Project no.
513705

Project Acronym
CEEC AGRI POLICY

Project title
Agro economic policy analysis of the new member states, Candidate states and the countries of the western Balkan

Instrument Specific Support Action

Thematic Priority Scientific Support to Policies

D12-1 First 6-monthly report
MONITORING OF AGRICULTURAL POLICY, MARKET AND TRADE DEVELOPMENTS IN CROATIA

Due date of deliverable: December 2005
Actual submission date: December 2005

Start date of project: 01.05.2005 **Duration**: 24 Months

Organisation name of lead contractor for this deliverable:
FACULTY OF AGRICULTURE UNIVERSITY OF ZAGREB

Revision Final

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	
PP	Restricted to other programme participants (including the Commission	
RE	Restricted to a group specified by the consortium (including the Commission	
CO	Confidential, only for members of the consortium (including the Commission Services)	X

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DOCUMENT HISTORY

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12.09-07.10; 1.11-6.11-2005	Ivo Grgic	Data collection, report writing
03.10-08.10- 2005	Stjepan Šuman	Translation
15.10; 10.11-2005	Marija Radman	First revision
24-10-2005	John Malcolm	Revisions

1 General review

1.1 General overview of agricultural and national economy developments

The size of the Republic of Croatia is 87,661 square km and in 2004 the number of residents was 4.4 million. Number of employers has increased from 1.36 million in 1999 to 1.41 million in 2004. However, Croatia still has very high unemployment rate (18% in 2004.)
Total GDP in 2004 was 27628 million € or, 6227 € per capita. In the last 3 years, the rate of real growth of GDP fell (3.8% for year 2004), causing a reduction in the rate of inflation (to 2.1% in 2004). Average monthly net wages increased from 403 € in 1999 to 557 € in year 2004.

Table 1: Selected economic indicators of Croatian economy

Year	1999	2000	2001	2002	2003	2004
Total area, km^2	**87661**	**87661**	**87661**	**87661**	**87661**	**87661**
Total population, mid-year estimate, '000	4554	4381	4437	4443	4442	4437
Active population	1686361	1698829	1728503	1748756	1722313	1719509
GDP, current prices (mil. EUR)	18678.9	19976.3	22177.0	24219.7	25526.4	27628.7
GDP per capita, EUR	4101.6	4559.8	4998.2	5451.2	5746.6	6226.9
GDP, real growth rate in %	-0.9	2.9	4.4	5.2	4.3	3.8
EXPORTS, mil. EUR	4284.9	4756.4	5290.2	4708.4	4949.9	5894.9
IMPORTS, mil. EUR	7766.6	8464.6	10371.0	10295.3	11368.6	12185.3
Consumer prices - Inflation	4.0	4.6	3.8	1.7	1.8	2.1
NET WAGE AND SALARY, in EUR	403	436	474	502	521	557
TOTAL PERSONS IN PAID EMPLOYMENT	1364495	1340958	1348308	1359015	1392510	1409634
UNEMPLOYMENT RATE	19.1	21.1	22.0	22.3	19.1	18.0

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

For a long period, the Republic of Croatia had a negative foreign trade balance. Imports increased from 7.77 billion € in 1999 to 12.18 billions € in year 2004. Exports grew more slowly (from 4.28 billion € in 1999 to 5.89 billion € in 2004). Thus the negative balance rose from 3.48 billion € in 1999 to 6.29 billions € in year 2004.

The agri-food sector's share in the GDP fell from 11.58% in 1999 to 9.93% in 2003 in which year it contributed 2.49 billion € in total to GDP (agriculture 1.63 billion €, food and drink industry 0.76 billion € and tobacco industry 0.1 billion €). The budget of the Ministry of Agriculture and Forestry and Water Management was 3.1% of total Republic budget (9.4 billions € in year 2003). The number of people employed in the agri-food sector (by legal entities) in 2003 was 29,395. Average salary in agriculture, hunting and forestry sector was 436.58 €/month, in fishery sector 389.64 €/month, in food and drink industry 527.14 €/month and in tobacco industry 712.24 €/month. According to the data of Croatian Bureau of Statistics the share of employed persons in agriculture amounted to 7.33% of total number of employed persons and this share in food and drink industry and tobacco industry was 3.42%.

