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Screening report

Serbia

Chapter 11 – Agriculture and Rural Development

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I. CHAPTER CONTENT

The *acquis* on agriculture and rural development covers a large number of binding rules, many of which are directly applicable. Their proper application and their effective enforcement by an efficient public administration are essential for the functioning of the Common Agricultural Policy. This requires the setting up of a paying agency and management and control systems such as the Integrated Administration and Control System, and the capacity to implement rural development programmes. Member States must be able to apply EU legislation on direct support schemes and to implement the common market organisation for various agricultural products.

The implementation, management and control of the Common Agricultural Policy (CAP) require the creation, modification and/or reinforcement of appropriate administrative structures. In some cases the *acquis* sets out detailed specifications for the required administrative structures. In many cases the *acquis* simply uses terms such as the “competent authority” to refer to the administrative structure that is needed. This means that it is left to each Member State to decide which institution is responsible for the effective implementation of the *acquis*. However, the functions that EU Member States must carry out - through the administrative structures they establish - are clearly specified in the *acquis*.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Serbia and the discussion at the screening meetings.

Serbia stated that it can accept the *acquis* on agriculture and rural development and that it intends to transpose and implement the *acquis* by the date of accession. Serbia stated that it has a very clear knowledge of the *acquis* covered by this chapter, that it is fully aware of the challenges ahead to ensure full implementation of the *acquis* upon accession and that it has a clear overview of the steps necessary to achieve this goal.

Serbia's utilised agricultural area (UAA) is 3,437,423 hectares (ha), which accounts for 44% of the total territory. Arable land is the predominant land use (73%) followed by permanent grassland (21%) and permanent crops (6%).

The sector represents 9.7% of the gross value added (GVA) and agricultural employment stood at 21% of total employment in 2012. Exports of agricultural products account for 23% of all Serbian exports. The agricultural census registered 631,500 agricultural holdings with an average size of 5.4 ha. 99.5% of the holdings are family farms. Serbia's agriculture is characterised by a mixed farm structure with

- 6,200 large farms with more than 50 ha using 33% of the UAA
- 45,300 medium sized farms with 10-50 ha using 24% of the UAA
- 271,600 small farms with 2-10 ha using 35% of the UAA
- 308,400 subsistence or semi-subsistence farms with less than 2 ha using 8% of the UAA

The farm structure and the type of production vary strongly between a) the plain region in the north with more favourable structures and a high share of crop production and b) the hilly and mountain regions mainly in the south with predominant small scale farms with livestock and/or vegetable and fruit production.

Serbia has defined areas with difficult working conditions for agriculture¹. This "less favoured area" covers 39% of the total surface and 24% of the utilised agriculture area used by 29% of the farms.

More than 60% of the value of the agricultural production is generated by plant production and 40% by livestock production. The main plant products are maize, wheat, oilseeds, sugar beet, fruits and vegetables while the main animal products are beef (mainly milk), pig-meat, poultry (eggs and meat) and sheep (meat and wool).

The climate conditions in Serbia are generally favourable for agriculture and Serbia has rich land resources with a good soil quality, a rich biodiversity and a good ratio of agricultural land per capita. Despite these favourable conditions, labour productivity is 20% below the EU average. Product yields are well below potential, mainly due to lack of finance, modern technology, sufficient input levels, genetic resources and knowledge. Production is also affected by climate change. Farmers are vulnerable to extreme weather conditions which, in recent years, have resulted in increased volatility of production. Nevertheless, Serbia is a net exporter of agricultural products with a favourable ratio between exports and imports of 1.5 to 2 in recent years. Trade consist mainly of primary agricultural products (79% of exports and 65% of imports).

Serbia stated that its agricultural policy is based on the Law on Agriculture and Rural Development (Official Gazette RS 41/09) and the Law on subsidies in Agriculture and Rural Development (Official Gazette RS 10/13). These laws provide the general framework for the development of and support to agriculture and rural development by direct payments, rural development measures and specific subsidies. They indicate the objectives of the agricultural policy and basic definitions, list types of subsidies and eligibility criteria, set rules for the register of agricultural households, record keeping, reporting and the integrated agricultural information system, list the responsibility for the supervision and implementation of the laws and define the competencies of the administration responsible for agricultural payments.

The agricultural policy of Serbia is financed from the annual state budget. Implementation of the agriculture policy is based on the above mentioned laws providing the framework. The detailed allocation of the budget for agriculture and rural development is made on an annual basis by a government decree (for 2014 OG RS 8/14, 30/14). This decree is based on the law of the entire state budget for the year. It specifies the overall envelope and the detailed amount per subsidy scheme. The agricultural budget for 2014 amounted to EUR 392 million including the funds for its administration. Thereof, EUR 267 million are allocated for subsidies to agriculture and rural development.

Serbia stated that the overall responsibility for the national agricultural policy lies with the Ministry of Agriculture and Environmental Protection. The provincial secretariat for Agriculture, Water and Forestry of the autonomous province of Vojvodina and the councils of the local self-government units (communes) also support the agricultural sector and the rural areas. In 2013 an amount of EUR 15.3 million was provided by them. Their support programs are complementary to the national support and are approved by the MAEP.

In 2013 Serbia drafted a comprehensive strategy for agriculture and rural development for the period 2014-2024. The Strategy was adopted in July 2014. It is based on the data from the agricultural census which took place in October 2012. The data has been validated and is

¹ The following criteria were used: Altitude- above 500m or less than 100 employed/1,000 citizens or belonging to a nature park. This definition is not aligned yet with the definition of less favoured areas based on EU legislation.

available in its final format so that it can be further used for policy analysis and formulation. The strategy defines the framework for a) the institutional and political reform process, b) subsidies allocated to agriculture and rural development and c) its EU and WTO integration process. According to the strategy the subsidies for agriculture and rural development will be gradually aligned to the Common Agricultural Policy of the EU.

