Western Balkans: State of Agriculture and its Opportunities on the Eve of EU Accession - II

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Abstract: The Western Balkan countries can be characterised by their shared goal, which is the quickest possible accession to the European Union. Agriculture is an important obstacle to achieving this goal. The role of agriculture differs widely among the analysed countries but is more important than the average of the EU. This study gives a comprehensive overview of the most important agricultural indicators related to both crop and livestock production. These indicators present a precise picture of the sector's relevance, production structure, efficiency and international relations. After demonstrating changes in input use, production structure, prices, terms of trade and agricultural policies, the next section identifies some of the reasons for these changes. The time horizon of the analysis goes back to the early nineties and tries to capture some transition effects. The consequences of the Yugoslav war can be easily recognised in every country involved. However, since the end of the war Serbia became the leading producer and the only net exporter of agricultural goods in the region. Nevertheless, the current situation is endangered by several issues, such as imbalanced sectoral production, fragmented production structure, relatively low yields, unfavourable export composition, and poor food hygiene and quality control, which anticipate painful and hard actions need to be carried out.

Keywords: Western Balkans; agriculture; trade balance; EU accession

JEL Classification: O13; F15

The Determining Factors of the Agricultural Performance

Changes in Input Use

The most important input of production is the labour force. It was demonstrated earlier that the share of agricultural workers within the total employment shows a decreasing trend. But it is worth examining the absolute numbers behind the percentages. The next figure gives an overview of that (Figure 12.)

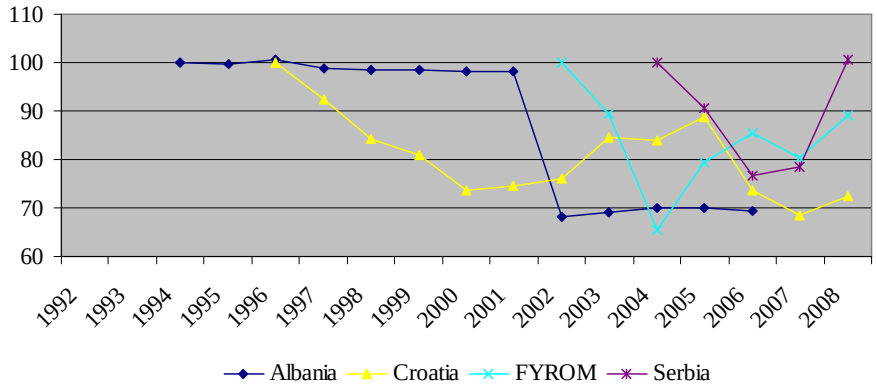


Figure 12. The development of agricultural labour force [initial year = 100]

Source: Author's composition based on ILO database

There is no unequivocal decreasing trend on the figure above, the number of agricultural workers grew at least once during the available time period. Due to the earlier mentioned reasons, it declined by 30 ‰ in Albania in 2002, but since then it stabilised again. It increased between 2000 and 2005 in Croatia, while started to grow in the last four years in FYROM and in the last two years in Serbia. In Serbia it resulted an increase in its share too. In addition, the last numbers of agricultural workers were higher than its previous ones in every country, except Albania. Contrary to this, the number of agricultural labour force declined by 25% between 2000 and 2009 in the EU, mostly in the new member states (Eurostat database).

The next important resource is the available land used for agricultural production (agricultural area) and within that the share of arable land. Table 13 shows its changes from 1992 to 2009.

Table 13. Changes in agricultural area in the Western Balkan countries [1000 ha]

Countries	1992		2000		2009	
	Agricultural area	Of which arable land	Agricultural area	Of which arable land	Agricultural area	Of which arable land
Albania	1 127	51%	1 144	51%	1 181	52%
BiH	2 200	39%	2 130	47%	2 130	47%
Croatia	2 404	50%	2 064	53%	1 201	71%
FYROM	1 307	46%	1 235	45%	1 071	40%
Montenegro	-		-		513	34%
Serbia	-		-		5 056	65%
Serbia and Montenegro	6 188	60%	5 587	61%	-	
Total	13 226		12 160		11 239	
Average		52%		54%		57%

