

EC JRC IPTS Project:

***“Analysis of agricultural and rural development policies in Western
Balkan countries”***

Interim Meeting

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Serbia

Agricultural Policy Brief

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Motivation

- ➡ **To present recent trends in agricultural sector**
- ➡ **To provide qualitative assessment of agricultural policy development and an insight into budgetary transfers to agriculture**
- ➡ **To discuss farm issues in context of structural changes in agriculture**
- ➡ **To present progress in EU integration negotiations**

- ➔ **Situation and trends in agriculture**
- ➔ **Agricultural policy frame**
- ➔ **Key challenges of agricultural policies**
 - ➔ **Strenghts and weaknesses**
 - ➔ **Farm issue**
 - ➔ **European integration**
- ➔ **Conclusions**

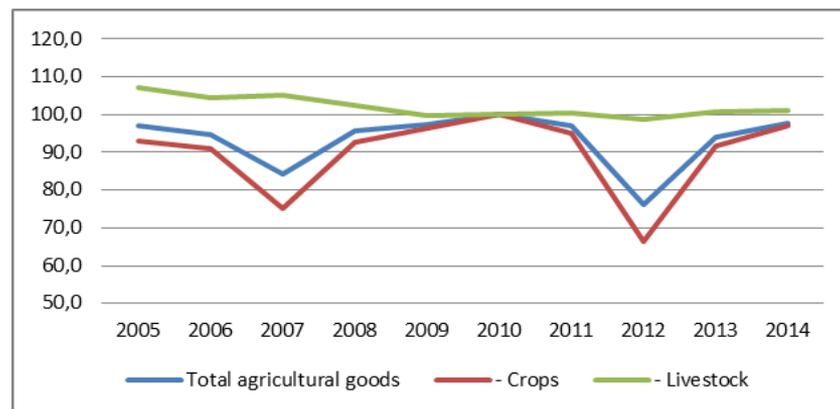
SITUATION OF SERBIAN AGRICUTLURE



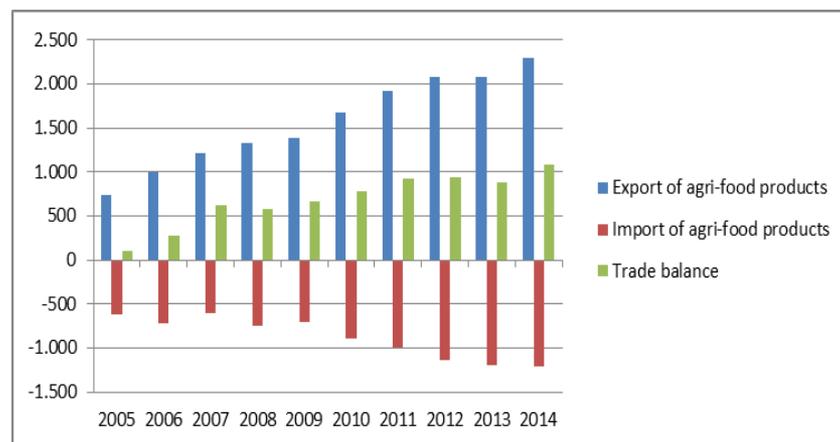
Key trends in Serbian agriculture

- Despite the 2014 spring floods, the yields of major crops reached record highs; GAO rose by 3.8%;
- The export of agriculture and food products continued to grow - maximum trade surpluses of 1.081 mil EUR;
 - Meat and dairy sectors foreign-exchange markets have become more unstable;

Agricultural production indices (2010=100)



