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Organic Agriculture in Serbia At a Glance 2017

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Organic Agriculture in Serbia
At a Glance ***2017***

CONTENTS

Page

LIST OF TABLES

LIST OF GRAPHICS

ABBREVIATIONS AND ACRONYMS

ADA	Austrian Development Agency
CAP	Common Agricultural Policy
CCI	Chamber of Commerce and Industry
CEFTA	Central European Free Trade Agreement
DAS	Development Agency of Serbia
EBIT	Earnings before Interest and Tax
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GAP	Good Agricultural Practice
GDP	Gross Domestic Product
GM	Genetically Modified
GIZ	German agency for international cooperation (GTZ prior to January 2011)
HACCP	Hazard Analysis and Critical Control Point
IFOAM	International Federation of Organic Agriculture Movements
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IPARD	Instrument for Pre-accession Assistance for Rural Development
ISO	International Organisation for Standardisation
KfW	Kredit anstalt für Wiederaufbau
MAEP	Ministry of Agriculture and Environmental Protection
MAFWM	Ministry of Agriculture, Forestry and Water Management
NASO	National Association for Organic Production “Serbia Organica”
NGO	Non-governmental Organisation
NRDP	National Rural Development Program 2011-2013
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SAA	Stabilisation and Association Agreement
SDC	Swiss Development Corporation
SIEPA	Serbian Agency for Foreign Investments and Export Promotion
SMEs	Small and Medium Enterprises
USAID	US Agency for International Development
USDA	US Department of Agriculture
WHO	World Health Organisation
WTO	World Trade Organisation

FOREWORD

Minister of Agriculture and Environmental Protection
Branislav Nedimović

In the past years we are witnesses of the increased popularity of organic production what makes this agricultural sector attractive for our producers.

This type of production represents the chance to increase export of agricultural products since foreign organic markets despite significant production still show the need for import of organic food, especially in the case of the EU. Global organic market continues to grow and exceeds value of 80 billion USD.

Natural resources in Serbia prove organic agriculture can be more intensified and developed. Last year's figures indicate that areas under organic production and number of farms had a significant rise.

One of very important tasks besides export is strengthening of domestic market of organic products. Considering that today food quality is evaluated according to its health impact, we can say that consumption of organic food contributes to better life quality while the way of production ensures environmental protection.

Our Ministry as the competent body for organic production has the task to set up favourable conditions and environment for the production, to initiate networking among producers and processors with the ultimate goal of producing secondary products which would increase production quantity and quality.

We will continue to develop this perspective field of agricultural production together.

FOREWORD

President of the Board
National Association Serbia Organic
Nada Mišković

Dear friends,
after almost 8 years from the creation of the National Association, I would like to stress out that organic sector in Serbia faced a lot of challenges, but always streamlined forward due to effort of all participants, and in the same time gained visibility on international and national level.

I am extremely glad that organic production in only one year showed huge growth according to all parameters - in areas, numbers of producers and export value. These facts give hope to all of us contributing in making this production important branch of agriculture. Also, our economy is being more recognizable and strong enough to be even more active in own development and prosperity in order to leave future generations a place that would be more beautiful, healthier and richer to live in.

Respectfully,

Mišković Nada

FOREWORD

GIZ/ACCESS Project leader
Dr. Stephan Heieck

On behalf of the German Federal Ministry of Economic Cooperation and Development (BMZ), the GIZ ACCESS program since 2009 is supporting the development of organic agriculture in Serbia. Taking into account both the worldwide increasing demand for a healthier nutrition, the European targets in this regards as well as the doubtless potential of Serbia to respond to it on the supplier side this project focus proved to be very reasonable.

The available data on organic agriculture speaks for itself. Since the turn of the millennium until end of 2014 the global bio market volume has nearly quintupled exceeding 80 billion of dollar. Hence the worldwide agricultural farmland under organic crop growing increased in that period significantly to over 40 million ha, therefrom being cultivated roughly speaking a share of 25 % in Europe.

Due to combined efforts Serbia follows these promising market trends. According to the new established data collection system in the five year period between 2010 and 2015 the area under organic production could be boosted by 250% including a 60% increase only in the last year reaching a total of over 15.000 ha.

The Serbian Ministry of Agriculture and Environmental Protection recognized the huge potential of organic production and the importance it might have for the future economic development of the country. Therefore, as a result of the successful cooperation with the Ministry and other public and private partners significant progress has been achieved so far: The National Action Plan for organic production was developed and fully integrated into the National Strategy for Rural Development, the law on organic production is mostly in line with the EU requirements, a data base was created containing relevant numbers on organic production and producers, an integrated control system including a EU approved domestic certification body was established and organic production know-how has been transferred successfully from Western Europe to Serbia.

This brochure offers an overview on the current Serbian organic production status, providing basic information about organic farming, but also about subsequent activities along the value chain, namely processing and marketing. The reader will learn that a growing number of fruit producers from Central and Western Serbia are successfully exporting frozen products (mostly berries) to the whole world. The tendency of big companies to increasingly enter organic crop production in the region of Vojvodina is being addressed. But most notably it is emphasized that the majority of organic producers in Serbia are small farmers, who need better framework conditions, business and technical development support and access to domestic and international distribution channels in order to be competitive and succeed.

In conclusion, this brochure should introduce the interested parties to the potentials of organic farming in Serbia and contribute to enhance commitment, engagement and employment creation in this sector.

SUMMARY

This Study reviews the current status of organic agriculture in Serbia and examines the sector in the context of historical developments, future challenges and opportunities. The first steps in organic production development were taken back in 1990, when NGO Terra's established a promotional network of producers, farmers, advisors, technical and academic staff involved in organic food production. Twenty-five years later and taking advantage of the support of many national and international institutions, ministries, donors and technical organisations, the organic sector in Serbia has attained a respectable level.

Seven years after its establishment National Association Serbia Organica gathered participants and since then works systematically and constantly on overall sectoral development:

- Several associations participate in development and promotion of sector;
- Governmental institutions and ministries, spearheaded by the Ministry of Agriculture, and Environmental Protection monitor and take care of the sector's needs;
- Within the Chamber of Commerce and Industry and its Association for agriculture actively works and delegates for interests Group for organic production established in 2010 as Serbia Organica's initiative;
- About 20 academic institutes, faculties, R&D facilities and affiliated bodies help to design and propagate most appropriate farming and cropping systems;
- Six certification bodies make sure that national and international regulations governing organic certification are complied with.

Nevertheless, within the context of modernising the economy in general and the agricultural sector in particular, and the need to shape the agricultural sector in such a way that it can integrate itself into the European Common Agricultural Policy framework, organic agriculture finds it hard to achieve a satisfactory level of growth despite great potential and steady growth of main parameters. Product portfolio mostly consists of fruits and field crops, with constant growth of cereals and oil seeds production. Most of these products are exported, mostly to the EU, as domestic market development is hampered by the insufficiently increasing purchasing power of consumers. Though still small, trend of intense development of the national market is evident.

Demand for organically grown produce exists in many countries and Serbia has excellent eco-climatic and technical conditions to cultivate, in addition to berries and fruits that are traditionally grown, also organic cereals and oilseeds that are in high demand. So far, however, farms engaged in organic farming have needed assistance to procure the appropriate machinery, other technical devices and capital, in order to raise production efficiency to levels that ensure their competitiveness on the national, regional, and EU markets.

The forthcoming IPARD program is, therefore, a major chance for the organic sector in Serbia. Through investment support from IPARD, both farmers and processors can begin to increase production efficiency and gradually strengthen the country's role in the European organic industry, building on its existing advantages; uncontaminated soil, renowned and prominent R&D and educational institutions, close ties to specific markets, and along tradition in growing and processing highly sought after products (fruits, berries, vegetables, cereals and oilseeds).

1 HISTORICAL CONTEXT

Application of organic principles in Serbia started long before legal framework was created. Organic production was initiated first in south Serbia around Blace region in 1989 as business initiative of Lion Foods Company that resulted in export of first consignment of organic fruit from Serbia in 1990.

Development of non-governmental organic sector in Serbia began in 1990 when Association Terra's was established in the municipality of Subotica. This NGO began as part of the Open University of Subotica and had representatives of the University of Novi Sad as members. Terra's association carried out numerous campaigns with the aim of promoting organic production according to IFOAM standards (International Federation of Organic Movement) becoming a member of this foundation in 1992. In 1997 Terra's hosted an IFOAM Conference on organic agriculture in Central East European countries and remained for long time the driving force behind the development of Serbia's organic sector, as formal and informal groups promoting the sector began emerging elsewhere in the country as well. The first Law on Organic Agriculture in Serbia was passed in 2001, while it was still part of the Federal Republic of Yugoslavia. Following the change of government in 2000, foreign investments started coming in, with buyers, projects and donors bringing knowledge and export possibilities as well. Avalon from the Netherlands, SIDA from Sweden and Diaconia from Germany were the first foreign organizations to promote organic farming in Serbia with regional projects. In 2003, GIZ supported Terra's in establishing cooperation with the German certification firm BCS, thereby laying the foundation for the first certification body in Serbia. These international organisations recognised the potential of organic production in Serbia and facilitated the establishment of new organic associations, primarily on local and regional levels, and several companies began working on export-oriented organic production. In 2004, GIZ supported the first participation of Serbian traders and processing companies at the Biofach international bio-fair in Nuremberg, Germany. Together with the Green Network of Vojvodina, Terra's started the development of the local market and, as a result, the first Biofest was held in Subotica in 2005. In subsequent years, in addition to the GIZ, SIPPO from Switzerland, USAID and Ministry of Agriculture, Forestry and Water Management (MAFWM) also supported participation of Serbian producers and business people at the Biofach fair.

During following years many donors recognized organic production like GIZ USAID Agribusiness project, FAO, ADA, REC SIDA, UNDP and many others.

In May 2009 when National association for organic agriculture, Serbia Organica, was founded players in organic sector were united and interests of organic producers and others sector's participants were lobbied for within governmental institutions thus stimulating interaction and promoting organic farming and processing, both at home and abroad. The National Association "Serbia Organica" (NASO) currently gathers about 80% of the sector players, who are also present in other related associations and organisations. A large number of members come from primary production, processing, certification, trade, academic and other institutions.

Organic sector in 2010 got a big support of the Serbian Chamber of Commerce and Industry when upon the initiative of Serbia Organica was established the Group for organic production within the Association for agriculture. Group actively participated in discussions on key topics interesting for members and overall sector: inadequate conditions stipulated by the Law on subsidies in agriculture and rural development when applying for subsidies in organic animal husbandry, registration of plant protection and plat nutrition products in organic production, the National Action Plan for development of organic production, election of members of Competent body for organic production, marketing and placement of organic products and many other.

NASO from its establishment overtook organization of the common national booth on international fair Biofach in Nuremberg, Germany, where numerous producers and processors were present in the 6 previous years supported by GIZ, USAID Agribusiness project, SIEPA and CCI. NASO initiated education of advisors, implementation of organic production as elective subject in agricultural schools, trainings of school teachers, finalized first promotional campaigns, and in 2015 UNDP recognized importance of organic production and delegated to Serbia Organica task to train managers of protected areas on organic production.

With the support provided by the MAFWM, 2011 saw the establishment of five centres for development of organic production (Selenča, Leskovac, Svilajnac, Valjevo and Negotin), in 2013 was formed Centre in Užice as well. In 2014 was founded Vojvodina's cluster for organic production which gathered interested parties from Vojvodina region. Local municipalities that realized initiatives for development of organic production through support of producers were rare. Subotica's Parliament in April 2015 adopted Action plan for development of organic production for period 2015 - 2020 on initiative of Terra's whose representatives participated in its development. Department for local economy of City of Novi Sad for 4 years actively supports this production by realization of different measures, and from 2015 Secretary for economy of City of Belgrade started realization of programme of several support measures for this production in which realization is involved Chamber of Commerce of Belgrade.

The history of organic food production and processing goes back for more than 25 years. Some progress is evident in sector organisation, moreover a number of different locally acting associations, organisations, clusters, cooperatives and interest groups developed. Until early 2009, the Law on Associations restricted the formation of strong interest groups or associations, not only in organic agriculture but in general, as it did not allow associations to conduct business and accumulate capital. More favourable conditions were created when the new Law on Associations came into force (RS Official Gazette no 51/09), providing that associations may carry out business operations and build up capital reserves to a certain extent. In October and November of 2012 the amendments to the current Law on Organic Production (RS Official Gazette no 33/10) were drafted in order for it to be more in line with the EU regulations. However new Law was not passed, and in 2013 started work on table of compliance of regulations with EU regulations under the project "Strengthening of the Serbian System of Market Surveillance for Non-Food and Food Products"

2 ORGANIC SECTOR: STRUCTURE, PLAYERS AND ACTIVITIES

2.1 PRODUCTION STRUCTURE

According to data of the Ministry of Agriculture and Environmental Protection (MAEP), and the Group for organic production that records data base on organic production, based on annual reports of authorised control organisations, organic production in the Republic of Serbia in 2015 recorded overall growth in surface in organic status as well as in heads of animals and numbers of producers. Surface of 15.298 ha (including meadows and pastures) was cultivated, areas in conversion and organic status, are included. In comparison to 2014 (9.547,8 ha) total area is increased for 60,25% which is a big upraise, while in 5 years upraise was 261,3%. Share of organic production in overall arable land in Serbia increased for 0,44%. Total arable utilized land for organic production in 2015 (meadows and pastures excluded), was 13.398 ha, and 67,53% more than in 2014 when we had 7.998,5 ha under organic production.

