

2010



**MACEDONIAN AGRICULTURE SUBSIDIES
PROGRAM IMPACT AND EFFECTS**

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- *Planning, Implementation Management and Monitoring and Evaluation of donor and/or agency funded Projects;*
- *Assistance in locating the most suitable business partner in Macedonia and business representation in the country;*

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Our ultimate aim is to become reliable "partner of choice" for implementation of donor and/or agency funded Projects.

Disclaimer

This study represents the views of the consultant involved in the study and do not represent the official views of the USAID or ARD.

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List of Abbreviations

GoM	Government of Republic of Macedonia
MAFWE	Ministry of Agriculture, Forestry and Water Economy
SSO	State Statistical Office of Republic of Macedonia
IPARD	Instrument for Pre accession Agriculture and Rural Development
VC	Value Chain
MAASP	Macedonian Agricultural Advisory Support Program
GDP	Gross Domestic Production
FAO	Food and Agriculture Organization
FADN	Farm Accountancy Data Network
CEFTA	Central European Free Trade Agreement
SSA	Stabilization and Association Agreement
WTO	World Trade Organization
NARDS	National Agriculture and Rural Development Strategy
NEA	National Extension Agency

Executive Summary

The Study on the Macedonia Agriculture Subsidy Program was funded by the USAID AgBiz Program and was implemented in the period July – August 2010. The study was implemented by EPICENTAR International supported by an External Expert from the Federation of Farmers of Macedonia. The study is developed based on the EPICENTAR own research methodology consisting of desk research and extensive field interviews with the representatives of the VCs and sub-sectors defined with the methodology of the study. The data related to the Agricultural Direct Financial Support was provided directly by the AFSARD and MAFWE that helped us to base the Study on real updated information.

The main goal of this Study was to evaluate the direct financial support program as one of the main Government tools in improving the competitiveness of the Macedonian Agriculture and improving the access of Macedonian farmers to the market.. The study consists of two main parts, divided in five chapters. The first part of the Study presents the historical overview of the Macedonian Agriculture that, according to us, was necessary in order to evaluate the real impact of the Agricultural financial support program. The second part of the study attempts to analyze the performance of the financial support through the analysis of 16 separate subsectors. The selection of the sectors was in line with the AgBiz Program area of support. At the same time, we made an effort to cover sectors that present a fair picture of the performance of the direct financial support program. The covered sectors gave us an opportunity to draw conclusions based on positive and negative cases in each of the covered subsectors.

The key findings of the study are described in the last chapter of the Study but as a main conclusion we can wrap up:

There is no correlation between the National Agriculture and Rural Development Strategy (NARDS) and the Financial Agriculture Support Program. The Financial Agricultural Support Program is not based on the NARDS and there are no direct connections between NARDS and the direct financial support program. Even if we agree that the main use of the direct financial support to large extent is a social measure, still considering its size and main purpose, it can be used as a main tool for improving the competitiveness of the Macedonian Agriculture through a careful selection of measures connected with long-term strategies for improvements of the Macedonian Agriculture. For this reason the developed measures should correspond to the NARDS and directly contribute towards improving the competitiveness of the Macedonian Agriculture. The one-year term of the agriculture financial support programs limit the possibility for planning the production several years in advance, which has a negative impact on the competitiveness of the VCs.

Absence of monitoring indicators for the subsidies program. The financial agriculture support program does not have any monitoring indicators, or adopted monitoring scheme, where the relevant institutions could follow the implementation of the measures. The absence of formal set of indicators can be only explained as a result of limited planning of the support measures. Other problems besides the non existing indicators include the availability and the systematic approach of creating, maintaining and using the data. The preparation of this study has once again shown that even though the specific institutions for the maintenance of data exist, still most of the data are not organized in the ready-to-use format, or they are neither available nor analyzed. This is one of the crucial problems, as the appropriate planning and follow up are only possible if the indicators exist, the data are available and the monitoring mechanisms work.

The recommendations go in line with the key findings and are oriented towards the creation of a more sustainable, strategy based agricultural support system, which will have its own monitoring and data providing appropriate planning. The subsidy program should make prioritization and focus on strategic crops and should have long-term measures for the replacement of old varieties in making the agriculture more competitive. The whole system should have its own long-term timeline which will be in accordance with the specific sub-sectors season and correspond to the developed NADS.

The study is an attempt and effort to analyze the data available related to the agriculture subsidy sector. The results and key findings in combination with the recommendation should be considered as suggestions of good will to maximize the efficiency of the funds dedicated to the subsidies in creating more competitive, export oriented and high valued agriculture.

1. Objectives and methodology

a. Specific Objectives

The specific objectives of the assignment consist of:

- Determination of the impact of the GoM subsidy program over the last five years on the export competitiveness of export-focused agriculture-based VC's, especially the AgBiz supported VC's;
- Determination of the impact of the GoM subsidy program on imports of agriculture-based products;
- Specific recommendations for modifications in the MAFWE subsidy program that would support the enhanced competitiveness of export-focused value chains, especially the three supported by AgBiz;
- Specific recommendations for enhancing and coordinating the private sector with the Department for Analysis of the Agriculture Policies dialogue for enhancing the subsidy program as related to export competitiveness;
- Recommendations for future AgBiz support to each of the supported VCs related to the subsidy program optimization for enhanced export competitiveness.

b. Methodology

The methodology of this assignment was used on a sample defined and agreed with the AgBiz Program, which consisted of the several VCs supported by the AgBiz Program and additional five products which have a significant participation in the total subsidies value.

Based on the previous analysis of the existing GoM subsidies program, the overall effects and impacts, stated and elaborated in specific reports and documents, supported by the statistical data, of five most important sub-sector covered by the GoM financial agriculture support program measures were included in this research.

In addition, according to the AgBiz program focus, the addressed five value chains were included in the research analysis, in order to identify the effects and impact of the subsidy programs on the five most important export oriented value chains.

EPICENTAR considers the selection of the ten sectors for analysis in the frames of the subsidies program as relevant and viable sample, where the analysis will provide adequate, specific and realistic results. The conclusions made and the recommendations defined will refer to the overall agriculture sector, to the subsidy program as a whole and to the targeted VCs specifically. The targeted VCs will be used as a sample where, based on deduction and variety of key findings, the overall conclusions will be made. Using this approach we will be able to secure objective and realistic analysis that will be based on facts and findings used as a ground for drawing the recommendations.

The methodology used consisted of 4 phases, in accordance with the RfP and SoW of this assignment:

1. Preparation Phase

The first phase of the assignment was used for making all the necessary preparations for effective and quality implementation of the next phases of the assignment. Therefore, EPI Centar Consulting Team has made a list of export-focused VC's selected for review and a list of stakeholders to be interviewed. The lists were developed in accordance with the recommendations from AgBiz as well as other relevant information from previous research and evaluations of the agricultural VC's and the Macedonian agri-business sector. Once the lists were completed, the team established initial contacts with the selected stakeholders to be interviewed and scheduled the visits.

II. Desk Research

The Desk research phase entails extensive and multidisciplinary research of all relevant sources that deliver all the necessary background information and statistical data for further analysis and evaluation of the export competitiveness impact of subsidy programs over the last 2 decades, focusing on the last 5 years.

Thus, the desk research included research and review of the legal and regulatory framework and relevant documents of GoM, including The Law and Program for rural development of R.M, the strategy for the development of the agriculture of the R.M (1995-2010), EU Common Agricultural Policy, programs, methodology and procedures of GoM subsidy programs, etc.

Additionally, the desk research entails gathering and analysis of statistical data regarding the impact of the subsidies on the export competitiveness of the selected VC's, focusing mainly on statistics concerning import and export. Accordingly, the data for agricultural production and sizes of agricultural plots of land used will be also considered, but only as reference values. In general, it is evident that the quality of the data has improved over the years, which in a long run is very good, but it is also a challenge in the process of comparing the data with the previous years. The data from the last five years' period in all areas have improved and the methodology of calculation has been unified. The data from the previous years should be taken with a reserve, as they are received under different methodological approaches. Only the data for export-import should be taken as correct, as both the source and the calculations are permanent in the whole ten year period. The strongest reserve should be on the production price and price margins, as in most of the cases the comparison of these data (especially production price) with the export price illustrates problems, where the production price is higher than the exported one. This, in some cases, is due to the realistic problems of not calculating some of the elements in the production price (like manpower hours), or in some cases it is due to the non-reliable data from the field, which was used as an official source of information. In all of these cases, during the elaboration of the study, efforts have been made to come to the most realistic data as close as possible and use them in a proper manner.

The qualitative and quantitative information was collected from the relevant experience of the governmental agencies dealing with agricultural subsidies, as well as, international donor organizations engaged in the same issue. The experiences from the national Payment agency, The National Extension Agency of R.M. – Bitola, MAASP reports, reports from the AgBiz Program, and other relevant agencies and organizations dealing with the support of the agricultural sector in Macedonia have been used. Last but not least, all governmental subsidy programs, specifically in the last 5 years, were thoroughly reviewed, including the respective methodologies, strategies, and procedures, type of beneficiaries, implementation reports and ongoing activities. It is important to mention that EPICENTAR International had a very open and effective cooperation with the National Payment Agency and the Ministry of Agriculture, Forestry and Water Economy. EPICENTAR has made great efforts to collect as many data as possible related to last ten year period subsidies from all state institutions responsible for the maintenance of these data. However, due to the lack of coordination among institutions, intra-organizational issues and non-availability of the data in a ready-to-use format has limited EPICENTAR International in collecting, analyzing and elaborating all the

data available for the subject of this study. It should be underlined that the limited availability of the quantum of data did not prevent EPICENTAR from making an appropriate analysis and definition of the recommendations, but it impoverished the study for some of the data from the older period. On the other side, specifying this problem, it should be made clear that the data should be made more available and easily accessible by any interested party, as these are public data and their maintenance should be a crucial and focal point of any long-term strategic or operational planning in the agriculture.

This phase of desk research was implemented in close cooperation with the MAFWE's Department for the Analyses of Agriculture

III. Field Research & Analysis

The field research was organized based on the desk research results and the AgBiz program focus on the specific sub-sectors. EPICENTAR based on its own methodology and the experience in this area, developed a specific questionnaire that was used as a tool to collect the data from the interviews. In line with the objectives of the assignment, EPICENTAR implemented around 20 field interviews and focus group discussions with the representatives of the most important sub-sectors in the state subsidy program and the five sectors from the AgBiz program focus. The primary producers involved in the interview process and focus group discussions were selected and co-organized with the Federation of Farmers in the Republic of Macedonia. The sub-sectors for field research were selected in two ways:

- *First*, based on the analysis of the existing GoM subsidy programs in the agriculture, reports, governmental and donor sponsored reviews and reports in this area, as well as the statistical data related to the effects of the subsidies in terms of export/import and production data, five most important sub-sectors were selected for field research.
- *Second*, based on the AgBiz program focus, the addressed five value chains were taken for further field research analysis, in order to identify the effects and impact of the subsidy programs on the five most important export oriented value chains. EPICENTAR in cooperation with AgBiz program selected three representatives from each of the five value chains supported by the program. Two of these representatives were from the processing industry (business sector) and the third was a representative of the primary producers (preferable association).

Additional interviews were organized with the most important institutions, organizations in the area of agriculture, addressing this issue. For this reason, EPICENTAR identified and interviewed the following five entities:

- Agency for the Financial Support of Agriculture and Rural Development
- Ministry of Agriculture, Forestry and Water Economy
- Federation of Farmers in the Republic of Macedonia
- Agriland (Governmental Company for export in agriculture).

The totals of 25 interviews were organized throughout Macedonia, covering all of the eight regions in the country, with the most appropriate representatives in all of the selected sub-sectors. During this research EPICENTAR followed its own methodology for the implementation of field interviews based on a questionnaire that was developed in such a way as to cover all the relevant information related to the impact of the subsidy program in general, and

specifically to the AgBiz program sub-sectors. Some of the questions were reviewed from different angles in order to get a clear picture of all elements related to the subsidies. The questionnaire was developed in a way that helped the interviewer direct the discussion with the different representatives, each of the interviewers collected additional information given by the interviewee during the discussion which did not belong to the defined questions, but which was important for the overall process. It usually refers to the attitudes of the interviewees related to certain policies, their planning and implementation. Besides the interviews on the field, 5 telephone interviews with the main representatives of the business sector in all of the targeted VCs were implemented, that gave us additional information and recommendations related to the subsidy program.

All the data collected from the field research were verified, analyzed and elaborated in specific result-oriented tables and charts, which were used for defining the key findings and recommendations. The field interview process on each of its implementation levels (selection of sub-sectors, identification of interviewees, definition of a questionnaire, implementation of the interviews, analysis of the data, elaboration of key findings, drafting recommendation) is in line with the AgBiz program efforts, providing the necessary practical, result-oriented, clear and focused information that will support the AgBiz program in further planning and implementing its activities.

<i>Phase</i>	<i>Based on</i>	<i>Resulting in</i>
selection of sub-sectors	<ul style="list-style-type: none"> AgBiz program focus Results of desk research (statistical data related to export/import and production) 	<ul style="list-style-type: none"> 5 AgBiz VCs Additional 5 sub-sectors
identification of interviewees	<ul style="list-style-type: none"> AgBiz Clients Database EPICENTAR Agribusiness Database FFRM data base 	<ul style="list-style-type: none"> 15 AgBiz focused sub sectors 5 other sub-sectors 5 institutions and organizations
definition of a questionnaire	<ul style="list-style-type: none"> EPICENTAR methodology in line with the AgBiz program interest 	<ul style="list-style-type: none"> One questionnaire
implementation of the interviews	<ul style="list-style-type: none"> EPICENTAR experience, clear and focused approach 	<ul style="list-style-type: none"> 25 meetings
analysis of the data	<ul style="list-style-type: none"> Unified, detailed and comparable methodology 	<ul style="list-style-type: none"> Software based
elaboration of key findings	<ul style="list-style-type: none"> Result-oriented tables, graphics and paragraphs 	<ul style="list-style-type: none"> Excel data
drafting recommendation	<ul style="list-style-type: none"> Practical, focused for further planning and implementation 	<ul style="list-style-type: none"> At least five specific recommendations

Phases in the field research

2. Macedonian Agriculture

a. Macro economy and agriculture/agribusiness

i. *Present macroeconomic state and industrial development*

Until recently, the economic growth accelerated fueled by continued structural reforms and prudent macroeconomic policies of the Macedonian Government. As given in the World Bank Report in March 2009,¹ the following observations describe the macroeconomic situation in the country:

- The Government's structural reform program focused on improving the investment climate through regulatory reform, liberalization of the banking and telecommunications sectors, and anti-corruption activities;
- Monetary policies were tightened in 2008;
- Fiscal policy turned sharply expansionary in late 2008 after several years of fiscal prudence;
- The recent fiscal expansion raises concerns given the rapidly deteriorating current account deficit and the historic global financial crisis and economic downturn

According to the Emerging Europe Monitor, ² the industrial production decreased by 0.4% in May 2010 compared to the previous year, according to the latest data from the State Statistical Office. Manufacturing activity - which was hit hard by the economic downturn - decreases by 5.3% y-o-y. The number of employees in industry lowered by 6.5% y-o-y in the same month. The industry is expected to recover in the second half of the year, targeting 3.0% growth in 2010. As the economic recovery accelerates from 2011, the industrial output growth should average between 5% and 6% annually.

After a long period of insufficient support to the agriculture, for the first time in years a decision has been made to heavily support the agriculture with a larger amount of money that reached 100 mill. EUR for 2010. This is a historic moment for the agriculture in the country as this large amount of money can make an important difference in the development of the sector.

ii. GDP

The real GDP growth has an index of 1,7 % in 2007 and - 0,8 % in 2008. The real GDP growth for 2009 was projected at 3,0 %, while for 2010 it is projected at 2,3%³. The following graphs sourcing from the State Statistical Office from 2009 illustrate the real GDP growth rate in the last 12 years as well as the annual inflation rate. The inflation rate has been modest in the country while the growth rates have been positive and the unemployment has stayed on a high level.

¹ Report No.47759-MK, International Bank for Reconstruction and Development and International Finance Corporation, country Partnership Strategy Progress Report for Former Yugoslav Republic of Macedonia for the period FY07-FY10, March, 2009

² <http://www.emergingeuropemonitor.com/file/7560/south-east-europe.html>

³ World Bank estimations, and of the reliable sources of National Statistical Office, Ministry of Finance, www.worldbank.org

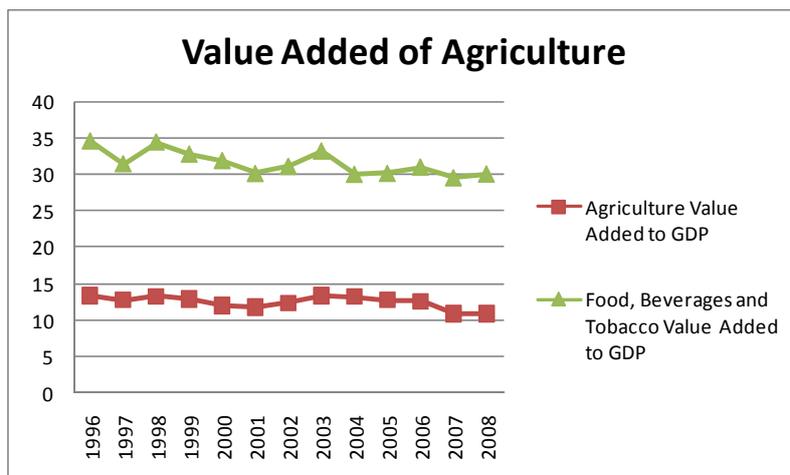


Chart 1: Value Added to Agriculture in percentage
Source: FAO, 2009

iii. Value Added to GDP by Agriculture

The value added to GDP by Agriculture, presented in the chart above, sourced from State Statistical Office in 2009, illustrates a change in the value added by the food and tobacco industry after 2004, which can be considered as a real decline, especially related to the tobacco industry. The participation of the agriculture value added is permanent with slight changes and it is around 11%. Two thirds of the agricultural value added to GDP is from the crop production and one third is from the livestock production (STAT, 2009).

iv. Unemployment and labor in Agriculture

At present, the unemployment rate is 33,5% and has a decreasing trend since 2005; however, it is still very high. Unemployment stays as one of the most important problems of the Macedonian economy, where the Government of Macedonia puts a lot of efforts and takes different measures to decrease it; however, the process remains difficult and very low effective, mainly due to limited investments.

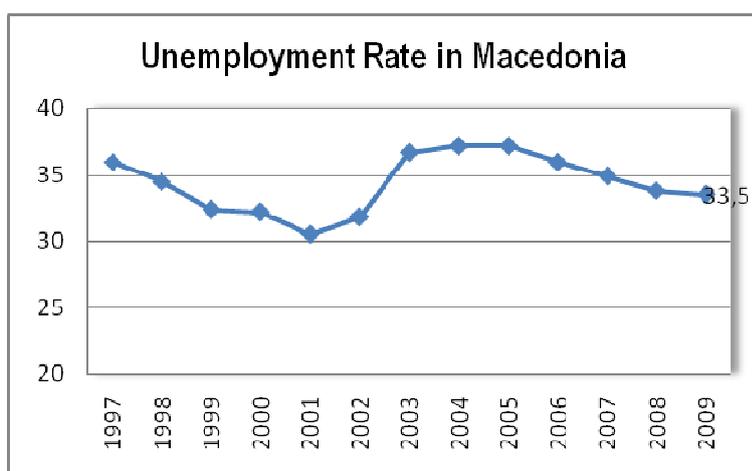


Chart 2: Unemployment Rate percentage in Macedonia
Source: World Bank Database, 2010; data.worldbank.org/country/macedonia-fyr

The participation of the agriculture employment after 2001 seems to show that the labor force in the agriculture is decreasing. During the 1990s when restructuring took place in the state owned enterprises and industries the trend was slightly positive while the period after 2001 shows quite a flat trend when the GDP shows stable, but non-accelerating growth rate.

