

Synthesis Report

December 2006

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Table of Contents

	Page
1 INTRODUCTION.....	1
2 METHODOLOGY FOR THE STUDY.....	2
2.1 STUDY OBJECTIVES AND RESULTS.....	2
2.2. GENERAL PROJECT APPROACH.....	2
3 SYNTHESIS OF THE COUNTRY STUDIES - EMPIRICAL AND QUALITATIVE ANALYSES	5
3.1 BACKGROUND	5
3.2 MACRO-ECONOMIC SITUATION.....	6
3.3 AGRICULTURE IN THE ECONOMY	8
3.4 LAND USE, OWNERSHIP, AND FARM STRUCTURE.....	10
3.5 AGRICULTURAL PRODUCTION, PRICES AND FOOD CONSUMPTION.....	13
3.6 AGRICULTURAL TRADE.....	22
3.7 FOOD INDUSTRY	24
3.8 RURAL SITUATION AND DEVELOPMENT	26
4 AGRICULTURE AND FOOD POLICIES	29
4.1 REVISED CAP AS FRAMEWORK FOR EU RAPPROCHEMENT OF AGRICULTURE.....	29
4.2 OVERVIEW OF AGRICULTURAL INSTITUTIONAL STRUCTURES	30
4.3 OVERVIEW OF AGRICULTURAL POLICIES	32
4.4 BUDGETARY RESOURCES FOR AGRICULTURE	32
4.5 MARKET AND PRICE POLICIES	33
4.6 TRADE POLICY	34
4.7 STRUCTURAL AND RURAL DEVELOPMENT AND OTHER POLICY INSTRUMENTS	35
4.8 REGIONAL POLICIES	37
4.9 FOOD SAFETY AND QUALITY POLICIES.....	38
5 MEDIUM TERM OUTLOOK.....	41
5.1 GEOGRAPHICAL AND TIME COVERAGE.....	41
5.2 METHODOLOGY AND LIMITATIONS	41
5.3 RESULTS OF THE MARKET OUTLOOK.....	41
5.4 RESULTS OF THE RURAL DEVELOPMENT OUTLOOK.....	46
6 IMPACT ASSESSMENT OF ACCESSION.....	49
6.1 OVERVIEW	49
6.2 KEY ASSUMPTIONS	49
6.3 IMPACT OF ACCESSION ON MARKETS, INCOME AND FEOGA.....	50
6.4 IMPACT OF ACCESSION ON RURAL AREAS	57
7 CONCLUSIONS	59

LIST OF FIGURES AND TABLES

FIGURES

Figure 1: Current GDP and GDP per capita for Western Balkans, 2004.....	6
Figure 2: GDP and GDP per capita development in the Western Balkans (2000–2005).....	7
Figure 3: Share of agriculture GDP in total GDP in the region (and comparison with EU-25).....	8
Figure 4: Farm structure in the Western Balkans	12
Figure 5: Share of maize and wheat production in the Western Balkans by country / territory	13
Figure 6: Share of grape production in the region	15
Figure 7: Share of livestock production in the region.....	17
Figure 8: Agricultural Exports, Imports and Trade Balance by Country (2004/2005); in million Euros.....	22
Figure 9: Population in Predominantly Rural Regions.....	26
Figure 10: Per capita and per ha budgetary transfers to agriculture (2004).....	33
Figure 11: Current (2005) and future (2020) agricultural employment in the Western Balkans (absolute numbers in full time working equivalent).....	46
Figure 12: Development of Agricultural Output till 2020 with and without Accession.....	57
Figure 13: Development of Agricultural GDP till 2020 with and without Accession.....	57

TABLES

Table 1: Real GDP Growth Rates (2000 – 2005)	7
Table 2: Share of agro-trade in total trade 2004/2005	9
Table 3: Land use in the Western Balkans and EU, 2005.....	10
Table 4: Current status of privatisation of agricultural land, 2004	11
Table 5: Crop area, production, and yield 2005 (2004)	15
Table 6: Livestock herds and production, 2004.....	16
Table 7: Producer Prices for Agricultural and Food Products, 2004 (€ / tonne).....	19
Table 8: Share of household expenditure on food and non-alcoholic beverages 2000 - 2004	20
Table 9: Per capita consumption of basic agricultural products (in kg/head/year)kg/head/year.....	21
Table 10: Agricultural trade 2004 / 2005 (Mill. Euros).....	22
Table 11: Cereals: production, domestic use and net exports [1000 t] in 2002/2004 and final projection year (2020).....	44
Table 12: Production, domestic use and net exports of meat [1000 t] in 2002/2004) and final projection year (2020).....	45
Table 13: Actual Shares of subsistence and semi-subsistence farms in total farm numbers (2005)	47
Table 14: Accession impacts on FEOGA with estimated finance by EU25 and Balkan countries [million €].....	52
Table 15: Accession impacts on agricultural income and its composition in EU25 and Balkan countries, year 2020	56

1 INTRODUCTION

This is the Synthesis Report of the Study on the State of Agriculture in Five Applicant Countries. The Study was commissioned by the European Commission DG-Agri and conducted by the ARCOTRASS Consortium. The aim of the Study was to provide an assessment at regional level of the state of agriculture in the Western Balkans comprising: Albania; Serbia (including a separate report on Kosovo¹); Montenegro; Croatia; the former Yugoslav Republic of Macedonia, and; Bosnia and Herzegovina. This report presents the main findings of the country reports, from the medium-term outlook and the impact assessment, and it provides a comparison between the five Western Balkan countries and the EU.

The Western Balkans, with the notable exception of Albania, share a common history as part of the former Yugoslavia until its break-up in the early 1990s. Slovenia, Croatia, the former Yugoslav Republic of Macedonia and Bosnia and Herzegovina declared their independence and were recognized as independent states in 1992, while Serbia and Montenegro declared a new Federal Republic of Yugoslavia, which subsequently, in 2003, became a new state known as Serbia and Montenegro. This year, on 3rd June 2006, following a referendum Montenegro became independent. Kosovo while still legally a territory of the Republic of Serbia, is administered by an interim administration following an armed conflict and intervention by the international community. Based on UN Security Council Resolution 1244 Kosovo is administered by the United National Administrative Interim Mission in Kosovo (UNMIK), headed by the Special Representative of the UN Secretary General (SRSG) and, since November 2001, the Provisional Institutions for Self-Government (PISG). For this reason, it has been treated separately in this study.

A major bottleneck in carrying out this Study has been the lack of reliable, consistent and comparable agricultural statistics. Efforts have been made to compile data from various official and unofficial sources including where necessary the consultants' own estimates. Considerable efforts have been made to check and verify the data. Inconsistencies and questions concerning the reliability of the data have been resolved where possible and / or highlighted in the individual country reports. Caution is still recommended though in the use and interpretation of the data presented. Efforts are being made to improve the agricultural statistics systems in the Region but considerable progress is needed.

The remainder of the report is set out as follows: Chapter 2 provides a brief description of the methodology used for the Study. Chapter 3 presents the main findings of the country studies regarding agricultural and rural situation, drawing comparisons both between countries and with the European Union. Chapter 4 provides an overview on agricultural and rural policies and chapter 5 documents the modelling work carried out and the results, providing foresight into developments in the agricultural sectors of the region in the medium term and the impact of further harmonization and possible accession to the EU.

¹ On 10 June 1999, Kosovo came under UN administration and the UN Mission in Kosovo - UNMIK - was set up under UN Security Council Resolution 1244.

2 METHODOLOGY FOR THE STUDY

2.1 STUDY OBJECTIVES AND RESULTS

2.1.1 Study objective

The objective of this study was:

- To provide for each of the five Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, and Serbia & Montenegro) detailed and reliable information and analysis on the Western Balkan countries about:
 - the state of agriculture, rural development,
 - agricultural and food trade,
 - a medium-term outlook for agriculture and rural areas and
 - an impact assessment of their accession to the EU

2.1.2 Expected results

The project contract defines that the Study shall provide the below results:

- **Country reports** with statistical data and background information presented as annexes
- A **database** used for quantitative analysis and modelling provided in electronic form compatible with the Commission's computer facilities.
- **Report on the Medium Term Outlook and Impact assessment** of accession of the Western Balkan countries
- A **synthesis report** including main findings of the country reports, medium-term outlook and impact assessment, and compiling a comparison between the Western Balkan countries and the EU
- An **executive summary** including a very brief introduction of the approach, together with a summary of the conclusions arising from each task of the study.

2.2. GENERAL PROJECT APPROACH

The study was implemented by an expert team with sound knowledge on the agricultural and rural situation and policies in the Western Balkan region. The experts furthermore gained significant experience from working on similar projects for other Central and East European Countries. In addition the team comprises agricultural economists from the region, which facilitated the collection of data and information. These national experts were the key to get access to data and information on agriculture and rural areas in the Western Balkan countries. The data and information collected were screened by a team of experts from EU countries, who provided both: a sound knowledge of EU Common Agricultural Policy (EU-CAP) and the situation within the Western Balkan countries. The team was coordinated by the Arcotrass head-office.

Below a brief overview on the five tasks to be addressed is provided:

Task I - Collection of historical data

Historical data (1995-2005) on main issues regarding agricultural production and structures, employment, prices and trade were to be collected and consequently a database consisting of the main macro- and socio-economic data, market balance sheets and prices for the main agricultural commodities, structural data for agriculture (e.g. farm structure, employment, population, subsistence farming etc.) was to be established for each of the Western countries.

In order to successfully establish the data basis a close cooperation with the National Statistical Offices, Agricultural Ministries, Agricultural Economic Research Institutes and/or faculties was crucial. Data collected within the Western Balkans were compared with the data available at international organisations (Eurostat, FAO etc.).

A set of technical tools was used to assess data quality and reliability (based on the EAA methodology). Furthermore FAO and other internationally available data were used to fill certain data gaps and for comparison. In case data were assessed as being not reliable or inconsistent local experts were requested to consult with national statistical offices and agricultural Ministries.

Task II - Descriptive analysis of the current situation

On the basis of the collected historical data an analysis on agricultural and food sectors, and rural areas in the five Western Balkan countries was to be undertaken. The Table of Contents of the study was elaborated based on the approach applied for the country reports prepared for the 10 new Central and East European Member States and the requirements established by DG-Agri.

Western Balkan Agricultural Ministries and Statistical Offices were actively providing raw data and information. Thereby the study could be based on as much as possible original information from the region and goes in its contents and substance far beyond a pure desk study.

Inputs received from the country experts, the agricultural ministries and other sources in the Western Balkans were screened by the international expert team, who all had substantial knowledge on the peculiarities of the Western Balkans. This approach ensured the unbiased presentation of the country specific situation.

Task III - Policy analysis

Besides the information available in the Western Balkans (Agricultural Strategies, Annual Agricultural Reports, Ministry of Finance Reports, etc.) and additional information provided by the Agricultural Ministries, external sources (EC, World Bank, OECD, etc.) were used to provide an up-to-date picture on the current agricultural policies as applied in the Western Balkans.

A descriptive analysis of the agricultural and rural policy was prepared for each country and provides the basis for the assessment of the status of alignment with respective EU policies.

Task IV - Medium-term outlook

The study was requested to provide a medium-term outlook for agriculture and rural areas for each of the five Western Balkan countries as well as for the EU-25² as a whole, mainly based on quantitative analyses. The analysis had to cover the following items:

- Commodity markets (e.g. crop, livestock and dairy sectors), farm structure and sector income
- Rural areas (e.g. demographic trends, socio-economic developments, environment and quality of life)

The modelling analysis was carried out mainly with the CAPSIM modelling system (Witzke & Zintl 2005, Witzke & Britz 2005) relying on the experience from the recent agricultural outlook to 2025 on behalf of the European Environmental Agency (EEA).

The modelling analysis was supplemented with analyses on relevant items (e.g. farm structure, rural development indicators), which are not handled endogenously in CAPSIM. The final results from the medium-term outlook analyses were included into the required Database.

Task V - Impact assessment of accession

The study provides an impact assessment of accession on agriculture (e.g. markets, income, farm structure, competitiveness in the food chain) and rural areas (e.g. demographic trends, socio-economic developments, environment and quality of life).

The medium term outlook analysis and the impact assessment are based on the CAPSIM Model, which already in the past was regularly used for DG-Agri and Eurostat for similar tasks.

This study was prepared applying a stepwise approach with regular review of progress by DG-Agri. Significant gaps in agricultural statistics, the lack of coherent analysis and reports on the agricultural and rural situation, the non-existence of a uniform classification of rural areas and data therefore, etc. required a flexible approach to be applied by the expert team in order to get access to as much information as possible.

Trying to close data gaps required significant additional (in terms of manpower and time) inputs from the contractor. As not all data gaps could be closed within the seven months since project start some gaps still remain and additional efforts will be undertaken to close these gaps till project end.

The modelling part of the study (medium term outlook and impact assessment) was significantly affected by the delays in database completion. Therefore respective modelling and analysis are not as advanced yet as initially intended.

² On request of the Commission Bulgaria and Romania were covered as well (therefore EU-27)

3 SYNTHESIS OF THE COUNTRY STUDIES - EMPIRICAL AND QUALITATIVE ANALYSES

3.1 BACKGROUND

Most of the countries of the Western Balkan Region (referred to subsequently in this report as the Region) share a similar recent history having been formed following the break-up of Yugoslavia, with the exception of Albania which following the collapse of the old regime is confronting similar challenges in terms of transition to a market economy. All countries are in the process of finding new political and economic roles domestically, regionally and internationally and are in the process of establishing the institutions needed for the effective operation of a functioning state.

The Western Balkan region comprising Albania; Serbia and Montenegro including Kosovo; Croatia; Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia, covers a total surface area of almost 4 million km². Total land area is 26 thousand hectares (similar in size to the United Kingdom) of which approximately half is agricultural land. This compares with a total land area in the European Union of 397 thousand hectares of which 162 thousand hectares (41%) is agricultural land. The Region's agricultural land represents 8% of the agricultural land of the EU.

The Region has a population of 23.7 million persons, which represents 5.2 % of the population of the European Union. The population is divided among the countries (and Kosovo - in descending order): Serbia (31.6%); Croatia (18.7%); Bosnia and Herzegovina (16.8%); Albania (13.2%); the former Yugoslav Republic of Macedonia (8.7%); Kosovo (8.4%); Montenegro (2.6%); The population is heterogeneous in terms of religion and ethnicity and is predominantly rural (40-60% of the population depending on the country/entity). A relatively high level of poverty prevails, particularly in rural areas.

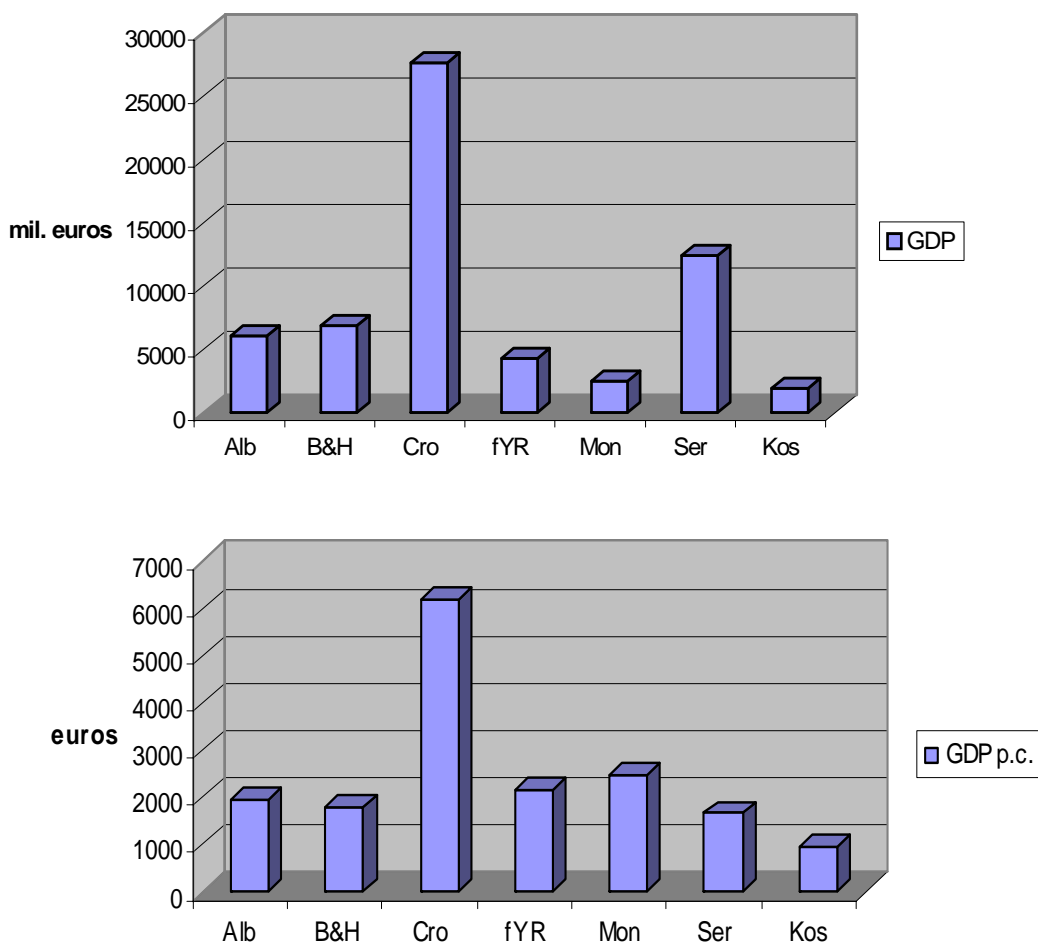
All countries in the Region share the perspective of EU membership. This is being pursued within the framework of the Stabilisation and Association Process (SAP). Croatia and the former Yugoslav Republic of Macedonia are more advanced in this regard having been accepted as candidate countries in April 2004 and December 2005 respectively. Others are classified as 'potential candidate countries' and are at varying degrees in the SAP. Albania is expecting to sign later this year a Stabilisation and Association Agreement (SAA), Bosnia and Herzegovina and Montenegro are in the process of negotiation and Kosovo, (included in the process as an entity of Serbia and Montenegro), have yet to start negotiations while progress is being monitored through the SAP Tracking Mechanism. SAA negotiations with Serbia began late 2005 have been suspended for political reasons³. Albania, Croatia and the former Yugoslav Republic of Macedonia are members of the World Trade Organisation (in 2000, 2000 and 2002 respectively) while others are seeking membership.

³ Non-cooperation with the International Criminal War Tribunal in The Hague.

3.2 MACRO-ECONOMIC SITUATION

The Region as a whole has a GDP of around €60 billion, which represents only 2% of the EU economy.⁴ The largest and most developed economy is Croatia with a GDP of €28 billion (equivalent to almost half of the total GDP for the Region) and a GDP per capita of almost €7,000 (the EU average is approximately €22,600). The smallest and poorest economy is Kosovo with an estimated GDP of €2 billion and per capita GDP of €964. Figure 1 shows the current level of GDP and GDP per capita for each of the countries in the Region.

Figure 1: Current GDP and GDP per capita for Western Balkans, 2004



Notes: Serbia data is for 2003 (latest available in country report)

Sources: National Statistical Offices of the Western Balkans

In terms of economic size (measured by current GDP figures) there are large disparities within the Region. GDP per capita is more consistent among the countries except for Croatia, which enjoys more than double the GDP per capita of the other countries and Kosovo, which endures less than half.

⁴ Based on EU GDP in 2005 of €2697 billion.

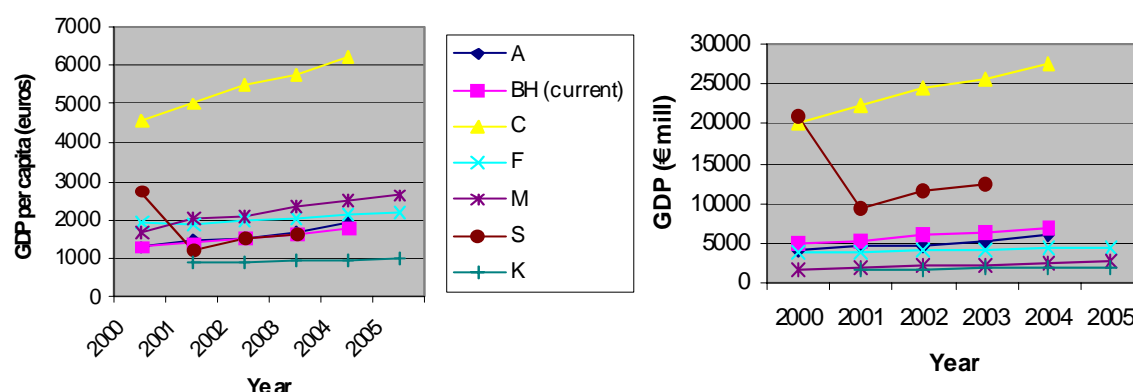
During the past five years all countries in the Region have achieved positive rates of economic growth (with the exception of the former Yugoslav Republic of Macedonia Montenegro in 2001). Albania and Croatia in particular have achieved relatively high levels of economic growth in recent years. The main engines of growth in the Region have been post-conflict reconstruction, successful stabilisation programmes including privatisation, foreign direct investment and, remittances (Albania, Kosovo). GDP per capita has also been steadily increasing throughout the Region. (see Table 1 and Figure 2).

