



Regional Office for Europe and Central Asia

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

EASTERN EUROPE AND CENTRAL ASIA AGRO- INDUSTRY DEVELOPMENT COUNTRY BRIEF

SERBIA

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Key indicators

Key Economic Indicators ¹	2006	2009	2011	Food & Beverages indicators	2006	2009	2011
GDP (PPP), US\$ billion	70.02	81.16	86.55	Output, % of manufacturing	29.78	33.42	n/a
Manufacturing VA, % of GDP	17.38	16.31	15.62	Value Added, % of manufactur.	29.25	31.92	n/a
Agriculture VA, % of GDP	11.25	9.64	9.04	Enterprises, % of manufactur.	19.0	19.6	n/a
Employment in Agric., % of total	20.5	24.0	21.2	Employment, % of manufactur.	21.93	21.96	n/a
Gross Fixed Capital F., % of GDP	21.04	22.91	25.28	Investments, % of manufactur.	n/a	13.0	n/a
FDI net inflows, % of GDP	17.00	4.82	5.99	FDI inflows, % of total inflow	n/a	n/a	n/a
R&D, % of GDP	0.49	0.89	n/a	R&D, % of Output	n/a	n/a	n/a
Merchandise Trade, % of GDP	81.31	60.75	70.86	Net Trade, US\$ billion	0.24	0.51	0.62
Merchandise Exports, US\$ billion	6.43	8.34	9.79	Exports, %of merchandise Exp	11.0	12.1	11.0
Merchandise Imports, US\$ bln	13.17	16.05	16.73	Imports, % of merchandise Imp	3.6	3.1	3.3
Exports annual growth, %	43.4	-23.4	20.2	Exports annual growth, %	36.1	-13.8	16.7
Import annual growth, %	25.9	-29.9	20.4	Import annual growth, %	19.4	-34.2	31.8
GNI per capita, 1'000 US\$	3.76	5.74	5.68	Output per capita, US\$	659.4	908.1	n/a
Trade per capita, US\$ 2009-2011			4,708	Exports per capita, US\$	95.3	137.8	178.5
Doing Business Indicators Rank	92		86	Agribusiness Indicators Value			3.65
Global Merchandise Exports Imports Rank			86 76	FDI Inward Attraction Index Global Competitiveness Index			50 95

Agro-industry national policy framework

National development programmes: The key documents that set out the Government of Serbia's policies for overall economic development as well as for agriculture, the agro-industry and rural development include: (i) the Strategy of Serbia until 2020; (ii) the National Sustainable Development Strategy (NSDS) and the Action Plan for the Implementation for 2009–2017; (iii) the National Programme for Integration with the European Union with the legislative Plan for NPI 2010-2012; (iv) the National Strategy for Economic Development for 2006-2012; (v) the Food Safety Strategy; (vi) the Agricultural Strategy (as of 2004); (vii) the Rural Development Strategy for 2009-2013; (viii) the Regional Development Strategy and Regional Development Action Plan; (ix) the National Action Plan for Organic Agriculture; (x) the Scientific and Technological Development Strategy for 2010-2015; (xi) the Competitive and Innovative SME Development Strategy for 2008-2013; (xii) the Strategy on Development and Promotion of Socially Responsible Business Operations for 2010-2015; (xiii) the Trade Development Strategy; (xiv) the Strategy on the Promotion and Development of Foreign Investments; (xv) and the Free Zones Development Strategy for 2011-2016. The Agricultural and Rural Development Strategy for the period 2011–2020 has not yet been adopted.

¹ World Bank Indicators Database and ITC accessed in October 2012. Author's calculations

In accordance with the Government Support Program, the **State Development Fund provides loans under favourable conditions (approximately two percent annual interest)** through commercial banks and direct payments for production inputs.

In 2009, Serbia applied for EU membership and has been granted the status of candidate country for EU membership as of 2012. Serbia and the EU signed the Stabilization and Association Agreement (SAA) as a key step in the EU accession process in 2008 and it was ratified by the European Parliament in 2011. Based on the National Program for EU Integration, the country's regulatory framework is due to be fully harmonized with *Acquis Communautaire* by the end of 2012. Together with the UN organizations the country has elaborated the UNDAF for 2011-2015.

Legal framework: Serbia has adopted a number of laws to encourage agricultural and agro-industry growth and rural development. Since 2009, as part of Serbia's EU integration process, it has adopted or amended 23 new laws relating to agriculture and food, mostly in accordance with the EU *Acquis Communautaire*. Some important laws are: the Law on Agriculture and Rural Development (2009), the Law on Livestock (2009/2012), the Law on Food Safety (2009), the Veterinary Law (2010/2012), the Law on Animal Welfare (2009), the Law on Plant Health (2009), the Law on Tobacco (2007), the Law on Brandy (2009), the Law on Ethanol (2009), the Law on Wine (2009/2012), the Law on Beer (2010), the Law on Organic Production (2010); the Law on Cooperatives, the Law on Animal Husbandry (2009), the Law on Trademarks (2009), the Law on the Sustainable Use of Fish Funds, the Law on Plant Nutrition Products and Soil Enhancers (2009), the Law on Foreign Investments (2002), the Law on Free Zones (2006), the Law on Foreign Trade (2009/2011), the Law on Custom Tariffs (2005/2012), the Law on Companies (2005), the Law on GMO (2009), the Law on the Extension Service (2009), the Law on Indications of Geographical Origin (2010); and the Law on Copyrights and Related Rights (2009). The Law on Privatisation (2008) has set down the conditions for economic reforms envisioning optimal development of the industrial sector.

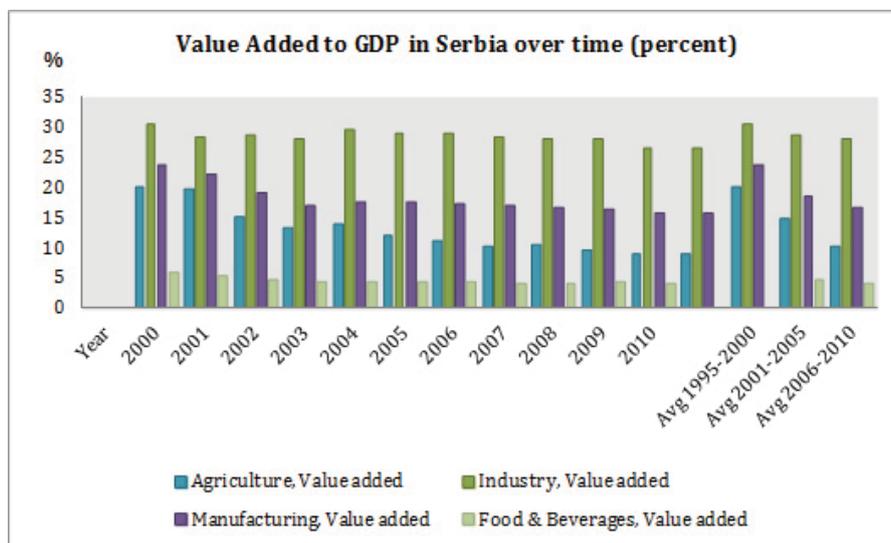
Supporting institutions: The main state bodies related to agriculture and agro-industry support and control in Serbia are the Ministry of Agriculture, Forestry and Water Management (MAFWM), which was re-organized in 2011 and again in 2012; the Ministry of Internal and External Trade and Telecommunications, and the Ministry of Health. Other supporting institutions are: the Plant Protection Directorate and the Veterinary Directorate under the MAFWM; the Serbia Investment and Export Promotion Agency (SIEPA, established in 2001); the Agency for Investment Promotion and Business Support in Central Serbia, which operates within the Regional Chamber of Commerce and Industry Kragujevac; the National Council for Regional Development and the Regional development agency (established in 2010); the Business Registers Agency (established in 2009), which improved the business environment through establishing a **one-stop shop for registering a business entity; the Institute for Vegetable Crops; the Maize Research Institute; the Institute of Meat Hygiene and Meat Technology; the Fruit Research Institute; and the Institute for Field and Vegetable Crops.**