II.a Horizontal issues

In 2014, **direct support schemes** in Serbia comprise decoupled area payments, coupled animal payments, input subsidies and price support for milk. The total envelope in 2014 is EUR 209 million representing 78% of the agricultural subsidies. Farmers need to be registered and use more than 0.5 ha of agricultural land yearly by 31 October to be eligible for direct payments. The farm register and some of the payment schemes (area based payments, some input subsidies, insurance scheme) are administered by the financial administration. All other direct support schemes are administered by the Directorate for Agrarian Payments (DAP). A modulation of direct payments is applied in two steps. Direct payments to a farmer from EUR 87,000 to EUR 174,000 are reduced by 5%. Payments of more than EUR 174,000 are reduced by 10%.

The **decoupled area payments** amount to EUR 52 per ha of agricultural land (arable land, meadows, kitchen gardens, orchards and vineyards) for a maximum of 100 ha per farm. Permanent grassland is not eligible. The envelope is EUR 73.4 million, representing 35% of direct support.

The **coupled animal payments** consist of a) cattle fattening (EUR 87/head), pig fattening (EUR 9/head) and lamb fattening (EUR 9/head) with an envelope of EUR 8.8 million, b) suckler cows (EUR 174/head) with an envelope of EUR 86,393 and c) beekeeping (EUR 4 per hive) with an envelope of around EUR 2 million. Payments for the genetic improvement of the livestock (high quality breeds) are granted for cows (EUR 174/head) and sheep, goats and sows (EUR 35/head) with an envelope of EUR 28.4 million. From this envelope, payments are provided for parental chicken (EUR 0.5/head light, EUR 0.9/head heavy) and parental turkey (EUR 2.6/head). The total envelope for coupled animal payments is EUR 39.6 million representing 19% of direct support.

Where a register exists (cattle, sheep, goats, bee hives), registration is one of the eligibility criteria for payment. Depending on the payment scheme there are various additional eligibility criteria such as minimum numbers, retention period and weight. No specific eligibility criteria exist on the maximum animal density or other specific criteria related to animal welfare or the environment.

The **milk premium** comprises raw milk from cows, sheep and goats (EUR 0.06/litre) delivered to a dairy. Minimum and maximum thresholds on farm level apply. The minimum is 3,000 litres per quarter (1,500 litres in areas with difficult conditions) and the maximum is 3 million litres per quarter. The farm and the animals have to be registered. The envelope is EUR 25.9 million representing more than 12% of direct support.

The **input subsidies** include a) diesel fuel and fertiliser (EUR 57.8 million), b) insurance premiums for crops, permanent crops, nurseries and animals (EUR 3.4 million), c) storage in public warehouses (EUR 86,393) and d) credit support (EUR 8.6 million). Input subsidies account for EUR 70 million representing more than 33% of direct support.

Serbia currently has no **Integrated Administration and Control System (IACS)** as defined by the *acquis*. Administrative controls are implemented by the Directorate for Agricultural Payments or by the Ministry of Finance. On-spot-controls are implemented by the Agricultural Inspection Service and the Veterinary Directorate depending on the payment scheme. The on-spot control rate varies from 2% to 100% depending on the measure and based on a risk assessment. A farm register administered by the Ministry of Finance, an animal identification and registration system administered by the Veterinary Directorate of the MAEP and an accounting software administered by the Directorate for Agricultural Payments (DAP) are in place. A data warehouse project integrating the existing data bases for enhanced administrative controls by cross checks and improving monitoring, evaluation and reporting of payments is expected to start at the end of 2014.

A **Land Parcel Identification System (LPIS)** does not exist. The MAEP/DAP will be responsible for the development of LPIS, while the geo-data will be provided by the State Geodetic Authority. A legal basis for LPIS and a written agreement for the acquisition and share of spatial data remain to be prepared. A technical assistance project on LPIS (IPA 2012) aiming to support its development is expected to start in 2015.

The Directorate for Agriculture Payments (DAP) under the MAEP has been established by law for implementing national direct payments and national rural development measures. DAP is going to be the paying agency responsible for the Instrument for Pre-Accession Assistance to Rural Development (IPARD) in the pre-accession period and will become the single **paying agency** for all agricultural payment schemes and market measures by the date of accession.

A **Cross Compliance** mechanism aligned with the EU *acquis* with specific requirements, a systematic control and a sanctioning system does not exist yet. The farmers are however obliged to respect the national legislation in the area of environmental protection, public health, animal health, plant health, animal welfare and protection of agricultural land. Non-compliance with the national legislation can lead to sanctions, but these are not linked to agricultural subsidies.

A **Farm Advisory System (FAS)** aligned with the EU *acquis* and covering the same scope does not yet exist. However, advisory services do exist in Serbia and could potentially be developed to establish the Serbian FAS.

Apart from direct payments and rural development measures, Serbia also provides **specific subsidies** supporting the advisory service (EUR 2.2 million), breeding programs (EUR 1 million), research and innovation (EUR 0,6 million) and planting material (EUR 0,17 million).

The **State aids** in Serbia are governed by the law on State aid control (OG RS No 51/09). Reference to State aid is also made as part of the Stabilisation and Association Agreement (SAA). Agricultural and fishery products are not covered by the law or the SAA as far as state aids are concerned. A competent authority for State aid in agriculture does not yet exist. Certain of the support schemes in place would be considered as State aids according to EU legislation. Serbia stated that State aid rules in the country will have to be addressed in the framework of the accession negotiations and will be gradually aligned with EU legislation. Some measures will be transformed into direct payments and some others into rural development type measures.

The legal basis for the implementation of **trade policy** is provided by the Law on Foreign Trade (OG RS 36/09, 36/11 and 88/11), the Law on Customs Tariff (OG RS 62/05, 61/07 and 05/09), the Customs Law (OG RS 17/10 and 11/12), the Law on Special Duties (OG FRY 90/94) and the Decree on Customs Tariff for 2014 (OG RS 107/13 and 119/13).

Trade of agricultural products and food in Serbia is significant. In 2013 the value of exports reached over EUR 2 billion (23% of all exports) with the value of imports recorded at over EUR 1 billion (7.7% of all imports).

Market measures like import quotas, export quotas, licences or securities for imports/exports and export subsidies are not in place. Serbia stated that it applies the Combined Nomenclature for the classification of products at 8 digit level and for country specific tariff items at 10 digit level.

Import customs tariffs on agricultural and food products are ad valorem in the range of 1 to 30%. For a certain number of sensitive products special levies (price per kg) are applied. For a number of tariff lines for fruits, vegetables and flowers seasonal custom duties are in place.