Source: Author's calculations based on FAO database

In the Western Balkan the most significant agricultural land could be found in Serbia, even without Montenegro after 2005, while the less was in Montenegro followed by the former Yugoslav Republic of Macedonia. This order basically follows the total size of the countries except Bosnia and Herzegovina and Croatia, where the bigger county has less agricultural area. The size of the agricultural area decreased significantly in Croatia, where only the half of the area was used for agricultural purposes in 1992 than in 2009. Although it should be mentioned that a significant change was made in the methodology in 2004 which resulted 40% decline in the agricultural area and almost 25% off in the arable land. It added up the remarkable increase of the share of arable land in Croatia. Generally the countries' agriculture suffered loss in the size of their territories but only in a moderate way. The only exception was Albania with a slight increase.

Regarding the relative size of the arable land, it is increased significantly in majority of the countries which led to the increase of the share of arable lands. The exception from this general trend was the former Yugoslav Republic of Macedonia, where this ratio decreased from 46% to 40%. The decreasing agricultural area and the increasing arable land together is an indicative of a positive process of the withdrawal of less favourable lands from the production.

One of the possible approximations of the development of technology in agriculture is the equipment supply. In this case the relative number of tractors was used. Because of the great differences among the nominal values, it was necessary to normalise them. The number of tractors per 100 km^2 of arable land is generally used for this purpose and makes the changes more visible (Figure 13.).

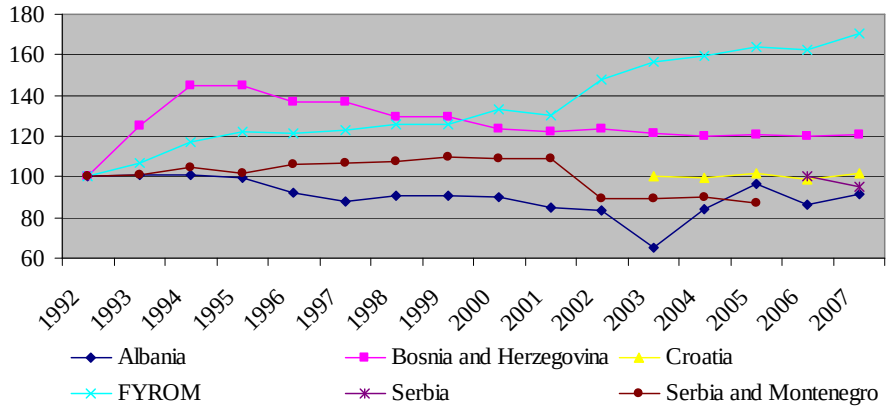


Figure 13. Number of tractors per 100 km^2 of arable land [initial year = 100]

Source: Author's composition based on World Bank database

Regarding machinery, the situation of Western Balkan countries does not draw a nice picture. The relative tractor number showed significant increase only in FYROM. Besides FYROM, it surpasses its initial value only in Bosnia and Herzegovina. In case of Croatia the first period was cut off because the number of tractors increased from 38 to 2188. It was simply not possible to illustrate it on the same graph with the other curves. Its reason was the Agricultural Census carried out in 2003. It can be assumed that its previous low values were inaccurate. There are huge differences behind the relative numbers. The two extreme values are 2229 tractor/100 km^2 in Croatia and 19 tractor/100 km^2 in Serbia. The first value is very high even in the context of EU-15 as only Italy has higher rate (2667 tractors/100 km^2), while the German or French values are about one forth of this (646 and 615 tractors/100 km^2 respectively) according to the World Banks' WDI database. From this aspect even the Macedonian one can be considered as high (1244 tractors/100 km^2 in 2007).

Besides the machinery, the unsatisfactory level of fertilizer use could be the reason of lower maize and wheat yields than in the EU. This is also demonstrated by using relative values (Figure 14.).