Economic and social development and trends

Economic and social development: Serbia is a landlocked and upper middle income country with GNI per capita of US\$ 5,680 in 2011. The population is 7.26 million, of which 43.6 percent live in rural areas, and the annual population growth was negative of 0.42 percent in 2011. Serbia enjoyed strong economic performance between 2000 and 2008, with average real GDP growth of 5.4 percent. As a result of the global economic crisis, GDP declined to three percent in 2009, while in 2011, annual GDP growth was 1.78 percent. Growth in 2011 was based on a rather narrow platform, as key sectors stagnated and even declined. This was particularly visible in manufacturing, real estate and agriculture, which grew by less than one percent, and in wholesale and retail trade, which fell strongly by a real 5.5 percent compared to 2010. Employment declined across sectors but the

fall was more marked in agriculture. The contribution from the industrial sector remained broadly unchanged. The agricultural sector remains important with diversified products, contributing nine percent of added value to GDP and employing 21.2 percent of the total labour force in 2011. Manufacturing industry generated 15.6 percent of GDP in 2011, experiencing annual growth of 19 percent, and it employed 18 percent of total labour force working at 23,000 enterprises (or about 40 percent of total industrial entities). The processing industry includes 23 sub-sectors. Manufacturing dominates in terms of large enterprises, accounting for about 46 percent of all large enterprises.

Chart 1. Evolution of value added to GDP in Serbia (percent)



Source: WBDI, accessed in October 2012; UNIDO database; National Statistics; Author's calculations

Growing demands and trends: Total consumer expenditure for food and non-alcoholic beverages grew by around 185 percent and expenditure on alcoholic and tobacco products grew by around 191 percent in local-currency terms between 2004 and 2009. However, the share of total household expenditure that goes on food and non-alcoholic beverages declined from 41 percent in 2000 to 27.8 percent in 2011, and the share that goes on alcoholic beverages from 4.1 to 2.5 percent in the same period.² Serbian consumers spend most on dairy products, bakery products, meat and vegetables. Total domestic human consumption of wheat in Serbia is estimated at between 1.2 and 1.3 million MT annually, and per capita consumption is estimated at 180 kg, which is significantly higher than consumption levels in most other European countries.³ Domestic consumption of sugar is 240 thousand tonnes (25-30 kg per capita). Consumption of organic products is still less than 0.01 percent compared to 3-4 percent in developed countries of Europe.

Serbia is self-sufficient in terms of food and beverage products and is one of the largest agriculture and food net-exporting countries in Southern Europe. In 2010, the five top agricultural products in terms of value in Serbia were: cow milk (ranked by commodity in the world 51), indigenous pigmeat (ranked 34), maize (ranked 22), indigenous cattle meat, and plums and sloes (ranked 3).⁴ Other important commodities that are produced domestically are: raspberries, cherries, paprika, walnuts, sugar beet, sunflower seeds, grapes, wheat, apples, paprika etc. Serbia is the world's third largest producer of raspberries, and is also known for its sour cherries, blackberries, blueberries, apples and plums.

2 Statistical Office of the Republic of Serbia, database accessed in November 2012

3 USDA (2012) Annual Report on Wheat, Corn and Barley for Serbia. GAIN Report

4 FAOSTAT, accessed in October 2012

Agro-industry outlook and performance

Agro-industry background and challenges: Agriculture is still one of the most important industries in the Serbian economy. The structure of Serbian farming is highly fragmented. Farmland comprises around 70 percent of the total surface area of Serbia, and the average farm size is three hectares. Of the approximately 5 million hectares of agricultural land, 90 percent is in private ownership. Most agricultural holdings cover less than 50 hectares of land. In 2010, the area planted with grains and gardens accounted for 57.5 percent of all agricultural land, industrial plantations accounted for 13.3 percent, vegetables for 8.3 percent and forage crops for 14 percent. Of the total value of agricultural production in 2010, crop production accounted for 68.4 percent and cattle production accounted for 31.6 percent. The structure of Serbia's agricultural labour force is as follows: livestock breeding (43 percent), field crop farming (42 percent), fruit and wine production (12 percent), other crops (three percent).

Agricultural reform in Serbia started in 2000, when some basic preconditions were achieved. The most important elements of the reform process in the agrarian sector of Serbia between 2000 and 2013 have been: market liberalization, the privatization of the processing industry, the activation of the agrarian-financial market and the formation of new institutional bodies at all levels.

The Serbian agriculture budget accounted for 2.6 percent of the total national budget in 2011, which was the lowest since 2004, when it was about five percent of the total budget. The Ministry of Agriculture only provides subsidies for registered farmers (about 13 percent of the total number of farmers). For 2011, the Serbian government provided several policy measures to support agricultural production, which included subsidized short and long-term loans for registered farmers such as: direct payments for grain and other field crops; funds for the development and improvement of stock-farming; subsidized exports of certain agricultural and food commodities; stimulus for the development and improvement of the production of wine and brandies and food of specific geographic origin; subsidies for building and improving grain storage capacity and trans-shipping possibilities and subsidies for organic food production.⁵ However, in 2012, the Serbian Government adopted the new system of crop production subsidies, under which subsidies will not be made directly to farmers (as in the past), but through legal entities or entrepreneurs that are engaged in the production, purchase, processing, and warehousing of subsidized crops. For the period 2007-2011, the Serbian government only paid subsidies to 10 percent of all farmers due to the condition that only registered farmers that regularly pay into the state pension and health funds can receive subsidies. The total 2012 agriculture budget was planned to be RSD 22 billion (US\$ 275 million), 20 percent higher than in 2011, which will comprise only three percent of the total Serbian budget.⁶

The food processing industry has developed and shown strong growth during the years of transition. One trend in the food industry is the expansion and growth of conglomerates, which are active in several sectors. Made-in-Serbia food is present around the globe, from Japan to the US, and is sold under Serbian brands and through world's largest supermarket chains such as Tesco, Lidl, Asda, Spar, Carrefour, Metro, Idea, Leader price, Kopeika, and Rewe.

With around 80,000 tonnes produced and export revenues amounting to \$200 million, Serbia was the world's largest exporter of raspberries in 2010. Around 80-85 percent of raspberry production is intended for export, mainly frozen in bulk. This constitutes great potential for starting the production of final products such as: spreads, jams, toppings, ingredients for ice-cream industry and fruit cubes for yoghurt production.

Organic products have become more popular and expensive commodities in developed countries and in Serbia, the total share of agricultural land under organic products grew from 0.01 percent to 0.17 percent between 2006

5 USDA (2011) A new Minister of Agriculture appointed in Serbia. GAIN Report.

6 USDA (2012) Annual Report on Wheat, Corn and Barley for Serbia. GAIN Report

and 2010. The number of registered producers increased drastically from 35 to 3,887 since 2001.⁷ In 2009, the farm-gate value of all organic crops had grown from 20 to 25 million of Euro. The most important organic products in Serbia are: grain and industrial plants, fruit, vegetables, spices and medicinal herbs. Serbia Organica is a national association for the development of organic production. The mission of the association is to establish organic production as a reliable and competitive agribusiness industry on the domestic as well as on foreign markets, but also to put 20 percent of agricultural land (1 million hectares) under organic production over the next 10 years.

Food and beverage industry performance: The food and beverages industry is well developed and diversified in Serbia. It forms a large part of the economy, contributing with 4.3 percent to GDP, which is a decrease from 5.9 percent in 2000. In 2009, the food and beverage industry generated US\$ 6.65 billion or about 33.4 percent of the total output of manufacturing industries with a 16.2 percent annual decrease (i.e. manufacturing of food declined by six percent and of beverages by 13 percent compared to 2008). Per capita output was US\$ 908.10 in 2009, which is double the 2005 figure.

