The Development of Institutions for Serbia Organic Food Market Considering the Accession to EU

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SUMMARY

Within the food and beverages products category, organic food products are one of the most competitive markets in the EU today. Therefore, this paper discusses current features of the organic food scene in EU and in Serbia. Following that, alternative scenarios for entrance with organic food "Made in Serbia" into the EU market are elaborated. The first of them is inclusion on the Third Countries List as a long-term project. The second approach, joint co-certification, is easier to apply, with the first steps already done. The third scenario is based on acquiring certificates by contractual relationship with EU accredited certification organizations.

Key words: organic food, EU organic food market, organic food marketing
Journal of Economic Literature (JEL) code: M00, M39, Q00

INTRODUCTION

Food issues, or to be more precise, shortages in food were one of the major reasons for the unification of European countries after World War II and still has great importance for its stability and development. The fact that a great part of the EU budget is devoted to subsidies in agricultural sector shows this clearly. However, since establishing this union in 1957, there has been an obvious shift from solving the problems of food availability at that time (a quantitative problem) to the problems of food safety standards and protection of consumer rights in the field that is present now (a qualitative problem). This reality has to be accepted by every country within the EU or that has aspirations to become a member state of the EU. Therefore, it is in the best interest of every country to find the way to be part of the solution (instead of the problem). One of the solutions certainly is organic production practices and supply of these kinds of products. Serbia as a country on its way to the EU membership has a substantial potential in regard to this. Therefore, the intention of the paper is to point out major issues related to possibilities to enter the EU market with organic food as a direct response to EU consumers' needs. Alternative scenarios to be elaborated are developed primarily based on a Serbian case study, but bearing in mind similarities of organic sectors in neighboring countries (that are on the waiting list as well), they may have applicative value in those countries as well.

ORGANIC FOOD MARKET FOOD SCENE IN THE EU

Although the roots of organic agriculture in today's EU countries can be traced back to the 1920s of the last century, it could be said that this form of agricultural production started to get wider acceptance, and become market oriented, by the late 1980s (Vasiljev and Sudarević,2004; Dimitri and Oberholtzer,2005). In that period organic agriculture had made a significant transformation from a so–to-say "sectarian" approach to agriculture by a marginally small number of farmers to a scientifically supported model of environmentally-friendly agricultural practices and a way of life for a constantly increasing number of consumers. It is known in the EU and worldwide under a three different names: ecological, organic and biological agriculture, but in its essence it implies production of raw materials and finally packed food products based exclusively on the use of organic substances without any use of synthetically (artificially) produced materials. Or to be more precise, under the definition of IFOAM (the International Federation of Organic Agricultural Movements):

"Organic agriculture is a production system that sustains the health of soils, ecosystems and people. It relies on ecological processes, biodiversity and cycles adapted to local conditions, rather than the use of inputs with adverse effects. Organic agriculture combines tradition, innovation and science to benefit the shared environment and promote fair relationships and a good quality of life for all involved.” (www.ifoam.org)

The demand for organic food in EU countries is in constant rise due to several factors. Since the late 1990s there has been a significant increase in the use of market support policies including investment aids, consumer promotion and public procurement, although these are less common in the new member states (Stolze and Lampkin, 2006). Beside this, one of the most important drivers for this, in majority of member countries, is growing presence of organic food in large supermarket chains, which has resulted in greater availability of organic products. The increasing demand is also a consequence of the fact that consumers are becoming more health conscious day by day. New information is available through the mass media about the harmfulness of certain materials contained in conventionally produced food. Facts publicly available on the site of the World Health Organization (www.who.int/health-topics/en/) are really terrifying: in average each of us has an intake through food of 4.5 liters of pesticides and herbicides and about 5 kilograms of additives yearly. More than 30 million cases of poisoning with pesticides is reporting yearly worldwide, of which about 100,000 have fatal consequences. On top of this, if we know that about 90% of the harmful substances affecting our health enter our organism as an integral part of food, it is logically that most of the modern illness like cancer, all kind of allergies, cardiovascular and nervous system diseases can be to a large proportion directly contributed to the overchemiscalisation practices of conventional agricultural production. Major crises in animal husbandry production (BSE, foot and mouth disease and the dioxin crisis, to name just a few) also contributed towards a shift in consumers’ purchasing habits, driving them to look for more semi-processed and finally packed goods with organic labels on them. According to results of a study conducted in the UK, the main drivers of constant increase for organic food products, measured as a percentage of respondents that stated reasons for purchasing them, were:

- health consciousness (36%),
- better taste of organic products (31%),
- they are more natural (25%),
- they are GMO free (12%) and
- environmental protection (5%).

