english

Organic Agriculture in Serbia
At a Glance 2013

commissioned by
Federal Ministry for Economic Cooperation and Development

SARADNJA
REPUBLIKA SRBIJA
SAVEZNA REPUBLIKA NEMAČKA

giz

Serbia organica
NATIONAL ASSOCIATION FOR ORGANIC PRODUCTION

Ministry of Agriculture, Forestry and Water Management

Published by:

National Association Serbia Organica

Supported by:

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH
Private Sector Development Program ACCESS

Authors:
Ulrich Marz, AFC Bonn
Marija Kalentić, GIZ Belgrade
Emilija Stefanović, GIZ Belgrade
Ivana Simić, Serbia Organica

Editors:
Nada Mišković, Serbia Organica
Tobias Stolz, GIZ Belgrade

January 2013

Organic Agriculture in Serbia
At a Glance
2013

CIP - Каталогизација у публикацији
Народна библиотека Србије, Београд

631.147 (497.11) "2013"

ORGANIC Agriculture in Serbia : at a glance 2013 / [authors Ulrich März ... et al.]. - Beograd : GIZ - Nemačka organizacija za internacionalnu saradnju GmbH : National Association "Serbia Organica", 2012 (Beograd : Grafiprof). - 52 str. : ilustr. ; 21 cm

Podaci o autorima preuzeti iz kolofona. - Tiraž 1.000. - Napomene i bibliografske reference uz tekst.

ISBN 978-86-87737-60-0 (GIZ)
1. Merc, Ulrih [аутор]
а) Еколошка пољопривреда - Србија - 2013
COBISS.SR-ID 195526924

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

ADA	Austrian Development Agency
CAP	Common Agricultural Policy
CEFTA	Central European Free Trade Agreement
EBIT	Earnings before Interest and Tax
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GAP	Good Agricultural Practice
GDP	Gross Domestic Product
GM	Genetically Modified
GIZ	German agency for international cooperation (GTZ prior to 1 January 2011)
HACCP	Hazard Analysis and Critical Control Point
IFOAM	IInternational Federation of Organic Agriculture Movements
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IPARD	Instrument for Pre-accession Assistance for Rural Development
ISO	International Organisation for Standardisation
KfW	Kreditanstalt für Wiederaufbau
MAFWM	Ministry of Agriculture, Forestry and Water Management
NASO	National Association for Organic Production “Serbia Organica”
NGO	Non-governmental Organisation
NRDP	National Rural Development Program 2011-2013
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SAA	Stabilisation and Association Agreement
SDC	Swiss Development Corporation
SIEPA	Serbian Agency for Foreign Investments and Export Promotion
SMEs	Small and Medium Enterprises
USAID	US Agency for International Development
USDA	US Department of Agriculture
WHO	World Health Organisation
WTO	World Trade Organisation

Foreword

Organic production aims to produce sufficient quantities of high quality food with a rational exploitation of natural resources and preservation of the environment.

Organic agriculture is a sustainable, natural alternative for the intensification of production methods and presents a production management system that promotes the recovery of ecosystems.

The interest in organic farming is rising and is also reflected in the market for organic products, which has increased three times in the last ten years.

EU member states show need for imports of organic products, despite the significant self-production. Serbia can take advantage of the opportunity and place substantial amounts of organic products on the international market. Encouraging fact is that the land under organic production in Serbia increased by nearly 30% in 2012 compared to the 2011. Our desire is to support organic food producers in order to ensure the further development of this promising field of agricultural production.

Sincerely,
minister
Goran Knezevic

Tobias Stolz
GIZ/ACCESS Program leader

Dear readers,

In March 2012 Serbia reached EU country candidate status. It is a result of Serbia enormous efforts to modernize its economy and various support measures which gave positive effects. One of the areas which require considerable adjustments on the way to EU is Serbia's agricultural sector. Europe's Common Agricultural Policy (CAP) regulates markets and mechanisms for many agricultural products and the integration of Serbia's agriculture into the CAP is a manifold challenge.

The GIZ is assisting Serbia with modernizing its economic system and is supporting the country in meeting the EC's convergence criteria through a variety of programs. Agriculture and the food industry have always been at the core of the GIZ's programs, and in the past ten years Germany has launched many initiatives to assist the development of this sector. While conventional agriculture still forms the backbone of the agro-food industry in all European countries, organic agriculture is becoming an important component of it. This is not only a result of increasing consumer sensitivity vis-à-vis environmental issues, or better government programs; rather, the industry has noted the formation of a large and highly profitable segment.

Worldwide, organic food markets are governed and driven by the same economic principles as all other industries. Demand is growing much faster than domestic production. It is this trend which propels economies to translate organic food manufacturing potentials into export opportunities. With its abundant agricultural land and its long agro-industrial tradition, Serbia can look forward to transforming these advantageous factors into export opportunities and invigorating its domestic market.

The Serbian National Action Plan for Organic Agriculture shows that Serbian political decision-makers have realized the country's potential for organic farming and started preparing the necessary framework to turn these opportunities into real business. The GIZ supports the continuation and implementation of the National Action Plan and therefore assists Serbia in reducing constraints and bottlenecks hampering the development of the agricultural sector in general, and of the organic sub-sector in particular. This report provides a comprehensive overview of the current status of organic farming, processing and marketing in Serbia. It is intended for existing and potential stakeholders in the agro-industry and is expected to stimulate discussion and interest in the development of the organic sector in Serbia.

Nada Mišković
President of National Association for Organic Production

Dear friends,

The very fact that this year as well this brochure has been published shows that organic production, despite some problems, has made large steps in the right direction. On comparing the data from the previous study, I am particularly proud to say that there has been an evident surge of about 30% in areas under organic plant farming as well as growth in overall organic animal production. I am certain that the activities NASO and its members have been implementing since establishment, aimed at promoting overall expansion of organic farming, including the ones aimed at developing the national market for organic produce, significantly contributed to the situation at hand. Despite weaker purchasing power of the population, organic products have found their way to the consumers, both at the greenmarkets ("Organic Food Market") and on the shelves of various supermarket chains, many of which formed organic corners in 2012.

I hope that this trend of expanding areas under organic farming will continue in the following year, especially considering all the unexploited natural potentials of Serbia, and at the same time also the soaring demand for organic produce on most global markets that cannot be met by local production.

If we are wise and do not allow genetically modified seeds to take up our fertile fields, we will stand among the nations leaving to their descendants something priceless, and that is healthy land and green Serbia.

We use this opportunity also to express our gratitude to GIZ for cooperation and mandate to design this year's publication on our own and thus contribute to promoting organic farming in Serbia.

Mišković Nada

Summary

This Industry Study reviews the current status of organic agriculture in Serbia and examines the sector in the context of historical developments, future challenges and opportunities. The first steps in organic production development were taken back in 1990, when NGO Terra's established a promotional network of producers, farmers, advisors and academic staff involved in organic food production. Twenty years later and taking advantage of the support of many national and international institutions, ministries, donors and technical organisations, the organic sector in Serbia has attained a respectable level:

- Several associations systematically promote and develop the organic sector;
- Governmental institutions and ministries, spearheaded by the Ministry of Agriculture, Forestry and Water Management, monitor and take care of the sector's needs;
- About 20 academic institutes, faculties, R&D facilities and affiliated bodies help to design and propagate most appropriate farming and cropping systems;
- Seven certification bodies make sure that national and international regulations governing organic certification are complied with.

Nevertheless, within the context of modernising the economy in general and the agricultural sector in particular, and the need to shape the agricultural sector in such a way that it can integrate itself into the European Common Agricultural Policy framework, organic agriculture finds it hard to achieve a satisfactory rate of growth. On more than 11,000 hectares of agricultural land, product portfolio mostly consists of fruits and field crops, with constant growth of cereals and oilseeds production. Most of these products are exported, for the most part to the EU, as domestic market development is hampered by the insufficiently increasing purchasing power of consumers.

Demand for organically grown produce exists in many countries and Serbia has excellent eco-climatic and technical conditions to cultivate, in addition to berries and fruits that are traditionally grown, also organic cereals and oilseeds that are in high demand. So far, however, farms engaged in organic farming have needed assistance to procure the appropriate machinery, other technical devices and capital, in order to raise production efficiency to levels that ensure their competitiveness on the national, regional, and EU markets.

The forthcoming IPARD program is, therefore, a major chance for the organic sector in Serbia. Through investment support from IPARD, both farmers and processors can begin to increase production efficiency and gradually strengthen the country's role in the European organic industry, building on its existing advantages: uncontaminated soil, renowned and prominent R&D and educational institutions, close ties to specific markets, and a long tradition in growing and processing highly sought after products – fruits, berries, vegetables, cereals and oilseeds.

1 Context

Development of the organic sector in Serbia began in 1990 when Association Terra's was established in the municipality of Subotica. This NGO began as part of the Open University of Subotica and had representatives of the University of Novi Sad as members. NGO Terra's carried out a number of campaigns with the objective of promoting organic farming according to IFOAM standards, becoming a member of this foundation in 1992. In 1997 Terra's hosted an IFOAM Conference on organic agriculture in Central East European countries and remained the driving force behind the development of Serbia's organic sector, as formal and informal groups promoting the sector began emerging elsewhere in the country as well. The first Law on Organic Agriculture in Serbia was passed in 2001, while it was still part of the Federal Republic of Yugoslavia. Following the change of government in 2000, foreign investments started coming in, with buyers, projects and donors bringing knowledge and export possibilities as well. Avalon from the Netherlands, SIDA from Sweden and Diaconia from Germany were the first foreign organizations to promote organic farming in Serbia with regional projects. In 2003, GIZ supported Terra's in establishing cooperation with the German certification firm BCS, thereby laying the foundation for the first certification body in Serbia.

The majority of these international organisations recognised the potential of organic production in Serbia and facilitated the establishment of new organic associations, primarily on local and regional levels, and several companies began working on export-oriented organic production. In 2004, GIZ supported the first participation of Serbian traders and processing companies at the Biofach international bio-fair in Nuremberg, Germany. Together with the Green Network of Vojvodina, Terra's started the development of the local market and, as a result, the first Biofest was held in Subotica in 2005.

In subsequent years, in addition to the GIZ, SIPPO from Switzerland, USAID and Ministry of Agriculture, Forestry and Water Management (MAFWM) also supported participation of Serbian producers and businesspeople at the Biofach fair. In 2006, the MAFWM joined the Mediterranean Organic Agricultural Network and shortly afterwards a cross-border project on organic agriculture, financed by the EU and various Mediterranean countries, followed.

In 2007/08, donor support for the development of the organic sector continued with various projects. ADA focused its activities on regional rural development in Vojvodina and Sandzak, trying to amalgamate small-scale organic farming with community development and local processing of agricultural raw materials.SDC embarked on a major program for introducing food safety standards such as HACCP and Global GAP. The GIZ concentrated on policy advice, donor coordination and buildup of business associations.

