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CHAPTER III

IMPLICATIONS OF THE INTERIM TRADE AGREEMENT IMPLEMENTATION ON AGRARIAN ECONOMY OF SERBIA

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CHAPTER III

IMPLICATIONS OF THE INTERIM TRADE AGREEMENT IMPLEMENTATION ON AGRARIAN ECONOMY OF SERBIA¹

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1. Introduction

The world economy at the beginning of the 21st century is characterised by more dynamic processes of globalisation, and liberalisation of trade and prices. Free movement of labour and capital, goods and services, is more and more emphasised. International capital is permanently increasing and requiring new resource and market areas. Increase of competitiveness becomes an imperative of doing business in the newly created conditions. These processes have also affected agriculture, in particular agriculture of the EU-27. In 1999, the EU launched the initiative to include the West Balkan countries to which Serbia also belongs, in the process of stabilisation and association, with the intention to stabilise the region in political and economic sense. Thus, the countries in this region are included in the CEFTA group - as a preparatory department for entry into the EU (Tomic and Vlahovic, 2008).

The advantages of integration include: economic and political stability in the region; easier access to the European Union funds; larger market for agricultural – food produce and better access to the Russian market, sharper and healthier competition and faster introduction of international standards in food production (ISO, GLOBALGAP, HACCP, etc.).

The disadvantages include: lack of preparedness of our manufacturers for new challenges; low productivity and competitiveness, fear of competition at the domestic and international markets (Tomic, Vlahovic, 2008).

The process of Serbia's accession into the EU began with negotiations on signing of the Stabilisation and Association Agreement (SAA) (October 2005.). The same was suspended in April 2008. Unilateral implementation of the Interim Trade Agreement started on January 30th, 2009. Bilateral implementation of this Agreement commenced on February 1st, 2010.

The opinions in specialised bibliography are divided. There are authors who believe that implementation of the Agreement is premature and that Serbian agro-economy is not ready for new challenges and competing with the competition from the EU. There are opinions that this Agreement should have been applied earlier since the presence of foreign competition in Serbia would have accelerated the preparation of our agro-economy for open market competition.

The subject of study in this paper includes the implications of implementation of the Interim Agreement on agro-economy of Serbia. **The objective of the paper** is to consider positive and negative effects of implementation of the Agreement on this important field of economy. The following questions arise in connection with that: How to increase productivity and competitiveness of economically devastated Serbian agriculture and how to keep the domestic buyer in conditions of larger supply of food from abroad, which is diverse in terms of assortment, price and quality?

2. Method of research and data sources

The first part of the paper presents an overview of the *level and dynamics of liberalisation of trade with agricultural - food products between Serbia and the EU, in accordance with provisions of the Interim Trade Agreement*. The implications of the Agreement after the first year of its implementation and assessment of possible consequences in the future years of transitional period

¹ Paper work is a part of the project researches 149007 „Multifunctional agriculture and rural development in function of accession of Republic of Serbia in European Union“ financed by the Ministry of Science and Technological Development of Republic of Serbia.

were analysed based on the trends in actual volume of foreign trade exchange of agricultural-food products in the period from 2007 to 2009 and structure of that exchange in 2009 according to liberalisation models and SITC sectors, on the basis of the data of the Statistical Office of the Republic of Serbia.

The second part of the paper is designated to *identifying of the level of competitiveness of domestic agro-economy and measures for its improvement*. We used comparative analysis of the yield level for the main field and animal farming products in Serbia, CEFTA group and the European Union, as an indicator of actual productivity in production. The analysis includes the following products: *wheat, corn, soya bean, sugar beet, cow's milk, meat of bovine animals, meat of swine, poultry meat and meat of sheep*. At the same time, we have analysed price competitiveness of the selected products by comparing export prices of the biggest exporters in the European Union.

In addition to statistical methods, the paper uses the method of analysis of the content of the Agreement as well as the results of previous researches, primarily of our authors. Publications of international and national institutions are also used as data sources. The study covers the period from 2005 to 2009.

3. Research results

3.1. Interim Trade Agreement and exchange of agricultural-food products between Serbia and the EU

Trade with agricultural and fishing industry products between Serbia and the EU is regulated by Articles 24-33 of the SAA, namely 9-18 of the ITA and by the contents of four Annexes and two Protocols. Agricultural and fishing industry products include products referred to in Chapters 1-24 of the Combined Nomenclature that domestic Customs Tariffs are harmonised with and products referred to in Annex I, Art. 1 of the WTO Agreement on Agriculture (Art. 9.2. of the ITA).

3.1.1. EU concessions on imports from Serbia

The Union abolished customs duties and fees as of the effective date of the Agreement, with equal effect on import of agricultural produce originating from Serbia, except for import of live bullcalves and baby beef (included in tariff numbers 0102, 0201, 0202 of the Combined Nomenclature), sugar (tariff numbers 1701, 1702) and wine (tariff number 2204), while in the case of import of products from tariff chapters 07 (Edible vegetables, roots and tubers) and 08 (Edible fruits and nuts) that are burdened not only by tariffs but also by levies, the same have been revoked so that only ad valorem tariff rate (Art. 11 of the ITA) remained. Customs duties on import of processed agricultural products from Serbia into the EU, referred to in Annex I to Protocol 1 of the Agreement were defined at a zero level.

00-01- Live animals, meat and meat preparations. The annual quota for **baby beef**² is 8,700 tons (carcass weight) and the preferential tariff in the amount of 20% ad valorem and 20% specific, basic MFN tariff³ is applied to them.

The access to the EU market of live animals, raw materials, and products of plant and animal origin is strictly regulated with health protection standards that apply to plants, animals, and humans. The existence of the control system in the production and processing chain that is equivalent to the system prescribed in the EU is the main prerequisite for entrance of agricultural-food products into the market of the Union, while production and processing systems have to apply the EU standards or other standards equivalent to them. Fulfilment of the above-mentioned conditions is controlled with import permits issued by the competent EU authorities to domestic companies, based on the consolidated applications submitted on behalf of domestic exporters concerned by the competent authority of the

² Tariff items set forth in Annex II of the ITA.

³ Tariff for bullcalves in the EU makes 10.2%+93.1 euros/100 kg (0102 90 51, 0102 90 59, 0102 90 71, 0102 90 79) and for baby beef it is 12.8%+176.8 euros/100 kg (0201 10 00, 0201 20 20), namely 12.8%+141.4 euros/100 kg (0201 20 30), 12.8%+212.2 euros/ 100 kg (0201 20 50) and 12.8%+141.4 – 304.1 euros/100 kg (0202 – 8 tar. position) so that preferential amounts for import from Serbia make 2.04%+18.62 euros/100 kg, 2.56%+35.36 euros/100 kg, 2.56%+28.28 euros/ 100 kg, 2.56%+ 42.44 euros/100 kg and 2.56%+28.8 – 60.82 euros/100 kg respectively (Prostran, 2008, pp. 1-2).

state that is the country of origin of the subject goods. Serbia exports baby beef via slaughterhouses that were granted the export permit from the EU while we are still waiting for the approval for export of live bullcalves due to the previously present bluetongue disease.

In the sector of **meat of swine**, a significant progress was made in September 2009, when four slaughterhouses (IM Topola from Backa Topola, Big Bull from Bacinci, Juhor AD from Jagodina and Kolbis from Novi Sad), were granted the permit for export of preparations made of meat of swine⁴ in the EU, due to certain developments in the field of food safety control. The cessation of vaccination of swine against swine plague that should happen by the end of 2010 is the condition for placement of live fattening swine, fresh meat of swine and durable preparations. Exporters are optimistic; they rely on price and quality competitiveness⁵, even though they know they will not easily regain the positions lost twenty years ago. Higher budget transfers are expected in the sphere of improvement of livestock production. In the beginning of 2010, the negotiations were intensified on obtaining of permits for export of fresh **poultry**⁶.

The value of exports of live animals, meat and meat preparations in the EU in 2009 was 6.6 million dollars, which was 47.5% less compared to export in 2007. In that period, baby beef participated with 94% in the overall quantity. The country placed 984 tons worth 6.2 million dollars, which made only 11.3% of the approved quota. The exporters of baby beef in 2009 were also entitled to export subsidies in the amount of 15% of the realised export price. Export subsidies were also anticipated for preparations made of pork, in the amount of 10%.