1.2 Overview of agricultural and rural sector development

1.2.1 Production

According to the Statistical Yearbook, the total agricultural area of Croatia is 3.137 million ha, of which 1.035 million ha (33%) is in state ownership and 2.102 million ha (67%) in private ownership.

The largest part of the agricultural area is arable land and gardens (1,460,000 ha), then pastures (1,156,000 ha), meadows (396,000 ha), orchards (68,000 ha) and vineyards (57,000 ha). In 2003, the major crops were corn (406,000 ha), wheat (206,000 ha), barley (54,000 ha), oats (20,000 ha) and rye (3,192 ha). Soybean (49,860 ha), sunflower (28,211 ha), sugar beet (27,327 ha), oilseed rape (15,524 ha) and tobacco (5,781 ha) also covered significant areas. In 2003 (a year of low yields due to poor weather), production of wheat was 609,258 tonnes, corn production was 1,569,150 tonnes, sugar beet production 677,569 tonnes, and oilseed rape production 28,596 tonnes.

Table 2 Surface area, production and yields of some important crops

Year		1999	2000	2001	2002	2003
Wheat	000 ha	169	236	240	234	206
	t	558217	1032085	965153	988175	609258
	t/ha	3.3	4.4	4.0	4.2	2.95
Corn	000 ha	384	389	406	407	406
	t	2135452	1526167	2211519	2500478	1569150
	t/ha	5.56	3.93	5.45	6.13	3.86
Oilseed rape	ha	16234	12886	10319	13041	15524
	t	32581	29426	22456	25585	28596
	t/ha	2.01	2.28	2.18	1.96	1.84
Soybean	ha	46336	47484	41621	47897	49860
	t	115853	65299	91841	129470	82591
	t/ha	2.5	1.38	2.21	2.7	1.65
Sunflower	ha	41996	25715	25336	26835	28211
	t	72347	53956	42985	62965	69253
	t/ha	1.72	2.1	1.7	2.35	2.45

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

In the period between mid eighties and mid nineties there was a significant reduction in livestock production in Croatia. However, since mid nineties livestock production, especially beef production, is no longer decreasing, and in 2004, it amounted to 444000 cattle, 1347000 pigs, 587000 sheep, 78000 goats and 11,778000 poultry.

Table 2 Animal production in Croatia in the period 1999-2003

Animal category ('000)	1999	2000	2001	2002	2003
Cattle	438	427	438	417	444
Pigs	1362	1233	1234	1286	1347
Sheep	488	528	539	580	587
Goat	78	79	93	97	86
Fowl	10871	11256	11747	11665	11778

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

Production per hectare and per animal was very low (wheat 2.95 t/ha, corn 3.86 t/ha, sugar beet 24.8 t/ha, apples 13 kg/plant, grape 1.3 kg/vine-grape, milk 2700 litres per cow).
The use of agricultural chemicals is very low on average especially on family farms.

1.2.2 Prices

The prices of agricultural products primarily depend upon supply and demand and have fluctuated considerably in recent years, mainly due to wide swings in the volume of production but also influenced by badly regulated import from other countries. For long, the prices of agricultural products in Croatia have risen more slowly than agricultural input prices. Therefore, Croatian farmers have suffered from competition from abroad.

In 1999 farm gate price (without government subsidy) was (euro/tonnes) for: wheat 124.16, corn 83.0, sugar beet 25.0, soy 226.07, rape 224.77, apples 273.97, grape 422.77, cattle 1677.12, pigs 1230.75, poultry 1099.53, milk 190.00. At the end of analyzed period (year 2003) redemption price (without government subsidy) was (euro/tonnes) for: wheat 132.53, corn 102.82, sugar beet 32.88, soy 211.06, rape 201.09, apples 243.70, grape 570.10, cattle 1751.54, pigs 1234.71, poultry 1119.55, milk 260.00.

1.2.3 Agricultural Trade

For a long period Croatia's imports of agricultural and food products were higher than exports. The latter rose from 404.6 million euro in 1999, to 616.5 million euro in 2004, whilst imports rose from 662.7 million euro in 1999, 1.2 billion euro in 2004. In consequence, the negative foreign trade agri-food balance rose from 258.1 million euro in 1999, to 585.3 million euro in 2004. The agri-food sector's share of foreign trade was 10.1% in 2004.

