

**EU COMMON AGRICULTURAL POLICY AND AGRICULTURAL
POLICY OF THE REPUBLIC OF SRPSKA (BOSNIA AND
HERZEGOVINA)**

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ABSTRACT

One of the most challenging issues for the countries that are in the process of accession to the European Union is the reform of agriculture, precisely agricultural policy and its compliance with the Common Agricultural Policy of the European Union (CAP). The strategic orientation of the Republic of Srpska and Bosnia and Herzegovina is a full EU member status, which is defined with signatory to the Stabilization and Accession Agreement in 2008 and confirmed with Application for membership in the European Union, submitted in February 2016. Considering the upcoming accession negotiation process, the reformation of agricultural sector is necessary in all areas of development: production, policy and legal framework and institutional development. Until 2015 Republic Srpska made and adopted two key strategic documents that determine the directions, objectives and measures for developing of agriculture and rural areas. Recently the Republic of Srpska adopted a new strategic plan for the development of agriculture and rural areas for the period 2016- 2020. Considering that agriculture budget represents a first indicator of the countries sector priorities, objective of this paper is to provide analysis of agricultural policy through the agricultural budget of the Republic of Srpska and its compliance with Common Agricultural Policy of the EU. Comparative analysis is related to the period 2006 – 2014 using EU methodology for the classification of agricultural measures (pillars and axis). Research results show that the structure of measures and scope of budgetary support, defined within agricultural policy of the Republic of Srpska is not compatible with Common Agricultural Policy of the EU.

Key words: *EU CAP, Republic of Srpska, budgeting.*

INTRODUCTION

The first phase of development of agricultural policy of Republic Srpska refers to the period since 2000, when the allocation of substantial financial resources for the development of agriculture was started, up to year 2006, when first *Agriculture Development Strategy* was adopted, and thus made a shift in strategic targeting of funds for development of agriculture and rural areas (Mirjanic, Rokvic, 2012). With the adoption of Agriculture Development Strategy, Republic of Srpska made first steps towards adaptation to the European strategic framework for agriculture

and rural development, and also the use of EU good practices in policy approach to the development of rural areas. Thereby, one of the primary goals of development of agricultural sector up to 2015 was: *"Harmonization of legal and other administrative regulations in process of food production with production's criteria in the European Union"*. In addition, the European orientation can be recognized in giving of significant importance to rural development as one of the strategic objectives of agricultural development: *"Balanced agricultural development, economical protection of market-oriented producers, integrated rural and regional development, economic and social revitalization of villages"*. This orientation was confirmed by the adoption of a new model of subsidies, whereby the support to rural development has become the *third pillar* of agriculture and rural development policy. In year 2010, Republic of Srpska adopted a Strategic plan for rural development and with this made a shift from purely sectoral to an integrated approach to the development of agriculture and rural areas (Mirjani , Rokvi , 2012). Recently, the Republic of Srpska adopted a new strategic plan for the development of agriculture and rural areas for the period 2016- 2020, which represents the continuity of the two previous strategies. The increasing of production volume, improving of production technology and increasing of productivity, reducing of trade deficit and creation of conditions for the export of agro-food products for which Republic of Srpska has comparative advantages, gradual harmonization of agricultural policy to CAP EU, improvement of social, economic and environmental conditions for development of rural areas, are basic strategic guidelines of agricultural development in Republic of Srpska, defined in this document.

Considering that agriculture budget represents a first indicator of the countries sector priorities, objective of this paper is to provide analysis of agricultural policy based on the analysis of agricultural budget of the Republic of Srpska, and its compliance with Common Agricultural Policy of the EU. For comparative analysis is used EU concept for the classification of agricultural measures.