Export and import tariff quotas are defined in the Stabilisation and Association Agreement (SAA) with the EU and in the Free Trade Agreement with Turkey. Additional import tariff quotas for cheese are in place with EFTA countries. Import quotas are implemented by the "first come first served" principle. The customs administration is responsible for the administration of tariff quotas.

Serbia has **trade agreements** with the EU (Stabilisation and Association Agreement (SAA)), countries of Central Europe Free Trade Agreement (CEFTA), countries of the European Free Trade Area (EFTA) and bilateral free trade agreements with Turkey, Russia, Belarus and Kazakhstan.

The SAA gives Serbia preferential access to the EU market for most agricultural products except wine, sugar, and beef for which tariff quotas are in place. The SAA also foresees that Serbia reduces its customs tariffs for imports from the EU depending on the sensitivity of the products. Some 82% of the tariff lines are duty free 6 years after entry into force of the agreement with tariffs reduced or maintained on a number of products including meat, dairy, sugar, fruits, vegetables, fruit juice and tobacco.

Trade with CEFTA countries is fully liberalised. With EFTA countries Serbia has bilateral agreements for agricultural products and agreements very similar to the SAA for processed agricultural products.

Serbia is currently negotiating its accession to the World Trade Organisation. On a multilateral level two legal acts are to be harmonised with WTO rules including the law on genetically modified organisms. Bilateral negotiations on agricultural tariffs are completed with 10 countries and remain ongoing with USA, Brazil and Ukraine.

Specific trade agreements for **Non-Annex I products** are in place with the EU and EFTA countries. For all other bilateral and multilateral trade agreements processed agricultural products were agreed along with basic agricultural products. The average share of processed agricultural products in total agricultural exports in the period 2009-2013 was 22.1%. The average share of imports in the same period amounted to 28%. Serbia does not apply a system of customs protection for processed agricultural products (PAPs) on the basis of the content of the agricultural component. Serbia stated that it will not introduce it before the accession to the EU.

Serbia has established a **Farm Accountancy Data Network (FADN)**. It is implemented by the MAEP with a) regional support from the Secretariat for Agriculture in Vojvodina in the north and the Institute for Science Application on Agriculture in the south and b) local support by 33 offices of the agricultural extension service. In 2014 it comprises a sample of 499 agricultural

holdings. The 2012 agricultural census has been used for sampling. At present the selection plan is evaluated and the data is validated. Serbia stated that the rulebook and the methodology require further updates. It is planned to increase the sample and extent its usage for research and policy formulation.

II.b. Common market organisation

II.b.1 Arable crops, fibre, sugar²

Approximately 60% of Serbia's agricultural land is used for arable crops. The main crops are *cereals, oilseeds and sugar beets*. *Fibre crops, rice and hemp* are not produced in Serbia. Market measures like intervention, production quotas, import licenses or export refunds are not in place. Export licences are only required for sugar.

Cereals

Corn (1,186,000 ha) and wheat (563,000 ha) dominate the cereal production followed by barley (86,000 ha), triticale (39,000 ha), oats (28,000 ha) and rye (4,000 ha). A high share is produced in the north. Yields are modest (e.g. corn 4.9 t/ha, wheat 4.8 t/ha) with a high volatility. Serbia stated that there are 465 registered mills, 5,755 registered processors and 3 starch factories. Cereals (mainly corn and wheat) cover 17.3% of all Serbian agricultural exports. More than 80% of these products are exported to the EU. Serbia applies ad valorem duties of 30% on imports of cereals for third countries except for rice (3%). For the EU a preferential regime with no import duties for an unlimited quantity except some products is in place. Preferential access is given also to CEFTA, the Russian Federation, Belarus and Kazakhstan.

Oilseeds

Oilseeds production covers sunflower (188,000 ha), soya (160,000 ha) and rapeseed (10 ha). The yields are relatively high for sunflower 2.7 t/ha and soya 2.4 t/ha and modest for rapeseed 2.8 t/ha. Oilseed products are mainly exported to the EU and CEFTA. Serbia applies ad valorem duties of 3 to 30% on imports of oilseed products for third countries. For the EU a preferential regime with no import duties for an unlimited quantity is in place. Preferential access is given also to CEFTA, the Russian Federation, Belarus and Kazakhstan.

Sugar

Sugar beets are produced on an area of 50,000 to 70,000ha (2013: 64.768ha) mainly by farms with more than 100 ha (\approx 400 farms). The sugar beets are processed by three processors on six plants producing 400,000 to 500,000 tons of sugar a year (2013: 403,582 t). Approximately 180,000 to 200,000 t are exported (6.1% of all agricultural exports in 2013). The export of sugar to the EU is managed by export licences. Preferential access to the EU amounts to 181,000 t/year duty free. Serbia stated that it applies an ad valorem (20%) and specific import duties for raw sugar (EUR 0.14/kg) and white sugar (EUR 0.15/kg). The specific import duties are reduced for imports from the EU, EFTA, Turkey, Belarus and Kazakhstan. Trade with CEFTA countries and the Russian Federation is completely liberalised.

II.b.2 Livestock products

² Data of 2013

Livestock production accounts for 30-40% of the total value of agricultural production. The main products are cow milk (1,418,000 t), pig meat (249,487 t), beef meat (69,530 t), poultry meat (92,000 t), sheep meat (29,000 t), eggs (1,750,000,000 pieces), sheep and goat meat (34,000 t), honey (8,554 t), and wool (2,600 t).³ Serbia stated that there are no market measures like intervention systems, production quotas, import-export licenses or export refunds in place for livestock products. Import duties are applied based on individual trade agreements. Trade is based on sales of live animals at livestock markets and direct sales by the farmers to slaughterhouses. The trade is supervised by official veterinarians.

Milk and milk products

Milk production is highly fragmented with dairy farms having on average 2.8 dairy cows.⁴ There are around 430,000 dairy cows kept by 155,859 farms. 78% of the cows are kept by around 150,000 farms with less than 10 cows out of which 108,000 farms keep 1 to 2 cows. 15% of the cows are kept by around 4,200 farms with 10 to 49 cows and 7% are kept by around 400 farms with more than 49 cows. Productivity is relatively low with an average annual yield per cow of around 3,200 kg in 2013, although it increased since 2010. The dominant breeds are Holstein and Simmental.

