## FOOD INDUSTRY-Review

Food Industry in BiH has seen as insufficiently developed sector due to many different factors making the obstacle for development of this sector. In addition to many other factors, they are as follows: old technologies, expensive production, market contestability including unfair competition, slow and uncontrolled transition and many other similar factors. Moreover, domestic production largely depends on imported inputs and raw materials due to insufficient production of some crops in BiH which cannot meet the demand of existing processing capacities.
All of this is followed by one of the characteristics of local processing facilities, which is insufficient processing capacity, plus inadequately used processing capacities which, then cannot be competitive as large processors. On the other hand, there are no accredited laboratories for agro-food products quality control in BiH. Having in mind that existing food processing capacities in BiH cannot fulfil European standards, it is necessary to create more favourable ambience in order to achieve those standards.
Obviously, the capacities of large ex state enterprises are not sufficiently utilised due to impossibility to fulfil the required standards, while small and medium enterprises are of a local type, meaning they can employ only small number of workers. In addition, they are not capable of fast investments into processing.
Having in mind all existing problems, the strategic development of the food sector needs to be considered together with financial support as well as creating linkages with producers. Moreover, harmonisation with EU rules and regulations needs to be faster and more efficient.

Food Industry Review (2008)

| | **No. of facilities** | |
|---|---|---|
| | **FBiH** | **RS** |
| Milling Industry | 25 | 36 |
| Milk Processing | 29 | 25 |
| Meat Processing | 11 | 58 |
| Fruit and Vegetable Processing | 4 | 4 |
| Confectionery Production | 3 | 5 |
| Beer and Alcoholic Drinks Production | 5 | 15 |
| Non Alcoholic Drinks and Mineral Waters Production | 49 | 50 |
| Vine Making | 43 | 13 |
| Tobacco Production | 3 | 1 |
| Sugar Production | - | 2 |

*Source: MAWMF FBiH, MAFWM RS*

### 2.1. FOOD INDUSTRY – FEDERATION OF BiH

Almost all food industry is represented in the FBiH, except sugar, oils, ethil alcohol, barm production, malts, children food and dietary products.
As far as food industry is concerned, it is important to mention that some capacities were out of function in FBiH such as the following ones: Tobacco Factory Mostar, „Agrokomerc“ d.d. Velika Kladuša, „Frigos“ Čelić – fruit and vegetable processing and „Hepok“ Mostar, Vine making industry.
The level of utilisation of the food industry capacities in FBiH has been shown in the Table below.

The Level of Utilisation of the Food Industry Capacities in FBiH (2008)

| | % |
|---|---|
| Milling Industry | 29,3 |
| Milk Processing | 54,6 |
| Meat Processing | 36,1 |
| Fruit and Vegetable Processing | 16,9 |
| Confectionery Production | 16,3 |
| Beer Production | 49,8 |
| Non Alcoholic Drinks Production | 43,2 |
| Mineral Waters Production | 16,0 |
| Vine Making | 15,9 |
| Tobacco Production | 61,1 |

*Source: MAWMF FBiH*

Size of Food Production (2007-2008)[1]

| | Unit | 2007 | 2008 |
|---|---|---|---|
| Wheat powder | t | 122.628 | 115.023 |
| Pasta | t | 1.177 | 1.227 |
| Fruit juices | 000 l | 8.259 | 6.902 |
| Jams | t | 3.078 | 1.993 |
| Canned vegetable | t | 5.386 | 3.656 |
| Meal additives | t | 767 | 754 |
| Fresh meat of all types | t | 4.481 | 6.300 |
| Delicatessen | t | 460 | 1.317 |
| Sausages | t | 9.589 | 14.626 |
| Concentrated soups | t | 128 | 126 |
| Milk | t | 64.721 | 78.513 |
| Milk powder | t | 411 | 291 |
| Butter | t | 307 | 406 |
| Cheeses | t | 1.952 | 2.568 |
| Candies and cocoa products | t | 2.733 | 0 |
| Confectionery | t | 4.140 | 5.022 |
| Coffee | t | 2.969 | 2.487 |
| Beer | 000 l | 75.143 | 74.760 |
| Vine | 000 l | 4.237 | 4.217 |
| Refreshing non alcoholic beverages | 000 l | 198.820 | 134.179 |
| Fodder | t | 30.783 | 39.806 |
| Cigarettes | t | 4.370 | 4.283 |