This area does not include land used for harvesting wild berries, mushrooms and herbs. It should be noted that there is no official methodology in Serbia to obtain the data on the total area for wild collection and harvesting wild plant species from their natural habitats.

Share of utilised area under organic production in total agricultural land in 2015 was 0,44% which is 0,16% more in comparison to 2014.

Table 1:
Overview of area under organic production

Year	Areas under organic production (in ha)	Share of areas under organic production in total utilised agricultural land (in %)
2012	6.340	0,18
2013	8.228	0,23
2014	9.547,8	0,28
2015	15.298	0,44

Source: Statistical office of RS and MAEP

Areas under organic plant production in status of conversion take 7.669 ha while areas under organic status take 7.628 ha.

Graphic 1:
Areas under organic production (in ha)

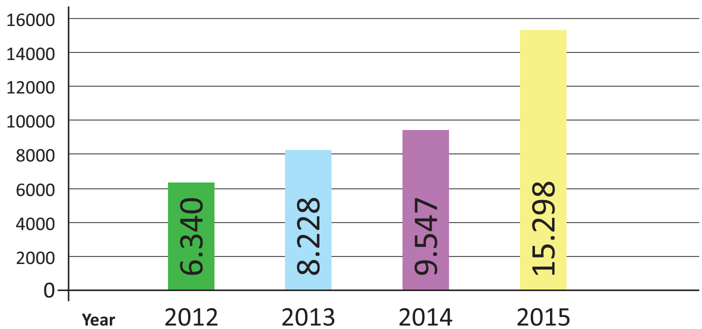
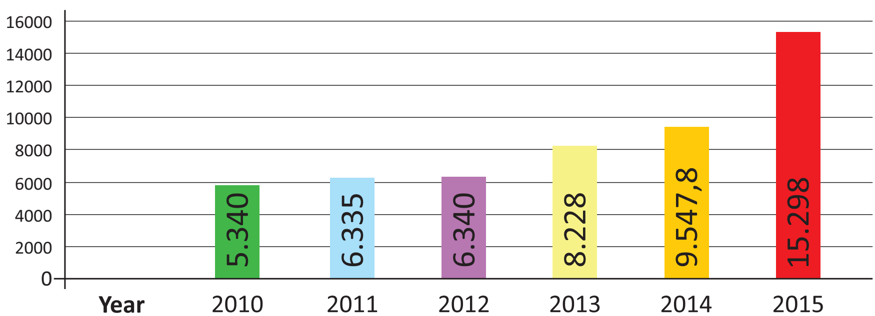


Table 2:
Areas under organic production in period 2010 – 2015

Year	2010	2011	2012	2013	2014	2015
Areas under organic production (in ha)	5.855	6.335	6.340	8.228	9.547,8	15.298

Source: Statistical office of RS and MAEP

Graphic 2:
Areas under organic production in period 2010 – 2015



Crop production has the largest share (68,7%), (pastures and meadows are included), spearheaded by cereals (31.7 %), in total arable utilized land, followed by fruit (21,6%), while vegetables are grown on just 1,3% of areas.

Table 3:
Areas by plant structure in 2015

Category	Areas in conversion (ha)	Areas in organic status (ha)	Total (ha)
Cereals	2.069	2.183	4.252
Industrial plants	1.216	1.458	2.674
Vegetables	45,6	124,9	170,5
Fodder	397,6	1.042	1.440
Fruit	1.291	1.604	2.895
Medicinal and aromatic plants	2,7	68,3	71
Other	1.845	50,4	1.895
Total arable land	**6.867**	**6.531**	**13.398**
Pastures/meadows	803	1.097	1.900
TOTAL	**7.669,5**	**7.628,5**	**15.298**

Source: MAEP

Graphic 3:
Areas by plant structure in 2015

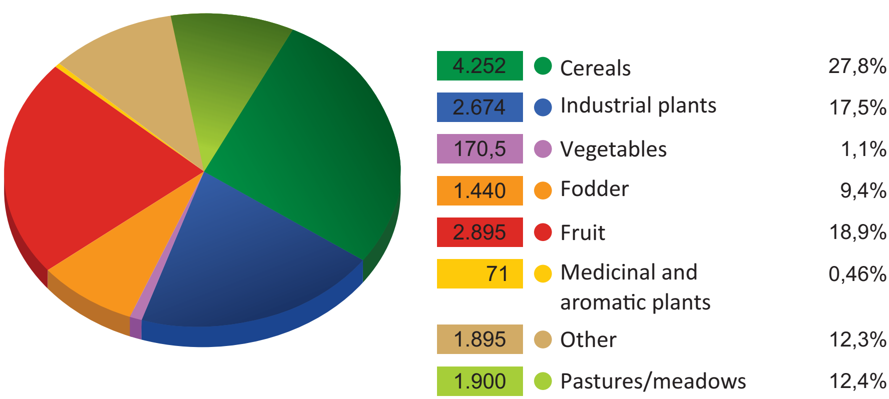
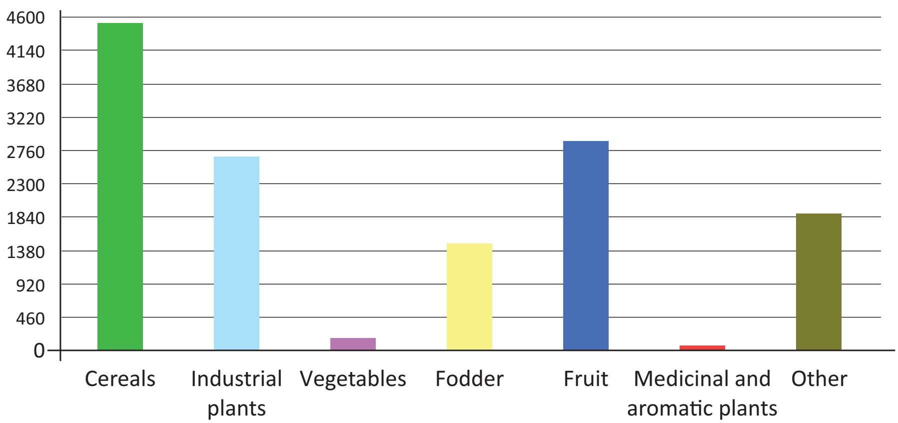


Table 4:
Organic plant production (arable land) in period from 2011 - 2015

Product category	2011	2012	2013	2014	2015
Cereals	1.211,1	2.522,4	2.273,4	2.818,3	4.252
Industrial plants	171,9	541,0	672,9	1.227,8	2.674
Vegetables	75,9	113,7	106,8	153,6	170,5
Fodder	230,0	663,1	594,9	1.204,1	1.440
Fruit	1.163,3	1.415,7	1.484,4	2.202,1	2.895
Medicinal and aromatic plants	59,5	28,4	132,6	60,9	71
Other	96,0	79,8	90,2	214,5	1.895

Source: MAEP

Graphic 4:
Organic plant production (arable land) in 2015



During 2015 in animal husbandry was noted growth in number of heads of animals in comparison to the previous year, primarily in number of sheep, pigs and bees like it is shown in table 5 and 6.

Table 5:
Organic animal production

Animal	Number of heads/units Conversion period	Number of heads/units Organic status	Total
Sheep	1.616	3.232	4.848
Pigs	132	100	232
Cattle	153	2.593	2.746
Goats	569	1.117	1.686
Poultry	301	1.079	1.380
Donkeys	4	16	20
Horse	128	90	218
Beehives	2.033	471	2.504

Source: MAEP

Graphic 5:
Organic animal production in 2015.

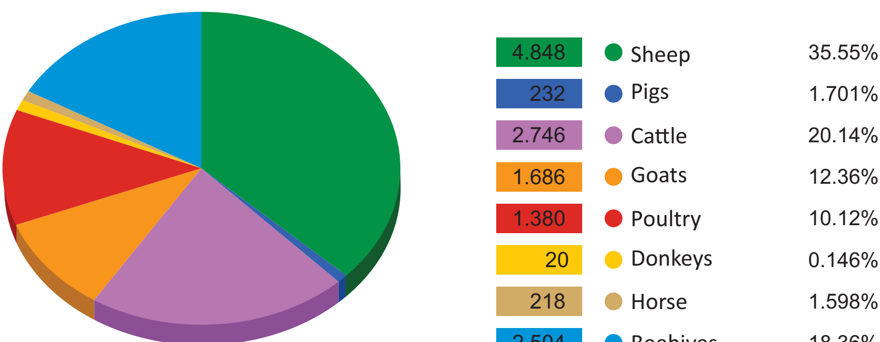


Table 6:

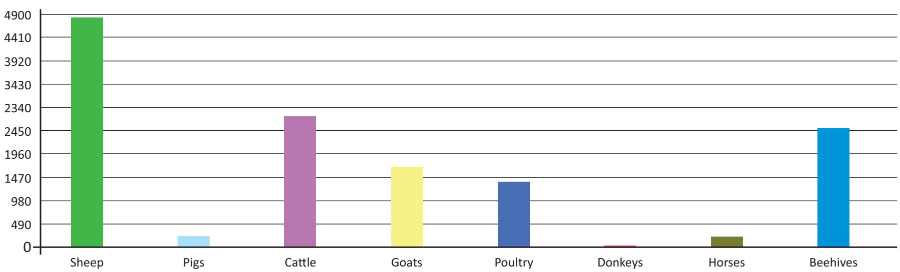
Organic animal production over years (2012 - 2015)

Animal	2012	2013	2014	2015
Sheep	2.837	4.031	2.698	4.848
Pigs	206	175	76	232
Cattle	1.428	2.176	2.693	2.746
Goats	211	946	1.154	1.686
Poultry	2.034	1.390	1.140	1.380
Donkeys	7	21	17	20
Horses	66	210	173	218
Beehives	961	1.940	894	2.504

Source: MAEP

Graphic 6:

Organic animal production in 2015.



In 2015 as in 2014 Vojvodina was the lead region according to the share of areas under organic arable production with 10.163 ha in total, and 75,85% of total.

Table 7:

Organic plant production in regions in 2015

	Region	Arable land (in ha)	Share (in %)
1.	Belgrade	60	0,5
2.	Šumadija and Western Serbia	1.427	10,6
3.	South East Serbia	1.748	13
4.	Vojvodina	10.163	75,8
Total arable (ha)		13.398	100

Source: MAEP

2.2 ORGANIC FARMER[1]

Primary characteristic of production in Serbia is that organic producers can be divided into 2 main general groups/types, the first being independent and in direct contract relationship with some of the control bodies, and the second group are farmers-cooperants whose production is subjected to group certification, allowed according to the valid Law of Republic of Serbia. In this way, cooperants are bound by the contract with some of the export companies that buy off whole production and at the same time provide cooperants with support that includes: inputs, education, and certification costs, but certificate holder is the company, and not the producer.

This type of cooperation showed very successful based on the number of participants which is much higher than individual farmers.

According to structure, size and production type in Serbia farms are divided into three categories. First type represent small, mainly family households where plant and animal production is often integrated; second type make specialized farms, for example specialized for organic field crops or organic vegetable production and similar which is not recommended from the aspect of organic principles, or business. Third type of organic production represent big farms that combine plant and animal production on bigger surface, often dealing with processing as well, which makes the most favourable model.

Based on percentage of present organic farms in regions, there are few models of farms identified.

In Vojvodina typical farm is a family household and main products are vegetables, mainly grown on open fields and therefore of seasonal character on the market, quantities are smaller but sufficient to meet demand on green market and hypermarkets in Belgrade and Novi Sad. The majority of farms have certified entire farms, although there are some with parallel production. In western Serbia typical farm is a semi-organic family farm where farmers keep livestock and organic fruits, farm is partly organic, livestock and field crops are not certified. Livestock is kept in extensive conditions, and the main organic products are soft berries - raspberry and blackberry. Post-harvest activities and marketability of crops for these farmers is contracted in advance and harvested berries are handed over to contractor - cold storages that will export crops abroad.

In south Serbia typical farm is similar to the one in the west part. Farmers developed same concept of business cooperation and as in previous region are not present on the market but have contracts with processors. Farmers are organic fruit growers and main products are cherries and plums and their farms are partly certified, which means although they can implement organic principles, under certification is stone fruit - cherries and plums, which are contracted with processor and are therefore controlled and certified. Every farmer keeps livestock in extensive conditions and this provides excellent organic fertilizer, manure from farm.

Typical organic farm in south-eastern Serbia is a livestock farm in organic status with

[1] Assessment of capacity development for region specific organic products in Serbia" 2014, FAO regional office for Europe and Central Asia, coordination office in Serbia; Project: Assistance to the Development of Capacity and Support Services for Organic Agriculture in Serbia, GCP/SRB/001/HU

more than 10 ha of land. As less developed region with less fertile soil, in this area recently started organic livestock production. Typical regional products are dairy products like cheese made of cow and sheep milk. Regional specificities are autochthonous breeds like Busha and Pramenka that can be used for meat production as well. Main problems in the region is lack of certified processing premises where the final organic product would be made and offered as such to the market, majority of farmers are forced to sell raw material and /or final products as conventional.
Number of producers included in organic farming also increased in the last 5 years as data in the table below show.