Milk production in 2013 is recorded at 1.45 million t, 98% of which was cow milk and 2% sheep and goat milk. The total production decreased in recent years while the milk delivered to dairies increased to 745,000 t (52%). Milk not delivered is mainly processed in households to traditional dairy products like white cheese and cream cheese. These products are sold on green markets or specialised stores. Direct sales of fresh milk are negligible. There are 214 registered dairy processing plants of which 138 operated in 2013. The majority of dairies are relatively small while 10 dairies process more than 70% of the milk delivered. All milk producers are obliged to respect the rulebook on quality of products from milk and starter cultures, although systematic information on milk quality is not available yet. A laboratory for independent quality tests remains to be established. Serbia stated that the marketing standards for milk are aligned with the EU acquis.

Serbia is a net exporter of milk products. In 2013 the value of exports reached EUR 48.2 million and the value of imports EUR 36.2 million. Most of the exports (77%) go to CEFTA countries, while 8.7% are exported to the EU. The imports of dairy products are mainly from CEFTA (52%) and the EU (47%). Trade is fully liberalised with CEFTA, the Russian Federation and Belarus. For Kazakhstan duty exceptions for some types of cheese are in place.

Beef

In 2013 there were 913,144 cattle of which 505,777 cows and heifers. The number decreased in recent years by around 10%. Beef production decreased from around 100,000 t in 2009 to 69,530 t in 2013, mainly as a result of a drop in consumption (from 12.6 kg/capita in 2010 to 9.5 kg/capita in 2013) due to the financial crisis. There are 177,252 farms keeping cattle⁵. Most of them (68%) are kept by around 170,000 farms with less than 20 cattle out of which 88,457 farms with 1 to 2 cattle. 20% of the cattle are kept by around 5,400 farms with 20-99 cattle and 12% are kept by around 270 farms with more than 100 cattle.

³ All data from 2012 – meat production indicated as live-weight in tons

⁴ All data from 2012 if not indicated differently

⁵ Data from 2012

The price for beef is based on live weight or carcass weight. A carcass classification system aligned to EU requirements does not exist. Price reporting is voluntary; prices are reported and published on a weekly and monthly basis. There are 398 slaughterhouses. The majority are relatively small. Only 81 have a capacity to slaughter more than 75 cattle a week. Their overall capacity surpasses the current number of animals slaughtered. Especially small slaughterhouses have difficulties to be sustainable in the market.

Serbia stated that it has a system for the identification and registration of bovine animals fully aligned to EC regulation 1760/2000 covering ear tags, animal passports and the computerised database which allows tracking the animals and their movements.

A labelling system for beef products is only applied for exports to the EU. There are in total 17 facilities exporting to the EU (9 for beef, 7 for meat products, 1 for minced meat, meat preparations and mechanically separated meat).

Serbia is a net exporter of beef products. Imports are limited. The exports have reached 44,000 live animals and 1,465 t in 2013. The main trading partners are the EU and CEFTA. For imports from the EU, the Stabilisation and Association Agreement foresees tariff rates for live animals from 0 to 15% and for beef 12%. For exports to the EU a tariff quota of 8,700 t with a preferred tariff exists for baby beef products. Trade with CEFTA members, Russia Belarus and Kazakhstan is fully liberalised. For EFTA countries individual agreements are in place with tariff lines reduced for some beef products.

Sheep and goats meat

In 2013 there were 1,616,000 sheep of which 1,236,000 breeding ewes. Sheep meat production increased in recent years and reached in almost 30,000t in 2013. Dual sheep breeds (indigenous breeds Cigaja and Pramenka) prevail, although they are mainly used for meat and wool production. There are around 155,000 farms keeping sheep⁶. The average number of sheep per farm is 11.2. Most of them are kept by 137,475 small farms with less than 20 sheep out of which 95,211 with less than 9 sheep. There are around 16,500 farms with 20-99 sheep and around 1,000 farms with more than 100 sheep. Sheep are kept mainly in the western and central part of Serbia.

Goats are kept mainly for milk production. 4,306 t of goat meat was produced in 2013. There have been 225,000 goats. The average number of goats per farm is 3.7. Around 63,000 farms keep goats. 94.8% of the farms keep less than 9 goats, 5% 10 to 49 goats and around 1,000 farms keep more than 50 goats.

The majority of sheep (95%) and all goats are slaughtered on the farm. Only 5% of the sheep are slaughtered in one of the 398 slaughterhouses. None of them is certified to export sheep and goat meat to the EU.

The price for sheep and goat meat is based on live weight. A carcass classification system aligned to EU requirements does not exist. Price reporting is voluntary, with prices reported and published on a weekly and monthly basis.

Serbia stated that it has a system for the identification and registration of sheep and goats aligned to the EU requirements.

⁶ Data from 2012

Serbia was a net exporter of sheep and goat products in 2013. Imports were mostly live breeding animals and of negligible size. The exports comprised 65,464 live animals (sheep) and 115 t of sheep meat. Almost all trade is with CEFTA countries. Live animals are mainly exported to Bosnia and Herzegovina.

Pig meat

In 2013 Serbian farms kept 3,144,215 pigs and 387,803 breeding sows producing 249,487 t of pig meat (368,000 t live weight) representing 56% of the total meat production. Pig meat consumption has the largest share of total meat consumption (35.9 kg/capita).

There are around 355,052 farms keeping pigs⁷. The average number of pigs per farm is 9.8. There are many small farms with less than 19 pigs (92%) keeping 47% of the animals, a substantial number of medium sized farms with 20 to 200 pigs (7.3%) keeping 27.4% and 566 big farms with more than 200 pigs keeping 25% of the pigs out of which 81 farms with more than 1,000 pigs keeping almost 20% of the pigs. Around 28,000 farms are specialised in pig production.

The price for pig meat is based on live weight. A carcass classification system aligned to EU requirements does not exist. Price reporting is voluntary; with prices reported and published on a weekly and monthly basis. Serbia stated that 55.6% of the pigs are slaughtered on the farm. There are 394 slaughterhouses for pigs. The majority are relatively small. 111 slaughterhouses have a capacity for more than 200 pigs a week.

