
A WORD FROM THE MINISTER

The agriculture of Bosnia and Herzegovina is at turning point and facing many challenges. The Ministry of Foreign Trade and Economic Relations of BiH has the task to put the challenges into a common framework conducive to a new consensus about the objectives to be set in BiH for its agriculture, by creating an ambitious and well-balanced agricultural policy able to respond to the challenges and to offer solutions for the future. Globalization processes have not passed by any sector of the economy, including the agriculture. For quite a while, problems encountered by Bosnian-Herzegovinian farmers have been in the focus of not only the state administration, farmers' associations, associations for consumer's protection and similar organizations active in this sector, but also of the public at large. We are witnessing a world crisis bringing about a great instability in prices. Despite of the present decrease, the experts agree that food prices will have an ascending trend, and that the market will be further liberalized. Imbalances between the potential and the supply in our agriculture and food industry at domestic and international markets require serious reforms, if we are to improve the competitiveness of domestic producers and to upgrade the quality of life of the rural population. An accelerated EU accession process in BiH is yet another reason for a stronger mobilization of all stakeholders, in order for all inevitable reform processes in agriculture to ensure a sustainable and prosperous development of agriculture and rural areas in the coming period. The Ministry of Foreign Trade and Economic Relations initiated a number of structural changes in agriculture, in cooperation with the Ministries of Agriculture of the Federation of Bosnia and Herzegovina and of Republic of Srpska, and with the Department of Agriculture in Brčko District of BiH. This year, the Law on Agriculture, Food and Rural Development was adopted at the national level, as a framework legislation that defines responsibilities and tasks for all institutions competent for agriculture and rural development. Our goal is to join the European Union, so that all our legislative activities are taken in that direction. Harmonization is an imperative, and we are taking activities that will result in major changes in this sector. Institutions working in the field of agriculture, food and rural development are undergoing the process of reorganization, as these are the most decisive days for us. We are dealing with serious issues in the economy in general, agriculture included. It is not enough to be critical, we have to get involved and look for solutions. We need to learn from the experience of other countries that have gone through this same process recently. We are trying to obtain support from EU member states through mutual cooperation and established partnerships. In June this year, BiH signed the Stabilization and Association Agreement (SAA) with the EU. The purpose of the Agreement is further support to the economical and political stability of Bosnia and Herzegovina. With this Agreement, BiH confirmed its status of a potential candidate country. SAA determines in a way the relations between Bosnia and Herzegovina and the European Union in all the three pillars of the Union: the first being economic policy and common market, the second common foreign and security policy, and the third one – cooperation in judicial and home affairs. The present report gives an overview of the situation in BiH agriculture in 2007. Fully aware of the factual situation, I would like to underline at the end that we remain determined to invest all our knowledge and energy into finding better solutions for building common institutions and reliable financial and legal frameworks that will bring about better future for the agriculture of Bosnia and Herzegovina.



**Minister
Mladen Zirojević**

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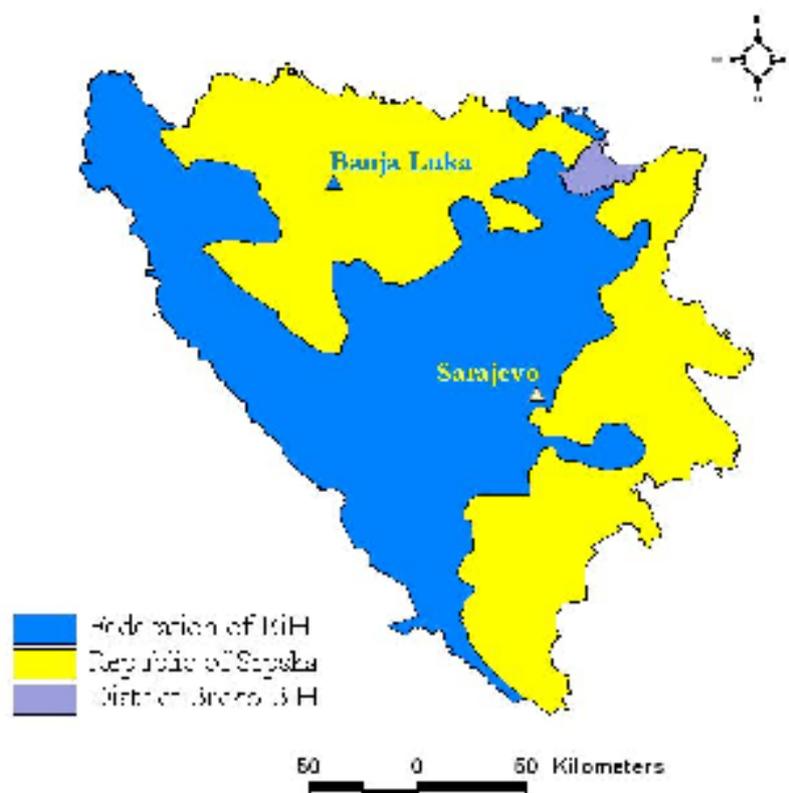
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ACRONYMS AND ABBREVIATIONS

ADA Austrian Development Agency	KM Convertible Mark
AEZ Agro-Ecological Zoning	LAG Local Action Group
AMS Aggregate Measure of Support	LEADER Liaison entre action de developement de l'economie rurale
ASH BiH Food Safety Agency	MoFTER BiH Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina
ATM Autonomous Trade Measures	NTD Negotiation Territory Development
BD BiH Brčko District of BiH	NUS Unexploded lethal ordnance
BH MAC BiH Mine Action Center	NVO/NGO Nongovernmental Organization
BiH Bosnia and Herzegovina	OIV The International Organization of Vine and Wine
CARDS Community Assistance for Reconstruction, Development and Stabilization	PHARE Program of Community aid to the countries of Central and Eastern Europe
CEFTA Central European Free Trade Agreement	PLUD Participatory Land Use Development
ECON Economic Cooperation Network	RASFF Rapid Alert System for Food and Feed
EEZ Ecological-Economical Zoning	RK Register of Clients
EU European Union	RPG Register of agricultural farms
FAO Food and Agriculture Organization of the United Nations	RS Republic of Srpska
FBiH Federation of Bosnia and Herzegovina	RS MoAFW Ministry of Agriculture, Forestry and Waters of Republic of Srpska
FIB Federation Investment Bank	SAPARD Special Accession Program for Agriculture and Rural Development
FBiH MoAWMF Federation Ministry of Agriculture, Waters and Forestry	SESMARD Support to the Establishment of the State Ministry of Agriculture and Rural development
FSC Forest Stewardship Council	SIDA Swedish International Development Cooperation Agency
GDP Gross Domestic Product	SOTER Soil Terrain Database
GIS Geographic Information System	SAA Stabilization and Association Agreement
GTZ Deutsche Gesellschaft für technische Zusammenarbeit GmbH-GTZ	UHT Ultra High Temperatures
HACCP Hazard Analysis Critical Control Point	UNDP UN Development Program
HCVF High Conservation Value Forests	USAID US Agency for International Development
IDA International Development Association	WTO World Trade Organization
IFOAM International Foundation for Organic Agriculture	ZIS Land Information System
IMO Institute for Market Ecology	
IPA Instrument for Pre-accession Assistance	
IPARD Instrument for Pre-accession Assistance for Rural Development	
ISPA Instrument for Structural Policies for Pre-Accession	
IUCN International Union for Conservation of Nature	

BOSNIA AND HERZEGOVINA - PROFILE

BOSNIA AND HERZEGOVINA



Area	51.209,2 km ² sea 12,2 km ² land 51.197 km ² plains 5% hills 25% mountains 42% Karst 29%
Administrative Organization	Federation of BiH, Republic of Srpska, Brčko District of BiH
Capital	Sarajevo
Population	3.842.942
Climate	predominantly continental, Mediterranean in the south
GDP (in million KM)	21.641
GDP per capita (KM)	5.633
Official languages	Bosnian, Croat, Serbian
Currency	Convertible Mark (KM) (1 KM = 0,511292 EUR)

Bosnia and Herzegovina is situated in the center of the Balkan Peninsula. The relief of BiH is mainly hilly and mountainous with the average altitude of 500 m.

In geographical terms, BiH consists of four large regions.

Central Bosnia (12.920 km²) is a mountainous area and the most developed part of the country.

Peripanonian part of BiH (21.622 km²) covers the best quality farming land in the country.

Bosnian-Herzegovinian high Karst (11.842 km²) encompasses the mountainous-rocky part of the Western BiH and it is the most sparsely inhabited area in the country, where only 9% of the land is arable.

Mediterranean region, the so-called Low Herzegovina (5.399 km²) is the smallest geographical area in BiH; it is the tramontane region of the central littoral.

1. CHARACTERISTICS OF AGRICULTURE

1.1. Agriculture and food industry in the economy

Agriculture has a great importance for BiH because of its direct and indirect links with the rest of the economy. In the process of European integration, agriculture plays a special role thanks to various financial opportunities offered to BiH by the EU.

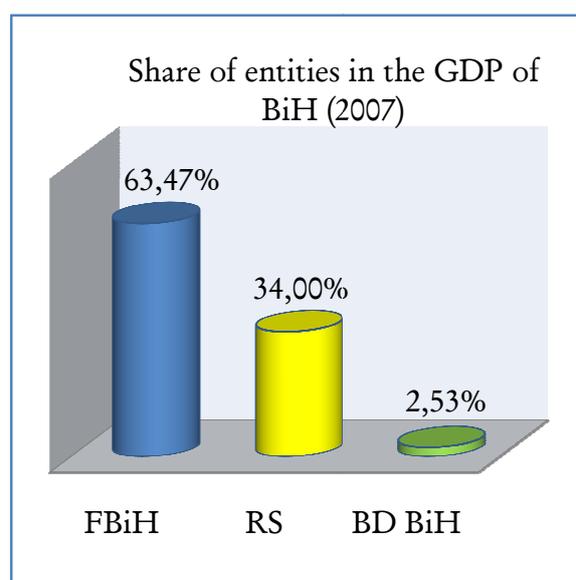
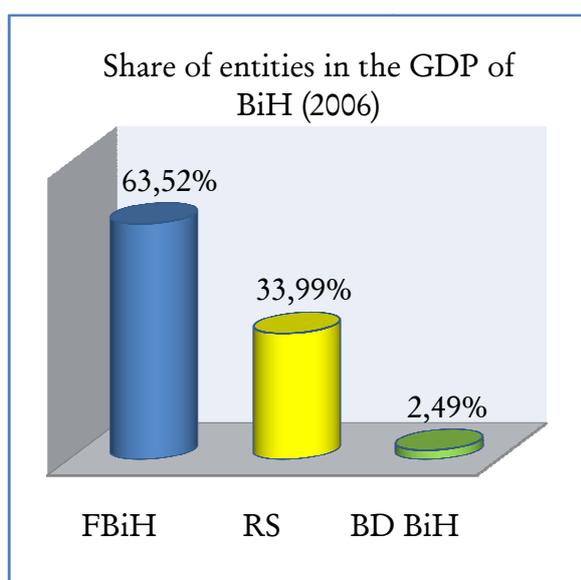
Gross Domestic Product (GDP) in 2007 had the nominal value of 21.641 million KM. Nominal growth, as compared to 2006, amounted to 13,18%, while the real GDP growth was 6,84%, as compared to that year. GDP per capita was 5.633 KM.

GDP growth of 13,18% was due mainly to trade (14,88%), processing industry (12,06%), real estate transactions (9,80%), public administration (9,45%) and agriculture (8,94%). The share of agriculture, hunting and forestry in the total 2006 GDP was 8,65%, while in 2007 it amounted to 8%.

Gross Domestic Product in BiH (2006-2007)

Gross Domestic Product (in million KM)	2006	2007
GDP in Bosnia and Herzegovina	19.121	21.641
<i>GDP in the Federation of BiH</i>	12.146	13.735
<i>GDP in Republic of Srpska</i>	6.499	7.357
<i>GDP in Brčko District of BiH</i>	476	548
Gross Domestic Product per capita in KM	4.976	5.633

Source: BiH Agency for Statistics (first results)



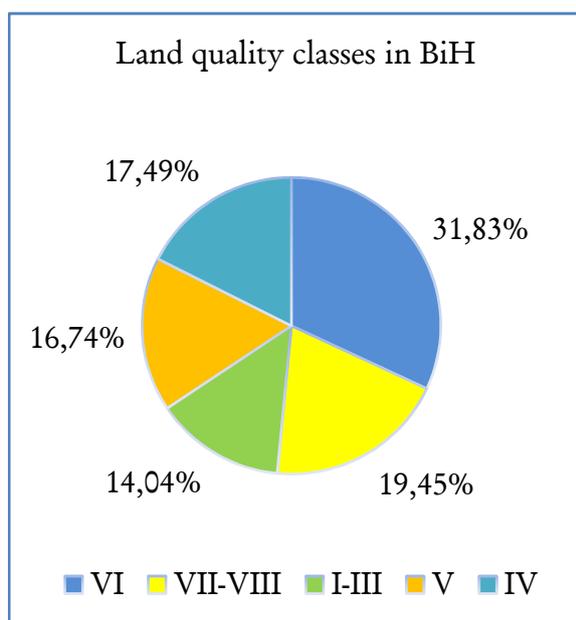
1.2. Structure of land and farms; employment in agriculture

Farmland in BiH covers 2.572.000 ha or 50,3% of the total area of the country. Arable land covers 1.585.000 ha or 62% of the farmland while plough-land covers 1.018.000 ha or 19,9%. About 60% of arable land is located on the altitude of above 500 m.

Quantitative indicators show that there is 0,59 ha of farmland per capita or 0,36 ha of plough-land and gardens. Around 14,2% of land belongs to the first three classes of usage value.

Land quality classes in BiH

Class	Area (ha)
I-III	717.600
IV	917.500
V	856.000
VI	1.628.400
VII-VIII	994.400



Land in BiH is characterized by predominance of inclined terrains (more than 83% of the area has an inclination of 13% and above), acid soil reaction (more than 1/3 of farmland area), low content of humus, low content of the most important nutrients, low physiological soil depth, redundant water (around 14% of the area), mine contamination, and fragmentation of properties.

Around 200.000 ha of land is exposed to floods, while some 70% of the area is prone to erosion.

According to assessments, around 70% of the farmland is privately owned, and the remaining 30% is state owned.

In BiH there are over 500.000 farms. The average size of 50% of farms is 2 ha, while more than 80% farms are below 5 ha. Farmland of small and medium farms is divided on average into 7 to 9 plots that are often a few kilometers away from each other.

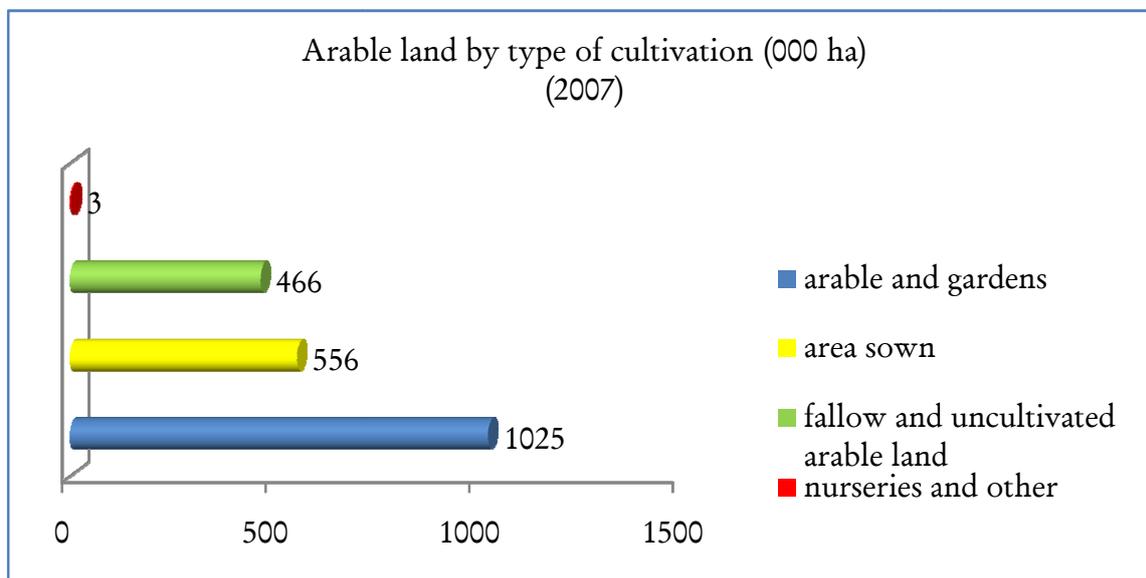
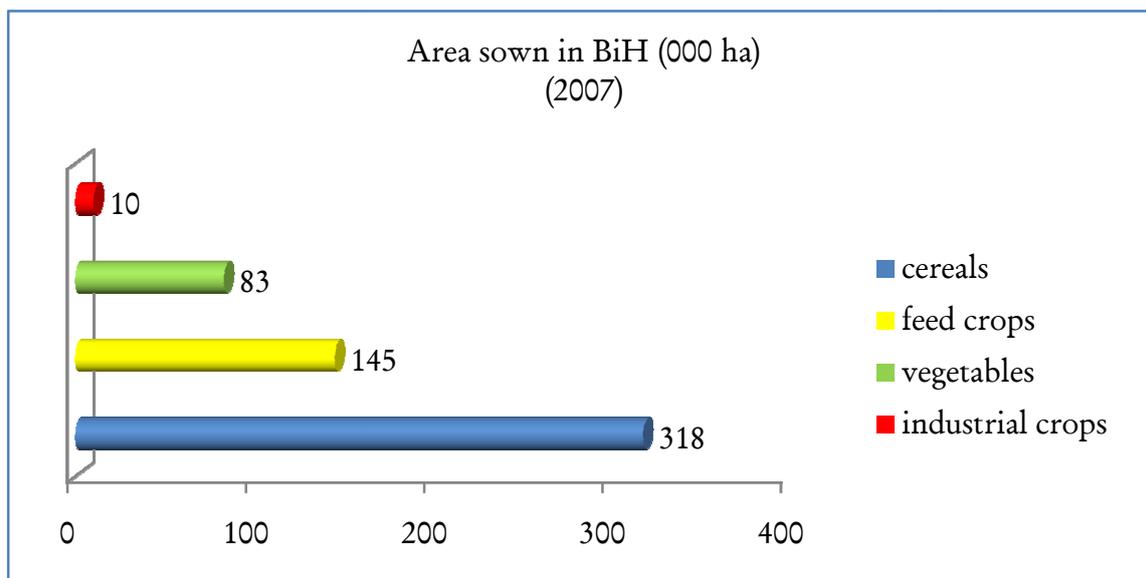
According to the information provided by the *BiH Agency for Labor and Employment*, in 2007, 88.993 people were employed, which is 27.852 or 45,5% more than in 2006. According to the official statistical data, in December 2007 there were 687.445 employed persons registered. Out of the total number of the employed, agriculture, hunting and forestry account for 17.030 jobs, and fishery for 410 jobs, this is around 3% of the total number of the employed.

However, it is believed that the role of agriculture in BiH economy is much greater, since the majority of non-registered employment can be found in family farms, which is one of the underlying causes of grey economy.

2. AGRICULTURAL AND FOOD PRODUCTION

2.1. Agricultural production

Agricultural production in BiH is not intensive and is characterized by a rather low productivity. Despite favorable conditions for the development of agricultural production, data provided by the BiH Agency for Statistics indicate that around 45% of arable land is left unused every year.



Source: BiH Agency for Statistics

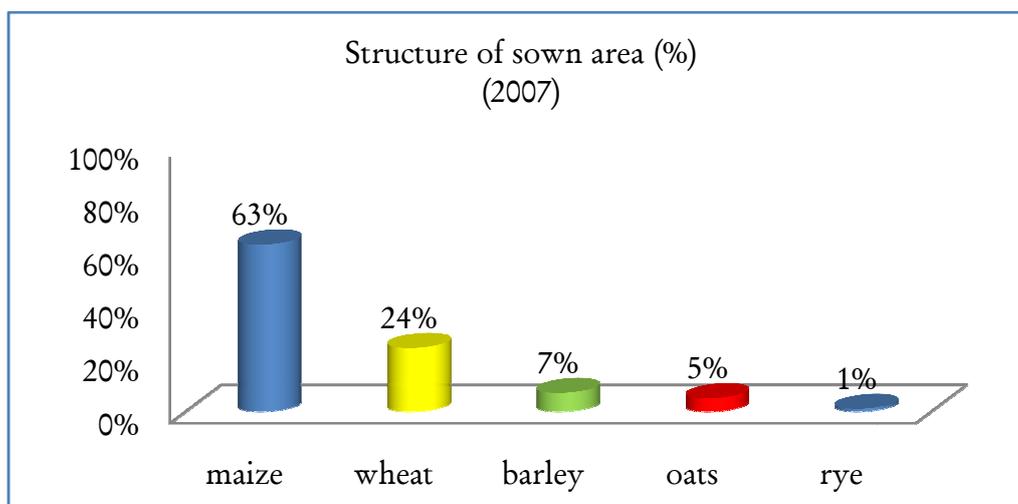
2.1.1. Production of cereals

According to statistical data, the area sown with cereals is around 318.000 ha, which is 57,2% of the total sown area. According to the sowing structure in 2007, maize was the predominant crop (63%), followed by wheat (24%), while barley, rye and oats were sown on a smaller area (below 10%).