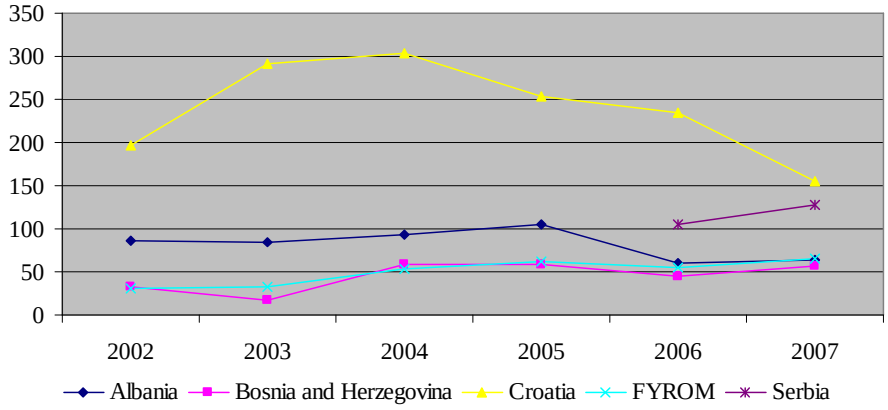


Figure 14. Fertilizer use per 1 ha of arable land [kg/ha]

Source: Author's composition based on World Bank database

The World Banks database contains data on fertilizer use from 2002. The Croatian values are the highest, although they show decreasing trend from 2004. The other countries are around 60 kg/ha which is typical in the new member states, while in the EU-15 plus Lithuania and Poland can be described by values around 200 kg/ha (World Bank's WDI database). It indicates that higher yields can be reached by using more fertilizer in most of the Western Balkan countries.

The Structure of Agricultural Production

Analysis of the structure of agricultural production (number of producers and average farm sizes) gives a good basis to reveal efficiency and competitiveness problems. The fragmented farm structure is obviously disadvantageous in crop production which is the dominant sector of the Western Balkans' agriculture. In most of the cases data for agricultural output by farm categories (agricultural enterprises/private farms) are not available in the national statistics of Western Balkans. Generally it could be stated that majority of utilised agricultural area is in

private hands[1] and private sector dominates the agricultural production. Table 14 shows the number of agricultural holdings and the distribution of utilised agricultural area (UAA) by size groups. Comparing UAA to the earlier analysed agricultural area, there are quite immense differences which can not be explained only by the exclusion of agricultural enterprises. It has multiple reasons. Besides the different data source, the table below does not contain government owned or used (directly or by governmental companies) area. In addition to this, it is a very interesting characteristic of Western Balkans, that some part of the agricultural land is not cultivated. It is especially typical in Serbia, where around 20% of the available agricultural land is not in use (Njegovan – Bošković, 2006). Its reasons are various starting from land mines to intensive out migration (FAO, 2005).

Table 14. Number of agricultural holdings and distribution of UAA, 2005 [1000]

Categories	**Albania**	**BiH**	**Croatia**	**FYROM***	**Montenegro****	**Serbia***
Agricultural holdings	394.9	515.0	449.9	192.4	43.2	778.9
0 - 2 ha	354.6	250.0	299.7	83.5	28.6	360.3
2 - 5 ha	40.0	150.0	86.0	38.6	8.6	244.1
5 - 10 ha	0.2	90.0	42.6	50.4	3.8	131.4
10 - 100 ha	0.05	20.0	15.8	11.9	1.7	36.8
<100 ha	0.0	0.2	5.8	5.1	0.7	6.3
UAA (ha)	427.3	2 444.0	1 077.4	264.4	136.6	2 869.0
0 - 2 ha	305.1	N/A	118.0	188.6	23.3	347.3
2 - 5 ha	120.0	N/A	188.9		29.4	854.4
5 - 10 ha	1.3	N/A	214.2	42.7	27.9	957.7
10 - 20 ha	0.9	N/A	164.4	33.1	24.0	503.4
<20 ha		N/A	391.9		31.9	206.3
Average size	1.1	4.7	2.4	1.4	3.2	3.7

* Data refers only to private family farms (without agricultural enterprises and cooperatives)

** Data for year 2003

Source: ARCOTRASS (2006), MonStat (2003) for Montenegro, SSO (2007) for FYROM

[1] Even in Serbia 87% of land is privately owned (Bogdanov et. al. 2007).