In 2009, a national association on organic agriculture, Serbia Organica, was founded with the objective of uniting the sector's participants under a joint objective and mandate, stimulating interaction and promoting organic farming and processing both at home and abroad. The National Association "Serbia Organica" (NASO) currently gathers about 80% of the sector players, who are also present in other related associations and organisations, A large number of members come from primary production, processing, trade, academic and other institutions.

With the support provided by the MAFWM, 2011 saw the establishment of five centres for development of organic production (Selenča, Leskovac, Svilajnac, Valjevo i Negotin).

The history of organic food production and processing goes back for more than 20 years. The sector is still only marginally organised, although a number of different locally acting associations, organisations, cooperatives and interest groups developed. Until early 2009, the Law on Associations restricted the formation of strong interest groups or associations, not only in organic agriculture but in general, as it did not allow associations to conduct business and accumulate capital.

More favourable conditions were created when the new Law on Associations came into force (RS Official Gazette No 51/09), providing that associations may carry out business operations and build up capital reserves to a certain extent. In October and November of 2012 the amendments to the current Law on Organic Production (RS Official Gazette No 33/10) were drafted in order for it to be more in line with the EU regulations. The MAFWM will submit the Law for adoption in late 2012.

Table 1.

Business associations and national NGOs active in the organic sector

Name of Business Membership Organization	Web Page
National Association "Serbia Organica"	www.serbiaorganica.org
Zelena mreža Vojvodine - Green Network of Vojvodina	www.zelenamreza.org
Terras	www.terras.org.rs
Udruženje za biodinamičku poljoprivredu Srbije Serbian Association for Biodynamic Production	www.biodinamika.org
Udruženje za razvoj organske proizvodnje Biobalkan Association for Organic Production Development Biobalkan	
Toppas	
Ekoland Serbia	
Regional Centres for organic production in Selenča, Valjevo, Svilajnac , Leskovac, Negotin	www.organiccentar.rs (Selenča), www.centarzarazvoj.org (Leskovac)

2 Organic Sector: Players and Activities

2.1 Production structure

In the spring of 2010, in cooperation with the AFC/FIBL Consortium, GIZ conducted an organic sector survey with the aim of collecting data on the areas, produce quantities, number of operators, regional distribution of organic produce, etc. The methodology of the Swiss FIBL Institute for World of Organic Agriculture was used for the purpose. Standardised questionnaires were filled by both authorised and non-authorised certification bodies.

The same methodology was used for the review conducted in the autumn of 2012 by the National Association "Serbia Organica" with the support of the MAFWM and GIZ/ACCESS. The results refer to the areas under organic production and the number of organic producers in Serbia. The data collected involved products produced in line with the EU standards and intended for export.

The survey shows that around 829,000 hectares of land are currently either organically certified or in the process of certification. This area includes land used for harvesting wild berries, mushrooms and herbs. It should be noted that there is no official methodology in Serbia to obtain the data on the total area for wild collection and harvesting wild plant species from their natural habitats. Cultivable land under organic production covers the area of over 11,000 ha.

Table 2:
Areas by plant production categories (2012)

	ORGANIC PLANT PRODUCTION IN 2012			
	Areas under conversion (ha)	Organic farming areas (ha)	Total (ha)	Percentage of total (%)
Crop production	**1734,39**	**2.850,43**	**4584.82**	**41.31%**
Fruit production	**1091,19**	**4054**	**5145.19**	**46.36%**
Vegetable production	**233**	**296,5**	**529.5**	**4.77%**
Pastures and meadows	**818,97**	**20,83**	**839.8**	**7.57%**
TOTAL	**3877,55**	**7222,26**	**11099.31**	**100%**

Fruit production has the largest share in total organic area (46,36%), followed by crop production (41,31%). Pastures and meadows are spread on 7,57% of arable land and vegetables are produced on 4,77%.

Table 3:
Areas by types of organic plant production (2012)

	Plant production	Organic farming areas (ha)	Areas under conversion (ha)	Total areas (ha)
Perennials	Apples	1.177,55	6,02	1183,57
	Raspberries	550	142,46	692,46
	Strawberries	41,42	11,54	52,96
	Plums	1188,56	39,48	1228,04
	Sour cherries	409,94	26,38	436,32
	Other	686,53	865,31	1551,84
Total for category		**4.054**	**1091,19**	**5145,19**
Annuals	Maize	280,37	539,33	819,7
	Wheat	284,66	281,72	566,38
	Soybeans	104,53	39,5	144,03
		TOTAL: 669,56	860,55	1530,11
	Vegetables	296,5	233	529,5
Other field crops		2181,47	873,74	3055,21
Total for category		**3.147,53**	**1.967,29**	**5.114,82**
Pastures		20,83	818,97	839,7

Of the total areas under organic production, perennials are grown on 46.7% and annuals on about 46%. The balance (7.3%) goes to grassland and pasture. Within the category of perennials, apples and plums dominate, followed by various berries, notably raspberries. Cereals, soybean and vegetables are the main annual crops grown. Although berries are the main export crop, it appears that farmers are diversifying to other crops, opting mostly for apples and plums (Table 3). There is also a significant increase of land under annual crops.

Table 4:
Organic animal production (2012)

	ORGANIC ANIMAL PRODUCTION IN 2012	
	Conversion period Number of heads of livestock, units of poultry, beehives	**Organic status** Number of heads of livestock, units of poultry, beehives
Large livestock (cattle, buffalos, horses, donkeys)	**2164**	**230**
Small livestock (sheep, goats, swine)	**3404**	**983**
Poultry (hens, geese, ducks, turkeys, helmeted guineafowl)	**4276**	**3600**
Beehives	**2610**	**4394**

The survey data suggest that more than 4,000 farmers are involved in organic production. In absence of clear empirical data, the total value of organic production in Serbia may not be precisely identified.

Figure 1:
Areas per perennials in organic production in ha (2012)

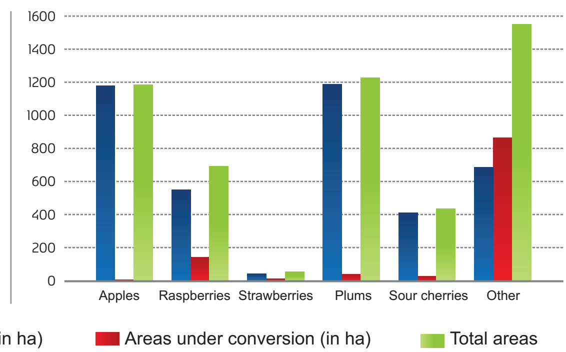


Figure 2:
Areas per annual crops in organic production in ha (2012)

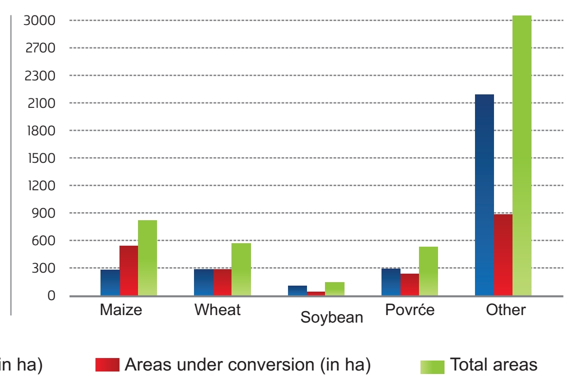
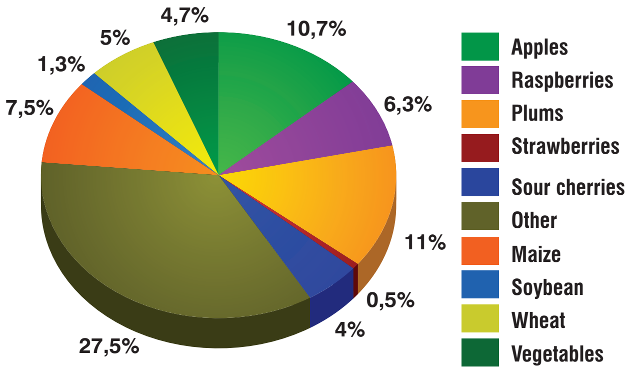


Figure 3:
Structure of organic plant production in ha (2012)



2.2 Organic farmer [1]

On behalf of GIZ, in August 2010 the AFC/FIBL Consortium and Serbian experts Mr. Nenad Novakovic and Dr Slobodan Milenkovic conducted an organic farm survey. The Organic Farm Survey aimed to collect more detailed data on the typical Serbian organic farmer. The survey covered 140 organic farms.

More than 60% of them operate on areas of less than six hectares and 25% on 10-20 hectares. Such areas are worked typically by household members, and every other farm hires seasonal help. Cropping patterns change with size: farms larger than 20 ha grow cereals and oilseeds, while small farms with less than five hectares cultivate cereals on small plots and for home consumption only, growing berries and other fruits on most of their land instead. Vegetables are grown mostly on farms whose size ranges from 5 to 10 ha. All farms having more than 5 ha, however, have land that is not cultivated and is used either as pastures or simply left fallow.

The larger the farm, the bigger the area under organic certification, but it never accounts for more than 15-25% of total land available. Berries are predominantly grown, followed by other fruits and vegetables.

In the berries category it is raspberries that are predominant, while apples and plums are the most important crops among the fruits.

There has recently not been much investment in organic farms: plantations are usually old, machinery likewise (usually older than ten years), greenhouses and organised storage are available only to every third farmer, and leasing land or loans for purchasing inputs or machinery are practised by just 5-20% of all farmers surveyed. Future investment plans are therefore very moderate. They concentrate on rehabilitating the irrigation infrastructure, perceived as a major problem by fruit producers.

[1] Compiled from AFC/FIBL 2010: Organic Farm Survey; Facts & Figures

Figure 4:
Machinery and equipment used in organic farms and supply sources

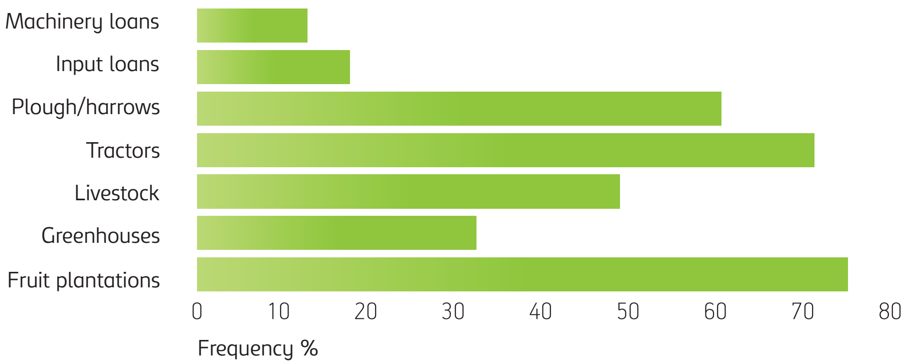


Table 5:
Organic farmer profile

Parameter	Vrednost
Frequency of sales to wholesalers/processors	> 75%
Frequency of contract farming	67%
Price markup for organic produce compared to conventional	10-20%
Standard produced quantities	64% < 1 tone
Frequency of sorting	60%
Major marketing constraints	Low price (50%), high input costs (53%), no cool storage for fruit (48%)

Based on the opinion of a large number of producers in Serbia, NASO established that unavailability of specific inputs necessary for production process is a major obstacle. Seeds and planting material can rarely be found on the market, and even so the quantities are insufficient. Fertilisers are also an issue – organic farming relies on manure and compost. Since it is only every other farmer who keeps animals, and even then too few of them, the manure available from that source is hardly enough to provide 5-6 ha of land with sufficient nutrients for optimum yields. Commercially available plant nutrition agents and soil enhancers are relatively present on the market, but the issue is their cost-effectiveness for organic farmers. Appropriate and efficient plant protection agents are also difficult to find, so producers often have no means to prevent diseases and pests, which additionally reduces the yields and quality of organic produce. Irrigation is also a problem, particularly for fruit growers.

