

CROATIA

Country Report

December 2006

*"This study, financed by the European Commission, was undertaken by Arcotrass GmbH (Germany), in association with Vakakis International SA (Greece), EuroCare GmbH (Germany) and AKI (Hungary).
The conclusions and opinions presented in this report are those of the Consultants and do not necessarily reflect the opinion of the European Commission".*

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Abbreviations

AC	Agricultural Census
ACE	Action for Cooperation in the field of Economics
AK	Agro-kombinat
AMIS	Agro-food Market Information System
BIP	Border Inspection Procedures
BiH	Bosnia and Herzegovina
CAAC	Croatia Agricultural Acquis Cohesion Project (WB project)
CAEI	Croatian Agriculture Extension Institute
CAP	Common Agricultural Policy of the EU
CARDS	Community Assistance for Reconstruction, Development & Stabilisation
CASB	Croatian Agency for Small Business
CBRD	Croatian Bank for Reconstruction and Development
CBS	Central Bureau of Statistics (of Croatia)
CEFTA	Central European Free Trade Area
CFA	Croatian Food Agency
CMO	Common Market Organisation (of the EU)
CNB	Croatian National Bank
CNIPH	Croatian National Institute of Public Health
COMEXT	EU Database for Trade Statistics maintained by Eurostat
COMTRADE	UN Commodity Trade Statistics Database
cwe	carcase weight equivalent
EAA	Economic Accounts for Agriculture
EC	European Commission
EFTA	European Free Trade Area
EU	European Union
Eurostat	Statistical Office of the European Union
€	Euro
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organisation of the United Nations
FDI	Foreign Direct Investment
FMS	Farm Monitoring System
FTA	Free Trade Agreement
F&V	Fruits & Vegetables
g	Gram
GAO	Gross Agricultural Output
GDP	Gross Domestic Product
GNI	Gross National Income
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GVA	Gross Value Added
ha	Hectare
HR	Hrvatska (Croatia)
HRK	Hrvatska kuna (Croatian Currency)
IACS	Integrated Administrative Control System

IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IPARD	IPA - Rural Development Component
ISPA	Instrument for Structural Policies for Pre-Accession
kcal	Kilocalories
l	Litre
LFA	Less Favoured Area
LPIS	Land Parcel Identification System
LRMU	Land Registration Management Unit
mio	Million
MAFWM	Ministry of Agriculture, Forestry and Water Management
MFAEI	Ministry of Foreign Affairs and European Integration
MHSW	Ministry of Health and Social Welfare
MOJ	Ministry of Justice
MST	Ministry of Science and Technology
MSTTD	Ministry of Sea, Tourism, Transport and Development
Mt	Metric Tons
NARC	National Agricultural Research Council
NARS	National Agricultural Research System
NATO	North Atlantic Treaty Organisation
OECD	Organisation for Economic Cooperation and Development
OG	Official Gazette (Croatian publication recording all legislation)
PMU	Project Management Unit
POEs	Publicly Owned Enterprises
ROP	Regional Operational Programme
RRTF	Return and Reconstruction Task Force
S&M	Serbia and Montenegro
SAA	Stabilisation and Association Agreement
Sap	Stabilisation and Association Process
Sapard	Special Accession Programme for Agriculture & Rural Development
Slo	Slovenia
SCG	Serbia and Montenegro [Srbija i Crna Gora]
SFRY	Socialist Federal Republic of Yugoslavia
SGA	State Geodetic Administration
SOEs	State Owned Enterprises
t	Tons
TA	Technical Assistance
TISUP	Agriculture Market Information Agency of Croatia
UAA	Utilised Agricultural Area
USD	United States Dollar
WB	World Bank
WTO	World Trade Organisation

1. INTRODUCTION

1.1 OVERVIEW OF THE COUNTRY

The Republic of Croatia is a small country with a population of 4.4 million people and a total land area of 56,542 km² (territorial sea makes up 31,067 km²).

Croatia is situated in the North Western Balkans, connecting Central Europe to the Mediterranean, stretching from the Danube in the North-East to Istria in the West and along the Adriatic coast to Konavle in the South-East. The country is characterised by considerable natural and climatic diversity, making it a popular tourist destination. This diversity is also reflected in the range of agricultural production, ranging from traditional Continental arable and industrial crops to vineyards and to Mediterranean fruits and vegetables.

The country can be divided broadly into three natural and geographical areas, namely:

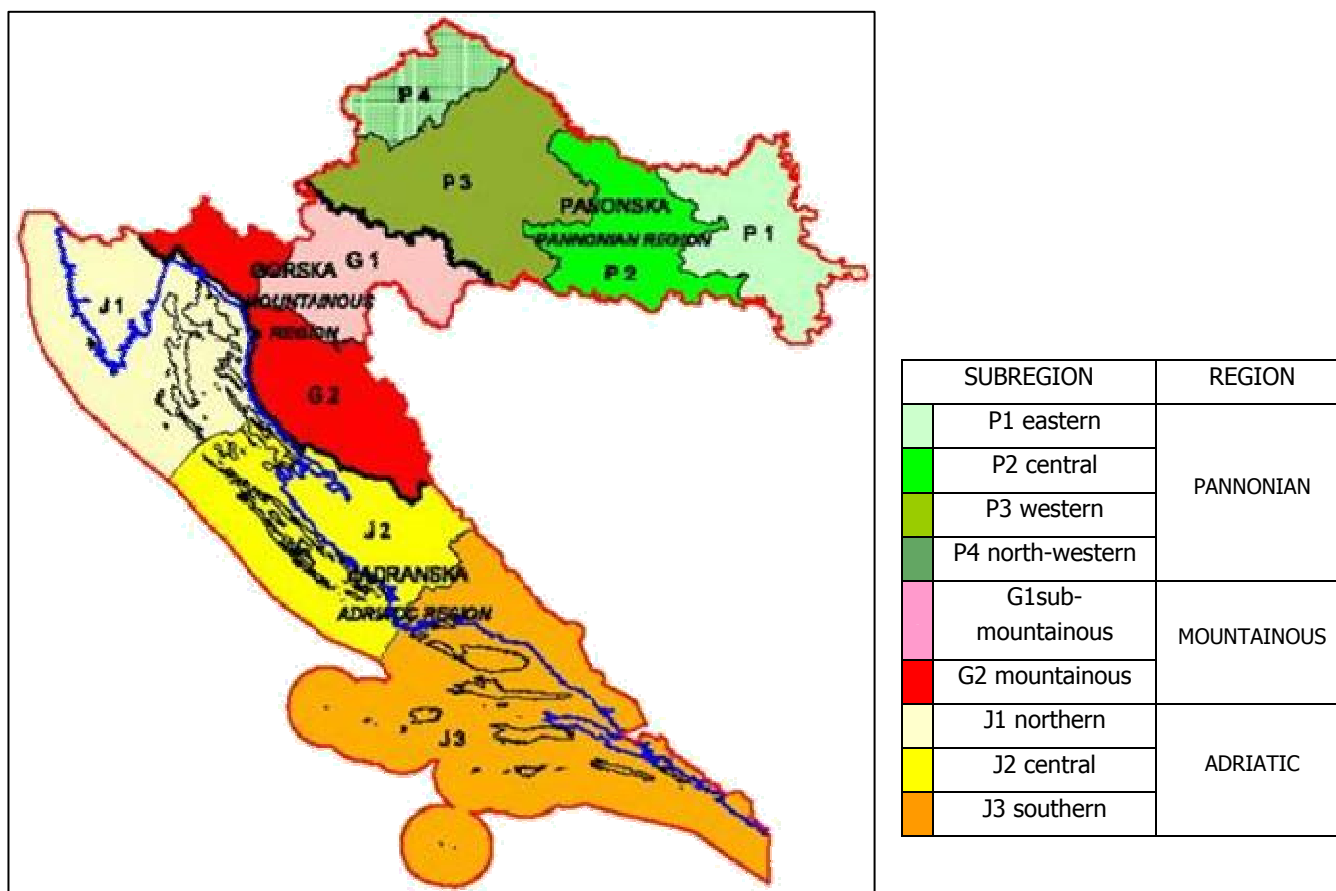
- The Pannonian and Peripannonian region, consisting of valleys and hills in the North-East of Croatia where arable farming and pig and cattle breeding predominate.
- The Mountainous Region, dividing the Pannonian region from its coastal area where small-scale private farms prevail with cattle breeding as the main branch of agricultural production.
- The Adriatic coastal region, covering a narrow coastal belt, which is separated from the hinterland by high mountains. The Adriatic coast consists of more than 1,000 islands and is one of the most indented in Europe. The mild climate enables the production of Mediterranean crops.

For more information on these three areas please refer to Annex 6 of this report.

Croatia declared independence from Yugoslavia in 1991. The armed regional conflict in the early 90's caused a collapse of the economy and major losses of productive capacity. In 1995, the Dayton Peace Agreement was concluded, bringing a degree of security and stability to the region. The Croatian government, during this period, remained committed to privatisation and other structural reforms of the economy but the authoritarian regime of that time limited international acceptance and integration. In 1999 the political landscape changed drastically and since this time Croatia has been making significant progress towards economic and political stabilisation.

The country became a member of the *Partnership for Peace* initiative of NATO and joined the WTO in 2000. A Stabilization and Association Agreement (SAA) with the EU was signed in 2001 and entered into force in 2005. An Interim Agreement on trade and trade-related matters had been applied since 2002. Following a positive opinion by the Commission on Croatia's application for EU-membership, Croatia was awarded Candidate Country status in June 2004 and has continued to implement wide-ranging restructuring and reforms. Since December 2005 Croatia is in the so-called "screening process", an exercise, which brings together experts from Croatia and from the European Commission. The screening is the first stage of accession negotiations and will enable the EU to decide upon the opening of individual chapters for negotiations.

In December 2002 Croatia launched its first National Programme for Integration into the European Union (NPIEU). The NPIEU for 2004 and 2005 aim to combine all of Croatia's goals and tasks in the implementation of the SAA, as well as the process of continued integration into the European Union.

Map 1: Croatia's agricultural regions and sub-regions

Source: MAFWM (Sapard Programme)

1.2 DATA AVAILABILITY AND SOURCES

As with other countries in the region, the availability of reliable and consistent data on the agro-food sector in Croatia is still limited. Until as recently as 2005, statistical data on the agro-food sector were collected on the basis of "estimated areas", provided by "estimators" who were mostly agricultural experts and consultants from the national extension service. Estimates were based on some collected data, local expertise and supported by various county registers and agricultural cadastres.

To improve the situation with regard to data availability and reliability an Agricultural Census was undertaken in 2003. The case of vineyard area impressively illustrates the actual problem regarding agricultural data in Croatia:

- According to the Central Bureau of Statistic (CBS), Croatia had 57,094 ha of vineyards in 2003,
- The Agricultural Census of 2003 shows 22,763 ha,
- The Farm Register of the Ministry of Agriculture, Forestry and Water Management (MAFWM) counts 28,000 ha and the
- The Grape and Wine Producers Register records only 13,637 ha.

As mentioned above, CBS data are based on experts' estimates and census data are based on the statements of the farmers interviewed.

The Farm Register of MAFWM only registers agricultural holdings (farms) which are receiving state support from the agricultural budget and/or which are actively selling their products on the market. Small-scale agricultural holdings are therefore often not registered:

- i) because they do not receive support (e.g. the area payment in the crop sector is mostly restricted to a minimum size of sown area and/or
- ii) they are engaged in direct marketing or subsistence agriculture¹.

Based on data gathered in the agricultural census the introduction of a new system for sampling began in 2005, using an agriculture questionnaire, structured according to EU standards and definitions. This approach receives CARDS and World Bank support via the "Real Property Registration and Cadastre Project". The aim is to update the data collected in the 2003 Agricultural Census and thus to cover all agricultural holdings in Croatia (a short project description is given in Annex 2 of this report). The new land administration system to be developed under this project is not yet operational, thus it has not been used for the elaboration of this report.

In 2005 the Central Bureau of Statistics (CBS) collected, for the first time, data on agricultural households via interviews, applying a sample survey. By introducing this approach, CBS abandoned the long-standing method of compiling data through estimates by agricultural estimators on the basis of cadastral data. Where data for 2005 was already available for the elaboration of this report it has been used and cross checked with previous years data.

Since not all the data is yet elaborated, the Croatian Central Bureau of Statistics (CBS) was not able to provide all data required for this study. Therefore and in order to crosscheck and complement the data other data sources were utilised (e.g. Eurostat, MAFWM, FAO, World Bank, USAID, COMTRADE, COMEXT etc.) where available, relevant and considered reliable.

In acknowledging the prevailing problems in agricultural statistics in Croatia the "Council Decision of the European Union on principles, priorities and conditions contained in the Accession Partnership with Croatia" (OJ L 55 of 25.2.2006) in February 2006 stated that reinforcing the collection and processing of agricultural statistics, in line with EU standards and methodology, is one of the short-term priorities in the Accession Partnership with Croatia. In the near future the adoption of institutional and administrative EU standards (such as IACS, FADN etc.) will definitely improve the quality of data in Croatia and create the opportunity to crosscheck data in a more comprehensive and reliable manner.

¹ The term "subsistence farm" is defined as a farm that provides for the basic needs of the household without surpluses for marketing. The term "semi-subsistence farm" is defined as a farm that provides for the basic needs of the household and only a small part of its agricultural production enters commercial channels. The latter is very significant in Croatia, where 65% of all agricultural holdings are smaller than 2 ha and characterised by mixed production systems.

2. ECONOMIC COUNTRY BACKGROUND

2.1 MACRO- AND SOCIO-ECONOMIC SITUATION

The Croatian economy is one of the strongest and most developed market economies in the Western Balkans Region. In the second quarter of 2006, GDP grew by 3.6% year on year, bringing the average growth rate in the first semester to 4.8%, up from 3.5% in the same period a year ago. The trend of strong real GDP growth has been sustained throughout the last 6 years (see table 1) increasing to approximately 25 % of the per capita GDP of the EU-25 by 2005.

Average annual inflation increased modestly from 2.1% in 2004 to 3.3% in 2005, resulting from higher prices for energy (oil), transport and food. On a twelve-month moving average, consumer prices increased further to 3.7% in August (3.4% year on year), largely on the back of higher prices for food and local services. Annual average industrial producer price inflation accelerated slightly to 3.0% in August, mainly resulting higher energy prices.

Table 1: Main macroeconomic indicators in comparison with EU (2000 - 2005)

	2000	2001	2002	2003	2004	2005	EU-25 (2005)
Population, total (1000)	4,381	4,437	4,443	4,442	4,439	4,439	459,488
Surface area (sq km)	56,542						3,975,043
Population density (No per sq km)	78.5	78.5	78.6	78.6	78.5	78.5	115.6
Agricultural Land 1000 ha ¹⁾	2,854.4	2,863.9	2,861.5	2,847.7	2,675.3	2,650.0	162,393*
GDP (current Mio. Euro) ²⁾	19,976.3	22,176.9	24,468.2	26,234.0	28,395.0	30,949.0	2,697,935
GDP per capita (current Euro) ¹⁾	4,560	4,998	5,507	5,906	6,397	6,972	22,600
Exports of goods and services (% of GDP) ⁴⁾	23.8	23.9	19.2	19.4	21.3	23.6	9.3*
Real GDP development (%) ²⁾	2.9	4.4	5.2	4.3	3.8	4.1	1.6
Imports of goods and services (% of GDP) ⁴⁾	38.9	46.8	42.1	44.5	44.1	49.0	9.9*
Inflation rate (annual %)	4.6	3.8	1.7	1.8	2.1	3.3	2.2
Registered unemployment rate	21.1	22.0	22.3	19.2	18.0	18.0 ³⁾	9.0*
Euro-Exchange rate (1 € = x HRK)	7.6350	7.4690	7.4068	7.5634	7.4952	7.4078	

Source: Central Bureau of Statistics (CBS), Croatian National Bank, and Eurostat. Please note:

1) Until 2004 uncultivable and uncultivated land were included. In 2005 CBS collected only data on UAA, therefore the area declared as agricultural land in 2005 was estimated following the trend observed in the period 2000 - 2004

2) Croatian National Bank, 2006. Note: Data are provisional; GDP at current prices

3) Data for 2005 are provisional

4) Own calculation (based on export/import data in Annex 3 of this report, for 2005 IMF data)

*2004 data

In nominal terms, the Croatian Kuna (HRK) has remained rather stable over the last six years. Latest data available suggests this trend continues. In the twelve months to August 2006, the Kuna appreciated by 1.4% vis-à-vis the € (the same rate as 2005).

Unemployment remains one of the key economic problems for Croatia. However, when compared to all other countries in the region, the level is relatively low but still double of the EU average. The

situation has been gradually improving in recent years. The officially registered unemployment rate stood at 15.7% in August 2006 compared to 16.9% in the same month of 2005. According to official data by the Employment office, employment increased by 0.7%, year-on-year, in August 2006. As further evidence of this positive trend statistics on insured persons in the Pension Insurance Fund continue to suggest a stronger year-on-year employment growth.

Average gross wages increased by 5.7%, year-on-year, in July 2006 compared to an annual average growth of 4.4% in 2005. Deflated by consumer price inflation, this translates into a real year-on-year wage increase of 2.1% in July and an average increase of 2.3% in the first seven months².

According to data released by the Statistical Office, merchandise exports rose by 10.1% and imports by 16.5%, year-on-year, in August 2006. In the same period, the merchandise trade deficit increased by 14.4% year-on-year. Compared to the EU 25 the overall value of imported goods and services (approximately 49% in 2005, compared to approximately 10% in the EU) is high, especially as it has been at this level for quite some time. However, in comparison to other countries in the Western Balkans region this ratio is quite good (especially when taking into account that it is accompanied by a constantly growing GDP per capita).

Net FDI inflows increased to 4.6% of GDP in 2006, up from 3.9% in 2005, providing for coverage of almost 60% of the current account deficit, which increased sharply to 7.7% of GDP, as compared to 6.3% of GDP in 2005. From 1993 to 2003, foreign direct investments in Croatia amounted to some € 9 billion. The largest amount has been invested in telecommunications (21%) and money services (20%), production of pharmaceutical products, oil products and tourist facilities. Agriculture and food industry have seen very limited FDI inflows over the last five years³.

2.2 AGRICULTURE IN THE ECONOMY

Agriculture plays an important role in the overall economy. In 2004 Agriculture contributed approximately 7% to overall Croatian GDP and 9% to both exports and imports and thus 9% to overall Croatian foreign trade (see table 2). These figures are much above equivalent figures in the EU (share of agricultural GDP in EU-25: 1.6%; Agricultural share in foreign trade: 6%).

Approximately 10% of the population of working age earn their income from agriculture and the food industry. The share of agricultural labour in total labour was about 7.3 % in 2003 (without food industry).

At the same time it appears, as the overall economy expands, agriculture is losing its relative economic importance in recent years. The agro-food sector's share (i.e. taking into account agriculture and food industry) in total GDP fell from 11.6% in 1999 to 9.9% in 2003, when it contributed 2.49 billion € to total GDP (agriculture 1.63 billion €, food and drink industry 0.76 billion € and tobacco industry 0.1 billion €).

The share of agriculture in the state budget falls below the sectors share in GDP, Trade and employment. The budget of the Ministry of Agriculture and Forestry and Water Management (MAFWM) in 2004 represented 3.3% (i.e. € 277 mio) of the total state budget.

² CCEQ (European Commission, 2006)

³ Information of the German Embassy in Croatia

Table 2: Key agricultural indicators in comparison with EU

	Croatia			EU-25
	1995	2000	2005	2004
Share of Agricultural land in total land use	42.2%	50.5%	46.8%*	40.8%
Share of Arable Land and Permanent Crops in total land use	20.0%	22.7%	21.3%#	no data
Share of Agricultural GDP (without food sector) in total GDP*	8.6%	8.0%	6.8%**	1.6%
GVA from agriculture, forestry and fishing (in € mio.)	1,235	1,603	1,874**	323,647
Share of Agricultural Labour in total Labour	no data	no data	7.3%***	5.0%
Number of people employed in agriculture	no data	118,641	99,047***	9.65 mio
Share of Agricultural Export in total Export*	11.7%	9.5%	9.5%**	6.0%
Share of Agricultural Import in total Import	12.9%	9.0%	9.0%**	6.0%

* own calculation ** 2004 *** 2003 # own calculation for 2004

Source: Central Bureau of Statistics; EU 25 data – DG Agri "Agriculture in the European Union"

The share of agricultural land in total land has varied between 1995 and 2005. In 1995 a large amount of land was under mines and thus not declared agricultural land. In 2000 the situation had improved in this respect and the share of agricultural land in total land increased considerably. The apparent decline in agricultural land between 2000 and 2005 as shown in table 1 and 2 is due to changes in the data collection process (chapter 1.2 above) and the fact that a lot of land is left uncultivated or was declared area to be used for construction or tourism.

Croatia is a net importer of agro-food products: Export-value increased from € 470 mio in 2001, to € 750 mio in 2005. At the same time the value of total imports grew from € 920 mio in 2001 to € 1,300 mio in 2005. Therefore, the negative agro-food trade balance rose from € 450 mio in 2001 to € 550 mio in 2005. However, the trend of an increasing trade deficit was reversed in 2005, when it decreased for the first time in comparison to the previous year (in 2004, it was € 575 mio).

3. LAND USE, FARM STRUCTURE AND FARM INCOME

3.1 LAND USE AND QUALITY

It is impossible to provide exact data on agricultural land use in Croatia at this time. There are a number of statistical sources available but they demonstrate major discrepancies between each source (see also chapter 1.2 above).

The data provided in the Statistical Yearbook of the CBS is based on the official cadastre, which has not been updated for many years and provides no reliable data on actual agricultural land use. The farm register conducted by MAFWM records all farms that have received direct support from the MAFWM and / or are registered as farms, which produce for the market (the minimum farm size to be recorded must be 0.3 ha). The data on land use and size of the MAFWM farm register is also based on the official cadastre.

The 2003 Agricultural Census collected data from scratch. Enumerators interviewed private farmers and filled in the census forms with the data collected. Data from business entities were collected by using the reporting (postal) method. The purpose of the 2003 Agriculture Census with regard to land use was to collect data on the land reserve, the mode of using agricultural land and the area under orchards and vineyards. The census data is considered by the MAFWM to be the most complete source of data on the current situation on utilised agricultural land in Croatia. It seems, however, that the data collection was not quality-checked, the data lack appropriate verification and are not annually updated.

The data on arable land show discrepancies between the different sources. The 2003 Agricultural Census calculated an area of approximately 1,000,000 ha of arable land whereas the Statistical Yearbook of CBS, which is based on the official cadastre, shows an area of approximately 1,300,00 for 2003 (see table 3). Based on the general differences between these sources, as explained above, these discrepancies may be in part caused by information available on land under mines (see further down), uncultivated land under state jurisdiction (see next section 3.2) and the lack of on-the-spot controls to verify data in the official cadastre.

Even bigger discrepancies can be observed in the total area of permanent grassland. The 2003 Agricultural Census calculated an area of approximately 210,000 ha of permanent grassland whereas the Statistical Yearbook of CBS, which is based on the official cadastre, shows an area of approximately 1,550,00 ha for 2003 (see table 3). It can be assumed that the latter figure comprises a high share of karst land as well as uncultivated grassland, which are in the EU not sub-summarized under "Agricultural Land".

A Land Parcel Identification System (LPIS), as used in the EU and as required as part of the IACS system, would solve the problem of the unreliable data on land use. However, it is likely that a LPIS will be established in Croatia only after 2007.

The three different climate zones of Croatia are accompanied by a variety of different soils and thus provide the possibility to grow a large variety of agricultural crops. It appears that the quality of much of the available arable land has been affected by poorly regulated, intensive agro-chemical

use over a sustained period⁴. Generally, the quality of land in Pannonian region is much better than those in Mountainous and Mediterranean Regions. According to the 2003 agricultural census, 41% of total agricultural land (as per row 2, in table 3) is arable land and 54% is permanent grassland.

Table 3: Land use in comparison with EU ('000 ha) (2004)

	Croatia 2002	Croatia 2003	Croatia 2004	EU-25 2003
Land total	5,654	5,654	5,654	397,504
Agricultural Land	2,861	2,848	2,675	156,033
Arable land	1,306	1,295	1,206	93,378
Permanent grassland	1,555	1,552	1,469	51,721
Fallow land	27	36	46	10,658
Agricultural land/capita (ha)	0.64	0.64	0.60	0.34
Arable land /capita (ha)	0.29	0.29	0.27	0.20

Source: Central Bureau of Statistics; EU 25 data - Year 2003 <http://epp.eurostat.cec.eu.int/portal/page/Year 2004: DG Agri: Agriculture in the European Union>

The agricultural census defines the different categories as follows:

- **Agricultural Land** includes: arable land and gardens, kitchen gardens, meadows, pasture, nurseries, orchards, vineyards and land with basket willow (osier)
- **Arable land and gardens** are land which is regularly farmed and cultivated and is under crop rotation. The following are grown on arable land and in gardens: cereals, potatoes, leguminous plants, oilseeds, tobacco, sugar beet, forage crops, fibrous plants, aromatic and medicinal herbs, vegetables, flowers and horticultural plants, and sowing and seeds and seedlings. Arable land and garden areas include fallow land
- **Fallow land** is land, which is used in the crop rotation system and left to recover for a whole crop year. Fallow land covers uncultivated land and gardens during one vegetation year and can bear no crops at all or can have natural growth for feed. It does not include mined agricultural land, which is part of the unutilised agricultural land
- **Unutilised Agricultural Land** is agricultural land, which is no longer farmed for economic, social or other reasons. Neither is it used for crop rotation. This land could be re-transformed to utilised agricultural land.

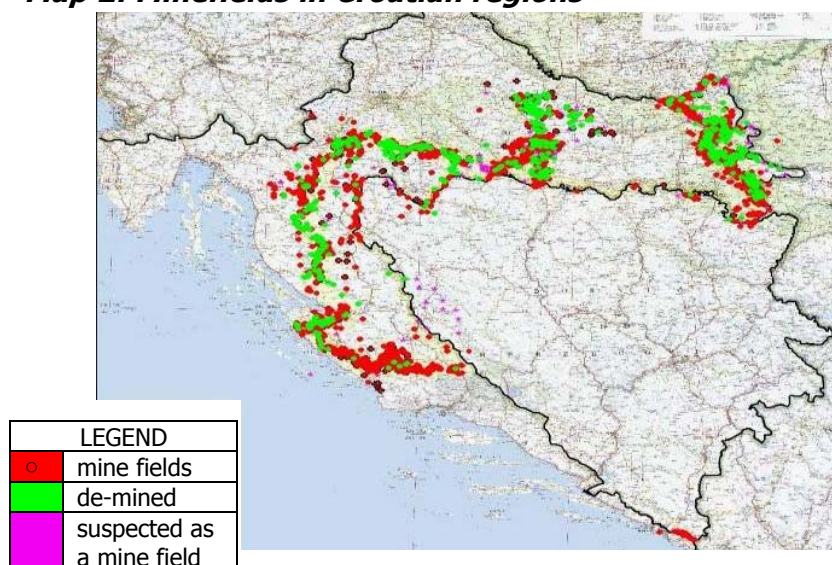
Croatia's agricultural development has been strongly and negatively effected not only by structural changes following the break-up of the former Republic of Yugoslavia (50% of land was previously farmed by large, vertically and horizontally integrated agricultural holdings), but also by major demographic changes caused by the war. Today two thirds of arable land belongs to family farms. It is important to notice that in the Mediterranean and Mountainous regions of the country today more than half of the useable agricultural land area is not regularly cultivated. There are many reasons for this and among the most relevant is the fact that many surface areas were under land mines⁵ and in consequence these rural areas faced an intensive out-migration of the population and low profitability of production on small-scale plots on the remaining farms.