From the table it can be seen that the number of agricultural units refers to the size of agricultural area. Generally countries with higher UAA have more agricultural holdings. Besides their number, their distribution is also very important. It seems to be a general phenomenon of the Western Balkans' agriculture that majority of the producers are small ones (Mizik, 2010). One of its most important reasons is the former Yugoslavian agricultural policy which had limited farm sizes. The 10 hectares maximum was in use until the mid-'80s (Njegovan – Bošković, 2006). At least around 50% of the production units belong to the 0-2 hectares size category in each country. Moving toward bigger size categories, the number of holdings is continuously decreasing with the only exception of 2-5 and 5-10 ha categories in the former Yugoslav Republic of Macedonia. According to the available data, there are no agricultural holdings over 100 hectares in Albania and only a few ones in Bosnia and Herzegovina and Montenegro. The latter one is a bit surprising as the highest share of large holdings can be found in Serbia.[1]

The distribution of utilised agricultural area shows better picture as farms in the lowest size category use less percentage of the total UAA. One should note that the agricultural production is dominated by small farms in FYROM and mostly in Albania. According to the average size, Albanian farms are the smallest with 1.1 ha/holding. In the other countries majority of UAA can be found in the middle size categories (2-5 and 5-10 ha). Croatia is special from this aspect as the highest share of UAA is in the largest size category (above 20 ha). But the average farm sizes are on a very low level and far behind the EU's 15 ha/farm which also counts low value on international level.

Generally speaking the private farms can be characterised by low sizes starting form 1.1 (Albania) to 4.7 (Bosnia and Herzegovina) ha/farm. It is low in itself, but in most of the cases they are formed from small parcels, which make the production more costly and less efficient. The major problem is the geographical distribution of these parcels: they are very often located far from each other. Moreover, this type of land distribution is one of the most important barriers of a well functioning lease market. Low-scale production seems to be the bottleneck of the Western Balkan's agriculture. It is closely related to competitiveness. Consolidation of farm parcels should be a key issue of the agricultural policies. For example in Albania its governmental tool is the promotion of leasehold (World

[1] There is no detailed data on large farms in Serbia and Montenegro, but their average sizes were 1,547 and 347 hectares respectively, while in case of cooperatives these values were 326 and 108 hectares respectively in 2005 (Njegovan – Bošković, 2006).

Bank, 2006). But practical experiences show that this is a long process and without strong political will it can not be carried out. One of its evidences is the slow increase in the farm sizes over the years. For instance it was 1.2 ha/farm in Albania and 1.7 ha/farm in FYROM in 2008 (Volk, 2010).

A well functioning land market requires reliable, precise and up-to-date land registers, which does not exist in the majority of the Western Balkan countries. The Croatian shift from the old cadastral records to the Eurostat conforming one served this purpose. It has outmost importance from the aspect of EU accession, as the implementation of CAP[1] requires not only sufficient institutional background but also available and reliable data sources (for example for the FADN[2] system).

Prices and Terms of Trade

The development of prices is linked to the analyses above; therefore it follows the same order. It starts with maize, then pork and ends with cow milk prices. Figure 15. shows maize prices in the region.

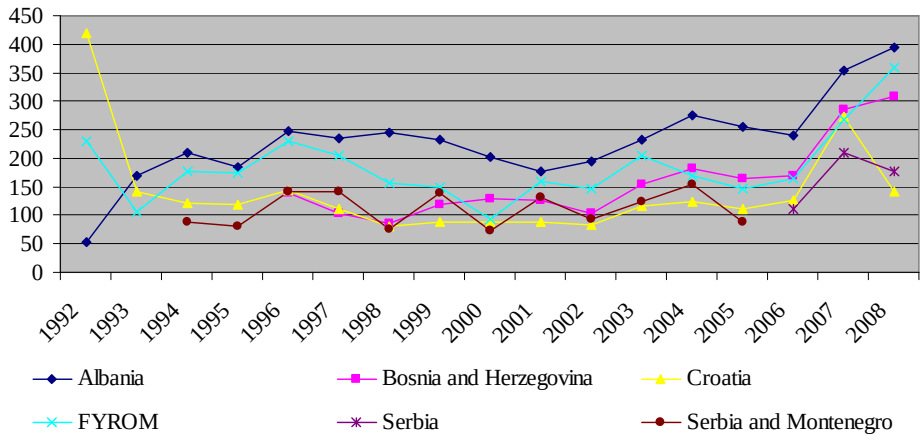


Figure 15. The development of producer prices of maize [USD/tonne]

