

AGRICULTURE AND FOOD PROCESSING INDUSTRY

Sarajevo, September 2005

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WHY INVEST IN BOSNIA AND HERZEGOVINA AGRICULTURE AND FOOD PROCESSING INDUSTRY?

There is secured market in Bosnia and Herzegovina, well as in neighbouring countries, along the Croatian coast, e.g. for fresh products, fruits and vegetables. Croatia has 4 million inhabitants with increasing purchasing power and 20 million tourist overnight stays per year.

Macedonia and Albania are potential markets for meat products, as they produce little meat. However, products have to be price-competitive as the purchasing power is low.

There could also be chances for trade with the Serbia and Montenegro for some processed products, where BH has developed stronger technologies and marketing, in areas where the Serbian food industry has not yet modernised. However, the low standard should also be considered.

Advantages in regional trade are the similar languages, the existing networks and trade relations and their proximity. Export to these countries is also possible with the existing certification system in BH.

The main market opportunities for the food industry are on the domestic market. BH should use this potential by reducing its domestic weaknesses in order to regain domestic market share, and to become competitive with its niche products on foreign markets.



Short term objective	To increase B&H's market share on the domestic market.
Medium term objective	To bring the competitiveness of the food industry in BH in line with the competitiveness of the other South East European countries (Croatia, Slovenia, Hungary) in terms of productivity, production costs, quality management, food control and marketing.
Long term objective	To make the food industry in BH internationally competitive and able to compete on integrated regional markets, and even on international markets for some niche products.

Short term, Medium term and Long term objectives

The strengths of the food sector in BH on the local market are:

- Domestic demand is still not met by local production
- Proximity to local markets (important for fresh products, perishable products with low to mid-durability and for products with high storage and transport costs),
- Knowledge of local consumer behaviour
- Many years of experience in various sub-sectors
- The availability of sufficient pasture and meadows for cattle farming
- Price advantages with some fruit and vegetable products



BOSNIA AND HERZEGOVINA A GREAT PLACE TO INVEST IN AGRICULTURAL AND FOOD PROCESSING INDUSTRY

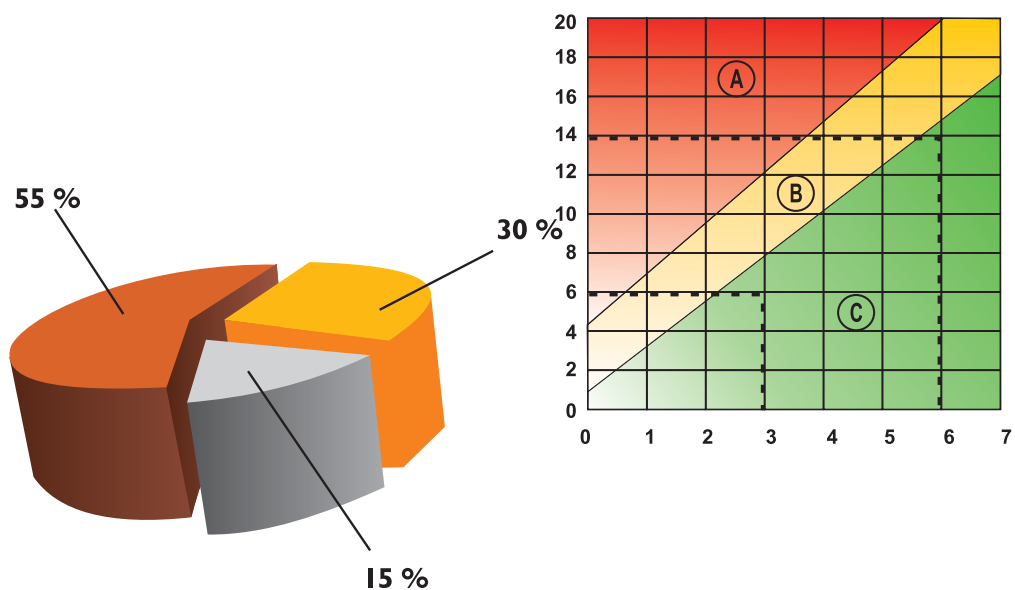
Market opportunities, local supply and competitors in selected sub-sectors

