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Challenges for the Global Agricultural Trade Regime after Doha

EFFECTS OF SAA IMPORT LIBERALIZATION ON SERBIAN AGRICULTURE

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Abstract: In the frame of EU Stabilization and Association Process, Serbia and EU signed Stabilization and Association Agreements (SAA) in 2008, with Free Trade Agreement (FTA) as one of its main parts. SAA Interim Agreement entered in the fifth year of the transitional period ending on January 1, 2014. Serbia got already (2000) non-reciprocal duty-free access to the EU market for nearly all agricultural products. In imports, Serbia committed to abolish/reduce tariffs, lowering average agricultural tariff from 22% to 2.49%. In the paper, the authors focus on the effects of SAA import liberalization and the future import trends in the key sectors of Serbian agriculture analyzing:

- structure of agricultural tariffs and import values in 2012, compared to base 2008 year, according to the different models of liberalization,
- agricultural trade flows with the EU in the period 2010-2012 compared to total agricultural trade, and some of supply chains, potentially most affected by liberalization process.

The results should provide an assessment of the agriculture adjustment level to SAA requirements and evaluation of the SAA trade creation/diversion effects.

Keywords: SAA, import liberalization, integration potentials, Serbian agriculture

INTRODUCTION

Preferential Trade Agreements (PTAs) are unilateral, bilateral or plurilateral agreements, permitted by the WTO (GATT's Art. 24) to *remove duties and other trade barriers* between contracting member countries *on substantially all trade without raising the overall level of protection on trade with non-members*.

Economic theory suggests that the welfare effects and multilateralizing potentials of PTAs are ambiguous. According to Viner (1950), removing trade barriers results in trade creation as inefficient domestic producers are replaced by efficient regional producers, but trade within barriers rises at a cost of diminished trade flows with non-members that otherwise might be more efficient producers.

If PTAs, on balance, create more trade (by allowing production to shift to the more efficient PTA producers) than they divert (by shifting trade from lower-cost non-members to higher-cost PTA members), they complement to multilateral trading system and vice versa, if trade diversion effects prevail, PTAs are considered to be trade substituting and multilateralism hindering. However, precise net results of trade creation and trade diversion are difficult to determine as well as multilateralizing potentials, which depend of the content of any particular PTA[1].

There is no doubt that multilateral trade liberalization is the best option for world market openness because of its non-discriminatory character. However, in the era of dynamic changes in international trade and WTO Doha Round delays, the PTAs emerge, not primarily as trade preferences creators[2], but as a vehicle for establishing necessary rules on deeper disciplines, beyond current WTO rules and obligations (competition policy, movement of capital, intellectual property rights not in the TRIPs Agreement, investment, consumer protection, etc.). Consequently, deep PTAs might be seen as *the real threat to the WTO's centrality* (Baldwin, 2011) as well as *laboratories for multilateral agreements* (Zahrnt, 2005).

[1] It should bear in mind the opinion that PTAs, particularly the ones between larger trading partners, could boost multilateral activity through competitive liberalization that serve as a prod for non-members to liberalize (Ahearn, 2011). PTAs also increase members' competitiveness and regional trade volumes, which leads to an increase in total trade volumes as demand rises (Steinberg, 2002, Durani, 2011).

[2] The share of world trade covered by PTAs is estimated to be around 50% (Heydon, Woolcock, 2009). Only 16% is eligible for preferences, less than 2% enjoy preferences of 10% and more and less than 0.5% of trade has preferences above 20 % (Carpenter, Lendl, 2010). The major nations set tariffs to zero on between a third and half of their imports and exclude items with high tariffs, like agricultural products, from PTAs (Baldwin, 2011).

According to WTO database, by July 2005, 330 preferential trade agreements (PTAs) had been notified to the WTO of which 206 after WTO was created in January 1995 and several others are believed to be operational although not yet notified. Pascal Lamy, Director-General of WTO, finds *proliferation* of PTAs in recent decades, not PTAs per se, as a breeding concern related to possible incoherence, confusion, unnecessary business costs, instability and unpredictability in trade relation.

PTAs proliferation has created a *spaghetti bowl of criss-crossing arrangements with potentially distorting side effects* (Baldwin, Low, 2009) of which Baldwin accentuate higher trade costs because of *rule of origin story* (Baldwin, 2006). EU practice in relaxing rules of origin using instrument of *cumulation*, based on a set of shared Free Trade Agreements (FTAs) with identical rules of origin, has proved effective in rendering down a spaghetti bowl into more integrated and less discriminatory set of trade arrangements (Gasiorek et al., 2009). European Union, which is a PTA itself, has developed the largest network of PTAs in the world[3], different in the scope and motivation.

In the frame of *Stabilization and Association Process* (SAP), EU signed *Stabilization and Association Agreements* (SAAs) with the Western Balkan countries as a candidate and potential candidate for EU membership. FTA is an important part of this agreement and it place particular emphasis on liberalizing trade in goods, aligning rules with EU *aquis communitaire* and protecting intellectual property rights. There are opinions that the EU FTAs, especially those with small markets do not contribute sufficiently to the liberalization of the world market and the successful conclusion of the Doha round (Ahearn, 2011). Nevertheless, they certainly provide increased competitiveness of these markets and the much-needed political stability in the middle of Europe.

New generation of EU FTAs, which are negotiated 2007 onwards, are more ambitious and comprehensive in scope as a result of pressures to insert a number of WTO-extra provisions, such as competition and investment policy[4].

Serbia and EU signed ***Stabilization and Association Agreement*** (SAA) in 2008, with FTA as one of its main parts. SAA place particular emphasis on liberalizing trade in goods, aligning rules with EU practices (technical barriers to trade,

[3] In 2009, the EU trades with only 10 WTO members where the most-favored-nation (MFN) regime applies (Australia, Canada, Chinese Taipei, Hong Kong, China, Japan, Republic of Korea, New Zealand, USA and Singapore), but these countries accounted for 43.9% of the EU's total merchandise imports in 2009 (Ahearn, 2011).

[4] The EU-South Korea FTAs entered into force in 2011as the first completed agreement in a new generation of FTAs. The Agreement eliminates tariffs for industrial and for nearly all trade in agriculture in a gradual and progressive approach, addresses non-tariff barriers to trade and includes provisions on issues ranging from services and investments, competition, government procurement, intellectual property rights, and transparency in regulation to sustainable development, http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/.

competition policy, consumer protection, etc.) and protecting intellectual property rights. SAA Interim Agreement entered in the fifth year of the transitional period ending on January 1, 2014. Serbia got non-reciprocal duty-free access to the EU market in 2000, for nearly all agricultural products. High EU quality standards, veterinary and hygiene requirements and food safety and environmental standards as well as complex procedures of import from third countries have hampered the fully use of these advantages.

