

AGRICULTURE IN SERBIA

Andra-Valentina Tudorica¹, Velibor Potrebi²

Abstract

Only agriculture remains as the main economic activity in the rural areas, the primary source of income and improvement in the standard of living of the rural population. In that sense, reducing poverty, eliminating hunger, raising productivity, and protecting the environment in rural areas – all in a sustainable manner - represent a number of complex objectives which has to be efficiently governed toward development of a market oriented agriculture and is one of the most fundamental challenges the country is facing today.

Key words: *agriculture, fruit production, organic agriculture, regional development.*

Introduction

Agriculture is one of the most important economic activities in Serbia. The total area of agricultural land is 5,097,000 hectares with around 80% arable land. Primary production from agriculture, hunting, forestry and fisheries accounted for over 10% of GDP in 2011. Already a major component of the economy of the Republic of Serbia (RoS), agriculture has considerable goal for increased production and efficiency. With appropriate policies and support it could become a powerful engine of economic growth.

¹ Author: PhD Economist. Andra-Valentina Tudorica; Adr: Unirii Square, Giurgiu, Romania; Tel: +40 0720416855; e-mail: andra_valentina2007@yahoo.com; Institution: Academy of Economic Studies; Adr: Romanian Market, Bucharest, Romania; Tel:+40 021.319.19.00, e-mail: rectorat@ase.ro

² The paper represents a part of the research at the project III - 46006 – Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals' realization within the Danube region, funded by the Ministry of Education and Science. Co-author: Velibor Potrebi ,M.A.,Research Assistant, Institute of Agricultural Economics Belgrade, 11060 Belgrade, Volgina 15, phone: +381 (0)11 2972852, e-mail: velibor_p@iep.bg.ac.rs

Agricultural exports continue to expand and contributed about 24% of total Serbian exports in 2011. Agriculture's contribution to the economy is as broad as it is deep. Approximately 44 percent of the population live in rural areas, of whom one-third rely wholly or in part on agriculture for their livelihoods. Large tracts of fertile land, particularly in the Vojvodina region, allow the production of most food commodities and assured an adequate food supply throughout the economic and political turmoil of the 1990s. Some 200,000 people (10 percent of the work force) are employed in agro-processing and agricultural service industries.

Table 1. Main Country Indicators

	Total area (in km ²)	Population (excl Kosovo) (thousands)	Population density (per km ²)	GDP (EUR mio)	GDP growth (% change from previous year)
Serbia	77 474	7335	95.3	29 963	-10.4
All West Balkan countries ¹	264 462	23 658	89.2	109 569.30	-3.42
EU 27	4 308 406.6	501 103	116.0	11788711.1	-4.2

Characterised by rich land resources and favourable climate, agriculture represents a vital sector of the Serbian economy. Two thirds of the population in rural areas are involved in agriculture. The importance of agriculture in the Serbian economy is derived from natural conditions and the traditionally important role of the primary agricultural and food processing industry.

A variety of different favourable natural conditions result in a high diversity of agricultural production. There are three broad agricultural regions that can be distinguished in Serbia on the basis of geography and climate, land quality, farm production systems, socio-economic development and political and administrative boundaries, namely: Vojvodina, Central Serbia and Southern Serbia.

Serbian terrain ranges from the flat and rich lowlands of Vojvodina in the north for crop farming and vegetable production, to hilly terrain in central Serbia and high mountains on the eastern, western and southern borders of the country, suitable for sheep and cattle breeding, and fruit and wine production.

Agriculture is one of the most important industries of the Serbian economy. In 2011, primary production from agriculture, hunting, forestry and fisheries accounted for over 15% of GDP¹ .

Agricultural production is based on privately-owned farms, thus farm structure is dominated by small private households. Private farms cultivate approximately 89% of agricultural land, or 80% of arable land. However, the most important producers are large farms, also representing the bedrock for large processing capacities.

Cereal exports are also significant, particularly maize. While not fully competitive with major Central European exporters such as Hungary, Serbian cereals are nevertheless competitive in neighboring Macedonia, Bosnia-Herzegovina, Montenegro and Kosovo – all of which have large structural cereal deficits. An increase in on-farm productivity (higher yields, lower production costs etc) would further improve the competitiveness of wheat and maize, and is readily attainable.

Oilseed crops also have considerable potential for export, although the ability to realise this potential will depend on the extent to which processing efficiency can be improved.