⁴ In 2004 cultivated lands had in their plough layer 2.1 – 2.8% of humus on average, which is approximately half then on the analogue forest soil

⁵ According to the programme "Adopt-A-Minefield®" (by the UN and the USA) by early 2004, the Croatian government declared its first mine-impacted county "mine-safe". Others followed. However, still 13 of 21 counties are affected by

Many rural areas were severely damaged by the war in the mid-nineties. According to data from the Croatian Mine Action Centre, the total surface of the mined land covers 1174 sq. km. (117,400 ha) or 2.08% of total continental land. The highest pollution is seen in the wooded areas (63,350 ha), then in agricultural-arable areas (20,120 ha), followed by the areas covered with thicket (13,190 ha) and pastures (10,880 ha). In some regions mined land pre-dominates (see next map). The recovery of these areas grossly determines the land availability and quality in the affected regions. Beyond their direct impact on agriculture minefields obstruct the development of the living standard of the rural population in the affected areas in many indirect ways.

Map 2: Minefields in Croatian regions



Source: Croatian Mine Action Centre, 2005

3.2 LAND OWNERSHIP AND PRIVATISATION

Family farms cultivate approximately two thirds of total agricultural land while the remaining third is state-owned. The private share in arable land is slightly larger at approximately 75%-80%. The slow process of privatisation of state-owned agricultural enterprises has contributed to large areas of uncultivated agricultural land. The above-mentioned World Bank project on real property registration is expected to assist the Croatian government in addressing the problem of unclear ownership of land. The Swedish International Development Organization - SIDA (see Annex 1 of this report) is also running projects on land registration and consolidation at county level, in order to overcome problems resulting from absentee land ownership.

Until 2001, the majority of state land (93%) was leased. The remainder was privatised (3%), leased on long-term leases (2%), and donated (2 %).

In 2001, the new Law on Agricultural Land (Official Gazette 66/01, 87/02, 48/05 and 90/05) was adopted (and later amended on several occasions in the period 2001 – 2005). According to the Agricultural Land Law in force today, local (i.e. municipalities and cities) self-government units have to prepare programmes for the disposal (i.e. privatisation or lease) of state-owned agricultural land under their jurisdiction. If they fail to do so, regional (i.e. counties) self-government units should

landmines, measuring 1,700 square kilometres. The landmine threat restricts mobility and impedes development. There is still much to be done and international donor support is still needed. With continued support, Croatia expects to be declared 'mine-safe' by 2008.

prepare programmes for the state-owned land within their territory. Based on cadastral maps and records, such programmes have to contain information on the areas allocated for restitution, selling, concession, leasing and other uses.

State-owned agricultural land can only be disposed of by applying public bidding procedures. Agricultural family farms and craftsmen, which are registered for VA, have priority rights to purchase or lease state-owned agricultural land, if they meet other tender conditions stipulated by the Law on Agricultural Land. Business entities have priority rights for concession to the usage of state-owned agricultural land. Restitution procedures are regulated by the Law on the return of the property confiscated during former Yugoslav communist government (Official Gazette 92/96). The Ministry of Justice (MOJ) is responsible for the implementation of this restitution process.

The decision to invite bids for buying or leasing state-owned agricultural land falls under respective municipal or town councils, which are also responsible for the selecting of the best bid. However, decisions have to be approved by MAFWM.

State-owned agricultural land may be sold only in those areas where the land registry records and cadastral records have been adjusted to the situation on the ground. If the land, which is under the "Programme for Disposal of State-owned Agricultural Land" assigned to sale, is not adequately accorded with land book and cadastral records, it can be leased until the situation is clarified.

By the end of 2002, the government approved 133 of 242 local government programmes of state land allocation. Total area under approved programmes was 278,059.36 ha. The biggest share according to the programmes was allocated for sale (44%), then for long-term lease (24%), rental (17%) and for other purposes (15%).

As family farms have priority for the purchase of land it is estimated that approximately 70% of state-owned land will be transferred to this sector. The rest will probably remain in the use of legal entities (e.g. in the form of long-term lease by Agro-kombinats).

Agro-kombinats: Yugoslavia, unlike most other former socialist countries, never fully collectivised agriculture. Therefore during the 1980's, about 75 % of the 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 and many private holdings consisted of several fragmented plots of land. The socialized sector was dominated by large, vertically and horizontally integrated Agro-kombinats (AKs).

At independence of Croatia, socially-owned enterprises owned most of the large processing plants for milk, meat, oilseeds, sugarbeet and fruit and vegetables. Many of these enterprises were part of AKs, which, in turn, were major buyers of cereals and livestock. The largest of these agro-processors were established to meet the needs of all of the former Yugoslavia and drew their raw material from regional as well as domestic producers. Most were inherently unprofitable as they were managed according to socialist principles, to create employment and ensure food self-sufficiency. They survived nevertheless, supported by government subsidies and high import protection. Private ownership predominated among smaller enterprises such as local flourmills, bakeries, slaughterhouses and meat processors. Following independence and war, the socially-owned agro-processors lost their traditional markets in former Yugoslavia.

A big problem in the process of privatisation of AKs has been their huge indebtedness (especially debts to the state). Total debts claimed are 3,8 billions of kuna (approximately € 500 mio), of which 71% is claimed by the state. Another problem in this process has been the unclear land ownership of the AKs. Thus today – in 2006 -still many AKs are not privatised, yet. Examples of fast and easy privatisations of socially-owned enterprises were those performed for food industries like dairy industry, sweets and cake industry, sugar industry, tobacco industry and beer industry. Most of those industries were not part of big systems and were not located in war-affected regions.

The pending restructuring and privatisation of AKs is one of the short-term priorities for Croatia in the Accession Partnership with the EU.

Among the problems that result today for the agro-food sector in Croatia from the collapse and the bad management of the AKs are the following: Agricultural support services are insufficient and agricultural producers are not organised in associations or other interest groups, agricultural cooperatives stagnate and contracts between farmers and agro-processing industry are almost non-existing.

As a consequence large private enterprises originating from the agro-processing or agro-food sector have gradually been turning again into vertically and horizontally integrated companies in order to secure their supply of raw materials.

The main constraint to the development of an effective land market in Croatia is the inefficient land administration system, which results in unclear land titles. The development of an efficient land registration system, including a digital mapping system, remains priority for Croatia to ensure the creation of a well functioning land market.

In the absence of an effective land market an active informal market has emerged providing short-term leases, particularly among private farmers, and a low level of unregistered land sales.

Efforts have been started by the government to improve the situation. The Agriculture Act (Official Gazette 66/01, 83/02) supports the land privatisation process and the land administration system is currently being substantially improved through further investment (see above). The "Council Decision of the European Union on principles, priorities and conditions contained in the Accession Partnership with Croatia" (OJ L 55 of 25.2.2006) in February 2006 stated that adopting and implementing a restructuring plan for the acquisition of real estate is one of the key short-term priorities in the Accession Partnership with Croatia.

3.3 FARM STRUCTURE

For the purpose of the agricultural census (2003) and the planned new land administration system, the Agricultural Census Act, article 3. (OG 87/2003) defined the terms "farmer", "agricultural holding", "agricultural land" and other terms. The definitions used were in line with Eurostat (Regulation 571/88):

- "Farmer" - Business subjects and parts of the business subjects, which conduct agricultural production are legal and natural persons, which are registered for conducting agricultural activity or production and are registered in other services.
- "Agricultural holding" – single unit with single management, which uses technical equipment for production (machines, facilities, land) and produces agricultural products or/and raise cattle, poultry, bees and other animals [in this report alternatively the term "farm" is used]

- "Agricultural household" - Any family or other community of persons (including a single-person household) living together and spending their income together for meeting the basic life needs, engaged in agricultural production or having an agricultural holding under single management and using jointly the production means, regardless whether its production is for home consumption or for sale animals [in this report alternatively the term "family farm" is used]
- "Business entity" – Legal and physical persons registered to perform agricultural activities or registered in another activity but engaged in agricultural production

In Yugoslav times Croatian agriculture was characterised by a dual ownership structure. Agricultural resources were allocated to a small number of very large state-owned farms, while small family farms were limited in size (up to 10 ha) and treated primarily as subsistence or semi-subsistence producers. This resulted in a bi-polar structure of agricultural holdings with the majority of small farms being unable to earn sufficient income or to make savings for future.

Today family farms are the predominant agricultural structures, as regards human, land and other resources. They account for the majority of total agricultural production, possess approximately 78 % of arable land and more than 80 % of total livestock.

The official average farm size in Croatia is 2.4 ha. Table 4 shows that almost 300,000 agricultural holdings (i.e. 65% of all holdings) are smaller than 2 ha. These farms are mostly engaged in (semi-) subsistence agriculture. This underlines the importance of subsistence and semi-subsistence farming for Croatia. The analysis of agricultural production in chapter 4 of this report indicates that for most commodities a large number of small farms are involved in the production of small volumes of product for markets. Most of those agricultural holdings are small-scale with mixed production systems. Such a family farm might provide for limited crops for food & feed and a small marketable surplus in e.g. fruits & vegetables or livestock production (e.g. milk, eggs or meat).

The MAFWM farm register, which doesn't record these small (semi-) subsistence farms (for explanation on the MAFWM farm register see chapter 1.2), shows an average farm size of 8 ha, covering in 2006 around 165,000 farms. The register also shows that about 150,000 people are working in registered farms and that there are less than 100,000 full time farmers. This is clearly an under-representation of the actual situation.

In contrast to this, the agricultural census in 2003 recorded a total of 450,000 agricultural holdings. The reason for this is that a very small farm size was eligible (category "less than 0.1 ha" was included in questionnaire) in order to be counted as "agricultural households". According to the census of 2003, Croatia has 449,896 farms, of which 448,532 are family farms and 1,364 are business entities (legal persons and craftsmen). Out of the total utilised agricultural land (1,077,403 ha - as covered by the census)⁶, 860,195 ha are used by family farms and 217,208 ha are used by business entities.

The main reasons for inefficient agricultural production are small parcel size (average parcel size in 2003 was around 0.5 ha), dislocation and the fragmented structure of agricultural holdings. In 2003 an average household had 5 parcels often located very far from each other. which relates especially to family farms. Based on available data it is estimated that the average family farm size is just 1.9 ha.

⁶ It should be noted again that it is impossible to provide exact data on agricultural land use in Croatia. Opposed to the total agricultural land as included in table 3 the UAA comprises only arable land, pastures, gardens etc. that were recorded as "used" (based on the information provided by the farmers) during the census in 2003.

Less than 5 % of the total family holdings have more than 10 ha. These few large family farms on the other hand accounted for more than 400,000 ha (some 40% of the UAA). Farms registered as business entities mostly farmed larger areas of land. According to the census of 2003 more than 60% have farms bigger than 10 ha. Business entities have on average 159.2 ha UAA. Family farms and business entities together (both bigger than 10 ha) account for 5% of the total farms but farm more than 50% of total UAA. These more commercially viable family farms are likely to be the driving force in the future agricultural development of the country.

Table 4: Farm Structure

	Year of census 2003			
	Number of holdings	Number of holdings (%)	Utilised agricultural area (ha)	Utilised agricultural area (%)
Total	449,896.0	100%	1,077,403.2	100.0
Up to 2 ha of UAA	299,745.0	67%	118,010.0	10.9
Above 2 ha to 5 ha	85,985.0	19%	188,869.7	17.6
Above 5 ha to 10 ha	42,553.0	9%	214,171.9	19.8
Above 10 ha to 100 ha	15,765.0	4%	164,418.7	15.3
Above 100 ha UAA	5,848.0	1%	391,933.0	36.4

Source: Census of Agriculture 2003, Central Bureau of Statistics

3.4 FARM INCOME AND EMPLOYMENT

Official statistics suggest that an estimated 99,000 people are officially employed in the agricultural sector. This clearly under-represents the real significance of the sector in employment, given that there are an estimated 450,000 agricultural holdings and over 45% of the total population lives in rural areas (1.97 million people). Actual estimates of unofficial employment in the sector range from 20% to 30%. More detailed rural household analysis is required to determine the actual level.

Table 5: Share of agricultural labour in overall employment and comparison with EU (2005)

Country	National Statistics	
	Agricultural labour force (in 1000)	Agricultural labour force / total labour force (in %)
Croatia	99*	7.3*
EU-25	9,653	5.0

Source: Central Bureau of Statistics, EU 25 data – 2004 data from Eurostat

* 2003

The Croatian Government has recently introduced a two-fold support system. Current policies support "commercial" farms and thus the official labour force, which already decreased significantly in recent years (see table 6), via direct payments and price support. "Non-commercial" farms can apply for income support (for more details please refer to chapter 7). However, the impact of the income support is still limited. In 2004 only € 8 mio were foreseen for the scheme, whereas more than € 230 mio were available for the support of commercial farms.

Table 6: Development of Employment in Croatia (1999 – 2003)

	1999	2000	2001	2002	2003
Total number employed	1,364,495	1,340,958	1,348,308	1,359,016	1,350,245
Total number of employees in the agriculture and food industry	182,152	163,644	156,449	150,674	145,319
Percentage	13.35	12.20	11.60	11.09	10.76
Total number employed in agriculture	137,049	118,641	111,246	105,671	99,047
Percentage	10.04	8.85	8.25	7.78	7.33

Source: Central Bureau of Statistics

The above table provides an overview of the development of official employment in agriculture and food industry. Between 1999 and 2003 overall employment in agriculture and the food industry decreased by approximately 38,000 employees (roughly 20%). This decline is almost entirely in agriculture, whereas the employment in the food industry remained stable over the same period. The significant decline in agricultural employment is due to increasing rural-urban migration and declining labour opportunities in the sector. Agricultural holdings, which were run by elderly farmers, who retired, were often given up or integrated into larger farms without replacing the retired farmer, in many cases leaving the land uncultivated.

It appears that this considerable decline in employment did not create any decline in the GAO (compare also next chapter on agricultural production). This is due to positive yield trends, which were partly caused by good weather conditions but more importantly by improved farm management and application of modern technologies.

Looking at the official share of the agricultural sector in total employment (7.3%) and at the respective share in GDP (6.8%), per capita GDP in the agricultural sector seems to be only slightly below the average per capita GDP of total labour force in Croatia⁷.

There is no reliable data available on farm incomes and relative competitiveness. Furthermore there is no FADN-type information system in place in Croatia yet. The Agriculture Act of 2001 enables FADN introduction and puts MAFWM under obligation to adopt an ordinance on FADN establishment. A provisional plan of activities for FADN establishment foresees completion by the end of 2008.

⁷ As outlined above the actual level of agricultural employment is estimated to be far higher and thus the estimated per capita GDP in the agricultural sector would decrease

4. AGRICULTURAL PRODUCTION

4.1 TOTAL AGRICULTURAL PRODUCTION (GAO, MAIN PRODUCTS)

From 1995 to 2004 total Gross Agricultural Output (GAO) increased by nearly 46%, with Crop output increasing by 49% and Livestock output by 41%. Over the same period the relative shares of crop production (approximately 58%) and livestock production (approximately 42%) in overall Croatian GAO have remained relatively stable (see next table).

The constant increase in the value of production of almost all commodities cannot be explained by the price trend for these commodities alone but it is mostly due to the increased production due to an increase in the sown area (crop production) and positive yield trends (2003 being an exception with generally low yields due to bad climatic conditions). Thus an increased productivity of agricultural labour force and more generally the agricultural sector as a whole can be observed.

Cereal production remains the most important sub-sector, with a share in GAO of about 20 %, followed by pork production with about 13 %, fruits & fresh vegetables incl. grapes (11,7%), and milk (9 %).

Table 7: Gross Agricultural Output for main agricultural commodities (Mio. Euro)

	1995	%	2000	%	2004	%
Total GAO	1.279	100,0%	1.485	100,0%	1.864	100,0%
Crop Production (total)	732	57,2%	848	57,1%	1.092	58,6%
<i>Thereof:</i>						
- Cereals	265	<i>20,7%</i>	271	<i>18,2%</i>	369	<i>19,8%</i>
- Oilseeds	16	<i>1,3%</i>	33	<i>2,2%</i>	41	<i>2,2%</i>
- Fruits & Fresh Vegetables	96	<i>7,5%</i>	174	<i>11,7%</i>	218	<i>11,7%</i>
- Vegetables	123	<i>9,6%</i>	104	<i>7,0%</i>	117	<i>6,3%</i>
- Others (incl. grapes)	232	<i>18,1%</i>	266	<i>17,9%</i>	347	<i>18,6 %</i>
Livestock Products (total)	547	42,8%	637	42,9%	772	41,4%
<i>Thereof:</i>						
- Beef	84	<i>6,6%</i>	105	<i>7,1%</i>	128	<i>6,9%</i>
- Pork	195	<i>15,2%</i>	221	<i>14,9%</i>	248	<i>13,3%</i>
- Poultry	71	<i>5,6%</i>	105	<i>7,1%</i>	99	<i>5,3%</i>
- Eggs	66	<i>5,2%</i>	54	<i>3,6%</i>	65	<i>3,5%</i>
- Cow-Milk	111	<i>8,7%</i>	116	<i>7,8%</i>	175	<i>9,4%</i>
- Others	23	<i>4,2%</i>	36	<i>5,7%</i>	57	<i>7.4 %</i>

Source: Central Bureau of Statistics; **Note:** National currency (HRK) is recalculated into mio. € according to the average exchange rate used by the Croatian National Bank for the respective year (1995: 1€ = 6,8120 HRK; 2000: 1€ = 7,6350 HRK; 2004: 1€ = 7,4952 HRK). The index of the gross agricultural output includes products used for feeding livestock. The indices for agricultural branches were calculated on the basis of the gross production of the respective branch. The index of the total agricultural production is the chain index. Volume indices of agricultural production have been calculated on the basis of production data for 65 agricultural products. The moving average of producers' prices (purchase prices) in the last three years has been taken as a weighting factor in index calculation.

The presentation of the major agricultural commodities by the FAO, which is based on international commodity prices rather than Croatian producer prices, ranks maize as the most important commodity in 2005 (with a value of Int. \$ 244 mio⁸), followed by cow milk (Int. \$ 194 mio), grapes

⁸ FAO has estimated production for 2005. FAO applies "international prices", expressed in so-called "international dollars", which are derived applying a Geary-Khamis equation system to the agricultural sector. This method assigns a single "price" to each commodity. For example, one t of maize has the same price regardless of the country where it was produced.

(Int. \$ 162 mio) and wheat (Int. \$ 132 mio). None of the other commodities exceeds Int. \$ 50 mio. It is remarkable that pork production that accounts for the second largest share in the data provided by CBS, is listed by FAO only on position No. 5 with a production of Int. \$ 49 mio. Two possible reasons might have caused such a difference: a) the production data differs extremely (data of FAO on the production of "indigenous pig meat" is highly erratic over the years) or b) the Croatian producer prices for pork are much higher than the international prices.

4.2 CROP PRODUCTION

Besides its significant importance domestically Croatia's crop production contributes significantly to marketable production in most Western Balkan countries, especially as far as cereals (esp. maize) are concerned.

Croatia's farms represent, on average, slightly more than 1% of the total crop area of the EU 25, achieving yields (in t) of slightly less than 1% compared to the total production of the EU 25 (compare next table). This relation as well as the fact that the major crop, cereals, account for almost 2/3 of the UAA but contribute only 20% to overall GAO (in the EU-25 the relation is approx. 1/3 of UAA to 13.5% of total GAO) lead to the conclusion that Croatia's crop production is currently less competitive than the EU's. The following sub-sections analyse in more detail the most important commodities.

Table 8: Crop area (1000 ha), production (1000 t) and yield trends in crop production for Croatia, 2000-2005

	2000	2001	2002	2003	2004	2005	EU-25 (2005)
Crop area (1000 ha)							
Cereals	700	724	718	692	708	557	52,014
Oilseeds	87	78	89	95	80	120	11,349
Pulses	8	8	8	8	8	7	1,868
Fruits	101	99	99	98	92	7	5,838
Vegetables	69	71	72	73	78	17	2,460
Production (1000 t)							
Cereals	2776	3400	3724	2355	3633	3039	260,561
Oilseeds	149	158	219	182	198	240	10,021
Pulses	11	18	21	14	no data	7	4,486
Fruits	564	516	547	498	492	372	63,001
Vegetables	490	557	601	441	no data	236	66,037
Yield trends (t/ha)							
Cereals	4.0	4.6	5.2	3.4	5.0	5.4	5.0
Oilseeds	1.7	2.0	2.5	1.9	2.5	2.0	3.3*

Source: Central Bureau of Statistics; **EU 25 data** – FAO database * data for 2004

There appears to be a general declining trend in crop areas for all leading crops. However, the data provided in table 8 show significant reductions in 2005. The change in the method of collecting production data, introduced by the Central Bureau of Statistics (CBS) in 2005 (as explained in section 1.2 above), is considered to be the main reason for these discrepancies, rather than reflecting any radical change in crop patterns in the country. The dramatic reductions suggested to have occurred in crop areas for fruits and vegetables are particularly difficult to explain, given that the reductions in crop area are not sufficiently reflected in corresponding reductions in fruit and

vegetable production or trade data that is available. Further more detailed analysis of alternative crop production data is required to verify the 2005 data.

4.2.1 Main Cereals

Cereals dominate crop production in Croatia, accounting for about 64% of total arable land. Maize and wheat are the most important commodities in the cereals sector. Barley, the third biggest commodity generates only some 4% of the accumulated GAO of these three commodities. According to the data of the CBS, presented in table 7, the cereals sector contributes some 20% to the overall Croatian GAO or 34% to the crop production– a relatively small share compared to the share of arable land that it takes.

The main reasons for Croatian cereals production not being competitive compared to European agriculture are small farms, small scale of production as well as technological problems (e.g. seed and outdated machinery). According to the Agricultural Census 244,439 agricultural households farmed in 2003 some 450,000 ha (i.e. an average of 1.85 ha/agricultural household) whereas 794 business entities farmed 119,000 ha (i.e. an average of 150 ha/business entity).

Maize is Croatia's biggest single commodity with a production of 2.2 mio t in 2004, which was produced on approximately 400,000 ha (CBS data). Over the last 10 years the area used for maize production increased modestly but continuously with the overall maize production being erratic because of weather conditions but generally increasing (annual average for 1995 – 1998 period: 1.95 mio t and for 2001– 2004 period: 2.12 mio t). Croatia's maize production contributes significantly to marketable production in Western Balkan countries and is one of the few Croatian commodities that generates a trade surplus. While not competitive with major Central European exporters such as Hungary (Croatia has had between 2000 and 2004 an average yield of 5.3 t/ha in the maize sector while the EU –25 has an average yield of approximately 8 t/ha), Croatian maize is nevertheless competitive in neighbouring Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and the Republic of Montenegro.

Same as for other crops an area payment to farmers growing maize was introduced already in 1998, replacing the former production subsidy. In 2005 for the area payment in the cereals sector a minimum supported quantity applied, which is 3 ha for a particular crop. It means that the aid cannot be granted if an applicant produces a particular crop on less than 3 ha. There is also a cap on the maximum available amount per commodity. In 2004 only some 2/3 of the sown area of maize production received the area payment as the remaining sown area was so fragmented that it did not fulfil the minimum quantity criterion. This restriction supports a concentration process and increases the farm size and the scale of production, which is meant to make Croatia more competitive in the further market liberalisation process. Furthermore the area payment is restricted to farmers using certified seeds fulfilling phytosanitary standards aiming at increasing the quality of the produce.

Wheat is the second biggest commodity in the Croatian cereals sector. In 2004 Croatia produced some 800,000 t wheat on approximately 200,000 ha. According to FAO wheat is the fourth biggest single commodity in Croatian agriculture. Over the last 10 years the area used for wheat production has on average remained the same with the overall wheat production being erratic because of weather conditions but generally stable (annual average for 1995 – 1998 period: 0.87 mio t and for 2001– 2004 period: 0.84 mio t).

Same as in maize Croatia is self-sufficient⁹ in producing wheat. The self-sufficiency in wheat production is partly due to subsidies and high tariff duties. With WTO Croatia agreed as part of a much wider trade liberalisation process the reduction of tariff duties on wheat import during the transitional period expiring in 2007. Furthermore direct subsidies, which are paid to producers of wheat (incl. a guaranteed price of 100 €/t), shall be reduced.

The wheat sub-sector received in 2004 a total area payment of € 24 mio producing 0.8 mio t of wheat (compared to € 27.5 mio to maize sub-sector, which produced 2.2 mio t of maize)¹⁰. This represents some 10% of the total state budgetary expenditures for the agro-food sector, a share that MAFWM intends to reduce. The criterion "minimum quantity" for area payments (see above) provides an incentive to increase the scale of production and hence increase the competitiveness of the sector.

4.2.2 Fruits & Vegetables (incl. Grapes)

Fruits & Vegetables (F&V) are grown on approximately 225,000 ha¹¹. The sub-sector contributes some 18 % to the overall Croatian GAO¹². Grapes are by far the most important commodity followed by potatoes, which - as the second most important commodity – had in 2004 an overall production of 375,000 t (generating less than a third of the GAO of the grapes).

Production is characterized by small-scale farmers producing primarily for self consumption and direct marketing: More than half of the fruit and vegetable products are traditionally sold in producer markets, farmer's markets, at producers' farms or in retail markets such as hyper- or supermarkets. The rest is processed or traded on wholesale markets. Over the last ten years besides grapes and potatoes, apples, plums and tomatoes have been important commodities.

Besides grapes, apples (annual production - approximately 60,000 tons - was stable between 2002 and 2004) and plums (annual production – on average approximately 30,000 tons - was erratic between 2002 and 2004) have been the most important fruit commodities. Besides potatoes, tomatoes (annual production - approximately 70,000 tons – was stable 2002 and 2004) and cabbages (annual production - approximately 110,000 tons in 2004 – was decreasing between 2002 and 2004) are the most important single vegetables-commodities. Each of the four commodities generated approximately the same GAO.

As Croatia is not self-sufficient in the production of fruits & vegetables, programmes of financing have been prepared to promote and increase production in this sub-sector. As part of these efforts technical regulations concerning quality requirements for fresh fruit and vegetables will be introduced as part of the process of market liberalisation. So far these measures have had little impact. Still, Croatia has good climatic conditions for growing many varieties, the potential for growing organic fruits and vegetables and to process fruits and vegetables. The sub-sector is mostly liberalized (no premium is paid on production) and EU quality standards will be applied within the next three years. Thus there is some further potential in this sub-sector.

⁹ The term "self-sufficiency" refers here to human consumption and industrial processing. For feed use Croatia depends in years with bad yields on imports.

¹⁰ Source of production figures: FAOSTAT [international commodity price for wheat was in 2004 34% higher than for maize]; Source of area payments: MAFWM

¹¹ Thereof according to FAOSTAT some 55,000 ha (2004) for potato production

¹² Includes early and late potatoes

Grapes are by far the most important commodity in the F&V area. According to FAOSTAT 50,000 ha in Croatia were used in 2004 for grape production (both table and wine grapes). With an overall production of 350,000 t grapes contributed an approximate 8% - 10% (estimation for 2003) to the Croatian GAO. They are the third most important single commodity.

According to the Grape and Wine Producers Register 14,436 producers were engaged in registered grape and wine production in Croatia in 2005. Most of producers (2,973) are located in the County of Split- Dalmatia. Out of the total number of producers, 451 have controlled origin protection and produce 1,219 different wines with controlled origin mark. Most of the quality wines (294) are made in the County of Zagreb and high-quality wines (41) in the County of Dubrovnik-Neretva¹³.

4.2.3 Industrial Crops

The area used for the production of **sugar beet** has increased by approximately 20% in the last 5 years (22,000 ha in 2000 and 27,000 ha in 2004) amounting to more than 2% of the arable land in 2004. The preferences given to Croatia and other countries in the Western Balkans in 2000 for sugar exports to the EU (Council Regulation 2007/2000) resulted in a gradually increase of sugar production (for the impact the Council Regulation had on the export of sugar to the EU please refer to the chapter 8.2 "Agricultural Trade"). Still the importance of sugar beet production in the overall Croatian agriculture is limited (approximately 1.2% of total GAO).

According to the 2003 Agricultural Census, approximately 2,450 family farms and 173 business entities have been cultivating sugar beet. On average these producers have a farm size of 9.3 ha, which is above Croatian average in the crop sector (farm size of family farm was on average 4.4 ha and for business entities 78.4 ha). Sugar beet yields have been erratic mostly due to the weather conditions and relatively poor technology. In 2005 production of sugar beet amounted to 1 mio t.