In 2009, the food and beverage industry employed 72,400 people in Serbia (or about 22 percent of the entire manufacturing labour force), 43.3 percent of which worked at large enterprises, 35 percent at medium-scale enterprises, 15.5 percent at small-scale enterprises and 6.2 percent at micro-scale enterprises. Since 2003, employment has been decreasing on average by 7.4 percent year-on-year. In 2009 there were 3,361 enterprises operating in the food and beverage industry (or about 19.6 percent of all manufacturing enterprises), 75.4 percent of which were private micro-scale enterprises, 22.7 percent small or medium-scale enterprises and 1.2 percent of large enterprises (with average numbers of employees of nine, between 10 and 249, and above 250 respectively). Large food and beverage enterprises represent about 12 percent of all large entities in Serbia.

The flour mill sub-sector accounts for the largest number of producers in the whole food sector. There are 120 industrial bread production facilities in addition to a large number of registered bakeries (1,700), which have an annual production capacity of about 1.5 million tonnes. There are six large companies involved in pasta production and over 600 small private pasta producers in Serbia. The dairy sector is one of the largest agricultural sub-sectors by value with revenues of over EUR 350 million in 2008. All dairies are privatized, and there are now 36 industrial and 130 private dairies. More than 300 companies are active in the fruit sub-sector. The vegetable processing industry in Serbia includes about 25 companies with the capacity to produce frozen, canned and dried vegetables. Confectionary and snacks is a sub-sector with annual revenues of over EUR 400 million and an export value of EUR 150 million. There are round 20-25 larger processors active in the final processing of herbs, mushrooms and forest fruits, which bring together over 1,500 collectors and growers. Small companies usually do the primary processing, grading, threshing, drying, cutting and packing.⁸ 116 processing units are involved in organic fruit and vegetable processing, out of which 55 percent are refrigeration companies.

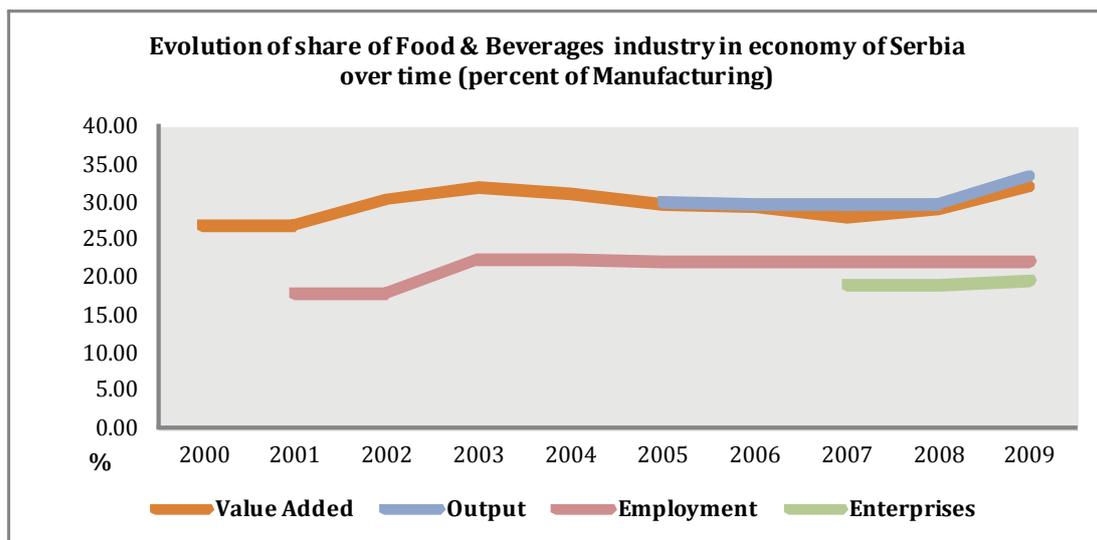
Investments in fixed capital accounted for about 13 percent of manufacturing investments in 2009.

Important subsectors include vegetable and fruit processing, olive oil and wine production, the flour and cereal industry and meat and dairy processing. Serbia's most export-oriented food products are: raspberries, apples, corn, truffles, juices, concentrates, purees, jams, frozen and dried fruit, fresh and smoked pork and beef and other high-quality produce. The major organic products are frozen fruits, fruit juice and concentrates, jams, pasteurized and frozen vegetables, mushrooms and marmalades.

7 Research Institute of Organic Agriculture FiBL and International Federation of Organic Agriculture Movements IFOAM, 2012, <http://www.organic-world.net>

8 GFA Consulting Group (2010) Food Industry Study in Southeast Europe. Final Report. GFA Consulting Group GmbH

Chart 2: Evolution of the share of the food and beverage industry in the economy of Serbia over time (percent of Manufacturing)



Source: Author's calculations are based on national statistics

Trade liberalization, WTO accession and trade performance

Trade regulation and trade unions: Serbia is striving to fully harmonize its external trade regulations and practices with those of the EU as well as with WTO rules. Serbia's legal trade framework is regulated by the Law on Foreign Trade (2009/2011), which is harmonized with WTO rules and principles, as well as EU legislation, the Law on Customs, the Law on Customs Tariffs (2005/2012), the Law on Free Economic Zones, and the Decree on Harmonization of Customs Tariff Nomenclature for 2012 (2012), which was as part of the implementation of SAA between Serbia and the EU in order to help align its tariff schedule by 2013 and to eliminate customs duties on certain EU products by 2014. Serbia applies the Harmonized System of commodity. Customs tariffs for agricultural products range from one to 30 percent of the imported value. The Customs Administration of Serbia is establishing a fully functioning IT system based on interconnectivity between its various departments and around 90 percent of customs declarations are submitted electronically and the concept of electronic signatures has been introduced.

In October 2010, Serbia's tariff rates fall into six groups in relevance with signed FTAs. The country has signed multilateral FTAs with CEFTA (in 2007) and EFTA (for 2010-2014), and preferential trade agreements with the EU (under SAA exports to the EU market are free-of-customs for all basic agricultural products with the exceptions of baby-beef, sugar and wine, for which duty-free quotas are applied; and imports from the EU are pursued based on the Interim Trade Agreement for 2010-2014) and the US (under the GSP for duty-free entry for approximately 4,650 products, including most finished and semi-finished goods and selected agricultural and primary industrial products). It has also signed three bilateral FTAs with Russia (in 2000 and on the duty-free regime in 2009), Belarus (in 2009), Turkey (for 2010-2015), and Kazakhstan (in 2010). Serbia is also negotiating FTAs with Ukraine. Customs duties for imports of industrial products originating in EFTA states will be gradually abolished by 2014.⁹ With the countries of the Customs Union (Russia, Belarus and Kazakhstan) customs duties and fees will be charged with equivalent effect for products originating in one country and intended for the market in another country. The simple average of import duties for agricultural goods applied in 2011 was 14.2 percent.

WTO accession: Serbia has been negotiating accession to the WTO since Dec 2004, and it has gone through

⁹ <http://www.invest-in-central-serbia.org/razlog2-e.htm>

various steps of the WTO accession procedure (application, Working Party creation, memorandum of external trade, no export subsidies, 12 meetings, and agreements). Serbia's current WTO status is that of observer. WTO compliance negotiations are in the final stages. Serbia has intensified efforts to implement new legislation to comply with WTO rules and has outlined a few issues yet to be resolved. Bilateral market access negotiations are underway on the basis of revised offers on goods and services. Multilateral work is proceeding on the basis of a sixth revised draft Working Party Report, circulated in 2012. The Working Party met for the twelfth time in March 2012.

Trade performance: After a sharp decrease in exports and imports by 24 percent and 30 percent respectively in 2009, in 2011, Serbian trade continued recovering with an increase by 20.2 percent on the value of the exports, reaching US\$ 11.8 billion, and by 20.3 percent on imports, reaching US\$ 20.1 billion. In 2011, Serbia had a trade deficit of US\$ 8.4 billion.

