total agro-food imports in 2012.

Table B.I-6: Main agro-food trade partners, 2012, Albania

Export			Import		
Partner	**EUR mill**	**Share**	**Partner**	**EUR mill**	**Share**
Italy	26.7	32.2%	Italy	95.5	15.4%
Greece	10.0	12.1%	Greece	80.0	12.9%
Kosovo*	9.1	11.0%	Russia	57.2	9.3%
Germany	8.0	9.7%	Brazil	32.8	5.3%

Source: INSTAT

3. Agricultural policy – overview and comparison

3.1 Country agricultural policy concept and frame

In 2005, the Government of Albania adopted the Integrated Planning System (GoA, 2012), a set of operating principles to ensure that government policy planning and monitoring as a whole takes place in an efficient and harmonized way. The Integrated Planning System is the key national decision-making system for determining the overall strategic direction and the allocation of recourses.

The Ministry of Agriculture, Rural Development, and Water Administration (MARDWA) performs its functions on the basis of three main policy documents: the National Strategy for Development and Integration (NSDI) 2014-2020, the Mid-Term Budget Program, and sector, sub-sector and crosscutting strategies, where detailed mid-term and long-term policy objectives, the main measures, the monitoring tools and the costs of implementation of policies are set. The MARDWA short term policies are detailed in the yearly program and the relevant activities in the yearly action plan.

The crosscutting Inter-sectoral Strategy for Agriculture and Rural Development (ISARD) 2014-2020 implementation is coordinated by MARDWA, in collaboration with other Ministries[2]. Its main legal framework is the Law on Agriculture and Rural Development adopted in 2007 which regulates the programming of policy measures related to agriculture and rural development, provides for public advisory services for agriculture, research and training, and for the setting up of an information

[2] Notably Ministry of Education and Sciences, Ministry of Health, Ministry of Economic Development, Trade and Entrepreneurship.

database**.** It also provides the legal basis for the national support schemes, which are set out annually in the National Action Plan and defines the institutions responsible for the implementation of agriculture policy by establishing the Agriculture and Rural Development Agency (ARDA).

During 2007-2013 there were two strategies: Agriculture and Food Sector Strategy 2007-2013 and the Rural Development Strategy 2007-2013, whereas ISARD 2014-2020 integrates both agriculture and rural development into one strategy. More specifically, ISARD provides for interventions in three policy areas: (i) rural development policy; (ii) national support schemes for farmers, development of rural infrastructure and ensuring equal opportunities; and (iii) institutional development, implementation and enforcement of the EU regulatory requirements.

The national schemes for support of agriculture and rural development were introduced in 2007 with the adoption of the Law on Agriculture and Rural Development. The national measures are programmed annually in the National Action Plan and enforced by a Decree of the Council of Ministers. The Action Plan defines the measures for implementation of the agricultural and rural development policy in the respective year, the financial plan, the eligibility criteria and support rate/amount. The implementation of the National Action Plan is the responsibility of the ARDA and the Rural Development Directorate within MARDWA under the supervision of the Inter-Ministerial Committee for Agriculture and Rural Development.

The MADA (Mountain Area Development Agency) is also implementing programmes which are at their concluding phases: (i) Sustainable Development Rural Mountain Areas 2007-2013 and (ii) Mountain to Market Programme 2009-2014 funded by the United Nations International Fund for Agriculture Development, OPEC Fund for International Development and the Government of Albania. However, the institution is near to its closure and there is no clear approach for finding a substitute for the future for achieving balanced regional development with a focus on vulnerable groups and disadvantaged areas.

At local level the main institutions representing MARDWA are the Regional Agricultural Directories. Local Government Units composed of Municipalities and Communes are also important since they manage fiscal relations and veterinary inspections at local level.

The draft NSDI 2014-2020 considers agriculture to be one of the key sectors in Albania and it aims to enhance competitiveness and growth through innovation. The strategy also includes performance indicators to be improved, such as increase in labour productivity and value added in agriculture and the food-processing sector.

ISARD for the period 2014-2020 has four priorities: (i) enhancing farm viability and competitiveness of agriculture and food-processing, while progressively aligning with the EU standards; (ii) restoring, preserving and enhancing ecosystems dependent on agriculture and forestry; (iii) balanced territorial development of rural areas promoting social inclusion, poverty reduction and balanced economic development in rural areas; and (iv) transfer of knowledge and innovation in agriculture, forestry and rural areas.

ISARD 2014-2020 will be implemented using two instruments of support: IPARD II Programme (Instrument of Pre-Accession Assistance for Rural Development) and National Support Program.

The present IPARD II Programme covers the period 2014-2016. Under present provisions, Albania has access to the funds provided under Axis 1 “Raise competitiveness of agriculture agribusiness and forestry” and only for three measures, namely: Measure 101: Investments in agricultural holdings to restructure and to upgrade to Community standards; Measure 103: Investments in the processing and marketing of agricultural and fishery products to restructure those activities and to upgrade them to Community standards and Measure 503: Technical assistance (to the institutional bodies managing the facility)(MARDWA, 2014).

Since 2011, Albania has designed the IPARD Programme (2011-2013) and established an IPARD Operating structure. The IPARD Paying Agency within the structures of ARDA will be the responsible

body for implementing the IPARD Programme. Efforts are still needed to complete the preparation for the accreditation of the whole IPARD Management and Control System, including the activities of the National Authorizing Officer, the National Fund, Technical Bodies and the Audit Authority. In 2013, the MARDWA planned activities for the implementation of the Integrated administrative and Control System to meet the EU requirements, which includes the establishment of Land Parcel Identification System (LPIS), the establishment of a complete farm register, and further development of procedures to implement rural development measures.

Another funding tool is the project "Sustainable Development of the Albanian Olive sector" (EUR 3.0 million) financed under a bilateral agreement Italy-Albania that is set to start in mid-2014. The project goal is to achieve integrated development of the olive and olive oil supply chain, starting with improvement of olive trees saplings, down to the management of olive oil by-products and waste. It also includes components of consumer awareness and improvement of the legal framework for olive oil. The Steering Committee will include representatives of the Albanian and Italian Ministries of Agriculture, the University of Agriculture of Tirana and National Food Authority. Also ARDA and representative of Technical Assistance will participate as observer.

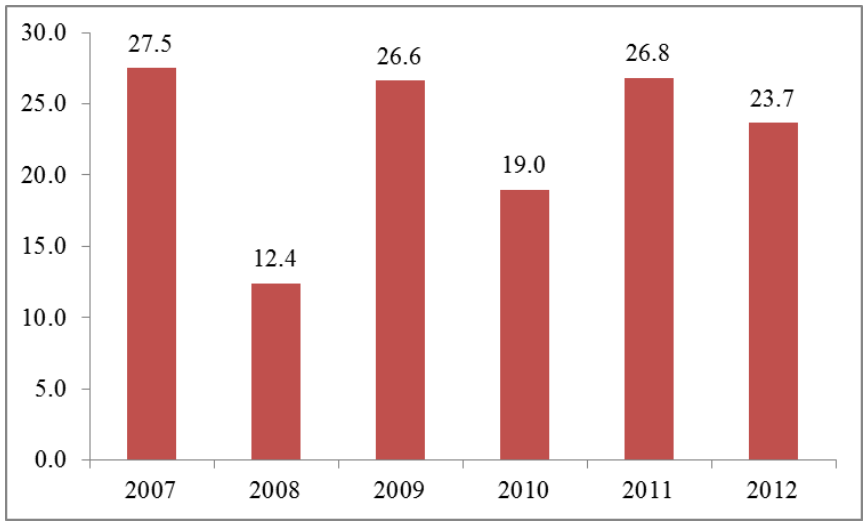
3.2 Agricultural policy budgetary transfers

Despite the fact that agriculture in Albania contributes to around 20 percent of GDP, there has been limited support to this sector in terms of value. However, over the last seven years several support schemes have been introduced in order to support the various subsectors of agriculture in Albania. Efforts have been made since 2007 to design a scheme of support and to establish the necessary legal and institutional framework. However, the budget for 2012 was only 0.5 percent of GDP, and the total budgetary support to agriculture was only 1.3 percent of agriculture GVA.

The budget in Albania has always been subject to debate for the modest figures compared with the expectations. According to the Government program 2014-2020, the situation regarding budgetary support to agriculture is expected to improve. The government budget for rural development is expected to be increased by 5 percent in the period 2014-2020 (GoA, 2013).

Agricultural policy support provided in recent years has been characterized by yearly fluctuations. The lowest level of support was recorded in 2008 with EUR 12.4 million, which was less than half of the 2007 figure. 2007 was the year with the highest level of support during the period 2007-2012. In the years following 2008, budgetary support fluctuated from EUR 19 million (2010) to EUR 27 million (2009, 2011). The recorded support in 2012 was EUR 23.7 million.

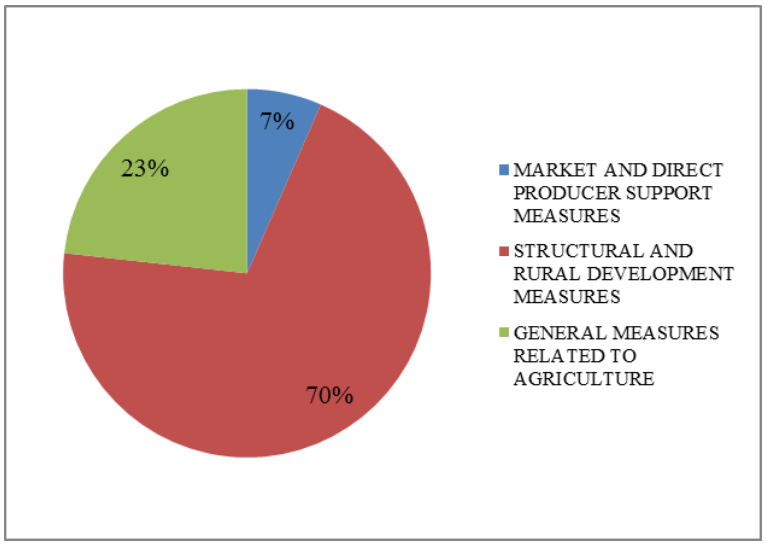
Figure B.I-1: Budgetary expenditure for agro-food sector (in EUR million), 2007-2012, Albania



Source: Albania APM database

Within this budget, rural development has been the first priority. The support for rural development measures in 2012 constituted 70 percent of total budgetary support to agriculture (EUR 16.5 million). Market and direct producer support have constituted only 7 percent of total budgetary support to agriculture (EUR 1.5 million), and 23 percent of the support consisted of other general measures related to agriculture (EUR 5.5 million).

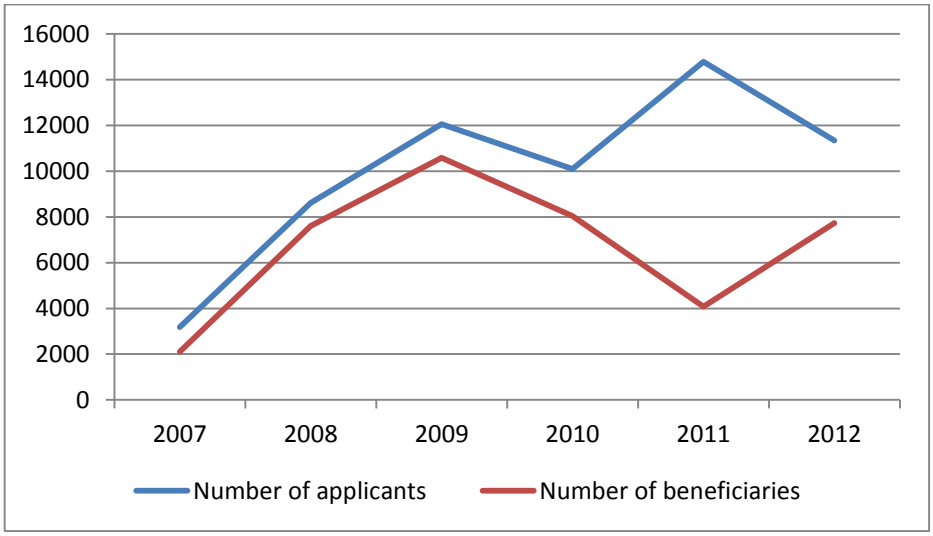
Figure B.I-2: Structure of budgetary expenditure for agro-food sector, 2012, Albania



Source: Albania APM database

The number of national support schemes increased from three in 2007 to 23 in 2013. Until 2010 the annual budget of the national schemes was increasing, reaching the maximum of EUR 11.5 million in 2010. Due to the budgetary constraints, the budget allocation was reduced to about EUR 7 million in 2012 and 2013. In 2012, the number of applications was 11 340 and the number of beneficiaries was 7 729.

Figure B.I-3: Applicants and beneficiaries of national support schemes, 2007-2012, Albania



Source: MARDWA, 2013

The national schemes provide different type of support – investment aid based on standard costs, production aid and interest rate subsidies. In total in the period 2007-2012 about EUR 43 million was

allocated to national support schemes. About 75 percent of this amount was investment aid, 15 percent production aid and 10 percent interest rate subsidies.

The largest share (87 percent) of the investment aid was allocated to investment schemes for the creation of new permanent crops plantations; namely, olive groves (47 percent of investment aid), orchards (21 percent), vineyards (11 percent) and nuts (7 percent). There have been annual changes regarding the targeted sectors (e.g. initially high priority was given to vineyards while recently support was extended to the cultivation of medicinal and aromatic plants). The remaining investment support went mainly aimed at the improvement of on-farm irrigation (wells and drip irrigation).

Production aid was given to the dairy and small ruminants sectors, honey and olive processing and organic production. Aid for milk production was given to farms based on per litre payments for milk delivered to dairies. Support for dairy cows and sheep was given in the form of payments per animal, support for transhumance of sheep was paid per farm, support for production of extra virgin olive oil was paid per litre produced, and support for beekeeping and honey production was paid per hive.

4. Discussion and conclusions

The analysis evidenced various structural and policy disadvantages compared with the EU in the context of the development of agriculture. The large number of subsistence and semi-subsistence farms is an emphasised characteristic of Albania. With the gradual opening of the market in the process of EU integration Albanian farmers will be exposed to more competitive agricultural markets, which makes comprehensive and smart policy support particularly important.

The policy framework addressing the development of the agriculture sector is fragmented and distributed across various policy documents and institutions. A policy gap remains in achieving the coherence and alignment of the inter-sectoral strategies with each other as well as with the regional development strategies based on the National Development Priorities.

The agriculture policy support during the period 2007-2012 has been very fragile, fluctuating in absolute values and in programming. The support schemes have not been focused to market and direct producer support, due to weak financial resources and vague attention to issues such as sustainable use of natural resources, viable rural living and balanced territorial development. Low budgetary support, along with an unfavourable infrastructure, high input costs, weak access to services such as credit, market and advisory services and highly fragmented production have increased the vulnerability of the Albanian farmers toward the EU counterparts in both investments and productivity terms. A comprehensive strategy for both agricultural and rural development was lacking until 2013.

The Rural Development Strategy 2014-2020 is accompanied by an action plan in accordance with the framework of the European rural development strategy, while maintaining the strategic focus on the country problems. It offers a chance to improve rural livelihoods and enable viable rural societies and infrastructures based on balanced regional development and rural employment.

The strategy provides focus on viable rural societies and infrastructures by improving incomes and limiting their variability as well as providing compensation in cases of natural constraints. Until now, agricultural policies in Albania have been focused on supporting production schemes. However the focus on mountainous and less favoured areas with the closure of MADA will be a challenge for the future.

The new Strategy is designed in accordance with the framework of the European rural development strategy for the maintenance of traditional rural landscapes, bio-diversity and protection of the environment. The Rural Development Strategy 2014-2020 should take into consideration the reduction of the rural-urban inequalities in terms of incomes and living standards. One of the most important elements is the generation of alternative economic activities through the fostering of diversification of economic activities, the creation of jobs and the establishment of proper infrastructure and services in

rural areas. The year 2013 witnessed the preparation of a draft measure from MARDWA with the support of FAO TCP for the rural diversification. Through this measure, tourism, artefacts, recreational activities and other off-farm activities should be enhanced by the establishment of basic services and infrastructure as well as involvement of a range of local actors similar to the LEADER approach.

MARDWA improved the legal base for cooperation between the farmers through the Law on Agricultural Cooperation adopted in 2012. However, the policy support until now has brought poor results in regard to land consolidation and to the strengthening of collective action among farmers and other stakeholders. Albania provides direct payments and training to organic farmers. However, a stronger response to environmental problems and climate change is required to guarantee sustainable production practices and the introduction of innovative methods to foster the use of green resources and mitigate the effects of climate change.

Existing programs have not made enough efforts to involve women entrepreneurs during the drafting and promotion phases of the support schemes.

Subsidy scheme formulation can be better structured in regard to stimulating the linkage of the agriculture raw production with the agro-processing sector. The fish sector as well as the fruit and vegetable sector are still perceived to have low participation in the support schemes. The revisions of the support schemes require systematic consultations with stakeholders as representative groups or associations before designing the schemes.

In order to better link the policy and budgetary support with the ISARD, introduction of medium term programming, independent evaluation of policies and support schemes as well as larger involvement of stakeholders during the process of designing support schemes would strengthen the consistency and predictability of the agricultural policies. The strengthening of the policy analysis capacities within MARDWA to program agriculture and rural development measures should be gradually complemented with the harmonization of the national legal and technical framework, such as establishing comprehensive Agricultural Information System, farm register, minimum standards, and land rights institutions. The importance of regular yearly monitoring and review of the schemes in addressing current and future priority needs should be combined with the facilitation of the associated services such as access to other funding schemes, access to extension services and other complementary services without losing focus of women and vulnerable groups.

The challenges of the Albanian policy makers remain to exploit the potential of the agriculture sector in Albania by smoothly transforming the fragmented structures of the agricultural sector to become competitive, while not disregarding alternative income opportunities for the rural population in order to maintain the rural social texture. The policy efforts to achieve a general favourable economic environment, better access to both public and private funds, integrated development of value chains and market access will be challenged by decelerated donor financing and constrained budgetary capacities. Priority should be given not only to overcoming structural disadvantages but also to enhancing food safety standards, strengthening market institutions and improving public private partnerships in order to further align with EU standards.

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Annex B.I-1: Area and production of main crops, 2005-2012, Albania

	2005	2006	2007	2008	2009	2010	2011	2012
Area of production (1 000 ha)								
Total grain	149.0	144.1	134.4	152.0	149.2	147.0	150.5	143.0
- Wheat	82.4	77.2	70.2	83.4	82.8	73.9	69.2	73.1
- Corn/Maize	48.4	49.0	46.2	49.0	47.6	54.2	61.2	53.5
Oilseeds	1.5	1.5	2.3	1.7	1.2	1.3	1.5	1.4
Potatoes	10.1	9.5	8.2	9.8	9.1	9.0	9.5	9.3
Grapes (total)	6.6	6.9	7.5	8.1	8.5	8.6	9.1	10.1
Fruit (total)	13.8	14.5	14.8	14.8	15.8	16.5	18.0	18.6
Vegetables (total)	33.2	31.5	28.8	30.3	31.0	32.3	32.4	30.9
Tobacco	1.5	1.8	1.2	1.1	1.2	1.2	1.2	1.3
Beans	16.1	15.1	14.6	14.3	14.0	13.7	14.4	14.6
Fodder	191.1	195.0	200.0	194.0	213.0	418.0	421.9	208.8
Production (1 000 t)								
Total grain	511.2	507.5	493.6	608.5	633.0	696.0	699.0	696.8
- Wheat	260.0	230.9	249.5	335.0	333.1	294.9	292.8	300.2
- Corn/Maize	219.9	245.4	215.9	245.0	265.1	362.0	366.4	359.8
Oilseeds	2.7	2.6	2.8	2.8	2.3	2.6	3.0	2.3
Potatoes	169.3	162.6	154.9	190.0	200.0	208.0	230.0	232.9
Fruit (total)	181.2	217.3	228.7	262.2	282.7	340.3	360.4	248.0
Vegetables (total)	684.9	687.5	671.5	715.4	730.0	860.4	890.2	914.0
Tobacco	1.9	2.0	0.9	1.3	1.6	1.7	1.9	2.0
Beans	23.6	24.3	20.8	21.8	23.0	24.0	25.3	27.2
Fodder	5 197.0	5 222.0	4 954.0	5 333.0	5 351.0	5 456.3	5 929.9	5 949.8

Source: MARDWA

Annex B.I-2: Livestock numbers (in 1 000 animals), 2005-2012, Albania

	2005	2006	2007	2008	2009	2010	2011	2012
Cattle	655	634	577	541	494	493	492	498
of which cows	430	420	396	360	353	355	354	358
Pigs	147	152	147	161	160	164	163	159
Sheep and Goats	2 701	2 770	2 729	2 620	2 540	2 581	2 517	2 619
Horses	149	132	122	113	102	98	99	97
Poultry	6 432	6 200	7 135	8 100	8 313	8 437	9 292	9 494
Beehives	157	173	171	175	203	218	233	239

Source: MARDWA

Annex B.I-3: Agricultural farm-gate producer prices (in EUR/t), 2005-2012, Albania

	2007	2008	2009	2010	2011	2012
Common wheat	226.5	293.2	197.6	210.5	292.1	278.6
Corn/Maize	:	268.7	205.2	217.8	277.9	278.6
Potatoes (main crop)	250.8	228.0	250.8	254.0	199.5	207.1
Pepper	388.3	350.2	281.2	333.9	370.5	278.6
Tomatoes	404.5	317.6	357.2	370.2	306.4	335.7
Watermelons	64.7	122.1	76.0	94.4	64.1	128.6
Apples (dessert)	355.9	325.7	334.4	268.6	277.9	285.7
Eggs (1 000 pieces)	99.0	99.0	77.5	78.8	80.6	90.7
Cow's milk	300.0	303.0	312.3	352.0	358.4	381.6

Source: MARDWA

Chapter B.II

AGRICULTURE AND AGRICULTURAL POLICY IN BOSNIA AND HERZEGOVINA

Sabahudin Bajramović*, Aleksandra Nikolić*, Jakub Butković**

1. Introduction

Bosnia and Herzegovina (BiH) is characterized by a complex government structure as a result of the General Framework Agreement for BiH, signed in late 1995 in Dayton. Under the agreement, BiH is a state consisting of two entities; namely the Federation of BiH (FBiH) and Republic of Srpska (RS), as well as the Brčko District of BiH, with asymmetric constitutional arrangements and a different number of government levels in the entities. While FBiH has four vertical government levels (municipality, town, canton, and Federation), RS has only two (municipality and entity). The Dayton Agreement established the Office of High Representative with considerable legislative authority. The agreement specifies the powers of administrative levels, but their clear demarcation has not been established thus far, which considerably slows down social and economic processes and reforms (particularly the process of approaching the EU) and reduces efficiency of executive and legislative authorities.

Since 2008 social, political and economic crisis in BiH has deepened under the influence of negative regional and global trends, but also because of the lack of political will to continue necessary reforms. Political inability to agree on respecting fundamental human rights[1], and establishing a coordination system as the main mechanism for implementing IPA and other EU assistance programs has resulted in a low preparedness of the BiH economy for the EU accession of Croatia, which is its most important trade partner. Furthermore the suspension of IPA assistance and the consequent slowing down of building governing mechanisms necessary for the approval and implementation of the IPARD program have substantially extended the period before which BiH can obtain funding from the IPARD instrument.

The difficult economic and political situation in BiH is one of the major obstacles for foreign capital inflow, particularly foreign direct investments without which, according to all analyses, significant increase in production and job creation will be very slow. The global crisis makes this complex situation even more difficult. This situation has lasted for too long, changing the mind-set of citizens who have slowly adapted to the situation and accepted it as force majeure (FAFS, 2013).

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[1] This pertains to the enforcement of the judgment of the European Court of Human Rights relating to the discrimination of BiH citizens on the basis of etnicity.

Nevertheless, despite all the problems, macroeconomic stability has been preserved. Although they decreased in 2009 and 2012, gross domestic product (GDP) and gross value added (GVA) increased by 3.6 percent and 3.9 percent respectively in the 2008-2012 period. Along with a low inflation rate[2], the share of trade deficit in GDP reduced from 42 percent (2008) to 32.9 percent (2012) and the deficit of the current account reduced from 14.1 percent (2008) to 9.6 percent of GDP (2012).

In order to fund the existing and continuously growing BiH budgetary deficit, the entity governments increasingly incur debts at home and foreign financial markets, so the external debt of 17 percent of GDP (2008) increased to 27.9 percent of GDP (2012). One of the major economic problems in BiH is a continuously increasing unemployment rate (28 percent in 2012), substantially decreasing foreign direct investments (41.6 percent less in 2012 than in 2008) and substantially decreasing money from various development funds. Other items of concern are that BiH remains on the margins of large Eurasian infrastructural projects (e.g. South Stream), that the construction of envisioned road infrastructure is very slow (some loan funds have not been used), and that investments in the energy sector, particularly the distribution network and new plants, are low. However, despite all the above problems, the International Monetary Fund is forecasting the recovery of the BiH economy with a 2 percent increase in activity and 4 percent of growth (IMF, 2013) to be achieved in 2018. The announced "new EU approach" and the development of a special package of economic assistance to the country are also encouraging.

The agriculture and food industry in BiH are very important for shaping and stabilizing further social and economic development in the country. The economic vitality of these sectors, along with their improved export performance at a time of crisis and economic contraction make them the principal stabilizers of the BiH society and economy. Noticeable poverty is a problem that complicates the social situation, particularly in the country's rural areas. The agricultural sector enables income generation for the local population and reduces negative social processes (migration, ageing of the rural population, etc.) and enables the preservation and protection of cultural, historical and natural heritage. However, the sector has not managed to efficiently engage available natural resources and neither is it in the position to use them rationally. This is why it is very important to shape agricultural policy oriented toward the strengthening of sector performance and particularly the regulatory and institutional framework, which will enable the use of available assistance programs and ensure the transfer of technology and improvement of competitiveness in the sector.

This paper analyzes the most important characteristics of agriculture and agricultural policy in Bosnia and Herzegovina. The analysis covers the 2002-2012 period, focusing on recent years. National statistics have been used from state and entity level, and also the data from the Eurostat database, FAO, WTO, and the World Bank. Data on agricultural policy and related budgetary transfers has been collected from publicly available sources and internal documents of the Federal Ministry of Agriculture, Water Management and Forestry, the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska, the Department of Agriculture of District Brčko Government and cantonal ministries (departments) for agriculture of Federation of BiH and compiled in APM database using a common template for classification of agricultural policy measures (Rednak et al., 2013).

In the first part of the paper the sector's role in the economy, the basic characteristics of agricultural land use, farm structure, production trends, competitiveness and general strengths and weaknesses of the sector are presented. The second part gives a detailed overview of the agricultural policy, both nationally and on the entity/district levels and in terms of political framework, and the amount and structure of budgetary support. The paper ends with a discussion and conclusions, with the authors' view on key aspects of policy directions in the coming period, primarily in the view of European integration.

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[2] Inflationary trends in 2012 were limited and stable, and so the prices increased by 1.8 percent on average, which is 1.9 percent less than the average price increase in 2011. In those circumstances the inflation in BiH in 2012 was 0.5 percent lower than the EU inflation, and as well lower than in all countries in the region.

2. Agriculture

2.1 The role of agriculture in the economy

Agriculture is an important business sector of the BiH economy both because of its share in the creation of GVA and in total employment, and also its share in foreign trade.

Although the economic activities in this sector contracted as a result of a deep social and political crisis, its share in GVA is still high, about 8 percent. The sector contributes 20 percent of total employment, which is particularly important in light of the noticeable economic problem of a high unemployment rate. Agriculture is notably more important in RS than in FBiH. In 2012, its share in total GVA in RS was about 12 percent and in total employment about 32 percent, while its share in total GVA in FBiH was only about 5 percent and in total employment about 13 percent.

Although exports of agro-food products have been increasing faster than imports, and the trade deficit has been relatively stable since 2008, the sector share in total deficit increased and reached 29 percent in 2012. This causes concern and also suggests low economic activity in other sectors. It should be noted that this sector has an extremely low share in foreign direct investments (FDI stock was 6.6 percent in 2012) although FDI increased in 2012 by 37.8 percent compared to 2008.

2.2 Land resources and farm structure

By its availability, quality and accessibility, land largely determines economic potential of the country's agricultural sector.

According to statistical data for 2012, there is a total of 2 163 000 ha of agricultural land in BiH, consisting of a 1 006 000 ha of arable land, 109 000 ha of permanent orchards and vineyards, and 1 048 000 ha of grassland; namely, natural meadows and pastures. One of the major problems in BiH is a very high share of uncultivated high quality arable land, which accounts for almost one-half (47 percent, 2012) of all arable land. With 132 ha of arable and 431 ha of agricultural land per 1 000 inhabitants, BiH is in a relatively good situation regarding the critical amounts of land needed to produce enough food for the survival of the population.

However, there is no comprehensive picture of the structure of agricultural holdings in BiH because an agricultural census has still not been conducted, and the last one was back in 1960. Based on limited data about agricultural holdings and their structure, obtained from the agricultural pilot census in 2010[3], average area of used land is 1.97 ha per holding with an average of four parcels per holding on family farms, which is considerably less than EU-27 average of 14.3 ha (EUROSTAT, 2014).

The results of the research within the UNDP report on human development in BiH for 2013 (UNDP, 2013) indicate that half of rural households are engaged in agriculture only to a small extent or not at all; 36 percent of rural households have "small farms" where they meet a considerable part of their needs for food, and less than 1 percent of households may be classified as commercial farms, which makes them subject of IPARD measures for the improvement of agricultural production and marketing activities.

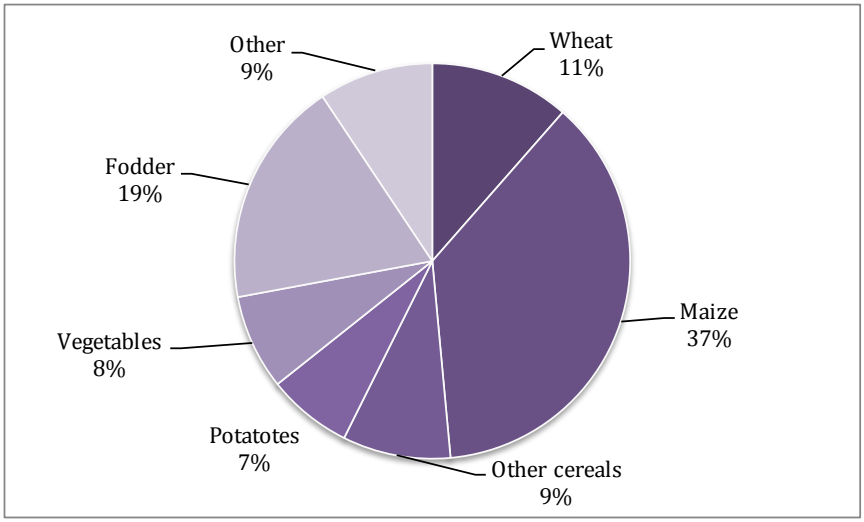
2.3 Agricultural production

Even taking into account the relatively good natural potential for the development of crop production in BiH, agricultural production does not show increasing trends, as adverse weather conditions in the key stages of crop growth (high or low temperatures, late spring or early autumn frosts, deficit or surplus of precipitation) often considerably reduce total and average yields.

[3] Agricultural pilot census was conducted by the three statistics agencies in BiH (national and two entity agencies) in October 2010 within IPA 2007 BH AIS.

The structure of the harvested area in 2012 shows the domination of cereals, particularly maize with 37 percent; one-fifth (19 percent) is under fodder, potato accounts for 7 percent, and vegetables 8 percent. Industrial crops are still not very important, with a symbolic area under these crops of 1 percent on average. During 2005–2012 the areas under common wheat showed a decreasing trend, while maize production was uniform, on an area of about 200 000 ha (see Annex B.II-1).

Figure B.II-1: Breakdown of harvested area by main crops, 2012, Bosnia and Herzegovina



Source: Agency for Statistics of BH, Federal Office of Statistics, Statistical Institute of the Republika Srpska, Statistical office of District Brčko

Fruit production in BiH considerably expanded in the previous decade, although orchards account for only 5 percent of all agricultural land. Plums and apples lead in the number of fruit-bearing trees and in production, while pears, cherries and peaches are less well represented in production. In the last five years the area under berry fruits has increased considerably, and producers have achieved excellent success. Also, southern BiH shows an increasing interest in growing Mediterranean crops and renewal of forgotten crops such as olives. There has been an evident increase in permanent orchards, both in terms of the number of trees and the area they occupy. However, this is still not enough to say that this agricultural subsector is developed and stable. The problem that poses a risk for the development of this sector is the lack of adequate service dealing with growing and selection, and particularly the lack of nurseries, and a chronic lack of seedlings. In addition, an inefficient system of controlling imported seedlings and their certification could slow down the expansion of this sub-sector.

The share of livestock production in total agricultural output is about 37 percent. This relatively low share indicates structural problems facing the sector.

Table B.II-1: Number of livestock (in thousands), 2005-2012, Bosnia and Herzegovina

Description	2005	2006	2007	2008	2009	2010	2011	2012
Cattle(total)	460	515	468	459	458	462	455	445
- Dairy cows	298	313	307	297	293	273	264	251
Sheep and Goats	976	1120	1103	1101	1 125	1 110	1 086	1 070
Pigs	654	710	535	502	529	590	577	539
Poultry	10 300	13 300	15 000	16 185	18 741	21 802	18 703	19 401
Beehives	260	283	311	334	347	367	382	384

Source: Agency for Statistics of BH, Federal Office of Statistics, Statistical Institute of the Republika Srpska, Statistical office of District Brčko

Social, political and economic crises have led to a decreased volume of livestock production. Since 2008 the number of cattle has decreased by 3.1 percent and the number of sheep by 2.8 percent, although

the number of pigs has increased by 7 percent, poultry by 19.9 percent, and beehives by 15 percent. It should be noted that animal production is not organized in accordance with the requirements of the Nitrates Directive and the EU requirements for animal welfare. In other words, all subsectors of animal production will have to invest in new buildings and technology in order to meet environmental requirements.

The main problem for the BiH agricultural sector is its yields (production per unit of area or head). Average yields of wheat, maize, potatoes and cow's milk in BiH are significantly behind both the other countries in the region and the EU countries (see Chapter A.II).

Low productivity is a reflection of an unfavourable farm structure, insufficient equipment and the almost complete dependence of BiH agriculture on the import of all types of inputs, including seed materials, pesticides and fertilizers. The risk that this sector will keep falling behind in technology is a big one. Bearing in mind the requirements for technological changes; i.e. sustainable intensification, which results from climate change, the situation becomes more serious. Without a radical improvement in productivity; i.e., strengthening of technical and technological capacities in the sector, considerable improvement of competitiveness cannot be expected, which eventually means relative stagnation in this sector (compared to other countries in the region, and particularly with the EU countries).

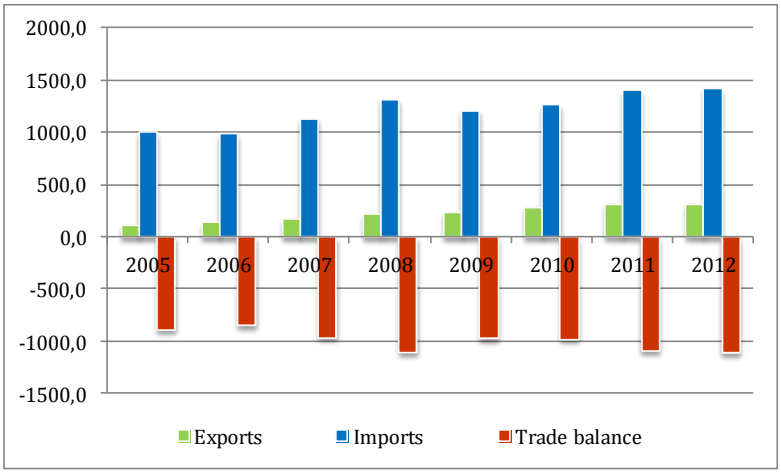
2.4 Agricultural prices

Inefficient and limited production on small farms, the subsistence character of production, the low level of farm equipment and insufficient farmer knowledge about techniques and technology are only some of the contributing factors to the relatively high prices of agricultural products in BiH (see Annex B.II-2) compared with the region and the EU (see Chapter A.II). In other words, BiH agricultural production has not had and will not have competitive prices in the near future unless either use of available land or land productivity and efficiency is increased.

2.5 Agricultural trade

As indicated earlier, the agro-food sector's contribution to total BiH trade is considerable. The total sector's export in 2012 amounted to EUR 317 million, which was 7.9 percent of total BiH exports. The total import of agro-food products is considerably higher; in 2012 it amounted to EUR 1.43 billion which was almost 18.3 percent of total BiH imports. The sector's export, although quite low, was increasing over the entire observed period. On the other hand, imports showed some fluctuations. It showed an increasing trend between 2005 and 2008, then decreased in 2009 and 2010, and increased again in 2011 and 2012.

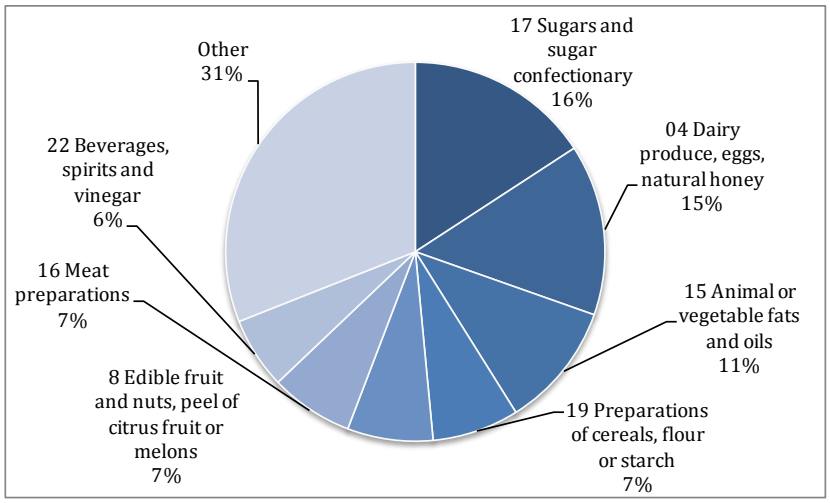
Figure B.II-2: Agro-food trade (in EUR million), 2005-2012, Bosnia and Herzegovina



Source: Chamber of Commerce of BiH

As for the export structure of BiH products, from the commodity groups 01–24 (average in the period 2010–2012), sugar and sugar confectionary, milk and milk products, and various fats and oils (commodity group 15) are the three most important product groups. This structure indicates that a large part of export is essentially re-export or is based on a very high import of raw materials (except milk and milk products). The most important increase in export share belongs to the group of milk products, with an increase from 3.1 percent (2002) to 15 percent (2012), while the export share decreased in case of the groups of vegetable products (from 10.9 percent to 3.9 percent) and fruit and vegetable products (from 9.6 percent to 3 percent).

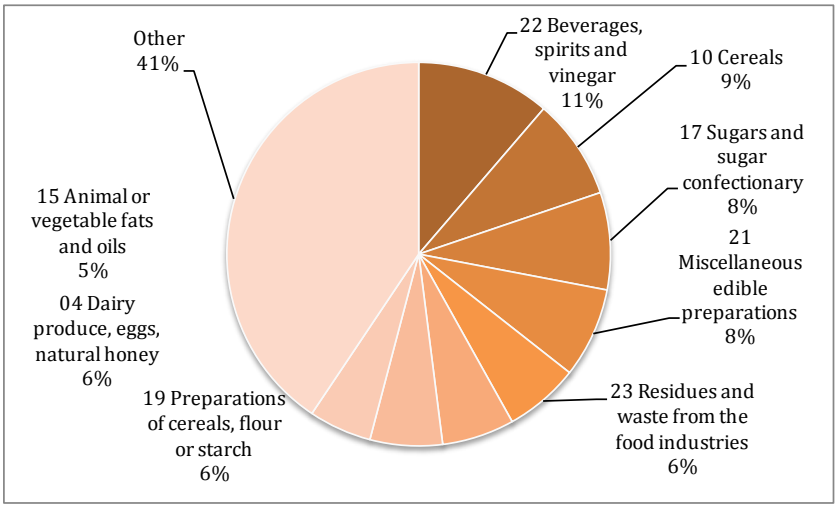
Figure B.II-3: The structure of agro-food exports by main commodity group, 2010-2012 average, Bosnia and Herzegovina



Note: Other: Groups of products with a share below 5 percent each of the total; agro-food trade according to CNCT (Combine Nomenclature of Custom Tariffs)
Source: Chamber of Commerce of BiH

The largest share in the value of import accounts for group 22 (beverages, spirits and vinegar), which is concurrently the only group with an import share of more than 10 percent (11.2 percent in 2012).