In imports, Serbia committed to abolish/reduced tariffs, lowering average agricultural tariff from 22% to 2.49% (SEEDEV, 2011). The Republic of Serbia has concluded a number of other FTAs[5] (with the CEFTA countries, Belarus, Turkey, EFTA countries, Kazakhstan, and the Russian Federation), which push the existing trade relations between the Contracting Parties and create the additional conditions for free trade through a system of cumulation of origin. The most liberal approach is to Belarus, with the average TE of 0.96%. The average TE for imports from Turkey is 16.65%.

Serbia also signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin in 2012, seeking to take advantage of the cumulation system for agricultural and food export expansion and deeper integration with the countries of the region, the EU and the Mediterranean. Serbia has applied for admission to the WTO in 2004. Bilateral tariff negotiations are ongoing, in addition to regular meetings of the working group on WTO accession of the Republic of Serbia. The European Commission supports the accession of Serbia to the WTO (WTO, 2009).

1. DATA SOURCES AND METHODOLOGY

In the paper, the authors studied effects of SAA import liberalization and the future import trends in the key sectors of Serbian agriculture, analyzing:

- the structure of agricultural tariffs and import values from the EU in 2012, compared to base 2008 year at the 12-digit level tariff lines grouped under SITC, rev. 4 divisions according to the models of liberalization, and
- agricultural trade flows from the EU in the period 2010-2012 compared to total agricultural trade, including SWOT analysis of some of supply chains, potentially most affected by liberalization process.

Data are obtained from the Statistical Office of the Republic of Serbia (SORS)[6] and the Ministry of Agriculture, Forestry and Water Management (MAFWM). In addition, a number of scientific papers, project results and national legislation acts is analyzed and quoted.

[5] Foreign trade with the USA is largely carried out under the General System of Preferences granted to Serbia in 2005.

[6] Revised data, according to SORS *Revision policy*, starting from mid-July 2012. More info on http://webrzs.stat. gov.rs /WebSite/Public/PageView.aspx?pKey=215.

2. RESEARCH RESULTS AND DISCUSSION

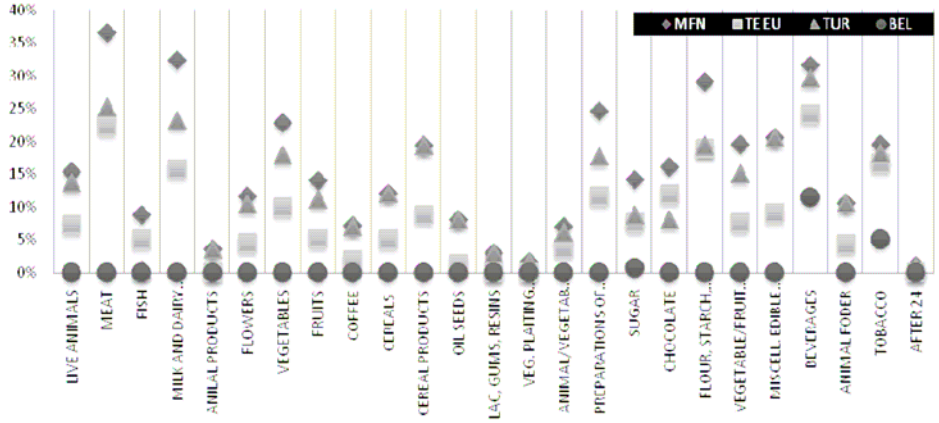
2.1. Tariff structure and protection levels

In addition to the **ad valorem tariff rates**, Serbian tariff structure includes a **specific duty** on a total of 453 tariff items, mainly on imports of live animals, meat and meat products and preparations (271), milk and dairy products and preparations (84), and fruits and vegetables (41) (*Official Gazette of RS, 121/2012*).

The 54 tariff items have **seasonal duty** on imports (cut flowers and some fresh fruits and vegetables) (*Official Gazette of RS, 27/2010, 97/2011*). Specific duty and seasonal tariff levels on import of products originating in the EU are reduced, eliminated or retained in accordance with the timetable indicated in the Interim Trade Agreement.

For the purpose of protecting the domestic market Republic of Serbia has signed different bilateral and multilateral agreements with different levels of liberalization. Most actual agreements are presented in figure 1 (WTO, EU, Turkey and Belarus). Republic of Serbia has the most liberal agreement with Belarus, where the average TE in 2010 was 0.96%. According to the data in the figure, the average TE with EU was 9.8%, going towards 2.49%. TE for the products from Turkey was 16.65% and for MFN, or the countries with which Serbia has no agreements was 18.81% (SEEDEV, 2010). The average tariff rate for agricultural products in 2012, for the third countries without signed agreements on free trade, was 17.1%, and 5.32% to the EU (SEIO, 2012).

Figure 1: Tariff equivalents for agricultural product groups in different trade agreements



Source: SEEDEV, 2010.

2.2. Foreign trade in agricultural and food products

Foreign trade in the sector of agricultural and food products of Serbia is continuously increasing over the past decade, with continuous and growing surplus since 2005 onwards. The share of agriculture in total exports has been increasing, and in 2012 reached 23.9%. The share of imports in 2012 also increased and amounted to 7.8% (Table 1).

Table 1: Share of food and agriculture in total external trade of Serbia, 2010-2012. (EUR, mill.)

	Exports			Imports			Balance		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Total external trade	7,393.4	8,441.4	8,836.7	12,622.0	14,250.0	14,782.3	-5,228.6	-5,808.6	-5,945.6
Food and agriculture	1,688.2	1,936.7	2,115.8	907.7	1,009.6	1,160.0	780.5	927.1	955.8
0 - Food and live animals	1,331.2	1,503.3	1,642.0	662.2	757.9	854.9	669.0	745.4	787.1
1 - Beverages and tobacco	175.7	196.0	223.3	129.5	142.3	144.3	46.2	53.7	79.0
2 - Crude materials, inedible (21, 22, 29)	72.1	93.5	98.3	85.7	77.2	121.1	-13.6	16.3	-22.8
4 - Animal and vegetable oils, fats and waxes	109.2	143.9	152.2	30.3	32.2	39.7	78.9	111.7	112.5
Food and agriculture in total external trade (%)	**22.8**	**22.9**	**23.9**	**7.2**	**7.1**	**7.8**			

Source: SORS, 2012, 2013a.

Serbia is realizing trade of agricultural and food products with nearly 130 countries of the world, but about half of total exports[7], and half of total imports it realizes with partners from EU countries.

2.3. Exports of agricultural and food products to the EU

2.3.1. EU concession to Serbian agricultural and food exporters

As mentioned earlier, starting from year 2000, Serbia got non-reciprocal duty-free access to the EU market for nearly all agricultural products.
With the entry into force of the Interim Agreement, ***free trade regime for most of the agricultural and processed food products***, originating in Serbia, is

[7] The CEFTA countries absorbed slightly more than 40% of agricultural exports of Serbia, and the remainder (less than 10%) is directed to the markets of other countries. By value of exports, most important partners of Serbia are Bosnia and Herzegovina, Montenegro, Macedonia, Germany, Austria, Italy, Hungary, Russian Federation, France and Greece (Jeftić et al., 2011).

contractually guaranteed ***as well as preferential imports*** into the Community of the following product groups:

- *"baby beef" products* (preferential custom duties within the limit of an annual tariff quota of 8 700 tonnes expressed in carcass weight);
- *sugar* (duty-free access on imports within the limit of an annual tariff quota of 180 000 tonnes);
- *fruits and vegetables* (elimination of ad valorem part of the duty);
- *fish and fishery products* (duty-free access on imports within the limit of an annual tariff quota of 15 tonnes for trout and 60 tonnes for carp and reduced ex-quota duties for these products and for prepared or preserved fish of HS subheading 1604); and
- *wine* (zero-duty within the annual tariff quotas of 53,000 hl for quality sparkling wine and wine of fresh grapes in containers of 2 litres or less, and of 10,000 hl for wine of fresh grapes in containers of more than 2 litres).