Production of cereals in BiH (2007)

Wheat		Rye	
area (000 ha)	74,5	area (000 ha)	3,3
production (000 t)	257,1	production (000 t)	8,9
yield (t/ha)	3,5	yield (t/ha)	2,8
Maize		Oats	
area (000 ha)	198,6	area (000 ha)	15,4
production (000 t)	635,3	production (000 t)	38,5
yield (t/ha)	3,2	yield (t/ha)	2,5
Barley		Total	
area (000 ha)	2,1	area (000 ha)	293,9
production (000 t)	60,7	production (000 t)	1.000,5
yield (t/ha)	2,9		

Source: BiH Agency for Statistics



Total production of the above mentioned cereals in 2007 amounted to 1.000.000 t. The figure given for maize yield of 3,2 t/ha is not realistic considering that there was a strong draught in 2007. The average maize yield in the past three years was 5,1 t/ha. The above given crops yields are much lower than in the EU.

Average yield of wheat and maize in the EU and in BiH (2007)

Country	Wheat yield (t/ha)	Maize yield (t/ha)
EU 27	4,8	5,7
BiH	3,5	3,2

Source: Eurostat, BiH Agency for Statistics

2.1.2. Fruit production

According to statistical data available, the area under orchards is around 93.000 ha which is 4,3% of the total farmland. In BiH in 2007 there were around 19 millions of various fruit trees. The most prevalent fruit varieties are plums (11 million trees or 57%), apples (around 4 million trees or 21%) and pears (1,7 million trees or 9%). Since 2003, the number of fruit trees increased by 3 million or 21%. The number of apple trees increased most, by 1 million or 37%. Total fruit production in 2007 amounted to 248.380 t, of which 138.700 t of plums and 110.000 t of other fruit.



Fruit production in BiH (2007)

Plum		Apricot	
number of trees (000)	11.003,18	number of trees (000)	86,82
production (000 t)	138,70	production (000 t)	0,83
kg per tree	12,6	kg per tree	10,3
Apple		Peach	
number of trees (000)	3.982,89	number of trees (000)	469,26
production (000 t)	60,96	production (000 t)	7,44
kg per tree	15,3	kg per tree	14,9
Pear		Walnut	
number of trees (000)	1.735,98	number of trees (000)	508,85
production (000 t)	20,69	production (000 t)	5,09
kg per tree	11,9	kg per tree	10,0
Cherry		Other fruit	
number of trees (000)	720,87	number of trees (000)	76,11
production (000 t)	10,49	production (000 t)	0,82
kg per tree	14,6		
Sour cherry		Total	
number of trees (000)	360,75	number of trees (000)	18.944,71
production (000 t)	3,36	production (000 t)	248,38
kg per tree	9,3		

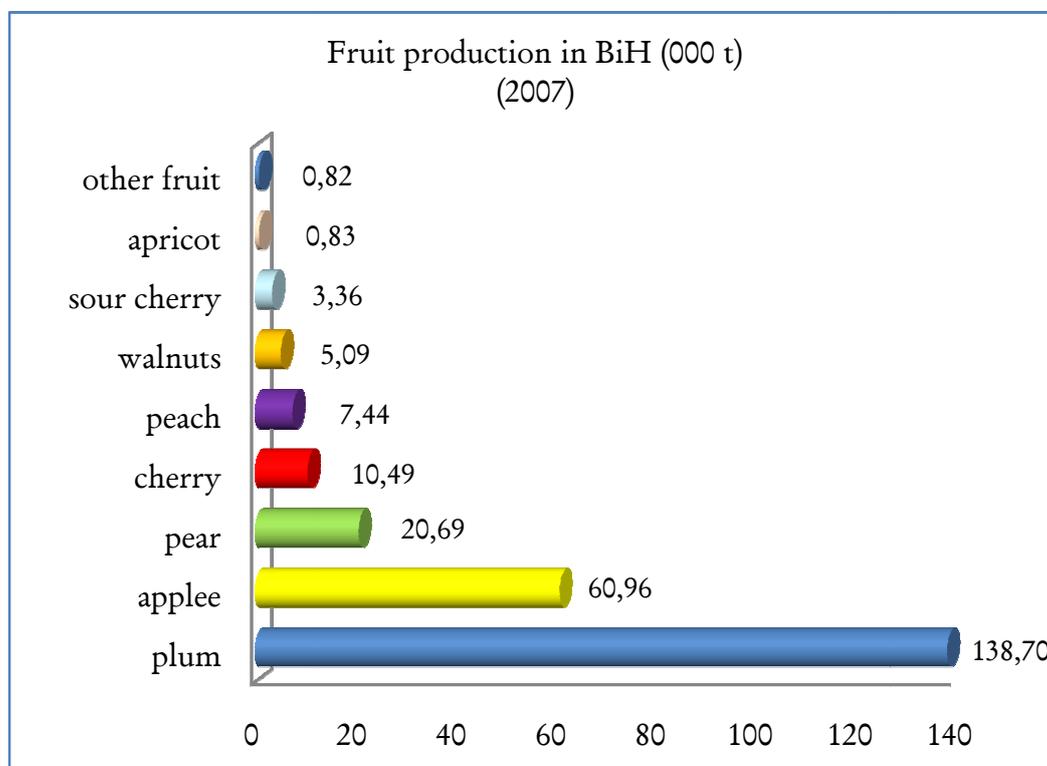
Source: BiH Agency for Statistics

The above given crops yields are much lower than in the EU.

Average yield of pears and plums in the EU and in BiH (2007)

Country	Pear yield (t/ha)	Plum yield (t/ha)
EU 27	18,9	6,0
BiH	3,2	6,03

Source: FAOstat, BiH Agency for Statistics



The total area under berries (strawberry and raspberry) in 2007 was 2.336 ha. Compared with 2006, there was an increase in the area of 110 ha.

Total production of berries was 21.376 t.

Production of berries in BiH (2007)

Strawberry		Raspberry		Total	
area (ha)	1.363	area (ha)	973	area (ha)	2.336
production (t)	13.344	production (t)	8.032	production (t)	21.376
yield (t/ha)	9,8	yield (t/ha)	8,3		

Source: BiH Agency for Statistics

2.1.3. Fruit consumption

Taking into account local fruit production and imports of 139.274 t of fruit in 2007, the total fruit consumption amounted to 376.767 t or around 103,60 kg per capita.

Prevalent fruit varieties in the overall consumption are plums with 140.810 t (37%) and apples 77.265 t (20,50%), given the fact that most of the plums are used for production of the well-known „šljivovica“ ('plum brandy').

2.1.4. Vegetable production

According to statistical data available, the area under vegetables is 83.000 ha or 14,9% of the sown farmland. Total production of vegetables in 2007 amounted to 641.000 t.

Potatoes, as the most important crop, are grown on an area of around 41.000 ha. The average potato production is around 387.000 t per annum or 60% of all produced vegetables.

Other vegetable varieties are grown on an area of around 42.000 ha with average production of over 250.000 t of various vegetables. The most prevalent are cabbage vegetables (cabbage and savoy cabbage) with a total annual production of around 82.000 t.

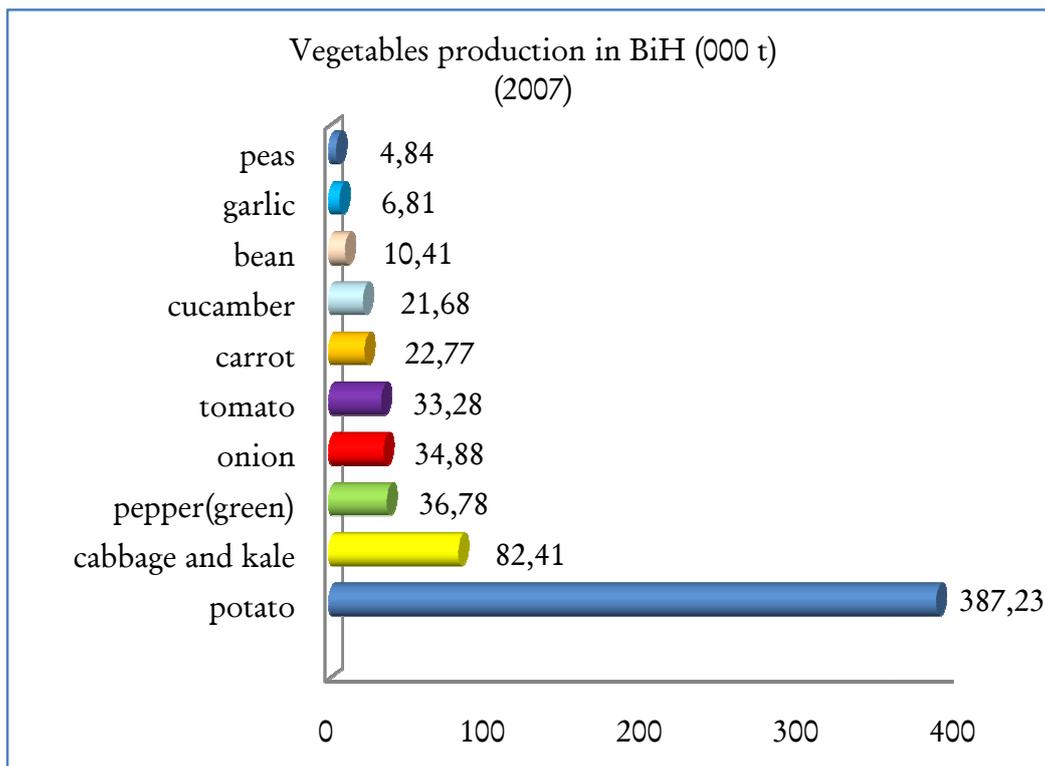


Vegetables production in u BiH (2007)

Potato		Carrot		Pepper (green)	
area (ha)	41.291	area (ha)	1.795	area (ha)	3.868
production (t)	387.239	production (t)	22.779	production (t)	36.780
yield (t/ha)	9,4	yield (t/ha)	12,7	yield (t/ha)	9,5
Onion		Peas		Cucumber	
area (ha)	5.172	area (ha)	1.702	area (ha)	2.884
production (t)	34.882	production (t)	4.847	production (t)	21.686
yield (t/ha)	6,7	yield (t/ha)	2,8	yield (t/ha)	7,5
Cabbage and kale		Tomato		Beans	
area (ha)	6.478	area (ha)	3.825	area (ha)	9.280
production (t)	82.410	production (t)	33.287	production (t)	10.418
yield (t/ha)	12,7	yield (t/ha)	8,7	yield (t/ha)	1,1
Garlic		Total			
area (ha)	1.888	area (ha)		83.000	
production (t)	6.815	production (t)		641.083	
yield (t/ha)	3,6				

Source: BiH Agency for Statistics

Production of vegetables in green-houses is on constant increase, in particular in northern BiH. There is no official statistical data on the overall area of land under glass and polythene greenhouses, or about the production scope, types and technologies.



The average vegetable yield is three times lower than the average in the EU. In case of some vegetables that ratio is even less favorable, for example the average potato yield in BiH is 4,5 times lower than in Netherlands.

One of the main reasons for such a big difference in average yields in BiH and in the EU can be explained by the fact that a large number of small vegetable producers are not covered by statistical analyses.

The average yield of potato and onion in the EU and in BiH (2007)

Country	Potato yield (t/ha)	Onion yield (t/ha)
EU 27	18,9	28,01
BiH	9,4	6,7

Source: FAOstat, BiH Agency for Statistics

2.1.5. Consumption of vegetables

According to available information, the total potato consumption in 2007 was 387.239 t, with 1,77% share of imports.

Consumption of other vegetables amounted to 286.505 t.



2.1.6. Industrial crops

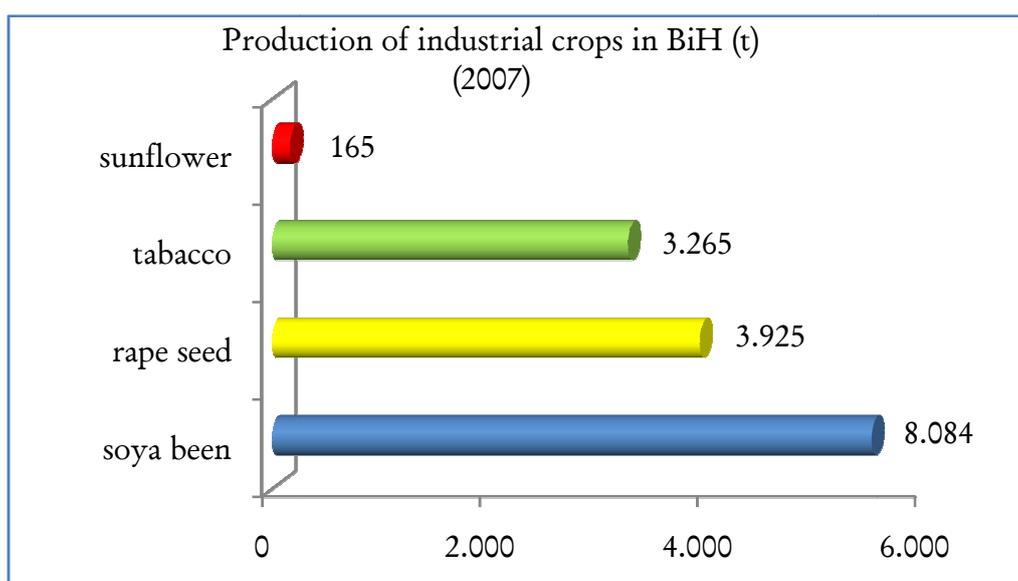
The area sown with industrial crops, according to statistical data, covers around 10.000 ha which is 1,8% of the total sown farmland. In BiH industrial crops have been traditionally sown on small areas which never exceeded 2% of the total sown farmland.

Production of industrial crops in BiH (2007)

Sunflower		Soya	
area (ha)	226	area (ha)	5.505
production (t)	165	production (t)	8.084
yield (t/ha)	0,7	yield (t/ha)	1,5
Rape seed		Tobacco	
area (ha)	1.718	area (ha)	2.313
production (t)	3.925	production (t)	3.265
yield (t/ha)	2,5	yield (t/ha)	1,4
Industrial crops (total)			
area (ha)	9.762		
production (t)	15.439		



Source: BiH Agency for Statistics



The above given yields are much lower than in the EU.

Average yield of sunflower and tobacco in the EU and BiH (2007)

Country	Sunflower yield (t/ha)	Tobacco yield (t/ha)
EU 27	1,43	2,05
BiH	0,7	1,4

Source: Eurostat, BiH Agency for Statistics

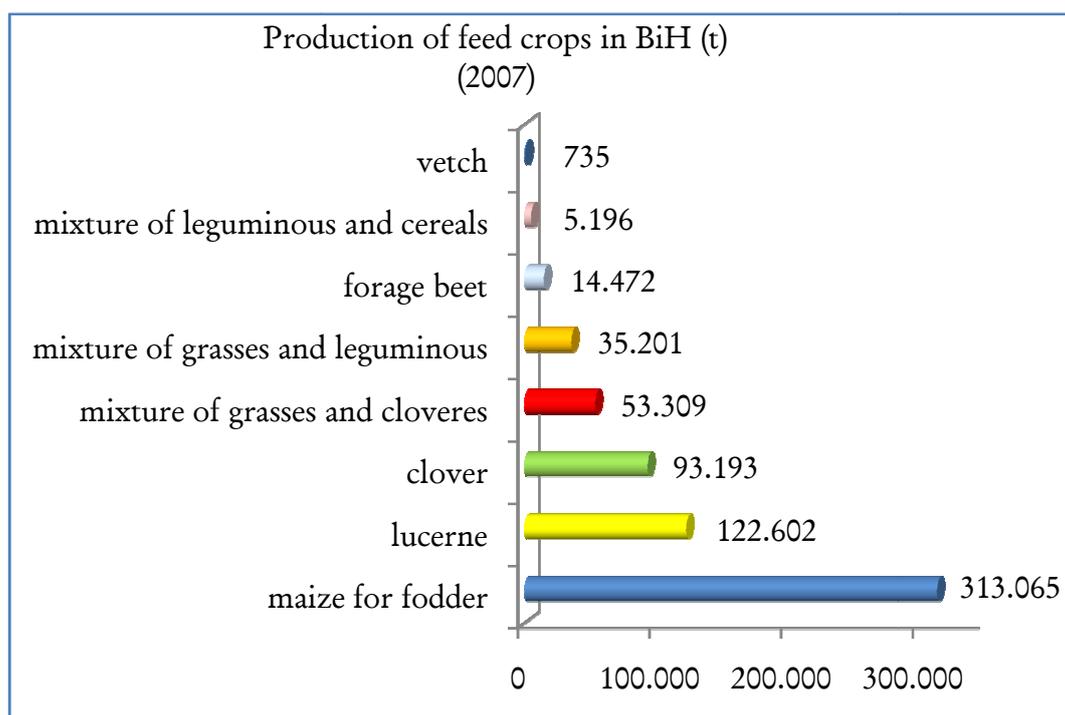
2.1.7. Forage crops

The area sown with forage crops, according to statistical data, covers around 145,000 ha, which is 26% of the total sown farmland.

Production of forage crops in BiH (2007)

Clover		Mixture of leguminous and cereals		Maize for fodder	
area (ha)	52.315	area (ha)	2.180	area (ha)	18.148
production (t)	93.193	production (t)	5.196	production (t)	313.065
yield (t/ha)	1,8	yield (t/ha)	2,4	yield (t/ha)	16,3
Lucerne		Mixture of grasses and leguminous		Forage beet	
area (ha)	38.254	area (ha)	13.158	area (ha)	1.844
production (t)	122.602	production (t)	35.201	production (t)	14.472
yield (t/ha)	3,3	yield (t/ha)	2,7	yield (t/ha)	9,9
Vetch		Mixtures of grasses and clovers		Forage crops (total)	
area (ha)	256	area (ha)	17.786	area (ha)	143.941
production (t)	735	production (t)	53.309	production (t)	637.773
yield (t/ha)	2,1	yield (t/ha)	3,1		

Source: BiH Agency for Statistics



The above given yields are much lower than in the EU.

Average yield of forage beet in the EU (2002) and in BiH (2007)

Country	Forage beet yield (t/ha)
EU 27	60,9
BiH	9,9

Source: Eurostat, BiH Agency for Statistics

2.1.8. Wine-growing

The regions important for the production of wine are situated mainly in the southern part of BiH. The most important wine-growing areas are in the Herzegovina-Neretva and West Herzegovina cantons in the FBiH, and in the Trebinje municipality in the RS.

Regionalization of wine-growing areas done in the 1970's identified two wine-growing regions: Herzegovina and northern Bosnia. The region of northern Bosnia has remained a potential wine-growing region to the present day. During the past ten years some modest and sporadic efforts have been made to start wine-growing and wine production in this area with no major results so far. Consequently, most of market-oriented wine-growing and wine-production are still taking place in the territory of Herzegovina.



Wine-growing in BiH is characterized by a large number of small vineyards having the area of 0,3-0,4 ha; there are very few vineyards covering the area of more than 10 ha in one piece. The small vineyards belong mostly to family property. There is no data available about their exact number since a register of grape and wine producers has not been established yet.

According to statistical data for 2007, there were 4.400 ha of vineyards in BiH, of which 4.000 ha in the FBiH and 400 ha in the RS. The official assessment made by OIV for the period 2002-2004 is quite close, giving the figure of 4.000 ha. That is still a much smaller area under vineyards than in 1990, when BiH had a total area of 5.871 ha under vineyards. The most important kinds of grape are local autochthonous varieties: Žilavka (white variety) and Blatina (black variety). There is 70% of Žilavka and 30% of Blatina. Lately, some producers have been growing vineyards with the Montenegrin variety called Vranac.

Grape production in 2007 amounted to 21.235 t with the average yield per vine-stock of 1,9 kilograms, which is almost equal to the 2006 production of 21.498 t of grapes (BiH Agency for Statistics).

The above given grape yield is lower than in the EU.