Figure B.II-4: The structure of agro-food imports by main commodity group, 2010-2012 average, Bosnia and Herzegovina



Note: Other: Groups of products with a share below 5 percent each of the total; agro-food trade according to CNCT (Combine Nomenclature of Custom Tariffs)
Source: Chamber of Commerce of BiH

An important import share belongs also to cereals (8.5 percent), sugars and sugar confectionery (8.2 percent), miscellaneous edible preparations (7.6 percent), cereal products (6.1 percent), milk and milk products (6.1 percent), and fats and oils (5.3 percent). The import structure of agro-food products did not change considerably during the observed period.

Most of the imported food in BiH comes from the EU countries (54.6 percent in 2012), followed by CEFTA countries (40 percent in 2012). The rest of the world follows with an insignificant 5.4 percent only. The most important BiH import partners among the EU countries are Slovenia, Austria and Hungary, followed by Italy, Germany and the Netherlands. Among CEFTA members, Croatia dominates with the share of 52.6 percent followed by Serbia with 41.9 percent (2012). In recent years, Turkey's share increased to 2 percent (2012), and so Turkey has become an important BiH partner in the import of food and drinks.

The structure of export destinations has considerably changed, and after 2006 agriculture and food industry were mainly oriented toward CEFTA market (76 percent in 2012), mostly to Croatia and Serbia. Exports to the EU markets were 19.3 percent (2012), and to all other country markets only 4.7 percent.

Although there was progress in this sector because exports were growing stronger and faster than imports, meaning that the coverage ratio of imports by exports has improved, the general image of foreign trade exchange of agro-food products is still noticeably poor. This is indicated by a very low export to import coverage ratio being 22.3 percent in 2012.

3. Agricultural policy

3.1 Concept and framework of agricultural policy

Agricultural policy in BiH is carried out at several levels because of the political system complexity. Without a single national ministry that would cover the field of agriculture, agricultural policy management is partly handled by the Division for Agriculture, Food and Rural Development within the Ministry of Foreign Trade and Economic Affairs (MOFTER). The entity level of creating and implementing agricultural policies is composed of separate ministries of agriculture, water management and forestry in FBiH and RS and they, along with the Division for Agriculture within the Government of Brčko District, are the most important institutions competent for agricultural policy in BiH.

In addition to the entity level, FBiH also has a cantonal level (10 cantonal ministries) where the management of agricultural policy considerably determines the overall position of agricultural producers and the sector as a whole. Some forms of sector support from the municipal level, characteristic for both BiH entities, should not be disregarded, although these transfers are not generally important except from the local point of view. The budgetary transfer amounts, agricultural policy measures, rural development policy and criteria to support producers are only part of the policy that is under the exclusive competency of the entity/cantonal ministries of agriculture; i.e. the Division for Agriculture within the Government of Brčko District.

The national Ministry of Foreign Trade and Economic Relations uses available instruments to influence agricultural policies nationally and in the entities through the regulation of trade of agro-food products, and through the defining and implementing food safety rules relating to veterinary policy and plant health protection. This ministry and its agricultural division[4], together with the Office for Harmonization of Payment Systems[5], also coordinate activities between the entity ministries, and implement and coordinate international projects in the field of agriculture and rural development.

[4] Division for Agriculture, Food and Rural Development.

[5] Office for Harmonization and Coordination of Payment Systems in Agriculture, Food and Rural Development in BiH.

National framework objectives of the agro-food sector and rural development are provided for in the Law on Agriculture, Food and Rural Development of BiH[6]. The main objectives of the law pertain to a more efficient use of resources, provision of food safety and security, harmonization with the EU policies, enabling diversification of revenues, and improvement of overall quality of life. As presented, the objectives go beyond the framework of sector goals and provide a broad approach to the development of the agricultural sector and rural areas. The need to harmonize policies with the EU led to the national harmonization process through the adoption of the "BiH Strategic plan for the harmonization of agriculture, food and rural development (2008–2010)" operational programs and defined measures for BiH, FBiH and RS[7]. These documents were prepared by the Agricultural Division within MOFTER, with support from the SESMARD[8] project, which was funded by the EU. However, unfortunately, except for several so-called pilot harmonized support measures, other measures have never been implemented (Rokvić, 2012). It should be added that in 2012 the Office for Harmonization of Payment Systems, as a newly established institution within MOFTER, took over the harmonization of support measures within the country and as well with the EU CAP. Thus far the existing documents, created under the EU sponsorship and the SESMARD project, have been reviewed, and harmonization plans by groups of measures and an activity timeline have been made. The first output in this context is the plan to harmonize rural development measures and general support measures for BiH agriculture, which was submitted to the BiH Council of Ministers for adoption.

Since both legal and institutional frameworks clearly define that agricultural policy measures and support to rural development are mainly under the competence of the entities/district (in case of FBiH, the cantons as well), the continuation of the policy analysis in this paper will be more oriented toward the analysis of individual government policy levels.

Agricultural policy in Federation of Bosnia and Herzegovina

Agricultural policy in FBiH is generally defined in the Law on Agriculture in the Federation of BiH[9], which provides for the objective and measures of agricultural policy in this entity. This law opens the processes for increasing the competitiveness and quality of agricultural food products, and the application of standards required for a more dynamic development of the agricultural sector, processing of products, and rural development.

Still, the main law in the field of agricultural support in FBIH is certainly the Law on Financial Support to Agriculture and Rural Development. This law: (i) provides for the financial support measures in agriculture and rural development, support models and ways of their implementation, (ii) emphasizes the importance of implementing support in accordance with the obligations and international agreements signed by BiH, such as the Stabilization and Association Agreement, and (iii) harmonizes entity and cantonal levels of support so as to avoid overlapping of the grounds and criteria for support (FAFS, 2010). This law was followed by the regulations on the conditions and ways of gaining the right to financial support under the rural development model[10], payment schedules and implementation of the agricultural and structural policy measures[11].

In addition to these regulations, an important document for the creation and implementation of agricultural policy in FBiH is the Development strategy for the agricultural sector for the period 2006–2010. The strategy clearly defined medium-term goals ranging from the increased production of agricultural food products and ensuring food safety through a better use of natural resources, and

6 Official Gazette of BiH 50/08.
7 Adopted under the decision of the BiH Concil of Ministers in 2009; published in Official Gazette of BiH 70/09.
8 SESMARD: Support for Implementation of the Functional Review Recommendations.
9 Official Gazette of BiH 08/07, 04/10, 27/12 and 07/13.
10 Official Gazette of FBiH 109/12.
11 Program for spending funds from Agricultural Incentive, including the allocation criteria, Official Gazette of FBiH 31/13.

improving the competitiveness. It also defined institutional strengthening and approximation in the context of WTO and EU integration.

Agricultural policy in FBiH has been carried out thus far more or less successfully since the end of the war, and can be clearly divided into three periods.

The first period, from 1996 to 2002, was characterized by the post war recovery, in which agricultural policy, and hence agriculture, did not assume much importance. The set of implemented agricultural policy measures and the production types intended for support were very limited, with quite modest funds allocated for their implementation. Measures were adopted without a clear vision. Agricultural funding essentially came from donor funds and it mostly had a social support character.

The second period, from 2002 to 2006, was marked by a more clear government determination for budgetary support to agriculture through specific budgetary support funds, a wider range of supported products but still focused on traditional-main production types, and the gradual introduction of support to farm investments. This period was characterised by an insufficient budget, poor legislation, and inefficient mechanisms of management and control of policy implementation.

Finally, the third period, from 2007 to the present has been characterized by a more serious approach to agriculture as part of the entity economy, more considerable budgetary funds for its development and improvement, and a more comprehensive overview of the sector with an important position given to the development of legislation and its gradual harmonization with developed countries, and especially with the EU. The range of products supported through budgetary transfers has been expanded, financial allocations for structural policy measures have been stabilized, and considerable financial allocations for rural development policy have been introduced. The inclusion of cantonal line ministries/divisions in the sector support should be emphasized. The problems of agricultural policy in this period are mostly similar to those from the previous period and are associated with insufficient funds and a noticeable absence of implementation and control mechanisms.

Although general guidelines from the first strategy were taken into account and legal provisions were applied, the programming of agricultural policy in FBiH has mostly been done on an *ad hoc* basis thus far. Namely, the law was the basis for adopting a program that envisioned the allocation of support funds (by individual groups, by production types within the group, and by product unit). Then an instruction was adopted, specifying criteria that producers and other beneficiaries had to meet to receive incentives. This system was in force in FBiH until 2011, when it changed. In 2012, regulations on production support were adopted instead of the instruction: Regulation on the conditions and way of gaining financial support under the rural development model and the Regulation on other types of support. Essentially, the regulations/instructions were adopted on the basis of experience, situation in the countries in the region, and negotiations with agricultural associations but without a thorough analysis of the situation. Very often these legal instruments are unclear; they lack stability and consistency and often do not meet the needs of agricultural producers. The defining measures have not been elaborated well and all the impacts have not been measured. Therefore, misuses were often possible and a large number of beneficiaries did not receive funds.

One of the major problems in the implementation of agricultural policy measures in FBiH thus far is the funding. It is very unstable and the payment schedule is not defined, which often means late payments. It is also unfair because the requirements change quite often. FBiH still has not separated the functions of policy making from policy implementation. The entire procedure of applying for and receiving incentives is time-consuming and still not automated. The amounts and criteria for incentives are not based on an analysis of collected field data because there are no information technologies to facilitate it and the line ministry has shown no interest in this. The existing control system is inefficient, with a lot

of opportunities for manipulation and misuse.[12] It is expensive because it engages a large number of advisors in control duties, which is in a way also a conflict of interest.

The future agricultural policy in FBiH is clearly defined in the new development strategy for the sector for 2014–2018, the draft version of which was publicly presented in late 2013. Except for an emphasis on the need to improve technical and technological conditions in the sector, more efficient use of available resources, improvement of entire standards and quality of life in rural areas, an emphasis was also placed on the harmonization of the institutional and legislative framework and agricultural policy in FBiH with the EU CAP. This means the passage of new, currently missing laws that will comply with CAP-based regulations; i.e., is in line with the EU legislation (*Acquis Communautaire*). In the context of institutional strengthening, this will mean the building of a modern system of information-administrative management, further strengthening of existing institutions and the establishment of several new ones, which will require considerable administrative, financial and personnel changes. Eventually, the future agricultural policy in FBiH will be based on the gradual introduction of measures similar to the EU CAP and the blocking of new measures that are not in line with the CAP.

Finally, it should be mentioned that the rural development program for FBiH for 2013–2020 is under preparation, which should contribute to easier preparation of a rural development strategy for BiH as a priority document among many that are necessary to use EU IPARD funds.

Agricultural policy in Republic Srpska

The legal framework for the implementation of agricultural policy in RS consists of laws, regulations and strategic documents relating to the development of the entire sector or rural areas of this BiH entity. The RS Law on Republic Administration[13] define the role of the Ministry of Agriculture, Water Management and Forestry as the institution competent for administrative and expert affairs in the field of creation and implementation of agricultural policy. The RS Law on Agriculture[14] provides for the objectives and measures of agricultural policy, its methods of implementation and monitoring. In addition to this law and the Law on the Provision and Allocation of Funds to Support the Development of Agriculture and the Countryside[15], the Regulation on the conditions and way of obtaining financial incentives for the development of agriculture and the countryside, is of great importance. This regulates the implementation of incentive funds in more detail.

In addition to the above laws and regulations, important documents for the creation and implementation of agricultural policy in RS are medium-term strategies for the development of the agricultural sector (1999–2006 and 2010–2015) and the Strategic plan of rural development of the Republic of Srpska for the period 2010–2015. These documents specify the objectives of agricultural policy and give detailed action plans for the achievement of the defined objectives. The most important objectives in above strategic documents are increased total agricultural production, increased productivity and competitiveness, better provision of food safety/security, balanced integral

[12] The support in FBiH is implemented on the relation Canton – Federation Ministry of Agriculture, Water Management and Forestry: Cantonal ministries of agriculture receive applications for support, conduct first-instance control, complete the applications, make summary calculations for the farmers eligible for support, and send such completed documents to the Federation ministry. That ministry controls the calculations, and as well dubious applications as needed, after which it sends the calculations to the Treasury, i.e., the Federation Ministry of Finance, which then pays out the funds to the beneficiaries. Inspection monitoring is conducted by the Office for Inspection Affairs in FBiH in cooperation with cantonal inspections. As for capital investments and projects, the entire procedure is conducted by the ministry (cantons are excluded here), with the inspection monitoring by the ministry and the Office for Inspection Affairs in FBiH in cooperation with cantonal inspections.

[13] Official Gazette of RS 118/08, 11/09, 74/10, 86/10, 24/12 and 121/12.

[14] Official Gazette of RS 70/06 and 71/09.

[15] Official Gazette of RS 43/02 and 106/09

development, stopping population decline in rural areas, and the revitalization of hilly and mountainous areas.

Agricultural policy in RS thus far can be divided into two periods. The first period, started in 2000 with the beginning of financial allocations to support producers and lasted until 2006 when a development strategy for agriculture was adopted as a turning point for strategic allocation of funds for the development of agriculture and rural areas. In this period a smaller number of production sectors were supported (milk, seeds and tobacco) by direct support to producers, and support to rural development (rural infrastructure) was introduced but without a sufficient implementation mechanism (Rokvić, 2012). Like in FBiH, the development of this sector in RS in this period depended largely on international assistance and donor funds.

The second period started in 2006 and has lasted until the present day. It has been characterized by larger budgetary transfers to the sector, which are the result of increased total entity revenues thanks to the introduction of VAT in BiH and thanks to a generally more serious approach to agricultural policy as an instrument for sector recovery. The strategic document envisioned uniform development of rural areas, which resulted in transition from a purely sectoral approach to an integral approach to the development of agriculture and rural areas. Inclusion into regional and world trends, particularly into increasingly closer relations with the EU, also came in this period. In addition to a significant strengthening of the strategic and legislative framework, there has been some progress in institutional strengthening. New divisions and sections have been established within the RS line ministry of agriculture, along with a considerable staff increase. A separate Agency for Agricultural Payments was established in RS as the implementation body for both local and IPARD funds. The agency is now an integral part of the RS Ministry of Agriculture.

Regardless of compliance with legislation and adopted medium-term strategies of sector development, the same observation can apply to RS as to FBiH: The creation and implementation of agricultural policy has mainly been done *ad hoc.* The amounts of incentives and subsidies have depended much more on the situation in the region and negotiations with representatives of various producers' associations and much less on a developed system of monitoring and evaluation and expert analysis in general.

Future agricultural policy in RS will be defined in a new sector development strategy, which is under development. In addition to the strengthening of sector developmental components and improving its overall technical and technological condition, it is quite certain that one of the priority goals of the new strategy will be to harmonize the institutional and legislative framework and agricultural policy with the EU CAP. The gradual introduction of measures similar to the EU CAP, and ensuring that measures that are not in line with the CAP are not introduced – which is equally foreseen in FBiH – will be an important step toward complete integration with CAP upon the accession of BiH to the EU.

Agricultural policy in Brčko District

As the smallest administrative unit in the country, Brčko District has the simplest model of support to agricultural producers. The model has been developing since 2002, mainly under the influence of international factors, which considerably shape overall economic policy in the region. This influence is reflected either through direct administration or various types of projects. This was the reason why the district, as an administrative unit, was the first to introduce direct support to farmers in the form of payments based on current area/animal, which since 2008 has become the only form of direct payments.

Today the district carries out agricultural policy based on strategic and legislative framework consisting of: Strategy of agriculture, food, and rural development in the Brčko District of BiH for the period 2008–2013[16], the Law on Agriculture, Food and Rural Development of BiH, and the Law on Incentives for Agricultural Production in the Brčko District of BiH. As in other two administrative units in BiH, the

[16] This strategic document has never been submitted for the official adoption procedure.

implementation legal instrument is the Regulation on the conditions and way of obtaining financial incentives in agricultural production.

3.2 Budgetary transfers to agriculture

Total budgetary support to agriculture

The total agricultural budget in BiH in the 2002–2012 period increased continuously, with some minor fluctuations. In 2002, the total budgetary transfers to the agro-food sector at country level amounted to EUR 11.1 million, and had increased almost eight times by 2012, reaching EUR 82.7 million. The main characteristic of the observed period is the fact that support funds for the agricultural sector have considerably increased since 2007 as a result of increased budgetary revenues and the introduction of VAT.

Table B.II-2: Breakdown of budgetary expenditure for agro-food sector and rural areas (in EUR million), 2002-2012, Bosnia and Herzegovina

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FEDERATION OF BiH											
Market and direct producer support measures	4.3	5.1	7.8	8.5	14.1	17.0	25.2	22.7	28.7	32.4	25.0
Structural and rural development measures	0.9	0.6	1.4	2.2	2.8	11.3	14.3	12.0	9.8	4.0	18.1
General measures related to agriculture	0.3	0.5	0.5	1.0	1.0	2.3	2.8	1.1	0.9	0.4	0.5
Total budgetary support to agriculture	**5.5**	**6.2**	**9.7**	**11.8**	**18.0**	**30.6**	**42.4**	**35.8**	**39.5**	**36.7**	**43.6**
THE REPUBLIKA SRPSKA											
Market and direct producer support measures	4.0	5.3	9.2	11.5	15.0	24.7	26.1	30.2	15.6	26.4	22.1
Structural and rural development measures	0.0	1.0	2.6	3.9	6.8	7.8	8.8	6.7	20.3	3.9	11.2
General measures related to agriculture	0.9	1.3	1.5	2.0	2.6	3.8	5.9	4.3	4.2	1.8	2.5
Total budgetary support to agriculture	**5.0**	**7.6**	**13.2**	**17.4**	**24.4**	**36.3**	**40.8**	**41.2**	**40.1**	**32.1**	**35.8**
BRČKO DISTRICT											
Market and direct producer support measures	0.4	0.4	0.6	2.6	2.6	2.3	2.2	2.8	2.3	2.0	2.9
Structural and rural development measures	0.3	0.3	0.1	0.8	0.1	0.2	0.1	0.4	0.3	0.3	0.4
General measures related to agriculture	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total budgetary support to agriculture	**0.7**	**0.7**	**0.8**	**3.5**	**2.8**	**2.5**	**2.3**	**3.1**	**2.6**	**2.3**	**3.3**
BOSNIA AND HERZEGOVINA											
Market and direct producer support measures	8.7	10.8	17.6	22.6	31.8	44.0	53.5	55.6	46.7	60.8	50.1
Structural and rural development measures	1.2	1.9	4.1	7.0	9.8	19.3	23.2	19.1	30.4	8.2	29.6
General measures related to agriculture	1.2	1.8	2.0	3.1	3.6	6.2	8.7	5.4	5.1	2.2	3.1
Total budgetary support to agriculture	**11.1**	**14.5**	**23.7**	**32.6**	**45.2**	**69.4**	**85.5**	**80.1**	**82.2**	**71.2**	**82.7**

Source: BiH APM database

The agricultural budget in FBiH saw noticeable growth, and increased from EUR 5.5 million in 2002 to EUR 43.6 million in 2012. More important changes came in 2007 when budgetary support increased by almost 70 percent in relation to the year before, and ever since then the sector support, although higher than earlier, showed certain oscillations as a reflection of the economic crisis but also a vague and insufficiently consistent agricultural policy.

Pillar I policy – market and direct producer support measures – dominate the structure of budgetary transfers and account for average 70 percent of the total agro-food budget in the observed 11-year period, making up even nine-tenths of the entire support in some years, as was the case in 2011.

The second most important group of measures are structural and rural development measures. Rural development policy in FBiH gained more importance both in terms of approach and the amount of incentives, with an increase in total allocated funds for this sector, which happened in 2007. The absence of program and strategic documents characterized rural development policy as noticeably inconsistent and incoherent with wide fluctuations of support amounts. For example, support to Pillar II in 2009 amounted to EUR 12 million, only about EUR 4 million in 2011, and EUR 18 million in 2012.

Finally, Pillar III and its general measures related to agriculture form the smallest part of the total sector support, and in the last years of the observed period they accounted for only 1–3 percent.

Similar positive tendencies in the agricultural budget were also present in RS. Total budgetary transfers for the agro-food sector of about EUR 5.0 million in 2002 had increased seven times by 2012 and reached EUR 35.8 million. The highest transfers were in 2009 when sector support amounted to EUR 41.2 million. Except in 2010, sector support mainly covered the Pillar I market and direct producer support measures, the share of which was 62 percent to 82 percent. Structural and rural development measures came second in the total agricultural policy in this BiH entity, with larger transfers beginning in 2006 and peaking in 2010, with EUR 20.3 million accounting for more than 50 percent of the total sector support.

Unlike FBiH, RS paid much more attention to Pillar III policy and general sector support, which had regularly accounted for more than 10 percent of the total budgetary support until 2011. This is probably one of the reasons why this BiH entity has better institutional capacities in this sector, including a very important field of knowledge transfer and the role of agricultural advice within it.

The Brčko District transferred considerably more budgetary funds to the agricultural sector in 2005 and since then until the end of the analysed period (2012), transfers ranged from EUR 2.3 million to EUR 3.5 million. On average, 90 percent of total funds were spent on the implementation of support within Pillar I, while the rest went on rural development measures. Except symbolic amounts in 2007 and 2008, the support within Pillar III did not exist.

Market and direct producer support measures

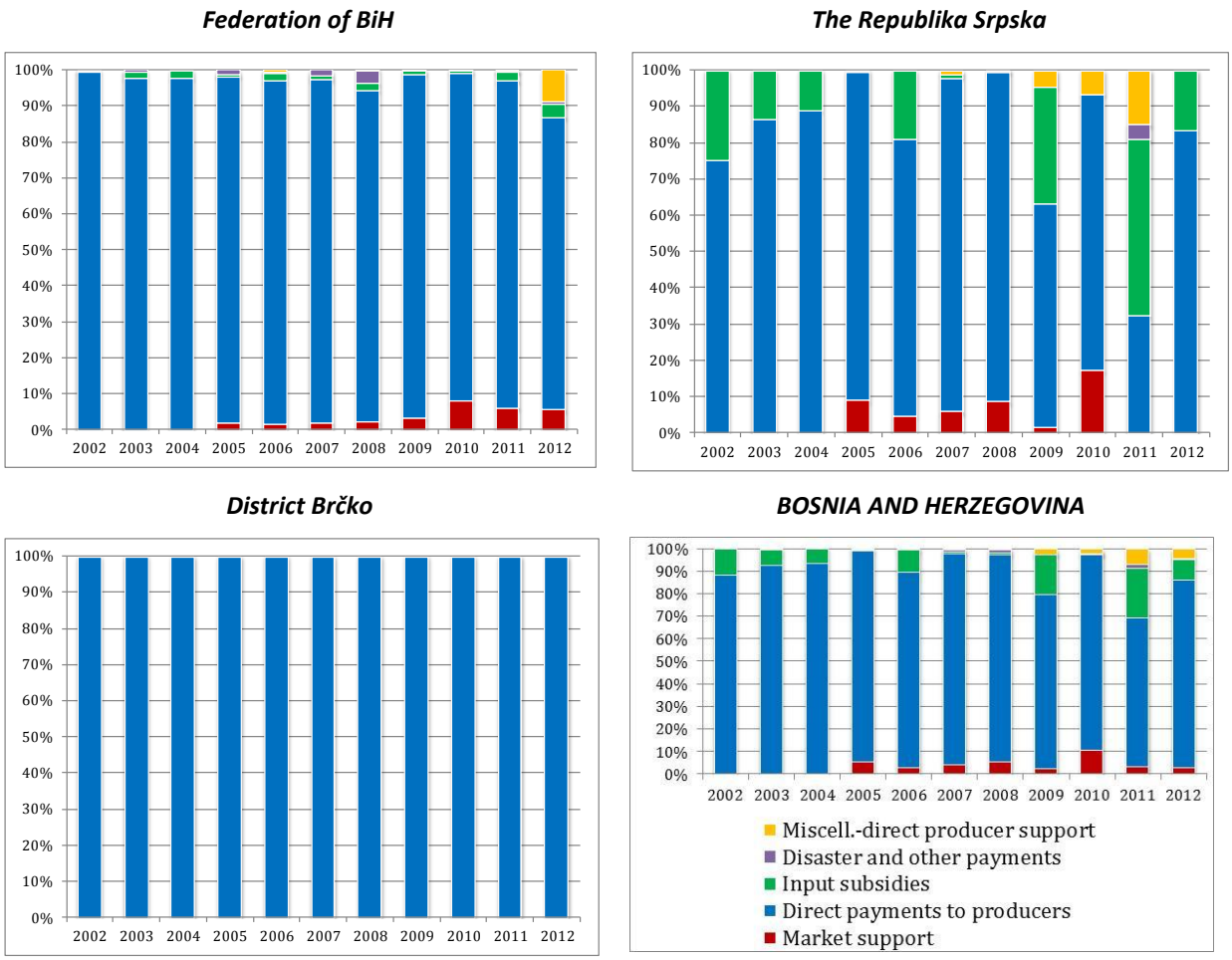
As already stated, the most important pillar of agricultural policy in BiH, both totally and on the entity/district level, is Pillar I with market and direct producer support measures.

Although certain funds are allocated for measures that can be classified as market support measures, an active and real mechanism of market policy in BiH and its entities has not been established. Among many reasons the most important is the lack of a single system of support to agriculture in BiH that would be implemented throughout the country. The group of the most important measures within the market price policy is within the competence of the national government (foreign trade policy), while other policy segments, such as intervention mechanisms, are at entity level. All measures from this group are *ad hoc* in nature rather than being system solutions that are strong enough to keep both the prices and market of agricultural products stable. The structure of other measures within this pillar differs depending on the entity.

In FBiH direct support to producers mostly pertained to direct payments and was the most popular support measure. This measure is concurrently the most sensitive one, and it was very often (in case of late payments and budget proposal procedure) the reason for dissatisfaction and social protest. During 2002–2012, an average of 68 percent of the total entity and cantonal agricultural budgets were allocated to this group of measures. In the first years of the observed period this support was dominant and mostly pertained to payments to milk producers. However, in recent years the relative share of

these funds decreased (43 percent in 2012). In absolute figures, direct payments to producers ranged from EUR 4.3 million in 2002 to EUR 20.4 million in 2012.

Figure B.II-5: Breakdown of market and direct producer support measures, 2002-2012, Bosnia and Herzegovina



Source: BiH APM database

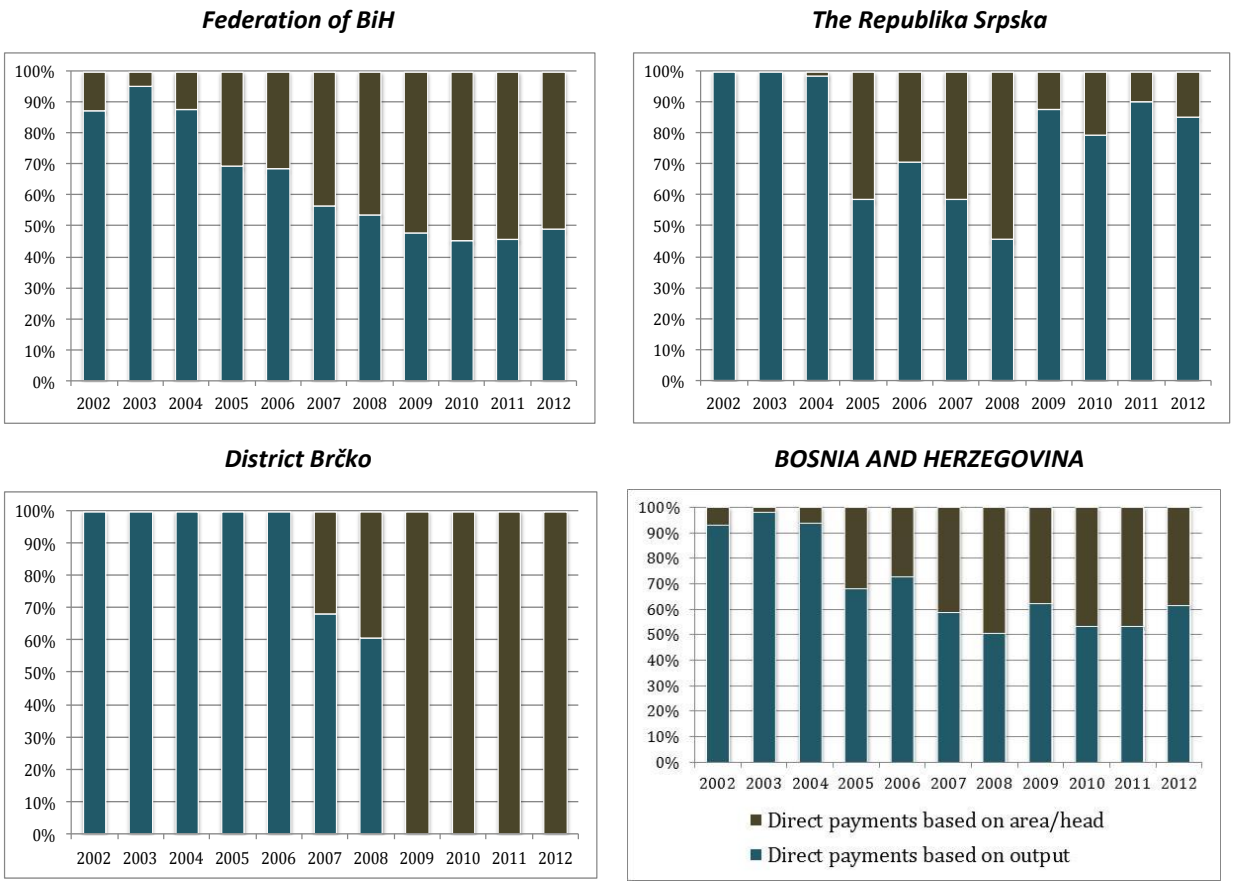
Unlike FBiH, support to variable inputs in RS has a significant share in direct support to producers, in addition to direct payments. This was particularly evident during 2009–2012 with the exception of 2010, when the share was one-third (2009) to one-half (2011) of the total funds allocated for Pillar I policy in this BiH entity[17]. In the Brčko District all support within this policy pillar has a form of direct payments to producers.

At the BiH level, in the structure of direct payments to producers, direct payments based on output prevail over payments based on current area/animal over the entire observed period. In this regard, there is a clearly different entity approach to this group of policy measures. Direct payments based on output in RS were the only direct payment to producers until 2005, when the payments based on current area/animal were introduced. The latter payments had a considerable share in this group of policy measures, including in 2008, but during 2009–2012 direct payments based on output became common again, accounting for an average 85 percent of all direct payments. Most of these payments were intended for milk producers who were mostly paid on the basis of quantities produced or bought

[17] As a result of insufficient budget, no funds were allocated for this type of support in 2010. But, as early as in 2011 the debts on this basis were paid, which caused that in 2011 the share of this support was much higher, reaching almost 50 percent of total allocations for Pillar I.

from them, and among other production types, support to the producers of arable crops, fruit and vegetables should be mentioned.

Figure B.II-6: Breakdown of direct payments to producers, 2002-2012, Bosnia and Herzegovina



Source: BiH APM database

A trend of a continuously increasing share of payments based on current area/animal in relation to payments based on output has been noticeable in FBiH. While payments based on output were essentially the only type of direct payments during 2002–2004, the structure changed during 2005–2012, and payments based on output have accounted for a smaller part of the total direct payments since 2009. Most of payments based on output were intended to support milk producers (premiums for milk production) and, in addition, transfers of premiums for wheat, tobacco, and some fruits and vegetables should be mentioned. In the last few years, support to fruit and vegetables has gradually shifted towards payments based on current area.

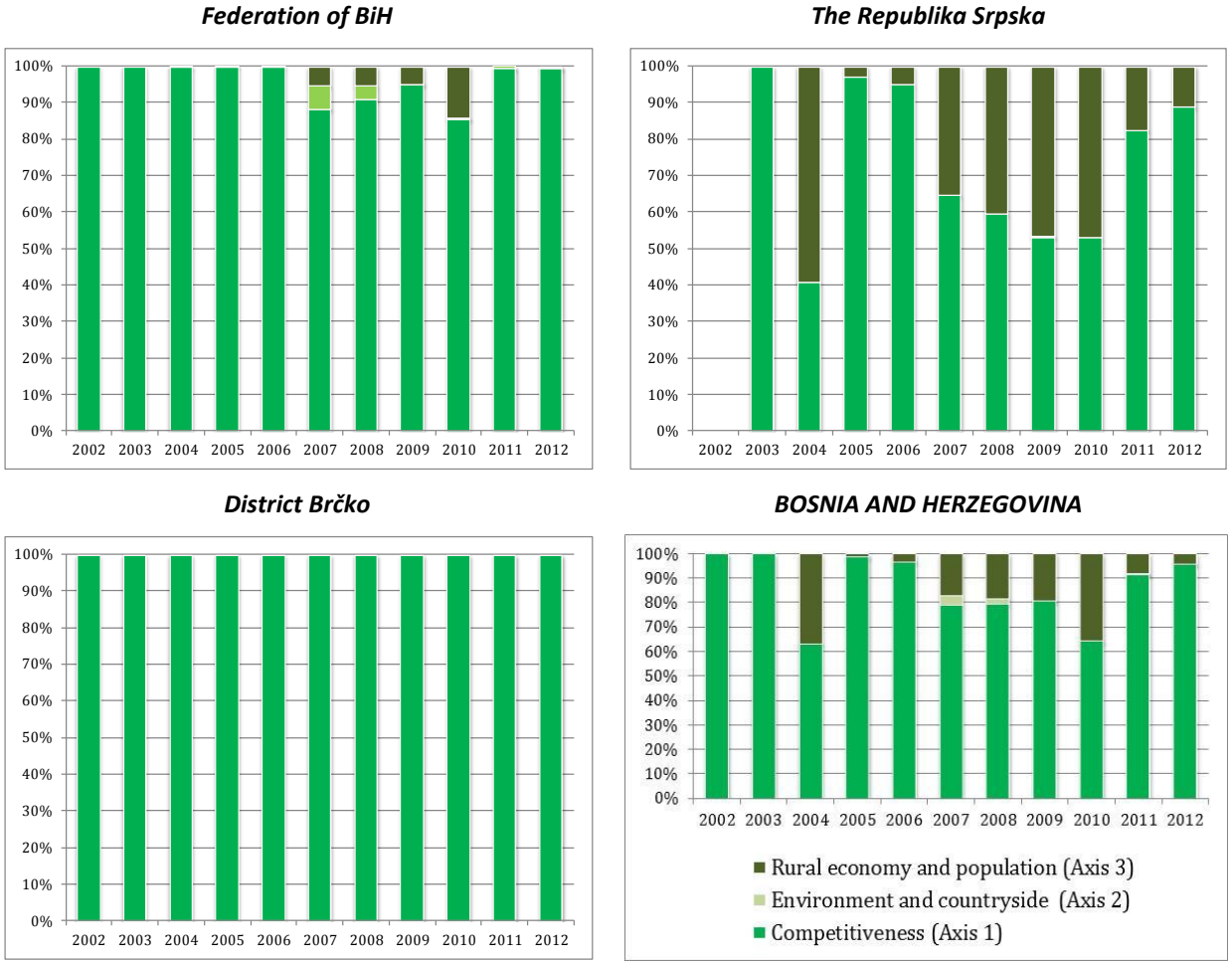
Although payments based on output still have a large share, it is encouraging that the payments based on current area/head have increased their share, because this is a measure toward the harmonization with the EU CAP and WTO. The support based on current area/animal is practically the first step in the transition of support policy toward the EU CAP. Although the first forms of such payments were recorded back in 2002, more significant and more considerable transfers began in 2007 and peaked in 2011 with EUR 15.9 million, which was 54 percent of total direct payments. This measure supports fattening of various livestock, poultry production, honey production, and some arable crops.

Direct payments to producers in the Brčko District can be distinctly divided into sub periods within the observed period. The period 2002–2006 was marked by payments based on output to producers only; the years 2007 and 2008 were transitional with gradual introduction of the payments based on current area/head, which has become the only form of support since 2009.

Structural and rural development measures

Policy differences by entities/district are particularly evident in case of structural and rural development measures.

Figure B.II-7: Breakdown of structural and rural development measures, 2002-2012, Bosnia and Herzegovina



Source: BiH APM database

Unlike RS and the Brčko District, rural development policy in FBiH is carried out without defined goals and a necessary strategic document that would program and harmonize rural development with actual needs. This is why FBiH adopts measures *ad hoc* and very often according to the views of the current government structures. The main characteristic of this policy is inconsistency, incoherency, non-transparency and the lack of funds.

The total allocated funds for the measures of rural development policy in FBiH had been modest until 2006. A considerable progress from both structural and financial points of view was made since 2007, with the largest amount of money allocated for rural development measures in 2012 – EUR 18.1 million, which was somewhat under one half (43.1 percent) of the total agricultural budget in FBiH.

The largest part of support within rural development was allocated to Axis 1 measures aimed at increasing the competitiveness of the agricultural sector, and in most of the observed years these were the only transfers for rural development. Most of these transfers supported investments in agricultural holdings, while other measures within this axis were less well represented. Measures supporting the preservation of the environment (Axis 2) and improvement of the rural economy (Axis 3) have not had

anywhere near the same treatment as Axis 1, and they are essentially symbolic. Taking into account the total agricultural budget and its structure on one hand, and the "financial" disturbances (such as the economic crisis 2009–2010) on the other hand, the agricultural policy makers in FBiH seem to have chosen measures directly related to production on account of rural development measures.

Despite the existence of strategic documents, rural development policy in RS cannot be qualified as consistent, transparent and well financially supported. Considerable fluctuations to allocated funds were noticeable year by year (2010 – EUR 20.3 million; 2011 – EUR 3.9 million) with the measures supporting the competitiveness (Axis 1) and improvement of the rural economy (Axis 3) being dominant, while support to environmental issues did not exist at all over the entire observed period. Support for improving competitiveness was implemented through on-farm investment support (the purchase of machinery, cattle, building construction, planting, greenhouses, glasshouses, etc.), while support for rural areas and population was granted mainly for the construction of rural infrastructure. According to Roković (2012), a general impression regarding rural development policy in RS is that a positive step forward has been made in terms of strategic allocation of funds, in more systematic and more numerous types of support measures, and in a considerably increased amount of allocated funds. On the other hand, the implemented reforms and numerous newly introduced measures required new mechanisms for policy implementation in the field and new management models, which essentially failed.

The Brčko District allocated modest funds for rural development measures and these only pertain to the improvement of competitiveness; i.e., the purchase of fixed assets for production.

General measures related to agriculture

The group of Pillar III policy measures – general support to agriculture – is not intended directly for agricultural producers but to establish a better business environment in agriculture. It includes various forms of inspections and monitoring, research and development, and promotion.

Modest funds were allocated for general support measures for agriculture in FBiH. Only in 2007 and 2008 they were somewhat more than EUR 2 million and accounted for 6.5 percent to 7.5 percent of the total agro-budget[18]. In recent years the transfers have been extremely low; both in 2011 and in 2012 the share was reduced to symbolic 1 percent. As for the support to this pillar, cantonal transfers are in fact more important in FBiH, because they fund inspection authorities that are competent for plant and animal health (veterinary policy), extension and advisory services, and farmer training in various fields.

RS paid more attention to this pillar of sector support, and until 2010 its share in total budget had constantly been over 10 percent. The share reduced as late as in 2011 and 2012 to 5.6 percent and 7.1 percent respectively. Most of the support was intended for food safety; i.e., veterinary policy and control of plant health, and for the measures supporting research and development; i.e., advisory services.

The Brčko District does not allocate funds for the group of measures in the field of general services.

4. Discussion and conclusions

Agro-food sector potentials provide realistic market opportunities that, unfortunately, have not been used for many reasons, including the following key ones: (i) unfavourable farm structure and lack of efficient mechanisms to speed up the restructuring process to increase economies of scale and scope; (ii) unsustainable management of natural resources, including underutilization of land (around 50 percent of arable land is out of operation) and water (less than 2 percent of land is irrigated), lack of land protection and systematic investment in land quality improvement; (iii) low modernization and

[18] Under the law, agricultural budget in FBIH does not envision funds for veterinary policy, which were about EUR 2 million in the last years of the observed period.

technological development/capacities (including low human resources competences) and strong dependence on import of almost all inputs, equipment and technology; (iv) poor market access and capability to adopt consumers' expectations (regarding diversity, quality and safety) due to low level of value chains integration and sophistication (according to Nikolić et al. (2014), their development is in incremental phase); (v) poor social capital and underdeveloped hard and soft infrastructure; (vi) under-investments and poor access to "fresh capital".

Therefore, the focus of all sector stakeholders and public policies should be on activities that will ensure better utilization of unused resources as well as better adaptation to climate change, including a more efficient form of insurance and technology change. This means that strengthening technology transfer and its future systematic development has to be one of policy priority, which includes a stronger role for science, but also NGOs. At the same time, development of well-structured integrated natural resources management – with land issues as the epicentre – is cornerstone the path towards sustainability in BiH agriculture, ensuring faster development at the same time. As better market access pulls up sector production, it is necessary to focus on underperforming or missing links in agro-business value chains, such as: input suppliers, cooperatives, post-harvest and distribution logistic, and organizations that facilitate quality and safety issues, integration and innovation improvement. Therefore, the majority of the sector needs to be able to meet the requests of the EU integration process. This means that properly managed, the EU integration process should be seen as a powerful tool for speeding up sector development. In light of this, the responsibility for sector development and the success of the EU integration process rests of all stakeholders including all businesses, NGOs and academic institutions.