Serbia is a net exporter of agricultural and food products and it is the biggest exporter of foodstuffs in the South Europe sub-region. The trade balance of processed food and beverage commodities has been steadily increasing over time, making for a surplus of US\$ 620 million in 2011. Food and agricultural exports and imports together accounted for 21.4 percent and 5.8 percent of total Serbian merchandise exports and imports respectively in 2011. Processed food and beverage products accounted for US\$ 1.3 billion or 11 percent of total merchandise exports and US\$ 670 million or 3.3 percent of total merchandise imports in 2011 with annual growth of 16.7 percent and 31.8 percent respectively, compared to a negative growth of 13.8 percent in exports and of 34.2 percent in imports in 2009. Per capita food and beverage exports were US\$ 97.30 in 2011.

Both imports and exports of food and beverage products are relatively diversified in Serbia. In 2011, the major share of exports was accounted for by the beverages, spirits and vinegar products group (17 percent, ranking in world exports 47), followed by animal, vegetable fats and oils products (16 percent, ranked 46), and sugars and sugar confectionery products (14 percent, ranked 48). The major share of imports was accounted for by the miscellaneous edible preparations products group (17 percent, ranking in world imports 76); followed by beverages, spirits and vinegar products (12 percent, ranking in world imports 84) and cocoa and cocoa preparation products (11 percent, ranking in world imports 63).¹⁰ The main export-oriented products are: corn, sugar, raspberries, wheat, sunflower oil, apples (fresh), bottled beer and non-alcoholic drinks. Agricultural imports are mostly high-value food items such as: coffee, cigarettes, snacks and palm oil. Despite the effects of the global economic crises, Serbian fruit exports increased by 45 percent in 2011 and are now showing tendency for continuous growth. In 2010 Serbia accounted for more than 55 percent of the entire EU production and around 22 percent of global production of raspberries and it remains the largest exporter of raspberries globally (around 80-85 percent of raspberry production is intended for export, mainly frozen in bulk).

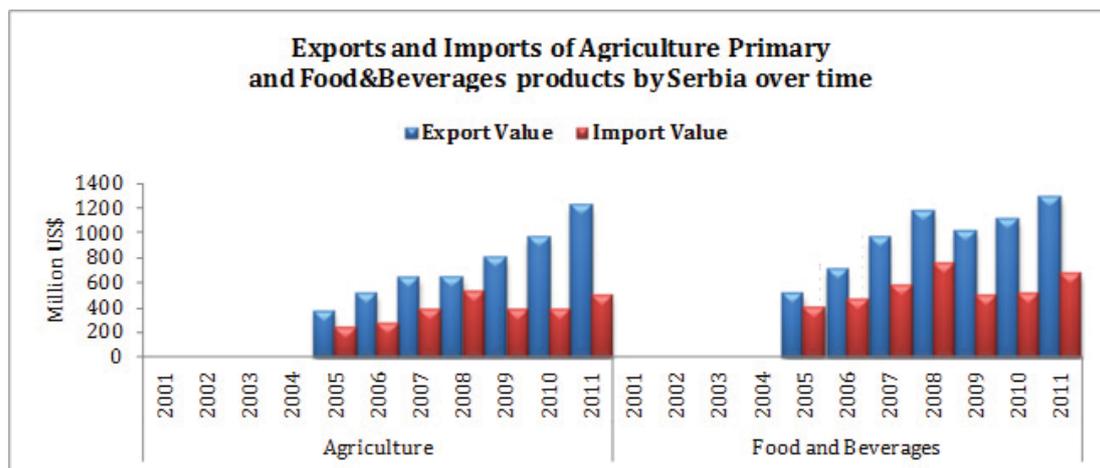
In 2011, trade in Serbia was relatively diversified across partners in terms of imports, while in terms of exports three major partners accounted for 54.2 percent of total exports.

Top destinations for food and beverage products: BiH (25 percent), Montenegro (20 percent), Macedonia (10 percent), Greece (six percent) and Italy (five percent) in 2011;

Top origins for food and beverage products: Croatia (9.8 percent), Germany (9.6 percent), Macedonia (eight percent), Italy (7.6 percent) and BiH (six percent) in 2011

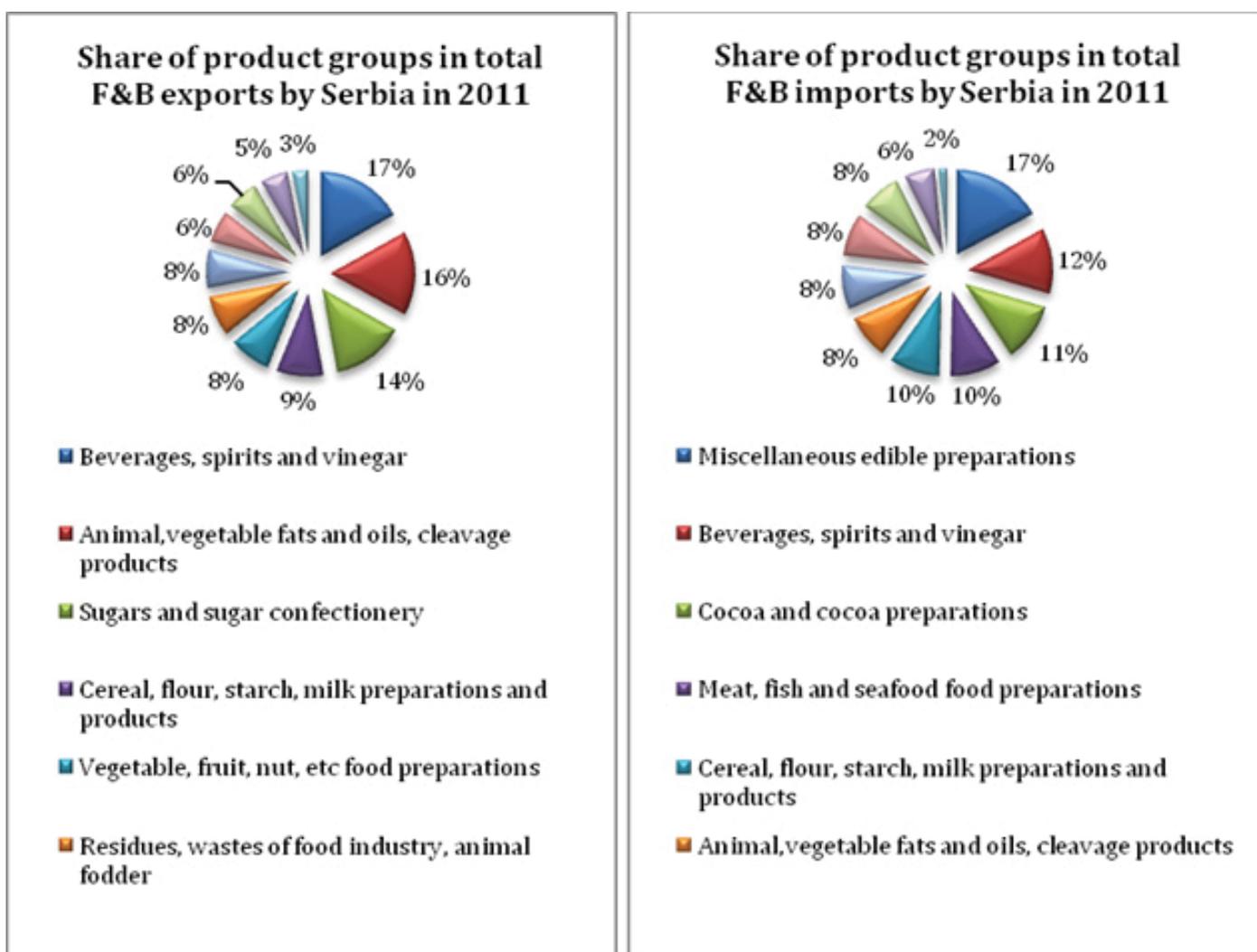
10 ITC (UNCDAT/WTO)