Table 8:
Number of producers 2010 – 2015

Year	2010	2011	2012	2013	2014	2015
Number of producers in organic farming	137	323	1.061*	1.281*	1.867*	334** around 2.000*

Source: MAEP *included cooperants **individuals (certificate holders)

Based on the opinion of a large number of producers in Serbia unavailability of specific inputs necessary for production process is a major obstacle. Seeds and planting material can rarely be found on the market, and even so the quantities are insufficient. Fertilisers are also an issue – organic farming relies on manure and compost. Since only every second farmer keeps animals, and even then too few of them, the manure available from that source is hardly enough to provide 5-6 ha of land with sufficient nutrients for optimum yields. Commercially available plant nutrition agents and soil enhancers are relatively present on the market, but the issue is their cost-effectiveness for organic farmers. Appropriate and efficient plant protection agents are also difficult to find, so producers often have no means to prevent diseases and pests, which additionally reduces the yields and quality of organic produce. Irrigation is also a problem, particularly for fruit growers.
Organic products are typically sold to wholesalers and to processing companies, with which almost 80% of the growers conclude contracts prior to the start of the season. Direct sales e.g. on the green market, retail stores and via various online shops is growing recently, although is still practiced by less than 30% of the individual farmers. Due to such a system, the mark up in price they obtain for their organic produce is very moderate (with 10-20% on the average) and confirms that added value is not generated on the farm level. Moreover, the products are not readily available on the market. Since there is often a lack of storage facilities, products are on offer mostly during peak periods, when the growers flood the market. Sorting is only carried out by every second farmer and usually according to size, rarely according to quality. Products are often packaged in plastic packing.
The sector has started to see some new tendencies though, since large retails chains have upped their offer of organic imported products that can compete with domestic products both in price and quality. There is a trend also of large companies getting involved in primary plant and animal production on larger land areas. Feed production,

as well as the entire sector of organic animal production, has been on the rise, and in the beginning of 2013 first dairy products appeared on the market (fresh milk, yogurt, cream). Eggs are popular product but with a modest supply on the market, while meat (beef) was offered to market only in 2015 in smaller quantities, while poultry is still missing.
About 60% of producers is gathered under NASO umbrella association, individually or through companies they have contracts on cooperation with. Other business associations gathering organic operators are Terra's and Vojvodina's cluster for organic production.

2.3 ORGANIC FOOD PROCESSING INDUSTRY [2]

Of relevance for the organic sector are companies operating in the fruit and vegetable sectors. Cold storages dominate in organic sector due to common opinion that certificate for cold storage can be obtained easier than for whole technology line. More then 40 food processing companies also process organic products, virtually all of them processing conventional produce while operating an organic line additionally. Some of the primary producers also process their own produce, still majority cooperates with bigger processors. Few processors are dealing only with processing of organic raw material.
According to data of Serbian Chamber of Commerce and Industry 520 processing facilities have been registered with the exploitation rate of 80%. Based on the data of the MAFWM from 2011 Serbia has 363 cold storages, fruit, vegetables and mushroom storages with overall capacity of 550.000 tonnes. Capacity exploitation rate is 75%. Post-harvest operations and processing of organic raspberry and blackberry is done by the companies that purchase fruits and have cold storages or processing lines.
These fruits are usually being frozen and as such placed on the market across the EU and the USA. In Serbia with secondary processing - drying of fruits and vegetables, and juice production deals 85 entities with the total capacity of 565.000 tonnes. Capacity exploitation rate is around 50%. Significant part of processing capacities refers to production of fruit and vegetables juices. Annually production capacity of fruit juices is around 240 million litres showing that Serbia is a serious producer in the region. Producers without cooperation contract sell their products to buyers on the spot. If they have fewer quantities then they tend to make various fruit jams, juices etc., and as such sell to known buyers according to their orders. Also their products can be found on the local green markets. Though production and market of raspberries and blackberries is considered successful, processing is still on the primary level. Processing should give range of products of specific origin. Packing and packing materials are not adequately complied to demands of product with added value.
According to regional development and production type, there are various levels of post-harvest and processing operations of organic products involved. In that sense secondary

[2] Assessment of capacity development for region specific organic products in Serbia" 2014, FAO regional office for Europe and Central Asia, coordination office in Serbia; Project: Assistance to the Development of Capacity and Support Services for Organic Agriculture in Serbia, GCP/SRB/001/HU

processing is present in organic vegetable production in Vojvodina region. Smaller part of organic fruit in regions of Western and South Serbia farmers' process on farms into juices, jams etc., while most is taken over by cold storage. Processing of livestock in South-eastern Serbia is still at primary level. Few farmers make cheese from milk but it is difficult to get higher price since they do not have certificates for processing facilities. These products are sold to familiar buyers based on trust mostly. Processing facilities for meat from organic animals are not certified as well. This decreases value of organic animal products. Bigger processing exporters have cold storages and driers; some have lines for juices, jams, marmalades, lines for grinding of grains, and paprika. Products coming from those lines, secondary processed products are rare and few. Companies are struggling on the market - insufficient quantities and higher price make them uncompetitive with foreign companies.

Most of processed organic products from Serbia are exported as frozen or dried organic fruits. Processors interviewed within this report are among biggest in this sector sharing the same problem. Financial constraints are the biggest threat. Bank loans are with unfavourable interest, and budget funds are limited. Smaller quantities are processed into teas and flours which add an additional value to the product and represent the only way for medicinal herbs and teas to be offered on the market. On the other hand processors have difficulties to introduce new lines due to financial risk and different categories of buyers - buying final or primary processed food. Nevertheless processors are willing to invest into areas under organic production within their cooperatives since this sector marks significant rise despite world economic crises. Processors are profit driven and they are open to future organic markets. Still with final, ready to eat product and approachable price, Serbian product would be easily recognizable as the trade mark outside Serbia. Producers outside cooperatives sell their produces on farms. Rather small part of their production often is used for preparation of jams, juices etc. and as such sold to familiar buyers. Also, their produces can be found on the local green market.[3]

Challenges identified in sector:

- *Organic raw material in Serbia is expensive due to lack of demand and lack of incentives. Producers are therefore in unfavourable position since they cannot compete with prices on foreign and domestic market. Competitiveness is intensified by customs' exemption in Serbia from 01/01/2014 for EU products imported to Serbia;*
- *Most processors offer smaller quantities due to limited quantities of raw material and limited demand. Production of smaller quantities reduces sector profitability;*
- *Supply of organic raw material is uncertain. Even if they have contract with farmers, prices are not foreseen in the contract, and in some cases neither are quantities, this is more regulated on the base of "Memorandum on cooperation". Processors therefore cannot plan their production, quantities, etc.;*
- *In some cases suppliers are distrustful, processors need to supervise and control their production;*
- *Some of processors are too small for foreign markets; they are not potential partners for*

[3] "Value chain analysis of region specific organic products in Serbia" 2014, FAO regional office for Europe and Central Asia, coordination office in Serbia; Project: Assistance to the Development of Capacity and Support Services for Organic Agriculture in Serbia, GCP/SRB/001/HU

international distributors. Approaching international market is rather difficult for them.

Identified advantages within sector:

- *Majority of processors have modern processing lines, and quality systems in place which qualified them for the market abroad from the perspective of food quality;*
- *Processors started integrating their suppliers. They advise them on production technology, organise trainings, and cover certification costs in some cases. From long-term aspect this practice can provide more suppliers and strengthen relationships between processor and his suppliers.*[4]

Domestic market is growing parameter and open for organic food. Organic fresh produces are in favourable condition since they are less imported to Serbia, although lately this changes and shows increase as well. Therefore domestic producers have fewer opportunities to form prices. On the other hand if import of organic produces is greater, domestic consumers will turn to them even if they have domestic substitutes available. For example many retailers are also distributors of organic food. Still domestic consumers are price sensitive and fresh organic fruits and vegetables are too expensive for average buyer.

2.4 VALUE CHAINS AND VALUE GENERATION[5]

Vegetable products in Vojvodina have the longest value chain. However, problem is insufficient number and outdated facilities for cooling and processing. Due to inability of processing, producers are obliged to sell raw material which negatively influences their profitability. Organic fruit producers in Western and Southern Serbia organised cooperation and sale to cold storage represents key factor to continue organic farming, yet lines for cooling and market for stock products are still inadequate. In certification of organic animal production, technical capacities and packing are challenging. In organic livestock production is achieved highest level of applied methods of organic production (i.e. closed production cycle) but the problem of "incomplete chain" of organic products remains. For example, consumers will pay a greater price for meat of certified animals to producer they trust to, otherwise better quality often is not getting better price. While organic fruit growers through group certification secure market, livestock breeders cope themselves. Livestock production requires serious investing in purchase of animals, stables, facilities and workers, therefore it is risky and uncertain investment for longer period of time.

Generating value with agricultural products within the framework of small scale agriculture, and particularly with products destined for food consumption, is as difficult in Serbia as elsewhere in the world. The reasons are:

- Small farming finds it hard to take advantage of the economy of scale effects and thus its production costs are usually high;
- Farmers are typically not well integrated into markets, do not have sufficient marketing power, and even if value is generated it occurs at higher levels of the value

[4] [5] "Assessment of capacity development for region specific organic products in Serbia" 2014, FAO regional office for Europe and Central Asia, coordination office in Serbia; Project: Assistance to the Development of Capacity and Support Services for Organic Agriculture in Serbia, GCP/SRB/001/HU

chain, but not on the primary level;

- Processors are also squeezed between having to operate on a scale which causes high costs per unit and the demands of international marketing, which results in the generated product value still being low, albeit higher than at the primary production level;
- The highest margins are typically achieved during various commercial transactions involved in agricultural processing. This is a result of traders' higher flexibility in handling raw materials, dealing with intermediates, and their better access to end users;
- Due to the high competitiveness of food markets, the structure of retailing, and the sensitivity of consumers, the margins and value generation in food production even at the distributor level are in general only modest.
- In consequence, the added value of unprocessed agricultural products in the value chain rarely exceeds a factor of 5-10. Added value is difficult to achieve at the level of farms and small scale processing.

Based on the value chain analysis of organic products can be concluded that organic sector needs improvement. Some development is noticed from the production to the market phase, yet horizontal and vertical consolidation of all players in the value chain is required. Despite successful work of certain households and companies, lack of common vision leads to economy losses, huge differences in quality, lack of market information as well as lack of market position. Sectors' players should develop relationships on current examples of good practice. This includes gathering around associations and cooperatives, companies that have own brand to establish contracted cooperation and quality criteria to support marketing strategy. Competent bodies sometimes play crucial role in initial steps and promotion events.

Higher income and profit rate can be reached mostly by exploiting the economy of scale effects, which involves expansion, cooperation or uniting capacities in association.

2.5 CIVIL SOCIETY ORGANISATIONS ACTIVE IN SECTOR

Civil societies contributed to development of organic production, although evident problem is lack of resources required for functioning and performing activities. Active civil society organisations in organic production constantly face the problem of self-sustainability; it is not rare to see discontinuity of efficient activity performance. Lack of special support programs in organic production for NGOs in this sector threatens to endanger their activities. Programs of some ministries like the Ministry of Trade, Tourism and Communication which supports associations in the field of protection of consumers' rights and therefore represents excellent example of support for civil societies and important partnership between them. Above mentioned ministry has a data base on all associations in the field of protection of consumers' rights.

Many organisations are organisers and co-organisers of important fairs, events and manifestations in the field of organic production that have continuity over years.

Among them the most significant are:

- Exhibition of organic produces within the Agricultural fair in Novi Sad financially supported by MAEP organised jointly by the Ministry of Agriculture and Serbia Organica since 2011, since 2015 was introduced exhibition of products with geographical indication;
- International festival of organic products „Bio-FEST“ organised by Terra's association from Subotica. Part of festival are round tables and debates;
- Forum on organic production in Selenča organised from 2006 by the Centre for organic production and in recent years within forum are realised international business' meetings Agro Organic B2B;
- Fair of organic food „Milena Tatar“ in Sopot started in 2012 on initiative of TV show for farmers on RTS „Znanje imanje“ in cooperation with Sopot Municipality and “Serbia Organica“ as co-organiser. Fair is venue of thematic lecturers as well;
- Fair of Balkan biodiversity and village heritage, with the support of Dimitrovgrad municipality takes place from 2003, recently in organisation participates Biobalkan association from Dimitrovgrad.

Besides these mentioned many associations are active in organising manifestation *Days of field* and *Days of open organic farms.*

Table 9:
Business associations and national NGOs active in the organic sector

Name	Website
National association for development of organic production „Serbia Organica“ Belgrade	www.serbiaorganica.org
Terra’s	www.terras.org.rs
Green Network of Vojvodina, Novi Sad	www.zelenamreza.org
VitaS, Ruma	
Association for biodynamic agriculture of Serbia, Vršac	www.biodinamika.org
Association for development of organic production Biobalkan, Dimitrovgrad	
Eko-Telečka, Telečka	
Centre for organic production, Selenča	www.organiccentar.rs
Centre for organic production, Valjevo	
Centre for organic production, Svilajnac	
Centre for organic production, Negotin	
Centre for organic production, Užice	
Association “Cluster of organic producers – Jug”	www.centarzarazvoj.org
Vojvodina's cluster of organic agriculture, Novi Sad	www. vok.org.rs
Organic now - Novi Sad, Novi Sad	

2.6 AGRICULTURAL R&D, EXTENSION AND ADVISORY SERVICES, INDUSTRY KNOW HOW[6]

Currently 256 official advisors are employed in 35 agricultural extension services and their tasks are defined by the MAEP and the Provincial Secretariat of Agriculture, Water Management and Forestry. In 2010, in cooperation with the MAFWM and GIZ/ACCESS, NASO provided training for advisors in organic production.