02 - Milk and dairy products. By the end of April 2008, the export of thermically treated milk and dairy products on the market of the European Union was approved to Serbia, as well as transport of those products through the territory of the EU to other markets⁷. The obligation of inspection of dairy plants prior to their entering into the list of exporters and control of production chain, from the farm via dairy plant up to the final product has been set forth in accordance with the EU regulations. Although four dairy plants - *Sabac, Sombor, Subotica and Imlek* – fulfilled the technical-technological requirements in licensing procedure at the beginning of 2009, that was not the case with primary producers. Exports of fresh milk implies the implementation of strict standards in primary production - from health control to hygiene control of milking, transport and storage, due to high health risks.

Based on the above-mentioned reasons, despite the evident possibilities for placing of surplus milk quantities⁸, white cheese and cream⁹, the amount of only 258 thousand dollars was recorded in export of dairy product in 2009 to the EU market, which referred to export of 129.6 tons of ice cream. Export of non-concentrated milk and cream has been stimulated in the amount of 20% while export of concentrated milk and cream, sour dairy products, butter, and cheese was stimulated in the amount of 15% in 2009.

03 - Fish and fish preparations - On the date of entry of the Agreement into force the Union abolished all quantity restrictions and tariffs on fish and fish preparations originating from Serbia, except for trout, carp, ready-made fish, preserved fish and caviar (Tariff no. 1604) for which the preferential tariffs have been determined in Annex IV as follows:

Trout and carp - zero customs tariff within the quota (trout - 15 tons, carp - 60 tons) and reduced tariff rates of - 90% of MFN rates in the first, 80% in the second and 70% in the third and subsequent years¹⁰; and

⁴ Products that have undergone thermal treatment under the temperature exceeding 70°C, with 45 to 60 days of shelf-life (ready made meals, pates, salami, semi-durable sausages, etc.) excluding durable products of higher price categories

⁵ <http://www.politika.rs/rubrike/Ekonomija/CHvarak-i-kap-vina-za-Evropu.lt.html>.

⁶ S. Dragin, Tanjug, 04.02.2010

⁷ The issue of transit of dairy products across the territory of the EU on their way to Russia occurred in 2007, after the accession of Romania and Bulgaria into the EU

⁸ Z. Majdin Reka mleka i njena muza (The River of Milk and Milking), Vreme, no. 943, 29. 01. 2009, http://www.bda-gro.com/~site/in-dex.php?option=com_content&task=view&id=23&Itemid=12

⁹ M. Prostran, Beta, 22.04.2008, http://www.b92.net/biz/vesti/srbija.php?yyyy=-2008&mm=-04&dd=-22&nav_id=295092

¹⁰ Average EU customs tariff for trout amounts to about 11%, for carp about 10% and for products belonging to tariff no. 1604 about 16% so that with gradual reduction for those products originating from Serbia it will be brought down to about 7.7%, 7%, namely 11% respectively

Prepared fish, preserved fish and caviar - reduced tariff rates - 90% of MFN rates in the first and second year, 80% in the third and fourth and 70% in the fifth and following years.

Large growers, primarily of carp, complain because of exceptionally low customs free quota for this fish specie. However, despite the quotas, hoping for more serious return to the markets of Germany, France, Italy, Greece, Israel, etc. where they are competitive in terms of both quality and prices of two euros per kilo of fattened carp¹¹. The precondition for export is a positive result of monitoring of residues, which is in progress and which is financed by the EU¹². Until then, the export of these groups of products (8.6 tons, amounting to 87.5 thousand dollars, in 2009) was dominated by leeches in 2009 (350 kilograms valued at 43.6 thousand dollars).

04 - Cereals and cereal preparations - this group of products participated with 27.4% in the total exports of agro-economy to the EU in 2009, taking the second place in the value of realised export after fruit and vegetables (36%). The quantity of 1.38 million tons was exported, which was 253.3 million dollars worth - (2.6 times more than in the 2007). The highest share belonged to corn that participated with 87.7% in export. Cereal preparations, although represented in a number of tariff entries (25), made only 3.8% of the value of export, and the dominant among them were chocolate biscuits with export worth 2.7 million dollars. A number of these products (some kinds of pasta and gingerbread, crisp bread, sweet biscuits, waffles and wafers, rusks and plain toasted bread ...) were covered by export subsidies of up to 5% of export price.

05 - Vegetables and fruit. Pursuant to Article 11 of the ITA, the ad valorem and specific customs tariff¹³ is also set forth for vegetables and fruit, which are included in the EU Common Customs Tariff so that specific customs tariff rate is applied in import of those products from Serbia as of the date of entering of the Agreement into force while the import under other tariff items is free with observing of strict standards in the fields of health safety, traceability and quality. Obtaining of permit for export of potato on the EU market has become an issue in March 2010. The control proved that Serbia can offer the product that does not imply health risks, but its production is not competitive in terms of either price or quality. In order to change that it is necessary for the producers to raise the yield rate, reduce costs and improve quality and packing of products¹⁴.

Export potential of Serbian agriculture has relied for many years on fruit and vegetables, more precisely on berry fruits, or even more precisely, on one product – **raspberry**. The share of this group of products reduced from 46.4% in 2007 to 36% in 2009 in favour of cereals. The value of exported fruit and vegetables into the EU was 332.9 million dollars in 2009. Berry fruits participated with 63.7% in that amount and raspberry alone participated with 57.8% in the value of export of this commodity group. Looking per tariff items, Rolland, Groats, and Bruch raspberry recorded export higher than 10%, as well as Rolland sour cherry without kernel and Rolland blackberry. Export of products that retain levies when imported in the EU made 4.2 million dollars in 2009 (1.2%) and the dominant share in it belonged to sweet corn. Fruit and vegetable preparations, including juices, participated with modest 7.6% in export of that group of products despite significant raw material basis and processing capacities in the country¹⁵.

¹¹ Fish Farm "Ecka" from Zrenjanin can offer to the EU market 1,000 tons of fish in 2010 already, out of 3,600 tons of fattened carp and fish spawn in total, <http://www.kombeg.org.rs/Komora/OpstaA.aspx?veza=1497>, 09.02.2010

¹² For the purpose of testing of the existing harmful matters in fish meat and it is carried out by the Institute for Hygiene and Meat Technology, Belgrade

¹³ Garlic (0703 20 00), sweet corn (0710 40 00, 0711 90 30), mushrooms of *Agaricus* variety (0711 51 00), apples (0808 10 10), pears (0808 20 10), strawberries (0811 10 11), raspberries, blackberries, mulberries, black currants, gooseberries (0811 20 11), tropical fruit (0811 90 11) and other fruit (0811 90 19)

¹⁴ Prices of potato have been very low within the last few years and that is why many have given up the production. One kilo of potato is more expensive in Serbia than in the EU – it costs 15 euro cents in our country while it costs 12 euro cents in the EU countries, www.kombeg.org.yu/Komora/OpstaA.aspx?veza=1841, 15.03.2010.

¹⁵ There were 81 registered factories in the processing sector for hot processing and drying of fruit and vegetables, 181 cooling plants for storing of fruit and vegetables and 20 factories for processing of juices and concentrates. Only a small number of processing plants dispose with high processing technology and the number of updated, ULO cooling plants is also insufficient (Ministry of Agriculture, Forestry, and Water Management, 2009: 86-87)

Exporters of frozen peas, beans and green beans, sweet corn, strawberry, Rolland blackberry and sour cherry without kernel used subsidies that amounted to 5% of the export price in 2009, while exporters of prunes and a larger number of preserved products made of fruit and vegetables (cucumbers and gherkins, sweet pepper, peas, green beans, sweet corn, sauerkraut, ajvar, sweet cherries, sour cherries, etc.) and fruit juices made of apple, raspberry and sour cherry used subsidies amounting to 10%.