Product	Domestic demand	Domestic supply	Availability of raw material	Main competitors
Pastries	Consumption of about 393,000 tons of wheat flour, of which approx. 45% is processed in bakeries (approx. 177,000 t); increasing demand for frozen products possible if income increases	Bread, pastries, frozen pastries, increasing product range	Import demand, wheat production covers only about 63% of demand, but sufficient capacities in the mills	Croatia, Serbia
Meat and meat products	Consumption of about 90,000 tons slaughter weight; increasing demand for poultry, decreasing demand for expensive beef and lamb; fish demand may increase if income increases	Except for sausage production, so far little further processing (e.g. bone-free finished products)	Could be increased (sufficient pastures for cattle production, short term investments in poultry possible), at present huge imports of live stock and frozen meat	Slovenia, Croatia, Germany, the Netherlands, Austria



Milk and milk products	300-400 million litre consumption; demand for products with long durability and diversified processed products, e.g. sour cream, 0.5 litre milk; increasing demand for fresh milk in the long run (once the cooling logistics are better)	UHT and pasteurised milk, fresh cheese, yoghurt; too little product development, insufficient cooling logistics	Could be increased, at present insufficient production, high production and collection costs, insufficient quality control, and huge import levels	Croatia, Slovenia, Germany, Hungary
Fruit and vegetable products	At present demand for cheap fresh and processed fruits and vegetables. Increasing demand for juices (in future more multi-vitamin and 100% fruit juices); increasing demand from the gastronomy sector (e.g. 0,2 litre bottles), increasing demand for snack products (e.g. potato chips)	Increasing efforts in quality management and packaging; local products are mostly cheaper than imported ones	At present insufficient raw material, contract production has gradually developed, production of vegetables increasing, but few long term investments in fruit production	Slovenia (fruit juices) Hungary, Italy, Croatia, Macedonia (processed products)

In Ex -Yugoslavia Bosnia and Herzegovina was industrial country with emphasis to heavy metal production. Even then Bosnia was importer of food, and food-processing industry has been developed quite slowly, and in small amounts.



Production and consumption of basic agricultural foodstuffs in 2003

Product	Needs	Production	Difference	Sufficient supply %
Wheat and rye	408.000	78.150	-329.850	19,15%

Product	Needs	Production	Difference	Sufficient supply %
Milk (mil. of liters)	408	278	-130	68,13%

Product	Needs	Production	Difference	Sufficient supply %
Beef	30.000	14.880	-15.120	49,60%
Pork meat	18.240	9.052	-9.188	49,63%
Fish, poultry	24.240	13.079	-11.161	53,95%

Product	Needs	Production	Difference	Sufficient supply %
Tobacco	4.600	3.200	-1.400	69,56%
Apple	36.000	11.200	-24.800	31,11%
Grape	12.000	8.900	-3.100	74,10%
Other vegetable	26.088	20.512	-5.576	78,62%
Paprika	16.560	15.851	- 709	95,71%
Tomato	21.360	20.388	- 972	95,44%
Other fruit	36.000	9.980	-26.020	27,72%

Source: Valuation of the project team. Production according to Statistical annual, year 2003.



BOSNIA AND HERZEGOVINA COMPETITORS AND BENCHMARKING

As mentioned above, it is important for Bosnia and Herzegovina to win back market share on the domestic market. Therefore, we will first look at the main competitors on the domestic market.

Main competitors on the domestic market are Croatia, Slovenia, Serbia and Montenegro as well as Hungary, mostly in the area of milk and milk products, livestock, meat and meat products, fruit and vegetable products and drinks. Furthermore, there are imports of cattle and meat products from Hungary and Romania, as well as imports of special vegetables from Macedonia.