Agricultural extension and advisory services in the Republic of Serbia employ advisors of various profiles. Organic production advisors do not provide only organic production related services, although organic production is partly covered in the system of providing advisory services. This very profile of organic production advisors would be necessary, primarily due to specificities of organic production and needs of the organic farmers on the "ground", as well on account of the general interest for more intensive development of this kind of production. In order for organic production development to be more intensive, it would be necessary to define criteria for advisors in organic production (formal qualifications, professional training and education, etc.). In such a manner profiled advisors would be able to professionally assist current producers and play an active role by introducing organic production to new producers.

Development of advisory and extension sector should ensure that all organic producers in the Republic of Serbia may obtain such services from advisors trained for organic production. In addition, it would be necessary for such organic production advisors to receive continuing training in the country and abroad, where they would acquire most current and up-to-date knowledge and information in the field. Development of cooperation between the advisory and research sectors is of importance for establishment of a practical system for applying knowledge in practice. Parallel to these Government employed advisors, private companies also provide advisory and extension services to farmers under contract.

Governmental extension services are provided free of charge, but their quality depends on the allocated budget funds, which are influenced by a number of factors. The Law on Performing Advisory and Extension Activities in Agriculture (RS Official Gazette no 30/10) governs the most important issues in the area:

- Requirements and methods for advisory and extensions services in agriculture;
- Register of agricultural advisors;
- Training and professional development of agricultural advisors and farmers;
- Planning the development of advisory services.

Annual programme is determined according to the Law on Performing Advisory and Extension Activities in Agriculture, and in 2016 is adopted Regulation on determination of midterm programme of development of advisory tasks in agriculture for period 2016 - 2020 (RS Official Gazette no 39/16).

[6] Compiled from: Cvijanovic 2009: Education, Scientific-Research and Consulting Work in Agriculture of Serbia. Applied Studies in Agribusiness and Commerce Ministry of Science and Technological Development of RS; The World Bank 2006: Financial Support for Commercial Innovation in Serbia and Hornischer U.2010/AFC/FIBL: Extension and Research Organic Agriculture in Serbia– Status Report

In order to implement the above mentioned services in the field of advisory services, in September 2013 NASO initiated the drafting of the Rulebook on the practice for advisory services in agriculture with aim to introduce organic farms that are in the system of control and certification into the system of state supported advisory services.

The Rulebook defines the way of performing advisory tasks in agriculture, reporting on performed activities, monitoring and evaluation effects of advisors performance and development of Agricultural Extension Services. The proposals are given in the field of individual working methods, as well as in the field of group working methods with farms. The scope and the number of advisors and the profile of responsible persons for managing the organic farms will be determined on the level of every Agriculture extension service office, according to annual program for development of advisory services in agriculture due to the following reasons: the specific geographic distribution and concentration of organic producers and finding out most efficient model for providing advisory services in individual work with farms based on this Rulebook.
Elementary agricultural education is offered in 33 state-funded secondary agricultural schools. Higher education is provided by accredited higher education institutions, the most important being the Belgrade University Faculties of Agriculture and Forestry, the Faculty of Agriculture in Novi Sad, the Agronomy faculty in Čačak, the Faculty for Biofarming in Bačka Topola, the Faculty of Ecological Agriculture in Svilajnac, and the Belgrade University Faculty of Veterinary Medicine. Agricultural economics curricula are taught at Universities of Belgrade, Subotica, Novi Sad and Niš.
In order to improve the formal education system with regard to organic agriculture in Serbia, the GIZ initiated an expert exchange program with the University of Kassel in Germany with the objective of training academic staff in organic farming, with the ultimate aim of facilitating the implementation of a bachelor program at the University of Novi Sad. Professors and other academic staff, from different faculties and disciplines, were trained in practical and applied organic farming techniques during June and July 2010, and in October 2010 the first bachelor program in organic agriculture was launched at the University of Novi Sad. Such study options will eventually improve the skills and the know-how of extension and others staff involved in practical organic agriculture.

During 2010, school curriculum for organic agricultural production was drafted and adopted with the initiative and with active participation of NASO, in cooperation with the Institute for improvement of education. The school curriculum for organic agricultural production is introduced into agriculture high schools starting from 2012/2013 as optional subject (organic vegetable and crop production, organic fruit production and organic livestock production) as part of school course: agricultural technician.

In order to further promote organic production, during 2011 and 2012, the NASO, in cooperation with the Faculty of Agriculture in Belgrade and the Institute for Improvement of Education within the Ministry of Education and Science, which granted

its accreditation, implemented the program of educating secondary school teaching staff in organic production. NASO is the carrier of the accreditation for both 2012/2013 and 2013/2014 school years and is in charge of module organic agriculture and module organic processing for both 2016/17 and 2017/18 school years.
One of the main conclusions of the NAP research working group identified the need for jointly organised and defined research goals in organic production. That is why the GIZ/ACCESS supported the drafting of the national strategy for scientific research and development in organic agriculture involving all scientific and research institutions in Serbia. This Agenda was published during 2013 and is complied with other goals of organic agriculture development in Serbia.

2.7 ORGANIC PRODUCTION AND BIODIVERSITY

Agro-biodiversity is extremely important since 1990 until today 75% of genetic diversity of agricultural crops from all around the world have disappeared (EC, 2011).
Applied method of organic agriculture protects and saves biodiversity: preservation of local population and species - autochthonous and domestic, introducing less present varieties and species in production, introduction of crop rotation (increased biodiversity in time), using intercropping and buffer zones. Methods of bio control in organic agriculture are mainly focused on maintaining bigger biodiversity in agro-ecosystem. This approach requires constant planning and interdisciplinarity.

On organic farms biodiversity is for around 35% higher than on conventional. This perception of conservation and improvement of biodiversity for organic farmer presents logical and justified approach since is resulting in diversification of obtained products. Farmer becomes more competitive on the market and therefore more sustainable.

Implementation of agro ecological measures into agricultural policy of one country, which part is organic farming, ensured biodiversity protection. In Republic of Serbia the National action plan for development of organic agriculture (2014 - 2019) integrates organic production and biodiversity conservation, and the National research agenda for organic agricultural sector (2013) as one of the most important topics sees conservation and improvement of biodiversity. For this reason in 2011 has been initiated manifestation "Open days of biodiversity" in organisation of the Institute of Tamiš. "Organic production and biodiversity" includes thematic scientific congress intended for scientific and competent audience, farmers and interested parties and stresses out importance of environmental protection and conservation of existing living organisms. Every year are given lectures and workshops on different aspects of organic agriculture and biodiversity on demonstration fields in nature reserves, on farms of small organic and traditional producers. Conference proceedings under name "Organic agriculture and biodiversity" is being published after each congress.

Table 10:
Scientific and research institutes, education institutions in field of agriculture

Institution	Website
Institute of Field and Vegetable Crops, Novi Sad	www.nsseme.com
Institute Tamiš, Pančevo	www.institut-tamis.co.rs
Institute for Food Technology, Novi Sad	www.fins.uns.ac.rs
Maize Research Institute Zemun polje	www.mrizp.co.rs
Institute for Animal Husbandry, Zemun	www.istocar.bg.ac.rs
Fruit Research Institute, Čačak	www.institut-cacak.org
Institute for Vegetable Crops, Smederevska Palanka	www.institut-palanka.co.rs
Institute of Agricultural Economics, Beograd	www.iep.bg.ac.rs
Institute for Science Application in Agriculture, Belgrade	www.ipnco.rs
Institute for Plant Protection and Environment	www.izbis.com
Institute of Pesticides and Environmental Protection, Belgrade	www.pesting.org.rs
Institute for Research of Medicinal Plants „Josif Pančić“	www.iplb.rs
Faculty of Agriculture, University of Belgrade	www.agrif.bg.ac.rs
Faculty of Agriculture, University of Novi Sad	www.polj.ns.ac.rs
Agronomic Faculty Cacak, University of Kragujevac	www.afc.kg.ac.rs
Faculty of Biofarming, Megatrend	www.megatrend.edu.rs/fbio
Faculty of Ecological Agriculture, Svilajnac	www.educons.edu.rs
Agricultural Extension Service of Serbia	www.psss.rs
Agricultural Extension Service of Vojvodina	www.polj.savetodavstvo.vojvodina.gov.rs

3 GOVERNMENT POLICY FOR THE SECTOR

3.1 NATIONAL PROGRAM OF DEVELOPMENT OF ORGANIC PRODUCTION IN SERBIA

In the summer of 2009 the MAFWM, supported by the GIZ, developed the draft of the National Action Plan for Organic Production Development in Serbia. This document may be described as the Serbian version of the European Commission's Action Plan for Organic Food and Farming[7], as its overall objective envisages an increase of the total area of land in the process of conversion or with organic status to 50.000 ha. This document has not yet been adopted by the RS Government, although many steps it defines were already implemented in the period 2010-2012. The National Association, supported by foreign donors (USAID Agribusiness Project and GIZ/ ACCESS), initiated and completed many of the activities envisaged by the Plan.

In November 2011 the National Action Plan for Organic Production Development in Serbia was revised, and the review involved about 40 of the most important stakeholders of the sector (representatives of three Ministries, as well as universities, institutes, non-governmental and private sectors, and extension and advisory services). The objectives and implementation activities defined in 2009 were revised. MAFWM could not send this document to the Government of Republic of Serbia for adoption, since organic agriculture had to be significantly more included into the Agriculture Strategy of Republic of Serbia, which was not the case. During 2014, MAEP drafted the Strategy for agricultural and rural development for the period 2014-2024. NASO had an active participation in the drafting of the Document which resulted in inclusion of organic production as an important segment of the Strategy.

During 2014 National Association Serbia Organica initiated revision of the NAP as the leader in consortium of civil society organisations with TERRA's from Subotica, BioBalkan association from Dimitrovgrad and European youth centre of Vojvodina under the project "Organic production in function of sustainable development of the Republic of Serbia" realised with SENSE support program launched by Regional centre for environment (REC), financed by the Swedish agency for international development and cooperation (SIDA).

In 2015 plan of 11 goals was revised but could not have been adopted due to lack of legal capacity. Updated NAP was sent to MAEP and Serbia Organica lobbied for its adoption and incorporation into the National program of rural development. Therefore the title of the document was changed into the Plan for development of organic production and as such was added to the National program of rural development which is already adopted and NAP's adoption is expected as well. Immense contribution to this process and support to civil society provided Group for organic production of the Chamber of Commerce and Industry of Serbia (CCI).

[7] MAFWM 2009: National Action Plan of development of Organic Production in Serbia

The goal of the Plan for development of organic production RS is to identify challenges slowing down development of organic production and to define aims and measures to overcome them. This plan should foster development of organic agriculture, development of domestic market of organic products as to increase their export. Also, action plan determines requirements to ensure stable and long term growth of organic production sector. It stipulates numerous measures participants would use to increase organic development.

Table 11:
Objectives of the Plan for Organic Production Development in Serbia

Goal 1	Support for organic farming is an integral part of the national agricultural and rural development policies
Goal 2	Harmonisation of the legislative framework for organic production with EU framework
Goal 3	Institutional development
Goal 4	Established operational and harmonised system of control and certification of organic production with EU standards
Goal 5	Approachable and market oriented advisory sector
Goal 6	Established applied research in organic production and processing
Goal 7	Improved organic production via formal education
Goal 8	Developed domestic market of organic products
Goal 9	Export growth of organic products
Goal 10	Created favourable conditions for production and processing of organic products
Goal 11	Implementation of objectives defined in the National program and its monitoring

3.2 NATIONAL RURAL DEVELOPMENT PROGRAM OF REPUBLIC OF SERBIA

Although the National program of rural development for period 2011 - 2013 expired, new one has not yet been adopted although MAEP drafted midterm program.
By becoming the EU candidate country in March 2012, Serbia has gained a possibility to access the so-called IPARD funds, Component V of IPA funds for this budget period. IPARD program Axis 2 is of particular importance for organic sector, as it covers a set of agricultural ecological measures and organic production which implementation is

planned for second phase of IPARD. Working group of Sector for rural development within MAEP in 2015 formed working group to finalise this measurement. Though general objective is ambitious Serbia will use opportunities coming from available IPARD to assist participants in the organic production chain to integrate Serbian system of production and processing into international environment in order to create profitable and significant agricultural subsector in the coming years.

3.3 REPUBLIC OF SERBIA BIODIVERSITY STRATEGY 2011 – 2018

In 2010, the Ministry of Environment and Spatial Planning, supported by the United Nations Development Program (UNDP) and Global Environment Facility (GEF), developed the Biodiversity Strategy of the Republic of Serbia for the period from 2011 to 2018, which was adopted by the RS Government in February of 2011. The activities in the strategy were defined as short-term (implementation period 1-3 years), midterm (3-5 years), long-term (5-7 years), and continuing ones.