Serbia stated that it has a system for the identification and registration of pigs by which the individual animals are ear tagged and identified.

Serbia was a net importer for live pigs and pig meat in 2013. 117,772 live animals and 8,960t of pigmeat was imported while 31,221 live animals and 688t of pigmeat were exported. Import of live animals increased significantly in recent years (from 10,059 in 2010 to 117,772 in 2013). Almost all imports were from the EU while the main export is destined to CEFTA (≈80%), Russia and other third countries. Serbia cannot export to the EU since the EU requirements are not fulfilled. The trade of pig meat is fully liberalised with CEFTA countries, Russia, Belarus and Kazakhstan. The trade with the EU is based on the Stabilisation and Association Agreement with tariff rates for EU exports of live animals from 0 to 19.5% and for pig meat from 0 to 15%.

Eggs and poultry

Eggs and poultry comprised in 2013 5.9% (3.5% poultry meat, 2.4% eggs) of the total value of agriculture production and represented 16% of the livestock production. The consumption in 2013 has been 13.6 kg/capita. There were a total of 23.4 million heads of poultry, of which 12.4 million broilers, 10.3 pullets and cocks, 144,000 turkeys, 66,000 geese, 259,000 ducks and 248,000 other poultry.

The poultry meat production encompassed in 2013 92,000 t and there were 1.75 billion eggs produced (181 eggs/hen a year). For 2012 there were around 414,000 farms keeping poultry. The poultry production in Serbia is characterised by its dual structure with many small farms and a limited number of commercial farms. 38% of all poultry is kept by only 76 farms. The concentration in the production of broiler is even higher. 74% of the broilers are kept by 0.7% of the farms.

⁷ Data from 2012

Serbia stated that there are 27 hatcheries, two egg processing plants and 87 slaughterhouses. Eight slaughterhouses slaughter more than 10,000 animals per day and one is certified to export to the EU. Price reporting is voluntary, with prices reported and published on a weekly and monthly basis. Serbia stated that approximately 50% of the poultry is slaughtered on farm.

Serbia was a net importer for poultry meat and live animals and a net exporter for eggs in 2013. Imports in 2013 covered 7.4 million live animals, 8,583 t poultry meat, 494 t shell eggs and 559 t eggs. Exports covered 231,000 live animals, 3,015 t poultry meat, 716 t shell eggs and 49 t eggs without shell. The main imports were from the EU and CEFTA countries, while the exports were mainly to CEFTA countries. The trade of poultry is fully liberalised with CEFTA countries, Russia, Belarus and Kazakhstan. The trade with the EU is based on the Stabilisation and Association Agreement.

Honey

Serbia stated that there were 31,000 holdings involved in beekeeping which had in total 665,000 bee hives. 266 of them were professional beekeepers having a total of 69,946 beehives. The annual honey production in 2013 reached 8,554 tons. As of 2013 a registration system of beekeepers is in place. The beehives are marked and the data is stored in a central data base administered by the veterinary directorate. In April 2014 there were 12,653 beekeepers and 557,337 beehives registered. In 2013 2,647 t were marketed by a registered purchase and 1,319 t were sold on green markets. Prices are monitored on a yearly basis by the statistical office.

Serbia is a net exporter of honey. In 2013 only 43 tons were imported (mainly from the former Yugoslav Republic of Macedonia). Around 3,400 t of honey were exported to the EU (74%), CEFTA countries (15%) and other third countries (11%). Seven facilities are certified for export to the EU. Serbia stated that the marketing standards for honey are aligned with the EU acquis.

II.b.3 Specialised crops

Fruit and vegetables

Fruits are produced on an area of 238,000 ha mainly in a region south of Belgrade (Sumadija 55.1%), and in the south and east of Serbia (30.5%). The average fruit production in the last five years has been 1.26 million t. The main products are plums, apples, sour cherry, peach, raspberry, blackberry, strawberry, walnuts, sweet cherry and quince.

Serbia is a net exporter of fruits. The average exports of fruit 2009 to 2013 covered 305,984 t with an average value of EUR 292.6 million. Raspberry is the most important single fruit exported (40% of the total value). A high share of the exports of fresh apples, plums, peaches and sweet cherries is exported to Russia. Frozen and chilled raspberries, sour cherries and strawberries are mainly exported to the EU. The average fruit imports in 2009 to 2013 comprised 93,718 t with a value of EUR 115.5 million. Imports are mainly citrus fruit from Greece, Spain and Turkey, bananas from Ecuador, Columbia and Costa Rica and hazelnuts from Turkey.

Vegetables are produced on around 8% of the arable land covering 211,324 ha (2013). The average vegetable production in the last five years has been 2 million t. The main products are potatoes, cabbage, melons, tomatoes, pepper, onions, carrots, cucumber, beans, peas and garlic.

Serbia is a net exporter of vegetables. The average export of vegetables 2009 to 2013 included 94,582 t with an average value of EUR 56 million. Potatoes, tomatoes, onions, carrots and

peppers are mainly exported to CEFTA countries. Frozen peppers are exported to the EU and beans and cabbage are mostly exported to Russia. The average imports of vegetables 2009 to 2013 were 96,215 tons with an average value of EUR 54 million. Imports were mainly tomatoes, peppers, cucumbers, onions and cabbage from CEFTA countries (in particular, the former Yugoslav Republic of Macedonia) and potatoes from Belarus and the EU (Netherlands). A trader data base is not in place.

Besides the direct support schemes, there exists a special measure for the growing up of new orchards. 40% of the total costs of the investment (55% in less favoured areas) up to EUR 17,240 per farm are covered by this measure. From 2002 to 2012 EUR 14.8 million were paid to 3,789 beneficiaries. This resulted in 4,822 ha land with new fruit plantations.

Producer organisations, producer groups or interbranch organisations as defined by EU legislation do not exist in Serbia. Serbia stated that it plans to implement a school fruit scheme once a law on common market organisation for agricultural products is adopted. Price reporting is voluntary, with prices for fruit and vegetables (45 fruits, 53 vegetables) reported from 18 green markets and five wholesale markets and published on a weekly basis.