BOSNIA AND HERZEGOVINA IMPORTS

Countries of origin for Bosnia and Herzegovina imports

Product	Main countries of origin for BH imports
Wheat	Hungary, Croatia, Serbia
Wheat flour	Serbia
Maize/corn	Serbia, (Eastern Europe)
Mixed concentrate feed	Serbia, Hungary, (Austria)
Livestock	Poland, Hungary, (Germany, Austria, Romania, Serbia)
Meat and meat products	Croatia, Slovenia, Austria, Germany, (the Netherlands, Italy, Hungary, Poland, Denmark, Belgium, Serbia)
Poultry	The Netherlands, Slovenia, Croatia, Hungary
Milk and milk products	Croatia, Slovenia, Germany, Hungary
Fruit juices	Slovenia, (Croatia)
Fruit and vegetable products	Hungary, Italy, Croatia, Macedonia
Grapes and citrus fruits, fresh	Italy, Greece, Slovenia, Spain, Turkey
Other fresh fruit	Slovenia, Italy, Austria

WHAT IS PAYABLE TO INVEST IN?

Since Bosnia and Herzegovina is large importer of food, as well as it's surrounding countries, for sure it is payable to invest in agriculture and food processing industry.

Till now there is no production of off-season fruit and vegetables. Greenhouse production almost doesn't exist (there are 22 Ha of old greenhouses in whole country). The prices of off -season vegetables on markets of Bosnia and Herzegovina are much higher than those on Western Europe markets (often two times higher).

Production of fruit, especially of table grapes and vine is very interesting field for investment, that is visible from following excerptional scientific study, made by three eminent scientists from B&H,Croatia and Slovenia.

Competitiveness of the wine production in B&H

Table 1. Market Balances for the Wine Sector in B&H, 1998-2002

	1998	1999	2000	2001	2002
Grapes production (000 liters)	12,804	12,723	13,247	13,300	13,400
Area under vineyards (hectares)	3,600	3,600	3,600	3,600	3,600
Yields of grapes per hectare (kg/ha)	3,557	3,635	3,680	3,694	3,722
Wine production (000 liters)	6,944	5,800	4,769	5,000	5,200
Wine exports (000 liters)	2,671	2,200	440	1,900	1,109
Wine imports (000 liters)	1,592	1,770	1,400	2,500	2,033
Available for consumption (000 liters)	5,866	5,370	5,729	5,600	6,124
Consumption per capita (liters)	2.09	1.91	2.05	1.98	2.16

Source: FAO (2003), national statistical data and expert estimations.

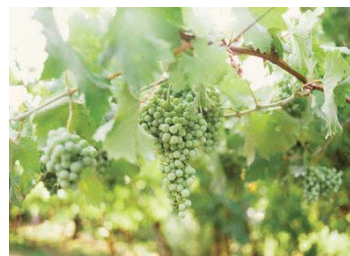


Table 2. Trade of Wine in Federation of B&H

	Exports			Imports		
	Quantity (000 l)	Value of exports (000 KM)	Unit export value (KM/l)	Quantity (000 l)	Value of imports (000 KM)	Unit import value (KM/l)
1999	2,214.8	1,817.2	0.82	1,775.2	6,312.7	3.56
2000	1,254.5	1,575.4	1.26	2,062.2	5,858.2	2.84
2001	1,490.2	2,066.9	1.39	2,688.6	7,932.6	2.95
2002	1,109.2	1,802.5	1.62	2,033.1	6,619.5	3.26

Source: Custom Office of Federation of B&H (2003).

Table 5. Unemployment and Wages in Federation of B&H (in KM)

	1999	2000	2001	2002
Number of employed	407,754	410,808	407,199	394,132
Number of unemployed	262,971	259,702	269,004	282,473
Average net wage in KM	374.54	412.72	443.26	482.71
Average gross wage in KM	550.80	606.94	651.85	709.86
Wage per hour (180 hours)	3.06	3.37	3.62	3.94

Source: Statistical Yearbook of Federation of B&H (2003).