The Strategy was initiated due to lack of comprehensive policies and measures to prevent further deterioration and support preservation of agro-biodiversity in Serbia. The Strategy integrated the principles of conservation and sustainable use of biodiversity into relevant sectoral or inter-sectoral plans, programs and policies where it is possible and necessary. Accordingly, within a broad range of various measures recognised as important for preserving biodiversity, the Strategy, in the agricultural impacts category, calls for, inter alia, the development of the national program for organic agriculture, which was proposed in the Action Plan for implementing the Strategy for Development of Organic Agriculture as one of the mid-term (3-5 years) activities to be undertaken.

Table 12:
National Institutions and Ministries relevant for agricultural policies and rural development

Institution/Ministry	Website
Ministry of agriculture and environmental protection	www.mpzzs.gov.rs
Ministry of Regional Development and Local Self-governmental	www.mrrls.gov.rs
Ministry of Finance	www.mfin.gov.rs
Ministry of Economy	www.privreda.gov.rs
Ministry of Education, Science and Technological Development	www.mpzzs.gov.rs
Ministry of Trade Tourism and Telecommunications	www.mtt.gov.rs
Serbian Agency for Development	www.ras.gov.rs
Vojvodina Investment Promotion - VIP	www.vip.org.rs

3.4 FINANCIAL SUPPORT FOR THE ORGANIC SECTOR

Financial support to the organic sector started in 2004, when the MAFWM for the first time planned incentives for organic production in the form of reimbursements for certification costs, while incentives per area and head of animals were introduced in 2006. Incentives for 2012 were not planned by the line Ministry, but the operators could have applied for reimbursement of 50% of total certification costs; however, conversion period costs were not eligible what was changed in 2013 on the initiative of NASO and producers in the period of conversion could use this measure as well.

In the beginning of 2013, the Law for subsidies in agriculture and rural development (RS Official Gazette no. 10/2013, 142/2014 and 103/2015) was enforced and in the following two years amended and changed. This Law foresees 40% higher incentives for organic production compared to the conventional production. Incentives are intended for producers in conversion period, at the end of conversion when certificate would be issued, and for certified plants and animals producers. The Rulebook on use of subsidies in organic production (RS Official Gazette no. 52/14, 57/14 , 71/14,62/15 and 33/16) defines types and amounts of incentives.

Producers in organic production contracted with some of authorised control organisations can in 2016 get incentives increased for 40% compared to conventional for following measures:

- Premium for organic milk,
- basic incentives for plant production,
- regress for plant nutrition products allowed in organic farming,
- incentives for livestock husbandry: high quality breeding dairy cows, high quality fattening cows, high quality breeding sheep and goats, high quality breeding sows, parent chickens heavy breed, parent chickens light breed, parent turkeys, high quality carp breeding parent fish, high quality trout breeding parent fish, fattening beef cattle, fattening lamb, fattening pigs, fattening kid, milking cows, bee hives.

According to regulations in organic production, producers entitled to incentives in organic farming are obliged to maintain organic principles on their plots they received incentives for in the following three years. Also reimbursement for the control and certification costs remained and in accordance to the Rulebook on subsidies for improvement of rural economy through implementation and certification of safety and food quality, organic products and products with geographical indication (RS Official Gazette no. 48/13) producers in organic production would be reimbursed 40%, or 55% (in areas considered difficult for agriculture) for costs of control and certification of the total cost.

Good thing is that subsidies for investments in organic plant and animal production, processing and marketing are available and are higher for 50%, i.e. 65% (in areas considered difficult for agriculture) for certified producers than for conventional. These incentives encompass measures intended for investments for improvement of competitiveness and quality standards:

1) For investments in milk processing through investments for equipment in facilities for milk processing;
2) for investments in meat processing through investments for equipment in facilities for meat processing;
3) for investments in processing of fruit, grape and vegetables through investments for equipment in facilities for processing of fruit, vegetables and grapes, including wine, brandy production, and production of other spirits.

In 2014 Government allocated 93.750.000 RSD while in 2015 and 2016 this amount was 92.000.000 RSD.

Lack of the Law on subsidies in agriculture and rural development is that incentives for organic farming are not adjusted to organic farmers and development of organic farming and conventional production are interconnected. Annual Regulation on funds distribution in agriculture and rural development defines basic incentives increased for 40% for organic than it is for conventional farming. In 2016 incentives per hectare were only 2.000 RSD and proportionally 2.800 RSD for organic production. This support is meaningless for farmers cultivating smaller area what is often the case. Therefore it is recommendable to have separate long-term planned support measures for organic production and requirements organic farmers need to meet.

Criteria for breeders are inappropriate as well since requirements for incentives are not adjusted to the situation on the field and few farmers were eligible to apply for them. Accordingly NASO sent initiative for amendments to the Law and in 2016 relevant ministry prepared new articles of the Law on subsidies in organic production adjusted to organic production.

Producers not qualified for incentives in organic production, cannot accordingly receive subsidies available for all farmers as they are registered as organic. In case farmer already received the maximum for organic production, and still has surface or animals eligible for incentives in conventional farming, he would not be able to apply for them.

What does it mean, that organic farmer gets punished for being organic?!

4 MARKET AND TRADE

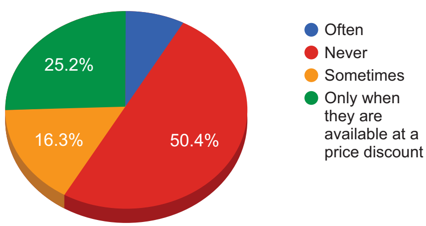
4.1 LOCAL MARKET FOR ORGANIC FOOD

Domestic market of organic products is still underdeveloped despite significant positive changes in the recent years. Awareness of consumers started to rise as well, but mostly in bigger urban environment where organic products are mostly present. Big breakthrough for some years now was when these products could have been found on the shelves of majority of retailers. This way they have become available to most of consumers who could have bought organic produces only in several retail shops or some green markets.

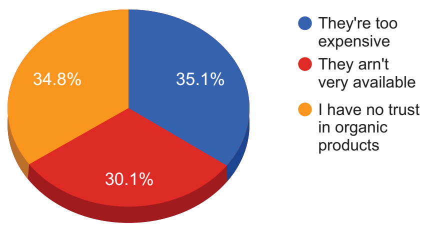
Online shopping becomes available as well. First specialised market of organic products started to work in mid-2011 in New Belgrade as a result of cooperation between Public Company City markets and Serbia Organica as a pilot project that soon showed necessity of such place for producers and consumers. From 2015 "City markets of Belgrade" started organic caravans that are periodically set on various Belgrade markets.

The biggest demand for organic products is noticed in the bigger cities due to buying power although there are frequent buyers as showed on the graphic below.

Do you buy organic products?



If you don't buy them at all, or rarely, why?



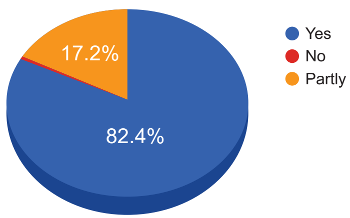
Prices of primary and processed products are increased for about 50-300% in comparison to conventional, depending on variety, market position and seasonality.

Recently imported organic products are more present on the market, mainly processed but fresh products as well. Prices of some imported processed organic products are lower than of domestic, still this is not always the case. Organic fresh products for now come from domestic production and products of plant origin dominate. Due to lower offer on the market, fresh fruits are being imported.

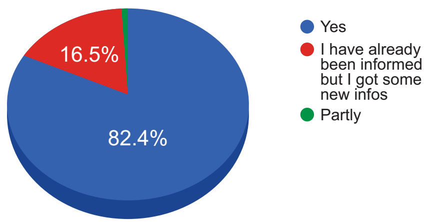
Only in 2015 appeared the first organic meat on domestic market. Bigger retail chains showed interest and demanded bigger quantities, but domestic producers are not capable to provide continuity and quantity leading to rise of import.

Promotion of organic products has been intensified in the past years, but national logo of organic products is still not enough promoted. Consumers who have heard for organic products have problems in recognizing them, unless they are marked and visible on shelves.
Serbia Organica realised educational promotional campaigns in retails shops in order to raise awareness of consumers on impact of organic products to health and environment, still future activities should be directed toward these aims and advantages of organic products.

Do you think that promotions like these are helpful?

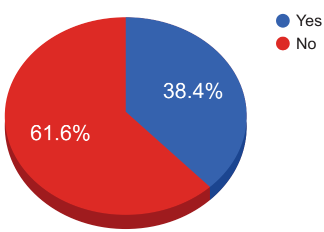


Did you receive some new information on organic food and the process of its production on this promotion?

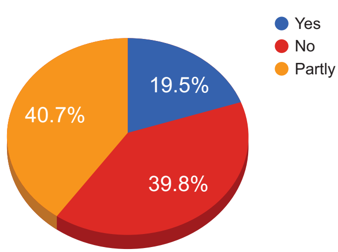


Majority of stores selling organic products are located in Belgrade and Novi Sad. Organic food may be found on some green markets, in specialised health food stores and in the retail chains.
The survey conducted by the NASO in 2016 shows that consumers often associate organic products with natural and "unsprayed" products, and often identify them with the ones grown in small gardens in a traditional manner. The consumers are generally insufficiently informed, except when it comes to the term "certification" of organic production, and they also lack knowledge about how they can identify organic products. On the other hand, there are consumers who think organic farming is something new-fangled or trendy and have no trust in certificates.

Do you recognise organic products?



Do you trust the organic certificate?



Value can be added to organic products by insisting on their naturalness and environmental protection. For further development of the local organic market, strong and intensive campaigns with clear communication strategy, directed towards target consumer groups, are definitely needed. Based on the market survey done by the NASO, the average buyer of organic products in Serbia is a woman aged from 25 to 45, followed by people with medical condition and re-convalescents.
Because of all this, and considering the limited volume and value of organic products, and the moderate prospects for domestic growth in the future, their placement on the international market assumes even higher priority for producers.

Table 13:

Minimum and maximum retail price range for organic and conventional fresh fruits

Prices calculated from RSD to EUR based on average middle exchange rate for the period September - October 2016 (RSD 123,00 for EUR 1,00)

Product	Organic product, price (EUR/kg)	
	min.	max.
Lettuce	0,5	0,7
Carrots	1,2	2,0
Chard	0,5	0,65
Cabbages	0,9	1,7
Beetroot	1,2	1,6
Kale	1,6	2,05
Tomatoes	1,5	2,45
Cucumber (slicer)	1,2	2,2
Broccoli	2,3	2,5
Cauliflower	2,2	3,3
Peppers	1,6	2,3
Potatoes	1,05	2,03
Onions	1,05	1,6
Pumpkin Hokkaido	1,45	2,05
Beans	4,8	6,10
Apples	1,6	2,5
Pears	2,03	2,5
Quince	2,45	2,6
Grapes	2,45	2,85
Eggs/per piece	0,28	0,37

Source: 7 retail shops (2 greenmarkets and 6 retail outlets) in Belgrade and Novi Sad covered

Table 14:

Minimum and maximum retail price range for domestic processed organic food in Serbia in period September – October 2016

Prices calculated from RSD to EUR based on average middle exchange rate for the period September - October 2016 (RSD 123,00 for EUR 1,00)

Remark: Range among certain products depends of retails prices of various suppliers as well as of retail location.

Product	Price in EUR	
	min.	max.
Jam (wild blueberry, cornelian cherry, rosehip) (230 g)	1,8	2,45
Jam (sour cherry, rosehip, blackberry) (314g)	3,5	3,8
Honey black locus -jar (450 g)	8,45	8,45
Beetroot-jar (400g)	1,6	1,8
Apple and carrot juice (250ml)	0,8	1,14
Apple juice (750 ml)	3,3	3,5
Beetroot juice (250ml)	0,7	1,2
Beetroot juice (750 ml)	2,6	2,75
Tomato juice (250 ml)	1,0	1,2
Chokeberry juice (700 ml)	5,7	6,10
Dried apple slices (40 g)	1,6	1,8
Tofu–soy curd(smoked) (200g)	1,78	1,87
Tofu–soy curd (200 g)	1,7	1,85
Soy based spreads with shitake and kombucha (100 g)	1,2	1,3
Baby food – 5 cereal types (200 gr)	2,5	2,7
Baby food - wheat with apples (200 g)	2,6	2,75
Chocolate with cereals (200 g)	2,5	2,7
Cold pressed sunflower oil (500 ml)	1,9	3,3
Cold pressed sunflower oil (250 ml)	1,03	2,05
Sunflower butter (250 g)	1,8	2,10
Cold pressed pumpkin oil (250 ml)	9,7	10,5
Ajvar mild, hot (350 g)	4,3	4,7
Balsamic vinegar apple, raspberry, pomegranate, blueberry	1,4	2,3
Spelt dough for soup (100g)	0,8	0,9
Wheat flour (kg)	0,9	1,2
Buckwheat flour (kg)	1,7	2,50
Maize flour (kg)	1,2	1,3
Rye flour (kg)	1,2	1,8
Oat flour (kg)	1,1	1,5
Barley flour (kg)	1,2	1,8
Spelt flour (kg)	1,3	2,1
Spelt bran (200 gr)	0,5	0,65
Popcorn (250 g)	0,8	1,0
Fresh milk (750 ml)	0,9	0,98
Yogurt (750 ml)	0,97	1,05
Sour cream (150 ml)	0,36	0,5
Cheese (250 g)	1,6	1,8
Beef	8,85	20,0

Source: 7 retail shops (2 greenmarkets and 6 retail outlets) in Belgrade and Novi Sad covered.