Organic products are typically sold to wholesalers and to processing companies, with which almost 70% of the growers conclude contracts prior to the start of the season. Direct sales e.g. on the green market are practiced only by 20% of the farmers. Due to such a system, the markup in price they obtain for their organic produce is very moderate (with 10-20% on the average) and confirms that added value is not generated on the farm level. Moreover, the products are not readily available on the market. Since there is often a lack of storage facilities, products are on offer only during peak periods, when the growers flood the market. Sorting is only carried out by every second farmer and usually according to size, rarely according to quality. Products are packaged in plastic, in bulk mostly 40% lighter than 100 kg, with just some 36% of it heavier than 1 tonne, rendering any kind of forwarding logistics a major issue.

The sector has started to see some new tendencies though, since large retails chains have upped their offer of organic products that can compete with domestic products both in price and quality. There is a trend also of large companies getting involved in primary plant and animal production on large land areas. Feed production, as well as the entire sector of organic animal production, has been on the rise, although no offer is yet present on the market.

Producers are satisfied with advisory and extension services, since once every two months they enjoy a visit by an extension officer and discuss the major topics, such as application of plant protection agents and soil enhancers, and availability of inputs for organic production. Despite good access to extension and advisory services, low productivity is still very much a problem.

About 60% of producers are organised in an umbrella organisation NASO, either individually or through companies they have cooperation contracts with. Other business associations organic operators join are Terra's and Topas.

2.3 Organic food processing industry [2]

In 2004, the Serbian Government adopted an action plan for the removal of administrative barriers to foreign investments. A national strategy and a planning document marking an investment roadmap until 2010 were developed. Investments in the sector have been rising recently, as has the number of takeovers, mergers and privatisations, frequently supported by foreign companies. Of relevance for the organic sector are companies operating in the fruit and vegetable sectors. Capacities of most of these companies are small and the number of registered fruit and vegetable processors (200) is still very high. All of them have a legal obligation to be HACCP certified. Cold stores dominate that sector, presumably because it takes less effort to certify cold storage under HACCP than to invest in a full processing line for juices or jams. About 25 food processing companies also process organic products, virtually all of them processing conventional produce while operating an organic line additionally. Some of the primary producers also process their own produce.

[2] Compiled from Agri-Livestock Consultant Ltd 2010: Fruit and Vegetable Sector Study for the IPARD programme, Republic of Serbia, Arcotrass Consortium 2006: Study on the State of Agriculture in Five Applicant Countries – Serbia Country Report; Privatisation Agency of the Republic of Serbia 2005: Impact Assessment of Privatisation in Serbia

Table 6:
Companies and producers in organic product processing

Company	Website	Type of product
Agropartner	www.agropartnerfruit.com	Frozen berries
Beyond, Niš	www.beyondhealthfood.com	Macrobiotic products, soy-based (tofu)
BelisTop, Kuršumlija		Frozen fruit
Berry frost, Loznica	www.beryfrost.rs	Fresh and frozen fruit
BMD, Arilje	www.bmd.co.rs	Mushrooms
Biosil, Ugrinovci	www.biosil.rs	Pasteurised vegetables, fruit juices
Coja promet, Aleksinac	www.coja-promet.com	Dried fruit, mushrooms
Confido group Int. d.o.o.	www.confidogroup.com	Frozen sour cherries
CPA Organic, Bajina bašta	www.cpa.org.rs	Wine, brandy
Ekozlatar, Nova varoš		Buckwheat and buckwheat products (flour, pillows and mattresses)
Foodland, Beograd	www.foodland.rs	Fruit jams, preserves, ajvar, juices
Forest Food, Kruševac	www.forestfood.rs	Boletus, chanterelles, wild blueberries, dried and frozen
Frikos, Beograd	www.frikos.rs	Frozen products of berry and wiled collected fruit
Herba, Beograd	www.herba.co.rs	Medicinal and aromatical herbs, essential oils
Janoš Farago, Orom		Teas, herbs
Josip Mamužić, Subotica		Flour, ground peppers
Lion Foods Co. Beograd	www.lionfoods.co.rs	Frozen, dried and chocolate-coated fruit and vegetables
Marni, Kruševac	www.marni.co.rs	Mushrooms
Menex d.o.o. Kruševac	www.menex.rs	Fresh and frozen fruit, elderberry flower
Midi Organic, Blace	www.midiorganic.com	Frozen and dried fruit
MN Ltd. Loznica	www.mn.co.rs	Frozen raspberry
Mondi Food Company, Kraljevo	www.mondiserbia.rs	Frozen fruit
Nectar, Novi Sad	www.nectar.rs	Fruit juices
Pamin, Gornji MIlanovac	www.pamin.rs	Frozen products of berry and wiled collected fruit
Repro Trade, Novi Sad	www.reprotrade.co.rs	Pastas, flour, cornflakes
Suncokret, Hajdukovo	www.suncokret.rs	Plant-based spreads (butters), oil and oilseed products
Varvarin voce d.o.o, Varvarin	www.voce-varvarin.ls.rs	Concentrates and aromas of grown and collected wild fruit
Voće produkt d.o.o., Brus		Fresh and frozen fruit, elderberry
Zadrugar, Ljubovija	www.fruit.rs	Frozen berries and other fruits
Zdravo ORGANIC d.o.o, Selenča	www.zdravo.rs	Juices – fruit and vegetable, pasteurized vegetables (beetroot)

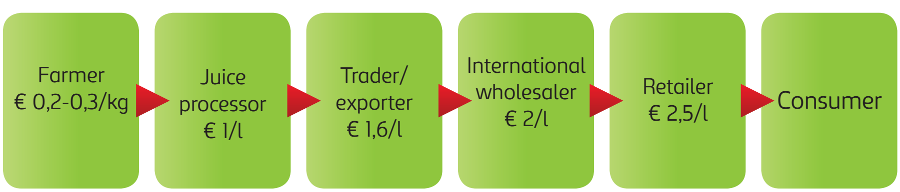
2.4 Value chains and value generationl [3]

Generating value with agricultural products within the framework of small scale agriculture, and particularly with products destined for food consumption, is as difficult in Serbia as elsewhere in the world. The reasons are:

- Small farming finds it hard to take advantage of the economy of scale effects and thus its production costs are usually high;
- Farmers are typically not well integrated into markets, do not have sufficient marketing power, and even if value is generated it occurs at higher levels of the value chain, but not on the primary level;
- Agricultural producers are for the most part not well integrated into markets, lack sufficient marketing power, and even if value is generated it occurs at higher levels of the value chain, but not on the primary level;
- Processors are also squeezed between having to operate on a scale which causes high per unit costs and the demands of international marketing, which results in the generated product value still being low, albeit higher than at the primary production level;
- The highest margins are typically achieved during various commercial transactions involved in agricultural processing. This is a result of traders' higher flexibility in handling raw materials, dealing with intermediates, and their better access to end users;
- Due to the high competitiveness of food markets, the structure of retailing, and the sensitivity of consumers, the margins and value generation in food production even at the distributor level are, in general, only modest.

In consequence, the added value of unprocessed agricultural products in the value chain rarely exceeds a factor of 5-10. Added value is difficult to achieve at the level of farms and small scale processing.

Figure 5:
Value chain in Serbia's organic agriculture – the case of apple juice



Higher income and profit rate can be reached mostly by exploiting the economy of scale effects, which involves expansion, cooperation or joining forces in an association.

[3] Prepared according to information from personal conversations with Doehler GmbH, Germany, Rauch GmbH Austria, Solid Organic Link (wholesale trader for organic products), The Netherlands, EDEKA Verrtriebsgesellschaft Hamburg and by using data from the HS product data base of WTO .

2.5 Agricultural R&D, extension and advisory services, industry know-how [4]

Currently 235 official advisors are employed in 34 Government-run agricultural extension and advisory centres, and their tasks are defined by the MAFWM and the Provincial Secretariat of Agriculture, Water Management and Forestry. In 2010, in cooperation with the MAFWM and GIZ/ACCESS, NASO provided training for advisors in organic production.

Agricultural extension and advisory services in the Republic of Serbia employ advisors of various profiles. Organic production advisors do not provide only organic production related services, although organic production is partly covered in the system of providing advisory services. This very profile of organic production advisors would be necessary, primarily due to specificities of organic production and needs of the organic farmers “on the ground”, as well on account of the general interest for more intensive development of this kind of production. In order for organic production development to be more intensive, it would be necessary to define criteria for advisors in organic production (formal qualifications, professional training and education, etc.). In such a manner profiled advisors would be able to professionally assist current producers and play an active role by introducing new producers to organic production.

Development of advisory and extension sector should ensure that all organic producers in the Republic of Serbia may obtain such services for organic production. In addition, it would be necessary for such organic production advisors to receive continuing training in the country and abroad, where they would acquire most current and up-to-date knowledge and information in the field. Development of cooperation between the advisory and research sectors is of importance for establishment of a practical system for applying knowledge in practice. Parallel to these Government employed advisors, private companies also provide advisory and extension services to farmers under contract.

Governmental extension services are provided free of charge, but their quality depends on the allocated budget funds, which are influenced by a number of factors. The Law on Performing Advisory and Extension Activities in Agriculture (RS Official Gazette No 30/10) governs the most important issues in the area:

- Requirements and methods for advisory and extensions services in agriculture;
- Register of agricultural advisors;
- Training and professional development of agricultural advisors and farmers;
- Planning the development of advisory services.

Elementary agricultural education is offered in 33 state-funded secondary agricultural schools. Higher education is provided by accredited higher education institutions, the most important being the Belgrade University Faculties of Agriculture and Forestry, the Faculty of Agriculture in Novi Sad, the Agronomic Faculty in Cacak, the

[4] Compiled from: Cvijanovic 2009: Education, Scientific-Research and Consulting Work in Agriculture of Serbia. Applied Studies in Agribusiness and Commerce, Ministry of Science and Technological Development of RS; The World Bank 2006: Financial Support for Commercial Innovation in Serbia and Hornischer U. 2010/AFC/FIBL: Extension and Research Organic Agriculture in Serbia – Status Report

Faculty for Biofarming in Backa Topola, the faculty of Ecological Agriculture in Svilajnac, and the Belgrade University Faculty of Veterinary Medicine. Agricultural economics curricula are taught at Universities of Belgrade, Subotica, Novi Sad and Nis.