Table 6. Policy Analysis Matrix (PAM) and Indicators of protection and competitiveness for the wine sector in B&H, 1999-2002

	Revenue	Costs of tradable inputs	Costs of domestic resources	Profit
Private values	A	B	C	$D = A - B - C$
Economic values	E	F	G	$H = E - F - G$
Transfers	$I = A - E$	$J = B - F$	$K = C - G$	$L = D - H = I - J - K$

Source: Monke and Pearson (1989) and Tsakok (1990).

Indicators of protection and competitiveness	Grapes				Wine			
	1999	2000	2001	2002	1999	2000	2001	2002
$NPR = \frac{\check{S}(A/E)}{1\check{C}} * 100$	38.4	19.3	20.4	4.4	13.0	14.9	47.6	22.7
$EPR = \frac{\check{S}((A-B)/(E-F))}{1\check{C}} * 100$	46.5	19.6	20.9	-1.1	12.6	6.8		0.5
$SCBR = (F+G)/E$	0.94	0.98	0.92	0.89	0.86	0.91	1.16	1.00
$DRC = G/(E - F)$	0.91	0.98	0.88	0.85	0.76	0.83	1.38	1.00
$PCR = C/(A-B) \text{ or } G/(A-B)$	0.64	0.86	0.76	0.90	0.67	0.78	0.67	0.67

Note: NPR: nominal protection rate. EPR: effective protection rate. SCBR: social cost-benefit ratio. DRC: domestic resource cost. PCR: private cost ratio. IVANKOVIĆ (2003) presented the calculation procedures in more detail.

Source: Own calculations.

If DRC and SCBR are less than 1, but greater than 0, production is efficient and internationally competitive, while uncompetitive otherwise.¹ Wine grapes and wine production in B&H are internationally competitive.

Production of vegetables for processing, as well as consuming, is insufficient for the monthly needs of people of Bosnia and Herzegovina.

¹PCR less than 1, but greater than 0, indicates efficient production at domestic conditions.

Source:

Study "Competitiveness of Wine Production:" The Case of Bosnia and Herzegovina . Authors Dr.Marko Ivanković, Dr.Štefan Bojnec and Dr. Ante Kolega

Import of fruit and vegetables in Federation of Bosnia and Herzegovina (2002). in kg

Name	I-III	IV-VI	VII-IX	X-XII	TOTAL
Tomato	301.375	4.266.735	310.018	171.673	5.049.801
Cucumber	141.235	835.233	0	71.981	1.048.449
Paprika	91.844	414.221	548.076	85.460	1.139.601
Fresh grape	56.801	53.765	1.937.248	1.063.414	3.111.228
Apple	1.988.983	1.307.926	496.788	1.997.864	5.791.561
Strawberry	48.058	68.140	0	987	117.185
Water-melon	10.637	1.090.147	1.535.589	26	2.636.399
Peach and nectarine	3.272	595.248	1.358.968	11.480	1.968.968

Source: Customs office of Federation of B&H, year 2002

War has influenced the cattle fund of Bosnia. Natural and climate conditions are ideal for cattle production.

These days Bosnia is importer of milk , milk processing, as well as of meat and meat processing.

All processing industry that could prepare agricultural products for market is a good investment.

There is almost no field in processing industry that is not payable; starting from packaging of spring-water, milk products, fruit and vegetable products, vine and alcohol production, beer, long-life meat and milk products, etc.

It is a good to invest with local partner from branch of business who already has built name and market in Bosnia.

Companies who deal with processing industry are one of the most successful in Bosnia and Herzegovina.



THE CLIMATE

Bosnia and Herzegovina is relatively small country, and has a very different climate because of its specific position and topography.

Of course, in agricultural production the climate is very important factor. South of country has slight Sub-Mediterranean climate, characterised by long, warm summers and short, not too strong winter. Summer temperatures are between 25°C-32°C, and in winter there are very rare days when temperature goes under 0°C. More than 200 sunny days and 1200 mm of precipitation enable almost all sorts of agricultural production. Enough water, available agricultural surfaces and large number of sunny days make the south of Bosnia and Herzegovina the ideal place for development of vineyards, fruit and vegetable. There are excellent conditions for glasshouses production.