The 2008 FBiH Budget, section 24-budget of MAWMF of FBiH, position „Transfer to Food Industry" (Official Gazette of FBiH No. 97/07) allocated an amount of 1.251.300,00 KM to food industry. Financial subsidies to food industry have been introduced following the „Mid Term Development Strategy of Agricultural Sector of FBiH for the period 2006-2010." with the objectives as follows:

[1] Note: statistical data do not represent the real situation of the processing in FBiH. It is estimated that the real processing is significantly higher than published data.

- *production increase, and expansion of the assortment,*
- *production modernisation and improving quality of products,*
- *increase competitiveness of domestic processors on both local and foreign markets,*
- *increase collection of agricultural products,*
- *increase employment,*
- *protection of geographical origin of the product.*

The MAWMF FBiH made a program of utilisation of funds following the criteria of "Transfer to food industry" in 2008, assuming to provide support to the following:

- *investment into food industry,*
    - *support to fruit and vegetable processing,*
    - *support to processing milk into cheese,*
- *co financing introduction and certification of the quality control and food security systems based on international standards in 2008,*
- *project design-construction a model of ULO cold stores (low level oxidation),*
- *organising seminars and workshops in all cantons aiming to educate food producers and processors about the importance of introducing quality control system and food security systems following international standards,*
- *Geographical Origin Certificates.*

In the FBiH, in 2008, Tobacco Company Mostar, and „Hepok“ d.d. Mostar, have been privatised.
Any privatisation activities in 2008 resulted in contracts for sale of 67% of state capital to Tobacco Company of Mostar. However, by the end of 2008, the buyer did not fulfil the contracted obligations relating to no paid salaries to the employees from the previous period.
In 2008, all planned activities relating to sale of 67%of the state enterprise of „Hepok“ d.d. Mostar has been completed. A Contract with „Amko Komerc“ d.o.o. Sarajevo and AD „Vino Župa“ Aleksandrovac was signed on 10.10.2008. Sale of Tobacco factory of Sarajevo has been postponed due to the Proejct of the Government of Federation of BiH for merging two companies, Sarajevo and Tobacco Factory of Mostar.
For the time being, the only company in Federation of BiH, as far as privatisation of food sector is concerned, is „Agrokomerc“ d.d. Velika Kladuša, which was returned to FBiH Government by Decree on the authorisation of state capital share in „Agrokomerc“ d.d. Velika Kladuša. The FBiH Privatisation Agency offered several privatisation models as the options for this state company.

Late 2008, there has been a Law amending the Law on state enterprises (Official Gazette of FBiH No.84/08).

## 2.2. FOOD INDUSTRY – REPUBLIC OF SRPSKA

As far as food industry in the RS is concerned, there are 553 registered enterprises[2]. Total number of enterprises that are at the stage of transition is 50, including fruit and vegetable processing, meat industry, milk processing, breweries, tobacco industry and beverages production.

There are nine enterprises that have seen as strategic ones for the RS, which included special programs for transformation of the ownership of state capital.

The RS Strategic Enterprises

| | **Activity** |
|---|---|
| SC Banja Luka Brewery | Beer production |
| SC Tobacco Factory Banja Luka | Tobacco production |
| HPK „Draksenić“ Kozarska Dubica | Chemical processing of maize |
| SC Fabrika šećera Bijeljina | Sugar production |
| SC „Vitaminka“ Banja Luka | Fruit and vegetable processing |
| SC Diary Banja Luka | Milk processing |
| SC „Fruktona“ Banja Luka | Beverages production |
| SC „Sava“ Bijeljina | Fruit and vegetable processing |
| Fodder processing Factory Nova Topola | Fodder production |