The agriculture labor force is significant since it accounted for about 18% of the total labor force in 2009, when the value added to GDP by the agricultural sector was around 12%. The sector provides social security for unemployed labor when industries have closed down. The increased efficiency in the agricultural sector today will result in new social and economic changes. The agriculture sector in general is one of the areas where the employments in most of the cases are not registered. There are a lot of people that work in this sector and due to the non-registration of their business or non-registration of their own employment in general, there are not precise or realistic data on the sector employment and impact on the overall employment.

Participation of agriculture employment in the total employment without the post harvesting agribusiness								
Year	2002	2003	2004	2005	2006	2007	2008	2009
%	23,9	22	16,8	19,5	20,1	18,2	19,6	18,5

Table 1: Participation of agriculture employment in the total employment
 Source: World Bank Database, 2010; data.worldbank.org/country/macedonia-fyr

MACEDONIAN AGRICULTURE OVERVIEW FACT SHEET

Indicator	Index/Figure	Global position
Agricultural growth	100	[101st of 149]
Agricultural land as % of land area	48.84 % of land area	[29th of 198]
Agricultural land in sq. km	12,420 sq. km	[57th of 198]
Agricultural land in sq. km (per capita)	6,106.015 sq. km per 1,000 people	[24th of 199]
Agricultural machinery > tractors	54,000	[53rd of 190]
Agricultural machinery > tractors (per capita)	26.648 per 1 million people	[12th of 190]
Agricultural machinery > tractors per 100 hectares of arable land	954.06	[19th of 188]
Agricultural raw materials exports > % of merchandise exports	0.78 %	[75th of 154]
Agricultural raw materials imports > % of merchandise imports	1.31 %	[60th of 155]
Agriculture, value added > current US\$ (per \$ GDP)	109.378 \$ per \$1,000 of GDP	[73rd of 182]
Agriculture, value added > current US\$ (per capita)	310.065 \$ per capita	[44th of 182]
Arable and permanent cropland	599 thousand hectares	[118th of 148]
Arable land > % of land area	22.26 % of land area	[31st of 199]
Arable land > hectares	566,000 hectares	[57th of 199]
Arable land > hectares (per capita)	278.261 hectares per 1,000 people	[25th of 200]
Cereal production	100 thousand metric tons	[101st of 149]
Crop production index	104.4 %	[109th of 182]
Fertilizer use per ha	76.3 kg	[52nd of 138]
Irrigated land > % of cropland	8.99 %	[79th of 164]
Labor share	12.1%	[106th of 149]
Land under cereal production > hectares	201,200 hectares	[121st of 176]
Land under cereal production > hectares (per capita)	98,915.47 hectares per 1,000 people	[61st of 177]
Livestock production index	109.3 %	[62nd of 181]
Meat production	37 thousand metric tons	[129th of 149]
Meat production (per capita)	0.0180929 thousand metric tons per	[83rd of 149]
Meat production growth	0%	[115th of 149]
Permanent cropland > % of land area	1.81 % of land area	[33rd of 187]
Root and tuber production	165 thousand metric tons	[118th of 149]
Value added	10.88	[89th of 158]
value added > annual % growth	3.06 %	[64th of 164]
value added > current US\$	630,691,600 \$	[101st of 172]
value added > current US\$ (per \$ GDP)	109.378 \$ per \$1,000 of GDP	[73rd of 182]
Workers per hectare	0.2	[102nd of 148]

Table 2: Macedonia Agriculture, Fact Sheet

Source: FAO, Country profile of the agriculture statistics 2008

The agriculture overview fact sheet prepared by FAO illustrates that the global position of the agriculture growth in the Republic of Macedonia in 2008 was relatively small, as the country is on 101st position out of 149. Macedonia can

be considered as an agriculture country since around 49% of the land is agricultural, which puts the country on 29th position globally. The highest ranking is on the agricultural machinery (tractors) per capita, where the country is on 12th position which shows on the other hand that there is excessive investment in the tractors . (The worst ranking relates to **livestock production, namely, cereal production** (121st position) and meat production (129th position). On macroeconomic level, according to the participation of agriculture in the GDP, the country is on 73rd position out of 182.

b. Present agriculture/agribusiness overview

i. Arable land and farms

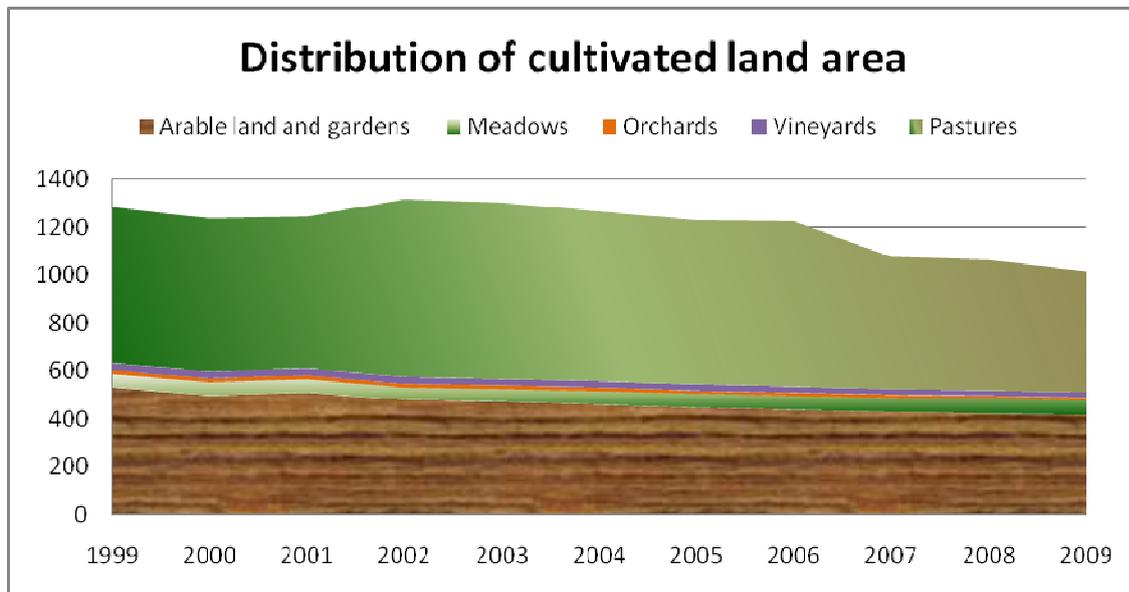


Chart 3: Structure of the cultivated land area
Source: State Statistical Office 2009

The total area of cultivated land decreased between 1999 and 2009 as illustrated in the graph above. Arable lands and gardens decreased from 534.000 ha (1999) to 420.000 ha (2009) while the meadows increased from 54.000 ha (1999) to 58.000 ha (2009), the orchards decreased from 17.000 ha (1999) to 14.000 ha (2009), the vineyards decreased from 28.000 ha (1999) to 21.000 ha (2009), and the pastures decreased the most from 649.000 ha (1999) to 500.000 ha (2009).

This decrease illustrates that the agriculture land in general is becoming smaller in its size, where besides the external factors like urban and spatial planning, increase of the protected land (part of it agricultural) and change of the use of land for other purposes, there is the realistic concern for the agriculture development, especially when it concerns the decrease of the vineyards and orchards. *The general first impression is that besides the large financial intervention of the Government in the agriculture sector through different programs and measures, it is still very early to describe their effects in relation to the negative trends of the agriculture sector in the last ten years.*

The agricultural products in Macedonia are produced mainly by small farms. The size structure of agricultural holdings in Macedonia according to the study "COSTS AND INCOMES OF FAMILY FARMS IN MACEDONIA IN A FADN COMPATIBLE ACCOUNTING AND INFORMATION SYSTEM"⁴, almost one-half of the farms belong to the

⁴ Martinovska-Stojcevska, 2009, http://www.agriculturaita.czu.cz/pdf_files/vol_42_3_pdf/martinovska.pdf

economic class of very small farms according to EU standards. The class of small farms, ranging from 4 to 8 ESU⁵, covers 37% of the surveyed farms. The economic class of medium-low farms (8–16 ESU) is represented by 14% of the holdings, while only 4% belong to the class of medium high-sized farms (> 16 ESU).

ii. *Export Import Data*

Agricultural products have a 14 % share of Macedonian exports mainly including wine, fruits and vegetables, and a 12 % share in imports mainly made up by cereals, meat and sugar (SSO, 2008). In the following graph the value and quantity of export-import of the 20 top export and import goods among agricultural products are illustrated.

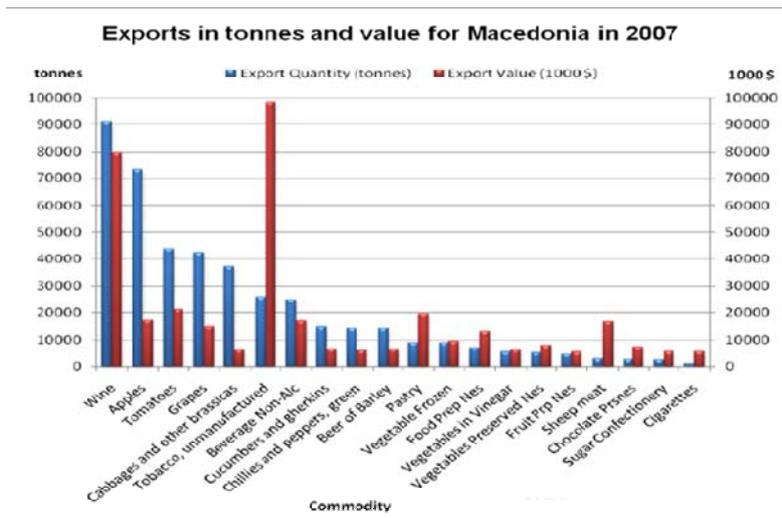


Chart 4: Export in tones and value for Agriculture in Macedonia in 2007
Source: FAOSTAT, 2008

The 20 main export goods in 2007, SSO 2008, shown in the graph above show that the quantity of wine and apple exports are dominant and the value of unmanufactured tobacco followed by wine are dominant in value. The following goods with quite similar values among the unprocessed agricultural goods are tomatoes, apples, lamb meat and grapes.

⁵ The economic size of farms is expressed in terms of European Size Units (ESU). The value of one ESU is defined as a fixed number of EUR/ECU of Farm Gross Margin.

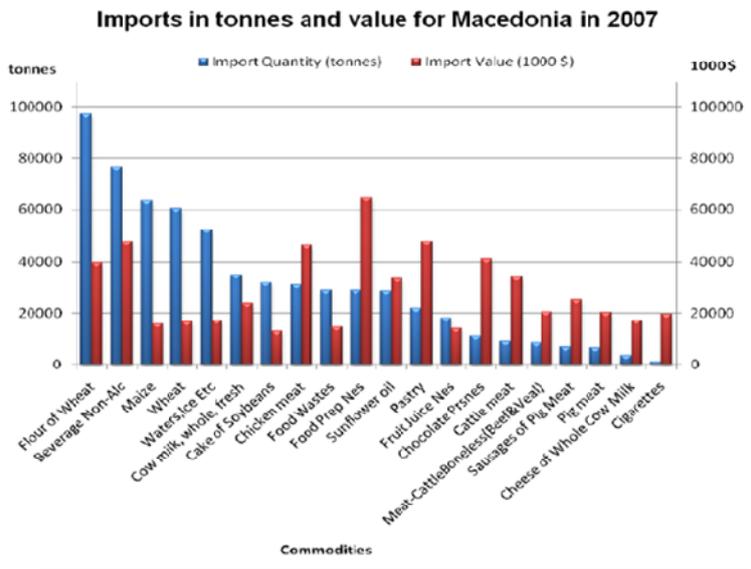


Chart 5: Export in tones and value for Agriculture in Macedonia in 2007
Source: FAOSTAT, 2008

The above graph shows that the imports are made up by more processed goods than the exports and they have higher import values. Wheat flour and non-alcoholic beverages are imported in the largest quantity while prepared food not elsewhere specified, non-alcoholic beverages, chicken meat and pastry have the highest values. Both exports and imports of agricultural and food products have increased during the 2000s but the negative trade balance has not changed as presented below. In this graph, Source from the SS, 2008, the trade volumes increased and the macroeconomic indicators did not change dramatically during the years 2005-2008.

iii. *Trade in the agriculture and food processing sector in Macedonia*

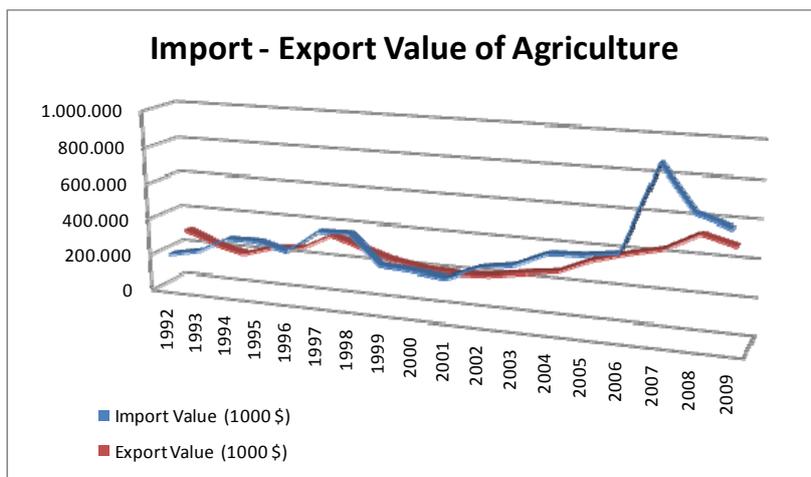


Chart 6: Import-Export Value of Agriculture
Source: State Statistical Office 2009

The trade with the European Union has a large share in Macedonian exports and imports today with a 47 % share in exports and a 60 % share in imports (EUSTAT, 2009). Agricultural exports and imports are about 40 % realized by trade with the EU (Ministry of Finance, 2010, www.finance.gov.mk). Trade with the EU is regulated by the “Interim Agreement” which came into force in 2001 as part of the “Stabilization and Association Agreement” between the EU and Macedonia (EU, 2001). The current agreement between the EU and Macedonia governing the overall relationship between the two parties is the Accession Partnership with the most recent update done in 2008 (Ministry of Finance, 2009). Gradual decline of tariffs and other trade barriers between Macedonia and the EU were decided for some agricultural products and some processed agricultural products; meanwhile, goods without exceptions were to be facing zero tariffs according to the SSA (Ministry of Finance, 2010, www.finance.gov.mk). In the trade policy alignment part of the EU regulations to be adapted, Macedonia mainly has individual market measures left to implement, which will happen during the accession, since the Stabilization and Association Agreement (SSA) has enforced most of the other required measures.

Trade with the Western Balkans and the Central European states was regulated by a large number of bilateral agreements previously, which now have been transformed into the Central European Free Trade Agreement (CEFTA) with Macedonia as a member since 2006. The CEFTA has been gradually implemented in the member countries and all former agreements will be fully replaced by the CEFTA in 2010. The Western Balkans is the most important agricultural product market for Macedonia absorbing 50 % of the agricultural product exports and sending 30 % of the agricultural product imports (SSO, 2010, www.stat.gov.mk). Regional trade relations increase competition in the domestic market of Macedonia which encourages improved product quality and consistency in supply. The main export goods are tobacco and wine, followed by tomatoes and lamb (STAT, 2008).

There is a need for increased investments in the country to create GDP growth and due to the recent international financial turbulence it may have to come from national sources. The food processing industries are an example of where technologies need to be updated to support increased trade. The awareness of the need for quality production has to increase to improve supply chains and production of raw materials. The production chain improvements need to be supported by the availability of financing, with micro loans, contracting and trade.

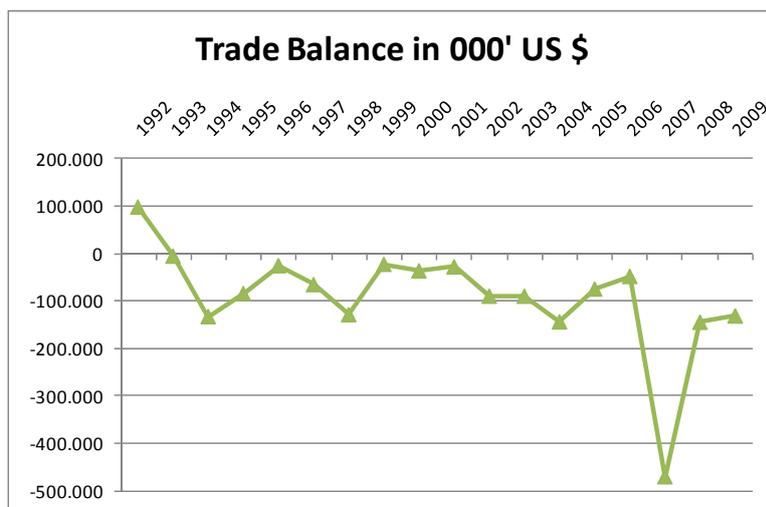


Chart 7: Trade Balance in Agriculture in 000' US \$
Source: State Statistical Office

The trade difference in agriculture from 1993 onwards has a negative trend, reaching a deficit of around 100.000.000 US \$ in 1994. The deficit was decreased in the period from 1994 to 1996 when another strike to the trade balance put the deficit again to the level of 1994. There is a slight increase of the export in relation to the import in the period till 2002, when the negative trend continued again. The most critical year for the Macedonian agriculture export was 2007 when the deficit increased drastically towards 500.000.000 US \$. The recovery started in 2008. Still the trade balance in 2009 was high (deficit of 131.516.000 US \$).

This trend describes the position of the Macedonian agriculture sector within the overall export market frames. The competitiveness of the agriculture products decreased during the period of almost 20 years, when at the beginning of the 90's, Macedonia was still for around 100 mill US \$ in surplus of the agricultural trade. The years after, the import was growing in line with the domestic consumption, but the agriculture sector became less competitive than the same sectors in the region.

It is important to notice that even the subsidies were re-introduced in 2006 with a much higher amount of money for support, still the negative trend continued, and reached its worst misbalance in 2007. The expectations and projections as of the data from 2008 and 2009 are that the sector is slowly recovering from the point of view of the foreign trade perspective.

3. National strategy and policy

a. National policy frame and strategy for the development of agriculture

Agricultural policies developed after the independence has been dominated by market interventions as tariffs and price support measures. A shift towards more liberalized agricultural trade policies in line with EU and WTO demands has resulted in strategies for agricultural development which focus on competitiveness, food quality, sustainable use of resources and rural development.

The market support measures are still used but a farm level investment support scheme under the rural development plan part controlled by MAFWE was established in 2004. MAFWE received the role to manage and to be the national coordinative body for rural development policies and pre-accession rural development funds, by the Macedonian government in 2005. One challenge is to absorb as much pre-accession funds as Macedonian actors are eligible for in the frames of the existing approved and adopted IPARD 2007-2013 Program.

The Republic of Macedonia has adopted the National Strategy for Rural and Agricultural Development 2007-2013 that should serve as a basis for any national policy and definition of measures in the support of the agricultural sector.

b. National Agricultural and Rural Development Strategy 2007-2013 (NARDS)

The National Strategy for Rural and Agricultural Development 2007-2013 (NARDS) has two interlinked purposes⁶.