Chart 3. Food and beverages and agricultural trade performance over time



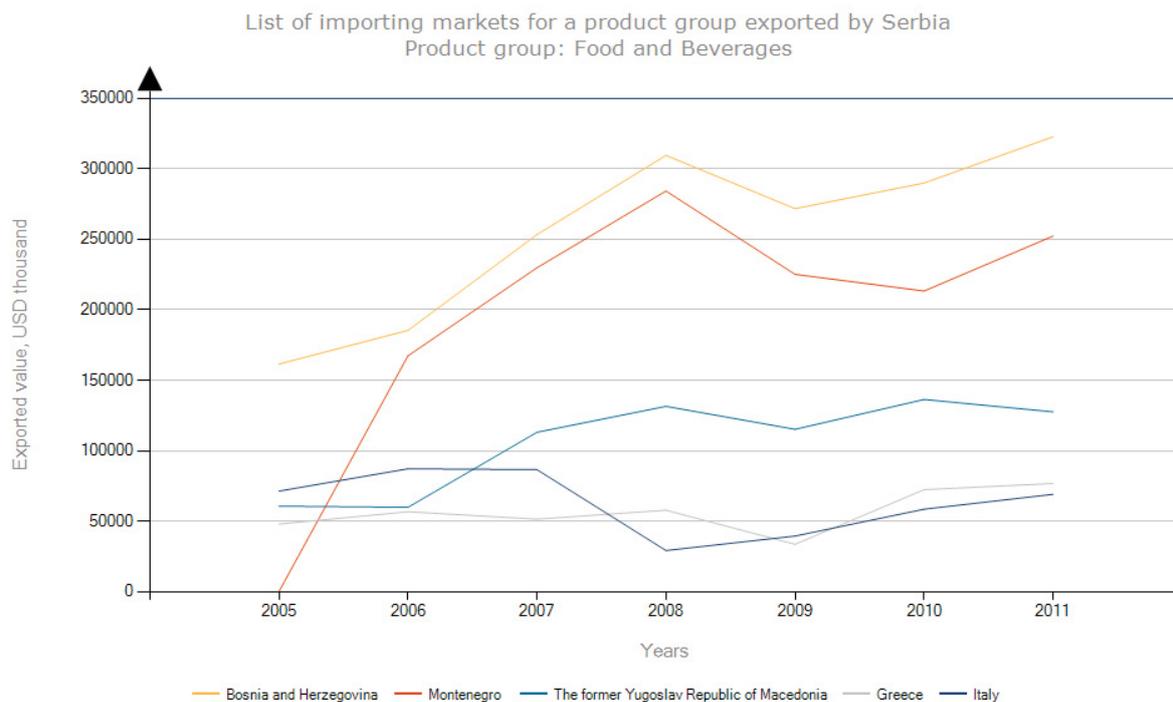
Source: ITC (UNCTAD/WTO): Trade Map online, accessed in October 2012

Chart 4. Share of product groups in total exports and imports of food and beverages in 2011



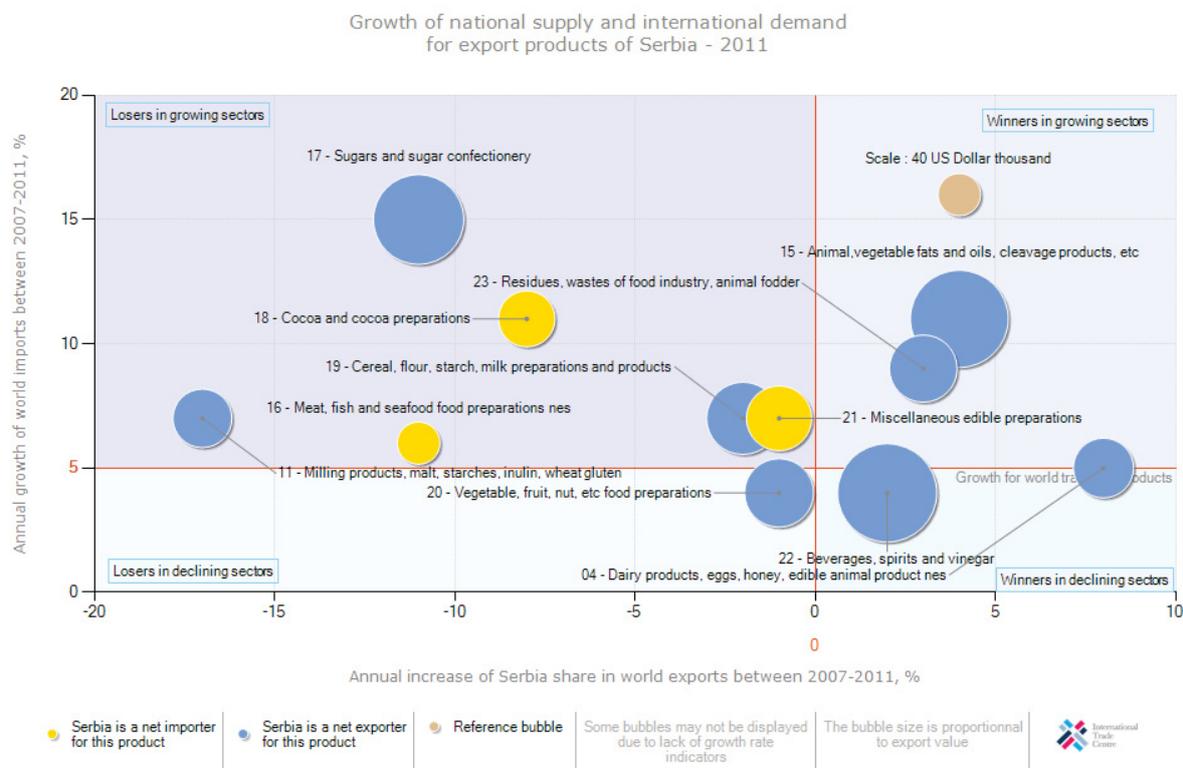
Source: ITC (UNCTAD/WTO): Trade Map online, accessed in October 2012

Chart 5. Evolution of the top five destinations of exported food and beverage products by Serbia over time



Source: ITC (UNCTAD/WTO). Data is based on the selected products' groups. Trade Map online, accessed in October 2012

Chart 6. Growth of national supply and international demand for exports of food and beverage products by Serbia in 2011



Source: ITC (UNCTAD/WTO). Data is based on the selected products' groups. Trade Map online, accessed in October 2012

Foreign direct investments

Strategies, regulations and ranking: Serbia is open to foreign investment, and the Serbian government continues to prioritize foreign investment. All investors, both foreign and domestic, are guaranteed equal treatment by law. The legal basis for foreign investment in Serbia is provided by the Law on Foreign Investment (2002), the Planning and Construction Act (2003), the Law on Investment Funds (2009), and the new Law on Companies (2011). A package of new laws and amendments adopted in December 2011 regulates the establishment, organization and closure of business entities along with their registration and the procedure followed by the Business Registers Agency. The new legislation is meant to simplify the business environment and to further bring it into line with EU legislation, thereby facilitating business start-ups.

In order to support foreign investors and buyers the Government established the Serbia Investment and Export Promotion Agency (SIEPA) in 2001 and another organization for attracting foreign investments is the Agency for Investment Promotion and Business Support in Central Serbia, which operates within Regional Chamber of Commerce and Industry Kragujevac. For large investors in manufacturing and export-related products a special financial package is available. Serbia encourages foreign participation in the privatization of state-owned or “socially owned” enterprises and non-Serbians have already purchased 174 companies through the privatization process.¹¹

Serbia has concluded investment protection treaties/agreements with 49 countries. There are eight Free Zones currently operating in Serbia.