BiH sector governance and policy has to be radically restructured in such a way as to follow the real needs of sector development and to form a flexible, sector-oriented agricultural administration on all levels able to help sector to become a productive part of the EU market. In that context decisive change has to be introduced. Therefore gaps within agricultural policy have to be identified and overcome. In addition to the established difference in the range and structure of measures, there are many other gaps between BiH/entity agricultural policy and the CAP, but there are also gaps between real sector needs and the focus of implemented agri-policy measure at all administrative levels.

The most important pillar of agricultural policy in BiH, both overall and at entity/district level, is Pillar I with market and direct producer support measures. Although payments based on output still have a large share, it is encouraging that payments based on current area/animal are increasing their share because this is recognised as a practically the first step in the transition of support policy toward the harmonization with the EU CAP and WTO. However, in addition to direct payments there is still support to variable inputs (in RS it has a significant share in direct support to producers).

In addition only 1–3 percent of agricultural funds are dedicated to general services, which necessitates a technology transfer and a decrease in sector capability to modernize and innovative this sector in the BiH economy. As for rural development and increasing competitiveness in the agricultural sector, there are clear needs for support to farm investments, but unfortunately this support is insufficient. Additionally, these insufficient funds are spent without enough transparency (lack of information is particularly present with small farmers) and sometimes under suspicious circumstances. Agro-environmental matters in BiH are not treated enough and they receive low budgetary support. An analysis of environmental legislation indicates the absence of numerous legal instruments, including the problem of non-compliance of the adopted legislation with the EU standards and regulations, and discrepancy between the laws passed at various government levels (Bajramović, 2014).

Besides the structure of agricultural policy, the approach to policy creation, implementation governance and evaluation has to be radically changed, but it also has to be programmed as well. Taking into account that BiH is unique and that actual agricultural policy is managed at entity level, in order to harmonize and coordinate efforts to support and facilitate sector development, it is necessary to prepare respective strategic and program documents to support the road to European integration

and adaptation of agricultural policy. Those documents should form an adequate, agreed and flexible framework necessary to introduce multiple-year planning of harmonized measures in terms of adaptation to EU accession requirements, and the strengthening of agriculture in the country in the pre-accession period. In addition, modern governance and a new approach to policy creation strengthens both the importance and role of analytical support, technology transfer and R&D infrastructure. Those areas are poorly developed.

The BiH legislative framework has to be radically restructured as the basis for establishment of a flexible and sector-oriented agricultural administration at all levels. The priority should be given to the development of a precise operational plan to incorporate the *Acquis*, adopting the missing laws, and the development of a plan to establish the missing institutions and mechanisms that are necessary for efficient sector management and support for its further development. This will be the way to overcome hindrances in the process of restructuring; i.e., EU approximation.

Sector development and the EU integration process are considerably limited by a poorly developed institutional framework. Firstly, a particular problem is poor development of elements of the IACS (Integrated Administration and Control System) at least at entity level. This means that land use identification system and other relevant data bases only partially exist or do not exist at all.

Also, marketing standards and food safety and quality system – as a basis for the implementation of market intervention measures in BiH – are not fully developed. Although BiH national institutions have adopted a considerable number of standards, still there are problems in establishing administrative and institutional structures that will be able to ensure compliance with the standards of product safety and quality, marketing, size and packaging, labelling rules, analyses and controls and monitoring.

Secondly, due to a lack of political will, the development of necessary national institutions for IPARD is in its incremental phase. Nationally, there is the Office for Harmonization and Coordination of Payment Systems in Agriculture, Food and Rural Development, whose current competencies are nearest to the role of the IPARD paying agency. Still, national, entity and district politics have not made a formal agreement about the establishment of an IPARD operative structure. It is known that the establishment of a paying agency, as the institution responsible for the implementation of CAP measures (including direct support, instruments of common market organizations and support to rural development) is regarded as the most demanding individual requirement for any EU candidate country to meet. The suspension of EUR 45 million from IPA funds, envisioned for BiH in 2013, is a clear warning that a quick response to this problem is needed.

Thirdly, there are also institutional problems in the field of the environment, particularly in human resources both in terms of their number and competency. Therefore, the sector's capability to address issues regarding the Nitrate Directive, animal welfare and climate change is low, implying a set of problems regarding "greening of agriculture", which is a strongly pronounced CAP request.

Fourthly, the functionality and efficiency of existing institutions are questionable due to outdated public governance, lack of competences and responsibility as well as lack of cooperation with expert and academic community. All these problems are rooted in a lack of a clear demarcation of power, role and responsibilities of different administrative levels, which considerably reduces the efficiency of executive and legislative authorities.

The identified institutional weaknesses the decrease ability to monitor and evaluate the transfer of agricultural and donor budgets, preventing faster sector restructuring and the ability to increase the level of use, protection and quality of natural resources as well as to ensure "sustainable modernization and intensification" as an adequate answer to climate change and development challenges. Therefore, stronger policy and administration toward EU integrations could give more significance to agriculture and enable it to develop more quickly. An important step would certainly be if politicians and the administration articulate a clear vision and understand the process. This step forward could be made very soon in FBiH. A draft mid-term development strategy for the agricultural sector in this BiH entity

for the period 2014–2018 exists, with approximation to the EU CAP as one of its strategic goals, including proposed mechanisms for action toward institutional strengthening and agricultural policy reform. A development strategy for agricultural sector in RS is under development, and according to preliminary information, one of the approaches in this document will include the EU and approximation to CAP.

The above analysis of agricultural policy 2002–2012 in BiH and its entities clearly indicates that both formal and essential implementation of the accession process and the adaptation of BiH agricultural policy to the CAP is still unsatisfactory. Agricultural policy in both BiH entities considerably differs from the EU model. In both BiH entities, direct payments per output unit account for a larger part of direct support to producers, whereas they essentially do not exist in the EU countries. Modest transfers for rural development measures almost completely pertain to investments in agricultural holdings, while environmental preservation measures, as a mandatory part of the CAP, practically do not exist in BiH.

Legal harmonization is gradually being introduced, but institutions are still under development. Deficits in institutional structure and in human resource management result from a weak motivation and the absence of political will in recent years, which have inevitably had consequences on the development of BIH as a country. In fact, agricultural policy in BiH does not exist; it is rather an aggregation of policies by entities and cantons without much coordination among them. This is unstable, very often depends on political orientation and more determination to serve to a "higher interest" than strategic goals. Incomparability of the policy is not a problem for itself but a fact that testifies about the populism and lack of strategy and vision in the politics (Bajramović et al., 2010). In order to come closer to the CAP and taking over its concept the necessary step is to establish a system of policy coordination among the entities and the district as soon as possible. In the current complex political situation in the country, making a common platform for action in the context of EU integration and approaching the CAP could be the first step.

We could expect that the current standstill in BiH relating to European integration processes will not mean elimination from the group of ex-Yugoslav republics on the road to the EU, which would result in a huge political, economic and social damage. Maybe the announced different approach of the EU to BiH is a sign that BiH still has the chance to become an EU candidate country in the near future and begin negotiation process, in which agricultural policy will take a very important place.

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Annex B.II-1: Area and production of main crops, 2005-2012, Bosnia and Herzegovina

	2005	2006	2007	2008	2009	2010	2011	2012
Area of production (1 000 ha)								
Total grain	321.0	318.0	318.0	321.0	310.0	293.0	303.0	304.0
- Wheat	81.4	73.3	74.0	64.4	67.8	54.6	58.4	60.7
- Corn/Maize	195.6	196.4	197.4	204.3	188.7	188.8	196.0	196.5
Oilseeds	6.3	7.9	7.2	5.3	4.7	4.7	4.7	5.6
Potatoes	41.4	40.8	41.3	40.4	36.7	36.2	37.1	36.8
Grapes (productive vines – mill.)	10.8	10.8	11.4	12.0	10.3	11.3	11.6	13.7
Fruit (productive trees – mill.)	18.0	17.7	19.1	19.8	20.7	21.6	22.1	22.7
Vegetables (total)	43.6	42.2	41.7	41.6	39.3	39.8	40.9	41.2
Other:								
- Tobacco	2.9	2.4	2.3	1.9	1.6	1.5	1.5	1.5
- Beans	9.5	9.5	9.3	9.3	9.5	9.0	9.3	9.0
- Fodder (maize, clover and lucernes)	103.6	107.9	107.5	108.1	97.0	99.5	100.8	98.4
Production (1 000 t)								
Total grain	1 358.0	1 354.5	1 000.6	1 374.7	1 342.8	1 077.1	1 077.4	868.1
- Wheat	249.0	232.5	257.1	240.5	255.8	145.4	210.0	225.1
- Corn/Maize	1,004.2	993.8	635.3	1,004.4	962.9	853.4	764.1	539.4
Oilseeds	13.6	16.7	12.2	10.7	10.2	9.2	8.3	7.3
Potatoes	458.6	472.9	387.2	428.6	413.7	378.7	412.7	299.9
Grapes (total)	23.3	21.5	21.2	23.9	25.6	23.2	21.6	25.9
Fruit (total)	193.3	210.8	249.5	235.3	303.0	301.0	312.5	203.8
Vegetables (total)	243.3	259.2	291.0	264.5	279.5	265.8	263.4	228.6
Other:								
- Tobacco	4.4	3.3	3.3	2.9	2.4	1.9	1.8	1.5
- Beans	13.5	13.1	10.4	12.9	14.9	12.6	11.9	9.4
- Fodder (maize, clover and lucernes)	752.0	777.9	528.9	689.5	743.1	689.7	658.6	555.3

Source: Agency for Statistics of BH, Federal Office of Statistics, Statistical Institute of the Republika Srpska, Statistical office of District Brčko

Annex B.II-2: Farm gate producer prices for certain agricultural products (in EUR/t), 2005-2012, Bosnia and Herzegovina

	2005	2006	2007	2008	2009	2010	2011	2012
Wheat	125.5	134.6	165.4	243.4	139.3	152.7	199.7	211.3
Corn/Maize	103.4	115.3	193.8	211.2	127.4	155.9	197.1	232.6
Rye	177.9	131.6	281.6	321.9	248.3	211.1	295.4	283.7
Barley	116.4	137.0	221.6	215.6	118.8	131.9	210.7	198.6
Soya bean	214.7	209.6	281.2	363.0	255.6	306.8	332.3	524.8
Potatoes	122.7	168.7	148.3	173.8	245.4	260.8	260.8	260.9
Pepper	281.2	250.5	260.8	301.7	363.0	357.9	260.8	267.6
Cabbage	143.2	97.1	143.2	107.4	138.0	225.0	194.3	188.0
Tomatoes	127.8	148.3	132.9	163.6	245.4	306.8	127.8	272.1
Apples	86.9	97.1	184.1	209.6	184.1	189.2	230.1	238.3
Plums	276.1	189.2	235.2	194.3	199.4	204.5	230.1	281.0
Beef (live weight)	1 733.3	1 477.6	1 186.2	1 595.2	1 651.5	1 329.4	1 830.4	2 126.2
Veal (live weight)	1 983.8	1 835.5	1 799.7	1 983.8	2 152.5	1 789.5	3 108.7	3 001.0
Fattening pigs for slaughter (live weight)	:	:	:	:	:	:	1 462.3	1 614.9
Lambs (live weight)	2 091.2	2 060.5	2 239.5	2 045.2	2 173.0	2 101.4	2 157.7	2 313.6
Eggs (1 000 pieces)	76.7	81.8	102.3	66.5	97.1	97.1	107.4	112.8
Cow's milk	256.1	251.2	271.5	333.1	282.0	261.1	278.0	287.7

Source: Agency for Statistics of BH, Federal Office of Statistics, Statistical Institute of the Republika Srpska, Statistical office of District Brčko

Chapter B.III

AGRICULTURE AND AGRICULTURAL POLICY IN CROATIA

Ornella Mikuš*

1. Introduction

Even though Croatia is a small country (56 594 km^2), it has very diverse topography; from Mediterranean, through Central European, mountainous and flat, to coastal and continental. It ranks as one of the top five European countries with regard to biodiversity, with some parts being among the richest areas of their kind in the world.

During the past two decades Croatia has faced important challenges: gaining independence, conflicts, and political and economic transition from a centrally-planned, socialist state to a market-oriented system focused on accession to the European Union (EU). Trying to combine the expectations of recently gained independence and the requirements of European integration, Croatian modernization processes have been merged with the attempts to keep its Central-European and Mediterranean identity and traditional values (Franić and Mikuš, 2013).

From 2000-2009, Croatia has experienced a period of high and sustained expansion in economic activity, with real GDP growing by an average of 4.4 percent. The main driver of economic expansion was domestic demand, which has grown at more than 6 percent per year. Unfortunately due to growing foreign debt and public spending, deindustrialization, reduced capital inflows, growth of negative trade balance, the global economic crisis and many political issues (corruption, unresolved political questions between Croatia and Serbia, Slovenia, Bosnia and Herzegovina), Croatia has been experiencing a deep economic crisis since 2008, which has resulted in a constant decrease in real GDP.

The process is followed by problems of limiting the development of the overall economy, especially agriculture and rural areas: inherited challenges related to agricultural land use and management in the context of privatization, land registers, the inheritance system, agricultural markets and taxation.

From the beginning of the process of Croatian accession to the EU at the end of the last century, the low level of development of Croatia's rural areas was strongly emphasized. This is primarily a consequence of specificity in historical development; the long socialist regime and centrally-planned economy neglected rural areas and family farms. It caused disorientation within the market economy and private initiatives after independence, and the stereotypes from the past were reflected in the legislative framework (Franić and Mikuš, 2013).

The accession process intensified discussion on these issues. Researchers in Croatia stress the need of agricultural structural adjustments based on production competitiveness for the part of vital, economically successful farms and regional approach in using natural resources in the most productive

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way (Franić et al., 2007; Tratnik et al., 2008; Radinović and Žutinić, 2007). With the purpose of maintaining and developing agricultural production within European competition, they put an emphasis on principles of sustainable development, food safety and environmental standards. Suggestions were in favour of production practices based on these principles and for agricultural policies to set priorities using the available resources, selection of models of support and policy measures according to regional requirements (Mikuš et al., 2010, Franić et al., 2011).

Harmonization with the Common Agricultural Policy (CAP) is still in process; big steps have been made in establishing new institutions in agriculture and preparing an adequate legislative framework. Although Croatia is now an EU member state, implementing CAP is causing many challenges. There is an ongoing public debate about low levels of self-sufficiency, low competitiveness and uncontrolled imports. Farmers still often expect the government to organize production and to guarantee purchase prices as it did under the socialist system.

Although Croatia embodies good examples of new Member States and neighbouring countries, especially those with similar economic and political histories (Slovenia in using agro-environmental funds, Poland in using pre-accession and EU cohesion funds in general, Serbian positive external agro-food trade balance), the main problem of defining the direction of the national economy and priorities in agricultural policy remains unresolved. The intention of this analysis is to show the main issues surrounding and reasons for delays in the process of Croatia adjusting to the EU, and the disorientation in creating (agricultural) policy goals and measures for their realization.

This paper presents the situation and trends in Croatian agriculture and agricultural policy in the context of the European integration process. The main data sources for the analysis of Croatian agriculture are Eurostat and the Croatian bureau of statistics (CBS). Quantitative analyses of agricultural policy were based on data on agricultural budget expenditures provided by the Croatian Ministry of Agriculture and the Paying Agency for Agriculture, Fisheries and Rural Development. These were entered into the Agri-Policy Measures template (APM), a tool for the uniform classification of agricultural policy measures (Rednak and al., 2013). The APM database for Croatia was compiled for 2006-2012.

In the first part of the report, the state-of-the-art of Croatian agriculture is analysed, indicating the role of agriculture in the economy, farm structure and land use characteristics, production structure, agricultural prices and agro-food trade within the EU-27 and Southeastern European countries (SEEs). The second part of the report explains the Croatian agricultural policy concept and frame and analyzes domestic agricultural policy budgetary transfers. In the last section the most important strengths, weaknesses, threats and opportunities of Croatian agriculture and agricultural policy are discussed.

2. Agriculture

2.1 The role of agriculture in the national economy

The agriculture, forestry and fishery sector play important economic role in Croatia. The Gross Value Added (GVA) of this sector increased from EUR 1 543 million in 2005, to EUR 2 035 million in 2008. Since then it has decreases to EUR 1 861 million in 2012. However, its share of GVA of all activities remained between 4.2 percent in 2007 and 5 percent in 2012, which is also an indicator that total GVA is stagnating or in decline. The share of agriculture in total employment is fluctuating, with a decreasing trend from 16.9 percent in 2005 to 13.7 percent in 2012.

Considering these indicators, Croatia is closer to the EU-12 average (4 percent and 12.9 percent, respectively in 2012), than to the SEE countries, where the contribution of agriculture to total GVA and employment is much higher (see Chapter A.II). However, agriculture has a significant impact on other economic activities, primarily the food processing industry and tourism, in addition to trade, energy, transport, the chemical industry and many others. How it relates to other sectors (from production to

processing, transport and marketing of agricultural products) has a multiplying effect, and the importance of agriculture for the Croatian economy is much higher than the data suggests.

2.2 Farm and production structure

Fragmented farm structure with small agricultural area per agricultural holding is a main characteristic of most of the new Member States, including Croatia. According to the Agricultural Census, in 2010 233 280 agricultural holdings utilized 1 316 010 hectares of agricultural land. The average size of Croatian farms is below the EU average. In 2010, the average farm in the EU-15 utilized 24.1 ha of agricultural land, while the average size of a Croatian farm was 5.6 ha. When compared with the average size of holdings in the new Member States (EU-12) – which was 7.1 ha in 2010 – the difference is less pronounced.

Croatia has highly fragmented and polarized farm structure, in which a few large farms prevail, while medium-sized farms, which form the backbone of agriculture and rural development are missing. This structure is a legacy of the country's socialist past (destruction of large agribusinesses and cooperatives) complicated by the tragic dislocations of war (UNDP, 2013). Farms smaller than 20 ha still dominate the overall structure of agricultural holdings; accounting for 95.3 percent overall. Only 1.4 percent of farms have more than 50 ha of land, but these 3 140 farms account for one third of the total utilized agricultural area (UAA).

Table B.III-1: The structure of agricultural holdings by size classes, 2010, Croatia

Size class (UAA per farm)	No of farms	UAA (ha)	Structure of farms (%)	Structure of UAA (%)
0 ha	230		0.1	
>0 - <2 ha	122 560	100 680	52.5	8.7
2 - <5 ha	55 430	177 470	23.8	13.5
5 - <10 ha	30 240	208 860	13.0	16.9
10 - <20 ha	13 880	188 580	5.9	14.3
20 - <30 ha	4 330	103 090	1.9	8.8
30 - <50 ha	3 470	132 300	1.5	10.1
50 - <100 ha	2 290	154 230	1.0	12.7
100 ha and more	850	250 790	0.4	19.1
Total	**233 280**	**1 316 000**	**100.0**	**100.0**

Source: EUROSTAT

The average economic size of the farm expressed by the standard output (SO) amounts to EUR 9 065 per farm. Most farms are classified in economic size class up to EUR 2 000 per farm (89 480 agricultural holdings or 38.3 percent). Overall, farm structure indicates a low level of investment potential, a low level of modernization and technical equipment, and poor energetic and environmental efficiency.

Agricultural land use is dominated by arable land, which covers 903 508 ha (67.9 percent UAA), followed by permanent meadows and pastures with 345 561 ha (26.0 percent) and permanent crops; namely, orchards, vineyards and olive groves with 79 000 ha (5.9 percent).

The agricultural output structure in Croatia favours crop production (62.5 percent). The prevalence of crop production indicates its relative importance in total agricultural production in terms of land use, food and fodder production (see Annex B.III-1). Grains and oil-crops represent the main agricultural commodities in Croatia. Regarding grain production, the dominant crops are maize (33.1 percent of total arable land) and wheat (20.7 percent), while the production of rye, barley and oats occupies a significantly smaller area. Croatia as a whole has very good conditions for grain production (in terms of soil fertility, climate benefits and tradition).

In the last five years, the area planted with oilseeds has been approximately 102 000 ha (12 percent of total arable land) on average. In the last decade, sugar beet has become one of the most important crops due to the improved market conditions and demand from the processing industry. Sugar beet was grown on 2.6 percent of the total arable land in 2012 (23 502 ha).

Vegetables are produced on 0.8 percent of total arable land, and potatoes on 1.1 percent. Fragmented production, selling directly to consumers through local green markets and own consumption all prevent accurate statistics on vegetable production and marketing from being compiled.

Croatia produces almost every type of fruit, from subtropical citrus fruit and olives, to drupes and soft fruits. According to statistical data, fruit plantations occupied approximately 30 000 ha or 2.3 percent of total UAA in 2012. Apples, plums, peaches, pears, sour cherries, walnuts, as well as olives and mandarins (Mediterranean fruits) are major crops. Problems arose as the ex-Yugoslavian priority towards fruit and vegetable production was directed outside Croatia (The former Yugoslav Republic of Macedonia, Serbia). These problems were later compounded by the shortage of more stimulating agricultural policy measures and a lack of organization on the market, which all led to Croatia importing significant quantities of all types of fruit.

Vineyards operating on fragmented land parcels are typical for Croatian viticulture. In the last few years, production of grapes and vines has decreased. Average annual wine production for the period 2008-2012 was 1 367 400 hectolitres (1 293 000 in 2012). In 2012, Croatia had 29 240 ha of vineyards (2.2 percent of UAA) or 10 percent less than in 2009. Grape production in 2012 amounted to 187 600 tons which is also 10 percent less than in 2009.

Livestock production, which contributes 37.5 percent of the agricultural output value in Croatia, is a particularly important sector, in which many producers are involved. The process of transition to a market economy, changes in the structure of agriculture, liberalization of the domestic market and war, with all its consequences, have strongly influenced Croatian agriculture, particularly livestock production. These conditions do not favour compliance with hygiene, animal welfare or environmental standards. Beef and milk accounts for the majority of output value in the livestock sub-sector, while pig meat production is the most important in terms of number of animals (see Annex B.III-3).

Average crop yields are comparable with yields in most EU countries, especially in terms of cereals (average 2010-2012 wheat yield: 4.9 tonnes/ha) and oilseeds (sunflower: 2.6 tonnes/ha) while average milk yield (4 252 kg/cow) is higher only than that in Bulgaria and Romania (see chapter A.II).

2.3 Agricultural prices

Agricultural producer price indices show significant oscillations during the 2005-2012 period with a notable growing trend. In 2007, and again in 2010-2012 a significant growth of prices in crop production is evident, while prices in the livestock sector increased in 2008 and again in 2011 and 2012. Prices in Croatia fluctuate in much the same way as on the EU market (see chapter A.II).

Table B.III-2: Agricultural output price indices – nominal, 2005-2012 (2005=100), Croatia

	2005	2006	2007	2008	2009	2010	2011	2012
Crop products	100.0	104.8	129.0	121.0	107.5	119.2	126.2	144.6
Animals and livestock products	100.0	96.1	94.7	102.6	99.4	94.6	103.2	120.9
TOTAL AGRICULTURE	**100.0**	**100.4**	**111.6**	**111.7**	**103.4**	**106.7**	**114.5**	**125.9**

Source: CBS

The absolute level of producer prices shows that Croatia has relatively low wheat and maize prices compared to other EU Member States, which indicating its market advantage. The livestock sector, especially dairy seems to be less price competitive (see Annex B.III-3 and Chapter A.II).

2.4 Agro-food trade

In 2012, the share of agro-food products in the total export of goods was 12.9 percent and in the total import of goods was 12.2 percent. Unfortunately, the agro-food trade balance is constantly negative with an agro-food export to import ratio of 62.9 percent in 2012.

Table B.III-3: Trade in food and agricultural products (in EUR million), 2005-2012, Croatia

	2005	2006	2007	2008	2009	2010	2011	2012
Export of agro-food products	740.0	949.1	960.4	955.5	975.1	1 022.2	1 121.2	1 239.9
- share in export of all products	10.4%	11.5%	10.7%	10.0%	13.0%	11.5%	11.7%	12.9%
Import of agro-food products	1 299.0	1 473.3	1 572.6	1 792.7	1 605.6	1 635.5	1 861.9	1 970.7
- share in import of all products	8.8%	8.7%	8.3%	8.5%	10.6%	10.8%	11.4%	12.2%
Trade balance in agro-food products	-559.0	-524.2	-612.2	-837.2	-630.5	-613.3	-740.8	-730.9
Export/Import ratio	57.0%	64.4%	61.1%	53.3%	60.7%	62.5%	60.2%	62.9%

Source: Croatian Chamber of Economy

About 30 percent of total Croatian agro-food exports go to EU Member States while more than 40 percent go to the SEE region. Croatia's main EU export markets are Italy, Slovenia and Hungary and its main EU import partners are Germany, Italy, Netherlands and Poland. Currently, Croatia's most successful agro-food export products are sugar and tobacco, both of which are profitable, and have grown strongly in recent years. Other higher-profile products, such as wine or olive oil, have a tiny share of the EU market. They can survive and even thrive on individual basis, but not on an industrial scale (UNDP, 2013).

Sugar and tobacco are pre-accession success stories in Croatia, but if they are to remain successful after accession, new approaches to production are necessary. EU membership brings significant challenges in the frame of sugar quotas (17-18 percent lower than in pre-accession period) and severe health policies regarding tobacco. As a sugar producing rival, Serbia should still enjoy the status that boosted the Croatian sugar industry in recent years.

Considering the already weak agro-food production and trade, other issues include the end of free trade within Central European Free Trade Agreement (CEFTA) and significant changes in subsidies (from coupled to decoupled payments). CEFTA members were the most important Croatian export markets, especially Bosnia and Herzegovina (30 percent of all Croatian agro-food exports). With the introduction of import tariffs, prices have gone up and the current share of Croatian agro-food products on the Bosnian market is endangered, leaving more space for Serbian exports. A similar phenomenon happened with Slovenia when it withdraw from CEFTA and joined the EU in 2004.

Many new Member States, especially Hungary and Slovenia experienced significant declines in some of their livestock farming activities (Slovenia in pig production) following accession, as farmers lost price support and suffered price declines. This new situation encouraged them to boost crop production with minimal investment (UNDP, 2013). There was already a decline in the number of pigs in Croatia in 2012 compared to 2011 (1 233 000 in 2011, 1 182 000 in 2012), as well as a decline in pig production.

3. Agricultural policy

3.1 Agricultural policy concept and frame

In the beginning of the 1990s, most Croatian agricultural policy measures were taken from the old Yugoslavian legislation with very general objectives: economic growth and progress through the supply of high quality food offered at acceptable prices and the export of products with comparative advantage; the concentration of family farms to a level which provides an adequate standard of living; providing necessary funds through credit, benefits in input procurement, implementation of new

technologies and information through advisory services; increasing investments in agriculture; protection from foreign competition; converting the ownership and management structure; development of market infrastructure and adaptation of institutional framework in accordance with market trends (Mikuš et al., 2010).

In the mid-1990s an adequate legal framework for governing the protection and allocation of resources and economic processes of privatization was created with the document Development Strategy of Croatian agriculture (1995). The first important acts, Law on agricultural land and the Law on agriculture came into force in 2001. They were the beginning of an initiative to regulate and harmonize domestic legislation in the sphere of agriculture and rural development to EU standards and principles (Franić, 2006).

Due to a growing awareness that the rural economy is more than just agriculture, the goals of future development were formally established through the Strategy of agriculture and fishery of the Republic of Croatia in 2002. These agricultural measures were no longer focused only on improving the agricultural activity (along with hunting, forestry and fishing), but extended to the entire rural area. In addition, a new emphasis was placed on food safety and organic farming as a special system of sustainable management and the possibilities this system provides (Franić and Žimbrek, 2003).

The Law on State Support in Agriculture, Fishery and Forestry introduced new models of support in 2002. The precondition for its implementation was introducing the Register of Agricultural Holdings as the administrative basis for managing agricultural finances. The intention was to make the support system in agriculture more simple and transparent, and to gradually bring agricultural policies into line with CAP. Besides the changed production support model (which consisted of price aid, coupled area payments in crop production and per head in livestock production), three new models of support were introduced; namely, income support, capital investment and rural development. The aim was to re-allocate funds in favour of these new models, with a partial decrease of production support. For the first time this law distinguishes commercial and non-commercial agricultural farms. The main driver in the process for introducing rural development policy was the preparation for, and implementation of SAPARD and later IPARD EU pre-accession support (Franić, 2006; Mikuš et al., 2010).

From 1999 until 2011 some regionally-based acts were adopted, trying to respect regional, local and territorial specificities (Franić, 2006). The Law on mountain areas determines the conditions for demographic renewal, economic growth and sustainable development. It also puts the priorities on measures for keeping the population in the zones with negative demographic trends and provides the framework for more sensitive resource use. The other specific act was the Law on areas of special state concern, which is directed towards the areas that were particularly damaged during the war, with the purpose of removing the war consequences and faster return of refugees and displaced persons. The Law on islands is also regionally sensitive, defining Croatian islands as natural treasures that require special public attention and protection. Due to this law, the government is obliged to support programs and activities for the sustainable development of islands. These acts can be understood as forerunners of actual regulations, since these issues are now under the scope of state support in agriculture and rural development legislation regarding less favoured areas.

Croatia is not the best example of how the policy reforms needed for EU accession have been adopted. Political decisions were often taken at the very late stage of negotiations and less well discussed and presented in the public. The main reforms for EU accession have been implemented with the adoption the Act on State Support in Agriculture and Rural Development in 2009 and 2010 and its three amendments coming quickly into force in the last three years, after the long hiatus of seven years. The intention of those acts was to change the previous structure of direct payments and to gradually introduce first, different area and per animal payments and in 2012 transform these payments into historical payments comparable with CAP Single Payment Scheme.

In 2012 payment entitlements by area were introduced and for the first time in Croatia these payments were decoupled from actual production. Still, for some sensitive sectors (dairy, tobacco, beef, sheep

and goats, sugar beet, extra virgin and virgin olive oil, breeding sows) coupled payments were remained or reformed.

The measures for rural development were defined by the EU and by national programs. Croatia implement support with national funds for farm insurance, support for keeping of indigenous and protected species, capital investment support, income support, support for organic and integrated production and support for less favoured areas in the form of top-up of existing direct payments. As Croatia is going through an economic recession and crisis of the national budget, direct payments were seriously delayed, which has a significant impact on the availability of funding and payment of rural development measures (Franić and Mikuš, 2013).

Engaged in the negotiation process and accelerating procedures of harmonization and reform of policies at the end of the integration process, government has been less successful in the explaining the policy reforms to users. A lot of energy, time and money were spent on maintaining social peace, often disrupted by demonstrations of farmers.

3.2 Agricultural policy budgetary transfers

Total budgetary support to agriculture

Total budgetary transfers to agriculture increased from EUR 387 million in 2006 to EUR 582 million in 2011; while in 2012 they declined to EUR 499 million due to a reduction in direct support to producers.

Table B.III-4: Total budgetary transfers to agriculture (in EUR million), 2006-2012, Croatia

	2006	2007	2008	2009	2010	2011	2012
Market and direct producer support measures	323.7	389.9	418.4	447.7	445.1	429.4	350.0
Structural and rural development measures	43.3	68.5	121.1	89.5	81.5	107.1	103.0
General measures related to agriculture	19.8	24.5	38.4	39.3	50.9	44.9	45.5
TOTAL	**386.7**	**482.8**	**578.0**	**576.5**	**577.5**	**581.5**	**498.5**

Source: Croatia APM database

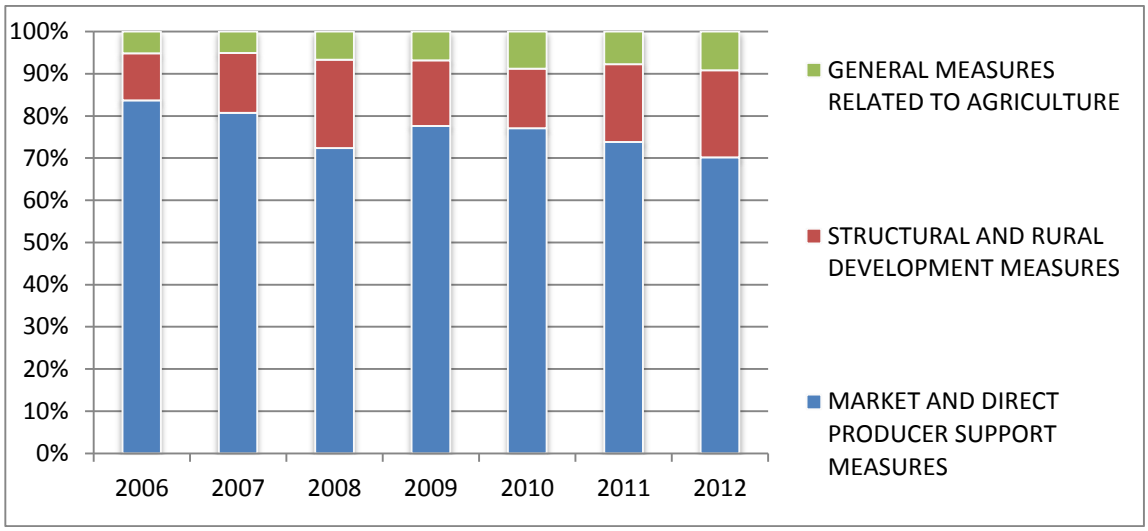
The highest share of the agricultural budget goes to market and direct producer support measures. In 2006 and 2007, these measures represented 80 percent of total support to agriculture. As Croatia progressed in the negotiation process and due to economic crisis, the total budgetary amount decreased and with it the share for market and direct producer support also decreased gradually to 70 percent in 2012.

The main reason for the high share of direct support to producers in the total agricultural budget lies in the strong interest pressures for high levels of support, mainly from larger producers. Large agricultural holdings mainly use this kind of support, rather than structural and rural development measures. In Croatia, in 2011, 15 percent of payments went to farms receiving more than EUR 500 000 per farm; just 1 percent of beneficiaries received 34 percent of all direct payments and 0.2 percent took 25 percent. Across the EU-27 only 3.5 percent of all payments go to the largest farms receiving over EUR 500 000 (UNDP, 2013).

Other reasons for high share of direct support in the total budget were more political economy driven, firstly supporting large business entities with great influence on political campaigns and employment rate and secondly buying social peace among agricultural population.

The share of structural and rural development support in the total agricultural budget increased from 11 percent in 2006 to 21 percent in 2012. The first significant increase in this regard can be noticed in 2007 and especially in 2008 when overall economic growth in Croatia was positive and high (5.1 percent in 2007) which provided certain assurance of regularity in budget transfers. The important share of the fund for rural development is based on EU pre-accession support.

Figure B.III-1: Breakdown of budgetary transfers to agriculture, 2006-2012, Croatia



Source: Croatia APM database

Support to general services related to agriculture represents the smallest although increasing share of the total budget, ranging from 5 percent in 2006 to 9 percent in 2012.

Market and direct producer support measures

Budgetary transfers for market and direct producer support measures increased from EUR 324 million in 2006 to EUR 429 million in 2011 and then declined to EUR 350 million in 2012.

Table B.III-5: Total budget transfers for market and direct producer support measures (in EUR million), 2006-2012, Croatia

	2006	2007	2008	2009	2010	2011	2012
Market support measures	2.9	6.4	16.8	32.8	7.1	11.8	12.1
Direct producer support measures	320.8	383.5	401.7	414.9	438.0	417.6	337.9
Direct payments to producers	272.7	297.0	330.1	355.6	389.9	367.4	291.0
Direct payments based on output (price aids)	83.7	91.3	94.6	98.1	115.5	82.7	24.3
Direct payments based on current area/animal	189.1	205.7	235.5	257.6	274.4	284.7	248.4
Decoupled direct payments	0.0	0.0	0.0	0.0	0.0	0.0	18.3
Variable input subsidies	46.3	48.5	67.0	59.2	48.1	49.9	46.9
Disaster payments and other compensations to producers	1.8	38.0	4.5	0.0	0.0	0.3	0.0
MARKET AND DIRECT PRODUCER SUPPORT MEASURES	**323.7**	**389.9**	**418.4**	**447.7**	**445.1**	**429.4**	**350.0**

Source: Croatia APM database

In 2012, Croatia reduced production related direct payments (price supplements, direct payments based on area or animal) and started to apply decoupled support with the aim of adjusting its policies to the CAP before accession. Still, direct payments based on current area or number of animals has the highest share in market and direct support measures (71 percent in 2012).

Structural and rural development measures

Budgetary transfers for structural and rural development measures started to increase after 2005, when the Ordinance on the implementation of the rural development program was introduced and promoted through local municipalities, brochures and websites.

The highest amount of subsidy transfers for structural and rural development policy belongs to measures aimed at improving the competitiveness of the agricultural sector. In the 2006-2011 period that share was about 95 percent. The most widespread measures were support for on-farm

investments (purchase of livestock, new machinery and equipment, construction, renovation, reconstruction of buildings, revitalization of perennial plantations), support for non-commercial farms and processing, storage and marketing support.

Table B.III-6: Total budget transfers for structural and rural development support measures (in EUR million), 2006-2012, Croatia

	2006	2007	2008	2009	2010	2011	2012
Improving the competitiveness of the agricultural sector	**41.4**	**63.3**	**104.7**	**84.4**	**77.7**	**103.8**	**82.6**
On farm investment support	24.8	30.2	45.4	35.4	42.7	75.1	49.6
Other on farm restructuring support (non-commercial farms)	11.7	9.7	18.0	17.1	22.1	17.5	14.8
Improving infrastructure related to agriculture (irrigation)	4.0	11.9	17.1	12.3	10.8	8.6	1.1
Food processing support, marketing and promotion	0.9	11.5	24.2	19.5	2.1	2.6	17.1
Improving the environment and the countryside	**1.9**	**2.8**	**3.5**	**3.5**	**3.4**	**3.3**	**20.1**
Payments to farmers in areas with handicaps (LFA)	0.0	0.0	0.0	0.0	0.0	0.0	8.3
Agro-environmental payments to farmers (AE)	1.9	2.8	3.5	3.5	3.4	3.3	11.8
Supporting rural economy and population	**0.0**	**2.4**	**12.9**	**1.6**	**0.4**	**0.0**	**0.3**
Support to on farm diversification	0.0	0.1	2.7	1.0	0.0	0.0	0.3
Rural infrastructure and village development	0.0	2.3	10.2	0.6	0.4	0.0	0.0
STRUCTURAL AND RURAL DEVELOPMENT MEASURES	**43.3**	**68.5**	**121.1**	**89.5**	**81.5**	**107.1**	**103.0**

Source: Croatia APM database

In 2012, the share of first axis measures decreased to 80 percent due to increased transfers to less favourable areas (LFA) and organic and integrated production. Nevertheless, production in LFA as well as organic farming have been given additional support since 2002 as a part of the production subsidy scheme, but accounting documents from the Agency do not enable the separation of payments to LFA or to organic production from regular payments. Additional payments envisaged for less favoured areas were 35 percent higher in viticulture, fruit growing and to a lesser degree in livestock farming. As a rule, subsidies for organic production were about 30 percent higher than subsidies for conventional production. From 2012 subsidies for organic production, integrated production and LFA are included in the second axis of rural development measures together with subsidies for the preservation of autochthon and protected animal and plant genetic resources.

General support measures related to agriculture

Financing of general measures and services related to agriculture increased from EUR 20 million in 2006 to EUR 46 million in 2012. The majority of funds for this policy pillar were earmarked to food safety measures, especially in the veterinary field.

Table B.III-7: Total budget transfers for general measures (in EUR million), 2006-2012, Croatia

	2006	2007	2008	2009	2010	2011	2012
Research, development, advisory and expert services	**8.5**	**9.3**	**12.2**	**11.7**	**11.6**	**8.4**	**9.3**
Research and development projects	0.6	0.4	0.7	0.4	0.2	0.2	0.4
Extension and advisory service	4.5	4.9	5.3	5.6	5.6	5.2	5.1
Infrastructure related to vocational training	0.0	0.3	0.5	0.3	0.0	0.0	0.0
Expert services	3.4	3.7	5.6	5.3	5.7	3.1	3.8
Food safety and quality control	**9.8**	**13.8**	**24.1**	**25.5**	**37.1**	**34.7**	**34.6**
Veterinary control	8.9	12.6	21.1	20.5	28.5	28.3	28.5
Plant health control	0.3	0.4	0.3	0.3	0.5	0.3	0.3
Quality control	0.6	0.8	2.8	4.7	8.1	6.2	5.8
Other general support measures	1.6	1.5	2.1	2.1	2.2	1.8	1.6
GENERAL MEASURES RELATED TO AGRICULTURE	**19.8**	**24.5**	**38.4**	**39.3**	**50.9**	**44.9**	**45.5**

Source: Croatia APM database

4. Discussion and conclusions

Croatian agriculture and agricultural policy is at a crossroads. With EU accession, it has the opportunity to benefit from increased funding, which is especially focused on the agricultural sector and rural economy in general. Moreover, a long period of preparation and learning from the experience of Member States which entered the EU in 2004 and 2007 should help Croatia to face challenges of membership. Still, Croatia entered the EU at the moment of global and national economic crisis with declining overall national economic growth, and weakened agricultural production. This has led to a situation where the agricultural sector was not sufficiently prepared for the stronger competition in the EU with increasing fear among farmers for the future and strong criticism of the government for failing to ensure proper preparation and implementation of the CAP measures which could mitigate the situation for farmers.