Over 700,000 farmers in Serbia with average of 3,4 ha of land and 2 cows, present disadvantage for development of conventional agricultural industry, but great potential for organic production. Because of its competitive nature, production and processing of organic food is a great opportunity for further development of Serbia. For several years now, Serbia has been undertaking enormous efforts to modernize its economy and join the WTO and EU. Various support measures are giving positive effects and the appointment of Serbia as a candidate country is expected in the nearest future. In this context, one of the areas which require considerable adjustments is Serbia's agricultural sector. Europe's Common Agricultural Policy (CAP) regulates markets and mechanisms for many agricultural products and the integration of Serbia's agriculture into the CAP is a manifold challenge.

Worldwide, organic food markets are governed and driven by the same economic principles as all other industries. The turnover from organic products in Europe has reached several billion euros and annual growth rates are typically close to 10%. Demand is growing much faster than domestic production. It is this trend which propels economies to translate organic food manufacturing potentials into export opportunities. With its abundant agricultural land and its long agroindustrial tradition, Serbia can look forward to transforming these advantageous factors into export opportunities and invigorating its domestic market.

The Serbian National Action Plan for Organic Agriculture shows that Serbian political decision-makers have realised the country's potential for organic farming and started preparing the necessary framework to turn these opportunities into real business. The GIZ has supported the development of the National Action Plan and is assisting Serbia in reducing constraints in the development of the agricultural sector in general, and of the organic subsector in particular. The organic sector in Serbia has attained a respectable base:

- Several associations promote the organic sector and develop it systematically as lobby organisations.
- Governmental institutions and ministries, spearheaded by the Ministry of Agriculture, Trade, Forestry and Water Management monitor and take care of the sector's needs.
- About 20 academic institutes, faculties, R&D facilities and affiliated bodies help to design and propagate most appropriate farming and cropping systems
- More than eight certification bodies make sure that international rules for organic practices are respected and that the resulting product, manufactured by almost 4,000 farmers and partially processed in about 30 special companies, complies with all international standards and requirements.

On more than 8,000 hectares of agricultural land, a product portfolio mostly consisting of fruits, berries, vegetables, some cereals and some oil crops, generates a farmgate value of some €25 million. Most of this product is exported, particularly to the EU, as domestic market development is hampered by the insufficiently increasing purchasing power of consumers. Demand for the organically grown product exists in many countries and Serbia has excellent ecoclimatic and technical

conditions to cultivate, in addition to the traditional berries and fruits, organic cereals and oil crops that are in high demand. So far, however, farms engaged in organic farming need 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 market.

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.

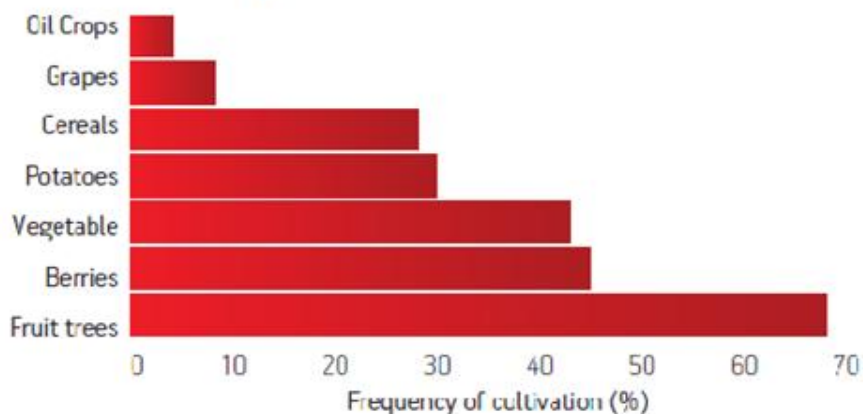
Arable land under organic farming accounts for about 8,500-9,000 ha or 1-1,1% of the surveyed land total. The survey results suggest that organic farming is mostly practiced in southern and western Serbia, followed by Vojvodina. Out of total agricultural land under organic cultivation, perennial crops are planted on almost 40% and annual crops on 16%. The balance (44%) goes to grassland and pasture. Within the category of perennials apples dominate, then go plums, followed by various berries, notably raspberries. Cereals, soybeans and vegetables are the main annual crops grown. Although berries are the main export crop, it appears that farmers are diversifying to other crops, opting mostly for apples and plums. There is also a significant increase of land under annual crops.