06– Sugars, sugar preparations and honey – customs free import of those products (tariff numbers 1701 and 1702) into the EU has been set forth by the Agreement within the annual quota of 180,000 tons and it is the only quota that Serbia manages to fulfil - 172,982 tons (96.1% of the quota) in the value of 128.6 million dollars were exported in 2009. The share of white sugar was 98%. In addition to export within the quota, among the products belonging to this group, Serbia also exports molasses (5.4 million dollars in 2009), natural honey (1.9 million dollars) and sugar confectionery (0.6 million dollars) into the EU. There are realistic potentials for larger export of honey, which is subsidised with 10%, but beekeepers are asking for the support from the state related to faster adopting of the standards, which make the condition for export of this product¹⁶. The total export of this group of products made 14.8% of the total export of agro-economy, which represents a significant reduction compared to 2007 (21.4%).

Tariff positions of groups **07 – Coffee, tea, cocoa, spices, and manufactures thereof**, **08 – Feeding stuff for animals (not including unmilled cereals)** and **09 – Miscellaneous edible products and preparations** record net import. It is the matter of products that are manufactured in the country entirely or insufficiently in terms of scope, namely of products that are competitive to domestic production. There is room for reduction of import deficit, in particular in the case of teas, spices and mixed seasonings, and food additives. Protein concentrations without milk fats are the leading export article from the group 09 and export of that article is stimulated with 20% of the realised export price. Exporters of mixtures of feeding stuff for animals are in the position to take the advantage of subsidies amounting to 5%.

When it comes to sector 0 – Food and live animals, Serbian agro-economy exported 781.2 million dollars in total (84.5% of export of agro-economy into the EU) at the EU market in 2009, which is 20% more than in 2007 and 19.1% more than in 2008.

11. Beverages. Protocol 2 to the Agreement sets forth the regime of mutual trade with wines and alcoholic beverages in terms of preferential quotas, mutual recognising, protection, and control of wine, alcoholic beverages and flavoured wines trademarks. The total quota for preferential export of wine into the EU from Serbia makes 63,000 hectolitres – the quota for import of sparkling wine (tariff no. 2204 10) and wine of fresh grapes in containers holding 2 litres or less (2204 21) amounts to 53,000 hectolitres while the quota for import of wines of fresh grapes in containers holding 2 litres or more (2204 20) amounts to 10,000 hectolitres. The parties may agree on harmonisation of the quota by transferring the quantities from the quota referring to wines in containers holding 2 litres or more onto the quota for sparkling wines and wines in containers holding 2 litres or less. Serbia is not allowed to pay export subsidies for export of the above-mentioned quantities of wine into the EU.

In 2009, Serbia exported 2,298 hectolitres of wine into the EU within tariff items 2204 10 and 2204 21 (4.3% of the quota) in the value of 450 thousand dollars. One half of the exported quantity refers to placement of other cheap red wines (tar. no. 2204 21 80 00 00) while the share of quality white and red wines was symbolic. The same refers to export that is the subject of another quota, although the results are much better since it is the matter of a much lower quota – 2,747 hectolitres that were exported make 27.5% of the quota. In that case, other white wines (tar. item 2204 29 58 00 00) were exported in the value of 156 thousand dollars. The export of quality red wine amounted to symbolic 125 litres. A voluminous task related to renewal of vineyards, zoning of production, registration of producers and protection of geographic origin of wines, which is in progress, should be intensified, as well as the state

¹⁶ The petition of the Association of Beekeepers Organisations of Serbia, which was sent to the Ministry of Agriculture, Forestry, and Water Management in January 2010, points out that harmonisation of regulations with the EU requirements would enable the realisation of eight times higher export of honey and inclusion of 6 thousand more beekeepers among the existing 20 thousand in the situation when Serbia uses only 0.5% of the available bee pastures, <http://www.novosti.rs/code/navigate.php?Id=5&status=jedna&vest=168631>

support in order to feel the initial results in export within the shortest possible period and reduce a high deficit that is recorded in exchange of these products.

More than 80% of the total export of beverages, which made 16.8 million dollars in 2009, referred to export of beers, non-alcoholic beverages and waters containing added sugar. Export subsidies were planned for alcoholic beverages (spirits) obtained by distilling grape wine or grape marc, in the amount of 5%.

12 – Tobacco and tobacco manufactures – export of this group of products has been tripled in the period from 2007 to 2009, i.e. from 7.8 to 24.3 million dollars (2.6% of export of agro-economy into the EU). In 2009, we exported mostly the stemmed tobacco, of Virginia variety (16.5 mil. dollars), somewhat less of Barley variety (2 mil. dollars) and cigarettes containing tobacco (2.8 mil. dollars).

When it comes to section 11 – Beverages and tobacco, our export to the EU market amounted to 41 million dollars in total in 2009 (4.4% of export of agro-economy to the EU market), which is three times more than in 2007 and twice more than in 2008.

Within export to the EU on tariff items of the sectors **21 – Hides, skins and furskins, raw**, **22 – Oil-seeds and oleaginous fruits** and **29 – Crude animal and vegetable materials, n.e.s.**, Serbian agro-economy recorded from 23.6 million to 27.3 million dollars in the period from 2007 to 2009, respectively (2.9% of export of agro-economy to the EU in 2009), mostly through placement of raw bovine hides, soya bean flours and meals, and rape or colza seeds.

Export of the sector **4 – Animal and vegetable oils, fats and waxes** made 8.2% of export of agro-economy to the EU in 2009 and it relied on placement of products belonging to section **42 - Fixed vegetable fats and oils** that amounted to 72.9 million dollars, i.e. almost double more than in 2007. The main export articles were sunflower oil (25.9 mil. dollars), soya bean oil (25.4 mil. dollars), and rape oil (13.3 mil. dollars) and their export was subsidised with 10% of the export price.

Export of agricultural and food products to the EU increased from 726.7 to 925.2 million dollars in the period from 2007 to 2009. The surplus recorded in 2009 made 366 million dollars. This continued a positive trend in the exchange, which was set upon the approval of trade preferentials of the EU in favour of Serbia in the year 2000¹⁷.

There is no doubt that preferential status contributed to the growth of export to the EU. This impact is obvious in placement of sugar, vegetable oils and fats, beverages and tobacco. The growth of export of fruit, vegetables, and cereals is largely the result of oscillations in the scope of production and competitiveness in terms of prices and quality (Popovic, Katic, 2007). The most important effects are only to be expected in the placement of live animals, meat and meat preparations, milk and dairy products, fish, wines, food products of higher processing phases¹⁸, etc. The main reasons for their absence, as it has been shown by the analysis presented above, include:

- Delay in harmonisation of legislation and introducing of necessary standards in the field of food safety, traceability and quality in production chain, from the producer to the exporter, and
- Insufficient and inconsistent budget support to investments into enhancing of productivity¹⁹ and competitiveness of production in the conditions of underdeveloped market of land and loans, inefficient restructuring and modernisation of agro-economy, slow development of market institutions and poor functioning of the market of agricultural produce (Katic, Popovic, 2008).

The implementation of the Interim Trade Agreement opened the possibility for Serbia of diagonal cumulating of origin of goods in trade with the EU²⁰, with countries of the CEFTA region, Turkey and

¹⁷ Export of agricultural produce from Serbia into the EU-25 increased four times in the period from 2000 to 2006, i.e. from 142.4 to 580.3 million dollars (4.1. times). Import was also increased for 3.5 times, i.e. from 104.4 to 363.6 million dollars. However, the surplus reached 216.6 million dollars in 2006 and it was 5.7 times higher than in the year 2000. (Katic, Popovic Vesna, 2007, pg. 307)

¹⁸ The share of processed products in export of agro-economy made only 6.5% in 2009.

¹⁹ GDP of agriculture/ha of agricultural land made 456 euros in Serbia in 2006, compared to 842 euros/ha, which was the value of that indicator in the EU in 2007 (Nikolic et al, 2009, p. 144)

²⁰ Cumulation of origin means that products originating from any country/territory with which the cumulation of origin is possible, can be considered products with origin.

EFTA Member States (Norway, Switzerland, Iceland, and Lichtenstein), which represents a new impulse to the development of trade and investments in the Region²¹.

In addition to added security and long-term basis that are provided by contractual regulating of mutual duties and obligations, the Interim Trade Agreement has not brought many novelties in the sphere of export compared to privileges that Serbian agro-economy has had for a decade now²², but the accompanying import liberalisation will intensify the efforts for more complete benefits from advantages it offers.