Data on Croatian agriculture shows that Croatian agro-food products in general are not competitive in international markets, although there are some products with lower prices and positive agro-food trade balance (soft wheat, corn, sugar, oilseeds, tobacco, meat preparations, fish, and beverages and vinegar). Reasons for the low competitiveness in the EU and international markets are mainly connected to high costs of production, unfavourable agricultural structure with a dominance of small scale farms with small economic size, lack of cooperation between farmers, poor risk management with high influence of climate conditions on production, weak physical market infrastructure (storage capacities, cold-storage installations). Another reason for low competitiveness are weak agro-food chains with many issues such as: collection and logistic of agricultural inputs for processing, non-compliance with payment deadlines, high purchase prices of raw materials and finished products, fluctuations in product quality, poor preparation of products for the market and insufficient investments in equipment and product promotion (Mesić, 2014).

Croatian agricultural policy absorbs an average of half a million Euros each year (2006-2012) for agricultural subsidies and administration, but is perceived in the public that did not succeed in meeting the challenges of new economic circumstances. Agricultural policy is not dealing sufficiently with the negative impacts of bimodal agricultural structure with large holdings on one side and many small farms on the other side which is an obstacle to competitiveness and growth. Positive restructuring of agriculture is missing and not guided with the policy instruments which could also hamper the future development of Croatian agriculture.

This analysis could serve as a good background to all the experts and decision makers to recognize the gaps in agricultural situation within EU and SEEs context. Creating APM database revealed that there are discrepancies between data from Ministry of agriculture and data from the Croatian Paying Agency, which is a strong argument for constant updating and double checking of actually paid subsidies. Such arranged database could show a clear picture of subsidies structure and help to improve communication of all stakeholders in the context of impact analysis and setting up priorities.

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Annex B.III-1: Area and production of main crops, 2005-2012, Croatia

	2005	2006	2007	2008	2009	2010	2011	2012
Area of production (1 000 ha)								
Total grain	557.2	570.1	558.6	562.5	562.7	529.4	529.4	586.1
- Wheat	146.3	176.0	175.0	156.5	180.4	168.5	149.8	186.9
- Corn/Maize	319.0	296.2	288.5	314.1	296.9	296.8	305.1	299.2
Oilseeds	119.8	109.0	82.1	98.0	102.0	102.7	110.0	97.5
Sugar beet	29.0	32.0	34.3	22.0	23.1	23.8	21.7	23.5
Potatoes	19.0	17.0	17.4	15.0	14.0	11.0	10.9	10.2
Grapes (total)	29.7	30.8	32.5	33.7	34.0	33.0	32.0	29.0
Fruits (production for market)	25.0	26.8	27.8	28.2	28.9	28.7	28.3	:
Olives	12.4	13.4	14.3	15.0	15.3	17.0	17.2	18.1
Vegetables (production for market)	8.9	10.0	11.0	11.4	11.0	6.6	7.4	7.4
Tobacco	5.1	4.9	6.0	5.9	6.1	4.1	5.9	6.0
Fodder	93.4	100.0	104.9	118.7	122.0	120.7	120.9	122.8
Production (1 000 t)								
Total grain	3 038.8	3 034.6	2 534.2	3 725.5	3 441.8	2 925	2 821.4	2 686.5
- Wheat	601.7	804.6	812.3	858.3	936.1	681.0	782.5	999.7
- Corn/Maize	2 206.7	1 934.5	1 424.6	2 504.9	2 182.5	2 067.8	1 733.7	1 297.6
Oilseeds	240.4	278.3	186.7	292.1	281.0	252.8	280.6	213.1
Sugar beet	1 337.8	1 559.7	1 582.6	1 269.5	1 217.0	1 249.2	1 168.0	919.2
Potatoes	273.4	274.5	296.3	255.6	270.3	178.6	167.5	151.3
Grapes (total)	181.0	179.4	198.0	185.3	206.4	207.7	204.4	187.6
Fruit (intensive production)	101.8	140.4	150.5	144.6	146.7	189.7	197.9	121.4
Olives	36.6	27.5	34.5	36.0	32.6	38.0	31.4	50.9
Vegetables (intensive production)	171.0	181.8	186.4	201.6	232.3	154.1	154.9	133.4
Tobacco	10.3	10.9	12.6	12.9	13.3	8.5	10.6	11.8

Annex B.III-2: Livestock numbers (in 1 000 animals), 2005-2012, Croatia

	2005	2006	2007	2008	2009	2010	2011	2012
Cattle	485	482	467	454	447	444	446	452
of which dairy cows	239	235	236	213	212	207	185	177
Pigs	1 205	1 230	1 348	1 104	1 250	1 231	1 233	1 182
Sheep and Goats	903	783	738	727	695	705	709	751
Poultry	10 640	10 045	10 053	10 015	10 787	9 470	9 523	10 161
Beehives	167	255	314	310	304	308	328	:

Annex B.III-3: Agricultural farm-gate producer prices (in EUR/t), 2005-2012, Croatia

	2005	2006	2007	2008	2009	2010	2011	2012
Common wheat	126.5	115.8	144.1	210.5	114.4	158.8	188.1	185.6
Corn/Maize	89.9	101.1	200.1	96.5	91.8	143.0	161.7	209.5
Sunflower	179.9	187.9	379.3	315.2	214.0	340.4	341.0	450.5
Soya bean	210.0	209.7	330.6	355.6	276.6	314.7	327.6	470.2
Sugar beet	34.0	33.7	32.0	32.8	34.9	29.6	39.8	39.3
Potatoes (main crop)	154.1	191.2	191.1	200.7	168.9	194.9	217.9	158.3
Pepper (capsicum)	477.0	651.4	663.8	783.6	696.2	823.5	581.1	738.3
Tomatoes	525.7	637.7	569.8	650.7	686.7	879.7	563.6	798.2
Young cattle (live weight)	1 888.7	1 725.2	1 735.3	1 933.5	1 914.2	1 733.4	1 950.4	2 038.0
Pigs (light) (live weight)	1 424.3	1 341.0	1 190.0	1 326.3	1 407.4	1 196.8	1 252.3	1 392.8
Suckling lambs (live weight)	4 032.6	4 715.6	4 562.1	4 774.2	4 498.6	3 910.1	4 167.2	4 376.5
Chickens (live; 1st choice)	1 088.2	1 081.6	1 004.1	1 045.7	995.9	993.7	1 015.6	1 017.6
Eggs (1 000 pieces)	90.9	85.7	90.0	101.1	89.9	89.2	91.5	98.4
Cow's milk	270.1	265.5	276.8	330.8	277.8	302.5	357.5	329.9

Source: CBS

Chapter B.IV

AGRICULTURE AND AGRICULTURAL POLICY IN KOSOVO*[1]

Iliriana Miftari*, Halit Hoxhaj**

1. Introduction

A long-term objective of the Kosovo* Government is integration to the EU. In 2010, Kosovo* established the Ministry of European Integration (MEI), which plays a key role in coordinating and implementing reforms for EU accession. After the European Commission appraised that Kosovo* had met the short-term priorities identified in the Feasibility study conducted in 2012, in June 2013, the EU Council announced plans to open negotiations on a Stabilisation and Association Agreement (SAA). The SAA represents the first comprehensive contractual relationship between Kosovo* and the EU in the integration process.

During the implementation of the agreement the EU and Kosovo* will steadily establish bilateral free trade area for free movement of goods, services and capital. Efforts will be made to align the country's legislation with the EU. It contains rules on competition, public procurement, property rights, consumer protection and working conditions. In recent years Kosovo* has made good progress on the path to EU integration. Kosovo* is a beneficiary of the European Instrument for Pre-Accession-Assistance (IPA) and receives assistance under component I (Transition Assistance and Institution Building) and II (Cross Border Cooperation).

The objective of the paper is to present the situation and recent developments of the agricultural sector in Kosovo* with the focus on agricultural policy and draw recommendations in the context of the EU integration process.

The analysis of the agriculture sector has been done using official statistical data published by the Kosovo Agency of Statistics (KAS), statistical data provided by the Department of Economic Analysis and Agricultural Statistics within the Ministry of Agriculture Forestry and Rural Development (MAFRD). For the needs of agricultural policy analysis a comprehensive agricultural policy measures (APM) database has been created using a common APM template (Rednak & Volk, 2010). The APM database for Kosovo* covers 2007-2012 period.

[1] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

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The paper is structured as follows: after the introduction, the agricultural profile and its main characteristics such as cultivated area, production, prices and trade is presented. In the third part an overview of the agricultural policy concept, frame and total budgetary transfers with a breakdown by groups of measures is given. The final part sums up conclusions on the main facts observed and draws recommendations on the agricultural policy reforms needed for the EU integration process.

2. Agriculture profile

2.1 The role of agriculture in the economy

Kosovo* is a small country with total area of 10 908 km^2, which is only 0.2 percent of the EU area. According to the latest census conducted in 2012, the country's total population is 1 815 606. The population density is 177.4 inhabitants per km^2. The majority of the Kosovo's population (61 percent) live in rural areas. In 2012, the real Gross Domestic Product (GDP) growth was 2.5 percent and GDP per capita EUR 2 721. The inflation rate in 2012 was 2.5 percent. Even though unemployment rate shows a significant decrease in 2012, it remains a serious problem for the country's economy. The unemployment rate in 2012 was 30.9 percent.

Agriculture in Kosovo* has historically been an important sector for the national economy. The average share of agriculture, forestry, hunting and fishery sectors in gross value added (GVA) is about 17 percent (2011). Kosovo*'s agricultural sector also provides a social safety net for a large number of rural households.

The rural economy in Kosovo* is still characterized by poor infrastructure (although some improvements have been seen in recent years), improper land use, limited land consolidation, and incomplete social land privatization with unclear property and land use rights (MAFRD, 2013a).

2.2 Land resources and farm structure

According to the latest statistics, there is a total of 357 748 ha agricultural land in Kosovo*, of which 253 563 ha (71 percent) is arable land, 7 071 ha (2 percent) is land under permanent crops (orchards and vineyards), and 97 114 ha (27 percent) is land under permanent grasslands (meadows and pastures).

In 2012, 277 364 ha of agricultural land was used by 185 765 farms, of which 185 424 (99 percent) are small farms (MAFRD, 2013a). The agricultural sector has an unfavourable farm structure, with an average utilized agricultural area (UAA) per holding of 1.5 ha, fragmented into seven plots.

Table B.IV-1: Farm structure by size classes, 2012, Kosovo*

Farm size	Number of farms	% of farms	Area (ha)	% of area
0.01 – 0.5 ha	45 818	24.7	13 300	4.8
0.51 – 1.0 ha	51 665	27.8	39 385	14.2
1.01 - 1.5 ha	35 589	19.2	43 772	15.8
1.51 - 2.0 ha	15 719	8.5	27 830	10.0
2.01 – 3.0 ha	19 995	10.8	49 340	17.8
3.01 – 4.0 ha	5 777	3.1	20 009	7.2
4.01 – 5.0 ha	3 748	2.0	16 646	6.0
5.01 – 6.0 ha	2 317	1.2	12 622	4.6
6.01 – 8.0 ha	2 582	1.4	17 847	6.4
8.01 – 10 ha	1 007	0.5	8 972	3.2
> 10 ha	1 547	0.8	27 641	10.0
Total	**185 765**	**100.0**	**277 364**	**100.0**

Source: MAFRD, 2013a

The average family farm cultivates seven different types of crops. Crop diversification is a common strategy used by family farms to minimize the risks associated with crop failure, thus stabilizing family income for survival.

2.3 Agricultural output

In general, in the 2005-2012 period total agricultural output was relatively stable, with an average value of EUR 576 million. The contribution of crop output to the total value of agricultural output was higher (54 percent on average) compared than livestock output (46 percent).

The most important crops in Kosovo* are cereals, predominantly wheat and maize (Annex B.IV-1). In 2012, cereals were cultivated on 137 214 ha, out of which 75 percent belonged to wheat and 23 percent to maize. Considerable cropland is allocated to vegetables (8 405 ha). The most important vegetables cultivated are tomatoes, peppers, cucumbers, water melons, pumpkins, cabbages, and onions. In 2012, the total area under fruits was 3 852 ha and the most important fruits in terms of area were apples, plums, sour cherries, strawberries, and pears. Grapes are produced on 3 219 ha, potatoes on 3 198 ha, and beans on 2 954 ha.

Increasing the productivity and competitiveness of agricultural production is a long term policy objective in Kosovo*. However, average yields remain low compared with the EU (see Chapter A.II).

In terms of livestock production, cattle, as well as sheep and goats are the most important sub-sectors (Annex B.IV-2). Compared to other livestock, the total number of sheep and goats showed a significant increase between 2006 and 2012. The poultry sector is characterized by small and medium–scale production units, mainly oriented towards egg production whereas the production of chicken meat is in the consolidation stage. Considering the suitable environmental conditions, honey and other beekeeping products are considered products with good potential for production and export.

2.4 Agricultural prices

In general, agricultural output prices showed a significant increase during the 2005-2012 period with quite big fluctuations. Compared to crop products, the prices for livestock products have increased more evenly.

In the same period, agricultural input prices increased as well, with the growth rate being higher than that of the agricultural output prices.

Table B.IV-2: Agricultural output and input price indices - nominal, 2005-2012 (2005=100), Kosovo*

	2005	2006	2007	2008	2009	2010	2011	2012
Agricultural output prices	100.0	107.0	118.1	124.6	112.6	109.2	114.5	126.1
- Crop products	100.0	109.5	125.8	128.9	112.3	108.3	112.6	125.5
- Animals and livestock products	100.0	101.7	102.4	115.6	113.3	111.1	118.5	127.3
Agricultural input prices	100.0	102.2	111.1	137.3	125.4	120.0	134.5	141.9

Source: KAS

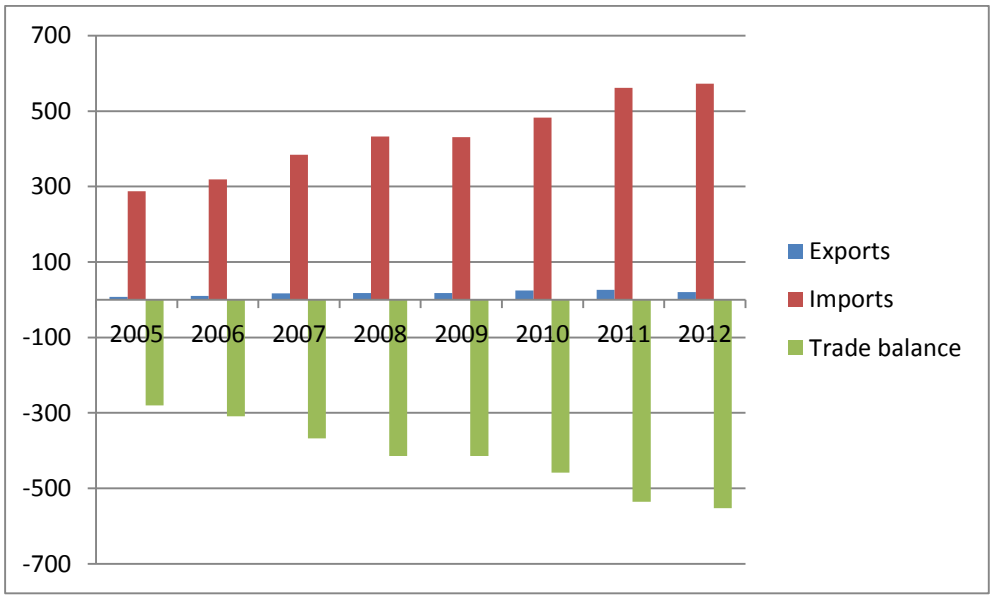
On average, agricultural output prices are significantly higher in Kosovo* than in the EU (see Annex B.IV-2 and Chapter A.II). This is an indicator that Kosovo* is still confronting weak price competitiveness.

2.5 Agricultural trade

In July 2007 Kosovo* became a member of the Central European Free Trade Agreement (CEFTA), which is based on the concept of free trade between the countries aiming to become EU member states. For several years Kosovo* has been facing negative agro-food trade balance. Trade is dominated by imports and significantly lower level of exports resulting in a high commercial deficit, which is still increasing.

The share of agro-food exports in total exports of goods has continuously decreased from 2005 to 2012 and it reached 7.5 percent in 2012. The share of agro-food imports in total imports of goods amounted at 22.8 percent in 2012, which is considerably higher than the share of exports. Free trade has been shown to heighten the negative trade balance of total international trade in goods as well as of trade in agro-food products.

Figure B.IV-1: Trade in food and agricultural products (EUR million), 2005-2012, Kosovo*



Source: MAFRD

The import value of agro-food products in 2012 amounted at EUR 572.7 million and the export value at EUR 20.6 million. About 50 percent of the import value of agro-food products is captured by tobacco (Custom Tariff 24), beverages, spirits and vinegar (CT 22), meat and edible meat offal (CT 2), preparation of cereals (CT 19) and cereals (CT 10) and dairy products (CT 4). The most important agro-food export commodity groups are beverages, spirits and vinegar (CT 22), products of the milling industry (CT 11), edible vegetables (CT 7) and preparation of vegetables, fruits and nuts (CT 20) which together account for almost 80 percent of total agro-food exports.

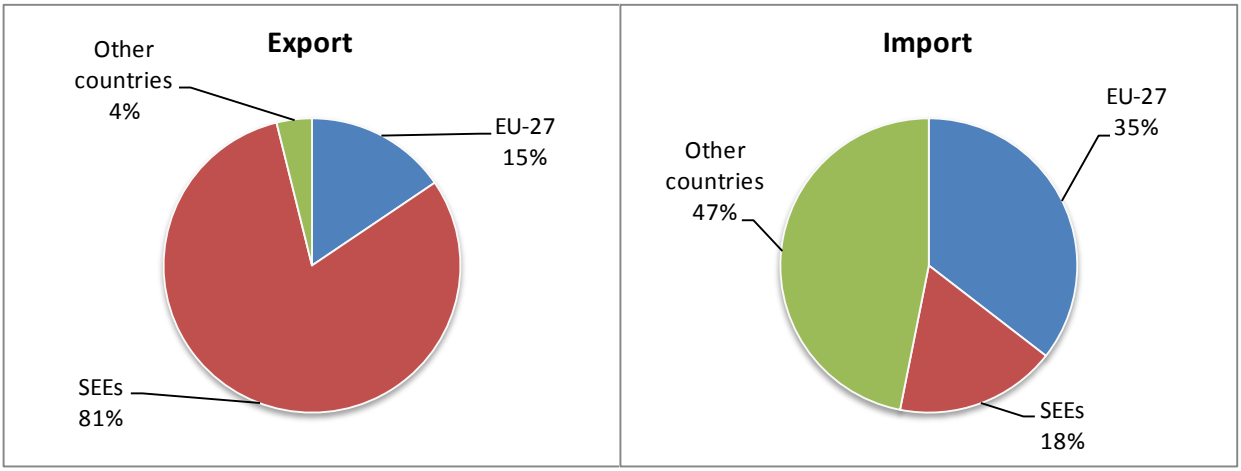
Table B.IV-3: Main agro-food import/export commodity groups, 2012, Kosovo*

Imports			Exports		
Commodity group	**EUR mill**	**Share**	**Commodity group**	**EUR mill**	**Share**
Tobacco	59.5	10.3%	Beverages, spirits and vinegar	7.1	34.4%
Beverages, spirits, vinegar	57.5	10.0%	Products of the milling industry, malt, starches	5.4	26.3%
Meat and edible meat	52.2	9.1%	Edible vegetables, plants, roots, tubers	1.8	8.8%
Preparations of cereals	44.9	7.8%	Preparations of vegetables, fruit or nuts	1.7	8.5%
Cereals	38.7	6.8%			
Dairy products, eggs, honey	37.7	6.6%			

Source: KAS

In 2012, the main export partners for Kosovo* within the EU were Germany, Italy and Slovenia. Among Southeastern European countries (SEEs) Kosovo* mainly exports agro-food products to Albania and The former Yugoslav Republic of Macedonia and to a smaller extent also to Serbia and Croatia. With regard to imports of agro-food products from the EU, again Germany, Slovenia, Italy and Bulgaria are the main partners, accounting for more than 60 percent of all agro-food imports. Among SEE countries, Kosovo* imports agro-food products mainly from The former Yugoslav Republic of Macedonia, Croatia and Bosnia and Herzegovina.

Figure B.IV-2: Breakdown of agro-food exports and imports by group of countries, 2012, Kosovo*



Source: KAS

3. Agricultural policy overview

3.1 Country agricultural policy concept and frame

The Ministry of Agriculture Forestry and Rural Development (MAFRD) is the responsible authority for developing and implementing agricultural policy and legislation at national level. The first compiled strategic document for agriculture in Kosovo* was the Green Book entitled "Sustainable Agriculture and Rural Development in Kosovo*", which was published in 2003 and consisted of a medium-term strategy for sector development and agricultural policy. In order to establish the legal framework for agriculture and rural development, in 2009 the Assembly of the Republic of Kosovo* adopted the Law on agriculture and rural development. Within this Law, objectives, measures and programs for agriculture and rural development policy are determined.

The First Agriculture and Rural Development Programme (ARDP) was approved by the Kosovo* Assembly in 2007 for the period 2007-2013 which was later updated for the period 2009-2013. Considering an extended scope of the ARDP in terms of the inclusion of the direct payments and the provision to pursue the complex targets in the agricultural sector and sustainable rural development, the MAFRD supported by a twining project conducted the second update of the ARDP for the period 2010-2013. Many key actors (competent national authority of the MAFRD, local economic/social partners, municipalities, businesses, civil society, European Commission, donors) were involved in the preparation of this policy document.

The vision for agriculture and rural development in Kosovo* is to "make a balanced contribution to the economic, environmental, social and cultural well-being of rural areas, and Kosovo* as a whole, through effective and profitable partnerships between the private sector, central/local government and local communities within the European context" (MAFRD, 2010). The stated vision of the ARDP 2007-2013 was set out in the following main objectives:

- Additional income for farmers and rural dwellers, leading to improved living standards and working conditions in rural areas;
- Improved competitiveness and efficiency of primary agricultural production, in order to achieve import substitution and take advantage of export markets;
- Improved processing and marketing of agricultural and forestry products, through increased efficiency and competitiveness;
- Improved on-farm/in-factory quality and hygiene standards;

- Sustainable rural development and improved quality of life (including infrastructure) through promotion of farming and other economic activities that are in harmony with the environment;
- Creation of employment opportunities in rural areas, particularly through rural diversification;
- Alignment of Kosovo*'s agriculture with that of the EU (MAFRD, 2010).

In order to make these objectives achievable, specific measures were identified under which policy, financial, legal, administrative and human resources were concentrated. The identified policy measures targeting ARDP objectives are direct producer support measures and rural development support measures. The first pillar covers direct payments (for sheep and goat sector, dairy sector, crop sector, payments for beehives) and support for fuel for harvesting. The second pillar consists of eight rural development measures grouped in four axes presented below.

Table B.IV-4: Rural development measures in Kosovo* in the period 2007-2013

Axis	Measure
I. Competitiveness	M1. Development of vocational training to meet rural needs M2. Restructuring physical potential in the agro-rural sector M3. Managing water resources for agriculture M4. Improving the processing and marketing of agricultural products
II. Environmental and improved land use	M5. Improving natural resource management
III. Rural diversification and quality of rural life	M6. Farm diversification and alternative activities in rural areas M7. Improvement of rural infrastructure and maintenance of rural heritage
IV. Community-based local development strategies	M8: Support for local community development strategies

In accordance with the Law on Agriculture and Rural Development, MAFRD has established relevant institutions such as Monitoring Committee, Managing Authority and Paying Unit responsible for ARDP 2007-2013 implementation. Supported by the twining project, MAFRD prepared manuals on rules and procedures on the functional structure of the Monitoring Committee and Managing Authority, as well as a manual on monitoring and evaluation, organization chart and strategy for further development of the Paying Unit. In 2012, the Paying Unit was upgraded into the Paying Department which has now been transformed into the Paying Agency in full compliance with the Instrument for Pre-Accession Assistance for Rural Development (IPARD) rules and procedures. The main duty of the Paying Department is execution of the support schemes drafted by the Managing Authority and funded by Kosovo*'s Government, bilateral and multilateral funds, the EU and other donors. The key implementation document of the stated measures in ARDP 2007-2013 was the Annual national program for agriculture and rural development. The program was supported by an extensive information campaign, aimed at increasing farmers' awareness and promoting measures under the implementation.

The key implementation and monitoring documents of the ARDP are the annual report on Farm Accounting Data Network (FADN), and annual monitoring and implementation reports prepared by MAFRD respectively by the Division for Monitoring and Evaluation and the Paying Agency. In September 2012, MAFRD in cooperation with Kastner International and the Austrian Federal Institute of Agricultural Economics on behalf of the EU twining project, elaborated a Mid-Term-Evaluation (MTE) on the implementing the ARDP. The MTE assesses all implemented measures of the ARDP during the period 2007-2011. Based on the results and recommendations drawn by the MTE as well as through an intensive discourse with socio-economic partners, local action groups, agricultural producers and other organizations, MAFRD, supported by the EU twining project, prepared the first draft strategy for ARDP 2014-2020. On 23 May 2013 the draft strategy was presented to the Steering Committee and later (3 June 2013) to all interested partners. The conferences that were organized offered valuable

opportunities to engage a vast array of stakeholders and interest groups in the discussions and contribution to the agricultural policy debate and planning of the strategy for ARDP 2014-2020.

The Rural Development Policy of Kosovo* 2014-2020 will be oriented according to the new strategic directions of the EU Rural Development policy, by taking into consideration the experiences obtained during the ARDP 2007-2013 implementation as well as Country Strategic Paper Kosovo* (September 2013). The stated objectives of the ARDP 2014-2020 were closely based on the IPA II strategic policy objectives but also focusing and reflecting country strategic objectives for the development and specific needs of Kosovo*'s agro-food sector, forestry and rural areas.

Kosovo*'s Rural Development program 2014-2020 focuses on the following six priorities:

1. Fostering knowledge transfer in innovation in agriculture, forestry and rural areas;
2. Enhancing competitiveness in all types of agriculture and enhancing farm viability;
3. Promoting food chain organization and risk management in agriculture;
4. Restoring, preserving and enhancing ecosystems dependant on agriculture and forestry;
5. Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in the agriculture, food and forestry sectors;
6. Promoting social inclusion, poverty reduction and economic development in rural areas (MAFRD, 2013b).

The overall objectives of the ARDP 2014-2020 were defined as follows: "(i) to develop a competitive and innovation-based agro-food sector with an increased production and productivity capable of producing high quality products and meeting the EU market standards, contributing to the security and safety of the food supply, pursuing economic, social and environmental goals by fostering employment and developing human and physical capital; (ii) to protect natural resources and environment in rural areas, addressing the challenges of climate change by achieving sustainable and efficient land use and forestry management and by introducing agricultural production methods which preserve the environment; (iii) to improve the quality of life and diversify job opportunities in rural areas by fostering employment, social inclusion and balanced territorial development of those areas (MAFRD, 2013b).

The strategic objectives of the ARDP 2014-2020 will be achieved through implementation of the Rural Development priorities and measures under IPA II and the National support measures addressing income, land use and irrigation infrastructure financed by national budget and donors initiatives. The table below presents the selected measures which will be implemented in Kosovo*, categorized under the four priorities of EU IPA II for rural development. Out of nine selected measures, more than 60 percent of the ARDP resources will be allocated to the measures under the first priority (enhancing farm viability and competitiveness). Budget concentration into this priority was based on analysis of strengths, weaknesses, opportunities, and threats (SWOT) of the Kosovo*'s agriculture and food processing sector.

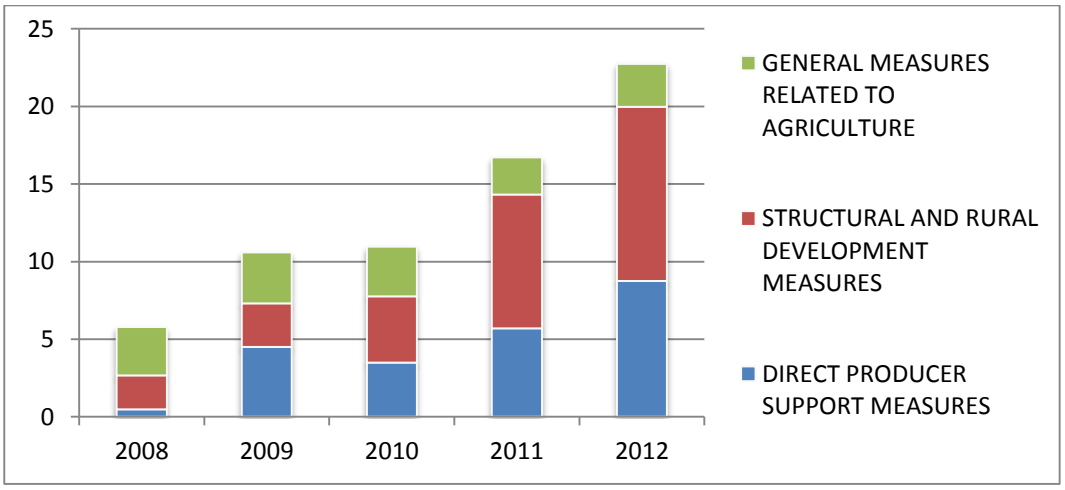
Table B.IV-5: Selected rural development measures to be implemented in Kosovo* in the period 2014-2020

Priorities	Measures
Enhancing farm viability and competitiveness	Investments in the physical assets of agricultural holdings Investments in the physical assets of the processing and marketing of agricultural and fishery products
Restoring, preserving, enhancing ecosystems	Agro-environmental measures and organic farming Establishment and protection of forests
Promoting social and economic inclusion	Farm diversification and business development Preparation and implementation of Local Development Strategies-LEADER
Transfer of knowledge and innovation	Improvement in training Advisory services Technical assistance

3.2 Agricultural policy budgetary transfers

From 2008 to 2012, the budgetary support to agriculture and rural development increased considerably. In 2012, total budgetary transfers to agriculture amounted to EUR 22.7 million, up from EUR 5.8 million in 2008. This increase was a result of higher funds for both, direct producer support measures as well as measures supporting structural changes and rural development while funds for financing of general services for agriculture did not change much.

Figure B.IV-3: Budgetary expenditure for agro-food sector and rural areas (in EUR million), 2008-2012, Kosovo*



Source: Kosovo* APM database

Direct producer support measures

The aim of the direct support measures within ARDP was to increase agricultural production, farmers' income and to improve the competitiveness of the agriculture sector relative to other sectors and to imports. Direct producer support was implemented in the form of fuel for harvesting subsidies as well as area and animal based direct payments for specific livestock and crop sectors, which have been introduced gradually. The total budgetary expenditure for this policy pillar increased from less than EUR 500 000 in 2008 to about EUR 8.7 million in 2012.

Table B.IV-6: Budgetary transfers for direct payments and input subsidies (in EUR), 2008-2012, Kosovo*

	2008	2009	2010	2011	2012
Direct payments to producers					
Per animal payment for dairy cows	-	562 962	1 108 380	793 872	2 104 800
Per animal payment for sheep and goats	-	1 404 800	1 276 340	619 035	1 327 450
Area payment for wheat	-	2 102 731	-	3 206 956	3 795 094
Area payment for maize	-	-	-	-	575 459
Area payment for wheat seed	-	-	-	-	25 020
Area payment for oil plants	-	-	-	-	73 711
Payment per bee hive	-	-	-	-	358 610
Area payment for wine grape	-	-	703 056	698 712	-
Variable input subsidies					
Subsidy for fuel for harvesting	476 470	431 967	411 912	388 820	486 522
Direct producer support, total	**476 470**	**4 502 460**	**3 499 688**	**5 707 395**	**8 746 666**

Source: Kosovo* APM Database

Direct producer support started in 2008 with subsidies for fuel for harvesting. Payments were transferred to the owners of combines who applied for support. The support was limited by the hectares planted with wheat in the respective year and the number of combines available. On average about EUR 500 000 was provided for this measure. With the introduction of other direct support measures, the share of funds for fuel subsidies decreased from 100 percent of the total expenses for this policy pillar in 2008 to 5.6 percent in 2012.

Direct payments for dairy caws started in 2009 and were given to farmers that owned ear-tagged dairy cows and were registered in the I&R system. The minimum eligibility criterion was the possession of five cows per farm. In 2012 the amount of budget for the dairy cows' payment was three times higher than in the starting year 2009.

Direct payments for ovine (sheep and goats) were only provided to the owner of the sheep and goats ear-tagged and registered in I&R system. The minimum eligibility criterion was 30 sheep or 20 goats per farm. The beneficiaries of the direct payments for wheat and maize were farmers sowing at least 2 ha of wheat per farm and/or 1 ha of maize per farm. Payments for wheat were given to farmers which were recognised by MAFRD inspectors, and sowing at least 10 ha per farm. The minimum eligibility criterion for the payments for oil plants (sunflower, colza and soybean) was 0.5 ha per farm. The aim of the support for bee hives was to improve the quality of honey produced and the infrastructure and equipment for honey production. The minimum eligibility criterion was 10 hives per farm.

Structural and rural development measures

In 2012, budgetary expenditures for the implementation of structural and rural development measures amounted to EUR 11.2 million, up from EUR 2.2 million in 2008. In recent years (2011-2012) this group of measures has represented about 50 percent of total budgetary support to agriculture.

In the 2008-2012 period, of the total budget spent on structural and rural development measures, about 99 percent was intended for improving the competitiveness of agriculture and only about 1 percent for supporting the rural economy and population. In the first years of that period (2008-2010) on average about 87 percent of the annual budget was spent on competitiveness constituted on farm restructuring support (restructuring of the physical potential in the agro-rural sector, land consolidation, managing water resources for agriculture, other on farm support) and about 13 percent on forestry support (afforestation and managing of afforested areas under measure for improving natural resource management). The structure changed significantly in 2011 and 2012 when on average 53.5 percent of these funds were spent on agro-food restructuring support (improving the processing and marketing of agricultural products, establishment of collecting centres), 43.4 percent for on farm restructuring while only 3.1 percent was provided for forestry.

All funds distributed for supporting the rural economy and population were spent on building local capacity (LEADER). Farm diversification and alternative activities in rural areas (measure 6) and improvement of rural infrastructure and maintenance of rural heritage (measure 7) were not implemented at all in ARDP 2007-2013 due to the budgetary constraints.

Initial implementation of the measure on restructuring of the physical potential in the agro-rural sector (M2) started in 2007 with the sub-measure on milk. This sub-measure covers the construction of farms, milking and cooling equipment, construction and renovation of milk rooms, equipment for preparing animal feeding staff and rations, equipment for preparing fodder, additional machinery of tractors (>30 HP) and improvement of infrastructure. Potential beneficiaries were farmers with 15 heads of milking cows.

In 2008, MAFRD started implementing sub-measures on eggs, vegetables and vineyards. All farmers with more than 3 000 laying hens were supported by 50 percent of the investment value. The aim of these investments was to improve the quality of egg production, infrastructure and equipment and also to improve sustainability and competitiveness in the internal and external markets.

*Table B.IV-7: Total budgetary transfers for restructuring of agro-food sector and supporting rural development (in EUR), 2008-2012, Kosovo**

	2008	2009	2010	2011	2012
On-farm investment support					
Restructuring of the physical potential (M2)	1 380 040	739 350	2 162 099	1 754 853	4 847 454
Sub-measure 2 on milk	379 200	-	475 687	572 015	1 284 090
Sub-measure 2 on eggs	20 190	-	-	124 819	106 251
Sub-measure 2 on vegetables	181 740	111 000	402 352	398 522	1 426 021
Sub-measure 2 on vineyards	4 814	460 000	363 158	172 206	119 411
Sub-measure 2 on fruits	-	-	371 162	487 291	1 011 681
Agriculture land consolidation	762 160	-	549 740	-	-
Managing water resources for agriculture (M3)	483 005	1 544 286	1 300 368	1 270 267	475 948
Other on-farm support	31 936	172.834	432 058	343 311	829 893
Food processing support, marketing					
Improving the processing and marketing of agricultural products (M4)	-	-	55 295	4 984 580	4 498 625
Establishment of the collecting centres	-	-	-	-	900 000
Forestry support					
Improving natural resource management (M5)	320 598	487 595	262 324	161 570	483 908
Supporting rural economy and population					
Support for local community development strategies (M8)	-	40 295	60 287	100 663	90 979
Structural and rural development support, total	**2 183 643**	**2 816 010**	**4 272 431**	**8 615 244**	**11 226 807**

Source: Kosovo* APM Database

Potential beneficiaries of the sub-measure on vegetables were all farmers who had planned to construct new greenhouses of 500 m^2 to 1 000 m^2. They were supported by 50 percent of the investment value. This sub-measure covered the construction of new greenhouses, the expansion of existing greenhouses and the modernization of equipment/machinery and other infrastructure. This was aimed at improving the quality and quantity of vegetables production.

The sub-measure on vineyards was aimed at improving the quality and quantity of table grape production as well as the expansion of the cultivated areas under table grapes. All farmers planting 0.5-2.0 ha of the table grapes were supported by 50 percent of the investment value. This sub-measure covered investments in establishing new table grape vineyards, modernization of equipment and other infrastructure such as holding columns and fences, spraying equipment, mobile atomizers, mulching machines, fertilizer spreaders and hail protection systems.

In 2010, MAFRD started with the implementation of the sub-measure on fruits. Potential beneficiaries of the sub-measure on fruits were all farmers planting 0.5-2.0 ha of apple trees and 0.1-0.2 ha of soft fruits. The aim of this sub-measure was to increase domestic production and quality of apple and soft fruits. Beneficiaries were supported by 50 percent of the investment value. This sub-measure covered investments in establishment of the new orchards, replacement of the old orchards, modernization of equipment and other infrastructure such as protection nets, irrigation system, holding columns and fences. The share of funds for this sub-measure in 2012 was 20.9 percent of the total allocated funds for measure 2.

In 2008 and 2010 the measure on agricultural land consolidation was implemented through capital investment projects. The aim of this measure was to improve the agricultural structure, to build agricultural roads/paths and to protect land with a high level of biodiversity. This measure was not implemented in 2011 and 2012.

Implementation of the measure supporting managing water resources for agriculture (measure 3) started in 2007 and was implemented during the whole period. The aim of this measure was to increase the productivity and the quality of agricultural products through rehabilitation of the existing irrigation

systems as well as by constructing new capacities. The amount of the budget spent on this measure in 2012 was 62.5 percent lower compared to the previous year.

Implementation of support for improving the processing and marketing of the agricultural products (measure 4) started in 2010. Through this measure construction of centres for collecting, packaging and storing agricultural products was supported. The measure covered dairy, meat, grains, the fruits and vegetables subsector, bottled water, wine and beer. Support is meant to improve the use of agricultural products through enhancement of production of higher value added, the establishment of collection centres, and introduction of HACCP in respect to food safety, and of the production line and related facilities to meet the EU requirements. The measure was financed by the EU and implemented by MAFRD and Kosovo Food and Veterinary Agency. The executed projects under this measure were selected by a procedure following the Practical Guide for Contract Procedures for EU external aid which guarantees acceptance of the best applications.

As from 2007, funds were allocated regularly for improving natural resource management (measure 5). This measure was mainly focused on afforestation of bare forestlands, monitoring and maintaining afforested areas. According to the MTE report, problems related to the property rights and taking care of saplings after planting need to be addressed vigorously to ensure that public money spent on this measure is yielding results.

In 2009, MAFRD started supporting public and private projects which had an impact on the improvement of living conditions of the rural population. Beneficiaries were Local Action Groups (LAG) registered in Kosovo* according to the LEADER principles. In total 30 LAG's were established but only 21 of the LAG's applied for the projects and only 39 projects were supported. LAG manager were responsible for application and implementation of projects that involve rural community.

General measures related to agriculture

Support for general services related to agriculture provided through the MAFRD budget was relatively stable throughout the 2008-2012 period amounting to about EUR 3 million on average. More than 95 percent of the budget spent on general services comprised expenses on food safety category (veterinary and phyto services) and only a small percentage of the funds were spent on the development of vocational training to meet rural needs (measure 1 in ARDP 2007-2013).