2.3.2. The structure and trends in export of agricultural and food products to the EU

Trade substituting /complementing behavior, due to PTA functioning, can be reflected to a certain extent in the trends in intra-regional versus extra-regional trade (intra-regional trade grows faster / either shrink or remain the same, respectively, in relation to extra-regional trade) [8] (Durani, 2011).

Due primarily to the concessions above as well as to increase in competitiveness, including some (but still insufficient) progress in the harmonization of quality standards and food safety with the requirements of EU, exports of agricultural and food products to EU over the last decade has continued to grow (Katić, Popović, 2007; Tomić et al., 2010), reaching 1,086 million euro in 2012 (51.3% of total exports of agricultural and food products).

On the SITC (Rev.4) division level, the EU share in total exports of agricultural and food products in 2012 was highest in ***sugar*** (90.4%), ***cereals*** (67.3%) ***and fruits and vegetables*** (63.4%) (Table 2). These divisions also include tariff line with the highest value of exports to the EU in 2012: *maize, other than seed* (364.5 million euro), *sugar, white, in solid form* (122.9 million euro), *frozen raspberries* (89.9 million euro) and *sour cherries (Prunus cerasus), frozen, no sugar* (36.0 million euro). More than 30 million euro was also the export value of *crude soybean oil* (36.0 million euro) and of *edible sunflower oil* (30.3 million euro). Exports of products on these six tariff lines accounted for 62.6% of total exports to the EU in 2012, which indicates a lack of export diversification and insufficient share of products of higher processing stages.

[8] A considerable discrepancy between preferential and world tarif rates is also an indicator of country's substituting behavior and vice versa (Durani, 2011).

Table 2: The EU's share in total export of food and agricultural products of Serbia, 2010-2012. (EUR, mill.)

SITC sections and divisions	Total export			Export to the EU			EU's share (%)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Total	1,688.2	1,936.7	2,115.8	813.4	966.4	1,086.2	48.2	49.9	51.3
0-Food and live animals	1,331.2	1,503.3	1,642.0	675.5	789.6	907.7	50.7	52.5	55.3
00-Live animals other than in Division 03	50.3	53.0	46.2	0.1	0.3	0.4	0.2	0.6	0.9
01-Meat and meat preparations	45.1	42.0	49.7	5.0	4.0	3.4	11.1	9.5	6.8
02-Dairy products and birds' eggs	52.6	64.7	73.6	0.4	0.6	2.9	0.8	0.9	3.9
03-Fish, crustaceans, molluscs and preparations thereof	3.3	3.2	3.2	0.1	0.1	0.1	3.0	3.1	3.1
04-Cereals and cereal preparations	435.0	526.9	651.8	260.9	314.0	438.8	60.0	59.6	67.3
05-Vegetables and fruit	398.0	471.9	421.4	255.4	299.6	267.0	64.2	63.5	63.4
06-Sugars, sugar preparations and honey	162.3	135.5	151.8	107.9	117.5	137.2	66.5	86.7	90.4
07-Coffee, tea, cocoa, spices, and manufactures thereof	63.2	61.1	60.5	10.8	10.1	9.0	17.1	16.5	14.9
08-Feeding stuff for animals (no unmilled cereals)	55.7	73.4	103.1	20.4	28.8	30.4	36.6	39.2	29.5
09-Miscellaneous edible products and preparation	65.8	71.5	80.6	14.2	14.6	18.7	21.6	20.4	23.2
1-Beverages and tobacco	175.7	196.0	223.3	32.0	38.6	54.0	18.2	19.7	24.2
11-Beverages	134.1	153.5	166.5	11.9	18.3	28.3	8.9	11.9	17.0
12-Tobacco and tobacco manufactures	41.6	42.4	56.8	20.0	20.3	25.7	48.1	47.9	45.2
2-Crude materials, inedible, except fuels	72.1	93.5	98.3	34.8	50.5	48.3	48.3	54.0	49.1
21-Hides, skins, and furskins, raw	21.3	26.2	30.0	9.6	9.2	9.9	45.1	35.1	33.0
22-Oil-seeds and oleaginous fruits	31.0	43.6	45.2	18.5	33.2	28.2	59.7	76.1	62.4
29-Crude animal and vegetable materials, n.e.s.	19.8	23.7	23.1	6.7	8.2	10.1	33.8	34.6	43.7
4-Animal and vegetable oils, fats and waxes	109.2	143.9	152.2	71.1	87.7	76.2	65.1	60.9	50.1
41-Animal oils and fats	1.2	2.4	2.4	0.4	1.4	1.4	33.3	58.3	58.3
42-Fixed vegetable fats and oils, crude, refined	104.4	135.4	143.3	70.5	86.2	74.5	67.5	63.7	52.0
43-Animal or vegetable fats and oils, processed	3.5	6.1	6.5	0.2	0.1	0.3	5.7	1.6	4.6

Source: SORS, 2012, 2013a, 2013b

When it comes to the level of utilization of **export quotas**, multiple overfulfilments of the quotas for wine, especially quota for export of quality wines in containers holding 2 liters or less is encouraging. Sugar quota was used in 2012 with 93.2%, but it remains a concern over the ***symbolic use of quota for baby beef*** (7.3% in 2012)[9] (SORS, 2013b).

Serbia has significant potential and experience in beef production but, in general, unorganized beef supply chains and problems in meeting veterinary and hygiene requirements and food safety standards (Box 1).

Box 1: Beef meat supply chain – SWOT analysis

Strengths:	**Weaknesses:**
– availability of high quality fodder from domestic production, – good genetic potentials, well adapted to growing conditions and long tradition in cattle breeding, – large number of empty stables for cattle breeding, – integrated livestock - crop productions in the most small and medium-sized farms in Central Serbia, – large areas of pasture in the hilly-mountain regions suitable for grass-fed (incl. organic) beef production, – a few of large agricultural companies/retailers developed vertical, high competitive supply chains, – competitiveness per price and quality in the region.	– decrease in the number of cattle in the past decade, – small-scale production on a large number of not associated small and medium-sized family farms, – low investment potentials of family farms, – production and price variability due to underdeveloped distribution channels and the existence of gray markets, – small number of slaughterhouses meet the requirements for export beef meat to the EU, the Arab countries and the U.S markets, – lack of systemic control of food safety, hygiene and environmental standards along supply chain.
Opportunities:	**Threats:**
– accelerating the process of restructuring and increase of competitiveness in beef production as a result of the liberalization process, – successful realization of the expected foreign direct investment in agriculture, – preferential import into the EU of baby beef within the limit of an annual tariff quota of 8,700 tonnes expressed in carcass weight, – improved access to the markets of CEFTA after Croatia's EU accession, – return to the market of near eastern countries.	– reduced availability of fodder due to extreme weather events caused by climate change, – macroeconomic instability, which reduces the access to loans and subsidies, – imports of frozen beef for processing from Brazil, Argentina and the U.S., after WTO accession, – imports of high quality beef meat from EU countries, driven by trade liberalization and the increase in domestic consumption, – all new member states, except Poland, registered a decline of beef production after EU accession.