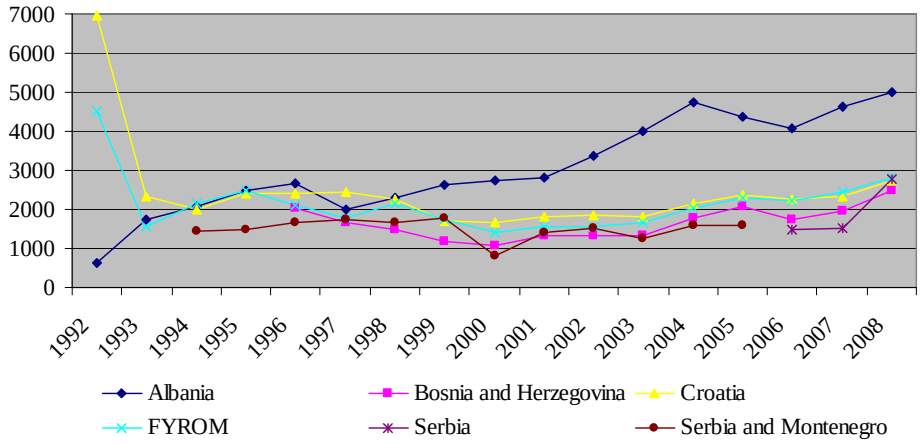
Source: Author's composition based on FAO database

[1] Common Agricultural Policy
[2] Farm Accountancy Data Network

The high initial Croatian and Macedonian values and their huge drop in the next year indicate data problem. Both of these countries changed their national currencies after the independence and in 1993-94 again due to the high inflation (Croatia introduced kuna, while FYROM switched to new denar). These high prices were not underpinned by the prices nominated in national currencies, which means conversion problem.[1] Besides these two values, prices were moving together. The last few years were dominated by moderate increase. The reason of the remarkable price decline in Croatia was a bumper crops in 2007, when one million tonnes (76%) more maize were harvested than in the previous year. Serbia has also higher production (58% more) which caused gentle price reduction. Both the highest and lowest price in the region were observed in Albania in 2008 and 1992. Generally it seems that there are two price centres exist. The prices are around 150 USD/tonne in the big producer countries (Croatia, Serbia); while in the other countries they are above 300 USD/tonne. It is very similar to the EU's pricing; the bigger producers are closer to the lower price centre, while the smaller producers are facing with higher prices.

In case of pork, average prices were on a lower level with strong convergence among them. However, the development of prices is quite similar to the maize prices': the same outlier values for Croatia and FYROM and the almost continuous growth of the Albanian prices. At the end of the analysed period the prices were between 2500 and 2800 USD/tonne, while in Albania it surpassed 5000 USD/tonne (Figure 16.). Compared to the averages of the EU, it is extremely high as the biggest European producers (e.g. Germany, France or the Netherlands) are below 2000 USD/tonne (FAO database).

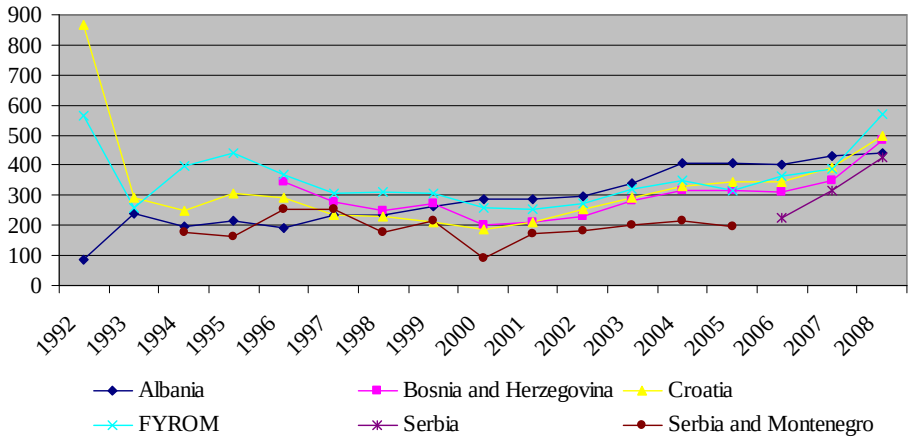
[1]It can be seen for pork and milk prices too.



