10.7251/AGSY1203630C
UDK 338.439.4:663/664(497.11)

GENERAL TRENDS ON AGRICULTURAL – FOOD PRODUCTS MARKET IN SERBIA

Drago CVIJANOVIC[1*], Branko MIHAJLOVIC[1], Gorica CVIJANOVIC[2]

[1]Institute of Agricultural Economics, Belgrade, Serbia
[2]Faculty of Biofarming Backa Topola, Megatrend University, Beograd, Serbia
(Corresponding author: drago_c@iep.bg.ac.rs)

Abstract

According to population income trends and supply and demand trends, on the world market of agricultural-food products in next ten-years-lasting period is expected increase of agricultural products consumption. Owing to expected income growth, the consumption of agricultural products for human nutrition will increase faster in those countries which are not members of the OECD. At the same time, in developing countries will come to changes in consumption habits, where will increase the share of animal origin products, meat and dairy products, as well as the consumption of sugar and vegetable oils. These all will cause a growth of derived demand for fodder, like cereals, except wheat, soybean meal and sunflower meal. In such conditions, agriculture represents one of the economic development pillars of the Republic of Serbia, and its significance for the national economy, besides economic, also has both social and ecological component. However, beside great potential in the sector of agricultural production, which has been a result of favourable climatic conditions, natural land characteristics and available water resources, it has not been optimally used. Exactly due to such potential, the agriculture in Serbia does not represent a common economic branch, considering that, in all municipal or regional strategies; it has been defined as one of the strategic development directions.

Key words: *agriculture, market, agrarian policy, food industry.*

Introduction

The agriculture in Serbia does not consider a common economic branch, as due to peculiarities of this production and tradition tied to it, as well as owing to great expectations. The most important elements of reform processes in Serbian agrarian sector since 2000 have been: market liberalization, privatization of processing industry, activation of agrarian financial market, as well as forming new institutional forms at all levels.

In the following period, Serbia should become a member of the WTO and to apply absolutely the adopted rules, which means significant decrease of import protection, cancelling export incentives and change of internal support structure to domestic agricultural production. There will also cancel or significantly diminish the import protection for products from the EU countries, in accordance with the Stabilization and Association Agreement (except for small number of delicate products, which will keep certain level of tariff protection after 6 years of transitional period, too).

The transitional period until the full application of the Stabilization and Association Agreement (until 2014) is important for structural changes in domestic agriculture, in regard to that, after this period, the measures will be modified and synchronized with the common

EU policy (*CAP*)[1] and rules and principles of the WTO. Accordingly, of Serbian agriculture is expected properties enlargement, increase of general productivity level (especially technical-technological production level) and competitiveness in regard to quality and prices, along with simultaneous adjustment of production, processing and placement with international standards. However, it is important to emphasize that agriculture cannot keep the existing employment level and to be, at the same time, competitive in surroundings, and especially in the EU. A conflict of agriculture role in economic development and its social component constantly characterizes Serbian economic structure, while precise restrictions of development-oriented agricultural husbandries and those husbandries which fall into a domain of social and rural state policy – are necessary for defining clear directives of competitive agricultural-food sector establishment in the future.

The next restrictions for faster agriculture development must take into consideration:

- Small property is in ownership of individual agricultural producers; there is great number of semi-natural husbandries of small economic and financial potentials, with aggravated possibilities of capital accumulation from agriculture,
- Insufficiently successful privatization of enterprises in the sector of primary agriculture, and at the same time, insufficiently strong competition among privatized companies in food industry;
- Unbuilt vertical and horizontal market chains, insufficiently organized flows of repurchase and turnover of agricultural products, and underdeveloped all forms of farmers′ associations (including also agricultural cooperatives),
- Underdevelopment of financial market, high capital price, lack of entrepreneurial capital (in English venture capital), foreign investments, joint ventures are significant limitations for greater investments,
- Unfavourable general business climate, high investment risk and insufficient protection of proprietary rights (insufficient legal protection of an investor) – also limit new investments of domestic entrepreneurs regarding inventions in agricultural production and investments in primary processing sector,
- Possibilities for higher state incentives are limited by low agrarian budget,
- High requirements regarding quality standards and regulations which domestic producers must fulfil if they desire to enter the foreign markets (EU, Russia, USA and similar), and, at the same time, is slow adjustment of domestic producers and processors to safety food standards[2].

Material and methods

In realization of the research task were used desk researches of data which relate on the agricultural-food products market in Serbia. Such research implies using the data from the official sources: data of the Statistical Office of the Republic of Serbia, materials of the Serbian Chamber of Commerce etc; using the data from domestic and foreign literature; using the internal data. There were also used quantitative methods, first of all - time series analysis. With combination of stated methods can get more reliable answer to key questions which impose within the analysis of the general trends on the agricultural-food products market in Serbia.

[1] See more detailed: Cvijanović, D., Simonović, Z., Mihailović, B. (2011): „The focus and goals of new reforms of agrarian and regional support to the EU“, Economic of Agriculture journal, Year 58, no.3 (359-527) 2011, Belgrade. UDK: 338.431:339.1; UDC 338.43:63; ISSN 0352-3462; pp.359-370.