Table B.IV-8: Budgetary transfers for financing of general services related to agriculture (in EUR), 2008-2012, Kosovo*

	2008	2009	2010	2011	2012
Development of vocational training to meet rural needs (M1)	23 495	58 738	70 485	82 233	135 560
Veterinary and phyto services	3 092 257	3 212 022	3 126 026	2 314 138	2 639 989
Support to general services for agriculture, total	**3 115 752**	**3 270 760**	**3 196 511**	**2 396 371**	**2 775 549**

Source: Kosovo* APM Database

The measure on development of vocational training to meet rural needs has been in force since 2008. The aim of this measure was to introduce new agricultural production technologies, environmentally friendly production, and setting up network and cooperation between the farmers. Training courses were delivered by contracted private companies in close cooperation with the Municipal Agricultural Office. From 2008 to 2012, 19 000 farmers participated in the training courses and 900 farmers took part in different study visits of best practice examples. In 2012, the expended budget for vocational training was 65 percent higher than in 2011, while compared with the year 2008 it is about five times higher. According to the MTE report vocational training measure contributed to an increased agricultural production, more efficient use of farm inputs, and more specialized farm activities.

4. Discussion and conclusions

Due to the unfavourable farm structure and inefficient use of production factors, agricultural yields in Kosovo* are much lower than in the EU, although it is similar to the some SEE countries (see Chapter A.II). In general, the agricultural and food processing sector is facing difficulties in developing food distribution chains, marketing and quality, veterinary and phyto-sanitary standards as compared to the EU standards. On average, agricultural producer prices are significantly higher in Kosovo* than in EU countries. This indicates that Kosovo* producers are still facing weak price competitiveness. A negative agro-food trade balance has been reported. An agricultural trade strategy must be developed based on market analysis, allowing local producers and processors to better exploit market opportunities and also stabilize the employment and income situation.

Sustainable development of rural areas will remain a key challenge for the future. In general, rural areas in Kosovo* are facing low level of economic development, which leads to a high unemployment rate. The ability to reduce the dependency of the rural workforce on agriculture, and the development of supplementary income activities to rural livelihoods remains one of the most challenging tasks. In order to reduce outmigration or poverty in rural areas, job opportunities have to be created by supporting the diversification of agricultural activities, such as processing traditional local food products and niche products as well as by encouraging business initiatives to become active in providing rural services. Small workshops should also be organized, at which female entrepreneurship should be encouraged. Economic development in rural areas should be encouraged through continuous improvement of infrastructure such as electricity, roads, water supply, waste disposal and broad band internet.

The budget allocations and the level of support to agriculture and rural development are relatively low compared to other SEEs and EU countries (see Chapter A.II). Competitive agriculture requires updated knowledge, information and management services. Further training, advice in technical and farm/business management and information on the agricultural market in accordance with the country specific needs are prerequisites for production growth of agricultural outputs and increase of the sector's efficiency and competitiveness. Promotion of agricultural research will facilitate the development of sustainable production systems, particularly in view of the new challenges such as climate change, biodiversity, rising food prices and bio-fuels.

Kosovo* should initiate agro-environmental payment schemes that offer support to sustainable use of natural resources; especially to sustainable land use practices in high nature value (HNV) farming. Commitment to support HNV agriculture will improve the provision of positive externalities and environmental services by farming practices. More attention should also be given to less-favoured areas.

In 2011 and 2012, no funds were allocated for land consolidation which is very problematic considering the actual situation concerning the small average farm size fragmented in many plots, a weak land market with limited transparency in land tenure, unclear property and land use rights of state owned land. This measure can be used to reach several objectives determined within new strategy of ARDP 2014-2020.

As most of the farms are very small, ways should be found to deal with the development of these farms. To strengthen the production and marketing of small-scale Kosovar farmers, support to the creation of producer organizations would be the single most important measure for the fruit and vegetables sectors. Due to high variation in production and prices, Kosovo* should initiate risk prevention and risk management mechanisms by supporting fees of private insurance. In order to increase the competitiveness of Kosovar products on domestic and export markets, the long-term promotion of agricultural and food products, combined with tourism and gastronomy, should constantly be supported.

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Annex B.IV-1: Area and production of main crops, 2005-2012, Kosovo*

	2005	2006	2007	2008	2009	2010	2011	2012
Area of production (1 000 ha)								
Total grain	153.0	110.0	102.4	115.0	120.0	119.9	121.1	137.2
- Wheat	69.3	68.6	61.2	72.1	77.9	78.4	79.9	102.9
- Corn/Maize	74.4	36.1	35.2	36.1	35.9	35.4	35.2	31.2
Potatoes	3.8	3.1	5.0	3.7	3.4	3.8	3.7	3.2
Grapes (total)	2.9	3.0	3.0	3.0	3.1	3.1	3.2	3.2
Fruit (total)	4.0	3.2	3.8	4.0	3.0	3.4	3.6	3.9
Vegetables (total)	7.9	8.1	8.3	8.6	8.4	9.0	9.2	8.4
Other:								
- Beans	5.6	4.8	4.4	4.2	4.1	3.6	3.3	3.0
- Fodder	96.8	96.7	108.4	104.7	91.4	99	98.8	94.4
Production (1 000 t)								
Total grain	440.8	392.1	294.8	437.5	411.2	430.5	435.0	438.8
- Wheat	273.4	239.5	207.2	293.1	271.4	294.5	300.2	345.0
- Corn/Maize	142.1	138.2	74.5	126.9	125.9	120.5	119.7	86.3
Potatoes	87.4	71.2	95.1	104.0	58.7	87.4	87.0	33.4
Grapes (total)	26.1	28.7	28.9	29.2	26.3	28.6	16.6	29.7
Fruit (total)	23.9	24.3	18.7	29.0	23.0	24.0	24.8	30.0
Vegetables (total)	135.8	159.9	123.5	165.0	137.2	246.1	253.5	126.0
Other:								
- Beans	8.3	10.6	3.0	6.8	7.1	5.6	5.0	3.7
- Fodder	339.7	314.1	283.1	331.9	257.8	398.5	396.0	259.5

Source: MAFRD, 2013a

Annex B.IV-2: Livestock numbers (in 000 animals), 2005-2012, Kosovo*

	2005	2006	2007	2008	2009	2010	2011	2012
Cattle	351	381.9	321.6	341.6	344	356.7	361.8	329.21
of which milk cows	213	205.4	189.7	191.5	190.2	194.9	196.1	183.34
Pigs	47	68.2	39.6	26.7	50.6	50.6	50.6	55.7
Sheep and Goats	151	112.9	151.8	180.1	217.2	229.2	231.2	247.9
Horses	:	6.7	6.1	5.0	4.2	4.2	4.2	2.1
Poultry	2 631	2 525	2 278	2 213	2 390	2 347	2 347	2 318
Beehives	:	72.2	60.9	43.3	43.1	46.9	44.6	46.5

Source: KAS; MAFRD, 2013a

Annex B.IV-3: Farm gate producer prices for certain agricultural products (in EUR/t), 2005-2012, Kosovo*

Product	2005	2006	2007	2008	2009	2010	2011	2012
Wheat	140	150	250	270	170	190	250	260
Maize	180	160	220	200	200	220	290	300
Potatoes	230	310	300	310	300	290	300	320
Pepper	520	590	620	690	630	590	580	580
Tomatoes	540	630	670	570	610	620	500	710
Young cattle (live weight)	1 730	1 790	1 730	1 920	2 060	2 020	2 130	2 280
Pigs (live weight)	1 580	1 580	1 640	2 020	2 110	2 130	2 080	2 150
Lambs (live weight)	1 890	1 790	1 830	2 040	2 150	2 220	2 310	2 430
Chickens (live weight)	1 590	1 590	1 590	1 780	1 920	1 940	2 120	2 120
Eggs (1 000 pieces)	77.3	74.7	81.7	91.0	70.0	71.0	83.0	96.6
Cow's milk	272	282	282	330	301	282	301	311

Source: KAS

Chapter B.V

AGRICULTURE AND AGRICULTURAL POLICY IN THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Dragi Dimitrievski*, Ana Kotevska*, Ivana Janeska Stamenkovska*, Emelj Tuna*, Marina Nacka*

1. Introduction

Agriculture is one of the most important sectors in The former Yugoslav Republic of Macedonia. In the transition period, agricultural policy experienced turbulent development. Although the Stabilisation and Association Agreement was signed in 2001, gradual consolidation of agricultural policy and adjustment toward the CAP of the EU has been noted only since receiving the status of the candidate country in 2005 (Dimitrievski & Kotevska, 2008; Dimitrievski et al., 2010).

The objective of this paper is to present the situation in agriculture and agricultural policy. In addition, based on the overall picture of the sector it gives a general illustration of the preparedness of Macedonian agriculture for the European integration process.

The analysis of the sector is based on the official statistical data provided by the State Statistical Office (SSO) and annual reports on agriculture and rural development prepared by the Ministry of Agriculture, Forestry and Water Economy (MAFWE).

As regards the agricultural policy and related budgetary transfers, the analysis is based on the data provided by the Agency for Financial Support in Agriculture and Rural Development (Paying agency) and classification of the agricultural policy measures according to the APM tool (Rednak and Volk, 2010). The APM database includes all the funding paid through the Paying agency taking into account the year of execution of payments. The database could be further improved with the budgets of some internal administrative bodies within MAFWE, as well as the budget of some activities and projects financed by other national institutions or foreign donors.

This paper is structured as follows. After the introduction, the main characteristics of agricultural sector are described in terms of some macroeconomics indicators, production capacities, agricultural prices and trade. Then the development of agricultural policy is presented, along with the budgetary measures and total agricultural budgetary transfers. Finally, conclusions and some recommendations regarding the development of agricultural policies and the institutional setting in the European integration process are derived.

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2. Agriculture

2.1 The role of agriculture in the economy

The former Yugoslav Republic of Macedonia is a relatively small country in both its size and population. Over the last decade there has been an evident growth in GDP. In 2011, The former Yugoslav Republic of Macedonian GDP per inhabitant (in Purchasing Power Standard) has reached a value of around EUR 8 700 up from EUR 6 400 in 2005. However, a high unemployment rate of above 30 percent persists and is considered as crucial factor for the high Macedonian poverty rate. However, there has been a decreasing trend since 2005 when the unemployment rate was 37.3 percent until 2012, when the unemployment rate reached its lowest level (31.0 percent).

Agriculture is one of the most important sectors for the Macedonian economy and significantly contributes to the economic and social stability of the country. Together with hunting, forestry and fishery, it is the third largest sector with a share of around 11 percent in total value added of all activities, showing slight decrease from 12.6 percent in 2005 to 10.8 percent in 2012. The importance of agriculture for the Macedonian economy is emphasized by the fact that it employs around 19 percent of the active population. Employment in agriculture is also considered a social buffer and taking into account the general high unemployment rate, it enables a decrease of poverty, especially in the rural areas.

The Macedonian economic performance is significantly influenced by the agro-food trade. The share of exports of agro-food products in total exports of goods is around 16 percent (2010-2012 average) while the agro-food imports contribute about 13 percent to total imports. Liberalization, especially in the agro-food sector, has resulted in higher imports than exports, thus deepening the negative trade balance.

2.2 Land resources and farm structure

The former Yugoslav Republic of Macedonia has a total area of 25 713 km^2, which is only 0.59 percent of the EU-27 area. In terms of natural conditions for agricultural production, the country is characterized by high share of hilly-mountainous areas and heterogeneous natural conditions. The major climate types are continental, mountainous and Mediterranean, with warm and dry summers and cold and humid winters. These conditions result in insufficient amount of rainfalls which combined with the late spring frosts are a limiting factor for the intensive open-field agricultural production (MAFWE, 2010).

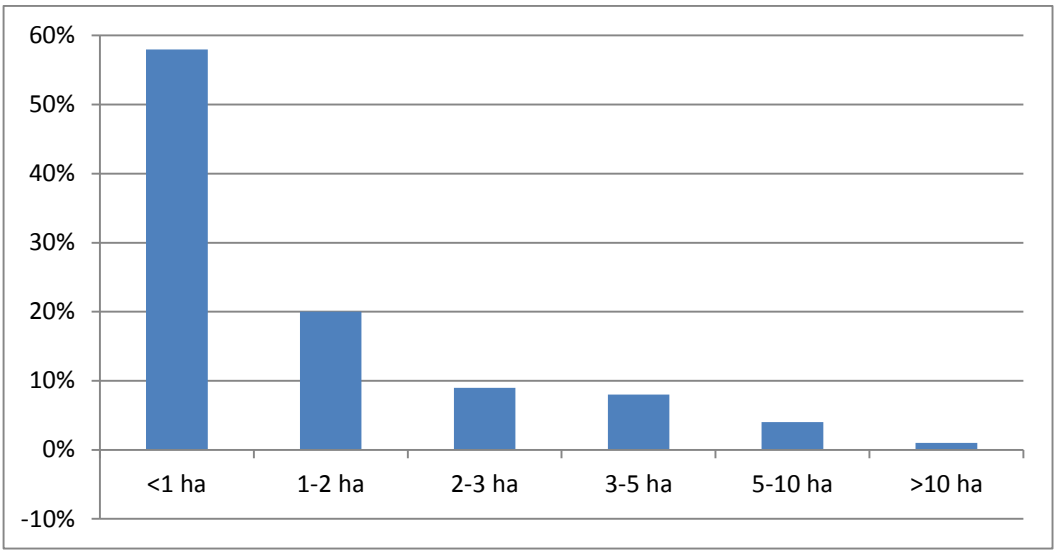
According to the latest annual statistics (2012), close to 1.3 million ha or 49 percent of the total area in the country is categorized as agricultural land and over 38 percent belongs to forests.

Pastures account for the largest share in the total agricultural land of almost 60 percent. About 33 percent of agricultural land falls under the category arable land and the remaining shares to the category of meadows (4 percent), vineyards (2 percent) and orchards (1 percent). Out of total arable land, about one third is left fallow and uncultivated and this share has been relatively stable for a longer period.

Small-scale agricultural holdings dominated agricultural production both before and after the privatization process in the 1990s. The farm structure survey from 2013 reported 170 885 agricultural holdings utilizing 315 863 ha of agricultural area, with an average farm size of 1.85 ha (SSO, 2013). This is slightly higher than the average farm size recorded in the agricultural census of 2007; namely, 1.73 ha (SSO, 2007). However, over 58 percent of agricultural holdings still utilize less than 1 ha.

Small-scale farming and fragmentation remains one of the biggest problems for the Macedonian agriculture, resulting in ineffective use of the agricultural land.

Figure B.V-1: Structure of farms according to area farmed, 2013, TFYR of Macedonia



Source: SSO, 2013

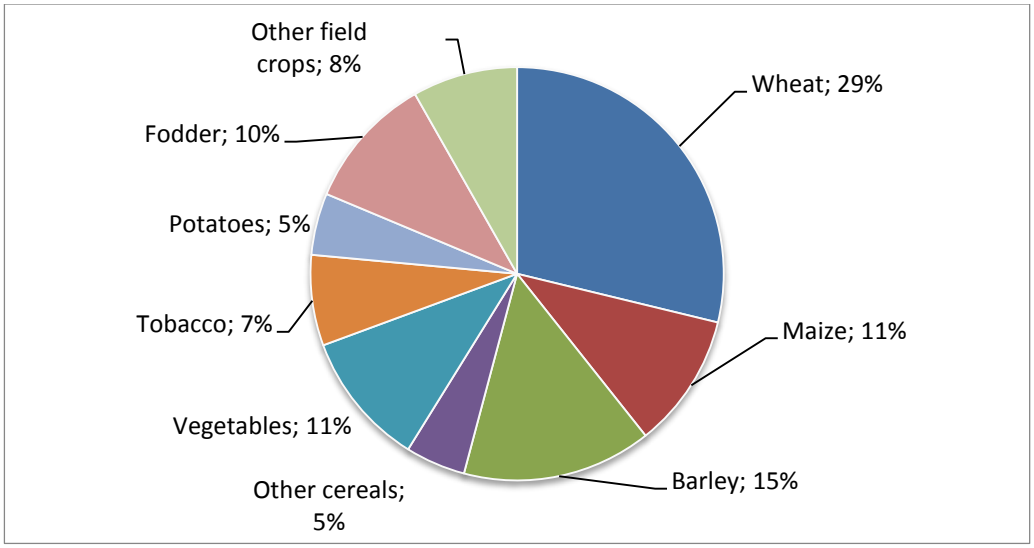
2.3 Agricultural production

In The former Yugoslav Republic of Macedonia, crop production has traditionally taken the leading role in agricultural production. The share of crops in total agricultural goods output is about 75 percent (2010-2012 average) while only 25 percent is generated by livestock production.

In the structure of harvested arable land, cereals are first with the share of about 60 percent. The leading cereal is wheat (close to 30 percent of harvested arable land), followed by barley (about 15 percent) and corn maize (about 10 percent). However, there is an evident decrease in the total production in the period from 2005 onwards, mostly due to the reduced area under cereals (see Annex B.V-1). According to the average buyout of wheat in the country (2007-2011), and the required intake of the milling industry, only 40-45 percent of the country's demand for wheat is covered by domestic production (MAFWE, 2012).

Average cereal yields are still much lower than the yields in EU countries (see Chapter A.II), mostly due to the use of uncertified seeds and inadequate agro-technical production practices (MAFWE, 2012).

Figure B.V-2: Harvested area by main crops, 2012, TFYR of Macedonia



Source: SSO

There is a tradition for growing vegetables in The former Yugoslav Republic of Macedonia. In recent years, vegetables have been grown on about 11 percent of the total cultivated arable land, with a slight upward trend in production. The majority of production is performed by individual farms, where the dominant commodities are peppers, watermelons and cabbages. Potatoes have a smaller share of the harvested area (about 5 percent) and are mostly produced in the hilly-mountainous regions.

Among industrial crops, small-leaf aromatic tobacco prevails. It is an important labor-intensive commodity, grown in areas with unsuitable conditions for other type of agricultural production. Tobacco accounts for over 80 percent of the total area under industrial crops. Most of tobacco production is situated in the Pelagonia and Southeast region, with high economic and social significance for the agriculture and for the economy in general. Due to the increased government subsidies and the improved organization of the chain, there is an increase in the production and yields.

Forage crops are cultivated in livestock breeding regions, and the deficiency of fodder (and hence their high price) is one of the main limiting factors for development of the livestock sub-sector and negatively impact the production of meat and milk (MAFWE, 2011). Forage crops represent a relatively small share of the total harvested arable land (about 10 percent). The largest share belongs to the area under alfalfa, while other forage crops contribute significantly smaller shares (*ibid*).

Together with wine production, viticulture contributes about 17-20 percent of agricultural output. Wine is the second most important agricultural product in terms of export value, after tobacco. However, the age structure of vineyards is highly unfavorable, again mostly because of the fragmentation of parcels and the long period of weak investments. More than 60 percent of vineyards is older than 15 years, and should be renewed in order to maintain the quantitative and qualitative production potentials.

Livestock output accounted for 27.5 percent of the total value of agricultural production in 2011, with milk production contributing almost 50 percent to this value, followed by pig meat, beef, sheep and goats. According to the latest farm structure survey (2013), agricultural holdings have a total of 365 868 livestock units (LSU), with average 2.14 LSU per agricultural holding (SSO, 2013).

The cattle number is relatively stable, while the number of dairy cows has shown a slightly decreasing trend since 2007. Over 95 percent of milk is produced on individual farms.

Table B.V-1: Herd size of main livestock categories (in 1 000), 2005-2012, TFYR of Macedonia

	2005	2006	2007	2008	2009	2010	2011	2012
Cattle	248	255	254	253	253	260	265	251
of which dairy cows	88	94	130	130	114	125	137	123
Pigs	156	167	255	247	194	191	197	177
Sheep and Goats	1 244	1 332	944	950	755	778	767	732
Horses	40	41	31	31	29	27	25	22
Poultry	2 617	2 585	2 264	2 226	2 118	1 995	1 944	1 776
Beehives	67	68	58	62	53	76	65	53

Source: SSO

Even though there has been a slight decrease in the number of cows, there has been small increase in the yields per cow, which indicates an improvement in the breeding structure of dairy cows. However, the yields per cow are still much lower than those in EU countries, and most of the SEEs (see Chapter A.II).

Pastures – which occupy more than half of the total agricultural land – could be solid base for the development of the sheep sub-sector. Despite the favorable geographical and climatic conditions, sheep breeding shows a decreasing trend. The decreasing trend is mostly due to an extensive nomadic way of sheep breeding and migration of the population in the urban areas. About 95 percent of milking ewes are kept in the individual agricultural households and sheep breeding is almost always performed on individual and small family farms with a herd size of 20 to 200 sheep (MAFWE, 2012).

2.4 Agricultural prices

Agricultural producer price indices reveal significant oscillations during the 2005-2012 period, with an upward tendency in both nominal and real terms. A high increase in output prices was noted in 2008, 2010 and again in 2012, while in 2009 the price level was among the lowest in the observed period.

Table B.V-2: Agricultural output and input price indices - nominal, 2005-2012 (2010=100), TFYR of Macedonia

	2005	2006	2007	2008	2009	2010	2011	2012
Output prices	78.9	83.3	87.3	101.5	84.3	100.0	99.6	113.6
- Crop products	76 3	82 3	86 4	88 5	84 3	100 0	96 0	112 2
- Animals and livestock products	92 0	90 9	94 2	124 4	108 1	100 0	108 1	117 0
Input prices	84.7	83.3	89.4	104.5	94.0	100.0	117.3	123.8
Terms of trade (input prices=100)	93.1	100.0	97.6	97.2	89.8	100.0	85.0	91.7

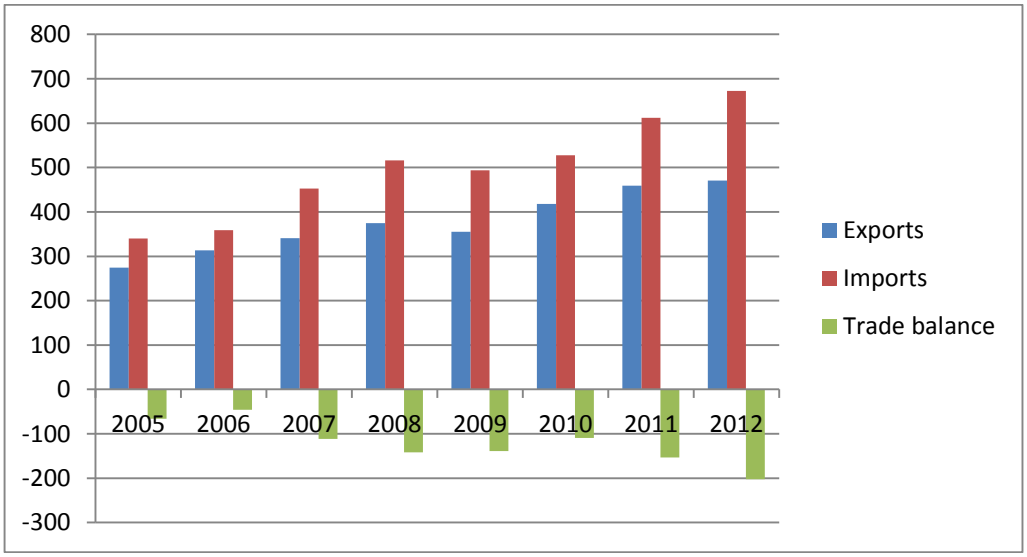
Source: SSO

Agricultural input prices have also increased since 2005. In the 2005-2010 period, the terms of trade in agriculture have improved quite significantly, thus indicating that the growth of output prices was generally higher than the growth of input prices. However, there is a decreasing trend in terms of trade since 2010, with a negative implication for the agricultural income.

2.5 Agricultural trade

The constant negative trade balance during the 2005-2012 period characterizes The former Yugoslav Republic of Macedonia as an import-oriented country in terms of agro-food trade. The overall trade of agro-food products is increasing. However, imports are increasing faster than exports, resulting in a more or less constant increase in the trade deficit during the whole period. The trade deficit reached the highest level (about EUR 203 million) in 2012.

Figure B.V-3: Agro-food trade (EUR million), 2005-2012, TFYR of Macedonia

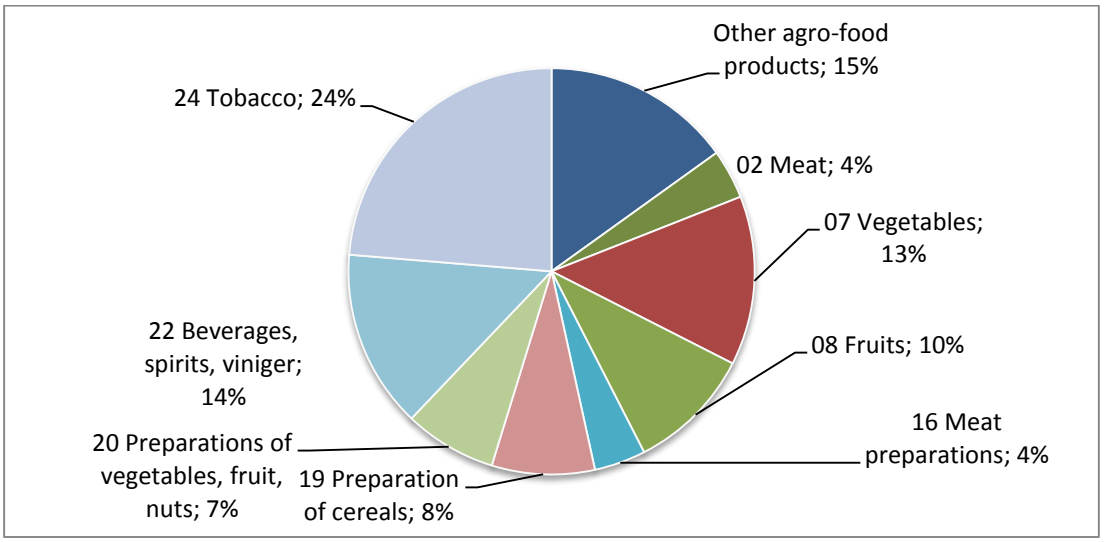


Source: SSO

The average export value of agro-food products in the period 2010-2012 amounted to EUR 449.2 million. In general, tobacco and wine are the most important export-oriented agro-food products, in terms of export value. Tobacco participates with 24 percent (EUR 106.4 million) in total export value of the agricultural products. The former Yugoslav Republic of Macedonia is still increasing production and

export of this commodity. In 2012, the export of tobacco was 23 percent higher compared to 2010. Beverages are the second most important category in terms of export value, with a share of 14 percent. The exports of bottled wines have increased in terms of quantity and value (SSO, 2014). Vegetables account for 13 percent, and saw a decrease of 20 percent in 2012 compared to 2011. Fruits, preparations of cereal flour and preparations of vegetables, fruit or nuts have constant increase over the years. Among the livestock commodities, lamb is dominant.

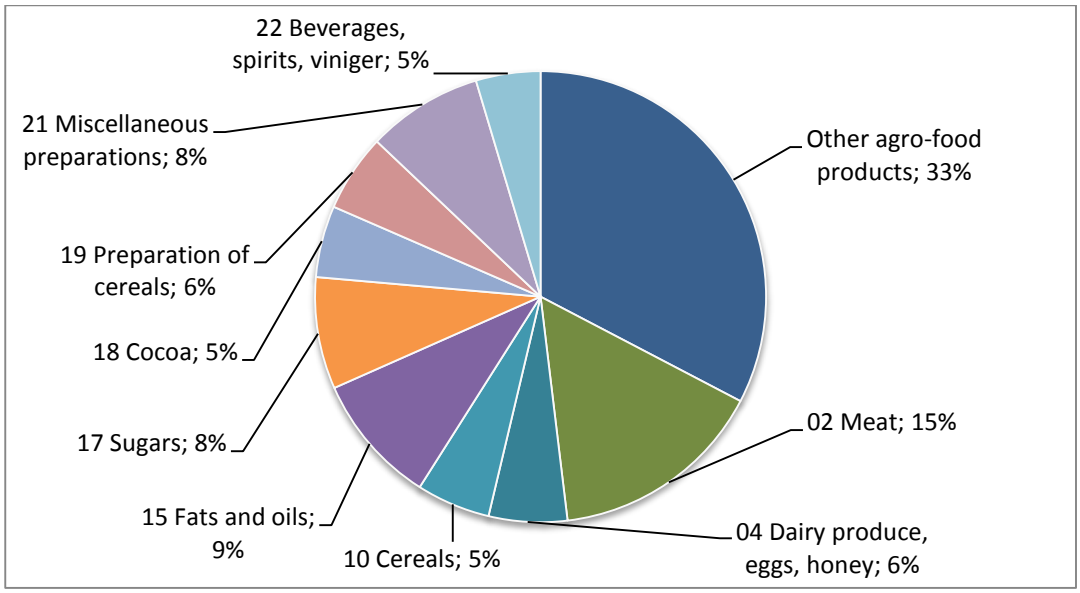
Figure B.V-4: Composition of agro-food exports by main commodity group, 2010-2012 average, TFYR of Macedonia



Source: SSO

The average 2010-2012 import value of agro-food products amounted to EUR 604.2 million and has increased over recent years. The former Yugoslav Republic of Macedonia is mostly an importer of agro-food products of animal origin even though recent trends show that products from plant origin also account for a significant share of imports. With the positive changes in the GDP per capita, imports differ in terms of import of specific products that are not produced in the country, but are affordable for a certain segment of consumers.

Figure B.V-5: Composition of agro-food imports by main commodity group, 2010-2012 average, TFYR of Macedonia



Source: SSO

Meat occupies the largest share of imported agro-food products (15.4 percent). There was a decrease in production of meat in 2012, particularly of beef and mutton. Chicken imports account for a significant share of total agro-food commodities imports, since domestic production covers only about 20 percent of market demand. On the other hand, around 90 percent of domestic demand for pork is covered by the domestic production (MAFWE, 2012). Animal or vegetable fats and oils are the second most important import category (9.4 percent). Other important categories are cereals and preparations of cereals, as well as beverages which participate with 4.6 percent in agro-food imports.

The former Yugoslav Republic of Macedonia exports mainly to SEEs (average 2010-2012: 49 percent) and to the EU (40 percent). Among the EU countries, major export destination are Greece, Germany and Belgium (around 17 percent of the EU-27 exports), followed by Bulgaria, Italy, Slovenia and Romania. Traditionally, Serbia is the leading export market for Macedonian agro-food products, with 39 percent of the export to SEEs, along with Croatia and Bosnia and Herzegovina with 14 percent and 13 percent, respectively.

The former Yugoslav Republic of Macedonia imports agro-food products mainly from the EU-27 (2010-2012 average: 44 percent), followed by SEEs (32 percent) and other countries (24 percent). Serbia is the major trading partner among the SEEs with constant increases in import. The EU countries that make significant exports to the Macedonian market are Bulgaria, Germany, Austria and Greece.

3. Agricultural policy

3.1 Agricultural policy concept and frame

After its independence, The former Yugoslav Republic of Macedonia experienced turbulent development in agricultural policy, with many ad hoc and firefighting policy decisions. Since receiving the status of the candidate country in 2005, The former Yugoslav Republic of Macedonia has started to adjust national agricultural policy toward the Common Agricultural Policy (CAP) of the EU. Thus, the Law on Agriculture and Rural Development (LARD; effective from 2008), consisted of two acts: one for regulation of the agricultural markets and another for rural development, and represents a gradual transition toward the CAP.

The Law on Agriculture and Rural Development, adopted in 2010, is a further adjustment towards CAP, and currently it serves as a legal framework of the agricultural policy in the country. Beside this law, agriculture is regulated by a dozen of other laws; namely, Law on Agriculture Activity, Law on Agricultural Land, Law on Tobacco, Law on Wine, Law on Livestock Breeding, Law on Pastures, Law on Organic Agricultural Production, Law on Farm Accountancy (FADN), Law on Agricultural Inspection, Law on Waters, Law on Water Communities, and Law on Water Management Enterprises.

The Ministry of Agriculture, Forestry and Water Economy (MAFWE) is the competent authority for planning, monitoring and evaluation of agricultural policy measures and instruments, while the Agency for Financial Support in Agriculture and Rural Development (often called the Paying agency) is responsible for the implementation and control of the agricultural policy measures as an independent body of the state administration. The funding of the policy is from the national budget, as well as from donations and contributions from other sources, such as the EU budget.

The main strategic document for the agricultural policy of The former Yugoslav Republic of Macedonia is the National Strategy for Agriculture and Rural Development (NARDS) 2007-2013 (MAFWE, 2007). Additional supporting documents are the multi-annual National Program for Agriculture and Rural Development (which is prepared for a period of three years) and multiannual program for using IPARD funds (2007 -2013). For the implementation of the agricultural policy are important also the annual programs for financial support of agriculture and annual programs for financial support of rural development.

The agricultural policy of The former Yugoslav Republic of Macedonia is based on its five objectives defined in the first LARD from 2007 and the NARDS 2007-2013: (1) providing stable production of quality and affordable food and ensuring sufficient quantities of food for the population; (2) increasing the competitiveness of agriculture; (3) providing a stable income of farm; (4) sustainable development of rural areas; and (5) optimal utilization of natural resources with respect to the principles of protection of the natural resources and environment.

The objectives of the agricultural policy are planned to be achieved through four groups of instruments and measures: regulation and supporting agricultural markets; direct payments; rural development; and state aid as additional support for agriculture. Under the market regulation mechanisms, intervention measures (purchase and storage support) are targeted at wheat as a strategic product, while consumption subsidies are applied to fresh fruit and vegetables and milk and dairy products from domestic production. Direct payments are programmed per unit of agricultural product, and per area of agricultural land, or head of livestock. Their application is conditioned with some cross-compliance requirements (which are gradually being introduced in compliance with the CAP regulative) to ensure the production of safe and healthy food and protection of the environment.

Rural development policy is more harmonized with the CAP principles and has four priority areas and instruments to support them: increasing the competitiveness of the agricultural and forest holdings; protecting and improving the environment and rural areas; improving quality of life and encouraging diversification of economic activities in rural areas; and supporting local development.

A large share of rural development is financed by the EU, via the Instrument for Pre-Accession Assistance for Rural Development (IPARD). The main objective of the IPARD program is to improve the competitiveness of agricultural holdings and the food industry in order to bring them into compliance with community standards and at the same time to ensure sustainable environmental and socio-economic development of rural areas by increasing economic activities and employment opportunities.

The Macedonian IPARD program is focused at the first and the third priority axes with the following three measures: (1) Investments in agricultural holdings to restructure and to upgrade to Community standards (Axis 1, Measure 101); (2) Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards (Axis 1, Measure 103); and (3) Diversification and development of rural economic activities (Axis 3, Measure 302).

Between 2009 – when the Paying agency got its accreditation – and 2012, seven public calls for tender have been announced. During this period EUR 3.5 million was paid out in total (out of which EUR 2.65 million was EU funds). The measure 103 is taking the dominant share (79 percent), while the measure 302 was not implemented at all. The financial implementation of the measures is quite low: 17.4 percent for measure 103, and 6.8 percent for measure 101 (IPARD Committee, 2013). The realized amounts per sector also differ from the planned allocations in the IPARD program. In particular the interest of processing wine and fruit, as well as wine production exceeded the planned distribution among measures, while meat processing although having the major focus in the program, showed much less interest in practice (*ibid*).

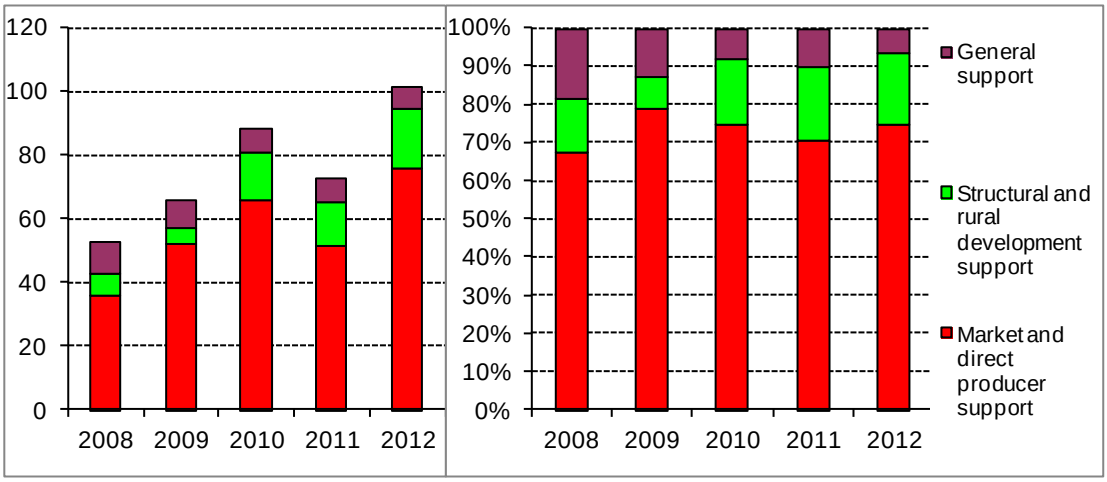
3.2 Budgetary support to agriculture

In terms of the budgetary support paid to the sector, there is an evident increase in the total budget. The increasing importance of the agricultural sector for the national government can be observed by the increasing share of the total budgetary support to agriculture relative to the total gross value added generated from agriculture, forestry and fishery. In 2008, it amounts to 6.6 percent, while in 2012 it equaled 15.3 percent.

The agricultural budget of 2008 had doubled by 2012, ending with a total of EUR 101.6 million. The increase is continuous and planned in national programs for the agricultural policy and rural

development (MAFWE, 2009), presenting the country's strategic approach in the process of adjustment to the EU requirements.

Figure B.V-6: Budgetary expenditure for agro-food sector and rural areas (in EUR million), 2008-2012, TFYR of Macedonia



Source: TFYR of Macedonia APM Database

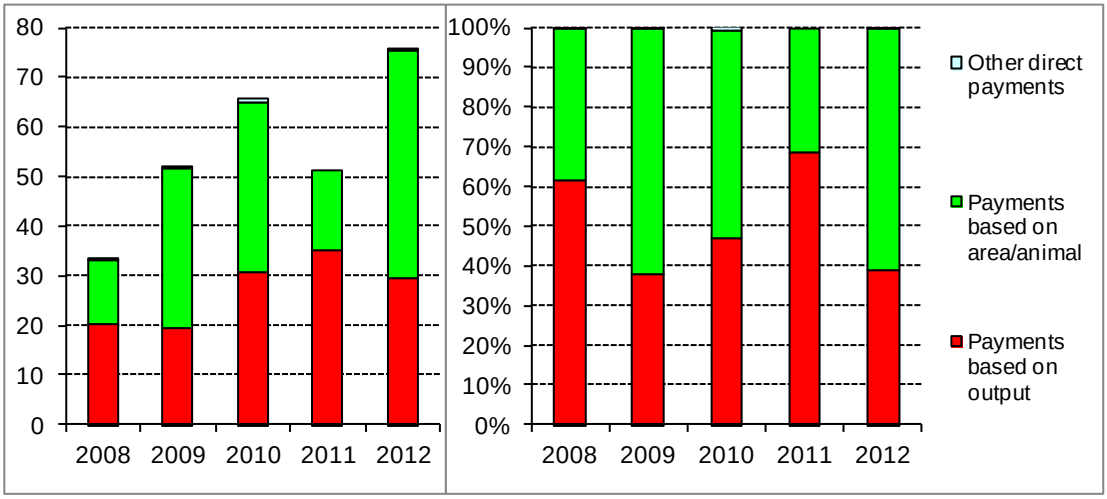
Although there is a noticeable increase in total budget, there is not much change in its general structure. The major part of the agricultural budget goes to direct producer support (68-79 percent), while much less for structural and rural development (8-19 percent) and the general services support (7-18 percent).

Market and direct producer support measures

Direct payments are the main element of the market and direct producer support measures and agricultural policy in general. Furthermore, the market interventions, as a supporting instrument for stabilization of markets have not been implemented at all in the period 2008-2012.

The direct payment policy is not fully harmonized with the EU policy. The payments per area/animal and per output alternately change its dominance in the structure of this group of measures.