Table 1: Real GDP Growth Rates (2000 – 2005)

	2000	2001	2002	2003	2004	2005
Albania	7.7	6.5	4.7	6	6	N/A
Bosnia & Herzegovina	5.6	4.5	5.5	3.5	5	N/A
Croatia	2.9	4.4	5.2	4.3	3.8	4.1
The former Yugoslav Republic of Macedonia	4.5	-4.5	0.9	2.8	4.1	3.8
Montenegro	3.1	-0.2	1.7	2.3	3.7	N/A
Serbia	5	5	4.5	2.4	9	6
Kosovo	N/A	N/A	1.2	3.1	3.2	1.7

Sources: National Statistical Offices of the Western Balkans

Figure 2: GDP and GDP per capita development in the Western Balkans (2000–2005)



Sources: National Statistical Offices of the Western Balkans

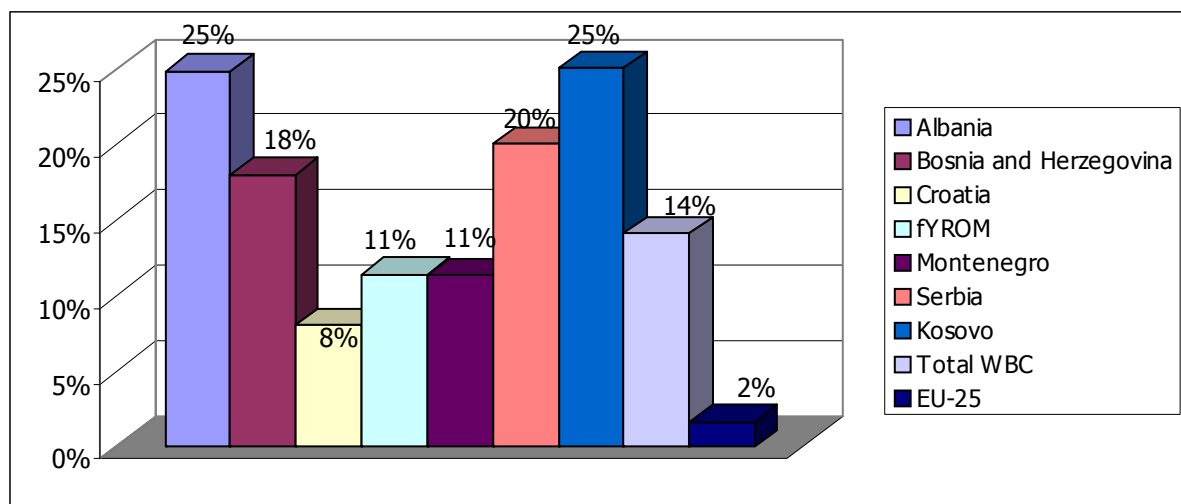
With the exception of Serbia, which suffered from extremely high inflation in the past and still has a relatively high and rising inflation rate (18%) most of the region have realised low and stable rates of inflation. A key challenge remaining for all countries in the Region though is unemployment. A high level of unemployment is prevalent throughout the Region ranging

from 14% in Albania to 42% in Bosnia and Herzegovina.⁵ The simple average for the Region is 28% compared to only 9% in the EU.⁶

3.3 AGRICULTURE IN THE ECONOMY

Natural conditions for agricultural production in the Western Balkans are difficult due to the large share (around two thirds) of mountainous, hilly and carst landscape. In spite of this, agriculture plays an important role in the Region, both economically and socially. It contributes on average 17% to the countries GDP. In Albania and Kosovo agriculture contributes to about one quarter of GDP, in Serbia and Bosnia and Herzegovina one fifth, and in the former Yugoslav Republic of Macedonia and Montenegro 11%. Croatia has the lowest share of agriculture in GDP (8%), which is still significantly higher than the EU average of 1.6%. Figure 3 shows the contribution of agriculture to GDP in the countries of the region.

Figure 3: Share of agriculture GDP in total GDP in the region (and comparison with EU-25)



Sources: National Statistical Offices of the Western Balkans

The agricultural sector provides an important source of employment in all countries of the Region. Data on agricultural labour in these countries is not reliable or comparable. For example in Montenegro the official figure is 1.2% of the total labour force. This figure includes only contracted workers and omits family workers which dominate the sector. Similar problems are encountered in other countries such as Bosnia and Herzegovina and Serbia. Estimates of the real figure of persons engaged in agriculture range from 18% - 58%

⁵ Official unemployment rates in the other countries / entities are: Croatia 18%; former Yugoslav Republic of Macedonia 36.6%; Kosovo 28.9%; Montenegro 22.6%; Serbia 31.7%.

⁶ These figures are likely to overstate the real level of unemployment as they do not take into account the large informal sectors, although figures may not include persons involved in subsistence agriculture or underemployed, not registered as unemployed.

depending on the country and definitions used by the surveys. Agriculture is one of the most important sectors for employment in the Region. Moreover agriculture provides a social safety net throughout the Region for a large number of the population, particularly the elderly, which have no alternative source of income and depend on subsistence agriculture for their livelihood.

The significance of agriculture in the Western Balkan economies is also reflected in the trade statistics (see Table 2 below).

Table 2: Share of agro-trade in total trade 2004/2005

	Alb	B&H	Cro	fYRoM	Mon	Ser	Kos
Agro-good export / total export	8.2	6	10.7	17	12.5	19.9	16.3
Agro-food import / total import	19.4	20	8.9	13.4	23.3	7.3	24.8
Agro-food balance / total balance	23.4	25	7.3	7.3	35	N/A	25.1

Sources: National Statistical Offices of the Western Balkans

The sector faces a number of constraints that impede its contribution to the economy. These constraints are faced by all countries in the Region to varying degrees.

Agriculture in the region is characterised by a large number of subsistence or semi-subsistence producers. They are small-scale with mixed production systems, producing only small quantities of marketable surplus. Due to their small size they are not economically viable characterised by low levels of mechanisation, lack of know-how and poor access to extension services. Moreover the incentive is to maximise social welfare (provide nutrition for the household) rather than to maximise economic return. These factors combined constrain the economic contribution of the sector, which in any case is often not fully captured in official statistics.

Land consolidation is required to raise the size of agricultural holdings and raise productivity. Land consolidation requires the development of properly functioning land markets, absent in all Western Balkan countries, as well as the development of non farm income earning opportunities in rural areas (to reduce those retaining land for economic security). A properly functioning land market is necessary to improve access to credit, enabling investment and productivity increases in the sector. Further details of farm structure in the region is provided in section 3.4.3. Poor physical infrastructure including underdeveloped irrigation systems further impede economic development in the sector.

Agriculture's share in the economy is further constrained by the former collapse of state farms and delays in restructuring and privatisation. State farms played an important role in the agricultural sector of the Western Balkans both in terms of production but also in providing services to private farmers. In particular the break-up of marketing channels and services for small-scale producers and the slow emergence of new marketing mechanisms

and expertise in the private sector, has constrained the competitiveness of the agricultural sector and its contribution to the economy of the region. (See section 3.4.2 on privatisation)

Similarly the food industry has suffered as a result of the collapse of the old structures and the slow emergence of the private sector. Development of this sub-sector, including the finalisation of restructuring and privatisation of agri-business, will greatly enhance the role of agriculture in the economy by providing a market for domestic produce, adding value to the produce, and by creating jobs and wealth in the rural areas. At present the contribution of this sector to the economy is constrained by several factors including low levels of food safety and quality standards, lack of investment funds, and lack of vertical integration in the supply chain, examined in detail in section 3.7.

3.4 LAND USE, OWNERSHIP, AND FARM STRUCTURE

3.4.1 Land Use

Agricultural land in the Region amounts to 13.1 million hectares. This is equivalent to 8.1% of the total agricultural land of the EU which is less than the total agricultural land of Italy (approximately 10% of EU agricultural land). Arable land and permanent crops account for 53% of the total agricultural land, ranging from 11.2% in Montenegro to 71% in Serbia. Agricultural land per capita is highest in Serbia (0.68 ha per capita) and lowest in Montenegro (0.8 ha) (see Table 3). A large proportion of agricultural land is meadows and pastures (in Bosnia and Herzegovina they account for 88% of the agricultural area which is considerably above all EU member states). A significant share of agricultural land is left fallow: Albania (25%); Bosnia and Herzegovina (20%); Kosovo (10%). The main reasons cited for land left fallow are low economic prospects, and agricultural land used for urban uses, unclear ownership and land belonging to state owned agricultural enterprises awaiting privatisation. In Croatia land left fallow is defined only as land which is left to recover as part of the crop rotation system. However 'unutilised agricultural land' as it is referred to in Croatia is significant (more than half the useable agricultural land area is not regularly cultivated). One important reason for this is that many surface areas were or are under land mines, resulting in intensive out migration of these rural areas.

Table 3: Land use in the Western Balkans and EU, 2005

	Alb	B&H	Cro	FYR	Mon	Ser	Kos	EU
Land total	2,875	5,113	5,654	2,570	1,381	7,747	858	397,504
Ag land	700	2,444	2,695	1,260	518	5,112	369	162,393
Arable land and permanent crops	400	1,028	1,110	560	58	3,639	146	108,659
Ag land / capita	0.22	0.51	0.61	0.63	0.8	0.68	0.18	0.36
Arable land and permanent crops / per capita	0.13	0.26	0.25	0.28	0.09	0.49	0.07	0.24
Ag land as share of total land	24.3	47.8	47.7	49.0	37.5	66.0	43.0	40.9

Sources: National Statistical Offices of the Western Balkans, DG-Agri

3.4.2 Privatisation and ownership

Yugoslavia, unlike most other former socialist countries, never fully collectivised agriculture. Therefore during the 1980s about 75% of arable land was farmed by private producers who accounted for about two thirds of all agricultural output. (In 1989 the private sector accounted for 83% of total maize output, 59% of total wheat output, 48% of total beef output, and nearly 80% of all pork output). However private farmers were limited to a maximum of 10 hectares (15 hectares in mountainous areas) and many private holdings consisted of several fragmented plots of land. The socially owned sector was dominated by large, vertically and horizontally integrated agro-kombinats, which possessed most of the large-scale processing facilities.

All countries have implemented or are in the process of implementing a programme to privatise all agricultural land. In the countries and territories of former Yugoslavia, the preferred policy of privatisation has been to lease or privatise through public auction socially owned land. Some variations between the policies pursued by each country / territory are evident, though not significant. In Croatia most state land was leased until 2001 and subsequently privatised giving priority to family farms. In Kosovo socially owned agricultural land is being privatised on a 99 year lease basis, while in the former Yugoslav Republic of Macedonia state leases are given either on a short or medium term basis (up to 40 years). In Serbia a land fund was established and 51% of the agricultural land was allocated to people with no land or poor farmers while 49% was retained by the State.

The privatisation policies pursued in the region have had and continue to have important implications for development of the agricultural sector. However they affect only a small proportion of the total agricultural land in their respective countries. In contrast, in Albania land privatisation affected the whole sector. Former collective farms were broken up into thousands of small holdings and a large number of families (383,000) received 500,000 hectares while state-farm land was distributed among workers' families. The result in terms of farm structure is similar to that prevailing in the former Yugoslavia – the dominance of small agricultural holdings.

The process of privatisation has been slow, hampered by unclear land ownership and the indebtedness of socially-owned enterprises. Agricultural land, in all countries and territories is now predominantly owned by the private sector.

Table 4: Current status of privatisation of agricultural land, 2004

<i>Country</i>	<i>Share of privatized land</i>
Albania	95
B&H	94
Croatia	83
The former Yugoslav Republic of Macedonia	80
Serbia & Montenegro	85

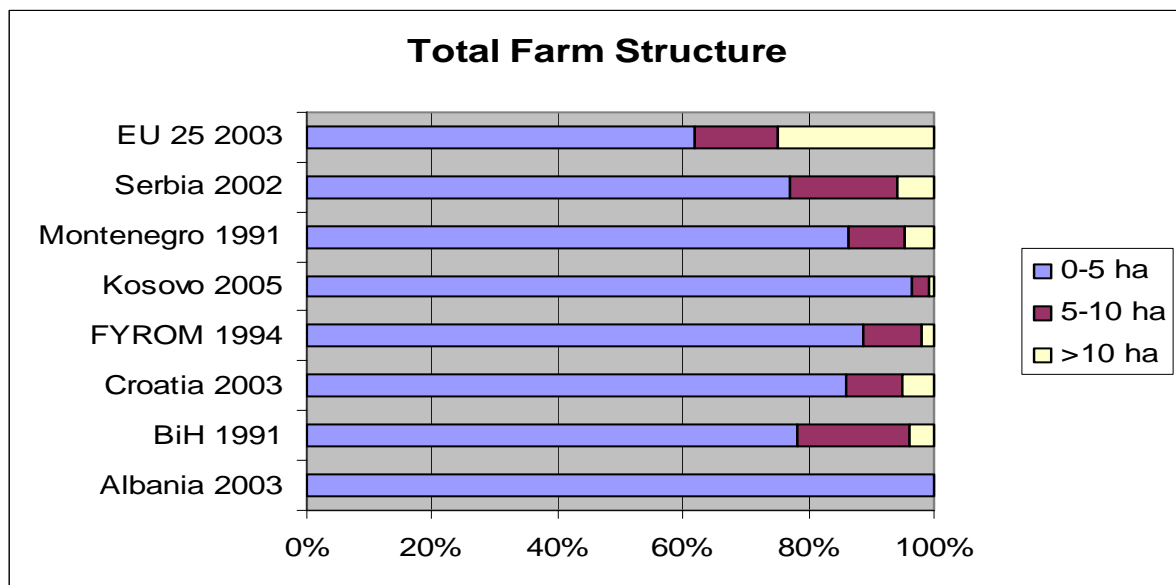
Source: *Strategic Study - Support to the Agricultural Sector in the Western Balkans*

3.4.3 Structure of Agricultural Holdings

The farm structure is similar throughout the Region comprising a large number of small holdings, predominantly subsistence or semi-subsistence in nature, and a small number of large formerly owned state farms (at varying stages of privatisation). Additionally there are a relatively small number of medium size private farms that are emerging and operating on a commercial basis. This sector is growing gradually albeit from a very low level.

The definition of an agricultural holding used in each of the countries affects the farm structure presented. In most cases the figures include a large number of agricultural households which would not qualify as an agricultural holding in the EU. However these holdings (or agricultural households) represent a large proportion of the agricultural production and thus can not be excluded from the statistics.

Figure 4: Farm structure in the Western Balkans



Sources: National Statistical Offices of the Western Balkans

The farm structure is a legacy of the past in the former Yugoslavia where private holdings were not allowed to exceed 10 hectares. In Albania a similar farm structure has emerged as a result of the privatisation process. Figure 4 reflects the largely subsistence nature of agriculture in the Region. The dominance of very small holdings (less than 5 ha) is most apparent in Albania and Kosovo whereas a more even distribution of farms by size is observed in Bosnia and Herzegovina and Serbia. However noticeable is the low share of agricultural holdings above 10 hectares in all countries and territories of the region, which in the EU accounts for 25 per cent of all holdings. If the Western Balkan countries were to adopt the EU definition of an agricultural holding though, the proportion of agricultural holdings in the total farm structure would be more similar to the distribution of farm size in the EU, as illustrated in Figure 4.

There is a tendency for land fragmentation in many countries in the Region (e.g. Albania, Kosovo). A reversal of this trend depends critically on the establishment of a functioning land

market as well as the emergence and stimulation of non-farm income earning opportunities in rural areas. Some progress has been made in terms of land registration and titling throughout the Region but the process is still incomplete and not up-to-date (e.g. Albania, Serbia, Kosovo).

3.5 AGRICULTURAL PRODUCTION, PRICES AND FOOD CONSUMPTION

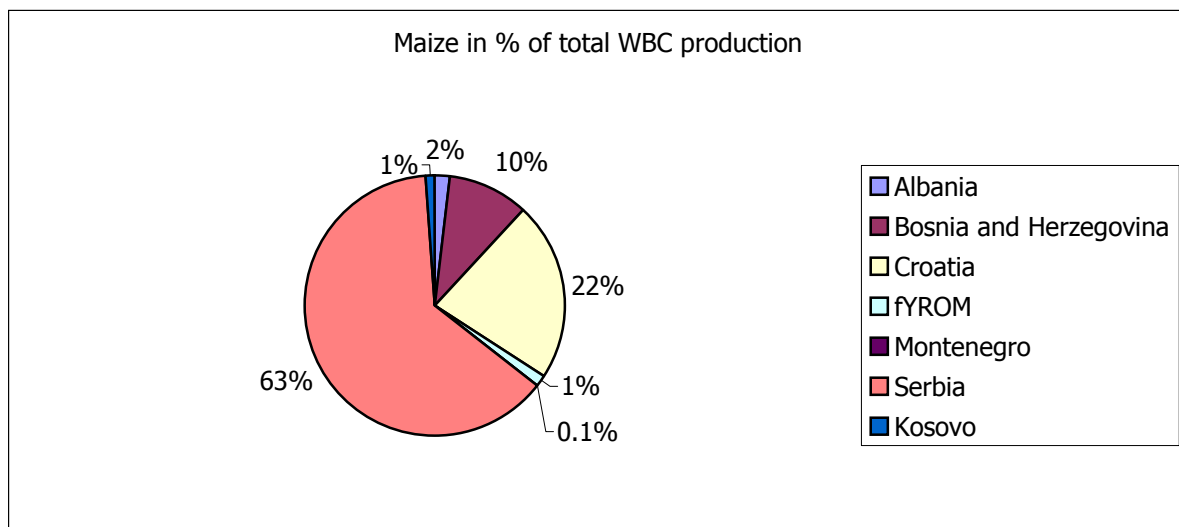
3.5.1 Crop production

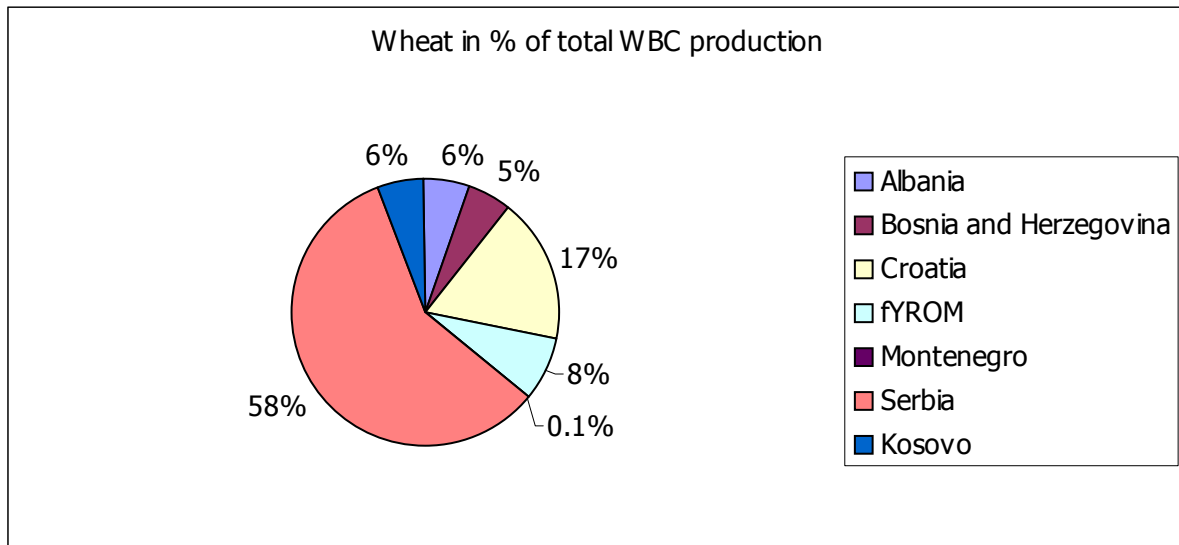
Crop production is important throughout the Region. It accounts for more than half the Gross Agricultural Output of Serbia (65%), the former Yugoslav Republic of Macedonia (77%), Kosovo (59%) Albania (54%) and Croatia (59%). It is relatively less important in Montenegro (43%). Serbia dominates the Region's crop production in cereals, fruit and vegetables, industrial crops and fodder.