The survey data suggest that almost 4,000 small-scale farmers are involved in organic production. Yields on such farms cannot be the same as in conventional agriculture, and prices obtained are usually not identical to those obtained for conventional crops. In the absence of clear empirical data, a first approximation comes to the conclusion that the farm-gate value of all organic crops grown in 2009 ranges from €20 to €25 million.

Fruit trees and berries are still cultivated, but growing of vegetables has almost been discontinued. However, small farms with less than five hectares cultivate cereals on small plots and for home consumption only, growing fruit trees and berries on most of their land instead. Vegetables are grown mostly on farms whose size ranges from 5 to 10 ha. All farms having more than 5 ha, however, have land that is not cultivated and is used either as pasture or simply left fallow.

In the category of berries raspberries dominate, while plums and apples are most important crops among the fruits. Raspberries, plums and apples are grown on more than 70% of all certified acreage.

Table 2. *Frequency of fruit cultivation*



Capacities of most of these companies are small and the number of registered fruit and vegetable processors with more than 200 is still very high. All of them are obliged by the law to implement HACCP standards. Refrigeration companies dominate that sector, presumably because it takes less effort to certify a refrigeration plant under HACCP, than to invest in a full processing line for juices or jams. About 30 food processing companies manufacture organic products, virtually all of them processing conventional produce while operating an organic line additionally.

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:

- Small farming finds it hard to take advantage of the economy of scale effects and thus its per rata 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 chain, but not on the primary level.
- Farmers usually produce commodities, for most of which prices are formed on an international basis, with little allowance for local peculiarities.

- Processors are also squeezed between having to operate on a scale which causes high per unit costs and the demands of international marketing. For most products, margins thus generated at processor level are small, albeit higher than at the farmer level.

The national rural development program

In 2010, in accord with its responsibility for rural and agricultural development, the Ministry of Agriculture, Trade, Forestry and Water Management (MATFWM) drafted The National Rural Development Program 2011 – 2013, setting the objectives and visions of future agricultural and rural development, particularly within the envisaged WTO accession, and EU integration. National Rural Development Program 2011 - 2013 was adopted in February 2011.

The program focuses on improving the competitiveness of farms and integrating primary production with processing and marketing, so that value accrues along the entire chain and increases competitiveness, since with joining the WTO and the EU the pressure on small farms to compete internationally is expected to rise. Goals and Objectives of the National Rural Development Program 2011 – 2013:

- Development of a profitable processing industry, capable of manufacturing products of high demand for domestic and international markets.
- Development of rural areas attractive for rural populations to live and work in, and evolve their own identity.

Financial support for the organic sector

Financial support to the organic sector started in 2005/06. In that year, the MAFWM for the first time planned incentives for organic production in the form of reimbursements for certification costs. A separate law concerning subsidies for organic production and organic products earmarked an amount of €19,000. In 2007 and 2008 funds were planned to cover the costs of the period of conversion into organic. In 2008 incentives for organic agriculture and organic cattle production in the conversion period were set aside, and €1,000 disbursed. In 2009 the MAFWM authorized 27 operators' subsidies totalling €46,000. In 2010 the MATFWM received 98 applications for subsidies, 53 were approved with total amount of €200,000.

By adopting Council 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 Regulations recognize 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 lowinput farming, and typical local production provide a combination of positive environmental, social and economic effects.

SWOT of the organic sector in Serbia

Strengths:

- Trained assessors in the field of organic agriculture in Accreditation Board of Serbia
- Awareness of need for quality high in many industries
- Large areas of agricultural land not polluted
- Positive opinion on organic farming among academia, many farmers, and consumers
- Road to EU accession
- Systematic education
- International cooperation of local academia with University of Kassel started
- Close relations already existing with organic markets in Germany, Austria, Switzerland, and The Netherlands

Weaknesses:

- International (EU) markets insufficiently exploited
- Insufficient cooperation of actors in value chain
- Education in both general and organic agriculture insufficient
- Makeup of farms (many small farms, not cooperating) inappropriate
- Sector at all levels severely underfinanced, only marginal subsidies are marked
- Financial engagement of international donors marginal
- Financial scheme and technical support for creating and running an accreditation body not yet clarified
- Certification systems still non-transparent

- Data base on organic agriculture processing and marketing weak and not transparent

Threats:

- Farms cannot develop to the level of international competitiveness
- 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 suitable markets
- Sector is marginalized by developments in other countries, offering similar range of products
- Actors do not respect accepted EU business systems and are excluded from major international trading.