It is expected that increased competition caused by the import liberalization will have positive long-term impacts on restructuring the sector and improving production and processing in this sector.

[9] Exported quantities of baby beef were even reduced during the transition period (from 1,777.3 t. in 2008 to 984.3 t in 2009; then there was a slight increase in 2010 to 1,121.6 t but it is followed by a decline in 2011 to 784 t and only 636.9 t in 2012 (SORS, 2013b).

2.4. Imports of agricultural and food products from the EU

2.4.1. Models of liberalization

Signing of the Stabilization and Association Agreement, Serbia accepted the obligation of progressive reduction/elimination of **customs duties (ad valorem and/or specific duties)** and **elimination or retention of seasonal duty** for the majority of agricultural (Annex III) and processed agricultural products (Annex II of Protocol 1), originating from the EU. Annex IV defines the Serbian concessions on fish and fishery products originating in the EU and Annex I of Protocol 2 of the quota for duty-free import of wine in certain tariff lines. Outside the annexes and protocols with concessions remained: tobacco; sugar; isoglucose with the content of fructose over 50% and invert sugar; and edible sunflower oil. The structure of agricultural and food imports in 2012 compared to that of 2008, classified within the Annexes and Protocols as defined in Interim Trade Agreement, is presented in *Table 3*, and explained with more details in the following subheadings.

Table 3: Imports of agricultural and food products from the EU, classified within the Annexes and Protocols of EU-Serbia Interim Trade Agreement (Serbian concessions)

	2008		2012		2012/2008 (%)
	EUR, 000	%	EUR, 000	%	
AGRICULTURAL PRODUCTS:					
Annex III (a)	80,364.5	26.6	158,286.6	27.2	197.0
Annex III (b)	74,103.2	24.5	109,990.9	18.9	148.4
Annex III (c)	3,220.9	1.1	6,141.9	1.1	190.7
Annex III (d)	23,509.1	7.8	59,266.1	10.2	252.1
FISH AND FISHERY PRODUCTS:					
Annex V	8,705.5	2.9	12,896.7	2.2	148.1
Products other than those listed in Annex V	3,468.5	1.1	5,554.1	1.0	160.1
PROCESSED AGRICULTURAL PRODUCTS:					
Annex II of PROTOCOL 1:					
Duty-free imports from the date of entry into force of the Agreement	19,923.5	6.6	45,987.4	7.9	230.8
Customs duties to zero-level in the fourth year of the transition period	6,875.6	2.3	9,734.7	1,7	141.6
Customs duties to zero-level by the end of the transitional period	59,110.3	19.6	112,204.4	19.3	189.8
Progressive reductions in customs duties to a certain level by the end of the transitional period	13,662.7	4.5	11,585.0	2.0	84.8
WINE:					
Annex I of PROTOCOL 2– zero-duty within the tariff quotas	1,650.5	0.5	4,742.5	0,8	287.3
Products other than those listed in Annex I (MFN tariff rates 30%)	253.9	0.1	73.7	0,0	29.0
Products other than those listed above – exempted from concessions	7,006.1	2.3	45,758.2	7.9	653.1
Total imports of food and agriculture	301,854.2	100.0	582,222.2	100.0	192.9

Source: Authors' calculations based on data of SORS, 2013b.

Import liberalization from the date of entry into force of the Agreement

From the date of entry into force of the Agreement (2009), Serbia ***abolished customs duties*** on imports of:

- *agricultural products originating in the EU listed in Annex III (a)*. The average tariff protection level for products of this Annex was about 9.5%.[10] These are mostly **less sensitive** products, not produced in the country or produced in insufficient quantities. There were also a smaller number of products, with the highest ad valorem tariffs and specific duties (some pig meat categories, cheeses, preparations of animals' liver and blood, etc.);
- *fish and fishery products other than those listed in Annex V* (where the items for the gradual liberalization are listed). Tariffs for these fishery products were below 10%;
- *certain processed agricultural products listed in Annex II of Protocol 1* (baby food for retail sale, peanut butter, soy sauce, etc.). The average tariff protection for these products was about 12%;
- *quality sparkling wine and wine of fresh grapes within tariff quota of 25 000 hl*, as set out in Annex 1 to Protocol II (*Official Gazette of the Republic of Serbia, 83/2008*). For out-of-quota quantities, MFN tariff rate of 30% is applied.

According to external trade statistics (SORS, 2013b), the value of imports from the EU within annexes mentioned above in 2009 amounted to 105.5 million euro (36.9% of total agricultural and food imports). The value of imports within Annex III (a) was 76.6 million euro, fishery out of Annex V 3.1 million euro, Annex II of Protocol 123.2 million euro and Annex I of Protocol 2, 2.5 million euro.

A year earlier, prior to the entry into force of the Agreement, the import amounted to 105.4 million euro (34.9% of total agricultural and food imports): Annex III (a) 80.4 million euro, fishery out of Annex V 3.5 million euro, Annex II of Protocol 119.9 million euro, and Annex I of Protocol 2, 1.6 million euro.
Although there are mostly products of lower price elasticity, this result in liberalized import can be attributed largely to 2008 economic crisis. This is confirmed by the data on imports of these products in 2012, when a total of 214.6 million euro was realized (but with the same share of 36.9% in total agricultural and food imports).

Import of **Annex III (a) products** in 2012 amounted to 158.3 million euro. Fruit and vegetables had the largest share of this amount (26.6%), but it is significantly smaller compared to that of 2008 (41.1%) and 2009 (44.6%), mainly due to rising import of fodder caused by 2012 drought.

[10] Tariff Equivalents level in 2008, according to Prostran, Mirković, (2008).

Tariff items with the highest values of import in 2012 were soya beans, whether or not broken, sweet oranges, fresh, raw hides and skins of bovine animals, and palm oil. There has also been a growth in the share of imported breeding heifers, glucose and glucose syrup, orange juices, unroasted coffee, food for dogs and cats, etc.

The duty-free imports of **fish and fishery products** amounted to 5.6 million euro and thereby increasing import of fish of lower price categories, such as hake and sprat on account of other sea fish.