The quality standards for fruit and vegetables are based on a rulebook for 29 types of fruit and 40 types of vegetables defining three classes. In addition, marketing standards for strawberry, berries, onions and sour cherry of the United Nation Economic Commission for Europe (UNECE) are in place on a voluntary basis. Marketing standards for fruit juices are partially aligned with EU legislation while the quality requirements for fruit jams are not yet aligned.

Flowers and plants

The area for cultivation of flowers and plants included 1,487 ha in 2013 out of which 120.8 ha accounted for greenhouses or similar facilities. The export of flowers and plants in 2013 recorded 20,747 t with a value of EUR 11.4 million. The exports consisted mainly of seeds, planting materials, live plants and cut and dried flowers to Russia, Ukraine, the former Yugoslav Republic of Macedonia and Montenegro. Imports recorded 6,529 t with a value of EUR 11.9 million. Quality standards for flowers and plants are not in place.

Wine

In 2012 wine was produced on an area of 22,150 ha. The total wine production reached in the marketing year 2013/2014 a volume of 43.2 million litres (20.2 million l red/rose, 22.9 white). There were 80,341 grape producers in 2012. The majority of them (92%) have less than 0.5 ha, 6.9% 0.5 to 2 ha, 920 use 2 to 30 ha and there are only 30 grape producers with more than 30 ha. 79% of the area is planted with wine grape varieties and 21% with table grape varieties. 85% of the grape varieties are without a geographical indication. According to the wine register there are 217 wineries. Most of them are small. Only 25 employ more than 10 staff members.

Serbia is a net importer of wine. The average imports 2009-2013 covered 27.8 million litres mainly from CEFTA countries. The average exports encompassed in the same period 14.1 million litres mainly to CEFTA countries, other third countries and the EU. The import duty for third countries is 30%. With CEFTA countries, Russia, Belarus and Kazakhstan the trade of wine is fully liberalised except for exports of sparkling wine to Russia. The trade with the EU is based on the Stabilisation and Association Agreement with a duty-free quota for imports from the EU of 2.5 million litres and a duty-free quota for export to the EU of 6.3 million litres annually.

A register of grapes and wine producers has been set up in accordance with the Law on Wine (OG No 41/09 and 93/12). The vineyard register and the wine register are harmonised with EU legislation. All grape producers with more than 0.1 ha are registered. The vineyard parcels are identified and measured in an integrated geo-spatial database. The oenological practices and applicable restrictions are based on EU legislation. There are six laboratories authorised to analyse wine in Serbia. The labelling of wine is harmonised with EU legislation including the procedures for the geographical indication of wines which are also listed in the SAA with the EU. Recent changes of the EU legislation on wine remain to be implemented in Serbia.

Spirit drinks

The Law on Rakija and other Spirit Drinks (Official Gazette No 41/09) and three rulebooks govern the production and trade in spirit drinks. Serbia stated that the Law and the rulebooks are partly harmonised with the *acquis*. The legislation is under revision aiming to fully align it with EU legislation. The average production in the period 2009-2013 was 90,147 hl. There are 369 registered producers of spirit drinks, mainly in the centre of Serbia and partly in Vojvodina. Serbia is a net importer of spirit drinks. The average export 2009-2013 was 1.6 million litres with a value of EUR 5.8 million. The average import 2009-2013 was 5 million litres with a value of EUR 15.3 million.

Olive oil

Serbia stated that there is no olive and olive oil production. The average import 2009-2013 was 855 t with a value of EUR 2.8 million mainly from Italy, Spain and Greece. The marketing standards for olive oil are partly harmonised with EU legislation.

Tobacco

Tobacco is produced on an area of approximately 6,200 ha. The average yield is 1.6 t/ha. Around 1,800 farmers are engaged in tobacco production. Serbia stated that there are eight tobacco processors and four tobacco factories. In 2013 Serbia exported 6,471 t and imported 8,380 t. Trade is fully liberalised with CEFTA countries, Russia, Belarus and Kazakhstan. Trade with the EU is governed by the SAA with a most favoured nation (MFN) custom tariff of 10% ad valorem and specific duties depending on the type of product.

Seeds

In 2013, seeds were produced on an area of 53,314 ha. The main products were wheat, corn, soybean, other cereals and sunflowers. The seed production is governed by the law on seeds (OG RS No 45/05 and 30/10), the law on registration of plant varieties (OG RS No 41/09 and 88/11), and the law on protection of plant breeders rights (OG RS No 41/09). Only seed registered can be placed on the market. The standards for seed production are not fully harmonised with EU legislation yet. Various custom tariffs in the range of 5-30% are applied except for the EU, CEFTA, Belarus, Kazakhstan and Russia where the custom tariff is 0%.

Chocolate products

There are eight major producers of chocolate and chocolate products in Serbia. The average annual production 2009 to 2013 was 22,710 t. In addition, other chocolate products not covered by the EU directive 36/2000 are produced in Serbia covering 14,500 t. Serbia is a net importer of chocolate and chocolate products. In 2013 around 24,000 t with a value of EUR 67.9 million were imported (56 % from the EU) and 17,382 t with a value of EUR 47.3 were exported (mainly to CEFTA countries). Various custom tariffs in the range of 1% to 30% are applied. For

the EU, CEFTA, Belarus, Kazakhstan and Russia the custom tariff is 0%. The Serbian legislation on chocolate and chocolate products is partly aligned with the EU legislation.

Coffee extracts and chicory extracts

Coffee and chicory extracts are not produced in Serbia. In 2013 around 168 t of coffee extracts were imported with a value of around EUR 1.63 million mainly from Germany (52%). Exports are negligible. The marketing standards are fully harmonised with the EU directive 1999/4.

Hops

Hops are produced on an area of 20 ha only. There are no restrictions or specific requirements for hops in Serbian legislation.

II.c. Rural development

Serbia stated that since 2004 it has been gradually introducing measures on rural development comparable to those in the EU. The current and future rural development policy is based on the National Strategy for Agriculture and Rural Development 2014-2024, the draft National Program for Agriculture and Rural Development 2015-2020 and the draft program for the instrument of pre-accession for rural development 2014-2020 (IPARD II). Serbia stated that it aims to adopt these documents in 2014.