3.1.2. Concessions of Serbia on the import from the European Union

Having concluded the **Stabilisation and Association Agreement** with the EU, Serbia has undertaken the obligation to reduce the current level of import protection in the sector of agriculture for 50% upon expiry of the transitional period, namely to bring it down close to zero at the moment of accession into the EU, with keeping of the support for a limited number of most sensitive products within an agreed period of time after the accession.

The Stabilisation and Association Agreement with the EU, namely the *Interim Trade Agreement*, anticipates abolishing of quantity restrictions, progressive abolishing and reduction of customs tariffs on import of agricultural produce originating from the Union as of the date of entering of the Agreement into force, in accordance with the dynamics stated for each produce in Annexes III (a), III (b) and III (c) and (g) of the Agreement. Protocol 2 sets forth the regime that will be applied to wines and alcoholic beverages. Starting from the date of coming of the Agreement into force, Serbia will also abolish all quantity restrictions and customs tariffs on import of fish and fish preparations originating from the EU, except for those listed in Annex V. However, a larger number of tariff lines that include products of agriculture and fishing industry from the groups of live animals, meat and meat preparations, milk and dairy produce, eggs and natural honey, cereals, flours and pastas, soya beans oil, fruit, vegetables and preparations thereof, fruit juices, certain sugar syrups, fermented beverages and vinegars, will keep customs protection at a certain, reduced level even upon termination of the implementation period (fresh tomato and fresh sweet pepper keep seasonal customs duties and reduced tariff rate and fresh grapes, apples, sour cherries, plums and strawberries keep only the seasonal customs duties) since they are of exceptional significance for Serbian agricultural. This also refers to carp and pasta containing fish and seafood higher than 20% when it comes to fish preparations. The following products remain excluded from concessions: edible sunflower oil, raw and refined sugar, isoglucose, fructose syrups, wines, and tobacco. Customs free import of wines is limited by the quota amounting to 25,000 hectolitres.

Protocol 1 contains the agreement on trade with preparations made of agricultural produce that are listed in it. All preparations, except for some sour dairy products and dairy spreads, frozen sweet corn, margarine, some sugar preparations, ethyl-alcohol, fruit brandies (spirits), cigarettes containing tobacco and other tobacco preparations, are included in the customs free export regime upon expiry of a six-year implementation period as well as the largest number of agricultural produce (Table 1 in the Annex).

Annex III (a) – Customs free import in unlimited quantities until coming of the Agreement into force – for products from 758 tariff items (30.9%) in total, 25 of which were subject to levies and 14 of which were subject to seasonal customs tariffs. Customs tariff rate, in its basis, was set at a zero level for some of the following items in 2009: most of seed materials, breeding animals and poultry, breeding turkey and goose eggs, components of feeding stuff for animals, such as meals of meat and fish, corn greaves, dog or cat food, as well as for a larger number of products that are not produced in the country, or that are produced in small quantities – olives, tropical fruit, oriental spices and teas, coffee not roasted, cocoa²³.

²¹ Annex V to the Protocol 3 of the ITA contains the list of products that are excluded from cumulation of origin set forth by Art. 3 and 4 of the Protocol 3. It is the matter of products with high contents of sugar, which can be used for further processing and which can disturb the traditional method of trade with sugar in such a way.

²² It is estimated that 1.6 billion euros were saved based on non-payment of customs on the import of agricultural and food products from the EU alone during the the last decade (Zivkov et al., 2009, pg. 33)

²³ Average MFN customs protection of those products is the level of about 9.5% (Prostran, 2008, pg. 4.)

Import from the European Union of products listed in Annex III (a) amounted to 128.3 million dollars (22.9% of import of agro-economy from the EU) in 2009 under unilateral implementation of the Interim Trade Agreement. The largest quantities of imported products came from the following sectors: 05 – Vegetables and fruit (38.4%), 08 – Feeding stuff for animals (12.8%), 42 - Fixed vegetable fats and oils (12.5%) and 29 - Crude animal and vegetable materials, n.e.s. (11.7%) – 75.4% in total. Within those sections there are also tariff items with the highest values of realised import: **oranges** (05) – with the share of 25.3% in import; followed by **palm oil** (42), with the share of 6.5%; **clementines** (05) – 5.3%; **kiwi fruit** (05) – 3.4% and **vegetable seed for seeding, other** (29) – 3.2%. When import of **bovine hides, dog or cat food** (at two more tariff items), **laying hens, preserved olives, seed potato, olive oil, breeding heifers, fish meal and lemon**, is added to the above-mentioned products, the share of those 14 products, at 17 tariff items made 63% of value of customs free import of agricultural produce in 2009. MFN customs tariff rates at those tariff items range from 1% (breeding heifers, laying hens, fish meal, bovine hides, and palm oil), through 5% (oranges, clementines, lemon, seed potato, vegetable seeds, olive oil), 10% (preserved olives) to 20% (kiwi and dog or cat food).

Liberalised import of seed material and breeding animals, fruit, olives and oils that are not produced in the country, raw materials and feeding stuff for animals cannot have negative impacts on domestic producers and consumers. On the contrary, it can only make domestic production cheaper and improve feeding habits of consumers.

Annex III (b) – Progressive reduction of ad valorem and specific customs duties up to the zero level at the end of the interim period, with abolishing of seasonal customs duties as of coming of the Agreement into force – it is planned for products from the tariff item 523 (21.3%), 86 of which are with levies and 22 with seasonal customs duty²⁴. From the aspect of liberalisation, it is the matter of less sensitive products that are produced in the country. They include bullcalves weighing 80 – 160 kg, sheep, goats, fattening chicken, hens, meat of goats, slaughtering plant products, swine fats, poultry fats, fresh milk and sour dairy products, except for yogurt, grated cheese and cheese for processing, egg yoke, fruit and flower seedlings, cut flowers, largest number of vegetable products and continental fruit, roasted coffee, seed corn, sunflower, sugar beet and fodder seed, hard wheat flour and meal, corn and barley meal, pellets and rolled cereals grains, corn and potato starch, soya beans flour and groats, malt, molasses, raw soya beans and sunflower oil, larger number of preserved products made of fruit and vegetables, juices made of tropical fruit, wheat meals, shredded sugar beet, oilseed cakes...

²⁴ Those products have the average MFN customs tariff rate of about 19% and the average customs protection is at the level of about 22%, Ibid, pg. 4

Table 1: Interim Trade Agreement between the EU and Serbia: customs tariff concessions of Serbia on import of agricultural and prepared products

Heading Chapter for Customs tariff item	Number of tariff items	Out of it with		Agricultural produce – Annex II				Fishing industry		Wine – grapes	Food products – Annex II in the Protocol I				Excluded from concessions
		Levies	Seasonal customs tariffs	Annex III (a)	Annex III (b)	Annex III (c)	Annex III (g)	Art. 15 of the TTA	Annex V		Zero level in the 1 st year	Zero level in the 4 th year	Zero level in the 6 th year	Reduced up to a certain level	
1	58	9	-	39	6 (1) ¹	-	14 (8)	-	-	-	-	-	-	-	-
2	255	263	-	31 (11) ¹	94 (67) ¹	-	120 (125) ¹	-	-	-	-	-	-	-	-
3	320	1	-	-	-	-	-	119	200	1 (1) ¹	-	-	-	-	-
4	166	76	-	10 (1) ¹	92 (7) ¹	-	60 (60) ¹	-	-	-	-	-	6 (6)	8 (2) ¹	-
5	20	-	-	5	-	-	-	-	-	-	15	-	-	-	-
6	40	-	7	18	21 (7) ²	-	1	-	-	-	-	-	-	-	-
7	107	23	17	27	53 (3) ¹	8 (8) ²	23 (17) ¹	-	-	-	-	-	1 (1) ¹	1 (1) ¹	-
8	132	16	28	79 (2) ¹ (14) ¹	41 (7) ¹	8 (7) ¹	4	-	-	-	-	-	-	-	-
9	43	3	-	35	4	-	3 (3) ¹	-	-	-	1	-	-	-	-
10	64	-	-	51	5	-	8	-	-	-	-	-	-	-	-
11	81	-	-	34	41	-	6	-	-	-	-	-	-	-	-
12	77	-	-	65	11	-	-	-	-	-	1	-	-	-	-
13	13	-	-	8	-	-	-	-	-	-	5	-	-	-	-
14	6	-	-	-	-	-	-	-	-	-	6	-	-	-	-
15	124	2	-	81	20	-	1	-	-	-	17	-	3 (1) ¹	1 (1) ¹	1
16	89	28	-	18 (11) ¹	9	-	17 (17) ¹	-	45	-	-	-	-	-	-
17	42	5	-	14	5	-	-	-	-	-	4	1	8	1	9 (5) ¹
18	27	-	-	2	-	-	-	-	-	-	4	-	21	-	-
19	51	-	-	-	-	-	1	-	1	-	7	-	42	-	-
20	299	-	-	124	101	-	63	-	-	-	7	-	4	-	-