MATERIAL AND METHODS

This paper presents a comparison of measures of agricultural policy at Republic of Srpska and EU level, respectively for the period from 2006 to 2014 (Republic of Srpska) and 2007-2013 (European Union). The classification of measures of agricultural policy and analysis of budgetary support to agriculture is made using EU methodology. The EU concept is based on a three pillars of policy support:

Pillar 1. Market and direct producer support measures;

Pillar 2. Structural and rural development measures;

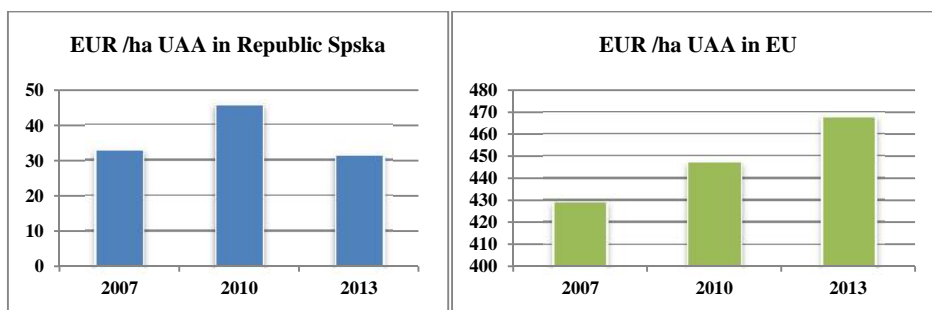
Pillar 3. General measures related to agriculture.

In addition to these three pillars, EU concept of classification includes the section Miscellaneous transfers to agriculture (budget transfers for which there is not enough information available to allocate them to appropriate categories). **The first pillar** includes measures which affect the price level of agricultural products, as well as measures which contribute to increasing of income of agricultural producers through different forms of direct budgetary payments. The measures of

first pillar are divided into two main groups: (1) *Market support measures* and (2) *Direct producer support measures*. Budgetary expenditures for market support measures incorporate measures by which the policy influences the supply and demand on the domestic market, and thereby indirectly also the prices of agricultural products (Volk et al., 2014). The budgetary expenditures related to market support measures are divided into following groups: *export subsidies, market interventions and consumer support*. Direct producer support measures are divided into two groups: (1) *Direct payments to producers and variable input subsidies*, and (2) *Disaster payments and other compensation to producers*. **The second pillar** measures are aiming to increasing of efficiency and competitiveness of agricultural producers, to developing of food processing industry and market organization, as well as contribute to integrated rural development. The measures are grouped into three axes: Axis 1: *Improving the competitiveness of the agricultural sector*, Axis 2: *Improving the environment and countryside* and Axis 3: *Supporting rural economy and population*. The axes more or less follow the structure of the 2007-2013 EU rural development policy frameworks, though in a broader sense regarding the substance of measures and with quite a few modifications (Volk et al., 2012). The first axis is divided into three groups of measures: (1) *On – farm restructuring support*; (2) *Agri-food restructuring support*; (3) *Forestry support*. On – farm restructuring support is future divided into two groups of measures: (1) *On – farm investment support* and (2) *Other on – farm restructuring support*. Agri-food restructuring support is composed of two groups of measures, aimed to support the restructuring of agriculture in general, as well as support to food processing, marketing and promotion. To the second axis belong the measures aimed at improving the environment and countryside. The third axis gathers measures aimed to support to rural economy and population, and is divided into three groups: (1) *Support to rural population directly linked to farms*; (2) *General support to rural economy and population*; (3) *Building local capacity (LEADER)*. Measures classified within **third pillar** relate to the support for public services to agriculture, such as research, advisory and expert services, food safety and quality control and others. The analysis of the total budgetary support to agriculture and rural development on the level Republic of Srpska using EU concept is based on data of agricultural budgetary transfers for period 2006 – 2014 by Ministry of Agriculture, Forestry and Water Management. For the EU level, analysis of total budgetary expenditures for agriculture and rural areas are used OECD PSE database in 2016 year, as well as EU Commission reports.