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The supply side in the equation of EU organic food market is trying to respond to the steady increase in demand for such kind of products, but cannot achieve an overall level of self-sufficiency. For example, according to the study of Hamm at al. (2002), EU countries had a deficit in the supply of organic meat, organic fish, fruits and to some extent vegetables, and even milk and cereals. The fact that organic food production in EU countries is unevenly developed (Richter, 2006), with great differences between individual countries, presents a substantial obstacle in achieving the goal of self-sufficiency (see Table 1).

Table 1. Organic Agricultural Land (In-Conversion and Fully Converted) in EU 15 (2009)

Country	Organic hectares (in 1,000)	Percent of agricultural area
Austria	518,757	18.50
Belgium	41,459	3.02
Denmark	156,433	5.88
Finland	166,171	7.25
France	677,513	2.47
Germany	947,115	5.59
Greece	326,252	3.94
Ireland	47,864	1.16
Italy	1,106,684	8.68
Luxembourg	3,614	2.76
Netherlands	51,911	2.69
Portugal	151,460	4.36
Spain	1,330,774	5.35
Sweden	391,524	12.56
U.K.	721,726	4.47

Source: www.organic-world.net/statistics-data-tables-excel.html

The organic consumer market in the EU is the most important one in the world. With turnover at the level of 26 billion USD in 2008, it represents the biggest slice in the organic world pie chart (www.ifoam.org). However, uneven distribution in the shares of individual countries is present, just as when the production areas are in question. Namely, a very high percentage of 72% of total organic sales in EU is covered by only four countries: Germany, France, the UK and Italy.

Consumers of organic products in the EU can roughly be divided in two groups (www.fas.usda.gov). The first group, the so-called “regular buyers”, is a rather small group that has been buying organic products for decades. This group includes environmentalists, nature lovers, and socially conscious people. Although this group is small, they are responsible for almost half of European organic sales. Regular buyers tend to buy at organic specialty shops or farmers’ markets. For them price is not an important purchasing decision factor.

The second and much bigger group is quite different. Double-Income-No-kids households, older consumers (aged 50-75) and New-Trends seekers will fall in this group. They buy organic products for various reasons, including a healthy lifestyle, food safety concerns, animal welfare, sustainability, quality and taste of food, price, and innovative packaging. This group, the so-called “light buyers”, buys organic products mainly at hyper/supermarkets. This is the group that the organic industry should focus on to generate further growth in the near future.

ORGANIC FOOD SCENE IN SERBIA

The first organized forms in the promotion of ideas about organic agricultural practice and consumption of organic food took its place in the territory of the former Yugoslavia in 1991 with establishing the NGO "Terra's" in Subotica (Sudarević et al., 2007). Its first activity was related to organic vegetable production on virgin land in the Horgos Desert. The quality of the products grown at that experimental field was outstanding, clearly indicating advantages of organic production methods over conventional agricultural practice. Parallel with these field trials, members of Terra's organization started a series of consumer education activities on benefits in using organic foodstuffs in everyday menus (www.terras.org.rs). This was of great importance for the creation of initial consumer groups that led to the organic market continuously developing up to these days. How vital this market is could be seen from the fact that even in the harsh economic conditions in the period 1991–2000, when Serbia was exposed to international community sanctions, the second largest hyperinflation in the world ever, and large macro-economic and political instability due to local wars in the region, it prevailed and kept momentum, never being reduced to its initial position.

The second period of organic market development in Serbia coincidenced with democratic reforms in 2001 and lasted up to 2010. With reintegration of Serbia to the international community, organic food sector is recognized as important contributor to the economic recovery of the country. This was the view of not only the national authorities but of the international community as well. It is the main reason why Serbia was one of the countries where the stability pact project named “Introduction and development of organic agriculture in South East European countries”, was conducted in the period 2001-2006. The importance of this project is enormous because for the first time a set of different activities related to development of the organic sector (according to the concept “from farm to fork”) could be done simultaneously. It comprised the organised education of agricultural producers (so-called “bio-schools”), consumer education through the mass media, education of inspection and certification staff, extension service staff education, publishing of educational materials (newsletters, brochures, video and CD editions), the establishing of NGOs for spreading the organic agriculture concept in different regions, the establishing of experimental field trials and a whole set of promotional activities with degustation of organic food as very convincing from the standpoint of the consumers. One of the most visible results of activities in that period is a sharp increase in number of specialized food shops for the sale of organic products (so-called „bio-shops“) as a response to the increase in demand for this category of products.

The third period in the development of the organic sector in Serbia is characterized by creating an institutional framework for the further advancement that started in year 2010. Adoption of the Law on Organic Agriculture in 2010, which is harmonized with EU regulations in this field, meant that Serbia got a sound base for a meaningful and effective development of this sector. Beside that, only a year earlier, a national association for development of organic production named Serbia Organica was formed as an umbrella organization that brings together all actors on the organic scene in Serbia (http://serbiaorganica.org).

