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1. Introduction to the meat sector

There are several reasons why the meat sector is important for the agricultural sector and the whole economy of Bosnia and Herzegovina. These reasons include insufficient exploitation of the potential for development of the sector and an abundance of other problems.

The meat sector of the Federation of Bosnia and Herzegovina (FBH) is the part of the agricultural industry that has been among the slowest to recover from the damage which it suffered during the war. The country's livestock population was almost completely destroyed during the war. After the war, restocking began, mainly with the help from international funds. At the end of 1990s this reconstruction began to slow down due to reductions of grants and soft loans. Now, 12 years after the war, the numbers of all livestock types are still lower than in 1991, and much lower than it could be considering the fact that Bosnia and Herzegovina has 1.4 million hectares of grassland.

The share of total agricultural production provided by the livestock sector (milk and meat) is estimated at 50%, which is much lower than it should be, considering the favourable natural conditions for livestock farming and the level of production found before the war. According to data from the Chamber of Foreign Trade, the meat sector is among the most unfavourable as regards foreign exchange. In 2000, total meat imports amounted €9.9 million, while the value of exports was only €8.24 million. Five years later, in 2006, the situation was even worse at, €27.12 million and €3.33 million respectively. Also there were significant quantities of meat imported illegally from neighbouring countries which had adverse effects on the national economy and are the source of many problems as regards traceability, quality and health controls.

Even with current low average meat consumption per capita, estimated at 34.8kg, Bosnia and Herzegovina is self-sufficient only in the sheep and goat meat sub-sector. The percentage self-sufficiency is, according to expert estimations, much lower than officially reported due to illegal imports. For example, according to official data, self-sufficiency in the beef sector was around 70% in 2006, while in the Mid-term Strategy of the Agricultural Sector in the Federation of Bosnia and Herzegovina (FBH), the experts estimated self-sufficiency in beef sector in FBH at only 27%. It is true that self-sufficiency is really lower in FBH than in Republika Srpska, but it is also true that official data do not include trade in illegal imports on the black market so they give the false picture that self-sufficiency is higher than it really is.

The meat sector is very complex. It includes primary production in several sub-sectors, slaughterhouses and the processing industry. There is strong interdependency between these segments, but under the political and economic situation in Bosnia and Herzegovina, with broken market channels and inefficient and inconsistent policy, they are sometimes turned against each other and behave as competitors not as partners.

The importance of this sector is not simply economic, but socio-economic as well. Bosnia and Herzegovina has a proportionately large rural population, a very high unemployment rate, and livestock production could employ both human and natural resources throughout the whole year. Also, in the process of accession to EU, in which Bosnia and Herzegovina is taking its first steps, the meat sector will certainly be one of the most demanding aspects of agriculture in terms of the need for significant adjustment and change.

2. Structure of the sector and recent evolution

After the first five years of the post-war livestock repopulation during which the numbers of livestock increased very rapidly, the first two years of the study period (2000 and 2001) were characterised by decreases in cattle and sheep numbers and a modest increase in the number of pigs. Since 2003, there have been increases for all livestock categories. As a result, cattle numbers in 2006 were only, at the level of 2000, while the number of sheep increased by 37.9% and pigs by 51.3%. At the same time, total meat production increased by only 8.8%. There were increases of 26.5% in sheep meat and 20.8% poultry meat, but beef production was only 7.7% higher and that of pork actually decreased to only 91.6% of the 2000 level despite the numbers of pigs having increased significantly. The slow increase in beef production is due to the increase in cattle numbers only coming in the dairy herd. As for pork, slaughtering of young animals rather than fattening them is quite common practice in Bosnia and Herzegovina, and this is true in beef production as well. As the result of the above, the share of sheep and poultry meat in total production increased over six years, from 16.3% to 19.4%, and from 18.7% to 20.7% respectively for the two species. Thus, beef and pig meat made up the highest share in total meat imports throughout the period, increasing from an already high 76% in 2000 to as much as 82.1% in 2006. It should also be remembered that these two sub-sectors are the main subjects of illegal imports, which makes the whole picture of these sub-sectors much worse.