⁶ Agriculture Sector in the Republic of Macedonia-Current situation and development perspectives, Sasho Kjosev, PhD, Faculty of economics, Skopje; <http://feaa.ucv.ro/RTE/012-16.pdf>

The first is to provide the Macedonian Government (and, in particular, the Ministry of Agriculture, Forestry and Water Economy - MAFWE) and the stakeholders (rural dwellers, farmers and their associations, producer groups and processors) with a multi-annual reference material – strategy and a tool for the development of Macedonian agricultural and rural areas.

The second is to establish a base for supporting the drafting of the hierarchically lower level agricultural and rural development operational plans, in particular the Instrument for Pre-Accession for Agricultural and Rural Development (IPARD) Plan, and to discuss these issues with the European Commission.

MAFWE has adopted the following strategic objective:

“To strengthen the ability of the Macedonian agriculture to compete in the integrated regional markets of the European Union and south-eastern Europe through measures to increase the efficiency of the agricultural production, processing and marketing, and to build appropriate, effective public and private institutions; to improve farm incomes; to ensure that consumers have access to safe, healthy food; to optimize the use of scarce land, forest and water resources, in an environmentally sustainable manner; and to build viable rural communities through sustainable rural development”.

To achieve the stated strategic objective, six strategic policy focal issues should be addressed during the period (2007-2013), which are outlined below by MAFWE in the strategy are:

1. Increase Agriculture sector competitiveness by enhancing the efficiency of the key factors of production, namely, land, labor and capital, and improving agricultural support policies and **the modernization of the processing industry.**
2. Improve structural linkages of the agricultural sector through a more structured horizontal and vertical integration, in line with EU requirements.
3. Achieve Food Quality and Safety through increased control and appliance of food safety systems (both on production and processing levels) and increased quality of plant and animal products.
4. Achieve sustainable resource management in an environmentally acceptable manner.
5. Improve living conditions in rural areas through the improvement of the physical infrastructure, favoring of creation of off-farm employment and income generation opportunities, and through diversification of agricultural production.
6. Reform the regulatory and institutional framework in the key areas of food safety, veterinary, phytosanitary, seeds and propagating materials and animal nutrition; Common Markets Organization and Rural development (by establishing enabling legislation and administrative structures that are capable of rural development planning, identifying the structural needs in rural areas, the development, implementation and management of rural development programs; control of financial flows and measures undertaken; monitoring, reporting, control and evaluation of programs).

Apart from the scientific-research institutions (for which the provision of agricultural advisory services is a limited and supplementary activity), the main publicly mandated bodies are the National Extension Agency (NEA) that provides advice nationwide to farmers as its primary activity, and the MAFWE which carries out some activities in this field.⁷

The existing strategy for the development of agriculture (NARDS) in practice does not represent a basis on which the financial support to the agriculture within the different measures is defined. There is some connection within the agricultural sector, but in overall the strategy is not translated into operational support program where the measures follow the strategic and specific objectives. The agricultural financial support program should serve as one of the tools in the development of agriculture, and should fully correspond to the strategy. Only in that perspective the strategy would serve as a practical document which describes, analyzes and plans the development in the sector. As these associations (between the strategy and the financial support program) are poor or non-existing, the follow up on the effects of the specific tools, measures for support cannot be organized, or if organized it does not lie on realistic indicators. In that manner the decisions for support of the agricultural sector are purely political and not based on the sector analysis and needs. This does not mean that there are no effects or impact of the measures implemented in the development of the sector. On the contrary, the development can be seen and realized, but there still remains the question whether that is the right way to the development foreseen with the strategy.

c. Financial support to agriculture (Direct subsidies)

The financial support to agriculture (direct payments, or so called subsidies program), is one of the main activities of the Macedonian Government for support of the development of the agriculture. This type of supporting the agriculture started a decade and half ago, but it was not systematically approached until 2006 and onwards.

The financial support to the agriculture is based on the annual programe proposed by the Ministry of Agriculture, Forestry and Water Economy (MAFWE) and approved by the Government of the Republic of Macedonia. MAFWE prepares the programe, taking into account the present agriculture situation, the labor involved in each of the measures of support and the overall (potential) impact of the measures in the previous years. The process of preparation of the Programe is not very clear and varies from year to year in terms of values of support and criteria. The measures in the last several years are similar and consist of:

- financial support for crop production
- financial support for livestock production
- financial support for organic production
- financial support for alternatives and non-traditional products
- financial support for market oriented producer organizations
- financial support for safety and quality standards implementation

⁷ IPARD programe for the Republic of Macedonia 2008-2013

- financial support for the rural population in the specific areas
- financial support for the development of water economy
- Fishing and aquaculture
- other general measures
- other specific measures

During the elaboration of the proposal of the program for financial support of the agriculture, MAFWE realizes round table discussions with the relevant stakeholders in the agricultural sector such as faculties, science agricultural institutions and representatives of the farmers (farmers' organizations). MAFWE in the process of preparation of the financial support program to agriculture asks for proposals from all relevant institutions and organizations. In most of the cases there are no proposals by most of the invited stakeholders to submit. In case any proposals are made, the experiences in practice show that they are rarely taken into consideration. However, the process has advanced in the last few years and there have been some changes in the measures as a result of the active proposals by some stakeholders⁸. The proposals and suggestions of these organizations are taken into account during the finalization of the program, what was not a practice several years ago.

The criteria vary and depend on the measures. In most of the cases, the criteria are linked to the production area, number of heads per farm or kg/liter of product sold. The specific numbers linked to the criteria are also changing from year to year. There is a low level of consistency in terms of criteria, as they are not based on any specific information about the average break out of the product per farm. In most of the cases this was stressed out by the farmers as a problem for further development of the sector since almost everybody receives subsidies, including the farmers that are absolutely not profitable⁹.

According to the data for using finances in different measures, the greatest interest of the farmers is to apply for direct financial support instead of measures that lead to increasing productivity and competitiveness, such as measures for the supply of certified seed and seedling material, laboratory examination of the agricultural land, insurance of the agricultural production, measures for financial support for safety and quality standards implementation and the similar.

Value of the financial support	1999	2000	2001	2002	2003	2004	2005
Total MKD	244.000.000	244.000.000	234.900.000	211.690.000	204.020.000	538.000.000	591.000.000
Total EUR	3.967.480	3.967.480	3.819.512	3.442.114	3.317.398	8.747.967	9.609.756

Chart 8: Value of financial support in agriculture, direct subsidies 1999-2005

Source: MAFWE, 2010

⁸ Like FFRM

⁹ Quotation from the focus group discussions with the representatives of FFRM

The projected value of the financial support in the years from 1999 to 2005 increased up to 9,5 million EUR, especially in 2004 and 2005, while in the period 1999-2003 it was about 3,5 million EUR.

Since 2006, the value of the program shows much higher increases, so that it has increased from 14.108.846 EUR in 2007 to 86.613.008 EUR in 2010, which is a 6-fold increase in four years.

Value of the financial support to agriculture program	2006	2007	2008	2009	2010
Total MKD	445.000.000	867.694.000	2.008.050.000	3.925.000.000	5.326.700.000
Total EUR	7.235.772	14.108.846	32.651.220	63.821.138	86.613.008

Chart 9: Value of financial support in agriculture, direct subsidies 1999-2005

Source: MAFWE, 2010

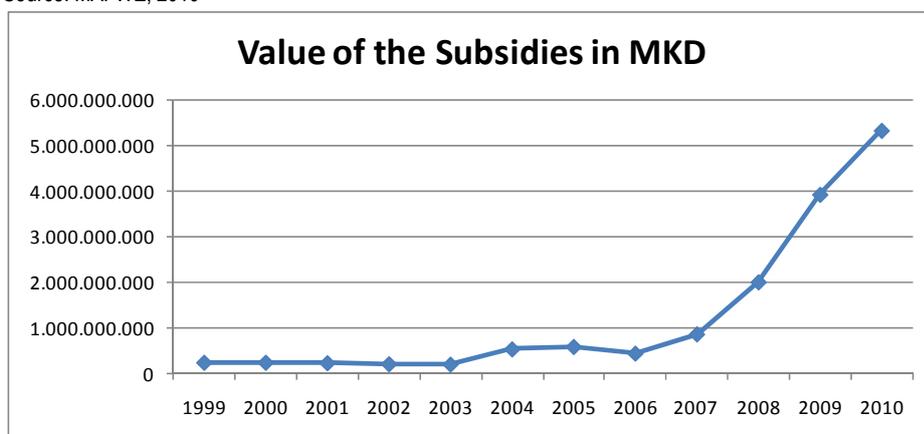


Chart 10: Trend of the subsidies value

Source: State Statistical Office 2009

In the graph above, the rapid increase of the support to the agriculture from 2007 onwards can be registered. These data describe the large value of support and the effects that could be expected in the development of agriculture.

Related to the agricultural subsidies participation in the total Budget of Republic of Macedonia, the participation increased from 1,06 % in 2007 to 2,82% in 2009. This is a significant amount for financial support to the agricultural program and it has a high influence on the financial transactions in the country.

	2007	2008	2009
Total amount of the agriculture subsidies in MKD	867.694.000	2.008.050.000	3.925.000.000
Total amount of the National Budget in MKD	82.121.000.000	88.710.000.000	139.393.000.000
% of agriculture subsidies in the total National Budget	1,06	2,26	2,82

Chart 11: Participation of agriculture subsidies in the total National Budget

Source: State Statistical Office 2009

This is closely related to the approval of the applicants and disbursement of the subsidies, the real financial transactions. The Government is not consistent in terms of planned and organized disbursement of the financial transactions that should be known previously and the applicants informed in advance. There has been a change of the disbursement form 2007, when the installment of the subsidies instead of all measures taken as a whole, was divided in several rounds, depending on the measures. This was justified with the different needs in different periods

during the year for different crops. “However, the money is still not insured in time, and instead of covering the costs for the new production, the producers cover the costs of the previous one”¹⁰.

It is important to state that there are no specific indicators or monitoring schemes over the implementation of the financial support program and its effects on the agriculture sector. Some of the most important pros and cons of the subsidies program are stated below:

+	-
6-fold Increase of the overall support to agriculture in four years	Frequent change of the criteria for application
Active policy of the support of agriculture in the EU pre-accession period	Absence of long-term planning for support of specific crops
Expansion of production area as stated by the State statistical office reports	Bad or no timing for announcement and disbursement of the subsidies
Improvement of the production technology	Lack of monitoring on the effects of the subsidy program
Increase of the agriculture incomes	Lack of continuity of the program
Improve the country equal rural development and stop the migration from rural to urban centers	Lack of monitoring indicators related to the different measures This is also related to the appropriate information that has to be regularly collected regarding each measure
Improve the employment or decrease the unemployment by expansion of production area and use of the same production technology	Creates non competitive market environment for some agriculture products
Diversification of the agriculture production	Problems related to EU general policies like production of tobacco
	Unused general measures
	No focus on the support of the key crops

In line with all pros and cons, the financial support to the agricultural program has influenced the increasing of the competitiveness of the agriculture. The agriculture for the first time in decades has been put in the focus of the Governmental support of the overall economy.

d. Rural development program

The rural development program has been established by the Government of Republic of Macedonia as a pre – IPARD measure, in line with the rural policy of the country since 2007

The measures for the implementation of the rural development policy are:

¹⁰ Quotation from the Focus group discussions with the farmers, representatives of FFFRM

- Investments for the improvement of the competitiveness and modernization of the agricultural holdings including aqua-culture
- Investments for semi-processing, processing, storing, packing and marketing of the agriculture products
- Investments for rehabilitation of the irrigation systems and water economy communities
- Financial support for promotional activities for the development of rural tourism
- Investments for the improvement of knowledge and promotion of the human potential of the agricultural producers, securing of consultancy services and education for the management of the agricultural holdings
- Support for the organization and common implementation of the production of the agricultural holdings

The rural development programs as such and the measures involved have not changed much over the last three years of their existence.

The rural development program covers 50% of the investment costs in each of the measures, and has a competitive character, as the applicants are granted certain amount of points under different criteria.

Each of the measures has specific goals for its implementation that is directly related to granting certain amount of points and in general consists of:

- Value of the investments that differs according to measure
- Support of individual agriculture producers where the agriculture is the main source of income
- Support of young farmers between 18-40 years
- Support of women farmers
- Stimulating investments, especially underdeveloped areas
- Support for the implementation of food safety and quality standards
- Support to the association for agriculture producers
- Stimulating the rural development and development of rural tourism
- Promotion of local traditional, cultural, and natural characteristics of the area
- Promotion of the education for phytosanitary and veterinary standards in the EU
- Education for environmental and organic production

The goals mentioned above do not exclude other profiles of applicants, but are preferential to the ones stated above.

Rural Development	2006	2007	2008	2009	2010
Total in MKD	44.000.000	45.000.000	180.000.000	420.000.000	579.000.000
Total in EUR	715.447	731.707	2.926.829	6.829.268	9.414.634

Table 3: Rural Development Support in the last five years
Source: MAFWE, 2010

The rural development program started in 2006 with the amount of around 700.000 EUR to reach 9,4 million EUR in 2010. The rural development program plays an important role in the preparation of applicants for the Instrument for Pre-accession assistance of the rural development (IPARD). It informs the applicants about what the criteria are and how to prepare the required documentation for specific project under IPARD.

With the IPARD implementation started in 2010, the GoM plans a slow decrease of the funds in the Rural Development Program and its closure in a midterm period, although for the outlined period there is no clear vision about which measures or sub-sectors the National Rural Program should cover.

Some of the most important pros and cons of the rural development program are stated below:

+	-
Permanent measures in the four years of existence until launching of IPARD program	Lack of public awareness and information about the program
Clear criteria and procedure for application	Strict criteria and lack of inter-coordination among state institutions responsible for issuing specific documents
Defined procedure for disbursement of the funds, monitoring and control over the implemented projects	No long-term programming
Improvement of the production technology, improved yields	
Increase of the effectiveness of the production	

The rural development program effects in some of the measures were very high and influenced a good start of the first round of the IPARD program. In continuation, this program should still serve as a tool to support the projects and investments still relevant for the Macedonian agriculture, but for various reasons they are not part of IPARD.

e. IPARD

The objective of the IPARD Program 2007-2013 is to provide, via adequate measures for support of the agriculture and the rural development, improved competitiveness of the agriculture production and agro-food sector, developing them to comply to the Community standards while ensuring sustainable environmental and socio-economic development of the rural areas through increased economic activities and employment opportunities via the following priorities:

- Improving the competitiveness of commercial agriculture holdings and agro-food capacities in certain sub-sectors through investments for improving the technological and the market infrastructure for increasing the added value of the agriculture products and achieving compliance with the EU quality, health, food safety, animal welfare and environmental protection standards;
- Improved quality of life of the rural population, increased income in the rural areas and creation of new employment opportunities through the development and diversification of economic activities of the agricultural holdings to decrease the disparity between the regions and the disparity compared to the urban areas.

In compliance to the objectives of the IPARD Program 2007-2013, the main priorities for financial assistance are the following:

a) According Priority Axis 1 – Improving the market efficiency and implementation of Community standards:

- Measure 101 - Investments in agricultural holdings to restructure and to upgrade Community standards
- Measure 103 - Investments in the processing and marketing of agricultural and fishery products to restructure those activities and to upgrade them according to Community standards

b) According Priority Axis 3 –Development of rural economy:

- Measure 302 – Diversification and development of rural economic activities

Beneficiaries for the different measure are commercial agriculture holdings, cooperatives and individual persons and legal entities that are registered in the Farm Register within the Ministry for Agriculture, Forestry and Water Economy according the Law on Agriculture and Rural Development (Official Gazette of RM no.134/07) as

- Individual agriculture producer - individual person dealing with agriculture on his/her own behalf and on his/her own account being the owner of a farm or who has the right to use the farm obtained through a legal agreement by the owner;
- Sole proprietor, in accordance with the Law on Trade companies (OG 28/04; 84/05; 25/07, 87/08), who is performing agricultural activity on his/her own account and being registered as such in the Central Registry (according to the National Classification of Economic Activities (OG 147/08));
- Privately owned commercial company established in accordance with the Law on Trade companies(OG 28/04, 84/05, 25/07 and 87/08) which is dealing with agriculture as a primary economic activity and is being registered as such in the Central Registry [according to the National Classification of Economic Activities (OG 147/08)];
- Cooperatives established according to the Law on Cooperatives (OG 54/02; 84/05) dealing with agriculture as a primary economic activity and which are registered in the Central Registry [according to the National Classification of Economic Activities (OG 147/08)];
- Individual persons and Legal entities (sole proprietor and privately owned commercial companies established in accordance with the Law on Trade companies(OG 28/04; 84/05; 25/07 and 87/08)) entering into agriculture activities subject to fulfilling the specific requirements for size of production capacities of the eligible beneficiaries per priority sector

The foreseen value of support in the IPARD program for the period 2007-2013 is 31.500.000 EUR with contribution of EU of about 24.000.000 EUR.

“The Agency for Financial Support of the Agriculture and the Rural Development announced the First Call for allocation of funds from the IPARD Program 2007-2013 on 23.12.2009. The total amount of the First Call was an amount of 24, 3 million EUR.

For the First Call for allocation of funds 133, applications were received for the three announced measures, with total amount of 18, 5 million EUR or requested co-financing amount of 9, 2 million EUR. After the performed administrative processing of the received applications and the performed on-the spot controls, AFSARD issued 28 decisions for allocation of funds from the IPARD Program 2007-2013 in the following amounts:

- Measure 101 – Investments in agriculture holdings with the purpose of their restructuring and upgrade to reach the Community standards – 15 applications with total co-financing amount of 774.000 EUR
- Measure 103 – Investments for processing and marketing of agriculture products with the purpose of their restructuring and upgrade for reaching the Community standards -12 applications with the total co-financing amount of 1.312.500 EUR, and
- Measure 302 – Diversification and development of rural economic activities – 1 application in the amount of 26.500 EUR or

The total amount of funds to be contracted is 2.113.000 EUR.

The Agency for Financial Support of the Agriculture and the Rural Development expresses its satisfaction from the unexpected large number of received applications for the allocation of the EU IPARD funds, which is a clear signal of the great interest of the Macedonian farmers and economic entities from the rural sector for using the offered funds and their economic application.”¹¹

¹¹ Information quoted from IPARDPA, www.ipardpa.gov.mk

4. Analysis of the agricultural financial support program

a. General perspectives of the analysis

The analysis of the agricultural financial support program (or the direct subsidies) is based on the previously discussed, developed and approved methodology of EPICENTAR International in cooperation with the AgBIZ program representatives. The methodology covers the analysis of the agricultural financial support program from the perspective of impact and effects it has in relation to the general performance of the agriculture and agribusiness in terms of the competitive export oriented sector that contributes to the national economy.

In line with the AgBIZ program orientation of improving the competitiveness of the selected VCs from the Macedonian agriculture and agribusiness industry, the analysis covers only part of the subsidy program that is related to the selected VCs. The idea behind was to analyze and understand how the subsidies influence the most perspective, export oriented program, which are the sectors on which the GoM spent most of the money in the subsidy program, and what are the other five products that, besides the selected AgBIZ VCs, have the largest participation in the framework of the subsidies disbursement.

The sectors included in the analysis were reviewed in terms of the general perspective of production size, production quantity, export quantity, value of export –import in US \$, yields, production and export price, wholesalers price, as well as the subsidies measures, criteria, overall and specific subsidies expenditures. Besides these elements, ten year trends of each sector have been analyzed, and output data for specific elaboration and key findings have been prepared, such as participation of the subsidies in the total export value, comparison of the increases of the subsidies, production size, or yield (production technology), comparison of the subsidies and the import value and other output figures important for the specific sectors, or in general.