Figure B.V-7: Direct payments to producers (in EUR million) , 2008-2012, TFYR of Macedonia



Source: TFYR of Macedonia APM Database

Direct payments per output (price supplements) are mostly given for the raw tobacco, grapes and milk. Direct payments for tobacco take the largest share, about 66 percent, or EUR 17.7 million on average,

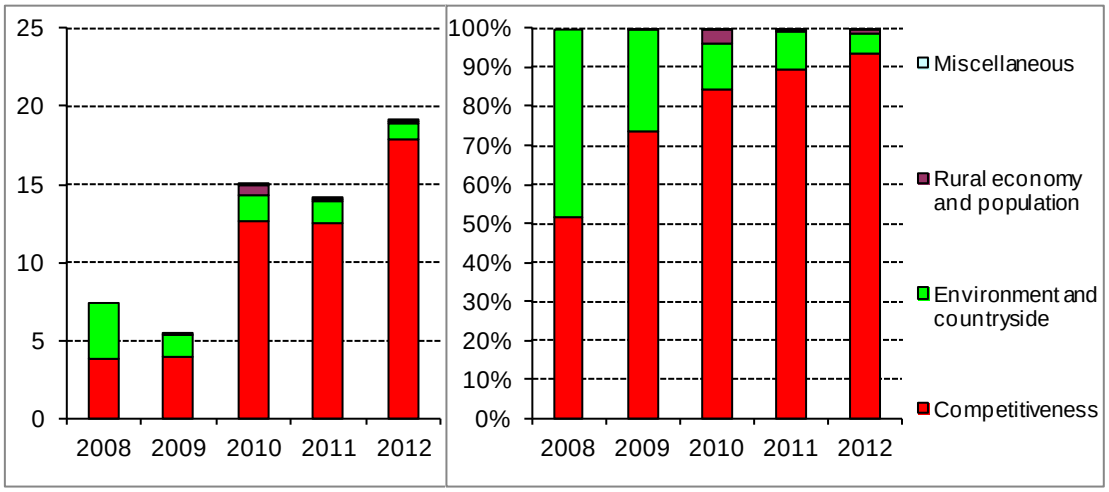
while the rest is given for grapes (EUR 3.1 million) and milk (EUR 5.5 million). Regarding the direct payments per area and animal, half of the budget goes for the livestock sector, mainly for sheep production (EUR 7.8 million on average) and cattle breeding (EUR 4.3 million on average). The other half is allocated to arable crops (EUR 2.1 million on average), vegetables (EUR 1.6 million), and vineyards (EUR 4.3 million), with large annual variations in the budget spent per sector.

The input subsidies seem to be less important for the agricultural policy. They are almost negligible in size occupying less than 1 percent of direct producer support budget. They have been spent on purchasing breeding animals (mostly pigs, as well for sheep in 2008 and 2009), insurance premiums, soil analysis, and fuel subsidies (in 2008 only).

Structural and rural development measures

With the Law on agriculture and rural development from 2010 and the implementation of IPARD programme, the rural development has gained more importance. The budget for structural and rural development measures increased threefold, from EUR 5.4 million in 2009 up to EUR 19.2 million in 2012.

Figure B.V-8: Structural and rural development measures (in EUR million), 2008-2012, TFYR of Macedonia



Source: TFYR of Macedonia APM Database

Measures to increase the competitiveness of agricultural producers in rural areas seem to be the predominant type of structural measures. The budget constantly increased both in size (from EUR 3.8 million up to EUR 18.0 million) and in share (from 52 percent up to 94 percent). Funds for increasing the competitiveness of agricultural producers is mainly intended on modernisation of farms and meeting the standards; thus the most important measure is the investment support, both for the agricultural holdings and the agro-food sector.

The budget for agro-environmental measures is not increasing. It is paid out as subsidy for farmers living and operating in the less favoured areas; and since 2011, mostly related to organic farming production.

The budget for improving the rural economy is almost negligible in the budget structure (EUR 0.1-0.6 million, e.g. less than 5 percent of the support under structural measures). Support to rural population is mostly limited to improving the basic infrastructure in rural areas and as a general support to rural economy.

General measures related to agriculture

The current data shows that the general services for agriculture account for EUR 7.9 million on average, which is 11 percent of the total budgetary support to agriculture. The budget for the general measures for agriculture should be higher in practice than presented, since it does not include the budget of other administrative bodies of MAFWE which are working in the field of plant protection, such as the phyto-sanitary administrative body and laboratory, the Inspectorate for agriculture, neither the budget for the agricultural education.

The actual budget for general services to agricultural mostly goes to financing the public institutions in agriculture (the National Extension Agency, the Food and Veterinary Agency, the Agency for the Hydro-Meteorological Services) and its activities such as extension, veterinary control, quality control, and information systems. The biggest share of this budget goes for food safety (72-87 percent, or EUR 6.2 million on average). The vocational education and training of farmers is of great importance for accelerating agricultural development. However, the budget for these activities is negligible. The extension services, as another way of supporting the agricultural development, are also under-represented in the budget, with about EUR 1 million, or 13 percent on average.

4. Discussion and conclusions

Most of the subsectors within the Macedonian agricultural sector demonstrate insufficient utilization of the production capacities and a low level of productivity. This results in a lower level of supply of the basic food groups (wheat, meat, milk, oil, sugar) thus contributing to increased imports and the foreign trade deficit. The regulation of foreign trade is completely aligned with WTO rules (no export or input subsidies, no market interventions, and no guarantee prices), the Stabilization and Association Agreement, the CEFTA and other bilateral free trade agreements, which make the Macedonian market relatively open.

The agricultural budget aimed at supporting development shows a continuous increase; and the direct payments are the main element of the national agricultural policy. Coupled measures predominate, including payments per hectare and per animal, as well as per output as the most coupled form. The importance of rural development for overall agricultural sector development has been recognized by policy makers, but less so by farmers. Support for the general services in agriculture is lower than the needs for more efficient knowledge transfer, food safety and quality management. Compared to other SEE countries (see chapter A.II), the Macedonian agricultural policy shows higher level of support to agriculture (except Croatia).

Macedonian agriculture requires development and modernization; and modern agriculture means changes in the whole structure of the agricultural sector: primary production, the agro-food chain, markets functioning, general services, and supporting institutions.

The main deficiency of Macedonian agricultural policy is the frequent deviation of budgetary transfers paid from the long-term and annual programming, as well as from the annual programs. The problem lies in the lack of a strategic approach and the behavior of the interest groups (farmers associations and other stakeholders) involved in the process demonstrating political resistance to targeting the real problems and proposing solutions.

Another serious problem of Macedonian agricultural policy is the large number of measures with complex procedures, while 58 percent of agricultural holdings are operating less than one hectare of agricultural land and many of them are with lower educational level. The large number of measures, both in a form of direct producer support or structural measures, complicates administrative procedures, increases the cost of implementation and confuses users. Considering the structure of Macedonian agriculture, with market oriented producers on one side and subsistence farms on the other, policy makers should adapt the policy measures and procedures in order to meet the needs of all

types of farmers while also fulfilling national objectives. In this regard, the recommendations are in line with the latest CAP reform suggesting simplified support schemes.

EU mostly applies decoupled form of direct payments. However, the recommendation for the national agricultural policy is to keep the payments per area and animal for the time being, since increasing the production capacities is important in this phase of development and this type of direct payments seems to be a proper measure to reach this aim. In order to increase the compliance with the CAP, payments per output as the most coupled form need to be gradually replaced by payments per area and animals.

Increases in production capacities, especially in crop production, are expected to be stimulated by reactivating the agricultural land market based on the latest law for selling the state-owned agricultural land and the strategy for consolidation of agricultural land. Moreover, the law should promote changes in farm structure, in terms of increasing the farm size and land consolidation, thus changing the production structure. Changes in the farm and production structure, jointly with the higher level of investments, are expected to trigger further increases of productivity in the sector.

Macedonian agriculture requires enhanced development through investments and modernization in production capacities. In this regard, structural and rural development measures have proved to be more effective than direct payments. Thus, the projected increase of the agricultural budget should be used to increase the rural development budget, while freezing the level of direct payments in absolute values at the current level. In addition, the government needs to intensify the application of the structural and rural development programs and measures from both, farming and rural population.

Along with the national programs for financial support and the IPARD funding, the use of other sources of financing should be promoted as well. One way is intensifying the rural credit system through the Macedonian Bank for Development Promotion. In addition, the interest of the commercial bank to invest in agriculture should be increased as well. In that regard, mechanisms should be established to stimulate their participation at this market, such as guaranteeing funds.

General services in agriculture are of great importance as well. With the latest CAP reform, the EU recognizes innovation and knowledge transfer as being of essence in agricultural and rural development. Considering the Macedonian situation, there is a need for increased financial and institutional support to further strengthen the capacities of the national extension services and research, and to increase the quality and efficiency of their work. The use of the extension services can be stimulated by government support measures, such as the voucher system.

Improvements in the agro-food chain are needed as well. Among other measures, the focus should be put on the vertical integration. Strengthening relationships and trust among actors in the value chain can bring benefit to all parts by providing reliability in the supply and demand of the agricultural inputs and final products. In addition, promotion of the cooperatives and other forms of cooperation can increase the negotiation power of the primary agricultural producers and strengthen their position in the market.

The institutions related to agriculture (governmental, academic and NGOs) need to further develop their capacities and analytical infrastructure. Further harmonization of the data according to international standards and methodology is necessary, as is harmonization of the data between institutions (e.g. national statistics and internal registries in MAFWE).

Continuous monitoring of the policy implementation and impact analysis are tool to identify the pros and cons of the applied measures. The participation of academic institutions in the process of policy making can serve as a bridge between the policy makers and the stakeholders (farming and rural population and agro-food industry), supporting joint policy design processes for fulfilling common goals, and stabilizing the policy. By bringing the more strategic point of view of all stakeholders, the need for frequent changes in the policy can be alleviated. Only by strategic thinking of all stakeholders the goals stated in the strategic documents can resist the political pressures and changes.

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Annex B.V-1: Area and production of main crops, 2005-2012, TFYR of Macedonia

	2005	2006	2007	2008	2009	2010	2011	2012
Area of production (1 000 ha)								
Total grain	203.2	187.9	180.6	176.7	179.4	163.4	161.3	163.0
- Wheat	108.9	99.1	92.0	86.9	88.3	80.0	79.0	79.7
- Corn/Maize	33.6	31.9	31.1	31.6	32.8	28.7	29.4	29.2
Oilseeds	5.4	3.7	3.7	5.0	4.2	4.1	5.7	3.8
Potatoes	13.5	13.6	14.0	13.8	13.9	13.4	13.8	13.4
Gapes (total)	25.0	24.3	21.3	21.8	20.0	20.0	20.0	21.0
Fruit (total orchards)	13.0	13.0	13.0	13.9	14.0	14.0	14.0	15.0
Vegetables (total)	30.9	30.6	31.0	30.8	31.6	32.1	29.1	29.2
Other:								
- Tobacco	18.5	17.5	17.2	17.1	17.8	20.3	19.7	19.6
- Beans	14.4	14.5	13.9	13.6	13.9	13.3	13.6	13.8
- Fodder	26.4	26.5	27.5	26.7	27.6	27.5	27.2	29.0
Production (1 000 t)								
Total grain	644.6	602.2	468.6	613.0	605.6	538.5	551.6	456.8
- Wheat	333.9	293.3	218.1	291.7	271.1	243.1	256.1	215.0
- Corn/Maize	148.2	147.5	118.4	127.1	154.2	129.0	126.1	115.9
Oilseeds	6.7	6.0	3.6	5.4	7.8	7.6	8.5	115.9
Potatoes	190.4	189.9	180.9	189.4	204.7	200.1	192.7	168.9
Gapes (total)	265.7	254.3	209.7	236.8	253.5	253.4	235.1	277.4
Fruit (total)	150.3	167.3	221.5	251.5	184.8	199.7	200.6	203.6
Vegetables (total)	537.8	569.5	547.0	569.2	628.5	722.3	655.6	655.1
Other:								
- Tobacco	27.7	25.0	22.1	17.1	24.1	30.3	26.5	28.6
- Beans	14.2	14.9	10.9	12.8	14.8	14.2	13.0	11.0
- Fodder	194.1	202.5	198.2	178.4	210.7	210.5	201.6	178.5

Source: SSO

Annex B.V-2: Agricultural farm-gate producer prices (in EUR/t), 2005-2012, TFYR of Macedonia

	2005	2006	2007	2008	2009	2010	2011	2012
Wheat	142.2	119.9	177.8	213.0	116.4	171.1	239.9	246.7
Corn/Maize	117.5	132.1	194.8	244.5	132.2	171.1	240.6	217.6
Barley	121.0	122.8	160.2	186.1	239.1	127.1	211.8	221.7
Potatoes	176.4	249.7	478.4	227.8	155.2	254.2	477.0	179.5
Pepper	235.5	230.0	893.8	608.7	250.4	273.3	218.2	315.8
Tomatoes	363.3	422.5	554.4	573.4	614.4	657.3	285.7	361.8
Fattening cattle for slaughter (live weight)	1 124.3	1 108.9	1 113.6	1 498.6	922.1	904.5	1 285.6	1 070.0
Calves (live weight)	:	:	:	:	1 963.2	1 518.5	1 676.2	1 828.0
Fattening pigs for slaughter (live weight)	1 423.4	1 418.3	1 404.7	1 362.0	1 227.8	1 380.3	1 483.6	1 822.2
Lambs (live weight)	2 184.9	2 226.4	2 087.8	2 338.4	2 431.8	2 288.6	2 573.8	2 709.0
Cow's milk	247.1	283.2	274.7	379.3	253.6	269.6	286.2	310.1

Source: SSO

Chapter B.VI

AGRICULTURE AND AGRICULTURAL POLICY IN MONTENEGRO

Milan Marković*

1. Introduction

Montenegro is a candidate country for EU membership. In October 2007, Montenegro signed the Stabilization and Association Agreement (SAA) that entered into force in January 2008 as the Interim Agreement on Trade and Trade-related Issues. The SAA entered into force in May 2010. Also in 2010, the European Commission issued a favourable opinion on Montenegro's application, identifying seven key priorities for negotiations to begin, and the European Council granted the country candidate status. In December 2011, the Council launched the accession process and the negotiations started in June 2012.

For Montenegrin agriculture and the rural economy the EU integration process is very complex and demanding. Agriculture has inherited difficulties from the past (small subsistence farming, traditional production, low level of productivity), and competitiveness of the agro-food sector is one of its weakest points.

Many tasks need to be completed before Montenegro can accede to the EU. One major task is the preparation of the IPARD program and its supportive documents, as well as strengthening of the institutional capacities and administration creating preconditions (technical and human) for establishing a paying agency.

One of the biggest challenges is the preparation of the strategy for agriculture and rural development with the action plan of harmonization with the EU *acquis*. The European Commission recognised the strategy for the 2014-2020 period as a benchmark starting the negotiation in Chapter 11 – Agriculture and rural development. The Strategy is expected to be adopted by end of 2014.

The purpose of this paper is to present the main aspects of the Montenegrin agricultural sector and its agricultural policy, with an emphasis on EU accession.

Regarding the methodology applied, desk research was performed based on data and information collected from several sources. Statistical data was taken from the Statistical Office of Montenegro (MONSTAT) and EUROSTAT. For agricultural policy analyses, legal and strategic documents, sector studies and other available documents from the Ministry of Agriculture and Rural Development were used. Since data on executed payments from the agricultural budget is not available, budgetary support to agriculture was estimated based on planned amounts in annual programmes (Agro-budget). Agricultural policy measures were systemized according to uniform classification using the APM template (Rednak et al., 2013).

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In the first section, the agricultural sector is analysed starting based on the general data, which is followed by a description of production characteristics and agro-food trade. The next section looks at agricultural policy strategic and programming documents as well as policy measures implemented in recent years. The last section examines the main gaps in agricultural policy design and implementation in the light of the EU accession process and draws the main conclusions and recommendations for alignment with CAP orientation.

2. Agriculture

2.1 Role of agriculture in the economy

Montenegro is a small country, with a surface area of 13 812 km^2 and according the 2011 census it has 620 029 inhabitants. The population density is 45 people per km^2 on average, making Montenegro one of the most sparsely populated countries in Europe.

The agricultural sector plays an important role in the Montenegrin economy. The share of agriculture, hunting and forestry in total Gross Value Added (GVA) is 9.5 percent (2011).

Employment data published regularly by MONSTAT refers only to business entities (enterprises, co-operatives, etc.), and not to employment on family agricultural holdings. The only complete data on employment in agriculture is available from the Agricultural Census 2010. According to this data, 47 870 annual work units (AWU) were engaged in agriculture on 48 870 agricultural holdings. Based on this data, and data on total employment in Montenegro (201 000 persons in 2012, MONSTAT), it can be estimated that agriculture's contribution to total employment in the country is about 24 percent.

Share of agriculture in GVA and employment in Montenegro is similar to other SEE countries (see Chapter A.II).

2.2 Land resources and farm structure

Agricultural land resources, with total area of 515 740 ha or about 0.83 ha per capita, represent the country's most important economic attribute and cover 37.3 percent of the total surface area. However, pastures have by far the highest share of total land (63 percent) followed by natural meadows (25 percent). These two categories together (450 843 ha) form about 88 percent of total agricultural land.

However, these land resources are clearly overestimated. The 2010 agricultural census showed a much smaller agricultural area (309 241 ha).

Table B.VI-1: Total available and utilized agricultural area, 2010, Montenegro

Indicator	2010
Total available agricultural land	309 241 ha
- Holder's own agricultural land	176 251 ha (57%)
- Rented and collective agricultural land (katun, commune)	132 989 ha (43%)
Average agricultural land per holding	6.3 ha
Total utilized agricultural area	221 289 ha
- Arable land and kitchen gardens	6 460 ha (2.9%)
- Permanent crops	4 650 ha (2.1%)
- Permanent grassland	210 180 ha (95.0%)
Average UAA per holding	4.5 ha

Source: MONSTAT (Agricultural Census 2010)

Taking into account only utilized agricultural area (221 289 ha UAA) its share in total territory is only 16 percent. Among other EU countries, only Finland (6.8 percent), Sweden (6.9 percent) and Cyprus (12.8

percent) have lower percentage of UAA in total territory. Regarding the share of permanent grassland in total utilized agricultural area Montenegro with 95 percent takes the first place.

Average UAA per agricultural holding in Montenegro is not much different than in other SEE countries and also in some EU countries (such as Cyprus, Romania, Croatia, Slovenia). The average farm size is 4.5 ha of UAA per holding. The share of agricultural holdings with less than 1 ha of UAA is very high (55.1 percent). On the other hand, even 40 percent of agricultural area is used by 431 holdings (0.9 percent) which are larger than 100 ha.

Table B.VI-2: The structure of agricultural holdings by size classes, 2010, Montenegro

	Agricultural holdings		UAA	
Size class	**Number**	**%**	**ha**	**%**
< 0.50 ha	18 526	37.8	4 130	1.9
0.50- < 1.00 ha	8 467	17.3	6 347	2.9
1.00- < 5.00 ha	16 494	33.7	36 025	16.3
5.00- < 10.00 ha	2 712	5.6	18 532	8.4
10.00- < 20.00 ha	1 157	2.4	15 490	7.0
20.00- < 50.00 ha	642	1.3	20 207	9.1
50.00- < 100.00 ha	441	0.9	31 646	14.3
> 100 ha	431	0.9	88 912	40.2
Total	**48 870**	**100.0**	**221 289**	**100.0**

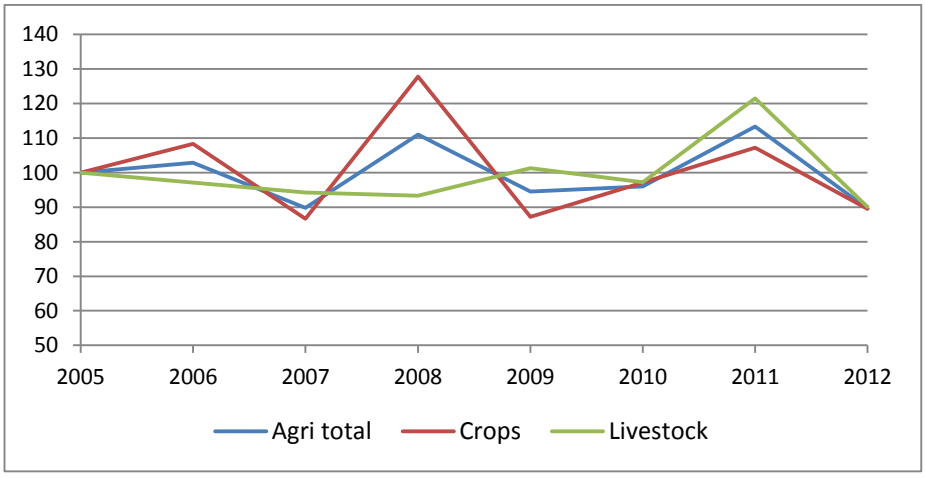
Source: MONSTAT (Agricultural Census 2010)

When land resources are considered, it is important to mention that 2 650 ha are regularly irrigated in the plain area close to Podgorica, including the large vineyard with more than 2 300 ha. The drainage system covers 1 640 ha.

2.3 Agricultural production and output

The production indices for the crops, livestock and agriculture overall show no clear trends – either increases or decreases – in the production for the 2005-2012 period. However, very large fluctuations in crop production, and consequently in livestock and total production, can be noticed, primarily due to many extreme weather conditions (severe droughts in 2007 and 2012).

Figure B.VI-1: Agricultural production volume indices, 2005-2012 (2005=100), Montenegro



Source: MONSTAT

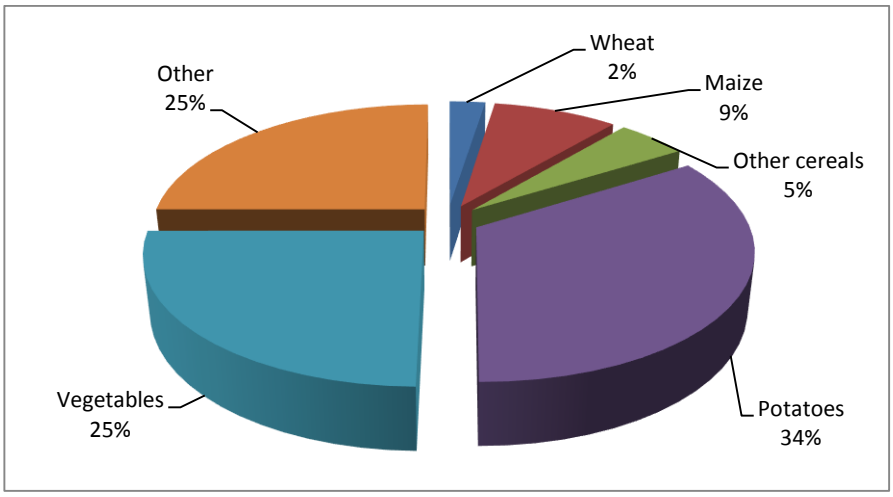
In Montenegro, the share of crop output is higher (about 58 percent in 2011) than that created by livestock sector (42 percent). Taking into consideration the structure of land resources (high share of

permanent grassland), it can be concluded that the output created in the Montenegrin livestock sector is quite low. In other words, the available land resources are not used to their full potential, since they could provide fodder for a much larger ruminant population, leading to increased milk and meat production.

Regarding crop production, the major crop sectors are vegetables, grapes, potatoes, fruits and olives, while cereals account for a very small proportion in terms of area covered (which is peculiar to Montenegrin agriculture).

Vineyards cover 4 400 ha, with prevailing autochthonous varieties (Vranac and Kratosija) mainly for production of red wine, and total grape production in 2011 was 32 800 tonnes. Fruit trees and olive trees are grown on 12 007 ha, with annual production of 42 100 tonnes. In olive growing, traditional production methods prevail; there are slightly more than 400 000 olive trees, with autochthonous Zutica being the dominant variety (more than 90 percent).

Figure B.VI-2: Breakdown of harvested area by main crops, 2011, Montenegro



Source: MONSTAT

The area used for vegetable production is about 8 000 ha, and production was 143 300 tonnes in 2011. Vegetable production in greenhouses (60 ha) shows positive results in terms of volume, range of products and expanding of the growing season. Potato production is very important and potatoes are grown on 10 900 ha, with total production of 180 000 tonnes in 2011.

The Montenegrin livestock sector is dominated by rearing of ruminants, primarily due to the large area covered by meadows and pastures. Cattle breeding, with 84 701 heads (2012) is the largest sub-sector of livestock production. Sheep breeding (with 207 047 heads) is characterized by semi-extensive production methods, mainly in the North of the country. Goat breeding is also an important sector, especially in the karst areas (Central and South Regions). Poultry and pig production are weak, primarily due to lack of domestic production of animal feed.

The low technological level of agricultural production in Montenegro results in low average yields. With the exception of grapes, average crop yields are very low. Only potatoes show increasing trends in yields.

Cow's milk accounts for more than 90 percent of total milk production. The average yield per cow is very low at less than 3 000 kg. The main reason for this is that subsistence small-sized farms prevail, which are not motivated to increase production or introduce new technologies. The breed structure is not favourable either, since around 50 percent of the Montenegrin cow herd belongs to crosses that are less productive. In addition, the majority of farms produce milk in the less favoured hilly-mountain areas.

Table B.VI-3: Average yield of wheat, potato, grapes and milk, 2005-2011, Montenegro

Commodity	2005	2006	2007	2008	2009	2010	2011
Common wheat (t/ha)	3.10	3.09	2.50	3.50	3.81	3.52	3.06
Potato (t/ha)	12.88	13.05	10.50	13.15	15.18	14.63	16.53
Grapes (t/ha)	9.14	9.97	8.43	10.48	8.78	9.27	7.46
Cow's milk (t/cow)	2.40	2.35	2.38	2.28	2.21	2.18	3.30

Source: MONSTAT

One of the structural characteristics of Montenegrin food production is the low level of finalization of agricultural products, a significant share of self-supply, as well as significant sales of agro-food products through unregistered trade channels. In spite of the positive results being achieved in certain sectors in recent years (meat and wine), the agro-food industry is still weak and cannot be a driving force for faster development of primary production. In addition, it has unfavourable size structure of enterprises. According to the Strategy (MARD, 2006), about 70 percent of enterprises employ less than 15 workers and only four enterprises employ more than 250. The current situation is similar and small processing units prevail. The size structure of enterprises and the unfavourable technical level cause a low level of competitiveness in the agro-food industry.

2.4 Trade of agro-food commodities

Montenegro is a net importer of agro-food products with very high dependency on food imports. Total exports hardly cover 13 percent of imports. In recent years exports have increased slightly from EUR 41 million in 2008 to about EUR 57 million in 2012, while for the same period imports saw a smaller relative increase. As a consequence, the negative trade balance remained at approximately the same level, while the export to import ratio, in relative terms, increased from 9.6 percent in 2008 to 12.8 percent in 2012.

Table B.VI-4: Agro-food trade (in EUR million), 2005-2012, Montenegro

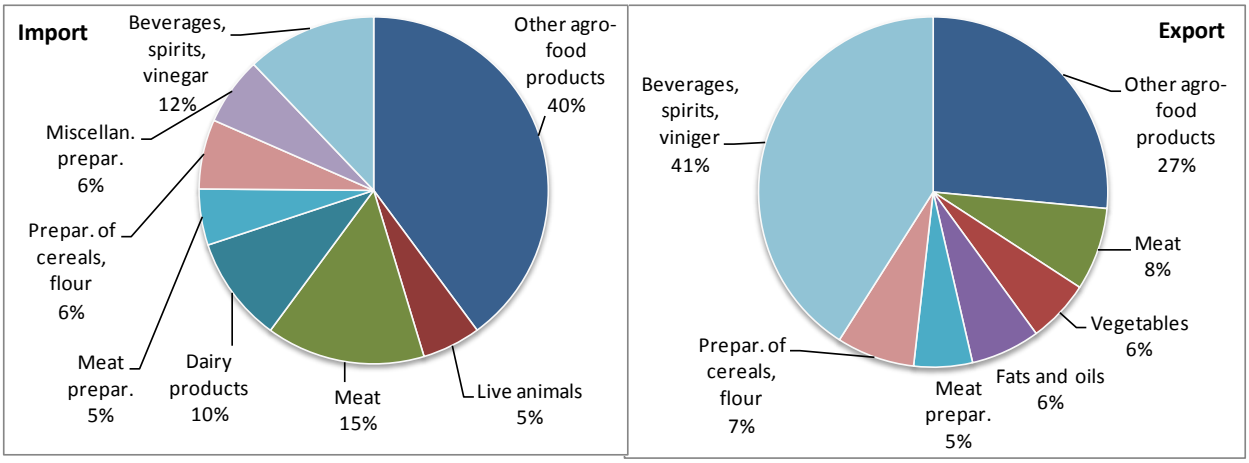
	2005	2006	2007	2008	2009	2010	2011	2012
Exports	68.9	70.1	37.4	41.0	40.7	46.5	52.4	56.7
Imports	199.2	228.7	312.7	426.0	397.6	406.4	438.9	443.4
Trade balance	-130.3	-158.6	-275.3	-385.0	-356.9	-359.9	-386.5	-386.7
Export/Import ratio	34.6%	30.6%	12.0%	9.6%	10.2%	11.4%	11.9%	12.8%

Source: MONSTAT

In 2012, beverages alone accounted for more than 40 percent of export value (EUR 23.3 million). Wine is the most important beverage (EUR 15.4 million, or two thirds). Other relevant export products are meat (EUR 4.4 million); vegetables (EUR 3.3 million); fruit (EUR 4.0 million); meat preparations (EUR 3.1 million) and preparations of cereals, flour or starch (EUR 4.1 million). Export of meat and meat preparations has increased significantly in recent years, from EUR 2.0 million in 2005 to EUR 7.5 million in 2012, as a result of the positive trends in the new meat industry.

Within total imports, valued at EUR 443 million in 2012, the major tariff groups are meat (EUR 65.5 million); beverages (EUR 53.6 million); dairy products (EUR 43.5 million); preparations of cereals (EUR 28.6 million); and miscellaneous edible preparations (EUR 28 million). Montenegro's foreign trade balance is negative for all groups of agro-food products. The biggest negative balances are for meat (EUR -61.2 million); dairy products (EUR -43.4 million) and beverages (EUR -30.4 million).

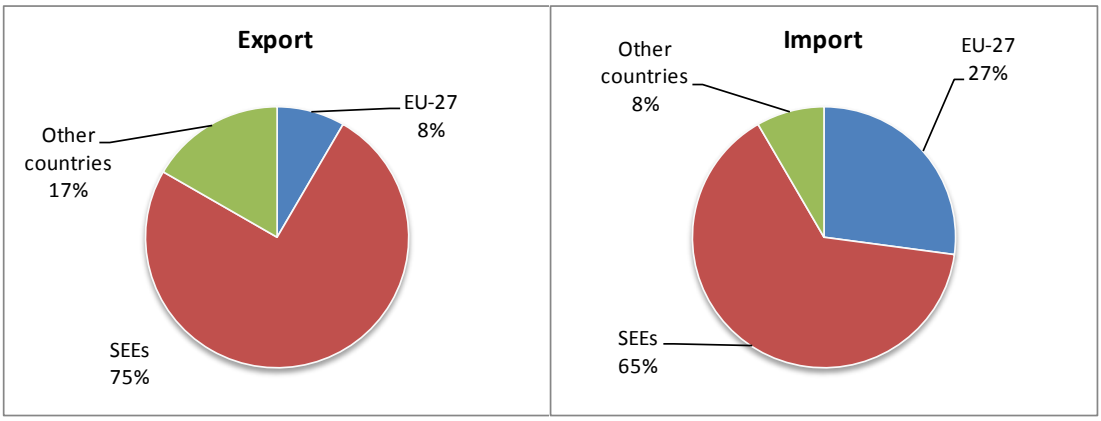
Figure B.VI-3: Composition of agro-food imports and exports by commodity groups, 2012, Montenegro



Source: MONSTAT

As far as the export/import destinations are concerned, Montenegro's most important market is the Southeastern European (SEE) countries.

Figure B.VI-4: Composition of agro-food trade by region, 2011, Montenegro



Source: MONSTAT

Montenegrin exports to the EU are very modest (around EUR 6 million), while imports are above EUR 100 million. Thus exports compensate only about 5 percent of the imports from the EU.

Table B.VI-5: Agro-food trade by region and country (in EUR million), 2010-2012 average, Montenegro

Country/Region	Export	Import	Trade balance
SEEs	**40.6**	**272.2**	**-231.6**
- Bosnia and Herzegovina	10.1	16.7	-6.6
- Croatia	0.8	23.1	-22.4
- TFYR of Macedonia	0.7	11.7	-11.0
- Serbia	14.1	218.7	-204.7
- Albania	2.6	0.7	1.9
- Kosovo*	12.5	1.3	11.1
EU-27	**5.5**	**107.1**	**-101.6**
Other countries	**5.7**	**50.2**	**-44.5**
Total	**51.9**	**429.6**	**-377.7**

Source: MONSTAT

Among the SEE countries, Serbia is by far the largest import partner, accounting for 51 percent of all imports (or 80 percent in SEE countries import). However, regarding the export, Kosovo* is at almost the same level as Serbia (EUR 13 million and EUR 14 million, respectively). Contrary to Serbia with which Montenegro has huge negative trade balance, significant positive balance is with Kosovo* (EUR 11 million) and rather small but positive with Albania.

The general conclusion is that Montenegro is highly dependent on imports with significant dispersion of imported product assortments. Analysis of the foreign market sends a clear signal to domestic agro-food producers to work on the restructuring of production and to create conditions for reducing deficits or diminishing it for certain products. The relatively small number of exported products emphasizes the problem of the competitiveness of domestic products, considering the quality, prices and potential quantities that may be distributed outside Montenegro.

3. Agricultural policy

3.1 Agricultural policy concept and frame

Montenegrin agricultural policy over the last two decades can be considered in two consecutive periods; namely, before 2006 and after 2006.

Until 2006, many important changes in the policy concept were introduced: family farms started to be treated equally with the large farms (former “socialist sector”); establishment of the foreign trade policy with its gradual harmonization with the principles of the World Trade Organization (WTO); upgrading professional and educational level of producers and expert services in agriculture; strengthening of institutional support to the agricultural sector through the establishment of new and modernization of existing services and laboratories.

In spite of the significant efforts and steps taken, there was no consistent agricultural policy until the strategy “Montenegro’s agriculture and the European Union – The food production and rural development” was adopted in 2006. The Strategy was a turning point in agricultural reform in Montenegro. It provides a platform for harmonization of agricultural policy, legislation and institutional support to agriculture with the principles and requirements of the EU accession process. With the Strategy, Montenegro opted for the concept of sustainable agricultural development, establishing a balance among economic development, environmental protection and social aspects. This concept uses the multiple role of agriculture as a basis for placing agriculture into a much broader context than solely its contribution to the GDP.

In the agricultural policy pursued under the Strategy, rural development measures have the most important role in targeting three main directions: increase in competitiveness, sustainable resource management, and ensuring the quality of life and diversification of economic activities in rural areas. The Strategy provides a framework for further reforms in agriculture with specific focus on state role in approximation with the EU.

The most important document for the implementation of the Strategy is the National Program for Food Production and Rural Development, which was adopted in 2008. The National program, as an operational document, outlines objectives, the strategic and legal frame and the starting points for the harmonization of agricultural policy with the CAP.

The agricultural policy measures are described in detail. Every measure consists of the basic elements necessary for its implementation. A five-year financial plan is presented, as created through policy measure groups, and the plan for each measure with financial sources is defined as well.

As a multi-annual budgetary plan for agriculture and rural development, the National program consists of the following pillars and measures:

- Market interventions and direct payments (9 measures; 29.0 percent of total funds)
- Rural development policy (17 measures; 39.3 percent)
- Support to general services in agriculture (8 measures; 18.0 percent)
- Social transfers to rural population (11.2 percent)
- Technical and administrative support (2.5 percent)

The National program provided the basis for preparing the annual budget for agriculture (Agro-budget). Practically all the measures under the National program are found in the Agro-budget. However, some of them have not been implemented.

The main legal document for the agricultural policy is The Law on Agriculture and Rural Development, adopted in 2009. The Law takes over the objectives and the agricultural policy of the Strategy and gives them the necessary legal shape. The agricultural policy is organised into four main groups; namely, market and direct support policy, rural development policy, support for general services in agriculture, and social transfers to the rural population.

The most important form of support in the first policy group is direct payments (based on area or per animal), which is in accordance with the principles of the WTO.

The second group is rural development policy which plays a key role in Montenegrin agricultural policy. It is designed under four basic groups of measures (axis). The first axis is directed towards strengthening the competitiveness of food producers through support to investments in primary production and the processing industries as well as investments for executing land policy, support for the introduction of international standards and producers organizations.

The second axis refers to the sustainable management of resources, where the support for the development of less favoured areas for agriculture and agro-environmental measures are envisaged.

The third axis includes measures for supporting the quality of life in rural areas and diversifying economic activities in rural areas.

The fourth axis of measures for rural development should stimulate and support local communities and local groups in creating and implementing their strategies and development projects.

The third group of agricultural policy measures refers to financial support for general services for agriculture that are of public interest: first veterinary and phytosanitary policies, then extension services, animal and plant breeding and other professional services in livestock and plant production, research support policy, analytical infrastructure and education in agriculture.

The fourth group of the agricultural policy measures refers to social transfers to agricultural households.

3.2 Agricultural policy measures

Market stabilisation measures

Market interventions consist of two measures; namely, the market intervention program, and risk management in agriculture.

The Market Intervention Program includes intervention buying and food aid with the aim of removing seasonal disproportionality between supply and demand, to encourage consumption of specific domestic products with seasonal surpluses and to support the supply of certain agricultural products at affordable prices for certain vulnerable population categories. The program has been implemented as support for collecting and marketing of seasonal surplus of vegetables and lambs.

Risk management support in agriculture consists of co-financing the costs of insurance against crop and livestock damage; reimbursement for damage caused by wild animals; and financial support to agricultural producers in the event of weather damage and other major damage.

Direct payments to the farmers

Direct support to crop production is implemented per hectare of cultivated land for basic arable crops: cereals, potatoes, forage plants (plants for silage production, annual and perennial fodder crops, grass-legume mixture and lucernes), buckwheat and other crops (apart from tobacco). Direct payments are also allocated to seed production of the aforementioned crops. The minimum area of individual crops to be eligible for support is 0.5 ha, while for cereals it is 1 ha. Different types of crops cannot be added together to meet this minimum. One farm can apply for support for each of the individual qualifying crops. In 2012 and 2013, the basic payment for crops produced for commercial purposes or feed was EUR 160 per ha, for forage plants EUR 150 per ha, for cereal seed production EUR 300 per ha, and for elite seed potato EUR 700 per ha. Support for tobacco production was EUR 1 000 per ha if 17 000 plants per ha are sown.

Direct support for livestock production – paid per head of livestock – has been implemented for fifteen years. The basic components are:

- Direct payments for breeding cattle (EUR 70 per head) – only above the threshold of four head of cows or heifers per farm; animals have to be properly ear tagged and registered in the national database;
- Payment for breeding sheep (EUR 8 per head), only above the threshold of 40 heads per farm;
- Payment for breeding goats (EUR 8 per head), only above the threshold of 30 heads per farm;
- Premium for fattened young beef (EUR 120 per head), under the condition that animals are properly ear tagged and registered in the national database and slaughtered in approved slaughterhouses.

Support to dairy production for the market is EUR 0.065 per litre of milk delivered to approved dairies. The eligibility condition for the premium is the quantity of milk delivered per farm (a minimum 400 litres per month). An additional premium of EUR 0.01 per litre of milk is allocated to monthly production of 5 000 litres or more, and EUR 0.01 per litre of milk of extra or first quality class.

Support for strengthening the milk collection network is directed to the processing sector with the aim at improving market infrastructure for the collection of raw milk from farmers. The basis for the payments is litres of milk collected (EUR 0.01 per litre).

Rural Development

Rural development policy plays a very important role in the new Montenegrin agricultural policy. This is primarily due to the specificities of the agricultural sector and rural areas. The absence of commercial production of cereals and very low competitiveness of agriculture on the one hand, and the vast majority of mountain areas in the northern part of the country being threatened by abandonment on the other, have resulted in agricultural policy being focused on rural development and providing different services to the agricultural sector.

Since gradual harmonization of the agricultural policy with the CAP is one of the main priorities, rural development policy under the National Program is designed in accordance with the Rural Development Policy in the EU (Community Strategic Guidelines 2007-2013), meaning that measures are grouped in four axes. It should be mentioned that National Program foresaw the fourth axis, although implementation of the Leader projects has not yet started. Also, one of the main measures in the second axis was support to Less Favoured Areas (LFA); its introduction was foreseen for 2013, but no concrete steps have been undertaken so far.

The first group (axis) has the biggest number of measures (11 in totals of 17) and contributes the highest amount (71 percent) towards the total allocation for rural development policy. The axis is directed at strengthening competitiveness of food producers through supporting the investments in primary production and processing industries, as well as introducing international standards and producers' organizations.

The eligible investments for support in the primary sector are: investments in agricultural equipment and mechanization; investments in livestock farms (construction of the new barns and renovation of the old ones, including purchasing of breeding animals); investments in setting-up perennial crop plantations (fruits, olive and vines) and investments in construction and equipping greenhouses.

The following are eligible for support in the processing industry: investments in processing of animal products (dairies, slaughterhouses and meat industry); investments in storage, packing and processing of plant products and investments in processing of agricultural products on family holdings. The investments are generally 30 percent co-financed from public sources.

The second group (axis) refers to the sustainable management of resources, where three measures are implemented. The measure for sustainable use of mountain pastures accounts for the largest share (more than 50 percent), followed by support to organic farming, while support for the preservation of genetic resources has very small coverage (less than 1 percent of the rural development budget). Generally, this axis has small share of the rural development policy (only 10 percent) due to the fact that the measure LFA has not been implemented at all, while agro-environmental measures are not well developed.