4.2 INTERNATIONAL MARKETS FOR SERBIAN ORGANIC PRODUCE, EXPORT

4.2.1 Trends and general conditions

Globally, organic production has been developing for many years. In 2009, 35 million ha of cultivable land were organically certified, and continued to rise to 43,7 million which is significant growth compared to 29 million ha in 2005. In the EU, farm land under organic cultivation increased in the same period from 6 million ha to 11,6 million ha, equivalent to a growth of 8-10% annually. Such expanding acreage is a response to the growing demand for organically produced food products.

Total value of organic products from 15,2 billion USD in 1999 was increased to 80 billion USD in 2014 which is increase of over 60 billion EUR. European market value in 2014 was 26,2 billion EUR, while European Union amounted 23,9% billion EUR what makes 38% of the total value, and 7,6% more than in 2013.[8]

As consumption of organic food products in the EU grew faster than production, imports from third countries have increased disproportionally. Definite figures on imports from the non-EU countries do not exist, since the EU's Harmonised System Codes of traded products does not distinguish between the conventional and organic. However, increasing imports over the past ten years may be gauged by the number of registered importers of organic produce into the EU, which in 2009[9] increased from less than 500 to well above 3,000. Within Europe, the largest consumers of organic food are Germany, France, Italy, UK, Denmark, Switzerland and Austria. The biggest consumers per capita are Switzerland, Luxemburg, Denmark, Sweden, Lichtenstein, Austria, Germany and France.

Country reviews such as those regularly published by FiBL consistently confirm the following trends:

- In Germany, the retail value of organic products has been fluctuating for years, with an annual growth of some 10%, reaching the value of little bit less than 8 billion EUR in 2010, compared to 3.5 billion in 2004.[10] The value of consumed products per capita in 2014 was 97 EUR. Commodities with the highest rate of growth in the past years were milk and dairy products, vegetables and fruits. Market growth in Germany in the last five years was led by supermarket chains, where 54% of the total value of organic produce is sold.[11] Specialised organic food supermarkets also exist, but in terms of overall turnover they have fallen behind general outlets.
- Sweden is a country with biggest market increase, from 2010, its value increased from 0,8 to 1,4 billion EUR in 2014, while Norway marked annual growth of 25% and reached 280 million in 2014.

[8] Willer, Helga and Julia Lernoud (Eds.) (2016) The World of Organic Agriculture - Statistics and merging Trends 2016. Research Institute of Organic Agriculture (FiBL), Frick, and International Federation of organic Agriculture Movements (IFOAM), Bonn

[9] Organic Food Link, Azra Secerbegovic 2010: Personal communication

[10] "An Analysis of EU Organic Sector" June 2010 - European Commission, Directorate-General for Agriculture and Rural Development, Organic Farming - Unit H.3 – An Economic Analyses of EU Agriculture - Unit L.2

[11] Diana Schaack (Agrarmarkt Informations-Gesellschaft mbH (AMI) "The German Market for Organic Food" (Session at the BioFach Congress of Feb. 16, 2012)

- In Italy, retail sales of organic foods exceed 2 billion EUR. Organic food sections in supermarkets were introduced just three years ago, only to surpass the sales in grocery shops.
- In UK retail sales of organic foods have been slow to grow, amounting to 2 billion EUR in 2010, and in 2014 was 2,3 billion EUR, unlike France, who saw the highest annual growth in the value, from 3 billion EUR in 2009 to 3.5 billion in 2010, and in 2014 reached somewhat less than 5 billion EUR.
- In 2011, Austria had retail sales of organic produce amounting to almost 1 billion EUR, Denmark and Spain both achieved 0.9 billion EUR, the Netherlands had EUR billion 0.96. It seems that these countries have reached a plateau, or at least a temporary saturation, with regard to sales of organic products. In the past years, growth fluctuated between -3 and +5%.
- Despite Switzerland's limited population, organic food turnover in 2010 exceeded 1 billion EUR while in 2014 value was doubled to 1,8 billion EUR on a per capita basis, this figure is the highest in all Europe, currently at 221 EUR, followed by Luxemburg with 164 EUR, Denmark with 162 EUR per capita.
- Organic food markets in Central and Eastern European EU countries are still emerging, and organic food is mostly produced for export. The Czech and Polish markets were the fastest to develop, growing 4 to5 times in the period from 2006 to 2010– the Czech from 27 million EUR to 107 million EUR, while in 2013 growth was up to 77 million EUR, the Polish from 15 to 85 million EUR, and in 2011 to 120 million EUR. Bulgarian and Romanian organic markets are waking slowly but steadily, with annual market values of 7 million EUR, in Romania value was increased 4 times reaching 80 million EUR. Hungary was the only whose market lost pace and had a sluggish growth, reaching 25 million EUR in 2010[12] without new market data.

[12] Bernd Jansen (Ekoconnect, Germany) The organic market in the Central Eastern European countries (Session at the BioFach Congress of Feb. 16, 2012)

These trends suggest that target markets for organic products from Serbia are primarily those EU countries that do not yet show signs of saturation, and are also large enough to absorb additional produce. These are Italy, France, Germany, and UK.

4.2.2 Serbian export

Of the total Serbian export of organic products prevails export to the EU countries (Germany, the Netherlands, Belgium, Austria and Poland), with overall export in 2015 of 13.787.417 million EUR, what makes 70% of the total value.

Table 15:
Export of organic products according to countries in 2015

COUNTRIES	Export value (€)	Share (%)
EU	13.787.417	70,4%
USA	4.269.38	21,8%
EFTA (Switzerland)	724.198	3,7%
Other	596.866	3,0%
CEFTA	195.519	1,0%
TOTAL	19.573.389	100,0%

Source: Customs Administration

Export value in Serbia is in the last 4 years evident, and for only one year from 2014 to 2015 has risen for 75% as shown in the table.

Table 16:
Export value of organic products (in mil EUR)

Year	Export value (in mil .€)
2012	3,74
2013	10,7
2014	11,2
2015	19,6

Source: Customs Administration

Commodities exported the most are fresh and frozen fruits. In 2015 raspberry was top exported product of fruits with –10,9 mil EUR, frozen blackberry – 3,2 mil EUR and fresh organic apple – 1.7 mil EUR.
Of processed fruits apple concentrates amounted 1,0 mil EUR, dry fruits – 750.000 EUR and sour cherry, quince and blackberry puree amounted 232.000 EUR.

Table 17:
Export of organic products according to categories in 2015

No.	PRODUCT CATEGORY	Value (€)	Share (%)
1	Fresh or frozen fruits	17.082.205	87,27%
2	Fruit products (concentrate, puree, dried)	2.115.178	10,81%
3	Fresh and frozen mushrooms	172.239	0,88%
4	Herbs (pepper)	62.570	0,32%
5	Vegetables products	55.315	0,28%
6	Medicinal and aromatic plants	32.200	0,16%
7	Vinegar	20.027	0,10%
8	Cereals products	16.381	0,08%
9	Juices	9.789	0,05%
10	Industrial plant (poppy)	4.240	0,02%
11	Butters	3.072	0,02%
12	Oils	173	0,00%
	TOTAL	**19.573.389**	**100,00%**

Source: Customs Administration

4.2.3 Product opportunities in Germany and in other EU countries

After spending many years in the “green” ecological niche, organic food and beverages entered mainstream markets and became part of the global megatrend in lifestyle, health, and sustainability. For this growing consumer group, organic food is a way to provide healthy food for themselves and their families, to support smaller food manufacturers and farmers and to protect the environment. Increasingly the aspect of regionality is added to the concept, with the result that the ideal product is not only organic but also seasonal and produced locally, or at least regionally. However, people adhering to the prevalent lifestyle are not likely to sacrifice their pleasure and enjoyment, so organic products must be available to the same extent, and in similar convenient packages and outlets, as conventional food. While the trend to organic food is strong, the level of its market penetration in all European countries is still relatively low. It grew in the past not only as a factor of increasing demand, but also of its availability. Market penetration for eggs, baby foods, potatoes, fresh milk and cereals is high not only because of exceptional demand, but also because the industry was able to provide adequate organic supplies at tolerable prices.

Considering the expectations of consumers of organic food and current market penetration, it is evident that major supply gaps exist. These refer to organic meat, organic fish, fruits, to some extent to vegetables as well, and even to milk and cereals.[13]
Generally, direct import of meat to the EU is difficult since the market is strictly regulated, and even under the relaxed trade regimes foreseen by the SAA, meat will not be freed from import restrictions. Producing organic meat and dairy products usually involves the issue of organic feed, which depends on organically produced fodder cereals and oilseeds.
Within the vegetable sector, supply of organic carrots and zucchini has already reached a penetration rate exceeding 20%, but that of onions and peppers is still below 10%. In the fruits sector, organic table grapes already occupy substantially more than 10% of the market, while apples and berries have yet to reach 5%.
Germany is the most important destination for marketing organic products from Serbia, since its share in the European organic food market is 30%, followed by France (18%), United Kingdom (9%) and Italy (8%). In addition to being a large consumer (97 EUR per capita) and organic food producer (1 million ha under organic farming), Germany is also a large importer of such products. Depending on product type, shares of imports range from 2% to 95% of the value of local produce on the market, for the products that can be produced in Germany. Fruits and vegetables are the most imported organic product category on the four mentioned European markets. Organic carrots are the most sold vegetable in Germany with 30%, and since local production cannot meet the demand, more than half of total consumption of organic carrots is supplied from imports.

Furthermore, imports of organic tomatoes (80%) and peppers (90%) also have high shares due to large consumption throughout the year, and out of season as well, when local fresh products are not available. Organic potatoes are one of the most important products in Europe by volumes of consumptions and imports. In Germany, the share of potatoes is 4.7% of the organic market, and 28% is imported. This can be a chance for producing and exporting potatoes from Serbia, since in April 2012 the European Commission lifted a ban on importing this product from Serbia, which was in effect for several years due to the presence of bacteria causing ring rot. In addition to vegetables, organic protein crops, primarily soybean, used for feeding organically raised livestock, also have high shares of import in Germany and can be an important export items for Serbian producers. This is especially important given that of 2015 Germany enforced the law according to which feed for organically grown livestock must be of 100% organic origin.

[13] Hamm U. 2008: The German organic market – an overview; lecture at the University of Kassel

Table 18:

Share of some products in total retail value of sold organic foods at the most important EU markets

Product	Austria	Belgium	Finland	France	Germany	Netherlands	Norway	Switzerland
Milk and dairy products	-	2.1%	-	3.2%	8.6%	4.8%	1.8%	11.0%
Fruit	10.7%	3.5%	3.2%[3]	4.3%	6.7%	3.9%[3]	1.7%[1]	10.1%
Bread, flour and pastries	-	1.7%	1.2%	2.5%[2]	7.1% (bread)	3.2%	1.0%	4.6%
Eggs	17.2%	11.2%	12%	22.1%	16.7%	12.7%	7.5%	22.7%
Vegetables	12.6%	5.4%	3.2%[3]	4.0%	8.6%	3.9%[3]	3.6%	14.6%
Cheese	8.5%	8.5%	0.9%	1.2%	3.6%	-	0.5%	6.0%
Milk	15.7%	3.0%	3.2%	10.8%	8.1%	-	4.0%	18.9%
Meat and meat product	3.5%[4]	2.1%	0.6%	1.60%	2.1%	2.8%	0.3%	4.8%[5]
Beverages	-	0.9%[6]	0.6%	3.0%[7]	1.7%	-	0.1%	2.7%

Compiled by: FiBL-AMI 2016; Sources: Austria (only general retailers): Roll AMA/AMA Marketing; Belgium (only general retailers): GFK Panel services Benelux; Finland: Pro Luomo, France: A Agence Bio; Germany: AMI based on GFK household panel data; Netherlands: Bio Monitor; Norway: Norwegian Agriculture Agency (only general retailers); Switzerland (only general retailers): Bio Suisse

1)Fruits, berry fruit and stone fruit, 2) flour, 3) fruit and vegetables, 4) only meat, 5) including fish, 6) fruit juices, wine and beer, 7) vegetable beverages, fruit and vegetable juices, wine and alcohol.

Note: Due to classifications and nomenclatures differing from country to country, it is not possible to supply data for all product groups, even if data for individual products may be available. Not all countries have data on the market shares of organic products.

By signing the SAA, Serbia entered the process of rapidly converging to the EU. One of the elements of adjustment is the harmonisation of Serbia's agricultural policy with the CAP. The CAP regulates the markets for strategically important agricultural products in the EU such as sugar, oilseeds, cereals, meat, milk, wine, edible oils, and to some extent fruits and vegetables. All these products are not covered by specific EU import restrictions, and promotion of them would be in full compliance with the CAP. Increasing price pressures, resulting from Serbia's full integration into EU markets, might impact its small-scale agriculture, since it appears unready to produce fruits, vegetables or soybeans with efficiency typical of Northern Germany, Austria, Italy, or other EU countries. In order to buffer possible negative effects, the EU promotes investments for raising farming efficiency, particularly for forming farmer associations and other types of groupings able to exploit the economy of scale effects.