Central part of Bosnia has mountain-continental climate. It is characterised by cold winter and long summer. Because of topography and climate great mountain grasslands that are full of water enable the intensive-extensive cattle production. These are ideal conditions for production of potatoes and cabbage, as well as for organic production.

The north part of country has typical continental climate. It is characteristic by very cold winter and warm summers. Because of climate and topography (we talk about plains area), these are ideal conditions for production of cereals, vegetable, cattle-breeding and cattle-raising.

For each part of agricultural production in Bosnia and Herzegovina we can find optimal conditions.



ORGANIC PRODUCTION

Organic products may also be increasingly produced in Central and Eastern Europe for the EU market. A reason for this is the high labour intensity of the organic production; the relatively low labour costs and the rare use of mineral fertilisers and plant-protection chemicals in BH and other transition countries over the last ten years. Bosnia and Herzegovina has large surfaces of ecological, unpolluted and cultivable land; clean water springs and clean air.

Available labours even in rural areas enable organic production, too.

The nearness of the largest world markets of organic food makes this field of economy extremely interesting for investment.

Constant growth of needs for organic food and permanent decrease of surfaces for growing of organic food in Europe make the Bosnia becomes a leading potential producer in Europe.

Good conditions for production, good communications with west-European market, improved production and responsible employees are the guarantee of success within organic production. Bosnia has it all.



INVESTMENT OPPORTUNITIES

Location: Tuzla and Sarajevo

Company: Klas d.d.

Address: Paromlinska 43,
71000 Sarajevo

Contact persons:

Rade Došić, Bajazit Pacariz

Tel: +387 33 524 345

Fax: +387 33 657 279

Ownership: Private

Project description: All kind of fruit production and processing. Wholesale and retail sales of fruit. Organization of production, control and sale.

Location: Livno

Company: Mljekara Livno d.o.o.

Address: Splitska 3, Livno

E-mail: lura.mljekarael.net.ba

Phones: ++ 387 34 201 295
/ 200 283

Contact person: Željko Marijan ,General Manager

Ownership: Private

Project description: Production and trade of milk and milk products .especially famous autochthonous cheese called "Livanjski"

Location: Visoko, Industrial Zone Ozrakovici

Company: Vispak d.d.

Address: Ozrakovici bb, 71300 Visoko

E-mail: vispak@bih.net.ba

Web site: www.vispak.com.ba

Contact person: Džemal Cabaravdic,
General Manager

Ownership: Private

Project description: Confectionery production

Location: Trebinje

Company: Podrumi Vukoje d.o.o.

Address: Mirna 28 ,Trebinje

E-mail: r.vukoje@paleol.net

Web site: www. Podrum-vukoje.com

Contact person: Obren-Zoran Vukoje,
General Manager

Ownership: Private

Phone: ++387 59 270 370 /271 371

Project description: Production and trade of alcoholic beverages. (famous wines from autochthonous grapes sorts Vranac/red and Žilavka/white)

Location: Trebinje,
Company: Ljekobilje Trebinje
E-Mail: holding@rico.co.yu
Web site: www.rico.co.yu
Contact persons: Božo Ilić, General manager, Siniša Andrijašević, Director
Phones: ++ 387 59 260 568 / 261 458 / 621 598
Ownership: Private
Project description: Medicinal herbs growing and production (including tea bags, extracts for pharmacy and cosmetics); Mushrooms production (shitaka mushroom) etc.

Location: Busovaca
Company: START d.o.o.
Address: N.Š. Zrinjskog b.b. Busovaca
Contact person: Drago Dražić
Ownership: Private
Phone: ++ 387 30 732 813
Mobile: ++387 63 373 104
E-Mail: yo-vita@tel.net.ba
Info about company: Main activity-production of milk and milk products. (Fill paprika with cream).
Project description: Establishment of vegetable processing capacities .