Tobacco was produced according to the Agricultural Census in 2003 by 2,077 family farms and 28 business entities. Almost 90% of tobacco grown is the "Virginia" variety. As regards family farms dealing with tobacco growing, the majority of tobacco is produced by farms having the size of 5 to 20 ha (> 50% of the farms). Out of 28 registered business entities, 7 among them grow tobacco on more than 100 ha, and a further 11 on areas covering 11 to 30 ha. The total tobacco produced amounted to 11,000 t, which equalled a share of tobacco in the overall Croatian GAO of approximately 1%.

¹³ In Croatian wine production yields are fixed and may not exceed the following levels: for table wines with a designation of origin 75%; for quality wines 70% and for top-quality wines 60%.

Table 9: Supply Balance sheets for main crop products (2004)

	Per '000 t (unless stated otherwise in left column)			
	Cereals	Oilseeds	Vegetables ¹⁾	Fruits
Usable production	3.633,9	198.3	498.0*	492.1
Change in stocks				
Imports	174.5	53.0	54.9	163.1
Exports	30.4	45.1	3.4	18.5
Internal use	3,288.6	194.1	no data	no data
of which:				
- animal feed	2,345.9	no data	no data	no data
- seed	96.2	no data	no data	no data
- industrial use	77.2	no data	no data	no data
- losses (market)	164.9	no data	no data	no data
- human consumption	665.2	no data	231.8	208.0
Human consumption (after processing)	742.4	no data	no data	no data
Human consumption (kg/head/year)	167.2	no data	52.2	47.2
Self-sufficiency (%)	110.5	102.2	no data	no data

¹⁾ without potatoes; * data for 2003; **Source:** Central Bureau of Statistics, processed by MAFWM

4.3 LIVESTOCK PRODUCTION

Livestock production contributed 41.4% to the gross agricultural output in 2004 (see table in chapter 4.1 above). Small production units predominate, especially for cattle, pig, sheep, goat and horse keeping. Poultry production on the other hand is characterised by large-scale production units (for poultry meat and eggs). In the post-war period large-scale production systems (mostly Agro-Kombinats, please refer to section 3.2) underwent restructuring, often into smaller production units but still capable of organizing efficient production of livestock products. Unlike most former-socialist countries, the share of large-scale livestock farms in Croatia is not significant today.

Table 10: Livestock numbers and production (carcass weight) 2001- 2005 and comparison with EU 25 (2005)

Product	Unit	2001	2002	2003	2004	2005	EU-25 (2004)
Cattle	1000 heads	438	417	444	466	471	86,411
Goats	1000 heads	93	97	86	126	135	11,996
Sheep	1000 heads	no data	580	587	722	796	89,305
Pigs	1000 heads	1,234	1,287	1,347	1,489	1,205	151,143
Poultry	1000 heads	no data	no data	11,778	11,185	10,641	5,311,391
Cow milk (fresh)*	mio. litres	653	694	665	685	766	141,324
Pig meat	1000 t	113	115	118	114	no data	21,194
Poultry meat	1000 t	no data	86.6	95.5	96.5	no data	10,990
Eggs	1000 t	47.2	45.7	52.4	48.1	45.7	6,169
Sheep/goat meat**	1000 t	2.2	2.4	2.1	2.2	no data	1,058

Source: MAFWM, calculated on the basis of data provided by the Central Bureau of Statistics; **EU 25 data** - Agriculture in the European Union - Statistical and economic information 2005: - for cattle and pigs tab 4.15.0.1 data for 2005 preceding; for sheep and goats - tab 4.17.0.1, data for 2004, preceding year; for chickens tab 4.18.0.1, data for 2004, for milk production: Gross internal production, 2004, tab 4.14.1.1 for meat; tab 4.20.1.1; * There are significant differences in the data on raw cow milk. The above is provided by CBS, FAOSTAT has published very similar figures, the figures that MAFWM publishes are some 300 mio litres bigger (see text further down); ** Only meat from slaughterhouses.

The table above shows that livestock numbers and production mostly increased between 2001 and 2004. This positive trend is supported by all data sources (Croatian Livestock Centre, CBS, MAFWM, FAO, World Bank). Before the war in the first half of the 90s the livestock sector was of considerable economic importance in Croatia. The consequences were severe. Herd size and production were significantly reduced for all livestock. The positive trend in the last years can be interpreted as an overdue recovery of the livestock sector. Discrepancies in the absolute herd/production figures are discussed in the following sub-sections, for the most important livestock types.

4.3.1 Cattle (Beef & Dairy)

Croatia is neither self-sufficient in beef production (self-sufficiency rate is less than 80%) nor in milk production (approximately 85%).

During the war period (1991-1995) the number of cows and pregnant heifers decreased by approximately 125,000¹⁴. This has obviously reduced the production volume but more importantly slowed structural adjustment of the sector. The size of the herd has grown slowly but steadily in the period from 2001-2005 (see table above) and from 2004 onwards support programmes from the Croatian Government increased efforts to boost the sub-sector. The "Programme for Development of Bovine Production" was launched in 2004 aiming at increasing the profitability, efficiency and competitiveness of the sector by co-financing the procuring of breeding females and males in cattle breeding. It targets all small/medium-sized agricultural holdings with 20 – 100 cattle in order to increase (inter alia) self-sufficiency in the sector. The impact of the scheme on productivity and overall production have not yet been analysed..

According to the Census of Agriculture, in 2003 there were a total of 86,269 farms with cattle (85,930 family farms and 339 business entities) in the Republic of Croatia. The family farms had almost 400,000 cattle (Ø 4.6 animals per farm) and the business entities had approximately 90,000 cattle (Ø 265 animals per business entity). The centre of cattle rearing is the Mountainous region, where it is the most important form of animal husbandry (more important than pig rearing).

When comparing statistical data about the number and breeding potential of cows and pregnant heifers on the one hand and data from slaughterhouses on beef/veal production on the other hand it seems that a significant number of slaughtered bovines are not recorded in statistical data. This assumption is supported by the household budget survey from 2003: The beef consumption per capita was approximately 11 kg/year (this is the net weight of the meat) whereas the carcass weight of the cattle slaughtered would amount to only 7.9 kg per capita. The import of beef amounted to approximately 0.5 kg/year/head. Thus it seems that the monitoring system within the veterinary system could be improved.

In acknowledging the problems in the cattle sector in Croatia the "Council Decision of the European Union on principles, priorities and conditions contained in the Accession Partnership with Croatia" (OJ L 55 of 25.2.2006) in February 2006 stated that setting up a proper cattle identification and registration system is one of the short-term priorities in the Accession Partnership with Croatia.

¹⁴ The Statistical Yearbook of 1994 shows a sharp decline in the population of calves and heifers from 1990 to 1994 (262 thousand to 136 thousand).

Table 11: Supply Balance sheets for Raw Milk (2004)

	(in 1 000 t)		
	Cow milk	Sheep milk	Goat milk
Usable production	684	12	9
Imports	179	0	0
Exports	66	0	0
Internal use of which:			
- animal feed	104	4	3
- industrial use (dairies)	533	1.5	3
- on-farm consumption and direct sales	160	6	3
human consumption (total)	693	8	6
Human consumption (kg/head)	157	1.75	1.44
Self- sufficiency (%)	86%	100%	100%

Source: Croatian Livestock Centre, processed by MAFWM, data for cow milk by FAO and CBS, own estimation for on-farm consumption and direct sales of cow milk

Out of the 490,000 cattle some 240,000 are dairy cows, according to the Croatian Livestock Centre. Raw **milk** production, according to FAO reached in 2005 an annual output of 728,000 t (which is approximately in line with CBS statistics – 766,000 t) a significant increase compared to 2004, when it was according to FAO 684,000 t. The annual yield per cow was 2800 litres in 2004. This is low when compared to the EU-25 (in the EU-25 the average is above 5000 litres/cow) but slightly higher than in other countries in the region (e.g. in Serbia it is 2400 litres/cow and in Albania it's 2100 litres/cow). The small yield is partly due to the fact that dairy farms are often very small. Farms with up to 5 cows hold a total of 170,000 cows (i.e. approximately 70% of the total herd).

There are significant discrepancies regarding the data on total milk production between different sources. Whereas CBS and FAO statistics are similar the Croatian Livestock Centre has published a figure of 1,011 mio litres for 2004, which is partly based on estimations. The trend that milk production increased over the last years is supported by various data sources. As stated earlier: the quality of data on the sector due to the method for collection and estimation is poor. In Croatia, as in the other Western Balkan countries, the share of products directly consumed (subsistence agriculture) or sold (direct marketing) on the farm is high. However, accurate data on this type of consumption is very limited. Thus MAFWM argues that in addition to approximately 530,000 t of raw milk that are processed in dairies raw milk is used on the farm for own consumption and processing and part is sold on the farm or in informal market places¹⁵. In such market places mostly cheese, cream and, to a lesser extent, butter are sold. This unregistered production is estimated and appears to have strongly influenced the figure published by the Croatian livestock centre on overall production¹⁶.

¹⁵ Figure published by MAFWM

¹⁶ In table 11 not the data of MAFWM but expert estimations on on-farm consumption and direct sales are presented. We have assumed that on each of the 86,000 cattle farms, on average, 3 persons are living and consuming cow milk. In addition they are producing on-farm dairy products (including raw milk) for, on average, 3 more families (i.e. 9 additional). On average annual per capita consumption of raw milk is 157 kg. Thus we estimate that approximately 160,000 t of raw milk are consumed and processed on-farm.

The price for milk (depending on fat and protein content) has been constantly increasing over the last years (please refer to chapter 4.5 on agricultural prices). Farmers receive subsidies for the production of milk (0.087 €/l) and for keeping cattle for milk production.

The quality of the raw milk is determined by the content of milk fat, proteins and dry matter, density, acid number, freezing point, alcohol test result and microbial count. The Central Laboratory for Quality of Milk, which has international accreditation according to the standards HRN EN ISO/IEC 17025:2004, carries out quality controls. It is estimated that approximately 60% of produced raw milk is currently in line with EU standards, i.e. would be eligible for sale in the EU-25.

Table 12: Supply Balance sheets for main livestock products (2004)

	Per '000 t		
	Beef and Veal	Pork	Poultry
Gross internal production (t)	49.1	182	97.9
Net production (t)	63.1	116	96.5
Imports (t)	14.1	29.3	5.4
Exports (t)	0.7	0.2	6.8
Total internal use (t) [expressed in carcase weight equivalent (cwe)]	66.5	145	95.2
Gross consumption (kg/head/year)	15.1	33	21.4
Self-sufficiency (%)	73%	78%	101%

Source: MAFWM on the basis of data from Central Bureau of Statistics

4.3.2 Sheep and Goats

According to the Census of Agriculture, in 2003, a total of 29,396 farms held some 767,000 sheep. The vast majority of these farms were family farms (29,320 family farms opposed to only 76 business entities). The family farms had some 750,000 sheep (Ø 25 animals per household) and the business entities had approximately 17,000 sheep (Ø 228 animals per business entity).

The basic product is meat, i.e. the production of young lambs suitable for the traditional preparation on the spit, weighing between 15 to 25 kg of live weight. Approximately one third of the total flock is estimated to be under one year of age. Less important is the production of sheep milk (mostly for cheese production) and - again far less important - the production of wool.

The FAO doesn't list the production of sheep and goat meat (estimated value in 2004 some € 7 mio) in the top 20 agricultural commodities of Croatia.

In 2003 (Agricultural Census) there was a total of 31,072 farms with goats (31,039 family farms and only 33 business entities) in Croatia. The family farms had some 200,000 goats (Ø 6.4 animals per household) and the business entities held mere 650 goats. The predominant product is meat of young goats – more than 40% of the total flock was under one year of age.

According to the Census sheep and goat rearing are centred in the Mediterranean region. For the private farms in these regions sheep and goats are the most important livestock.

The data on the total number of sheep and goats from the Census differs from the data by the Croatian Livestock Centre, which has published smaller numbers. A reason for this difference is that in Croatia production subsidies to raise sheep and goats are granted - but only for single flocks with

at least 20 grown animals. Thus sheep and goats in flocks with a smaller number of animals are not registered by the Croatian Livestock Centre.

For the Mediterranean region Sheep and goat rearing offers some potential (niche products) for future growth by direct marketing of lamb meat or traditional goat cheese for the growing tourism sector. The number of sheep (37%) and goats (almost 40%) increased considerably between 2001 and 2005. This underlines the growing revitalization of this livestock sector and the increase in its contribution in meat and - to a less extent - milk production, but also in the preservation of the terrain from different unwanted plants especially in the coastal areas and islands.

4.3.3 Pigs and Poultry

Pig breeding is traditionally important in Croatia as pig meat has the greatest share in the consumption of meat in Croatia. Pork production is the second-largest (after cereals) sub-sector in Croatian agriculture (see above). The size of the herd has grown steadily from 2001 to 2004 (see table 10 above).

According to the Census of Agriculture, in 2003 there were a total of 215,240 farms holding pigs (214,814 family farms and 426 business entities) in Croatia. The family farms had some 1,725,000 pigs (Ø 8 animals per household) and the business entities had approximately 198,000 pigs (Ø 464 animals per business entity). Again these figures differ from the ones given in table 10 for the same reasons as explained above (see e.g. sheep & goats).

Again these figures differ from the data by the Croatian Livestock Centre, which has published smaller numbers. A reason for this difference is that in Croatia production subsidies to pig breeding are granted - but only for a single herd with at least 10 sows. Thus pigs in a herd with a smaller number of animals are not registered by the Croatian Livestock Centre.

Pig breeding is centred in the Pannonian and the Mountainous region. For the family farms in the Pannonian region pig breeding has been the most important sub-sector of animal husbandry in the period 2001 –2005.

Croatia is not self-sufficient in pork production (self-sufficiency rate is less than 80%). The sector has potential to further increase its production and its share in GAO.

Poultry breeding has been an important livestock sub-sector in Croatia in the period 2001 –2005. The main products of poultry breeding are poultry meat and eggs. The sector is of special interest to Croatia as most of the production is organised in large production units of a few producers (opposed to the fragmented structure of mostly small family farms in a number of other livestock sub-sectors), who sometimes cooperate with specialised family farms, especially for poultry meat production.

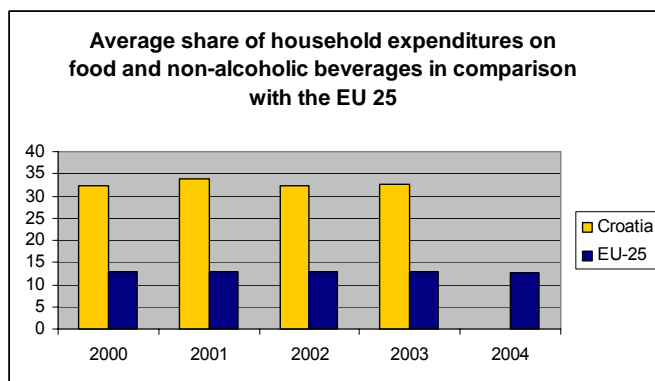
According to the Census of Agriculture, in 2003 there were a total of 347,028 farms holding poultry (346,530 family farms and 498 business entities) in Croatia. The family farms had some 10,500,000 chickens and other poultry whereas the business entities had approximately 5,511,000 animals (Ø 11,044 animals per business entity). The total number of poultry deviates from the one given in table 10 for the same reasons as explained above.

Poultry production amounts to approximately 5.3% of total agricultural production. Opposed to other livestock sub-sectors Croatia is self-sufficient in poultry production (self-sufficiency rate is 101%). The sector has potential to further increase its production and its share in GAO.

4.4 FOOD CONSUMPTION

In Croatia the largest share of household income is spent on food and non-alcoholic beverages. Households spend on average 30 % of their total expenditure on food. This is the lowest level in the Western Balkan region. However, compared to the EU 25, this is a relatively high share, which can partly be explained by the fact that the GDP per capita in Croatia is smaller than on average in the EU 25.¹⁷

Figure 1: Average share of household expenditures on food and non-alcoholic beverages in comparison with the EU (in %, 2000 – 2005)



Source: Central Bureau of Statistics, EU 25 data – Eurostat Yearbook 2005

In the next table per capita consumption for the major food and beverage products is illustrated. This data refers only to quantities consumed in households. The largest shares in per capita consumption are to be found for cereals, vegetables and vegetable products as well as meat products. In the group of cereal products, bread and other bakery products are the most consumed products per household member. In 2000 – 2003, consumption increased by 16.47 kg per capita per year.

In comparison to the EU –25 it seems that the percentage share of cereals consumption per head is very high, whereas the percentage share of potatoes consumption is less than in the EU. Comparing the Croatian consumption data with the data of individual EU Member States it appears that the high cereals consumption is typical for the Mediterranean countries (e.g. Greece, Italy and Malta have similar consumption patterns). The annual per capita consumption of meat (88kg) is in Croatia almost as high as in the EU 25. In other countries in the region (e.g. in Serbia 56 kg, in Bosnia 37 kg) the consumption is far less than in Croatia. This reflects the higher GDP/capita in Croatia and the greater relative affluence of average Croatian consumers as compared to other countries in the region.

¹⁷ Household expenditures for food are one of the least elastic expenditures within the household budget and thus the share of the money spent on food usually increases with the decrease of the overall budget.

Table 13: Per capita consumption of basic agricultural products (2003)

Annual average per household member, 2003		Croatia	EU-25
Cereals (total)	Kg	167.2	91.9
Potatoes	Kg	42.19	76.9
Sugar	Kg	12.61	31.8
Fruits ¹	Kg	47.17	no data
Vegetables ²	Kg	52.19	no data
Meat (total) ³	Kg	88	no data
- Pig meat	Kg	33.00	43.4
- Poultry meat	Kg	21.40	23.0
- Beef meat	Kg	15.10	17.9
- Sheep meat ⁴	Kg	1.27	2.9
- Other meat ⁵	Kg	15.93	no data
- Offal	Kg	1.45	no data
Milk (excluding butter) ⁶	Kg	83.34	no data
Butter	Kg	0.32	4.13
Cheese	Kg	6.90	17.6
Eggs	Kg	8.12	13.4
Pulses	Kg	2.90	no data
Vegetable oils	Kg	13.48	no data
Wine	Kg	12.85	no data
Animal fats	Kg	1.63	No data

1) Fresh and frozen fruit. Dried fruit, edible seeds, preserved and processed fruit are excluded.

2) Fresh and frozen vegetables. Potatoes, dried vegetables, preserved and processed vegetables are excluded.

3) In carcase weight equivalent (includes direct consumption of fresh meat and industrial processing)

4) Including lambs and goat meat.

5) Hare meat, horsemeat, dried and smoked meat and other preserved or processed meat.

6) Differs from data in table 11. Discrepancy appears to be due to the fact that only milk consumed in households is taken into account

Source: Croatia - Central Bureau of Statistics, Household Budget Survey 2003 (sample survey based on the random sample of private households). Data on consumption refer to annual average per household member and refer only to quantities consumed in households.

EU 25 data - Agricultural Situation in EU 2005, from tables on supply balances for year 2003/2004; 2004/2005 and DG-Agri "Prospects for agricultural markets 2004-2011", Tables A.9-A.17, July 2004

4.5 AGRICULTURAL PRICES

As shown in the table below, producer prices for crop products increased in general between 2000 and 2005. The highest increases were recorded for citrus fruits (+84.1%), wine grapes (+71.3%) and tomatoes (+37.6%). The price trend for these three products is further emphasized when looking at the price trend over a ten-year period (1995 to 2005).

Croatia has a guaranteed price for wheat (see chapter 4.2 above). In the milk sector the price is determined by the Regulation on the Target Milk Price (Official Gazette 156/02). Furthermore the government has the possibility (on a case-by-case basis) to guarantee prices for oilseeds (namely sunflower, soy and oil seed rape), for sugar beet and tobacco. In line with WTO commitments the government is gradually undertaking efforts to further reduce the level of guaranteed prices.

With regard to livestock products, price increases were highest for raw cows milk (+35.7%) and sheep/goat milk (+52.9%) due to direct subsidies provided through the system of guaranteed prices (as explained above).

Table 14: Producer Prices for Agro-Food products ('00 –'05)

		2000	2001	2002	2003	2004	2005	EU-25 ¹⁾
Crop products								
- Wheat	€/t	117.1	130.9	124.4	131.1	132.9	126.4	105.8
- Corn/Maize	€/t	97.0	100.1	87.4	101.7	98.1	89.9	119.5
- Barley	€/t	112.7	119.1	117.6	117.6	119.7	121.6	104.1
- Oats	€/t	101.3	142.8	123.1	136.9	140.4	121.3	no data
- Rape and rape seed	€/t	170.0	168.7	182.7	198.9	198.1	168.4	no data
- Sunflower	€/t	184.1	195.7	213.5	191.5	202.3	179.8	no data
- Tobacco raw	€/t	1,524.1	1,837.2	1,622.5	1,568.1	1,687.2	1,775.2	no data
- Sugar beet	€/t	30.7	31.5	32.6	32.5	34.8	34.0	no data
- Potatoes	€/t	236.9	154.7	112.9	266.8	170.8	173.0	111.5

		2000	2001	2002	2003	2004	2005	EU-25 ¹⁾
- Apples	€ / t	229.0	284.9	206.9	240.6	297.2	303.3	410.5
- Pears	€ / t	319.8	750.3	760.5	342.6	382.0	339.0	no data
- Peaches	€ / t	669.9	788.3	760.5	880.1	788.7	828.4	no data
- Citrus fruit	€ / t	341.0	389.8	512.3	559.8	311.7	628.3	no data
- Table grapes	€ / t	637.0	736.8	761.9	1,238.4	1,012.9	711.8	no data
- Wine grapes	€ / t	481.7	472.2	518.7	563.6	653.1	824.3	no data
- Tomatoes	€ / t	383.0	303.9	481.0	632.9	464.1	527.0	no data
Livestock products								
Calves for slaughter (live weight)	€ / t	2,147.8	2,255.1	2,489.8	2,186.5	2,019.2	2,722.5	no data
Adult cattle for slaughter (live weight)	€ / t	1,640.4	1,574.2	1,766.0	1,660.5	1,558.7	1,816.0	2,785.7
Pigs for slaughter (live weight)	€ / t	1,385.2	1,594.6	1,499.8	1,219.2	1,312.7	1,480.3	1,268.3
Poultry for slaughter (live weight)	€ / t	1,099.9	1,136.6	1,118.1	1,091.9	1,073.8	1,093.1	1,228.5
Lambs for slaughter (live weight)	€ / t	2,751.9	3,422.0	3,394.1	3,333.4	2,972.1	3,049.8	no data
Goats for slaughter (live weight)	€ / t	1,316.1	2,964.7	no data	no data	no data	no data	no data
Raw cows milk (actual fat content)	€/000 litres	204.0	237.5	266.1	257.6	258.1	277.9	no data
Sheep and goat milk	€/000 litres	357.8	400.5	403.1	465.4	554.2	546.9	no data
Eggs for consumption	€ / 000 pieces	79.0	74.6	83.3	77.2	82.1	90.8	no data
Processed products wholesale prices								
Butter	€ / t	no data	no data	3,300	3,200	3,000	no data	3,583.5
Cheese	€ / t	no data	no data	6,400	6,500	6,400	no data	4,754.3
Skimmed milk powder	€ / t	no data	no data	3,000	3,000	2,900	no data	4,863.9
Sugar	€ / t	no data	no data	no data	no data	no data	no data	no data

Source: Central Bureau of Statistics; ¹⁾ As there were no aggregate data on EU 25 prices for 2005 data for selected products were calculated as a 3 year average (2002 -2004).

Comparing Croatian prices for main products with EU averages indicates the relatively high price levels in Croatia (especially when comparing it to the GDP per capita). The price for wheat is higher than in the EU-25. It appears that this is a consequence of the guaranteed price provided by the state. Barley (although the price is not guaranteed) is also more expensive than on average in the EU-25. However, the price for barley is lower than in Bosnia or the former Yugoslav Republic of Macedonia and also lower than in Greece. Thus the price in the region seems to be generally higher. Maize on the other hand is relatively cheap in Croatia. Compared to the EU-25 but also other countries in the region, the price of maize is relatively low. This may, in part, explain why maize is one of the few agricultural commodities to be exported.

In the livestock sector, the prices for cattle and poultry are lower than in the EU-25, whereas the price for pigs is slightly higher than in the EU.

Guaranteed prices explain only partly this relatively high price level. It seems that the small-scale production (no economies of a scale) and low self-sufficiency rates have also influenced production prices in the agricultural sector. Primary agricultural production is (partly) more expensive in Croatia than in the EU-25 while processed agro-food products (butter and milk powder) are partly cheaper in Croatia.

5. AGRI-FOOD INDUSTRY

5.1 OVERVIEW

The Croatian agro-food industry is currently struggling to become competitive. It has succeeded in maintaining its share in GDP in the last five years, as well as in employment. During the late 90's and early 2000's the share of the food processing industry in total GDP has remained relatively stable (between 3 - 4 %). Latest official data¹⁸, available through the Chamber of Commerce from 2003, record total revenues of the agro-food processing sector of 760 million €.

The structure of the industry has been changing gradually over the last ten years, as larger-scale Agro-kombinats have become less important and smaller-scale, modern and more efficient processing firms have begun to emerge. In the agro-processing and food sector privatisations in the dairy, sweets and cake, sugar, tobacco and beer industry have, for the most part, been relatively easy and fast. Most of those industries were not part of larger integrated systems and were not located in war-affected regions. Privatisation of the agro-processing industries is almost completed in Croatia. A small number of companies still have significant state shares in their capital. However, the level of foreign direct investment (FDI) in the sector remains limited, restricting improvements in competitiveness of value-added production¹⁹.

The restructuring process is on-going. Important sub-sectors for employment within the agro-food processing industry include: beverages (19.4 %); meat and meat products (18.1 %); and milk/dairy production (9.7 %). Similar patterns can be found for the number of registered enterprises i.e. beverages (14 %), meat and meat processing (13 %) and the milling industry (10 %).

The output of the food, beverages and tobacco industry dropped with the beginning of the conflict. Gradual recovery started after 1993. Within this sector, the branches with the largest revenues have been tobacco, beer, milk, tea and coffee and the production of soft drinks. At the same time, these branches have attracted the bulk of foreign investments, and some exceptionally successful companies now operate within them.²⁰ For two examples please refer to section 5.2.

From a regional perspective, the level of gross value added generated in the agro-food processing sector is clustered in urban areas, with Zagreb dominating (€ 270 million), producing 2.6 times more value added than the second largest urban centre, Istrian (€ 108 million). The lowest gross value added for food processing is in the more remote rural counties of the country, i.e. Šibenik county (Mediterranean region) and Licko-Senjska county (Mountainous region), lacking affordable access to essential input and output markets to make them competitive or sufficiently responsive to changing consumer trends in the urban centres.

5.2 MAIN FOOD INDUSTRIES

In the period analysed in the next table, on production of selected food industry products (2000 to 2003), most sub-sectors increased production. Notably, there has been considerable growth in the

¹⁸ There is currently no reliable up-to-date data available on the food industry.

¹⁹ Please refer for more information on privatisation to chapter 3.2 above and the sub-sections of this chapter.

²⁰ Croatian Chamber of Economy Agriculture, Food industry and Forestry Department

fruit juice (where the data for 2004 further emphasizes this trend), non-alcoholic beverages, meat, milk and edible oil sub-sectors. Significant expansion can also be observed in sugar processing. This is a trend that closely co-relates to the development of sugar exports, which have been influenced by the preferences that were given to Croatia and other Western Balkan states by the EU.