Cereal production accounts for the largest area (about one third) of agricultural land in the Western Balkans. The exception is Montenegro where permanent grassland dominates and cereals account for only 1% of agricultural land (12% of arable land). Total cereal production in the Region is equivalent to 6.6% of the area under cereal production in the EU and 5.7% of production.

The main cereal crops are maize and wheat. In 2004 maize and wheat production in the region amounted to 9.8 million tonnes and 4.6 million tonnes respectively. Maize production is significant compared to EU production (53 million tonnes), representing 18.8% of total EU production. For wheat though production is not very significant; only 3.7% of EU production (124.7 million tonnes). Serbia is by far the largest producer, accounting for 63% of maize production and 58% of wheat production. The second largest producer is Croatia. Serbia dominates all cereal production in the Region (see Figure below), including fodder production, which accounts for about one tenth of the Region's arable land.

Figure 5: Share of maize and wheat production in the Western Balkans by country / territory



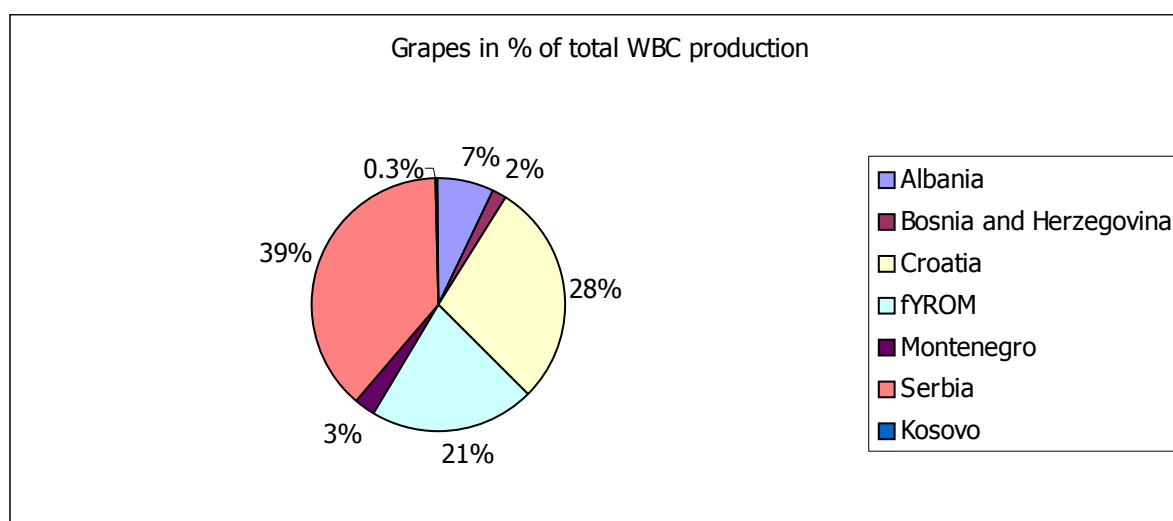


Sources: National Statistical Offices of the Western Balkans

The Region produces 6 million tonnes of fruit and vegetables. This is equivalent to around 5% of EU production. The most important producers of fruit and vegetables in the Region are Serbia, Croatia and the former Yugoslav Republic of Macedonia. A range of fruits and vegetables are produced due to the diverse agronomic conditions. These include grapes (table and wine), olives, apples, pears, peaches, berries, tomatoes and potatoes. A large proportion of the production is on small-holdings for domestic consumption and local sale. There is limited large-scale production for food processing e.g. berries in Serbia and wine production throughout the Region.

Grape production in the Western Balkans amounts to 1.2 million tonnes, which represents about 4 per cent of EU production. Figure 6 shows the share of grape production among countries / territories in the region. The largest wine producers in the Region are Serbia, Croatia, and the former Yugoslav Republic of Macedonia, although wine production is important domestically in all other countries/ entities of the Region. Most of the wine produced is of low and standard quality. Substantial investments are needed to improve quality and yields (for example Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia). Some quality and high-quality wines are produced for example in Croatia 451 of a total of 2973 producers have controlled origin of protection with most quality wines produced in County of Zagreb and County of Dubrovnik-Neretva.

Figure 6: Share of grape production in the region



Sources: National Statistical Offices of the Western Balkans

Production of industrial crops has declined in some countries (Albania, Kosovo, the former Yugoslav Republic of Macedonia) caused by the collapse of the processing sector (Section 3.7) and the lack of competitiveness vis-à-vis imports of raw materials for processing. In Bosnia and Herzegovina, Croatia, and Serbia though, during the last ten years, significant increases in areas under industrial crops are recorded, for oilseeds and soya in all three countries, as well as for rape and sunflower in Croatia.

Table 5: Crop area, production, and yield 2005 (2004)

Crop area (1000ha)	Alb 2004	BiH 2005	Cro 2004	fYRoM 2004	Kos 2005	Mon 2004	Ser 2005	EU-25
Cereals	143.9	321.0	708.0	189.3	233.0	4.9	1,972.0	52,014
Oilseeds	3.1	6.1	80.0	5.2	n/a	n/a	331.7	11,349
Pulses	17.2	11.3	8.0	17.4	6.0	n/a	35.1	1,868
Roots and tubers	10.7	41.5	87.0	20.4	5.4	10.4	154.7	2,037
Fruits (excl. grapes)	n/a	34.9	42.0	15.0	5.0	9.7	244**	5,838
Wine grapes	7.6	3.6	50.0	24.8	4.9	3.5	66.0**	3,400
Vegetables	32.0	31.3	76.0	52.0	13.0	18.2	140.0	2,460
Production (1000t)								
Cereals	498.8	1,358.3	3,633.0	676.6	441.0	15.9	9,539.1	260,561
Oilseeds	2.6	13.6	198.0	7.8	n/a	n/a	728.7	10,021
Pulses	22.4	18.4	14*	14.3	8.2	n/a	62.8	4,486
Roots and tubers	160.0	413.5	1,106*	288.5	n/a	117.0	3,085**	59,599
Fruits	246.0	182.9	492.0	147.7	29.6	33.6	1,085.0	63,001
Tobacco	2.1	4.4	10*	21.6	0.1	0.4	11.0	340,000***

*2003

2004 *2001

Sources: National Statistical Offices of the Western Balkans

Yields are low, below the EU average in all countries (see Table 5 above). The average yield for cereals is 3.7 tonnes per hectare compared to 5.8 tonnes per hectare in the EU. The

reasons for low yields are common throughout Region: low input use and low quality of seeds; poor technical and technological farm equipment; outmoded cultivation and seeding practices; lack of effective extension advise; limited irrigation; low use of modern equipment and techniques (constrained by small size of agricultural holdings); dominance of subsistence agriculture (where optimising yield may not be the main aim), and; use of marginal land for crop production, reducing countries' average yields. In recent years though, yields have improved, albeit from a low level.

3.5.2 Livestock production

Livestock production is important in the overall agricultural production of the Region and plays an important, traditional role, in subsistence agriculture. In Montenegro livestock dominates GAO (57%) whilst in Albania, Croatia, and Kosovo the livestock sector accounts for nearly half of the value of their agricultural sectors. It is relatively less important in Serbia and the former Yugoslav Republic of Macedonia, contributing only 35% and 23% of GAO respectively.

Livestock production is characterised by a large number of very small, mainly subsistence oriented, agricultural households with very small herd sizes (1-2 cows). Large and specialised livestock production carried out by former socially owned enterprises are being replaced by commercially oriented small – medium family businesses. There are signs that this sector is growing.

Total number of cattle in the Western Balkans is just over 3 million. This amounts to less than 4% of the EU herd size. Sheep and goats (3.3 million) account for a larger share of the current EU herd size and production, 7.2 and 7.7% respectively. The Region has a total of 5.8 million pigs and 32.6 million chickens.

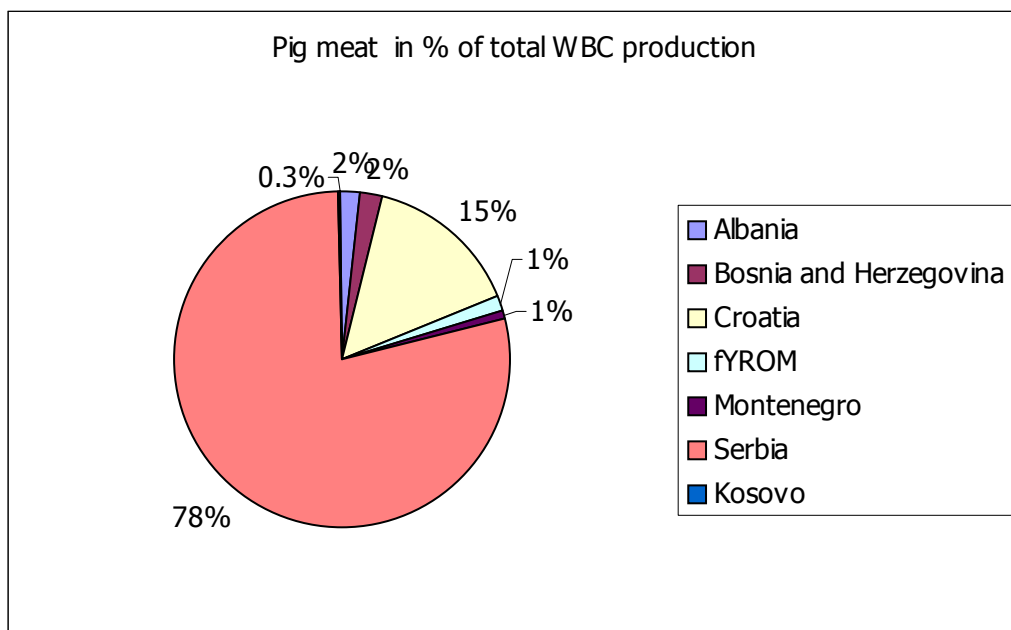
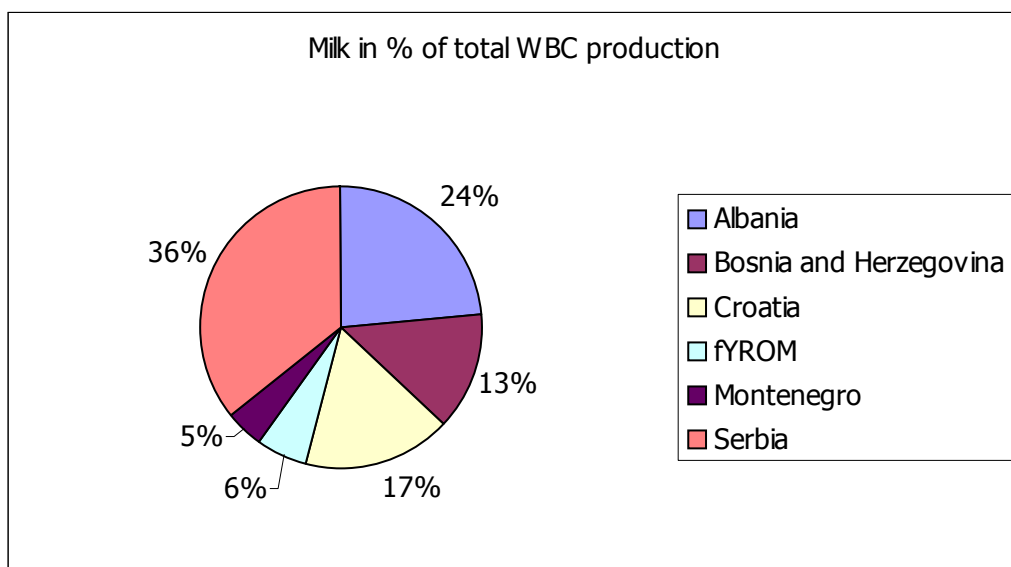
Table 6: Livestock herds and production, 2004

Stocks (1000 heads)	Alb	B&H	Cro	fYRoM	Mon	Ser	Kos	EU
Cattle	654	453	466	255	175	1102	335	86411
Sheep and Goats	2292	745	848	1432	254	1685	107	101301
Pigs	143	595	1489	158	24	3349	55	151143
Chickens	6275	N/A	6447	2725	890	16280	2387	5311391
Production (1000 t)								
Beef and veal	66	28	17	9	13	93	11	8084
Milk (mill litres)	1064	599	685	261	209	1593	147	141324
Pig meat	13	16	114	9	6	242	3	21194
Poultry meat	9	9		3		65	N/A	10990
Sheep / goat meat	42	3	2	7	8	20	1	1058

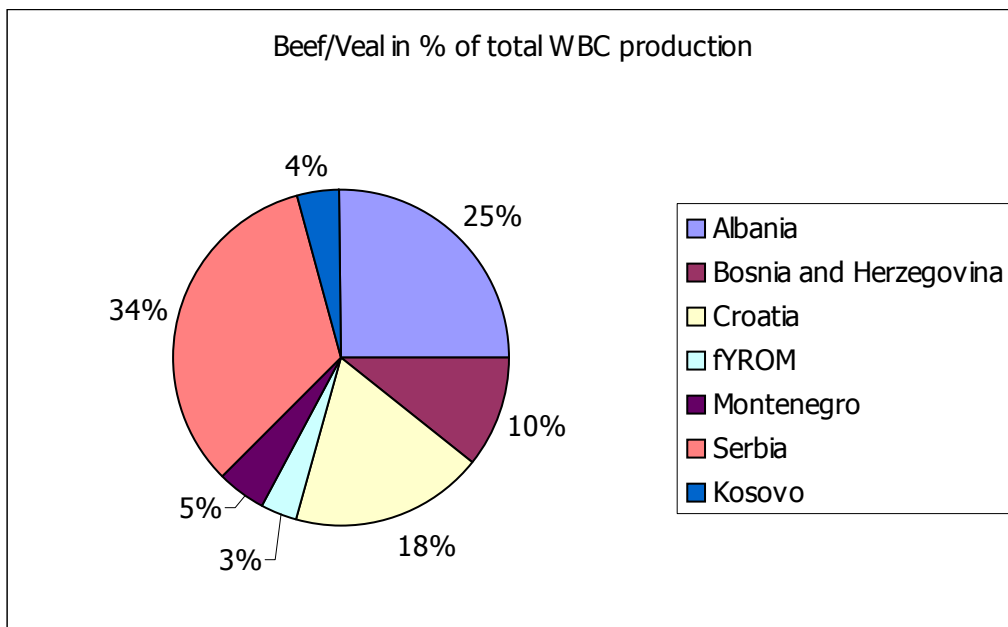
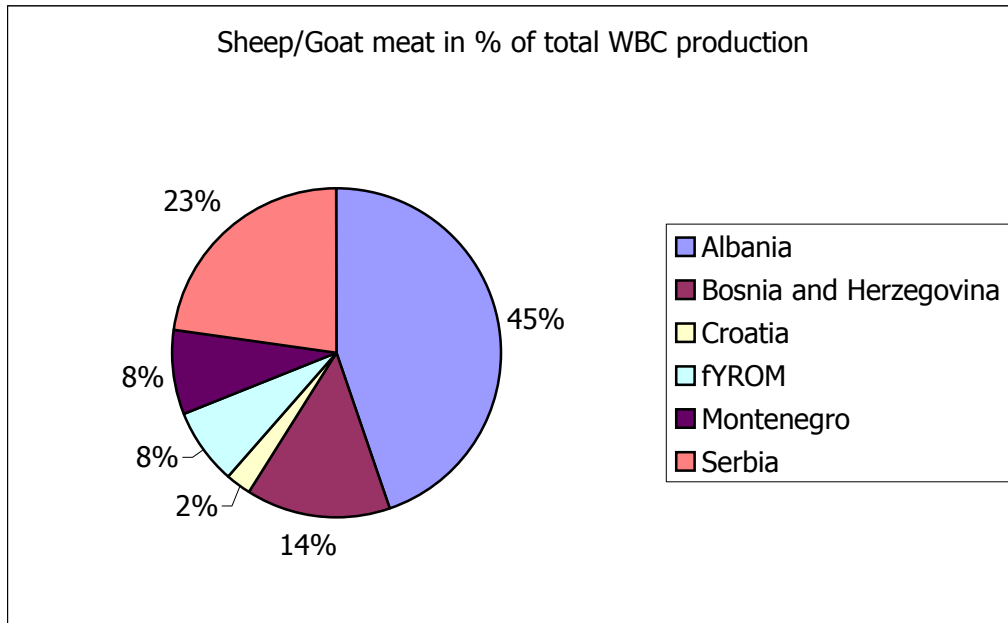
Sources: National Statistical Offices of the Western Balkans

The region produces 4.5 million litres of milk, 750 thousand tonnes of pork meat, 268 thousand tonnes of beef / veal, and 92 thousand tonnes of sheep and goat meat⁷. This production represents about 3-4% of EU production, except for sheep and goat meat which accounts for almost one tenth of EU production. In spite of being relatively less important domestically, Serbia dominates livestock production in the region. Figure 7 shows that Serbia accounts for the largest share of production of milk (36%); pork meat (78%), and beef and veal (34%). Albania is the most important producer in the region of sheep and goat meat accounting for nearly half of the region’s production, and also accounts for one quarter of beef and veal production.

Figure 7: Share of livestock production in the region



⁷ This data excludes Kosovo milk and sheep and goat production.



Sources: National Statistical Offices of the Western Balkans

In general livestock numbers have declined during the past decade. This is particularly noticeable in Serbia and the former Yugoslav Republic of Macedonia. Some increases in herd size are recorded in the pig sector in Bosnia and Herzegovina and Albania. In Croatia there has been an expansion of the sheep and goats sector.

3.5.3 Producer Prices and Agricultural Income

Most of the countries in the Region are at an early stage in developing monetary statistics. Products are not well defined and observation units / samples are limited. Producer prices are collected at the point of sale or not at all (in Albania only retail prices are available). Price variations therefore reflect in part differences in quality, product definition and point of data collection. Nevertheless Table 7 presents the data currently available. There is a wide

variation in the prices reported for agricultural products between countries / entities in the region. They are both higher and lower than producer prices in neighbouring EU member states. Due to a lack of quality control and standards, combined with poor extension, lack of know how, and low levels of technology and mechanisation the quality of products is typically lower than in the EU. Wide variations also exist within the region.

Table 7: Producer Prices for Agricultural and Food Products, 2004 (€ / tonne)

Crop products	Alb (retail)	B&H	Cro	fYRoM	Mon	Ser	Kos
Wheat	251	140	126	173		95	200
Maize	290	136	90	136		79	240
Barley		135	122	129		97	250
Tobacco	3884	1253	1775	1327		1077	
Potatoes	431	128	173	201	260	85	350
Apples	877	269	303	77	650	296	530
Pears	1073		339	381	150	304	1180
Peaches	830	222	828	334	920	157	
Table grapes	1543		712	1170			890
Wine grapes		460	824		1000	582	
Tomatoes	736	96	527	289	600	302	690
Livestock products (live weight)	Alb (retail)	B&H	Cro	fYRoM	Mon	Ser	Kos
Adult cattle for slaughter	2818	1452	1816		2000	1107	1470
Pigs for slaughter	2434	1396	1480	1306		1090	1830
Poultry for slaughter	1540	1511	1093	339		890	
Lambs for slaughter	2478	2059	3050	2009	1830	1809	
Raw cows milk	423	257	278	266	290	173	280
Sheep and goat milk	556	445	547	540			
Eggs for consumption	86	111	91	55	100	65	74
Processed products (wholesale price)	Alb (retail)	B&H	Cro	fYRoM	Mon	Ser	Kos
Butter	4009		3000	3900			
Cheese	2584	3272	6400			4236	
Sugar	501			600		551	

Sources: National Statistical Offices of the Western Balkans

Very limited data exists on farm income. Determination of farm income is complicated by the largely subsistence nature of agriculture, the high proportion of unpaid family labour used on the farm, and the lack of record-keeping among producers. In spite of these difficulties the former Yugoslav Republic of Macedonia and Kosovo have taken some initial steps to introduce a Farm Accountancy Data Network (FADN) in line with EU, in order to gather information on farm income and profitability of the sector. In Croatia the establishment of FADN is planned for completion by 2008. Other countries have not made progress in this area.