All measures in this group are practically direct compensatory payments. The preservation of genetic resources in agriculture refers to payments per livestock unit or per hectare for the conservation of autochthonous breeds and plant varieties (on the basis of an action plan for preservation and sustainable use of genetic resources in agriculture). Organic farming payments mean payments per hectare for plant production and per livestock unit in animal husbandry (conditions according to the rules defined by legislation). The measure sustainable use of mountain pastures refers to payments per livestock unit grazed on mountain pastures.

The third group (axis) consists of two measures: diversification of economic activities in rural areas; and revitalization and development of rural areas and construction of rural infrastructure. The first one, referring to new employment in non-agricultural sectors, is supported by very small amount**.** The second measure is related to co-financing of the projects in rural areas: local roads, water management, facilities of common importance; it has been implemented for many years with significant participation in total Agro-budget, with a share more than 90 percent in the third axis or close to 20 percent in rural development policy.

General services

The third component or pillar of agricultural policy refers to financial support for general services in agriculture that are of public interest. This policy pillar supports programmes on education, research and development, analytical activities, extension services, a programme on veterinary and phyto-sanitary measures, and activities and programmes related to the control of product quality. It consists of eight measures, of which the Operational Program for Animal Health protection has the highest share.

Social transfers to rural population

In addition to the programs and measures already presented, Montenegro has been implementing a fourth pillar of agricultural policy, which is a kind of social policy directed at rural society. Social transfers to the rural population (the measure called Old age allowance program) in the form of pensions is aimed at securing an adequate living standard in rural areas; because of its interdependency with agricultural households, it is also aimed at sustainable management of natural resources. By providing social support to holdings lacking other sources of income, it contributes to decreasing poverty in rural areas and increasing the quality of life in villages, which is one of the priorities of the third axis of the rural development policy. The pensions are provided to the elders of family households (one old member is eligible per household). This measure participates significantly in total Agro-budget (close to 20 percent).

4. Discussion and conclusions

The macro-economic framework in Montenegro is rather changeable (economic crisis, financial difficulties etc.) which creates difficulties for the development of the agro-food sector. Agriculture is very important for the economy and society in terms of its share in GVA and in total employment. Competitiveness in the agricultural sector is relatively low due to insufficient technology, unfavourable farm structure, low yields in crop and animal production and small scale production (subsistence farming prevails). The food value chain (horizontal among producers and vertical links) is weak. The huge import and trade deficit in agro-food products (export to import ratio is only 12 percent) creates problems for the sustainability of the economy.

In order to overcome these weaknesses and to use opportunities in the context of EU accession designing good agricultural policy is a real challenge. The agricultural policy has to provide a good framework for sustainable development of the rural economy, and at the same time it should be streamlined to the EU model or CAP like policy.

The following actions have to be continued and/or reinforced:

- Internal harmonization of the sector policies in order to provide economic growth parallel with approximation to the EU;
- Significantly increase financial support to agriculture and rural areas, but strengthen other instruments too (macro-economic, social, educational policy);
- Wide and substantial investment support in order to improve technological level and to increase yields in all subsectors of the agriculture;
- Provide regular vocational education and trainings for farmers;
- Support land restructuring – implementation of land consolidation policy;
- Make food value chains the focus of the policy in order to remove its weak points;
- Stronger promotion of the importance of agriculture in order to provide better acceptance of it in the society's as a multifunctional sector.

As already presented the key documents in designing and implementing of the agricultural and rural development policy are: the Strategy; the National program; the Law on agriculture and rural development and the Agro-budget.

The Strategy from 2006 has streamlined the reforms in three main fields: agricultural policy (gradual introduction of the CAP); legislation (harmonization of legislation with the EU *Acquis Communautaire*); and institutions (modernization and strengthening of institutional capacities enabling efficient implementation of the policy).

The new strategy has to be a continuation of the existing one, with crosschecking priorities reformulated accordingly. The new CAP 2014-2020 should be the reference point, while international commitments have to be respected. Since the new strategy is requested by the EC as a benchmark for opening negotiations with Montenegro in Chapter 11: Agriculture and Rural Development, the action plan or road map of harmonization of the national policy with the EU *acquis* has to be carefully and realistically planned. This needs wide involvement of all stakeholders and institutions.

The National programme for food production and rural development 2009-2013 fully recognised gradual harmonization of the agricultural policy with the CAP as one of the priorities, and it was designed as a CAP like document in terms of its structure (the measures and instruments). Therefore, the existing National program could be a good basis and starting point for the new programming document, while the integration of new CAP instruments is also required. For designing this very sensitive document foreign experts and administration are not sufficient, thus full participation of domestic expertise is unavoidable.

The Agro-budget is adopted each year, based on the Law on Agricultural and Rural Development and the Law on Budget of Montenegro. Regarding the implementation of the designed policy on annual

level, some actions should be emphasized: better participation of the stakeholders in preparation of the measures; full respect of the legal and strategic frame; reporting on execution on each of the measures. For smooth implementation, preparation and adoption of the Agro-budget is needed before financial year starts, which has not been the case until now.

The IPARD program is an important document for domestic rural development policy in the pre-accession period. It should be an opportunity for farmers to invest in improving their performance and thus increase competitiveness. It is also a good opportunity for government to prepare and strengthen absorption capacities for the implementation of the EU rural development policy after accession. The Ministry has already established the Sector for rural development that is in charge of the management of the IPARD program.

The IPARD programme is under elaboration; the second draft was sent to the European Commission in May 2014. The four measures chosen were: Investments in agricultural holdings to upgrade to EU standards; Investments in processing and marketing of agriculture and fishery products to restructure and upgrade to EU standards; The development and diversification of rural economic activities and Technical assistance.

The Ministry of Agriculture and Rural Development, as a body with a key role in the policy implementation, is undergoing wide-ranging reforms and it has been recruiting a new staff. Strengthening and upgrading human capacities is a real necessity and what the Ministry is doing is very positive. However, recruitment of the new staff without enough experience creates lack of institutional memory of the Ministry.

In addition to the Ministry, several institutions, complementing the Ministry, are involved in the implementation of the policy: several units of the Biotechnical Faculty (extension service in plant production and in livestock sector, several labs, plant protection department); State directorates and others. Generally, it can be concluded that there is no overlapping among these institutions. However, the problem is that the Advisory service is more and more involved in administrative tasks. In order to improve overall performance and increase transparency, local level (municipal) administration should be included in policy implementation, while the existing research institutions in agriculture have to be more involved in formulation of the policy.

Generally, total support for agriculture is very low, even in comparison with the SEE countries (see Annex B.VI-3 and Chapter A.II). The gap between the Agro-budget, as the implementing document on annual level, and the National programme, as a strategic document, is increasing (gaps in the budget by pillars and by measures; see Annex B.VI-5).

There is a paradox in implementation of the direct payment schemes. On the one side, total amount for direct support is very limited (especially share in the total Agro-budget), but on the other side the amounts per unit (either per hectare or per head of livestock) are rather high. However, due to very high thresholds for eligibility, the scope of eligible farms is very small. For example: for cattle, the minimum number of animals per farm to be eligible for support is four cows and heifers, while the national average of cattle population is about three animals per farm. This excludes many small farmers. Due to the fact that animals below this threshold are not eligible for subsidies, small farms receive less than the official amount per animal (a short simulation of the support is presented in Annex B.VI-4). Since the majority of cattle farms own less than 10 animals, real support for this sector is not EUR 70 per head, but somewhere between EUR 30 and EUR 40 per head, while about 20 000 farms which own four animals or less are not eligible for support. On the farm level more animals per herd mean higher support per animal. This creates certain progressivity, while the EU concept is the opposite – the limitations for large farms (instruments like modulation, degressivity and capping). The same logic, as described for cattle, is applicable to the payment scheme in the sheep and goat sector.

Another limitation is the fact that it is not possible to convert different species into livestock units and count them together to achieve eligibility. For example, a farm can have four cows plus 35 sheep and

even several goats, and still not be eligible for subsidies. A significant number of farms, mainly in distant rural areas, combine rearing of sheep and cattle. However, this practice of rearing ruminants is generally discouraged: a farmer who rears 200 sheep would receive EUR 1 280 per farm (EUR 8 x 160), but one who raises 100 sheep and 10 cows (what is equivalent number of livestock units) would receive EUR 900 (EUR 420 for cows and EUR 480 for sheep, after deduction of the minimums for both species).

In regards to the direct support for crop production, the threshold for eligibility is also very high (0.5 ha for all crops, while 1 ha for cereals). The minimums are put separately for each individual crop, without the possibility of aggregating to become eligible for support. In spite of quite high support per ha (EUR 150 or EUR 160), the scope is very small, and thus represents a very small share of total support. The share of this payment scheme is only about 3 percent of total budgetary support. In addition, the direct payment scheme for crops does not include areas used for hay production (natural meadows), which is, after the pastures, by far the largest category of utilised agricultural area.

In the milk sector, output linked direct payments have increased from EUR 0.035 in 2009 to EUR 0.065 per litre of milk delivered to the approved dairy in 2013 (almost doubled). One aspect of this is the fact that it is contrary to EU policy, while another serious one is the worsening of the distribution of direct support. The vast majority of milk producers in the country do not have direct access to the market (dairies), either because of the long distances to the nearest dairy, bad rural infrastructure, or a combination of the two. While support to farmers who deliver milk to dairies and operate mainly in favoured areas has been increasing, the majority of farmers that have to process milk into dairy products themselves are disqualified from that kind of support (more than 80 percent of total milk is not processed by the dairies).

The solutions (remedies) for these deviations in the direct payments schemes should be:

- To remove completely threshold for cattle;
- To reduce threshold to one livestock unit for sheep and goats (equivalent to 10 sheep or 10 goats);
- To allow aggregation or summing up of different species to provide eligibility;
- To reduce significantly threshold for direct payments for crops (maybe max. 0.3 ha) allowing to attain this threshold by summing up of different crops;
- To include into the payment scheme areas used for fodder production on natural meadows as a first step than also pastures afterwards;
- To phase out production coupled payments in reasonable transitional period;
- To develop IACS and LPIS as a precondition for full implementation of CAP like direct payment schemes.

Considering the implementation of rural development measures, in addition to the inadequate budgetary support some of the measures have not been developed yet, including scheme for less favoured areas. In axis 1 the investment support has somehow been implemented, but mostly from World Bank grant (MIDAS), and not under the regular national support program. In the axis 2 of rural development policy agro-environmental measures are at a very low level. Some of the measures defined by the National program have not been implemented at all; many are underfinanced or symbolically financed. Leader projects and some other measures have not yet been developed.

There have been significant improvements in procedural matters (issuing tenders, preparation of the manuals for beneficiaries, measures promotions etc.) and this positive trend in rural development policy implementation should be continued with a view to first obtaining accreditation of the IPARD structures as soon as possible.

Some of the actions have to be reinforced, including more precise determination of the needs of rural society, adjustment of support to the different types of farming and farms, much better preparation of the farmers and other stakeholders at the local levels, stronger support for producer groups (cooperatives, companies, clusters, branch organizations) and for the whole food supply chain.

General services (the third pillar of agricultural policy) are implemented in accordance with the design of the National program in terms of the measures, their objectives and structure. However, budgetary support is decreasing, which is contrary to the National program, and even worse, contrary to real needs. Simply developing more competitive family farming based on the EU model needs more institutional support. In this context, building networks and coordination between research, extension and the farming community has to be reinforced. Recognition of agricultural knowledge and innovation system role on all levels, and fitting it to the real needs is very important. Analytical support is not developed yet and there are no clear signals for the improvement. No support is provided for applied research in spite of real demand; this lack is only partly compensated by donor support.

Lack of clear data on the executed budget for agriculture, together with inconsistencies and gaps in agricultural statistics and weak analytical capacity, mean that the picture of the sector is not completely clear and reveal that there are real barriers to the formulation and implementation of agricultural policy. Improving statistics is not only a necessity for EU negotiations, but also for decision making (in addition to MONSTAT, involvement of decision makers and academia is crucial).

Considering agricultural policy generally, the main recommendations are:

- To ensure continuity in policy making based on multi-annual programming documents (National program);
- To speed-up building of implementing structure for agricultural policy harmonized with the CAP (Paying agency, Managing authority, IACS…);
- To remove gaps in statistics (land use, price statistics, economic accounts);
- To develop analytical capacity for programming and analysis of agricultural policy;
- To educate administration in the modern management of public policies;
- To introduce evidence based policy for which clear reporting on implemented policy and impact assessments are essential preconditions.

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Annex B.VI-1: Area and production of main crops, 2005-2011, Montenegro

	2005	2006	2007	2008	2009	2010	2011
Area of production (1 000 ha)							
Total grain	5.0	5.1	5.2	5.1	5.0	5.2	5.2
- Wheat	0.8	0.8	0.8	0.8	0.8	0.7	0.8
- Corn/Maize	3.1	2.8	2.7	2.7	2.7	2.7	2.8
Potatoes	10.3	10.2	10.1	10.2	10.3	10.2	10.9
Grapes (total)	4.0	4.2	4.2	4.2	4.4	4.4	4.4
Fruit (total) incl. olive trees	9.6	9.7	9.8	9.8	11.9	12.0	12.0
Vegetables (total)	6.8	6.8	6.7	6.7	8.1	8.1	8.0
Tobacco	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Fodder	7.8	7.5	8.0	7.9	8.1	7.6	7.3
Production (1 000 t)							
Total grain	14.6	14.3	10.4	15.8	16.9	16.3	17.5
- Wheat	2.6	2.5	2.0	2.8	3.0	2.5	2.4
- Corn/Maize	9.7	9.1	6.9	9.6	10.0	10.5	11.7
Potatoes	132.8	132.8	106.1	134.1	156.4	149.3	180.1
Grapes (total)	36.9	41.7	35.4	44.0	38.6	40.8	32.8
Fruit (total)	30.2	32.8	30.9	30.5	39.8	33.9	42.1
Vegetables (total)	110.9	119.9	110.2	136.5	97.4	97.4	143.3
Tobacco	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Fodder	15.7	34.1	14.1	26.9	29.9	29.2	:

Source: MONSTAT

Annex B.VI-2: Livestock numbers (in 1 000 animals), 2005-2012, Montenegro

	2005	2006	2007	2008	2009	2010	2011	2012
Cattle	117.0	118.0	115.0	106.5	101.0	96.0	87.2	84.7
of which dairy cows	75.0	73.7	70.5	69.0	67.7	64.3	59.5	60.0
Pigs	11.0	13.0	10.0	10.0	12.0	11.0	21.4	18.5
Sheep	255.0	249.0	222.0	209.0	199.8	198.2	208.8	207.0
Horses	7.1	6.2	5.4	5.1	5.0	4.8	4.0	3.9
Poultry	462.1	448.5	505.4	432.0	416.7	506.5	470.0	732.1
Beehives	42.6	41.6	36.6	29.0	18.1	21.7	42.2	42.7

Source: MONSTAT

Annex B.VI-3: Budgetary support to agriculture (in EUR million), 2005-2012, Montenegro

	2005	2006	2007	2008	2009	2010	2011	2012
MARKET AND DIRECT PRODUCER SUPPORT MEASURES	2.8	3.5	4.1	4.9	5.2	6.6	5.7	6.5
Market support measures	0.1	0.1	0.4	0.3	0.5	0.5	0.6	0.4
Direct producer support measures	2.6	3.3	3.6	4.1	4.5	5.7	4.9	5.7
Direct payments to producers	1.5	2.0	2.4	2.7	3.4	4.9	4.1	4.9
Based on output (price aids)	0.7	0.8	0.9	0.7	1.4	0.8	1.5	1.6
Based on current area/animal	0.8	1.2	1.6	1.9	2.0	4.1	2.6	3.3
Input subsidies	1.1	1.2	1.1	1.4	1.1	0.8	0.8	0.8
Other direct payments	0.1	0.1	0.2	0.5	0.2	0.3	0.3	0.4
STRUCTURAL AND RURAL DEVELOPMENT MEASURES	1.0	2.4	3.2	4.4	5.9	5.0	6.1	5.5
Improving the competitiveness of the agricultural sector	0.5	1.6	2.2	3.1	4.4	3.4	4.1	4.1
Improving the environment and the countryside	0.0	0.0	0.0	0.2	0.5	0.9	0.4	0.4
Supporting rural economy and population	0.6	0.7	1.0	1.2	1.1	0.7	1.6	0.9
GENERAL MEASURES RELATED TO AGRICULTRE	2.0	2.1	2.7	3.8	3.9	4.5	3.4	2.9
TOTAL BUDGETARY SUPPORT TO AGRICULTURE	5.8	7.9	10.0	13.1	15.0	16.0	15.3	14.9

Source: Agro-budget

Annex B.VI-4: Examples of actual payments by herd/flock size according to the existing direct payment schemes for cattle and sheep, Montenegro

	Herd/flock size (breeding animals)					
Cattle						
Actual herd size - heads	6	10	20	30	40	50
Threshold (No of animals exempted from the payment)	4	4	4	4	4	4
Number of animals eligible for payments	2	6	16	26	36	46
Total amount of premium (EUR 70 per head) - EUR	140	420	1 120	1 820	2 520	3 220
Average premium per head - EUR	**23**	**42**	**56**	**61**	**63**	**64**
Share of the premium paid 70 EUR/head	33%	60%	80%	87%	90%	92%
Sheep						
Actual flock size - heads	50	80	100	150	200	250
Threshold (No of animals exempted from the payment)	40	40	40	40	40	40
Number of animals eligible for payments	10	40	60	110	160	210
Total amount of premium (EUR 8 per head) EUR	80	320	480	880	1 280	1 680
Average premium per head - EUR	**1.6**	**4.0**	**4.8**	**5.9**	**6.4**	**6.7**
Share of the premium paid 8 EUR/head	20%	50%	60%	73%	80%	84%

Annex B.VI-5: Comparison of the National Program (NP) and Agro-budget (AB) in 2009 and 2013 (in EUR 1 000), Montenegro

Code	Measure name and description	2009		2013		Comment / Remarks
		NP	AB	NP	AB	
1	**Market-price policy measures**	5 307	**5 304**	**10 036**	**6 183**	
1.1	**Direct payments**	4 472	**4 309**	**8 578**	**5 333**	**Lag in implementation of NP**
1.1.1	Direct support to livestock production	2 472	1 604	**5 834**	2 522	Minimum criteria put on very high level
1.1.2	Support to dairy production for market	560	1 191	**875**	1 561	Increased per litre of milk - contrary to the NP projection
1.1.3	Support to strengthening of milk collection network	550	665	**300**	460	No progress achieved
1.1.4	Strengthening of slaughterhouses network	92	90	**144**	-	The measure is stopped
1.1.5	Direct support to crop production	598	559	**1 225**	740	Threshold or minimum at very high level for cereals
1.1.6	Support to tobacco production	200	200	**200**	50	No clear rules
1.2	**Bee-keeping development programme**	215	**236**	258	**200**	No specific recommendations
1.3	**Market stabilisation measures**	**620**	**760**	**1 200**	**650**	**Huge lag**
1.3.1	Market interventions	320	480	200	350	
1.3.2	Risk management in agriculture	**300**	280	1 000	300	Measure is not developed in accordance to the NP
2	**Rural development policy measures**	**7 081**	**5 946**	**15 863**	**5 615**	**Huge gap**
2.1	**Measures for improving competitiveness of agro-food sector**	**4 666**	**4 241**	**7 625**	**4 815**	**Big gap**
2.1.1	Investments in agricultural equipment and mechanisation	**550**	550	1 100	3 700	The existing measure combines several NP measures
2.1.2	Investments in livestock farms	**720**	670	**972**	-	Mixed with the previous measure
2.1.3	Setting up of perennial crops plantations and building of greenhouses	**994**	630	**1 485**	650	No progress
2.1.4	Investment in greenhouses	-	200		-	Included than excluded
2.1.5	Land operations Co-financing of investments and projects	**340**	300	**425**	-	No implementation
2.1.6	Investments in processing of animal products	**795**	670	**1 431**	-	Implementation stopped
2.1.7	Investments in storage packing and processing of plant products	**700**	670	**1 120**	-	No implementation
2.1.8	Investments in processing on family holdings	**50**	70	**400**	200	Solid progress achieved
2.1.9	Producers' organisations	**165**	145	**231**	25	Just symbolic amount
2.1.10	Improving the quality of products	**248**	241	**347**	100	Sharp decrease
2.1.11	Promotion and information activities	**104**	95	**114**	140	Some components increased
2.2	**Measures for sustainable management of natural resources**	**665**	**625**	**5 800**	**340**	**Huge lag**
2.2.1	LFAs	**0**	0	**3 733**	-	No classification of LFA and no implementation
2.2.2	Preservation of genetic resources in agriculture	**100**	80	**480**	40	Very symbolic scope
2.2.3	Organic production	**165**	165	**627**	100	Decrease
2.2.4	Sustainable use of mountain pastures	**400**	380	**960**	200	Severe drop; minimum criteria put at higher level ; amount per LU reduced
2.3	**Measures for improving quality of life and diversification of economic activities in rural areas**	**1 750**	**1 080**	**2 400**	**460**	**Huge lag**
2.3.1	Diversification of economic activities in rural areas	**50**	80	**500**	45	No progress just symbolic amount
2.3.2	Village renewal and infrastructure improvement	**1 700**	1 000	**1 900**	415	Huge reduction
2.4	**Leader projects**	**0**	0	**38**	-	Not developed
3	**Support to general services in agriculture**	**4 008**	**3 442**	**5 584**	**2 714**	**Support reduced contrary to the needs**
3.1	Education research and analytical work	**400**	195	**520**	185	Huge gap
3.2	Livestock breeding improvement programme	**372**	316	**372**	156	Support halved
3.3	Programme of professional services for livestock production	**281**	315	**408**	322	Not follow NP
3.4	Programme of professional services for plant production	**223**	75	**323**	-	Combined with phytosanitary measures
3.5	Extension services	**372**	306	**540**	334	Not follow NP
3.6	Programme of measures of quality control	**82**	85	**119**	177	Components not foreseen by NP
3.7	Phyto-sanitary measures	**287**	300	**417**	190	Sharp decrease
3.8	Veterinary measures	**1 991**	1 850	**2 887**	1 350	Reduced sharply
4	**Social transfers to rural population**	**2 920**	**2 900**	**3 000**	**2 720**	Slight decrease; the same criteria
5	**Technical and administrative support**	**514**	**410**	**800**	**397**	At the same level
TOTAL		**19 830**	**18 035**	**35 283**	**17 629**	**Huge gap; total amount reduced**

Chapter B.VII

AGRICULTURE AND AGRICULTURAL POLICY IN SERBIA

Natalija Bogdanov*, Vesna Rodić**

1. Introduction

Since the beginning of the 2000s, Serbia has been going through profound economic and institutional shifts, with significant consequences for structural changes in the agricultural sector, its output and productivity, as well as agricultural policy.

By the early 1980s Serbia had experienced significant growth in agricultural production, which stagnated in the late 1980s and declined sharply in the 1990s. Extremely unfavourable production and economic indicators for Serbian agriculture in the 1990s were reflected in negative trends in the production of almost all agricultural products. The decline in agriculture was primarily caused by a combination of institutional disorders, subsidy cuts, and market collapse. It is evident that multiple factors (both subjective and objective) have caused Serbia's failure to exploit the competitive advantages it had over other countries in the pre-transitional period (Van Berkum & Bogdanov, 2012).

Fundamental reforms of the Serbian agro-business sector were introduced in the early 2000s, a decade later than in other transitional countries. The first years of transition brought radical changes compared to the policies of the 1990s. The first reform-oriented government devoted most of its attention to strengthening institutional capacity, especially with regard to legislative solutions. A major challenge in the early 2000s was to reduce the space for grey market activities and to establish a stable market of basic agricultural products.

From 2004 to 2007 there were some positive changes in the strategic directions and implementation mechanisms in agricultural policy, in terms of introducing some CAP-like elements (direct payments and rural development policy). A farm register was also established. As of 2008, the implementation of agricultural policy has been constantly changing. Programs and regulations were changed and/or abolished several times in the same year; payments to producers were delayed, which all contributed to the creation of an unstable and unfavourable economic environment for agriculture. Moreover, the agricultural policy monitoring system has not been established, thereby making it difficult to assess its effects on the sector's development.

In 2014 Serbia began a new phase of the European integration process; namely, accession negotiations for the EU membership. The process of negotiations for WTO membership is in progress as well. In these processes, Serbia will face numerous challenges. The reform of the overall institutional arrangements and agricultural policy will be of extreme importance for the sustained and accelerated

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development of agriculture, as well as preparing to absorb the pre-accession assistance from the EU. The complexity of the agricultural sector, the challenges that food production is facing and the multi-dimensional impact of agriculture on social and economic structures suggest that the government cannot avoid its leading role in socially responsible and structurally sustainable development.

This paper analyses the most important characteristics of Serbian agriculture in several areas: the importance of the sector to the national economy, the basic characteristics of farm structure, production trends, and competitiveness. Special attention is paid to agricultural policy both in terms of policy framework and the structure of budgetary support.

The analysis covers the 2005-2013 period, focusing on recent years. The analysis of the agricultural sector is based on national statistical data provided by the Statistical Office of the Republic of Serbia (SORS), and some other sources. Secondary data has been used for agricultural policy analysis, particularly the database for which data on executed budgetary transfers from the budget sub-accounts of Serbian Ministry of Agriculture, Forestry and Water Management (MAFWM), Directorate for Agrarian Payments (Paying agency), the Agricultural Development Fund and Directorate for agricultural land was collected. Budgetary support granted by the administrative bodies of Serbian autonomous provinces and local self-government authorities, which also implement their own programmes of support to agriculture on their territory, have not been included in the analysis due to lack of data on such transfers. Support to agriculture has been systematised by groups of measures with the use of the APM tool (Rednak & Volk, 2010).

The paper is organized as follows: the opening section gives an overview of agriculture's contribution to the basic macroeconomic aggregates; in the second section the basic elements of farm structure are analysed, including farm size, livestock numbers and labour force; the third section deals with production characteristics and trends – the structure of Gross Agricultural Output (GAO), yields and price competitiveness; the fourth section discusses the international trade in agricultural and food products, by regions and product groups; the last section starts with a description of Serbian agricultural policy concepts and frameworks, then analyses the scope and structure of budgetary support by pillars and measure groups. The paper ends with a discussion and conclusions, with authors' view of the key aspects of policy directions in the next period, primarily in view of European integration.

2. Agriculture

2.1 The role of agriculture in Serbian economy

Serbia's natural potential and physical resources make it a country with respectable capacity for growth in its agro-food sector's productivity and competitiveness. The contribution of agriculture to the Serbian economy is considerable. Over the last decade the share of agriculture in GVA decreased from over 12 percent to about 10 percent, whereas the share of agriculture in employment remains over 20 percent.

Agriculture's relatively high share in the country's GVA and employment is due to a slowly progressing restructuring of the rest of the economy, overall low investment activity and consequently low employment opportunities in non-agricultural sectors (Van Berkum & Bogdanov, 2012).

Agriculture contributes significantly to the country's trade balance. The share of agriculture and food exports in total exports is about 20 percent. Since 2004, when the agro-food sector had a negative trade balance, exports have grown at a faster rate than imports as a consequence of the CEFTA agreement (Mirković, 2012), resulting in a positive trade balance since 2005.

The indicators of agriculture's share in national economy are high, even compared to other Southeastern European countries (see Chapter A.II).

2.2 Land resources and farm structure

Due to its biophysical and climatic conditions, Serbia has favourable natural conditions for diversified agricultural production. The 2012 Agricultural Census has recorded 3 861 000 hectares of agricultural land, out of which 3 437 000 hectares (89 percent) is utilized agricultural area (UAA). UAA accounts for 44 percent of the total Serbian area and about 2 percent of the EU-27 UAA. Arable land dominates the land use structure. Indicators of UAA reflect riches of land resources: both UAA per capita and the arable land per capita are above the EU-27 averages.

Table B.VII-1: Agricultural land use indicators, Serbia and EU-27

	Serbia (2012)	EU-27 (2010)
Share of UAA in total area (in %)	44.3	39.6
Share of arable land in UAA (in %)	73.1	59.8
Share of permanent grassland in UAA (in %)	20.8	34.0
Share of permanent crops in UAA (in %)	5.5	6.1
UAA per 1 000 population (in ha)	478.3	344.8
Arable land per 1 000 population (in ha)	353.9	206.3

Source: SORS (The Census of Agriculture 2012); EUROSTAT

Heterogeneity of natural conditions, wide regional imbalances and historical heritage has contributed to a highly diverse farm structure (Bogdanov et al., 2012). Along with small subsistence agricultural households there are semi-subsistence farms, large family farms, as well as privatized large enterprises (formerly state-owned) with a mixed ownership structure. The average farm size is 5.4 ha UAA, which is 2.7 times under the EU-27 average (14.4 ha in 2010). However, in the northern parts of the country, the Panonian planes of Vojvodina Province, the farm structure is more favourable with the average size of farm being 10.9 ha.

In general, the highest proportion of agricultural holdings (48.8 percent) have no land or up to 2 ha and uses about 8 percent of the UAA. In contrast to this, the biggest farms (over 50 ha) account for a mere 1 percent of the total number of farms, but occupy around one third of the total UAA.

Table B.VII-2: The structure of agricultural holdings by size classes, 2012, Serbia

Size class	Agricultural holdings		UAA	
(UAA per farm)	Number	%	ha	%
0 ha	10 107	1.6	0	0.0
>0 - <2 ha	298 286	47.2	273 622	8.0
2 - <5 ha	182 489	28.9	596 052	17.3
5 - <10 ha	89 083	14.1	617 281	18.0
10 - <20 ha	32 313	5.1	435 499	12.7
20 - <30 ha	7 677	1.2	185 846	5.4
30 - <50 ha	5 352	0.8	203 666	5.9
50 - <100 ha	4 394	0.7	314 096	9.1
100 ha and more	1 851	0.3	811 362	23.6
Total	**631 552**	**100.0**	**3 437 423**	**100.0**

Source: SORS (The Census of Agriculture 2012)

This farm structure indicates that small and medium size holdings have remained prevalent in Serbia even after the liberalization of the land market at the end of 1980s. The share of small farms is still extremely high, especially in the densely populated (Sumadija) and mountainous areas (Southeastern Serbia). In contrast with most transition countries, land privatization in Serbia did not cause significant changes in farm structure (Bogdanov et al., 2012) since private holdings already existed in the pre-transition period. The additional influence was that of the slow restructuring of the non-agricultural sector, which did not leave room for the concentration of land on larger farms.

Small scale producers are prevalent in the livestock sector as well. According to the Census of Agriculture in 2012 Serbia has 2 020 000 livestock units (LSU). About 77.5 percent of farms had some livestock, which is higher proportion than that recorded for the EU-27 (56 percent in 2010). However, the average number of LSU per holding (4.1) and per hectare of UAA (0.59) are far below the average in the EU-27 counties (20 LSU per holding, 0.75 LSU/ha of UAA).

Though similar in terms of UAA structure, countries that started the transition process earlier and have restructured their agricultural sector (i.e. Poland and Hungary) have more LSU per farm and a larger share of big farms. Unlike these countries, Serbia has faced unfavourable price parities over a long period, low purchasing power of domestic consumers, adverse conditions in the credit and financial markets, a lack of foreign investment, an inadequate system of incentives and the disintegration of the value chain (due the poorly organized privatization process), which has inevitably had adverse effects on the sector (Mizik, 2011, Bogdanov et al., 2012).

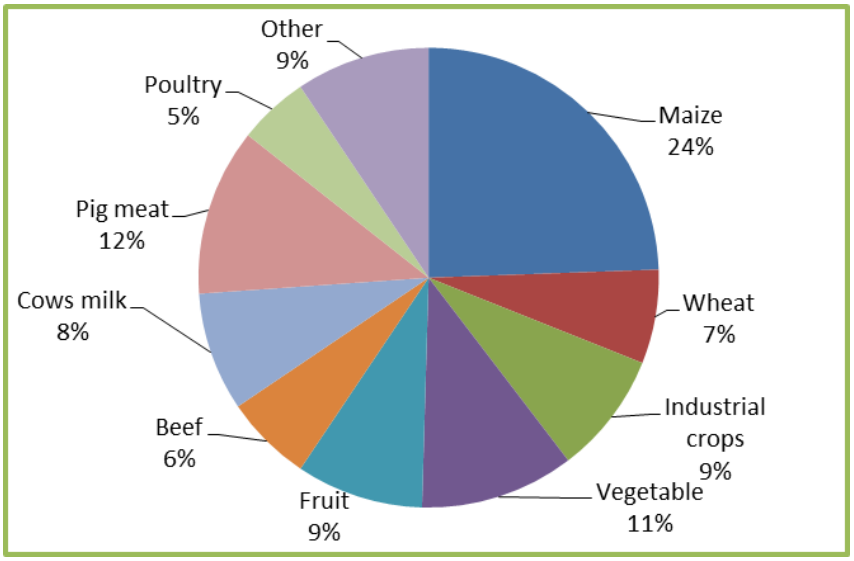
According to the Census data there are 1.44 million people working on agricultural holdings in Serbia, with the total number of annual working units (AWU) being 646 283. The number of AWU per farm in Serbia is 1.02 which is by 25 percent higher than the EU-27 average (0.81). However, AWU per hectare of UAA and AWU per LSU, both of which are indicators of labour force productivity in agriculture, are substantially higher in Serbia (0.19 AWU/ha UAA, 0.32 AWU/LSU) than the EU-27 average (0.06 AWU/ha UAA, 0.07 AWU/LSU). These values indicate low labour productivity, particularly in livestock production, and suggest the existence of hidden unemployment as well.

2.3 Agricultural production

Since the beginning of the 2000s significant progress was recorded in plant production, both in terms of changes in the production structure, and increased total volume comparing with 1990s. An increase in the oilseed, sugar beet and vegetable subsectors is particularly noticeable. In contrast to this, the livestock sector did not show significant progress, and the negative trends in herd size continued. The negative trend in livestock production slowed down at the beginning of 2000s only to continue its decline after 2007.

Nonetheless, Serbia is one of Europe's most important crop producers, especially in maize (11 percent of EU-27 production), soya (35 percent), sunflowers (6 percent) and sugar beet (2.5 percent). On the other hand, the share of livestock products is much lower, exceeding 1 percent of EU-27 production only in cow's milk, lamb and pork.

Figure B.VII-1: Breakdown of Gross Agricultural Output by commodities, 2010-2012 average, Serbia



Source: SORS

About two-thirds of Serbia's GAO comes from crop production, and one-third from animal production. Cereals, particularly maize and wheat, hold the dominant position in the GAO structure, accounting for 30-35 percent. The production of fruit and vegetables accounts for approximately 20 percent of the GAO, while industrial crops contribute 9 percent to total GAO.

The contribution of livestock to GAO declined, largely due to negative developments in the meat sector, where the contribution of both pig meat and beef production shows a downward tendency in recent years. Of all the livestock products, pig meat (11-14 percent) and cow's milk (8-10 percent) contribute the largest shares to GAO.

The 2005-2013 period was marked by substantial volatility of production influenced by weather conditions. After 2010-2011 (which are among the yield records), a severe fall in production followed in 2012, as a consequence of an extreme draught. The decline in production in 2012 is the largest ever recorded and the crops which are predominant in the Serbian GAO (maize, sugar beet, sunflower and soya) were particularly affected. Such high dependence on weather conditions is a consequence of non-intensive agriculture, typical for small Serbian farms (Bošnjak & Rodić, 2006, Lalić et al., 2011).

Table B.VII-3: Change in volume of Gross Agricultural Output (previous year=100), 2005-2013, Serbia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	-3.4%	-2.6%	-11.7%	13.7%	1.3%	1.1%	-1.1%	-21.4%	25.6%
Crops	-5.7%	-3.0%	-18.0%	23.0%	3.6%	1.1%	-1.8%	-30.6%	40.6%
Livestock	1.1%	-3.0%	0.0%	-3.0%	-3.5%	1.1%	0.2%	0.2%	2.9%

Source: SORS

The crops that prevail in Serbian production have lower average yields than those of the EU's leading producers (see Chapter A.II). Oilseed crops and sugar beet are exceptions, with yields equalling those in the EU. This is largely because the major production of industrial plants is in the northern Serbian plains, on big farms, with modern equipment.

Table B.VII-4: Average crop yields (in t/ha), 2005-2013, Serbia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Wheat	3.56	3.47	3.33	4.3	3.64	3.37	4.21	3.98	4.94
Maize	5.81	5.14	3.25	4.83	5.29	5.86	5.15	2.78	4.78
Sugar beet	48.21	44.55	40.58	47.88	45.56	50.04	50.73	35.95	47.80
Sunflower	1.77	2.06	1.90	2.42	2.40	2.23	2.48	2.19	2.73
Soybean	2.81	2.74	2.07	2.44	2.42	3.18	2.67	1.72	2.41
Rapeseed	1.93	1.96	2.29	2.88	2.45	2.03	2.9	2.43	2.79
Tobacco	1.57	1.58	1.38	1.52	1.61	1.79	1.59	1.36	1.62

Source: SORS

The milk output per cow is also low (3 100 litres per cow per year) as a consequence of the low intensity of production on small farm holdings. Yields vary considerably across regions and according to farm size. In Vojvodina region, average milk production is 30 percent higher than in Central Serbia, and in the controlled part of the herd (which is 28 percent of total number of cows and heifers) the average milk yield is from 4 700 to 7 700 litres per cow. To some extent, the reasons for low average milk yields are related to breed structure (in central Serbia the Simmental breed and Simmental-type cattle are still prevalent), but there is also the influence of low feed quality, especially in remote mountainous areas.

2.4 Agricultural prices

Price indices of agricultural products in Serbia indicate dynamic growth with some oscillation. Crop prices have actually been permanently growing, except in 2009 when a sharp drop was evident compared to 2008 in which the record high prices were recorded in the international markets as well.

The prices of livestock products have seen slower growth, with stagnation in the middle of the last decade, and since the crisis began the disparity in livestock and crop price growth has been more evident.

Table B.VII-5: Agricultural output price indices - nominal, 2005-2013 (2010=100), Serbia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL AGRICULTURE	56.6	61.8	72.1	91.0	87.0	100.0	118.1	148.6	146.2
Crop products	49.5	57.5	77.5	85.3	71.5	100.0	123.5	159.3	150.3
Animals and livestock products	73.0	73.1	72.9	97.8	104.5	100.0	118.0	135.6	141.9

Source: SORS

In comparison to the neighbouring countries and the EU-27, crop prices in Serbia are generally lower (see Annex B.VII-3 and Chapter A.II). Particularly evident is the price competitiveness of cereals and industrial crops.

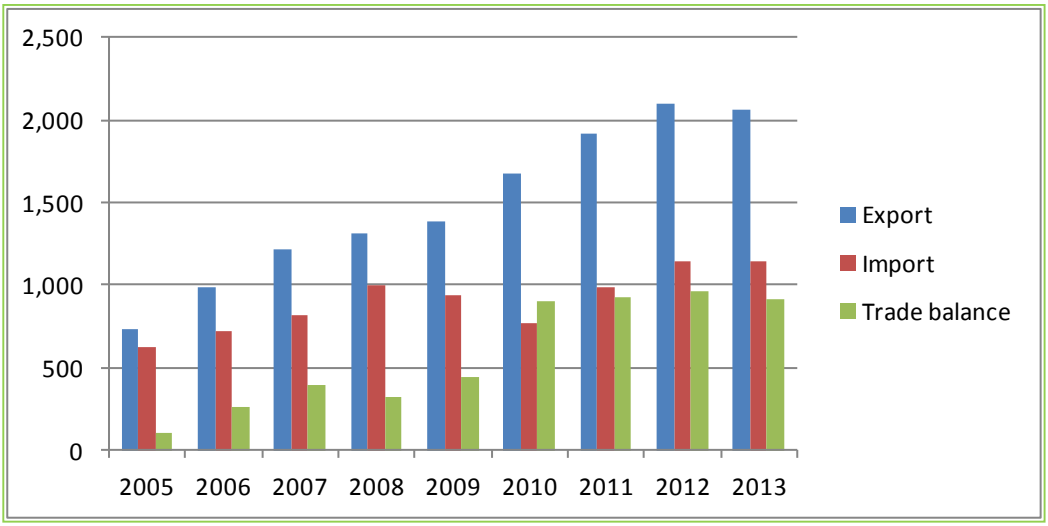
Though Serbia is a significant cereal producer (particularly maize) with substantial grassland areas, its livestock sector is far less price competitive. The high correlation between changes to maize and pig prices is quite noticeable. The growth in maize prices on the international market has, as a rule, led to a drop of pig prices in Serbia, as the producers tried to downsize pig production and sell maize at favourable prices. This instability on the Serbian market indicates the lack of appropriate mechanisms to prevent market failures in the livestock sector.

The relative price competitiveness of Serbia's crop farming can be explained by lower labour costs and number of market factors. This primarily refers to the monopoly position of purchasers and the food industry, which is still highly protected from imports. In addition, it should be noted that in Serbia there is no practice of payment based on the quality of grain but the whole production is sold at the same (lower) price.