Table 15: Production of selected food industry products

Description	Unit						Index 2003/ 2002
		2000	2001	2002	2003	2004	
Food Products and Beverages							
Wheat flour	'000 t	276.4	278.9	299.0	297.4	305.3	0.995
Bread	'000 t	123.6	124.3	124.3	122.4	122.6	0.985
Pasta	'000 t	6.5	7.0	7.7	8.8	8.5	1.143
Fruit juices	'000 t	26.2	29.7	28.4	48.8	54.5	1.718
Canned vegetables	'000 t	16.1	16.5	26.9	21.1	21.1	0.784
Add condiments	'000 t	16.5	16.4	19.3	18.9	21.3	0.979
Raw meat of all types	'000 t	91.4	99.5	105.0	118.2	no data	1.126
Sausage products	'000 t	35.2	40.3	43.7	45.3	46.3	1.037
Canned meat	'000 t	13.4	11.9	15.0	15.5	no data	1.033
Milk, pasteurised or UHT	mio l	284.0	297.0	287.3	308.1	no data	1.072
Butter	'000 t	2.2	2.6	2.5	2.2	no data	0.880
Cheese	'000 t	21.2	22.7	22.4	21.8	no data	0.973
Milk powder	'000 t	2.3	1.7	1.5	1.4	no data	0.933
Instant soup	'000 t	5.0	5.2	5.5	5.4	5.6	0.982
Canned fish	'000 t	10.5	11.4	12.7	12.5	no data	0.984
Baby food	'000 t	4.1	4.3	4.2	4.5	no data	1.071
Sugar	'000 t	56.7	130.7	171.6	141.0	no data	0.822
Candies, sweets and cocoa products	'000 t	20.2	22.1	23.7	23.4	no data	0.987
Biscuits and related products	'000 t	21.8	25.3	27.2	29.6	no data	1.088
Edible oil	'000 t	35.2	39.6	40.8	51.5	no data	1.262
Margarine	'000 t	15.7	16.4	18.7	17.8	no data	0.952
Fresh yeast	'000 t	10.7	12.1	11.5	11.0	no data	0.957
Dry yeast	'000 t	1.0	1.4	1.2	1.3	no data	1.083
Various coffee substitutes	'000 t	0.8	0.7	0.7	0.6	no data	0.857
Refined 100% spirit	mio l	12.9	9.1	10.9	10.1	no data	0.925
Beer	'000 hl	3,847.5	3,799.3	3,623.9	3,679.5	3,593.0	1.015
Wine	'000 hl	472.2	500.5	450.9	475.0	no data	1.053
Distilled alcoholic beverages	'000 hl	176.9	163.1	151.3	143.6	132.0	0.949
Non-alcoholic beverages	'000 hl	1,471.0	1,657.3	1,948.5	2,237.8	no data	1.148
Livestock feed	'000 t	483.6	524.3	524.2	537.3	no data	1.025

Source: Central Bureau of Statistics, 2004/2005 Analysis: MAFWM

5.2.1 Dairy Industry

In the period 2000-2004, the volume of industrially processed milk and production of dairy products increased. The growth index of industrial processing for 2003/2002 was 107.2 %. The increase in dairy production correlates with the increased production of raw milk (see chapter 4.3 above), which has eased (without fully solving it) a major problem of the dairies, i.e. the insufficient supply of domestic raw milk.

Dairies founded in the earlier social system are today mostly privately owned. There are also a number of emerging, smaller family dairies. The cooperative system of dairies in which the producers themselves are also owners is at present not significant in the Republic of Croatia.

In 2004 2 Croatian dairies had a capacity of more than 100 mio l per year; 7 dairies had a capacity between 10 and 50 mio l per year; 16 dairies had a capacity between 1 and 10 mio l per year and 12 dairies had a capacity of less than 1 mio l per year.

One of the two big dairies is the company "Lura". It was established in 1999 through the merger of several companies, which were mostly formerly socially-owned. Today (in 2006) it is the largest Croatian dairy, which is expanding its business also to neighbouring countries (Bosnia and Herzegovina, Slovenia and Serbia²¹). Unlike other dairies in Croatia, the company doesn't have foreign investors but is mostly owned by one Croatian businessman.

The dairy operates under an ISO accredited QM system and fully implements the HACCP system. It has developed its own system of collection and purchase of raw milk from more than 17,000 farmers throughout Croatia as well as its own distribution network in Croatia with 225 trucks delivering products to 8,000 sales points in Croatia daily. The dairy has its own team of field technicians, which provides services and training to the (mostly small) dairy farms, which supply the raw milk.

"Lura" has started with the support of an USAID project (see Annex 1) its own programme to increase quantity and quality of raw milk supply by giving support in improving on-farm operations, which includes not only breeding and veterinary issues but also e.g. workshops on forage improvement in order to improve the feedstuffs.

5.2.2 Meat processing

Croatia has traditionally a large number of slaughterhouses. After the 90s, with the gaining of political independence the interest in opening minor slaughterhouse and meat production facilities has increased. Facilities for the slaughter of animals in Croatia are classified as slaughterhouses for equine and hoofed animals, slaughterhouses for poultry and rabbits. Data according to the capacity of individual slaughterhouses, with regard to the type of animal or its importance are currently being processed by MAFWM and were not available at the time when this report was elaborated.

The next table provides an overview of all facilities that the Veterinary Directorate of MAFWM, which is the responsible body in Croatia, has accredited for operation.

Table 16: Croatian Slaughterhouses (2005)

Type of slaughterhouse	Number	Production (Tons in 2004)
Slaughterhouses: red meat	196	182.823 t (pigs) 72.901 t (bovine) 13.431 t (sheep/goat)
Slaughterhouses – poultry	74	87.964 t
Rabbit and game meat	20	375 t

Source: MAFWM, December 2005

The large number of establishments for slaughtering, trimming and processing is a result of the relatively poor transport infrastructure in some parts of the country and also the need for faster preparation of food during the tourist season. Slaughterhouses in Croatia are privately owned.

²¹ The expansion to Serbia was co-financed by EBRD and DEG loans and

Some owners of slaughterhouses purchase animals for slaughter, some have their own breeding farms and others offer their services for a fee.

Currently only a limited number of processing enterprises comply with EU hygienic and veterinary standards. Croatia will need to prepare a National Plan for upgrading processing plants to EU standards (A, B, C, D lists), which is likely to result in rationalisation of the industry over the next five years.

5.2.3 Other Sub-sectors

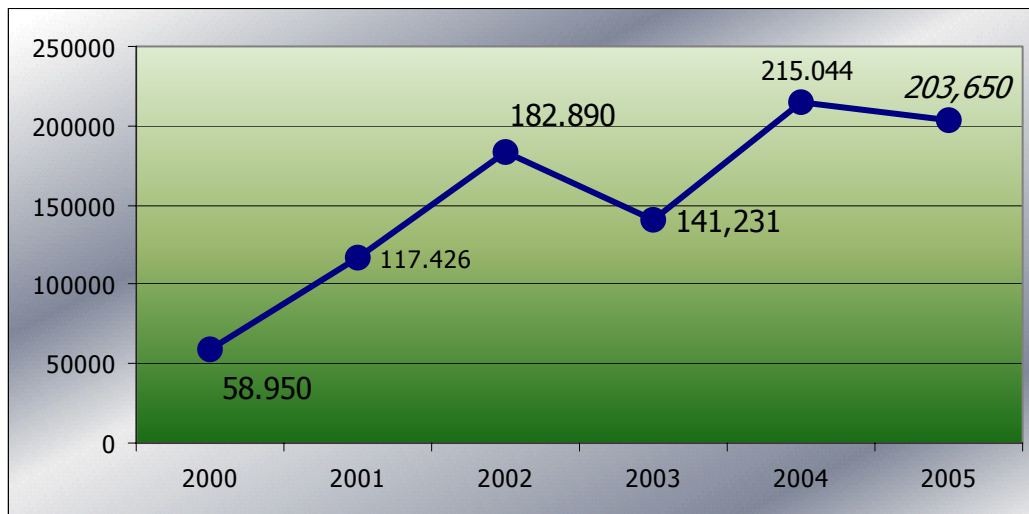
The **fruit and vegetables** processing industry has, due to the favourable climatic and agro-ecological conditions, a significant potential to develop. This is underlined by the significant increase in the production of fruit juices in the period 2000-2004 (see table 15 above), with the growth index for 2003/2002 being as much as 171.8 %.

But overall production remains low and processing of fruit and vegetables is still one of the most under-developed sectors of the processing industry. This is, primarily, due to small-scale and insufficient domestic fresh fruit and vegetable production. In consequence, Croatia is a net importer of fruits and vegetables.

In order to enhance the market position of small and medium enterprises in the fruit-processing sector, investment in the modernisation of the existing plants is essential. But even more important is a further development of domestic production of fruits and vegetables.

According to official statistics, total **wine** production was the lowest in 2003 (1.7 million hl) and highest in 1999 (2 million). The majority of grapes grown are wine-making varieties and, in recent years, newly planted vines and modern viticulture technologies are being adopted to meet consumer demand. More than 90% of the estimated 15,000 Croatian wine producers are registered in the Grape and Wine Producers Register and are eligible for government subsidy payments and the right to sell wines. However, unregistered producers still maintain a significant share of Croatian wine production and sales. A rising proportion of wines are being marketed with geographical indications. The relative share of quality wines has been rising and that of table wines falling in recent years. According to the Grape and Wine Register, the leading 33 wine-cellars account for 79% of total trade.

In the **sugar sector** three factories have an effective oligopoly. They process sugar beet and employ around 1, 200 workers in total. Two of these factories are privately owned while the third is semi-public. All three sugar factories process sugar beet and refine sugar. Average daily sugar beet processing capacity in the Republic of Croatia is 6,300 tonnes per factory. The Croatian sugar market used to be regulated through quotas. Pursuant to WTO provisions, the sugar sector has now been liberalised. Today there are no longer guaranteed prices for sugar beet or sugar (guaranteed price for sugar beet was last fixed for 2000).

Figure 2: Sugar production in tonnes (expressed as white sugar equivalent)

Source: Croatian Chamber of Commerce – Sugar Industry Group ; MAFWM, figure for 2005 is estimated

The increase in sugar production, as presented in figure 2, is much higher than the increase in sugar beet production as analysed in chapter 4. In addition to 176,000 t that were produced out of sugar beet in 2004, some 40,000 t were produced out of imported sugar cane. It can be estimated that for the production of some 180,000 t of white sugar approximately 1.4 mio t of sugar beet are needed. The annual production in 2004 and 2005 was, according to FAO some 1 mio t in Croatia. This suggests that some 400,000 t of sugar beet were imported.

In the Croatian **food industry** today only a few companies with established brands and modern technologies compete on the local and, to a lesser extent, on the international market.

The largest company operating in the Croatian agri-food industry currently is the “Podravka Food Industry”, which has products under different brand names in almost every sector of the food industry (meat, beverages, food seasoning products, semi-cooked dishes and soups, baby food, pudding powder and baking ingredients, snack products, packed tea, and processed fruits and vegetable etc.).

Being a former socially-owned enterprise, Podravka was privatised in 1993 and is today “*the largest food company in Central, Eastern and South-Eastern Europe*”²². It is a joint stock company with many different shareholders (incl. foreign investors) and more than 7000 employees. Podravka operates an ISO accredited QM system and implements the HACCP system. It also has production facilities outside of Croatia (i.e. Slovenia, Poland, Czech Republic and Slovakia).

5.3 ASSESSMENT OF FOOD INDUSTRY

Both, Lura and Podrovka appear to be examples of successful privatisation and restructuring of former socially-owned enterprises. Part of their success is the vertical integration of the production of raw material / the provision of support services to farmers, something that was provided in former socialist times by the Agro-kombinats.

²² Company statement on their website www.podravka.hr

But the majority of Croatian food processing companies require further restructuring and investment in modern production facilities and improved marketing, combined with improvements in the quality, quantity and reliability of raw materials in order to increase their competitiveness. Furthermore the Croatian food safety regulations and quality standards require further strengthening to meet EU requirements. The Croatian food industry is not yet ready for the competitive environment of the EU common market. In addition, Croatian producers lack information on the EU sanitary standards as well as access to necessary training, skills, technologies and services needed to meet the relevant hygiene, environmental, animal welfare requirements that are the key pre-conditions for their future uninhibited access to European markets.

6. SUPPORT SERVICES

6.1 FINANCIAL SUPPORT SERVICES

Various methods were used in former Yugoslavia to finance agriculture and rural/regional development. There has never been a uniform model of agricultural finance, even before the break-up and the independence of the Republic of Croatia. Since the Government had control of banks, it also played the leading role in defining both short-term and long-term conditions for of agricultural financing. Today the Croatian finance sector is a highly competitive and innovative market that has already reached EU standards. Commercial banks (mainly in foreign ownership) are the major players in the financial sector. The main sources of agricultural finance are currently i) Commercial banks, ii) Croatian Government via public institutions and iii) Pre-accession programmes. These are described below:

i) Commercial banks: Currently there are 34 commercial banks in Croatia and, according to a recent survey and web site research conducted by the CEEC AGRI POLICY Project,²³ 9 currently offered specific farm loans in their standard credit portfolio. However, generally credits to agriculture are still scarce. Banks lack experience in dealing with small farmers. Loan collateral and high transaction costs, low profitability of farms and high risk represent the main constraints. Two of the most important banks for agricultural financing are Erste Banka and Croatia Banka. Based on information from their annual reports, during 2005 the amount of total agricultural loans of Erste Banka was 237 million HRK i.e. 1.2% of its total credit portfolio. In 2004 Croatia Banka granted 48 million HRK of agricultural loans i.e. 6.9% of its total credit portfolio.

Conditions for short-term credits for agricultural purposes by commercial banks in 2005 were usually similar in terms of interest rates, required repayment periods and collaterals. Short-term credits were intended for the purchase of input (e.g. the financing of sowing); the preparation of commodities for trade; and for ensuring liquidity. The longest repayment period is 10 years, and these credits (often for the purchase of livestock) are very often arranged with a 2 years grace period. Depending on the purpose, interest rates are in the range of 7%-10 %, with short-term credits being more expensive than long-term credits.

But interest rates are mostly not the reason for the fact that agriculture rarely appears in strategies of commercial banks in Croatia and has such a small share (compared to its overall share in the GDP, employment and foreign trade) in overall banking business. It is rather the result of a generally strong credit demand that enables bank concentration on less risky investments where collateral can be more readily secured. In agriculture the issue of loan collateral deserves special attention in rural finance. Bank collateral requirements are high and expensive for borrowers and, on the other hand, in the agricultural sector they often do not give sufficient protection to banks due primarily problems with secure land titles and ineffective court enforcement of contracts, including bankruptcy procedures.

In addition to commercial banks' reluctance to supply the agro-food sector with capital, the borrowers are often reluctant to apply for a credit. According to a survey²⁴ conducted between

²³ Compare CEEC-Project 4 (2006)

²⁴ "The Farm Survey"(1998-2001) comprised a sample of 892 family farms and covers all agricultural regions in Croatia.

1998 and 2001, traditional "fear" of farmers to use and apply for credit is evident. Also, farmers often appear to have insufficient information and knowledge on sources and conditions of credit.

ii) Agricultural financing by the Croatian Government: The Croatian Government utilised specialised agencies, namely the Croatian Bank for Reconstruction and Development (CBRD) and the Croatian Agency for Small Business (CASB) to provide financial support services to the economy in general and to the agro-food sector in particular through provision of soft loans.

Currently, the Ministry of Agriculture, Forestry and Water Management, The Croatian Bank for Reconstruction and Development and the Croatian Agency for Small Business implement programmes for financing cattle production and for the establishment of perennial plantations.

Furthermore the Ministry of Economy, Labour and Entrepreneurship subsidises certain credit lines for entrepreneurs and co-operatives. To improve the competitiveness of rural areas a wide range of programmes (grants but mainly subsidized credits) have been launched. In order to improve agricultural financing and to lower interest rates, the state gives non-refundable grants to farmers for capital investment in agriculture. The share of investment support can be up to 25% of the total value of the loan, but not more than 20% of the total value of the investment itself.

iii) Pre-accession programmes: Recent developments in Croatian relations with the EU enable Croatia to use the pre-accession programs for structural and rural development (e.g. Phare, ISPA, Sapard, CARDS). In 2006 Sapard provides some €25 mio. From 2007 onwards "IPA- the Instrument for Pre-Accession Assistance for 2007 – 2013" will replace Phare, ISPA, Sapard, CARDS. Under its Rural Development component (IPA-RD) €25 mio annually will be available.²⁵ These funds will provide greater opportunities to invest in agriculture and the rural economy, helping structural problems to be solved and competitiveness to be improved in production that lags behind European averages.

Furthermore the EC is preparing an SME Finance Facility for Croatia (2006 programme), which combines resources of the EBRD, the CEB/KfW and PHARE grants. The objective of the SME Finance Facility is to induce financial intermediaries (banks, leasing companies and investment funds) to expand and to maintain, in the long term, their financing of SME operations in Croatia and other candidate countries. It will also offer a so-called 'Rural Sub Window', which aims at strengthening the financial sector's capacity to increase access to finance for farmers and rural businesses.

Other sources: Short- term trade credit arrangements provided by the food / tobacco industry and input supply companies are important for a large number of farms in the dairy sector (65,000 farms), tobacco production (2,200 farms) and sugar beet production (10,000 farms). Agricultural input supply companies are slowly reaching the former levels of trade credit as in the time of the former Agro-kombinats, which were, and partly still are, the main suppliers and buyers of farm products. With the support of foreign donors, three larger Savings and Loans Cooperatives have recently been set up in Croatia, intending to conduct micro-financing programmes. However due to current legal limitations on banking activities (they couldn't give credits themselves but had to

²⁵ For further information on the sequencing please refer to chapter 9.2.1.

launch them via banks) these Savings and Loans Cooperatives have had limited impact on rural finance.

6.2 AGRICULTURAL EDUCATION, EXTENSION AND INFORMATION SYSTEMS

6.2.1 Agricultural Extension Services

Croatian National Extension/Advisory Services have been through a number of changes in the last fifteen years, evolving in a stepwise approach, broadly as follows:

- From 1991-1994: Formal establishment of the Public Advisory Services in Agriculture for Rural Areas.
- From 1994-1997: Transformation of the Public Advisory Services in Agriculture for Rural Areas into an 'Advisory Service in Agriculture Sector' managed by MAFWM.
- In 1997, by virtue of a new Regulation, the Croatian Agriculture Extension Institute (hereinafter referred to as CAEI) as a specialized institution for advisory activities in agriculture with a higher degree of independence than previously.

CAEI still operates today with the same organisational structure. It receives the majority of its funding from the state budget (though it also generates a small amount of funds from certain chargeable services). The objectives of CAEI are:

- To assist farms in making decisions by providing high-quality information;
- To promote cooperation between family farms and all institutions, companies and individuals that are important for a successful agriculture;
- To mediate in the implementation of support measures aimed at the development of family farms and rural areas as a whole.

CAEI publishes a bulletin (hardcopy only) for extension officers with information on national extension activities. This includes articles from international experts in extension and knowledge transfer. CAEI has published 15 issues of this newsletter to date. The extension officers provide technical assistance in the fields covered by the CAEI bulletins on-farm. In addition, the extension service provides grants and loans. CAEI is reasonably well equipped with IT (supported through a World Bank project) at headquarters and county level, but outside these offices there is little computerisation. The Institute has computerised databases and a good website, although the Agency does not consider the web an adequate medium because extension requires interaction, experimentation and demonstration.. Most training activities take place in winter courses.

6.2.2 Agricultural Education and Research

Two institutions fund research in agriculture in Croatia, namely the Ministry of Science and Technology and the MAFWM (via the Council for Agricultural Research).

Universities, research stations and institutes were well established before independence and are still struggling to rebuild war damage or build new structures and (re-) establish communication channels. Communication via e-mail is feasible between university faculties, research institutes and some producer associations.

Today there are four agricultural faculties in Croatia. In addition higher education is provided by a number of colleges. In contrast to most other countries of the region, the Croatian Agricultural

Faculties have already long standing contacts and cooperation with Universities in EU Member countries. This facilitates the exchange of students and teaching staff. Joint projects have gradually introduced "new" technologies and approaches in the areas of economic and general agricultural education, raising general awareness and standards.

The Faculty of Agronomy of Zagreb University recently developed a draft for a National Agriculture Research System (NARS), which provides a framework for upgrading research and strengthening links with commercial farming over the next five years. Currently the Ministry of Science and Technology (MST) (with EU funding) supports international relations for the Agriculture Faculties at the four Universities (in Zagreb, Osijek, Rijeka and Split). Since 2002, research funding from the government has become competitive, under the supervision of a newly established Agriculture Research Council.

In general recognition that information is important for agriculture development, MAFWM offered special project funds to mark ten years of "digitalisation" in Croatia. This promoted development and adaptation of e-technologies for farmers, such as interactive software for farm management and budgeting. However, like much of the other research, this was primarily aimed at larger farms, most of which have their own PCs. Most small farms and producer associations have neither PCs nor access through facilities at community level. CAEI for example cannot use email to deliver messages or advice to producers or arrange contracts with merchants and thus needs to rely on costlier telephone and personal networks. More on-farm and new-farm research institutes will be required in the future to improve the efficiency of smaller-scale farming businesses.

6.2.3 Agro-food Market Information Services

There is currently a publicly funded (still limited) Market Information Agency, known as TISUP. The Agency currently maintains a web-based Agriculture Market Information System (AMIS). The Agency monitors weekly minimum, maximum and average prices recorded from wholesale markets and retail outlets of major cities. Further services provided by the Agency include market cost calculations, buying and selling services, via phone and web, fortnightly reports, and information on prices that are published in other electronic and print media outlets. Users of the web services are mainly larger wholesalers and traders rather than small-scale producers. The AMIS does not function well across regional markets, between which there is scarce exchange of information and consequently little flow of goods. The Agency developed a strategy for expanding the services provided, including marketing its software to neighbouring countries and making the service financially sustainable in the longer term, but limited resources have so far prevented TISUP from realizing many of these objectives.

6.3 INPUT SUPPLY

In former Yugoslav times small private farmers were traditionally supported by Agrokominats in terms of input supply (in particular fertilizer) and market outlets. Private sector input suppliers in Croatia have gradually been filling this gap following the collapse of the state sector. These companies are also slowly reaching the former levels of trade credits to producers, linked to the scale of future production.

As outlined in earlier chapters of this report Croatia is relying today heavily on imports of input supply as the domestic production is very limited. In the livestock sector some 55 live animals are

imported for every live animal that is exported. In crop production Croatia depends almost entirely on the import of fertilizers, seeds and seedlings, fuels and power, agricultural machinery and other input supplies.

It is estimated that only 50% of the optimal amounts of fertilisers is used in the production of wheat, and in the case of maize only 30%. More than 90% of producers use herbicides but only 20-25% spray against pests and diseases. Evidence from farm survey data suggests that the level and state of agricultural mechanisation is also poor as can be judged from the high average age of tractors (17 years).

Although there are no statistical data regarding dried fodder production in Croatia, it can be assumed that Croatia relies predominantly on imports. According to the statistical data available, approximately 13.000 tonnes of lucerne pellets (the main dried fodder) are imported into Croatia, originating mostly from EU-25 (Hungary and Czech Republic). Fodder plants have been included in the support system (granting of annual payments) since 2002, pursuant to the Act on State Aid in Agriculture, Fishery and Forestry (OG 87/02, 117/03, 82/04, 12/05) through an area payment (approximately € 70/ha).

7. AGRICULTURAL AND FOOD POLICY

7.1 INSTITUTIONAL FRAMEWORK AND POLICY CONCEPTS

The key institution in Croatia responsible for agricultural and food policy is the Ministry of Agriculture, Forestry and Water Management (MAFWM), which currently has (including inspectors in the regions) approximately 750 members of staff (2006). After declaration of independence in 1991, Croatia started with the implementation of its own agricultural policy. The country had to reorganise the agricultural production structure and change its focus of development. The foundations of the new agricultural policy were set by the adoption of the Development Strategy for Croatian Agriculture in 1995.

In 2000 the Croatian Parliament adopted the draft «Programme of activities of the Government of the Republic of Croatia for the period 2000 -2004 ». Among other things, the Programme established the basic economic policy guidelines for agriculture. It anticipated the drafting of the Agriculture Act, which was then adopted in 2001.

For the current framework of agricultural policy measures the Agriculture Act (Official Gazette 66/01, 83/02) is of core importance. It is the umbrella act that governs overall sector policy by incorporating existing legislation and areas that have not yet been directly regulated.

Today priority is put on enhancing the competitiveness of domestic production, in particular the production of fruit, vegetables, grapes, meat and milk. Complementary strategic objectives of Croatian agricultural policy include:

- Enhancement of rural financing;
- Upgrading market organizations and distribution channels;
- Encouraging co-operatives and associations in agriculture;
- Fostering rural development and environmental protection;
- Improvement of the institutional structure;
- Enabling food safety and the provision of institutional support and services.

Within this strategy the Government has adopted a number of operational programmes providing for measures to improve the situation in the fruit, vegetables, grapes, meat and milk sectors (the Operational Programme for Establishing Permanent Plantations, the Programme for the Development of Cattle Production, the Project for Irrigation and Agricultural Land and Water Management). The Programme for the Development of Pig Breeding was adopted in late 2005.

The Agricultural Land Act (Official Gazette, 66/01,87/02) and the Act on Ecological Production of Agricultural and Food Products (Official Gazette,12/01) are important elements of the policy framework, too. The Agricultural Land Act sets out that local government units, i.e. municipalities and towns, make decisions on the sale and lease of the state-owned agricultural land on the basis of the Programme for Disposal of State-Owned Agricultural Land (please compare chapter 3.2 of this report). Land consolidation of family farms is also an important factor. The Act on Ecological Production of Agricultural and Food Products, which is harmonised with the EU Directive on organic farming, has provided the standard for market organisation and production of ecological products.

The legal basis for the implementation of agricultural policy measures of the Republic of Croatia is the National Programme for Agriculture and Rural Areas, which is drafted by the MAFWM and has to be adopted by the Croatian Parliament (foreseen for the end of 2006).

Since 2002, the Act on State Aid in Agriculture, Fisheries and Forestry governs these aid schemes (Official Gazette, 87/02, 117/03, 82/04, 12/05). The Act foresees four different state aid schemes intended for different target groups or aid beneficiaries. The schemes are: (i) the production subsidy scheme; (ii) the income support scheme; (iii) the capital investment scheme and (iv) the rural development scheme (please refer to chapter 7.3 further down).

7.2 BUDGETARY RESOURCES

The largest proportion of the agriculture budget was allocated to State Aid to Agriculture (see table further down). Between 1999 and 2004 the agricultural budget increased by 91%. This increase was, in relative terms, higher than the increase in the overall state budget. The underlying reason is the liberalisation of the Croatian market for agricultural products and foodstuffs. This has prompted an increased budget, which could alleviate the effects of the decline in the exchange of agricultural commodities, and allow time for domestic producers to adapt to new circumstances. With this intention the majority of the additional funds dedicated to agriculture were allocated for direct payments to the farmers.

Between 1999 and 2004 the budget for direct payments increased by 177% or some €100 mio amounting to some €160 mio in 2004. In 2003 this budget line was exceptionally high due to the one-time expenditures in connection with natural disasters. Expenditures continuously increased under this budget line due to the increased area payments to commercial farms in the crop production sector, as well as direct payments to farmers involved in animal husbandry.

The second largest budget line in 2004 was dedicated to price support measures (31% increase since 1999). Opposed to the direct payments for price support measures a different pattern can be observed. Until 2002 this budget line increased slowly but steadily. Since then expenditures have decreased again. This reflects the efforts of the Croatian government, in line with the WTO commitments, to gradually reduce the level of guaranteed prices.

Remarkable is the increase of expenditures for public services, which doubled between 1999 and 2004 and reached approximately € 20 mio in 2004.

Relatively few funds are dedicated to the improvement of domestic competitiveness (e.g. farm investment support €8 mio). Input subsidies have been removed completely.