In order to improve the formal education system with regard to organic agriculture in Serbia, the GIZ initiated an expert exchange program with the University of Kassel in Germany with the objective of training academic staff in organic farming, with the ultimate aim of facilitating the implementation of a bachelor program at the University of Novi Sad. Professors and other academic staff, from different faculties and disciplines, were trained in practical and applied organic farming techniques during June and July 2010, and in October 2010 the first bachelor program in organic agriculture was launched at the University of Novi Sad. Such study options will eventually improve the skills and the know-how of extension and others staff involved in practical organic agriculture.

In order to further promote organic production, during 2011 and 2012, the NASO, in cooperation with the Faculty of Agriculture in Belgrade and the Institute for Advancement of Education within the Ministry of Education and Science, which granted it accreditation, implemented the program of educating secondary school teaching staff in organic production. One of the main conclusions of the NAP research working group identified the need for jointly organised and defined research goals in organic production. That is why the GIZ/ACCESS supported the drafting of the national strategy for scientific research and development in organic agriculture, involving all scientific and research institutions in Serbia. The strategy is expected to be completed during 2013

Table 7:
Prominent scientific institutes, their main research focus

Institution	Website
Institute of Field and Vegetable Crops, Novi Sad	www.nsseme.com
Institute TamišInstitute for Food Technology, Novi Sad	www.institut-tamis.co.rs
Institute for Food Technology, Novi Sad	www.fins.uns.ac.rs
Maize Research Institute Zemun polje, Belgrade	www.mrizp.co.rs
Institute for Animal Husbandry, Zemun, Belgrade	www.istocar.bg.ac.rs
Fruit Research Institute, Cacak	www.institut-cacak.org
Institute for Vegetable Crops, Smederevska Palanka	www.institut-palanka.co.rs
Institute of Agricultural Economics, Belgrade	www.iep.bg.ac.rs
Institute for Science Application in Agriculture, Belgrade	www.ipnco.rs
Institute for Plant Protection and Environment	www.izbis.com
Institute of Pesticides and Environmental Protection, Belgrade	www.pesting.org.rs
Institute for Research of Medicinal Plants “Josif Pancic”	www.iplb.rs
Faculty of Agriculture, University of Belgrade	www.agrif.bg.ac.rs
Faculty of Agriculture, University of Novi Sad	www.polj.ns.ac.rs
Agronomic Faculty Cacak, University of Kragujevac	www.afc.kg.ac.rs
Faculty of Biofarming, Megatrend	www.megatrend.edu.rs/fbio
UniversityFaculty of Ecological Agriculture, Svilajnac	www.educons.edu.rs
Agricultural Extension Service of Serbia	www.psss.rs
Agricultural Extension Service of Vojvodina	www.polj.savetodavstvo.vojvodina.gov.rs

3

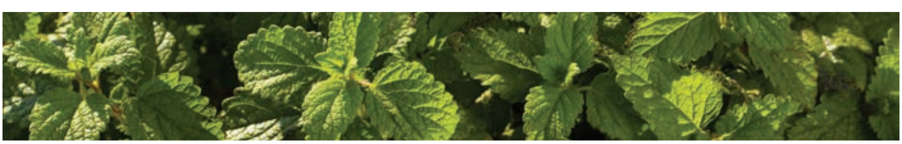
Government policy for the sector

3.1 National Rural Development Program 2011 – 2013

In 2010, in line with its competences, the Ministry of Agriculture, Forestry and Water Management (MAFWM) drafted the National Rural Development Program 2011 – 2013[5], setting forth the objectives and visions of future agricultural and rural development, particularly within the envisaged WTO accession and EU integration. The National Rural Development Program 2011 – 2013 was adopted in February 2011.

The program focuses on improving the competitiveness of farms and integrating primary production with processing and marketing, so that value accrues along the entire chain. This is of great importance, since the process of joining the WTO and the EU is expected to put more pressure on small farms to compete internationally. The sectors of greatest concern, and thus the primary targets for competitiveness improvement measures, are milk and meat as well as fruits and vegetables. Acknowledging that there are many factors involved in improving agriculture and product sales, the forming of farmer cooperatives shall be encouraged by way of this Program, as well as measures for improving the capacities for product keeping, storage, packaging and sales on various markets. In addition, better connections to the processing industry will offer producers opportunities to channel produce to consumers according to demand on both the domestic and foreign markets. Realizing that Serbian processing industry still has substantially to improve its efficiency in processing raw materials, manufacturing consumer products, and meeting global standards, it is the modernization of technology and management, introducing and observing quality standards, and compliance with international rules and procedures of doing business, that are considered as key aims to be achieved.

The National Rural Development Program was defined for the period up to 2013 due to the fact that the European Union Budget is also defined for the period ending in that year. In autumn of 2012 the MAFWM started the preparations for drafting the program for the period 2014 – 2020, which will acknowledge and be in line with the European Union rural development policy. On becoming an EU candidate country in March 2012, Serbia has gained a possibility to access the so-called IPARD funds, Component V of IPA funds for this budget period. IAPRD program Axis 2 is of particular importance for organic sector, as it covers a set of agricultural ecological measures and organic production.



[5] MAFWM 2010: Draft National Rural Development Program 2011 – 2013.

Table 8:
Goals and Objectives of the National Rural Development Program 2011 – 2013

Development of dynamic and competitive agricultural farms, operating according to modern and environmentally friendly standards.
Development of a profitable processing industry, capable of manufacturing products in high demand on domestic and international markets.
Development of rural areas attractive for rural populations to live and work in, and evolve their own identity.

3.2 Republic of Serbia Biodiversity Strategy 2011 – 2018

In 2010, the Ministry of Environment and Spatial Planning, supported by the United Nations Development Program (UNDP) and Global Environment Facility (GEF), developed the Biodiversity Strategy of the Republic of Serbia for the period from 2011 to 2018, which was adopted by the RS Government in February of 2011. The activities in the strategy were defined as short-term (implementation period 1-3 years), mid-term (3-5 years), long-term (5-7 years), and continuing ones.

The Strategy was initiated due to lack of comprehensive policies and measures to prevent further deterioration and support preservation of agro-biodiversity in Serbia. The Strategy integrated the principles of protection and sustainable use of biodiversity into relevant sectoral or inter-sectoral plans, programs and policies where it is possible and necessary. Accordingly, within a broad range of various measures recognised as important for preserving biodiversity, the Strategy, in the agricultural impacts category, calls for, inter alia, the development of the national program for organic agriculture, which was proposed in the Action Plan for implementing the Strategy for Development of Organic Agriculture as one of the mid-term (3-5) activities to be undertaken.

Table 9:
National Institutions and Ministries relevant for agricultural policies and rural development

Institution / Ministry	Website
Ministry of Agriculture, Forestry and Water Management	www.mpt.gov.rs
Ministry of Regional Development and Local Self-government	www.mrrls.gov.rs
Ministry of Finance and Economy	www.mfp.gov.rs
Ministry of Natural Resources, Mining and Spatial Planning	www.ekoplan.gov.rs
Ministry of Education, Science and Technological Development	www.mpn.gov.rs
Ministry of Foreign and Internal Trade and Telecommunications	www.mtt.gov.rs
National Agency for Regional Development	www.narr.gov.rs
Serbia Investment and Export Promotion Agency	www.siepa.gov.rs
Vojvodina Investment Promotion	www.vip.org.rs

3.3 National Action Plan for organic farming development in Serbia

In the summer of 2009 the MAFWM, supported by the GIZ, developed the draft of the National Action Plan for Organic Production Development in Serbia. This document may be described as the Serbian version of the European Commission's Action Plan for Organic Food and Farming [6], as its overall objective envisages an increase of the total area of land in the process of conversion or with organic status to 50.000 ha by 2014. To achieve such an objective, 12 steps have been formulated as interim goals. This document has not yet been adopted by the RS Government, although many steps it defines were already implemented in the period 2010-2012. The National Association, supported by foreign donors (USAID Agribusiness Project and GIZ/ACCESS), initiated and completed many of the activities envisaged by the Plan.

In November 2011 the National Action Plan for Organic Production Development in Serbia was revised, and the review involved about 40 of the most important stakeholders of the sector (representatives of three Ministries, as well as universities, institutes, non-governmental and private sectors, and extension and advisory services). The objectives and implementation activities defined in 2009 were revised. After the final draft of the National Action Plan for Organic Production Development 2012 – 2016 is completed, it will be submitted by the MAFWM for adoption, expected to take place during 2013.

Table 10:

Objectives of the National Action Plan for Organic Production Development, 2011

1.	Support for organic farming is an integral part of the national agricultural and rural development policies.
2.	Serbia has established a law on organic farming in accordance with EU requirements.
3.	Organic farming department established within rural development sector in the Ministry of Agriculture, Trade, Forestry and Water Management. National Association "Serbia Organica" sustainable as an umbrella organisation. Establishing and providing development support to other associations, NGOs and cooperatives. Development of organic farming centres.
4.	Serbia has established an operational and effective conformity assessment and control/inspection system on organic farming in accordance with EU requirements.
5.	Specific applied research activities for organic agriculture have been established (targeted research program)
6.	Organic agriculture is included in formal education curricula
7.	Accessible and demand-oriented advisory and extension services provide expert and up-to-date support to organic farmers
8.	Better perception of organic produce among Serbian consumers.
9.	Domestic market shall be further developed.
10.	Export promotion will be improved – Serbian traders already being well established in export markets.
11.	Subsidised credit lines for farmers in organic agriculture.
12.	The National Action Plan for Development of Organic Production in Serbia implemented, and implementation is monitored.

[6] MAFWM 2009: National Action Plan for the Development of Organic Production in Serbia

While the overall objective is ambitious, Serbia will make use of the opportunities arising from the availability of the forthcoming IPARD funds to aid participants in the organic food chain and to integrate the Serbian production and processing system into global settings, so that a profitable and significant agricultural subsector evolves within the next years.

3.4 Financial support for the organic sector

Financial support to the organic sector started in 2005/2006, when the MAFWM for the first time planned incentives for organic production in the form of reimbursements for certification costs, and earmarked EUR 19,000 for the purpose. In 2007 and 2008 funds were planned to cover the costs of the period of conversion into organic. In 2008 the amount of EUR 11,000 was disbursed. In 2009 the MAFWM granted 27 subsidies, totalling € 46,000, to organic producers. As for 2010, the MAFWM received 98 applications for incentives, and 53 were approved and the total amount granted was € 200,000. In the next year, 2011, the total funds disbursed for subsidies were about EUR 400,000, although further additional payments in the amount of EUR 50,000 are also expected to be made.

Incentives for 2012 were not planned by the line Ministry, but the operators could have applied for reimbursement of 50% of total certification costs; however, conversion period costs were not eligible. In late 2012 the drafting of the Law on Incentives in Agriculture and Rural Development started, and this piece of legislation will govern subsidies in agriculture, and therefore in organic farming as well, over a long-term period.