Most production of meat sector in Bosnia and Herzegovina takes place on a large number of small-sized farms. In addition, the whole of primary livestock production is characterized by low productivity, insufficiency of working capital, poor farmer knowledge, poor and old-fashioned farm equipment, bad feeding practices and neglect of animal welfare. Therefore, according to all indicators, the primary production of meat in Bosnia and Herzegovina lags significantly behind that of other countries in the region and in Europe, and indeed, behind its own achievements of 15 years ago, when production results on large state-owned farms were respectable. During the post-war reconstruction highly productive foreign breeds replaced unproductive native breeds in all sub-sectors except sheep, but, due to poor production practices, the yields are far from what could be achieved. The only sub-sector that is still relying on a native breed – Pramenka - is sheep production which has been achieving some success recently and has proved resistant to the absence of any state policy or support.

Before the war, there were more than 200 slaughterhouses in Bosnia and Herzegovina, of which about 60% were privately owned. Most of the large-scale slaughterhouses were state-owned. Today, there are around 30 large and medium-scale slaughterhouses and a great number of small ones. Some of these slaughterhouses apply high quality standards, but most of these are under-utilised. An explanation for this could be that the small ones slaughter illegally imported animals without being registered or controlled. Recorded slaughtering is predominantly of cattle and poultry.

There are around 30 meat processing companies in Bosnia and Herzegovina. Three among them (Lijanovici, Akova Impex and Stanic) have daily capacity of around 40 tons each. According to findings of the USAID – LAMP project (2004), the annual capacity of the 11 biggest meat processors in Bosnia and Herzegovina is around 60,000 tons and none of them manages to utilise more than 50-55% of their potential. Most of capacity for meat processing (80-85%) is placed in FBH and only 15.20% in Republika Srpska. This explains the fact that FBH imports much more meat than Republika Srpska, as according to estimations, meat processors import around as much as 80% of their raw materials. The structure of the meat processing industry in Bosnia and Herzegovina is as follows: 50% poultry meat (95% chicken, only 5% turkey meat); 35-40% beef,

10-15% pork. In addition to those mentioned, a certain number of products (first of all smoked meat) are still being produced traditionally in households and sold locally.

3. Policy and standards

The Constitution of Bosnia and Herzegovina recognises agricultural policy as an issue of Entity importance and authority. This means that in Bosnia and Herzegovina at the moment, there exist three agricultural policies, one for each entity (Federation of Bosnia and Herzegovina, Republika Srpska (RS) and District Brcko); additionally, any Canton in FB&H can have its own agricultural policy. This also means that the only segment related to agriculture that is under state authority is foreign trade. In all other issues, farmers are in different positions, depending on where they live and run their businesses. But, generally speaking, it can be said that agricultural policy, in the past did not show consistency and did not seem to include features that would support and enable the implementation of well planned mid or long term strategy, but it mainly acted as “fireman” for ad hoc problem solving. In 2006, under the pressure from domestic experts, farmers associations and the international community, the first steps were taken to establish a common Ministry of Agriculture and Rural Development at the state level. The draft Law has been prepared but has not completed the parliamentary process and the Ministry is not yet established.

Regarding incentive measures for the meat sector, the situation is slightly better in RS than in FBH. Since 2002, farmers in RS have received a premium for sows (€35 per head), ewes (€35 per head), and laying hens (€1 per head) as well as for beef fattening (€60 per head) and pig fattening (€30 per head). The FBH introduced this practice only in 2004. Experts generally agree that the meat sector is less motivated than the dairy sector in the whole country and that the incentive measures are insufficient and restrictive. In addition to these incentives, both entities, introduced a further measure to reimburse interest above 4% on agricultural loans.

Taxes in meat sector are 0%, 5% and 10% plus levies for certain categories. The problem with trade policy in the meat sector is that there are no mechanisms, or no willingness to take control over imports, and to trace imported goods. Quite often livestock are imported for breeding purposes (tax 0%) and then are slaughtered immediately. That is why the number of live animals does not increase as they should when allowance is made for the numbers imported.