Besides these data, additional macroeconomic data for the country and overall performance of the agricultural sector have been analyzed. The field research comments and attitudes have been taken into account during the analysis, but more specifically while drawing the specific conclusions and recommendations.

Each of the sectors has been specifically analyzed and below each analysis the general pros and cons of the sectors have been listed. The summary of the analysis is systemized in the chapter of the key findings of the study.

Through each of the selected and analyzed sectors and the overall view of the subsidies, all available information has been taken into account in order to provide systematic, realistic and sustainable analysis that may not provide all the answers necessary for the improvement of the subsidy program, but will give the specific views and recommendations based only on the substantial analysis undertaken in this research.

With the analysis of the sectors, the study provides specific key findings that could be used as a tool during further planning of any support to the sectors. Furthermore, some of the findings can be used as milestones in the existing support projects and programs.

The general key findings on the impact of the subsidies on the agriculture sector and the potential improvement of the subsidies program are part of the key findings chapter and are not specifically elaborated under each sector analysis, as their effect is overall.

b. Analysis of the selected sectors

i. *Vegetables*

Vegetables are one of the main products in the Macedonian agriculture. The selected group of the five products elaborated below has a large and increasing export¹² value, especially in the last decade with an increase of around 31% in ten years. These five products represent the basic raw material of the processing industry in the country as well as the top fresh vegetables. The area under tomatoes is 9% of the total agriculture land, same as the cabbage, area, while the largest one belongs to pepper (39%) and watermelons (27%). According to the calculations in the Fresh Vegetable Profile 2008, elaborated by EPICENTAR, there are around 28.000 families involved in this sector, with around 109.000 full time employments.

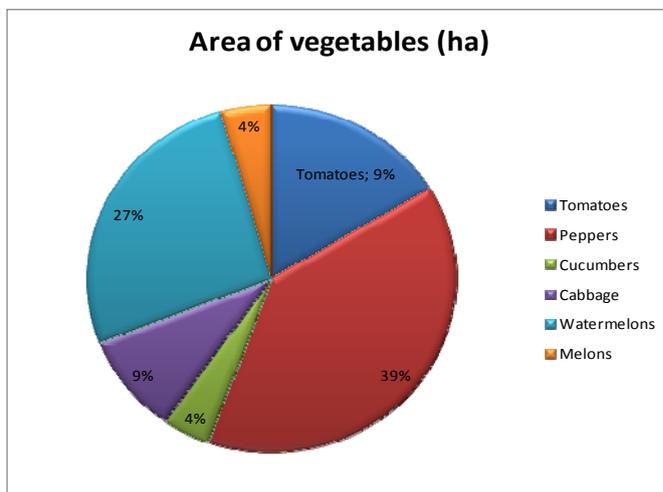


Chart 12: Area of vegetables in ha
Source: Data from Agricultural Census 2007, STAT, 2009

Tomatoes

The tomato, important both as a fresh vegetable product and for the processing industry in the last ten years, has decreased the production area, with a negative trend up to 2008, and a slight increase in 2009. This decrease can be evaluated from two aspects, the first is related to large fluctuations of the buy-out prices in the mentioned period and orientation to more profitable crops (in the period 2007-2010, the buy-out prices of cabbage and melons provided more profit for the farmers than the tomato buy-out price¹³)

¹² The export of only these five products in 2007 has achieved around 35.000.000 US \$, Profile of the Macedonian Fresh Vegetable Chain, EPICENTAR International 2009

¹³ Remark based on the buy-out prices, STAT 2010

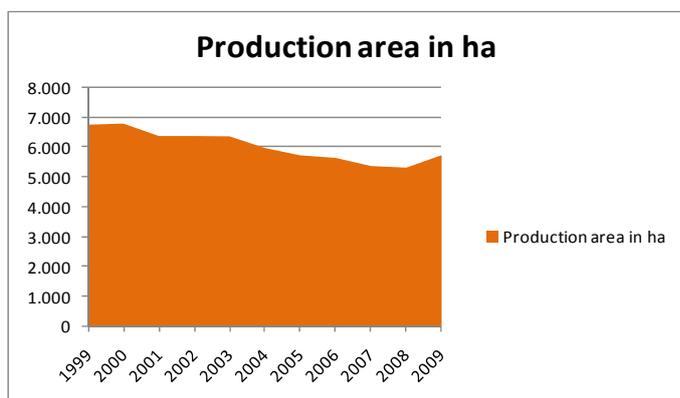


Chart 13: Production area in ha
Source: SSO, 2010

On the other hand, the information from the field research, shows an increase in the tomato production in greenhouses, especially in large, private company owned production facilities. More tomatoes are produced under plastic or glass which, besides other improvements in the production technology, explains the higher yields over the last decade.

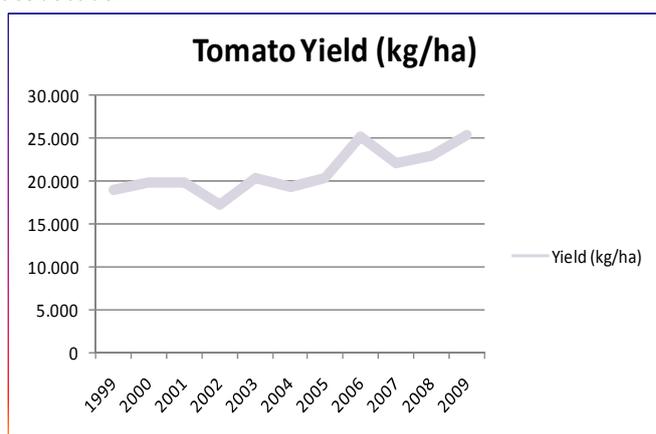


Chart 14: Tomato Yield
Source: SSO, 2010

The production quantity (See Table 4) follows the trend line of the production area, and as a result of the increased production area and improved yields, it has reached its maximum in the last decade with around 145 million kg annual production in 2009.

	2003	2004	2005	2006	2007	2008	2009
Production in kg	129.739.000	114.490.000	116.633.000	142.387.000	117.981.000	121.637.000	145.395.000

Table 4: Production of tomatoes in kg
Source: SSO, 2010

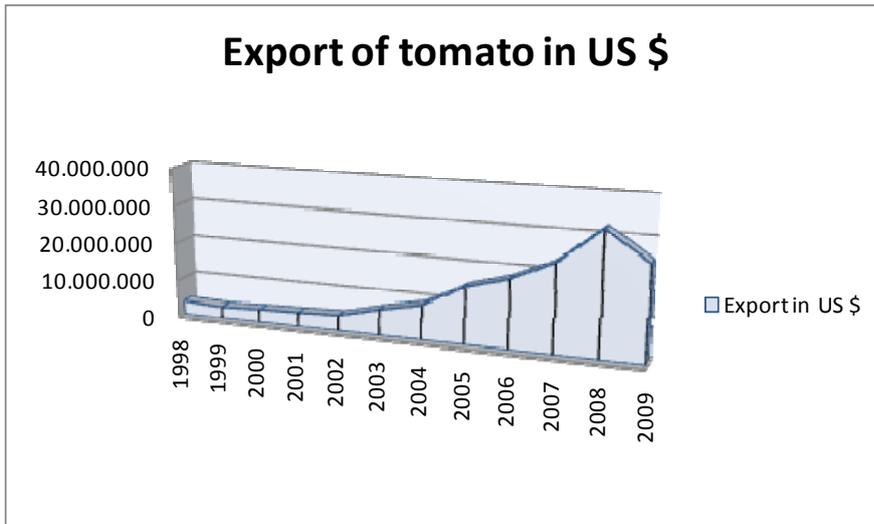


Chart 15: Export of tomato in US \$
Source: SSO, 2010

The export of tomato has reached its maximum in 2008, when it was around 32,000,000 US \$, or almost 10 times more than in 1998 when it was around 3,500,000 US \$.

The export prices (see Chart 16) have an increasing trend and are lower than the production prices, which in reality does not make any sense. The production price refers only to the greenhouse production, and it is calculated on the basis of all expenses included¹⁴, covering all the fixed and operational costs on the farm. In general, it is important to mention that the increase in the export has increased almost 10 times in ten years, while the production price has doubled. That leads to the conclusion of improved production technology, increased yields and improved market strategies.

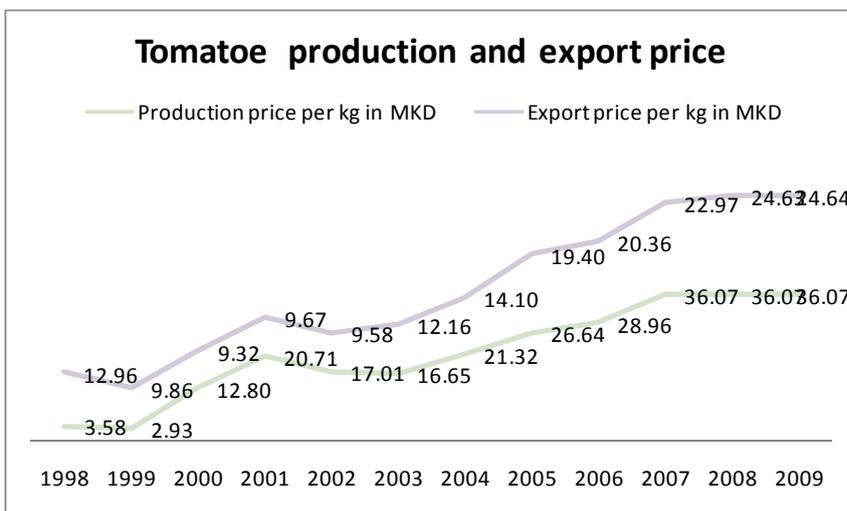


Chart 16: Tomato production and export price
Source: FAOSTAT, 2010

¹⁴ The expenses in the production include all fixed and operational costs. Farmers very rarely make this calculation and the manpower costs are usually not included

EPICENTAR International Research of the Fresh Vegetables Sector in 2007 based on the desk analysis and a large number of field interviews with the primary producers and exporters give the following overview on the margin for tomatoes.

MKD/kg	Buying Price	Other costs	Trader Margin
Tomatoes	74%	22%	4%

Table 5: Tomatoes Trade margin
Source: EPICENTAR, 2007

Participation of subsidies in the production price of greenhouse tomato for 2009	
Production price per kg in MKD (greenhouse)	36,07
Subsidy per kg in MKD	3,15
Participation of subsidies in the production price	13%

Table 6: Participation of the subsidies in the production price of greenhouse tomato for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows the participation of the subsidies in the production price of greenhouse tomatoes, which was taken as a sample in 2009 was 13%, which is a relatively high participation in the total production costs.

Cucumbers

The cucumber production in the country had some fluctuations in the last five years, but the production has not gone below the minimum in 2004. In 2009 it reached the same amount of around 1.350 ha, while the period in between was marked with certain increase in 2005, 2006, and 2007 for additional 1.110 ha in three years, which represents an increase of around 70%.

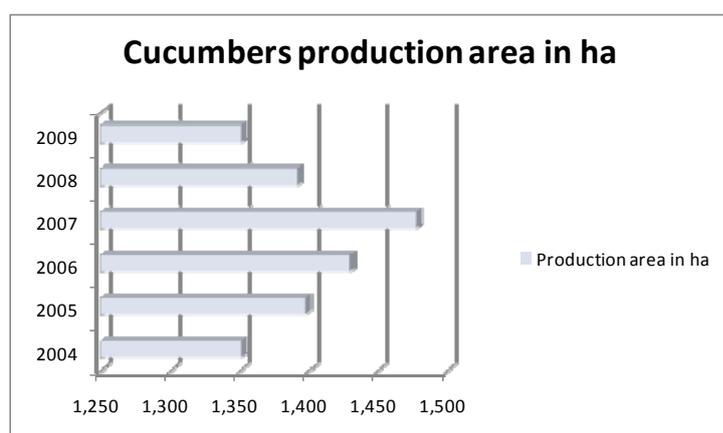


Chart 17: Cucumbers production area in ha
Source: SSO, 2010

The cucumber production has increased over the last five years, while at the same time, the export has decreased. The export participation from the total production has decreased from 46% in 2004 to 39% in 2009.

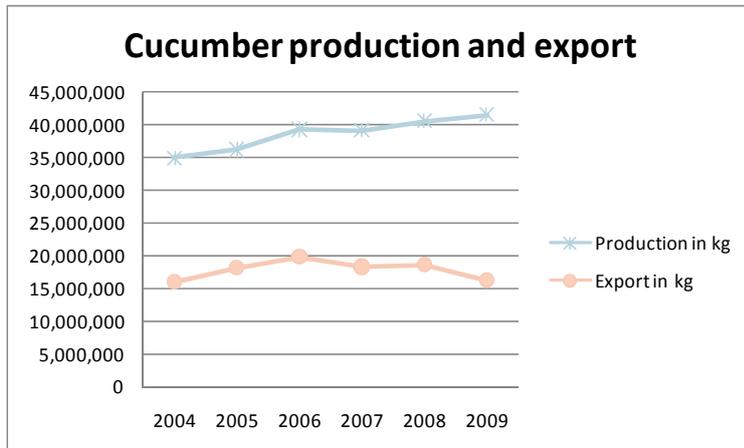


Chart 18: Cucumbers production and export
Source: SSO, 2010

The export prices have increased over the last ten years 3 times, while the production prices have only doubled besides the decreased export.

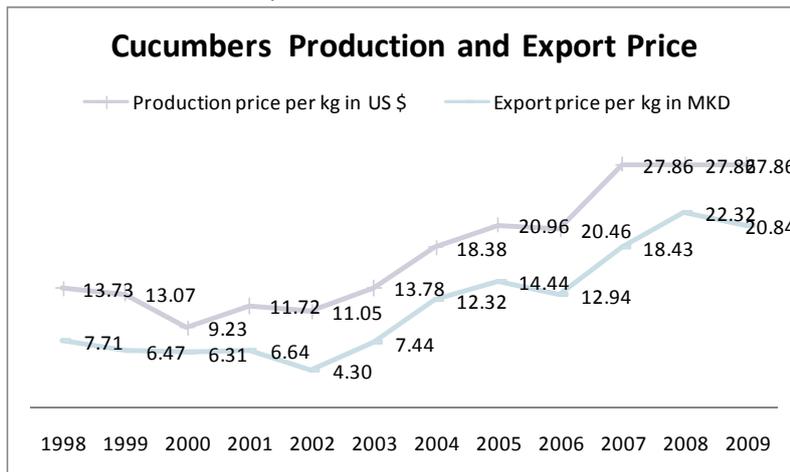


Chart 19: Cucumbers Production and Export Price
Source: FAOSTAT, 2010

EPICENTAR International Research of the Fresh Vegetables Sector in 2007 based on the desk analysis and a large number of field interviews with the primary producers and exporters gives the following overview on the margin for cucumbers.

MKD/kg	Buying Price	Other costs	Trader Margin
Cucumbers	69%	24%	8%

Table 7: Cucumbers Trade Margin
Source: EPICENTAR, 2007

Participation of subsidies in the production price of greenhouse cucumbers for 2009	
Production price per kg in MKD (greenhouse)	27,86
Subsidy per kg in MKD	2,60
Participation of subsidies in the production price	9%

Table 8: Participation of subsidies in the production price of greenhouse cucumbers for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

Table 8 shows that the participation of the subsidy in the production price of greenhouse cucumbers, taken as a sample in 2009 is 9%.

Cabbages

The cabbage production area as illustrated in the chart below has small fluctuations over the last ten years and it is within the frames between 3.500 and 4.100 ha. The most significant increase was in 2007 and 2008, while in 2009 it decreased to the same area as in 2006.

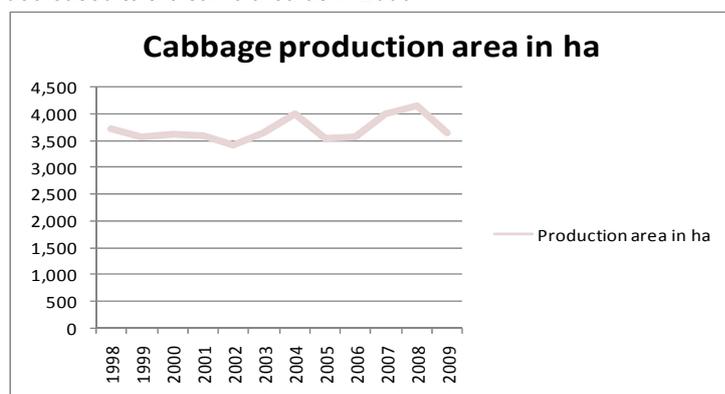


Chart 20: Cabbage production area in ha
Source: SSO, 2010

The export had a rapid increase from 2006 onwards reaching its peak in 2008 and then a very large decrease in 2009, from around 12.000.000 US \$ to around 7.000.000 US \$.

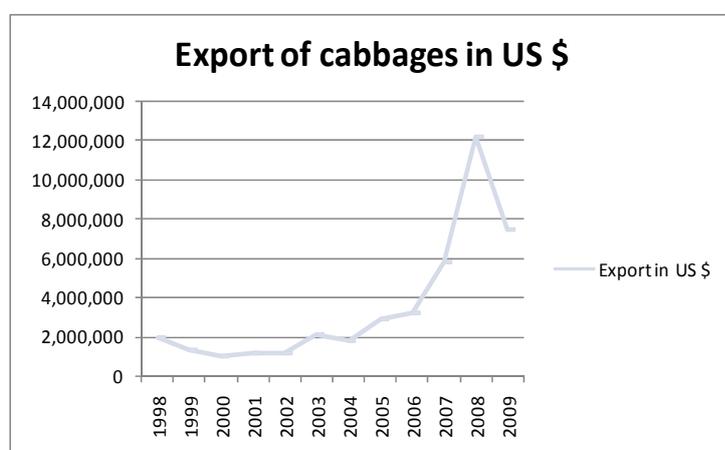


Chart 21: Export of cabbages in US \$
Source: SSO, 2010

The production and export prices slightly increased until 2007, when in 2008 the export price doubled compared to that of 2007, while the production price remained the same.

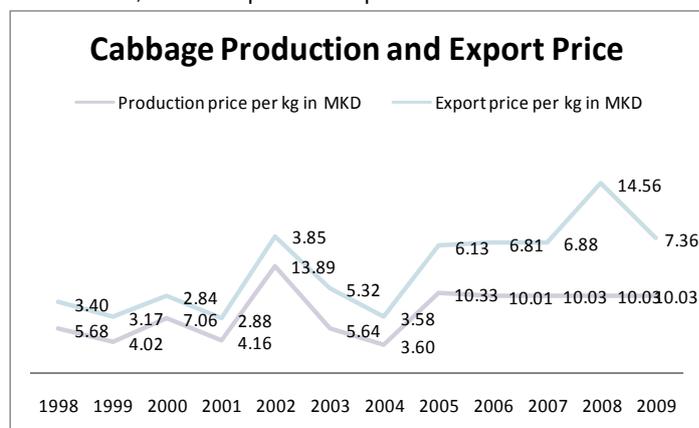


Chart 22: Cabbage Production and Export Price
Source: FAOSTAT, 2010

EPICENTAR International Research of the Fresh Vegetables Sector in 2007 based on the desk analysis and large number of field interviews with primary producers and exporters gives the following overview on the margin for cabbage.

MKD/kg	Buying Price	Other costs	Trader Margin
Cabbage	66%	25%	9%

Table 9: Cabbage Trader Margin
Source: EPICENTAR, 2007

Participation of subsidies in the production price of cabbages for 2009	
Production price per kg in MKD	10,03
Subsidy per kg in MKD	2,00
Participation of subsidies in the production price	20%

Table 10: Participation of subsidies in the production price of cabbages for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows the participation of the subsidy in the production price of cabbages, taken as a sample in 2009 is 20%.