Table 17: Croatian Agricultural Budgets 1994 – 2004 (in Mio. Euro)

Budgetary expenditures in agriculture	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total state budgetary expenditures	62.22	78.26	82.00	88.87	142.79	144.92	207.76	249.86	262.04	350.48	277.46
Budgetary expenditure for agro-food sector	60.79	76.36	74.25	83.20	120.94	128.21	186.68	217.67	245.53	272.90	238.90
of which:											
Budgetary market price support measures	33.84	49.52	51.30	60.57	70.26	61.08	61.43	77.71	99.53	82.31	80.15
Direct payments	4.90	5.04	5.29	5.97	36.63	57.05	120.18	135.41	140.97	190.60	158.75
Input subsidies	22.06	21.79	17.66	16.66	14.05	10.09	5.08	4.55	5.04	0.00	0.00
LFA payments											
Environment friendly production support											
Farm investment support	0.20	0.04	1.64	1.75	0.90	1.25	0.76	1.51	1.42	2.54	8.55
subsidized interest rates	0.20	0.04	1.64	1.75	0.90	1.25	0.76	1.51	1.42	0.71	
Grants										1.83	8.55
Processing industry support	0.00	0.00	0.00	0.00	11.27	0.00	0.00	0.00	0.00	0.40	0.00
Infrastructure	0.00	0.00	0.00	0.04	1.05	1.26	4.07	8.84	0.91	0.74	1.38
Research, education extension	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other support to agro food sector	1.23	1.86	6.11	3.87	8.62	14.20	16.24	21.85	14.17	73.90	28.63
decoupled direct payments										1.84	3.19
livestock selection measures	1.23	1.33	1.76	1.42	1.74	1.88	2.04	1.96	2.11	2.37	1.24
insurance scheme										0.00	1.94
natural disasters relief			3.81			1.96	1.68	2.15	2.34	53.35	2.45
Public services		0.53	0.54	2.45	6.88	10.36	12.52	17.74	9.72	16.34	19.80

Source: Ministry of Agriculture, Forestry and Water Management]

Despite this significant increase, in 2004 the share of the agricultural budget in the overall state budget was a modest 3.3%.

7.3 AGRICULTURAL AND FOOD POLICIES

As stated above the Act on State Subsidies for Agriculture, Fisheries and Forestry (Official Gazette, 87/02, 117/03, 82/04, 12/05) governs the Croatian Agricultural and Food Policy. The Act comprises 4 support schemes:

- A) Production support scheme (direct payments),
- B) Capital investment scheme,
- C) Income support scheme,
- D) Rural development scheme.

This support system in Croatia is twofold: Commercial farms, and non-commercial farms, e.g. semi-subsistence and subsistence farms, are distinguished. Commercial farms are eligible for A (direct

payments), B (investments support) and D (rural development) schemes, whereas non-commercial are eligible for C (income support) and D (rural development) schemes. The income-support scheme is a social driven support, which is not linked to actual production. Once a family farm applies for the income support it declares itself a non-commercial farm and becomes ineligible for the schemes A) and B) targeting commercial farms.

The two-fold system was only introduced in 2003. In 2004 to scheme A) and B), i.e. the support of commercial farms, 95% of the financial resources were allocated. For C) and D) remained the rest (some € 10 mio).

The most important scheme is A) "the production support scheme". Direct payments are related to production per ha, head, L, kg, piece. Annex 7 provides a comprehensive overview of the measures in the field of direct payments for the period 2002 – 2005.

In 2004 some 51% of the direct payments were dedicated to crop production (including cereals, oil crops, fodder, sugar beet, tobacco, textile plants, seeds, vegetables, permanent crops) and planting of permanent crops (orchards, vineyards, olive trees, lavender plantations). The direct payments for crops are almost entirely based on the area payment (i.e. payment per ha) with payment for tobacco (payment per kg) and some seedlings (payment per piece) being an exception.

The remaining 49% of the direct payments were dedicated to animal husbandry: They were paid (per head, l, kg, piece) for milk (cow, sheep and goat), breeding livestock (cattle, pigs, sheep and goats, horses, honey bee colonies, rabbits), fattening livestock (cattle, pigs, rabbits), sperm production, pure breed animals. Payments for organic production (per ha and per head) are included in the two above groups.

The tax exemption on blue diesel provides the largest share in direct support to the agricultural sector. In 2005 it amounted to some € 45 million. The concession is defined in the 'Act on the Special Tax on Petroleum Products' (Official Gazette 136/02, 123/03). This Law defines tax and excise duties on petroleum products. Among others, it provides for a special tax on blue-coloured Euro-diesel fuel (so-called blue fuel), which is used in agriculture and is exempt from payment of special tax on petroleum products. All farmers who are registered in the farm register conducted by the MAFWM and who produce cereals, oil crops, sugar beet and tobacco benefit from this tax exemption. Blue fuel may be used for the operation of agricultural machinery used for the cultivation of soil or for the harvesting of crops²⁶. This measure appears to be very significant when comparing it to the overall budget for the schemes C) and D), which together amount only to a modest € 10 mio.

Scheme B) "the capital investment scheme" was designed to facilitate co-operation between farmers and banks. Aid schemes for investments in marketing and processing units of the food industry are considered as valuable but are not fully implemented, yet. However, start-up aids for the establishment of producer groups for the marketing of agricultural products are given to respective projects and programmes; the sale of Agro-foodstuffs is promoted as well. Co-financing

²⁶ One other tax regulation specifically related to agriculture is applied in Croatia. In specific areas of Croatia a tax exemption for income from agriculture is foreseen according to the "Law on Tax Breaks".

for the storage of cereals, and subsidies on investments like new plantations in the case of olive groves, vineyards, and hops plantations are other examples.

As outlined above the main financial support to the sector is provided through direct payments. These are defined in the Agricultural Act and the Act on State Aid in Agriculture, Fisheries and Forestry. The implementation of the 4 support schemes is closely related to the establishment of the new land registration system (see chapter 7.1 above). The Farm Register conducted by MAFWM, which contained 165,000 farms in 2006, shall be the central database of agricultural holdings and, thus, a part of the administrative system for the management of payments to agriculture. The next step is the further development and harmonisation of the Register with the Integral Administrative and Control System (IACS).

7.4 FOOD SAFETY AND QUALITY POLICIES

The Ministry of Health and Social Welfare (MHSW), the 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 Directorate for Sanitary Inspection within the MHSW includes four Departments: i) The Sanitary Inspection Department being in charge of the control of food safety. The county sanitary inspectors perform these controls. ii) The Border Sanitary Department is in charge of the control of food of non-animal origin imported into Croatia and comprises 4 regional sections. The border sanitary inspectors at the customs warehouses perform the controls. iii) The Administrative Surveillance and Legal Affairs Department and iv) The Technical Projects Implementation Department.

The Food Industry Directorate within MAFWM finally is responsible for the enactment of regulations, administrative, professional and inspection activities pertaining to general labelling, presentation and advertising of food, as well as nutrition declarations or food labelling, and vertical regulations governing the basic quality requirements for certain groups of foodstuffs in compliance with EU vertical regulations for this area.

The EC Commission investigated the status of EU alignment and identified a range of areas for further harmonisation of legislation and the organisation of inspections etc. Important in this context is the national plan for upgrading processing plants to EU standards (A, B, C, D lists) which will have a big impact on the situation for dairies, slaughter houses, rendering plants, fish processing companies etc. Once the plan is established it will also be used to drain Sapard /IPA funds to certain enterprises.

The basic veterinary legislation in Croatia is the Veterinary Law (OG 70/97, 105/01, 172/03). The Law regulates animal health protection, prevention and control of diseases common to animals and

humans, control of animals intended for slaughter, fish, products of animal origin, the quality of animal feed, animal reproduction and welfare, veterinary protection of the human environment, organisation, financing, and other matters of importance for the implementation of uniform animal health protection, as well as the veterinary services system in Croatia.

Priority activities regarding the alignment with EU standards in the veterinary sector are the improvement of the methods for the implementation of inspections, and the continued alignment of the live animal and animal products import regime with the EU acquis. A new Veterinary Medicine Act is foreseen to be put in place in 2006 and an animal identification and registration system currently being set-up.

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.

In 2004, a new organisational unit, the Plant Protection Department, was established within the Ministry of Agriculture and Forestry as a result of its reorganisation undertaken with the objective of strengthening the institutional capacity. The Department is a designated authority responsible for adopting the acquis in the field of plant protection products and pesticide residues, which is in line with the obligations of the Republic of Croatia toward the EU.

Priority activities in the phytosanitary sector continued through 2005 with the enactment (March 2005) of the Ordinance on phytosanitary requirements for wood packaging materials in international trade, whereby its publication was timely coordinated with the publication of the same regulation in the EU Member States.

As regards plant health, in June 2005, the Plant Health Act was adopted and came into force. It will be applied as of January 1, 2006.

The Croatian Chamber of Economy (Quality Centre), as a public authority, grants quality labels for all products regardless of the type of the product (not only agricultural products and foodstuffs). These quality labels - "Croatian Quality" and "Croatian Creation" are intended for labelling all Croatian quality products. The labels are guaranteeing that respective products are meeting defined quality criteria. The procedure for acquiring the right to use them and their holders is available on the website of the Croatian Chamber of Economy.

8. AGRICULTURAL TRADE AND TRADE POLICY

8.1 TRADE POLICY

The responsible bodies for agricultural trade in Croatia are the Customs Directorate of the Ministry of Finance (for the application of the custom duties), the Ministry of the Economy, Labour and Entrepreneurship (for the Special Safeguard Clause preventing unpredictable surges in imports or fluctuations in import prices as defined in the WTO Uruguay Round) and MAFWM (for allocating preferential import quotas). The Agriculture Act stipulates that the Directorate for Market and Structural Support in Agriculture within MAFWM, is to be responsible for the operational implementation of market and structural measures in agriculture, which includes the implementation of marketing and price policy measures, which also include trading measures (within the meaning of this Act, trading measures are tariffs and tariff quotas fixed in accordance with the commitments undertaken with the WTO membership and other international agreements, which the Republic of Croatia is part of²⁷). According to the National EU Accession Programme, the Directorate for Market and Structural Support in Agriculture should evolve into a Payment Agency, which would then implement agricultural policy measures, including trading measures (export/import licences), as well.

As for the foreign trade of all other sectors, agricultural foreign trade is governed by the Trade Act (Official Gazette 49/2003, 103/2003, 170/2003), which is the basic regulation laying down conditions related to foreign trade. Beyond that Croatia doesn't have a specific regulation governing foreign trade of agricultural goods and foodstuffs, other than Article 14 of the Agriculture Act (Official Gazette 66/2001, 83/2002), which defines customs duties, tariff quotas and safeguard measures.

Following the provisions of the Agreement on Agriculture (AoA) with WTO and the Stabilisation and Association Agreement (SAA), Croatia has reduced domestic policies that have a direct effect on production level and trade (and would distort trade) and gradually introduced measures with minimal impact on trade (so called "green box" measures). They include payments made directly to farmers that do not stimulate production, such as certain forms of direct income support (so-called area payments, which are paid irrespectively of the production volume), assistance to help farmers restructure agriculture, and direct payments under environmental and regional assistance programmes. In the livestock sector, however, most direct payments are still coupled to the production level and thus are not fully in line with the provisions of the AoA (please see also Annex 7). As seen in chapter 7, direct payments to farmers increased between 1999 and 2004 by 177% or some €100 mio amounting to some €160 mio in 2004.

8.1.1 Trade Agreements

The Croatian trade integration process started with WTO membership in November 2000, followed by free trade agreements with European countries and by the SAA with the EU, which entered into force in February 2005 (but pending its entry into force an interim agreement covered the trade and

²⁷ The Agriculture Act (Official Gazette 66/2001, 83/2002)

trade-related matters in the relationship to the EU). As a member of the WTO, Croatia signed more than 35 free trade agreements in less than 3 years. Having established a network of FTAs, more than 80% of Croatian trade is now conducted under these agreements.

Croatia became a CEFTA member on 1st March 2003²⁸. Trade liberalization with the Czech Republic, Slovakia, Hungary and Bulgaria relied on the CEFTA list model. A modified CEFTA model was applied for Slovenia, and a relatively small degree of trade liberalization through bilateral concession lists was agreed with Poland and Romania. In 2004 the Czech Republic, Slovakia, Hungary, Poland and Slovenia left CEFTA becoming EU members. Since 2005 the trade relations with these countries have been governed by the SAA.

In 2001 a FTA with the neighbouring Bosnia and Herzegovina (the most important export market for Croatia) was signed and since then Croatia's exports to Bosnia have almost doubled (please refer also to chapter 8.2). An FTA with Serbia and Montenegro was also concluded in 2004. Croatia is participating in the negotiations for establishing a single regional Free Trade Agreement, based on an enlarged and amended CEFTA. It has concluded bilateral free trade agreements with all South East European countries. In September 2006 Croatia also signed a free trade agreement with Kosovo.

8.1.2 Border Protection

The "Council Decision of the European Union on principles, priorities and conditions contained in the Accession Partnership with Croatia" (OJ L 55 of 25.2.2006) in February 2006 states that strengthening the administrative and operational capacity of customs services, in particular for the control of preferential rules of origin remains one of the short-term priorities in the Accession Partnership with Croatia.

There are plans to reduce the number of border inspection posts responsible for veterinary checks and to equip them to meet EU standards, as well as to establish an electronic system for collecting, exchanging and processing data (surveillance and control of infectious diseases, import arrangements, quarantine, trade in and identification of animals, residues, etc.).

A CARDS 2004 project (as follow up of the CARDS 2001 project in the same area) that is likely to start in 2007 will provide further Technical Assistance (TA) in analysing and determining border inspection procedures (BIP) and elaborating manuals for BIP inspectors in line with the EU acquis in the field of veterinary border inspection.

With the Protocol of Accession of Croatia to the Marrakech Agreement Establishing the World Trade Organisation, (Official Gazette, International Treaties, No. 13/2000), the commitment to gradually reduce tariff duties for agricultural products and foodstuffs during the transitional period expiring in 2007, was undertaken. The following table provides an overview of tariffs of main commodities. It shows that most tariffs are between 7% and 15% with table wine being an exception (22% tariff).

Non-tariff barriers include testing and certification requirements for some imports.

²⁸ The Central European Free Trade Agreement (CEFTA) is a trade agreement between Croatia, Romania, Bulgaria and the Republic of Macedonia. Former members are Poland, the Czech Republic, Slovakia, Hungary and Slovenia.

Table 18: Tariffs in Croatia (2006)

Commodity	Unit	Tariff
Soft wheat	Ad valorem tariffs	7%
	<i>Specific tariffs in Euro/t</i>	<i>30</i>
Barley	Ad valorem tariffs	2%
	<i>Specific tariffs in Euro/t</i>	<i>20</i>
Grain maize	Ad valorem tariffs	7%
	<i>Specific tariffs in Euro/t</i>	
Apples pears and peaches	Ad valorem tariffs	15%
	<i>Specific tariffs in Euro/t</i>	<i>135</i>
Potatoes	Ad valorem tariffs	15%
	<i>Specific tariffs in Euro/t</i>	<i>150</i>
Sugar	Ad valorem tariffs	
	<i>Specific tariffs in Euro/t</i>	<i>270</i>
Tomatoes	Ad valorem tariffs	15%
	<i>Specific tariffs in Euro/t</i>	<i>300</i>
Table wine	Ad valorem tariffs	22%
	<i>Specific tariffs in Euro/t</i>	
Beef	Ad valorem tariffs	8%
	<i>Specific tariffs in Euro/t</i>	<i>780</i>
Pork meat	Ad valorem tariffs	10%
	<i>Specific tariffs in Euro/t</i>	<i>440</i>
Poultry meat	Ad valorem tariffs	10%
	<i>Specific tariffs in Euro/t</i>	<i>400</i>
Sheep and goat meat	Ad valorem tariffs	8%
	<i>Specific tariffs in Euro/t</i>	<i>369</i>
Butter	Ad valorem tariffs	7%
	<i>Specific tariffs in Euro/t</i>	<i>460</i>
Cheese	Ad valorem tariffs	9%
	<i>Specific tariffs in Euro/t</i>	<i>490</i>
Eggs	Ad valorem tariffs	
	<i>Specific tariffs in Euro/t</i>	

Source: European Commission, "DG-Trade Applied Tariffs Database" for the year 2006

8.1.3 Export Support Structures

The Trade and Investment Promotion Agency of Croatia informs Croatian exporters about the export conditions and foreign markets approach, monitors law regulations on foreign markets tenders and public tenders and projects financed by the international financial institutions. Furthermore the Agency provides support to Croatian exporters at the international fairs and exhibitions, market research and feasibility studies and organises promotion campaigns in foreign countries. The Agency is set up within the Ministry of Economy, Labour and Entrepreneurship and thus it is not focused on agriculture.

8.2 AGRICULTURAL TRADE

The agro-food sector's share in total foreign trade was approximately 8.5% in 2005. Agro-food imports had a share of 8.6 % of total Croatian imports. Agro-food exports amounted to 8.3 % of total Croatian exports.²⁹

Both the value and patterns of trade have been changing over the last ten years. Following the recent enlargement of the EU from 15 to 25 Member States the EU-25 has become Croatia's most important trading partner. Trade with the EU-25 now represents about 70% of agro-food imports and 40% of exports (up from less than 50% of imports and 25% of exports in the mid-nineties).

Croatia has experienced significant growth in foreign trade between 2001 and 2004 primarily due to CEFTA and SAA membership. Overall there has been an increase in the value of agro-food imports over the last ten years (by almost 70% and a lesser increase in exports over the same period (by approximately 50%). Also FTAs with neighbouring countries have influenced the Croatian foreign trade in the agro-food sector significantly. In 2005 more than 80% of Croatian trade was conducted under free trade regimes. However, table 19 shows the trade deficit has widened as the agro-food imports have grown faster than the agro-food exports over the period 2000 – 2005.

Table 19: Agricultural Trade (global) in Million Euro

	2000	2001	2002	2003	2004	2005
EXPORT						
World	440.1	524.4	592.4	680.8	596.0	750
Thereof EU-25	182.5	181.6	234.8	294.7	200.6	525
IMPORT						
World	744.5	943.6	1,061.5	1,112.8	1,171.4	1,300
Thereof EU-25	535.6	677.5	722.1	773.0	798.4	936
BALANCE						
World	-304.4	-419.2	-469.1	-432	-575.4	-550
only EU-25	-353.1	-495.9	-487.3	-478.3	-597.8	-411

Note: Data referring to EU-25 before 2004 relates to EU-15 plus 10 new Member States

Source: Central Bureau of Statistics

Croatia is a net importer of agro-food products as shown in table 19: Export-value increased from € 440 mio in 2000, to € 750 mio in 2005. At the same time the value of total imports grew from € 744 mio in 2000 to € 1,300 mio in 2005. Therefore, the negative agro-food trade balance rose from € 304 mio in 2000 to € 550 mio in 2005. However, the trend of an increasing trade deficit was reversed in 2005, when it decreased for the first time in comparison to the previous year (in 2004, it was € 575 mio).

In 2004, in value terms, the biggest export market was Bosnia and Herzegovina (227.8 million €), followed by the EU-25 (200.6 million €), Japan (43.5 million €)³⁰ and Serbia and Montenegro (40.6 million €). The biggest import in Croatia in the same year was the EU-25 (798.6 million €), followed by Brazil (73.6 million €) and Romania (27.1 million €)

²⁹ Data from MAFWM

³⁰ Japan mostly imports tuna fish from Croatia. In 2004 Croatia's tuna exports totalled some € 40 mio. Almost all tuna fish was exported to Japan. Other fish than tuna accounted only to some € 7 mio of Croatia's agro-food exports.

Table 20: Agro-food exports and imports according to destinations/ origin (mio Euro)

Country:	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
EXPORT Total	397.8	424.7	475.8	471.5	392.6	440.1	524.4	592.4	680.8	596.0
EU 25	203.7	202.6	197.5	177.2	170.5	182.5	181.6	234.8	294.8	200.6
Newly Independent States (NIS)	13.1	16.5	15.1	11.5	4.3	8.5	8.2	9.3	9.7	9.9
Non EU countries in the WB region	140.8	170.3	225.5	243.7	186.7	186.8	245.4	264.8	283.7	308.3
Albania	0.1	0.1	1.8	1.6	1.2	3.6	3.6	0.8	0.9	0.1
BIH	121.4	152.9	199.3	222.3	156.9	130.7	166.2	191.7	206.9	227.8
Bulgaria	1.3	0.5	0.2	0.0	0.1	0.1	0.8	0.8	1.1	1.6
Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The former Yugoslav Republic of Macedonia	15.8	14.4	20.3	17.3	20.4	17.8	19.5	21.1	20.4	16.8
Romania	2.2	2.4	1.3	1.3	0.1	0.5	0.6	3.1	11.6	21.5
Serbia and Montenegro (SCG)	0.0	0.0	2.5	1.2	8.0	33.9	54.7	47.4	42.8	40.6
Other	40.2	35.2	37.7	39.1	31.0	62.2	89.2	83.5	92.5	77.1
Exchange rate used	6.8	6.8	7.0	7.1	7.6	7.6	7.5	7.4	7.6	7.5
IMPORT Total	713.4	738.0	887.5	758.4	653.4	744.5	943.6	1,061.5	1,112.8	1,171.4
EU 25	519	530.8	605.2	498.2	452.4	535.6	677.5	722.1	773	798.3
NIS	3.1	1.4	3.0	2.3	0.7	0.4	2.0	2.5	7.0	2.0
Non EU countries in the WB region	16.1	26.6	46.9	50.0	32.6	32.0	42.7	74.2	87.0	118.6
Albania	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
BIH	1.4	10.4	31.2	35.3	16.4	5.7	13.3	19.0	23.5	32.5
Bulgaria	3.8	3.9	3.2	1.9	1.2	1.0	1.6	6.4	8.7	18.5
Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The former Yugoslav Republic of Macedonia	7.9	5.4	6.6	7.9	9.1	11.1	8.7	11.8	12.6	14.3
Romania	2.7	6.8	4.9	3.6	4.2	8.5	9.1	24.8	27.1	29.3
SCG	0.0	0.0	1.0	1.3	1.7	5.6	9.8	12.0	14.9	23.9
Other	175.2	179.2	232.4	207.9	167.6	176.5	221.5	262.7	245.8	252.4
Exchange rate used	6.8	6.8	7.0	7.1	7.6	7.6	7.5	7.4	7.6	7.5

Note: Data referring to EU-25 before 2004 relates to EU-15 plus 10 new Member States

Source: Central Bureau of Statistics

Table 20 illustrates the significant impact of FTAs for the development of Croatia's foreign trade. Bosnia and Herzegovina is Croatia's most import export market and a good example for the impact of FTAs: In 2000 Croatia's exports to BiH totalled €130 m. In 2001 a FTA was signed and since then Croatia's exports to Bosnia have been increased to almost € 230 mio in 2004 (source CBS).

Crosschecks and comparison between different data sources on Croatian Foreign Trade confirm the main trends, as presented above³¹.

³¹ In Annex 3 we have compiled a table, which compares the CBS data with the COMTRADE data and the COMEXT data. Although the figures slightly differ, the general tendency as well as the proportions correspond.

8.2.1 Croatian Agro-food trade by sub-sectors

The top five of the exports are all processed agro-food products. The top export commodities in value terms in 2005 were Tobacco & tobacco products (€107 mio), miscellaneous edible preparations (€83 mio), beverages, spirits & vinegar (€47 mio), sugars & sugar confectionery (€39 mio) and preparations of cereals, flour, starch, etc. (€34 mio). Miscellaneous edible preparations (€100 mio), meat and edible meat offal (€87 mio), edible fruits & nuts (€86 mio), preparations of cereals, flour, starch, etc (€83 mio) and residues and waste from food industry (€77 mio) were the top import commodities³².

Table 21: Share of main agricultural commodities in Foreign Trade 2004 (in million Euro and %)

	Export	Import	Total
Cereal (in mio Euro)	6.61	42.85	49.46
(in %)	1%	4%	2.90%
Tobacco (in mio Euro)	107.67	23.78	131.45
(in %)	20%	2%	7.80%
Sugar (in mio Euro)	39.08	51.85	90.93
(in %)	7%	4%	5.40%
Fruit&Vegetables (in mio Euro)	12.11	139.02	151.13
(in %)	2%	12%	8.90%
Meat (in mio Euro)	11.28	87.02	98.3
(in %)	2%	8%	5.80%
Dairy Products (in mio Euro)	28.9	72.14	101.04
(in %)	5%	6%	6.00%

Source: Own calculation based on COMTRADE, the UN Commodity Trade Statistics Database

While **cereals** are the most important sub-sector of Croatian agriculture (20% of GAO) they contribute only approximately 3% to the agricultural foreign trade and only 1% to the Croatian agricultural exports. In 2004 exports amounted to € 6.5 mio, while imports totalled € 43 mio. Thus the trade balance was negative and amounted to € 35.5 mio.

Maize is one of the few commodities with a positive trade balance. Preferential conditions for cereals trade have been agreed with the EU, Bulgaria, Albania, BiH, the former Yugoslav Republic of Macedonia and Serbia.

In contrast to cereals **sugar** has a relatively low share in domestic GAO but a considerably higher share in foreign trade. Sugar accounted in 2004 for approximately 5.5% of total agricultural foreign trade and to 7% of Croatian agricultural exports. Almost the entire export of white sugar goes to the EU and esp. to Italy. Brazil is on the other hand the land of origin of most of the sugar cane imports. The development of sugar imports and exports has been highly erratic in the period between 2000 and 2004. This aspect is further analysed in chapter 8.3 "Agricultural Trade with The EU".

Fruit & vegetables have a major share in the total value of Croatian agricultural imports (12%). In 2004 exports of fruits & nuts amounted to € 4.2 mio, of vegetables, roots & tubers to € 2.7 mio and to preparations of fruits & vegetables to € 8.2 mio. In the same year the import value reached

³² UN commodity statistics database

€ 86.2 mio for fruits & nuts, € 52.8 mio for vegetables, roots & tubers and € 64.4 mio for preparations of fruits & vegetables. Thus the aggregate trade balance for fruits & vegetables was negative and amounted to about € 190 mio. Some 57% of the fruits and vegetables imported in 2004 to Croatia came from the EU 25. Croatia is not self-sufficient in the production of fruits & vegetables and exports contribute just 2 % to the total value of Croatian agricultural exports.

As seen above, **tobacco** is of little importance for the Croatian agriculture production. However, for Croatian foreign trade it has a very significant importance. This is due to the fact that for the Croatian GAO, tobacco as raw material is taken into account, whereas in the foreign trade statistics processed tobacco (i.e. mostly cigarettes) is listed, which is a high value product. In 2004 tobacco exports had a total value of € 107 mio, while imports amounted to € 23 mio. Thus in 2004 the trade balance was positive (approximately € 84 mio). Tobacco (and tobacco products) is the most important export commodity of Croatia. In 2004 tobacco accounted for approximately 7.5% of agricultural foreign trade and to 20% of Croatian agricultural exports. Only a very limited part of this trade is with the EU25.

Wine imports have risen significantly in the last 6 years (from 53,000 hl in 1999 to 135,000 hl in 2004). The annual value of imports has fluctuated during that period from 7.9 million euro in 2000 to 10.2 million Euro in 2002. In 2004 the former Yugoslav Republic of Macedonia was the top exporter of wines to Croatia, followed by Bosnia Herzegovina, Slovenia, Italy, and Germany. Wine exports reached approximately € 8 mio in 2004. Bosnia and Herzegovina was the top importer of wines from Croatia in 2004 (3.9 million euro), followed by Germany (3.1 million).

There has been a significant increase in foreign trade (both for exports and imports) in **live animal and meat** over the last 6 years. Imports increased from 1999 to 2004 by more than 150% (compare Annex 3). Almost the entire increase is due to increased imports from the EU 25, with Poland being the main country of origin. The trade deficit in the meat sector alone amounted to approximately 75 million € in 2004 (imports 87 million €, exports 12 million €) with the sub-sector's share in overall agricultural foreign trade being 5%-6%.