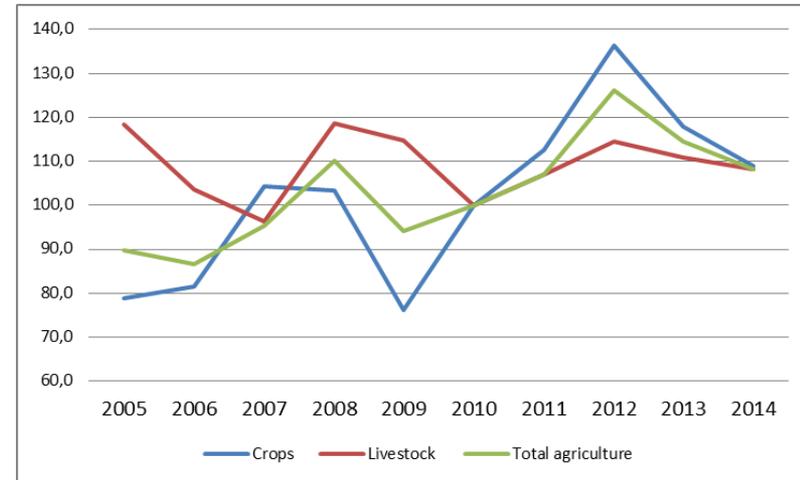
Agro-food trade (in EUR million)



Key trends in Serbian agriculture

- The prices of agricultural products decreased - nominally by 2.7%, 5.6% in real terms;
 - Prices of plant products fell both in real and nominal terms;
 - the prices of livestock products have remained more stable

Agricultural price indices
(deflated; 2005=100)



- Serbian agriculture has been characterized by stagnation, significant increase in export and relatively high share of food in total household's expenditures.
 - This paradox indicates **existence of structural imbalances and constrains within value chain, and a lot of room for further developments.**

Key trends in Serbian agriculture

- **Cereals** – record yields in 2014 (10.4 mill t) resulted in high export (2.8 mill t); significant drop in corn prices as a consequence of developments in international market;
- **Sugar** - record yields in 2014; A significant decline in the value of exports was in 2014, as a result of falling international sugar prices combined with record stocks.
- **Oilseeds, oils and fats** - production has a pronounced positive development trend, reaching maximum of 1.1 mill tons in 2014. Foreign trade is extremely unstable by size and structure, with pronounced growth trend in both directions. In 2014 external trade was marked by the record exports of sunflower meal and record in imports of soybean meal.
- **Fruit and vegetables** - Visible production trends only for some types of fruit - peaches, cherries and blackberries growth, while production of raspberries permanently decreasing since record high 2011 (32% decrease in 2014). Starting from 2012, prices of most fruits decreasing. The prices of most vegetables were increased in 2014, which is attributable to the impact of spring floods.
- Exports of fruits and vegetables in 2014 reached a record value (85% higher than average for the period 2005-2014) – reexport or lower domestic consumption?

Key trends in Serbian agriculture

- **Beef and veal** - production is falling in line with the decline in cattle numbers; External trade balance is positive, but with a pronounced downward trend; Imports of beef in 2013 for first time exceeded the 0.5 mill EUR, while in 2014 it is expanded rapidly to 2.3 mill EUR.
- **Pigmeat** - The production oscillates, with an obvious negative trend. Import has continuous tendency of growth, reaching its pick of 36 mill EUR in 2014. In the period 2010-14 the value of imports jumped fourfold, but export rose as well?
- **Sheep and goatmeat** - sheep farming recovering in recent years and continues growth from the beginning of last decade. In 2014 the number of sheep was 8% higher than in previous year. The trade balance is mostly positive, with growing trend since 2012.
- **Poultry meat** - In addition to the sheep meat, poultry meat is the only with continued growth. An export of poultry meat is constantly growing; slightly positive trade balance in 2014 (0.3 mill EUR).
- **Milk and milk products** - Number of dairy cows in period 2006-2014 has fallen by 28%. The decline in the volume of milk production is also continuous. The record value of exports of 62,6 mill EUR was realized in 2014 (7.5 mill EUR in 2005). The trade balance is positive since 2006, with maximum value of 26.7 mill EUR in 2014.