Location: Herzegovina and Central Bosnia
Company: VITAVI d.o.o.
Address: Gabela Polje,88306 Gabela
Contact person: Mijo Leko, dipl. oec. Director
Tel.: +387 36 821 807
Fax: + 385 20 686 420
Ownership: Private
Project description: Milk purchase and cooperative milk production for its own need. Cooperation is based on small family farms, according European standards.

Location: Rakitno, Blidinje
Company: ŠIŠOVIĆ d.o.o.
E-Mail: sisovic@tel.net.ba
Web: www.sisovic.com
Contact person: Ante Pavkovic
Phone: ++387-39-692-391 /692-011
Ownership: Private
Project description: Building of 30 farms in the project Organization of production in cooperation, Forming of mother herd with 18 000 sheep.

Location: Nevesinje
Company: Dairy "GLOGOVAC" Nevesinje,
Tel/Fax: ++ 387 59 602 656
Capacity: 10 000 l/dnevnolitres per diem
Contact person: Glogovac Milivoje, Owner
Ownership: Private
Project description: Production and trade of milk and milk products (high quality cheese "Kačkavalj" and smoke-dried). Search for partnership in cattle raising.

Location: City of Mostar
Company: POMO-STAR d.o.o.
Address: Free zone "Mostar"
E-Mail: pomostar@bih.net.ba
Contact person: Mr. Jean Francois de Lagausie, Managing Director
Tel/Fax: ++ 387 36 577 081
Ownership: Private
Project description: Searching for partnership in production of high quality jams.

Location: Nursery-Banja Luka and Orchards-Brčko
Company: "Linija voća" d.o.o.
Address: Lipovačka 5, Banja Luka
Vuka Karadžića 1, Brčko

Contact person: Prof.dr.Nikola Mičić, Director
Tel/Fax: ++387 65 513 296 i ++ 387 65 210 456.++ 387 65 548 573
Ownership: Private
Project description: Orchard-planting out of fruit-tree and growing of high quality fruits

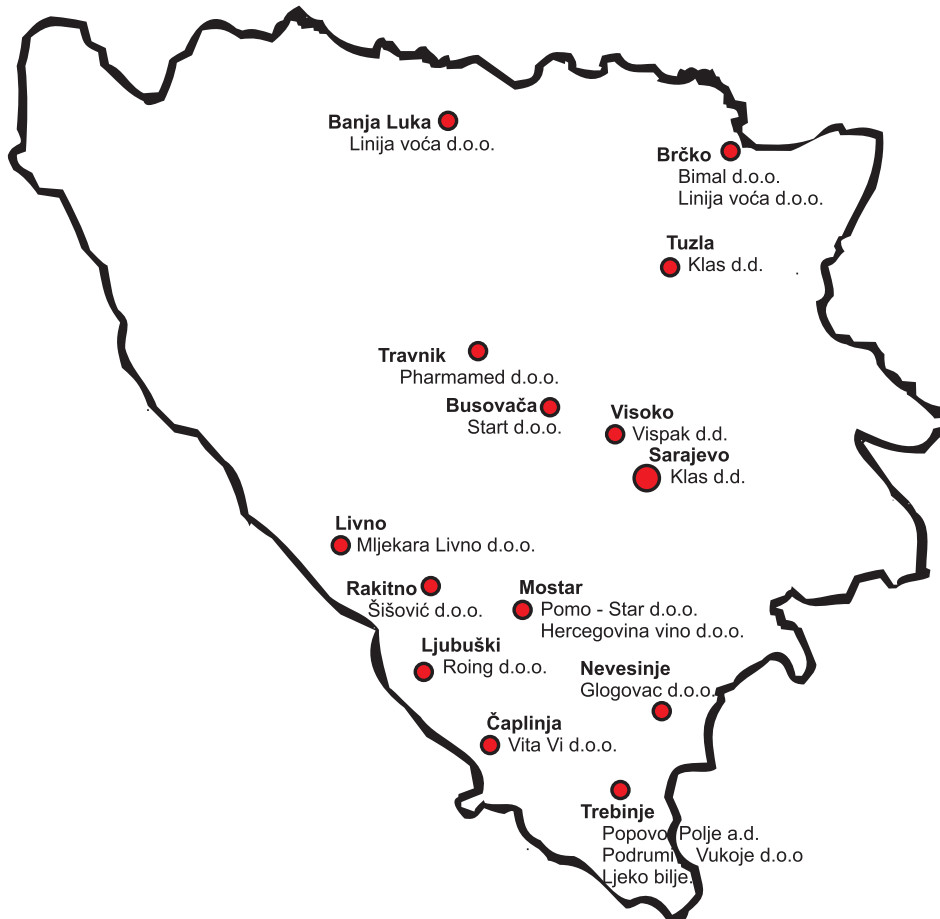
Location: Popovo polje, Trebinje
Company: POPOVO POLJE a.d.
Address: Republike Srpske 37,89101 Trebinje
E-mail: ppolje@teol.net
Contact person: Veselin Savic, manager
Tel.: +387 65 955 823
Ownership: Private
Project description: 400 ha of agricultural land, covered with semi stationary irrigation system. Location is excellent for viticulture production. Before the war, products were exported to western and eastern European market.