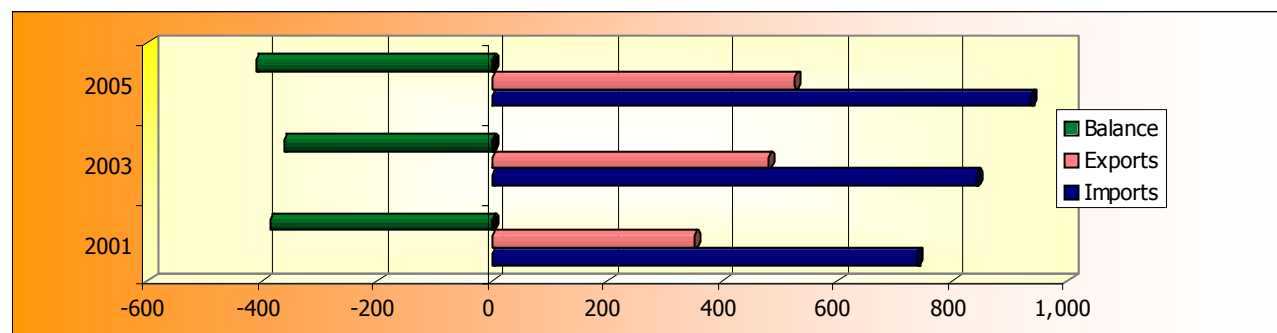
Croatia is a net importer of **milk and dairy products**. In 2004 exports of dairy products amounted to € 28.9 mio, while import value reached in the same year € 72.4 mio. Thus the trade balance for dairy products was negative and amounted to about € 45 mio. Fresh milk is mainly imported from the nearby EU countries (Hungary and Slovenia) whereas cheese comes mostly from Germany. The sub-sector's share in overall agricultural foreign trade is approximately 6%.

8.3 AGRICULTURAL TRADE WITH THE EU

The SAA (and before its entering into force the 'Interim Agreement' covering the trade and trade-related matters) has enabled Croatia to use a duty-free approach to the EU market for all agro-food products (except for very few commodities which can be exported only within quota). At the same time Croatia reduced its import duties and increased the access for EU goods to the domestic market. EU enlargement has increased the importance of the EU as a trading partner, as some of the New Member States (e.g. Slovenia, Hungary) have been and still are important trading partners. Trade with the EU-25 now represents approximately 70% of agro-food imports and 40% of exports and the widening trade deficit is due to the negative trade balance with the EU25 (see chapter 6 of this report). In 2004, in value terms, the biggest export market within the EU-25 for Croatian agro-food products was Italy (79.7 million €), followed by Slovenia (49.8 million €) and Germany (39.4

million €). The biggest import in Croatia in the same year was from Italy (144.4 million €), followed by Germany (124.5 million €) and Austria (94.6 million).

Figure 3: Croatian Agricultural Foreign Trade with the EU (million €)



Note: Data referring to EU-25 before 2004 relates to EU-15 plus 10 new Member States

Source: Eurostat, statistical regime 4

Figure 3 shows the rapid increase in overall foreign trade between Croatia and the EU, as well as the increase in agro-food trade. The overall Croatian trade deficit has widened over the last five years, whereas the trade deficit in the agro-food sector has remained approximately the same. In 2005 it even decreased for the first time suggesting a gradual strengthening of Croatian agro-food sector competitiveness.

With regard to the individual important single commodities, trade relations between Croatia and the EU-25 follow a similar pattern as the overall agricultural foreign trade of Croatia. The top exports in value terms in 2004 were sugars & sugar confectionery (34 million €), miscellaneous edible preparations (32 million €), preparations of cereals, flour, starch, etc (14 million €), beverages, spirits & vinegar (12 million €), and preparations of meat (11 million €). Miscellaneous edible preparations (78 million €), meat and edible meat offal (73 million €), preparations of cereals, flour, starch, etc (69 million €), beverages, spirits & vinegar (67 million €) and dairy produce (58 million €) were the top imported products³³.

Table 22: Croatian Agricultural Foreign Trade with the EU (million €)

Product by chapter	EXPORT to EU			IMPORT from EU		
	2002	2003	2004	2002	2003	2004
TOTAL FOREIGN TRADE	3,090.4	3,301.9	3,942.1	8,261.6	8,889.2	9,785.7
Total Agricultural Products	235.3	287.2	185.3	741.8	769.6	820.2
01 - Live Animals	0.9	1.4	0.6	43.7	28.0	32.4
02 - Meat and edible meat offal	2.4	3.2	3.8	56.6	51.8	73.0
04 - Dairy produce	6.8	8.2	3.5	60.0	59.6	58.6
05 - Products of animal origin	6.7	2.7	2.9	12.7	11.6	8.9
06 - Live trees and other plants	0.2	0.2	0.2	18.1	19.9	21.9
07 - Edible vegetables, roots & tubers	2.2	1.5	2.8	26.9	39.1	39.6
08 - Edible fruits & nuts	2.6	2.2	4.3	42.2	44.5	43.2
09 - Coffee, tea, mate & spices	2.0	1.6	1.4	9.6	11.0	12.2
10 - Cereals	29.6	23.2	3.9	18.1	14.8	31.1
11 - Products of the milling industry	0.1	0.8	0.8	8.5	9.1	13.2
12 - Oil seeds & oleaginous fruits	11.0	12.6	6.8	16.0	16.9	20.7

³³ COMEXT data

Product by chapter	EXPORT to EU			IMPORT from EU		
	2002	2003	2004	2002	2003	2004
13 - Lacs, gums, resins & other veg. saps	0.3	0.2	0.2	0.9	1.4	1.5
14 - Vegetable products n.e.s.	0.0	0.0	0.0	0.1	0.1	0.1
15 - Animal or vegetable fats & oils	9.4	6.0	4.7	27.6	28.3	22.1
16 - Preparations of meat	9.3	9.6	10.9	15.3	14.8	15.6
17 - Sugars & sugar confectionery	46.0	110.7	34.4	44.6	47.0	39.3
18 - Cocoa & cocoa preparations	6.4	6.0	8.3	25.5	28.5	31.7
19 - Preps. of cereals, flour, starch, etc.	13.4	13.4	14.0	58.2	65.7	68.8
20 - Preps. of vegetables, fruits, nuts & plants	5.4	3.9	8.3	42.1	46.1	45.5
21 - Miscellaneous edible preparations	30.2	31.9	31.9	64.5	70.8	77.8
22 - Beverages, spirits & vinegar	13.4	12.9	12.1	67.4	78.5	66.8
23 - Residues and waste from food industry	12.9	12.9	8.1	33.5	37.5	49.2
24 - Tobacco & tobacco products	3.5	3.7	2.6	4.4	4.9	6.7
Other WTO products outside chapters 1-24	20.5	18.3	18.7	45.3	39.7	40.3

Note: Data referring to EU-25 before 2004 relates to EU-15 plus 10 new Member States

Source: Eurostat (from <http://fd.comext.eurostat.cec.eu.int/xtweb>)

The most significant difference to the pattern analysed in chapter 8.2.1 is that tobacco is not important in the trade between the EU-25 and Croatia.

In general it appears that Croatia has a large trade deficit in the livestock sector (in 2004 exports to the EU-25 amounted to 7.9 million €, whereas imports from the EU-25 totalled 164 million € - compare chapter 1,2 and 4 in the above table). The same applies for the primary production of crops (in 2004 exports to the EU-25 amounted to 11 million €, whereas imports from the EU-25 totalled 113.9 million € - compare chapter 7, 8 and 10 in the above table).

The balance for processed agro-food products is better for Croatia as the level of exports to the EU-25 is higher. Still the trade balance in 2004 was negative for all chapters listed in the above table.

The development of **sugar** exports to the EU is worth special mentioning. In 2000 the EU gave preferences to Croatia and other countries in the Western Balkans by abolishing all EU import duties on products originating from the Western Balkans. In consequence EU Imports of sugar from the Western Balkan countries over the next three years, which previously had been nonexistent, increased significantly, with sugar becoming a very important export commodity for Croatia. While Croatia did not export sugar to the EC in the past, its exports rose from 600t in 2000 to around 188,000t in 2005 and the increasing trend was confirmed also in 2006.

Considering the ongoing reform of the sugar CMO and the potential accession to the EU of Croatia, it was considered not sustainable to encourage Croatia (and other countries in the region) to produce large quantities of sugar purely for export to the EU and supply domestic needs with imports from third countries.

Following the mandate given by the Council in 2005, a duty-free import quota of 180.000 t of sugar into the EU has been agreed at negotiator level with Croatia in March 2006. Subsequently, a proposal for a new Council Decision on the conclusion of a separate protocol on sugar, amending the SAA with Croatia was adopted by the Council and the Protocol was signed between Croatian

and the EU on the 28 November 2006. This new arrangement, applicable from 1 January 2007 will permit Croatia to export sugar to the EC under a tariff quota and replaces the current unlimited duty-free access under the Stabilisation and Association Agreement.

9. RURAL DEVELOPMENT AND RURAL POLICY

9.1 MAIN CHARACTERISTICS OF RURAL AREAS

According to the 2001 national census the Republic of Croatia had a total population of 4,437,460 of, which 2,112,085 (47.6%) lived in rural areas (applying the OECD definition). Over the latest census period (1991-2001) demographic changes in rural areas and urban centres were markedly influenced by destabilizing (external) factors, such as the war, resulting in many deaths, damaged infrastructure and severe disruption of rural economic activity leading to a marked exodus of, mostly younger parts of the rural population.

About 90 % of Croatian Municipalities (villages and towns) and the same share of total land area are considered to be "rural areas". In Croatia there is no official definition of rural areas, and usually it is accepted that rural areas are "all areas outside the urban areas". For this report the definition of the OECD, that determine a rural area on the basis of population density is applied (OECD applies the threshold of 150 inhabitants/ km²).

Rural areas of the country are characterized by relatively poor availability, access and condition of physical infrastructure and services. All major parameters classifying access to infrastructure and services show significant discrepancies between rural and urban areas, e.g. number of telephones/1000 population, number of post offices per 1000 of population, roads and railways density (per 100km²), etc. are much lower in rural than in urban regions. The most significant differences between rural and urban areas concern connection to a sewage system and water pipeline (in the majority of rural areas approximately 10-15% of rural households are not connected to a water pipeline).

Table 23: Indicators for Rural Development, Environment and Quality of Life (for 2001)

RURAL DEVELOPMENT INDICATORS	Croatia Urban	Croatia Rural ^A	EU 25 (2003) Rural ^A
Population (as % of national population)	52.4%	47.6%	56.3%
Area (as % of national area)	8.4%	91.6%	92.1%
Population (inhabitants per km ²)	491	41	70
Population development (absolute change from 1991 to 2001)	-272,000	-75,000	No data
GDP / inhabitant (Euro)	no data	5,363	16,664 ^C
Unemployment (in % of active population)	no data	23.5%	11.0% ^D
Importance of aged people (% people aged more than 60 years)	20.3	23.8%	16.1% ^E

^A data for Croatia (according to OECD criteria) and EU-25 refer to regional NUTS III level and is for predominantly and significantly rural areas

^C data for 2001 ; ^D data for 2004 ; ^E data for people aged more than 65 years

Sources: for Croatia: Analysis of data from the National Census, by settlements, 1991 and 2001, CBS of the Republic of Croatia; **for EU-25:** Data from the "Rural Development in the European Union - Statistical and Economic Information - Report 2006" of DG1

As it appears from the data in table 23 predominantly rural areas are in terms of area equally important in Croatia and in the EU 25, whereas a smaller share of the population lives in rural areas than in the EU-25. Whereas some 92% of the total area in Croatia is defined according to OECD as predominantly or significantly rural, the same applies for the EU-25. But whereas less than half of the Croatians (47%) live in rural areas, some 57% of the EU-25 citizens do so. The age structure is comparable to the EU-25, if taking into account that the figure for the EU-25 is for people older than 65. The net-outflow of population (as a consequence of the armed conflict) was much higher in urban centres than in rural areas.

For 2005 net migration has been negative for almost all counties, with the county of Zagreb being the only county with a significant surplus of immigrants. However, the total number of migrants is small (some 31,000 Croatians moved to another county in 2005)

Although there has been no systematic monitoring of poverty in Croatia, other than those undertaken linked to existing social welfare programmes, the available data on poverty (primarily from the World Bank Living Standards Measurement Survey and the Central Statistics Office data from 1998) indicated at that time that approximately 10% of the population were below the National poverty line³⁴. However the divergence of living standards is significant. The income situation³⁵ of families and households living in rural areas is much worse than in urban areas. Table 24, which provides an overview of the GDP per capita on county level, clearly demonstrates this rural-urban income divide.

In the more remote rural areas there are large numbers of the population that survive on pure subsistence and have no disposable cash income (i.e. 37 % of the total population living in those areas). In the majority of rural counties, the share of the population dependent upon direct support (average of between 31-36 %) appears to be considerably higher than for those living in urban regions (27-32 %). Furthermore, the respective share of females in these vulnerable groups is far higher in rural areas (approximately 62-63 %) than in urban regions (55-57 %).

Individual farmers comprise for a big share in rural employment. As analysed in chapter 3.4 some 300,000 farms registered in the 2003 Agricultural Census could be sub-summarized under the heading (semi-) subsistence. Within this group the poverty rate is higher than in other groups and thus are considered of special importance for rural development policies.

9.1.1 Characteristics of Rural Population and Labour Markets

As outlined above rural population has decreased in absolute and relative terms. According to the OECD definition the percentage of rural population would be 47.6% of rural population. The below table indicates the distribution of population, area and GDP by individual counties.

³⁴ The poverty line at that time was set at the adult equivalent of 15,474 HRK (approximately € 2,060) per year

³⁵ The sources of income are defined as all kinds of income a person earned during the 12 months' period prior to the 2001 Census. These incomes include earnings and income from permanent and temporary employment, all kinds of retirement payments and earnings, regular and periodic unemployment benefits, incomes that are derived from all kinds of ownership rights, as well as periodic earnings received by natural and legal persons in the form of presents, or any other kind of financial or non-financial help.

Table 24: Population, Area and GDP at County level (2003)

NUTS III region/ county	Population 2003 in thousands	Area Km ²	Inhabitants / km ²	GDP p.c., €
Krapina-Zagorje	140.5	1,229	114	4,141
Sisak-Moslavina	182.8	4,468	41	4,553
Karlovac	139.1	3,626	38	4,509
Varaždin	183.2	1,262	145	5,365
Koprivnica-Križevci	123.2	1,748	70	5,696
Bjelovar-Bilogora	130.8	2,640	50	4,423
Međimurje	118.4	729	162	4,570
Zagreb	316.0	3,060	103	4,258
City of Zagreb	780.0	641	1,217	10,271
Primorje-Gorski Kotar	305.1	3,588	85	
Lika-Senj	53.0	5,353	10	6,038
Zadar	165.8	3,646	45	4,628
Šibenik-Knin	113.6	2,984	38	4,017
Split-Dalmatia	471.0	4,540	104	4,306
Istra	208.6	2,813	74	7,636
Dubrovnik-Neretva	123.9	1,781	70	5,096
Virovitica-Podravina	92.2	2,024	46	4,367
Požega-Slavonia	85.4	1,823	47	4,186
Brod-Posavina	176.2	2,030	87	3,336
Osijek-Baranja	328.8	4,155	79	4,394
Vukovar-Srijem	202.5	2,454	83	3,409
TOTAL Croatia	4,440,3	56,594	79	5,749

Source: Croatian Response to the EC Questionnaire; CBS; Consultants own estimates

All counties (except the City of Zagreb and Međimurje) could be considered as rural. Rural areas are relatively homogenous in terms of annual GDP per capita: The annual GDP/capita in the urban county "City of Zagreb" is about € 10,200 and thus far above the Croatian average. On the other hand the annual GDP/capita in the rural counties is mostly between € 4,000-€ 5,700 and thus below the country-wide average (about € 5,750) with the only exceptions being Lika-Senj and Istra.

In terms of the regional distribution out of the 5 "poorest" counties, 4 are in the Pannonian area (Brod-Posavina, Vukovar-Srijem, Krapina-Zagorje, Požega-Slavonia), three of them being in the eastern and central part of the Pannonian area.

In the period between the two Censuses the trend of demographic decline of the rural population continued. The data show a markedly unfavourable relation between young and old rural population and a distinct polarisation of demographic development between the rural and urban population. The age index of the rural population increased in this period from 0.79 to 0.96³⁶. This ageing

³⁶ Age index is the analytical index of the population age structure expressed as the relation between old (i.e. population aged 60 or more years) and young population (i.e. population aged 19 or less years). The population is old if the index exceeds 0.40

population is having a further impact on the reproductive capacity and on the viability (a drop in the overall rate of economic activity) of rural areas. In the last decade the agricultural population has almost halved (by 39.9%), more owing to the demographic ageing of this population than for economic and social reasons. The influence of the conflict in the 90's was of course, also very significant.

Analysis of the official employment structure suggests that employment in agriculture decreased markedly over the last years: In 1999 still approximately 137,000 people had employment in agriculture, whereas in 2003 the number had decreased to approximately 99,000 (please refer also to Annex 4 of this report). Employment decreased both for individual farmers as well as for employees in agro-business. The decrease in official agricultural employment in "commercial" farms (for the distinction between commercial and non-commercial farms please refer to chapter 7) is likely to continue as further restructuring occurs of former AKs. However, it is likely that actual employment in the informal economy will increase. Accurate data recording this trend is currently limited.

There are significant regional differences in the spatial distribution of agricultural population, e.g. the share of agricultural population in the total population of the county of Bjelovar-Bilogora is above the average (20.7%), whereas its share in the area administratively under the City of Zagreb is as low as 0.6%. Please refer also to Annex 4 for data per county on the agricultural population.

9.1.2 Environmental Situation

Agriculture is by far the biggest single influence on the Croatian environment and countryside. As such agriculture accounts for 53% of the total nitrate load in the surface water of the Croatian Danube basin. The nitrate originates mostly from agricultural manure or leaking manure storage places.

According to a study conducted by Ecologica in 2004 aiming to support the introduction of an Agri-Environment Programme Croatia is, in relative terms, a heavy user of mineral fertilisers and pesticides. With an average consumption of 260 kg of nutrients and 4.1 kg of pesticide active ingredients per ha of arable land in the period 1999 - 2004, Croatia significantly exceeds the EU average. Agri-chemicals are applied only on arable land and permanent crops. Most Croatian farms practice very narrow crop rotation, resulting in a number of environmental problems and a decline in biodiversity. Soil erosion is a significant problem, although the biggest one seems to be land abandonment. Shrubs and forest-like vegetation are rapidly invading a vast area of Croatian agricultural land, notably species-rich grassland.

The current Law on Agricultural Soil gives special emphasis to the protection of natural resources. Regulations on soil protection, agreed in collaboration with other Alpine and Alpine-Adriatic countries, determine the main parameters of soil protection. In the process of soil protection, Croatia has organized an inventory of damage processes, and has established a system of stations for the permanent monitoring of soil status. Additionally, there is a plan for organizing a service of soil protection by providing a complete information system on soils.

The Croatian Agricultural Extension Institute has gradually been introducing recommendations to farmers on the use of mineral fertilisers, based on the principles of integrated plant production systems, characteristics of habitats, the level of nutrients in the soil, the nutrient requirements of

individual crops, and anticipated yields, all aimed at protecting agricultural land from contamination with harmful substances (Ordinance on the protection of agricultural land from contamination with harmful substances (OG 15/92)). The impact of these extension messages on actual farm practice requires further analysis to assess their effectiveness and environmental impact.

9.2 RURAL DEVELOPMENT POLICY

9.2.1 National Rural Development Policy

Key problems, that Croatia faces in rural areas include the high number of small-scale subsistence and semi-subsistence farms, the lack of competitiveness of existing commercial farms and the lack of rural economic diversity leading to high unemployment. There are many factors, which have influenced the situation in rural areas such as the conflict in the 90s, the system in former Yugoslavia and the impact of transition and trade liberalisation. Despite recent improvements, a comprehensive national rural development strategy and program with the necessary funds, is still not in place in Croatia.

In 2002 fundamental objectives and measures for rural development were agreed (governed also by the Act on Agriculture (see chapter 7 above) and consequently 3 programmes were designed to achieve some of the objectives in rural development:

- Rural area development programme,
- Marketing adjustment of agricultural products programme
- Original and protected breeds' protection programme

The measures of the rural area development programme were intended to contribute to the development of new employment sources for the rural population (tourism, services in agriculture, e-commerce and different crafts,), the development of rural, hunting and fishing tourism, professional support for the development of rural areas, the development of physical and social infrastructure and the improvement of professional education of rural population such as the. The Act on State Aid in Agriculture, Fisheries and Forestry foresees 10 specific measures to promote development of the rural areas (see Annex 5).

The marketing adjustment of agricultural products programme aims at contributing to the competitiveness of the agricultural sector by subsidising sale of agricultural-food products especially in the tourist market by means of various marketing activities. The MAFWM manages and is responsible for the implementation of this programme. Up until the end of 2005 these 2 programmes have had very little impact as no grants/projects were tendered at all.

In acknowledging the prevailing problems in rural areas in Croatia the "Council Decision of the European Union on principles, priorities and conditions contained in the Accession Partnership with Croatia" (OJ L 55 of 25.2.2006) in February 2006 stated that the development of a rural development strategy and policy instruments for the design, implementation, management, monitoring, control and evaluation of rural development programmes is one of the short-term priorities in the Accession Partnership with Croatia. In the near future the adoption of institutional and administrative EU standards (such as the Sapard agency, which has got the conferral decision following its national accreditation in April 2006 and an IPARD agency, which is not yet accredited)

will give Croatia access to Sapard and IPA funds for rural development, which is an important step for rural development in Croatia.

Up until 2006 things did not significantly improve in rural development in Croatia. Although a Rural development strategy has been drafted with the support of the FAO in 2003, today (in 2006) still no National Rural Development Strategy has been adopted (adoption was scheduled for 2006, but in September 2006 it hadn't been adopted by parliament). In 2003 the income support to non-commercial farms was introduced, being a genuine tool for rural development, but the budget for 2004 of the MAFWM shows that the tool's impact is very limited: only € 10 mio were dedicated to the income support scheme and the rural development scheme together – less than 5% of the total budget. The amount set aside for rural development measures under this budget (without the funds for the income support scheme) amounted to less than € 2 mio.

Things improved in 2006: A number of measures within the "rural area development programme" as well as within the "marketing adjustment of agricultural products programme" started implementation. Up to July 2006 MAFWM launched 10 public tenders. The following table 25 provides an overview over the grants / projects procured in rural development.

Table 25: Croatian Rural Development projects in 2006

	DESCRIPTION OF ACTIVITIES	Number of applications	Number of approved projects	PROGRAMME
1	Financial support to organisers of agricultural fairs, presentations, science congress, anniversaries and manifestations aiming on protection of cultural heritage	499	97	Under sponsorship of the MAFWM
2	Establishment and development of associations of agricultural producers, fish and molluscs farmers (breeders) and manufacturers of machine rings <i>„Co-financing of producer and/or processors of autochthonous Croatian food products"</i>	29	11	Rural area development programme
3	Establishment and development of associations of agricultural producers, fish and molluscs farmers (breeders) and manufacturers of machine rings <i>„Co-financing work programmes of machine ring associations"</i>	6	4	Rural area development programme
4	Establishment & development of agricultural cooperatives <i>„Co-financing of professional manager of agricultural cooperative"</i>	48	17	Rural area development programme
5	Establishment & development of agricultural cooperatives <i>"Establishment of new agricultural cooperative"</i>	128		Rural area development programme
6	Establishment and development of agricultural cooperatives <i>"Development of agricultural cooperative"</i>	116		Rural area development programme
7	Development of rural, hunting and fishing tourism <i>"Drafting the plan of development of regional tourist destination"</i>	161	11	Rural area development programme
8	Support for work programmes of professional associations in agriculture and fisheries			<i>Data processing is in progress</i>
9	Marketing adjustment of agricultural products program	71	26	
10	Financial support for building, adaptation and equipment of teaching practice premises in agricultural high schools for 2006			<i>Competition (tender) in progress</i>
11	Restoration and development of villages and village area (rural infrastructure, environment protection, land settlement, fisheries, forestry, hunting, diversification of activities)	7	7	Rural area development programme

	DESCRIPTION OF ACTIVITIES	Number of applications	Number of approved projects	PROGRAMME
	<i>„Co-financing the programme of settlement of existing unused forest and field roads on islands and shore“</i>			

Source: MAFWM

For the next phase of rural development in Croatia two strategic documents will be of key importance for the institutional framework: the Rural Development Strategy drafted by the FAO and the MAFWM and the National Programme for Agriculture and Rural Areas. They will form the basis for planning activities and state aid with the objective of sustainable development of rural areas.

9.2.2 EU-Approximation

At the European Council Assembly on June 17th-18th, 2004, the Republic of Croatia became an official candidate country for the European Union membership. As a candidate country, Croatia has obtained access to pre-accession funds PHARE, ISPA and Sapard, including the financial and technical support for the adjustments necessary for full membership. In total € 245 million are available for Croatia through pre-accession funds, of which € 140 million are foreseen to be allocated in 2006 (PHARE - 80 million, ISPA – 35 million). Also the Sapard programme has started in 2006 and provides € 25 million. The EC has taken in September 2006 the decision to confer management of aid to the Sapard agency, which has marked the date on which the Sapard agency was allowed to select and contract Sapard projects.

From 2007 onwards "IPA - Instrument for pre-accession assistance for 2007-2013" will replace PHARE, ISPA, Sapard, and CARDS. IPA will contain five components: I) Transition Assistance and Institution Building, II) Cross-border cooperation, III) Regional Development, IV) Human Resources Development, V) Rural Development. The latter will replace Sapard and will be called IPARD.³⁷

The EU-CAP requires an institutional framework including e.g. a paying agency and the institutional capacity to implement the integrated administration and control system (IACS) and rural development measures. In February 2005 Croatia adopted the legal framework for the future paying agency consistent with EC requirements. The Department for Market and Structural Support operating within the Ministry of Agriculture, Forestry and Water Management will become together with the National Fund within the Ministry of Finance the paying agency in charge of CAP expenditure after accession. The same department will become the Agency responsible for the implementation of Sapard, IACS and the Land Parcel Identification System (LPIS).

The Sapard programme was approved by EC in February 2006. The measures "Investments in agriculture holdings" and "Improving the processing and marketing of agricultural and fisheries products" funded by Sapard can be implemented from late 2006 onwards. The measure "Improvement of rural infrastructure" is currently (October 2006) being prepared for national accreditation.

The introduction of a new land registration and administration system (please compare chapter 1.2 and Annex 2 of this report) is of key importance for the operation of a paying agency and more generally the operation of agricultural support schemes and rural development policies.

³⁷ Please refer also to Annex 1 of this report

Croatia complies with most of the EU requirements in the field of organic agriculture, as such it has the necessary register of organic operators, authorised testing laboratories, functioning inspection system, body able to take equivalency decisions if requested by importers of products from other countries and body able to take the general enforcement measures). Organic agriculture might be an alternative for the many small family farms in Croatia. Especially the Mountainous area, where the agricultural production is traditionally extensive and not much of chemical substance and mineral fertilizers have been used, has a good precondition for plant and animal organic production in combination with eco-tourism.

In parallel the drafting of the Ordinance on the implementation of the programme for the Instrument for Pre-Accession Assistance - Rural Development Component (IPA-RD)³⁸ and adoption of the Rural Development Strategy of the Republic of Croatia (has been drafted with support provided through UN FAO, in cooperation with the Agricultural Ministry) are the legislative measures that need to be adopted soon.

9.3 REGIONAL POLICY

A strategy for regional development is not yet finalised. Currently regional policy objectives and development priorities are not clearly defined for the entire country, but only for the areas of special state concern, i.e. the Adriatic islands and highland-areas.

The administrative capacity for planning and implementation of regional development programmes is currently insufficient. This also applies to cross-border and inter-regional cooperation programmes, in view of the future use of EU funds. EU funds should substantially facilitate work on the regional development strategy and the further development of regional policies.

9.4 AGRO-ENVIRONMENTAL POLICY

Croatian legislation regulating and restricting the negative impact of agriculture on environment and biodiversity is still in an early stage of development. Some positive efforts have been initiated in recent years and some key Croatian policy documents already foresee the introduction of an agro-environmental programme. These are the Draft National Programme for Rural Areas, which is drafted by the MAFWM and has to be adopted by the Croatian Parliament (foreseen for the end of 2006) and the Rural Development Strategy produced in co-operation with the FAO (not adopted, yet).