Rural poverty

Poverty increased dramatically during the Milosevic era. More than one third of the total population (2.8 million people) were below a relative poverty line of \$US2/day in 2000, compared to 14.1 percent of the population (1.2 million) in 1990. Eighteen percent of the population (1.4 million people) live below an absolute poverty line of \$US1/day. Households with large, dependent families; those in which the head is either unemployed or employed in the industrial sector; and refugees and internally displaced people are the most vulnerable. The poverty gap widened, from 1.0 percent of GDP in 1990 to 3.1 percent of GDP in 2000 (Table 14, Annex 3), although poverty remains shallow.

Most of the increase in poverty is attributable to a severe drop in income, from a GDP of \$US 2500/capita in 1990 to \$840-\$990/capita in 2000. However low, stable gini coefficients indicate that all income groups have suffered in equal measure, with no widening of the income distribution.

Rural areas have a much lower incidence of poverty and extreme poverty, relative to urban areas. Rural poverty has also increased more slowly since 1990. Nevertheless, 29% of the rural population, approximately one million rural people, are currently below the poverty line of \$US2/day. Of these, 430,000 rural people live in extreme poverty. The average income deficit gap is similar between rural and urban areas, with many rural

households close to the poverty line. There are no empirical data on the characteristics of the rural poor. But they are likely to include the socio-economic groups identified above given that both urban and rural poor are vulnerable to deteriorating access to social services, falling wages, and/or loss of unemployment.

Reform of Direct Support for Agriculture

Public support for agriculture in Serbia has evolved on an *ad hoc* basis, rather than as a coherent response to sector issues. Direct producer support has been inappropriately targeted, has been transferred in inappropriate forms, and has yielded little tangible production response. Producer subsidies do not remedy the underlying causes of low output and productivity. Moreover, subsidies have received a higher priority than support for the institutions and roles for which a Ministry of Agriculture should be responsible in a market economy. Future public expenditure should be allocated on the basis of well-defined sector objectives and priorities that are consistent with broad economic policy, including the need for fiscal rigor, and that support the proper role of government in a market-oriented economy. Direct support should also be transparent, predictable and wellarticulated to ensure that it does not become a source of instability in agricultural markets. It should also be more poverty oriented. Preparation of a realistic, forward-looking agricultural sector strategy is the starting point for this process. This strategy should then be linked to the MAFWM budget as the basis for future direct support for agriculture.

Agricultural Extension

Agricultural extension in Serbia is delivered through the semi-autonomous Institute for Science Application in Agriculture (ISAA). The ISAA employs about 750 staff in 34 agricultural stations across Serbia, and is partly financed by an annual budget from MAFWM (107 million dinars, or US\$1.75 million, in 2002). Additional income derives from agricultural activities and fees for services to private farmers and AKs. Except in its animal-selection tasks, the ISAA works mostly with medium- to large-scale private and socially-owned farms, its activities being centrally planned and primarily commercial in nature. As such, the ISAA is a potential candidate for privatization following restructuring. Better access to knowledge and information through agriculture research, extension and education is an important strategy for improving

agricultural productivity; however government should proceed carefully with the provision of technical services to farmers. Public institutions should first work with industry stakeholders to develop an agricultural knowledge and information system (AKIS) strategy. This strategy should differentiate information requirements by client type, from subsistence farmers to large scale commercial agricultural firms. Development priorities, public and private roles, social and commercial outcomes, mass media and information technology functions and cost recovery criteria and mechanisms would be integral components of the AKIS strategy. The development of an agricultural research master plan is a necessary component of an AKIS strategy. Once finalized, the strategy should lead to a logical pattern of institutional reform consistent with the desired outcomes.

In Serbia, the Ministry of Science Technology and Development (MSTD) funds all research including that in agriculture, primarily focused on plant and animal selection. However, the six leading agricultural research institutes typically earn in excess of 80 percent of their income from royalties, product sales and regulatory and consulting services, with the result that little time is spent on their primary research and development mission. Each institute's Management Committee includes MSTD and institute nominees, while its Scientific Council is institute appointed. There is little farmer representation, if any, in institute management. The capacity of Serbian universities to support research is limited by funding and resource constraints.