21	44	3	-	14	3	-	1	-	-	-	-	-	-	-	-	-	-	-	-
22	193	30	-	-	4	-	7	-	-	-	-	-	-	-	-	-	-	-	-
23	65	1	-	42	23 (1) ¹	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	20	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1-24	223	402	52	697	523	10	338	245	119	245	2 (1) ¹	65	90	5 (2) ¹	18 (11)	18 (1) ¹	2 (1) ¹	53 (15) ¹	7 (7) ¹
Annex I, Art. 12) of the Agreement on Agriculture of the WTO																			
2809-41-45	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3301-0210	26	-	-	19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3501-3805	25	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
380910, 382460	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4101-4103	17	-	-	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4001	7	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5001-5003	3	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5101-5103 ¹	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5201-5203 ¹	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5301-5302 ¹	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	245	402	52	758	523	10	338	245	119	245	2 (1) ¹	65	121	5 (2) ¹	18 (11)	18 (1) ¹	2 (1) ¹	53 (15) ¹	7 (7) ¹
%	100.0	-	-	30.9	21.3	0.4	13.8	30.0	4.8	30.0	0.1	2.6	4.9	0.2	6.5	0.7	0.2	6.5	0.7

Notes: 1- tar. items with levies; 2 – tar. items with seasonal customs tariffs; 3 – tar. items excluded from quotas; 4 for 5101-5103, 5201-5203, and 5301-5302, MFN customs tariffs rate = 0 prior to coming of the ITA into force.

Source: The Law on Verification of the Interim Trade Agreement and Trade Related Issue between the European Union, on the one hand, and the Republic of Serbia, on the other hand, Official Gazette of the Republic of Serbia – International treaties, 83/2008; Decision on setting of agricultural and food products for which special fees are paid in import and amount of a special fee, Official Gazette of the Republic of Serbia, 109/2009; Decree on seasonal customs tariffs rates on import of certain agricultural produce, Official Gazette of the Republic of Serbia, 9/2009, 28/2009; Decree on harmonisation of the Customs Tariff Nomenclature for the year 2010, Official Gazette of the Republic of Serbia, 100/2009.

Import of this group of products from the European Union amounted to 106.3 billion dollars in 2009 (19.1% of import of agro-economy from the EU). More than 72% of import comes within the section 05 – Fruit and vegetables (28.5%), 29 - Crude animal and vegetable materials (18.3%), 08 - Feeding stuff for animals (not including unmilled cereals) and 01 – Meat and meat preparations (10.5%). The value of import of products from 13 tariff items, the individual value of import of which ranges in the interval from 2 to 8.7 million dollars, made more than a half of value of import in the Annex III (b). They are, according to the descending order: **sausages and similar products (01), sugar beet seed (29), sunflower seed for seeding (22), coffee, not decaffeinated, roasted (07), feeding stuff for animals, other (08), oils and fats mixtures and preparations (09), seed, hybrid, ordinary corn (04), feeding stuff for animals – starch (08), feeding stuff for animals – forage plants mixtures (08), hazelnuts (05), potato, preserved without vinegar, cooked (05), edible fruit seedlings, other (29) and onion bulbs, fresh or chilled (05).** As in the case of Annex III (a), the import is concentrated within a small number of tariff items that refer to seed and seeding material, feeding stuff for animals, coffee, fruit and vegetables, the

production of which is insufficient in the country. The exception is the most widely present item – Sausages and similar products (1601 00 99 00 00). Domestic products from this group are, as it has been said above, competitive by price and quality and they are getting ready to return to the EU market and, with the appropriate “triage of inspection authorities at the border, so that only quality, meaning more expensive products are imported, domestic production, as the Minister in charge said himself, should not be threatened by import.”²⁵

Annex III (v) – Gradual reduction of ad valorem and specific customs duties, with keeping of seasonal customs duties during and after the transitional period. It is the matter of highly sensitive products made of fruit and vegetables that are distributed at ten tariff items. Eight tariff items are protected by levies and nine by seasonal customs duties²⁶. Fresh or chilled tomato keeps both seasonal and 20% of the existing customs duty so that upon expiry of transitional period it will have the ad valorem customs tariff of 6%. Upon the expiry of the transitional period, sweet pepper will be protected with 30% of the existing ad valorem and specific customs tariff, which will make 6% and 4.5 RSD/kg. Customs duties for other products from this group will be brought down to zero at the end of transitional period. They are: fresh grapes, apples, sour cherries, plums and strawberries.

The total value of import of products referred to in this Annex from the EU in 2009 that amounted to 4.2 million dollars (0.8% of import of agro-economy from the EU). The share of **fresh apples** was 53.4%, and they were followed by **fresh tomato** and **fresh or chilled sweet pepper**, with much lower shares of 16% and 13.7% respectively. Import of **fresh strawberries** amounted to 350 thousand dollars (8.3%) while 150 thousand dollars (3.5%) were spent for purchase of **fresh table grapes**.

The support to planting of multiannual fruit plantation and improving of assortment, which the Ministry of Agriculture, Forestry and Water Management has been intensifying within the recent period, should contribute to enhancing of competitiveness and quality of domestic production along with the support and promotion of establishing and strengthening of associations of fruit and wine growers. Such enhanced competitiveness should make the appropriate balance to import of those fruits into the country, in particular when it comes to apples and grapes. The support to investments in green houses and utilisation of rich sources of thermal waters of production of early vegetables and strawberries, flowers and seasonings should be paid and appropriate attention in the transitional period since that can be the reply to liberalised import (Katic at al. 2006., Popovic et al., 2008; Savic, Popovic, 2008,).

Annex III (g) – Gradual reduction of ad valorem and specific customs tariffs up to a certain extent, abolishing of seasonal customs duties. This group includes products from 33 tariff items, 30 of which have levies and 7 have seasonal customs duties. Customs duties (and levies) are subject to gradual reduction, but at the end of transitional period and after it, the implementation of 20% and 80% of the valid customs tariff will continue. For products that also have a seasonal customs duty, the same will be abolished with the implementation of the Agreement²⁷. The highest level of protection in this group is kept by mercantile corn, sour cherries and sweet cherries with added alcohol – 80% of the valid customs tariff, while for wheat and corn flour, as well as for live piglets the protection is kept at the level of 65% of the valid customs tariff.

The amount of 45.1 million dollars (8.1% of import of agro-economy from the EU) was allocated in 2009 for purchase of products from this Annex from the EU. Import includes mainly meat and meat preparations (01), the share of which is 41.3%. Those products were followed by products from sector 05 – Vegetables and fruit (19.8%) and 02 – Dairy products and birds’ eggs (17.6%). Among 13 tariff items with the highest values of import, which together make two thirds of the value of import from the Annex III (g) most of them are connected with farming of swine (tariff items: **meat of swine, boneless, frozen; domestic swine over 50 kg, n.e.s.; slaughter products, of swine, frozen, bellies of domestic swine (streaky), frozen; bacon, fresh, frozen, in brine, salted; and meat of domestic swine, boneless, fresh**) – in the total value of 18.8 million dollars; fruit juices (two tariff items with

²⁵ Dragin, S. Trade Agreement does not threaten agriculture, Interview, 28.12.2008, <http://www.rts.rs/page/stories/sr/story/13/Ekonomija/35846/Trgovinski+sporazum+ne+ugro%C5%BEava+agrar+>.