It is also important to stress that two recent major legal acts (Act on Agricultural Subsidies and Act on Nature Protection) prescribe provisions for the introduction of agri-environment related subsidies. The selection of Natura 2000 sites is in progress. A pilot project on ecological networks was the starting point for the EU ecological network NATURA 2000 in Croatia. Still more capacity building is needed on how to draw up protection and management plans related to NATURA 2000 and basic NATURA 2000 payment issues

The Law on Organic Agriculture was adopted in 2001. It has been supplemented by several directives and started to be implemented in 2004. The National Environmental Strategy and its corresponding action plan were adopted in 2002 (NN, 46/2002). It praises Croatia for its national heritage and diversity, calling for a number of actions to be taken. However, this document does

³⁸ For sequencing Sapard – IPA-RD please refer to Annex 1 of this report

not pay much attention to agriculture. It does encourage development of organic farming, but outlines no concrete programmes or (financial) instruments for implementing it.

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ANNEX 1

EU and Other Donor Support to Agriculture and Rural Development

The EU is streamlining pre-accession assistance by enhancing coordination between the different components through the creation of a single framework for assistance: the Instrument for Pre-Accession Assistance (IPA). This framework incorporates structural funds and rural development funds components and as such replaces existing regulations including Sapard, ISPA and CARDS. Within IPA the rural development component is referred to as IPA – Rural Development Component (IPA-RD). After 2006 IPARD will be the main instrument through which EU financial support to agriculture and rural development will be provided.

Croatia (candidate country status) will continue to receive assistance as outlined in the CARDS regulations (see next sub-chapter). IPA foresees that Croatia gradually adopts the rules and principles governing the management of structural and regional development funds in the EU. Assistance will be made available in three separate components: regional development, rural development and development of human resources.

The recent or ongoing donor support to agricultural and rural development has been planned under CARDS, PHARE and Sapard regulations. The below presentation of EU and other donor support to agriculture and rural development is based on the Sapard Plan and crosschecked by DG Agri.

CARDS Programme

The CARDS Programme (Community Assistance for Reconstruction, Development and Stabilisation) is carried out on the basis of the *Multi-annual Indicative Programme 2001-2004*. On the basis of the established overall situation in Croatia the European Commission has approved five priority areas and 12 programmes, which are carried out on the horizontal level. This approach is a big encouragement to better linking of state and public administrations i.e. of democratic stabilisation, economic and social development, judiciary and interior affairs, strengthening of administrative system and environment and natural resources.

Table A1.1: CARDS projects - agriculture and fisheries:

Priority area	CARDS year	N ^o	Name	Type of assistance	Status	Budget €
JUSTICE AND HOME AFFAIRS (JHA) Integrated Border Management (IBM)	2001	1.1	IBM: Capacity building of phytosanitary and veterinary border inspection	Technical assistance (TA)	Completed	194,762
		1.2	Equipment for veterinary and phytosanitary services	Procurement tender/ Supply Contract	Completed	660,000
		1.3	IBM National Strategy	Twinning	completed	N/A
ADMINISTRATIVE CAPACITY BUILDING	2001	2	Strategy development capacity building in the area of Plant Health	TA	Completed	114,975

Priority area	CARDS year	Nº	Name	Type of assistance	Status	Budget €
(ACBF) Public Administration Reform (PAR)		3	Programming for the agricultural sector	TA	Completed	84,956
ECONOMIC AND SOCIAL DEVELOPMENT (ESD) Trade	2002	4	Capacity Building in the Area of Agriculture, Live Animals and Food Products	Twinning	Under implementation	1,750,000
JHA-IBM	2002	5.1	Strengthening the phytosanitary inspection system	Twinning	completed	525,000
		5.2	Equipment for the Phytosanitary Inspection System	Supply Contract	completed	150,000
		5.3	Phytosanitary inspection system. - Production of software.	Service Contract	Completed	75,000
ACBF-PAR	2002	6	Operational Capacity Building within the MAFWM	Twinning	Under implementation	1,000,000
		7	Capacity Strengthening of the APARDU	TA	Completed	199,000
ESD-Trade	2003	8	Capacity building in the area of Plant Health	Supply Contract	Completed	600,000
JHA-IBM	2003	9.1	Strengthening Capacities of Phytosanitary Inspection	Twinning light	Under implementation	250,000
		9.2	Vehicles for Phytosanitary Inspection	Supply Contract	Completed	118,860
Capacity building facility.	2003	10	Capacity building of the Sapard Agency within the Ministry of Agriculture.	Service Contract	Completed	196,730
Capacity building facility.	2003	11	Preparation of IPARD Sector Analysis (Rural Tourism and Agri-Environment)	Service Contract	Completed	60,950
ESD-Trade	2004	12	Capacity Building in the Area of Agriculture, Live Animals and Food Products	TA	Under preparation for implementation	1,500,000
JHA-IBM	2004	13.1	Capacity Strengthening of the Veterinary Border Inspection	TA	Under preparation for implementation	600,000
		13.2	Capacity Strengthening of the Veterinary Border Inspection – equipment	Supply Contract	Under preparation for implementation	150,000

Priority area	CARDS year	N ^o	Name	Type of assistance	Status	Budget €
ESD-Trade	2004	14	Further Development and Capacity Building in the area of Plant Protection Products	Twinning	Under preparation for implementation	700,000
Capacity building facility	2004	15	Support to PHARE programming in the fisheries sector.	Service Contract	Completed	103,200
Capacity building facility	2004	16	Support to PHARE programming in the agricultural sector.	Service Contract	Completed	110,530
Capacity building facility	2004	17	Support to the National Fund in establishing the Certifying Body for Sapard	Service Contract	Under preparation for implementation	199,000
					Overall budget (€)	9,343,270

PHARE PROJECTS

Following the award of the Candidate Country status in June 2004 Croatia benefits now from the pre-accession financial instruments of the EC. One of them, the PHARE programme, supports the institution-building and economic and social cohesion. In the field of agricultural and rural development the following PHARE projects are in the pipeline:

Table A1.2: PHARE projects - agriculture and fisheries:

Priority area	PHARE year	N ^o	Name	Type of assistance	Status	Budget €
Sectoral Policies - Agriculture	2005	1.1	Institutional capacity building and support for implementation of Sapard / IPARD programme	Service Contract	Under preparation for implementation	4,000,000
		1.2	Institutional capacity building and support for implementation of Sapard /IPARD programme	Supply Contract	Under preparation for implementation	65,000

CARDS PROJECTS related to preparation of the Regional Operational Programmes:

In anticipation of the requirements for a regional planning system based on a "top-down / bottom-up" approach, which would link a National Development Plan, financed by CARDS 2003 project "Support to National Development Planning" to a National Strategy for Regional Development, financed by CARDS 2002 "Strategy and Capacity Building for Regional Development".

The Ministry of the Sea, Tourism, Transport and Development (MSTTD) (with UNOPS and EU CARDS support) has focused initially on developing the capacity at county-level to prepare and implement Regional Operational Programmes (ROPs). ROPs are developed at the county-level with participation of local governments and other local stakeholders and supported technically by county-level Project Implementation Units and their supporting external consultants.

The county ROPs are expected to become an integrated part of the National Strategy for Regional Development (NSRD) within the County and Wider Region Development Programme that will be one of the instruments for achieving NSRD strategic objectives.

Integration of ROPs into the NSRD, as well as integration of NSRD into the future National Development Plan (NDP) will enable the creation of a unified framework and strong links between all levels in regional and rural development planning and implementation.

In place are following ROPs:

Counties: Sisak-Moslavina, Vukovar-Srijem, Zadar i Šibenik-Knin

ROPs are made through CARDS 2001 "Sustainable Development in Areas of Special State Concern" and being implemented with technical assistance and limited project financing from CARDS 2003 funds.

Counties: Karlovac, Lika-Senj, Brod-Posavina, Požega-Slavonija

ROPs are made through CARDS 2003 "Sustainable Development of Croatia's War-affected Areas". ROPs completed in summer 2005: implementation is being supported with technical assistance and limited project financing from CARDS 2004 funds.

In preparation are following ROPs:

Counties: Osijek-baranja, Virovitica-Podravina, Bjelovar-Bilogora and Dubrovnik-Neretva

World Bank-.financed Croatian Social Recovery Project will fund ROP preparation to begin soon within Areas of Special State Concern.

Counties: Split-Dalmatia, Međimurje i Istria

Beginning to prepare ROPs without outside financial support.

Counties: Koprivnica-Križevci, Varaždin and Krapina-Zagorje

In preparatory stages and seeking some financial support for ROP preparation from MSTTD.

Counties: Primorje-Gorski Kotar and Zagreb county and City of Zagreb

In early discussion stages.

There is no linkage of the ROPs to higher-level policies and plans because of the lack of a National Strategy for Regional Development.

Other programmes in the framework of international co-operation

There are mainly bilateral co-operation programmes in the field of rural development:

GTZ – Office for Economic Co-operation of the Republic of Germany

The German Government has approved € 1.5 million for the Programme *Incentives to economy and employment in the food sector*. Technical aid has been applied for the development of the Croatian small- and medium-sized enterprises dealing with food production and processing as well as with preparation of domestic products for the market. In 2004 project documentation came under preparation for realisation of the project in question. Completion: 2007.

EVD – The Dutch Government Agency

The EVD issues a tender for the "PSO business to business» programme twice per year. The bidders are Croatian entrepreneurs together with Dutch companies. The aim of this programme is to strengthen business cooperation between the two countries and transfer of knowledge and know-how. Implementation of the new "programmatic PSO" programmes started in 2004. They will be used to subsidise various fields at institutional level.

Italian Act Nr. 84:

The aim of this Act is to support stabilisation, reconstruction and development of the South-Eastern European countries (the Balkans). It is financial aid of the Italian Government for encouragement of the Croatian economic development projects. The Ministry of Economy coordinates its implementation. The MAFWM, as a member of the task force, is responsible for giving a professional opinion and statements about Italian-Croatian projects to be proposed within the annual agricultural tender of the Italian Government. The Department will initiate cooperation between the Italian and Croatian companies on joint agricultural projects and will monitor the activities on their administration. The following project is under preparation:

Modernisation of fruit and vegetable production in the Balkans through sustainable production systems: The project coordinator will be the Agricultural Institute CIHEAM (Italy) and the CAEI (amount: € 2 million).

SIDA – Swedish International Development Agency

The project is aimed at consolidating agricultural land in order to establish a land consolidation system by establishment of the agency for trade in agricultural land, which is the precondition for modernisation of agricultural production.

Project for organisation and development of infrastructure for food quality and correctness. Its aim is to support non-governmental food organisations, laboratories and educational centres included in the matters of food-hygiene correctness (the project coordinator is the Ministry of Health with the MAFWM).

USAID – United States Agency International Development

USAID runs a 4-year project on the "*Agribusiness Competitiveness Enhancement*" in Croatia. The project has an overall budget of \$10.5 mio (~€8.5 mio). The project focuses on economic growth opposed to humanitarian aid or food security, which was the typical post-conflict approach. It works at "grass roots" level with small producer groups but also with large processors intending to establish collaborative relationships between the two groups. Increased productivity and quality in agricultural production is beneficial for the farmers but also the food industry, which suffers from insufficient supplies. The project will come to an end in November 2006.

In parallel USAID runs a project on "Raising Incomes in Economically Distressed Areas of Croatia". The \$5.8 mio (~€4.7 mio) project focused on rural areas, where the number of subsistence producers is high. Aim of the project is to generate income via creating employment or marketing of produce. The project will run until 2008.

WORLD BANK PROJECTS

- The most important ongoing WB intervention is the "Croatia Agricultural Acquis Cohesion Project" (CAAC - committed project cost ca. \$ 48 mio [approximately € 38 mio]), which aims to develop sustainable systems and capacities within MAFWM to ensure timely compliance with *EU acquis* (legal) conditions in the rural sector. CAAC has four project components: Component 1 strengthens the capacity for absorbing EU financial assistance in agriculture. Component 2 empowers the MAFWM administration and management. Component 3 ensures safe food and sanitary and phytosanitary (free from harmful pests and plant diseases) conditions. Component 4 finances project management, including refinancing the Project Preparation Facility. CAAC was prepared with close co-operation between WB and EC staff in order to prevent overlapping and enhance synergy effects of assistance in the Croatian agricultural sector.
- Economic and social reconstruction-beneficiary is Ministry of the Sea, Tourism, Transport and Development. The economic and social reconstruction project includes economic and social revitalisation of war-affected areas and accomplishment of the social incorporation of the population. The total budget of investment is 35 million €, which will be invested in several projects proposed by local communities.
- Croatia Real Estate Registration and Cadastre Project- beneficiary : Ministry of Justice
The objective of the project is to build an efficient land administration system with the purpose of contributing to the development of efficient real-estate markets. This will be achieved by addressing aspects of the supporting infrastructure, especially the real-estate registration system in the municipal courts, the cadastre system that is operated by the State Geodetic Administration (SGA) at the regional and branch office levels and by the Zagreb City Cadastre Office, supported by the academic institutions and the private-sector support professionals. Closing date is September 30, 2008. The budget is 26 million €.

ANNEX 2**Real Property Registration and Cadastre Project**

The objective of the proposed project is to build an efficient land administration system with the purpose of contributing to the development of efficient real property markets. This will be achieved by addressing aspects of the supporting infrastructure, especially the real property registration system in the municipal courts, the cadastre system that is operated by the State Geodetic Administration (SGA) at the regional and branch office levels and by the Zagreb City Cadastre Office, supported by the academic institutions and the private-sector support professionals.

The project will:

- accelerate registration in both the cadastre and real property registration systems;
- streamline both systems and the associated transaction processes;
- harmonize data between the two systems and ensure that they match with reality by undertaking cadastre re-survey where necessary, and land book registration correction and renewal in a systematic manner in selected areas of the country;
- improve customer relations and service provision, as well as organize awareness campaigns among stakeholders, aimed at supporting professionals, financial institutions, and real property holders; and
- address impediments to the operation of an efficient mortgage system

The Government program for the implementation of integrated cadastre and registration systems to cover the whole country will have to be phased over a period of fifteen years. The proposed project will cover the first five years of this comprehensive program, and will be focused on selected urban and rural areas. The resulting selection of the priority areas in this first five year project was mainly driven by the demand of municipalities through the mayors, with the help of a beneficiary assessment.

The proposed project will support the improvements of the linkages between the cadastre and property registration system that will then be replicated to the rest of the country by supporting approaches that would include:

- i. sporadic registration (based on on-going transactions) especially in urban areas, and
- ii. systematic property registration (i.e., total registration of geographic areas of land, village by village, municipality by municipality) in both urban and rural areas. At the end of the project, the information in the cadastre and real property registration systems will have been renewed and systems linked in about 5 percent of the country. The total area proposed to be addressed by the project for renewal, correction, and harmonization is approximately 250,000 hectares, involving about 1.05 million parcels, and would benefit about 360,000 persons including about 110,000 land holders.

A DESCRIPTION OF THE PROPOSED COMPONENTS:

Component A - Real Property Registration System Development

This component would focus on improving the land book registration system that operates in the municipal courts under the Land Registration Act, 1996, thus increasing the security of property rights over real property and transactions conducted under this system. The component would support the organization and training of the Land Registration Management Unit that has been established in the Ministry of Justice to have oversight of the property registration function, with the goal that operations be run along business lines, including the monitoring and evaluation of property registration. The component would address the present registration backlogs, and focus on improving and streamlining demand-driven transaction processing, both systematic and sporadic first-time registration, and apartment registration. It would address computerization of registration in the registry offices of the four major cities and about 20 other offices. It would also pilot in project years 2 through 5 a program to provide legal advice to low income owners on property registration related issues.

Component B - Cadastre System Development

This component would focus on the improvement and streamlining of the new integrated cadastre system (under the Law of State Survey and Real Estate Cadastre, 1999), and ensure that the system is maintained up-to-date in the regional and branch offices, operated by the State Geodetic Administration (SGA) and in the Zagreb city cadastre office. The component would focus on developing affordable technical standards and regulations, building a cadastre based on business/corporate plan principles, training staff and the private sector, upgrading equipment and offices, implementing quality control mechanisms, and developing and implementing an information system, and a multi-spatial information system. Operations to update the cadastre in about 5 percent of the country would be undertaken where possible under component C.

Component C - Inter-institutional Operations and Information Technology

This component would develop and implement joint field operations for the cadastre and land book registration systems, particularly a program to achieve harmonization of data between the municipal cadastre offices and court registry offices. It would do this using joint systematic registration and cadastre methods with the two institutions working together, and data verification and conversion. It would design and implement joint information and communications technology and management systems in the two institutions and associated offices.

Component D - Project Management, Training and Monitoring

This component will support:

- i. Project management by the PIU and the institutional teams in MOJ and SGA;
- ii. The improvement of the legal framework for real property matters;
- iii. The design and implementation of a common information and communications technology/information management (ICT/IM) strategy for SGA and MOJ and associated offices;
- iv. The provision of training for SGA, MOJ, LRMU and the land registries, and the Zagreb City Cadastre Office;
- v. A public awareness campaign and consensus building strategies;
- vi. a Service Commercialization and Marketing sub-component including the development and testing of One-Stop-Shop approaches for registration and cadastre;
- vii. Pilot activities for simplifying the existing procedures for registering apartments; and

Project monitoring, evaluation, reporting, including the social aspects, and customer surveys in the cadastre offices and land book offices.

ANNEX 3

AGRICULTURAL TRADE

Table A3.1: COMEXT data: Croatian Agricultural Exports to EU 25 by sub-sectors in Million € (2000 – 2004)

	EXPORT					
	1999	2000	2001	2002	2003	2004
TOTAL	2,464.71	2,859.88	3,127.52	3,090.39	3,301.92	3,942.14
Total Agricultural Products	136.95	133.91	169.46	235.33	287.16	185.25
01 - Live Animals	1.65	1.36	1.71	0.92	1.42	0.60
02 - Meat and edible meat offal	5.18	4.54	3.10	2.38	3.19	3.85
04 - Dairy produce	3.89	4.18	7.01	6.85	8.20	3.46
05 - Products of animal origin	0.83	0.69	0.51	6.73	2.67	2.91
06 - Live trees and other plants	0.24	0.17	0.14	0.15	0.17	0.15
07 - Edible vegetables, roots & tubers	1.95	2.78	2.59	2.22	1.54	2.84
08 - Edible fruits & nuts	3.19	4.17	5.84	2.62	2.15	4.35
09 - Coffee, tea, mate & spices	1.64	2.18	1.88	2.05	1.63	1.44
10 - Cereals	6.76	5.01	2.85	29.55	23.24	3.94
11 - Products of the milling industry	0.12	0.06	0.07	0.12	0.75	0.78
12 - Oil seeds & oleaginous fruits	6.23	8.87	8.94	11.02	12.59	6.77
13 - Lacs, gums, resins & other veg. saps	0.15	0.19	0.14	0.26	0.25	0.18
14 - Vegetable products n.e.s.	0.06	0.05	0.02	0.04	0.05	0.05
15 - Animal or vegetable fats & oils	3.81	3.71	5.69	9.37	5.97	4.66
16 - Preparations of meat	5.97	6.58	8.00	9.34	9.63	10.88
17 - Sugars & sugar confectionery	1.25	2.11	29.24	45.98	110.74	34.42
18 - Cocoa & cocoa preparations	3.50	4.04	4.49	6.38	6.01	8.30
19 - Preps. of cereals, flour, starch, etc.	9.27	10.32	11.30	13.37	13.38	13.96
20 - Preps. of vegetables, fruits, nuts & plants	3.78	3.83	3.70	5.36	3.86	8.27
21 - Miscellaneous edible preparations	40	29	27	30	32	32
22 - Beverages, spirits & vinegar	12	14	12	13	13	12
23 - Residues and waste from food industry	7	5	10	13	13	8
24 - Tobacco & tobacco products	5	2	3	4	4	3
Other WTO products outside chapters 1-24	13	19	20	21	18	19

Source: Eurostat (from <http://fd.comext.eurostat.cec.eu.int/xtweb>)

Table A3.2: COMEXT data: Croatian Agricultural Imports from EU 25 by sub-sectors in Million € (2000 – 2004)

	IMPORT					
	1999	2000	2001	2002	2003	2004
TOTAL	5,058.89	5,893.22	7,041.85	8,261.58	8,889.17	9,785.72
Total Agricultural Products	495.73	567.80	682.23	741.82	769.58	820.16
01 - Live Animals	26.70	41.37	27.52	43.71	28.01	32.37
02 - Meat and edible meat offal	25.66	45.98	54.74	56.61	51.80	73.01
04 - Dairy produce	35.66	49.97	60.85	59.98	59.64	58.55
05 - Products of animal origin	10.13	11.67	10.81	12.66	11.59	8.92
06 - Live trees and other plants	13.61	12.53	15.97	18.11	19.89	21.91
07 - Edible vegetables, roots & tubers	22.09	24.33	28.74	26.95	39.07	39.62
08 - Edible fruits & nuts	28.51	29.40	35.04	42.20	44.52	43.20
09 - Coffee, tea, mate & spices	8.30	8.88	9.40	9.58	10.99	12.24
10 - Cereals	21.82	13.11	33.20	18.08	14.79	31.13
11 - Products of the milling industry	14.08	10.59	11.04	8.51	9.12	13.21
12 - Oil seeds & oleaginous fruits	9.19	10.98	15.76	16.05	16.91	20.69
13 - Lacs, gums, resins & other veg. saps	0.90	1.06	0.82	0.90	1.39	1.47
14 - Vegetable products n.e.s.	0.10	0.15	0.10	0.10	0.11	0.09
15 - Animal or vegetable fats & oils	17.53	14.41	22.27	27.60	28.26	22.08
16 - Preparations of meat	13.30	14.14	15.79	15.26	14.83	15.61
17 - Sugars & sugar confectionery	21.13	24.78	36.22	44.59	46.99	39.25
18 - Cocoa & cocoa preparations	18.72	15.78	23.42	25.51	28.50	31.70
19 - Preps. of cereals, flour, starch, etc.	37.18	37.43	50.29	58.21	65.68	68.77
20 - Preps. of vegetables, fruits, nuts & plants	27.98	31.81	40.41	42.08	46.13	45.48
21 - Miscellaneous edible preparations	48.28	54.00	59.09	64.53	70.83	77.78
22 - Beverages, spirits & vinegar	43.23	46.48	57.08	67.38	78.46	66.82
23 - Residues and waste from food industry	18.18	20.69	27.86	33.47	37.51	49.23
24 - Tobacco & tobacco products	6.94	7.76	6.37	4.43	4.88	6.71
Other WTO products outside chapters 1-24	26.50	40.48	39.47	45.33	39.70	40.32

Source: Eurostat (from <http://fd.comext.eurostat.cec.eu.int/xtweb>)

Table A3.3: COMTRADE data: Croatian Agricultural Exports (global and to EU 25) by sub-sectors in Million € (2001 – 2004)

	EXPORT World 2001	2002	2003	2004	EU25 2001	2002	2003	2004
TOTAL	5,201.78	5,185.67	5,468.72	6,450.78	3,543.01	2,928.96	3,712.03	4,164.89
Total Agricultural products	472.98	530.84	597.15	532.23	180.92	164.37	288.14	190.42
01 - Live Animals	2.21	1.19	1.76	1.12	1.63	0.87	1.38	0.58
02 - Meat and edible meat offal	6.39	5.41	7.39	11.28	2.87	1.57	3.09	3.78
04 - Dairy produce	23.36	27.55	31.37	28.90	7.09	3.38	8.03	3.45
05 - Products of animal origin	7.94	8.94	8.72	6.11	7.92	8.74	8.66	6.02
06 - Live trees and other plants	0.21	0.43	0.47	0.45	0.14	0.17	0.16	0.16
07 - Edible vegetables, roots & tubers	3.20	3.59	2.57	4.46	2.49	1.85	1.65	2.71
08 - Edible fruits & nuts	6.66	3.15	2.85	7.65	5.57	1.07	1.97	4.26
09 - Coffee, tea, mate & spices	4.76	4.58	4.22	4.56	0.81	0.19	0.85	1.11
10 - Cereals	39.17	45.72	36.27	6.61	3.94	27.53	18.03	3.51
11 - Products of the milling industry	2.10	2.05	3.77	4.79	0.14	0.04	0.72	0.76
12 - Oil seeds & oleaginous fruits	10.49	12.25	18.05	16.54	9.23	10.56	11.41	7.08
13 - Lacs, gums, resins & other veg. saps	0.07	0.06	0.11	0.04	0.03	0.00	0.07	0.01
14 - Vegetable products n.e.s.	0.10	0.12	0.10	0.06	0.08	0.08	0.08	0.05
15 - Animal or vegetable fats & oils	14.45	19.66	18.17	16.82	5.77	1.36	5.91	4.48
16 - Preparations of meat	17.99	20.94	21.57	28.51	7.95	6.43	9.74	10.79
17 - Sugars & sugar confectionery	32.44	48.55	111.64	39.08	28.34	42.65	107.72	34.71
18 - Cocoa & cocoa preparations	22.04	23.98	25.85	29.71	4.84	1.62	6.72	8.51
19 - Preps. of cereals, flour, starch, etc.	27.22	30.47	30.14	34.17	10.80	2.95	13.74	13.89
20 - Preps. of vegetables, fruits, nuts & plants	11.68	11.67	9.48	14.28	4.09	3.26	3.85	8.21
21 - Miscellaneous edible preparations	67.45	76.89	81.14	83.45	28.44	20.05	33.31	31.78
22 - Beverages, spirits & vinegar	38.26	39.95	42.01	47.11	12.84	8.93	13.52	11.85
23 - Residues and waste from food industry	15.42	17.25	16.71	17.37	9.34	3.40	11.90	7.13
24 - Tobacco & tobacco products	98.99	102.65	102.84	107.66	7.66	2.44	7.29	6.52
Other WTO products outside chapters 1-24	20.39	23.79	19.93	21.47	18.91	15.23	18.35	19.08

Source: UN Commodity Trade Statistics Database

Table A3.4: COMTRADE data: Croatian Agricultural Imports (global and to EU 25) by sub-sectors in Million € (2001 – 2004)

	IMPORT World 2001	2002	2003	2004	EU25 2001	2002	2003	2004
TOTAL	10,096.44	11,338.84	12,559.86	13,336.39	7,205.57	7,112.54	9,045.04	9,268.75
Total Agricultural products	921.56	1,026.62	1,083.82	1,158.49	664.25	628.27	756.33	799.58
01 - Live Animals	36.56	68.99	54.75	61.47	30.92	45.52	30.22	35.28
02 - Meat and edible meat offal	57.22	60.61	59.79	87.02	52.80	52.99	51.05	74.58
04 - Dairy produce	65.44	61.83	63.81	72.14	62.01	49.44	59.99	60.06
05 - Products of animal origin	11.69	13.53	12.98	10.04	2.30	1.57	2.14	2.91
06 - Live trees and other plants	17.40	18.87	21.24	23.34	16.42	16.73	19.22	20.76
07 - Edible vegetables, roots & tubers	39.66	37.42	55.77	52.83	32.04	28.56	42.28	41.59
08 - Edible fruits & nuts	74.60	77.96	85.73	86.19	36.92	37.60	41.99	39.72
09 - Coffee, tea, mate & spices	35.10	31.02	28.81	30.98	7.93	6.89	7.84	8.55
10 - Cereals	43.33	16.82	24.54	42.85	35.07	13.55	18.63	32.41
11 - Products of the milling industry	14.76	11.99	12.33	13.93	12.10	7.52	9.64	12.23
12 - Oil seeds & oleaginous fruits	37.03	56.20	50.13	38.18	13.53	11.51	16.58	18.76
13 - Lacs, gums, resins & other veg. saps	1.86	1.96	2.35	2.89	1.40	1.49	1.95	2.27
14 - Vegetable products n.e.s.	0.27	0.55	0.54	0.57	0.09	0.10	0.24	0.22
15 - Animal or vegetable fats & oils	22.11	33.65	36.97	41.85	18.08	21.32	28.60	24.67
16 - Preparations of meat	16.60	16.92	16.44	17.81	15.94	8.46	15.54	16.30
17 - Sugars & sugar confectionery	47.52	48.68	57.09	51.85	38.33	33.04	38.95	34.50
18 - Cocoa & cocoa preparations	32.17	41.97	46.58	48.15	22.72	23.99	29.71	31.36
19 - Preps. of cereals, flour, starch, etc.	52.78	67.45	74.87	82.78	47.33	48.90	63.11	67.51
20 - Preps. of vegetables, fruits, nuts & plants	50.31	57.57	63.62	64.36	38.13	36.04	45.72	45.33
21 - Miscellaneous edible preparations	73.58	87.43	94.86	100.42	63.36	60.87	78.10	83.00
22 - Beverages, spirits & vinegar	56.04	68.85	80.79	76.32	49.85	41.38	67.82	60.93
23 - Residues and waste from food industry	58.50	59.67	63.23	76.92	31.64	39.21	42.11	41.16
24 - Tobacco & tobacco products	26.31	27.93	23.34	23.78	3.58	2.97	3.45	5.10
Other WTO products outside chapters 1-24	50.71	58.76	53.26	51.84	31.77	38.65	41.47	40.37