Average grape yield in the EU and in BiH (2007)

Country	Grape yield (t/ha)
EU 27	7,2
BiH	5,9

Source: FAOstat

2.2. Cattle breeding

The situation in the cattle industry is best reflected in live stock as well as in milk, meat and egg production. Subsectors of the industry differ in terms of the production scope and value, as shown in the tables below.

Number of livestock (2007)		Stock production (2007)	
Kind	Total	Produce	Total
Bovine	467.986	Wool (t)	1.474
Cows and heifers with calf	343.100	Number of beaver lambs	875.259
Sheep	1.033.264	Per lamb (kg)	2
Sheep for breeding	781.173	Eggs (thousand)	678.015
Pigs	534.764	Number of laying hens (thousand)	3.754
Sows and saws in pig	127.138	Per hen (pc)	181
Horses	25.408	Honey (t)	2.773
Poultry	14.989.229	Per beehave (kg)	9
Laying hens	3.890.665		
Goats	70.255		
Rabbits	18.894		
Beehives	310.749		

Source: BiH Agency for Statistics

2.2.1. Meat production

According to estimates, 24.800 t of beef, 10.900 t of pork, 21.200 t of chicken and 2.200 t of lamb meat were produced in 2007. It is important to note that production and consumption of lamb meat was significantly reduced due to brucellosis out-break in that year, resulting in 14.796 animals being euthanized (Source: RS MoAFW).

2.2.2. Meat consumption

Meat consumption per capita in 2007 was between 32 and 35 kilograms. The ascending consumption trend follows the increase in the purchasing power of the population.

Meat consumption per capita in BiH and in the EU (2007)

Type of product	BiH	EU 27
Beef	14,5	17,1
Pork	5,8	42,2
Lamb	2,5	2,8
Chicken	14	23,0

Source: FAOstat and Eurostat



2.2.3. Milk production

Milk production and processing in dairies in BiH have a positive development trend. As compared with the pre-war period, milk production per cow increased by 50%, purchase of produced milk grew up by 83%, while milk processing in dairies was increased by 71%. Total production of milk is growing faster than the number of cows, as a result of a higher milk yield per cow.

Production of dairy products in dairies in BiH (2007)

Type of product	2006	2007
Pasteurized milk	6.554.000	5.900.000
UHT sterilized milk	91.088.000	100.027.000
Yoghurt, kefir, etc.	28.984.000	32.546.000
Cream, sour cream, etc.	10.715.000	12.151.000
Cheese:		
<i>hard and semi-hard</i>	1.990.000	1.965.000
<i>fresh</i>	2.145.000	2.902.000
<i>feta, cheese in brine</i>	473.000	212.000
<i>other</i>	232.000	186.000
Total cheese	4.840.000	5.265.000
Butter	-	440.000
Milk-based spreads	-	654.000
Powder milk	403.000	434.000
Processed milk	178.710.000	199.198.000

Source: „Milkprocessing” d.o.o.

Basic dairy herd in BiH has around 332.000 heads of cattle. Since 2002 it grew by the average rate of 3,2% per year (FBiH 2,3% and RS 4,1%). According to estimates, around 100.000 farms in BiH have cows, while 32.000 farms produce milk for market.

In 2007, dairies purchased around 192,4 million liters of milk, which is 8,3% more than in 2006. Milk is purchased in an organized manner from around 32.000 farmers (in FBiH 16.100 and in RS 15.900). Average quantity of milk purchased per producer is 6.013 liters. About 50,5% of milk is purchased in the FBiH, while 49,5% of milk is purchased in the RS and BD of BiH.

Dairies from the FBiH purchased directly or through their agents 113,3 million liters of milk, of which 82% in the FBiH and 18% in the RS and BD BiH.

Dairies from the RS purchased directly or through their agents 79,1 million liters of milk, of which 94% in the RS and 6% in the FBiH.

Purchase of milk in the past three years grew by the average annual rate of 6,3% (FBiH 2% and RS 12%).

In 2007, dairies processed around 199,2 million liters of milk, or 11% more than in 2006. Around 58% of that milk was processed in dairies in the FBiH, and 42% in dairies in the RS. Milk processing in the past three years grew by the average annual rate of 7,6% (FBiH 4,5% and RS 12%).

In all groups of dairy products the production was increased by 7%-13%, as compared with 2006 with the exception of pasteurized milk, where production keeps dropping by 6%-10% annually.

Production of UHT sterilized milk is growing by the annual rate of 9%, under the influence of exports of 30%. Production of yoghurt and sour-milk drinks, as compared with 2006, grew by 12% and has had a constant ascending trend over the past three years.

As compared with 2006, production of cream and sour cream increased by 13%, while cheese production increased by 9%.

Still, it is important to note that an increase in production was registered only with some types of short-life fresh cheese, while the production of all types of semi-aged and long-lasting cheese has dropped. The structure of cheese production is unfavorable, given that fresh cheeses account for 55%. Such a structure of cheese production makes it impossible to reduce the imports of cheese, which make 38%, or 57% respectively, of the overall imports of dairy products in BiH.

Production of milk-based spreads amounts to 654 t and has an ascending trend, while powder milk and butter do not make an important part of dairy production in BiH and are produced mainly based on needs.

2.2.4. Milk consumption

Milk consumption per capita in 2007 was around 167 liters.

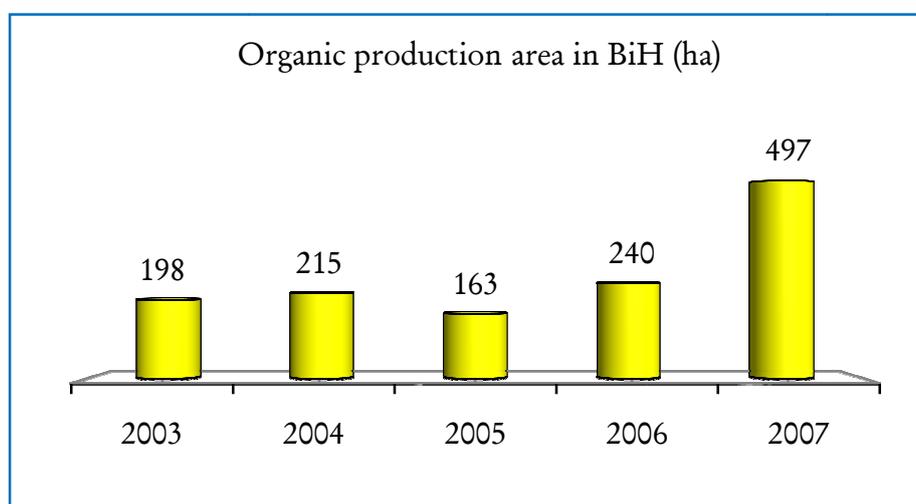
Consumption of milk for food (2007)

Type of consumption	ooo liters	%
Registered Consumption:		
<i>production minus exports</i>	151.998	53
<i>imports of dairy products</i>	135.086	47
Total:	287.084	45
Nonregistered consumption	354.416	55
Total consumption	641.500	100

Source: „Milkprocessing” d.o.o.

2.3. Organic production in BiH

Organic production is growing fast in BiH. In 2007 it was organized on an area of only 497 ha, or just 0,02% of the total farmland in the country. The average area of an organic farm is 1,2 ha.



Source: „Organic control“

Organic market in BiH has an annual growth of 10%-20%. The share of organic products on the EU market in 2007 was 5%, or around 1,5 million Euros. Wild aromatic and medicinal plants make around 80% of the exports.

The leader in organic production in BiH and distributor of organic products is the *Economic Cooperation Network (ECON)*.

Organic production in BiH is organized on small plots of land, not larger than 0,5 ha. A wide range of products is grown on such plots: buckwheat, maize, wheat, barley, rye, oats, potatoes, carrots, lettuce, onion, beet, pepper, tomato, cucumber, strawberries, raspberries, cherries, grapes, figs and apricots. There are around 600 producers of organic products. In BiH there are 14 farms registered as producers of organic food, i.e. of dairy and meat products.

According to the data provided by the Institute for Marketekology (IMO), there are over 240.000 ha of farming and forest land certified for collecting self-growing aromatic and medicinal plants. In these activities an important role is played by farmers' groups and by companies that are involved in the processing of plants. When it comes to the collection of plants, there are 3.442 people involved through groups and companies and around 50 people employed in processing and management.

The most active farmers' groups are *Šumski plod* d.o.o.-Prozor, *Fructus Pak*-Travnik, *Cow How*-Maglaj and *CESAB group*-Konjic&Nevesinje. Among companies for processing of self-growing aromatic and medicinal plants and forest fruit the most active are: *Boletus*-Sarajevo, *Andelić* d.o.o.-Trebinje, *Vranica bilje*-Gornji Vakuf, *Herba eco*-Sarajevo, *Heljda eco*-Sarajevo, *Agriplod*-Stolac, *Faveda*-Sarajevo, *Neven* d.o.o.-Rudo, *Halilović*-Vogošća, *Smrčak*-Zvornik and *Ljekovito bilje* Čeliković-Bihać.

Besides, companies *Vispak-Visoko*, *Klas-Sarajevo*, *Vegafruit-Velika Brijesnica* and *Bos Agro Food-Bratunac* are included in the sector of processing and purchase.



Certificates for organic production are issued in following fields: collecting of products, bee-keeping, cattle breeding, processing, handling and production of herbal products (individual and collective).

Active certification houses in BiH are Organic control *OK-BiH*, *KRAV Certification Agency - Sweden*, *Soil Association-UK*, *ICEA AIAB-Italy* and *IMO Control-Switzerland*.

„OK” is the only local BiH certification house. In June 2007, program „OK” for organic control was officially accredited by the International Organic Accreditation Service (IOAS) (IFOAM standards and accreditation criteria and ISO/IEC 65 (ISO 65:1996). In 2006 „OK” conducted certification of 40 operators with 48 production programs, while in 2007 that number increased to 55 registered operators with 80 production programs. The group certification included 329 individual agricultural producers of organic food working mainly for a known customer.

There is no national legislation on production of organic food. *The Law on Organic Food Production* has been adopted in the RS (Official Gazette No. 75/04), and similar legislation is being prepared in the FBiH.

3. FOOD INDUSTRY

3.1. Production of wine

According to the information from domestic sources, OIV and FAO, average annual production of wine in BiH in the period 1998-2003 was 55.000 hl, with strong year-to-year fluctuations. Field assessments show that the production has been stabilized lately to around 80.000-100.000 hl.

According to data provided by the BiH Agency for Statistics, industrial production of wine in 2006 amounted to 26.949 hl.

Until the beginning of the 1990's, the leader in plantation vine growing and market-oriented production of wine in Herzegovina was the famous conglomerate HEPOK. At that time the conglomerate had five industrial wineries, whose total capacity was estimated to around 375.000 hl. Considering the level of technological development, the wineries were well equipped. „HEPOK“ invested into gradual modernization of plants, which included partial replacement of concrete utensils by high quality inox utensils that made 50% of total utensil capacity.

War destruction in the 1990's and ensuing dissolution of „HEPOK“ conglomerate caused grave consequences for wineries in Mostar and Stolac in particular. According to the information from the Government of the Herzegovina-Neretva canton and from wineries, total active capacities of large wineries have been reduced to around 244.000 hl.



Since the beginning of the 1990's, family wine producers with a capacity between 100 hl and 1.500 hl enter the market as wine producers in Herzegovina.

New family wine cellars are well equipped with inox utensils and modern processing equipment. According to some estimates, the overall capacity of Herzegovinian family wineries is 20.0000 hl.



3.2. Dairy industry

The total number of dairies in BiH in 2007 was 38 (24 in the FBiH and 14 in the RS), while in 2006 there were 44 dairies (26 in the FBiH and 18 in the RS).

However, 7 dairies worked occasionally (2-3 days a week) or stopped working during the year (3 in the FBiH and 4 in the RS). In addition to registered dairies, in BiH there are a few small family dairies, oriented only to their local markets. The trend of construction of new dairies has been stopped and the overall number of dairies is slightly decreasing.

The capacity for milk processing in 38 dairies was around 410 million liters (in the FBiH 257 million liters and in the RS 153 million liters), with 50 % capacity usage. Dairies in BiH employ 1.243 workers (769 in the FBiH and 474 in the RS).

Structure of dairies based on milk processing capacity

Capacity (l/day)	Number of dairies	Processing (l)	%
> 100.000	5	128.124.000	64,3
50.000-100.000	5	34.704.000	17,4
20.000-50.000	5	14.193.000	7,1
10.000-20.000	9	13.511.000	6,8
< 10.000	14	8.666.000	4,4
Total	38	199.198.000	100

Source: „Milkprocessing” d.o.o.

All dairies in BiH are privately owned, while foreign companies are majority owners of 6 of them. In the overall quantity of processed milk in BiH, the share of dairies with foreign majority owners is 62%. Modern systems of production process monitoring and export orientation are introduced intensively into dairies.

Number of dairies that have certificates of international standards

Name of standard/certificate	Number of dairies (FBiH)	Number of dairies (RS)
HACCP	9	5
ISO 9001	4	4
ISO 22.000	-	1
Export number	9	4

Source: „Milkprocessing” d.o.o.

The procedure of introduction of HACCP standard is in progress in eight dairies.

The system of quality assessment of raw milk based on microbiological value (EU standards) has not been established in BiH yet. In this relation, the *Rulebook on Raw Milk Quality* has been adopted and published in the RS, where two laboratories have been established for raw milk quality testing based on EU standards, in Banja Luka and Bijeljina.

In the FBiH, in Bihać, a laboratory for raw milk quality testing has been established, and another laboratory is under preparation with the Federation Institute for Agriculture.

4. FISHERY

Fishery is a branch of economy that has developed significantly after the war in BiH, yet the production varies from year to year.

Production in (2002-2007)

Species	Quantity (t)	
	2002	2007
Brown trout	50	88
Rainbow trout	2.200	3.840
Brook trout	30	25
Carp	1.600	2.380
Chinese carp (grass carp, bighead carp)	510	780
European catfish	30	25
Pike-perch	5	5
Sea fish (sea bass, dentex, gilthead)	185	215
Shells (oysters, mussels)	70	84
Total	4.680	7.442

Source: FBiH MoA WMF

The *Veterinary Office* carried out the registration of fish-farms in BiH, in cooperation with the competent Entity bodies. According to the information available, in BiH there are 41 fish-farms, of which 34 trout farms, 5 carp farms and 2 mariculture farms.

BiH received EC approval to export processed fish to the common European market. The BiH Veterinary Office has the task to present to DG SANCO the proposed list of production and processing facilities that meet EU standards.

Considering numerous activities that need to be taken in order to develop the fishery sector and to create opportunities for export to the EU market, the Office asked for assistance from FAO. The project *Improvement of health status of aquaculture animals and of quality and safety of aquaculture products* (TCP/BiH/3101) in BiH was officially approved by mid-June 2006. The purpose of the project is to improve Office efficiency in sanitary management of aquaculture as a prerequisite for a sustainable production in fishery sector. The expected result of the project is the development of *the National Strategy for Health of Aquatic Animals*, as well as a contribution to the development of a national network for bio-safety in aquaculture, assurance of quality and safety of aquaculture products.

During 2007, a monitoring plan was made for viral diseases in fish, and it started to be implemented. The national referential laboratory for viral diseases in fish (*Fishery Center of the Veterinary Faculty of Sarajevo*) has been designated, and the implementation of the residuals monitoring plan has started. The national referential laboratories for control of certain substances have been established.

„Who rules the sea world, rules the entire world“, is the saying of a famous American maritime strategist, speaking about the importance of the rule over the seas and sea coasts. The international law prescribes that every sovereign country that has coast on the Adriatic, has access to international waters. Access to international waters implies direct connection with territorial waters of every single state. If a country has deeply recessed coast and if the sea is narrow, such access is called „international seaway“ in the international legal practice.

BiH has been present on the Adriatic for centuries. In former Yugoslavia, BiH had access to the open sea from its coast, same as Slovenia, Croatia and Montenegro, through internal and territorial waters of Yugoslavia, concretely through its ports like Ploče, as well as in other ways. Maritime authority was executed by federal and republican institutions, and there was a harbor master's office in Neum.

After the dissolution of Yugoslavia, newly formed states inherited the right of access to international waters. For this reason, the seaway going from BiH coast through Neretva and Korčula canal towards Ploče port and open sea has become the international seaway and, according to the international law, should be legally recognized as such.

The coast in Neum and Mali Ston gulf is recessed in the mainland and makes part of single archipelagos that now belongs to two states, Croatia and Bosnia and Herzegovina. BiH has 23 km of coastline in Neum-Klek bay with Klek peninsula, and two islets-Veliki and Mali Školj and Lopata cliff. BiH coast is deeply recessed in the mainland, without its own port infrastructure and without quality transport communications, given that BiH used to develop and use the port in Ploče.

BiH has all the natural preconditions to build a modern and functional port in Neum for container transport, passenger and touristic transport and terminals for liquid gas pipeline. Strengthening of BiH as a maritime state and construction of a port in Neum for which there are ideal preconditions (*sea depth near the Klek peninsula is 24 m*) represent long-term development interest for BiH.

Neum port can have 40 berths, and the possibility to receive ships with 250.000 t capacity, which means that it could receive 6 million tons of goods a day, ensuring unimpeded transport of all sorts of commodities.

Besides, the 5C Corridor, another extremely important project for our country, would be economically non-viable if in its final point it does not reach a strong port, i.e. a developmental and economic potential. With connection to the 5C Corridor, it would be possible to transport large quantities of goods. Such a solution would create great opportunities for development of the country, including rural development in Popovo polje (Popovo Field). At the same time, construction of the Corridor on the section Mostar-Neum would enable preservation of cultural and historical heritage of our country. (*Bakir Tanović, Maritime Society „BH more“*)

Popovo polje is a large Karst depression in lower Herzegovina, having the area of 4.415 ha. The base of Popovo polje is the largest cultivable area in Herzegovina and as a whole it is suitable for agricultural production. Fertility of the field is the result of a thick layer of alluvial deposits. In favorable climate Mediterranean conditions, with a regulated water regime of the Trebišnjica River and a developed irrigation system, it would be possible to organize highly intensive agricultural production.



It is visible that the number of farmers in Popovo polje is increasing daily. For the time being, these are weekend farmers who do that as a part-time job, but most of them are planning to make farming their main occupation.

If we assume certain production structure (40% vineyards, 40% orchards and 20% vegetables), and average yield at current purchase prices, the total value of agricultural production in Popovo polje would amount to 250-270 million KM per year.

The need for fast transport of such produce can only be met by the construction of a close fast road like Corridor 5C, which would have connection to markets via a sea port. (*prof. Dr Borko Sorajić, „Agricultural development in Eastern Herzegovina in context of the South section of the 5C Corridor and Neum port“*)

5. FORESTRY

Forests and forest land in BiH spread on an area of around 2,7 million ha, of which 2.160.000 ha (80%) are state owned, and around 540.000 ha (20%) privately owned.

BiH has a rich tradition in forestry and forest ecosystems with 3.800 species of flowering plants, 60 species of fern, 250 species of moss, 250 species of lichen, and many animals, birds and insects. The most prevalent types of trees are fir, spruce, white and black pine, beech and oak. Around 93% forests in BiH are natural. In BiH there are also six well preserved primeval forests: Janj, Lom, Trstionica, Igman, Plješevica and the best know Perućica that makes part of the Sutjeska National Park.

The sector of forestry in BiH is regulated at the Entity level, but coordination activities with external institutions are conducted by the Ministry of Foreign Trade and Economic Relations. According the the applicable legislation, the owners of forests are the FBiH, RS and BD BiH.

Under the FBiH Law on Forests, forest management is in the hands of cantonal ministries competent for forestry issues. Within the FBiH Ministry for Economy, Waters and Forestry there is the *Federation Forestry Authority* that is responsible for forestry development planning, while within relevant cantonal ministries there are cantonal forestry authorities for planning and administrative supervision of the state and privately owned forests management.

In the FBiH, the cantonal assemblies established a forest stewardship company in each of ten cantons; cantonal ministers competent for forestry in their respective cantons transferred the responsibility for the management of state owned forests to those companies by 5 year contracts. The companies report on their work to their respective cantonal ministries.

In the RS there is one company for the stewardship of state owned forests, which covers 23 forest estates. The company reports on its work to the RS Ministry of Agriculture, Forestry and Waters.

Though the EU does not have a common policy on forestry, member states have been trying for years to harmonize their national policies through a number of initiatives. The most important principles that should be incorporated in national standards on forestry are primarily those arising from resolutions and general declarations from ministerial conferences on protection of forests in Europe (MCPFE).

There have been five conferences so far, resulting in 19 resolutions. BiH took part in the latest conference held in the beginning of November 2007 in Warsaw, Poland. BiH has not become a party to a number of international documents for objective reasons; still, considering its aspirations towards the EU integration, international obligations and initiatives should be increasingly incorporated into modern forestry legislation and policies. Harmonization of legislation and policies on forestry with the modern international „standards“ has to be a priority.