If we exclude these strategic companies remaining 41 are companies that have been organised following the principles of stock companies. Many of them, after having been transformed into stock companies are seen as very successful in the Stock Exchange and continued to transform their status. HPK „Draksenić“ is the only no privatised strategic company and it works with only 25% of its capacity. There are installed capacities of 50.000 t of the processed maize per year. Due to lack of raw materials and lost market positions, the development of this company is very much slowed down. As far as enterprises with smaller share of state capita are concerned (stock companies) no matter if they have been privatised in the meantime, the decrease in employment has been noted, insufficiently used capacities as well (about 30%) and extremely high financial debts. From the point of labour employment and utilisation of the available capacities, only several companies kept it at the same level with potential growth trend, and those are the following companies: A.D. „Vitaminka“ Banja Luka, A.D. „Mira“ Prijedor and A.D. „Vitinka“ Kozluk, Zvornik. The fruit and vegetable processing capacities with installed equipment being under bankruptcy stage now are: „Bosanka“ Doboj (25.000 t finalised products), „Sava“ Bijeljina (15.000 t finalised products) and „Foodprodukt“ Šamac (10.000 t finalised products). One of the most significant processors of fruits and vegetables is A.D. „Prijedorčanka“ with its exports to foreign markets. As far as breweries and beverage processors are concerned, it is important to highlight that Banjalučka pivara (Banja Luka Brewery) and „Vitinka“ Kozluk have kept their business at a successful level while „Fruktona“ Banja Luka cannot cope with certain problems. As far as meat industry is concerned, it is noted that all of the processors keep providing slaughtering and small services by being registered as individual work/shops.

[2] Source: RS Government, „Information on the state and conditions of food industry with proposals of measures“, June 2008.

Based on the facts and figures of 2006 and 2007, it is noted that development of processing industry is far more faster than meat production (number of registered companies). Current level of meat production cannot meet the demands of local markets. There are much more processing facilities that may compensate obvious lack of products by having consumers strongly believe that safety of domestic products is the greatest, which can strongly encourage direction of meat industry development.
Milling and Bakery industry – it is important to mention that utilisation of the installed capacities largely depends on import of wheat. Storage and milling capacities differ from several thousands up to 50.000 t. However, technology levels of mills and storages differ as well. Ex state owned, huge, mills become stock companies now do have modern equipment (SC „Žitoprodukt“ Banja Luka) on the contrary of small private mills having old technologies and poor quality of products.
Agricultural Combinat „PIK“ Šamac faced bankruptcy stage now. However, on the basis of the plan adopted by the Assembly of Holders of Debt Claims, the company is obviously going to be reorganised and production will start soon. SC „Mlinsko pekarska industrija“ Modriča utilises only 30% of available capacities. After having been privatised, new owner did not improve status of the company and the future of the company seems fairy uncertain.
One of the largest companies in the region of Herzegovina is SC „Žitoprodukt“ Bileća with its main activity of milling products, followed by bakery and fodder production. This company has not been working for many years now due to unsuccessful privatisation process. Uncertain collection price of cereals (wheat) did not influence the increase of scope of production, on the contrary it even led to production stagnation of milling industry development. In the times to come, the same growth tendency is expected n milling industry due to unfavourable conditions for wheat production (small size parcels) and very low accumulation in this sector of production.
The following important companies deal with fodder production: „Alfa-Miks“ Donji Žabar, „Gold-MG“ Donji Žabar and „Agro-Trebinje“ d.o.o. Production is very much stable with the average volume of 25.000 t per year, and three are 70 full time employees in this industry.
The most significant companies in confectionary industry are as follows: „Mira“ d.o.o. Prijedor, „Aleksandrija“ d.o.o. Zvornik, SM „Eksport“ Gradiška, „Centrum“ d.o.o. Istočno Sarajevo and DRD „SWISSVON“ d.o.o. Trebinje.
The companies of „Mira“ Prijedor and „Aleksandrija“ Zvornik, have reached very high level of production. They are seen as great exporter since they got export licences and excellent export performance, and „Aleksandrija“ introduced ISO and HACCP standards proving their high productivity level as well as production of safe food.