Regional Classification

Three distinct regions were identified on the basis of geography and climate, farm production systems, socio-economic development, and political and administrative boundaries: Vojvodina, central Serbia, and the mountain region of southern Serbia. While the precise delineation of these regions is somewhat arbitrary and can be debated, the broad characteristics of each region are quite distinct and provide an adequate basis for a regional differentiation of policy.

Region 1: Vojvodina

The Vojvodina is a distinct political and administrative entity, comprising 28 percent of the total land area of Serbia and 26 percent of the total population. It is the wealthiest region, and experienced a net inward

migration from 1995-1999. Fewer than 10 percent of municipalities are classified as underdeveloped according to the UN Human Development Index (HDI). There are fewer villages in the Vojvodina than in other regions, and there is a relatively low population density (94 people/km²), but villages are linked by a reasonable transport and communications network.

Agriculture is a major component of the Vojvodina economy, with 32 percent of Gross Social Product in 1999. Crop production predominates because of the region's fertile soils, good growing conditions, and high proportion of arable land (76 percent of land area). In 1999, the Vojvodina accounted for 56 percent of Serbia's wheat production, 62 percent of maize production, 91 percent of sugarbeet production and 92 percent of sunflower production. Commercial vegetable production is also important. Fruit and wine have a limited role. Intensive pig and poultry production are more important sources of diversification, with 39 percent and 34 percent of total livestock numbers.

Producers in this region are more strongly market-oriented than in the other two regions. Vojvodina farmers account for most of the marketed surplus of grains, oilseed, sugarbeet, pigs and poultry. Milk production is also strongly market-oriented. The Vojvodina also accounts for most of Serbia's agro-processing capacity for these commodities. Its strong commercial orientation is attributable to the high proportion of agricultural land farmed by socially-owned Aks (36 percent), and to a core of relatively large (50 hectare-500 hectare) private farms. Socially-owned agro-processors are a major element of agro-processing and marketing.

Region 2: Central Serbia

Central Serbia accounts for 29 percent of the total land area of Serbia and 44 percent of the total population. It is the most diverse and densely populated of the three regions, due in part to the influence of Belgrade. The capital city is an important source of markets and employment, and also accounts for this region's higher levels of infrastructure. GDP/capita is slightly lower than in the Vojvodina, and there is a higher proportion (21 percent) of municipalities classified as underdeveloped according to the Human Development Index. But severe rural poverty is not widely observed.

Rural areas are characterized by the region's hilly topography, small farms and diverse farm production systems. Such topography limits both the area of land suitable for agriculture (66 percent) and the proportion of agricultural land suited for arable use (67 percent). Farms are small. In line with the region's higher population, per capita availability of arable land is 0.29 hectare/capita. The agricultural potential of this arable land is good nevertheless, with fertile soils and favorable climatic conditions. Production systems are fairly intensive as a result, and the region accounts for a large proportion of high-value fruit and vegetable crops. Ninety percent of berry fruits, which are a major export commodity, are produced in this region. There is also a high concentration of livestock, particularly cattle for milk production. Processing and marketing activities are dominated by fruit, vegetables, milk and meat, much of which is sold in Belgrade.

Private-sector activity is strong in this region, with almost 95 percent of agricultural land privately owned. A high proportion of agro-processing remains socially-owned, but most of these enterprises are now independent of their former AK parent companies and are likely to attract strong interest for privatization. Privatization is only the start of enterprise rejuvenation however. The enterprises involved in the marketing and processing of fruit and vegetables need to increase their operating efficiency, improve their links with producers in order to increase supply and improve product quality, and improve their access to both domestic and export markets.