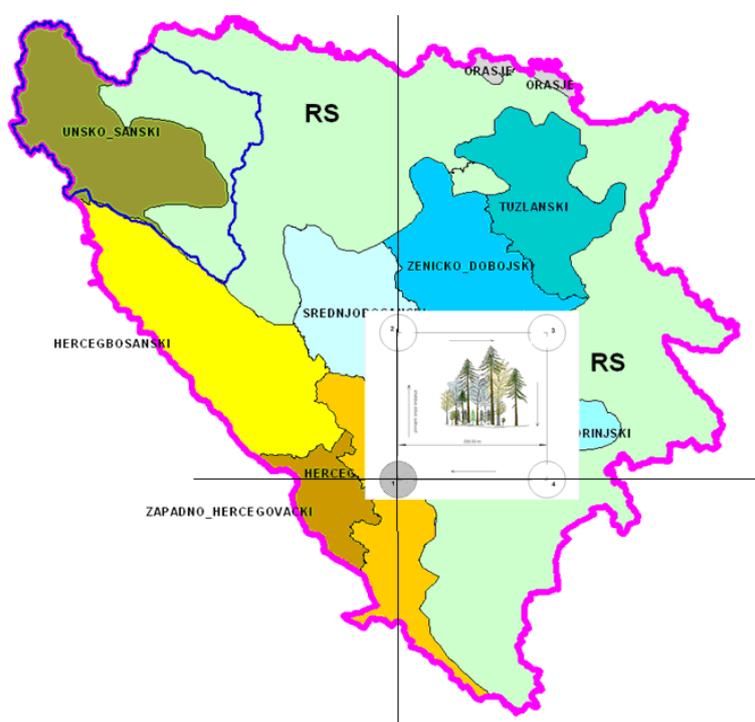
When it comes to the protection of forests, in BiH there are 31 protected areas (IUCN Categories II to V). Only 0,55% of the territory is formally protected, while in the EU there are 12% of forest areas under protection.

5.1. Strategic activities in the sector

During 2007, a number of strategic activities were continued or initiated, among which the most important were the following:

Second inventory of forests on large areas

The first inventory of forests was made in the period 1964-1968, and it served as the foundation for the development of the existing system for classification of forests. Since then, the relevant information has been updated just periodically and not in the entire territory of the country. During 2005, two Entity governments (RS and FBiH) hired the Forestry Faculties from Sarajevo and Banja Luka to develop a *Methodology for the Second Inventory of Forests*.



The inventory was to serve as the basis for the following:

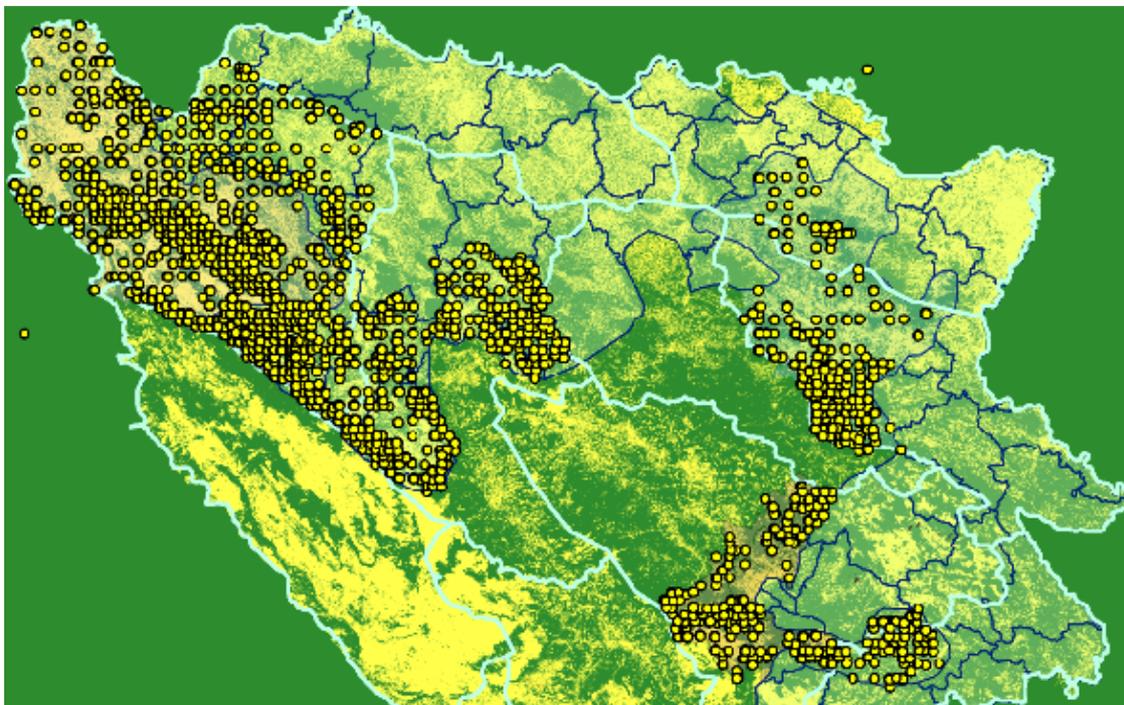
- *Assessment of forest resources in BiH;*
- *Development of the forestry strategy and development of long-term planning;*
- *Monitoring of the condition of forests;*
- *Setting priorities for the research and development of forests.*

The concept of the inventory of forests is based on the integral monitoring of forest land:

- *By satellite detection-GIS preparation:*
 - (i) Identification of forest areas by the method of remote detection (satellite photos of high resolution: IRS, Landsat);
 - (ii) Determination of areas and systems of forest and non-forest land, forest borders, making of the BiH forest map;
- *By field survey in two steps:*
 - (i) Survey of appraisal attributes and other attributes on model planes on the ground:
 - high forests (stratum 1): sampling grid 2x2 km,
 - sprout forests, coppice forests, bare lands, private forests (stratum 2) sampling grid 4x4 km.

Inventory operation is divided in two stages:

- Stage I: *development and testing of methodology, organization and operational capacities, and survey of field data on 14% of forests and forestland areas in BiH (completed during 2005 and 2006);*
- Stage II: *survey of field data on the remaining territory, analysis and publishing of the results (planned period 2007-2010).*



(Note: areas photographed on the ground in 2006 and 2007 are painted yellow)

Action plan for combating illegal activities in the sector of forestry and wood industry

Based on *Petrograd Declaration*, adopted at the Ministerial Conference on the implementation of legislation on forest and management, the two respective Entity ministries made compatible *Action Plans for Combating Illegal Activities in the Sector of Forestry and Wood Industry in the FBiH and RS*. They have been adopted by the Entity governments.

The purpose of the Action Plan is the elimination of all forms of illegal activities in the forestry sector, including theft and corruption.

Action Plan implies two lines of action:

1. *Improving of external control (strengthening of inspection checks, and strengthening of institutions overseeing legality of actions in this area),*
2. *Internal development of cantonal forest stewardship companies.*

High conservation value forests (HCVF)

Based on international HCVF tools and the consultations held with all stakeholders in BiH, the process of HCVF tools adjustment to BiH conditions has been conducted. Among other things, the process included: adjustment of definitions, identification of methodology and proposals for management of high conservation value forests in BiH circumstances.

National standards for sustainable forest stewardship and certification

The process of setting national standards for sustainable forest stewardship and certification was completed by the beginning of 2007, in strict compliance with the structure of principles and criteria of the *Forest Stewardship Council* (FSC).

During the process, the working group made efforts to have BiH standards harmonized with the standards in neighboring countries, to conduct consultations among interest groups and testing of draft standards in field conditions.

Monitoring of forest health conditions

This project (diagnostic/forecast service) is in preparatory stage and is going to last three years.

Competitiveness rising through cluster building

This project was funded by the United States Agency for International Development (USAID). Thanks to the support it received from the project, the BiH Wood-Processing and Forestry Cluster worked successfully for four years.

FOPER

Regional project for education of human resources in the field of forestry policy and economy at all levels (six countries of the region). Post-graduate studies have been introduced, while the process of continuous education for forestry workers is in preparatory stage.

All the above mentioned projects aim at the establishment of a transparent forest management and stewardship and the implementation of international and European conventions and standards in all segments of forestry.

5.2. Law related to forestry

Federation of BiH

Law on Forests (Off. Gazette of the FBiH Nos. 20/02, 29/03 and 37/04)

Law on Conditions and Methods of Wood Cutting (Off. Gazette of the FBiH Nos. 27/97 and 25/06)

Law on Hunting (Off. Gazette of the FBiH No. 4/06). Based on this Law, the competent Federation ministry passed five bylaws (Off. Gazette of the FBiH No. 63/06)

Law on Seeds and Seedlings for Forest and Horticultural Species of Trees and Bushes (Off. Gazette of the FBiH No.71/05)

Law on Nature Protection (Off. Gazette of the FBiH No. 33/03)

Law on Air Protection (Off. Gazette of the FBiH No. 33/03)

Law on Environmental Protection (Off. Gazette of the FBiH No. 33/03)

Republic of Srpska

Law on Forests (Off. Gazette of the RS Nos. 66/03, 53/05 and 91/06)

Law on National Parks (Off. Gazette of the RS Nos. 21/96 and 74/05)

Law on Hunting (Off. Gazette of the RS Nos. 4/02 and 34/08). Competent ministry in the RS passed five implementing regulations that elaborate the Law (Off. Gazette of the RS Nos. 11/02, 22/03 and 57/03)

Law on Nature Protection (Off. Gazette of the RS No. 50/02)

Law on Air Protection (Off. Gazette of the RS No. 53/02)

Law on Environmental Protection (Off. Gazette of the RS Nos. 53/02, 109/05, 28/07 and 41/08)

Brčko District of BiH

Law on Forests (Off. Gazette of the Tuzla Canton No. 10/99) – taken over as the Law of Brčko District of BiH, by the order of the Supervisor

6. RURAL DEVELOPMENT

Rural areas make around 81% of the overall area of BiH and, according to estimates, around 61% of the total population of BiH resides there.



BiH rural areas are mostly underdeveloped and facing scores of problems, among which the most acute ones are population outflow and lack of job opportunities. On the other hand, these areas possess natural resources and rich cultural heritage, as well some other advantages than can serve as the basis for rural development. Consequently, revitalization and development of rural areas make an indispensable process that will lead to the survival and sustainable development of rural areas, along with environmental and economic sustainability.

Agriculture is the main, yet not the only possible activity of the population in rural areas. Investing in rural areas and rural development in general, requires the establishment and strengthening of links between agriculture and other sectors of rural economy, as well as strengthening of non-agricultural activities. Non-agricultural activities will generate additional revenues, which will provide for existential needs of the population in rural areas that cannot be fully met by agrobusiness only.

One of the main prospects for the development of rural areas in BiH is tourism in various forms, including hunting, fishing, sports and recreation, health or eco-tourism, as well as other types of touristic offers.

It is one of the main possible activities, in terms of its character and valuation of natural resources, as well as of potential generation of additional revenues and employment of the youth, development of infrastructure and institutions, and of cultural life in general.

Rural development requires a holistic approach, links among various stakeholders and their involvement in addressing problems in rural communities. It is also necessary to eliminate the gap between the EU *acquis on* rural development and the existing legislation and institutional capacities for rural development in BiH.

BiH, Entities and BD of BiH do not have a strategy and framework legislation that would set a general framework, objectives and approach to the rural development. Still, these institutions provide financial support to rural development.

Rural development implies a series of measures aimed at raising competitiveness of agriculture and forestry, environment quality improving and village development, encouraging diversification in economic activities and upgrading the quality of life in rural areas.

(proposal of the BiH Law on Agriculture, Nutrition and Rural Development)

A framework for policy measures in agriculture and rural development

Measures for providing support to agriculture and rural development in BiH will be gradually adjusted at all levels of government, in order to be brought in line with the corresponding measures in the EU. In broad terms, the measures are grouped in the following categories: policy measures for support to agricultural markets and policy measures for rural development.

Policy measures for rural development are divided into three main groups:

- a) Measures for raising competitiveness – *include measures for increasing investments into agricultural farms and food industry, support to educational services in the sector, support to early retirement, support to young farmers, support to infrastructure development in rural areas and other similar measures related to the competitiveness of rural areas,*
- b) Measures for protection of rural environment – *include measures for less favorable rural areas, support to environmental programs including organic production, integrated production and environment-friendly production, support to the wellbeing of animals, and other measures related to rural environment,*
- c) Measures for diversification of activities in rural areas and measures for improvement of quality of life in rural areas – *include support to supplementary activities and non-agricultural services, measures for development of the village and for preservation of natural and cultural heritage in rural areas, and related measures.*

(proposal of the BiH Law on Agriculture, Nutrition and Rural Development)

Financial support for rural development in 2007 (in KM)

FBiH	3.358.700
RS	11.307.710

Source: FBiH MoAWMF, RS MoAFWM

An opportunity for development of rural areas in BiH in the near future is the use of the EU pre-accession funds for rural development, in the first place from IPA-Instrument for preaccession assistance, whose fifth component covers rural development. This component, as the continuation of SAPARD, provides support to preparatory activities in common agricultural policy, and rural development.

For that reason, it is necessary to create a link with one of the main and most important approaches to the development of rural areas in the EU, the approach called LEADER-*Liasion entre action de developement de l'economie rurale*.

The main principles of LEADER are: *bottom-up approach, approach based on specific features of the area-sub regional level, establishing of a Local Action Group-LAG for the purpose of strengthening local management skills, local action plan, building of local partnerships and public-private partnerships, projects of innovative character, which link sectors and financing from various sources.*

Local action groups, communities of public and private partners, use LEADER approach in order to jointly design and prepare the strategy and development measures for rural areas.

LEADER approach is based on the important key stakeholder at the local level-*Local Action Group* - LAG.

Local action groups in Bosnia and Herzegovina

Local Action Group (LAG), by definition, stands for local partnership or, in legal terms, a „registered association of citizens“. The purpose of Local Action Groups: contributing to the overall local development of communities, development of local strategies of rural development and implementation of concrete projects related to it, development and strengthening of local capacities through the promotion of social inclusion, promotion of the idea of partnership and uniform cohesive development of the entire community and promotion of integrated and project based approach to addressing concrete problems and real needs of local population.

LAG includes the representatives of three different sectors: municipal, business and nongovernmental (with possible inclusion and engagement of natural persons, individually or in groups). LAGs are considered to be a new form of partnership on local level, implying joint actions taken by the representatives of local authorities, organizations of civil society and business sector, with the use of comparative and competitive advantages of each of the partners. Partners cooperate and help each other (through division of tasks to be performed, mutual education on specific topics related to successful project implementation, sharing of information, etc.), and work together on the implementation of concrete projects. Generally, LAGs take the bottom-up approach. Special attention needs to be paid to the ideas proposed by LAGs in BiH, in particular in view of the experiences and lessons learnt from the EU and accession countries concerning their role in the implementation of the EU programs (like SAPARD), and especially *LEADER* initiative.

During the implementation of the UNDP project *SUTRA PLOD*, 23 informal Local Action Groups were established in 24 municipalities in BiH, geographically located in the two Entities, and one in BD of BiH. The population covered by the activities of these groups was around 800.000 inhabitants. LAGs served as a precursor to the establishment of formal LAGs in BiH according to the EU standards. With the support of the above-mentioned project, three LAGs were successfully registered: „Doboj Region“ encompassing Doboj and Maglaj municipalities, „Una Sana“ covering the territories of Sanski Most, Bosanska Krupa and Bužim municipalities, and „GOZB“ encompassing the municipalities of Drvar, Bosanski Petrovac, Bosansko Grahovo and Glamoč.

These local action groups were established in line with the EU principles and modalities and registered as such with the BiH Ministry of Justice. The main task of these LAGs is to develop project proposals in their respective municipalities in line with the real needs of local communities. Planned activities must correspond to the principles of rural development of the EU and LEADER initiative, and be focused on creating of a favorable climate for reintegration of vulnerable categories of population into local community and necessary preconditions for local development.

The representatives of these LAGs completed the first project proposals that are ready for evaluation and financing; it is expected that they will be approved and that their implementation will start soon.

7. TRADE IN AGRICULTURAL AND FOOD PRODUCTS AND TRADE POLICY

7.1. Trade in agricultural and food products

Exports from BiH in agro industrial sector in 2007 as compared to 2006 increased by 24,50%, while imports in the same period grew by 14,62%.

Total imports of agricultural products in 2007 amounted to 2,211 billion KM, which makes 16,23% of the overall imports in BiH. Total exports of agricultural products in 2007 amounted to 336 million KM, or 5,54% of the overall exports from BiH.

Indices of trade in agricultural products show that imports are decreasing, while exports from BiH are increasing. As a result, the coverage of imports by exports improved slightly.

Trade in agricultural products (million KM) (2006-2007)

Year	Import	Index ¹	Export	Index	Coverage
2006	1.928,9	97,70%	270,4	114,86%	14,02%
2007	2.211,1	114,63%	336,6	124,48%	15,22%

Source: Foreign Trade Chamber of BiH

The general coverage of imports by exports of agricultural products in 2007 was 15,22%. Though this percentage is higher than in previous years, it is far from satisfactory. The highest level of coverage was reached in case of the following products:

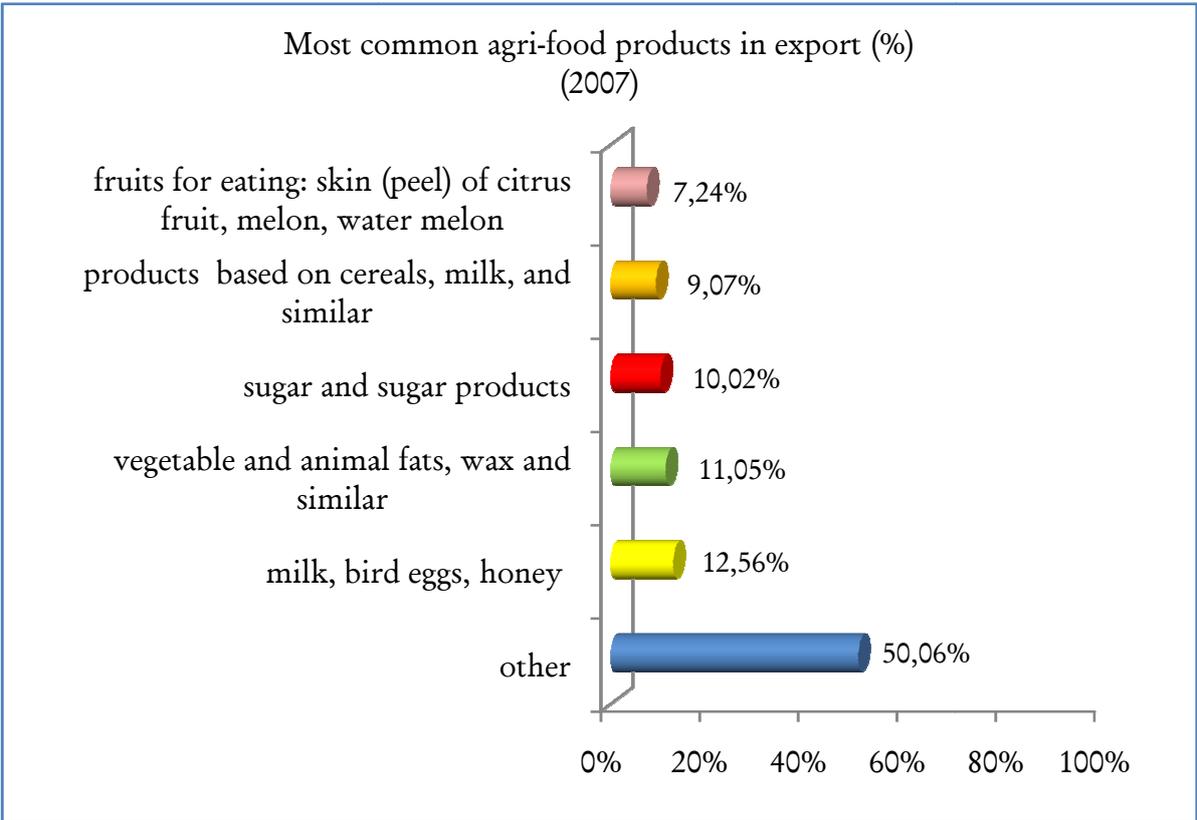
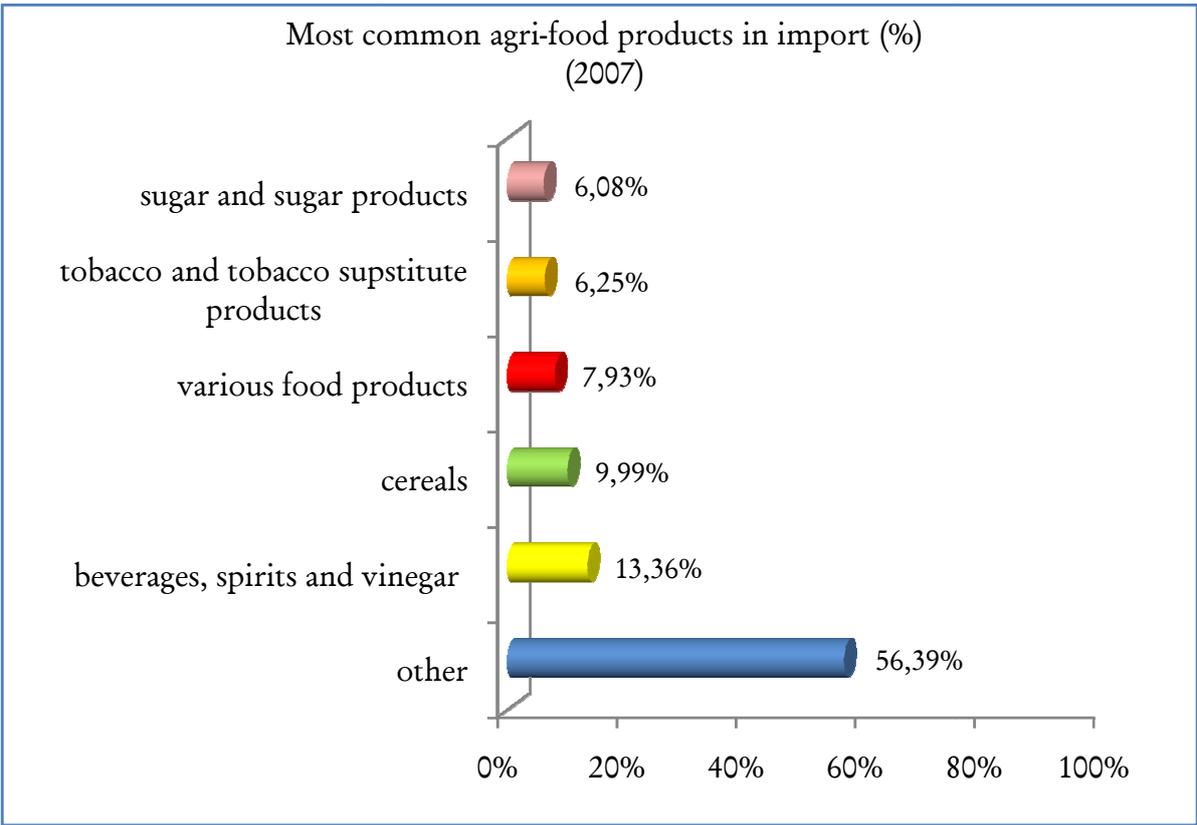
- Fish, crustaceans, mollusks and alike (81,94%),
- Products made of vegetables, fruit and alike (51,83%),
- Wickerwork's vegetal materials (49,58%).