Source: Author's composition based on FAO database

Figure 16. The development of producer prices of pork [USD/tonne]

The price movements of milk smoothly fit into the trend drawn by the other commodities. Countries faced with slightly decreasing prices until the middle of the period which turned into moderate increase in the second half of the period. Besides the initial outlier values, the highest price can be found in the FYROM. It was 572 USD/tonne in 2008 which is higher than in the majority of the EU member countries. The other countries faced with average prices below 500 USD/tonne, which is line with the EU's prices (Figure 17.). Regarding milk prices, there is no further price convergence needed.

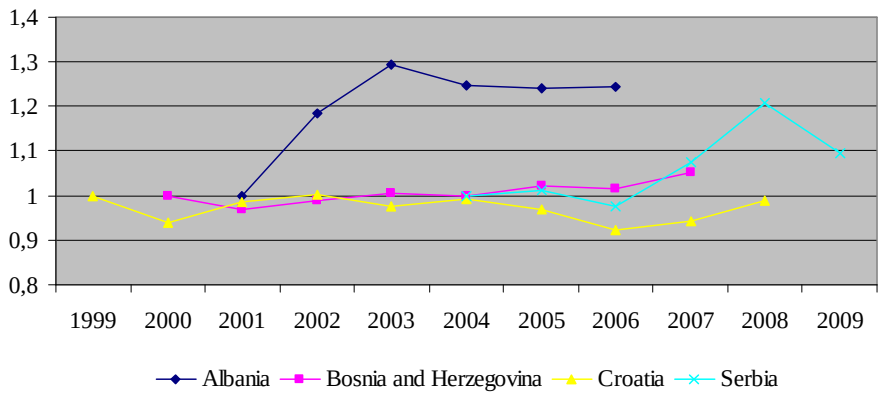


Source: Author's composition based on FAO database

Figure 17. The development of producer prices of milk [USD/tonne]

One should notice a remarkable decline in prices for both commodities in Serbia in 2000. Production data did not explain them, as there was no significant surplus in meat production. In addition to this, the production of the main fodder commodity (maize) halved. Even the export-import data did not indicate this large decline. On the contrary, all these factors pointed toward a price increase. But agriculture faced with huge external shocks: the extremely high inflation together with the depreciation of the Serbian dinar. Due to these shocks, prices declined after the conversion to US dollar. The relatively high Albanian prices gave an explanation to that fact why the share of food products and beverages in the households' expenditure was the highest there.

Analysing agriculture, terms of trade is an important issue. It describes how the agricultural and industrial price indices developed compared to each other during the time. It is unfavourable to agriculture if the industrial index increases more. The next figure demonstrates the changes of these indices (Figure 18.). These data were available only in the national statistics and not for every country.



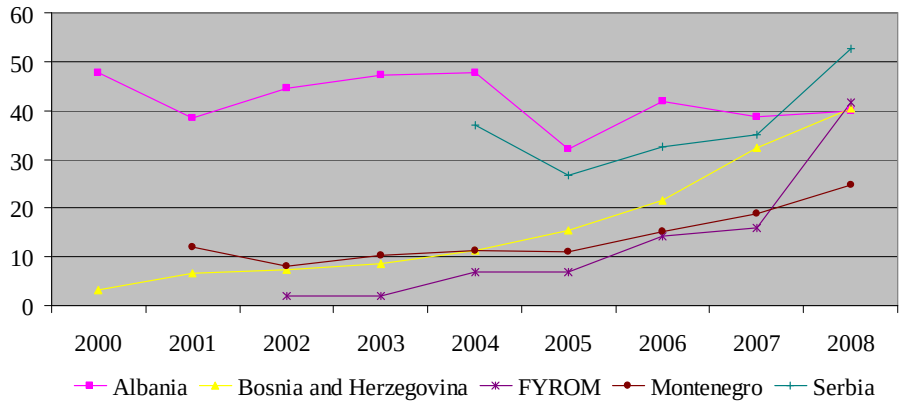
Source: Author's composition based on national statistics