In 2004, in value terms, the biggest export market was Bosnia and Herzegovina (228.6 million €), followed by Italy (79.7 million €), Slovenia (49.8 million €), Japan (43.5 million €) and Serbia and Monte Negro (41.1 million €). The biggest import in Croatia in the same year was from Italy (144.4 million €), followed by Germany (124.5 million €), Austria (94.6 million €), Hungary (91.7 million €) and Brazil (73.6 million €).
The top five exports in value are (million euro) cigarettes (103.33), sugar (32.81), vegetal - food complement (31.64), cookies and waffles (29.14) and chocolate (22.93). Pork (54.38), live cattle (47.54), cheese (36.07), coffee (26.36) and bananas (22.30) were the top five imported products (in million of euros).

1.3 Agricultural and rural policy developments

Thus far, in its EU transition period, Croatia has made insufficient use of pre-Accession programmes for EU candidate countries (Phare, ISPA and SAPARD) as well as the possibility of CARDS programme use. Recently, the most important activities in Croatia were connected with SAPARD programme.

Croatia's, rural development aims have a high priority within the .agricultural and rural policy framework. In reforms of the subsidy system, under the Law on State Subsidies in the Agricultural, Fishery and Forestry Sector, action is foreseen for rural development with three programmes: (1) rural area development programme, (2) original and protected breeds' protection programme and (3) marketing adjustment of agricultural products programme. The issues of rural development are detailed with the later sections of the report.

1.4 Issues related to the enlargement

Some producers and agri-food sector experts dispute the Croatian Government's assessment of the consequences for the agri-food sector of EU membership. Croatia's main advantages lay in its soil types, climate, low level of agriculture chemicals use hitherto, irrigation facilities and production diversity. Its main disadvantages are low competitiveness of producers due to low levels of efficiency, poor marketing of products, disorganised domestic markets and inadequate agricultural input supplies,

EU membership would bring benefits and problems for Croatian producers. On the one hand, fairer access to the EU market on the other hand greater competition in the domestic market.
Prior to joining, Croatia has to establish new institutions, to implement new procedures, to adjust its subsidy programme and to improve the efficiency of Croatian agricultural producers.

2 Assessment and Outlook

2.1 Wine sector

2.1.1 Wine consumption
Wine consumption in Croatia is currently 22 litres per head and experts expect this will rise by about 25% until 2010 when it will be around 27 litres per head.
There was 56% of quality, 41% table and 3% high-quality wines in registered trade in year 2004.

2.1.2 Wine imports
Wine import has risen (from 53000 hl in 1999 to 135000 hl in 2004). The annual value of imports has fluctuated during that period from 7.9 million euro in 2000 to 10.2 million euro in 2002. In 2004 Macedonia was the top exporter of wines to Croatia, followed by Bosnia Herzegovina, Slovenia, Italy, and Germany.

Table 3 Wine imports into Croatia in 2004

Country	Quantity (hl)	Value (EUR)
Macedonia	62000	4713303
Bosnia Herzegovina	50340	2774897
Slovenia	9910	1357017
Italy	4450	610156
Germany	1100	284234
Other countries	7200	2252673
Total imports	135000	11992280

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

Experts estimate, that by 2010, imported wines will take 30% of domestic market, with some 58% being white wines and 42% red wines. The biggest share of imported wines are expected to be in the mid prices segment.

2.1.3 Vine production
Most Croatian wine producers are registered in the Grape and Wine Producers Register and thereby obtain a right to government subsidy payments and the right to sell wines. Unregistered producers have a significant share of Croatian wine production and consumption, and are also potential future registered producers.

The majority of grapes grown are wine-making varieties and, in recent years, newly planted vines and modern viniculture technologies are being adopted to meet consumer demand. A rising proportion of wines are being marketed with geographical indications and the relative share of quality wines has been rising and that of table wines falling. According to the Grape and Wine Register, the leading 33 wine-cellars account for 79% of total trade.

2.1.4 Vineyard area
According to the Central Bureau of Statistic, Croatia had 57,094 ha of vineyards in 2003, Agricultural census of 2003 shows 22,763 ha and Family Farm Register shows 28,000 ha. The Central Bureau of Statistic data are based on experts estimates and data used in

Agricultural census are based on the statements of a farm member. Family Farm Register shows only cadastre area of vineyards registered in the Register nevertheless cadastres often are not accurate. Some experts presume that the most acceptable data are those obtained in Agricultural census.