7.2. Structure of BiH trade in agricultural products

When it comes to the import/export coverage data on individual chapters of customs tariff, the situation varies greatly depending on the type of product.

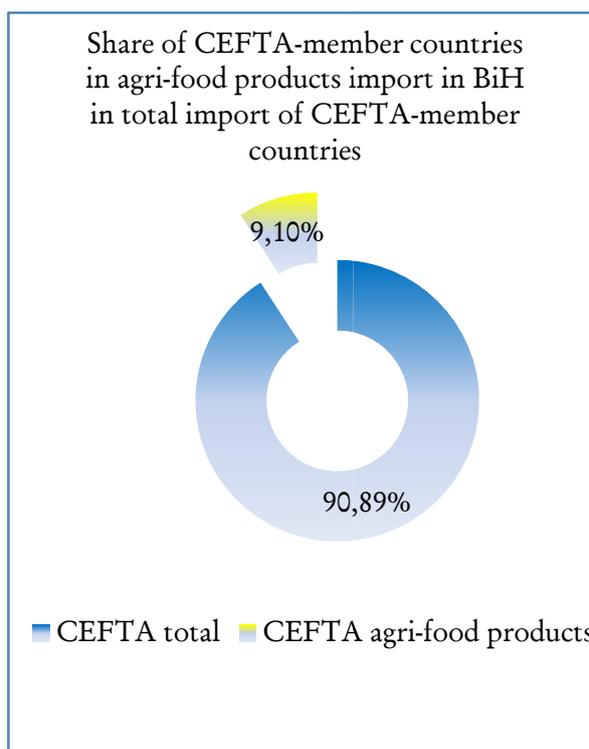
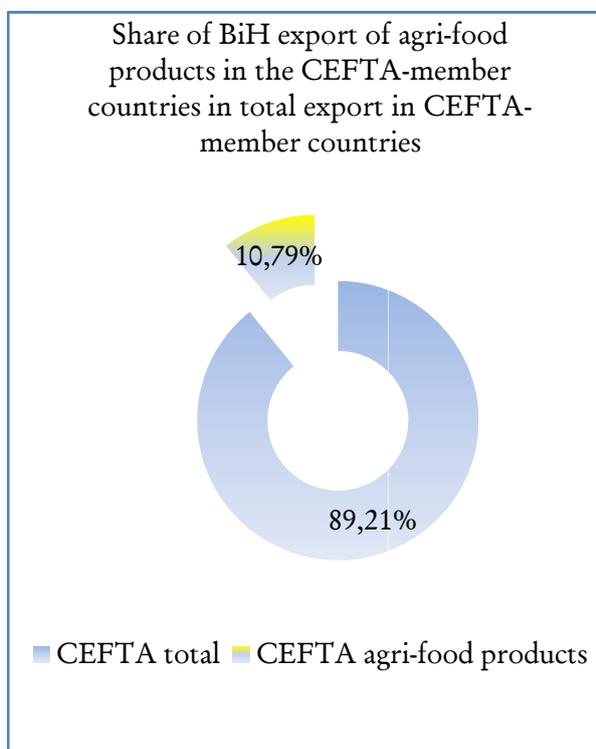
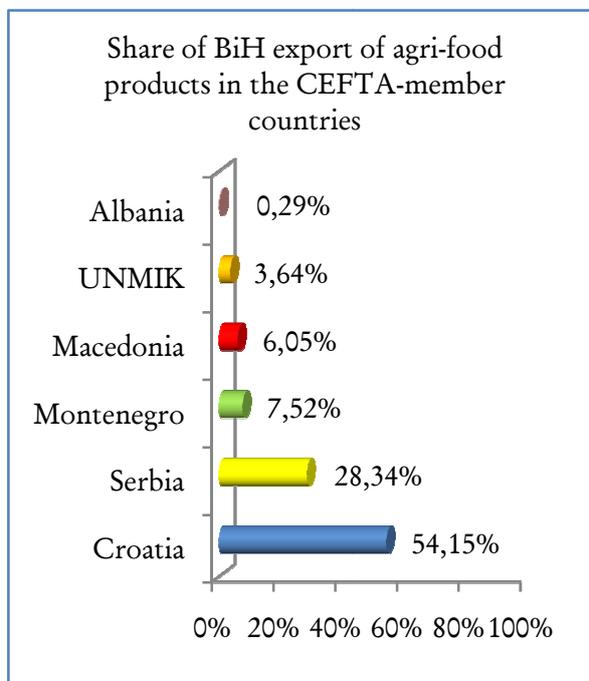
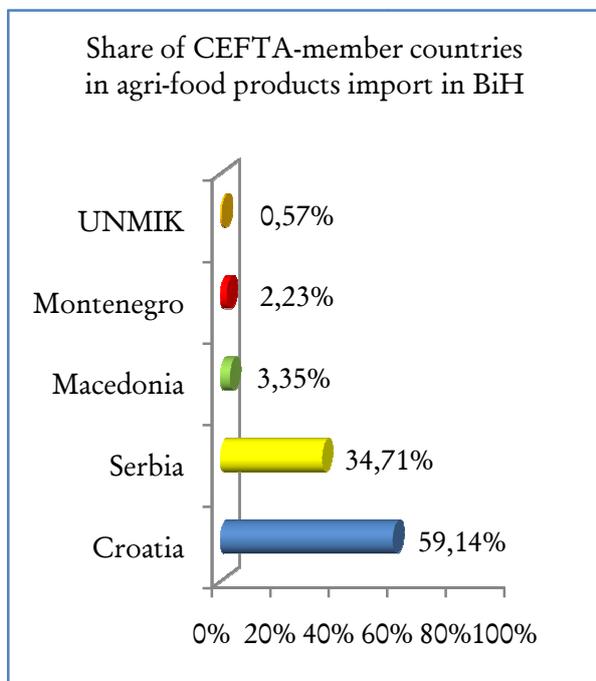
In some groups of products BiH has a high coverage percentage. For instance, in fish trade, the coverage percentage amounts to almost 70%. On the other hand, in case of products where BiH has low or no production (e.g. live stock, fresh meat, cereals, etc.) the coverage percentages are minimal. Maybe the most interesting group of products are those that have high production in BiH, so that their share in exports is bigger. This group includes: milk and dairy products, vegetables and fruit, wickerwork and vegetal materials, oils and fats, processed meat and sugar products.

¹ Chain index



The analysis of past years shows that trade in agricultural products and food industry products with other countries are growing from year to year.

The most important trade partners of our country in that respect are *Croatia, Serbia, Montenegro and Macedonia*, mainly thanks to traditional trade links, consumers' habits, but also to the openness of their markets due to bilateral free trade agreements and to *CEFTA 2006*.



Out of the total imports of agricultural products (customs tariff chapter 0-24) in 2007 amounting to 2,211 billion KM in 2007, or 16,23% of total imports, 990 million KM account for imports from Serbia and Croatia, which is 54% of the total imports of agricultural products and 8,54% of total imports in 2007.

Serbia's share in the overall imports in BiH was 10,63%, while imports from Croatia accounted for 22,37%. Total trade in agricultural products between BiH and Croatia in 2007 amounted to 858,93 million KM, which means that it grew by 25,82% as compared with the same period in the previous year.

In 2007, as compared with previous year, imports increased by 24,15%, and exports by 36,58%.

The overall trade volume in agricultural products between BiH and Serbia in 2007 amounted to 496,14 million KM, with a growth of 3,33% as compared with the same period of 2006. In 2007, as compared with previous year, imports increased by 8,14%, while exports dropped by 20,16%.

Imports/exports with Croatia and Serbia (million KM) (2006-2007)

	2006	2007	Increase
Imports from Croatia	590,96	733,71	24,15%
Exports to Croatia	91,68	125,22	36,58%
Total	682,64	858,93	25,82%
Imports from Serbia	398,19	430,61	8,14%
Exports to Serbia	82,08	65,53	-20,16%
Total	480,27	496,14	3,33%

Source: BiH Foreign Trade Chamber

7.3. Foreign trade

Due to the low average crops, great areas of uncultivated agricultural land and a number of other limiting factors, BiH is forced to import cereals. Prior to the recent war, the coverage of BiH with domestic productions was app. 70%. According to the data for 2007, the production of wheat amounting to 257.100 satisfied 41% of the necessary quantities. If the production is increased by additional 30%, BiH would be able to reach the level of the average crop in EU that amounts to 4,5 t/hectare.

These data indicate that the greatest import of wheat was from Croatia (56,19%), Hungary (26,68%) and Serbia (15,11%). Import from other countries is neglect able.

Import wheat (2007)

Country	Quantity of imported wheat (t)	Country	Quantity of imported wheat (t)
Croatia	210.585	Panama	201
Hungary	99.988	Switzerland	478
Serbia	56.646	USA	125
Austria	5.435	Total	374.703
Slovakia	1.245	Value of imported wheat: 141.437.439 KM	

Source: Foreign Trade Chamber of BiH

BiH was also forced to import other cereals and industrial plants.

In 2007, the wheat market was unstable, which was caused by sudden increase of prices and market demand. Prices at which BiH imported wheat were on average 0,38 KM/kg.

Import of other cereals and industrial plants (2007)

Description	Quantity (t)
Maize	165.423
Barley	19.417
Rye	284.170
Oats	608
Sunflower seed	39.037
Oil-seed rape	17.173
Value of other imported cereals: 110.912.486 KM	

Source: Foreign Trade Chamber of BiH

Despite positive changes, BiH producers do not produce enough fruit to meet domestic demand, as indicated by its negative trade balance. The table below shows the structure of import and export of fresh fruits and vegetables.

Import of fresh fruits in BiH (2006-2007)

Description	2006				2007			
	t	%	KM	%	t	%	KM	%
Banana	37.491,17	24,0	33.532.084	31,5	36.143,59	25,5	32.987.078	31,5
Citrus	42.630,26	27,3	27.594.251	25,9	41.514,85	29,4	29.518.662	28,2
Peach and nectarine	4.669,72	3,0	3.398.445	3,2	4.155,06	2,9	3.332.341	3,1
Sour cherry	3.053,26	1,9	1.523.334	1,4	3.685,21	2,6	1.985.519	1,9
Kiwi	2.082,49	1,3	1.453.076	1,3	2.829,39	2,0	1.953.033	1,8
Water melon and melon	13.714,09	8,8	4.648.206	4,3	11.764,22	8,3	3.890.130	3,7
Apple	25.439,46	16,3	11.040.280	10,4	20.434,35	14,4	9.207.492	8,8
Plum	8.942,75	5,7	2.126.711	2,0	5.232,21	3,7	1.452.529	1,4
Pear	2.729,82	1,7	2.342.297	2,2	3.031,64	2,1	2.593.817	2,5
Table grape	5.136,25	3,3	4.622.891	4,3	4.863,80	3,4	4.990.048	4,7
Nuts	1.000,53	0,6	5.598.434	5,2	967,81	0,7	5.778.855	5,5
Fruits - Total	155.883,27	100	106.282.930	100	141.130,83	100	104.567.516	100

Source: Foreign Trade Chamber of BiH

Total value of imported fruit in 2007 was 104,5 million KM, i.e. 5,4% of overall import of agricultural goods and foodstuffs. The value of imported fruit remained rather stable in the past years with a decrease recorded in 2007 in comparison with 2005 and 2006. The same relates to the exported fruit, whose value was app. 24 million KM in 2007, or 24 % increase in comparison with 2005. Import of tropical and Mediterranean fruits on average amounts to more than 80.000 tons, which makes almost 60% of the overall import of fruit. The greatest share in this import goes to bananas, amounting to almost 33 million KM, or 31% of overall value of imported fruit. Of the fruit grown in BiH, the greatest import goes on apples, i.e. 20.434 tons or 14,4% of overall import of fruit, which, compared with 2006, represents a 20% decrease.

The reason for this deficit lies in the demand of processing industry in BiH, whose needs for fresh fruit cannot be met by domestic production. So far, producers in BiH have not expanded their production in order to meet the demand and replace the imported products. Key reasons for this slow expansion of production are the uncertainty of producers in terms of future market prices, limited availability of loans, and the lack of storage and processing capacities in BiH.

Total value of imported fruit in 2007 was 55 million KM, which represents 2,7% of overall import of agricultural goods and foodstuffs.

Import of fresh vegetables in BiH (2006-2007)

Description	2006				2007			
	t	%	KM	%	t	%	KM	%
Potato	5.284,45	6,7	1.861.688	3,4	6.911,63	9,5	1.749.610	3,1
Potato seed	10.769,0	13,8	7.116.219	13,3	9.456,18	13,2	8.605.055	15,6
Tomato	17.705,5	22,7	12.318.724	23,0	13.499,6	18,6	10.604.827	19,2
Onion	3.178,84	4,0	1.031.295	1,9	4.307,78	5,8	1.499.220	2,7
Onion seed	2.046,34	2,6	2.080.331	3,8	1.860,90	2,5	2.101.611	3,8
Carrot	4.790,16	6,1	1.694.162	3,1	2.650,92	3,6	1.191.840	2,1
Cucumber	3.080,17	3,9	2.144.374	4,0	2.443,77	3,3	1.828.923	3,3
Pepper	12.065,1	15,4	7.248.982	13,5	7.859,39	10,8	5.541.179	10,0
Lettuce	479,9	0,6	488.302	0,9	239,02	0,3	321.395	0,6
Total vegetables	78.050,3	100	53.530.741	100	72.377,76	100	55.148.641	100

Source: Foreign Trade Chamber of BiH

Although the value of imported vegetables in 2007 slightly grew in comparison with 2006, overall amount of imported vegetables was lower. Reason for this decrease may be explained by the increase of average price of vegetables in 2007.

The value of exported vegetables in 2007 was app. 19 million KM, which is the highest value since 2000. In the past years, the value of export was rather stable at about 12 to 15 million KM. With overall growth of export of agricultural goods and foodstuffs, the share of this sector in the overall value of exported agricultural products and foodstuffs decreased from the maximum value of 17,5% in 2000 to 5,9% in 2006.

In 2007, overall import of wine in BiH amounted to 32,698 million KM. It slightly increased, i.e. by 0,51 % compared with 2006, when it amounted to 32,437 million KM.

Total export of wine from BiH in 2007 amounted to 4,973 million KM. It slightly increased, i.e. by 9,30 % compared with 2006, when it amounted to 4,550 million KM.

The coverage of import with export of wine in 2007 amounted to 15,21% and was improved by 1,22 % in comparison with 2006, when it amounted to 13,99%.

Foreign trade of BiH in wine (millions of KM) (2006-2007)

Description	2006			2007		
	Import	Export	Coverage of import with export	Import	Export	Coverage of import with export
Wine produced of fresh grapes, including fortified wines, unfermented grape-juice, except for unfermented grape-juice from Tariff No. 2009	32,437	4,550	13,99%	32,612	4,973	15,21%
Vermouth ad other wines made of fresh grapes, aromatized by plants or other stuffs	0,095	0,00006		0,086	0,00009	
Total wine	32,532	4,550		32,698	4,973	

Source: Foreign Trade Chamber of BiH

Compared with 2006, in 2007 a 7,99% growth of imported quantities and a 7,10% drop of exported quantities were registered. The most important foreign trade partners of BiH in the trade of wine are *Serbia, Croatia and Montenegro*. Serbia is the biggest importer of wine in BiH, while BiH exports most of its wine to Croatia. In 2007, around 85% of overall import was from the mentioned countries, i.e. 34,50% from Serbia, 25,63% from Croatia, and 24,87% from Montenegro. Similar is the situation in export, where 80,97% of overall export was registered with these countries, namely 54,90% to Croatia, 22,63% to Serbia and 3,45% to Montenegro.

Foreign trade of BiH (million of kg) (2006-2007)

Description	2006		2007		Growth rate of import	Growth rate of export
	Import	Export	Import	Export		
Wine produced of fresh grapes, including fortified wines, unfermented grape-juice, except for unfermented grape-juice from Tariff No. 2009	9,511	2,396	10,277	2,226	7,99%	-7,10%
Vermouth ad other wines made of fresh grapes, aromatized by plants or other stuffs	0,030	0,000001	0,026	0,000002		
Total wine	9,541	2,396	10,303	2,226		

Source: Foreign Trade Chamber of BiH

Structure of trade in wine per countries (2007)

Country	Import	% in total import	Export	% in total export
Serbia	11,282	34,50%	1,13	22,63%
Croatia	8,379	25,63%	2,73	54,90%
Montenegro	8,134	24,87%	0,17	3,45%
Total	27,795	85,00%	4,03	80,97%
Other countries	4,903	15,00%	0,95	19,03%
Total	32,698	100,00%	4,97	100,00%

Source: Foreign Trade Chamber of BiH

The situation with foreign trade in wine in 2007 was similar to that in 2006. In 2006, around 50,75% of the total import was from Serbia and Montenegro while 34,85% was from Croatia. This makes 85,6% of overall import only from these three countries. In 2006, export was directed mainly towards Croatia, i.e. 68,91%, while export to Serbia and Montenegro was 11,36% of overall export, or 80,27% of overall export in these three countries.

Structure of trade in wine per country (2006)

Country	Import	% in total import	Export	% in total export
Serbia and Montenegro	16,511	50,75%	0,52	11,36%
Croatia	11,337	34,85%	3,14	68,91%
Total	27,848	85,60%	3,65	80,27%
Other countries	4,684	14,40%	0,90	19,73%
Total	32,532	100,00%	4,55	100,00%

Source: Foreign Trade Chamber of BiH

In 2007, overall import of meat, meat products and fish in BiH amounted to 168,83 million KM, or 7,64% of overall import of agricultural products in BiH.

Overall export of meat, meat products and fish in 2007 amounted to 34,31 million KM or 10,20% of overall export of agricultural products.

Overall import of meat in BiH in 2007 amounted to 65,22 million KM, while overall export amounted to mere 2,79 million KM.