In the former Yugoslav Republic of Macedonia the average net salary per month is 158 Euros while income per labour unit is reported at about Euro 4,000 per annum. In Kosovo, based on a limited non-representative sample, the larger producers obtain an average income of about Euro 10,000, while the majority of semi-subsistence agricultural households cover only their expenses from cash revenue derived from agriculture. Throughout the region it is typical for agricultural households to depend on non-farm income sources such as pensions or the income of one or more family member working outside the farm. There are some indications (e.g. in Serbia, Bosnia and Herzegovina, and the former Yugoslav Republic of Macedonia) that farm income has been increasing in recent years.

This study could not provide reliable information on the farmers' income in the region. Anyhow, as agriculture remains to be the most important economic activity within the regions' rural areas any measurement of the agricultural income without consideration of the own consumption of the farmers family remains incomplete.

3.5.4 Food Consumption

Due to relatively low incomes, the share of household expenditure on food and non-alcoholic beverages is high in all countries in the Region. The highest levels are reported in Albania (57%) and Bosnia and Herzegovina (around 60%). The lowest level is reported in Croatia (33%) although this figure remains considerably higher than the average in the EU of 12.9%.

Table 8: Share of household expenditure on food and non-alcoholic beverages 2000 - 2004

	2000	2001	2002	2003	2004
Albania	75.0	N/A	57.1	N/A	N/A
Bosnia – Herzegovina	N/A	60.8	estimates 60-70%		
Croatia	32.2	33.7	32.2	32.6	N/A
The former Yugoslav Republic of Macedonia	41.8	42.0	42.5	42.0	40.8
Kosovo	N/A	N/A	N/A	53.9	54.8
Montenegro	54.0	51.7	50.0	49.7	48.0
Serbia	50.0	55.0	45.0	43.0	40.0
EU	12.9	12.9	12.9	12.9	12.7

Sources: National Statistical Offices of the Western Balkans

Consumption patterns are similar to those of the EU Mediterranean countries (e.g. Greece, Italy, Malta), with high cereals and fruit and vegetable consumption and low potato consumption. Consumption levels of products of low cost and with low levels of processing are typically higher than in the EU, while products of higher cost, such as meat and sugar, are consumed less in terms of per capita consumption than in the EU. Consumption of meat in the Region is considerably lower than in the EU. The most important meat throughout the region is beef, although average per capita consumption of beef in the region

(15.6kg/head/year) is also below the EU level (17.9 kg/head/ year)⁸. Per capita consumption of pig meat and poultry are significantly lower than the per capita consumption in the EU, except in the case of Serbia where per capita consumption of pig meat (33 kg/head/year) is noticeably higher than in other countries / territories of the region, but still below the EU average (43.3 kg/head/year).

In several countries / territories consumption is collected by agricultural household rather than per capita, requiring per capita estimates to be made for comparative purposes using demographic data.

Table 9: Per capita consumption of basic agricultural products (in kg/head/year)

Product	Alb	B&H	Cro	fYRoM	Kos	Mon	Ser	EU-25
	2005	2005	2003	2004	2005	2002	2003	2004
<i>Total cereals</i>	301.0	199.0	167.2	160.5	n/a	118.0	120	91.9
- Wheat	210.0	175.0	n/a	n/a	140.0	59.1	68.8	68.7
Potatoes	58.0	59.0	42.2	32.2	n/a	72.2	38.2	76.9
Sugar	22.0	n/a	12.6	22.8	n/a	14.6	23.1	31.8
Fruits	55.0	48.0	47.2	94.0	20.0	65.8	118.6	n/a
Vegetables	200.0	71.0	52.2	117.3	147.5	146.8	105.6	n/a
<i>Meat (total)</i>								
- Pig meat	6.0	8.0	33.0	8.4	1.7	3.2	33	43.4
- Poultry meat	8.0	11.0	21.4	12.1	16.1	9.3	8.6	23.0
- Beef meat	14.0	13.0	15.1	10.8	22.7	18.1	12.5	17.9
- Sheep meat	7.0	5.0	1.3	1.2	0.4	3.9	2.1	2.9
- Other meat	n/a	2.6	15.9	12.3	n/a	9.7	0.2	n/a
- Offals	n/a	n/a	1.5	n/a	n/a	n/a	3.6	n/a
Milk	209.0	160.0	83.0	101.7	170.0	133.2	161.5	n/a
Butter	1	n/a	0.3	n/a	n/a	n/a	0.3	4.1
Cheese	4	n/a	6.9	11.7	n/a	17.5	n/a	17.6
Eggs	16	8.2	8.1	n/a	12.3	10.9	7.0	13.4

Sources: National Statistical Offices of the Western Balkans

Serbia is the only country in the region that is almost self-sufficient in all basic agricultural products; wheat (97%); maize (101%); vegetables (96%); beef and sheep and goat meat (100%); poultry and pig meat (99%). Croatia, too, is self-sufficient in cereals and poultry, although self-sufficiency rates are less than 80% for beef and pork. In contrast Bosnia and Herzegovina and Kosovo have large deficits both in cereals and livestock products, although the former is self-sufficient in vegetables. Albania, Montenegro, and the former Yugoslav Republic of Macedonia all have cereal deficits but achieve self-sufficiency in sheep and goat meat (lamb meat in case of the former Yugoslav Republic of Macedonia, and eggs in Albania). In general data is not collected regularly for supply balance sheets in the region and the data in most cases has been compiled for the purposes of this report, based on simple calculations not taking into account changes in stocks / inventories.

⁸ This is based on a simple average of the countries / territories and is not a weighted average by population.

3.6 AGRICULTURAL TRADE

Despite the importance of agriculture in the region, all countries - with the notable exception of Serbia in 2005 - are net importers of food. Agro-food trade deficits range from €70 million in the former Yugoslav Republic of Macedonia to €888 million in Bosnia and Herzegovina. This reflects the lack of competitiveness of the agricultural sectors. The agro-food trade deficit of all countries / entities in the Region amounts to €2313 million euros⁹.

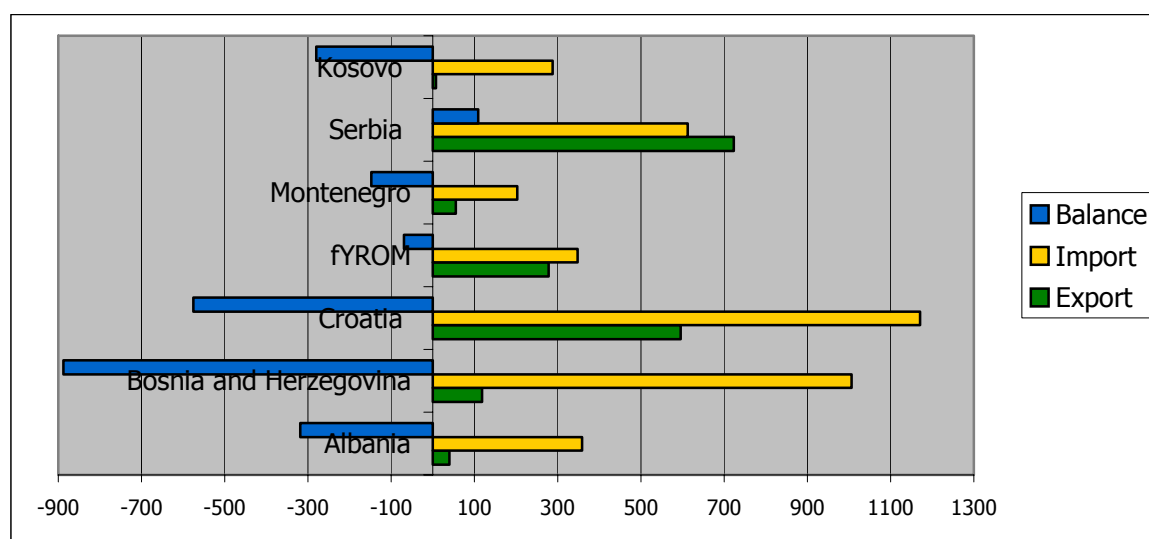
Table 10: Agricultural trade 2004 / 2005 (Mill. Euros)

	Alb	B&H	Cro	fYRoM	Kos	Mon	Ser
Export	39.9	117.9	596	278.6	7.77	56.5	722.5
of which EU	27.39	26.7	200.6	129.5	3.16	1.349	393.4
Import	359.1	1006.2	1171.4	348.1	287.51	203	612.8
of which EU	219.31	423.3	798.4	145.4	88.48	59.722	276.8
Balance	-319.1	-888.3	-575.4	-69.5	-279.74	-146.4	109.7
of which EU	-191.92	-396.6	-597.8	-15.9	-85.32	-58.373	116.6

Sources: National Statistical Offices of the Western Balkans

The EU is the main external trade partner. It accounts for 18% of agro-food exports and 49% of agro-food imports of the Region. Intra-regional trade is the second most important trade in the agro-food sector. Figure 8 presents the agro-food exports, imports and trade balance for each of the countries / entities of the Western Balkans and trade patterns.

Figure 8: Agricultural Exports, Imports and Trade Balance by Country (2004/2005); in million Euros



Sources: National Statistical Offices of the Western Balkans

⁹ This refers to the summation of agro-food trade deficits of all countries / entities in the Region. It does not refer to the Region's agro-food trade deficit as a whole.

The Figure shows that Serbia and Croatia are the main exporters of agriculture and food in the Region, while Croatia and Bosnia and Herzegovina are the main importers of agriculture and food products. The Figure also shows the dominance of EU-25 in the Region's agricultural trade. 68% of Croatia's agro-food imports are from the EU, compared to only 30% in Kosovo, while 71% of Albania's agro-food exports are to the EU, compared to only 31% in Kosovo.

The main agro-food exports are (by HS code) tobacco (€212 million) sugars (€189 million), beverages, spirits and vinegar; (€172 million), and fruits and nuts (€163 million). Serbia accounts for 69% of the value of export earnings from sugar and 78% of the export value of fruits and nuts. The value of exports of beverages, spirits and vinegar is more evenly distributed, attributed to former Yugoslav Republic of Macedonia (29%), Croatia (27%) and Serbia (21%). Tobacco is the most important agro-food export of Croatia and former Yugoslav Republic of Macedonia which together account for 90% of the total value of tobacco exports of the Region¹⁰.

The main agro-food imports (in value by HS code) are beverages, spirits and vinegar (€332 million), other prepared foods (€325 million), fruits and nuts (€282 million), and edible meat (€277 million). Imports of tobacco, pastries and milk preparation, cereals and dairy are also significant (over €200 million each). Beverages, spirits and vinegar is the most important agro-food import in Kosovo, Bosnia and Herzegovina and Montenegro. In Serbia the highest value agro-food import is tobacco (€74 million), in Albania cereals (€49 million), in the former Yugoslav Republic of Macedonia edible meat (€56 million), and in Croatia other prepared foods (€101 million).

In terms of agro-food trade with the EU, the region's exports are mainly low value, primary agricultural products (with the notable exceptions of sugar and some processed fruit and vegetables), while processed agro-food products dominate imports.

Agro-food exports are constrained by a lack of competitiveness in terms of price and quality, limited quantities / surplus available for export, and difficulties faced by domestic producers and processors in achieving sanitary, phytosanitary and veterinary EU and international standards.

In spite of these constraints, all countries have achieved significant increases in agro-food exports during the last decade.¹¹ The data shows that Bosnia and Herzegovina have achieved the highest rate of growth in exports (214% during the period 1999 – 2005). Other countries have achieved growth rates in the range of 50% – 80%, with Serbia achieving the second highest growth in total agro-food exports (78%) and Croatia the lowest (50%). However agro-food imports have also increased during the same period and with the exception of Serbia, overall agro-food trade deficits in the region have expanded.

Since 1995 agro-food exports to the EU from the Western Balkans have almost doubled, with all countries, except Croatia, achieving high growth rates. The expansion of agro-food

¹⁰ Including intra-regional trade

¹¹ Montenegro and Kosovo are not included in any of the analyses of time-series trade data as trade data during this period is not available for these countries / territories.

exports to the EU is largely accounted for by Serbia, where exports have increased from Euro 149 million in 1995 to Euro 393 million in 2005 (a growth rate of 164%). Bosnia and Herzegovina have also experienced significant growth in exports to the EU (exports to the EU have increased from Euro 6 million in 1999 to Euro 27 million in 2005) albeit from a low level. Croatia's statistics show a fairly stable trend. Agro-food imports from the EU have also increased in all countries except Albania (EU agro-food imports have increased by 107% in the former Yugoslav Republic of Macedonia; 72% in Serbia, and 54% in Croatia during the last decade).¹² In most cases, except for Serbia and Albania, agro-food trade balances with the EU have deteriorated.

Intra-regional trade (within non-EU countries) has expanded rapidly during the last decade. Bosnia and Herzegovina, Croatia and Albania have experienced the greatest increase both in intra-regional agro-food imports and exports. In particular Croatia has increased dramatically agro-food imports from the region with a growth rate during the last decade with an average annual increase of about 70%. Only former Yugoslav Republic of Macedonia has experienced in a decline in agro-food imports from the region¹³. Intra-regional trade balances have improved in most cases, although Bosnia and Herzegovina have experienced a dramatic deterioration in intra-regional (non-EU) trade balance for agro-food products (Albania too has experienced a widening of its agro-food trade deficit since 1999).

3.7 FOOD INDUSTRY

There is limited information available on the food industry in the whole Region. Data is not collected on a systematic basis and information that does exist is commonly outdated or known to be inaccurate.

The food industry is an important sector in the economy of the region in terms of contribution to GDP and as a source of employment, particularly in rural areas. In Serbia the food industry accounts for 5% of GDP, in Montenegro 6% and in Croatia 3-4%. The food industry employs more than 100,000 persons in the region of which 90,000 are in Serbia, 17,000 in the former Yugoslav Republic of Macedonia, 10,000 in Albania and 6,000 in Montenegro. In general the sector has experienced rapid growth in recent years, particularly in some regions (e.g. Albania), although large variations in the region and between sub-sectors exist in terms of performance. Serbia is a large exporter of processed agricultural products, while Montenegro, Kosovo and Bosnia and Herzegovina, have large trade deficits of processed foods.

The structure of the food industry remains largely a legacy of the past. The food industry was dominated by large-scale publicly owned enterprises known as 'agro-kombinats' or

¹² This is based on data for the last six years in the case of Bosnia and Herzegovina and Albania, as reported in the country reports.

'socially owned enterprises'. These enterprises have suffered from the problems and instabilities of the 1990s and in some countries / entities (especially in Kosovo and Bosnia and Herzegovina) they have also been affected by physical damages. Private enterprises are emerging, mainly small-scale and focused servicing local markets (for example in Albania it is reported that 88% of agro-processing firms have less than five employees).

Privatisation of the food industry has been pursued throughout the Region. Countries / entities are at varying stages in this process; in Croatia privatisation is almost complete (the state has only a partial share in some enterprises) while in Bosnia and Herzegovina and Kosovo the process is just beginning. Some countries / sub-sectors have attracted foreign direct investment but considerable further investment is needed to enhance performance and improve competitiveness. Many of the old socially owned enterprises continue to operate but suffer from problems of indebtedness, outdated technology, and low levels of capacity utilization (especially in Bosnia and Herzegovina and Kosovo where the privatization and restructuring process has been slow). Another key constraint facing the sector is unreliability of raw materials both in terms of quality and quantity, due largely to the absence of large scale agricultural production. In Kosovo, unreliability of power supply further constrains development in the sector.

The main sub-sectors are: milling, bakeries, dairies, meat processing, beverages (wine, beer, mineral water, soft drinks, other alcoholic drinks), tobacco, fruit and vegetable processing; sugar and related products. In all countries, milling, bakeries, dairies, and meat processing are important, largely for servicing the domestic market. Serbia and the former Yugoslav Republic of Macedonia successfully export a wide range of processed fruit and vegetables, in particular based on tomatoes, peppers (premium juices are one of the fastest growing sub-sectors in Serbia). The beverage sector, particularly wine, is important in all countries, tobacco is produced in Montenegro, the former Yugoslav Republic of Macedonia, and Croatia, and a sugar industry exists in Croatia, Serbia and Bosnia and Herzegovina.

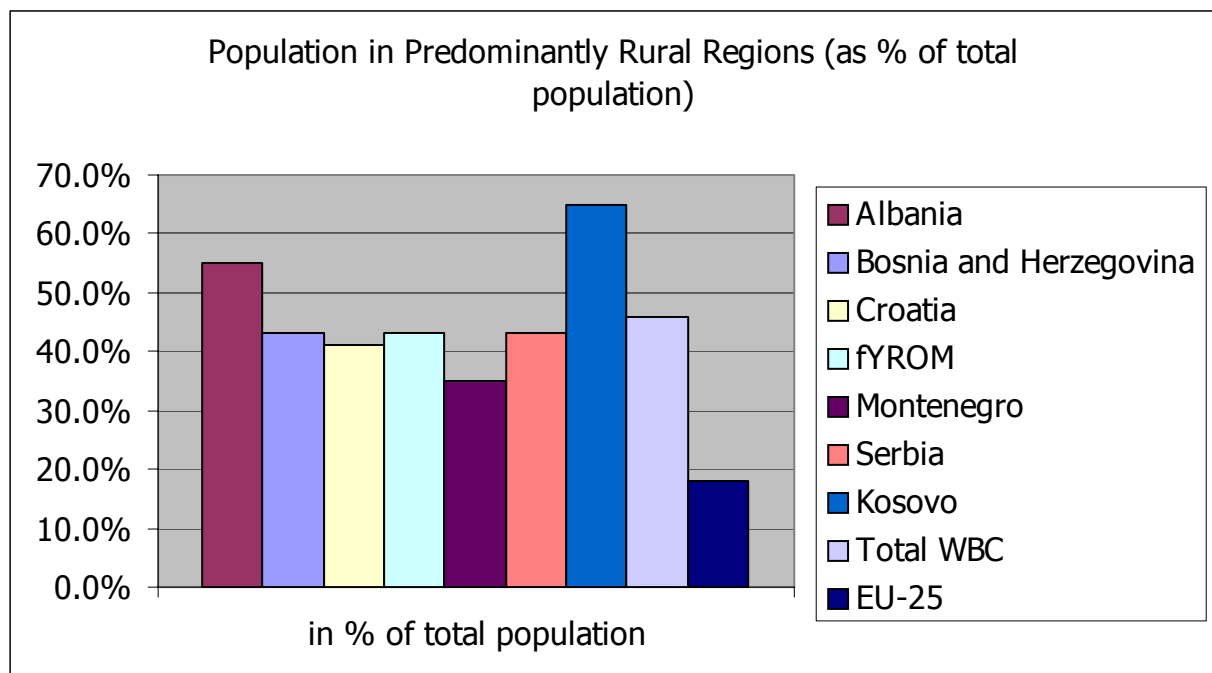
Further development of the sector requires the above constraints to be addressed as well as substantial investments in order to modernize the sector and introduce EU and international standards for food safety and quality. EU accreditation and the introduction of HACCP are beginning (Croatia and Serbia) but further efforts are needed in this regard. Investment in human resources is also needed to enhance the technical, marketing and managerial capabilities of the labour force. This is likely to be driven by the private sector.

3.8 RURAL SITUATION AND DEVELOPMENT

Historical regional context: When considering the rural situation and characteristics of the Western Balkans it is essential to analyse the current situation within its broader historical context. This naturally includes the impact of the various recent conflicts but is also very much influenced by the earlier growth and subsequent collapse of industrial development in former Yugoslavia. Rural development today is not a matter of former farmers returning to their villages. The challenges for rural areas and for the alleviation of rural poverty throughout the region is primarily related to the loss of employment opportunities in structurally declining industries, the impact of the rationalised public sector and the need to reconstitute rural communities that were already becoming highly dependent on non-rural types of income and employment prior to the social, economic and political upheaval experienced throughout the region in the last fifteen years.

Rural population: The rural population represents 42% of the total population (more than 10 million people) but in many countries the significance of the rural population is far greater. The largest rural population is in Croatia (2.1 million), while the countries with the largest share of persons living in rural areas are Kosovo (estimated 60%) and Albania (55%). In the other countries of the region, the average share of people living in rural areas is about 44%. A high proportion of the rural population are dependent on agriculture. The food industry also provides an important source of employment in rural areas in some countries, primarily in small-scale, value-adding, on-farm or near farm processing activities.