Source: UN Commodity Trade Statistics Database

Table A3.5: Comparison between different data sources on Croatian Foreign Trade in Agriculture(2000 – 2005)

EXPORT					
Source of Data	2000	2001	2002	2003	2004
WORLD					
1. CBS	440.1	524.4	592.4	680.8	596
2. COMTRADE DATA		473	530.8	597.1	532.2
<i>Thereof EU-25</i>					
1. CBS	182.5	181.6	234.8	294.7	200.6
2. COMTRADE DATA		180.9	164.4	288.1	190.4
3. COMEXT DATA	133.9	169.5	235.3	287.2	185.3
IMPORT					
Source of Data	2000	2001	2002	2003	2004
WORLD					
1. CBS	744.5	943.6	1061.5	1112.8	1171.4
2. COMTRADE DATA		921.6	1026.6	1083.8	1158.0
<i>Thereof EU-25</i>					
1. CBS	535.6	677.5	722.1	773	798.4
2. COMTRADE DATA		664.2	628.2	756.3	799
3. COMEXT DATA	567.8	682.2	741.8	769.6	820.2
BALANCE					
Source of Data	2000	2001	2002	2003	2004
WORLD					
1. CBS	-304.4	-419.2	-469.1	-432	-575.4
2. COMTRADE DATA	0	-448.6	-495.8	-486.7	-625.8
<i>Thereof EU-25</i>					
1. CBS	-353.1	-495.9	-487.3	-478.3	-597.8
2. COMTRADE DATA	0	-483.3	-463.8	-468.2	-608.6
3. COMEXT DATA	-433.9	-512.7	-506.5	-482.4	-634.9

Source: CBS, EUROSTAT (for COMEXT data, which is only available for trade with EU-25), UN Commodity Trade Statistics Database (for COMTRADE data)

ANNEX 4

RURAL SITUATION

Table A4.1: Employment structure in agriculture, fisheries, forestry and food industry (1999-2003)

			1999	2000	2001	2002	2003
Total number employed			1,364,495	1,340,958	1,348,308	1,359,016	1,350,245
Employed in agriculture and food industry	Employed by legal persons	Agriculture, hunting and forestry	31,700	30,900	30,400	29,300	29,396
		Percentage	2.32	2.30	2.25	2.16	2.17
		Fisheries	1,100	1,100	1,200	1,400	1,581
		Percentage	0.08	0.08	0.09	0.10	0.12
		Production of food and beverages	43,600	43,700	43,900	43,900	45,145
		Percentage	3.20	3.26	3.26	3.23	3.34
		Production of tobacco products	1,500	1,300	1,300	1,100	1,127
		Percentage	0.11	0.10	0.10	0.08	0.08
	Employed in small business	Agriculture, hunting and forestry	827	993	1,294	2,024	2,340
		Percentage	0.06	0.07	0.10	0.15	0.17
		Fisheries	2,433	2,449	2,577	2,773	2,862
		Percentage	0.18	0.18	0.19	0.20	0.21
	Active members of CPF	Individual farmers	100,986	83,196	75,772	70,171	62,868
		Percentage	7.40	6.20	5.62	5.16	4.66
	Total number of employees in the agriculture and food industry			182,152	163,644	156,449	150,674
Percentage			13.35	12.20	11.60	11.09	10.76
Total number employed in agriculture			137,049	118,641	111,246	105,671	99,047
Percentage			10.04	8.85	8.25	7.78	7.33

Source: Croatian Response to the EC Questionnaire based on: CBS, 2004, Processed by: MAFWM

Table A4.2: Active Agricultural population per County (2001)

County	Sex	Total agricultural population	Active Agricultural Population			
			Total	Self-employed on own-farm, without workers	Self-employed on own-farm, with workers	Unpaid family workers
TOTAL OF CROATIA	all	246.089	166.044	106.908	419	31.099
	m	124.478	94.796	65.826	341	8.663
	f	121.611	71.248	41.082	78	22.436
County of Zagreb	all	20.694	14.793	9.93	38	3.34
	m	9.862	7.696	5.853	31	908
	f	10.832	7.097	4.077	7	2.432
County of Krapina-Zagorje	all	17.582	14.843	11.289	21	3.093
	m	6.855	5.679	4.761	14	628
	f	10.727	9.164	6.528	7	2.465
County of Sisak-Moslavina	all	10.328	7.083	4.72	15	1.228
	m	5.61	4.526	3.325	11	345
	f	4.718	2.557	1.395	4	883
County of Karlovac	all	7.749	5.612	3.853	17	993
	m	4.098	3.315	2.358	15	316
	f	3.651	2.297	1.495	2	677
County of Varaždin	all	12.24	8.516	5.608	15	1.709
	m	6.009	4.551	3.191	10	553
	f	6.231	3.965	2.417	5	1.156
County of Koprivnica-	all	21.753	14.09	10.188	24	2.996
	m	10.901	8.289	6.572	22	995
	f	10.852	5.801	3.616	2	2.001
County of Bjelovar-Bilogora	all	27.529	19.625	12.835	35	5.323
	m	13.53	10.389	7.831	31	1.442
	f	13.999	9.236	5.004	4	3.881
County of Primorje-Gorski	all	3.465	2.092	308	18	52
	m	2.153	1.57	231	12	19
	f	1.312	522	77	6	33
County of Lika-Senj	all	3.102	1.946	1.153	7	243
	m	1.806	1.363	766	5	81
	f	1.296	583	387	2	162
County of Virovitica-	all	12.908	8.098	4.453	14	2.217
	m	6.889	5.145	3.443	12	589
	f	6.019	2.953	1.01	2	1.628
County of Požega-Slavonia	all	8.279	5.407	3.236	12	1.208
	m	4.303	3.195	2.178	10	260
	f	3.976	2.212	1.058	2	948
County of Slavonski Brod-	all	13.554	8.881	6.072	18	1.711
	m	6.816	5.061	3.885	16	396
	f	6.738	3.82	2.187	2	1.315

County	Sex	Total agricultural population	Active Agricultural Population			
			Total	Self-employed on own-farm, without workers	Self-employed on own-farm, with workers	Unpaid family workers
County of Zadar	all	5.101	2.654	1.065	4	246
	m	3	2.071	859	4	96
	f	2.101	583	206	-	150
County of Osijek-Baranja	all	21.112	12.73	7.034	40	1.804
	m	11.361	8.514	5.286	34	488
	f	9.751	4.216	1.748	6	1.316
County of Šibenik-Knin	all	2.517	1.735	995	4	109
	m	1.273	1.008	487	3	27
	f	1.244	727	508	1	82
County of Vukovar-Sirmium	all	19.202	10.718	6.629	21	1.684
	m	10.503	7.66	5.394	19	525
	f	8.699	3.058	1.235	2	1.159
County of Split-Dalmatia	all	8.092	5.184	2.643	18	562
	m	4.491	3.374	1.76	17	186
	f	3.601	1.81	883	1	376
County of Istria	all	5.362	3.164	1.281	39	267
	m	3.395	2.518	1.024	35	130
	f	1.967	646	257	4	137
County of Dubrovnik-	all	4.773	2.741	1.676	3	323
	m	2.68	1.91	1.241	2	132
	f	2.093	831	435	1	191
County of Međimurje	all	16.32	13.04	10.45	30	1.77
	m	6.886	5.449	4.504	19	481
	f	9.434	7.591	5.946	11	1.289
City of Zagreb	all	4.427	3.092	1.49	26	221
	m	2.057	1.513	877	19	66
	f	2.37	1.579	613	7	155

Source: CBS, Population Census 2001

ANNEX 5**RURAL POLICY****Table A5.1: 10 specific measures for the development of rural areas in Croatia**

Measure 1	drafting of school, teaching, educational and development programmes, plans and projects in the field of agriculture, fisheries, forestry, hunting and rural development;
Measure 2	specialised education (high schools, educational camps, professional training) of villagers in the field of agriculture, fisheries, forestry, hunting and rural development;
Measure 3	founding and development of agricultural cooperatives;
Measure 4	founding and development of agricultural producers' associations and machine rings;
Measure 5	investments in family farms, fish and shell farming, private forests and rearing of wild game (facilities and equipment for agriculture, aquaculture, forestry and hunting production);
Measure 6	processing, storage and marketing of agricultural, fishing and forest products;
Measure 7	assistance to village women and young farmers, and young fish and shell farmers in the form of pilot projects;
Measure 8	reconstruction and development of the countryside and rural area (rural infrastructure, environmental protection, cultivation of land, fisheries, forestry, hunting, diversification activities);
Measure 9	development of rural, hunting and fishing tourism;
Measure 10	preservation of traditional ethno heritage and autochthonous production

Source: MAFWM

ANNEX 6

REGIONS

The three natural and geographical areas of Croatia consist of the following (administrative) counties:

Pannonian Region	Osječko-baranjska, Vukovarsko-srijemska, Brodsko-posavska, Požeško-slavonska, Virovitičko-podravska, Bjelovarsko-bilogorska, Grad Zagreb, Koprivničko-križevačka, Zagrebačka, Sisačko-moslavačka, Međimurska, Krapinsko-zagorska, Varaždinska
Mountainous Region	Karlovačka, Ličko-senjska, Primorsko-goranska
Mediterranean Region	Istarska, Zadarska (part), Šibensko-kninska (part), Splitsko-dalmatinska (part), Dubrovačko-neretvanska

A short description of each of the three regions is given (taken from the FAO Draft Rural Development Strategy) as follows:

PANNONIAN REGION

Pannonian region is situated on the south part of the mountain Karpati and embraces approximately 47% of total country area and 64% of total Croatian population. It is the most inhabited and from the point of view of the agricultural production potential, the richest part of Croatia. It is the area with a continental climate and sharply defined seasons. The soil, climate and the favourable yearly circulation of precipitation give this area good natural potential for an efficient agricultural production. Large parts of this region covered with forests are a favourable basis for the development of forestry, and a strong lumbering industry. The production capacities of the primary sector of agriculture make large parts of Pannonian Region the top of the Croatian granary, and good results are being made in the wine growing and wine making industry. The Pannonian Region is rich in deposits of oil and natural gas, quartz sand, clay, hot water springs and other natural wealth. The important economic activity is food production, based on a developed agricultural and livestock production. The capacities of the food industry include: production of sugar, candy and chocolate, cookies, bread, milk processing, beer brewing, oil making, processing of fruit and vegetables, slaughter industry, meat processing, production of instant meals and food additives, livestock food production, etc. The development of tourism in Pannonian region takes the form of health resorts, hunting and fishing, recreational and village tourism. Important for the development of the region is the good road and railroad connection with the rest of Croatia and the neighbouring countries. Northern and northwestern parts of the region are in recent time developing a successful entrepreneurial relations leaning towards Zagreb, which as the largest consumer centre offers wider opportunities for employment.

In the Pannonian Region two opposing trends are present:

Rich natural resources and traditionally agriculturally successful areas on one side and devastated in the war (especially in eastern and western Slavonia) production capacities, a great part of rural surfaces still contaminated with land mines, transition problems (unfinished privatisation of ex social agricultural conglomerates, unresolved question of ownership and usage of now state property, etc.) on the other side.

Source: FAO: *Rural Development Strategy for Croatia*

MOUNTAINOUS REGION

Includes quite heterogeneous area, which begins with shallow (covered) karst of the Karlovac hinterland and continues with the mountainous massifs of Mala and Velika Kapela, Gorski Kotar and Velebit. The climate is typically mountainous with heavy precipitation, which can amount to annual 2500-3500 mm. The majority of precipitation is snow and what is also typical for this region is the short vegetation period. Soil is heterogeneous, developed on high silicate rocks or on limestone or dolomites. The agriculture is adjusted to the climate conditions and small-scale private farms prevail with cattle breeding as the main branch. The number of arable crops in this region is small because of the climate conditions, and the most prevailing are: corn (early ripening), potato, rye and vegetables. The agricultural production is traditionally extensive and not much of chemical substance and mineral fertilizers have been used (potentially a good precondition for plant and animal organic production in combination with eco-tourism).

The natural resources of this region are numerous oil and natural gas deposits, forests, rivers with traffic potential, nature preserves, deposits of clay and stone, thermal springs, and a great variety of flora and fauna. The main economic activities of the region are industries (especially energetic, oil, metallurgy, petrochemical and chemical industry), and agriculture and food manufacturing industry, forestry and wood processing industry, commerce, construction, traffic and communications. Production of food and drinks encompasses a wide selection of products: milk products, meat products, brewery, flour and bakers products, etc.

Although rich in natural resources, abundant in forests and waters, a low population density and considerably downgraded rural infrastructure (e.g. traffic infrastructure), as well as the war devastated production capacities make the development of rural areas in the Mountainous region extremely difficult for the time being. The major part of this region, as well as the area surrounding it is granted an extra budget support as a region under special government care.

Source: FAO: Rural Development Strategy for Croatia

MEDITERRANEAN REGION

The Mediterranean region includes coastal and island area of Croatia from Istria on northwest to Konavle on southeast. In the direction from northwest to southeast there is a regular rise of the annual temperature and the fall of the amount of precipitation. The climate is sunny and hot; temperatures rarely fall below zero, which is good for the growing of high quality Mediterranean crops, such as olive, figs etc. The geographical location determines the region as a specific, complex natural environment in which there are island-, mountain- and coastal regions. It is recognizable for its long coastline and islands, attractive beaches and a great diversity of flora and fauna. A large percentage of the regional GNP is made by the tourism sector, which is the basic economic activity in the coastal districts, followed by the commerce sector, traffic and telecommunications, construction and financial services. Agriculture and the fish industry have a long tradition in the large part of the region. Food industry nowadays makes 50% of the total industry in some of its counties. Agricultural areas are mainly located on the flat geographical surfaces and depressions that are river valleys, plateaus and karst fields. The most prevailing are private farms with small production parcels. The tourist and catering offer of the region is diverse and of good quality, and beside the larger urban centres, the tourist offer includes many autochthon, traditional, small places in the coastal and island part of the region. In the economic activity commerce takes an important place. The Mediterranean region is the "most urban" region in Croatia. Its northern part from an economic perspective discriminates favourably from the state average. In Istria the main factors that offer opportunities for employment and further development are linked to performance of the tourist sector (with a well developed infrastructure), Mediterranean agriculture, fishing industry, a well established entrepreneurial spirit of the population, and the fact that region was not directly affected by war. The central part of Dalmatia is still much affected by the consequences of war. Numerous production capacities have been weakened or destroyed but recovery is expected with the improvement of the traffic infrastructure and revival of tourism, as the most successful economic branch. Scarcely populated islands, as areas of weaker production abilities are additionally supported from budget resources. In the southern part of the region the economy is recovering from war damages, and the tourism sector is picking up.

According to the Census 2001 data, out of 4,4 mill residents in the Republic of Croatia 2,8 mill residents, or 64% of the total population of the Republic of Croatia (of which 31% in the Eastern and 69% in the Western part) lived in the Pannonian region, 30.2% in the Mediterranean region while only 257,755 or 5.8% was living in the Mountain region.

Source: FAO: Rural Development Strategy for Croatia

Table A6.1: SWOT analysis of main geographic regions of Croatia from a perspective of rural development:

Region	Strengths	Weaknesses	Opportunities	Threads
Pannonian	High quality agricultural land and other resources Tradition in agricultural production, forestry, wood and food industry Relatively well developed food processing industry Entrepreneurial spirit, positive effect of the Zagreb market Fairly good traffic connection	In Eastern and Western Slavonia damaged production capacities, Large territory under land mines (uncleared yet) Shortage of work places for returned families Uncompetitive small-scale agr. producers	The development of diverse systems of agricultural production (intense, sustainable ecological) More intense encouragement of the rural and agro tourism (areas with a rich cultural heritage and protected landscapes) The development of value added products for small scale producers	Slow process concerning improvements in efficiency of local administration Slow progress in improving infrastructure Slow progress in developing competitive markets Mistaken privatisation and development strategies for large agro-food systems
Mountainous	Rich natural resources (forests, wood, water, pastures) Favourable traffic location (coast and the tourist market) uncontaminated agricultural areas: abandoned or used extensively	Low population density Unfavourable age and education structure of population Weak traffic infrastructure High share of population working in declining industries (downgraded production capacities) Production capacities destroyed during wartime Large part of areas under land mines (uncleared) Weaker production conditions (e.g. for intensive forms of agriculture)	Development of alternative agricultural systems (extensive cattle-breeding, ecological agriculture) Agro, rural and other forms of tourism and entrepreneurship Large parts of the region under governmental special programmes for development (areas of special state concern)	Slow progress regarding investment in infrastructure, new production, capacities, etc.) and the lack of those The lack of employment possibilities and contents appealing to the young population Slow process concerning improvements in efficiency of local administration
Mediterranean	Natural resources favourable for development of a wide spectrum of activities (tourism, agriculture, fishing, shipbuilding, etc.) Tourist tradition, tourist market for the agricultural products Positive effect of the western type of entrepreneurship Fairly good traffic connection (by air, sea and land)	Part of the region damaged in war – damaged resources, production and human capacities A larger part of the area has weaker production abilities (the islands) Bad traffic connection of the islands with the mainland as well as the communal infrastructure Large portion of population living in the cities and a scarce population of rural areas Fragile environmental conditions in agricultural intensive regions extremely fragmented land resources with unsolved property rights	Further development of tourism, not only as mass phenomenon but also in the rural areas Alternative agricultural systems (Mediterranean Cultures eco- production Implementing additional activities alongside tourism and agriculture (craft, manufacturing, etc) Promoting Croatian food and craft products trough tourism	Longer period of reconstruction of the war affected areas (because of insufficient funds and undeveloped plans) A longer period needed for promoting other forms of tourism (changing the tourist identity) Seasonal economy There is danger of putting too much pressure on environment by intensive agriculture (e.g. Neretva region)

Source: FAO: *Rural Development Strategy for Croatia*

ANNEX 7

MARKET SUPPORT MEASURES

Table A7.1: Direct Payments for Individual Agricultural Commodities

Market/Product	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)
	year 2002	year 2003	year 2004	year 2005
Arable crops:				
Cereals for bread, barley brewing and soya	1650 kn/ha	1650 kn/ha	1650 kn/ha	1650 kn/ha
Other cereals	1250 kn/ha	1250 kn/ha	1250 kn/ha	1250 kn/ha
Oil seeds	2250 kn/ha	2250 kn/ha	2250 kn/ha	2250 kn/ha
Other industrial crops	-	-	1250 kn/ha	1250 kn/ha
Fodder crops	1250 kn/ha	1250 kn/ha	1250 kn/ha	1250 kn/ha
Sugar beet	3000 kn/ha	3000 kn/ha	3000 kn/ha	3000 kn/ha
Tobacco	5 kn/kg	5 kn/kg	5 kn/kg	5 kn/kg
Vegetables	1250 kn/ha	1250 kn/ha	1250 kn/ha	1250 kn/ha
Vegetables for industrial processing	3000 kn/ha	3000 kn/ha	3000 kn/ha	3000 kn/ha
Medical herbs	1250 kn/ha	1250 kn/ha	1250 kn/ha	1250 kn/ha
Seed crops:				
Wheat, triticalle, rye, barley, oats	-	-	2250 kn/ha	2250 kn/ha
Maize	-	-	6500 kn/ha	6500 kn/ha
Soya and oil seed rape	-	-	4500 kn/ha	4500 kn/ha
Sunflower, sugar beet and tobacco	-	-	10000 kn/ha	10000 kn/ha
Potato	-	-	13000 kn/jha	13000 kn/jha
fodder crops, vegetables and other crops	3000 kn/ha	3000 kn/ha	3000 kn/ha	3000 kn/ha
Wheat, triticalle, rye, barley, oats	0,25 kn/kg	0,25 kn/kg	-	-
Maize	2,60 kn/kg	2,60 kn/kg	-	-
Sugar beet	66,60 kn/seed unit	66,60 kn/seed unit	-	-

	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)
Market/Product	year 2002	year 2003	year 2004	year 2005
Soya	1,10 kn/kg	1,10 kn/kg	-	-
Sunflower	7,40 kn/kg	7,40 kn/kg	-	-
Seed rape	5,00 kn/kg	5,00 kn/kg	-	-
Tobacco	5.650 kn/kg	5.650 kn/kg	-	-
Potato	1,00 kn/kg	1,00 kn/kg	-	-
Planting material, perennial crops and olive oil:				
Fruit seedling - certificated	-	-	4 kn/pcs	4 kn/pcs
Fruit seedling - standard	1 kn/pcs	1 kn/pcs	2 kn/pcs	2 kn/pcs
Grapevine seedlings	-	-	2 kn/pcs	2 kn/pcs
Olive seedlings	-	-	5 kn/ha	5 kn/ha
Stem plantation of grapevine and fruit rootstock (crop plantation)	-	-	50000 kn/ha	50000 kn/ha
Stem plation of grapevine scions (crop plantation)	-	-	35000 kn/ha	35000 kn/ha
Stem plantations of fruit scions (crop plantation)	-	-	25000 kn/ha	25000 kn/ha
Vineyard (annual payments)	1.250 kn/kg	1.250 kn/kg	2500 kn/ha	2500 kn/ha
Vineyard (crop plantation)	28.000 kn/kg	28.000 kn/kg	33600 kn/ha	33600 kn/ha
Stem plantation of grapevine rootstock (crop plantation)	-	-	2500 kn/ha	2500 kn/ha
Fruitgrowing 1st and 2nd group (annual payments)	1.250 kn/kg	1.250 kn/kg	2500 kn/ha	2500 kn/ha
Strawberries and hops (annual payments)	1250 kn/ha	1250 kn/ha	1250 kn/ha	1250 kn/ha
Fruitgrowing, 1st group and hops (crop plantation)	20.000 kn/ha	20.000 kn/ha	24000 kn/ha	24000 kn/ha
Fruitgrowing, 2nd group and hops (crop plantation)	14.000 kn/ha	14.000 kn/ha	16800 kn/ha	16800 kn/ha

	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)
Market/Product	year 2002	year 2003	year 2004	year 2005
Olive fruit processing	-	-	1 kn/kg	1 kn/kg
Olives (crop plantation)	20.000 kn/ha	20.000 kn/ha	20000 kn/ha	20000 kn/ha
Extra virgin olive oil	4,00 kn/ha	4,00 kn/ha	10 kn/l	10 kn/l
Olives	16 kn/tree	16 kn/tree	-	-
Lavander and pyrethrum (annual payments)	1250 kn/ha	1250 kn/ha	1250 kn/ha	1250 kn/ha
Lavander (crop plantation)	14000 kn/ha	14000 kn/ha	14000 kn/ha	14000 kn/ha
Livestock production and products:				
Milk (cow)	0,65 kn/l	0,65 kn/l	0,65 kn/l	0,65 kn/l
Milk (sheep and goat)	1,00 kn/l	1,00 kn/l	1,20 kn/l	1,20 kn/l
Fattened cattle of domestic origin	800 kn/head	800 kn/head	1000 kn/head	1000 kn/head
Fattened cattle of imported origin	800 kn/head	800 kn/head	800 kn/head	800 kn/head
Calves for fattening	-	-	600 kn/head	600 kn/head
Fattened pigs of domestic origin	100 kn/head	100 kn/head	100 kn/head	100 kn/head
Fattened pigs of imported origin	100 kn/head	100 kn/head	50 kn/head	50 kn/head
Fattened hares	-	-	4 kn/head	4 kn/head
Milk cow	800 kn/head	800 kn/head	800 kn/head	800 kn/head
Cows in cow-calf system	1500 kn/head	1500 kn/head	1500 kn/head	1500 kn/head
Female calves and colts breeding (once in animal's lifetime)	1500 kn/head	1500 kn/head	1500 kn/head	1500 kn/head
Bulls for breeding (once in animal's lifetime)	3900 kn/head	3900 kn/head	3900 kn/head	3900 kn/head
Breeding sheep, rams, he-goats and she-goats	200 kn/head	200 kn/head	200 kn/head	200 kn/head
Breeding sows	300 kn/head	300 kn/head	300 kn/head	300 kn/head
Boars for breeding (one in animal's lifetime)	1000 kn/head	1000 kn/head	1000 kn/head	1000 kn/head

	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)
Market/Product	year 2002	year 2003	year 2004	year 2005
Breeding mares and stallions	1350 kn/head	1350 kn/head	1350 kn/head	1350 kn/head
Bee flocks	90 kn/hive	90 kn/hive	90 kn/hive	90 kn/hive
Pure-bred breeding animals (registered animals - additional subsidy)				
Cows	-	-	120 kn/head	120 kn/head
Sheep and goats	-	-	30 kn/head	30 kn/head
Sows	-	-	45 kn/head	45 kn/head
Mares	-	-	200 kn/head	200 kn/head
Female hares	-	-	10 kn/head	10 kn/head
Bull sperm:	-	-		
-elite	-	-	10 kn/dose	10 kn/dose
-positively tested bull	-	-	7 kn/dose	7 kn/dose
Boars sperm	-	-	5 kn/dose	5 kn/dose
Breeding poultry (parent flocks)	-	-	9 kn/chicken	9 kn/chicken
Meadow and pastures	100 kn/ha (linked to a minimal number of animals)	100 kn/ha (linked to a minimal number of animals)	100 kn/ha (linked to a minimal number of animals)	100 kn/ha (linked to a minimal number of animals)
Indigenous wild feathered game breeding:				
Chickens of indigenous wild feathered game	8 kn/chicken	8 kn/chicken	8 kn/chicken	8 kn/chicken
Fisheries				
Cultivation of indigenous species of white marine fish	5.40 kn/kg	5.40 kn/kg	5.40 kn/kg	5.40 kn/kg
Cultivation of shells - mussels	0.80 kn/kg	0.80 kn/kg	0.80 kn/kg	0.80 kn/kg
Cultivation of shells - oysters	0.50 kn/psc	0.50 kn/psc	0.50 kn/psc	0.50 kn/psc
Juvenile fish species	0.25 kn/pcs	0.25 kn/pcs	0.25 kn/pcs	0.25 kn/pcs
Cultivation of fresh-water fish - 1st group	3.50 kn/kg	3.50 kn/kg	3.50 kn/kg	3.50 kn/kg
Cultivation of fresh-water fish - 2nd group	4.80 kn/kg	4.80 kn/kg	4.80 kn/kg	4.80 kn/kg

	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)	Direct payment nc/unit 2)
Market/Product	year 2002	year 2003	year 2004	year 2005
Small pelagic fish catch, cultivated fresh-water fish and ingenuous species of white marine fish	0.35 kn/kg	0.35 kn/kg	0.35 kn/kg	0.35 kn/kg
Processing of fresh-water and small pelagic fish	2.30 kn/kg	2.30 kn/kg	2.30 kn/kg	2.30 kn/kg

Source: Ministry of Agriculture, Forestry and Water Management

GENERAL NOTE

- 1) Target, intervention , basic, ..., prices
- 2) payments per unit of output (per kg), per ha, per head ...
- 3) General conditions