²⁶ An average MFN customs tariff rate for those products makes about 19% and the average overall customs protection ranges at the level of about 48%, Ibid, pg. 4

²⁷ Those products have the average MFN customs tariff of 26% and the average overall customs protection of about 35.6% (Ibidi, pg. 5)

juices made of other fruit, one with **juice mixtures**, and one with **apple juice**), in the total value of 5.2 million dollars; milk (two tariff items with **solid milk, without sugar, other**) in the value of 3.4 million dollars and **seed corn**, the import of which amounted to 2.8 million dollars.

The above-mentioned products will definitely suffer the pressure of highly competitive import from the EU. This refers in particular to meat of swine and preparations thereof and it is therefore good that they are placed in the category of sensitive products that are provided with keeping of a certain level of customs protection even upon expiry of transitional period. However, the pressure from import will only reduce productivity growth and export of domestic production as well as the regulation of domestic market (functioning of the safety-net mechanism, in particular in oscillations of production in swine breeding, struggle against cartelisation of production in dairy industry).

Annex V to the Agreement – sets preferential customs tariffs for import of certain fish species and fish preparations originating from the EU. Full customs liberalisation includes 119 tariff items, while for 247 tariff items with fish and fish preparations, Serbia approved the following concessions to the Community: gradual reduction of customs tariff rates up to the zero point during the transitional period for import of: certain species of live, fresh, and frozen fish, preserved fish, crustaceans, and molluscs, with the exception of live carp, for which the customs tariff is reduced and kept at the level of 60%, and pasta stuffed with fish that keep the customs tariff at the level of 15%²⁸.

Customs free import of fish from the EU, according to Art. 15 of the ITA, amounted to 5.95 million dollars in 2009 (1.1% of import of agro-economy from the EU). The largest imported quantity belongs to **frozen hake** (value of 1.6 million dollars) and **frozen picarels** (1.5 million dollars). The largest share in import of fish and preparations thereof, which is the subject to gradual reduction of import protection (Annex V of the ITA) and which amounted to 15.3 million dollars in 2009 (2.7% of import of agro-economy from the EU) belonged to **frozen mackerel** and preserved fish and seafood at the following tariff items: **preserved salmon; preserved fish, other; marine invertebrates, preserved, other; tunas and carcasses, preserved in vegetable oil**. Their share, collectively speaking, in import from this Annex amounted to 65.2%. When it comes to carp, which is potentially most sensitive to competition from import and the customs tariff rate of which is therefore reduced under the slowest pace²⁹, 18 tons were imported in the value of 46.4 thousand dollars.

Import of fish and fish preparations is concentrated on sea (salt water) fish of lower price categories. Import of carp is symbolic compared to domestic production³⁰. Having in mind the expected opening of export of carp and trout to the EU within the quota of 60, i.e. 15 tons respectively, and gradual reduction of customs tariff for export above the quota of 70% MFN, domestic producers should not be significantly threatened by liberalisation of import in the fishing industry sector.

Annex I to the Protocol 2 – sets forth the customs free quota in the amount of 25,000 hectolitres for import of wines originating from the Union into Serbia. The above-mentioned quota refers to quality sparkling wine (tariff no. 2204 10) and wine of fresh grapes in containers holding 2 litres or less (tar. no. 2204 21). Customs free import of the above-mentioned quantities of wine originating from the Union is approved providing that the Union does not pay export subsidies for those quantities. Once the quota is used up, the MFN customs tariff in the amount of 30% is paid on import of wines.

In 2009, Serbia imported 17,831.77 hectolitres of wines from the EU in the value of 5.9 million dollars (1% of import of agro-economy from the EU); 1.4 million dollars were spent on import of quality sparkling wines (tar. no. 2204 10) – the largest quantity belonged to **champagne** (722.6 thousand dollars) and **other sparkling wines** (625 thousand dollars), and wines of fresh grapes in containers holding 2 litres or less (tar. no. (tar. no. 2204 10) – the largest quantity of other red wines (1.14 million dollars) and **other white wines** (900 thousand dollars). Those four items participated with 57.6% in total import.

²⁸ Upon expiry of transitional period, live carp will have the customs tariff of 18% and a levy amounting to 12 RSD/kg, while pasta stuffed with fish will have the customs tariff of 4.5%

²⁹ Reduction to 90% of MFN in the first, 85% in the second, 80% in the third, 75% in the fourth, 65% in the fifth and 60% in the sixth and following years.

³⁰ See footnote no. 10

Import of wines is kept within the framework of the approved customs free quota. Considering that import above the quota implies full MFN customs duty burden some excessive increase of import on the above-mentioned items should not be expected. With the recovery of domestic vineyard growing and positioning of a larger number of successful family wineries on the market with quality wines of protected origin, the re-orientation of consumers towards domestic wines should be expected along with reduction of import of foreign wines of lower price categories.

Annex II to Protocol 1 contains the list of products of higher finalisation stage, which made 40.4% of the total import of agriculture and agro-industry, namely import of agro-economy from the EU in 2009. The dynamics of liberalisation of import has been planned within the following models:

- *Liberalisation as of the date of coming of the Agreement into force,*
- *Gradual reduction of customs tariffs to the zero level in the 4th year of implementation of the ITA*
- *Gradual reduction of customs tariffs to the zero level at the end of transitional period,*
- *Keeping of certain level of customs protection upon expiry of transitional period.*

Liberalisation as of the date of coming of the Agreement into force. Products from 121 tariff items, eight of which are subject to levies and with zero customs tariff rate, starting from the date of coming of the Agreement into force³¹. Those products include glycerine; vegetable waxes, except for the bee wax; fructose; maltose; marzipan paste; cocoa paste; cocoa butter and cocoa powder; products designated as children's food for retail sale; tapioca; some kinds of ginger bread (seasoned with ginger); flour, groats, or flakes of potato; peanut butter; soybean sauce; protein concentrates and textured protein substances; rum; gin; arrack; ouzo; calvados; tequila; manithol; sorbytol; casein; dextrines, etc.

Products worth more than 50 million dollars (23% of import of processed products and 9.3% of the total import of agro-economy from the EU) were imported within customs free import of this group of products, which consisted mainly of tariff items belonging to sector 07 – Coffee, teas, cocoa and spices (37.7%), 09 - Miscellaneous edible products and preparations (30.5%) and 11 – Beverages (17.2%). More than 80% of import was realised within the following tariff items:

liqueurs in containers holding 2 litres and less (11), special milk for infants in powder (09), preparations of coffee extracts, essences and concentrates (07), cocoa powder, not containing added sugar or other sweetening matter (07), cocoa butter, fat and oil (07), spice mixtures for food industry (09), extracts of coffee (07), inactive yeast, other (09), peanut butter (05), preparations of coffee (07), protein concentrates without milkfats (09) and cocoa paste not defatted (07).

Coffee, cocoa, food for infants and raw materials for food industry are not products that can threaten domestic industry. Coffee and cocoa do not have substitutes, food for infants has to be imported without burden of customs duties, and quality mixtures for spice industry can only raise the quality of products of domestic slaughter industry and increase its competitiveness in export.

Gradual reduction of customs duties to the zero level in the fourth year of transitional period. The group of processed products for which the customs duties will be brought down to zero in the fourth year of transitional period includes five products, two of which are with levies³²: white chocolate, soups and broths and preparations for those products, beer in containers holding 10 litres and less; in bottles, baker's yeast and whisky in containers holding 2 litres and less.

The import of those five products was around 13 million dollars worth (5.7% of import of processed products and 2.3% of the total import of agro-economy from the EU) as seven tariff items in 2009. The largest imported quantities belong to whisky, mixed, Scottish (4 million dollars); **baker's yeast** (3 million dollars); and **malt beer** in bottles (2.8 million dollars).

Domestic beer and confectionery industry, as well as production of soups and preparations for soups and broths should invest serious efforts in the forthcoming period and improve their market positions in order to face the competition from the EU that is expected to come. There is certainly room for enhancing of

³¹ Those processed products have the average MFN ad valorem customs tariff of about 10%, namely the overall average customs protection (taken into account seasonal customs duties and levies) around 34.5%, Ibid, pg. 5

³² The average MFN ad valorem customs tariff for those products makes 27%, namely the average customs protection makes around 34.5%, Ibid, pg. 5

competitiveness through upgrading of technology and marketing and with the assistance of strict quality control at the border, in particular when it comes to chocolate and soups and broths components.