Figure 9: Population in Predominantly Rural Regions



Note: Data refers to predominantly rural region according to the OECD nomenclature of rural areas

Sources: National Statistical Offices of the Western Balkans

Demographic changes: The demographics of rural areas in the region have experienced some dramatic changes in the last fifteen years, primarily as a result of regional conflicts but also due to economic migration from rural areas to urban centres. Many of those now resident in rural areas are primarily young or elderly. The most economically active sectors of the population, from 25 to 49 years of age, appear to be under-represented in farming. It is this group who would normally be expected to have the drive and the capacity to develop viable commercial farming enterprises. This demographic profile in rural areas has generally resulted in lower than average income levels in rural areas when compared to urban areas in the region.

Rural Infrastructure: Rural areas are characterized by a lack of basic services (water supply, sewage systems, health services and education facilities) and suffer from poor physical infrastructure. For example, in Kosovo only 28% of homes are connected to a sewage system and in former Yugoslav Republic of Macedonia 9% of the rural population are without water supply installation and only 18% of the rural population have public sewage installation, public transportation is an important problem for the majority of rural areas, for example in Montenegro the average distance from the bus station is 2,5 km, while the distance from agricultural stores (for equipment, seed etc.) is quite large (28 km on average). The problem of large distances becomes specifically significant if we consider bad road infrastructure in most rural areas. These disadvantages generally reflect the higher cost of providing services to dispersed populations rather than those concentrated in towns or cities. The poor infrastructure, especially roads and public transport, are a particular concern for future regional and rural development planning. Historically there was never an expectation in former Yugoslavia that people would want or need to travel any distance on a regular basis. Homes were provided near the work place, and daily travel was minimal. However, a housing, employment and transport pattern developed under central planning was never going to be appropriate for an emerging market economy. While housing patterns will change only slowly, better transport facilities would allow individuals and firms to respond more dynamically to market opportunities. To date, little has been done in developing a road system and other essential rural infrastructure suitable for modern needs.

Rural education: Education levels among the rural / agricultural population are low, especially for women. In Albania 80% of the agricultural labour force have only lower elementary education; in the former Yugoslav Republic of Macedonia illiteracy rates are found to be higher in rural areas, and in Kosovo only 60% of the male population and 25% of the female population have completed secondary school. In all of the countries the educational level in rural areas is lower than urban areas. Relatively low productivity of agriculture in these countries is in large part driven by the fact that low level technical level of agricultural production is achieved, as a result of insufficient education level.

Rural poverty: Poverty is a significant problem in the rural areas of all the West Balkan Countries. In Bosnia and Herzegovina an estimated 44 % of those in poverty live in rural areas. In the rural areas of the former Yugoslav Republic of Macedonia the number of people living below the official poverty line in 2002 was estimated to be approximately 30 %.

Significant regional differences regarding poverty and vulnerability are to be found in all Western Balkan countries. In Albania vulnerability and poverty is high in the mountainous region. In Bosnia and Herzegovina, the population living in the Republic of Srpska seems to be more vulnerable than the population in the other parts. In Croatia the rural parts of Slavonia and the Central region are the poorest. In Serbia the most vulnerable live in South East region, in Montenegro in the North.

Rural employment: Statistical agencies in all countries do not currently publish data on the shadow economy or informal employment, which in rural areas of the Western Balkans region, are recognized by most analysts to be significant. This is primarily due to the importance of small-scale subsistence or semi-subsistence farms throughout the region. Agricultural production remains the dominant activity in rural areas. A large proportion of the rural population live and work on small-scale subsistence or semi-subsistence farms, often seeing few alternative economic opportunities. However, many of these people are former industrial and public sector employees, returning to farm land owned by their families. They have limited skills and experience to effectively manage their land. Their farms are characterized by a few animals and a high number of low volume crops, most of which are consumed or exchanged locally, with very little marketable surplus to enhance incomes. There are now an estimated 1,941,847 of such small-scale farms and agricultural households in the Western Balkans region, with less than 5 ha of agricultural land. Only a small proportion of the total number of these farms are likely to have the opportunity of becoming viable commercial operations in the future. The nature of poverty among these farmers is complex and livelihood strategies are diverse, including reliance on remittances, pensions, urban employment, services and small enterprise. Small-scale farming is a very significant part of these livelihood strategies in terms of food security and in the opportunities it provides for women, youth and the elderly, all of whom may have difficulties obtaining other forms of employment.

Environmental situation: In most of the countries of the region the agro-environmental situation is difficult. The Republic of Montenegro seems to be an exception, as it appears that agriculture has not affected significantly water resources, air and soil significantly in the smallest country of the region. In the rest of the countries, agriculture has largely contributed to soil, water and air pollution as well as biodiversity destruction. This might be partly due to the role of agriculture in the former Socialist Republic of Yugoslavia, when agriculture was planned to be intensive. In Croatia the "heavy use" of mineral fertilisers and pesticides polluted the surface water of the Croatian Danube basin with nitrate. Serbia has also "inherited" from the past poor environmental quality and an ineffective environmental policy framework. The environmental situation in the former Yugoslav Republic of Macedonia is comparable to the one of Serbia and Croatia with significant problems in soil, water and air pollution as a result of unfavourable production practices and land use. The data on the agro-environmental situation in Kosovo and BiH are very limited and thus no immediate problem is known. Albania finally, due to low use of fertilisers does not face soil contamination by chemicals related to agriculture. But the country suffers from the severe degradation of soils in hilly areas and erosion probably because of the large amount of areas that were deforested in the last 50 years with little or no reforestation (planting).

4 AGRICULTURE AND FOOD POLICIES

4.1 REVISED CAP AS FRAMEWORK FOR EU RAPPROCHEMENT OF AGRICULTURE¹⁴

On 26 June 2003, the EU Member States agreed on a substantial reform of the CAP which was finally adopted on 29 September of the same year¹⁵. The key elements of the reformed CAP and revisions to its agricultural market policy are as follows¹⁶:

- Intervention price cuts: Asymmetric price cuts in the milk sector were formulated; the intervention price for butter will be reduced by 25 % over four years, which is an additional price cut of 10 % in comparison to what was originally formulated within Agenda 2000; for skimmed milk powder a 15 % reduction over three years, as agreed in Agenda 2000, is retained. In the cereal sector, a reduction of the monthly increments by half was implemented as well but the current intervention price in the grain sector is maintained¹⁷. Price cuts in the rice sector are foreseen as well but less important for Polish and German agriculture and, hence, not considered here in greater detail.
- Cross-compliance: This element of the CAP reform can be considered as a set of environmental and animal as well as plant health regulations that must be adhered to in order to receive farmer assistance; the respective payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition.
- Modulation: It will gradually decrease the overall level of direct aid to farmers on the one hand, and it will require that the money will be used to move towards sustainable/rural/regional development instead; especially a reduction in direct payments for bigger farms is envisaged by the EU to finance the new rural development policy.
- Decoupling: A single farm payment for EU farmers, independent from actual production, was introduced. The aim was and still is to provide a farm and income support while avoiding over-production. The new system, however, allows coupling of some elements of the payment: A limited coupled amount may be maintained to avoid abandonment of certain production in certain regions.
- National reserve: Another not unimportant element of the 2003 CAP reform is the introduction of a so-called national reserve for hardship cases in the transition phase while shifting from the "old" to the "new" support scheme.

¹⁴ Source EU- Commission DG-Agri 2006 (fact sheets)

¹⁵ This is especially important against the background of upcoming WTO-negotiations. Maybe already the next summit will bring up new insights into this matter.

¹⁶ It shall be noted here, at least, that a very important rural development issue was introduced with the CAP reform as well: A strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005 was envisaged and is implemented, meanwhile.

¹⁷ Note: An important exception is rye, a commodity with importance for German and Polish agriculture: For rye, the intervention price was eliminated!

- In addition to that, it was agreed with the CAP reform (1) to introduce an obligatory farm advisory system in order to improve land and farm management and (2) to strengthen the financial discipline, i.e. to cut CAP expenditures once a pre-defined ceiling has been reached; the mechanism ensures that the farm budget fixed until 2013 is not overshot.
- The Council further decided to revise the rice, durum wheat, dried fodder and nut sectors.

Four elements of the CAP reform were underlined above. The four areas – cross-compliance, modulation, decoupling, and national reserve – are well regulated in general by EU authorities; however, many options to be chosen by EU Member States were left to the decision-makers in a national policy environment, especially with respect to the decoupling issue. In the following, these four areas will be highlighted, in particular. Before this will be done, the respective legislative background is provided for the EU and national (German) level.

The complementarity of the two pillars of the CAP has been accentuated by the recent reform of the CAP, introducing 'decoupling', 'cross-compliance' and 'modulation' (the transfer of funds from the 1st to the 2nd pillar), to be implemented from 2005 onwards. The 1st pillar concentrates on providing a basic income support to farmers, while the 2nd pillar supports agriculture as a provider of public goods in its environmental and rural functions, and rural areas in their development.

The June 2003 agreement leads to a strengthening of rural development policy via:

- new measures to promote quality and animal welfare, and help for farmers to meet new EU standards;
- provision of more EU money for rural development through a reduction in direct payments ('modulation') for bigger farms.

The agreed modulation rate of 5% will result in additional rural development funds of EUR 1.2 billion a year being made available. The reform also includes an extension of currently available instruments for rural development. So, for example, support measures for young farmers can be reinforced.

4.2 OVERVIEW OF AGRICULTURAL INSTITUTIONAL STRUCTURES

The institutional and administrative framework for the development and implementation of agricultural and rural development policies remains weak in all countries of the region. Reform has been slow and the political will to introduce change, inconsistent. Human resources are inadequate at all levels, mostly lacking sufficient numbers, capacity, knowledge and relevant expertise to meet the challenges of a modern, competitive agri-food system or the diversity of problems facing under-developed rural areas.

These weaknesses are compounded by a lack of reliable information on the economic situation of agriculture and rural areas. Census data is mostly outdated. Adequate farm registries and animal identification systems do not yet exist in all countries. Information systems such as FADN and EAA, as applied in the EU Member States either do not exist or

are at a very early stage of development. This lack of data and human resources means that only limited policy analysis is undertaken. Rarely are local institutes or research institutions involved in the policy development process. One of the reasons for this is the severe lack of agricultural economics professionals in the region. In consequence, policy formulation and decision-making is often made based on very limited information, devoid of detailed analysis. Furthermore, in no country of the region is there any effective assessment of the impact of current or past policies on the sector.

Intra-institutional and inter-institutional coordination mechanisms rarely exist, leading to policy inconsistencies and limited strategic harmonization of objectives, policies and measures. It is often difficult to determine the single competent authority for a specific policy area or task. This is a particular challenge in areas such as Food safety, where competencies between various institutions responsible for health and food control overlap and in rural development, where employment, transport, health, education and agriculture development programmes rarely coincide. Rural policy in EU terms, if existing, is shared between agricultural and economic or regional development ministries. In most countries of the region, agricultural trade policies are still under the responsibility of the main Economic Ministries. There is still little involvement of agricultural faculties and research institutes in the policy analysis and formulation process. Most ministries do not have sufficient human capacities for development and implementation of new policy approaches. Therefore the active involvement of agricultural research institutes and agricultural faculties is crucial. Indeed, human capacity building is a key to future success in gradually adjusting policies and to prepare agriculture for EU integration.

Public services to the sector remain limited. No country in the region has adequate extension or advisory services and linkages between these services and research networks are weak or non-existent. Veterinary services have seen some improvement in the last five years and this is gradually beginning to reflect in the quality and level of livestock production in some countries. More investment in these and other services is required to raise standards and improve productivity. Market information and general marketing services remain rudimentary and government support for the development of such services inadequate or non-existent. Overall the weakness of sector management structures, systems and services remains one of the main obstacles to development of agriculture and rural development throughout the region.

4.3 OVERVIEW OF AGRICULTURAL POLICIES

The Western Balkans policy environment is currently in a transitional phase. Although the individual situation of the countries is different (in terms of economic development, political stability, status of EU rapprochement, and integration into the international community) all countries are now moving towards renewed co-operation under a common target of becoming EU candidate countries and ultimately Members of the Union in the medium- (to long-) term future.

Well defined long-term policy-strategies (regarding agricultural, rural, environmental and other policies) and their implementation are still rarely to be found within the region. Agricultural Policy objectives and instruments are changing frequently from year to year, or from government to government.

Policy concepts are markedly different between the countries/entities of the region, reflecting in large part their various stages in the transition process. They range from the introduction of CAP-type mechanisms in Croatia to the very limited direct intervention approach adopted in Albania. The approaches are of course highly dependent upon the importance given to and the budgetary resources made available for the sector in each country. In general in all countries, resources allocated to support the sector have been increasing in recent years.

4.4 BUDGETARY RESOURCES FOR AGRICULTURE

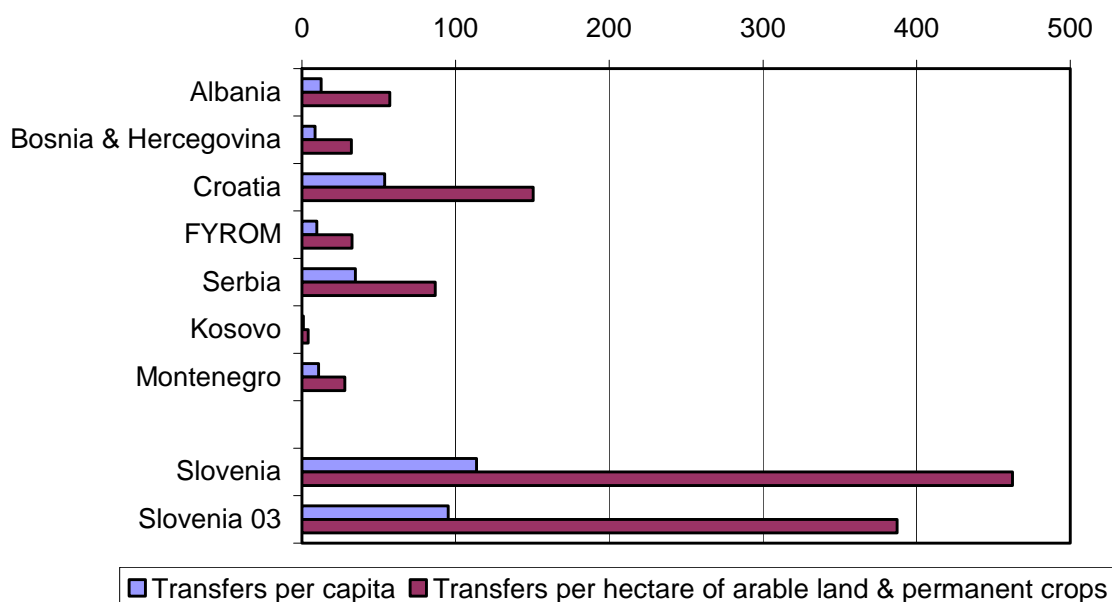
In general direct support for agriculture is modest (particularly when compared to the EU – see figure 10, below) but there is a general trend to increase funding throughout the region. Low funding currently characterises sector support in Albania, B&H, the former Yugoslav Republic of Macedonia, Montenegro and Kosovo. In these countries the budgets of donor supported projects often exceed domestic resources. Serbia is a notable exception in the region in terms of budget allocation, having increased their agricultural budget substantially in the last three years. Public expenditure for agriculture is also relatively high in Croatia and currently matches (and even partly exceeds) levels of government support in new Member States before accession. But budgetary resources are still low when compared to the EU-CAP budget flows to member states.

One of the major short term constraints to expansion of support to the sector (excluding actual government budget capacity) is the lack of a suitable framework of measures, systems for their preparation, processing, payment and auditing. Investments are being made currently in Croatia and Serbia to upgrade systems to administer and control funds. Other countries of the region will require increased assistance in this area in the coming years to address this constraint, particularly as European integration activities accelerate.

Generally market and price support measures still dominate. Rural development funding has been very modest in all countries. However, all countries of the region appear to be planning the introduction of dedicated rural development programmes, at least on a pilot basis. Institutional capacity to understand, design and administer such initiatives will take

time to develop and will require adjustments in current institutional frameworks, particularly as measures to support sector competitiveness under Axis 1 of pillar II are introduced.

Figure 10: Per capita and per ha budgetary transfers to agriculture (2004)



Note: Albania 2005; Bosnia & Herzegovina 2003

Source: Strategic Study - Support to the Agricultural Sector in the Western Balkans

Due to the difficult macro-economic situation in the majority of the Western Balkans countries, the ratio of agricultural support in proportion to overall GDP is, in some cases, above the level in other member States levels.

4.5 MARKET AND PRICE POLICIES

In all countries of the region, market and price policies in recent years focused mainly on the integration of the countries into the WTO and the concluding of further free trade agreements with neighbouring countries.

Measures supporting production were mainly targeting at increasing domestic production and promoting import substitution. In most of the Western Balkans countries, market support includes a variety of direct payments to processors and other intermediary institutions, rather than payments directly to producers.

In Bosnia and Herzegovina both Entities, the District Brcko and the Cantons are providing direct subsidies for a number of agricultural products. After minor budget levels in the past, these subsidies have been gradually increasing since 2004. Production linked support still makes up more than 70% of the FB&H state support to agriculture. However, in the RS it is just ¼ of state support.

Croatia has developed a more sophisticated system of product related support which is characterized by a broad range of products benefiting from support payments. At the same time small non-commercial farms receive a direct (not linked to actual production) income

support payment. In addition measures such as the tax exemption for Diesel have a major impact, representing 2/3rds of the market support provided to Croatian agriculture.

In the former Yugoslav Republic of Macedonia the Commodity Reserves Bureau (CRB) is responsible for acquiring and storing reserves but it had also the power to intervene in the domestic market based on governmental decisions, in order to “stabilize” domestic food prices, when this is deemed necessary and to provide general support to agriculture. Under the WTO agreement the function of the CRB in 2004 was limited to secure lasting and continuous basic supply in case of war and other natural disasters, and it has no power to intervene for market stabilisation purposes. In response, the country has gradually started to introduce other types of market support directly to producers.

In Montenegro during the last few years, direct payments per head or per hectare had the largest share in the (limited) budget for Market and Price Policy. The largest share of premium was allocated to premiums for cattle and sheep production. The second largest group according to volume of budget lines was aimed at cost reductions (input subsidies). Budget for price aids increased moderately under the support for tobacco production. Support per product unit (kg of dried tobacco) was the same during the period under review, while the total production increased continuously.

In Serbia market and price policy interventions are still an important policy instrument but the new Agricultural Strategy foresees a stronger emphasis on structural and rural development measures and less intervention in the market and price policy. Nevertheless in 2005 still almost half of the overall agricultural budget was devoted to Market and Price Policy.

4.6 TRADE POLICY

Trade agreements have contributed significantly to trade and price liberalisation in the region over the last six years. Trading patterns have altered dramatically in all countries, as traditional markets have adjusted to the new liberalised market conditions both within the region and externally.

Being the major trading partner of all Western Balkan countries, bilateral trade agreements with the EU are of special importance and are now crucial for the overall trade performance of all countries of the region. All countries appear to have benefited from significant trade preferences with the EU, all of which were asymmetrical. Since the end of 2000, the vast majority of traded commodities from the region may flow into the EU on a duty-free and unlimited access basis. In addition, preferential trade agreements have been concluded between all the Western Balkan countries, most of which allow for greater market access than to the EU

Autonomous trade preferences have liberalised over 95 % of trade between the EU and the Western Balkan region. However, the trade data from the last five years suggests that despite certain on-going trade restrictions imposed on EU agri-food products entering the Western Balkans countries, the EU benefited far more from the preferential trade agreements established than the region itself. the main reasons for the limited increase of

food exports from the Western Balkans to the EU are various and include the significant reduction of marketed agricultural production in the Western Balkan region; the non-compliance of the countries/entities food control and food safety systems with EU requirements and the limited number of food processors accredited for exports to the EU; the limited existence of stable trade links between exporters from the region and importers in the EU; the problem of gathering critical masses of produce of homogeneous quality for exports; limited number of internationally recognised trade marks for food products from the region; the increased level of domestic competition has forced the governments in the region to focus primarily upon import substitution.

As agricultural production recovers, and the countries of the region increasingly comply with EU food safety standards, and more processors become accredited for exports to the EU it can be expected that exports will increase in future.