Pepper

The pepper production area has increased over the last ten years from 7.600 ha up to 8.400 ha. The pepper is considered a very competitive crop, and one of the top five export vegetables in the EU.

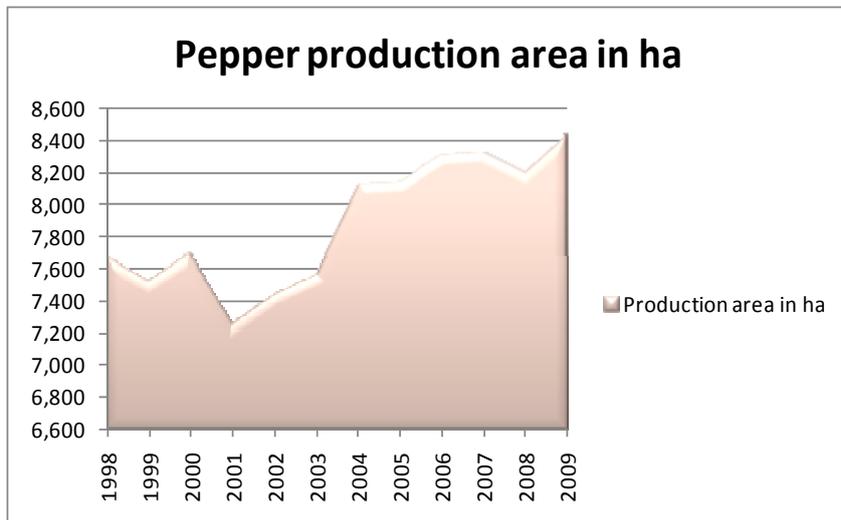


Chart 23: Pepper production area in ha
Source: SSO, 2010

The export figures in kg illustrate frequent amplitudes over the last ten years. In 2008 the export both in kg and value was the highest, for around 5.000.000 kg higher than ten years ago in 1998. Since 1998 there is a gradual decrease in the export, and the amount of 20.000.000 kg was reached again in 2005, followed by the highest decrease in 2006 when it fell down to 10.000.000 kg.

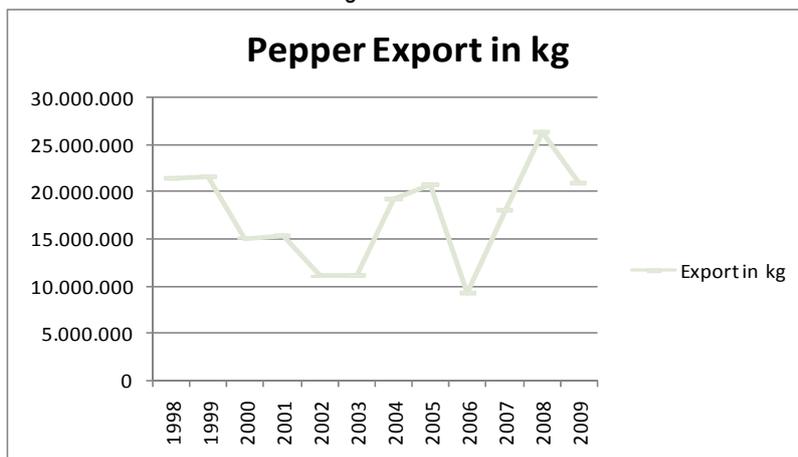


Chart 24: Pepper Export in kg
Source: SSO, 2010

Both the production and export price have increased in the last ten years, where the production price has increased for around 70% in the ten year period and the export price for almost ten times during the same period.

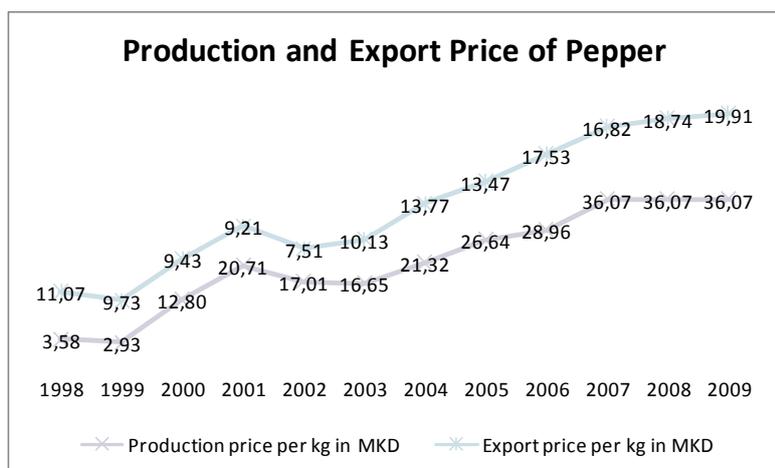


Chart 25: Production (raw product purchase price from the farmer) and Export Price of Pepper
Source: FAOSTAT, 2010

EPICENTAR International Research of the Fresh Vegetables Sector in 2007 based on the desk analysis and large number of field interviews with primary producers and exporters gives the following overview on the gross margin for peppers.

MKD/kg	Buying Price	Other costs	Trader Margin
Peppers	70%	23%	7%

Table 11: Peppers Trader Margin
Source: EPICENTAR, 2007

Participation of subsidies in the production price of greenhouse pepper for 2009	
Production price per kg in MKD	36,07
Subsidy per kg in MKD	4,36
Participation of subsidies in the production price	12%

Table 12: Participation of subsidies in the production price of greenhouse pepper for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows the participation of the subsidy in the production price of cabbages, taken as a sample in 2009 is 12%.

Melons

The production area of melons (melons and watermelons) has decreased over the last ten years for around 2000 ha. The largest decrease was in 2006, which was mainly caused by very low buy-out prices. After 2006, the buy-out prices increased and remained on the same level in 2007, 2008 and 2009.

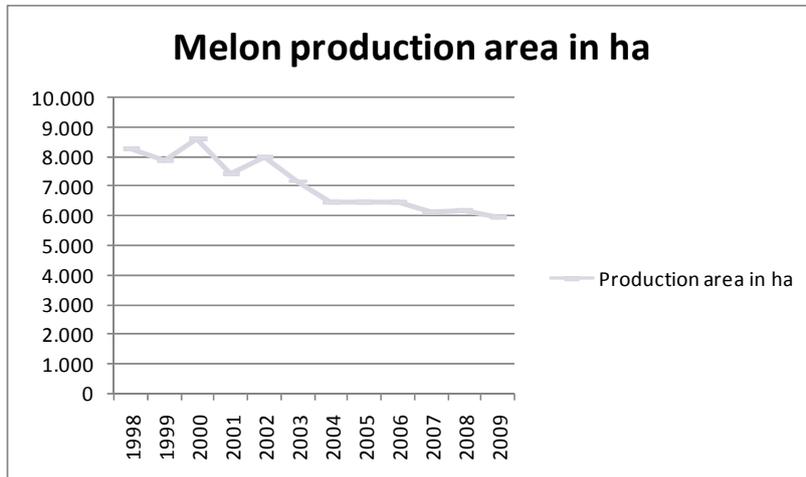


Chart 26: Melon production area in ha
Source: SSO, 2010

The melon export had large fluctuations and reached its peak of around 50,000,000 kg in 2008. The export of melons in the period 2006 -2008 increased, even though the production area decreased. The explanation behind is the very good buy-out price in the mentioned period.

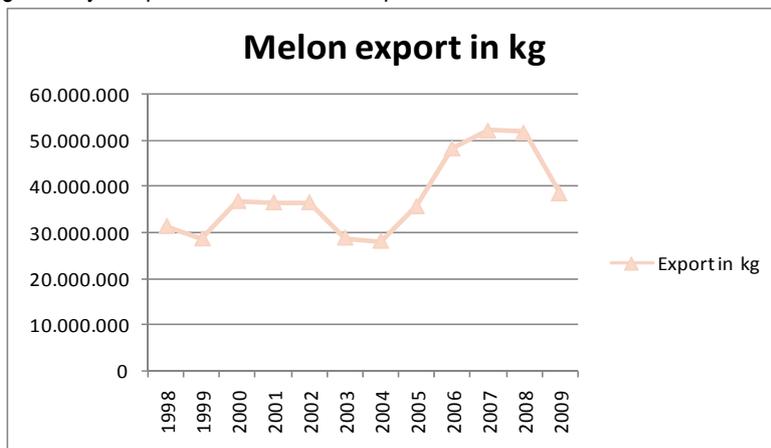


Chart 27: Melon Export in kg
Source: SSO, 2010

Both the production and export prices have increased over the last ten years, where the production price had a very small increase of about 3%, while the export price has doubled in the same period.

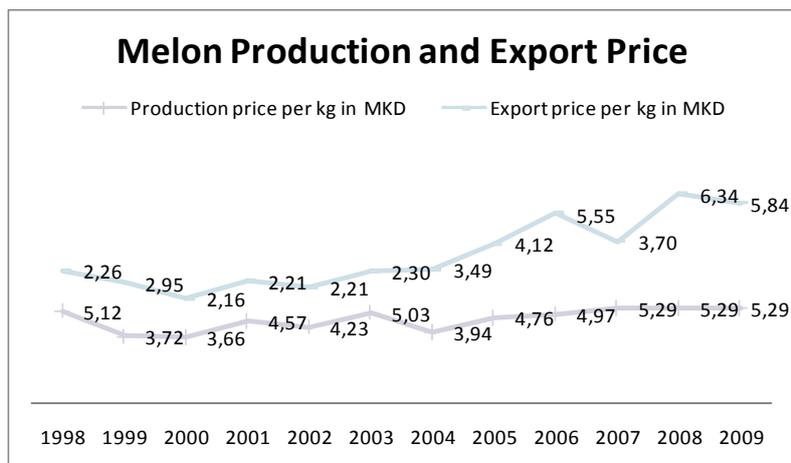


Chart 28: Melon Production and Export Price
Source: FAOSTAT, 2010

EPICENTAR International Research of the Fresh Vegetables Sector in 2007 based on the desk analysis and a large number of field interviews with the primary producers and exporters gives the following overview on the margin for melons.

MKD/kg	Buying Price	Other costs	Trader Margin
Melons	67%	25%	8%

Table 13: Melons Trader Margin
Source: EPICENTAR, 2007

Participation of subsidies in the production price of melon for 2009	
Production price per kg in MKD	5.29
Subsidy per kg in MKD	2
Participation of subsidies in the production price	38%

Table 14: Participation of subsidies in the production price of melon for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

From the above table it could be seen that the participation of the subsidy in the production price of melon, taken as a sample in 2009 is 38%.

Subsidies to the sector

The subsidies to this sector are split into two measures: greenhouse production for tomato, pepper and cucumber and open vegetable production sold in the processing industry. Mainly, the principles of subsidy distribution are per ha and per kg. In the greenhouse production, the criteria refer to the minimum area under production, which varies from 0,3 ha in 2007 and 2008 to 0,2 ha in 2009 and 2010. The support per ha in 2006 was 60.000 MKD, while in 2009 and 2010 it is 80.000 MKD per ha.

The criteria for minimum area under open field production in 2007 and 2008 was 0,5 ha and 0,3 ha respectively. The support was 12.000 MKD per ha for the products sold to the processing industry. In 2009 it decreased to 3.000 MKD per ha. Finally, the methodology changed in 2010 so that the calculation is 1.50 MKD per kg and 20.000 MKD per ha for products for the processing industry..

The greenhouse production support has increased in the last three years. In 2007 the use of planned subsidies was 80,7 %, in 2008 the Government planned only 4,5 million MKD, but the use of subsidies was threefold.

Greenhouse Production Subsidies in MKD			
Year	2007	2008	2009
Amount planned	14.000.000	4.500.000	18.000.000
Disbursed Subsidies	11.304.750	12.960.053	15.466.112
Number of users		48	66
Average amount per user		270.001	234.335

Table 15: Greenhouse Production Subsidies in MKD
Source: MAFWE, 2010

The large interest for the greenhouse support measures and the percentage of the use of planned subsidies leads us to a conclusion that the greenhouse production in Macedonia is increasing, and the production technology improving.

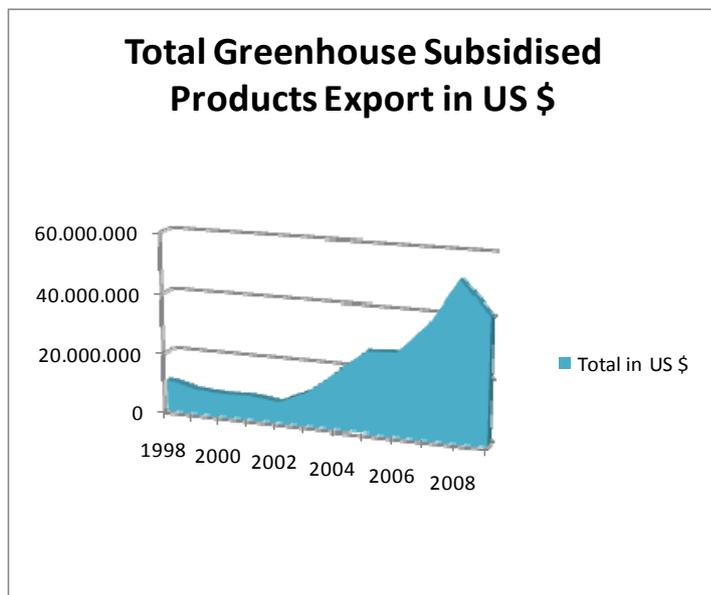


Chart 29: Total Greenhouse Subsidised Products Export in US \$
Source: SSO, 2010

The calculation of the total export of the subsidized greenhouse products (tomato, pepper and cucumber) shows a large increase over the last three years. In relation to the subsidies, the increase is still limited. The percentage of the subsidies in the total export of the three greenhouse subsidized products decreased from 0, 65% to 0, 53 %, when it increased up to 0,80% in 2009.

	2007	2008	2009
Value of Export	36.572.153	51.441.548	40.683.764
Value of Subsidies	237.995	272.843	325.602
% in Export Value	0,65%	0,53%	0,80%

Table 16: Value of Export and Subsidies
Source: SSO, 2010

The production price of these three products has not changed considerably in the last ten year period, in average, for cucumbers and gherkins it amounts to 31% increase, with a much higher increase for tomatoes (68%) and pepper (63%).

	Average production price in MKD (1998-2009)	Average increase of the production price in %
Cucumbers and gherkins	18	31%
Tomatoes	21,57	68%
Pepper	20,75	63%

Table 17: Cucumbers and gherkins production price
Source: SSO, 2010

The overall statistics shows that the support measures in subsidies, have an impact on the increase of the production and export of the greenhouse product. All in all, taking into account the field research information, the greenhouse production is the future of the Macedonian agriculture. Most of this production is located in the southeastern parts of the country with the best climate conditions. The increase of the greenhouse production, especially with the modernization of the production capacities, improvement of the production technology is visible on the field¹⁵.

The criteria for support of the greenhouse production is related to the average farm size on the field, and do not correspond with the break-even size of each of the three supported products. Further increase of the minimum farm size as part of the criteria, making it closer to the minimum break-even farm size will lead to a realistic development of the agriculture production. The other possibility for further support of the increase of the farm size and enhancement of competition in the greenhouse production, taking into account the situation on the field¹⁶, is "to support producers groups or cooperatives where they can unite the land for common production and further stimulation would be the increase of subsidies"¹⁷.

The only product with which our country participates with about 2% of the total export in EU is the pepper export. For this reason, further stimulation of this sub-sector and other greenhouse produced products is necessary.

¹⁵ The official statistical figure is not available

¹⁶ The situation on the field can be described as very complicated especially in the areas where the greenhouse production is highest, most of the farmers do not possess the land on their own name, there is enormous division on the land on very small parcels, there is almost no free land to buy or rent

¹⁷ Quotation from the focus group discussions

+	-
Average increase of the three greenhouse subsidized products for 75% in three years	Increase of the participation of the subsidies in the overall export
Increase of the greenhouse production size	Limitation to only three products under greenhouse
Improvement of the production technology (increased yields for the average of 35% in ten years for almost all vegetable products)	No selection of products for open filed production
Increased participation of active labor in the sector	Documentation problems (lack of ownership documents) for receiving subsidies
Creating ground for increasing the size of the parcels	No practice for contracting production and marketing of vegetables
Overall correlation of the support policy with the Common Agriculture Policy of the EU	

ii. Fruits

The fruits besides the vegetables are the second most important group in the Macedonian agriculture. This analysis studies the three most important export products (apples, peaches and sour cherry)¹⁸. The following table presents the production size variations in the last eight years according to FAOSTAT data as of 2009. As it could be seen from Table 18, the highest increase of production is noticed in the apple sub-sector, while the peaches and sour cherries subsectors show very slight fluctuations in the last years. There are about 12.000 families involved in the sector.

Production Area in Hectares									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Apples	8900	8600	9000	9000	9000	9000	9000	15000	15000
Peaches	1400	1300	1250	1250	1300	1250	1250	1300	1300
Sour cherries	1000	1000	1100	1100	1400	1100	1100	1200	1200

Table 18: Production Area in Hectares
Source: FAOSTAT, 2009

Sour Cherry

The production of sour cherry has increased in the last ten years, i.e. from around 6.000.000 kg up to 9.000.000 kg in 2008 and with a slight decrease on the value of production in 2009. The export in the sub-sector started with an increase in 2002 and has remained stable in the ongoing period. The amount of export is around 1.000.000 kg. This represents only 11% of the total production in 2009, and we consider the sour cherry as one of the most important export fruit products. The real situation is that the export of cherry is around 85%¹⁹ of the production, and has almost ten times higher potential on the export market. Most of the production is exported as semi processed, or processed and therefore belongs to the group of processed products.

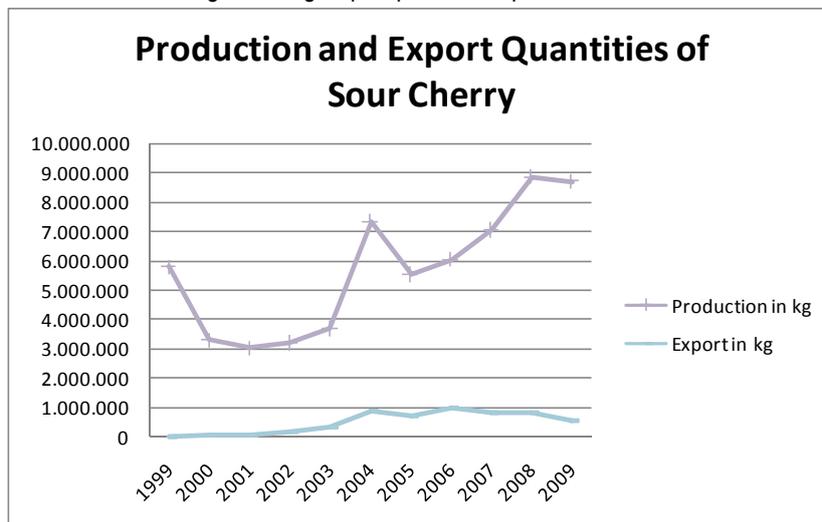


Chart 30: Production and Export Quantities of Sour Cherry
Source: SSO, 2010

¹⁸ The table grapes is analyzed with the Wine Grapes

¹⁹ Consideration from the interviews with sour cherry exporters

The import of sour cherry over the last ten years is insignificant, with the exception of 2004, but even then it was mostly imported for further processing. The export increased in 2004 and remained on the same level of about 400.000 US \$ export of non-processed sour cherry, with the exception of 2008 when it was almost doubled compared to that of the previous years.