Imports of **processed agricultural products**, which customs duties were abolished in 2009, amounted to 46 million euro. More than half of this amount came from SITC division 07 *Coffee, tea, cocoa, spices, and manufactures thereof* (32.4% in 2008), with the highest growth of imports registered in preparations based on extracts, essences and concentrates of coffee and cocoa paste, cocoa butter and cocoa powder. It is followed by division 09 - *Miscellaneous edible products and preparations* (28.9% of import of the Annex compared to 41.7% in 2008) where imports of baby food and mixed condiments for processing industry dominated.

Imports of **quality sparkling wine and wine of fresh grapes** in the 2008-2012 did not exceed the tariff quota -zero-duty wine import in 2012 amounted to 17,802 hl (71.2% of the wine quota), in value of 4.7 million euro.

Progressive liberalization to zero-duty by the end of transition period[11]

One more group of **processed agricultural products** listed in Annex II of Protocol 1 (white chocolate; baker's yeast, active, other; soups and broths and preparation thereof, dried; beer made from malt in bottles; and Scotch whisky, malt, blended), came from the EU to Serbian market *with zero-duties in 2012*, after progressive reduction of customs duties. The average tariff protection on these tariff items was about 34.5%, and import value in 2012 amounted to 9.7 million euro (compared to 6.9 million euro in 2008). The share of imports in white chocolate, yeast, soups and broths, and whiskey increased, while the import of beer fell compared to 2008.

In total, the duty-free import of agricultural and food products in 2012 amounted to 224.3 million euro (38.5% of total agricultural and food import), compared to 112.3 million euro (37.2 %) in 2008.

[11] For imports of fishery products within the Annex V and processed agricultural products covered by progressive reduction of customs duties within Annex II of Protocol 1, zero-duty has been in force starting from 01 January 2013.

From the date of entry into force of the Agreement Serbia has also committed to:

- ***abolish progressively the customs duties*** *(ad valorem and/or specific duties)*, and ***eliminate immidiately a seasonal duty*** on imports of agricultural products originating in the EU and listed in *Annex III (b)*. These are **less sensitive** meat and dairy products; vegetables and fruits, fresh and preserved; coffee, roasted; seed maize and sugar beet seed, barley, durum wheat; fruit and flower seedlings and cut flowers; oilcake and other solid residues and preparation used in animal feeding;

- ***abolish progressively the customs duties*** on imports of certain processed agricultural products listed in *Annex II of Protocol 1*, and fish and fishery products, listed in *Annex V* of the Agreement.[12] Within this liberalization model are **some more sensitive** processed agricultural products (yogurt; ice cream; pasta; chocolate and other cocoa preparations; cereal flakes; sweet bisquits; gum and mint without sugar; mineral waters, etc.) as well as fishery products – **less sensitive** (fish, fresh or chilled, such as pacific salmon, mackerel, etc., prepared or preserved fish and crustaceans, molluscs and other aquatic invertebrates) and **more sensitive** (trout);

- ***abolish progressively the customs duties*** and ***keep a seasonal duty during and after transitional period*** applicable on imports of **highly sensitive** fresh fruit (grapes, apples, cherries, plums and strawberries) originating in the EU and listed in *Annex III (c)*[13]

The average tariff protection for products of the Annex III (b) was about 22%, for processed products of Annex II of Protocol 1 about 31.7% and for products of the Annex III (c) about 48%. Customs duties for fishery products were below 15%, except for trout (30%). In 2012 customs duties were of 20% to 70% of the initial level for the products of Annex III (b); between 10% and 50% for the processed agricultural products; 20% for fishery products; and between 30% and 40% for fresh fruit.

The value of imports within the **Annex III (b)** in 2012 was 89.1 million euro (in 2008 74.1 million euro). The largest shares in this amount have divisions of vegetables and fruit (23.9%), feeding stuff for animals (17.1%) and cereals and cereal preparations (15.5%). In 2008, the shares and ranking were slightly different: vegetables and fruit had the share of 27.3%, followed by crude animal

[12] Except carp, live and pasta stuffed with fish, crustaceans, molluscs or other aquatic invertebrates for which the initial customs duties are reduced and will be retained at the level of 60% (carp) and 15% (stuffed pasta).
[13] Within Annex III (c) also are tomatoes, fresh or chilled, and sweet peppers for which the custom duties are redused and will be retained at the level of 20% (tomato) and 30% (sweet peppers), with seasonal duty of 20%.

and vegetable materials (21.1%) and feeding stuff for animals (15.7%). The tariff items with the highest values of import in 2012 were:

- seed maize (with customs duties in 2012 of 40% of the initial level),
- solid residues of soya-bean oil, other than oilcakes (40%),
- sugar beet seed (20%),
- food preparations based on meat, meat offal or blood (40%),
- coffee, roasted (40%).

Imports of these products increased compared to 2008 (except of food preparations based on meat, meat offal or blood), especially imports of seed maize.

Imports of **processed products** that are subject to progressive liberalization to zero customs duties at the end of the transition period, in 2012 were 112.2 million euro (nearly twice as much as in 2008). Over 42% of imports came from division 09 *Miscellaneous edible products and preparations*, but its share declined compared to 2008, when it was 48.3%, in favor of the divisions: 04 *Cereals and cereal preparations* (19.9% in 2012 compared to 16.3% in 2008) and 07 *Coffee, tea, cocoa, spices, and manufactures thereof* (17.4% in 2012 and 14.2 in 2008). Within these divisions were tariff items with the highest value of imports and the level of protection in 2012 of 10-20% of MFN:

- food preparations not specified elsewhere, non-alcoholic preparations used in beverage industry, food preparations of flour, groats and starch, and chewing gums and mints without sugar (09),
- other bakers' wares with added sweetening matter (04),
- chocolade containing cocoa in blocks, slabs or bars, filled (07).

Imports of **fish and fishery products within the Annex V** in 2012 amounted to 12.9 million euro (8.7 million euro in 2008). Only two tariff items have the value of imports of more than a million euro in 2008: canned fish of genus Euthynnus, and tunas and skipjack canned in vegetable oil.

Four years later in front of them by the value of imports were: other fish, canned, frozen fillets of other freshwater fish, and mackerel of genus Scomber, frozen. Import of highly sensitive trout (20% of MFN in 2012) was less than 10,000 euro.

Imports of **fresh fruit within the Annex III (c)**, in 2012 amounted to 3.8 million euro (1.7 million euro in 2008). The largest increase was registered in imports of strawberries and apples (both items in 2012 have customs duties of 40% of the initial level and seasonal duty of 20%), while imports of grapes, plums and cherries decreased.

In total, imports of products within the progressive liberalization to zero-duty by the end of transition period model, in 2012 amounted to 238.9 million euro (41.0 % of total agricultural and food import in 2012), compared to 143.6 million euro (47.6 %) in 2008.

Progressive liberalization of customs duties to certain level to the end and after transitional period

Customs duties *(ad valorem and/or specific duties)* for highly sensitive agricultural products, originating in the Community and listed in Annex III (d)[14] and certain processed agricultural products (Annex II to Protocol 1) were ***reduced significantly slower and will not be eliminated*** after 1 January 2014. They will remain in the levels of 20% - 80% of the initial level (agricultural products) and of 20% - 100% of MFN (processed agricultural products) to the entry of Serbia into the EU[15].