2.5 Agricultural trade

Trade of agricultural and food products has been characterized by an increase in both imports and exports, as well as in trade surplus. An important upward shift in foreign trade was noticed in 2006. The highest overall trade of agricultural products, both exports and imports, was in 2012 (EUR 3.35 billion), while surplus in trade reached its peak in 2013 (EUR 919 million).

Figure B.VII-2: Agro-food trade (in EUR million), 2005-2013, Serbia

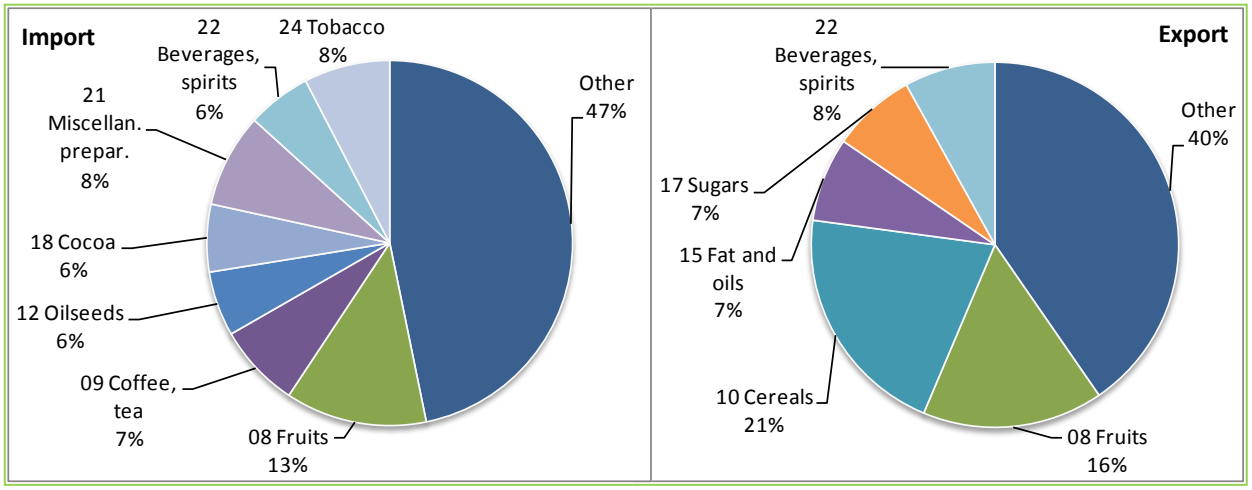


Source: SORS

The export unit values are generally lower than those of imports, both in total and especially by production groups (except for the fish and fish-related products). This suggests that the raw and less processed agricultural products are dominant in total Serbian exports, whereas products of a higher degree of finalization prevail in imports.

The prevailing commodity groups in Serbian exports are cereals, fruits, beverages, fat and oils and sugar and related products. In imports the main commodity groups are fruits, miscellaneous food preparations, coffee, tea and spices, tobacco, cocoa and its preparations and oilseeds.

Figure B.VII-3: Composition of agro-food imports and exports by main commodity group, 2010-2013 average, Serbia



Source: SORS

The share of the main commodity groups accounted for 60 percent of total agro-food exports (2010-2013 average) and 53 percent of total agro-food imports. This trade structure shows a higher variety of imported than exported commodities. Among the imported ones there are mostly those which cannot be produced in Serbia, while agricultural exports are focused on specific product groups, which have confirmed their competitiveness in the international market.

About 50 percent of the total agro-food export goes to the EU market, around 41 percent to the CEFTA market and 9 percent to other countries. Imported food commodities came mostly from the EU (around 48 percent), CEFTA market (22 percent) and all the other markets account for less than a third of total imports (31 percent). The Russian Federation has become an increasingly important market for Serbian agricultural products, and even more so with the newly established Customs Union of the Russian Federation, Belarus and Kazakhstan.

Market proximity and traditional trade relations make the countries of Southeastern Europe a very important market for Serbian agricultural products. The Central European Free Trade Agreement (CEFTA) has contributed to the increase of trade exchange and a positive trade balance in Serbian agriculture, since the country is highly competitive on that market. The CEFTA region is one of few markets on which Serbia continuously records exchange surpluses. Serbia's biggest export partner is Bosnia and Herzegovina (almost a quarter of export value). A substantial amount of exports also go to TFYR Macedonia (around 8 percent)

Serbian exports to EU countries show a rising trend, the highest being in 2012 (EUR 978 million). The leading countries are: Romania (maize), Germany, Italy and Greece. Imports from EU countries peaked in 2013 (EUR 704 million). The leading EU exporters to Serbia are Germany, Italy, Hungary, Greece and Poland. Serbia's highest positive trade balances are with Italy, Austria and Greece, and its highest deficits are with Poland and the Netherlands. The main exported commodity groups are primary (raw) agricultural products (around 95 percent). Among the imported groups basic/primary products prevail

as well, though with a smaller share (about 55 percent). Processed agro-food commodities only account for about 5 percent of Serbian agro-food exports to EU countries, whereas these products account for as much as 40 percent of total imports from the EU.

Among other countries, the most important importer of Serbian agro-food products is the Russian Federation, with a rising trend in export to this country. The major exporters to Serbia are Brazil with an 8 percent share (coffee), Argentina and Turkey (fresh fruits and vegetables). The trade balance is generally less unfavourable than in recent years but it is still negative, primarily due to substantial imports from the countries with which Serbia has not signed trade agreements, and because the majority of the imported commodities cannot be produced in Serbia (coffee, cacao, citruses, etc.).

3. Agricultural policy

3.1 Serbian agricultural policy concept and frame

Over the last decade there have been substantial improvements in the institutional framework of the agricultural sector in Serbia. During the 2000s a number of national strategies and programming documents were adopted and legislative work in the field of agriculture and rural development was intensified.

The legal framework of agricultural policy has been defined by the Law on Incentives to Agriculture and Rural Development, which regulates eligibility criteria and types of incentives. The adoption of this law is an important precondition for creating a consistent and foreseeable agricultural policy for a longer period.

The basic directions of development of Serbia, and thus the agricultural and rural development framework, are defined through the “umbrella” of national strategic documents such as the National Program for EU Integration of Serbia, the Strategy of Poverty Reduction of Serbia, the National Sustainable Development Strategy, the National Economic Development Strategy, etc. The majority of these strategic documents stress the significance of agriculture and rural areas for the Serbian economy and for the preservation of the natural environment. They also emphasize the specific needs and challenges that the rural population is faced with.

The sector’s key strategic document – The Strategy of Agriculture Development – was adopted in 2005. In 2013 the Ministry of Agriculture, Forestry and Water Management (MAFWM) prepared the Draft Strategy of Agriculture and Rural Development for the 2014-2024 period. At present, public consultations on the proposed document are under way, while in parallel, the National Development Programme for Agriculture and Rural Areas and the IPARD programme are being prepared. By the adoption of this set of documents the mid-term development directions will be defined, as well as more detailed mechanisms of implementing agricultural and rural development policies.

Over the last decade, the agricultural policy in Serbia has been subject to heterogeneous and complex pressures: political and economic instability, extremely adverse weather conditions with their devastating impact on farm income and from the second half of the 2000s global market disturbances. In such a setting, the priorities and mechanisms of agricultural policy were selected in a predominantly pragmatic manner, rather than in compliance with the national strategic documents. The unstable economic ambience and insufficient consistency of the policy framework were the reasons why the budgetary support to agriculture and rural development did not have a clear direction over the analysed period. However, in respect to reforms of Serbian agricultural policy since the beginning of 2000s, three phases can be noticed:

1) In the early 2000s, reforms were focused on institutional building and legislative work aimed at establishing efficient structures in those parts of the sector that were most affected by the grey economy. Significant efforts were made to revitalize some competitive subsectors which were

devastated during the economic sanctions (meat, sugar, fruit and vegetables). Policy incentives were oriented toward market support measures, with a strong emphasis on sectors that contribute to the revitalization of the food processing sector and the growth of exports. The opening of external markets and the EU autonomous trade preferential, together with the privatization of food industry (especially sugar and edible oil refineries) favourably influenced the growth of export opportunities.

2) Between 2004 and 2007 a strong shift was made in the strategic goals and implementation mechanisms of agricultural policy through the adoption of the Strategy of Agricultural Development. Its primary goal was to increase the competitiveness of commercial family farms**,** and in terms of implementation mechanisms it was focused on farm investment incentives. The Strategy was not supported by multiannual programming documents and budgetary framework. Over the years, the policy principles defined by the Strategy have only partially been accompanied by appropriate operational schemes, measures and funds. The support measures applied did reflect the efforts aimed at addressing essential development issues, but the general policy concept was inconsistent and incomplete. A system of direct payments was established and rural development measures were introduced. Also, the financial market was activated by providing credits with more favourable conditions than market loans, renting of agricultural land was supported and the Register of agricultural holdings was established (Bogdanov et al., 2008, Erjavec et al., 2009).

3) Since 2008 the implementation of agricultural policy has been constantly changing. Programmes and regulations were changed and/or abolished several times during the year, and payments to beneficiaries were delayed, which contributed to the creation of an unstable and unfavourable economic environment for producers. Direct payments have become main form of support, but the implementation mechanisms, procedures and eligibility criteria were frequently changed. On the one hand this indicates the absence of a clear vision for agriculture, and on the other the impacts of such a policy are relatively low. The budgetary support relating to agro-environmental measures has been unreasonably low, and the already small amounts of support for rural development have been further reduced. Therefore, the whole system of incentives has seemed to move away from its desired direction.

The establishment of the Directorate for Agrarian Payments (which in the future should take over the role of the Paying Agency also for IPARD and later the EU CAP as such) contributed to transparency and accountability of the whole system and policy. However, there still is a lack of consistent procedures and human resources for effective control of implemented support. The whole application process, approval and operation procedures are still a demanding job, both for applicants and for administration involved in the implementation.

3.2 Budgetary support to agriculture

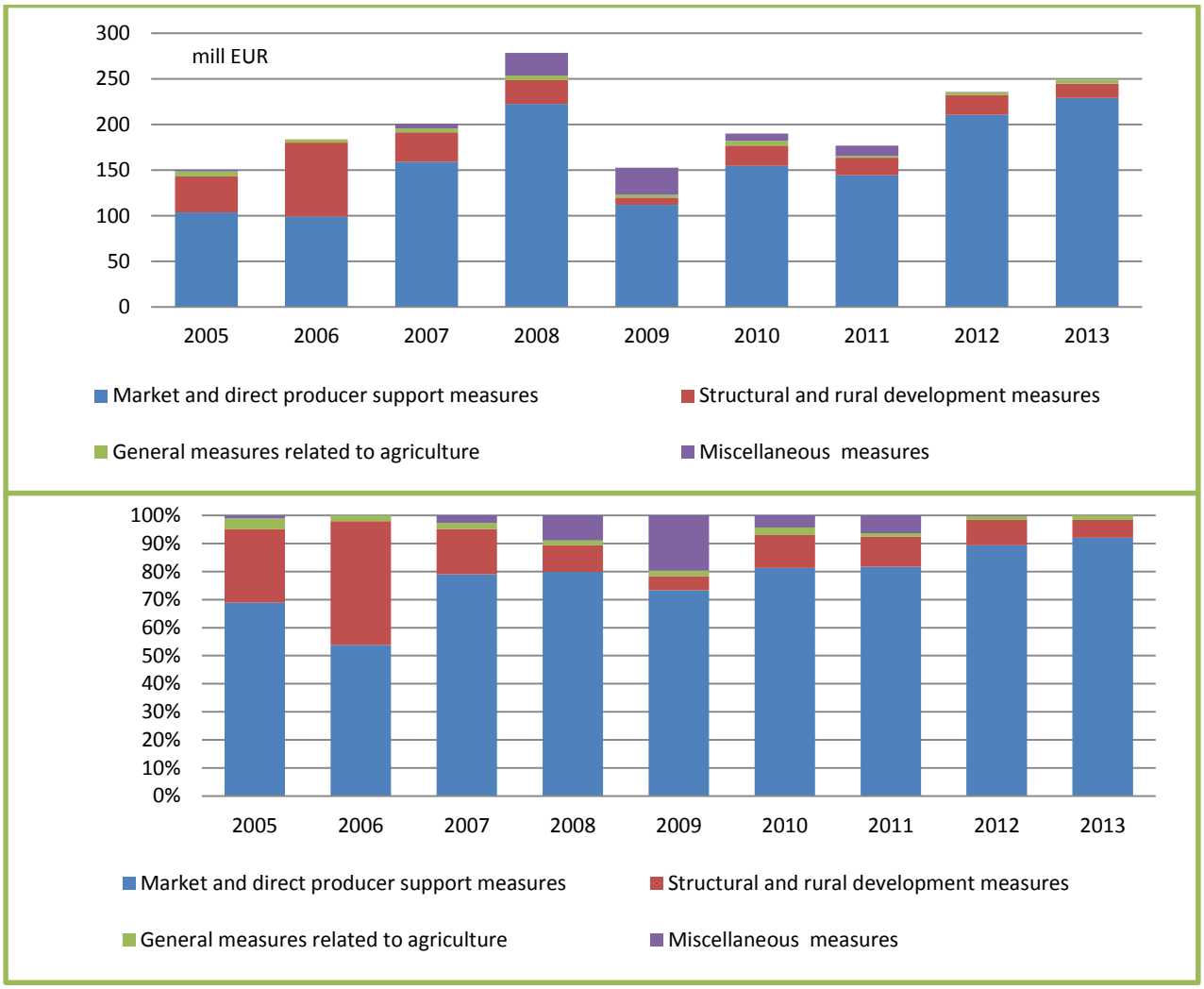
Total budgetary support to agriculture

Over the 2005-2013 period, budgetary support to Serbian agriculture varied in both amount and structure. Between 2005 and 2008, the agricultural budget increased from EUR 150 million to EUR 279 million, which was a record in the entire 2005-2013 period.

The main reasons for budget constraints were frequent changes to management structures and a lack of funds in some years (which caused cuts in funding for certain measures). As a rule, radical changes in programmes and support schemes came along with changes in governance structures.

The structure of budgetary support to agriculture has varied considerably from year-to-year. Generally, in the years in which production was hit by adverse weather conditions and/or frequent market fluctuations, the majority of funding was redistributed toward input subsidies or direct payments per hectare.

Figure B.VII-4: Breakdown of total budgetary support to agriculture by policy pillars, 2005-2013, Serbia[1]



Note: [1] data for 2009 is incomplete

Source: Serbia APM Database

The dominant share of budgetary support is directed to market and direct producer support measures. The support measures in this policy pillar accounted for over 77 percent of total funding allocated to Serbian agriculture on average.

The share of rural development measures (the second pillar) has been declining since 2006. A significant increase is evident only in 2006 when substantial funds were granted to non-commercial ("elderly") farms. This support was abolished as soon as the following year, and the funds allocated to the second pillar continue to decrease.

The transfers for general services in agriculture were constantly low. Relatively more resources were spent at the beginning of the period when donors support for these purposes was higher.

The share of non-classified amounts' of budget was substantial in 2008 and 2009, as the consequence of insufficiently systematic and consistent information on budgetary support realization.

Market support measures and direct payments

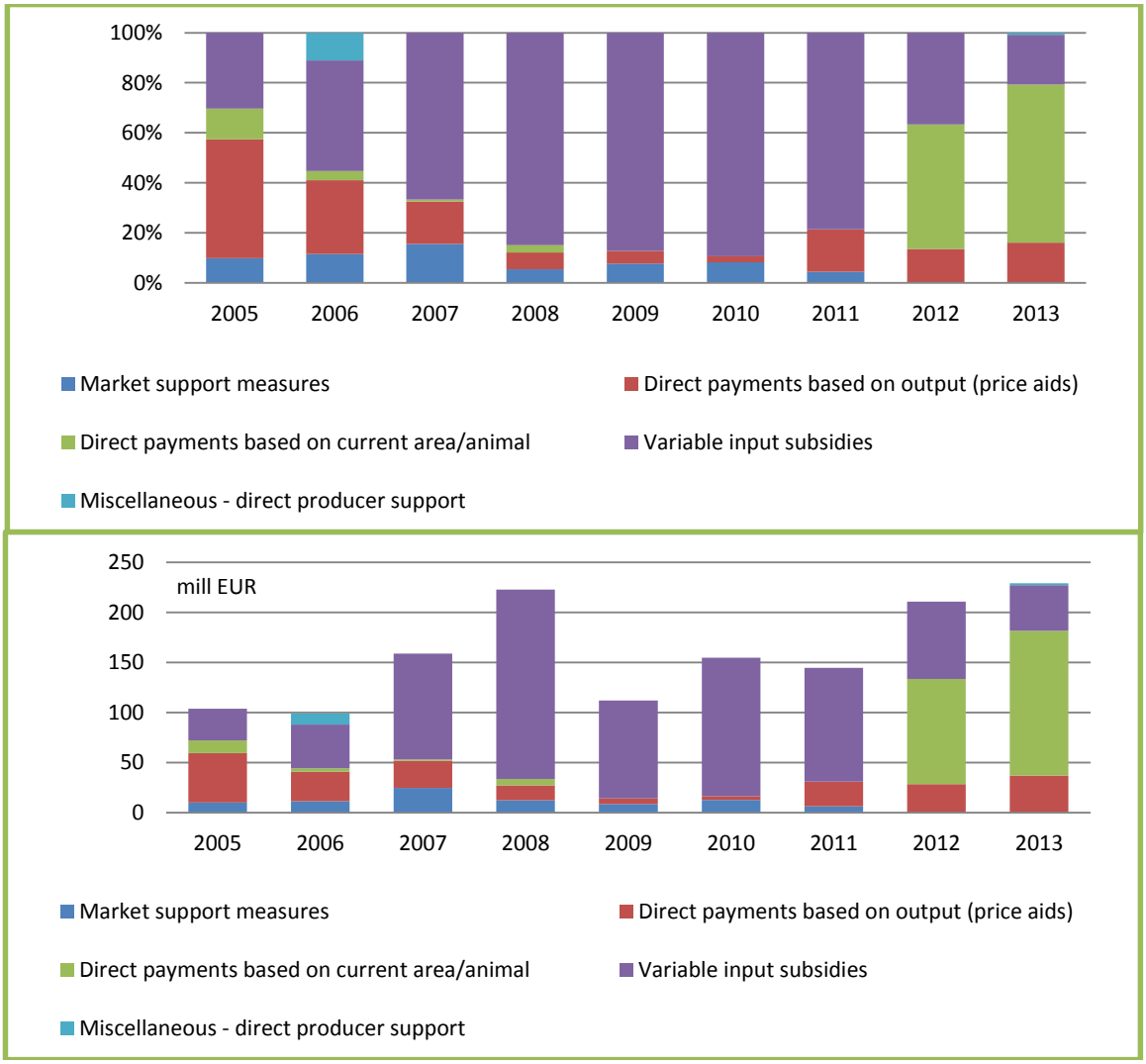
During the 2005-2013 period, various market support measures were implemented in Serbia, such as export refunds, intervention purchase, financing of operating costs of public reserves and co-financing

of storage. Only export incentives were applied continually (until 2011), whereas private storage and emergency purchases were financed occasionally (in the years when adverse weather conditions caused market disturbances).

The share of market support measures in total first pillar expenditures continually decreased: from 15.5 percent in 2007 to mere 4.5 percent in 2011. After 2011 these measures were withdrawn and replaced by direct payments.

Direct producer support measures implemented in Serbia in the 2007-2013 period included direct payments based on output (price supplements), payments per hectare and animal and input subsidies (refunds, subsidised interest rates and insurance premium, etc.). On average, 70 percent of total agricultural budgetary support (42 percent in 2006 and 91 percent in 2013) was allocated to direct payments and variable input subsidies. As these modes of support have the longest tradition and direct effect on production and farm income, producers consider them the most important and comfortable, thus they were very sensitive to their changes.

Figure B.VII-5: Breakdown of market and direct producer support measures, 2005-2013, Serbia



Source: Serbia APM Database

Direct producer support measures have varied significantly from year-to-year. In most cases this has been due to market failures resulting from adverse weather conditions and price fluctuations, but also due to a lack of appropriate strategic guidelines and clearly defined policy framework and priorities. In

this sense it could be considered that the policy in general was driven by pragmatic concerns and by efforts to stabilise farmers' incomes in exceptional circumstances.

The general trend was a reduction in price supplements, both in terms of volume of funds and its relative share in total support. The share of direct payments based on output (price supplements) in total budgetary transfers for market and direct producer support measures (first pillar measures) was reduced from 47 percent in 2005 to 16.1 percent in 2013. In addition to absolute and relative reductions in price aids, the number of products under this regime was also reduced. Premiums for oilseeds were only applied in 2005, those for stored wheat up to 2006, for tobacco up to 2010, while milk premiums still remain. Milk premiums are the most important price supplement; their share of total budgetary support at the beginning of the observed period was as high as 20 percent. In recent years it fell to around 12 percent (less than 2 percent in 2010) and the form of payment has significantly changed as well. Instead of higher premiums for milk produced in hilly or mountainous regions, since 2009, a flat rate payment per litre has been practised under the condition of at least 3 000 litres of cow's milk produced quarterly or at least 1 500 litres quarterly in areas with less favourable conditions for agriculture.

Orientation towards direct payments per area and per animal is reflecting the national policy's readiness to accept CAP practice. Direct payments per area or per animal were introduced at the beginning of observed period, but later they were gradually reduced until they almost disappeared. In 2012 and 2013 these measures were applied again, mainly in crop production (except for vegetables and fodder) and the dairy sector. However, implementation of this type of payment is not linked to compliance with basic standards concerning the environment, food safety, natural resource management and animal welfare. To some extent this reflects the incapability of policy makers to take radical steps and introduce measures which would be neither popular nor willingly accepted by producers.

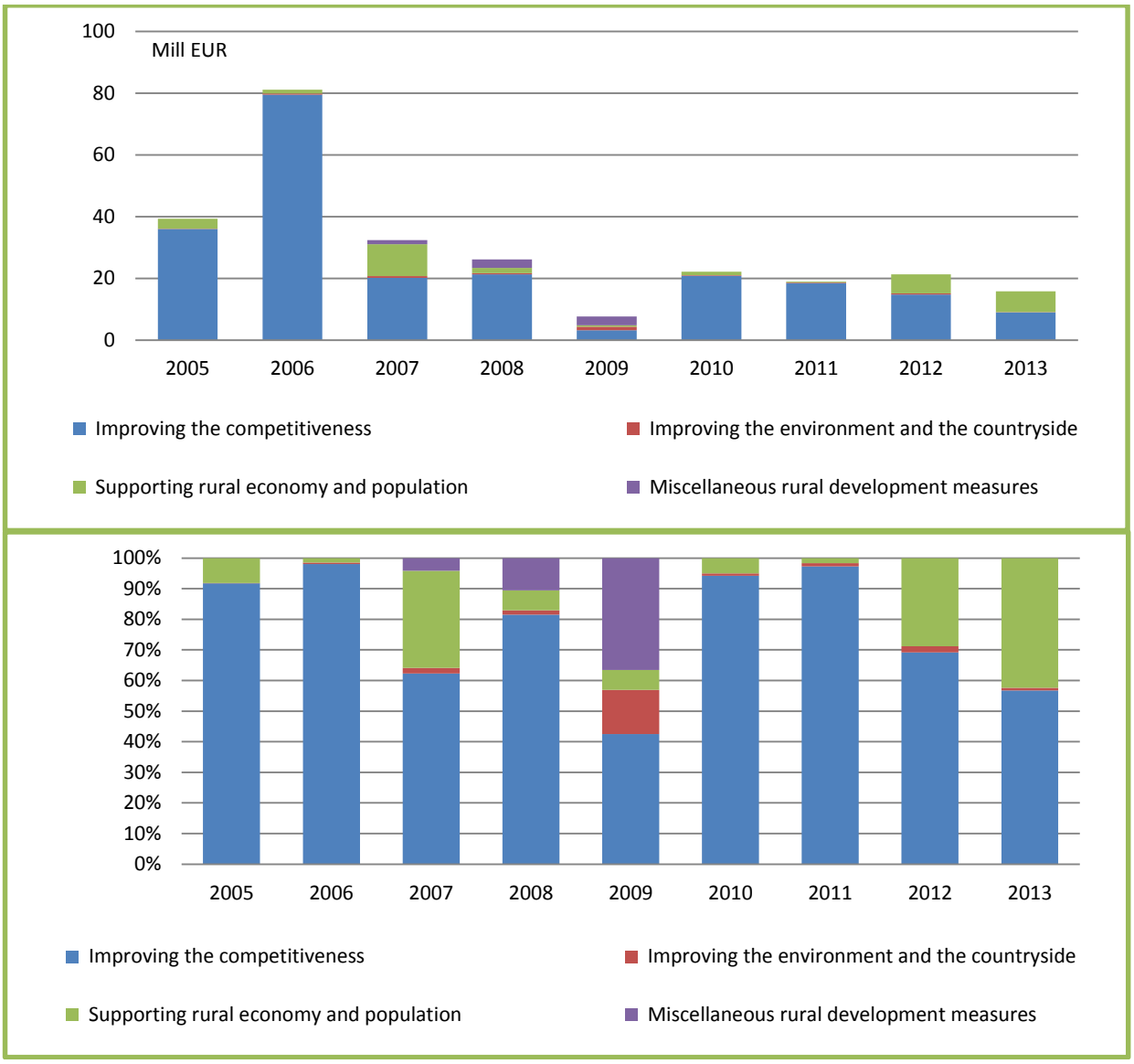
The share of input subsidies has continuously increased over the analysed period. Since 2007 input subsidies have become a dominant scheme of budgetary support to agriculture, with their share of total agricultural budget exceeding 45 percent (in 2010 even reached 72 percent). However, the structure of input subsidies has changed dynamically, with a tendency to concentrate on diesel fuel and mineral fertilizers in the last few years. Frequent changes in the way these measures were implemented are what characterised this practice. For instance, early in the period, subsidies for diesel fuel were in the form of a flat rate payment per litre, while later they were calculated as the percentage of costs of purchased fuel up to the maximum number of litres per hectare. The modes of payment are also dependent on whether a farm is under or above 10 ha. Similar implementation models were applied in subsidizing fertilizers.

All of the above indicates that the most important measures have been applied by ad-hoc solutions. Subsidies for purchasing breeding animals were relatively modest prior to 2011 (2-3 percent of the total agricultural budget) when they increased to 9 percent. Another measure that needs to be mentioned is subsidizing of short-term loans. In the beginning of the analysed period their share of total budgetary support to agriculture was around 10 percent, and then in 2008 it was reduced to irrelevant percentage and finally in 2010 cut out from the support system.

Rural development measures

Support to rural development was considerably higher at the beginning of the period, and the measures and programs through which it was implemented were much more diversified. However, the importance of rural development measures was gradually marginalised, eventually to such an extent that the financial support was reallocated to various programmes within other departments of the Ministry, and to co-financing the programmes of local governments.

Figure B.VII-6: Breakdown of rural development measures, 2005-2013, Serbia



Source: Serbia APM Database

The biggest share of the support to rural development was aimed at improving competitiveness (over 77 percent in average). The most important measures were on-farm investment support, implemented through grants for renovation of facilities, farm mechanization and equipment purchase, replanting and expanding of orchards and vineyards. The eligibility conditions often changed. The general principle was that farms in the remote hilly and mountainous areas and those owned by persons under 40 years old should be given more favourable subsidies. Besides, there were years when criteria had a strong social accent, like favouring farms owned by women or specific measures were designed for vulnerable social groups (Roma and refugees). Support for expanding farm size and farm consolidation was granted through various forms, including incentives for land leasing and land consolidation.

Marketing and promotion activities, establishing producers groups and strengthening food supply chains were not part of the regular support schemes, and only occasionally appeared, with minor shares in the budgetary support structure. More often such activates were supported through donors' projects and by local governments.

Measures aimed at improving the environment and the countryside have scarcely appeared, except support for maintenance of genetic agricultural resources and for organic farming. It is noteworthy that specific needs of producers in areas with less favourable conditions for agriculture have been recognized, but no particular measures have been defined since 2006. This can be considered one of the biggest agricultural policy failures, given substantial regional disproportions in subsidies allocation.

Enhancing development of the rural economy by supporting diversification of farm income and improvements in infrastructure has only been very modestly presented in the budget structure. Significant amounts were spent on improvements to rural infrastructure only in 2007 (from the National investment plan budget). Support for enhancing the development of the rural economy was operationalized through incentives for handicrafts, renovation of facilities for rural tourism, etc. Here it should be underlined that some of the activities relating to development of rural tourism and infrastructure have also been financed from other funds (budget of the Ministry of Economy, donors' projects and local governments).

General support measures related to agriculture

Under the policy of general measures and services related to agriculture the regular programs of the Ministry have been implemented, like those related to livestock selection and breeding, extension services, soil fertility control, pests and diseases management, forecast and reporting service, etc. The majority of financial means went to extension services. There have been no significant fluctuations in amounts and structure of financial support, since both funds and activities are defined in the long-running programmes which may only be changed in exceptional circumstances. Financial support for these purposes varied between EUR 3 and 5.8 million, which does not include a number of activities financed from the sub-account of the Veterinary Directorate (approximately EUR 15-20 million per year in the 2010-2013 period).

Budgetary support to Serbian agriculture is quite modest compared not only with the EU-27 average, but also with those in the neighbouring countries (see Chapter A.II).

4. Discussion and conclusions

The analysis shows that the contribution of Serbian agriculture to total GVA and employment is one of the highest in Europe (see Chapter A.II). On the other hand, the relative relation of these indicators is more favourable than in many other countries (and also in comparison with other sectors of the Serbian economy) which suggests that productivity in Serbian agriculture can be considered as rather satisfying. In the farm structure the small farms are prevailing, both in terms of UAA and LSU per farm and AWU. This finding indicates hidden unemployment of farm members and high potential to increase agricultural productivity. In regard of average yields Serbia ranks relatively low among European countries. The exceptions are maize, oilseeds and sugar beet - Serbia is a well-positioned producer of these crops with highly competitive prices in the international market. Livestock production is in continuous decline, which contributes to its lower competitiveness in foreign markets compared to crop production. Serbia has a positive trade balance of agricultural products, showing an upward trend. The trade balance is positive with the EU and CEFTA countries, and negative mostly with the countries trading products which are not produced in Serbia.

The agricultural policy concept and framework are strongly marked by the general political and economic transition Serbia has been undergoing for two decades. The regulations were insufficiently aligned with strategic documents and programming, the budget framework and set of indicators for assessing the policy implementation had not been defined, while institutional capacity for the operationalization of the support measures was insufficient. The amount, structure and implementation mechanisms of budgetary support were all unstable, reflecting no strategic direction or clear messages to users. One of the weakest points was the insufficient focusing on some of the sector's key problems like low productivity, weak vertical and horizontal agro-food integration and viability of a

large number of small-scale producers in remote areas. Such an approach to policy making towards the agro-food sector is a serious threat to its competitiveness, long term sustainability and wellbeing of the rural population.

Over the analysed period direct support was mostly implemented in the form of input subsidies. In the last few years payments per hectare have prevailed, but their implementation has been problematic. Receipt of payments is not conditional on meeting the cross-compliance requirements. As such, they are very convenient for beneficiaries, but this practice leads neither to improvements of standards and technology, nor to increased competitiveness. The reluctance of policy makers to start reforming this policy segment and its adjustment to the CAP, calls into question the effectiveness of these measures, which consume the bulk of budget allocations for agriculture.

Rural development support, in any aspect (amount, structure and operationalization) is one of the major challenges. The amount of rural development support is extremely low, and even shows a decreasing trend. Such an approach not only diminishes the potential for resolving some of the key structural problems in agriculture and rural development, such as land market activation, productivity growth in particular on small family farms, the activation of potential for achieving sustainable development in less-favoured areas, etc. An inadequate approach to rural development policy also reduces the capacity for absorption of future IPARD assistance.

As in other transition countries, farm investment support, is the dominant type of rural development measures in Serbia. Over recent years even this has been reduced, seriously jeopardising technological progress, capacity to combat climate changes, raising quality standards and productivity. Besides, the inconsistent and convergent support measures, particularly in livestock production, have resulted in great oscillations and reduced production, with a negative impact on the whole production chain and a large number of holdings.

Environmental protection measures only have a symbolic share in budgetary support, and even they are not directed towards solving crucial problems. There is clearly an underestimation of issues such as great differences in natural conditions for agricultural production, diversity in resources, types of production and farm structure. Although there were higher compensatory allowances for the holdings in less-favourable agricultural areas, the list of measures has not been adjusted to the types of production prevalent in such areas and their specific needs.

The budgetary allocations for general support measures are low and oriented towards measures defined in annual programmes. They do not reflect actual priorities in terms of strengthening institutional capacity, establishing and strengthening all types of partnerships, infrastructure of scientific and research institutions and their training for the implementation of all aspects of the technical support in the implementation of policies and the *acquis communautaire*.

The aspirations toward EU integration require essential improvements of the complex system of legal regulation and a redefinition of agricultural policy framework and public regulatory interventions aiming to prepare the country for an effective integration into the CAP.

In the coming period, policy decision makers must be firmly dedicated to a fundamental reform of agricultural policy and institutional improvements. The leading principle must be gradual reduction and phasing out measures that are not CAP compatible, as well as phasing in measures that will ensure equal conditions like those that EU farmers enjoy. In terms of the content of the measures, overcoming the obstacles facing the sector requires greater attention of policies on specific matters.

Increasing the competitiveness of the agro-food sector and its capability to deal with new challenges depends very much on efforts to adopt and improve knowledge and technology creation and transfer. The current organizational sett-up of knowledge and technology transfer in Serbian agriculture suffers from a lack of investment, a lack of information and communication facilities, weak and poorly coordinated information delivery channels (lack of partnerships and networks) and under-use of existing technologies. The technological improvement of the sector and investment in new knowledge

and its transfer are necessary preconditions for reducing the development delay of Serbian agriculture and for addressing the two major challenges faced by agriculture and food production; namely growth of competitiveness and successfully combating climate change. Improved technology, knowledge and information systems, are expected to lead to more competitive production, increased incomes, and improved well-being for the rural population.

Enhanced food chain competitiveness, growth, sustainability and resilience within agro-food sector are vital factors that can influence market structures (market power) and competitiveness. The food chain in Serbia is currently very fragmented and insufficiently organized in both production and processing. A large part of the agricultural sector is not integrated into agro-food supply chains, either by contracting or by any other means of commercial relationships. This especially refers to the large group of small-scale farmers and a large number of small processing units, whose position is critical as they have to comply with the requirements of an increasingly demanding retail chain. These requirements are driven by increased consumer awareness and public policies aimed at establishing the legal framework for food safety and quality standards.

Policy interventions on improving or maintaining existing forms of horizontal and vertical integration should focus on facilitating agro-processors' access to business development services, stimulating entrepreneurship of agro-processors, enhancing market access for small holder farmers and setting out quality and certification standards etc. The development and improvement of the regional and local based food chains should contribute to improving efficiency in the sector and its ability to deliver quality and safe food for consumers.

Increased focus should be put on agro environmental measures, environmentally sustainable farming practices and agro-environment schemes. Countries in transition, such as Serbia, usually lack a clear political framework through which environmental issues are adequately incorporated into economic activities, primarily agriculture. This is due to lack of tradition in respect of agro-environmental policy implementation.

The importance of agro-environmental problems and related issues are not sufficiently recognized and properly addressed, either in programming documents or agricultural policy making. These problems have been neglected and the possibilities that agricultural policy offers in this segment are not exploited. Such an attitude towards agro-environmental policy has caused serious threats to the sustainability of abundant and diverse natural resources and their vitality, and in some areas has led to serious degradation of land, water and forests. Furthermore, there are serious socio-economic consequences for the wellbeing of the rural population and farming in less-favoured areas whose economy is based on the utilization of natural resources.

More attention should be paid to small scale farms. Owing to the fact that they account for the majority of the overall farm structure, small family farms are an unavoidable part of the rural economy that requires special attention. Their number is continually decreasing as the consequence of aging, migrations, the process of globalization, concentration and centralization of capital in agriculture and many others. But, they still play an important role in rural labour market, agricultural production stability and food self-sufficiency, as well as maintaining the social fabric of rural areas. As such, they contribute to balanced territorial development and to protecting, restoring and maintaining natural resources and the rural landscape. Taking into account the heterogeneous socio-economic characteristics of small farms, the diversity of their types, their farming practices and incomes, public policies must carefully choose the instruments to encourage this sector. Previous policy did not sufficiently address these farms, thus deepening already big regional differences.

Improvements to institutional capacity are also needed. The main capacity gaps for designing and implementing agricultural and rural development policies in Serbia include the need to establish new institutions and to strengthen capacity of those that already exist. Particularly important is the upgrade of the Ministry of agriculture. A lack of adequate human, organizational and institutional capacity and proper procedures for policy development, monitoring and evaluation has negatively affected the

creation of an enabling policy environment and the development of well-defined programmes to stimulate growth and development in the agricultural sector. Strengthening of extension services and research institutions, to bridge the gap between universities, research institutions, and policymaking and implementing actors is also needed in order to establish cooperation and constructive dialogue with business representatives within the food chain.

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Annex B.VII-1: Area and production of main crops, 2005-2013, Serbia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Area of production (1 000 ha)									
Total grain	1 964	1 879	1 931	1 930	1 950	1 873	1 903	1 896	1 908
- Wheat	563	540	559	487	568	484	493	481	563
- Corn/Maize	1 220	1 170	1 202	1 274	1 209	1 230	1 258	1 269	1 187
Oilseeds	331	347	315	350	320	352	355	338	358
Sugar beet	64	72	79	48	61	66	56	65	62
Potatoes	85	84	81	81	78	77	78	75	74
Gapes (total)	64	62	59	58	57	57	56	54	51
Fruit (total)	268	266	269	271	270	270	268	267	267
- Berry fruits	29	28	29	29	30	30	28	29	29
Vegetables and beans	162	163	162	161	159	157	154	150	144
Tobacco raw	7	7	8	7	6	6	7	6	6
Fodder	453	449	450	457	448	450	448	461	436
Production (1 000 t)									
Total grain	9 586	8 349	6 213	8 833	8 982	9 273	9 059	5 913	9 150
- Wheat	2 007	1 875	1 864	2 095	2 068	1 630	2 076	1 911	2 690
- Corn/Maize	7 085	6 017	3 905	6 158	6 396	7 207	6 480	3 533	5 864
Oilseeds	722	823	629	857	772	943	918	667	925
Sugar beet	3 101	3 189	3 206	2 300	2 798	3 325	2 822	2 328	2 983
Potatoes	969	930	743	843	898	887	891	578	767
Gapes (total)	241	359	353	373	431	330	325	263	320
Fruit (total)	873	1 218	1 381	1 299	1 452	1 077	1 337	925	1 533
- Berry fruits	144	145	139	154	157	150	159	123	130
Vegetables and beans	1 289	1 348	1 128	1 277	1 309	1 314	1 275	1 040	1 266
Tobacco raw	11	11	11	11	10	10	10	9	10
Fodder	2 705	2 582	2 138	2 480	2 675	2 736	2 509	2 148	2 388

Source: SORS

Annex B.VII-2: Livestock numbers (in 1 000 animals), 2005-2013, Serbia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cattle	1 079	1 106	1 087	1 057	1 002	938	937	921	913
- *of which* dairy cows	624	607	584	542	501	482	477	455	429
Pigs	3 165	3 999	3 832	3 594	3 631	3 489	3 287	3 139	3 144
Sheep and Goats[1]	1 728	1 718	1 755	1 759	1 647	1 604	1 590	1 867	1 841
Poultry	16 631	16 595	16 422	17 188	22 821	20 156	19 103	24 175	23 450
Beehives[1]	270	304	267	298	302	320	306	654	653

Note: [1]Data for 2012 and 2013 are not comparable with the data for previous years (changed methodology)
Source: SORS

Annex B.VII-3: Agricultural farm-gate producer prices (in EUR/t), 2005-2013, Serbia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Common wheat	92	109	144	184	106	125	177	191	155
Corn/Maize	75	90	157	121	94	131	167	184	142
Sunflower	174	178	316	289	172	345	301	455	219
Soya bean	201	192	280	307	276	280	325	527	386
Sugar beet	25	28	30	34	28	24	38	40	40
Potatoes	90	145	161	140	138	237	236	220	249
Tomatoes	395	313	570	518	557	793	240	530	318
Pepper	205	196	327	337	286	475	396	311	353
Calves (live weight)	2 102	2 507	2 364	2 488	2 466	2 410	2 646	2 677	2 594
Fattening beef cattle (live weight)	1 487	1 607	1 554	1 746	1 727	1 523	1 849	1 886	1 936
Pigs (≤110kg, live weight)	1 274	1 086	1 048	1 539	1 501	1 185	1 330	1 529	1 564
Lambs (live weight)	1 859	2 089	2 032	2 014	1 963	1 917	2 082	1 911	1 981
Chickens (live weight)	898	832	981	1 071	954	879	1 072	1 055	1 177
Eggs (1 000 pieces)	53	46	61	82	72	55	69	74	70
Cow's milk	174	184	232	292	224	220	272	260	282

Source: SORS

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