Coverage of import with export of meat in 2007 amounted to mere 4,27%. About 60% of overall import of meat in 2007 was realised by the five most important importers.

Structure of import of meat per country (millions of KM) (2007)

Country	Import	% in total import
Croatia	15,91	24,40
Austria	7,15	10,97
Slovenia	6,97	10,67
Holland	5,82	8,92
Turkey	3,04	4,66
Total	38,88	59,62

Source: Indirect Taxation Authority BiH

Export of meat from BiH in 2007 was realised only with the countries signatories of CEFTA 2006. BiH exported most of its meat to Montenegro, i.e. 0,94 million KM (33,88%), Serbia 0,72 million KM (25,79%) and Croatia 0,62 million KM (22,41%), which is 82% of overall export from BiH.

Overall import of fish in 2007 amounted to 14,82 million KM, while overall export of fish amounted to 13,70 million KM.

Coverage of import with export of fish in 2007 amounted to 92,46%. More than 60% of overall import of fish was realised from five countries only:

Structure of import of fish per country (millions of KM) (2007)

Country	Import	% in total import
Croatia	4,79	32,35
Denmark	1,63	10,97
Spain	1,38	9,34
Luxembourg	0,93	6,30
Uruguay	0,53	3,58
Total	9,27	62,53

Source: Indirect Taxation Authority of BiH

Export of fish from BiH in 2007 was realised only with the countries signatories of CEFTA 2006. BiH exported most of its fish to Serbia, i.e. 10,6 million KM (77,39%), Croatia 1,61 million KM (11,78%), and Montenegro, 1,05 million KM (7,69%).

Overall import of meat products in 2007 amounted to 88,79 million KM, while export amounted to mere 17,82 million KM. Coverage of import with export amounted to 20,07%.

Three of the most important importers of meat products in 2007 were Croatia, Serbia and Slovenia. Import from these three countries makes more than 80% of overall import.

Structure of import of meat products per country (millions of KM) (2007)

Country	Import	% in total import
Croatia	40,63	45,75
Serbia	19,61	22,09
Slovenia	13,89	15,63
Total	74,12	83,47

Source: Indirect Taxation Authority of BiH

Structure of export of meat products per country (millions of KM) (2007)

Country	Export	% in total export
Kosovo	4,92	27,60
Croatia	3,64	20,41
Serbia	3,07	17,26
Slovenia	2,82	15,86
Montenegro	1,32	7,42
Total	15,30	85,87

Source: Indirect Taxation Authority of BiH

Foreign trade of BiH in meat, fish, and meat and fish products (2007)

Description	Import	Export	Coverage of import with export
Meat and edible slaughter-house products	65,22	2,79	4,27
Fish and crustaceans, mollusks or other aquatic invertebrates	14,82	13,70	92,46
Products of meat, fish, crustaceans, mollusks or other aquatic invertebrates	88,79	17,82	20,07
Total	168,83	34,31	20,32

Source: Indirect Taxation Authority of BiH

Import of milk products in 2007, expressed in its financial value, amounted to 115,7 million KM and in comparison with the previous year, was 16% higher. The import expressed in the equivalent of raw milk amounts to 135 million liters, and compared with the previous year, it was 14% higher. Growth of financial value of import in 2007 was influenced by the increase of prices of the long-lasting milk products on the world market, which is characteristic for cheese, butter and powder milk.

Milk products were imported from 18 countries, of which most represented were Croatia 46%, Germany 22%, Slovenia 14%, and Serbia 11%, and others 7%.

In the past five years, import of milk products went from 100 million to 116 million KM, i.e. 118-135 million liters of milk.

In the value and natural structure of import, the greatest share goes to cheese 38,2%, or 57,1%. Compared with the previous year, natural import of sour cream is 25% higher and cheese is 2% higher, while the natural import of powder milk decreased significantly by 17% and UHT sterilized milk by 11%.

Export of milk products in 2007 amounted to 40,7 million KM and was 39,2 % higher than in the previous year. Natural export expressed in the equivalent of raw milk is about 47,2 million liters of milk or 24% of the overall processing of milk in the dairy facilities in BiH. In the past five years, the export of milk products was multiplied and shows a constant tendency of growth.

Milk products were exported to 14 countries, of which the most represented ones were Croatia 59,2%, Macedonia 22,0%, Serbia 10,3%, and other countries 8,5%.

The main export products were UHT sterilized milk and solid and semi-solid cheeses, with a 69% and 22,1% of their respective share in the structure of export. The share of export in the overall production of UHT milk is 30 % and in solid and semi-solid cheeses 54,4%. Export of UHT milk, compared with the previous year, increased by 45%, cheese by 6%, while the export of sour cream significantly decreased (48%).

In addition, in 2007, the list of exported milk products expanded, and almost all sorts of milk products produced in BiH were exported.

Assessment of balance of milk in BiH (2007)

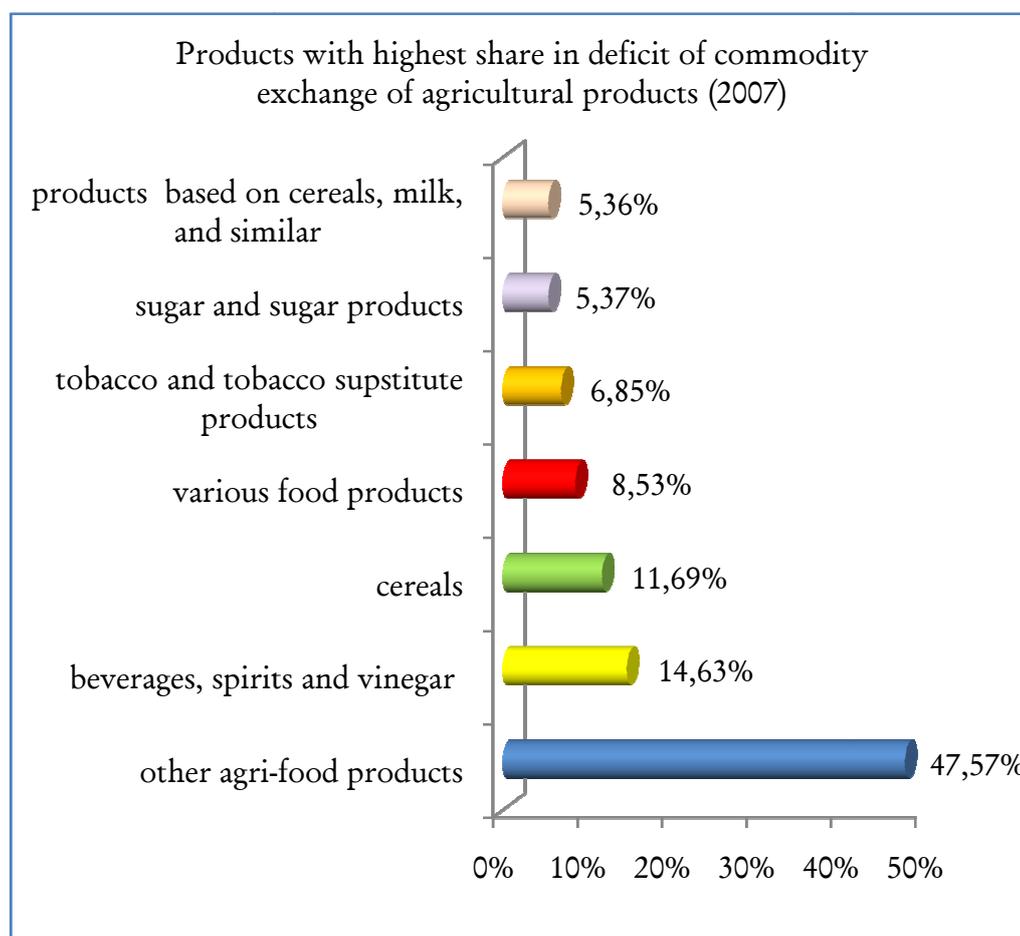
		Quantity (000 l)
Entry of milk	<i>Total production of milk</i>	653.000
	<i>Import of milk and milk products u</i>	135.000
	Total	788.000
Exit of milk	<i>Assessment of the consumption of milk for calves^{2*}</i>	99.300
	<i>Export of milk and milk products</i>	47.200
	Total	146.500

Source: Agency for Statistics of BiH

Compared with the overall available quantity of milk which amounted 788.000 liters, 81,4% was used for consumption, 12,5% to feed calves, while 6% was exported.

7.4. Structure of deficit in the trade of agricultural products

BiH has been registering deficit in all the chapters of customs tariffs considered as agricultural products according to international classification. This proves that BiH is dependent on import, namely, that it does not have sufficient quantities to satisfy the needs of its domestic market. More than 50% of deficit in overall trade deficit of agro-industrial sector is not related to the products that are mostly mentioned when claims are made that domestic production is jeopardized (*meat and other slaughterhouse products for human consumption, bird eggs, honey etc., and meat, fish, crustaceans etc. products*).



²Consumption of milk for calves: 331.000 head of cattle x 300 l

At the same time, the food processing companies insist on the import of raw materials for processing while they insist much less, if at all, on contracting the production domestically, which would not only make them meet their own needs to a significant extent, but would also strengthen domestic production in the area of cattle breeding, particularly the breeding of live stock, as well as production of meat and milk.

If we aim at reducing the trade deficit in the sector of agro-industry and at increasing the competitiveness of domestic agricultural products, we should secure adequate subsidies. The share of these funds is lower than the sector's share in GDP. Also, it is evident that the countries that prepared themselves for accession to the EU had an intensive increase of subsidies aimed at the development of their agriculture. E.g., Croatia allocates 400 million Euros a year as incentives for agriculture; its plan for 2008 is to allocate 500 million Euros.

7.5. Trade policy

Once the ratification process of the *Central European Free Trade Agreement* (CEFTA 2006) was completed, on 22 November 2007, BiH gained full membership in the free trade zone in South-East Europe.

All bilateral agreements BiH had until that moment with the signatories of CEFTA (*Albania, Croatia, Macedonia, Moldova, Montenegro, Serbia, and UNMIK Kosovo*) were put out of force on 21 November 2007. With the accession of Bulgaria and Romania to the EU, free trade agreements with these two countries were also put out of force. CEFTA 2006 implies simplified and harmonized conditions in trade as well as a tariff-free and liberalized trade regime. This way, overall foreign trade of BiH with the signatories of CEFTA should be increased, while its trade deficit should be decreased. As for trade liberalization and increase of competitiveness, CEFTA 2006 is aligned with the regulations of the *World Trade Organization* (WTO).

The Stabilization and Association Agreement (SAA) was initialed on 4 December 2007 in Sarajevo. On behalf of BiH, SAA was initialed by the Chair of the Council of Ministers of BiH, Mr. Nikola Špirić, and for EU, the signatory was the Commissioner for Enlargement, Mr. Olli Rehn.

The signing of SAA enables the creation of a free trade zone with EU for industrial and for most of agricultural products. The provisions of SAA related to trade are asymmetrical to the benefit of Bosnia at the beginning of the implementation. This principally means that the EU provides an unlimited free access to the market of an enlarged Union for almost all industrial and for most of agricultural products. For BiH, tariffs for some industrial and agricultural products are lifted immediately, while for others, tariffs will be gradually reduced until their full lifting that would occur in the course of the forthcoming years. This will boost trade and investment as key factors of economic restructuring and modernization.

While tariffs for agricultural products will be decreased, quotas have remained at the ATM level for a great number of goods exported to EU, including calves, wine, sugar and sugar products, as well as fish. Negotiations on BiH's membership in the *World Trade Organization* (WTO) will continue in 2008. A document on domestic support for the base-line period 2005-2007 is in preparation where most of the domestic support measures are aligned with the WTO Agreement on Agriculture.

Depending on the results of WTO accession negotiations, BiH will be allowed to support domestic agriculture to the level of 5% or 10% of the value of production for each product (*product specific support*) and for overall agricultural production (*product non-specific support*). Additionally, BiH will be allowed to support its agriculture up to the levels of the *AMS Lists of Commitment*. However, the costs of domestic incentives in the forthcoming years must be monitored in order not to exceed the list of commitments made for domestic products. Furthermore, regulations on the areas with less favorable production conditions, as well as clearer rules in determining incentives for structural adjustments, particularly in cases when they are secured as an assistance for investment, environmental protection programs and regional assistance programs, need to be regulated in detail, so that these measures can be classified as the Green Box Measures.

8. POLICIES IN THE DOMAIN OF AGRICULTURE, FOOD AND RURAL DEVELOPMENT

On the basis of the *BiH Progress Report for 2007*³, in the context of preparations for further integration of the country in EU, *The Council of the European Union* adopted a revised *European Partnership* that contains short- and mid-term priorities which need to be fulfilled in agriculture, among other areas.

SHORT-TERM PRIORITIES

Adopt the Law on Agriculture, Food and Rural Development and ensure an adequate legal framework for harmonized implementation of agricultural, food and rural development policies. Develop a comprehensive agricultural strategy at State level.

Strengthen administrative capacity at State level as regards agriculture, food and rural development in order effectively to coordinate implementation of market and rural development policies throughout the whole country.

Work towards the establishment of a State level Ministry of Agriculture, Food and Rural Development with sufficient resources to implement its tasks.

Ensure adoption of legislation compliant with the European standards in the food safety, veterinary and phytosanitary sectors and start to implement it.

Enhance laboratory and inspection capacity in the food safety, veterinary and phytosanitary sectors, establish reference laboratories and develop sampling procedures in compliance with EU requirements.

Improve the system for identification of bovines and registration of their movements and start identification of pigs, sheep and goats and registration of their movements.

MID-TERM PRIORITIES

Implement the comprehensive State level agricultural strategy throughout the whole country.

Further strengthen the State level capacity for coordination and harmonization of agricultural, food and rural development policy, reinforce implementation mechanisms and further approximate with the *acquis*.

Continue adoption of compliant legislation in the food safety, veterinary and phytosanitary sectors and develop an effective system of controls.

Assess the compliance of agri-food establishments with EU requirements and prepare and start a programme for upgrading those establishments.

Source: *European Partnership for BiH*

³ Bosnia and Herzegovina 2007 Progress Report SEC (2007) 1430

The Law on Agriculture, Food and Rural Development of BiH was submitted to the parliamentary procedure in 2007.

This Law endorses the frameworks for the strengthening of competitiveness and quality of agricultural products and foodstuffs and the implementation of standards for a more dynamic development of agriculture, food and rural development. The Law determines all those mechanisms that are necessary in order to prepare the country for its accession to EU as well as for its fulfillment of obligations defined by international agreements.

Based on this Law, *Office for Harmonization and Coordination of Payment System* will be formed as a transitional body for the promotion of the payment system and procedures at the entity level that are aligned with EU principles. This structure will provide support and a number of services to the entities for the improvement of efficiency, transparency and accountability of the system of payments made to the beneficiaries in this sector.

The Sector for Agriculture, Food, Forestry and Rural Development in the Ministry of Foreign Trade and Economic Relations has developed, with technical support of the *EU SESMARD* Project and in the framework of working groups that included the representatives of entities and BD BiH, a draft of „Strategic Plan of BiH for Harmonization of Agriculture, Food and Rural Development 2008-2010” and a draft of „Operational Program for Agriculture, Food and Rural Development 2008-2010“.

The adoption procedure of these strategic documents is under way, while the entity-level drafts of operational programs for agriculture, food and rural development have also been developed.

The goal of the *Strategic Plan of BiH for Harmonization of Agriculture, Food and Rural Development 2008-2010* and *Operational Programme for Agriculture, Food and Rural Development 2008-2010* is to secure all the necessary steps for the preparation of this sector at all levels of government for implementation of EU IPA rural development funds in 2010/11. This three-year timeframe is ambitious, yet it can be realized if the implementation plans and deadlines are respected.

In addition to the state-level Law on Agriculture, the *Law on Wine, Brandy and Other Grape and Wine Products* was also submitted to the parliamentary procedure for adoption.

In July 2007, the Council of Ministers of BiH adopted the *Decision on Harmonized Registers of Agricultural Farms and Clients in BiH* (Official Gazette of BiH, No. 85/07).

In the framework of the World Bank’s Project called *Agriculture and Rural Development*, funds were made available for the purchase of software and hardware for the Register of Agricultural Farms (RAF) and the Register of Clients (RC). A functional specification of software and hardware was prepared and then agreed with relevant entity ministries. Also, there are intensive activities on the harmonization of entity regulations relating the establishment and entry into force of RAF and RC.

8.1. Food Safety Policy

Pursuant to the *Law on Food*⁴ that was harmonized with the EC Regulation 178/02, *The Agency for food Safety of BiH* (FSA), initiates, drafts and proposes in cooperation with competent bodies-regulations in the domain of food and submits them to the Council of Ministers of BiH for adoption.

⁴ Official Gazette of BiH, No. 50/04

In 2007, nine by-laws, all harmonized with the *acquis*, were adopted and forwarded to the Council of Ministers of BiH for its adoption.

The Council of Ministers of BiH also received the *Law on Genetically Modified Organisms* that is harmonised with the *acquis communautaire*.

In October 2007 BiH became a member of the *Codex Alimentarius Commission*. The task of this Commission is to implement and support the development and establishment of definitions and requirements related to food, help their harmonization and, thus, facilitate international trade. FSA is defined as the Codex-related contact point in BiH.

FSA has began its cooperation and carries out continuous exchange of data with food control laboratories—all with the aim of risk assessment and notification of citizens about eventual risks. The RASFF (rapid alert system) Commission was also established; it received the RASFF notification from the EC Delegation and now coordinates the process of risk management in collaboration with competent bodies.

8.2. Veterinary policy

As of July 2006, within the EU CARDS Program the Twinning Project called *Support to Capacity Strengthening of State Veterinary Office* was launched with the aim of harmonization of the veterinary service of BiH with EU standards. The value of this project is 2 million KM, and its implementation is planned for a 2-year period. The twinning partner of the *Veterinary Office of BiH* is the German Federal Ministry for Food, Agriculture and Consumer Protection.

Although the main goal of the project is to support the improvement of capacities of the veterinary service in BiH so that it would align its operation with EU directives, broader goals of this project are the preparation of the veterinary sector for export of animals and products of animal origin to EU member countries.

The key priority of the Veterinary Office of BiH is the revision of overall legislation in the veterinary field that is in force in BiH, whereby the main objective is to transpose all EU regulations relating the veterinary sector in the next two years. Through workshops organised within the Twinning Project in cooperation with German experts it was concluded that the primary basis for the full harmonisation is to be built through the adoption of five fundamental laws: *The Veterinary Law*, *The Law on Wellbeing of Animals*, *The Law on Veterinary Medicines*, *The Law on Harmless Removal of Animal Waste* and *The Law on Fodder*.

Full harmonisation of legislation will be completed through the adoption of all the by-laws envisaged in addition and in relation to these five fundamental laws. The creation of a harmonised legal framework is the key prerequisite for achievement of European standards in the protection of consumer health and ensurance of equal opportunities in external trade.

By the Decision EC 2006/766/EC BiH has been included in the list of countries allowed to export its fish products to EU market. Fishery is the first branch that produces food of animal origin which was granted access to EU market.

In the course of 2007, several regulations in the area of veterinary service at the state level were adopted:

- *Decision on Amendments to the Decision on the Implementation of Measures in the Approved Facilities with the Purpose of Reduction of Microbiological and Other Contamination of Meat, Meat Products and Other Products of Animal Origin Used for Human Consumption* (Official Gazette of BiH, No. 33/07)
- *Order on the Prohibition of Use of Certain Substances in the Treatment of Fish* (Official Gazette of BiH No. 33/07)
- *Decision on the Prohibition of Import of Certain Consignments to BiH for the Purpose of Prevention of Bluetongue Disease* (Official Gazette of BiH, No. 40/07)
- *Decision on the Amendments to the Decision on the Prohibition of Import of Certain Consignments to BiH for the Purpose of Prevention of Transmissible Spongiform Encefalopathies* (Official Gazette of BiH, No.40/07)
- *Decision on the Measures of Control of Contagious and Parasitic Diseases of Animals and their Implementation and Financing in 2007* (Official Gazette of BiH, No. 35/07)

8.3. Phytosanitary policy

In the course of 2007, *BiH Administration for Plant Health Protection* developed, in cooperation with competent entity bodies, a list of active substances whose trade in EU is either restricted or prohibited, while it is still permitted in BiH.

This Administration also worked, together with a working group made of eminent experts in the area of plant protection, on the preparation of the *Decision on Prohibition of Registering and Trade of Active Substances and Phyto-pharmaceutical Materials which Contain Active Substances*, whose trade, i.e. use is prohibited in EU.

With this list that includes 60 active substances, the trade of substances harmful for the health of people and prohibited in EU countries will be prevented.