AGRICUTLURAL POLICY FRAME



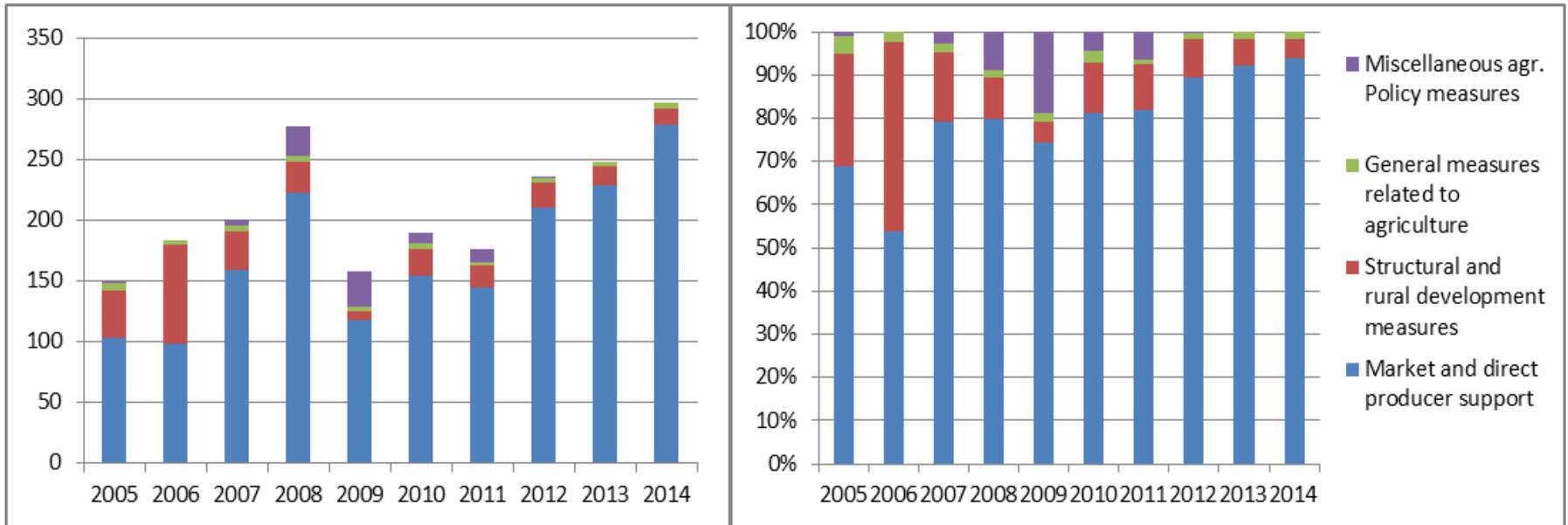
- Strategic frame of agricultural policy has been improved (Law on ARD, ARDS for 2014-2024, IPARD);
 - Mid-term programming documents still missing;
- Objectives and key priorities of ARDS and IPARD are in the line with CAP framework and reflect the national priorities;
- The realization of policy objectives is hampered by:
 - Lack of horizontal coordination of different politics and various policy mechanisms;
 - Different dynamics in legal and policy framework adjustments;

- Lack of consistent orientation in implementation machanisms towards the CAP
 - Production-related direct payments per area/animal prevail;
 - Small amount of funds dedecated to structural and rural development measures;
 - Criteria and administrative mechanisms are not in line with the related EU schemes;
 - payments is not conditional on meeting the cross-compliance requirements;
 - A basic safety-net intervention mechanism are not envisaged by law (and not implemented);

- The total funds committed to the MAEP represent 12% of GVA of the agriculture sector (A);
 - Amount is realistic for a middle income countries and suggests that there are no room for substantial growth of funding.
- Funds to support producers have increased, regardless the reduction in total Ministry's budget;
- The continued growth of funds for direct payments (over 20%!);
- Reduction of support for rural development in absolute and relative terms (less than 5% of total budget);

Budgetary transfers to agriculture

- Budgetary support increases, but in terms of structure moving away from EU CAP model.