Figure 18. The development of terms of trade

The value above 1 on the diagram indicates that agricultural prices increased more than industrial ones. From this aspect, the Albanian agriculture experienced with the most favourable trend, while in Croatia industrial prices increased more. The Bosnian index shows a slightly downward trend, while the Serbian one declined in 2009 after a big increase.

The Impacts of Agricultural Policy

The competitiveness of agriculture is determined by the size and the type of budgetary supports. From this aspect (again) the Croatian agriculture has the best position; the average support is nearly 400 EURO/UAA. It is very close to the average of the EU, but higher than for example the Czech value (Eurostat database). Basically an increasing trend can be identified on a longer term (Figure 19.). Croatia is excluded from the diagram as its very high values would have made the other countries' ones much less visible.



Source: Author's composition based on FAO database and Volk (2010)

Figure 19. Budgetary supports to agriculture per UAA [€/ha]

Budgetary supports show increasing trend except Albania. One might notice that the Serbian support is two fold bigger than the Montenegrin, although both of them are on a low level compared to the EU average. It is obvious that higher level of support would lead to significant growth in agricultural output. Taking a closer look at the structure of the supports, much of the money can be classified as first pillar ones and linked directly to the production (Lampietti et. al., 2009). From this aspect, the Croatian support structure is the closest to the EU's one, while the Serbian is the most different from that (Erjavec, 2010).

Regarding the land, Western Balkan countries introduced similar regulations. It led to the dominance of private ownership, similarly to the EU. Its legal background was established in early 90's (in 1992 in Serbia and Montenegro and in 1991 in the rest of the countries).[1] The share of individual ownership differs from 80% in FYROM to 95% in Albania (Arcotrass, 2006).[2] The common characteristic of the transition countries can be found here too, the significant role of corporate holdings (former governmental owned companies and co-operatives) in the production.[3] The

[1]To be precise, although it started in the same time in Bosnia and Herzegovina, but it was finalised only in 1998.
[2] Its share was already 87% in Serbia in 2007 (Bogdanov et. al., 2007).
[3] The breakdown of production by individuals and corporate holdings is hardly available even inthe national statistics, but the dominancy of private sector is beyond question. On the other hand, the share of corporate farms is insignificant only in Albania (Swinnen et. al., 2006).

so-called dual production structure can be identified in every country except Albania. The way of privatization was also similar in these countries; the former owners received back their properties. The exception was again Albania, which followed the principle of "the land belongs to whom cultivated that". It was a very popular method in the former Soviet countries, especially in Armenia and Georgia (Lerman et al., 2002).

In the international trade the already WTO members have advantages upon the observer ones (Bosnia and Herzegovina, Montenegro and Serbia). The latter ones will face serious challenges and it restricts their active participation in the international trade. One of the most serious effects of WTO membership is the lowered external protection (basically tariffs) which results higher competition on the internal markets due to the cheaper import products. Nevertheless, the Western Balkan countries have numerous preferential agreements with their most important trade partner, the EU (2007/2000 EC regulation). It allows custom free export with almost no quantity restrictions for the wide range of agricultural products. Beef is an exception and some other commodities have lower tariff or quota, such as wine, sugar or some fishery products. Import ban is quite rarely used by the EU, e.g. in case of swine flu.