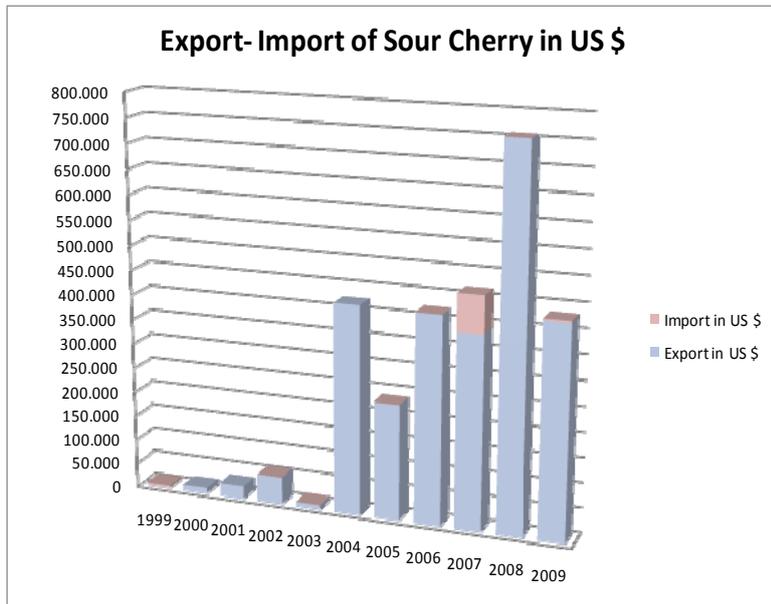


Chart 31: Export-Import of Sour Cherry in US \$
Source: SSO, 2010

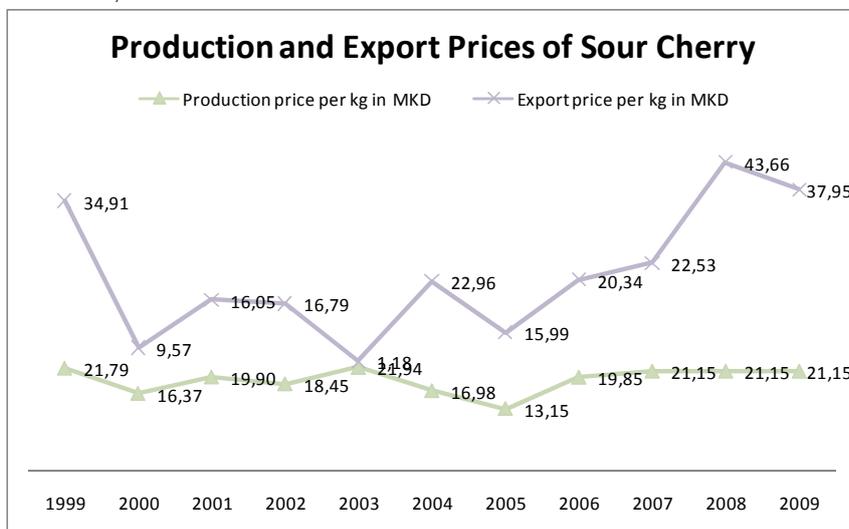


Chart 32: Production and Export Prices of Sour Cherry
Source: FAOSTAT, 2010

The production price of sour cherry has remain very stable over the years and it is in average around 19 MKD per kg, while the export price has very large fluctuations reaching the lowest point of around 10 MKD per kg and the highest point of around 44 MKD per kg.

Participation of subsidies in the production price of sour cherry for 2009	
Production price per kg in MKD	21.15
Subsidy per kg in MKD	7.55
Participation of subsidies in the production price	36%

Chart 33: Participation of the subsidies in the production price of sour cherry for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above shows the participation of the subsidy in the production price of sour cherry, taken as a sample in 2009, is 38%.

Peaches

The production of peaches, linked mostly to one region in the Central part of Macedonia (Rosoman area), has been increasing since 2004 and during this period it shows slight decreases over the years. The export in the same period follows the trend of increase, representing around 1/3 of the total production in 2007-2008.

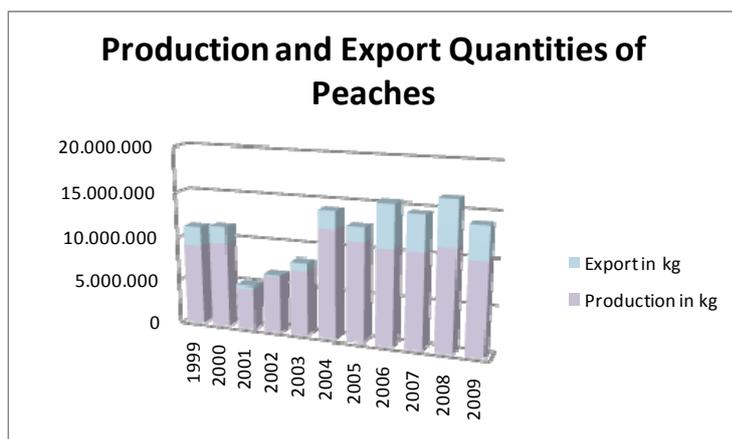


Chart 34: Production and Export Quantities of Peaches
Source: SSO, 2010

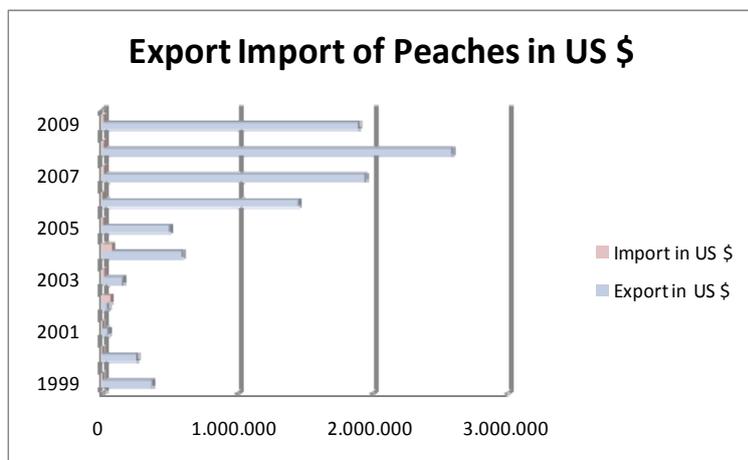


Chart 35: Export Import of Peaches in US \$
Source: SSO, 2010

The import in comparison to export of peaches in US \$ is insignificant, while the export approached around 3.000.000 US \$ in 2008.

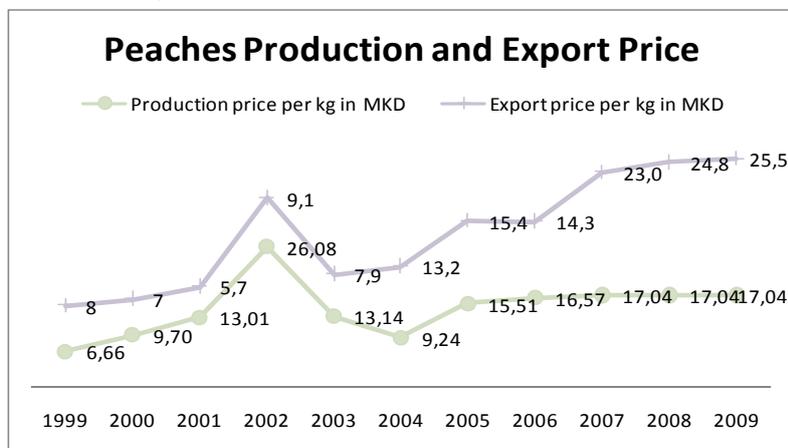


Chart 36: Peaches Production and Export Price
Source: FAOSTAT, 2010

The production price of peaches has almost tripled in the ten year period, the same as the export price. The export price reached the lowest level in 2001 with 5,7 MKD per kg and the highest in 2009 with 25,5 MKD per kg.

Participation of subsidies in the production price of peaches for 2009	
Production price per kg in MKD	17.04
Subsidy per kg in MKD	3.20
Participation of subsidies in the production price	19%

Chart 37: Participation of subsidies in the production price of peaches for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

From the above table it could be seen that the participation of the subsidy in the production price of peaches, taken as a sample in 2009, is 19%.

Apples

The apples production increased significantly from 2006 to 2008 reaching around 150.000.000 kg per year, while the export in the same period increased up to 43% of the total export in 2007.

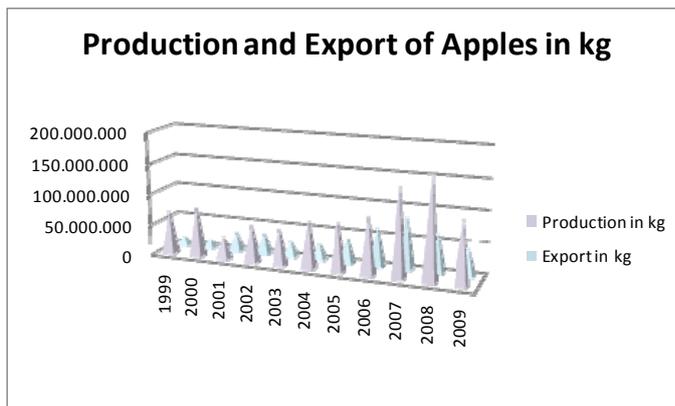


Chart 38: Production and Export of Apples in kg
Source: SSO, 2010

The import of apples remains very small in comparison to the export, usually due to the varieties that are rarely or not produced in Macedonia, for the supermarket chains. The export reached almost 20.000.000 US \$ in 2007, but in a European context, Macedonia is still very uncompetitive due to the varieties produced and the production price in comparison to some other countries (e.g. Poland).

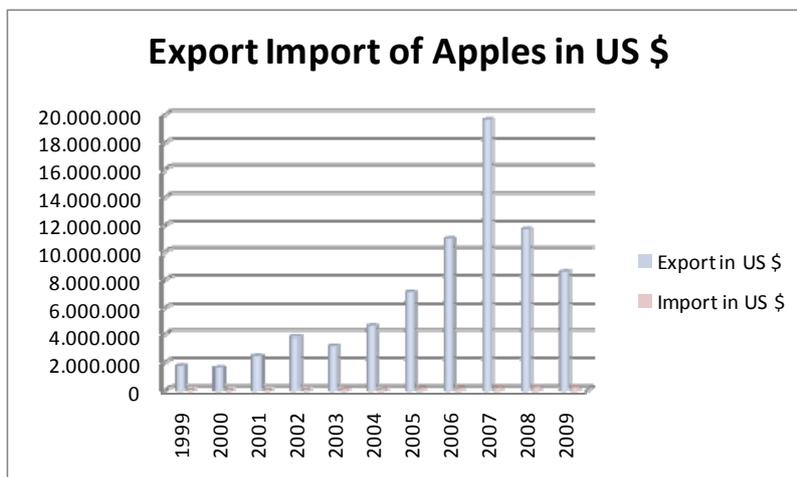


Chart 39: Export Import of Apples in US \$
Source: SSO, 2010

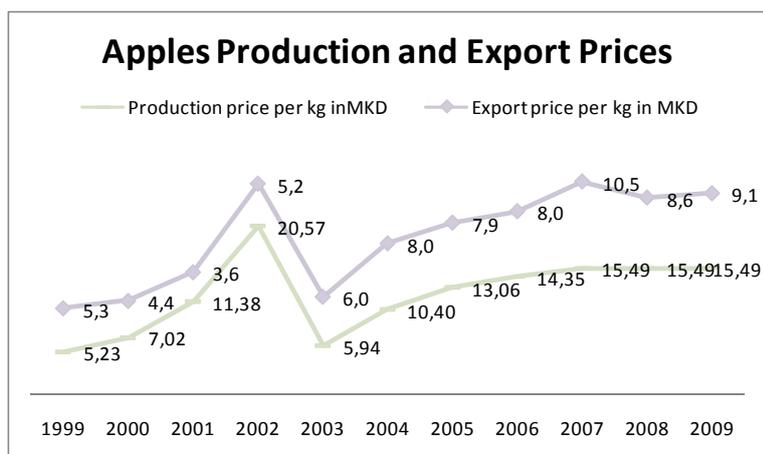


Chart 40: Apples Production and Export Prices
Source: FAOSTAT, 2010

The production per kg was the lowest in 2002 with 3,6 MKD and highest with 9,1 MKD in 2009, while the export price was the lowest with 5,2 MKD in 2000 and the highest with 15,49 MKD per kg in 2009.

Participation of subsidies in the production price of apples for 2009	
Production price per kg in MKD	15.49
Subsidy per kg in MKD	9.1
Participation of subsidies in the production price	35%

Table 19: Participation of subsidies in the production price of apples for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows the participation of the subsidy in the production price of apples, taken as a sample in 2009, is 35%.

Subsidies for the sector

The subsidies for the fruit sector in general are evaluated by three measures:

- Subsidies for new orchards established with the criteria of minimum 0,3 ha in 2007 and 75.000 MKD per ha; 0,2 ha in 2008 and 90.000 MKD per ha in 2008 and 2009
- Subsidies for the orchards established in the last 1-2 year, 10.000 MKD per ha in 2007 and 2008, and 18.000 MKD per ha in 2009
- Maintenance of the existing apple orchards in 2009 is 43.700 MKD per ha

Establishment of new orchards	2007	2008	2009
Amount planned in MKD	27.766.500	30.000.000	96.000.000
Amount disbursed in MKD	19.760.306	32.886.714	90.904.297
Number of users for new orchards	-	501	927
Average amount per user for new orchards	-	65.642	98.063

Table 20: Establishment of new orchards
Source: SSO, 2010

Orchards established 1-2 years ago	2008
Number of users	515
Amount planned in MKD	7.600.000,00
Amount disbursed in MKD	7.252.376,00
Average amount per user for present orchards	14082

Table 21: Orchards established 1-2 years ago
Source: SSO, 2009

Maintenance of existing apple orchards	2009
Number of users	110
Amount planned in MKD	5.000.000,00
Amount disbursed in MKD	2.357.805,00
Average amount per user for apple orchards	21.435

Table 22: Maintenance of existing apple orchards
Source: SSO, 2009

The data from the subsidies spent show a large financial support for the fruit sector. From the measure establishment of new orchards, the conclusion is that in 2007 around 264 ha were new orchards established, in 2008 there were 365 ha of new orchards and in 2009 around 1010 ha.

This is a significant number since the subsidies directly supported the establishment of about 1.700 ha of new orchards in only three years, which is significant for the Macedonian fruit sector.

The measure for the support of the newly established orchards, 1-2 years old in 2008, cost the state additional 7.252.376 MKD for 725 ha of established orchards in 2006 and 2007.

In 2009 a similar measure was established only for the existing apple orchards where 110 users received 18.000 ha, which accounts for about 130 ha of apple orchards.

From the numbers of the existing orchards in 2008, or 725 ha and the number of 515 users, we can conclude that the average orchard size was 0,71 ha in 2006 and 2007.

The stimulative measures for the fruit sector illustrate an increase both in the production size and export quantities.

SUBSIDIES TO THE FRUIT SECTOR	2007	2008	2009
TOTAL PLANNED	28.466.500,00	35.700.000,00	103.600.000,00
TOTAL DISBURSED	19.760.306,00	35.679.519,00	98.156.673,00

Table 23: Subsidies to the fruit sector
Source: MAFWE, 2010

The total subsidies for the fruit sector in the last three years increased from 19.760.306 MKD in 2007 up to 98.156.673 MKD in 2009, which is the largest support for the fruit sector from the independence of Macedonia. The results in the fruit sector are visible, and the information from the field confirms the expansion of new orchards in almost all fruit sub-sectors.

+	-
Increase of the fruit production, especially of the apples production size	In general, inappropriate varieties of apple production that lead to low export values
The subsidies have stimulated establishment of around 5000 new hectares in the last four years	Unspecified subsidies in terms of varieties and certified seedlings
Reinforcing the fruit production in the country that has been almost dying	Documentation problems (lack of ownership documents) for receiving subsidies
Increased participation of active labor in the sector	Absence of active policy for support of the replacement of old apple varieties with more competitive varieties or other fruits
Overall correlation of the support policy with the Common Agriculture Policy of the EU	

iii. Processed Products

Fruit and vegetable processing industry in the country plays a very important role, as the agriculture in general is one of the leading sectors based on its participation in GDP and the labor involved in the sector. The processed products have important export value that in the last decade has reached around 40 million US \$.

Processing activities according to the raw material inputs

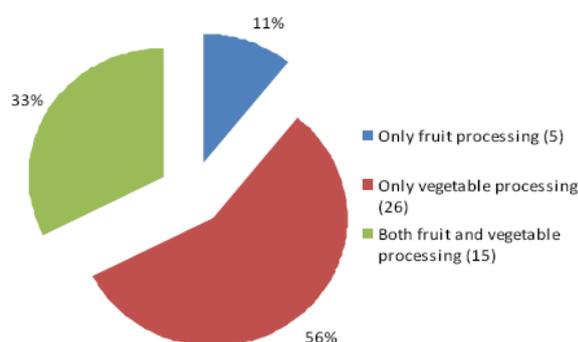


Chart 41: Processing activities according to the raw material inputs

Source: Survey on the Performance of the Fruit and Vegetable Processing Industry 2009, Saso Risteski, 2010

According to the Survey for the Performance of the processing industry in Macedonia, the processing activities according to the raw material inputs are based mostly on vegetables processing, with the engagement of about 56% of the total processing industry; the fruit processing industry covers only 11%, while the combination of both amounts to 33%.

The buy-out in the last five years shows an increase till 2008, when it reached around 75.000 tones, while in 2009 it showed a decrease of about 10%.

Year	Buy out of F&V (in '000 t.)	Increase in % (compared to the previous year)
2005	50,2	-
2006	66,3 ⁴	+ 32,1
2007	57,5	-13,3
2008	74,8	+ 30
2009	67,1	-10,3

Table 24: Buy out of Fruit and Vegetables

Source: Survey on the Performance of the Fruit and Vegetable Processing Industry 2009, Saso Risteski, 2010

The overall output of the processing industry in the period 2003-2009 illustrates increase of the processing quantities from 21.000 tons in 2003 to 54.000 tons in 2008.

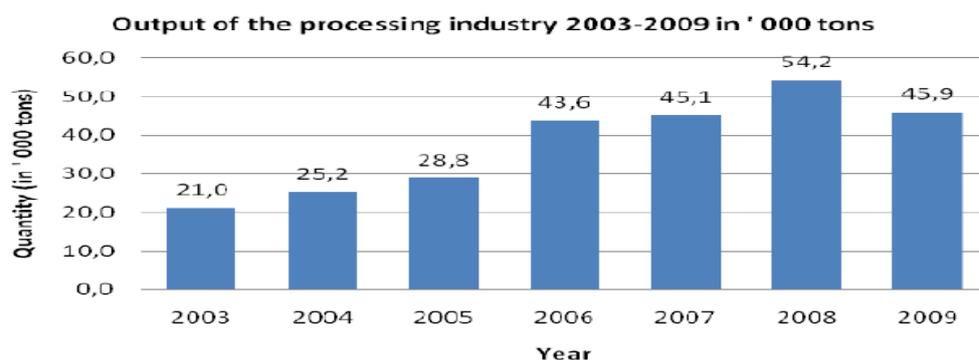


Chart 42: Output of the processing industry 2003-2009 in '000' tons

Source: Survey on the Performance of the Fruit and Vegetable Processing Industry 2009, Saso Risteski, 2010

In the overall performance table, the total production increases up to 2008 in line with the export and domestic market consumption, while only in 2009 it fell for about 8% of the total production.