Development of budgetary support to agriculture, 2005-2014 (Mill EUR)

KEY CHALLENGES OF AGRICULTURAL POLICY



Farm issue

- The process of farm restructuring took place spontaneously and slowly;

Serbia, main farm structure indicators, 2012

	2012
UAA per holding (ha)	5.4
Holdings with UAA < 1 ha (% of total)	28.2
LSU per holding with LSU	4.1
Holdings with LSU < 1 (% of total)	32
SO per holding (EUR)	5,918
Holdings with SO < 2000 EUR (% of total)	45.9

- Prevalence of small farms, with large variations in the average economic and physical size of farm holding at the regional level;

Farm issue

- The low coverage of farms and agricultural area by the farm register
 - the number of beneficiaries of budget support (310-320,000 active farmers registered; 1.2 million hectares).
- The profound regional differences in farm structure are not adequately treated by policy framework:
 - Over 90% of agricultural budget was allocated to direct payments and used mostly by larger farmers (Voivodina); worsening regional disparities;
 - The LFA measures has not been adjusted to the types of production prevalent in such areas and their specific needs.
- Small and medium-sized farms and farms marginal rural areas not been sufficiently benefiting from the budget, both because of limited access to support and small funds for rural development measures;

European integration

- Progress on most pending issues related EU integration
 - the relocation of the Directorate for Agrarian Payments;
 - the activities on defining minimum of national standards are underway;
 - staff recruitment has gathered pace;
 - activities on Action plan for supporting EU integration process are intensified;

- Progress towards IAPRD is hampered by delays in setting up the required operational structures; The major challenges still include:
 - continued commitment to the work on IPARD structure;
 - recruitment and training,
 - broader preparations of beneficieries on the actual implementation of IPARD.

European integration

- Reform of policy instruments have been stopped
 - Substantial changes needed in Law on incentives for agriculture and rural development
- Adjustments of domestic agricultural policy to the CAP so far were unsystematic, partial and insufficiently coordinated
 - Lack of synergy between trade and agricultural policy;
 - Some reforms were made hastily and provoked strong consequences on dynamics of structural reforms (i.e. premature market liberalization, allowing agriculture land to be sold to foreigners etc.)

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CONCLUSIONS



To take home messages

- Both the sectors output and export growth are based on several group of commodities (cereals, industrial crops, fruit and vegetable); Such context indicates that:
 - ***Huge and diverse agricultural resources are poorly used;***
 - ***Unfavorable farm structure and underutilized agricultural resources are the key obstacles to the further growth;***
- The challenge is to ***extend the basis for sector growth, by including more farmers, more land and more subsectors*** with potential to growth
 - Agricultural policy should prioritize productivity growth on huge number of small and mid-sized farms (5-20 ha);
 - Equal access to land and protection of property rights have to be secured in order to speed up land consolidation and farm restructuring
 - New commodities/subsectors has to be targeted by better guided core support programs (animal breeding, mixed crop–livestock farming, organic farming and fruit production are most promising sectors)

To take home messages

- There is a poor understanding of how to conceive and design agricultural policy concept
 - ***be clear about decision on what has to be achieved by budget support;***
The increase in budgetary support without clearly defined objectives and indicators for monitoring their implementation does not make sense.
 - ***Some of policy measures and support schemes have to be reassessed*** in terms of their ability to contribute to the achievement of policy objectives (example of dairy sector);
 - ***structural reforms along the entire value chain needed, rather than direct producers support;*** The competitiveness of some sub-sectors have been built on highly protected domestic market (meet, dairy products, some vegetable) while others rely on the success of a small number of big drivers (sugar, vegetable oils).
 - Adjustments of domestic agricultural policy to the CAP have more ***proactively address unsustainable internal structural imbalances.***