4.7 STRUCTURAL AND RURAL DEVELOPMENT AND OTHER POLICY INSTRUMENTS

No country in the Western Balkans region has yet fully developed or implemented a National (or Regional) Rural Development Plan or Programme. However, in all countries of the region these plans are now being developed and institutional structures to support their implementation are being introduced. This is primarily driven by the process of European integration and preparations of the institutions and legal framework in order to become eligible and able to benefit from EU pre-accession structural support such as IPARD (new Instrument for Pre-Accession Assistance for Rural Development) and related Technical Assistance.

The region is significantly rural in nature and there is an urgent need for the reconstruction of farm and food industry infrastructure, rehabilitation of rural infrastructure and the upgrading of social support services for poor rural people. However budget allocations to support this process remain stubbornly low in all countries. Rural development measures which do exist are inadequate and often highly restricted in their access and scope. Often the understanding of the problems and of the availability of the potential instruments is not sufficient. Transparent instruments for planning, implementation and control of measures are absent at all levels.

In Albania, during the ongoing stabilisation and association process integrated rural development is the main agricultural policy objective, but concrete measures are still under development and design. The MoAF aims at establishing new production chains in animal production in order to implement livestock breeding programs, enabling farmers to increase livestock productivity. Only a small part of domestic production is currently processed by Albanian agro-industries. To change this situation, the government has initiated a strategy and is planning several policy measures, including modernisation and improvement of existing agro-processing technologies through promoting private investments; establishment of pilot centres for collection; storage and sale of products in certain rural areas; development of a market information service; and adoption and introduction of standards on quality, labelling and packaging of agro-food products.

Rural development strategic planning in B&H does not yet exist at state or entity level. There is some evidence that this is being introduced at lower levels, with the gradual preparation of both Cantonal and Municipality level rural development plans. Local government, non-governmental organisations (NGO's) and donors are gradually beginning to use these plans as the basis for designing job and business training programmes and to establish micro-credit lines suited to small enterprise development. In B&H strong rural communities are considered to be essential for future political and economic stability and will not emerge without balanced support for both farm and non-farm income generation. Rural development programmes will be initiated to achieve sustainable rural development, with particular attention also to increase non-farm rural employment.

In Croatia rural development policy issues are being given increasing importance in the overall sector policy framework. Until today three programmes have been designed, namely a Rural area development programme; Original and protected breeds' protection programme; and a Marketing adjustment of agricultural products programme. So far these programmes have had very little impact. This is partly due to problems with inefficient administration, limited access to information and slowing the procedures for approval and funding.

As far as the situation in the former Yugoslav Republic of Macedonia is concerned rural development has gained increasing importance as second pillar of EU agricultural policy during the last reforms of CAP with a shift of funding from market measures to rural development measures. Although several institutions are implementing a range of programmes and measures, which fall under the broad heading of "rural development" one can say that there is currently no overall strategy or coherent rural development policy to integrate these different initiatives, and no institution has overall responsibility for rural development policy. A range of public support measures is currently provided to agriculture and rural development. However, in the absence of a national rural development strategy/plan these are stand-alone schemes rather than integrated Programs.

Serbia has not yet established a national strategy specifically focussed on rural development that would serve as a basis for a coordinated rural development policy, but some rural development activities exist within the wider agriculture policy context. During the past two years the MAFWM has organised and regularly operates activities related to rural development support (rural development grant schemes and support to extension and advisory activities). A NRDP is envisaged to be drafted in 2007 for implementation in 2008.

In Montenegro rural development policy measures include only a small number of programs from individual sectors: maintenance of genetic resources in plant and livestock production, improvement of market structure and environmental programs. The budget for rural development policy measures varies a lot and depends on specific programs of limited duration.

The major aim of the MAFRD in Kosovo is to boost agricultural farm incomes through increased productivity of farming. This will be achieved by providing an environment that

encourages commercial farms to expand and have access to necessary services. In this context, the Ministry, with the support of an EU funded project is preparing a rural development plan (2007 – 2013) with the following objectives: Alignment of Kosovo's agriculture with that of the EU; Increased 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; Improved processing and marketing of agricultural produce, through increased efficiency and competitiveness; Improved on farm / in factory quality and hygiene standards; Sustainable rural development and improved quality of life through promotion of farming and other economic activities that are in harmony with the environment; Creation of employment opportunities in rural areas. The development of a rural advisory service is seen as one of the most important measures to help increase productivity and induce a commercial farming and competitive food production. The policy is expected to be finalised and formally accepted by the Government during this year.

4.8 REGIONAL POLICIES

There are considerable disparities in regional development in the entire Western Balkan region. Insufficient infrastructure and social disparities hinder the development in many rural areas. This is particularly true for Albania, Croatia and Serbia where the process is constrained by a lack of capacity and low levels of revenue autonomy at local government level, particularly in the case of rural development. Institutional strengthening at local level through technical assistance needs to be continued and intensified.

In Albania regional policy is closely related to the process of decentralisation as set out in 'The National Strategy for Decentralisation and Local Autonomy' (1999). In 2004 the World Bank carried out an assessment of the decentralisation process and concluded that whilst progress had been made, considerable work was needed to complete the decentralisation in order to realise benefits such as improved service delivery, governance and accountability. The process is constrained by a lack of capacity and low levels of revenue autonomy at local government level, particularly in the case of rural development.

The administrative capacity for planning and implementation of regional development programmes in Croatia is still insufficient. This also applies to cross-border and inter-regional cooperation programmes, in view of the future use of EU funds.

With regard to regional policy in the former Yugoslav Republic of Macedonia the adoption of mechanisms of the EU regional policy could offer a perspective, such as: i) elaboration of an integral concept of the regional policy with a clear determination of the government, the national assembly (Parliament) and the civil society; ii) active role of the local government in the agricultural development; iii) develop better and more efficient concepts of organisation of the agricultural sector connected with other developing factors.

There are considerable disparities in Serbia in regional development, with large rural areas lacking infrastructure and social development. The basic goals of the regional development policy are to decrease gradually regional disparities. While in Montenegro a detailed strategy for regional development is still under preparation, Bosnia and Herzegovina has continued to promote the development of five Regional Development Agencies, supported by an EU project and several donor grant schemes.

4.9 FOOD SAFETY AND QUALITY POLICIES

In the Western Balkan states about two thirds of an average rural family's income derives from agriculture, with more and more cash income deriving from the sale of livestock products, milk, vegetables, fruits and grapes they produce. In addition, food often is sold on the streets, especially milk and meat products, which is a major income-earner for many families, in particular in the countryside. Therefore, a poorly functioning food quality control system is one of the most serious problems for the sector and for consumer protection.

Although Albania is committed to the Codex Alimentarius system, so far only labelling has been legally approved by the Government. To date, there are 16 approved labels in Albania. Recent studies carried out by the Institute of Public Health showed that 55 out of 61 retail market sites had permits from the local authorities, but only 14 met basic hygiene and sanitary conditions. Fraud in the production and trading of food products, especially with regard to alcoholic and soft drinks, milk and dairy products, and oils, is also a matter of concern given the potentially costly consequences for public health.

In B&H there is a newly established Food Safety Agency at state level but currently there is no Food Safety Strategy. There has been limited progress in adopting legislation compatible with EU standards in the food sector. Due to the absence of State-level legislation, the Entities have in some areas been issuing their own food standards, occasionally resulting in incompatible internal standards. Administrative capacity to enforce legislation also remains weak in most areas. There is currently an EU project providing technical assistance in support of the B&H Food Safety Agency that is supporting the preparation of a wide range of draft food safety legislation, based on EU regulations and Directives. Once the Agency is operational it is anticipated that this draft legislation will be officially proposed to the B&H Council of Ministers for approval and ultimately for adoption by the B&H parliament. However, at this time the actual Food law is the only legal basis for regulation in this area.

In Croatia the Ministry of Health and Social Welfare (MHSW), the Ministry of Agriculture, Forestry and Water Management (MAFWM), and the Croatian Food Agency (CFA) are the competent authorities in the area of food safety. The Food Act, which entered into force in July 2003, defines the competencies of the relevant bodies as follows: Enactment of regulations, administrative, professional and inspection activities pertaining to hygiene and sanitary safety of food of animal origin and animal feed are the responsibility of the MAFWM –Veterinary Medicine Directorate. The enactment of regulations, administrative, professional and inspection activities pertaining to sanitary safety of food and items that come into direct

contact with food (except for food of animal origin which is the responsibility of the MAFWM – Veterinary Medicine Directorate) are the responsibility of the MHSW - Directorate for Sanitary Inspection. The basic veterinary legislation in Croatia is the Veterinary Law (OG 70/97, 105/01, 172/03). In the field of phytosanitary inspections the Ordinance on phytosanitary inspection of plants and control of plant protection products transported over the state border was published at the beginning of 2004 and was amended three times shortly afterwards, but it is still only partially in line with the relevant EU legislation

Strengthening of the Veterinary Services in the former Yugoslav Republic of Macedonia to ensure protection of animal and human health, enhanced trade products and full approximation to EU standards are currently the main objective of the MAFWE in the veterinary sector. The veterinary services in the former Yugoslav Republic of Macedonia are currently provided by: private veterinarians working without contracts, private veterinarians working with on contract with the Veterinary Directorate of the MAFWE, the Veterinary Directorate responsible to MAFWE, Veterinary Institute and Veterinary Faculty both responsible to the Ministry of Education and Science. However the main regulatory tasks and duties are performed and coordinated by the MAFWE Veterinary Directorate. The approximation of the veterinary legislation of the former Yugoslav Republic of Macedonia to that of the EU will permit the former Yugoslav Republic of Macedonia to continue to export meat and meat products to lucrative EU markets and will also assist in simplifying trade relations with other countries that accept EU standards.

In Montenegro the veterinary service is responsible for the activities related to diagnostic and research activities. This agency is the only responsible for protecting and improving the health condition of animals, protection of animals from diseases conducting programs of animal health protection, controls in order to secure health standards of raw materials, food and products of animal origin, feed and water for animals, research work, veterinary education and public awareness.

The Serbian legislation has (partly) been aligned with the EU acquis, which included the elaboration of instruction manuals for veterinary inspectors as well as manuals for the Phytosanitary Directorate in the Ministry of Agriculture, Forestry and Water Management (MAFWM) and the veterinary and phytosanitary inspectorates of MAFWM and the Ministry of Health's sanitary inspectorates were trained. In 2005 the Serbian Parliament adopted the new Veterinary Law, developed with support from EU-funded technical assistance projects. The Draft Food Safety Strategy for Serbia, which will form the basis for preparation of the priority Food Safety Law, has been developed and submitted to the Ministers of Agriculture and Health for approval. Currently (October 2006) it appears that the adoption will be further put on hold as in December 2006 elections will be held. The Food Safety Law has to be adopted by Parliament and this will not happen before the elections, but in 2007 the earliest. The issue of a Food Safety Strategy and a Food Safety Law is pending already for a number of years. Following an assessment in 2002 it was initiated for the first time but the main obstacle remains to be defined, namely the division of responsibilities between the MAFWM and the Ministry of Health.

Food control services in Kosovo are currently the responsibility of a number of different institutions including municipalities (sanitary and phyto-sanitary); central government (Ministry of Health for sanitary inspection) and MAFRD (phyto-sanitary). The Kosovo Veterinary and Food Safety Services under MAFRD is the main body responsible for veterinary control services, though its remit is expanding with the introduction of new legislation (Veterinary Law and pending Food Law). Although the main elements of the food safety system exist the system is presently uncoordinated and subject to varying degrees of effectiveness. Considerable physical and human investment, both in the public and private sector, is needed to achieve EU standards in food safety and quality control.

5 MEDIUM TERM OUTLOOK

5.1 GEOGRAPHICAL AND TIME COVERAGE

In geographical terms the quantitative analysis covers the Members of EU25, the acceding countries Romania and Bulgaria, and the Western Balkan countries. The projections horizon has been chosen to run to 2020 that is a few years beyond the accession years assumed for this analysis. To be more precise a first alternative will be the accession of Croatia in 2010 and other Western Balkan countries in 2015, whereas an alternative timing assumed accession of all Western Balkan countries in 2015.

5.2 METHODOLOGY AND LIMITATIONS

The market outlook relies on econometrics applied to a modelling database established during this study, and expert forecasts. The database combines a complete set of time series starting in 1995 with data on areas, production, market balances, prices and other important variables. The possible weakness is, however, that this degree of completeness and consistency could only be achieved with numerous estimates from various members of the contactor's team.

A limitation of this outlook and other forecasts including time as a proxy for all kinds of underlying changes in farmers' behaviour, preferences, technical efficiency, institutions, and structural change is that the impacts of standard economic determinants such as prices and income are possibly mixed up with the former, long run driving forces. As a consequence it is difficult to trace back the projections to their underlying driving forces

5.3 RESULTS OF THE MARKET OUTLOOK

In general the area allocation is expected to be quite stable with some exceptions. The most important ones are:

- In The former Yugoslav Republic of Macedonia total agricultural land and arable land are expected to decline, mainly at the expense of cereals. Urbanisation, the common driver for a loss of agricultural land, is above average in this country.
- A sizeable decline of cereals may also be observed for Albania where it is partly reflecting a gradual retreat of wheat production to the productive locations after the release of former obligations from the central planning period.
- In general there is some tendency of wheat areas to grow slower than maize areas or even to decline which is correcting the historical bias in favour of wheat in socialist times.
- In all Balkan countries except Albania fodder on arable land is declining in area use. This is firstly motivated from the demand side as beef and sheep production are also projected to decrease (see below). Feed demand is secondly declining because we assumed some decline of feed requirements due to productivity gains, a common development over time. Thirdly yields of fodder crops (as all others, see below) are increasing which tends to reduce areas unless animal production is expanding strongly.

- As growing of sugar beets was crucially dependent on EU preferences which are eroded by the EU sugar reform sugar beet areas are likely to decline significantly (by about 50%).

Regarding crop yields the yearly variations are clearly dominating the trend components such that the baseline projections involve only moderate yield gains on average, of course with some variation across crops and countries.

Below we may look at balance sheets for the most important cereals in the base period of the analysis, 2002/04, and the final projection year 2020. On the aggregate level for the whole Western Balkan region there are very moderate changes: domestic use is expected to increase by 3.6% and production by 5.1 % such that net imports (negative net exports) are slightly declining from 1.1 to 0.9 million tons. However this general picture does not hold for the components, even if we confine ourselves here to (soft) wheat and (grain) maize which shows a more significant growth due to the area reallocation in many countries. On the demand side the changes are also quite moderate, given that we are looking at 2020 in these projections. Nonetheless as a general tendency we expect an increase in net imports of cereals in most countries except Croatia, Serbia and the Kosovo. In Croatia and the Kosovo maize production is likely to grow quite strongly. However the most important increase of net exports of cereals would occur in Serbia. As is shown in the table this is mainly because maize demand is projected to decline, more precisely feed demand. This decline in turn is related to an overall decrease of meat production in Serbia which is ongoing for years already.

Apart from cereals net imports are probably increasing for most other crop products (oilseeds, potatoes, fruits, and vegetables) because demand growth is outpacing growth of supply with the most important exception being probably the vegetables sector in Serbia.

Moving on to the animal sector some further decline of the dairy herd will be expected in Serbia based on the trend in the ex post data. The country report mentions that the decline was even faster in the first half of the 90ies and that problems of veterinary services and feed supply could be the reasons. The dairy herd is also declining in the Kosovo and stagnating in Montenegro whereas all other regions are likely to see at least a small increase in their number of dairy cows. These differences have implications for beef production. Albania and B&H are the two countries with the strongest growth in the dairy herd and they are also likely to expand their beef production significantly.

In the balance sheets for beef we recognise a clear drop of production in Serbia (-15%) and in the Kosovo and a mild one in Croatia (5%). This decline in the larger countries dominates the growth in Albania and other countries. On the demand side a solid growth may be expected for the whole Western Balkan (+30%), somewhat below average in Croatia and Serbia. At the bottom line we see that net imports are likely increasing which even applies to those countries with a sizeable production growth such as Albania and adds up to an increase of about 90000 tons for the whole region.

The largest markets for pork are in Serbia and Croatia where production is by and large stagnating. Demand is more uniformly growing in the whole region, with the smallest increase again in Serbia. If overall production is stagnating while demand is projected to

grow markedly, even though somewhat weaker than for beef, net imports will increase on balance, by about 110000 tons according to these projections.

A strong increase in poultry production of Croatia the latter may be attributed to the activities of a few large producers (see the country report on Croatia) such that Croatia is very likely to pass Serbia in terms of production volume in the medium run. As is characteristic for global meat markets poultry demand is increasing most vigorously among all meats, +40% on average in the region. In every country including Croatia net imports are likely to increase such that additional 75000 tons of net imports may be expected for the whole Western Balkan.

Table 11: Cereals: production, domestic use and net exports [1000 t] in 2002/2004 and final projection year (2020)

		Croatia	Bosnia Herzegovina	TFYR Macedonia	Albania	Serbia	Montenegro	Kosovo	Western balkan
Cereals	2002/04 production	2954	1250	585	521	8221	18	531	14080
	domestic use	2972	1967	765	905	7838	143	598	15188
	feed use	2058	577	316	421	5080	31	129	8611
	net exports	-18	-717	-180	-383	383	-125	-67	-1108
	2020 production	3320	1563	466	426	8335	13	670	14792
	domestic use	3182	2548	748	1006	7466	149	635	15735
	feed use	2204	804	308	478	4533	25	113	8463
	net exports	138	-985	-282	-581	869	-136	35	-943
	<i>change EAA producer price</i>	10.7%	9.6%	9.6%	14.1%	12.3%	13.6%	10.3%	11.5%
	<i>production</i>	12.4%	25.1%	-20.3%	-18.3%	1.4%	-30.2%	26.1%	5.1%
	<i>domestic use</i>	7.1%	29.6%	-2.2%	11.3%	-4.7%	4.0%	6.1%	3.6%
	<i>feed use</i>	7.1%	39.4%	-2.7%	13.5%	-10.8%	-20.8%	-12.2%	-1.7%
Soft wheat	2002/04 production	773	266	295	284	2255	5	251	4130
	domestic use	666	658	403	629	2122	104	413	4995
	feed use	142	218		189	321	1	7	877
	net exports	108	-392	-108	-345	133	-99	-162	-865
	2020 production	770	309	206	161	2477	3	304	4231
	domestic use	654	777	401	673	2349	116	456	5426
	feed use	61	314		194	382	2	5	957
	net exports	116	-468	-195	-512	128	-113	-152	-1195
	<i>change EAA producer price</i>	13.3%	12.7%	10.2%	16.2%	16.0%	13.1%	12.3%	13.6%
	<i>production</i>	-0.4%	15.9%	-30.3%	-43.2%	9.9%	-37.9%	21.2%	2.4%
	<i>domestic use</i>	-1.8%	18.0%	-0.5%	7.1%	10.7%	11.4%	10.6%	8.6%
	<i>feed use</i>	-57.3%	44.2%		2.6%	19.1%	211.8%	-28.0%	9.1%
Grain maize	2002/04 production	1948	854	140	209	5496	10	252	8910
	domestic use	1880	1097	200	236	5230	34	145	8823
	feed use	1712	223	182	204	4453	27	96	6898
	net exports	68	-243	-60	-27	266	-25	107	87
	2020 production	2257	1094	130	225	5387	6	338	9436
	domestic use	2077	1445	200	280	4688	28	139	8858
	feed use	1935	283	182	247	3882	20	81	6630
	net exports	179	-351	-70	-56	699	-22	199	578
	<i>change EAA producer price</i>	9.9%	8.9%	7.7%	9.6%	9.9%	9.7%	9.5%	9.8%
	<i>production</i>	15.8%	28.0%	-7.2%	7.3%	-2.0%	-41.2%	34.1%	5.9%
	<i>domestic use</i>	10.5%	31.7%	0.0%	18.5%	-10.4%	-18.0%	-3.7%	0.4%
	<i>feed use</i>	13.0%	26.8%	-0.5%	20.9%	-12.8%	-26.5%	-15.6%	-3.9%

Table 12: Production, domestic use and net exports of meat [1000 t] in 2002/2004) and final projection year (2020)

		Croatia	Bosnia Herzegovina	TFYR Macedonia	Albania	Serbia	Montenegro	Kosovo	Western balkan
Beef and veal	2002/04 production	22	18	13	40	96	8	22	220
	domestic use	48	38	27	47	94	9	28	292
	net exports	-26	-20	-14	-6	2	-1	-5	-72
	2020 production	21	24	15	46	81	11	18	216
	domestic use	59	55	38	65	110	13	41	380
	net exports	-38	-31	-24	-19	-29	-1	-23	-164
	change producer price	2%	2%	3%	2%	4%	2%	4%	6%
	production	-5%	31%	10%	15%	-15%	35%	-18%	-2%
	domestic use	22%	43%	41%	38%	17%	35%	49%	30%
Pork	2002/04 production	115	10	10	9	355	4	1	505
	domestic use	150	28	15	20	358	6	2	580
	net exports	-35	-18	-5	-11	-3	-3	-1	-75
	2020 production	124	7	10	7	362	5	0	515
	domestic use	185	43	21	32	406	10	4	699
	net exports	-61	-36	-11	-24	-45	-5	-3	-185
	change producer price	11%	12%	10%	10%	14%	9%	15%	13%
	production	7%	-36%	-1%	-20%	2%	23%	-46%	2%
	domestic use	23%	52%	43%	55%	13%	51%	61%	21%
Poultry meat	2002/04 production	56	9	4	8	61	2	2	141
	domestic use	56	27	34	26	61	7	32	242
	net exports	0	-18	-30	-18	0	-4	-30	-102
	2020 production	72	11	3	11	60	3	3	162
	domestic use	74	39	48	39	78	10	50	339
	net exports	-2	-29	-45	-28	-19	-7	-47	-177
	change producer price	0%	0%	0%	0%	0%	0%	0%	-2%
	production	29%	23%	-11%	42%	-2%	14%	65%	15%
	domestic use	31%	46%	43%	53%	28%	45%	57%	40%
Sheep & goat meat	2002/04 production	1.4	6.9	7.9	23.8	17.9	3.5	0.9	62.4
	domestic use	4.6	8.1	4.0	23.9	17.6	2.9	0.4	61.6
	net exports	-3.2	-1.2	4.0	-0.1	0.2	0.6	0.5	0.8
	2020 production	1.7	8.3	8.2	28.9	16.4	2.3	1.9	67.8
	domestic use	5.9	11.4	5.6	32.5	19.3	4.1	0.7	79.5
	net exports	-4.2	-3.1	2.6	-3.6	-2.9	-1.8	1.3	-11.7
	change producer price	4%	5%	6%	6%	6%	6%	6%	5%
	production	19%	20%	3%	21%	-8%	-34%	119%	9%
	domestic use	27%	41%	40%	36%	9%	42%	58%	29%

The study results reveal that the Western Balkan region is not likely to see major increases in agricultural production over the medium term. The current tendency of loosing shares on domestic and international agricultural markets is likely to continue in many parts of the region (particularly for B&H, Albania and the former Yugoslav Republic of Macedonia).