The Grape and Wine Producers Register records only 13,637 ha with 64 million vines. The Government's aim is to have all 57000 hectares registered before EU Accession.

Table 4 Vine and wine production in Croatia in the period 1999-2003

		1999	2000	2001	2002	2003
Area of productive vineyards	ha	59	59	58	58	57
Fruit-bearing grape-vines	mil.	307	299	296	298	294
Grape production	t	394066	353541	359042	370000	333327
Yield per grape-vine	kg	1.3	1.2	1.2	1.2	1.1
Total production of wine	000 hl	2094	1891	1952	2095	1768

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

The development of Croatian viniculture is significantly hindered by vineyard fragmentation (85% of Registered producers have vineyards of under 1 ha). Most vineyards (65%) are over 25 years old. Some 40 different grape varieties are grown in significant quantities, with graševina bijela (26.5%), plavac mali (11.6%) and malvazija istarska (10%) together making up nearly half of total output.

2.1.5 Structure of production

Grape production in Croatia is organised on family farms and on wider production areas (ex Agrikombinats). Strategic government decision to take advantage of tradition and good climate for grape production favoured grape and wine production in family farms. Nowadays, family farms take high share in total market, especially market of quality and high-quality wines. Production on ex Agrikombinats suffered damages caused by war as well as bad privatization.

Average production area of producers enlisted in Grape and Wine Producers Register is small. Thus, 6.7% of producers had up to 0.1 ha in 2004, 58% had 0.1-0.5 ha, and 13.7% had 1.0-5.0 ha. 0.47% of them had over 10 ha.

2.1.6 Wine yields maximum

According to official statistics for year 2003, 294 million of vines gave 333,327 tonnes of grape. Production per hectare was 5.85 tonnes in 2003 but had been as high as 6.68 tonnes in 1999. Production per vine-stock remains very low, 1.13 kg in 2003 up to 1.28 in year 1999.

Producers enlisted in the Grape and Wine Register have a higher average production per hectare and per vine. They are market oriented, they apply technology of higher quality and they often have younger plantations.

Grape production per hectare and per vine is slightly higher in the mediteranean region than inland due to the grape varieties, planting density, climate conditions and size of vineyards.

2.1.7 Wine production

14 436 producers are engaged in registered grape and wine production in Croatia today (2005) at total of 13 942 ha of vineyards. Most of producers (2,973) are located in County of Split-Dalmatia. Out of total number of producers, 451 of them have controlled origin protection and they produce 1 219 different wines with controlled origin mark. Most of the quality wines (294) are made in the County of Zagreb and high-quality wines (41) in the County of Dubrovnik-Neretva. Although far from all producers or areas are registered the number of registered producers and vineyards rises each year. Thus, registered areas in 2005 in comparison to the year 1999 are 3860 ha higher and the number of registered producers rose by 4100. The number of producers with controlled origin protection rose too (in year 1999 only 317 producers had controlled origin protection with total of 797 protected brands). According to official statistics, total wine production was the lowest in 2003 (1.7 million hl) and highest in 1999 (2 million hl).

2.1.8 Production cost and competitiveness

Total income of grape production the Croatian plain was 4,836.45 euro/ha. Total variable costs were 2,938.15 euro and private mechanisation costs were 495.83 euro, the return was 1,402.47 euro/ha with production costs of 340 euro/t. (Source: Croatian Agricultural Extension Institute).

Grasevina wine (quality wine) production had total income of 17,371.19 euro and total variable cost was 12,173.44 euro. Total production cost was 1.75 euro/l i.e. 1.31 euro/bottle.
Total income in mediteranean Croatia was 4,969.87 euro/ha. Total variable costs were 2,730.64 euro and with private mechanization costs of 353.89 euro, total profit was 1,885.35 euro/ha and production costs were 342.89 euro/t.

In production of plavac (quality wine) total income is 20,172.99 euro, total variable cost is 11,976.71 euro and production cost was 1.90 euro/l i.e. 1.43 euro/bottle.

Table grape production in Croatia gave total income of 10,173.22 euro/ha, total variable costs were 4,695.36 euro, private mechanisation costs were 375,8 euro and profit was 5,102.07 euro/ha. Available calculations for family farms' productions are made without fixed costs (e.g. depreciation of buildings, machinery, and equipment). These costs differ from farm to farm, and most of the farmers do not take them into account when calculating production costs.