Location: Ljubuski
Company: Roing d.o.o.
Address: Sv. Leopolda Mandica bb, 88320 Ljubuski
E-Mail: roing@tel.net.ba
Web site: www.roing.net
Contact person: Nikola Rozic, Stipe Jukic
Tel/Fax: 00387 39 833 098
Ownership: Private
Project description: Primary production of herbs and spices; Production facility building; Establishment of co-operational network

Location: Mostar and Čitluk
Company: Hercegovina vino d.o.o.
Address: Bisce Polje bb ,88 000 Mostar
E-Mail: hercegovina-vino@tel.net.ba
Web site: www.hercegovinavino.com
Contact person: Veselko Čule, General manager
Tel/Fax: ++387 36 351 451 / 352 841
Ownership: Private
Project description: Vineyards – planting and equipping Production and trade of alcoholic and non-alcoholic beverages. Offering famous wines (domestic autochthonous sorts Blatina/red and Žilavka/white)

Location: Travnik
Company: PHARMAMED d.o.o.
Address: Dolac na Lašvi bb
E-Mail: marketing@pharmamed.ba
Web site: www. pharmamed.ba
Contact person: Sead Medanhodžić, Director
Tel/Fax: ++387 30515 005 / 515 007
Ownership: Private
Project description: Processing of medical herbs and honey

INVESTMENT OPPORTUNITIES



Successful story of one foreign investment

"BIMAL d.o.o." Brčko became the biggest edible oil producer in B&H, (even in South- East Europe), after its majority owner, Seed oil holdings from Vienna, invested 20 million KM in purchase and equipment. The Company's production capacity four times overcome B&H market needs (14 million litres) and 3/4 of the production is intended for export.

FIPA - MIGA

FIPA

WELCOME TO THE FOREIGN INVESTMENT PROMOTION AGENCY OF BOSNIA AND HERZEGOVINA (FIPA)

FIPA is a government agency providing free information and contact services for foreign investors evaluating investment opportunities in B&H.

FIPA offers practical assistance at all stages, from initial investment planning to full implementation, to make any foreign investment project in B&H a successful event. All our services for foreign investors are free of charge and on a confidential basis

FIPA provides investors with extensive information related to B&H business environment, especially those about available investment projects, suitable business and co-operation partners from B&H, about attractive companies in privatisation process.