Bosnia and Herzegovina still has a long way to go to harmonise standards in its meat sector with those in the EU. As there is no certification body or State Veterinary Agency at the moment, there is not one slaughterhouse in Bosnia and Herzegovina that can export meat to EU countries. Veterinary services are now organized on entity level. In FB&H they are still state owned, while in RS they have been privatized. Extension services work on the same principle, and the judgement is that they are better organized and more efficient in RS. Inefficient veterinary services and illegal imports mean there is a constant danger of importing diseases. Poor hygiene also contributes a lot, and in recent years there were many cases of different animal diseases in Bosnia and Herzegovina; brucellosis and Q-fever were the most common among them. Bearing in mind the sensitivity of European consumer on these issues, and the very restrictive rules and standards within the EU, issues relating to hygiene, reaching and maintaining the health and quality standards for will be the real challenge for Bosnia and Herzegovina's meat sector in future. The greatest chance of meeting this challenge at the moment lies with the Bosnia and Herzegovina meat processors. Some of them have already found their place on domestic and very restrictive and demanding foreign markets, but the sector as the whole still has not.

4. Market trends and perspective for meat consumption

At the beginning of 1990s, before the war, average annual total meat consumption per capita in former Yugoslavia was very high at 100 kg. Estimates for Bosnia and Herzegovina for that period vary from 70-100 kg, which is also very high by any standard, and could be compared with meat consumption in the most developed countries in Europe. Besides this, the composition of consumption was favourable as high quality meats such as veal, young beef, lamb and sheep meat were predominant.

After the end of the war, between the mid 1990s and early 2000s, the situation with meat consumption changed significantly. The change was not only in the quantity of the meat consumed, but in its composition. There were two main reasons for this change. The first one was the drastic decrease of domestic production due to enormous war damage on the whole livestock population, slaughterhouses and other production and processing capacities. The second relevant consequence of the war was a drastic decrease in the standard of living and purchasing power of the population. Market channels were broken for years, which is another factor that contributed to changes in meat consumption. Another fact that also cannot be overlooked is that Bosnia and Herzegovina became an independent state in 1992 and the meat produced in other republics of former Yugoslavia, such as Croatia and Serbia, became effectively a component of international trade rather than domestic production which had an influence on meat prices.

As a consequence of all these issues, average meat consumption per capita in the study period, (2000-2006), was much lower, and a higher share of that was comprised of cheaper pig meat and poultry meat.

According to calculations based on data from Annex (Workbook for meat), meat consumption per capita is very low and during the whole period it did not exceed 20.8 kg (2001), while in other years it was around 18 kg (18.38 kg in 2000, 19 kg in 2002, 18 kg in 2006). FAO data on meat consumption in Bosnia and Herzegovina differs from these to only an insignificant extent. According to both sources, the composition of consumption has changed significantly as compared with some 15 years ago. Throughout the more recent period, the share of pig and poultry meat combined in total consumption was above 50% (55.2% in 2000; 54.5% in 2001; 53.6% in 2003; 56.8% in 2004; and 54.49% in 2006). But, although much lower than in the past, beef is still the single most common meat consumed contributing 35.5% in 2000 and 32.88% in 2006. Records indicate a slow but constant increase in the share provided Sheep and goat meat, rising from 9.3% in 2000 to 12.63% in 2006.

Formal data on consumption do not correspond to reality. It is impossible to get completely reliable data on meat consumption in Bosnia and Herzegovina as the data for both meat production and imports are not accurate. Unregistered production occurs partly in family households and on small farms (there has been no livestock census since 1991) so estimates are that the real production is higher than that reported. Due to smuggling, data on imported meat are not accurate either. Therefore, official data on consumption underestimate the true situation.