If we take into account that only seven companies in the RS introduced HACCP systems, and all neighbouring countries are far ahead of RS (70% of companies possess export licences), it is obviously to introduce measures for industry improvement. Greater financial funds and more operational funds have to be allocated to this sector in order to make the RS Food Industry in line with their competitors.

In 2008, food industry sector was largely involved in designing the project for Milk production and processing at the level of BiH.
There has been a database designed for all processing activities by „Designing reference documents following BAT – techniques for food industry“.

## MILK PRODUCTION AND DIARY INDUSTRY[3]

In 2008, there have been 35 dairy processing plants in BiH, i.e. 22 in FBiH and 13 in RS. In addition to these registered dairies, there have been several small family dairies.

According to the estimates of „Milkprocessing“ d.o.o., all operational dairies have capacity of 420 million litres (FBiH 260 million litres and RS 160 million litres) and about 59% capacities have been utilised. In 2007, 38 dairies had capacity of 410 million litres (FBiH 257 million litres and RS 153 million litres) and 50 % capacities was utilised.

Dairies Structure as per Milk Processing Capacities(2007-2008)

| Capacity (l/day) | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | No. of dairies | Processing (l) | % | No. of dairies | Processing (l) | % |
| >100.000 | 5 | 128.124.000 | 64,3 | 5 | 152.655.000 | 64,7 |
| 50.000-100.000 | 5 | 34.704.000 | 17,4 | 4 | 39.554.000 | 16,8 |
| 20.000-50.000 | 5 | 14.193.000 | 7,1 | 5 | 15.514.000 | 6,6 |
| 10.000-20.000 | 9 | 13.511.000 | 6,8 | 9 | 20.842.000 | 8,8 |
| <10.000 | 14 | 8.666.000 | 4,4 | 12 | 6.780.000 | 3,6 |
| **Total** | **38** | **199.198.000** | **100** | **35** | **235.345.000** | **100** |

*Source: Milkprocessing d.o.o.*

The milk processing industry in BiH is totally privatised, but 5 dairies are owned by foreign companies. The share of these dairies in total milk processing sector is 57%. The trend of constructing new dairies has been hold up and total number of dairies is slightly decreasing. In last two year, 9 of them get out of business (FBiH 5 and RS 4).

However, production program has been significantly improved and expanded in comparison with situation before the war. It includes increase of value added products such as 10-12 new products including range of packing. The main production program of 27 dairies is still based on short lasting milk products (such as yoghurt, cream, fresh cheese). Cheese making program has been oriented toward three main types of cheese as follows: fresh, semi-hard cheeses and hard cheeses. However, cream cheeses, aromatised semi hard cheeses and similar products have not been introduced into local processing yet in despite of taking great share of cheese import to BiH, which again indicates there is market for this kind of products. The share of modern milk/sour drinks (law fat yoghurt, bio yoghurt, fruit yoghurt) has been increasing in processing of most dairies. It is important to highlight the efforts of small family dairies to include some brands, autochthon products into their production process such as cheese in ship skin pepper filled with cream and cheese, white salted cheese and similar products. Although the size of this production is very modest for the time being, the fact is that they become part of processing and they potentially may be the opportunity for small dairies development.