4

Market and trade

4.1 Local market for organic food

In contrast to other countries of South-Western Balkans, the concentration of retail outlets in Serbia has not yet been completed and more than 70% of all food products are still sold through small grocery shop. Tempo, a cash-and-carry, was the first to open a retail chain in 2004, with Intermarché / Interex, Mercator, Maxi Delhaize, Univerexport, Metro and Super Vero following suit. The appearance of such supermarkets triggered a rise in consumer food prices, at the same time lowering producer prices.

Even if prices of essential products rise, food consumption habits are not prone to change easily, which usually has the result that the demand for staple foods is hardly flexible in view of price and income elasticity values. This, however, is different for organic produce. As having organic food is not of primary importance, consumers all around the world, especially in countries with a constrained budget, do react to price increases and decreasing purchasing power. With increasing income, the consumption of virtually all products rises, but when product prices swell, food consumption is adjusted by introducing replacements: dairy, cereals, and meat are substituted by vegetables and root crops, and organic products by conventional ones. Although the disposable income of the typical Serbian consumer increased over the past ten years, that was overcompensated by an even stronger rise in food prices, limiting the growth of consumption of organic produce.

On the Serbian market most certified organic products are imported, and only some quantities of fruit, vegetables and cereals are of local origin. There are practically no organically certified animal products on the market. At present the only certified animal products on the market are eggs and honey in rather small quantities, but after large companies becoming involved in organic animal production, certified cow's milk and dairy products are expected to appear on the market in early 2013.

The market is dominated by imported baby food products, and Serbian baby food is intended for export and not present on the national market. In addition to foodstuffs, there is a constant growth also of certified cosmetic products, whereas organic textile is difficult to find.

Table 11:

Minimum and maximum retail price range for organic and conventional fresh fruits and vegetables at the greenmarkets (January - October 2012).

Prices calculated from RSD to EUR based on average middle exchange rate for the period January - October 2012 (RSD 112.979 for EUR 1)

Product	Belgrade				Novi Sad			
	Organic product, price (EUR/kg)		Conventional product, price (EUR/kg)		Organic product, price (EUR/kg)		Conventional product, price (EUR/kg)	
	Min	Max	Min	Max	Min	Max	Min	Max
Lettuce	0,5	0,7	0,3	0,9	0,4	0,5	0,3	0,8
Cabbages	1,1	1,3	0,3	0,5	0,9	1,1	0,4	1,1
Beetroot	0,7	1,2	0,4	0,7	0,7	1,1	0,5	0,9
Kale	1,1	1,3	0,6	1,1	0,9	1,1	-	-
Tomatoes	1,8	0,0	0,4	1,8	1,6	1,8	0,4	2,0
Cucumber (slicer)	1,2	1,8	0,4	2,7	0,9	1,3	0,3	3,1
Peppers	1,3	1,9	0,4	2,7	1,3	0,0	0,4	2,7
Potatoes	1,1	1,3	0,3	0,7	0,7	1,1	0,4	0,8
Onions	0,7	1,3	0,3	0,9	0,7	1,1	0,4	0,7
Apples	0,9	2,2	0,2	1,3	0,0	0,0	0,4	1,8
Strawberries	2,7	3,5	1,1	4,4	2,7	0,0	1,3	2,7
Apricots	1,8	2,7	0,7	4,4	0,0	0,0	0,6	2,2

The table shows the range of minimum and maximum prices depending in seasonal variations in the period from January to October 2012.

Source for organic products:

Belgrade, 4 retail outlets covered (2 greenmarkets and 2 retail outlets)

Novi Sad, 2 retail outlets covered

Source for conventional products:

STIPS Database (STIPS - Serbian Agricultural Market Information System)

JKP Gradske pijace Belgrade (PUC Belgrade City Markets) - Pijačni barometar (Market Barometer)

Table 12:

Retail prices of processed and other organic food products in Serbia (September 2012)

Prices calculated from RSD to EUR based on average middle exchange rate for September 2012 (RSD 116.5099 for EUR 1)

Product	Price in EUR	
	Min	Max
Jam (wild blueberry, wild strawberry, rosehip) (225g)	2,2	2,8
Jam (dogberry, rosehip) (375g)	2,7	3,3
Comfit (wild strawberry) (225g)	2,5	3,0
Honey - jar (890g)	6,9	6,9
Beetroot - jar (400g)	1,1	1,3
Apple juice (750ml)	2,4	2,9
Carrot juice (750ml)	2,6	3,2
Beetroot juice (750ml)T	3,0	3,6
omato juice (250ml)	1,0	1,2
Wild blackberry – cold pressed juice (200ml)	1,9	2,2
Tofu – soy curd (smoked) (200g)	1,9	2,0
Paprika (100 gr)	0,7	1,0
Eggs (price per piece)	0,2	0,3
Pasta (from maize and spelt) (250g)	0,9	1,3
Wheat flour (kg)	0,9	1,2
Maize flour (kg)	0,8	1,2
Rye flour (kg)	1,0	1,7
Oat flour (kg)	1,1	1,5
Barley flour (kg)	0,9	1,2
Spelt flour (kg)	1,3	2,1
Oat bran (200 gr))	0,6	0,9

The table shows the range of minimum and maximum prices in the period from January to October 2012, depending on retail outlets.

Source: Four retail outlets in Belgrade and a green market in Blok 44 (New Belgrade)

The retail sector for organic food in Serbia is still underdeveloped. Specialised retail outlets offering exclusively organic products are very few, and so fresh and processed organic products mostly make up part of the general offer. Most stores that sell organic products are located in Belgrade and Novi Sad. Organic food may be found on a small number of greenmarkets, in specialised health food stores and in several supermarket chains. During 2012 the range of products on offer noticeably expanded, and also the so-called "organic shelves" or "corners" appeared, visibly marked, although fewer fresh products are on display. However, in some supermarkets organic products are mixed with other products, without a word of explanation about what organic really means.

Although organic products have found their way to supermarket chains, not much has been done to promote them and improve their availability. It seems that consumers are left to discover organic products on their own, and to recognise their advantages over the conventional ones.

The GIZ field survey and interviews with different stakeholders in this sector, as well as with consumers, indicate that the average Serbian consumer relates the term "organic" to health. The survey conducted by the NASO shows that consumers often associate organic products with natural and "unsprayed" products, and often identify them with the ones grown in small gardens in a traditional manner. The consumers are generally uninformed, except when it comes to the term "certification" of organic production, and they also lack knowledge about how they can identify organic products. On the other hand, there are consumers who think of organic farming as of something new-fangled or trendy.

Therefore, promotions and public awareness campaigns should focus on this aspect, as was shown by the promotional campaign conducted by Serbia Organica in late 2010. Value can be added to organic products by insisting on their naturalness and environmental protection. For further development of the local organic market, strong and intensive campaigns with clear communication strategy, directed towards defined target consumer groups, are definitely needed. Based on the market survey done by the NASO, the average buyer of organic products in Serbia is a woman aged from 25 to 40, educated and aware of the impact of unsafe food on health. When shopping for her family, she promotes organic food on a micro market.

With the aim of further promoting and reaching a higher share of organic food at the greenmarkets, in July 2011 the NASO, in cooperation with the PUC "City Markets", launched the project "Organic Food Greenmarket", currently implemented on one of the Belgrade greenmarkets. Stalls with organic products are present at other Belgrade greenmarkets as well. In view of the success of the project and interest shown by both buyers and sellers, organic food stalls should be part of permanent offer at the city greenmarkets.

Because of all this, and considering the limited volume and value of organic products, and the moderate prospects for domestic growth in the future, their placement on the international market assumes an even higher priority.

Table 13:
Traders, importers, distributors and supermarkets in Serbia involved in organic production sector (2012)

Distributors	Website
Biošpajz	www.biospajz.rs
Beyond	www.beyondhealthfood.com
Moj salaš, Novi Sad	www.zelenamreza.org
Crvenkapa, Novi Beograd, blok 44	
True organic	www.facebook.com/true.organic.bgd
General store	www.generalstore.rs
Fond Organska Srbija	www.organskasrbija.org.rs
Greenmarkets: Pijaca blok 44, Novi Beograd Kalenić pijaca, Beograd Đeram pijaca, Beograd Pijaca Senjak, Beograd Subotičke pijace, Subotica Zeleni venac, Beograd Palilula, Beograd Pijaca Moj salaš (sezonska), Novi Sad Riblja pijaca, Novi Sad, Liman pijaca, Novi Sad Glavna gradska pijaca Požarevac	
Supermarket chains	
Univerexport	www.univerexport.rs
Mercator	www.mercator.rs
Tempo	www.tempocentar.com
Metro	www.metro.rs
Maxi	www.maxi.rs
Idea	www.idea.rs
DM Drogerie Market	www.dm-drogeriemarkt.rs
Roda supermarketi	www.roda.rs

4.2 International markets for Serbian organic produce

4.2.1 Trends and general conditions

Globally, organic production has been developing for many years. In 2009, 35 million ha of cultivable land were organically certified, and continued to rise to 37 million ha in 2010, compared to 29 million ha in 2005. In the EU, farmland under organic cultivation increased in the same period from 6 million ha to 9 million ha, equivalent to a growth of 8-10% annually. Such expanding acreage is a response to the growing demand for organically produced food products, with current retail sales value of € 19.6 billion in 2010 [7], as opposed to €11 billion in 2003. As consumption of organic food products in the EU grew faster than production, imports from third countries have increased disproportionally. Definite figures on imports from non-EU countries do not exist, since the EU's Harmonised System Codes of traded products does not distinguish between the conventional and organic. However, increasing imports over the past ten years may be gauged by the number of registered importers of organic produce into the EU, which in 2009 [8] increased from less than 500 to well above 3,000. Within Europe, the largest consumers of organic food are Germany, France, Italy and the UK. Country reviews such as those regularly published by FiBL consistently confirm the following trends:

- In Germany, the retail value of organic products has been fluctuating for years, with an annual growth of some 10%, reaching the value of over € 6 billion in 2010, compared to 3.5 billion in 2004 [9]. Commodities with the highest rate of growth in the past years were milk and dairy products, vegetables and fruits. Market growth in Germany in the last five years was led by supermarket chains, where 54% of the total value of organic produce is sold [10]. Specialised organic food supermarkets also exist, but in terms of overall turnover they have fallen behind general outlets.
- In Italy, retail sales of organic foods exceed € 1.5 billion. Organic food sections in supermarkets were introduced just three years ago, only to surpass the sales in grocery shops by 2009.
- In UK retail sales of organic foods have been slow to grow, amounting to EUR 2 billion in 2010, unlike France, who saw the highest annual growth in the value, from

[7] Willer, Helga and Kilcher, Lukas (Eds.) (2012) The World of Organic Agriculture - Statistics and Emerging Trends 2012. Research Institute of Organic Agriculture (FiBL), Frick, and International Federation of Organic Agriculture Movements (IFOAM), Bonn - V 3.0 23/02/2012.
[8] Organic Food Link, Azra Secerbegovic 2010: Personal communication
[9] "An Analysis of EU Organic Sector" June 2010 - European Commission, Directorate-General for Agriculture and Rural Development, Organic Farming - Unit H.3 – An Economic Analyses of EU Agriculture - Unit L.2.
[10] Diana Schaack (Agrarmarkt Informations-Gesellschaft mbH (AMI) "The German Market for Organic Food" (Session at the BioFach Congress of Feb. 16, 2012)

EUR 3 billion in 2009 to 3.5 billion in 2010.