RESULTS AND DISCUSSION

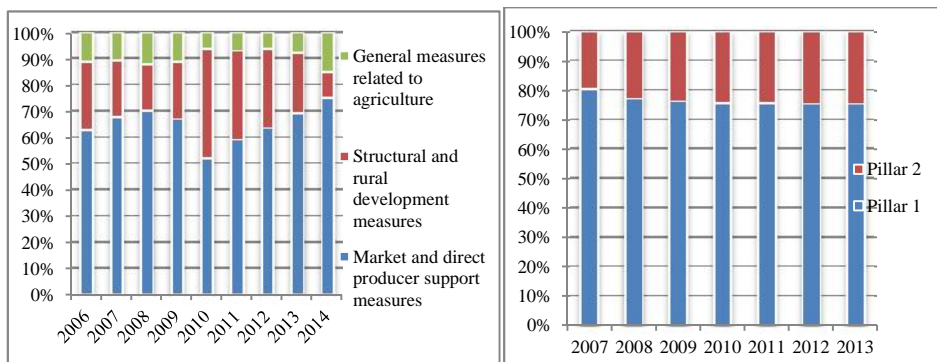
The level of budgetary support to agriculture in Republic Srpska and EU is compared by using the absolute value of budgetary support to agriculture in EUR divided by the total utilized agricultural area (*Graph.1.*). This indicator provides an important first insight into the availability of budgetary funds for agriculture in a country and is indicative of the capacity of agricultural policy to influence agricultural development (Volk et al., 2014).



Graph 1. Total budgetary expenditure for agriculture and rural areas in Republic of Srpska and EU in EUR per ha UAA.

*Source: Calculation by authors based on data of Ministry of Agriculture and Institute of Statistics of Republic Srpska, OECD PSE database for EU28 and Eurostat

In Republic Srpska, the level of total budgetary support to agricultural per hectare of utilized agricultural area (UAA) is lower in compare to EU level, and amounted between 31 – 46 EUR. This indicates a very low budgetary support considering the agricultural land area in Republic Srpska. In EU, budgetary support to agriculture expressed through hectare of UAA is much higher, and recorded increasing in time period 2007, 2010 and 2013. In addition to the total amount of support, the structure of support is also an important indicator of agricultural policy (Volk *et al.*, 2012). In the structure of budgetary support to agriculture in Republic Srpska by policy pillars, the most dominated is market and direct producer support (*Graph 2.*). During the observed period, the share of funds related to the first pillar measures is on average 65% in compare to the total budgetary support for agriculture. The second place occupied structural and rural development measures, with an average share of 25%. Budgetary support for public services related to agriculture had an average share of 10%. In EU, analysis of structure of CAP expenditures by policy pillars shows that the market related expenditure and direct payments dominated in period 2007-2013 with an average share of 76% (*Graph.3.*).



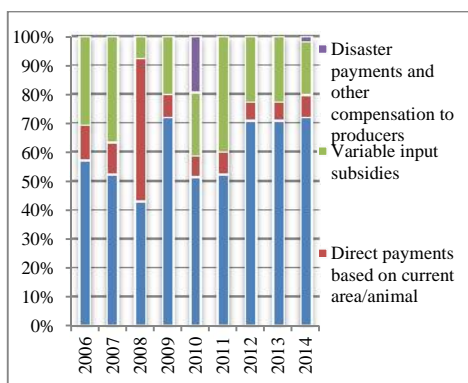
Graph 2. Structure of agricultural budget at the level Republic Srpska

*Source: Calculation by authors based on data of Ministry of Agriculture

Graph 3. Structure of CAP EU expenditures by policy pillars.

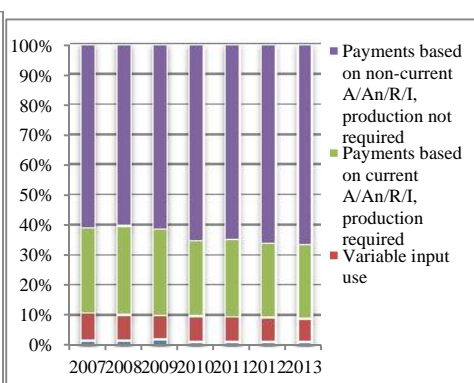
*Source: EU Commission.