Region 3: Southern Serbia

With 44 percent of the total land area of Serbia, Southern Serbia is the largest of the three regions, and also the poorest, least developed region. Much of the area is mountainous, with 37 percent of the total area classified as forest and only 54.9 percent classified as agricultural land. As only 55 percent of the agricultural land is arable, per capita land availability is not high (0.28 hectare/capita). The scarcity of arable land and the harsh climatic conditions in many areas limit the potential for agriculture. Communities in this region are the most isolated in Serbia. Rural communities tend to be located around pockets of arable land, and are small and highly dispersed; there are many small villages and a low overall population density. Together with the mountainous terrain these characteristics also render the provision of infrastructure very expensive, and so increase the isolation of villages from markets and each other. GDP/capita is 35 percent lower than in Vojvodina, and 58 percent of

municipalities are underdeveloped according to the Human Development Index. A substantial proportion (19 percent) of all municipalities are classified as severely underdeveloped. The low level of socio-economic development is further illustrated by the fact that southern Serbia has the largest number of villages, but the weakest level of infrastructure. Widespread rural poverty has been a major determinant of the net out-migration recorded for Central Serbia and Southern Serbia during the period 1995-1999 of which much is from Southern Serbia.

Household incomes are very low, particularly in isolated areas, a consequence of the low potential for agriculture, poor access, and lack of opportunities for non-farm employment. The resulting poverty levels have been exacerbated by the out-migration of the last 50 years, which has left a predominance of older people in rural areas. Many villages have been abandoned entirely, and others face the same prospect.

Agriculture is dominated by livestock production, particularly cattle and sheep. Orchards and vineyards are also important. The region has over 50 percent of Serbia's area planted to grapes and over 40 percent of its orchards. But production is largely subsistence, and the region accounts for a very small proportion of marketed surplus. Agro-processing capacity is relatively small as a consequence and is directed to wine, tobacco, sheep, fruit and vegetables. Given the limited potential for agriculture, low levels of socio-economic development, and poor infrastructure and access to markets, aggregate agricultural production will probably contract further in the medium term. The more marginal and isolated rural areas will continue to be abandoned, and farming in this region will increasingly concentrate in the areas of more fertile land, closer to major urban centers.

Not all rural communities face abandonment, however. The perimeter of mountains, national parks, historical sites and national monuments that rings southern Serbia offers considerable potential for agro and eco-tourism. This potential is enhanced by the preservation of local traditions and the diversity of minority ethnic groups in many of these areas. There is also potential to develop niche products such as mountain fruits and herbs, many of which could be exported to neighboring countries. For many producers in this region, Sofia is much closer than Belgrade. Not all rural people have access to these opportunities, however, and a concerted effort is needed to help those who do.

A number of traditional agricultural activities that were economically important in the past have now declined, but may still have considerable commercial potential. Production of spring lamb was once important in the area, though today, a large-scale socially-owned sheep farm has virtually closed because of a shortage of funds and lost markets, and lamb production is now a fraction of earlier volumes. Cheese production was also important, as were fruit and vegetables. Wild boar is native to the area, and hunting and fishing is popular. The difficulty of getting consistent quality from numerous small producers is a problem common to the region. The food industry needs produce that is cooled, sorted, graded, packed and targeted at specific markets. The need to improve logistical infrastructure in the region with assembly sheds, grading and packing equipment, transport facilities and cold stores is obvious. A relatively low investment in packing sheds in the production areas, each about 800m², would revitalize the traditional porcini industry and support development of a quality product that could compete internationally throughout the season. Sales should be to Sofia (about 63 km distant), Skopje (120 km) and to the port of Bar on the Adriatic coast for export to Bari and Ancona in Italy.

These opportunities cannot be exploited without investment and technical assistance, and the local community does not have the economic base to secure such investment. A community assistance program with some grant funding is needed to catalyze such developments.

Conclusions

Private sector agents should be the target of these measures, as they are most likely to respond quickly, and so catalyze sector recovery and growth. Hence, the immediate priorities for action are as follows:

- Reform trade and incentive policies;
- Strengthen commodity and farm input marketing systems;
- Rejuvenate the food marketing chain;
- Improve access to rural finance.
- Complete the privatization and restructuring of agrok-ombinats and agro-processors;
- Strengthen land markets;
- Initiate reform of public institutions for agricultural support;
- Rehabilitate drainage canals.
- Complete the reform of public institutions for agricultural support and land administration;

- Promote regional development;
- Restore the physical and institutional infrastructure for irrigation, drainage and flood control.

Immediate attention should be given to the allocation of resources between subsidies and public institutions. Public responsibilities such as border control, plant and animal health, research, training and education should receive a higher priority for support, particularly given the need to align many of these functions with EU standards. The focus, level and form of subsidy should also be reviewed: first, to assess its economic impact; second, to ensure that it is consistent with requirements for WTO membership; and, finally, to consider the rationale for aligning these policies with the CAP.

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