Another important institutional development is the establishment in 2010 of four state-funded centers for organic agriculture development. Namely, by the decision of the Ministry for Agriculture, Water Management and Forestry, in accordance with natural potentials for the production of different kinds of organic products, centers were opened in: Selenca (Vojvodina, Northern Serbia) for annual crops (mostly cereals and vegetables), Valjevo (Western Serbia) for perennials (fruits), Svilajnac (Eastern Serbia) for animal husbandry and in Leskovac (Southern Serbia) for wild fruits and medical herb collections. Subsidies for organic food producers in 2010 reached a value of 10 million RSD (approximately 100,000 euro), which is far from enough but still represents a clear signal that government is ready to support this sector for development. It is important that all groups of organic products have been supported under the subsidy program; namely producers of annuals have received 250 euro per hectare, animal husbandry producers from 150 euro down to 50 euro per animal, 5 euro per bird in poultry farming and 20 euro per hive for beekeeping producers (www.mojafarma.rs/index).

The most accurate date on organic food production in Serbia can be found in a brochure named “Organic Agriculture in Serbia” that was published in January 2011. It is the result of a research project conducted under the leadership of experts from GTZ (a German organization for technical support and cooperation) and FIBL (a Swiss organic research institute).

Table 2. Organic Agricultural Land in Serbia by crop (2009)

Category	Crop	Area fully converted (ha)	Area in conversion (ha)	Total (ha)
Perennials	Apples	650	550	1200
	Raspberries	360	20	380
	Strawberries	80	10	90
	Plums	420	170	590
	Cherries	100	50	150
	Others			2560
Subtotal				4970
Annuals	Maize	20	210	230
	Wheat	40	130	170
	Soybean	10	400	410
	Vegetables and others			427
Subtotal				1240
Grassland		50	2240	2290

Source: Marz U. et al., 2011

General features of the supply of organic products in Serbia are the relatively modest number of hectares in relation to total agricultural land (only 8,500 hectares) and a very narrow assortment of cultivated species. The picture becomes a bit brighter if we add to this the fact that about 230,000 hectares of forest are also considered as organic areas, hence they supply the organic market with collected wild fruits and medical herbs. Even then, if the total organic area (including forests) is related to the total agricultural area in Serbia, it represents only 0.04%, which puts it in the group of countries with the lowest share of organic area in total agricultural area on a global scale. Thus, it could be said that increase of organic production in Serbia is possible due to unexploited natural potential (fallow land and nature protected regions at first place).

The main producing zones are the southern and western parts of Serbia and almost all of the territory of Vojvodina (northern Serbia) (see Figure 1). The dominance of perennials in the structure of organic land usage is absolute, with 60% of the total area, while 25% is used as grassland and only 15% devoted to annuals production. A general characteristic of agricultural production in Serbia is that individual holdings are in average very small (about 3.5 hectares per household) and division into 5-6 lots is present in organic production as well. According to expert opinions, in 2009 there were about 3,000 small producers engaged in organic agriculture with a total farm gate value of production at the level of 20- 25 million euro.

Figure1. Organic agriculture production regions in Serbia

One of main features of agricultural products in general – that they have to be to a large extent processed in order to satisfy the needs of the consumers adequately – is present in the case of organic products as well (Sudarević, 2007). The food processing industry in the domain of organic agricultural products in Serbia is a vital sector consisting of about 30 small and medium-sized enterprises. Their main feature, beside their commitment to preserve the quality of raw materials, i.e. the valuable substances in them, is that they have in their product portfolio conventionally processed products as well. In other words, the program of organic food products is an additional one with the main purpose to improve the profitability and image of the enterprise. Although the number of processing facilities is very modest, their product portfolio for national and foreign markets is comprehensive. Right now, through different marketing channels (in first place "bio-shops" in Serbia), consumers can satisfy their needs for products based on integral cereals and oilseeds, medical herbs, non-GMO soybean products, dried, frozen and pasteurized vegetables, apple pulp and concentrate, jams, blackberry juices and vine, frozen berry fruits, dry fruits and bio-cookies. As we may notice, almost everything that we consume as conventionally produced and processed products can be found in an organic version as well.

It is very difficult to make a precise follow-up of organic product flow from the farm to final consumption due to the lack of adequate data. Generally it could be said that fresh vegetables and fruits are marketed on a domestic level almost exclusively (mostly in green markets and marginally within box scheme programs), while processed foodstuffs are partly exported and partly sold on the domestic market with the engagement of different members of distribution channels (mostly in "bio-shops" and in recent years in supermarkets to a modest degree as well). The main feature of exported organic food from Serbia is that it is at the low level of processing (mainly frozen fruits and vegetables in bulk packages, dried fruits, medical herbs and apple concentrate) which means that the country of origin remains unknown to the foreign consumer, who cannot find that information on the label of finally packed products of domestic processors.