So, what could be the reality of meat consumption at the present time? USAID has been conducting the Project called LAMP (Linking Agricultural Producers with Markets) and within the framework of this project 5 sub-sectoral analyses were done in 2004 for sheep, cattle, pigs and poultry sectors, as well as for meat processing. According to their analyses for 2001, meat consumption per capita was 34.8 kg of which 14.5 kg (41.6%) was beef, 5.8 kg (16.6%) pork, 2.5 kg (7.1%) sheep and 12.0 kg (34.4%) poultry. This means, that actual meat consumption is 67%

higher than officially reported, which corresponds to the findings of other experts who analysed the sector. Even so, Bosnia and Herzegovina, still hasn't reached half of its pre-war meat consumption. USAID's estimations and predictions made in 2004 that meat consumption will double by 2006 as the result of increase of purchase power, unfortunately, did not prove to be true. The economic condition of the population will surely influence and determine meat consumption at least in the mid term, and probably in the long run as well.

5. Recent evolutions and perspectives for the trade

Due to illegal and unregistered imports, the real picture of the trade in the meat sector, as well as in the other agricultural and food sectors in Bosnia and Herzegovina, differs from that indicated by official data. As this Report is based on the data from the Chamber of Foreign Trade of Bosnia and Herzegovina, account should be taken of the reality that both imports and domestic consumption are higher than officially reported, while self-sufficiency is lower and trade balance even worse than the figures show. It is estimated that most of the illegal import takes place in the veal, beef and pig meat sub-sectors, and that most of this meat comes from neighbouring countries, Croatia, Serbia and Montenegro, but also from Hungary (poultry meat in 2001)..

According to official data, the meat sector in Bosnia and Herzegovina does not meet domestic demand in any sector and any category (live animals, meat and processed meat). Within the observed period (2000-2006), the only self-sufficient sub-sector was that for sheep and goat meat with self-sufficiency between 99.84% in 2000 and 96.06% in 2006. Imports in the sheep and goat sub-sector mainly relate to live animals. Self-sufficiency in the beef sub-sector increased from 59.32% in 2000 to 71.9 in 2006, in poultry meat sub-sector from 37.48% in 2000 to 58.98% in 2006. Self-sufficiency in the pig meat sub-sector increased from 58.78% in 2000 to 66.44 in 2002 but after that it fell and in 2006 was only 48.32%.

Significant quantities of meat are being imported while the export of meat is very modest. For the years 2000-2006 meat sector imports were in €000s: 89; 104,612; 124,722; 112,499; 108,374; 127,124; and 101,425 respectively. The structure of imports changed, as at the beginning of the study period live animals, meat and processed meat products amounted to approximately one third each, while in 2006 the corresponding figures were 20.59%; 33.78% and 45.64% of the total meat sector's import value. Through the whole period, cattle and pigs accounted for about 90% of total live animals import.

Among the many countries from which Bosnia and Herzegovina has been importing live animals, the most important trade partners were: Poland, Hungary, Romania, Austria, Holland, Germany, Slovenia, Serbia and Montenegro for cattle; Romania and Hungary for sheep; Hungary and Holland for pigs; Hungary, Germany, Holland, Austria, Croatia and Serbia and Montenegro for poultry. As regards the composition of live animal imports, pigs and cattle amounted to around 90% throughout the whole period, but the share of live pig import decreased from 18.29% in 2000 to 10.11 in 2006, and the share of live cattle increased from 68.4% in 2000 to 77.77% in 2006. The share of live animals imported from EU-15 decreased from 15.3% in 2000 to 9.1% in 2006 while the share of EU – 25 countries decreased from 96% to 42.8%. The share of other countries increased from only 9.4% in 2000 to as much as 57.16% in 2006. This was due to the fact that in recent years, and particularly in 2006, Romania became the leading partner with a share of 52.12% of live animal imports in 2006. Regarding meat import partners, the situation has changed significantly during the observed period as well. The Main countries Bosnia and Herzegovina was importing from during the six years period were: Croatia, Slovenia, Austria, Holland, Belgium, Italy, Serbia and Montenegro. The share of imports from EU-15 countries