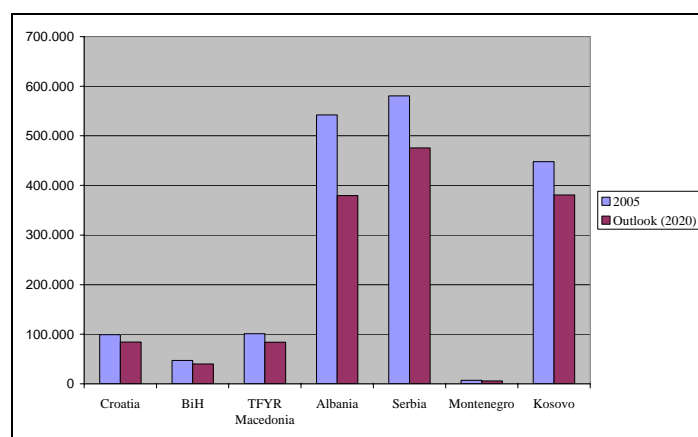
The weakness of the animal sectors in many Western Balkan countries, most importantly Serbia, is expected to impact on the crop sector due to decreasing demand for feed which is anticipated to translate into less agricultural land being used for arable fodder and grassland. On cereal markets the drop in feed demand is also projected to be one of the main factors provoking an increase in export of cereals from the region. Other than cereals there are only a handful of sectors where production growth is anticipated to be stronger than demand growth. This applies to potatoes in the former Yugoslav Republic of Macedonia and Kosovo, and to vegetables in Serbia, Montenegro and Kosovo.

For prices of tradable commodities it can be assumed that the countries will basically follow international price trends in all Western Balkan countries (small country case). Domestic prices and quantity changes together are determining changes in agricultural GDP which is expected to decline on average by 5 to 13% in Croatia, B&H, The former Yugoslav Republic of Macedonia, and Albania whereas agricultural GDP would increase in Serbia, Montenegro, and the Kosovo. The latter three regions appear to benefit from solid growth in their vegetables sectors. In general agricultural output prices are expected to grow less strongly than input prices, increasing with inflation, which are a key determinant for small nominal income losses being projected for 2020, including EU25. Of course the income effects are likely to differ for small-scale producers in the region and larger-scale commercial producers, a distinction elaborated within the overall accession analysis.

5.4 RESULTS OF THE RURAL DEVELOPMENT OUTLOOK

Agricultural employment is expected to significantly decline in the region up to 2020. By 2020 agricultural employment is expected to have fallen between 15 % (the former Yugoslav Republic of Macedonia) and 30% (Croatia) below current levels.

Figure 11: Current (2005) and future (2020) agricultural employment in the Western Balkans (absolute numbers in full time working equivalent)



Sources: National Statistical Offices, Own estimates

Anyhow, the actual development of agricultural employment is likely to depend on a variety of factors including the pace and degree of structural adjustments, the integration of the agriculture and food industry with other rural economic activities (tourism, recreation, retail, etc.). Furthermore, even though the expected decrease for Croatia appears to be high, it is fully in the range of developments as they can be found in EU 25 and current Member States like Greece (for EU-25 and Greece about 25% decrease during last 10 years). The anticipated significant decrease in agricultural employment is partly caused by the current high share of hidden unemployment and the over-estimation of formal agricultural employment in certain countries, based on outdated statistical collection systems. The pace of restructuring depends also on the extent to which the share of subsistence agriculture will decrease which is expected to be faster in some countries of the region than in others.

Average farm sizes are expected to see modest increases up to 2020, in relative terms (by 18 to 33%). However, the countries will remain predominantly characterised by a small-scale, semi-subsistence and subsistence farming sector. Current shares of subsistence and semi-subsistence farms in total farm numbers currently are ranging between 48% in the former Yugoslav Republic of Macedonia and 90% in Albania as shown below.

Table 13: Actual Shares of subsistence and semi-subsistence farms in total farm numbers (2005)

	Alb	B&H	Cro	fYRoM	Mon	Ser	Kos
% of subsistence (and semi-subs.) farms	89,81	53,97	66,63	48,49	65,89	60.24	77,69

Sources: National Statistical Offices, Own estimates

Anyhow, the share of subsistence and semi-subsistence farms will remain high within the coming years. These units will only disappear slowly as they are mostly run by elder or less qualified people in remote rural areas.

Rural areas (particularly remote, predominantly rural areas) will remain an important social safety net and an economic buffer for the older (increasingly ageing) and less well-educated rural population. This will result in rather limited per capita increases in agricultural income. Dependent upon the pace of economic development in other sectors of the economy, increased numbers of the current agricultural workforce will gradually leave the sector. Young and active people will increasingly leave remote rural areas, in parallel with the expected growth of the service (mainly) and industrial sectors in larger urban centres. This, in turn, will lead to a further downturn in sector performance, unless future policy measures can provide sufficient incentives to retain or attract younger farmers to remain in the sector and/or diversify their businesses to develop other rural employment and income generating activities.

This will need to be complemented by investments in improved rural infrastructure and services to promote development of value-added activities, including on-farm processing, agro-tourism and local cottage industries and handicrafts, particularly in remote rural areas. It is expected that the countries that successfully adjust their policy and institutional

frameworks, with the support of IPARD, will gradually introduce 'EU-like' rural development programmes that are likely to assist in combating or at least slowing some of these trends.

6 IMPACT ASSESSMENT OF ACCESSION

6.1 OVERVIEW

The study provides an impact assessment of accession on agriculture and rural areas for each of the Western Balkan countries as well as for the EU as a whole, including an estimation of the costs of extending the CAP to these countries, based on quantitative analyses.

The accession impacts on markets, income and FEOGA have been analysed with the modelling system CAPSIM, which is a comparative static, deterministic, non-spatial, partial equilibrium model relying on calibration techniques and a rigorous microeconomic framework for behavioural functions rather than on a full econometric estimation.

The impact analysis on Rural Development dimensions relied on a Delphi type methodology synthesising expert knowledge accessible to the Contractor.

6.2 KEY ASSUMPTIONS

A key difference between the 'accession' and 'status quo' scenarios is the policy specification.

In the accession scenario the EU Single Farm Payment will be phased in over some years using the same percentage increases as Bulgaria and Romania. A SAPS rate of 40 Euro/ha has been assumed for Croatia, 35 Euro/ha for Serbia and 30 Euro/ha for the other countries in the first year after accession. The payments would be given first as SAPS payments, then according to the regional model. It has been assumed that Western Balkan countries would not be eligible for the sugar payments. National support, relevant mainly for Croatia and Serbia, will be abandoned apart from national top-ups for EU premiums, assumed to be used only in Croatia and Serbia. As the EU premiums are decoupled they mainly matter for income effects but do not exert a specific impact on particular products.

Regarding sugar quotas it is likely that they would not constrain production as it is more likely that sugar production will drop significantly after the recent EU sugar reform. It is assumed that this drop will also apply after accession, even if the quotas granted would be much higher. For milk quotas it has been assumed that the introduction of the milk quota system would essentially constrain milk production to the level attained at the time of accession (2010 or 2015) whereas under baseline conditions continuing yield growth would bring about a slightly higher milk production by 2020.

Financial contributions from the Balkan countries to the EU budget have been estimated to be about 0.65% of GDP, in line with the 2004 data for Poland, Slovakia, and the Baltic countries.

Evident determinants for price adjustments after accession are the currently applied tariffs for the Western Balkan Countries.

After accession some price convergence will first of all follow from the removal of current tariffs between the EU 25 and the Balkan countries. In addition the integration in the

Common Market would reduce transaction costs and uncertainty in trading activities such that an increased volume of exchange may be expected. Furthermore accession may entail pro-competitive and efficiency enhancing impacts which could contribute to an increase in producer prices. However, quality differences are significant between EU Member States and the Western Balkan countries. These may be expected to decrease over time. On the other hand average producer prices are far from homogenous in the set of EU15 Members as well, such that a complete equalisation would be an unrealistic assumption. Furthermore differences between CIF and FOB prices may contribute to persisting price differences according to the countries trade position. To proceed to modelling the previous issues have been simplified to a formula giving the likely price adjustment after accession as a function of initial price differences and tariffs. In view of considerable uncertainty about the correct representation, a sensitivity analysis has been carried out.

Another relevant factor causing accession impacts is a potential catching up effect on yields due to improved access to inputs, technology transfer, reduced risk and other factors. The catching up effect has been related to the status quo yield gap to EU25 and implies, for example, that average milk yield in Western Balkan countries would be 2900 kg per cow after accession while they would be 2650 kg under baseline conditions. This is only a moderate accession impact, but it should be noted that for most Western Balkan countries accession will not occur before 2015.

6.3 IMPACT OF ACCESSION ON MARKETS, INCOME AND FEOGA

For the impact analysis we begin noting that milk yields are expected to catch up to some degree with the performance in EU25 after accession, by 13% in The former Yugoslav Republic of Macedonia and the Kosovo where yields are lowest, somewhat less in other countries. According to our hypotheses the introduction of milk quotas would somewhat limit the strong growth of milk production projected in the reference run (up to 48% in The former Yugoslav Republic of Macedonia relative to the base year) as of the accession year. Small quota impacts on production and catching up effects on yields both reinforce in the impacts on the dairy herds which are projected to decline by 10% to 20%, depending on the country. Beef production would decrease by 7% on average in the Western Balkan from the effects on the availability of calves. Demand changes are only noteworthy (-2% to -9% under in 'HR_late_hi') in The former Yugoslav Republic of Macedonia, Serbia, and the Kosovo where prices are considerably lower than in the EU such that price convergence would bring about some increase of prices. As both production as well as demand moderately decline these changes tend to cancel and adds up for the Western Balkan to a tiny increase of net imports by 4000 to 9000 tons. Looking at sheep production this sector has some prospect to expand in view of the initial prices which are lower than in the EU, except for Croatia. Increasing prices would also reduce demand such that net exports would increase in all Western Balkan countries except Croatia, for the whole Western Balkan by about 5000 t. However using this opportunity may also require a modernisation of infrastructure. Pork and poultry production is likely to come under competitive pressure in some countries such that an increase in net imports of about 20,000 tons of pork and about 12,000 tons of poultry may be expected.

In the crop sector market balances for cereals will be strongly influenced by declining feed demand, on average by about 7%. As a consequence net exports of cereals increase in all Western Balkan countries, for the whole region by about 1.4 million tons in the scenario with early accession of Croatia in 2015. For oilseeds and pulses we also expect an increase in net exports (or a decline in net imports) but in contrast to cereals these impacts are very small in general. For potatoes we expect in general a decrease of net imports because expansion on the supply side is stronger than growth in demand. Human consumption is responding stronger to the likely decline of potato prices than to the projected decline of cereal prices because consumer margins are lower. Nonetheless the sizable impacts on production are likely to dominate the growth of demand such that total net imports of the Western Balkan region would decline by about 50000-80000 t under 'medium' conditions for price convergence.

It is expected that net exports of vegetables from the Western Balkan would increase by 500000 to 750000 tons, in particular due to the strong price related impacts on the largest market, Serbia, where production would grow and demand decline as a consequence of some convergence to higher EU prices. The same holds for B&H whereas all other countries are likely to see both an increase of demand (due to declining prices) as well as an increase of production because the catching up effect on yields would dominate any small reductions of activity levels.

It is anticipated that accession will bring increased competitive pressure to most Western Balkan countries, in particular for cereals, pork and poultry markets. For fruits and vegetables, as well as for beef, sheep and goat meat current prices in the region are mostly below those in the EU-25. Improved productivity and marketing could provide an important export market opportunity for some Western Balkan countries for these commodities.

Full utilisation of these opportunities will require improvements in quality of production and market infrastructure. Certain downward price pressures on commodities will be countered by corresponding increases in yields linked to improved access and use of modern production methods and technology transfer. These yield increases are anticipated to counteract the negative effects of lower prices for the beef sector but it is expected that higher milk yields will result in an overall reduction in the Western Balkans dairy herd and ultimately also beef production, when compared to a non-accession scenario.

FEOGA impacts are estimated in CAPSIM as the sum of endogenous components (premiums, export refunds, and consumption subsidies) and a large exogenous residual which is held constant. In the context of the pending enlargement of EU25 to EU27 it has been decided that 'financial discipline' (Regulation (EC) 1782/2003, Article 11) will be enforced without an increase in budgetary ceilings for years 2004-2013 as set out in the year 2002 (OJ L 323/48, 28.11.2002). For this impact analysis it has been assumed that the accession of Western Balkan countries should also occur within the given ceilings which are rising in nominal terms by 1% annually only.

Because the major endogenous FEOGA components covered by CAPSIM are premiums this could be enforced in an approximate way by a scaling mechanism for premiums ensuring

that these would not rise faster than the permitted 1% growth. Because this ceiling is binding in our projections, the additional premiums granted to Western Balkan countries would lead to a corresponding cut of premiums to other countries such that at the bottom line it is not the taxpayer but former beneficiaries in other EU countries who have to share the budgetary burden of the envisaged further enlargement.

Furthermore the acceding countries would also have to contribute to the EU budget after accession. Their share in the total EU contributions have been derived from the example of Poland, Slovakia and the Baltic countries in the 2004 budget which is just an illustrative calculation and not meant to be a serious projection of likely budgetary contributions of the potential candidates. Nonetheless the orders of magnitude of relevant positions should be captured by our approach.

Table 14: Accession impacts on FEOGA with estimated finance by EU25 and Balkan countries [million €]

	Initial situation	Baseline	HR_early	HR_late	HR_late_lo	HR_late_hi
European Union	2002/2004	2020	2020	2020	2020	2020
Total FEOGA	46298	50514	+23.6	+18.3	-32.9	+72.2
Premiums	30188	35628	+2.1	+1.6	+1.3	+2.0
Refunds	3660	2520	+23.7	+18.7	-33.2	+72.3
other	12450	12366	-2.3	-2.0	-1.0	-2.1
<i>estimated finance by:</i>						
Serbia	0	0	+58.1	+58.1	+58.1	+58.2
Croatia	0	0	+92.0	+92.0	+91.9	+92.1
TFYR Macedonia	0	0	+18.2	+18.2	+18.2	+18.2
Albania	0	0	+21.7	+21.7	+21.7	+21.8
Bosnia Herzegovina	0	0	+32.9	+32.8	+32.8	+32.9
Montenegro	0	0	+6.6	+6.6	+6.6	+6.6
Kosovo	0	0	+8.6	+8.6	+8.6	+8.6
Western Balkan	0	0	+238.0	+238.0	+237.8	+238.3
EU25	46298	50206	-213.2	-218.4	-269.0	-165.1
Romania & Bulgaria	0	309	-1.3	-1.3	-1.7	-1.0

Sources: National Statistical Offices, Own estimates

It may be assumed that premiums increase by slightly less than 1% annually from the base year to 2020 in line with financial discipline. Premiums are approximately constant across simulations by construction. Refunds and consumption subsidies (part of other FEOGA expenditure) are relatively small such that total (endogenous) FEOGA would increase at most by 72 million € (in scenario 'HR_late_hi') which is almost negligible given a total estimated FEOGA budget of 50514 million € by 2020 in the baseline.

Because financial discipline is imposed in our simulations, there are two main budgetary effects of accession, the first one being the redistribution of premiums from EU27 to the Western Balkan countries as mentioned above. The second are the contributions from the Western Balkan countries estimated to be about 238 million € in the central scenario 'HR_late' (with small variations in the other scenarios) which permit contributions of 'old' EU27 members to reduce their contributions by nearly the same amount.

Combining information on prices and quantities gives an estimate of revenues, cost and gross value added. These data on gross value added differ from those received from national sources through the network of local experts. The differences in the base period are sometimes large (e.g. in Croatia and Albania) and sometimes small (in Serbia and The former Yugoslav Republic of Macedonia), see the discussion in Annex 1. However, to trace the income implications of the scenarios in a consistent manner all income components have been calculated, of course, in a bottom up manner from the prices and quantities given in the modelling database and modified in these simulations.

On balance the changes in the baseline have quite heterogeneous implications for the change of gross value added. For EU25 we expect only moderate growth of output value but a considerable increase in intermediate consumption value, mainly because prices of non-agricultural inputs rise by about 37% with an inflation rate of 1.9% and the share of these inputs in gross value added is close to 60%. At the bottom gross value added would decrease by almost 10% from the base year to 2020 in the reference run (= baseline).

Among the Western Balkan countries there is also a decline in gross value added if output growth is rather small as is the case for The former Yugoslav Republic of Macedonia in our baseline, mainly because cereal area is diverted to non-agricultural uses rather than being converted to industrial crops or vegetables such that cereal production would decline sizeably without a compensating increase elsewhere. Even though The former Yugoslav Republic of Macedonia is expected to have the lowest inflation rate among all Balkan countries, comparable to EU25, inflation would nonetheless imply a 23% increase in intermediate consumption, in spite of some decline of the quantity component. This is projected to lead to a 13% decline in income in the reference run, not unlike the development in EU25. Below average output growth also applies to Croatia, mainly due to some decline in the fruits and sugar beet sectors whereas inflation is likely to be strong.

In B&H and Albania we also expect a decrease in gross value added because intermediate consumption is growing strongly first as in all countries due to inflation and second because there is a large share of feed cost which is growing stronger than in some other Balkan countries due to above average growth of animal production. Serbia, Montenegro, and the Kosovo, on the contrary, derive most of their output growth from the fruit and vegetable sectors which appears to be a more profitable specialisation. In the Kosovo the growth may be exaggerated due to the difficulties with the structural breaks in the respective time series. It assumes that the recent signs of recovery in the vegetables sector announce a solid growth in this sector.