2.1.9 Wine exports

The domestic wine market (domestic production plus imports) shows a slight increase wine exports a slight decrease since 2002. Croatia did not fulfil the maximum export quotas under the pre-Accession arrangements with the EU. In the period 1999 to 2002, Croatia's wine exports rose in volume and value but in the following year declined. In 2004 Croatia had a negative trade balance in wine of 2.1 million Euros. Bosnia and Herzegovina was the top importer of wines from Croatia in 2004 (3.9 million euro), followed by Germany (3.1 million euro), Italy (254686 euro) etc.

Table 5 Wine exports from Croatia in 2004.

Country	Quantity (hl)	Value (EUR)
Bosnia Herzegovina	13670	3925760
Germany	12280	3116815
Italy	3350	254686
Poland	1230	55813
Other countries	18410	2544859
Total export	48940	9897933

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

Croatian wine exports are not expected to rise in the next few years: the main obstacles being poor marketing, low production capacity and low wine production. The EU is the most promising export market.

2.1.10 Policy issues

No simulations have been made of the possible consequences of EU membership on the Croatian wine sector. Government policy can be summarised as having two objectives: an increase of total and average vineyard areas, and completion of the Grape and Wine Producers Register so as to improve wine quality control.

If the target of an increase vineyard area is to be accomplished before EU Accession, a number of significant issues need to be resolved. All abandoned and unutilised state land should be given in concession by public tenders; the Agriculture Land Law should be enforced for all private abandoned areas; only top quality vines should be planted, certified vines should be imported from the EU; and old vineyards modernised and new ones planted.

Most problems caused by domestic market liberalization will affect non-profitable wine cellars, producers of taped wine and wine grape producers. Wholesale, retail and family farms producing good wines can expect least problems. It is estimated that the market liberalization will lead to the slight increase of Croatian wines export, shall increase competitiveness of domestic wines at domestic market and will broaden total wine trade. The higher competition in the domestic market will ask from domestic wine producers to increase the quality of their wines and to look for new (export) markets.

Most of experts think that domestic wines need protection by import quotas in order to prepare for competition. Experts claim that government can help domestic market with black market suppression and by subsidizing production, trade and marketing of domestic wines and by organizing mutual wine marketing. Production technology needs to be enhanced, new technologies of processing and wine care should be developed, and wine quality should be improved. In the trade sector it is necessary to build up image of Croatian wines, to educate consumers about wine and to enforce wine advertisement.

2.2 Sugar sector

2.2.1 Sugar consumption

Croatia's sugar consumption needs are met from domestic sugar beet processing part of which comes from imported sugar-cane. Domestic sugar consumption is hard to calculate because of "soft" borders with Bosnia and Herzegovina. Total Croatian annual sugar consumption is estimated to be 150000 tonnes, with 2/3 as household consumption, and 1/3 going into industrial production of other products. Some sugar use competes with substitute artificial sweeteners (glucose syrup, highly fructose syrup etc.). Consumption per capita seems to have been fairly stable in recent times at an estimated 30 kg per year.

2.2.2 Sugar imports

Croatia's international trade in sugar has fluctuated considerably in recent years. Imports were highest in 2004 (62,898 tonnes) and exports in 2003 (162,317 tonnes). Higher white sugar imports meant reduced imports of sugar cane, which comes mostly from Brazil. Since 2002, foreign trade in sugar has produced a positive balance (the highest one was 77.4 million euro in 2003). In 2004, the main sugar imports came from Germany (7.8 million euro), Belgium (2.9 million euro), Austria (2.8 million euro), France (696 335 euro) and Poland (536 620 euro).

Table 6 Sugar (originated from sugar beet) imports in Croatia in 2004.

Country	Quantity (t)	Value (EUR)
Germany	30644	7830680
Belgium	11351	2859421
Austria	11015	2778039
France	2852	696335
Poland	2262	536620
Other countries	4774	1376420
Total imports	62898	16077515

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

In 2004 Croatia imported from Brazil 42129 tonnes of sugar originated from sugar cane. The value of the imported sugar was 7.6 million euro.

2.2.3 Sugar beet area

Sugar beet occupies some 1.5 % of Croatia's cultivated area and accounts for one third of total value of industrial plant production, as well as 1.2 % of total agricultural production (without processing which adds another 1%).