The current rural development policy is based on the law on Agriculture and Rural Development (Official Gazette RS 41/09) and the law on subsidies in Agriculture and Rural Development (Official Gazette RS 10/13) supplemented by the annual government decree with the detailed budget allocation. The various schemes are governed by five rulebooks. In 2014 an amount of EUR 8.2 million has been allocated for rural development supporting farm investments (EUR 6.7 million), investments in processing and marketing of agricultural products (EUR 0.7 million), sustainable rural development (EUR 1.07 million), improvement of rural economy (EUR 282,073) and local rural development strategies (EUR 129,590). Support for rural development is also provided by the Vojvodina province and municipalities. The measures have to be complementary to the national support and need to be approved by the MAEP. Serbia stated that all national measures will be complementary to IPARD. Overlaps or double funding shall not be possible.

The rural development program is administered by a) the department for rural development of the MAEP functioning also as managing authority as defined by EU legislation for IPARD and b) the directorate for agricultural payments (DAP) which will become also the IPARD paying agency. In addition, the implementation of rural development programs is supported by the national council for rural development functioning as a monitoring committee, the national rural development network focusing on support of local actions (Leader) and the agricultural extension service promoting rural development schemes and advising beneficiaries.

Serbia is in the process of establishing complete structures for the implementation of IPARD. The managing authority (MA) was designated in January 2014 by government decision No 5 of 48-200/2014. It is responsible for the programming, monitoring, evaluation and reporting of IPARD. The MA has prepared the draft IPARD program which was submitted to the EU commission in the second quarter 2014. The ex-ante evaluation is ongoing. It is expected that the rural development program will be adopted at the beginning of 2015. It covers measures for farm investments, investments into processing and marketing, diversification of the rural economy, organic farming, Leader and technical assistance.

The Directorate for agrarian payments (DAP) will become the accredited paying agency for IPARD. It is intended to relocate the DAP to Belgrade in 2015. Procedures on internal environment, control, monitoring, IT security and risk management in line with EU requirements for IPARD have been drafted. An internal analysis of the workload of the DAP showed a serious limitation of capacities required for IPARD. Serbia stated that it will hire additional staff for the managing authority and the DAP in the near future.

II.d. Quality policy

The policy on geographical indication is implemented by the law on indications of geographical origin (OG RS No 18/10) supplemented by three rulebooks. It covers natural products, agricultural products and food products, industrial products, traditional handicrafts and services. Groups of producers or processors, chamber of commerce, association of consumers and state authorities may apply for the recognition of geographical indications in Serbia. The right to use the indication is given to any operator within the geographical area respecting the specification. The applications are checked and registered by the intellectual property office while the MAEP is responsible for the detailed examination of the product specification, the control system and the labelling. The control is carried out by conformity assessment bodies accredited and authorised by the MAEP. The legislation and the procedures are partially harmonised with the EU acquis. There is no procedure in place as yet for products to be recognised as traditional specialities guaranteed or other optional schemes.

Geographical indications for spirit drinks are covered under the law on Rakija and other spirit drinks (OG RS No 41/09) supplemented by five rulebooks. The registration is administered by the MAEP. The producer has to provide technical documentation including laboratory analysis and reports with his application. Serbia stated that the documentation is fully aligned with the EU requirements. A decision on the request is taken by a commission. The right to use the indication is given to the individual producer.

Geographical indications for wine are governed by the law on wine (OG RS No 41/09) supplemented by six rulebooks. Serbia stated that the legislation is harmonised with EU legislation except for aromatised wine. There are 64 active producers and 203 wines with geographical indications. The share of wine with geographical indication in 2013/2014 has been 14%.

Serbia stated that it intends to further align the acquis on quality policy, to strengthen the control system and to improve the certification system in the coming period.

II.e. Organic farming

Organic farming is governed by the law on organic production (OG RS No 30/10) supplemented by a rulebook and an instruction. Serbia stated that the legislation is under review to further align it with the EU legislation. The area of organic farming increased from around 1,000 ha in 2009 to 7,000 ha of arable land in 2013. The main products are cereals, fruits, fodder plants and industrial plants. Organic animal production is limited to around 5,000 animals (of which \approx 70% in the phase of conversion). Organic sheep (50%) and poultry (35%) production prevails. In 2012 there were 1061 operators registered as organic, including group production. The products are labelled with the national organic logo and can be labelled with the EU and other organic food logos. Organic farming is supported by a specific rural development measure. In addition, direct payments are increased by 40% for organic farming. Payments are also made during the conversion period.

The MAEP, Directorate for National Reference Laboratories, is the competent authority for organic production. Control is implemented by bodies which have to be accredited by the Serbian accreditation body. The control bodies have to be registered in the register of business entities. Authorisation is given by the Directorate for National Reference Laboratories for a one year period. There are currently six control bodies authorised which are supervised by the competent authority and controlled by the agricultural inspection service of the MAEP.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Upon Serbia's accession to the EU, the application and enforcement of the *acquis* on agriculture and rural development will need to be ensured. This will in particular require that Serbia applies EU rules on direct payment schemes, on rural development measures and ensures the implementation of the common market organisation for various agricultural products. There is a substantial amount of work to be undertaken as regards the transposition of the entire legislation. The implementation of a fully functioning paying agency with control systems fully aligned to the *acquis* is a specific challenge. It requires an early preparation to set up sufficient administrative capacities. This entails an adequate number of trained staff, fully equipped office space, secure IT infrastructure, comprehensive and integrated software applications, transport facilities, control devices, as well as detailed procedures for all administrative steps fully in line with the *acquis*. Although support will be provided through IPA, the set-up of these structures requires a substantial contribution by the Serbian government.

The implementation of the CAP means also a challenge for the farmers and other potential beneficiaries of the agricultural policy. Concepts like greening, cross compliance, EU requirements on hygiene, environment, animal welfare and the complex administration and control systems are not known yet. There is a huge need to inform and advice farmers and other beneficiaries well in advance of the accession. For this purpose extension services and other stakeholders should be strengthened and trained on these requirements.