decreased from 73.15% to 42.73%, and the share of EU-25 countries decreased from 92.81% to 56.22% while the share of the other countries recorded constant growth from 7.19% in 2000 to 43.778% in 2006. This change developed particularly after 2004 as the result of Free Trade Agreements that came into force in that year with Croatia and Serbia and Montenegro, and since 2005 with Slovenia, when these three countries became main exporters of meat to Bosnia and Herzegovina while other countries lost their previous market positions. Having in mind that the most of the illegal meat imports into Bosnia and Herzegovina come from Serbia and Croatia, the share of these two countries is actually even higher. The composition of the meat imports have not changed a lot, so the majority of it (82% in 2006) was beef and pork, and the rest was poultry meat (15.44%) and sheep and goat meat (4.64%). Croatia (34.83%), Slovenia (27.7%) and Serbia (24.81%) together contribute 87.34% (2006) of total processed meat imports of Bosnia and Herzegovina.

The share of the meat sector in total agricultural and food imports is quite stable and varies from 12.48% in 2000 to 12.63% in 2006, while the share of the sector in total agricultural and food export shows a constant decrease, from 19.25% in 2000 to 7.06% in 2006. During the period 2000-2003, meat sector exports were decreasing in absolute figures as well, contributing to the negative trade balance, but since 2003 the amount has been slowly increasing. It was €0.325 million in 2006, compared to €8.234 million in 2000. The mix of exported meat is also changing in favour of processed product: in 2006 some 87.27% of total meat exports was processed meat, 11.63% was meat and 1.10% was live animals, while in 2000 the corresponding figures were 56.72%; 16.08 %; and 27.2%.

It can be said that Western Balkan countries are the only destinations for Bosnia and Herzegovina meat sector exports. Throughout the relevant period (except for live horses) exports to Italy and Slovenia in 2000) 100% of the live animal exports were to Croatia and Serbia. As regards meat exports, Western Balkan countries participate to a high degree with shares that varied from 90% in 2000 to 85.7% in 2006 (44.4% Serbia, 30.2% Croatia and 11.1% FYROM). Only in the processed meat segment were EU -15 and EU-25 countries increasing their share in Bosnia and Herzegovina exports, from 0.0% in 2000 to 11.7%, 18.6% respectively in 2006. This was because in 2003 Bosnia and Herzegovina started to export processed meat to Hungary, and a year later to Greece; in 2006 the share of total processed meat exports to Hungary was 5.9% and to Greece 10.1%.

Bosnia and Herzegovina cannot expect to improve its trade balance unless it manages to raise domestic production and to introduce new standards and harmonize existing ones with those of the EU which would enable it to export not only processed but fresh meat as well.

6. Expert views on the successes and challenges of the sector

Regarding the meat sector in Bosnia and Herzegovina, it is much more important to emphasize the numerous problems that the sector is facing than very few successes that it managed to achieve during the observed six years period. Considering the enormous war damages that the sector suffered and the lack of efficient, consistent and well-planned long-term policy support, even the very slow recovery of the sector can be mentioned as success in itself. Poultry and sheep sub-sectors achieved slightly faster recoveries than the others. The processing industry, particularly the largest processors, such as Lijanovic and IM IMPEX managed to penetrate demanding foreign markets with their high-quality products such as smoked ham and other pork products.

Some of the challenges and obstacles for further development are specific for sub-sectors, and some of them are common for all actors in the meat-chain. Among the common ones, particularly in the primary sector are poor production practices and the low level of farmer expertise that result in low yields and high production costs and hence uncompetitiveness in the market. Producers often complain that Free Trade Agreements with Slovenia, Croatia and Serbia undermined their position, but the truth is that they were not competitive even before these agreements were brought into force. The lack of fodder, high and changeable prices of both inputs and meat force farmers into frequent changes in their production orientation which causes new market instability and falls in production performance.