According to WIR 2012¹², Serbia was ranked 50 (among 181 economies) by the FDI Inward Attraction Index in 2011, which is a significant improvement compared to 141 in 2000 (among 178 economies). It was also fifth among the top five home transition economies for FDI flows in 2010-2011.

According to an IAB report¹³, Serbia is fully open to foreign capital participation with the only exception being the TV broadcasting industry and the defence sector or areas legally designated as restricted zones although they may acquire minority rights to such investments. It takes eight procedures and 14 days to establish a foreign-owned limited liability company (LLC) in Serbia (Belgrade). Under the Business Registration Law, company registration is in the Serbian Business Registers Agency, which issues the registration number, statistical code, registration certificate, tax identification number, pension fund registration, health fund certificates, and employment registration. Companies in Serbia are free to open and maintain bank accounts in foreign currencies, although they must also have an account in RSD. The minimum capital requirement is RSD 50,000 (~US\$ 670), 50 percent of which must be paid before registration. Foreign companies have the option to lease (for up to 99 years) or buy private land and purchasing public land is no longer legally prohibited and can be leased by auction.

Foreign direct investments flows: Since 2001, Serbia has attracted over US\$ 25 billion of inward foreign direct investment. In 2011, FDI inflows to Serbia amounted to US\$ 2.7 billion or six percent of GDP, which is double the 2010 level, but is not as high as the peak FDI inflows reached in 2006. The vast majority of FDI is directed towards the financial sector, which accounted for 16.6 percent of total investments during the period 2001-2011. The agricultural, food and beverage sectors were the second most attractive destination for foreign investments, both in terms of value and number of projects, with shares of 13.9 percent and 12 percent, respectively, since 2001. For the period 2001-2011, the food, beverage and agricultural sectors attracted EUR 2.73 billion¹⁴ of investment.

11 <http://www.state.gov/e/eb/rls/othr/ics/2012/191231.htm>

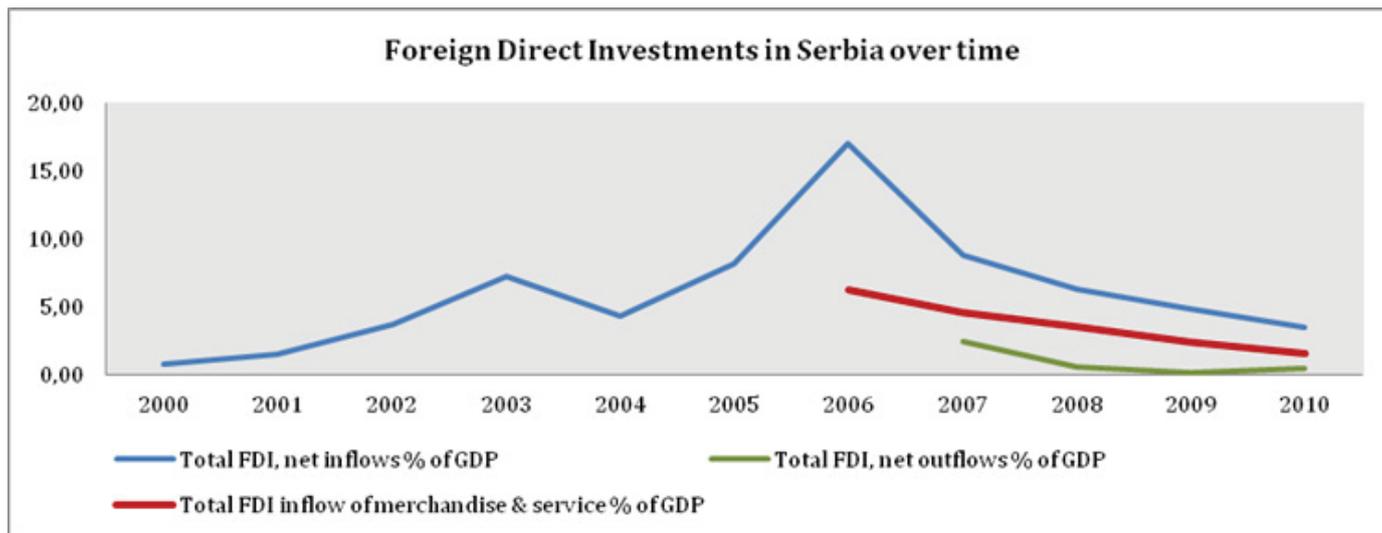
12 UNCTAD (2012) World Investment Report 2012: Towards a New Generation of Investment Policies, UN Conference on Trade and Development NY and Geneva, Switzerland

13 IFC/MIGA/WB (2010) Investing Across Borders: Indicators of foreign direct investment regulation in 87 economies. The World Bank Group. Washington

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During the 2001-2011 period, the major investors to Serbia were from the EU, among whom Austria had the highest share of investments by value (12.9 percent), followed by Italy (11.1 percent), Greece (10.2 percent), and Germany (7.7 percent). Other significant investors were Norway (8.2 percent), the United States (7.2 percent) and the Russian Federation (5.9 percent). For the same period of time Germany was the leader in terms of the number of investment projects, accounting for 16 percent of total FDI inflows. In the food and agriculture sectors the major foreign investors are: Carlsberg (Denmark, EUR 160 million of investments), Heineken (EUR 67 million), Coca Cola, Pepsico (USA), Nestle, Philip Morris, Salford (UK), Mondi Foods (which was the first foreign investment in the Serbian fruit processing industry), NordZucker (Germany), Rauch (Austrian), Ashmore (UK), AB InBev (Belgium), World Food Moscow (Russia, Kazakhstan), Farmina (Italy, EUR4 million); Japan Tobacco International (EUR 100 million).

Chart 7. Foreign direct investments in Serbia over time



Source: WBDI; ITC (UNCTAD/WTO); accessed in October 2012

Food safety, certification and quality Control

Food safety background and Serbia's membership: Serbia is a member of the International Organisation of Standardization (ISO) and is a member of the *Codex Alimentarius* Commission. Since 2009, as part of the EU integration process, Serbia has adopted 23 new laws relating to agriculture and food safety, mostly in accordance with the EU *Acquis Communautaire*. Issues surrounding the protection of human health in general and especially from food-borne risks, which come under the SPS Agreement, are dealt with by the Law on Food Safety (2009), the Law on Animal Welfare (2009), the Veterinary Law on (2010/2012), the Law on Health Protection from Infectious Diseases (2004), the *Law on Sanitary Surveillance* (2004), the Law on Veterinary Medicine (2005/10), the Law on Plant Health (2009), the Law on Plant Protection Products (2009), the Law on Consumer Protection (2005) and the Law on Technical Requirements for Products and Conformity Assessment (1990). Requirements for placing dietetic products on the market are provided by the Rulebook on Health and Safety of Dietetic Products (2011). Other important laws for specific foodstuffs are: the Law on Brandy (2009), the Law on Ethanol (2009), the Law on Wine (2009/2012), the Law on Beer (2010), the Law on Organic Production (2010); the Law on GMO (2009) and the Law on Indications of Geographical Origin (2010).

The quality of individual groups of products is subject to specific rulebooks that are in line with EU Regulations; for example: the Rulebook on the quality of minced meat, semi-processed and processed meat products (2012); the Rulebook on the quality of milk products and starter cultures (2010); the Rulebook on the quality of raw milk

(2009); the Rulebook on the quality of honey, honey products and other bee products (2003); the Rulebook on the quality and other requirements for beer (2005); the Rulebook on the quality of raw coffee, coffee products, coffee substitutes and similar products (2012); the Rulebook on the quality of fish, crabs and shellfish (2003/2004); the Rulebook on the quality of fruit, vegetables and mushrooms (2005); the Rulebook on the quality of Sugar (2004); the Rulebook on wine production, wine quality and geographical indications (2011); the Rulebook on the quality of alcoholic drinks (2004/2010); the Rulebook on the quality of fruit juices, fruit concentrates, powder fruit juices, fruit nectars and other related products (2010/2011); and the Rulebook on the quality of non-alcoholic drinks (2006).