[2] Passing the Law on Food Safety („Official Gazette of RS“, no. 41/09) and series of follow-up laws are the initial steps for introduction of standardization procedure in production of food products and respect of food safety principles.

Results and discussion

On trends in world trade of agricultural-food products have an effect the global geo-political and economic situation, vacillating of supply and demand for the products on big markets, as well as trade negotiations and multilateral agreements. Although Serbian market is small and relatively closed (Serbia is not sufficiently integrated in the world courses), the mentioned trends will affect also on domestic market of agricultural products and foreign trade exchange of Serbia with the world. In such conditions, Serbian agriculture has extraordinary place and role in the total economic development of the country, especially in the process of adjusting economic mechanisms for certain social goals realization, on conduction of reforms and transition, and primarily on alleviation of the world economic and financial crisis′ impact[3], which seriously jeopardize revival and development of the economy.[4]

Yugoslav model of agriculture was based on cooperation, as a bond between individual husbandries and big state/public enterprises. The vertical integration system has been structured the most often at the local/regional level, and had comprising inputs market, primary agricultural production, processing, finishing, sale and services. The big agro-industrial systems had a strong impact on the local economy, monopoly position at the local market and had been supported by the republic and state funds. Parallel with the big agro-industrial systems had existed also a network of other participant in turnover (middlemen), whose business had been verged on black economy. During 90's, after a decline of big agro-industrial factory-farms (combines) had appeared ten-years-lasting vacuum or elemental force in institutional and organizational functioning of agricultural inputs market and repurchase of agricultural products. A precondition for revitalization of the agricultural products market was created primarily by privatization of processing capacities (especially in the field of industrial plants and milk processing), and then also by strengthening of food wholesale and retail chains. However, while the industrial plants and milk market is characterized by strong domination and negotiating power of several purchasers in regard to the primary agricultural producers[5], lack of secure agreements with purchasers and domination of black economy are especially present in production of fruits, vegetables, turnover of livestock, maize etc.

The agriculture is, together with industry, an undeniable developmental chance of Serbia, and its role and significance in the national economy will not decrease. Nevertheless, in order for agriculture to really use its chances and qualify its self for intensive production and higher export, two essential and structural problems on the agricultural-food products market search for a constructive solution and coordinated role of all government institutions:

(1) Strengthening the competition on repurchase and agricultural products market and sanctioning an abuse of dominant position by small number of companies (in present moment, the market characterizes the oligopsons' market structure, i.e. strong negotiating power of small number of companies in repurchase),

(2) Transforming the repurchase courses from the “black” economy into the regular channels; the black economy leads to unequal conditions of competition of firms which do business legally and those who avoid law, and the domination of black

[3] See more detailed: Vojnović, B., Cvijanović, D., Veselinović, P. (2011): „Researching the crisis impact on domestic enterprises' business”, Economic of Agriculture journal, Year 58, no.4 (529-804) 2011, Belgrade. UDK: 338.124.4; UDC 338.43:63; ISSN 0352-3462; pp. 749-760

[4] *Agriculture in 2011 with expectations for 2012 – Assessments, evaluations and proposals*, SCC, Association for Agriculture, Food and Tobacco Industry and Water Management, Belgrade, February, 2012, p.2

[5] For example, in production of oleaginous plants single out four factories, of which two are within the same business system, in milk production a dominant market share has only one business system, within which structure are 5 big dairies, 8 privatized sugar refineries are in hands of 3 owners etc.

economy is noticeable not only in products' sale, but also in business/registering of the firms, employment of workers etc[6].

Thereby must point out that, no matter how good were, the isolated activities of the MAFWM of the RS in this segment were not enough for changes and engagement of all institutions, especially judicial and legislature authority – can lead to solution of evident problems in functioning the market of agricultural products.

According to data of the Statistical Office of the Republic of Serbia (*table 1*), the costs of food, beverages and tobacco, besides continuous decrease of share, are further more highly represented in family budget costs in Serbia. In 2000, this share was amounted 54,0%, and in 2008 45,8%. Such state points out to still low population standard and thereby insufficient life quality, regarding that insufficiently assets stay for satisfying the other needs, of non-existential character. It is a consequence of insufficiently liberalized market and monopoly orientation of processors and tradesmen.