Annex III (d) includes **highly sensitive agricultural products**:

- live animals for rearing and slaughter, and meat of bovine animals, swine, sheep, goats and poultry,
- milk in powder, yogurt, butter, dairy spreads, some cheeses, eggs and natural honey,
- roses grafted or not; vegetables otherwise produced in the country; dried prunes,
- wheat and flour of wheat, maize and flour, grouts and pellets of maize,
- soya-bean oil,
- sausages and other prepared or preserved meat,
- pasta stuffed with meat, jams, fruit jellies, marmalades, and cherries preserved without added spirit and sugar,
- juices of tomato, grapes, apples, pears, cherries and their mixtures; cider and perry,
- wine vinegar.

[14] Including tomatoes and sweet pepers, fresh or chilled of Annex III (c) and live carp of Annex V (fishery products). Imports of tomatoes (40% of the initial custom duties + seasonal duty of 20% in 2012) and sweet pepers (50% of the initial customs duties + seasonal duty of 20%) amounted to 2.3 million euro in 2012, compared to 1.5 million euro in 2008. There was no import of carp, live (65% of MFN in 2012) and pasta stuffed with fish products (20%) in 2012.

[15] The seasonal duty (20 %) was eliminated on the date of entry into force of this Agreement.

The average tariff protection for products of the Annex III (d) was about 35.6%. Most of these tariff items have specific duty and a few of them had a seasonal duty, in addition to ad valorem tariff. As the most protected are:

- maize, other than seed (80% of the initial tariff level at the end of the transitional period),
- cherries preserved without added spirit and sugar (80%),
- domestic species of swine live, weighing less than 50 kg (65%),
- maize flour (65%), and
- common wheat and spelt flour (65%).

Imports of products covered by **Annex III (d)** in 2012 amounted to 59.3 million euro, compared to 23.5 million euro in 2008. Most of these imports in 2008 came from division 02 *Dairy products and birds' eggs* (39.9%), followed by 01 *Meat and meat preparations* (30.5%) and 05 *Vegetables and fruit* (21.8%).
Due to very dynamic growth of swine meat imports in recent years, this order was changed in 2012 in favor of division 01, whose share in 2012 amounted to 48.1% while the share of dairy products fell to 28.3%, and vegetables and fruits to 13.1%.

Imports of meat of swine, fresh, chilled or frozen, amounted to 6 million euro in 2008, reached a value of 23.9 million euro in 2012. On the tariff item level a leading was meat of domestic swine, other, boneless, frozen, with the value of 17.3 million euro and the customs duties of 60% of the initial level in 2012 (30% in 2014 and in the following years). The following items according to import value level are:

- one of *milk and cream, concentrated, in solid form, without added sugar* category (4.2 million euro, the customs duties of 80% in 2012 and the final level of duty of 45%) and
- *butter of fat content not exceeding 85%, other* (3.4 million euro, the customs duties of 60% and final duty of 40%),
- *apple juice* was a leading among fruit products (1.7 million euro, the duties of 60% and final duty of 40%), and early potatoes and cucumbers, fresh or chilled (nearly one million euro, each, and the customs duties of 40% and final duty of 20%) among vegetables, in fruit and vegetables division.

Group of highly sensitive **processed agricultural products** covered by this model of liberalization had an average tariff protection level of about 37% and include products with final customs duties as follows:

- certain fermented or acidified milk and cream products, flavoured or containing added fruit, nuts or cocoa, and dairy spreads (40% of MFN),
- sweetcorn (30%),
- margarine with milkfat content of 10%-15% (40%),
- some sugar confectionery not containing cocoa (40%),
- ethyl alcohol, undenatured, of an alcoholic strength of 80% vol or higher (40%), or less than 80% (20%), and denatured (40%),
- plum, pear and cherry spirit and other spirit distilled from fruit (30%),
- some cigarettes containing tobacco, smoking, "homogenised" or "reconstituted" or some other form of tobacco (100%).

Imports of these products in 2008 amounted to 13.7 million euro. Nearly 90% of this amount consisted of tobacco and tobacco manufactures from division 12, with cigarettes containing tobacco as a leading tariff item (11.9 million euro). In 2012, total import was 11.6 million euro - from division 12 came the same percent of imports, but in the leading position was tariff item *Tobacco extracts and essences, and tobacco substitutes* (6.3 million euro) while the value of import of cigarettes containing tobacco declined to 2.6 million euro.

In total, imports of products within the progressive liberalization to certain level to the end and after transitional period in 2012 amounted to 73.2 million euro (12.6% of total agricultural and food import), compared to 38.7 million euro (12.8% of total agricultural and food import) in 2008.

Products exempted from the concessions

The imports on following tariff items are excluded from the concessions under the Interim Agreement:

- *unmanufactured tobacco and tobacco refuse* (heading 2401) that are protected with ad valorem
- duty of 10% while light air-cured tobacco, not stemmed/stripped and partly or wholly stemmed/stripped (ex Burley type) is also provided with special duty;[16]

[16] Special duty on import of flue-cured tobacco, not stemmed/stripped and partly or wholly stemmed/stripped (ex Virginia type) from the EU was abolished in 2005 (*Official Gazette of the Republic of Serbia, no 72/2005*).

- *sugar from the headings 1701 and 1702* which retains the existing customs duties as follows: raw cane or beet sugar and white sugar ad valorem duty of 20% and a special duty of 12 dinars/kg, refined and other cane or beet sugar ad valorem duty of 20%, isoglucose with fructose content of more than 50 % ad valorem duty of 3% and other sugar ad valorem duty of 5%;
- *sunflower-seed or safflower oil* (retains ad valorem duty of 30%), and
- *wine out of concessions* (2204 29) and *out-of quota* (sub-headings 2204 10, 2204 21), which also is protected with ad valorem duty of 30%.

Imports of these products in 2012 amounted to 45.8 million euro (7,9% of total agricultural and food import), compared to 7.3 million euro (2.4% of total agricultural and food import) in 2008.

Imports of *isoglucose* with fructose content of more than 50 % and *other sugar* (1702) accounted for 67% of non-concession imports in 2008 (total import of heading 1701 and 1702 had a share of 72.2%), imports of unmanufactured tobacco 24.3% and import of wine 3.5%. In 2009, imports of sugar and tobacco increased significantly, but the shares were completely reversed – 70.3% of import values came from heading 2401 (tobacco),[17] 28.5% from headings 1701 and 1702 (28.2% from 1702), the share of wine import was 0.2% and of edible sunflower-seed oil 1%.

2.4.2. Liberalization results - summary

Based on the results of analysis above, the following observations and considerations related to import structure and trends can be derived.