Quality control and certification: The responsibility for food and feed controls in Serbia is distributed between the Ministry of Agriculture, Forestry and Water Management (the Plant Protection Directorate and the Veterinary Directorate), the Ministry of Health (the Sanitary Inspection) and the Ministry of Internal and External Trade and Telecommunications (the Market Inspection). The Ministry of Agriculture issues import approvals for foods of animal origin, veterinary drugs, seeds, planting materials and pesticides. For other products, permits are not required. The Market Inspectorate is responsible for inspecting food quality at the retail level. The Sanitary Inspectorate is responsible for the safety of novel foods, dietetic products, baby food, diet supplements, additives and drinking water. The Product Safety Council was established and became fully operational as of autumn 2011, comprising representatives of the authorities, chambers of commerce and consumer protection groups.

Sanitary control is carried out inland, and imports may be directed to any border crossing. Most companies with foreign investments or export-oriented products have introduced HACCP, ISO, BRC (British Retail Consortium), Halal, Kosher, or GOST-R, depending on the buyer's demand. Introduction of HACCP certification is supported by the MoA through grants, and over 300 companies had been certified by 2010.

The process of aligning the labelling of foodstuffs with the *acquis* has started. Serbia started participating in the EU Trade Control and Expert System (TRACES) in January 2012. A strategy was adopted for the introduction of a plant passport system, along with a manual for its implementation. The vineyard register was opened in 2012 and three oenological laboratories have been authorised to carry out analyses.

By September 2012, the Institute for Standardisation of Serbia (ISS) had adopted approximately 80 percent of the European standards (ENs) required for membership of the European Committee for Standardization (CEN). The total number of standards applied as national ones stood at 18,294 and the number of CEN standards applied stood at 11,875. The number of withdrawn conflicting Serbian standards was 6,395. The ISS has 250 technical committees and it was certified for information security management systems and for quality management systems to EN ISO standards. The Accreditation Body of Serbia became a full member of the European cooperation for Accreditation (EA) and of the International Laboratory Accreditation Cooperation (ILAC) in 2012, as well as of the International Accreditation Forum (IAF) in 2011. It has received the signatory status of the EA Multilateral Agreement in the fields of testing laboratories, calibration laboratories, medical laboratories, inspection bodies and certification bodies for certifying products.¹⁵

Retail, domestic market and international trends

In contrast to other countries of in the South-Western Balkans, the concentration of retail outlets in Serbia has not yet been completed and more than 70 percent of all food products are still sold through small grocery shops, estimated to number some 30,000 throughout the country. In 2010, 31 percent of shoppers claimed that supermarkets were their main shopping destinations and only 10 percent preferred to make their food purchases in hypermarkets.

15 EC (2012) SERBIA: 2012 PROGRESS REPORT. COMMISSION STAFF WORKING DOCUMENT. Brussels

However, the mass grocery retail sector in Serbia is expanding on a large scale, confirming the “retail revolution” trend. The sector for retail of food products in Serbia over the last years has been characterized by strengthening positions of the large Serbian players (e.g. Delta, which had operating revenues of EUR 980 million in 2009), and the entrance of large regional players: several international players such as Metro Group (Germany, with six Metro cash-and-carry stores and a turnover of over EUR 215 million in 2009, current investments is EUR 100 million), Mercator (Slovenia, with registered operating revenues of EUR 440 million in 2009), Konzum (Croatia, with operating revenues of EUR 360 million in 2009), and Univerexport (Serbia, with 30 retail stores, five wholesale stores and three subsidiary companies; with EUR 143 million revenues in 2009).¹⁶

Business environment and competitiveness

SME development: According to the OECD SME Policy Index assessment 2012¹⁷, Serbia has significantly restructured its SME policy, adding a regional development element by transforming its national SME agency into a regional development agency and has merged its Development Fund and Guarantee Fund to provide credit guarantee schemes and public start-up funding. Serbia has formed good skills policy partnerships: the Chamber of Commerce was closely involved in developing Serbia’s entrepreneurial learning strategy through the Council for Entrepreneurial Learning, and a number of organisations are tracking the manpower requirements of small businesses. Its innovation strategy is among the most advanced in the region. SMEs accounted for 98.8 percent of all registered entities and for 65.9 percent of employment; the share of added value added contributed by SMEs is 56.3 percent. MSMEs are an engine of the economy accounting for 85.6 percent of micro-scale enterprises and 13.9 percent of SMEs of total number of enterprises and 56.4 percent of manufacturing employees, generating about 15 percent of GDP and 14.1 percent of gross value added in 2009.

Business environment: According to the Doing Business Report¹⁸, Serbia is one of the top 10 most improved economies across three or more areas measured by *Doing Business* in 2011/2012. Through business reforms, Serbia has made it significantly easier to start a business by eliminating the paid-in minimum capital requirement; it has made it easier to enforce contracts by introducing a private bailiff system; it has made it easier to register property by making transferring property quicker by means of offering an expedited option; and it has made resolving insolvency easier by adopting a public electronic registry for injunctions and expediting service of process.

The economy was ranked 86 (out of 185 economies) in 2012 (4 points down compared to 2010 but 6 points up compared to 2006). Trading across the borders is ranked at 94, paying taxes at 149, protecting investors at 82, getting credit at 40, registering property at 41 and starting a business at 42. Serbia was named among the 29 economies with the most improved insolvency regimes in 2010/11. It achieved this status by adopting legislation introducing professional requirements for insolvency administrators and regulating their compensation. However, the country is still one of the 10 most difficult in which to deal with construction permits and paying taxes.

Tax relief: According to a PwC report¹⁹, Serbia is one of the ten countries globally in which paying taxes is slowest. However, Serbia has one of the lowest corporate income tax rates in the CEE-CIS region (10 percent). The general VAT rate is 18 percent and an eight percent rate applies to a limited range of basic food products and some services. As of 1 October 2012, Serbia increased its VAT rate from 18 percent to 20 percent on non-essential products. The VAT rate on essential agricultural and food products (e.g. bread, flour, milk and dairy products, sugar, edible oil from sunflower, corn, soya, rape seed, olives, animal or plant origin fat, honey, frozen, processed, fresh

16 GFA Consulting Group (2010) Food Industry Study in Southeast Europe. Final Report. GFA Consulting Group GmbH

17 OECD (2012) Western Balkans and Turkey 2012. Progress in the implementation of the small business act in Europe. SME Policy Index. Supported by EC, ETF, EBRD, CEI.

18 WB/IFC (2012) Doing Business 2013: Smarter Regulations for Small and Medium-size Enterprises. 10th edition. Washington, USA

19 PwC (2012) Paying Taxes 2012. The Global Picture, PriceWaterHouseCoopers supported by WB and IFC

fruits and vegetables, meat and meat products, fish, eggs, grains, oilseeds, sugar beet, seeds, planting material, cattle feed, pesticides and fertilizers) remained at eight percent.²⁰

The country has undertaken various incentives for investments in fixed assets and investments in underdeveloped areas, but undeveloped transfer pricing regulations and practices as well as limited foreign exchange regulations are prevalent. Serbia has one of Europe’s lowest Corporate Income Tax rates (10 percent) and it provides a 10-year CIT holiday for investments of over EUR 8 million that generate at least 100 new jobs, and a five-year CIT holiday for small-scale investments in underdeveloped regions. Imports of manufacturing equipment and raw materials are customs duty free.