Gradual reduction of customs duties to the zero level at the end of transitional period. The largest group, which includes 160 tariff items, 24 of which are with levies³³, consists of products for which the customs tariff will be brought to zero at the end of transitional period. This group includes: some fruit yogurts, preserved sweet corn, margarine, other, confectionery products, prepared mixtures for baking industry products, largest number of pasta, cereal flakes, sweet biscuits, waffles and wafers, dry yeast, ketchup, mustard, ice cream, mineral waters, non-alcoholic beverages, larger number of strong alcoholic beverages. Those are the products that (together with products from the following group that is somewhat protected by keeping of the customs protection at a certain level) can potentially react in the most elastic way to reduction and abolishing of customs protection.

One year from the beginning of implementation of the Agreement, the protection is still at a high level and it is not possible to see the implications of implementation of this model of liberalisation. However, the fact is that it is the matter of products the import value of which exceeds one half of the total import of processed products, namely close to one quarter of the total import of agro-economy from the European Union. During 2009, the import amounted to 128.8 million dollars and the highest share belonged to products from the following sectors: 07 – Coffee, tea, cocoa, spices, and manufactures thereof (44.8%), 06 - Sugars, sugar preparations and honey (26.2%) and 09 - Miscellaneous edible products and preparations (10.6%). The leading tariff items in import were: **miscellaneous edible preparations (09), chewing gums (09), chocolate and other products of cocoa, filled (07), other edible products, n.e.s. (09), products of flour, groats, and starch, other (09), chocolate with added cereals, fruit or nuts (07), milk chocolate, not filled, other (07), and non-alcoholic beverages, without milk (11)**. Import within those items made 61.5% of import of this group of processed products.

Keeping of a certain level of customs protection upon expiry of transitional period. The group of processed products that keep a certain level of customs protection upon expiry of transitional period includes products from 18 tariff items, 11 of which are subject to levies³⁴. Cigarettes containing tobacco, other and three more tariff items containing tobacco and tobacco products keep 100%, and a larger number of products keep 40% of the valid MFN customs tariff rate. They include fruit yogurts and dairy spreads, margarine, some sorts of confectionery products and ethyl alcohol. Fruit brandies (spirits) and frozen sweet corn keep the customs tariff at the level of 30% and not denaturised ethyl alcohol (strength lower than 80% of vol.) at the level of 20% of the valid customs tariff rate.

Import of those products from the EU that made 32.4 million dollars in 2009 (14.3% of import of processed products and 5.8% of import of agro-economy from the EU) was dominated by sector 12 – Tobacco and tobacco manufactures (93%), namely import at one tariff item – ***Cigarettes containing tobacco, n.e.s.*** with customs protection that remains at the level of MFN customs tariff rate upon expiry of transitional period.

Products that are not subject of concessions. The following products are not subject of concessions: edible sunflower oil (section 42), the import of which is protected with ad valorem customs tariff and a levy; raw and refined sugar, isoglucose and fructose syrups – 9 tariff items, 5 of which are with levies (07); wines – 38 tariff items (and 65 tariff items in case of import exceeding the set quotas) (11); and tobacco – 16 tariff items, 2 of which are protected with levies (12).

Import from the EU at those tariff items amounted to 22.1 million dollars in 2009 (3.9% of import of agro-economy from the EU) and the following tariff items had the highest share: **isoglucose, containing 50% of fructose and more (06); tobacco, stemmed, n.e.s. (12); sugar and artificial honey, n.e.s. (06); artificial honey (06); light Barley tobacco, fully stemmed (12); oriental tobacco, not stemmed, dried in the sun (12); and fully stemmed tobacco, Virginia, dried in the drying plant (12)** with the share of those products of 86.2% in the total import (Table 2).

³³ Processed products with an average ad valorem customs tariff of about 26% and average customs protection of about 31.7%, Ibid, pg. 6.

³⁴ The average MFN ad valorem customs tariff of this group of products makes around 27%, namely the average customs protection around 37%, Ibid, pg. 6.

Table 2. Import of agriculture and agro-industry from the EU in 2009, according to liberalisation models of the Interim Trade Agreement

	Value (000 USD)	%	
ANNEX III (a) — Customs free import as of the date of coming of the ITA into force	128,309	22.9	
ANNEX III (b) — Gradual reduction of customs tariffs to the zero level in the 6 th year of implementation of the ITA	106,306	19.1	
ANNEX III (v) —Abolishing/reducing of customs tariffs up to the certain level	4,239	0.8	
ANNEX III (g) — Reduction of customs tariffs up to the certain level upon expiry of the ITA	45,080	8.1	
ANNEX I to Protocol 2 — Wine: zero customs tariff rate within the quota	5,882	1.0	
ANNEX V — Fish and fish preparations— reduced customs tariff rate within the quota	15,274	2.7	
03 –Fish and fish preparations — customs free import as of the date of coming of the ITA into force	5,951	1.1	
ANNEX II to Protocol I	225,952	100.0	40.4
Customs free import as of the date of coming of the ITA into force			
Gradual reduction of customs tariffs to the zero level in the 4 th year of implementation of the ITA	51,902	23.0	9.3
Gradual reduction of customs tariffs to the zero level in the 6 th year of implementation of the ITA	12,823	5.7	2.3
Reduction of customs tariffs up to the certain level upon expiry of the ITA	128,840	57.0	23.0
	32,386	14.3	5.8
Products that are not subject to concession	22,080	3.9	
TOTAL	559,077	100.0	

Source: Statistical Office of the Republic of Serbia, 2009: Internal documentation and authors' calculations

The total import of agriculture and agro-industry amounted to 559.1 million dollars in 2009 and it was lower compared to the previous year for 12.6%. Due to the growing export that was recorded that same year, the surplus in exchange amounted to 366.1 million dollars, i.e. export was 2.3 times higher than in 2008 (Table 3).

Table 3. Exchange of agricultural produce between Serbia and the EU (2007-2009)

	2007	2008	2009
Export, 000 dollars	726.697	795.682	925.220
Index	-	109.4	116.3
% of total export of agricultural produce	43.1	40.6	47.6
Import, 000 dollars	479.896	639.670	559.078
Index	-	133.3	87.4
% of total import of agricultural produce	42.8	43.6	42.7
Balance, 000 dollars	246.801	156.012	366.142
Index (base: 2007)	-	63.2	234.7

Source: Statistical Office of the Republic of Serbia and authors' calculations.

The unilateral implementation of the Interim Trade Agreement with the EU has obviously had not negative effects in the first year of transitional period³⁵. There are also opinions that unilateral implementation of the Agreement has had more serious negative effects. According to some estimates, the unilateral implementation of the Interim Trade Agreement with the EU in 2009 cost Serbia from 80 to 100 million euros. Those funds represent the difference between customs duties that could have been charged for goods imported from the EU if Serbia had not implemented the Agreement and actual revenues from customs duties that were collected from January 30th, 2009, when unilateral implementation of the Agreement started, until the end of 2009. With the unilateral implementation of the Interim Trade Agreement with the EU Serbia begun to fulfil its obligations set forth by the Stabilisation and Association Agreement, which refers primarily to phased reduction of customs tariffs for almost all products of the EU Member States (<http://www.market-srbija.com/aktuelno/potpuna-primena-prelaznog-trgovinskog-sporazuma-sa-eu>).

The implementation of the Interim Trade Agreement by Serbia will not have significant negative effects on domestic agriculture in the forthcoming years either, taking into account the gradual customs liberalisation and its selectiveness, the fact that concessions to the EU were practically in force until the year 2010 as well in the form of approved autonomous trade measures and planned possibility of replacement of protection measures in cases of too high import, which can seriously threaten economy of the party in the territory of which such import is executed. (Katic et al., 2008).

Positive effects in the form of reduction of prices of inputs for agriculture and food industry and long-term, contractually set quotas for preferential export of strategic products of Serbian agriculture will contribute to the growth of domestic agro-economy and attracting of investments into this sector during the pre-accession period. It is up to economic stakeholders in agriculture and the state, who should concentrate through joint activities on enhancing of competitiveness of agriculture, and in particular of agro-industry.