Table 6: Performance of the F&V processing industry 2004-2009

Year	Total production ('000 t.)	Export ('000 t.)	Domestic market ('000 t.)	Export value (in Mil. €)
2004	25,2	18,2	6,0	13,8
2005	28,8	21,0	6,8	17,8
2005/2004	+ 2,5	+ 2,8	+ 0,8	+ 4,0
2006	43,6	25,6	7,5	23,5
2006/2005	+ 15,4	+ 5,0	+ 0,7	+ 5,7
2007	45,1	30,3	7,9	28,1
2007/2006	+ 1,5	+ 4,7	+ 0,4	+ 4,6
2008	54,2	33,0	8,5	36,9
2008/2007	+ 9,1	+ 2,7	+ 0,6	+ 8,8
2009	45,9	33,5	8,6	39,8
2009/2008	-8,3	+0,5	+ 0,1	+2,9

Table 25: Performance of the F & V processing industry 2004-2009

Source: Survey on the Performance of the Fruit and Vegetable Processing Industry 2009, Saso Risteski, 2010

Participation of subsidies in the production price of open field tomatoes for 2009	
Production price per kg in MKD	11.20
Subsidy per kg in MKD	0.35
Participation of subsidies in the production price	3%

Table 26: Participation of the subsidies in the production price of open filed tomatoes for 2009

Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows that the participation of the subsidy in the production price of open field tomatoes, taken as a sample in 2009, is 18%.

Participation of subsidies in the production price of open field cucumbers for 2009	
Production price per kg in MKD	9.29
Subsidy per kg in MKD	0.29
Participation of subsidies in the production price	3%

Table 27: Participation of subsidies in the production price of open field cucumber for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

From the above table it could be seen that the participation of the subsidy in the production price of open field cucumbers, taken as a sample in 2009, is 22%.

Participation of subsidies in the production price of open field peppers for 2009	
Production price per kg in MKD	10.03
Subsidy per kg in MKD	0.49
Participation of subsidies in the production price	6%

Table 28: Participation of subsidies in the production price of open field peppers for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

From the above table it could be seen that the participation of the subsidy in the production price of open field peppers, taken as a sample in 2009, is 20%.

Subsidies for the sector

There are no specific subsidies for the processing industry sector, as most of the subsidies related to specific products are per kg of product sold to the processing capacity. At the present subsidies measures, there are subsidies per kg of products sold (from the sectors related to this research) for vegetables only. The subsidies for open field production varied in the criteria and in the value planned. In general, there is less interest for the use of this kind of subsidy. These subsidies are related to the products sold to the processing industry. Even though the subsidies were based on the quantities sold to the processing industry by 2009; the subsidies were counted on the basis of production area. Only in 2010 the subsidies are counted per kg, which in the farmers' opinion from the focus group discussions is the most appropriate. This will have an impact on the subsidies spent in 2010, where it is expected an increase in the number of applications and the amount disbursed. The value of the disbursed amount in 2007 and 2008 was rather symbolic, namely, it covered 130 ha in 2007 and 147 ha in 2008, while in 2009 it covered 167 ha.

Open Field Vegetable Support	2007	2008	2009
Amount planned in MKD	2.352.900	7.000.000	1.000.000
Amount disbursed in MKD	1.561.104	1.772.555	251.632
Number of users	-	138	151
Average amount per user	-	12.845	1.666

Table 29: Open field Vegetable Support (direct subsidies)

Source: MAFWE, 2010

The planned support for 1,5 MKD per kg sold in the processing industry will increase the value of the subsidies disbursed, but it will also improve the relations between the producers and processors, and secure raw materials for the processors on one side, and create competitive domestic market possibilities for the open vegetable production on the other side..

+	-
The subsidies have stimulated the buy-out of the open field vegetable for 30% in the period 2004-2009	No specific measures for support of the fruit buy-out
The total output of the processing industry increased for 80% in the period 2004-2009	No consistency in the subsidies over the years (absence of planning)
Overall correlation of the support policy with the Common Agriculture Policy of the EU	Documentation problems (lack of ownership documents) for receiving subsidies

iv. Grapes

Grapes production is an old tradition of the country over a hundred years old.. The grapes production area has fluctuated over the last ten years and it decreased from 30.000 ha in 1998 to 20.000 ha in 2009 though the yields remained on the same level.

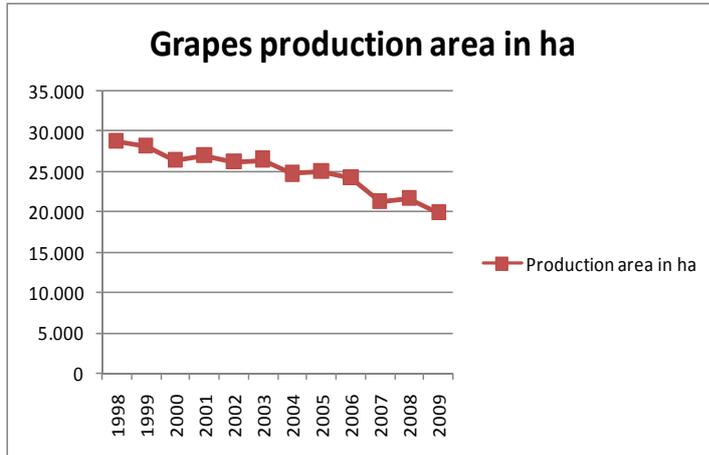


Chart 43: Grapes production area in ha over the last decade
Source: SSO, 2010

The grapes production and export quantities in the last ten year period have very small fluctuations. The data below cover both wine and table grapes production. The table grapes production has increased in the last few years in comparison to the wine grapes, which is still the dominant product in the sub-sector.

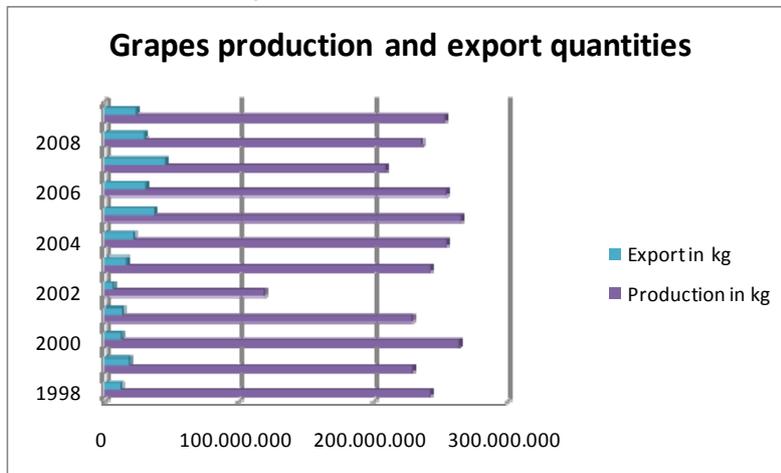


Chart 44: Grapes production and export quantities
Source: SSO, 2010

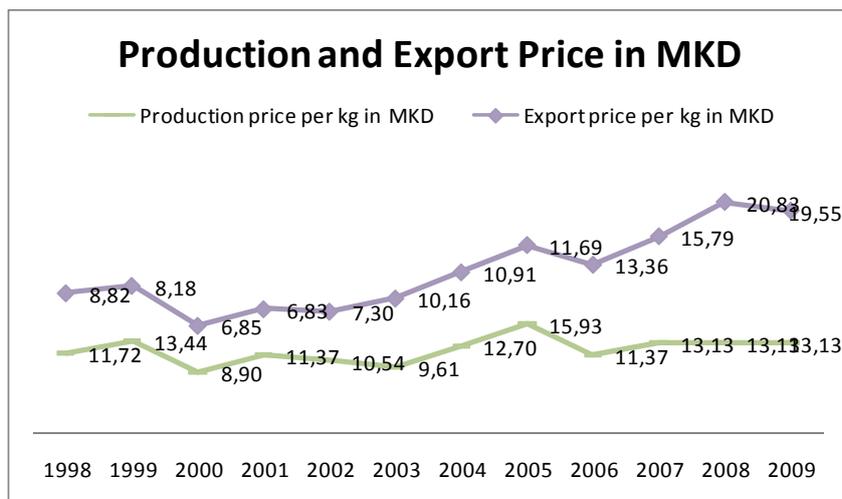


Chart 45: Production and Export Price of Grapes in MKD
Source: FAOSTAT, 2010

The production and export price increased slightly over the last decade. The export price increased from about 9 MKD in 1998 to 20 MKD in 2009, while during the same period, the production price increased from about 12 MKD to 13 MKD.

Participation of subsidies in the production price of grapes for 2009	
Production price per kg in MKD	13.13
Subsidy per kg in MKD	7.09
Participation of subsidies in the production price	54%

Table 30: Participation of subsidies in the production price of grapes for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table illustrates the participation of the subsidy in the production price of grapes, taken as a sample in 2009, which is 54%.

Subsidies to the sector

The subsidies for support of the grape sector consist of the following measures:

- Newly established vineyards, with defined criteria for a farm size of minimum 0.3 ha and support of 120.000 MKD per ha in 2008, and criteria for a farm size of minimum 0.2 ha and 140.000 MKD per ha for 2009 and 2010
- Present vineyards 7.500 MKD per ha in 2008 with minimal farm size of 0.3 ha, and in 2010 40.000 MKD per ha
- Production of domestic vineyard certified seedling material, with criteria of minimum 0.3 ha in 2008 for registered producers 2 MKD per seedling, 15 MKD per seedling produced by domestic producers in 2009 and 2010.
- Production of grapes sold in the wineries, 2 MKD per kg in 2008 and 2,5 MKD per kg in 2009

Measure: New established vineyards	2006	2007	2008	2009
Amount planned in MKD	18.800.000	35.000.000	59.000.000	93.000.000
Amount disbursed in MKD	25.430.981	18.726.289	65.035.588	78.959.722
Number of users	-	-	284	472
Average amount per user	-	-	228.998	167.287

Table 31: Financial support (direct subsidies) for the new established vineyards
Source: MAFWE, 2010

The data from the period 2006-2009 show that 1500 ha vineyards were newly established, which confirms that the influence of the measures undertaken was great, and produced important results for the development of the sector. The amount spent in 2009 was for around 2400 ha, divided among 9.890 users. The number of present vineyards is much higher than the amounts spent, but as discussed in the focus groups on the field, there are real problems associated with providing the necessary documentations, especially related to the ownership status for receiving the subsidies.

Measure: Present vineyards	2009
Amount planned in MKD	105.000.000,00
Amount disbursed in MKD	96.364.322,00
Number of users	9.890
Average amount per user	9.744

Table 32: Financial support (direct subsidies) for the present vineyards in 2009
Source: MAFWE, 2010

In order to support the domestic wine industry (which has increased its capacities for additional 40% since a decade ago) with quality domestic production, the state provides stimulation on the quantities sold to domestic wineries. The subsidy in this measure is:

Measure: Production of grapes sold in the wineries	2008	2009
Amount planned in MKD	276.219.248	280.000.000
Amount disbursed in MKD	282.121.980	236.302.700
Number of users	7.936	7.486
Average amount per user	35.550	31.566

Table 33: Production of grapes sold in the wineries in 2008 and 2009
Source: MAFWE, 2010

The quantities sold in 2008 and 2009 according to subsidies spent amount to 141.060.990 kg in 2008 and 94.521.080 kg in 2009. This measure has improved the relations between the wineries and the farmers, and has increased the quantities sold as raw material to the wineries.

Measure: Production of domestic vineyard certified seedling material	2007	2008	2009
Number of users		-	1
Amount planned in MKD	800.000	-	4.710.000
Amount disbursed in MKD	-	-	90.000
Number of users	-	-	1
Average amount per user	-	-	90.000

Table 34: Production of domestic vineyard certifies seedling material 2007-2009
Source: MAFWE, 2010

The measure with very low usage is the production of domestic vineyard certified seedling material, where only one user received the amount of 90.000 MKD in 2009.

	2006	2007	2008	2009
TOTAL vine growing planned	18.800.000,00	35.800.000,00	335.219.248,00	482.710.000,00
TOTAL vine growing disbursed	25.430.981,00	18.726.289,00	347.157.568,00	411.716.744,00

Table 35: Total direct subsidies for the vine growing, 2006-2009
Source: MAFWE, 2010

All in all, the vine growing sector is heavily supported in the last four years, where the support of 25.430 981 MKD in 2006 rose up to 411.716.744 MKD in 2009. The support is not divided between the wine and table grapes, they both belong to the same package in the subsidies and the table grapes can receive support only for new and present vineyards maintenance.

	2006	2007	2008	2009
Value of Export in US \$	8.857.633	15.370.414	13.367.418	9.924.363
Value of Subsidies in US \$	535.389	394.238	7.308.580	8.667.721
% of Subsidies in the Export	6%	3%	55%	87%

Table 36: Participation of subsidies in the export value
Source: MAFWE, 2010

The overall increase of subsidies in the last four years has tremendously increased from 6% participation of subsidies value in the export value in 2006, to 87% in 2009.

This is a very high level of participation of subsidies in the export value. The effects of increased size of new vineyards, and improved buy-out can only be justified with increased export values in the next period, which, besides the direct support to the primary producers, have decreased from 2007 onwards.

+	-
Overall increase of the subsidies from around 535.000 US \$ in 2005 to over 8.5 mill US\$	Increase of the participation of the subsidies in the overall export from 6% in 2006 to 87% in 2009
Increase of the number of new vineyards for 1500 ha in three years	Decrease of the export value for 40% in three years
Improvement of the buy-out of the	No specific support to the table grapes

grapes to the wineries and increased buy-out price	
Increased participation of active labor in the sector	Documentation problems (lack of ownership documents) for receiving subsidies
Overall correlation of the support policy with the Common Agriculture Policy of the EU	

v. Honey and organic products

Organic production in Macedonia is still in an early stage of development. Out of the total agriculture area in Macedonia, the organic share is around 1%. According to the statistics, the organic agriculture area increased from 226 ha in 2005 up to 1.056 ha in 2008. The number of organic farms expanded from 50 in 2005 to 264 in 2009. By 2011 the Government of Macedonia would like to increase the overall share of the organic agriculture to 2% of the area.

From the data in 2008, there are 402 ha under organic cereals, 129 ha of other crops and arable land, 106 ha of pastures, 142 ha of vegetables, 211 ha of fruits and 60 ha of wine grapes. There are 377 dairy cows, 22.058 sheep and 1.039 goats, and the most significant product is honey with 15.455 beehives.

For that reason the bees are taken as representatives for the organic subsidy analysis.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Beehives	74.843	74.972	75.000	75.000	75.000	70.000	66.738	67.804	58.307	58.307

Table 37: Number of beehives in Macedonia 1999-2008
Source: SSO, 2009

The number of the beehives has decreased over the last ten years from 75.000 hives to 58.000 hives. The participation of the organic beehives in the total number of beehives in 2008 was 15.455 which represents 26,5 % of the total number, and it is the largest participation of organic production in the total production in the country.

The export –import of honey show permanent quantities in terms of export, something between 26.000 and 80.000 kg, while the import was the highest in 2002 reaching more than 250.000 kg, decreasing gradually to a very small, almost insignificant amount over the following years.

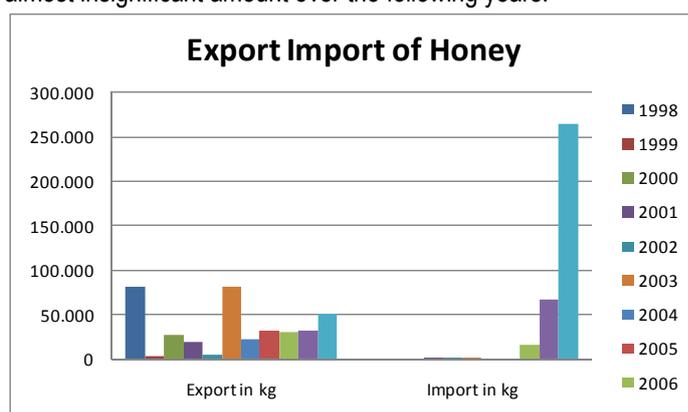


Chart 46: Export Import of Honey
Source: SSO, 2010

MEASURES	2008	2009
ORGANIC PRODUCTION		
Measure 4.3. Financial support of organic fruit production		
Amount planned in MKD		1.500.000,00
Amount disbursed in MKD		1.039.495,00
Number of users		48
Average amount per user		21.656,00
Measure 4.4. Financial support for organic bee keeping		
Amount planned in MKD	10.743.790,00	13.000.000,00
Amount disbursed in MKD	9.994.000,00	12.743.500,00
Number of users	127	142
Average amount per user	78.693,00	89.743,00
Measure.4.5. Financial support for organic vineyards		
Amount planned in MKD	-	1.500.000,00
Amount disbursed in MKD	-	436.908,50
Number of users	-	7
Average amount per user	-	62.415,00
Measure.4.6. Financial support for organic vegetable production		
Amount planned in MKD	-	2.600.000,00
Amount disbursed in MKD	-	1.479.637,00
Number of users	-	15
Average amount per user	-	98.642,00
Measure.4.7. Financial support for organic sheep breeding		
Amount planned in MKD	-	33.000.000,00
Amount disbursed in MKD	-	16.908.950,00
Number of users	-	33
Average amount per user	-	512.392,00
TOTAL PLANNED	10.743.790,00	51.600.000,00
TOTAL DISBURSED	9.994.000,00	32.608.490,50

Table 38: Overview of the financial support for organic agriculture in 2008 and 2009
Source: MAFWE, 2010

The organic production support, as elaborated in the table above, was heavily supported in both 2008 and 2009, when in 2009 the planned support was around 52.000.000 MKD. This support is very high when the size of production is in question. So, most subsidies are spent on organic bee keeping, around 13.000.000 MKD in 2009 compared to the subsidies spent on organic fruit production, only 440.000 MKD, mainly on kaki and berries. The financial support for sheep breeding was also very high, around 17.000.000 MKD. The organic subsidies cover not only the certified production, but also the production in certification (transition period). For that reason the rough calculation of organic production related to the disbursed amount cannot be taken as an absolutely exact number.

+	-
Highly supported sector 51.600.000 MKD in 2009	Misuse of subsidies in the process of conversion
The beekeeping sector shows the best performance	Limited market domestic market for organic products (low consumer awareness, same prices ads for conventional)
Development of new products generally competitive on the export market	Limited export market (low quantities, not approved certification)
Overall correlation of the support policy with the Common Agriculture Policy of the EU	Inappropriate support for the organic sector

vi. Meat, milk and eggs

Lamb Meat

With a century's long tradition in sheep production, this sector has played a very important role in the livestock production of the Republic of Macedonia. Traditionally and historically, small ruminants have been the bulk of animal stock in the country, primarily because of its specific semi-arid climate and mountain-hilly character (56% of the land). Macedonia has approximately 651.000 ha of pastures, 53.000 ha of meadows and 36.000 ha of fodder crops, which altogether represent a good basis for sheep production. The pastures, being mainly located in hilly and mountainous areas, occupy 49% of the overall agricultural land. They are mainly used for summer feeding of small ruminants. One hectare of summer pastures can meet the nutritional requirements of roughly 3 sheep.

Besides the good preconditions and the tradition, the number of sheep heads remained stable until 2006, with approximately 1.200.000 sheep heads, while in the following years it gradually decreased to 800.000 heads.