With the aim of facilitating faster movement of goods in foreign trade and introducing uniform procedures in the area of phytosanitary control, BiH Administration for Plant Health Protection, together with the Federal Administration for Inspection Affairs, RS Administration for Inspection Affairs, Public Safety Department, Sub-unit for Inspection of BD BiH, and Indirect Taxation Authority, concluded their *Protocol on Method of Approving Import/Transit (Transport)/Export of Shipments in Phytosanitary Control*.

The Administration has created a list of goods that are subject of phytosanitary control that is conducted by inspection bodies or, more precisely, it has revised the previous list of such goods.

In 2007, the Administration continued with the implementation of the *Rulebook on Daily Packaging Material in International Trade*. 16 firms have been entered into the single register of legal entities and natural persons that carry out the procedure of treatment and/or marking plants.

8.4. Policy of Agricultural Land Management

The overall land in BiH amounts to 5.112.879 hectares, of which 2.726.971 hectares is state-owned property. In the overall area of agricultural land, the former “social” sector (publicly owned agri-businesses, agricultural farms, agricultural companies, farmers’ cooperatives) cultivated app. 155.000 hectares, or 6,12 % of overall agricultural area in BiH. The state still owns about 586,000 hectares, or over 23%, which are mainly unused agricultural areas. Generally, there is about 32,65% of land in the state ownership, while the rest is privately owned.

Source: Mid-term Strategy of Development of Agricultural Sector in the Federation of BiH

The use of land in BiH has a very extensive character, with distinct tendencies of insufficiently planned and non-rational treatment. Land is mainly lost due to the absence of planned construction of residential, industrial and infrastructural complexes, as well as due to non-rational and inadequate cultivation on sloppy terrains. Also, there is a great fragmentation of land.

Agricultural land owned by the state can be sold, although in very rare cases and only if the entity governments and the Government of BD BiH decide to permit such sale. Land can be rented out or given as concession through auction, yet only with the purpose of starting primary agricultural production. The competence for determining the land policy, i.e. for the management and use of land, is at the entity and BD BiH level.

The Constitution of FBiH defines that the policy of use of land is in the competence of FBiH, while the competence for environmental protection and the use of natural resources are between FBiH and its cantons.

Tuzla, Una-Sana, Herzegovina-Neretva and Western Herzegovina cantons have established their cantonal agricultural institutes; in other cantons there are professional services specialized in agriculture within the system of competent ministries, while in the Herzegovina-Neretva Canton there is the Institute for Agricultural Land.

The new *Law on Agricultural Land in FBiH* is in the adoption procedure. It defines, inter alia, the trade of agricultural land and the development of Land Information System (LIS) as an integral part of Geographic Information System (GIS).

The Strategy of Management of Agricultural Land is also being developed, and within it, special accent is put on the hydro-melioration, i.e. watering and commassation.

The Law on Commassation is in the process of drafting and will soon enter into the parliamentary procedure.

The Maps of Functional Value (databases) are in the final stage of development; they will serve as the basis for cantonal spatial plans.

The Investment/Capital Investment in FBiH relates primarily to the process of defragmentation of agricultural estates; they get an incentive amounting to 25% of the contracted value of purchased land.

The Law on Agricultural Land of RS was adopted in 2006, while the document called *Key Elements of the Protection, Regulation, Planning and Use of Agricultural Land* are in the procedure of adoption. They define additionally the issues related to use of agricultural land.

The Rulebook on Conditions and Methods of Obtaining Financial Incentives for development of agriculture and for rural development defines the incentives for the purchase of agricultural land, i.e. long-term investment (incentives can be obtained for minimum 1 hectare of purchased agricultural land and amounts to 2,000 KM/hectare, or 20% of the contracted value of purchased land).

Pursuant to the *Law on Agricultural Land Owned by BD BiH*, land can be given for use of legal entities and natural persons in several forms, e.g. concessions, use without payment and sale, and solely with the purpose of primary agricultural production. The competence over the management of agricultural land in BD BiH is with the *Office for Management of Public Property*.

Projects in 2007

Federal Agropedology Institute

Study „Map of Functional Value of Land“(Phase I)

Map of the functional value of land in FBiH, which is multifunctional and done in the scale of 1:200.000 serves as the basis for development of the Spatial Plan of FBiH, which is aimed at protecting and securing the rational use of land, the zoning of agricultural production, the use of resources, the construction of roads, etc.

Mapping and determining of solvency value of land

Map of the functional value of land in the Goražde and Posavina cantons in FBiH were also made.

„Inventory of the Post-war Situation of Land Resources in Bosnia and Herzegovina“

In the framework of realisation of Phase II of the Project „Inventory of the Post-war Situation of Land Resources in Bosnia and Herzegovina“, the GIS basis for pedological and solvency maps, done in the scale of 1:50.000, were made for ten municipalities in BiH.

Regulation and Remediation of Unused Agricultural Land

A program has been prepared for undertaking the agro-technical and amelioration measures of land regulation for 904 hectares in the territory of four cantons (Herzegovina-Neretva Canton - 242 hectares, Una-Sana Canton. 220 hectares, Herzeg-Bosnia - 220 hectares, and Zenica-Doboj - 222 hectares).

Contaminated soil testing

During 2007, numerous tests of soil contamination were undertaken.

Establishment of land information system in FBiH

Digitalisation of the basic pedological map of BiH was done in the scale of 1:50.000. Data on morphological, physical and chemical characteristics of soil, and profile and semi-profile points for different sections were included.

EUFOR/NATO Project

The Agreement between CETEOR in Sarajevo and EUFOR/NATO in BiH was reached in the framework of realisation of the „Establishing the Environmental Impact of Butmir Base“ Project, within which the Institute investigated the impact of pollution of soil with heavy metals and other elements. 460 samples in total were investigated.

Agricultural Institute of Republic of Srpska - Banja Luka

Planning the use of land at municipal level in BiH

Within the framework of realisation of Phase III of the „Inventory of the Post-war Situation of Land Resources in Bosnia and Herzegovina“ Project, the GIS bases of the use of land and climate parameters were done in the scale of 1:50.000 for 10 municipalities.

Protection of bio-diversity of the flooded area of the Sava River

The GIS base of the use of land in the flooded area of the Sava River was done with the purpose of planning the use of land.

Upgrade of digital database of agricultural land resources and establishment of land solvency in the region of BD BiH

The GIS base in the scale of 1:50.000 was done with the purpose of planning the use of land.

Key protection of the use and regulation of agricultural land in RS as a component of the process of planning the use of land

An inventory and analysis of the existing state of land resources in RS was done. For the purpose of planning the use of land a GIS bases were done in the scales of 1:100.000, 1:50.000, 1:25.000, as well as protection and regulation measures of agricultural land, institutional structure, instruments and mechanisms of implementation and realisation of the proposed measures and conclusions were defined.

Improvement of quality of acid soil in the territory of the Municipality of Prijedor

Chemical analyses of easily movable aluminium contained in land were conducted and recommendations made for the improvement of fertility and calcification. The project lasted for 5 years and was completed in 2007.

Having recognized the need for regulating the system of land registers and cadastre, BiH and the Association for International Development concluded the *Financing Agreement* (the Land Registration Project) that was ratified by the Presidency of BiH⁵.

Land Registration Project is aimed at improving the quality, efficiency and effectiveness of land registration through the development of a transparent immovable property market in BiH, the improvement of the procedure of entry of rights on land, and additional strategies that enable a secure and efficient trade in immovable property. The total value of the project is 17,125.000 US dollars.

According to the aforementioned Financing Agreement the task of implementation is on the entity ministries of justice. Support in the management of the project is provided by *Project Implementation Unit of the World Bank for Land Registry Administration in the Federal Ministry of Justice and Organizational Unit for Land Registration in the Ministry of Justice of Republic of Srpska*. The entity ministries of justice have prepared and adopted the strategic documents called *Analysis of Situation* and *Business Plan for the period 2008-2010*, while the project implementation units have prepared the *Work Plan for 2008* which was submitted to the Committee and to the Association for International Development.

⁵ Decision on Ratification, Official Gazette of BiH, International Agreements, No. 1/07, 11 April 2007.

Support to the competent institution in the realization of these activities is provided by the Swedish Government through *Swedish International Development Cooperation Agency (SIDA)*, German Government through *Deutsche Gesellschaft für technische Zusammenarbeit GmbH-GTZ*, and Austrian Government through *Austrian Development Agency (ADA)*. The implementing agency of donor funds is GTZ, through the SIDA/ADA/GTZ's Project of Land Administration in BiH.

In accordance with the decision taken by the Coordination Committee for Economic Development and EU Integration of BiH, an *Advisory and Coordination Committee for Land Administration of BiH* was also constituted.

Among the measures undertaken to improve services provided to clients of the land registry sector, we would like to mention, inter alia, the activities on systematic digitalization of land registers. From October 2007, the activity of systematic transfer of the land registry entries into an electronic form was carried out. The activity is funded through credits.

According to the data submitted to the Committee by the *Project Implementation Unit of the World Bank for Land Registry Administration* and by the *Association for International Development*⁶, at the end of December 2007, 32% of the land registry entries were digitalized in the FBiH land registry offices. According to the data cited in the *Analysis of Situation* and the *Business Plan for the period 2008-2010* by the end of June 2007, in the land registry offices of RS, 23% of land registers were digitalized⁷. Their plan is to have all entries digitalized by the end of 2009, at the latest⁸.

8.4.1. Mine actions in BiH

The Study on General Assessment of the Problem of Mines in BiH, undertaken in the course of 2007, 1,631 communities exposed to the risk of mines and/or unidentified explosive ordnance (UEO) were identified.⁹

It is estimated that the mine and UEO-contaminated locations have direct impact on the security of about 921,513 people, of whom 154,538 live in high risk, 342,550 in medium risk and 424,425 in low risk communities. Out of the overall number of communities at risk of mines, 122 or 7,48% is categorized as the high risk, 625 or 38,32% as the medium risk, and 884, or 54,19%, as the low risk communities. The world average value of high mine impact in a community is estimated at 10%, while average value for medium mine impact is 30%. Given the number of communities at risk and the level of mine impact, BiH is one of the most endangered countries in the world. Most of these communities are in rural areas. It is estimated that the *inhabitants of urban areas have a relatively safe economic and social lives compared to the rural population that depends economically its access to the mine contaminated land.*

The average number of victims of mines in 2007 amounted to 2,5 per month.

⁶ „Report on the Implementation of Project for the 4th Quarter of 2007“, Appendix I-Project Implementation Unit of the World Bank for Land Registry Administration in the Federal Ministry of Justice.

⁷ „Analysis of Situation and Business Plan for the Period 2008-2010“- Organisational Unit for Land Registration, Judicial sector, Ministry of Justice of RS.

⁸ „Analysis of Situation and Business Plan for the Period 2008-2010“- Project Implementation Unit of the World Bank for Land Registry Administration in the Federal Ministry of Justice, Organisational Unit for Land Registration, Ministry of Justice of RS.

⁹ Report on Mine Actions in BiH for 2007.

Also, there was a worrying increase of the number of mine accidents in 2007. All the victims were adult men, who, in most of the cases, ignored the warning sign and walked into the risky areas mainly in order to collect firewood, i.e. to solve their everyday existential problems.

The assessment by the end of 2007 indicates that the size of suspicious areas in BiH amounts to 1.755 km² or 3,42% of its territory. In total 12,717 micro-locations were identified. The average size of these micro-locations is 0,14 km².

Suspicious areas per administrative regions

	Total suspicious area (km ²)	suspicious area per categories (km ²)			Areas of high risk	Areas of medium risk	Areas of low risk
		I category	II category	III category			
FBiH	1.213,49	127,69	334,70	751,11	133,62	615,90	463,99
RS	501,37	81,67	162,97	253,73	63,63	235,31	202,43
BD BiH	40,26	11,50	12,88	15,87	34,45	2,06	3,74
Total	1.755,12	220,86	510,56	1.023,71	231,70	853,28	670,16

Source: BH MAC

In 2007, thanks to the application of different anti-mine actions, the suspicious areas were reduced by 156,7 km² or 85% of the planned areas. Humanitarian demining operations have reduced 10,33 km² of risky areas of the first priority category, while the remaining 146,4 km² is the reduction carried out through additional analyses and assessment of suspicious areas in the framework of systematic and general observation of mine-contaminated land. In 2007, a total of 10.330.000 m² of risky areas were cleared and technically observed. Thanks to these technical observations, 7.986.659 m² or 48,40% of the planned area was reduced. The greatest part of the overall technically observed area is in the Canton of Sarajevo, with 20,91% of its territory being observed.

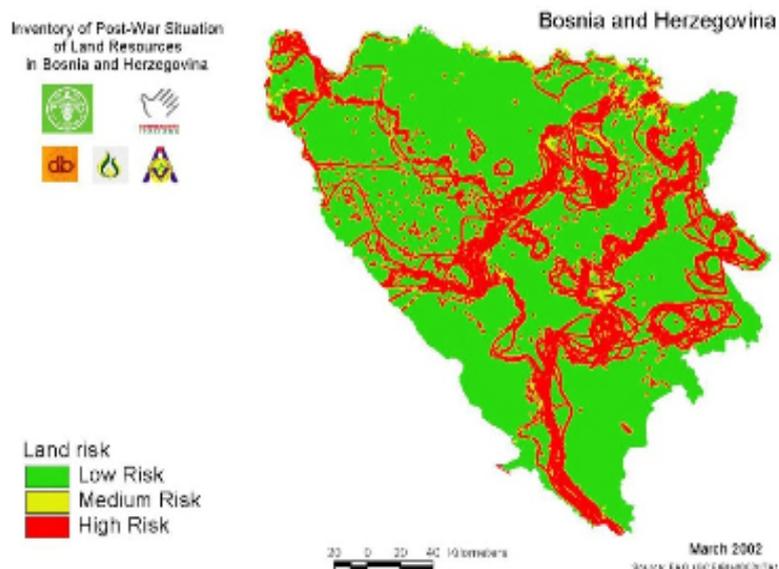
In total, 2,343,341 m² or 48,40% of the planned area was cleared. Operations of mine clearing resulted in destruction of 2,353 mines or 10,04 mines/hectare on average.

Mine-clearing Plan for 2007: 5.500.000 m ² Realization: 42,60%	Completed tasks (sampled) m ²	Found and destroyed land mines	Found and destroyed anti-tank mines	Average of found mines per ha	Found and destroyed UEOs	Cleared houses	Share of administrative regions in clearing (%)
FBiH	1.351.641	1.323	146	10,87	815	0	57,68%
RS	686.162	539	16	8,09	193	17	29,28%
BD BiH	305.538	287	42	10,77	112	2	13,04%
Total	2.343.341	2.149	204	10,04	1.120	19	100,00%

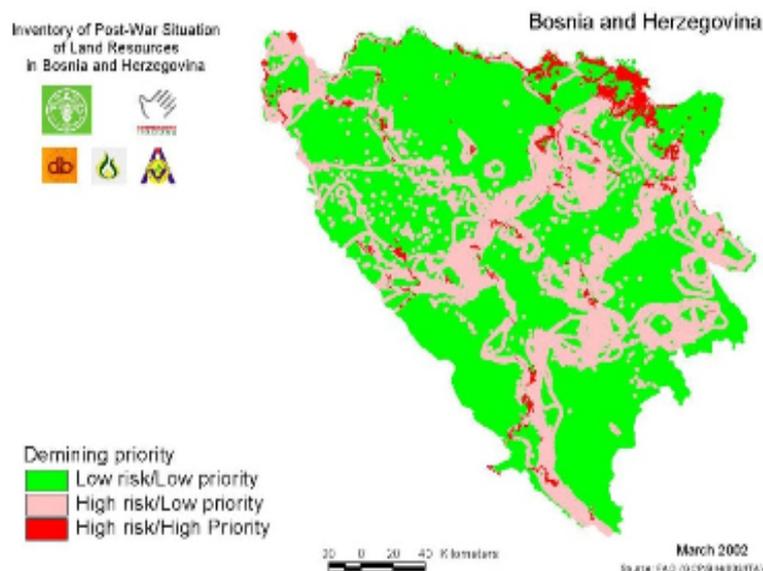
Source: BH MAC

In 2007, there were 97 projects of permanent marking; 12.448.928 m² of suspicious areas were marked and 873 individual mine warning signs were mounted. Out of that number, in FBiH there were 63 projects realized, covering the overall area of 7.014.960 m², while, in RS, 21 projects were realized, covering the area of 673.500 m². In DB BiH, 13 projects were realized on the overall area of 4.760.468 m².

According to the data provided by BH MAC, the total funds allocated for demining and other anti-mine actions in BiH amounted to 48.194,154 KM. Domestic institution and enterprises allocated 19.419,177 KM, or 43,3%, while international institutions allocated 28.774,977 KM, or 59,7%. The overall funds spent through ITF in 2007 amounted to 14.905.022, 61 US Dollars.



Mine risk map



Priority for demining of agricultural land map

Food and Agriculture Organisation of the UN – FAO

Project

„Inventory of the Post-war Situation of Land Resources in BiH“
www.plud.ba

The Project *Inventory of the Post-war Situation of Land Resources in Bosnia and Herzegovina* was implemented in three phases, in the period from July 2000 to December 2007, with financial support of Cooperazione Italiana as the main donor.

The basic objective of the Phase I of the Project, carried out in 2000-2002, was to create an inventory that would reflect the current state of the land resources of Bosnia and Herzegovina. An important component of this objective was the strengthening of institutional capacities in BiH to independently monitor land resources of the country

During Phase I, the project produced a database on soil, terrain and climate at the level of BiH. Several maps were produced from database, and more could be done upon request, based on the same available data. A land evaluation system based on a suitability scale has been created following FAO's Agro-Ecological Zoning (AEZ) methodology for assessment of land for the cultivation of different agricultural products. A specific effort has been made to evaluate the impact of the landmines on the use of the land for agricultural purposes. All the maps and databases have been stored in a Geographic Information System (GIS).

Partners of the Project were: *Federal Agropedology Institute Sarajevo*, *Agricultural Institute of Republic of Srpska Banja Luka* and *Federal Agro-Mediterranean Institute Mostar*. The Project has equipped the laboratories of these institutes with modern IT equipment, both hardware and software, and, where necessary, it has refurbished their premises. The training on the application of new methodologies and technologies was also provided to the technical staff of these institutes.

In 2002, the project activities were expanded and focused on the services dealing with land resource management. The aim of Phase II was to develop and implement a methodology that would increase the possibilities of these services in the domain of land resource management. That is why it was decided to implement the Project at municipal level, so that the following aims of Phase II of the Project could be achieved:

- ⇒ Development and dissemination of an operational land evaluation system as a technical basis to support land use decision making at various levels;
- ⇒ Strengthening the capacity for land resources management at country, entity and pilot area level;
- ⇒ Provision of tested methodologies for action-oriented land resources management at the local level to guide rural investment and development.

During Phase II of the Project exercises were undertaken for the planning of the methods for the use of land in six pilot municipalities: *Stolac, Sanski Most, Prnjavor, Srebrenica, Bratunac* and *Milići*. These activities were carried out in accordance with the methodology of the *Participatory Land Use Development* (PLUD), that relies on two elements: technical aspect of planning and effective participation of interested parties in the process.

The system of assessment of land areas in municipalities was part of the system of *Ecologic-Economic Zoning* (EEZ), which, in addition to climate, soil and terrain, takes into account the socio-economic status of territories. The technical aspect of planning is linked to the methodology called *Development of Territories in the Process of Negotiation* (NTD), which was developed by FAO. The objective of this methodology is to include as much of population, i.e. interested parties in discussion on socio-economic development of the territory in which they live. The whole process is done in the context of the PLUD methodology, which is adjusted to the specific conditions of BiH.

In Phase II of the project, pedological map of BiH was digitalised in the scale of 1:50.000, thus the work on the database on land resources was completed.

In December 2004, two publications were issued: *Participatory Land Use Development at Municipal Level in BiH* and technical manual *Land Utilization Types* that deals with specific agrarian types of use of land.