3.2.Competitiveness of Serbian agro-economy

Constant increase of productivity, in particular of competitiveness, represents the necessity of each economy during the 21st century. This should be an imperative of Serbian economy, in particular of agro-economy (Vlahovic, Tomic, Sevarlic, 2009). For example, labour and land productivity in Serbian agriculture is much lower compared to the EU Member States and much higher compared to the CEFTA Group (Table 4).

Based on the available data presented in Table 4, it can be concluded that Serbia records lower yields compared to the European Union Member States and higher compared to the CEFTA countries, with the exception of sunflower where Serbia is ahead of the above-mentioned economic groups. The reasons for lower yields, despite high genetic potential of certain plant varieties include primarily inadequate application of agro-technical measures, in particular of fertilisers, unequal quality of soil in the Republic as a whole, distimulative agrarian policy measures, and insufficient share of farming of animals in final agricultural production.

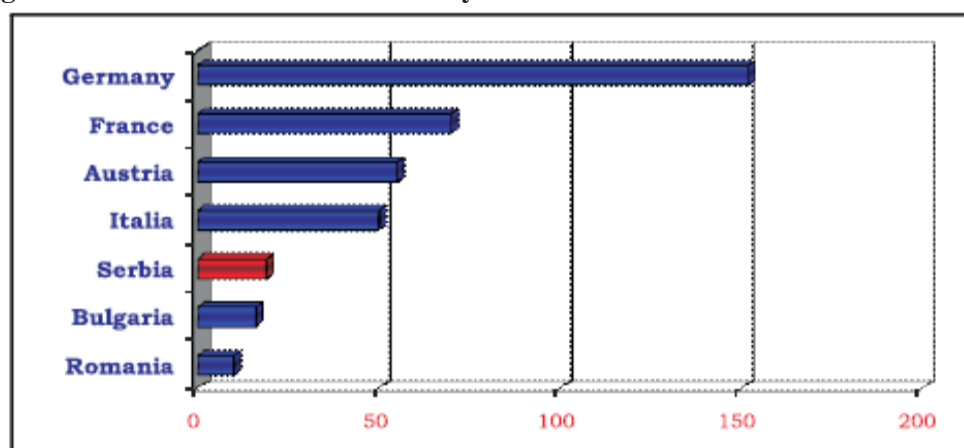
³⁵ Except for around 20 million euros, which was the loss that was expected according to the first estimates in budget based on the lost revenue from customs duties on import of agricultural produce, Agroperspective, Agricultural Newsletter No 9, 20.10.2008, <http://www.mccannpr.co.yu/upload/images/saopstenja2/AgroPerspective%20-%202020.%20Oktobar%202008..pdf>

Table 4. Average yields of field crops (2005-2008) tons per ha

Product	EU	CEFTA	Serbia
✓ <i>Wheat</i>	5,2	3,4	3,7
✓ <i>Corn</i>	6,7	4,4	4,8
✓ <i>Sunflower</i>	1,7	1,6	2,0
✓ <i>Soya beans</i>	2,6	2,3	2,5
✓ <i>Sugar beet</i>	61,9	40,0	45

Source: Authors' calculation based on FAO and national statistics

The consequence of such situation is reduced introduction of organic matters, primarily of manure, which is necessary for enhancing of fertility and richness of soil. Extensiveness of production at small privately owned agricultural holdings is a special problem. The effects of such relationship include lower yields, meaning reduced overall production of the main field crops. This explains lower productivity in field crops production compared to the EU Member States.

Histogram 1: Number of inhabitants fed by one active farmer in selected countries (2009)

Low labour productivity is also illustrated by the following data. One farmer in Serbia produces food for 18 inhabitants (2009), in Germany for 143, in France for 70, in Austria for 55, and in Italy for 53 (Histogram 1).

Reduced production results with reduces income of agricultural producers, which is expressed in particular in conditions of economic crisis. Serbia is also lagging behind the EU Member States according to meat production per hectare of arable land (Table 5), except in the case of mutton.

Table 5. Production of meat per hectare of arable land (2005-2008)

Product	EU	CEFTA	Serbia
✓ <i>Meat of bovine animals</i>	74	31	42
✓ <i>Meat of swine</i>	203	58	120
✓ <i>Poultry meat</i>	99	27	32
✓ <i>Meat of sheep</i>	9	7	9

Source: Authors' calculation based on FAO and national statistics

In addition to the above-mentioned parameters of productivity, the quality and price competitiveness is also lower, primarily in export price (Vlahovic, Tomic, Sevarlic, 2009), at the level of the state, (the share of Agrarian budget in the overall budget is low). Export incentives are low, namely they are lower than in the neighbouring countries (Vlahovic, Radojevic, Puskaric, 2008).

In relation to the above-mentioned indicators where we are lagging behind the EU Member States when it comes to yields, the analysis of export price of four strategic products (wheat, corn, sugar and edible oil) shows that Serbia has a lower export price, namely better price competitiveness than the EU Member States (Table 6). On the one hand, this indicator can be evaluated positively from the aspect of increase of export and acceptability of our price at the foreign market, in particular in crisis conditions when prices are more and more significant for consumers. This is the advantage of our producers because we are cheaper than foreign competition. On the other hand, the question arises whether such price is sufficiently motivating for producers and whether they can realise a satisfying income with such a price.

Economic entities are in unfavourable economic position and they mainly record negative financial results in the previous period. Many companies have negative liquidity or they are facing bankruptcy. Industrial, financial, and commercial capital exhaust otherwise modest surplus of value via the price scissors, high banking interest rates and trade commissions from primary agricultural production (Tomic, Sevarlic, 2009).

Table 6. Export price of selected products of the EU and Serbia (\$ per ton), 2005-2008

Products	EU	Serbia
✓ <i>Wheat</i>	182	170
✓ <i>Corn</i>	223	140
✓ <i>Sugar</i>	976	740
✓ <i>Edible sunflower oil</i>	2.650	960

Source: Authors' calculation based on FAO and national statistics

Those forms of capital have created a front (conscientiously or unconscientiously) towards agriculture and have brought it into an unfavourable economic position. This resulted with low purchase power of agriculture, and decline in demand for inputs of industrial origin, decline of production and consequently with insufficient supply of food and processing industry with raw materials. Reduction in production lead to a very low export per hectare of arable land, per capita and active agricultural producer compared to the EU Member States, and somewhat higher compared to CEFTA countries (Table 7).

Table 7. Value of export according to selected indicators (2005-2008)

	EU	CEFTA	Serbia
<i>Export per ha of arable land, \$</i>	3.157	455	358
<i>Export per capita, \$</i>	700	116	130
<i>Export per active agricultural producer \$</i>	28.176	1.957	2.230

Source: Authors' calculation based on FAO and national statistics

The share of costs of production material in the price of agricultural produce is very high (Bosnjak Danica, Rodic Vesna, 2010. Vlahovic, Tomic, Puskaric 2010.). The implementation of new knowledge in direct practice is insufficient, in particular in the case of agricultural producers. The use of knowledge in creating of agrarian and rural policy, management, marketing, legislation, etc. is also insufficient. The solution of the problem can be found in enhancing of competitiveness at the level of

knowledge, products, economic entities, and the state. It should be also enhanced in production stages (production of raw materials used in production, primary production, service sector etc.). The top class (world) knowledge needs to be integrated in the decision making process, starting from local self-government up to the state.

4. Conclusion

Processes of globalisation of economy and liberalisation of trade are getting more and more intensive in the world and European economy. Those processes have also penetrated into (agro) economy. Serbia used to be exempted from those processes for a few years. However, with creating of CEFTA Group and in particular the commencement of bilateral implementation of the Interim Trade Agreement national agro-economy is getting gradually included in the integration process.

The opinions that implementation of the Agreement is premature due to economic devastation of Serbian agro-economy are partially correct. However, excessive delay in those processes is also not good.

Export of agricultural and food products into the EU increased from 726.7 to 925.2 million dollars in the period from 2007 to 2009. The recorded surplus amounted to 366 million dollars in 2009. The results of the analysis confirm that liberalisation is a necessary step, which should be undertaken and which yields positive results. The results can be even better if they are accompanied by the policy of competitiveness enhancing.

The activities related to increase of productivity and in particular of competitiveness of our agro-economy should be undertaken in parallel with bilateral implementation of the Agreement. This implies more rational utilisation of physical, financial, and in particular of intellectual capital in this field.

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