At the processing level, further reduction of production costs and improved efficiency might be necessary in the organic segment as well. Apple juice, jams, marmalades, mueslis, cereal products offered in European supermarkets, are only marginally more expensive than their conventional counterparts. Improving efficiency throughout the entire value chain of organic food production requires, in the case of Serbia, major investment and better education and training which, in addition to technical subjects, have to include farm and production economics, management, marketing and presentation. It goes without saying that full respect of European food safety and hygiene requirements, as well as all of the EU's packaging and transport regulation is obligatory, any disrespect of which will severely damage the marketing image of Serbian produce.

5 LEVEL OF ATTAINMENT OF RELEVANT EU STANDARDS

5.1 EU LEGAL FRAMEWORK AND SERBIA'S ROADMAP

Following the 2007 decision of the European Council of Ministers, Serbia was offered the perspective of joining the EU.

By adopting Council Regulation no 2092/91, the EU was one of the first global institutions to formulate a policy on organic farming. With this Regulation the Council created a community framework detailing the requirements for agricultural products and foodstuffs, referring to production methods used in organic farming and the food industry. The Council Regulation recognizes organic farming in their strategy on environmental integration and sustainable development within the Common Agricultural Policy. The integral principle is that farmers providing services to the environment beyond the reference level of Good Agricultural Practices should be adequately remunerated. Certain methods of agricultural production e.g. organic farming, integrated production, traditional low-input farming, and typical local production, provide a combination of positive environmental, social and economic effects.

In 2001, the EC presented the European Union Strategy for Sustainable Development which made CAP change its stress from quantity to promoting quality, with subsidy and supporting schemes being adjusted accordingly.[14]

Organic farmers are currently entitled to financial support from the first and the second pillar of the CAP through direct payments and price support measures. More importantly, organic farming is fully integrated into the rural development policy framework, a part of the second pillar of CAP.

In March 2012 Serbia became the EU membership candidate country, and at the end of 2015 started negotiations for the first 2 chapters. Agriculture and food safety represent very important fields for the European Union and Serbia both. Since the very beginning of the EU, Common Agricultural Policy was the one of the most important policy sectors in terms of the share of the agricultural budget in the total budget of the European Union, heading today with 40% or 408,31 billion EUR. Goals of CAP evolved in time, and though rural economy and sustainable agriculture are still supported, high standards in the food safety for consumers and environmental protection are at the top of the priority list. Common agricultural policy includes set of instruments and standards on food safety Serbia needs to establish on her way to the EU accession.

Since 2000 EU has donated around 100 million EUR of support to this sector, including agriculture, rural development, food safety, plant health and animal welfare.

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[14] EC 2003: CAP reform – a long term perspective for sustainable agriculture. In: www.ec.europa.eu/agriculture/capreform;
EC 2009: Health check of the CAP. In: www.ec.europa.eu/agriculture/healthcheck;
EC 2010: Financial programming and budget. In: www.ec.europa.eu/budget/budget_detail.

Identified priorities to support are: agricultural land, administrative control for financial incentives, IT systems, extermination of animal diseases, traceability of products of animal origin, plant health control, control of animal welfare and animal waste management.
Although continued, support is little bit more directed to assistance of farmers in achieving EU standards, through financial programs for adjustment and implementation of standards and improvement of competitiveness.
Before formal accession to the EU, plans are to increase support measurements for farmers through implementation of IPARD program (Instrument for pre-accession support in rural development). Serbian farmers will benefit from 175 million EUR intended for co-financing of eligible costs up to 70% of the investments' value.
Support will be directed to:

- Investments in households – supporting milk, meat, fruits, vegetables and other crops' producers;
- Investments in post-harvest operations and market placement – especially intended for micro, small and medium companies processing milk, meat, fruit and vegetables;
- Organic production – benefits for farmers dealing with organic farming;
- Implementation of local development strategies –within so called Leader approach, support will be provided for application of rural strategies by local action groups (specially established public-private partnerships);
- Farm diversification and business development – this measure will facilitate development of private accommodation in rural tourism.[15]

After Council's decision in 2007 Serbia was offered perspective of joining the EU. The EU Commission offered assistance in setting conditions for Instrument for pre-accession support (IPA), as well as IPA I and IPA II available for all candidate countries. In this framework Serbia will receive funds to put in place appropriate organizational structures on local level and ministry level in order to accept and implement support measurements within IPA III-V component.

First intergovernmental conference between Republic of Serbia and the European Union opened on 21 January 2014 in Brussels Accession Conference started negotiation process of joining to the EU. Negotiator for Chapter 11 – Agriculture and rural development is the Ministry of Agriculture and environmental protection and this chapter includes a large number of binding rules, many of which are regulations that are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration is essential for the functioning of the CAP.

The implementation, management and control of the CAP requires the creation of appropriate administrative structures such as Paying Agency and IACS – Integrated Administrative Control System as well as capacities for implementation of rural development measures.
Member States have to be capable to apply direct payments for farmers and rules of

[15] preuzeto sa: http://europa.rs/pomoc-republici-srbiji/eu-i-srbija-na-delu/poljoprivreda-i-bezbednost-hrane/

common market organisations for different agricultural products.
After explanatory and bilateral screening in March and May 2014 based on the screening report of the EU Council from 17 June 2015 Serbia was notified that in order for negotiations of chapter 11 to be opened would need to comply in two measures.
First measure refers to Action plan (AP) that needs to be created, and second refers to mechanism for budget implementation for IPARD II. Application for budget implementation tasks for IPARD II in the same time represents prerequisite for finalisation of so called accreditation of IPARD II operational structure and withdrawal of IPARD II funds European Commission delegated to Serbia in amount of 175 million EUR for period 2014-2020. On 14 December 2015 Ministry of Finances (National employee for approval) delivered EC request for delegation of budget implementation tasks (for IPARD II) with appropriate documentation.

5.2 LEGAL FRAMEWORK FOR ORGANIC FARMING IN SERBIA

The first Law to regulate organic farming in Serbia was the Law on Organic Production (RS Official Gazette no 28/2000). The procedure of passing the new Law, entitled the Law on Organic Production and Organic Products (RS Official Gazette no. 62/2006), was completed in 2006. By the end of that year the national logo for labelling of certified organic products was also introduced.
Since the EU adopted new legislation relevant for this field, in 2010 there was a need for Serbia to update the legal framework for organic farming. The result of this initiative was the adoption of the Law on Organic Production in May 2010 (RS Official Gazette no. 30/2010), to be applied as of January 2011. This Law was drafted so as to be in compliance with the new EU regulation on organic farming (Regulation EC no 834/2007 and implementing regulations).
In July 2011 the new Rulebook on control and certification in organic production and on organic production methods (RS Official Gazette mo 48/2011) was adopted, while the rulebook to regulate import and sales of organic produce (Rulebook on conditions of import of organic products, recertification and distribution) is drafted and adoption is awaited for. Pursuant to the new Law, in late 2010 the competent authority for organic farming was established as part of the Directorate for National Reference Laboratories of the Ministry of Agriculture, Forestry and Water Management, and started operating in January 2011. The process of fully bringing Serbian legislation into compliance with the EU regulations in organic farming has not yet been completed, thus the initiative for amending the currently applicable Law. The proposed amendments are at present being drafted, and the final version of the document is expected soon. For several years now the GIZ has provided support to institutions in Serbia such as the Ministry of Agriculture, Forestry and Water Management, Accreditation Body of Serbia (ATS) and control bodies, to develop quality infrastructure in line with the EU standards.
Special support in capacity building was provided to ATS, to offer the service of

preparing assessment report for inspection bodies wishing to be directly recognised by the EC, in accordance with Article 33 of the Commission Regulation (EC) no 834/2007. Note should be taken that in May 2012 the ATS signed the Multilateral Agreement (MLA) with the European accreditation organisation EA on recognising accreditations.

Table 19:
Certification bodies authorised by the MAEP for 2016

Certification body	Website
Centre for food analysis ltd (CIN)	www.cin.co.rs
Control Union Danube d.o.o.	www.control-union-danube.ls.rs
Ecocert Balkan Beograd	www.ecocert.com
Eco Vivendi d.o.o	www.www.ecovivendi.rs
Organic Control System	www.organica.rs
TMS CEE d.o.o	www.tms.rs

6 PAST TRENDS AND FUTURE DEVELOPMENTS IN TERMS OF INVESTMENT

6.1 MARKET POTENTIAL FOR SERBIAN MANUFACTURERS

Agricultural and rural development policy of the new Government of the Republic of Serbia for the future 4 years focuses on supporting competitiveness and export possibility for medium sized farms, improvement of technology, implementation of required export standards and marketing. Also guidelines of agricultural policy are orientated toward additional value of agricultural products, protection of geographic origin and branding, support to organic and integrated agriculture.[16]

Importance of agriculture participating with 10% of share in GDP, 21 % of export value and 20 % of labour force, for the national economy is evident.

- Although the average farm in Serbia is small, with insufficiently high capital reserves, and does not operate according to modern standards, investments in organic agriculture may help it along in its efforts to modernize, in accordance with the general requirements deemed necessary for Serbia alignment with the EU CAP.
- Farming cooperatives are large-scale operations with some capital reserves and the possibility for even larger investments. Such cooperatives can be considered as partners for foreign investments into cereals, oilseeds, as well as on a large scale in the berry and other fruit sectors.
- There are currently 180 major registered companies in the business of cold storage or fruits and vegetables in Serbia. Their total installed capacity is in the range of 600,000 tons. Additionally, there are up to 30 smaller such firms, with aggregate capacity of 200 tons.
- 80 companies have facilities for drying and warm processing of fruits and vegetables, with a capacity of 500 – 600,000 tons.
- 30 - 40 companies can process fruits and vegetables into preserves and juices according to international standards, while the total number of fruit and vegetable processors is estimated to be in the range of 150–200.

The Serbian Business Registers Agency and the National Bank of Serbia record that the EBIT of registered agribusinesses operating in the fruit and vegetable sector (7,100) in 2008 was around 430 million EUR. Taking into account taxation and servicing of any loans and credits, net profits which could potentially be used for investment might have amounted to a maximum of 10-20,000 EUR per firm. While in some cases net revenues might have been considerably higher, it appears obvious that the investment strength of the industry is limited.

Nevertheless, the potential for domestic investors exists, and in contrast to other

[16] Program of the Government of the Republic of Serbia, 2016 A. Vučić

segments of the agro-industry, one of major advantages of investing into organic agriculture is that even with a small investment sizeable returns can be expected. This applies particularly to fresh vegetables and berries.

Attracting domestic capital to the organic sector requires a comprehensive assessment of sales opportunities. As the domestic market for organic products is small, linking of potential investors to international markets should be a major goal in creating the appropriate confidence of investors. Doing business in EU with European clients requires more than just offering products; abiding by contracts and accepted business practices is a condition sine qua non, which translates into the following suggestions for stimulating domestic investments:

- Improvement of the political and economic framework in the country.
- Intensification of efforts to join the EU, EU membership being a major stabilisation factor.
- Facilitation of access to finances, and or operation of special credit lines.
- Familiarisation of potential investors with European business conventions.
- Formation of an information and service centre authorized to facilitate business and to liaise between Serbian and European business partners.

6.2 MARKET POTENTIAL FOR EUROPEAN INVESTORS

Given the limited capacity of domestic investors, the Serbian Government for years has fostered and promoted foreign investment; and in 2016[17] has prepared package of financial support for investors. Regulation on conditions and ways of investments promotion for 2016 defines financing of projects in sector of production and services that can be subject of the international trade.

Externally, Serbia can become customs exempted production centre to markets of more than 1 billion people including here the European Union, Russian Federation, the USA, Kazakhstan, Turkey, southeast Europe, members of Agreement on free trade and Belarus.

This customs free regime covers majority of key industrial products with few exceptions and annual quota for certain commodities. Along with current benefits as strategic geographic location is, customs free export to south-eastern Europe and Russia, the lowest VAT in Europe of 15%, also educated and qualified labour force is available on competitive costs.

Incentives for fostering employment for investors are divided into 5 groups. In the first group are municipalities with development rate higher than average in Serbia. Investors can get 3.000 EUR per per work place and 10% more of the overall investment value.

In the second group are municipalities with development rate from 80-100% of average, investors will receive 4,000 EUR per work place and 15% of the overall investment value.

Municipalities in the third group with development rate from 60-80% of average, investors will receive 5,000 EUR per work place and 20% of the overall investment value.

[17] Regulation on the terms and conditions of attracting investments (RS Official Gazette, no 27/2016)

In the fourth group are municipalities with development rate below 60% of average, investors will receive for each work place opened 6,000 EUR and 25% of the overall investment value.
Government will stimulate the most investors in the fifth group where are devastated and under developed areas of Serbia. For each employee they will receive 7.000 EUR and 30% of the overall value of investment.
From 2000 Serbia received more than 26 billion EUR of foreign investments. Sector of food, beverages and agriculture is on the second place with share of 10.8% ranked according to number of projects, right after automobile industry. Leading countries according to direct investments are Italy (16.9), Germany (13.3), Austria (11.8).[18]
A number of elements to attract FDIs have been highlighted:

- The provision of energy, the expansion of automotive, electronics and IT industries, and a proactive trade policy, in line with the fact that Serbia's political priority is EU integration;
- The signing of the SAA with the EU, liberalization of the visa system, as well as the WTO membership expected to take place in the near future;
- Increasing exports, revamped GDP growth, and a secured national budget;
- Serbia's confirmed potentials for exporting to EU member states, CEFTA and EFTA countries, as well as to Russia, Belarus, Kazakhstan and Turkey, signatories of FTAs with Serbia;
- Increasing number of economic free zones granting exemption from various taxes and duties and providing efficient administration, local subsidies for investments, and a set of other services;
- Low tax regimes with 10% on salaries and 15% on corporate income (average corporate profit tax in the EU is 24%);
- Educated and high quality workforce, available at competitive costs.