At the level of Republic Srpska, market support was mostly operationalized through the agricultural budget for intervention buying. The intervention measures have been used on the grain market (wheat and corn) as well livestock (pigs, cattle and broilers). Since 2013 the part of budgetary support are transfers directed to food processing industry for buying of domestic products. Dominated group of measures within the first pillar of support to agriculture in Republic Srpska are measures of direct producer support. The share of the budget for direct producer support is significantly higher (an average share of 96%) in relation to total budgetary expenditures for market and direct producer support. This group includes measures, which implementation has direct impact on production. Direct producer support in the form of direct payments based on outputs had the highest share with 60%, followed by variable input subsidies with 25% (*Graph 4.*). Direct support based on output benefited mostly to producers of milk, wheat, tobacco and fruit seedling. Variable input subsidies comprised subsidies for plant production, fuel and insurance. In compare to RS, in EU the prevailing direct producer support form were direct payments based on non – current A/An/R/I production non required with an average of 64%. Payments based on current A/An/R/I, production required occupied an average share about 27% (*Graph 5.*). The highest share of direct payments based on non – current A/An/R/I production non required was result of introduction of *Single Farm Payment* through *Fischler reform* from 2003, which presented one of three payment models based on Single Payment Scheme (SPS) – *model based on historical rights.*



Graph 4. Direct producer support by group of measures at RS.

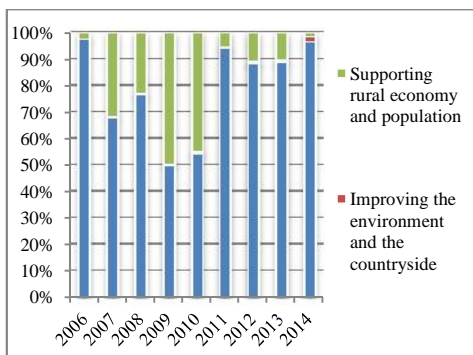
*Source: Calculation by authors based on data of Ministry of Agriculture RS.



Graph 5. Direct payments and variable input subsidies at EU

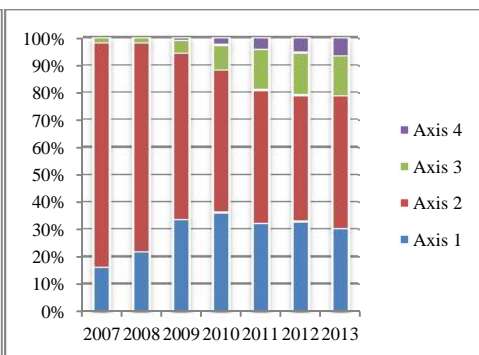
*Source: Calculation by authors based on PSE database

On the other side, payments based on output, variable input subsidies and commodity linked payments per area or animal remind till today the main instrument to support current production in Republic of Srpska. Disaster payments and other compensation to producers at level of Republic Srpska have appeared periodically. The strategic objectives of rural development policy in Republic of Srpska are largely aligned with the strategic framework at EU level, especially for Axis 1 and 3, while Axis 2 at Republic of Srpska level doesn't recognize any of the EU instruments for support of environment and countryside. The existing low input and low intensity agriculture practiced in the countries like entity of Republic of Srpska (BH) can be perceived in certain respects as an opportunity for environmental sustainability in the agricultural sector. However, in view of future EU membership and accompanying policies, the question is to what extent the requirements of environmental protection and nature conservation will be taken into account in the countries policy formation (Zellei, 2001). Generally, in Republic Srpska rural development policy was subordinate to direct producer support, and mainly includes measures aimed to improving the competitiveness of agricultural sector. Investment support and other measures within Axis 1, precisely on-farm investment support aiming to increasing of technological efficiency of production, followed by investments in modernization of agri-food processing sector and improving of marketing and promotion activities, represented the highest share of funds for second pillar, an average about 79%. On -farm investment support comprised investments in machinery and equipment, land improvement, investments in livestock and plant production. The proportion of budgetary expenditures for the development of rural areas including the rural economy and population was about 20% in compare to total budgetary support for second pillar support (Graph 6). In EU, measures aimed to improving the environment and the countryside represented the highest share of funds for rural development, ranging about 59%.The second place occupied measures of Axis 1 with an average share of 29% (Graph 7.).



Graph 6. Structure of second pillar support by group of measure at RS.

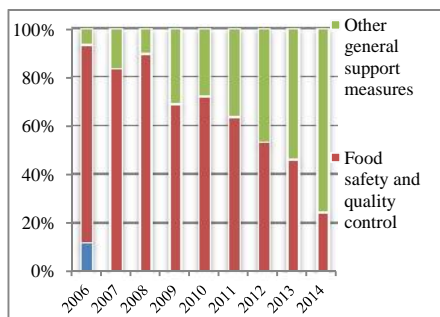
*Source: Calculation by authors based on data of Ministry of Agriculture.