FIPA - MIGA

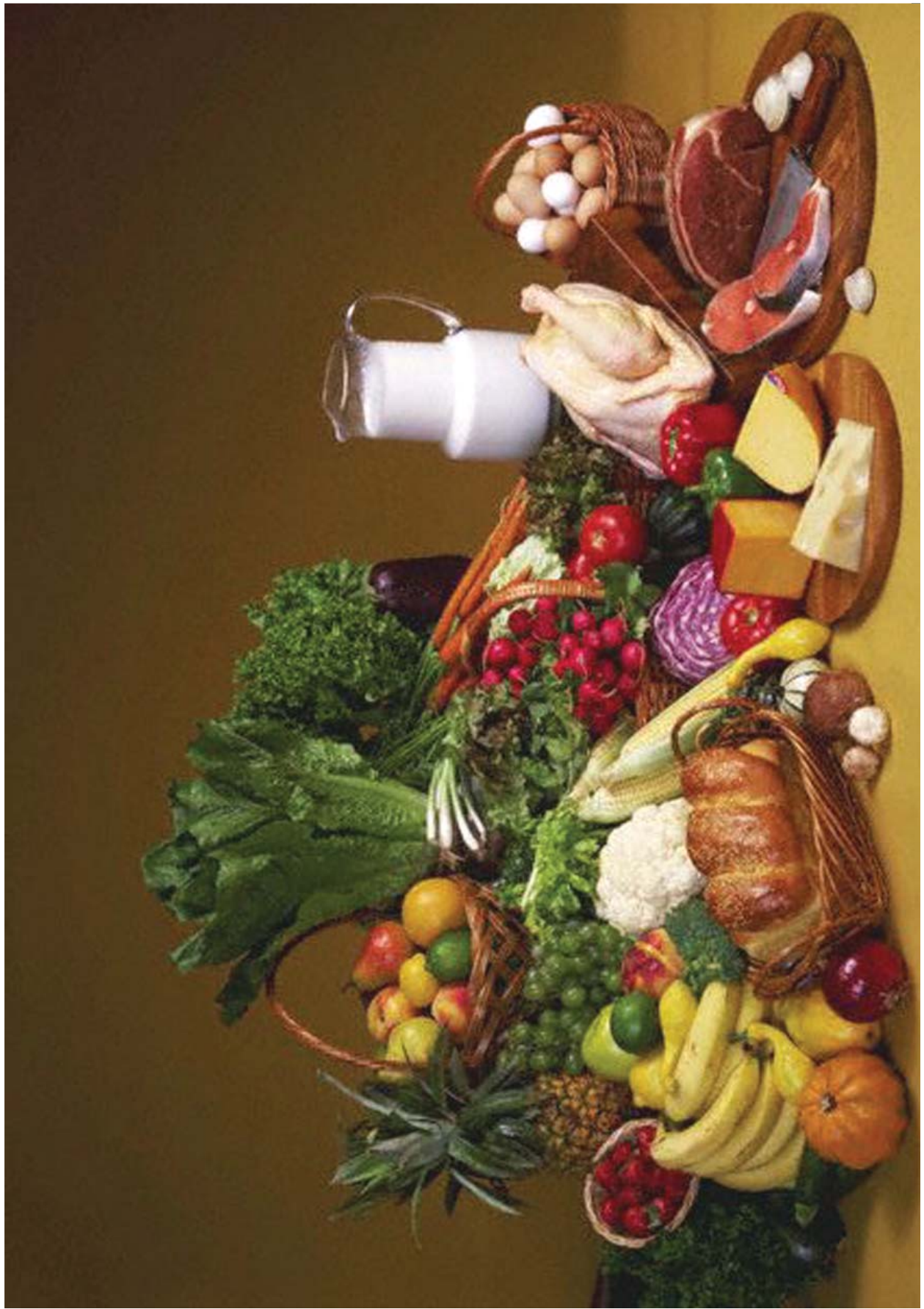
MIGA

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group and promotes foreign direct investment in emerging economies through:

- Political risk insurance:
- Advisory and capacity-building services for investment promotion intermediaries
- Online information on investment opportunities worldwide

It is widely recognized that the investment climate in Bosnia and Herzegovina has improved dramatically in recent years. However, to further enhance investor confidence, attention is drawn to the fact that MIGA can provide political risk insurance, guaranteeing new, cross-border investment, as well as investments associated with expansion, modernization, or financial restructuring of existing project, and acquisitions involving privatisation of state enterprises. For more information, go to: www.miga.org





Welcome to Bosnia and Herzegovina Land of Opportunities



Foreign Investment Promotion Agency - www.fipa.gov.ba