- In 2010, Austria had retail sales of organic produce amounting to almost EUR 1 billion, Spain achieved EUR 0.9 billion, Sweden and Denmark both had EUR 0.8 billion, and retail values in the Netherlands stood at € 0.66 billion. It seems that these countries have reached a plateau, or at least a temporary saturation, with regard to sales of organic products. In the past years, growth fluctuated between -3 and +5%.
- Despite Switzerland's limited population, organic food turnover in 2010 exceeded €1 billion. On a per capita basis, this figure is the highest in all Europe, currently at EUR 152.5, followed by Denmark with the total organic food turnover of EUR 0.8 billion, which is EUR 142 per capita.
- Organic food markets in Central and Eastern European EU countries are still emerging, and organic food is mostly produced for export. The Czech and Polish markets were the fastest to develop, growing 4 to 5 times in the period from 2006 to 2010 – from EUR 27 million to 107 million and from EUR 15 million to 85 million, respectively. Bulgarian and Romanian organic markets are waking slowly but steadily, with annual market values of EUR 6 million and 20 million respectively, while Hungary was the only whose market lost pace and had a sluggish growth, reaching EUR 25 million in 2010 [11]

These trends suggest that target markets for organic products from Serbia are primarily those EU countries that do not yet show signs of saturation, and are also large enough to absorb additional produce. These are Italy, France, Germany, and UK.

[11] Bernd Jansen (Ekoconnect, Germany) The organic market in the Central Eastern European countries (Session at the BioFach Congress of Feb. 16, 2012)

4.2.2 Product opportunities in Germany and in other EU countries

After spending many years in the "green" ecological niche, organic food and beverages entered mainstream markets and became part of the global megatrend in lifestyle, health, and sustainability. For this growing consumer group, organic food is a way to provide healthy food for themselves and their families, to support smaller food manufacturers and farmers, and to protect the environment. Increasingly the aspect of regionality is added to the concept, with the result that the ideal product is not only organic but also seasonal and produced locally, or at least regionally. However, people adhering to the prevalent lifestyle are not likely to sacrifice their pleasure and enjoyment, so organic products must be available to the same extent, and in similar convenient packages and outlets, as conventional food. While the trend to organic food is strong, the level of its market penetration in all European countries is still relatively low. It grew in the past not only as a factor of increasing demand, but also of its availability. Market penetration for eggs, baby foods, potatoes, fresh milk and cereals is high not only because of exceptional demand, but also because the industry was able to provide adequate organic supplies at tolerable prices.

Considering the expectations of consumers of organic food and current market penetration, it is evident that major supply gaps exist. These refer to organic meat, organic fish, fruits, to some extent to vegetables as well, and even to milk and cereals. [12]

Generally, direct imports of meat to the EU are difficult since the market is strictly regulated, and even under the relaxed trade regimes foreseen by the SAA, meat will not be freed from import restrictions. Producing organic meat and dairy products usually involves the issue of organic feed, which depends on organically produced fodder cereals and oilseeds. Within the vegetable sector, supply of organic carrots and zucchini has already reached a penetration rate exceeding 20%, but that of onions and peppers is still below 10%. In the fruits sector, organic table grapes already occupy substantially more than 10% of the market, while apples and berries have yet to reach 5%.

Germany is the most important destination for marketing organic products from Serbia, since its share in the European organic food market is 31%, followed by France (17%), United Kingdom (10%) and Italy (8%). In addition to being a large consumer (EUR 74 per capita) and organic food producer (1 million ha under organic farming), Germany is also a large importer of such products. Depending on product type, shares of imports range from 2% to 95% of the value of local produce on the market, for the products that can be produced in Germany. Fruits and vegetables are the most import organic product category on the four mentioned European markets. Organic carrots are the most sold vegetable in Germany, and since local production cannot meet the demand, 48% of total consumption of organic carrots is supplied from imports.

Furthermore, imports of organic tomatoes (80%) and peppers (90%) also have high shares due to large consumption throughout the year, and out of season as well, when local fresh products are not available. Organic potatoes are one of the most important

[12] Hamm U. 2008: The German organic market – an overview; lecture at the University of Kassel

products in Europe by volumes of consumptions and imports. In Germany, the share of potatoes is 4.7% of the organic market, and 28% is imported. This can be a chance for producing and exporting potatoes from Serbia, since in April 2012 the European Commission lifted a ban on importing this product from Serbia, which was in effect for several years due to the presence of bacteria causing ring rot. In addition to vegetables, organic protein crops, primarily soybean, used for feeding organically raised livestock, also have high shares of import in Germany and can be an important export items for Serbian producers. This is especially important given that as of 2015 Germany will have to enforce the law that feed for organically grown livestock must be of 100% organic origin (95% currently allowed).

Table 14:

Share of some products in total retail value of sold organic foods at the most important EU markets

No	Product	Germany (2010)	Denmark (2010)	France (2010)	UK (2010)	Italy (2008)
1	Milk and dairy products	15%	32%	15%	31%	18%
2	Fruit and vegetables	22%	23%	17%	23%	25%
3	Bread, flour and pastries	11%	15%	10%	n/a	7%
4	Eggs	5%	6%	6%	3%	8%
5	Baby food	5%	n/a	5%	8%	5%
6	Fresh meat	4%	6%	7%	5%	n/a
7	Poultry	n/a	n/a	7%	2%	n/a
8	Wine	n/a	n/a	10%	n/a	n/a
9	Beverages	11%	n/a	5%	8%	10%

Sources:

1 Organic Market Memo - August 2011, Organic Denmark

2 Anais Riffiod (L'Agence BIO, F): The French market for organic food (Session at the BioFach Congress 2012, Feb. 15, 2012)

3 Organic Market Report 2011 - Soil Association

4 Willer, Helga and Kilcher, Lukas (Eds.) (2012) The World of Organic Agriculture - Statistics and Emerging Trends 2012. Research Institute of Organic Agriculture (FiBL), Frick, and International Federation of Organic Agriculture Movements (IFOAM),
Bonn - V 3.0 23/02/2012

5 SIPPO & FiBL 2011: The Organic Market in Europe

6 Diana Schaack (Agrarmarkt Informations-Gesellschaft mbH (AMI) “The German Market for Organic Food” (Session at the BioFach Congress of Feb. 16, 2012)

By signing the SAA, Serbia entered the process of rapidly converging to the EU. One of the elements of adjustment is the harmonisation of Serbia's agricultural policy with the CAP. The CAP regulates the markets for strategically important agricultural products in the EU such as sugar, oilseeds, cereals, meat, milk, wine, edible oils, and to some extent fruits and vegetables. All these products are not covered by specific EU import restrictions, and promotion of them would be in full compliance with the CAP. Increasing price pressures, resulting from Serbia's full integration into EU markets, might impact its small-scale agriculture, since it appears unready to produce fruits, vegetables or soybeans with efficiency typical of Northern Germany, Austria, Italy, or other EU countries. In order to buffer possible negative effects, the EU promotes investments for raising farming efficiency, particularly for forming farmer associations and other types of groupings able to exploit the economy of scale effects.

At the processing level, further reduction of production costs and improved efficiency might be necessary in the organic segment as well. Apple juice, jams, marmalades, mueslis, cereal products offered in European supermarkets, are only marginally more expensive than their conventional counterparts. Improving efficiency throughout the entire value chain of organic food production requires, in the case of Serbia, major investment and better education and training which, in addition to technical subjects, have to include farm and production economics, management, marketing and presentation. It goes without saying that full respect of European food safety and hygiene requirements, as well as all of the EU's packaging and transport regulation is obligatory, any disrespect of which will severely damage the marketing image of Serbian produce.

Table 15:

Organic products from Serbia with considerable market potential in the EU

Category	Product	Use	Comment
Oilseeds	Soybeans*	Edible oil, fodder	Soy offers many options for processing, e.g. hydrolysates, milk, emulsifiers, intermediates for the cosmetic industry, etc.
Cereals	Wheat, spelt, maize, barley	Food	Can be offered as whole grain or as flour. Organic starch, a strategic intermediate for many foods, practically does not exist in the EU.
Root crops	Potatoes*	Food	There is no organic potato starch, and hardly any processed organic potatoes (e.g. French fries)
Vegetables	Onions, kidney beans, garlic, peppers, etc.	Fresh vegetables market	Details of markets and market dynamics required
Fruit	Raspberries, apples, etc.	Processing market and fresh fruit market	Details of markets and market dynamics required; fruits such as apples might be processed. Apple pectin from organic sources or organic anthocyanin pigments (red-blue food colour) does not exist at all.

* As listed, both products have great market and competition potential. However, rapidly-spreading transgenic soy (herbicide-tolerant RR soy), though officially banned, and phytosanitary problems which may occur in potato export, plague Serbian farmers as they do other farmers elsewhere in the world.

5 Level of attainment of relevant EU standards

5.1 EU legal framework

Following the 2007 decision of the European Council of Ministers, Serbia was offered the perspective of joining the EU. The EC also offered to assist Serbia in the preparation process by the Instrument for Pre-Accession (IPA) as well as IPA I and IPA II programs under which all potential candidate countries are operating. Within that framework, Serbia receives funds for creating suitable organizational structures within its regions and ministries, so that measures foreseen under the IPA Components III-V can be absorbed and implemented efficiently.

In June 2010, the EU Council of Ministers decided to unblock the process of ratification of the Stabilization and Association Agreement with Serbia. The European Parliament ratified the SAA in January 2011, and to date 22 MS have done the same. With the signing of the SAA, Serbia becomes eligible for a number of privileges related to economic and trade relations, and will pass one of the hurdles for joining the WTO. The economic core element of the SAA is the gradual reduction of tariff and non-tariff trade barriers with the EU, ultimately leading to mutual opening of the markets. The successful implementation of the SAA is also one of the preconditions for transitioning from potential candidate to candidate status, which grants Serbia access to IPA III-V, and particularly to IPARD funds. IPARD funds will be released to support a candidate country in modernizing its agricultural system, so that it can better integrate into the EU CAP, as well as to efficiently develop its rural areas so they can attract people to live and to work there. [13].

The European Commission assigns an important role to organic agriculture in furthering the development of rural areas.

According to the FAO/WHO Codex Alimentarius guidelines for organic food which are the fundament for the EU's organic farming strategy, organic agriculture is a holistic production management system which promotes and enhances agro-ecosystem health, including biodiversity, biological cycles and soil biological activity. It emphasizes the use of management practices which take into account that regional conditions require locally adapted systems. This is accomplished by using, where applicable, agronomic,

[13]EC 2010: Srbija – Odnos između EU i Srbije na http://ec.europe.eu/enlargement/potential-candiates/serbia/relation

biological and mechanical methods as opposed to using synthetic materials to fulfil any specific function within the system. [14]

By adopting Council Regulation No 2092/91, the EU was one of the first global institutions to formulate a policy on organic farming. With this Regulation the Council created a community framework detailing the requirements for agricultural products and foodstuffs, referring to production methods used in organic farming and the food industry. The Council Regulation recognizes organic farming in their strategy on environmental integration and sustainable development within the Common Agricultural Policy. The integral principle is that farmers providing services to the environment beyond the reference level of Good Agricultural Practices should be adequately remunerated. Certain methods of agricultural production e.g. organic farming, integrated production, traditional low-input farming, and typical local production, provide a combination of positive environmental, social and economic effects.