Graph 7. Structure of second pillar support by group of measure at EU.

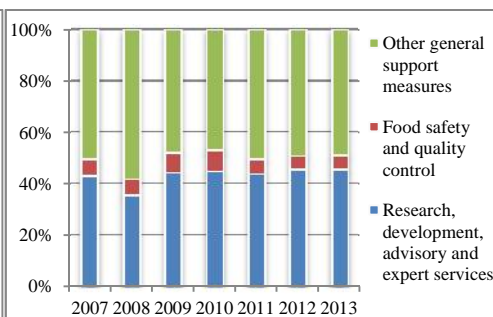
*Source: EU Commission.

Public services related to agriculture have important place in strategic framework for development of agriculture of Republic of Srpska. The available instruments such are plant protection measures, animal health protection measures, anti-hail protection measures, institutional support for Veterinary and Agriculture research Institutes, support for farm register and development of policy programs are extensive than the one at the EU level. They are more oriented to institutional support by providing grants, and less to the programs oriented by providing payments for services these institutions are producing. During the observed time period, in Republic Srpska the higher attention is given to veterinary and phytosanitary areas, which is confirmed through an average share of 65% of budgetary expenditures related to public services in agriculture. Budgetary support earmarked for other general support measures represented an average 34% of total funds related to third pillar support. Very low attention is given to research, development advisory and training activities.



Graph 8. Structure of third pillar support by groups of measures at RS

*Source: Calculation by authors based on data of Ministry of Agriculture.



Graph 9. Structure of third pillar support by groups of measures at EU.

*Source: Calculation by authors based on OECD data basa.

In the EU many of these measures belong to state aid and are not financed by the Community budget (Volk *et al.*, 2014). In EU, the measures such as development and maintenance of infrastructure, marketing and promotion of agricultural products received the largest part of funds within this policy pillar, with an average proportion about 50%. The share of funds for supporting food safety and quality control in EU was an average 34% related to total funds aimed to general support measures.

CONCLUSION

In recent years, Republic Srpska adopted three mid-term strategic documents, in which were strategic goals and priorities for agriculture and rural development set. The general impression in the creation of agriculture and rural development policy in the Republic of Srpska is that it made a positive shift in the strategic targeting of resources, and in a systematic and numerous types of support measures. Budgetary support measured per hectare of utilized agricultural area is much lower compared with level in EU. In the structure of total budgetary support for agriculture in Republic Srpska, the highest share had direct producer support. In relation to total budgetary expenditures for first pillar support, direct producer support had an average share of 96%. The dominated form of direct producer support were payments based on output. In EU direct producer support also dominated. Direct producer support in form of payments based on non – current A/An/R/I production none required had the highest share of 64%. In Republic Srpska, the level of budgetary support for structural and rural development measures was below of budgetary expenditures for first pillar measures. These funds were mainly intended for the improving the competitiveness of the agricultural sector through support on–farm investments. Very small proportion of funds was related to measures of second axis of rural development policy. In the EU, environment and countryside measures had the highest proportion of funds under second policy pillar. The smallest share of total agricultural budget in Republic Srpska is referred to financing of public services related to agriculture. Mostly high attention is given to veterinary and phytosanitary measures. Generally, at the level RS the analysis of agricultural policy based on analysis of agricultural budget indicated an orientation of this policy towards production. Some of measures in support system for development of agriculture in Republic Srpska, like predominantly output supports, and input subsidies, are not allowed in EU, which indicates a lack of compatibility with the reformed CAP. A strategic piece of advice would be that the policy gradually focuses on per head and area payments for those sectors which have been gaining support in the EU since 1992 (Volk *et al.*, 2012). Regardless of the need for increasing competitiveness in agricultural sector of Republic Srpska and prevalent production –oriented agricultural policy, in future more attention should be given to on-farm and agri-food restructuring support. Also, one of the main topics to be addressed is defining a strategic framework for environmental protection measures and conservation of natural resources and in this sense, increase the level of funds allocated for the sustainable management of natural resources.

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