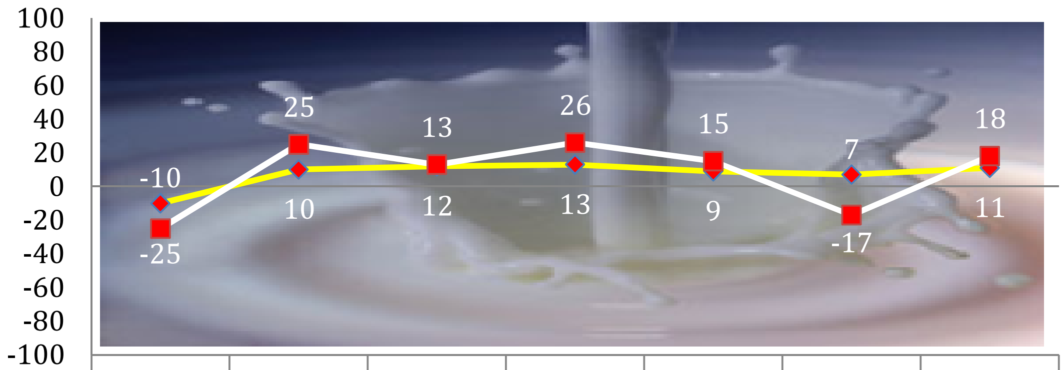
[3] Source: Milkprocessing d.o.o., Dairy sector in BiH in 2008 – characteristics and development trends

In 2008, dairies have proceeds the volume of 233,4 million litres of milk, meaning 17% more than in previous year. Federation BiH – dairies processed about 62% of total milk volume, while the RS dairies processed 38%. In last three years milk processing sector is developing at the average rate of 14% (FBiH 16% and RS 13%).
As far as general structure of milk processing is concerned, fluid milk products share is 76,6%, followed by cheese 19,2% and other products 4,2%. Structure of milk processing has not been significantly changed since 2002, meaning that predominant products are fluid products and UHT sterilised milk.
With regard to installed processing capacities, some serious changes cannot be expected in near future due to the fact that structure of milk processing in neighbouring countries and EU are much more favourable for long lasting products such as (cheeses, milk powder, and butter).

Production of Milk Products (2007-2008)

| | Unit | 2007 | 2008 | Index 07/06 | Index 08/07 |
|---|---|---|---|---|---|
| Pasteurised Milk | ooo l | 5.900 | 4.454 | 90 | 75 |
| UHT Sterilised Milk | ooo l | 100.027 | 124.679 | 110 | 125 |
| Yoghurt and other fermented drinks | ooo l | 32.546 | 36.893 | 112 | 113 |
| Cream, sour cream | ooo l | 12.151 | 15.386 | 113 | 126 |
| Cheese: | | | | | |
| - *hard and semi-hard* | t | 1.965 | 2.540 | 99 | 129 |
| - *fresh, mixed* | t | 2.902 | 2.435 | 130 | 85 |
| -*feta and similar* | t | 212 | 752 | 45 | 192 |
| - *other* | t | 186 | 332 | 80 | 178 |
| Total cheese | t | 5.265 | 6.059 | 109 | 115 |
| Milk Powder | t | 434 | 361 | 107 | 83 |
| Milk butters and Kajmak | t | 654 | 977 | - | 149 |
| Butter | t | 440 | 654 | - | 148 |
| Processed Milk | ooo l | 199.198 | 235.339 | 111 | 118 |

Milk Products Production Growth Index (%)




| | pasteurized milk | UHT sterilized milk | yoghurt, kefir, etc. | cream, sour cream, etc. | cheese | milk powder | processed milk |
|---|---|---|---|---|---|---|---|
| 2006/2007 | -10 | 10 | 12 | 13 | 9 | 7 | 11 |
| 2008/2007 | -25 | 25 | 13 | 26 | 15 | -17 | 18 |

Compared to previous year, the size of production seems increasing with all types of products except pasteurised milk and milk powder production. The greatest increase has been noted in production of UHT sterilised milk, about 24,6 million litres, which is a kind of result of introduction of new processing facilities and significant growth of export performance. Although production of fermented products such as yoghurt and cream, at BiH level, is higher by 15% than in a year before it still keeps the low share in total milk production (19,2 %). However, cheese production is encouraged with some seriously steps taken in the processing of long lasting chesses, hard, semi hard, salted, etc. While production of milk butters and creams noted great increase by 49% since last year it is notably developing and growing. Milk powder and butter do not take some significant share in total milk processing and they are only organised as secondary processing or to resolve some surplus of milk.