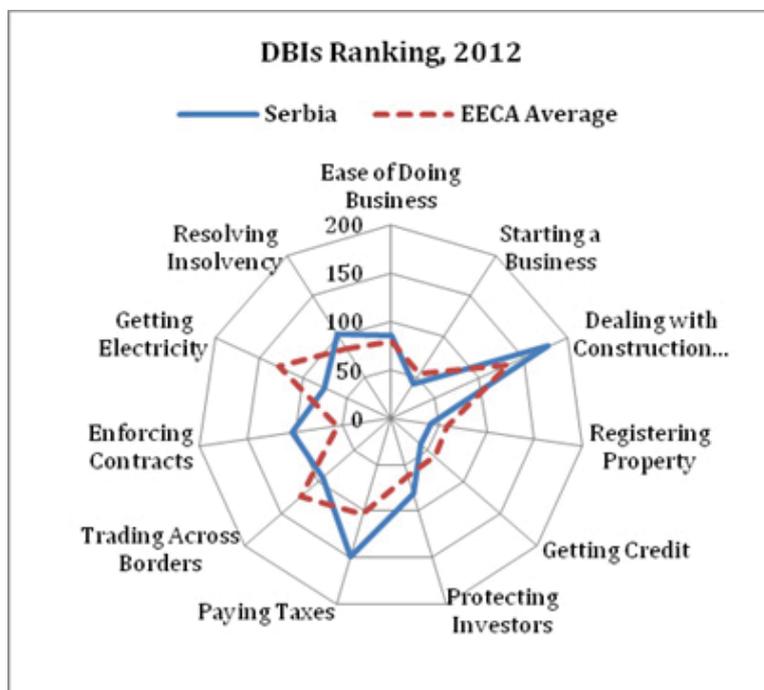
As of 2012 Serbia is also a party to 47 double tax treaties.

Research and development: According to the EC report on progress accession, some progress has been made regarding research and innovation policy in Serbia. Serbia has taken actions to stimulate innovation and strengthen its research infrastructure. However, public investment in research remains at 0.5 percent of GDP, below the national target, and the number of researchers has not increased.

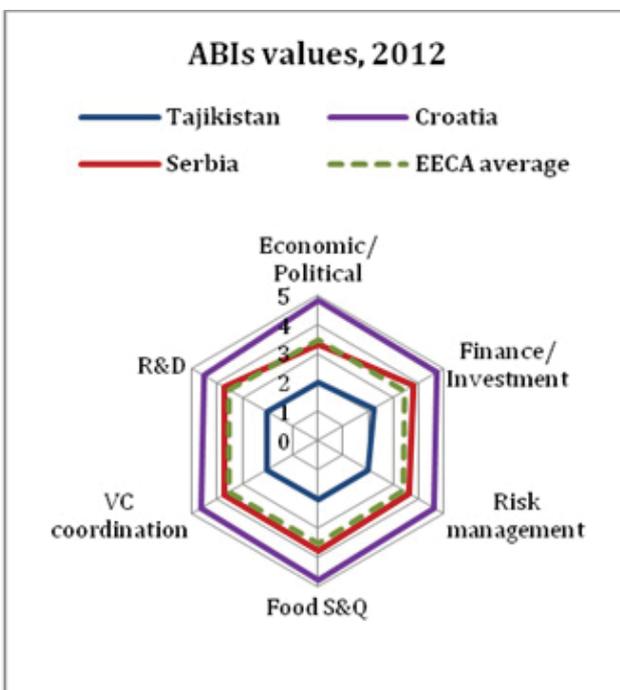
Competitiveness: According to the Global Competitiveness Report 2012-2013 Serbia is at the stage 2 of development (efficiency driven); it got 95 overall Global Competitiveness Index among 144 economies (96 in 2010-2011 among 139 countries). Serbia is ranked only 111 for Innovation, 132 for Business sophistication factors, and 119 (score 3.3) for agricultural policy costs²¹. The five biggest barriers to doing business in Serbia are: inefficient government bureaucracy, corruption, access to financing, foreign currency regulations, and tax rates

Ranking Serbia

Doing Business Indicators Ranking in 2012



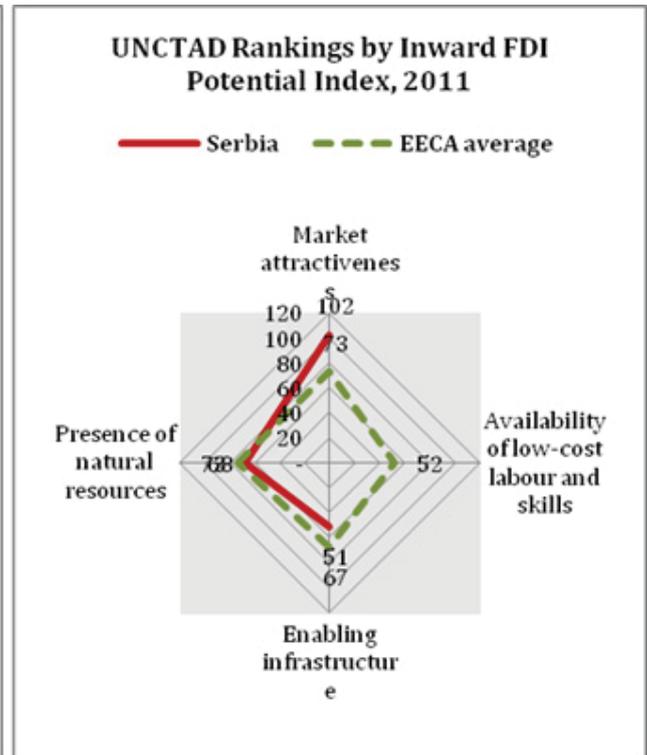
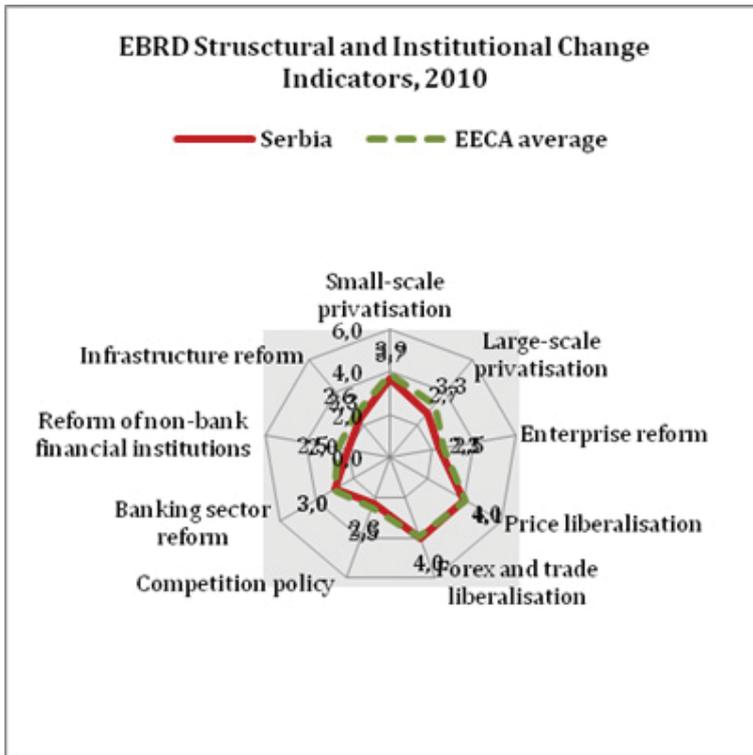
Agribusiness Indicators Values in 2012



Source: Author’s estimations and calculations; WB/IFC Doing Business Rankings online, accessed in October 2012

20 USDA (2012) Serbia: Food and Agricultural Import Regulations and Standards – Narrative. GAIN Report

21 Agricultural policy costs: How would you assess the agricultural policy in your country? [1 = excessively burdensome for the economy; 7 = balances the interests of taxpayers, consumers, and producers] | 2011–12 weighted average



Source: EBRD database; UNCTAD; Author's calculations of EECA average

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