However even those countries with the highest growth in agricultural gross value added are likely to see the economic importance of agriculture cut by half or more. In Serbia, the share of agriculture would decline from 16% to about 6.5% according to the modelling database. In Croatia the share would decline from 4.9% to 1.6%. It was mentioned above that these numbers may differ according to the source and method of calculation but it is clear that even in the Western Balkan agriculture would mainly matter for remote rural regions, whereas the overall economic importance of agriculture will have declined strongly by 2020.

If we move on from the baseline developments to the accession impacts we find a quite diverse picture again on the output side and a more uniform situation for intermediate consumption. There is a strong increase in output value in Serbia, which is likely to benefit from a strong increase of prices (+26%) in the important vegetables sector. On the contrary decreases in vegetables prices are one of the important factors behind the loss of output value in Montenegro. Another component, shared with Albania and the Kosovo, is the loss of output value from fodder, because prices are likely to drop considerably and some grassland would even fall fallow. However, this is neutral with respect to gross value added because it also constitutes a decrease in feed cost. Albania would mainly suffer from the loss of output value for vegetables, because losses for beef and gains for sheep and goat meat are likely to cancel approximately in the meat sector. Both B&H and The former Yugoslav Republic of Macedonia are likely to benefit from increasing prices for vegetables, fruits, and wine in the case of The former Yugoslav Republic of Macedonia.

The large decrease in intermediate consumption value mainly derives from savings in feed costs which have a quantity and a price component. The quantity component is related to the decline in beef production from smaller dairy herds and to the additional decrease in meat production motivated by convergence to lower EU prices. Total feed demand for cereals was shown to decrease by 0.7 million tons in the region. The price component mirrors the decline in demand combined with the increase in fodder yields due to catching up effects. Fodder prices therefore strongly decline in most countries, but this change has also reduced the output value of agriculture. As a consequence they are neutral when considered together. The same point, relevance both on the output and input side, applies to the price and quantity changes related to cereals for feed use.

If input value declines for all countries it is clear that those benefiting from significant increases in output value (Serbia, The former Yugoslav Republic of Macedonia, and B&H) are also those with the highest gains in agricultural income, up to 53% with high price convergence in B&H. For the others the balance depends on the relative importance of revenue losses as opposed to cost savings. However, it appears that income losses are only likely under quite unfavourable conditions for the Western Balkan countries. Given high national prices such conditions are a speedy convergence to lower EU prices in our simulations (Croatia, Montenegro under scenario 'HR_late_hi'), all else equal.

At this point we have to acknowledge that some of the above results critically depend on the validity of certain key data: These are a very high price of vegetables (tomatoes) in Montenegro, very low prices of vegetables in Serbia and B&H, and a very low price of fruits in The former Yugoslav Republic of Macedonia, all compared to EU25. These prices are key driving forces of some of the simulated gains and losses. Of course all statistical information may be questioned, even in EU15, but the reader should be warned again that our database had to be compiled in a rather short time. It may be expected that without these 'exceptional' prices, the change in gross value added in different countries would settle closer to the common average which is an increase of about 25%-30% compared to the baseline.

The total sum of premiums to the Western Balkan is 1000 to 1100 million € with late or early accession of Croatia, respectively. Premiums in EU25 may be seen to decrease almost by the same amount (because they would also decline in Romania and Bulgaria). However, about 200 millions are may be considered refinanced by the Western Balkan countries through their contributions to the EU budget.

Premiums per ha may be seen to be somewhat lower than in EU25 but they have reached only 60% of the full premiums by the year 2020. The shares of premiums in gross value added would be at 12% (Kosovo) to 29% (B&H) which is comparable to EU25 (23%)

On balance, the total income effects will be generally positive due to CAP direct single area payments. These payments would tend to support an increase of agricultural gross value added which exceeds 25% on average but which will vary considerably by country (from +3% in Montenegro to +51% in B&H in the scenario which assumes accession of all Western Balkan countries by 2015). However, even though these gains in agricultural income will clearly support the rural economy in the Western Balkan region, their economic importance will only be significant in remote rural regions. With average GDP shares for agriculture of less than 7% in all Western Balkan economies most regions, even beyond urban centres, will overwhelmingly depend on non-agricultural activity.

ARCOTRASS – Consortium
Study on the State of Agriculture in Five Applicant Countries

Table 15: Accession impacts on agricultural income and its composition in EU25 and Balkan countries, year 2020

		HR000	BA000	MK000	AL000	CS000	MO000	KO000	EU0WB	EU025	EU002	
			Bosnia Croatia Herzegovina	TFYR Macedonia	Albania	Serbia	Montenegro	Kosovo	Western Balkan	EU25	Romania & Bulgaria	
Total output	Base year 2002/04	[million €]	2157	836	758	1092	3709	374	351	9278	325934	15246
	Reference run 2020	[million €]	2360	1037	792	1343	4351	465	446	10794	358653	19227
	Simulation HR_early		1.1%	9.2%	8.4%	-3.0%	18.5%	-9.6%	0.2%	8.4%	-0.4%	-0.6%
	Simulation HR_late		-2.1%	9.2%	8.5%	-3.0%	18.6%	-9.6%	0.3%	7.8%	-0.4%	-0.5%
	Simulation HR_late_lo		0.9%	8.6%	8.3%	-3.0%	15.5%	-4.9%	1.2%	7.4%	-0.4%	0.0%
	Simulation HR_late_hi		-4.9%	9.9%	8.8%	-2.9%	21.7%	-14.1%	-0.7%	8.3%	-0.3%	-0.9%
Total intermediate input	Base year 2002/04	[million €]	893	432	374	504	1779	188	169	4340	164867	7496
	Reference run 2020	[million €]	1178	654	458	804	2311	244	173	5822	213418	10203
	Simulation HR_early		-8.8%	-15.1%	-9.3%	-11.7%	-3.0%	-20.6%	-24.9%	-8.6%	0.0%	0.0%
	Simulation HR_late		-5.5%	-15.1%	-9.3%	-11.7%	-3.0%	-20.6%	-24.9%	-7.9%	0.0%	0.0%
	Simulation HR_late_lo		-5.3%	-14.6%	-9.4%	-11.9%	-3.3%	-20.3%	-24.8%	-8.0%	-0.1%	0.4%
	Simulation HR_late_hi		-5.7%	-15.6%	-9.3%	-11.5%	-2.7%	-21.0%	-24.9%	-7.9%	0.0%	-0.5%
Gross value added	Base year 2002/04	[million €]	1264	405	384	588	1930	186	182	4938	161067	7750
	Growth to 2020		-6.4%	-5.1%	-13.1%	-8.4%	5.7%	18.6%	50.5%	0.7%	-9.8%	16.4%
	Reference run 2020	[million €]	1182	384	334	538	2039	221	274	4972	145234	9024
	Simulation HR_early		10.9%	50.5%	32.7%	10.0%	42.9%	2.6%	16.0%	28.4%	-1.0%	-1.2%
	Simulation HR_late		1.3%	50.6%	32.9%	10.1%	43.0%	2.6%	16.1%	26.2%	-0.9%	-1.0%
	Simulation HR_late_lo		7.0%	48.3%	32.5%	10.4%	36.8%	12.2%	17.6%	25.3%	-1.0%	-0.5%
Simulation HR_late_hi		-4.2%	53.4%	33.5%	9.8%	49.4%	-6.6%	14.7%	27.2%	-0.8%	-1.4%	
GDP share of agric	Base year 2002/04		4.9%	6.3%	9.3%	11.0%	15.6%	13.1%	10.0%	8.6%	1.6%	6.1%
	Reference run 2020		1.6%	2.6%	3.3%	3.7%	6.5%	6.1%	6.5%	3.3%	0.7%	2.4%
Total premiums	Base year 2002/04	[million €]	0	0	0	0	0	0	0	0	30188	0
	Reference run 2020	[million €]	0	0	0	0	0	0	0	0	33521	2108
	Simulation HR_early	[million €]	355	169	82	81	426	38	39	1113	32480	2037
	Simulation HR_late	[million €]	267	169	82	81	426	38	39	1025	32562	2043
Agricultural area	Base year 2002/04	[1000 ha]	2795	2344	1212	1122	5112	521	544	13650	167786	19970
	Reference run 2020	[1000 ha]	2781	2349	1142	1115	5086	523	554	13552	167838	20102
Premiums per ha	Base year 2002/04	[€/ha]	0	0	0	0	0	0	0	0	180	0
	Reference run 2020	[€/ha]	0	0	0	0	0	0	0	0	200	105
	Simulation HR_early	[€/ha]	128	72	72	72	84	72	71	82	194	101
	Simulation HR_late	[€/ha]	96	72	72	72	84	72	71	76	194	102
GVAD per ha	Base year 2002/04	[€/ha]	452	173	317	524	378	358	334	362	960	388
	Reference run 2020	[€/ha]	425	163	292	483	401	422	493	367	865	449
	Simulation HR_early	[€/ha]	471	246	388	531	573	433	572	471	857	444
	Simulation HR_late	[€/ha]	430	246	388	531	573	433	573	463	858	444
	Simulation HR_late_lo	[€/ha]	455	242	387	533	549	473	580	460	857	447
	Simulation HR_late_hi	[€/ha]	407	251	390	530	599	394	566	467	858	443
Premium share	Base year 2002/04		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	18.7%	0.0%
	Reference run 2020		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.1%	23.4%
	Simulation HR_early		27.1%	29.2%	18.6%	13.7%	14.6%	16.6%	12.3%	17.4%	22.6%	22.8%
	Simulation HR_late		22.3%	29.2%	18.6%	13.6%	14.6%	16.5%	12.3%	16.3%	22.6%	22.9%
	Simulation HR_late_lo		21.1%	29.7%	18.6%	13.6%	15.3%	15.1%	12.2%	16.5%	22.6%	22.7%
	Simulation HR_late_hi		23.6%	28.7%	18.5%	13.7%	14.0%	18.2%	12.5%	16.2%	22.6%	23.0%

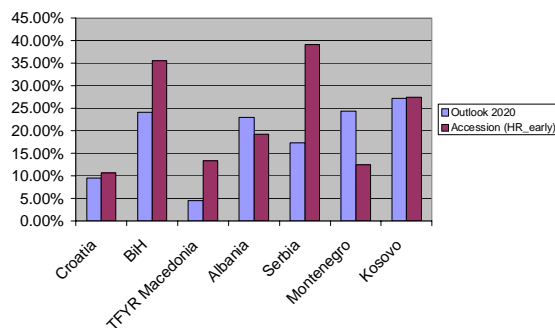
6.4 IMPACT OF ACCESSION ON RURAL AREAS

Implementation of CAP Pillar 1 will show a clear impact on agricultural income and competitiveness of Western Balkan farms. As the CAPSIM impact assessment proves the actual impact per country depends strongly on the price ratios existing prior accession and the increases/decrease caused by accession on the one hand and on the CAP direct payments, which immediately increase farmers' income on the other.

Annual Agricultural Output is expected to show a stronger increase in the accession scenario for all countries except Albania and Montenegro. For Montenegro the negative accession impact is due to losses in the vegetables sector whereas in Albania declining fodder prices are the main reason. In spite of some gains in agricultural GDP in the accession scenario, a declining agricultural share in GDP in line with the development of other industrial and service sectors is to be expected.

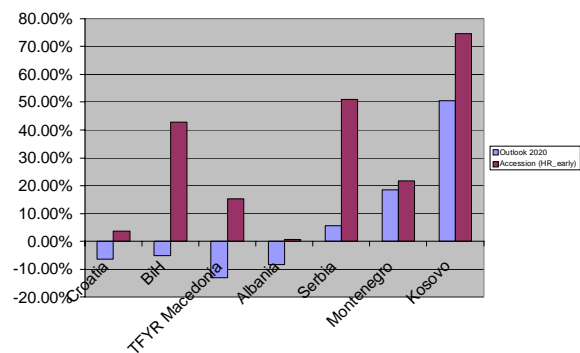
As agricultural income gains are expected to be stronger in general than GDP impacts outside of agriculture related to accession, agricultural shares in GDP will increase somewhat due to accession. For example respective shares of agriculture in overall GDP are expected to change in 2020 from 1.6% to 1.7 % for Croatia and from about 6.5% to 9% in Serbia.

Figure 12: Development of Agricultural Output till 2020 with and without Accession



Source: Own Compilation

Figure 13: Development of Agricultural GDP till 2020 with and without Accession



Source: Own Compilation

Larger farms clearly will benefit more from the CAP payment and price increases. Small scale subsistence and semi-subsistence farms will only benefit to a limited extend. These farms will receive the CAP payment to semi-subsistence farms, increasing their cash income.

Rural development measures under the CAP are mainly focusing on the agricultural population in rural areas. The measures are meant to help farmers diversify their holdings, exploit new income sources, better market their products etc. They provide some direct support to farmers in 'less favoured areas', contain measures for professional and environmental training, and include social elements, such as support for 'basic rural services' or setting-up of farm relief services. They also contain measures like training, afforestation and agri-environment schemes. All these measures are very relevant to rural development in the Western Balkan countries too.

Their effects on rural areas cannot be uniformly characterised. The effect of CAP rural development measures will significantly depend on the overall macroeconomic developments, the general policy approaches towards industrial, environmental and social development, cultural heritages etc.

The impact of accession on the Western Balkan Region and its Rural Areas can be summarised as follows:

- The tendency of depopulation in remote areas will be slowed down, mainly due to the support payment for semi-subsistence farming
- Unemployment may decrease due to the slowing down of the migration of agricultural employees.
- GPD/Capita will increase in all areas.
- Agricultural employment is expected to significantly decline in the region up to 2020. EU accession will further aggravate this trend. In absolute terms the number of people employed within the agricultural sector without accession (outlook-analysis) is expected to decrease by about 375.000 people (equal to 21% of the 2005 number of employees) from a total of 1.824.486 people (full time working equivalent) to 1.449.870 people in 2020. Under the accession scenario the decrease is expected to be about 440.000 people or 24%.
- Accession is anticipated to improve access and opportunities for additional non-agricultural activities and income. This will be mainly due to the upgrading of rural infrastructure and development support to rural food processing and manufacturing. This will result in a reduced out-migration from rural areas.
- Farm sizes are expected to show a faster increase under accession conditions. Anyhow, the increase will most likely not be sufficient to effectively compete on the EU market. The actually very low farm sizes in the Western Balkans would require substantial structural changes in order to approximate EU average farm sizes.
- It is expected that accession will result in an increase of the share of organic agriculture in total farming. The actual increase will depend on the developments of real incomes in the Western Balkans.
- The impact on Water Quality, Biodiversity and the Economic Development of Non-Agricultural Sectors will be quite limited on the short term.

7 CONCLUSIONS

Consistent and comparable data and information on the agricultural sectors of the Western Balkan countries are very difficult to find or often not available. The definitions of the statistical units (farms) and Agricultural labour input (classification of agricultural employment, Annual Work Unit, etc.) data are not homogeneous within the region and often vary from EUROSTAT definitions. Due to the non-availability and or lacking reliability of recent census data agricultural statistics for the region need significant improvement in order to form a reliable basis for the planning of sound agricultural policies and the further approximation with the EU. Major efforts are needed to improve availability and reliability of data. Experiences from the new central and East European Member States prove that technical assistance from the EU can significantly contribute to these improvements.

Therefore a major bottleneck in carrying out this Study has been the lack of reliable, consistent and comparable agricultural statistics. Efforts have been made to compile data from various official and unofficial sources including where necessary the consultants' own estimates. Considerable efforts have been made to check and verify the data. Inconsistencies and questions concerning the reliability of the data have been resolved where possible and / or highlighted in the individual country reports. Caution is still recommended though in the use and interpretation of the data presented.

The countries of the Western Balkan region are still undergoing a process of political and economic transition. This has an immediate impact on their institutional capacities and abilities to develop and implement sound reform policies.

Political stabilisation and economic development within the region are key targets for the Western Balkans and the European Union. A clear commitment from the EU providing the countries with a perspective of ultimate EU Membership and the further Alignment of the countries policies, the legal and institutional framework with the EU are providing the basis for political and economic stabilisation as well as a closer cooperation inside the Western Balkan region.

Agriculture still plays a vital role for the overall economy and employment in the region. Agricultural shares in GDP and overall employment are well above EU levels. Subsistence and semi-subsistence farming provide a certain level of food security and socio-economic stability in rural areas.

Besides often unfavourable natural conditions there are several obstacles for sound agricultural and rural development in the region. These include: small farm sizes, insufficient market infrastructure, deficiencies in the rural infrastructure, land fragmentation and a non-functioning land market, lacking investment resources for upgrading productive capacities, insufficient knowledge and information systems and the unclear policy and legal environment.

Agriculture, in the coming years will remain to play an important function as economic and social buffer, reducing rural poverty and unemployment. At the same time the commercial

part of the sector must be strengthened in order to become competitive under regional and future EU conditions.

The region's food industry as well suffered from the armed conflicts and instabilities of the early 1990's. In certain cases (especially Kosovo and B&H) the industry was affected by severe physical damages. Output levels shrank drastically and still are well below previous levels. The prevailing overcapacities and the costly process of implementing EU standards put the industry under severe economic pressure.

The low performance of food industries has a negative impact on the overall food chain and on agriculture in particular. The modernisation of the industry and improved competitiveness are pre-conditions for the development of agriculture in general.

In all countries/entities of the region farmers do only have very limited access to credits although banks often do have sufficient financial resources, but do not see a clear perspective for farming and land is not used as collateral.

In the past, agricultural extension was focusing on supporting farmers in the technical aspects of crop and livestock production. Support in the area of farm management and accounting was very limited. Even now, current extension services are primarily focusing on the provision of non-economic advice.

For the coming years agriculture will remain to be the backbone for rural economies, social stability and livelihood in most parts of the region. Only in the longer term additional and later on alternative income opportunities are likely to be developed. Therefore sound integrated rural development policies with the focus on the creation of new job opportunities, and rural development approaches supporting farm investment, village renewal, upgrading of rural and market infrastructure, and land policies are needed.

Crucial information systems like FADN and EAA as applied in the EU Member States are fully missing or at a very early stage of implementation. Furthermore there often is no complete farm register put in place yet. Therefore in most cases agricultural ministries lack the data and capacity to do sound policy analysis and assessing the possible impact of agricultural policies and other policies with potential effect on the sector.

The countries need to develop agricultural policy strategies taking full notice of the actual double function of agriculture. This will allow developing a competitive sector and at the same time avoiding an increase in rural poverty and unemployment. The approach for supporting the two different parts of the sector developed by the Croatian MoA can form a promising example to be followed by other countries as well.

The acknowledgement of this social function of agriculture may help the agricultural ministries in acquiring additional budgetary resources for that task and allowing spending actual budget more oriented at increasing competitiveness of the commercial part of the sector.

For the EU it now is the right time to support Western Balkan governments in strengthening agricultural administration and designing appropriate sector strategies and policies. But the past experiences, the downgrading of agriculture on the list of priority sectors, and the

pressure of having to focus on food safety and standards may leave these areas widely uncovered.

A general weakness of international support to agriculture in the region is insufficient coordination and communication between donors and the individual countries/entities' administration. Furthermore projects are often not sufficiently adapted to the regional and country peculiarities and therefore do not leave many local capacities and capabilities.

More coordination is needed between the different EAR offices or delegations regarding the exchange of experiences and the achieving of more interregional projects. Furthermore the coordination with and the involvement of the beneficiaries in the program and project planning must be improved further.

Projects implemented in the new Member states before their joining to the EU and experiences from some "Best Practise Examples" from Western Balkan countries/entities could help in defining project types for targeted supporting of reforms in the light of accession preparation.

Western Balkan policy makers should put more attention to the harmonisation of rules and infrastructure (inspections, laboratories, procedures) for food trade and the capacity to program and implement rural development programs. Furthermore they will have to ensure a clear division of responsibilities and sharing of work between different institutions involved. A rapid upgrading of human resources is crucial for EU alignment in all fields.

All over the region (with the slight exception of Croatia), there is a big interest in cooperating with neighbouring countries and in learning from their experiences.

Therefore the future IPA programme should try to focus more explicitly on the support of interregional cooperation.

EU-support should take a leading role in fostering regional cooperation in agricultural policy development and EU approximation. This will support the initial efforts undertaken by the different countries in achieving closer cooperation and coordination.

Finally, it is obvious that this study could just give an immediate and partial assessment and analysis about agriculture in the region. A more detailed presentation of issues was not possible due to major gaps and inconsistencies in the data, the short period and relatively low budget for such a complex issue.