Overall, Serbia has achieved an important step by adopting the comprehensive strategy for agriculture and rural development for the period 2014-2024. With this strategy Serbia demonstrates its programming plans for its policy-related, legislative and institutional preparations. In certain areas like quality policy, farm accountancy data network, animal identification and registration, wine and organic farming the level of legislative alignment is advanced. For these areas further harmonisation is required and the implementation needs to be further strengthened. For IPARD some preparatory work has been made. Key obstacles for the implementation of IPARD are the relocation of the directorate of agricultural payments to Belgrade and a sufficient number of staff for the managing authority and the paying agency. For other main areas like the integrated administration and control system, including the land parcel identification system, and market measures the preparations have not started yet and the level of alignment with the *acquis* is low.

III.a. Horizontal

The bulk of the agricultural budget in Serbia is targeted at direct support measures linked to production. Direct aid payments are granted for Serbia's production sectors as follows: arable land (decoupled), coupled livestock payments, price support for milk, credit support and other specific subsidies. These payments and the support system are to a great extent not in line with the EU rules. The support measures need to be fully aligned with the *acquis*, decoupling them

from production and introducing the system with payment entitlements for the area payments. In general, voluntary coupled support can be granted to certain sectors and types of production. The strategy for agriculture and rural development foresees a gradual alignment of the payments to EU payments including the gradual integration of greening and cross compliance requirements. It is important that the strategy is implemented as planned.

Particular efforts will be required to establish the paying agency and the necessary Integrated Administrative and Control System (IACS) in order to comply with the detailed requirements of the *acquis* and under which all payments to farmers, direct payments and rural development measures, are administered. Extensive investment and institution building will be necessary well in advance of accession. The present control systems as applied in Serbia are not compatible with EU IACS rules. A land parcel identification system (LPIS) is not yet in place. The farm register is implemented by the Ministry of Finance. The existing software applications are not integrated. The timely establishment of all operational structures for implementing direct payments and rural development measures is therefore key.

Serbia is developing a farm accountancy data network (FADN) in line with the *acquis*, which will be extended to include more farmers so that it reaches a representative level across the sector. Updates to EU rules need to be taken on board to ensure its full harmonisation.

With regard to State aids, other than market-related subsidies and rural development measures, Serbia applies a number of additional measures for granting aids to farmers. Serbia will need to bring all its State aid measures in line with the *acquis* upon accession.

On trade mechanisms Serbia's tariffs will have to be aligned with the *acquis* upon accession.

III.b. Common market organisation

Serbia has no market measures as applied in the EU in place. It will need to be able to apply the complete set of market mechanisms of the *acquis* upon accession including intervention. Serbia will have to establish all required trade measures (e.g. certificates, customs controls).

III.b.1 Arable crops, fibre, sugar

The decoupled payment for arable land is partly aligned with EU direct payments. A system of payment entitlements is not in place. Market measures for all arable crops need to be fully aligned with the *acquis*.

III.b.2 Livestock products

The existing system of coupled direct payments in the livestock sector will need to be brought fully in line with the *acquis* as regards the payment for dairy sector, cattle, sheep, goats and beekeeping. Especially the payments for pigs and poultry products need to be abolished by the date of accession. Serbia needs to establish carcass classification systems and a system for monitoring prices for animal production in line with the *acquis*.

III.b.3 Specialised crops

As regards **fruit and vegetables**, Serbia applies a per hectare subsidy for the planting of new orchards, which is not in line with the *acquis*. While there are associations of producers which undertake certain functions, these are not producer organisations as defined by the *acquis*. Serbia will need to develop its administrative capacity to operate this scheme.

The existing marketing standards are partly aligned with the *acquis*. They need to be further harmonised and its implementation needs to be strengthened. Serbia already operates a system of price reporting for domestic and imported fruit and vegetables on a voluntary basis but its full compliance with the *acquis* will need to be ensured.

In the *wine* sector, Serbia has broadly aligned its legislation with the EU *acquis* but efforts are needed with a view to further aligning and updating. A vineyard register is established based on EU rules. For an efficient enforcement of EU requirements for monitoring the wine market, Serbia is strongly encouraged to further build up computerised systems for drawing-up, using and keeping the compulsory declarations (on harvests, production, marketing and stocks), the winery registers and the vineyard register. Serbia must also ensure that an information system is set up to control the movement of wine products, which must be made available to the control bodies designated for the wine sector. The drawing-up and issuing of an electronic administrative document to accompany the consignments of wine products should be ensured.

As regards **spirit drinks**, Serbia's legislation is partly harmonised with the EU legislation in the spirits sector and further efforts are underway in this regard. The implementation of the legislation needs to be further strengthened.

III.c. Rural development

Serbia's policy on rural development is partly aligned with that of the EU. This approach will need to be further strengthened and consolidated in line with EU requirements. Certain measures will need to be aligned with the *acquis*. Selection criteria and targeting of measures must be established. Programming, monitoring, controlling and evaluation capacities must be further enforced. The environmental and climate orientation of the policy should be strengthened in line with the EU objectives and framework in the rural development area. Knowledge transfer and advisory services will need to be strengthened in order to upgrade human capacity. Information activities aimed at the local communities for the formation of Local Action Groups (LAGs) and capacity building activities for LAGs must also be foreseen.

The Ministry of Agriculture and Environmental Protection has overall responsibility for rural development policy and implementation. This capacity will need to be strengthened. Thorough preparations will be required to develop implementing capabilities. The IPARD II program has been adopted. The next crucial step, which must be ensured, is the establishment of the functions, responsibilities and procedures of the Managing Authority and the IPARD Agency, as well as of the NAO, NIPAC and Audit Authority in relation to IPARD.

III.d. Quality policy

Serbia's current law on indications of geographical origin is much wider in scope than the EU quality scheme for agricultural products and foodstuffs, and covers industrial products, traditional handicrafts products and services. Legislation governing the protection of geographical indications for spirit drinks and wine are broadly aligned with the *acquis*. The concept of traditional specialities guaranteed and other quality terms are not implemented yet. Further alignment needs to be achieved and the implementation of the quality policy further strengthened.

III.e. Organic farming

Serbia's legislation on organic farming is broadly aligned with the *acquis*. Further alignment is required and the control system needs to be further strengthened.