Summary and Conclusions

Analysis of the Western Balkan countries' agriculture provided some important lessons. The indicators used to demonstrate the relevance of the sector (value added, share of agricultural employment) generally showed decreasing trends. The most important exception was Serbia, where both the number and the share of agricultural workers started to grow. Another significant result is the higher importance of agriculture in the region than in the EU which was used as a benchmark. It can be especially seen on the export-import data. It needs to be kept in mind that the Western Balkan countries export more raw materials than processed food, while import more processed food than raw materials. This unfavourable structure contains another problematic point: in case of mass products, the most important element of competitiveness is the price, which can be eliminated by high transport costs. Finally, it can cause significant export decline and therefore loss in export revenues. It is more stressful for Serbia, which is the only country with trade surplus. This country relies heavily on agricultural products as they give almost one fourth of the total export. Under the given export structure,

it makes the country's export very vulnerable. Serbia has to carry out even more efforts on higher value added products. The lowest share of agricultural goods in the export can be found in Albania, where that is less than 9%. However it indicates serious efficiency problems as the value added of the sector to the GDP is the highest (21%) among the Western Balkan countries. The importance of the sector is more highlighted by the fact that the share of households' spending on foods and beverages are on relatively a high level.

As a matter of the main commodities (maize, pork and cow milk), the majority of the countries were not able to remarkably increase their output in the observed period. Before 2000, its reason was the Yugoslav war, except Albania. After the end of the war, Western Balkans suffered from droughts occurred in 2000 and 2003. They resulted in huge production losses. Taking off its edge would have been possible with irrigation, but that is on a low level in the region. The two third shares of crops in production in the largest producers of the region (Serbia, Croatia and Bosnia and Herzegovina) make this problem even bigger. This sector suffered more from fluctuation than livestock production.

Concerning efficiency, the value added per worker increased in every country, although it is on a satisfactory level only in Croatia. The negative natural disasters influenced it highly due to the dominance of crop production. The analysis of overall production showed that growing yields are behind the country level increases. But these yields are still far behind the averages of the EU even in the best performing countries (Croatia – maize and milk, Montenegro – pork). The only exception is the pork. The use of leading-edge technologies would remarkably increase the agricultural output of the Western Balkans.

Both agricultural export and import expanded dynamically in the analysed period, but the higher initial import values conserved the trade deficit. Despite the fact that Serbia was able to gain increasing trade surplus from 2005, which surpassed 800 million USD in 2009, the region had almost 2 billion USD trade deficits at the end of the period. Since the most significant trading partner of the Western Balkans is the EU, it is a very important task for the WTO observer countries (Bosnia and Herzegovina, Montenegro and Serbia) to become members and to implement the EU's regulations on food hygiene and quality control into their national systems. From this aspect, Serbia has the most things to do.

The analysis of input use showed uneven results. The number of agricultural employees did not show unambiguous decreasing trend and it increased

significantly at the end of the period. The region had less utilised agricultural area but higher share of arable lands. The agricultural output did not refer to that thanked to the growing yields. But the efficiency would be increased more by using more (and better) machinery and fertilizer. Except Croatia, these indices are less than the averages of the EU, although not far from the averages of the new member states. It indicates huge efficiency reserves in the region.

The detailed picture of the production structure pointed out one of the largest problems of the Western Balkans' agriculture, the extremely fragmented farm structure. It is not possible to produce cost efficiently and competitively on 1.1 (Albania) to 4.7 (Bosnia and Herzegovina) ha units, which are mostly broken to small parcels with different geographical location. Making it higher requires strong political commitment. Besides that, a reliable and accurate land register, which is available only in Croatia at the moment, is an important element of the accession. Besides these problems, analysing these countries require increased attention. The methodological changes (e.g. labour classification in Albania or new land register in Croatia) can cause huge differences from one year to an other.

Regarding the prices, the Western Balkan countries do not lag behind the EU as some of the prices are even higher than these benchmark values (e.g. milk in the FYROM). The price movements were determined by the production. In Serbia the monetary policy also played an important role with the large depreciation of the national currency. Except milk, Albania had the highest prices, which explained why the households spent the largest share of their incomes on food products and beverages. The terms of trade drew a favourable picture as the agricultural price indexes grew higher than the industrial ones.

In the field of budgetary support, the region can not compete with the EU, except again Croatia. However, their values are matching with the new member states' ones when they were before the accession. But the structure of supports, especially the coupled payments, needs to be reformed. Land regulations are uniformed; the private ownership is dominant with no restraint on land sale or rental. As a matter of agricultural trade, due to the preferential agreements, majority of the Western Balkans' agricultural products can access freely to the EU markets.

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