Table 1. Macro-economic indicators of Serbian agriculture

	Jed.	2000	2001	2002	2003	2004	2005	2006	2007	2008
Share of agriculture, forestry and fishery in GDP:										
	%	18,7	18,0	13,3	11,4	11,9	10,3	9,6	8,7	
in employment (ARS)	%					23,9	23,2	20,5	20,8	21,4
Share of food industry, beverage and tobacco in GDP		6,2	5,7	5,3	4,9	4,7	4,4	4,7	4,4	
Total		87	119	97	93	120	95	100	92	108
Plant production		73	150	96	83	144	94	97	82	123
Livestock breeding		95	99	102	98	100	101	97	100	97
Share of food, beverage and tobacco i family budget costs	%	54,0	58,4	49,0	47,7	45,0	41,7	43,4	45,1	45,8
Trade with agricultural-food products	mil. €	631,0	854,1	1.133,3	1.086,2	1.316,2	1.353,7	1.713,1	2.035,5	2.327,1
Export	mil. €	319,7	347,4	554,9	509,4	628,7	731,7	991,9	1.217,9	1.327,3
Import	mil. €	311,3	506,8	578,3	576,7	687,5	622,0	721,1	817,6	999,8
Foreign trade balance	mil. €	8,3	-159,4	-23,4	-67,3	-58,8	109,7	270,8	400,2	327,5
Share of agricultural-food products in:										
Total export	%	19,0	18,3	25,3	20,9	22,2	20,3	19,4	18,9	31,3
Total import	%	8,6	10,7	9,8	8,8	8,0	7,4	6,9	6,1	6,4

Source: Statistical Office of the Republic of Serbia – different publications

That is to say, the basic characteristics of the agricultural-food products market in Serbia reflect in the following trends:[7]

⇒ Some processors, i.e. buyers of agricultural products (oligopson) who have significant market share and market power, dominate on most of primary agricultural products market: market of wheat, sunflower, soy, sugar beat, milk, tobacco; business ambience in this field are characterized by: small domestic market, aggravated sale possibilities, especially export, high technological requirements of agricultural production, standards in safety and food quality system and the EU requirements;

[6] According to the research of the Serbian Association of Employers, on black market is the least of tobacco, and the most of seasonal fruits, vegetables and poultry. The black economy is, according to the same source, dominant for two reasons: 1) great tax burdens and 2) extremely long payment terms. Source: Conditions and burdens of business and collective negotiations, Serbian Association of Employers, 2010, pp.4-6

[7] Internal files of the Institute of Agricultural Economics Belgrade, i.e. the results of numerous focus groups and survey research of primary agricultural producers in the period 2007-2008

- ⇒ Placement in hyper-markets is possible only for small number of agricultural producers who have great production opportunities, then for organized and successful cooperatives and associations; besides all conveniences of hyper-market has been noticeable the great negotiating power of wholesale and retail chains in regard to agricultural producers, which reflects in stipulation of producers by payment terms, quality, price, imposed packaging standards, etc;
- ⇒ Market of livestock, fruits, vegetables and eggs could represent the markets of complete or at least high competition; although, the basic imperfection of these markets reflects through a significant share of „black“ economy, but also the absence of organized repurchase and long-term connection of primary agricultural producers and processors; on the mentioned markets small number of purchasers have the HACCP certificate;
- ⇒ from the supply side register numerous of small agricultural producers, infavourable age-educational structures and poor economic powers; they are characterized by natural and semi-natural production, small possibility for investments in cold storage plants, dryers, silos, increase of production and its standardization;
- ⇒ insufficient organization of agricultural producers through associations and cooperatives, and therefore results that numerous producers who do not have own productions for the needs of, so called big buyers, and, at the same time, have great supply and aggravated sale on the local market;
- ⇒ In irregular courses of repurchase and payments is high percentage of the primary agricultural products markets, which leads to disloyal competition; this condition can improve through better law enforcement and efficient work of inspection authorities;
- ⇒ Warehouse receipts market and term market of commodity products is insufficiently developed; there are also missing repurchase-distributive centres and agricultural cooperatives which role would be to take over the sale function and distribution from agricultural producers, in a most efficient way;
- ⇒ Farmers from peri-urban zones of the cities (Belgrade, Novi Sad, Nis), in regard to the farmers in rural areas, have better opportunities of market sale, primarily due to vicinity of big consumer centres, where do the significant turnover of the agricultural products on the markets.

Conclusion

The agriculture is one of the Republic of Serbia economic development's pillars, and its significance for the national economy, beside an economic, also has a social and an ecological component. However, besides great potential in the sector of agricultural production, which has been a result of favourable climatic conditions, natural land characteristics and available water resources, it has not been enough utilized. Exactly owing to such potential, the agriculture in Serbia does not represent an ordinary economic branch, considering that in all municipal and regional strategies has been defined as one of the strategic developmental courses. Nevertheless, successful inclusion onto the international market limits insufficient assortment of food products in regard to current supply in developed world, where has been neglected the research on better exploitation of existing capacities, through introduction of new lines and products. As limiting factor points out an oscillation of market products′ quality, as regarding non-existence of standards, as well as regarding disrespect and insufficient control of the existing standards. There is also slow adjustment to the market business criteria, which base on introduction of modern management and marketing systems. Insufficient predictability in business of food industry has been caused by non-existence of long-term contractual relations between the food industry and raw materials processors, as well as by non-existence of market integration, primary agricultural production and industry which, as its input, uses exactly agricultural products.

Acknowledgements

The paper is a part of the research on the project III - 46006 “Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals' realization within the Danube region”, financed by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

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