In 2001, the EC presented the European Union Strategy for Sustainable Development which made CAP change its stress from quantity to promoting quality, with subsidy and supporting schemes being adjusted accordingly. [15]

Organic farmers are currently entitled to financial support from the first and the second pillar of the CAP through direct payments and price support measures. More importantly, organic farming is fully integrated into the rural development policy framework, a part of the second pillar of CAP.

Since Serbia is not yet a member of the EU, it is not eligible for payment and subsidy schemes that form the pillars of CAP. However, Serbia is in the process of EU convergence, with the IPA process already in motion. IPARD [16] can be considered as the precursor to the implementation of the second pillar of CAP, aiming as it does to improve working and living conditions in rural areas of a candidate country, and to bring them to the level of the EU. Shaping the IPARD process so that it not only complies with CAP in general, but to the chapters relevant for promoting organic agriculture in particular, will thus support not only the development of the organic sector in Serbia, but also further the political objectives of the EU.

---

[14] EC 2004: European Action Plan for Organic Food and Farming; Commission Staff Working Document
[15] EC 2003: CAP reform – a long term perspective for sustainable agriculture. In: www.ec.europa.eu/agriculture/capreform;
EC 2009: Health check of the CAP. In: www.ec.europa.eu/agriculture/healthcheck;
EC 2010: Financial programming and budget. In: www.ec.europa.eu/budget/budget_detail.
[16] GIZ-IS 2010: Project Implementation and Technical Assistance Facility to Reinforce Administrative Capacity in Serbia at www.ipa2007ppf.org

5.2 Legal framework for organic farming in Serbia

The first Law to regulate organic farming in Serbia was the Law on Organic Production (RS Official Gazette No 28/2000). The procedure of passing the new Law, entitled the Law on Organic Production and Organic Products (RS Official Gazette No 62/2006), was completed in 2006. By the end of that year the national logo for marking certified organic products was also introduced.

Since the EU adopted new legislation relevant for this field, in 2010 there was a need for Serbia to update the legal framework for organic farming. The result of this initiative was the adoption of the Law on Organic Production in May 2010 (RS Official Gazette No 30/2010), to be applied as of January 2011. This Law was drafted so as to be in compliance with the new EU regulation on organic farming (Regulation EC No 834/2007 and implementing regulations).

In July 2011 the new Rulebook on control and certification in organic production and on organic production methods (RS Official Gazette No 48/2011) was adopted, while the rulebook to regulate import and sales of organic produce is still being drafted. Pursuant to the new Law, in late 2010 the competent authority for organic farming was established as part of the Directorate for National Reference Laboratories of the Ministry of Agriculture, Forestry and Water Management, and started operating in January 2011.

The process of fully bringing Serbian legislation into compliance with the EU regulations in organic farming has not yet been completed, thus the initiative for amending the currently applicable Law. The proposed amendments are at present being drafted, and the final version of the document is expected soon.

For several years now the GIZ has provided support to institutions in Serbia such as the Ministry of Agriculture, Forestry and Water Management, Accreditation Body of Serbia (ATS) and control bodies, to develop quality infrastructure in line with the EU standards.

Special support in capacity building was provided to ATS, to offer the service of preparing assessment report for inspection bodies wishing to be directly recognised by the EC, in accordance with Article 33 of the Commission Regulation (EC) No 834/2007.

Note should be taken that in May 2012 the ATS signed the Multilateral Agreement (MLA) with the European accreditation organisation EA on recognising accreditations.

Table 16:
Inspection bodies authorised by the MAFWM for 2012

Inspection Body	Website
Control Union Danube d.o.o.	www.control-union-danube
Ecocert Balkan Beograd	www.ecocert.com
Etko Panonija	www.etkopanonija.org
Organic Control System	www.organica.rs
SGS-Beograd	www.sgs.com
Suolo e salute Balkan	www.suolo-e-salute-balkan.ls.rs
TUV SUD Serbia	www.tuv.rs

6 Past trends and future developments in terms of investment [17]

6.1 Market potential for Serbian manufacturers

On May 5, 2010 the Serbian Parliament passed a set of new laws and amendments related to agriculture. The main objective of this move was to amend the overall environment for investments into the sector. The new laws include inter alia the laws on organic agriculture, on forests, waters, beer, registering plant varieties, veterinary services, and agricultural extension and advisory services. These laws actually responded to various studies revealing that investments in the food and agribusiness industry have one of the highest multiplication effects, similar to investments in tourism, and far ahead of investments in, for instance, chemical or furniture industries.

Potential national investors in the sector include farmers, associations, and operators of refrigeration facilities, processing companies, and traders.

- Although the average farm in Serbia is small, with insufficiently high capital reserves, and does not operate according to modern standards, investments in organic agriculture may help it along in its efforts to modernize, in accordance with the general requirements deemed necessary for Serbia's alignment with the EU CAP.
- Farming cooperatives are large-scale operations with some capital reserves and the possibility for even larger investments. Such cooperatives can be considered as partners for foreign investments into cereals, oilseeds, as well as on a large scale in the berry and other fruit sectors.
- There are currently 180 major registered companies in the business of cold storage for fruits and vegetables in Serbia. Their total installed capacity is in the range of 600,000 tons. Additionally, there are up to 30 smaller such firms, with aggregate capacity of 200 tons.
- 80 companies have facilities for drying and warm processing of fruits and vegetables, with a capacity of 500 – 600,000 tons.
- 30-40 companies can process fruits and vegetables into preserves and juices according to international standards, while the total number of fruit and vegetable processors is estimated to be in the range of 150 – 200.

[17] Compiled from Republic of Serbia – the Prime Minister's Office 2010: Invest in Serbia; Vasijevic D. and Govoric S. 2009: Local Investment Multipliers in Serbia; Quarterly Monitor 19; IFC 2009: Serbia Country Profile; US Embassy to Serbia 2010: Serbia Investment Climate; COFACE Austria 2009: Country Report for Investors and Exporters – Serbia; Privatisation Agency of the Republic of Serbia 2005: Impact assessment of privatisation in Serbia; Maslac T. 2010: Serbia adopts new set of agriculture laws. USDA Gain report RB1005; Agri-Livestock Consultant Ltd 2010: Fruit and Vegetable Sector Study for the IPARD programme, Republic of Serbia.

The Serbian Business Registers Agency and the National Bank of Serbia record that the EBIT of registered agribusinesses operating in the fruit and vegetable sector (7,100) in 2008 was around € 430 million. Taking into account taxation and servicing of any loans and credits, net profits which could potentially be used for investment might have amounted to a maximum of € 10-20,000 per firm. While in some cases net revenues might have been considerably higher, it appears obvious that the investment strength of the industry is limited.

Nevertheless, the potential for domestic investors exists, and in contrast to other segments of the agro-industry, one of major advantages of investing into organic agriculture is that even with a small investment sizeable returns can be expected. This applies particularly to fresh vegetables and berries.

Attracting domestic capital to the organic sector requires a comprehensive assessment of sales opportunities. As the domestic market for organic products is small, linking of potential investors to international markets should be a major goal in creating the appropriate confidence of investors. Doing business in EU with European clients requires more than just offering products; abiding by contracts and accepted business practices is a conditio sine qua non, which translates into the following suggestions for stimulating domestic investments:

- Improvement of the political and economic framework in the country,
- Intensification of efforts to join the EU, EU membership being a major stabilisation factor,
- Facilitation of access to finances, and/or operation of special credit lines,
- Familiarisation of potential investors with European business conventions,
- Formation of an information and service centre authorized to facilitate business and to liaise between Serbian and European business partners.

6.2 Market potential for European investors

Given the limited capacity of domestic investors, the Serbian Government has fostered and promoted foreign investment for years; a number of elements to attract FDIs have been highlighted:

- The provision of energy, the expansion of automotive, electronics and IT industries, and a proactive trade policy, in line with the fact that Serbia's political priority is EU integration;
- The signing of the SAA with the EU, liberalization of the visa system, as well as the WTO membership expected to take place in the near future;
- Increasing exports, revamped GDP growth, and a secured national budget;
- Serbia's confirmed potentials for exporting to EU member states, CEFTA and EFTA countries, as well as to Russia, Belarus, Kazakhstan and Turkey, signatories of FTAs with Serbia;
- Increasing number of economic free zones granting exemption from various taxes and duties and providing efficient administration, local subsidies for investments, and a set of other services;
- Financial support to foreign investors through SIEPA programs;
- Low tax regimes with 12% on salaries and 10% on corporate income (average corporate profit tax in the EU is 24%).
- Educated and high quality workforce, available at competitive costs.

The key requirements for doing business in Serbia have consistently been rated positive. Some areas of concern, however, remain (e.g. contract enforcement, intellectual property rights) and call for improvements.

Nevertheless, investment opportunities for foreign companies exist and are increasingly being taken advantage of, but the whole sector is still in its early development stage. This provides great opportunities for European, and particularly German companies, with which Serbian economy has traditionally maintained good business relations. Market potential for European investors in the agricultural, and particularly the organic agricultural sector, as far as demand in Europe and especially in Germany is concerned, is mostly in sourcing products, raw materials, and processed goods. Berries, selected vegetables, soy and cereal products might therefore prove to be of highest interest.

Foreign investors decide which country to invest in based on the following two criteria: quick return on investment and high economic effects. The decisive factor for meeting investment criteria is efficiency of operation. Consequently, stable conditions for foreign investments in the agro-industry should meet the following requirements:

- Reliable provision of larger quantities of products of defined quality;
- Upgrading of technical capacities and know-how at all levels of value chains;
- Upgrading of economic and management skills at all levels of the value chain;
- Integration of agriculture and the agro-processing industry with political investment

priorities;

- Full exploitation of financial opportunities provided by the IPA process, and particularly by IPARD funds;
- The familiarisation of potential European investors with the Serbian agro-industrial sector, and facilitated contacting through specialized service and information outlets;
- At all times, demonstration by actual instances that joint ventures with Serbian partners are highly reliable and lucrative.

In 2012, the main focus of the RS Government continues to be improvement of the business environment and increase in the foreign direct investment, which amounted to EUR 1.83 billion in 2011[18]. The SIEPA provides grants to foreign investors to start operating in export-oriented production and service sectors. However, such funds may not be granted for funding investment projects in the sector of primary agricultural production, either conventional or organic, but only in the processing and added value production sectors. Depending on the location, amount of investment and number of new jobs created, the grants are approved either in the range from 10% to 20% of the total value of investment or in amounts from EUR 4,000 to 10,000 per each new full time employee for the period of three years [19].