Nevertheless, investment opportunities for foreign companies exist and are increasingly being taken advantage of, but the whole sector is still in its early development stage. This provides great opportunities for European, and particularly German companies, with which Serbian economy has traditionally maintained good business relations. Market potential for European investors in the agricultural, and particularly the organic agricultural sector, as far as demand in Europe and especially in Germany is concerned, is mostly in sourcing products, raw materials, and processed goods. Berries, selected vegetables, soy and cereal products but animal products as well might therefore prove to be of highest interest.
Foreign investors decide which country to invest in based on the following two criteria: quick return of investment and high economic effects. The decisive factor for meeting investment criteria is efficiency of operation. Consequently, stable conditions for foreign investments in the agro-industry should meet the following requirements:

- Reliable provision of larger quantities of products of defined quality;
- Upgrading of technical capacities and know-how at all levels of value;

[18] Source: http://ras.gov.rs/

- Upgrading of economic and management skills at all levels of the value chain;
- Integration of agriculture and the agro-processing industry with political investment priorities;
- Full exploitation of financial opportunities provided by the IPA process, and particularly by IPARD funds;
- The familiarisation of potential European investors with the Serbian agro-industrial sector, and facilitated contacting through specialized service and information outlets;
- At all times, demonstration by actual instances that joint ventures with Serbian partners are highly reliable and lucrative.

In the coming period, the main focus of the RS Government continues to be improvement of the business environment and increase in the foreign direct investment, which amounted in 2015 to 1.8 billion EUR.[19] Development Agency of Serbia is the state agency established to undertake developing, professional and operational tasks in supporting and realising direct investments, as well as tasks in promotion and export increase, further more contributing to development and better competitiveness of legal entities, respectability and development of Republic of Serbia in economy and regional development. Development Agency of Serbia (DAS) as the governmental agency offers various services including support to direct investments and export promotion, as well as implementation of projects aimed at better competitiveness, regional development and prestige of Serbia.

As newly established agency DAS continue good practice of the Agency for foreign investments and export promotion (SIEPA) and National agencies for regional development (NARR) improving activities in compliance with requirements of modern market.[20]

[19] The National Bank of Serbia, Governor's office 2016, http://www.nbs.rs/
[20] Source: http://ras.gov.rs/sr/o-nama/nase-usluge

6.3 IDENTIFICATION OF THE SECTOR'S POTENTIALS AND NEEDS

The SWOT analysis of the organic sector presented in this brochure leads to the conclusion that a number of options, possibilities and strengths of this sector in Serbia stand in contrast with many challenges that have to be overcome, so that its identified potentials might fully be utilized.

Table 20:
SWOT analysis of the organic sector in Serbia

Strengths	Weaknesses
• National Action Plan drafted • Legal framework improving • Accreditation Body of Serbia has assessors trained in organic farming • Awareness of need for quality high in many industries • Large areas of agricultural land not polluted and not intensively cultivated, making conversion faster and easier • Positive opinion on organic farming among academia, many farmers, and consumers • National Association in place • Substantial interest of international donors • Systematic education and training, starting from graduate programs in Novi Sad • International cooperation of local academia with University of Kassel started • Close relations already existing with organic markets in Germany, Austria, Switzerland, and The Netherlands • Free trade agreements (EFTA, CEFTA, Russian Belarus, Turkey) • Active involvements of CCI in sector development through established Organic production centre in 2016	• National action plan of development of OP not adopted • Sector and domestic market small • International (EU) markets insufficiently exploited Insufficient cooperation of actors in value chain • Education in both general and organic agriculture insufficient • Lack of advisory sector supporting organic farms • Support program lack continuity and inappropriate • Makeup of farms (many small farms, not cooperating) inappropriate • Attention/interest at institutional level limited • Sector at all levels severely underfinanced, only marginal subsidies earmarked • Financial engagement of international donors marginal • Financial scheme and technical support for creating and running a special unit within the accreditation body not yet defined • Certification systems still non-transparent • Data base on organic agriculture processing and marketing weak and not transparent • National association not supported enough
Potentials	**Threats**
• Evolution into Europe's prime supplier of organic berries and some other fruits and products • Evolution into Europe's prime supplier of organic soybean products • Evolution into Europe's prime supplier of organic food/feed ingredients such as starches, bran, flakes, protein cakes, gluten, hydrolysates, pectin, colours, etc. • Modernisation of agricultural system by organic segment as the driving force • Perspective of becoming major element in IPARD project approval process, and thus in restructuring Serbia's agriculture and rural areas in general • Opportunity to develop agriculture in to a major pillar of Serbia's GDP	• Farms cannot develop to the level of international competiveness • Sector fails to be acknowledged at the political level as the driving force in agricultural development • Politics does not sufficiently recognize organic farming in restructuring the agricultural sector in the process of EU accession • Sector cannot build up international relations and cannot penetrate suit able markets • Sector will be marginalised by developments in other countries, offering similar range of products • Players do not respect accepted EU business systems and are excluded from major international trading • Domestic and international investments cannot be mobilized

7 CHALLENGES AND WAY FORWARD

This review of the organic agricultural sector in Serbia identifies some emerging trends and shows that many actors in the industry are trying hard to advance on the road defined in the National Action Plan for Organic Agriculture Development in Serbia. While general eco climatic factors indicate a vast potential for the development of organic farming, a number of major hurdles and problems still lie ahead and need to be overcome. One major impediment is financial constraint at all levels of the value chain, another is poor organization of players along this chain, and the third one is low efficiency of production, processing, and marketing.

On the other hand, Serbia is on its way to the EU and to implementing IPA programs. IPA Component V (IPARD) will offer investors the opportunity to have more than 60% of their investment financed through IPARD funds. Such a co-financing scheme renders investments into the Serbian agriculture highly attractive. Foreign companies with a locally registered firm can also profit from such a scheme.

Investments into Serbia are also attractive because of low wages and low taxes. While low corporate profit taxes might continue in the future, it is unlikely that low wages can be maintained for long. It is hardly acceptable that minimum wages in Serbia are lower than in some countries, while costs of living are several times higher. Costs of production in Serbia will presumably quickly align with those in neighbouring countries.

Because of this, opportunities have to be sought in specific product sectors. Wine, sugar, milk and meat sectors are expected to remain areas of debate with EU. But no major problems are seen for fruits and vegetables, oilseeds, cereals, and tubers. Apart from fresh and processed fruits and vegetables in many forms, a huge potential for large-scale investments is to be found in soy. There is not a single country in Europe or the Mediterranean that produces and processes soybeans to such a large extent. And GMO-free soybeans cannot even be found. However, it is exactly these GMO-free soybeans that present highest market potential. Building up a complete GMO-free soybean product line would comprise the manufacture of soybeans, of soy oil, soy cake, lecithin, soy milk, soy protein isolates and hydrolysates, and even of sterols and tocopherols. But, it should also be noted that the pressure to cultivate GM soy is high, posing a constant challenge to the organic farmers growing GMO-free soy in their efforts to keep their fields uncontaminated by GM soy.

Both oilseeds and cereals, however, are increasingly in short supply, their prices are climbing continuously, both have a much more favourable CO_2 balance than meat or dairy products, allowing the build-up of a diversified agro-processing industry.

In the past years, Germany and a number of other donors invested sizeable funds in the Serbian agriculture and food sector. In the context of EU accession, the agricultural sector is given priority because of its extremely important role in Serbian economy, and because agriculture is the largest regulated segment of the European economy which absorbs most of the EU budget. A harmonic integration of Serbia's agricultural sector into CAP is crucial for the success of Serbia's accession, and of highest importance to the European Commission. As a bilateral partner of Serbia, and also in context of its international obligations, Germany intends to continue supporting Serbia in its efforts to modernize its agriculture, particularly its organic sector. Such assistance might be implemented on the following levels:

- Institutional level – by intensifying policy advisory work and upgrading absorption and steering capacity for agro-political concepts and financing instruments, especially within the framework of IPA;
- Educational level – by strengthening university partnerships, increasing the exchange of academia, and by facilitating the integration of Serbian R&D initiatives into international settings;
- Processing level – by stronger promotion of modern technologies, processing and marketing systems. This might be an area of engagement for KfW as well, through opening of a specific credit line;
- Farm and production level – by upgrading the extension services and promoting all measures that allow the exploitation of the economy of scale effects. This might be achieved primarily through the propagation and support of associations and cooperatives.

With such engagement, Serbia may hope to speedily and efficiently become a major player on the European Union's organic produce markets.

NATIONAL ASSOCIATION FOR ORGANIC PRODUCTION „SERBIA ORGANICA“

Serbia Organica is a national association for organic agriculture committed to developing organic farming and organic market in Serbia. Established in May 2009, it is an independent non-governmental organisation initiated by organic agriculture sector stakeholders.

Serbia Organica is an umbrella organisation providing a hub for the entire organic agriculture sector in Serbia. Our mission is to make organic farming stable and competitive on both the national and international markets. Serbia Organica is a focal point when it comes to information on organic agriculture sector and provides matchmaking and B2B liaison opportunities. Moreover, it carries out market research and facilitates connections with foreign buyers. As a national association we promote research and development in organic farming and attract experts in the sector, and in addition we also conduct various promotional and awareness raising campaigns in order to develop, advance and disseminate organic production information and know-how.

By virtue of our position we have access to information related to the entire organic sector of Serbia.

Our activities are an integral part of the National Action Plan for Organic Production Development in Serbia.

Serbia Organica aims to encompass all the elements with the ultimate goal of promoting the values of organic production.

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ACCESS–PROGRAM FOR PRIVATE SECTOR DEVELOPMENT IN SERBIA

The ACCESS is a program implemented by the German international cooperation organisation GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). It aims to further Serbia's economic development and facilitate the country's future membership in the European Union by supporting the implementation of the Serbian National Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship, as well as the National Program Integration into the EU.

The ACCESS program is implemented by the GIZ in collaboration with the Ministry of Agriculture, Trade, Forestry and Water Management and the Ministry of Economy and Regional Development, as well as Serbian business organisations. Through ACCESS's assistance small and medium-sized enterprises in select sectors and regions are being empowered to make better use of their production, employment, and growth potentials, and to find new markets both in the region of South East Europe and the EU.

Specifically, ACCESS works with private sector market players, RS Government, universities, organic agri-business operators, civil society, as well as farmer groups in the organic agricultural sector, in order to accomplish the following:

- Support the development of sound policy environments that enable open markets, private sector investment, and gender-equitable access to factors of production, products, and income;
- Promote effective institutions and services, such as application of research and new knowledge in agriculture, to enable both female and male producers to acquire, protect, and use the assets they need to take advantage of emerging market and trade opportunities;
- Strengthen producers and organisations in rural areas in order to help them participate effectively in markets, reduce transaction costs, acquire productivity-enhancing technologies, and make use of pertinent information on national, regional, and international markets;
- Support the development of product standards and quality control to meet eu market demands for food safety, purity and quality, and there by reach higher-value markets;
- Assist in appropriate marketing measures that will enable agricultural producers to reach national, regional and global markets;
- Assist in the development of the public sector's role as monitor, regulator and referee as well as the provider of market-facilitate in goods and services;
- Support to advancing quality of research and education in organic agriculture sector and attracting additional funding sources through integrating Serbian R&D programs into EU research programs, facilitating exchange of Serbian scientists and scientists from EU Universities and institutes, and promoting membership in various international associations for organic production.


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Bio Špajz d.o.o. operates as a retailer, wholesaler and producer of organic, macrobiotic and health food and beverage in general.

Founded in 1986. with local and international business partnerships lasting over two decades **we value longevity and mutual satisfaction**. As a sign of good business practice and excellent financial background Bio Špajz is awarded Small and Medium Enterprises sertificate of Excellence (SME Excellence by Serbian Chamber of Commerce).

Providing our customers with **widest range of quality products**. Our retail and e-commerce stores are the most known in the region.

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The company Jovanjica, founded in 2011 and with over 60 employees is a leader in the Serbian market in the production and distribution of organic products. Alongside with our own greenhouse production and open field planting, we have developed a system of cooperation, within which we work with more than 200 certified organic producers, covering more than 1,000 acres of certified organic land. Our goal for 2018 is to include in our system over 700 certified organic producers, with more than 3000 hectares of certified organic land. Our cooperating partners receive counseling at all stages of the organic production and certification as well as material acquisition, and the purchase and placement of products to end customers.

Currently, we supply more than 200 supermarkets in Serbia with a rich variety of products and articles. Our range of products includes fresh and dried fruits, vegetables, juices, jams and processed fruit and vegetables products as well as milk and dairy products, meat and meat products, eggs, flour and pasta. Also included are cosmetics and hygiene articles. Due to numerous contacts with organic producers across Europe, the list is updated daily with new products and articles.
Jovanjica also deals with the import and export of organic products. We opened three offices in Russia, Germany and Greece. As we have capacities to further develop our network, we are always interested in new contacts. We implement the agreed business obligations in accordance with current European standards.

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