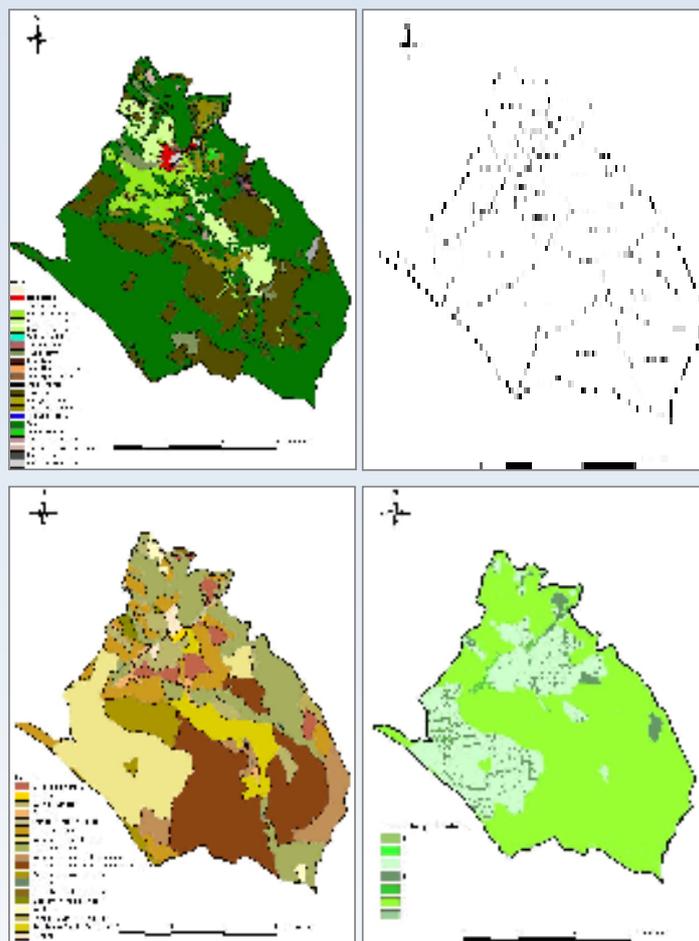
Phase III of the project was launched both due to the success of the 6 pilot areas, and due to the interest of municipalities in BiH in the application of the PLUD methodology. In the September 2005-June 2006 period, a training was held on the planning of development of methods of use of land according to the PLUD methodology. The training was attended by the representatives of 54 municipalities and 10 NGOs, as well as the entity ministries of agriculture, water management and forestry, and five cantonal ministries, i.e. 120 participants altogether.

The goal of this training was to inform the participants about the key aspects of the PLUD methodology, as well as to provide them with some knowledge and experience in order to enable them to apply the PLUD methodology in their own municipalities.

At the end of the training, a ceremony of handing out the certificates on participation was held, whereby municipalities and individual participants were granted certificates. Ten most successful municipalities that succeeded to get the project implemented in their territory were proclaimed.

Success of these municipalities was based on their participation in the training, their proactive attitude as well as on the technical achievements shown at the training. The most successful municipalities were: *Bugojno, Gračanica, Prijedor, Bileća, Doboj South, Travnik, Petrovo, Šipovo, Višegrad* and *Tešanj*.

The aforementioned municipalities have successfully implemented the PLUD methodology; thanks to the FAO Project, they now use the state-of-the-art planning means and methods, as well as a considerable amount of data and information on land resources in digital format.



KEY RESULTS OF THE PROJECT

- Data bases and thematic maps for soil, terrain (SOTER) and climate for BiH;
- Data bases of soil cover/types of use of land in BiH;
- Agro-Ecological Zoning of BiH (AEZ);
- Digitalised soil map of BiH made in the scale of 1:50.000;
- Strengthened capacities of technical institutes;
- Manual *Participatory Land Use Development at Municipal Level in BiH*;
- Technical manual *Land Utilization Types*;
- Training for practical application of the PLUD methodology;
- Databases on natural resources in GIS for Ecologic-Economic Zoning (EEZ) for 16 municipalities;
- Successful application of the PLUD methodology in 16 municipalities.

8.5. Incentives

Support to agricultural production is determined in the budgets of FBiH, RS and BD BiH and regulated by entity legislation and the legislation of BD BiH¹⁰, on the basis of *Rulebooks on Conditions and Methods of Obtaining Financial Support in Agriculture* that prescribe in detail the conditions, procedures and obligations to be met by beneficiaries in order to get this support¹¹.

Although both entities planned in their agricultural strategies the allocation amounting to 6%, the real percentage for agriculture in the overall budget in FBiH amounted to 3%, while in RS it was 5,2%, and 3,3% in BD BiH.

The program for use of funds from the *Incentives in Agriculture*, determined in the budget of FBiH, together with distribution criteria for 2007, was adopted in the amount of 37.650.000 KM (Off. Gazette of FBiH, No. 34/07). Transfers for incentives in agriculture were realized in the amount of 37.531.127,19 KM. One should add to this amount 4,1 million KM paid for the compensation of damage caused by drought by the Government of FBiH from its reserve funds.

The planned funds for incentives in agriculture in the budget of RS in 2007 amounted to 60.000.000 KM which is an increase of 40% compared with 2006. After the re-balancing of the budget, these funds were increased to 71,5 million KM.

The 2007 budget of BD BiH in 2007 allocated 4.635.000 KM as incentives to agriculture.

Generally speaking, there is an evident trend of increased support to agriculture.

For 2008, allocation from the budgets of RS, FBiH and BD BiH would be significantly higher; thus, RS planned a 9% increase as its incentive in agriculture (80.000.000 KM), FBiH about 40% (52.650.000 KM with additional app. 30.000.000 KM to be allocated by cantons) and BD BiH about 6.000.000 KM. In 2008, there is a plan to increase the funds for support to rural development and capital investment in comparison with 2007.

Harmonization of support measures in agriculture between the entity ministries of agriculture and the Department of Agriculture of the Government of BD BiH is a necessary process that is currently under way, while, in 2007, MoFTER BiH coordinated a series of meetings aimed at harmonizing their measures both in terms of the amount of incentives and in terms of criteria for their realization.

Although official analyses of economic impact and effectiveness of subsidies have not been carried out in BiH since mid-1990s, the increase of import in the area of agricultural and food sector in BiH and the decrease of export of domestic products are strong indicators of their ineffectiveness.

Potential causes of this failure are as follows: low subsidies, uncertainty of continued subsidies that has been present throughout the recent period, delayed adoption of the annual budget and the implementation of measures (most often occurring in May, which is too late to have an impact on decisions about the product investment for the current year), low market prices of products after the improvement of quality and other infrastructural weaknesses that limit the links between production and markets, and the possibility to get a feedback from accessible markets.

¹⁰Law on Ensuring and Allocation of Funds for Development of Agriculture and Rural Areas (Official Gazette of RS, No. 43/02); Law on Financial Support to the Primary Agricultural Production (Official Gazette of FBiH, No. 28/04); Law on Incentives in Agricultural Production (Official Gazette of BD BiH, No. 11/06)

¹¹Instruction on Obtaining Financial Support in the Primary Agricultural Production (Official Gazette of FBiH, No. 45/07) and Rulebook on Conditions and Methods of Obtaining Financial Support in the Primary Agriculture with Amendments (Official Gazette of RS br. 31/07 and 51/07).

Distribution of funds per purpose of investment in KM (2007)

Paid incentives	Amount	%
Animal-related production	16.078.442,58	42,84
Plant-related production	12.910.894,61	34,40
Capital investment	3.319.959,00	8,85
Expert projects	475.582,00	1,27
Rural development	3.358.700,00	8,95
Professional gatherings, seminars, fairs	150.000,00	0,40
Support to the organisation of farmers	250.000,00	0,67
Regressing of interest rates	670.957,00	1,79
Reserves	316.592,00	0,84
Total	37.531.127,19	100,00

Source: Service for Direct Payment in Primary Agricultural Production and Rural Development of the FBiH MoAWMF

Distribution of funds per purpose of investment in KM (2007)

Paid incentives	Amount	%
Support to production and revenue	43.650.154,07	68,11
Support to long-term investment	9.121.230,54	14,23
Support to rural development	11.307.710,95	17,64
Total	64.079.095,56	100,00

Source: RS MoAFW

Distribution of funds per purpose of investment in KM (2007)

Payed incentives	Amount	%
Fruit growing	275.741,00	5,47
Vegetable growing	13.585,00	0,27
Farming	1.510.021,25	29,95
Cattle growing	2.775.382,90	55,06
Capital investment	354.635,37	7,03
Mushrooms	11.650,55	0,23
Eurepgap	100.000,00	1,98
Total	5.041.016,07	100,00

Source: Department for Agriculture, Forestry and Water Management of BD BiH

8.6. Credits granted to agricultural sector

Although there are no credit institutions which would deal exclusively with companies in the domain of agriculture and rural development in BiH, the existing regulations in the banking sector provide a good basis for crediting these companies both in urban and rural areas.

Generally, there are two sources of financing through which individuals, collectives and companies from rural areas may get short-term credits under the same terms as other business sectors, i.e. commercial banks and micro-financial institutions¹². Most of the *commercial banks* in BiH offer short-term credits for financing the working capital. Only one bank has a special short-term credit line for agricultural producers, i.e. ProCredit Bank that operates across BiH.

Other commercial banks offer short-term credit lines for all types of SMEs that include agricultural farms if they can provide guaranties for the amount of credit granted. *Micro-financial institutions* offer credits for SMEs that do not meet the terms set by commercial banks. The Association of Micro-financial Institutions in BiH estimates that the micro-financial institutions in BiH have about 130.000 active clients and manage the credits in the amount that exceeds 150 million Euros.

The Federal Investment Bank (FIB), which was founded by the Government of FBiH, has a special credit line for the long-term financing of agricultural production. This credit line is aimed at providing financial support for the development, modernization and expansion of agricultural production and for the capacity-building in food industry, as well as at securing favorable sources of financing, which is one of the key preconditions for economic development and for development of agriculture, regions and countries as a whole. The Bank provides the beneficiaries of these credit funds with an opportunity to secure the sources of financing, under favorable terms, for their regular business operations as well as for the implementation of new projects, while FBiH MoAWMF secures the grant funds aimed at providing incentives to accelerated development of agricultural production and to secure the regressing of interest rates on investment credits, as it is defined in the Development Strategy of FBiH. The lowest amount of investment on which credit can be granted is 25.000 KM, i.e. the lowest amount of credit request is 12.500 KM. Repayment period depends on the purpose of credit and can be maximum ten years, including the grace period that goes up to 36 months. Interest rates for these credits are determined at the fixed level of 4% annually. The investor-beneficiary of credit funds is entitled to regressing/subsidizing the interest rate of the investment credit amounting to 2% annually. The request for subsidizing interest rate is submitted to FBiH MoAWMF, in accordance with the Instruction on Obtaining Financial Support in Agricultural Production. The credit lines of this Bank are distributed through 18 commercial banks in FBiH.

The Investment Development Bank of Republic of Srpska, which was founded by the Government of RS, has a special credit line for agriculture and another line for micro-business in agriculture. *The credits in agriculture* serve for the purchase of capital and working assets amounting from 50.000 to 3.000.000 KM (maximum participation of working capital is up to 30%) and from 5.000 to 500.000 KM for working capital only.

¹² „Strategic Plan of BiH for Harmonisation of Agriculture, Food and Rural Development“

Repayment period is up to 15 years (capital, or capital and working assets) and up to 3 years (for working assets only). The grace period may be up to 36 months.

The basic interest rate amounts to 6,29% for the projects realized in under-developed municipalities; for extremely undeveloped municipalities it is 6,09%, while for members of clusters 5,99%, with the cumulative reduction of 5,79%. *Credits for micro-business in agriculture* serve for the purchase of capital and working assets amounting from 5.000 to 50.000 KM. Repayment period is up to 10 years, while grace period, depending on the type of production, may be up to 36 months. The basic interest rate amounts to 7,89% for the projects realized in under-developed municipalities, 7,69% for extremely undeveloped municipalities, 7,59% for members of clusters, with the cumulative reduction of 7,39%.

9. LEGISLATION

Laws adopted in 2007

Laws at the level of the state of BiH

Name of the enforced law	Number of the Official Gazette of BiH	Year of entry into force
<i>Law on Amendments to the Law on Market Surveillance in BiH</i>	44/07	2007
<i>Law on Amendments to the Law on Competition</i>	76/07	2007

Laws at the level of the Federation of BiH

Name of the enforced law	Number of the Official Gazette of FBiH	Year of entry into force
<i>Law on Amendments to the Law on Tobacco</i>	51/07	2007
<i>Law on Agriculture</i>	88/07	2007
<i>Law on Amendments to the Law on Spatial Planning and the Use of Land in the Federation of BiH</i>	72/07	2007
<i>Law on Amendments to the Law on Companies</i>	91/07	2007
<i>Law on Amendments to the Law on Land Expropriation</i>	70/07	2007

Laws at the level of Republic of Srpska

Name of the enforced law	Number of the Official Gazette of RS	Year of entry into force
<i>Law on Amendments to the Law on Agriculture</i>	20/07	2007
<i>Law on Amendments to the Law on Agricultural Land</i>	86/07	2007
<i>Law on Amendments to the Law on Agriculture</i>	86/07	2007
<i>Law on Environmental Protection – edited text</i>	28/07	2007
<i>Law on Amendments to the Law on Expropriation</i>	37/07	2007
<i>Law on Trade</i>	6/07	2007

Laws at the level of Brčko District of BiH

Name of the enforced law	Number of the Official Gazette of BD BiH	Year of entry into force
<i>Law on Concessions</i>	19/07	2007
<i>Law on Agricultural Cooperatives</i>	19/07	2007

10. Project of Agriculture and Rural Development for Bosnia and Herzegovina

Creditor: *International Development Association - IDA*

Amount of credit: 21 million US dollars

Grant funds: 6 million US dollars from Swedish International Agency for Development and Cooperation - SIDA

BiH share: 9,19 million US dollars

Overall funds: 36,19 million US dollars

Credit approved and signed on: 31 August 2007

Credit conditions: repayment period 20 years with a 10- year grace period

The goal of this project is to support BiH in the process of strengthening the state and entity level capacities to be able to provide efficient and effective agricultural services and support programs, as well as to give significant contribution to the fastest possible qualification of BiH for the IPARD funds.

Component A: Agricultural information and institutional capacity building

The main goal of this component is harmonization of different activities and functions at the level of entities in order to facilitate the consolidation of the state level system. This component has the following sub-components:

- *Improvement of IT systems in agricultural and rural sectors,*
- *Strengthening of veterinary, food safety and phytosanitary service,*
- *Strengthening of capacities of agricultural inspectorate,*
- *Strengthening of agricultural advisory services.*

Component B: Strengthening of the support programme to agriculture and rural development

The main goal of this component is to solve all the limitations and to build a harmonized, efficient and transparent program of rural support and payment system, which would be certified by EU by the end of the project, and to increase the availability of special purpose funds. This component has the following sub-components:

- *Strengthening of planning and coordination of programs for rural development,*
- *Strengthening of a system for payments for rural development,*
- *Increase of investment grants for focused goals and areas.*

Component C: Project coordination, management and monitoring

The main goal of this component is to improve capacities in the entity ministries of agriculture and in the Sector for Agriculture, Food, Forestry and Rural Development of MoFTER BiH with the aim of coordinating, administrating, monitoring and evaluating the project. This component will provide support to the establishment of project coordination units in MoFTER BiH, as well as in F BiH MoAWMF and RS MAFWM.

11. BOSNIA AND HERZEGOVINA AND EU

11.1. Stabilization and Association Agreement

The Stabilisation and Association Agreement between EU and BiH (SAA) was initialled on 4 December 2007 in Sarajevo. SAA regulates the relations between BiH and EU in all the three Union pillars: European Communities, Common Foreign and Security Policy and cooperation in judicial and home affairs.

The main feature of the process of European integration in BiH is its link with the state-building process. In the beginning of the Stabilisation and Association Process, BiH did not have the necessary institutions at the state level. This is why it is so important to build the institutions that will represent the whole country properly and be the appropriate partner of Europe. The EU has publicly stated that the ultimate goal of the stabilisation process is integration of the countries of Western Balkans into EU.

The signing of SAA with each of the Western Balkan countries is seen as the key instrument for the realization of the policy that leads towards full membership in EU – there are no intermediate contractual phases that need to be concluded, yet it does not exclude the possibility of achieving the European agreement according to the guidelines agreed in the pre-accession phase of new member countries.

The priority goal of SAA is to provide support to the efforts made by BiH in order to complete its transition to an efficient market economy. BiH is given impetus to gradually harmonize its legislation with EU legislation, particularly in the areas of importance for EU single market, such as agriculture.

In the main text of the Agreement, Article 95 relates directly to agriculture and agricultural industrial sector and it reads:

Cooperation between the parties shall be focused on the priority areas of Union's acquis related to agriculture, veterinary issues and phytosanitary protection. Cooperation shall be particularly focused on the modernisation and restructuring of agriculture and agricultural-industrial sector in Bosnia and Herzegovina, especially in order to meet the veterinary and phytosanitary requirements of the Union, and to provide support to gradual harmonisation of legislation and practice in Bosnia and Herzegovina with the rules and standards in force in the Union.

In addition to this, a document that is directly linked to the SAA is the Proposal of the Council Decision on Principles, Priorities and Conditions Contained in the European Partnership with BiH and the revocation of the Decision 2006/55/EC (COM (2007) 657 of 6 November 2007), which refers to the short-term and mid-term priorities according to which the competent authorities in BiH should develop their plan, with a timeframe and specific measures intended by BiH so that the country can meet the European Partnership requirements.

The European Partnership priorities are the basis for programming financial assistance provided by EU in the framework of relevant financial instruments, primarily on the basis of the Council Regulation (EC No. 1085/2006 of 17 July 2006), which established the Instrument for Pre-accession Assistance (IPA).

11.2. Instrument for Pre-accession Assistance – IPA

Instrument for Pre-Accession Assistance (IPA) is a new pre-accession program for the period 2007-2013 that substitutes the previous CARDS, PHARE, ISPA and SAPARD programs. This single financial instrument for assistance in the pre-accession period makes a clear distinction between two groups of countries: those with potential candidate status for membership of the European Union (*Albania, BiH, Montenegro and Serbia*) and the countries with the candidate status for membership of the European Union (*Croatia, Macedonia, Turkey*).

The IPA program divided into five components:

1. Assistance in Transition and Institution-building,
2. Cross-border Cooperation,
3. Regional Development,
4. Human Resource Development
5. Rural Development.

In the present phase of integration, only the first two components are available to BiH, while the remaining three will be available once BiH acquires the candidate status.

These are the two key conditions for the withdrawal of funds and for project implementation:

- I. Development of strategic documents, preparation of projects and supervision over their implementation;
- II. Accreditation of institutions in charge of program and projects' management

IPA support (in million €)

Beneficiary	IPA component	2007	2008	2009	2010
BiH	Assistance in Transition and Institution-building	58,1	69,9	83,9	100,7
	Cross-border Cooperation	4,0	4,9	5,2	5,3
	Total	62,1	74,8	89,1	106,0

For the countries that are the potential candidates for EU membership, the main priority in the context of institution-building assistance is the support for progressive adoption of EU standards. In the domain of agriculture and rural development, the following key priorities may be cited:

- *Strengthening of administrative capacity of agricultural administration, particularly in the area of development of agricultural policy; its analysis, implementation and control. Development of reliable agricultural statistics and registers (land, crop, animals and farmers) are the key priority in the initial phase.*
- *Administrative capacity-building for the implementation of the pre-accession measures for rural development (IPARD): this includes the building of capacities for programming and analysis, establishment of payment structures that would be accredited in accordance with EU standards, favorable credits provided to farmers and entrepreneurs in rural areas, efficient research and advisory services, or efficient inspection structures.*

In the first component of the IPA 2007 Program there are three projects in the areas of agriculture, food safety and rural development. These projects are:

1. Support to the adoption and implementation of legislation on food safety in BiH (budget €1 million), by providing technical assistance to support the capacity and human resource building of the Agency for Food Safety of BiH, the training of food safety inspectors, the drafting of plan for national laboratory, and support to the registration of companies dealing with food and fodder. In addition this this, equipment for sampling and inspection, and four sets of laboratory equipment will be purchased.
2. Strengthening and harmonization of IT systems in the sector of agriculture and rural development in BiH (budget €1,5 million), by providing technical assistance for the capacity building of institutions involved in agricultural IT systems, by preparing a harmonized agricultural census, establishment of system for monitoring the success of farms that would be connected to the basic list of farms, preparation of system for sampling in order to prepare a reliable basis for agricultural statistics in line with the European agricultural statistical systems.
3. Pilot support to programming rural development in BiH (budget €1 million), by providing technical assistance for capacity building for management and participation of all levels of government in the program of rural development, updating and strengthening of financial management of agricultural subsidies, and support to rural development, as well as the establishment of harmonized system of monitoring and evaluation of rural development.

The fifth component of the IPA Program, for which BiH will be eligible only when it becomes the candidate country, is focused on the development of policies and preparation for the implementation and management of common agricultural policy with an emphasis on the contribution to sustainable adjustment of agricultural sector and rural areas, and the preparation for the implementation of the Union's *acquis* related to common agricultural policy.

The basis for use of financial funds dedicated to the fifth component of IPA Program is the *Plan for Agriculture and Rural Development 2007-2013* – i.e. the IPARD Plan.

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