Duty-free imports of agricultural and processed agricultural products in 2012 doubled compared to 2008, but retained almost the same share in total imports. However, imported products, such as:

- breeding animals and feeding staff for animals (particularly in drought conditions), fruit, oils and sea fish not produced in the country,
- cocoa paste, butter and powder and preparations with a basis of extracts, essences or concentrates of coffee which has no substitutes,
- baby food that has to be imported without duties, and
- condiments necessary in processing industry,

[17] According to the Decision of the Government of the RS (*Official Gazette of the RS, 97/11, 10/12, 15/12, 98/12*), tobacco that is not produced in the Republic of Serbia in the required quantity and quality, and is used in tobacco factories, is exempted from the payment of customs duties. This exemption refers to amount corresponding to the total amount of tobacco manufactured and purchased in the Republic of Serbia in 2012.

are all the products that do not threaten domestic production, and rather contribute to the competitiveness of livestock production and processing and are the indication of improving consumer habits.

Imports of agricultural products within the **progressive liberalization to zero-duty by the end of transition period** model was focused to seeds (maize, sugar beets), coffee roasted, feeding staff for animals (soya-oil residues), frozen potatoes preserved otherwise than by vinegar or acetic acid, and to fruit seedlings. Given the natural conditions and the area under potato, there is a scope for further development of the potato processing industry.

Imports of apples and strawberries increased, but state support to investment in modern plantations and storage is expected to boost competitiveness and prevent the import of a large scale. Imports of processed products within this liberalization model nearly doubled in 2012 compared to 2008. Sweet biscuits and other bakers' wares, chocolate and other cocoa preparations, gum and mints without sugar and a number of other food preparations are among the most sensitive to reduction and elimination of customs duties. Import of food preparations based on meat, meat offal or blood is lower in 2012 compared to 2008, but significantly higher than in 2011.

Import of food preparations based on meat, meat offal or blood competes to domestic production, which is becoming increasingly dependent on imports of live domestic swine and meat of domestic swine, especially of frozen meat for processing, although these tariff items are among **products that retain certain level of protection to the end and after transitional period**.

In addition, increased attention should be given to the imports of some highly sensitive diary products, included in this model of liberalization (milk and cream in solid form without added sugar, natural butter of fat content not exceeding 85%, some cheeses). Imports on some fruit and vegetable tariff items (apple juice and some other juices of single fruit or vegetable, tomatoes, early potatoes, cucumbers, etc.) are also considerable, despite retaining certain level of protection.

2.4.3. The structure and trends in imports of agricultural and food products from the EU

The share of the EU in total agricultural and food imports has grown in recent years at the aggregate level and at the level of the majority of SITC divisions, which indicates a faster growth of imports from the EU than from third countries i.e. predominantly substituting behavior of Serbian importers (Table 4).

Table 4: The EU's share in total import of food and agricultural products of Serbia, 2010-2012 (EUR, mill.)

SITC sections and divisions	Total imports			Imports from the EU			EU's share (%)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Total	907.7	1,009.6	1,160.0	393.8	456.8	582.2	43.4	45.2	50.2
0-Food and live animals	662.2	757.9	854.9	282.5	345.9	411.2	42.7	45.6	48.1
00-Live animals other than in Division 03	6.5	11.8	21.8	4.3	8.2	14.0	66.2	69.5	64.2
01-Meat and meat preparations	35.0	41.0	61.8	21.3	24.0	38.0	60.9	58.5	61.5
02-Dairy products and birds' eggs	36.3	41.5	45.8	22.0	28.5	28.5	60.6	68.7	62.2
03-Fish, crustaceans, molluscs and preparations thereof	58.9	69.6	74.0	15.2	17.5	18.4	25.8	25.1	24.9
04-Cereals and cereal preparations	46.4	60.5	67.2	19.4	35.3	43.8	41.8	58.3	65.2
05-Vegetables and fruit	198.1	217.5	228.8	65.4	76.3	84.8	33.0	35.1	37.1
06-Sugars, sugar preparations and honey	21.2	28.5	37.7	12.0	17.2	24.2	56.6	60.4	64.2
07-Coffee, tea, cocoa, spices, and manufactures thereof	138.4	153.7	166.4	40.1	45.1	54.1	29.0	29.3	32.5
08-Feeding stuff for animals (no unmilled cereals)	38.1	38.1	47.1	24.8	27.8	35.0	65.1	73.0	74.3
09-Miscellaneous edible products and preparation	83.4	95.7	104.4	58.1	65.8	70.4	69.7	68.8	67.4
1-Beverages and tobacco	129.5	142.3	144.3	51.1	52.8	72.3	39.5	37.1	50.1
11-Beverages	48.5	58.6	64.1	19.7	25.2	29.5	40.6	43.0	46.0
12-Tobacco and tobacco manufactures	81.0	83.6	80.2	31.5	27.6	42.9	38.9	33.0	53.5
2-Crude materials, inedible, except fuels	85.7	77.2	121.1	43.9	39.3	68.8	51.2	50.9	56.8
21-Hides, skins, and furskins, raw	12.0	16.5	27.4	9.8	12.2	21.0	81.7	73.9	76.6
22-Oil-seeds and oleaginous fruits	42.1	29.4	59.8	8.8	3.1	24.3	20.9	10.5	40.6
29-Crude animal and vegetable materials, n.e.s.	31.6	31.3	33.9	25.3	24.0	23.6	80.1	76.7	69.6
4-Animal and vegetable oils, fats and waxes	30.3	32.2	39.7	16.2	18.8	29.9	53.5	58.4	75.3
41-Animal oils and fats	2.4	3.3	5.4	1.9	2.7	3.6	79.2	81.8	66.7
42-Fixed vegetable fats and oils, crude, refined	24.0	25.9	31.4	12.1	13.9	24.1	50.4	53.7	76.8
43-Animal or vegetable fats and oils, processed	3.9	3.0	2.9	2.2	2.2	2.2	56.4	73.3	75.9

Source: SORS, 2012, 2013a, 2013b

Bearing in mind the above-mentioned results of liberalization of imports of agricultural and food products from the EU and some recent analysis of the competitiveness of Serbian agriculture (Popović, Katić, 2007, SEEDEV, 2011, 2012), it is obvious that increased imports from the EU will particularly affect ***pig meat and vegetables, domestic confectionery and, to a lesser extent, dairy production.***

However, in **confectionery**, as well as in the most of other food processing industries operate foreign companies that have invested significant financial resources in technological modernization, so, according to the estimates of officials, the most of *domestic food industry is relatively capable for EU competition.*[18]

There are potentials for maize processing and the necessities for additional investment in processing of fruit and vegetables. Low competitiveness of milk production is due to small-scale production on a large number of family farms that is unable to meet safety standards. The lack of laboratories for quality control of milk weakens the position of dairy farmers in the value chain and discourages investment in improving milk safety and quality on the farms.

It is expected the restructuring of the dairy sector in the medium term - reducing the number of milk producers, reducing the number of dairy plants and a slight increase in the amount of milk produced. The **dairy** industry is already highly concentrated within fewer large dairy plants that invest significant financial resources in a number of commercial dairy farms to meet EU quality and safety standards.