ALTERNATIVE SCENARIOS FOR ENTRANCE TO EU ORGANIC FOOD MARKET

As was said in the introduction, the main focus on the food market in the EU today is on issues of food quality. Institutionally this care for consumer health in the EU is in responsibility of DG "Health and Consumer Policy". As a result of its initiative, a so-called "White Paper" was adopted in the year 2000 with which a European Food Safety Authority was formed. It is an independent expert body, free of political or other vested interests, with its main aim being to act with openness and transparency, publishing immediately its findings concerning risks to European consumers. The White Paper also proposed an action plan with a wide range of measures to improve and bring coherence to the Community's legislation covering all aspects of food products from "farm to table". It sets out over 80 separate actions that are envisaged over the period ahead with the intention to close identified loopholes in existing legislation.

Beside this, another mechanism of EU consumer food protection is Codex Alimentarius regulations. Since 1963, when the Codex Alimentarius Commission was formed by the FAO and WHO with the aim to develop food standards, new (more rigorous) regulations in field of production, processing and fair trade practices have been continually arising. It is important to stress that in this Commission, all EU country members are represented, as is Serbia.

Having in mind these entry requirements to the EU food market, and in particular to the organic food market, alternative scenarios for organic food produced in Serbia in entering to the EU market could be as following. The key conditions for achieving any of them are the governmental incentive for the spreading of organic farming practice, through the scheme of subsides, and better organization of the organic farmers (establishment of cooperatives).

ALTERNATIVE SCENARIO I

The most favorable mode of entering the EU organic market for any country outside the EU is to be on the list of the Third Countries. The latest version of this list comprises eight countries: Argentina, Australia, Costa Rica, India, Israel, Switzerland, New Zealand and Japan (www.organic-europe.net). For these countries the export of organic food products to EU countries is possible without additional certification from an EU organic food authorized body. That means that national certification bodies in these countries (for example in Switzerland it is Bio Suisse) are accepted to issue certificates of the organic origin of food that are of equal value to the one from any EU accredited certification body.

Advantages of such status are obvious. Exporters from the above-mentioned eight countries have a price advantage at the entry point to the EU market. The cost of additional EU certification immediately decreases price competitiveness of the organic food products that come from the countries that are not included on the list. Beside that, the additional paper work that has to be done is time consuming and makes the flow of goods and payments between partners in the EU and in the country of export more difficult.

The key question for Serbia (and other countries as well) is how to become a member of the "club". According to available information, the procedure is long and complicated. The main precondition is to have at the national level complete legislation in field of organic food sector that is compatible with EU legislation. After formal submission of a request it is necessary to prove, over a sufficiently long period, that the legally established rules are consequently applied. Just then does a country have the possibility to be included in the Third Country List, which (in general) requires long work and patience.

ALTERNATIVE SCENARIO II

For those countries not included in Third Country List for all organically produced foodstuffs, when entering the EU market, certification by one of the officially accredited bodies is obligatory. A less "painful" way to fulfill this requirement will be elaborated in scope of this scenario. The main point in the strategy to be implied under this scenario is to establish joint venture enterprises for the certification of organic food in Serbia. This means that national accredited certification body in Serbia together with national accredited bodies from EU member countries (some of them are presented with their logos in Figure 2) form an independent certification body whose label will be accepted when entering the EU. In other words, the logo of an EU accredited certification body will be a guarantee for fulfillment of EU organic production and processing standards. The main precondition for the realization of such a scenario is compatibility in the inspection system that is behind certification in all country partners included. If that is the case, it will enable the inspection work to be done in Serbia by a national accredited inspection body, thus saving unnecessary costs of foreign inspectors' visits. This is the strategy already applied by one of the strongest certification organizations in Serbia – Organic Control System (OCS) (www.organica.rs). Namely, in cooperation with BCS – the German accredited organization for inspection and certification of organic agricultural products – they are in a position to make all of necessary inspections and to deliver certificates to the producers/processors that will be co-certified by their German partner, thus enabling entrance into the EU market. The role of the BCS is to educate inspectors employed in the OCS and to supervise their work, for which they charge certain fees, but far less compared to carrying out all of the inspection and certification activities personally.

Source: www.ifoam.org

Figure 2. Logos for organic products in Europe

ALTERNATIVE SCENARIO III

The final scenario is the most "painful" for exporters of organic food products to EU market. This implies the active role of EU accredited inspection and certification bodies in the territory of Serbia in order to get their certification. This is by far the most expensive way how to enter the EU market. Keeping in mind the fact that organic agriculture (and processing of organic raw materials) is at a low-scale level, in many cases it is the main reason for absence of high quality organic foodstuffs made in this country on the EU market. The costs of foreign inspection and certification are simply too high for farmers with relatively small acreage under organic production. In the absence of other possibilities to reach EU organic food market, this is least favorable but only choice.

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