Table 7 Sugar beet production 1999-2003

	1999	2000	2001	2002	2003
Harvested area (ha)	27847	20985	23757	25149	27327
Production (t)	1113969	482211	964880	1183445	677569
Yield (t/ha)	40.00	23.00	40.60	47.06	24.80

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

The sugar beet area has risen from 20,985 ha in 2000) to 27,327 ha in 2003. Just over half the area (54% in year 2003) is on family farms, averaging approx. 10 ha of sugar beet, but these are fragmented, causing problems during fieldwork. Most of the sugar beet is grown in the Panonian region, a significant part of which was affected by the war and still suffers very high unemployment, which would be even higher if the sugar beet area fell.

2.2.4 Structure of production

Some 2000 family farms share half the country's sugar beet area and production.
Croatia has three companies involved in producing and processing sugar beet: VIRO-Virovitica with capacity of 6,000 tonnes, Secerana Zupanja with same capacity and Secerana Osijek with capacity of 6,500 tonnes. Secerana VIRO is privatised, while the other two are in process of privatisation.

2.2.5 Yields

Sugar beet yields and production depend upon specialist machinery and technology, producer's technical knowledge and climate conditions during crucial growing periods. Sugar beet yields averaged 35.6 tonnes per hectare from 1999 to 2003. The highest yield was in 2002 (47.06 tonnes) and lowest in 2000 (22.98 tonnes). Such large fluctuations result from inadequate agricultural techniques, and poor technology as well as climatic factors. Sugar production depends also on the sugar content of the beet. The average sugar content in the period 1999-2003 amounted to 15%.

2.2.6 Sugar and isoglucose production

Total sugar production depends on quantity of beet, sugar content and sugar refinery efficiency. Average annual sugar production from sugar beet was 114,974 tonnes for the years 1999 to 2003. The highest production (171,613 tonnes) was in 2002 and the lowest in 2000 (56,729 tonnes). Total sugar refining capacity exceeds Croatia's needs, which indicates that increased production could only be for export.

2.2.7 Production cost and competitiveness

In analyzed period there were not significant oscillations in costs level and structure for sugar beet production. The biggest changes that affected sugar beet producer's incomes were observed in sugar beet production by hectare and in digestion level.

Sugar beet calculation is based on 40 t/ha production, 15% digestion, 17 % impurities and price of 36.0232 euro/t. Total income is 1,794.7 euro, and total variable cost was 820.5 euro along with rented mechanization costs (319.00 euro) and private mechanization costs (264.05 euro) return was 390.58 euro/ha.

2.2.7 Exports

Croatia's Stabilisation and Association Agreement with EU allows for profitable sugar exporting by Croatian producers, thus the question of the size of Croatia's A and B quotas will be an important element of the Accession negotiations. In the last 3 years, sugar exports have become significant 65000 tonnes in 2002, 162000 tonnes in 2003 and 49000 tonnes in 2004. In value terms the best year for sugar exports was 2003 (106.1 million euro), when Croatia its largest trade balance in sugar (77.4 million euro). In 2004, the biggest export market by far was Italy (31.4 million euro), with Slovenia (494875 euro), Hungary (333030 euro), and Bosnia Herzegovina (251705) euro) trailing far behind. It is important to emphasize that total sugar exports from Croatia into EU amounts to less than 1% of EU sugar production.

Table 8 Sugar exports from Croatia in 2004.

Country	Quantity (t)	Value (EUR)
Italy	47215	31444175
Slovenia	733	494875
Hungary	506	333030
Bosnia Herzegovina	404	251705
Other countries	1	4344
Total exports	48859	32528129

Source: Statistical Yearbook, Republic of Croatia, Bureau of Statistics

2.2.9 Policy issues

To date the sugar beet sector Croatian has made insufficient preparation for EU Accession. Expert's assessments show that currently sugar beet and sugar production is not competitive at prevailing world prices because of relatively low yields, low sugar extraction rates, high production costs and a fragmented, economically unsustainable, industry. Consequently, the question arises whether Croatia may and should secure long-term support for this sector, or it should use the land for other purposes.

If the Croatian sugar sector is to compete in the longer term, there will need to be a dramatic improvement in efficiency both in the field and in the factory. Croatia should speed up structural changes (increase the average production area by producer; reduce the number of producers, consolidate sugar processing only in one factory) adopt more modern equipment and techniques such as improving land drainage and develop its market infrastructure.