The current market situation is such that it offers many possibilities for higher production volume as domestic consumption is mainly satisfied from imports, and on the other side, processors import 80% of their raw material. Producers complain that import duties are not high enough and that domestic production is inadequately protected, while processors who import meat as raw material complain that they cannot stand import taxes. The biggest among them Lijanovici has announced that they are thinking of relocating their plants to Croatia where the required raw material is available, and then exporting meat products to Bosnia using the Free Trade Agreement as their opportunity. The fact is that meat producers in Bosnia do not produce what processors need. They prefer to slaughter live animals and sell the meat at higher price to fattening animals and providing raw material for industry. On the one hand high demand for veal, lamb and piglet meat keeps the prices high and make fattening uncompetitive. On the other hand, processors need meat from older categories of livestock, white turkey meat and boneless meat mass. A few years ago The Group of Meat Producers and Processors was established within the Chamber of Foreign Trade, with the aim of articulating common problems of the sector and lobbying in relevant institutions for solutions. First of all, this body sought the introduction of relevant laws that are still missing, strict control of the border and reduction of illegal imports. Plus, they also insist on a stronger state support policy as the meat sector was, up to now, neglected in comparison with, for example, the dairy sector. Also, they all insist on better meat quality control at the borders, which to date are neither serious or strong enough; in the past various meat products of very suspicious quality and unreasonably low prices could be found on the markets in Bosnia and Herzegovina and neither producers nor processors could compete. The very long market chain from producer to consumer makes the final prices higher than for imported products, so re-establishment of contracts between producers and processors could improve the market position of both parties.

In the near future, the very serious task of harmonising standards with those of the EU will surely be among the most demanding needs as only the minimum has been done so far. The expectation that a common Ministry of Agriculture and Veterinary Agency on a state level will be available in the near future is encouraging, as it will mean, at least, removal of bureaucratic and administrative obstacles to making the first important steps on this long way.

7. Conclusion

Estimations about the expected progress in the meat sector of Bosnia and Herzegovina from some studies that were previously done (such as USAID study from 2004) proved to be unrealistic. The recovery of Bosnia and Herzegovina's meat sector as a whole has been much slower than expected and progress in the terms of increased livestock numbers, herd structure, production methods, value of production, yields, exports, the share of total agricultural production and all other indicators is not only slow but unstable as well. This particularly refers to the cattle and pigs sub-sectors, while the sheep and poultry sub-sectors have achieved more significant and stable progress.

The opportunities for further sector development should be looked for in the very low self-sufficiency in all sub-sectors except the sheep and goats. Gaining the trust of consumers in the quality of domestically produced meat should also be considered. On the other hand, under-utilized capacities of many slaughterhouses and meat processing plants are sufficient to accommodate all current and foreseen quantities of domestically produced meat. But, the problem for the meat producers is that they are currently not competitive on the market due to the lack of support, lack of efficient control of the border and the consequent large amounts of cheap meat from black market, unstable and high prices of inputs, but also their own inherent weaknesses at farm level. These weaknesses are easily seen in poor production practices, low levels of technical knowledge, insufficient care of animal feeding and welfare and many other issues. These weaknesses result in low yields, high production costs, inefficiency and low competitiveness. Therefore, the main challenge will be to increase the efficiency of meat producers. Besides, in order to meet the needs of processors who rely mainly on imported meat, producers need to change their orientation and turn to fattening instead of slaughtering young animals, and to start to cooperate with processors on a contractual basis in order to ensure the placement of products and to shorten the marketing chain and lower the prices of final products.

Significant changes in the sector will not be possible without greater support from the state, not only in terms of stronger incentive measures for meat producers, but in concrete measures that will result in the elimination of illegal trade and better control of meat quality. The establishment of a Veterinary Agency and certification bodies at the state level, introduction of systemic measures to eliminate animal diseases and of standards and systems of quality management are not only steps which the Bosnia and Herzegovina meat sector need to make regarding integration into the EU, but they are also preconditions for success on any foreign market.

There is no doubt that the meat sector of Bosnia and Herzegovina has good prospects for growth and progress, first of all in insufficiently used natural resources and secondly in unsatisfied domestic consumption although that will, surely be determined and limited by price and purchase power of population for long time yet. Therefore, poultry meat and pork will maintain their high share in consumption structure. Considering all the points discussed in this report, significant progress in the meat sector of Bosnia and Herzegovina cannot be expected on short-term basis.

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