According to the same estimates, slaughterhouses had the worst results in the privatization and a large part of their capacities is unused. Low productivity and investment in **pig meat** production and processing makes this sector the most vulnerable in the process of liberalization of agricultural trade with the EU (Box 2).

As in the case of beef meat and milk, considered earlier, it is expected that increased competition caused by the import liberalization will have positive long-term impacts on restructuring the sector, primarily by reducing the number of small-scale producers and processors, and this will contributes to the price and income stabilization.

[18] M. Prostran, Secretary of the Agriculture Department of the Serbian Chamber of Commerce. Retrieved from: *http://www.novosti.rs/vesti/naslovna/ekonomija/aktuelno.239.html:434196-Stranci-drze-90-odsto-prehrambene-industrije,* May 16, 2013.

Box 2: Pig meat supply chain – SWOT analysis

Strengths:	**Weaknesses:**
– favorable climate conditions and available high quality fodder, primarily maize and GMO-free soya, – improved genetic potential in recent years as a result of investing in nucleus farm with breeding animals of high genetic potential, – long tradition in pig farming, – large producers/retailers with vertically integrated production of fodder, pig farming, processing and sale are able to compete with EU producers, – establishment of producer associations, – renovation of processors' practice for long-term production contract with family farms/ associations.	– production and price variability due to large number of small producers who enter and exit the production, depending on the price trends, – negative trends in the number of heads and in pig meat production in recent years, – law productivity in pig production on a large number of small and medium-sized family farms, – low investment potentials of family farms, – large vertically integrated producers exclude small and medium-sized family farms out of the retails and refer them to the intermediaries, – lack of systemic control of food safety, hygiene, and environmental standards along supply chain.
Opportunities:	**Threats:**
– accelerating the process of restructuring and increase of competitiveness in the pig meat production as a result of trade liberalization, – successful realization of the expected foreign direct investment in agriculture, – improved schemes of subsidies to pig producers, – redefined role of commodity reserves in order to provide safety-net market interventions in response to market disruption, – traditional high share of pig meat in the diet, – consumer preferences towards consumption of pig meat originating from domestic production, – growth in consumer purchasing power as the precondition for increase in consumption of pig meat from domestic production, – consumer preferences towards GMO-free food.	– reduced availability and high oscillations of prices of fodder due to extreme weather events caused by climate change, – macroeconomic instability, which reduces the consumption and access to loans and subsidies, – all new member states registered a decline of pig meat production after EU accession, – imports of frozen pig meat for processing from the EU, driven by trade liberalization and deficit in domestic pig meat balance, – increase in imports of frozen pig meat for processing from Brazil, Argentina and the U.S. after WTO accession, – increased competition with the EU on liberalized CEFTA markets and inability of export meat to the EU due to vaccination against swine fever.

Vegetable producers are also among those who may be faced with increased competition due to liberalization. The reasons for this are numerous. Vegetable production in Serbia is still predominantly seasonal and is not able to track changes on the demand side, created under the influence of large retail chains, which provide vegetables from imports during the year. Underdeveloped greenhouse production of vegetables and lack of storage facilities result in increased imports of fresh vegetables out of season. In addition, large number of small producers is poorly organized and not able to meet quantity and quality requirements of large retail chains. In recent years, farmers have made great efforts to increase domestic greenhouse production and enhance vegetable growers association, but it is still necessary to do a lot of work in order to strengthen competitiveness (Box 3).

Box 3: Vegetable supply chain – SWOT analysis

Strengths: – favorable climate conditions, healthy and non contaminated soils, and locally specific sorts and varieties enables growing of vegetables of exceptional quality in terms of taste and appearance, – regionalization of production and tradition and experience in vegetable farming, – rising trends in production of most vegetable cultures indicate sufficient profitability, – growing number of specialized vegetable farms that invest significant resources in modern greenhouse production and storage, – increasingly better results in the formation of vegetable producer associations, their cooperation and networking at provincial and national level, – positive balance in foreign trade in vegetables, with EU and CEFTA as the largest buyers, – development of organic vegetable production and certification, – small-scale vegetable production allows income security for large number of smallholders affected by the transition losses.	**Weaknesses:** – there is a deficit of early and mid-spring open field vegetables as well as late autumn and winter vegetables from the greenhouses. – lack of ULO storages and warehouses with modern equipment enabling the sorting and packaging of vegetables for supermarkets, – large number of small-scale producers of weak investment capacity, – market chain short and disorganized, only a small number of producers are able to independently or within association meet the demands of retailers and exporters, others place vegetables in bulk to groceries and green markets, directly or by intermediaries, – undeveloped / not revitalized irrigation systems, use of non-certified seeds (potato production) and old technology of production and processing, – delays in the introduction of food safety and quality standards and in the provision of product traceability, in the conditions of raising public awareness for healthy food, contribute to diversion of demand towards imported vegetables.
Opportunities: – changed dietary habits, which include the use of more various vegetables, preferably from an integrated or organic production, – consumer preferences towards domestic varieties and locally produced food, – locally specific quality attributes create conditions for regional branding and/or protection of origin, – construction of the wholesale markets, based on modern standards, – use of widely available geothermal water for heating greenhouses, – state support for upgrading irrigation systems, – involvement of donor agencies in financing the projects vegetable growers association, – use of IPARD funds for investment in facilities and equipment for vegetable storage and processing.	**Threats:** – soil sealing and degradation in urban areas, and rural depopulation and land abandonment, – macroeconomic instability, which reduces the consumption and access to loans and subsidies, – delays in the adoption of legislation on cooperatives hinders their operation and use of the advantages that they provide in integrating supply, investing in finishing activities, storage and certification, – increasing imports of vegetables (and change in import destination) as a result of trade liberalization (increasing imports from the EU and Turkey on account of the CEFTA countries), – widespread use of imported hybrid vegetable seeds deteriorates recognizable qualitative advantages of local vegetable production.

Serbia has undeniable potentials for the further growth of production and exports in agriculture. To what extent they will be realized will largely depend on its capability to transform market pressures caused by liberalization into incentives to improve competitiveness of domestic production.

CONCLUSION

According to its character and results and despite the limitations of the domestic market (low purchasing power, monopolistic tendencies, etc.), it is reasonable to expect of the Interim Trade Agreement, namely of the liberalization of imports of agricultural and food products provided under this Agreement crucial contribution to:

- improving the competitiveness of domestic agricultural and food production and exports,
- completing the harmonization of food safety and quality standards with the relevant in the EU,
- providing more diverse supply of quality food products at lower prices, and
- speeding up the process of commercialization of the production and processing entities, which includes inter alia reducing the number of small-scale producers and processors and increasing revenue at the sector level.

That is the right way for training Serbian agriculture to meet the challenges of accession to WTO as well as to take advantage of Pan-Euro-Mediterranean cumulating system for agricultural and food export expansion and deeper integration with the countries of the region, the EU and the Mediterranean.
The extent to which the effects of the Agreement will be achieved and visible depends on willingness of the Government to provide financial and institutional support to these processes.

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