[18] FDIs in Serbia 2001-2011, Business Info Group, Belgrade, April 2012
[19] Regulations on requirements and manners for attracting direct investments (RS Official Gazette No 20/2012)

6.3 Identification of the sector's potentials and needs

The SWOT analysis of the organic sector presented in this brochure leads to the conclusion that a number of options, possibilities and strengths of this sector in Serbia stand in contrast with many challenges that have to be overcome, so that its identified potentials might fully be utilized.

Table 17:
SWOT analysis of the organic sector in Serbia

Strengths	Weaknesses
National Action Plan in place Legal framework improving Accreditation Body of Serbia has assessors trained in organic farming Awareness of need for quality high in many industries Large areas of agricultural land not polluted and not intensively cultivated, making conversion faster and easier Positive opinion on organic farming among academia, many farmers, and consumers National Association in place Substantial interest of international donors Systematic education and training, starting from graduate programs in Novi Sad International cooperation of local academia with University of Kassel started Close relations already existing with organic markets in Germany, Austria, Switzerland, and The Netherlands	Sector and domestic market small International (EU) markets insufficiently exploited Insufficient cooperation of actors in value chain Education in both general and organic agriculture insufficient Makeup of farms (many small farms, not cooperating) inappropriate Attention/interest at institutional level limited Sector at all levels severely underfinanced, only marginal subsidies earmarked Financial engagement of international donors marginal Financial scheme and technical support for creating and running a special unit within the accreditation body not yet defined Certification systems still non-transparent Data base on organic agriculture processing and marketing weak and not transparent
Potentials	**Threats**
Evolution into Europe's prime supplier of organic berries and some other fruits and products Evolution into Europe's prime supplier of organic soybean products Evolution into Europe's prime supplier of organic food/feed ingredients such as starches, bran, flakes, protein cakes, gluten, hydrolysates, pectin, colours, etc. Modernisation of agricultural system by organic segment as the driving force Perspective of becoming major element in IPARD project approval process, and thus in restructuring Serbia's agriculture and rural areas in general Opportunity to develop agriculture into a major pillar of Serbia's GDP	Farms cannot develop to the level of international competiveness Sector fails to be acknowledged at the political level as the driving force in agricultural development Politics does not sufficiently recognize organic farming in restructuring the agricultural sector in the process of EU accession Sector cannot build up international relations and cannot penetrate suit able markets Sector will be marginalised by developments in other countries, offering similar range of products Actors do not respect accepted EU business systems and are excluded from major international trading Domestic and international investments cannot be mobilized

7

Challenges and way forward

This review of the organic agricultural sector in Serbia identifies some emerging trends and shows that many actors in the industry are trying hard to advance on the road defined in the National Action Plan for Organic Agriculture Development in Serbia. While general ecoclimatic factors indicate a vast potential for the development of organic farming, a number of major hurdles and problems still lie ahead and need to be overcome. One major impediment is capital constraint at all levels of the value chain, another is poor organization of actors along this chain, and the third one is low efficiency of production, processing, and marketing.

On the other hand, Serbia is on its way to the EU and to implementing IPA programs. IPA Component V (IPARD) will offer investors the opportunity to have more than 60% of their investment financed through IPARD funds. Such a co-financing scheme renders investments into the Serbian agriculture highly attractive. Foreign companies with a locally registered firm can also profit from such a scheme.

Investments into Serbia are also attractive because of low wages and low taxes. While low corporate profit taxes might continue in the future, it is unlikely that low wages can be maintained for long. It is hardly acceptable that minimum wages in Serbia are lower than in China, while costs of living are several times higher. Costs of production in Serbia will presumably quickly align with those in neighbouring countries.

Because of this, opportunities have to be sought in specific product sectors. Wine, sugar, milk and meat sectors are expected to remain areas of debate with EU. But no major problems are seen for fruits and vegetables, oilseeds, cereals, and tubers. Apart from fresh and processed fruits and vegetables in many forms, a huge potential for large-scale investments is to be found in soy. There is not a single country in Europe or the Mediterranean that produces and processes soybeans to such a large extent. And GMO-free soybeans cannot even be found. However, it is exactly these GMO-free soybeans that present highest market potential. Building up a complete GMO-free soybean product line would comprise the manufacture of soybeans, of soy oil, soy cake, lecithin, soy milk, soy protein isolates and hydrolysates, and even of sterols and tocopherols. But, it should also be noted that the pressure to cultivate GM soy is high, posing a constant challenge to the organic farmers growing GMO-free soy in their efforts to keep their fields uncontaminated by GM soy.

Serbia has undertaken a major step in drawing up the National Rural Development

Program 2011-2013. This document outlines in great detail the current status of the agricultural sector, concluding that substantial efforts throughout entire value chains and across all subsectors are needed to improve efficiency and prepare farmers and processors for EU markets. The National Rural Development Program 2011-2013 recommends channelling most future investments to the meat, dairy and, to an extent, the wine sectors. These, at the same time, are sectors with the most stringent market regulations in the EU. The National Rural Development Program 2011-2013 also acknowledges the need for investments in the fruit and vegetable sectors, but does not sufficiently recognize the potential for development in the cereal and the oil seed sectors. Both oilseeds and cereals, however, are increasingly in short supply, their prices are climbing continuously, both have a much more favourable CO2 balance than meat or dairy products, allowing the buildup of a diversified agro-processing industry.

In the past years, Germany and a number of other donors invested sizeable funds in the Serbian agriculture and food sector. In the context of EU accession, the agricultural sector is given priority because of its extremely important role in Serbian economy, and because agriculture is the largest regulated segment of the European economy which absorbs most of the EU budget. A harmonic integration of Serbia's agricultural sector into CAP is crucial for the success of Serbia's accession, and of highest importance to the European Commission. As a bilateral partner of Serbia, and also in context of its international obligations, Germany intends to continue supporting Serbia in its efforts to modernize its agriculture, particularly its organic sector. Such assistance might be implemented on the following levels:

- IInstitutional level – by intensifying policy advisory work and upgrading absorption and steering capacity for agro-political concepts and financing instruments, especially within the framework of IPA;
- Educational level – by strengthening university partnerships, increasing the exchange of academia, and by facilitating the integration of Serbian R&D initiatives into international settings;
- Processing level – by stronger promotion of modern technologies, processing and marketing systems. This might be an area of engagement for KfW as well, through opening of a specific credit line;
- Farm and production level – by upgrading the extension services and promoting all measures that allow the exploitation of the economy of scale effects. This might be achieved primarily through the propagation and support of associations and cooperatives.

With such engagement, Serbia may hope to speedily and efficiently become a major actor on the European Union's organic produce markets.

ACCESS – PROGRAM FOR PRIVATE SECTOR DEVELOPMENT IN SERBIA

The ACCESS is a program implemented by the German international cooperation organisation GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). It aims to further Serbia's economic development and facilitate the country's future membership in the European Union by supporting the implementation of the Serbian National Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship, as well as the National Program Integration into the EU.

The ACCESS program is implemented by the GIZ in collaboration with the Ministry of Agriculture, Trade, Forestry and Water Management and the Ministry of Economy and Regional Development, as well as Serbian business organisations. Through ACCESS's assistance small and medium-sized enterprises in select sectors and regions are being empowered to make better use of their production, employment, and growth potentials, and to find new markets both in the region of South East Europe and the EU.

Specifically, ACCESS works with private sector market players, RS Government, universities, organic agri-business operators, civil society, as well as farmer groups in the organic agricultural sector, in order to accomplish the following:

- support the development of sound policy environments that enable open markets, private sector investment, and gender-equitable access to factors of production, products, and income;
- promote effective institutions and services, such as application of research and new knowledge in agriculture, to enable both female and male producers to acquire, protect, and use the assets they need to take advantage of emerging market and trade opportunities;
- strengthen producers and organisations in rural areas in order to help them participate effectively in markets, reduce transaction costs, acquire productivity-enhancing technologies, and make use of pertinent information on national, regional, and international markets;
- support the development of product standards and quality control to meet EU market demands for food safety, purity and quality, and thereby reach higher-value markets;
- assist in appropriate marketing measures that will enable agricultural producers to reach national, regional and global markets;
- assist in the development of the public sector's role as monitor, regulator and referee, as well as the provider of market-facilitating goods and services;

- support to advancing quality of research and education in organic agriculture sector and attracting additional funding sources through integrating Serbian R&D programs into EU research programs, facilitating exchange of Serbian scientists and scientists from EU Universities and institutes, and promoting membership in various international associations for organic production.

NATIONAL ASSOCIATION FOR ORGANIC PRODUCTION “SERBIA ORGANICA”

Serbia Organica is a national association for organic agriculture committed to developing organic farming and organic market in Serbia. Established in May 2009, it is an independent non-governmental organisation initiated by organic agriculture sector stakeholders.

Serbia Organica is an umbrella organisation providing a hub for the entire organic agriculture sector in Serbia. Our mission is to make organic farming stable and competitive on both the national and international markets.

Serbia Organica is a focal point when it comes to information on organic agriculture sector and provides matchmaking and B2B liaison opportunities. Moreover, it carries out market research and facilitates connections with foreign buyers. As a national association we promote research and development in organic farming and attract experts in the sector, and in addition we also conduct various promotional and awareness raising campaigns in order to develop, advance and disseminate organic production information and know-how.

By virtue of our position we have access to information related to the entire organic sector of Serbia.

Our activities are an integral part of the National Action Plan for Organic Production Development in Serbia.

Serbia Organica aims to encompass all the elements with the ultimate goal of promoting the values of organic production.

Serbia organica | NATIONAL ASSOCIATION FOR ORGANIC PRODUCTION

National Association for Organic Production „SERBIA ORGANICA“

Molerova 29/a
11.000 Beograd
President of the Bord of members: Nada Mišković

Office, info center and exibition

„Domaći dućan“,
lokal br.6, Pijaca Zeleni venac, Beograd
Phone: +381(0)11 3283-085
Mob: +381 (0) 65 855-69-69, 065 855-69-69
Fax: +381 (0) 11 3283-0-85
E-mal: office@serbiaorganica.org
Web site: www.serbiaorganica.org

GIZ/ACCESS

Office in Belgrade

Makenzijeva 24/5
11000 Beograd
Phone: +381 11 24 00 371
Fax:+381 11 24 00 370
Program Leader
Tobias Stolz
E-Mail:
tobias.stolz@giz.de

Office in Novi Sad

Narodnog fronta 23d
21000 Novi Sad
Phone: +381 21 472 19 20
Fax: +381 21 472 19 21
Project Managers
Emilija Stefanović, Marija Kalentić
E-Mail:
emilija.stefanovic@giz.de, marija.kalentic@giz.de

SIEPA
Serbia Investment and Export Promotion Agency

VIP
Fond za podršku investicija u Vojvodini
Vojvodina Investment Promotion - VIP

SERBIAN CHAMBER OF COMMERCE

TERRAS
УДРУЖЕЊЕ TERRA'S

Zelena
Mreža
Vojvodine

Ost-Ausschuss der Deutschen Wirtschaft
oa

ECOLAND

FiBL

AFC

9 788687 737600