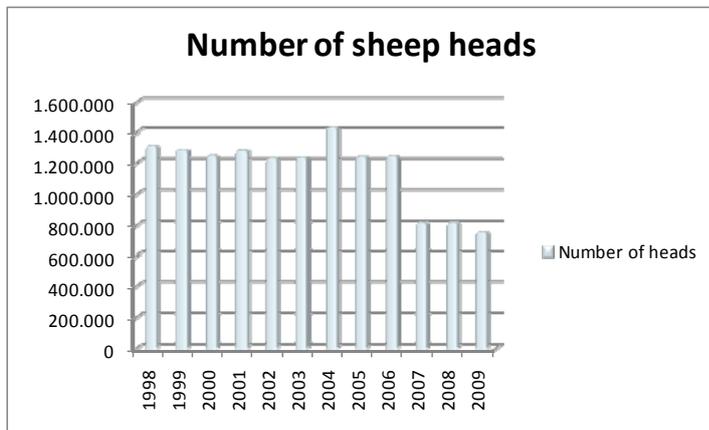


Chart 47: Number of sheep heads 1998-2009
Source: SSO, 2010

In the same period, the lamb meat production decreased from around 6.000.000 kg in 2006 to around 5.000.000 kg in 2009. The export quantities did not changed much and in average, in the last eight years, they are around 2, 7 mill kg.

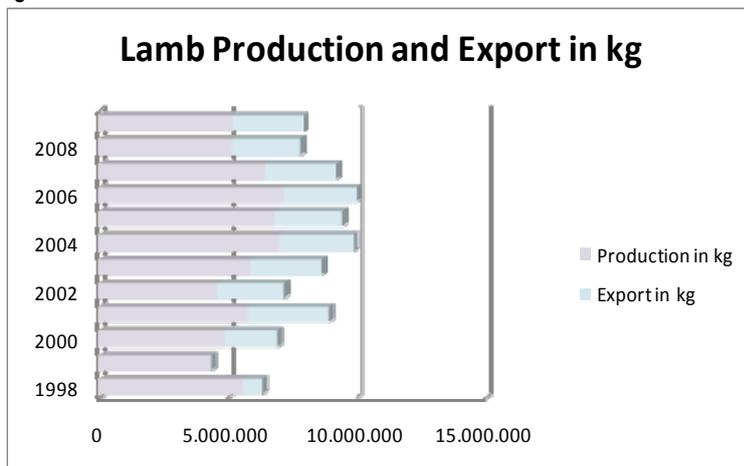


Chart 48: Lamb Production and Export in kg 1998-2009
Source: SSO, 2010

The export value of the lamb production is high above the import value. Macedonia is a net exporter of lamb meat. The export value reached almost 19.000.000 US \$ in 2008. Lamb is considered one of the top 5 export products of Macedonia.

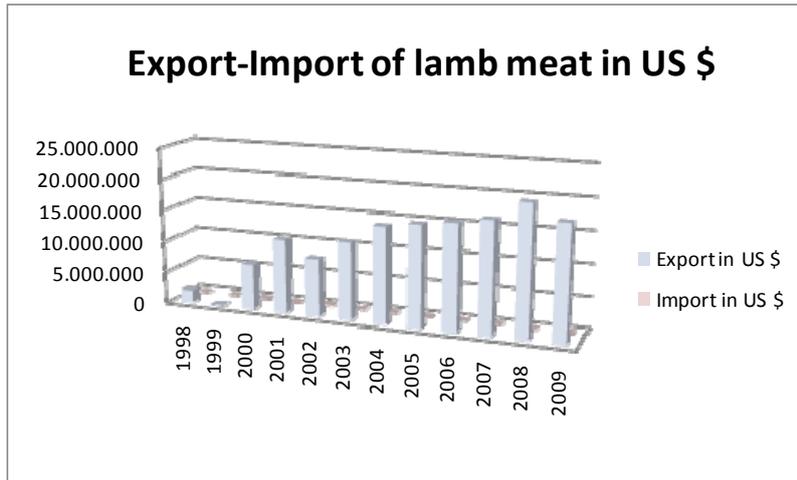


Chart 49: Export-Import of lamb meat in US \$ 1998-2009
Source: SSO, 2010

The comparison between the export and production price for lamb meat shows that the production price did not increase much over the last decade, with around 100 MKD per kg, while the export price has increased significantly since 2005, with export price between 400-450 MKD per kg.

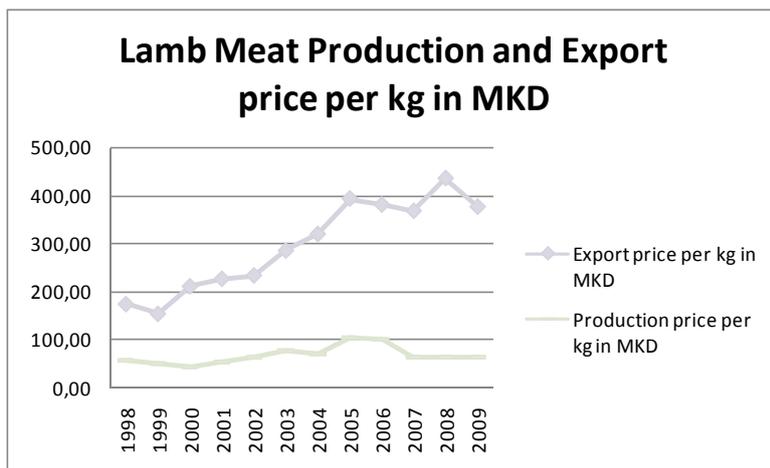


Chart 50: Lamb Meat Production and Export price per kg in MKD 1998-2009
Source: SSO, 2010

Participation of subsidies in the production price of lamb meat for 2009	
Production price per kg in MKD	125

Subsidy per kg in MKD	56.57
Participation of subsidies in the production price	45%

Table 39: Production of subsidies in the production price of lamb meat for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows that the participation of the subsidy in the production price of lamb meat, taken as a sample in 2009, is 45%.

Subsidies for the sector

The sheep subsidies for the sector are represented by three main measures:

- Support for female sheep introduced and relevant from 2006 to 2008 when the minimum criteria were 50 heads, and the subsidy was 2.000 MKD per female head
- Support for male sheep for reproduction, in 2008, 2009, and 2010 was 50% of the purchase price, but not more than 15.000 MKD per head (original) or 5.000 MKD per head (reproduction)
- Support for every sheep (both male and female) is a measure active since 2009 with 850 MKD per head of minimum 30 heads in 2009, and 900 MKD per head in 2010

Female Sheep Support	2006	2007	2008
Amount planned in MKD	90.500.000,00	237.450.000,00	200.000.000,00
Amount disbursed in MKD	110.008.744,00	222.194.860,00	175.136.652,00
Number of users	-	-	2976
Average amount per user	-	-	58.850,00

Table 40: Female Sheep Support 2006-2009
Source: SSO, 2010

Related to the measures for the support of female sheep, the disbursed amount increased almost fivefold from 2006 to 2009, reaching support of 557.102.655 MKD.

Male Sheep Support	2008	2009
Amount planned in MKD	60.000,00	375.000,00
Amount disbursed in MKD	468.921,00	45.000,00
Number of users	7	2
Average amount per user	66.989,00	22.500,00

Table 41: Male Sheep Support 2008-2009
Source: SSO, 2010

The amount for support of male sheep in 2008 was around 470.000 MKD while in 2009 it decreased to only 45.000 MKD.

Sheep Support	2009
Amount planned in MKD	580.000.000,00
Amount disbursed in MKD	557.102.655,00
Number of users	4757

Average amount per user	117.112,00
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Table 42: Sheep Support 2009
Source: SSO, 2010

+	-
Tenfold increased subsidies for the sector in four years reaching 558.000.000 MKD	Decrease of the overall sheep fund
Increase of export up to 19.000.000 US \$ in 2008	No export subsidies
Support of purchase of male sheep to improve the performance of the flock	Late disbursement of the subsidies to the producers
Overall policy to support the sheep farming and increase the sheep fund	Limited export market quota for EU
IPARD funding up to 60% covering the investment expenses available for farmers	

Poultry Meat and Eggs

The poultry industry has an important role due to the size of the industry, the production capacity and the domestic consumption. The number of layers in the country in the last several years decreased from around 3.200.000 heads in 1998 to around 2.000.000 in 2009.

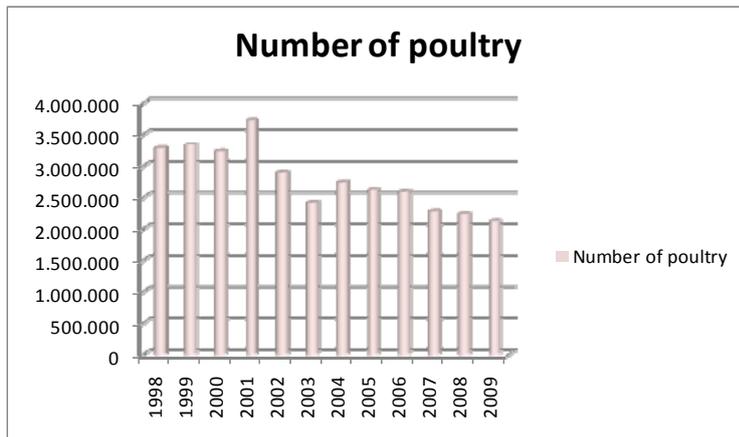


Chart 51: Number of poultry 1998-2009
Source: SSO, 2010

At the same time, the production decreased from around 5.000.000 kg in 2000 to something above 3.000.000 kg in 2008. The export of the poultry is insignificant both in quantities and value in US \$.

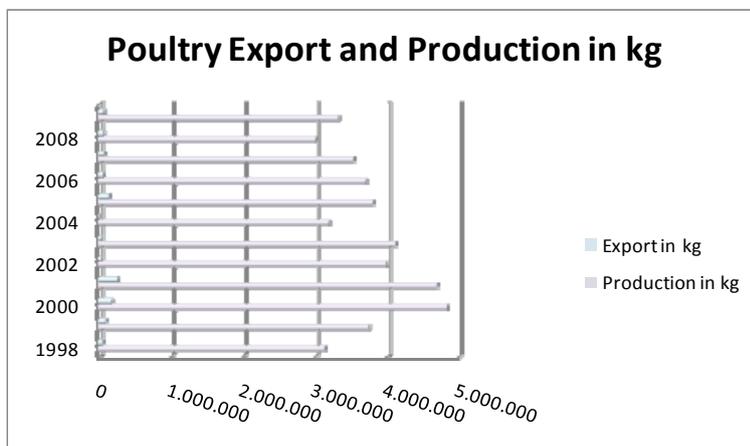


Chart 52: Poultry Export and Production in kg 1998-2009
Source: SSO, 2010

The value of export-import of poultry meat leads to the conclusion that Macedonia is a net importer of poultry meat with increasing import from a value of 20.000.000US \$ in 1998 up to 43.000.000 US in 2008.

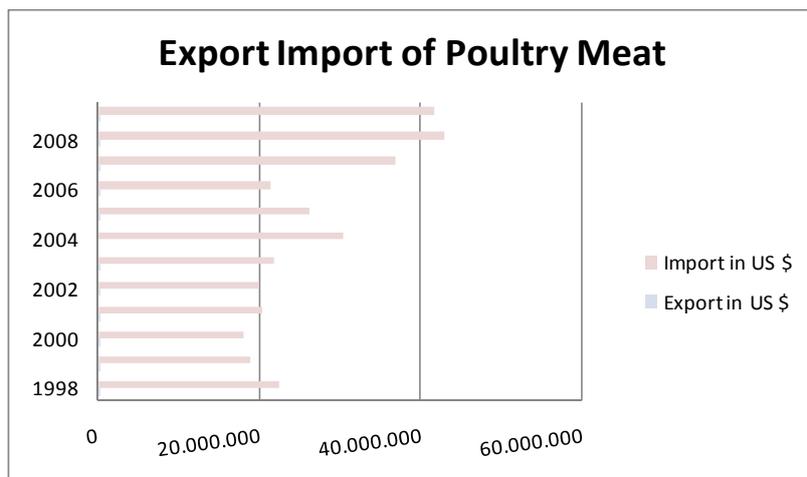


Chart 53: Export Import of Poultry Meat 1998-2008
Source: SSO, 2010

The poultry production and export price were stable over the last decade, where the production price increased for only 20%, while the export price was doubled in the same period. It is important to underline the year 2003, when the export price increased to 94 MKD from 34 MKD and the next year returned to 51 MKD, which was the result of the global market influences and various affairs associated with the avian influenza in the last ten year period.

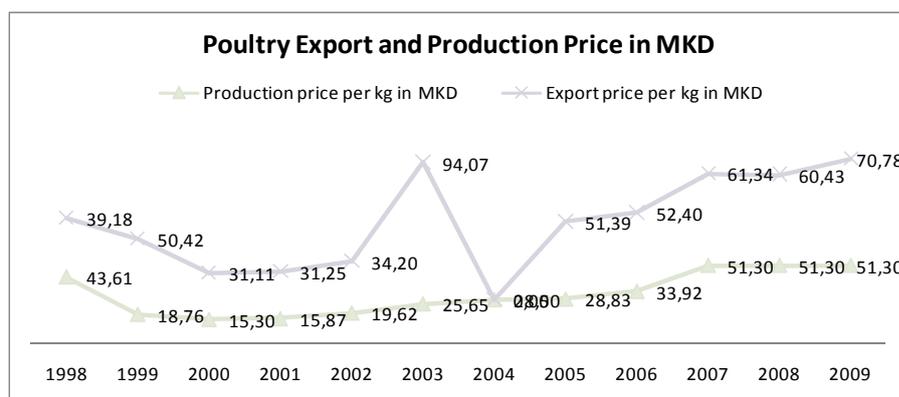


Chart 54: Poultry Export and Production Price in MKD
Source: SSO, 2010

Participation of subsidies in the production price of broiler chicken meat for 2009	
Production price per kg in MKD	102.6
Subsidy per kg in MKD	22
Participation of subsidies in the production price	21%

Table 43: Participation of subsidies in the production price of broiler chicken meat for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows that the participation of the subsidy in the production price of broiler chicken meat, taken as a sample in 2009 as sample, is 21%.

The eggs production is organized on ten big farms with the average capacity of 80-100.000 layers and small family owned farms with the capacity of 2-5000 hens. These farms include 830 793 layers with the average production of over 300eggs/year²⁰. Other 1 398 597 layers are backyard poultry with the average production of 108 eggs/hen/year kept for the household needs. The egg production is self-sufficient for the state. The egg production decreased over the last ten years from 450.000.000 eggs in 1999 to around 270.000.000 eggs in 2009.

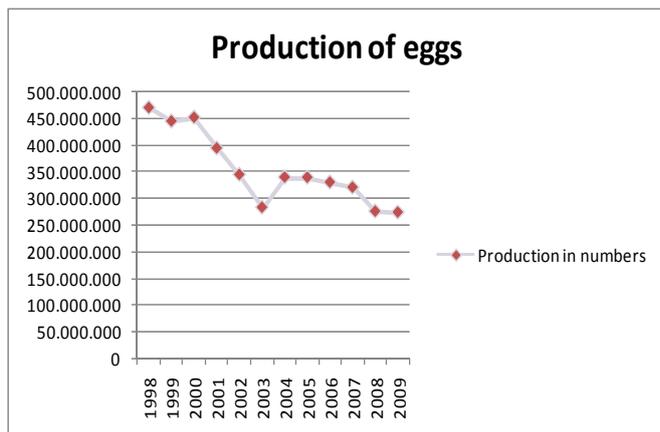


Chart 55: Production of eggs 1998-2009
Source: SSO, 2010

The export import statistics in US \$ shows some incidental increases of the export in 2000 and 2007 with a value of 3.000.000 US \$ and 1,8 mil US \$ respectively. The import was insignificant till 2007 when it reached 1.000.000 US \$, and for the first time in 2008 Macedonia imported 2 mill US\$ and exported only 280.000 US \$.

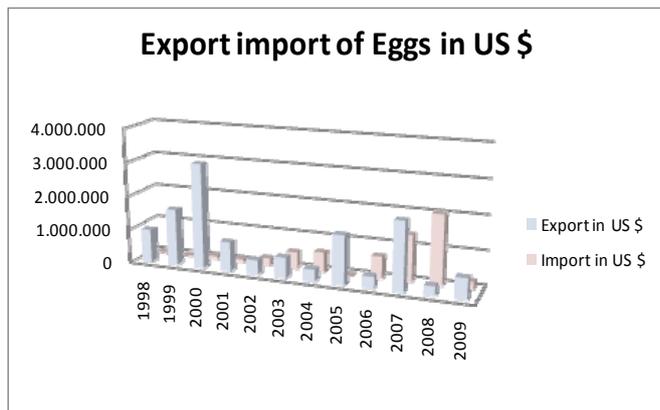


Chart 56: Export Import of Eggs in US \$
Source: SSO, 2010

The eggs production and export prices vary, namely, the production price decreased from 77 MKD in 1998 to 45 MKD in 2009, while the export price increased from 36 MKD in 1998 to 59 MKD in 2009.

²⁰ Dragoslav Kocevski, PhD, EPICENTAR Broiler Market Research Study, 2007

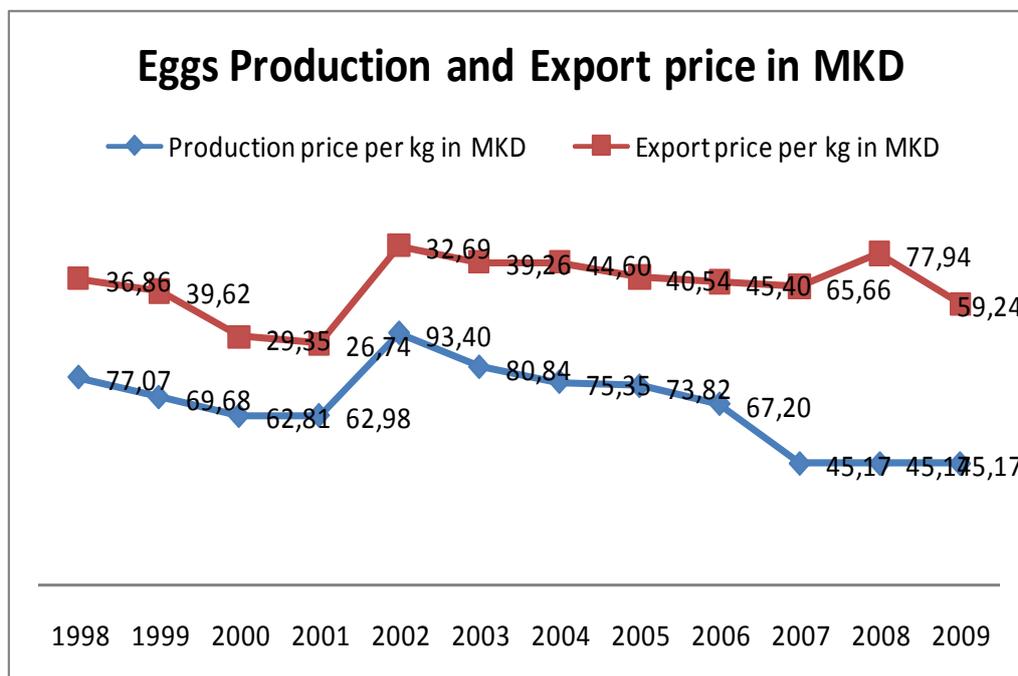


Chart 57: Eggs Production and Export Price in MKD
Source: FAOSTAT, 2010

Subsidies for the sector

The sector is supported by several measures consisting of:

- Support for broilers production, with the criteria of minimum 2000 chicken grown) and 10 MKD per broiler sold in 2008, and minimum 1000 chicken grown, and 22 MKD per broiler sold in 2009.
- Depreciated poultry sold to the processing capacities for meat, 8 MKD per poultry sold (for farms with minimum 2000 hens) in 2008; and under the same criteria, 20 MKD in 2009 and 22 MKD in 2010
- Support for the production of one day broiler chicken, 2 MKD per chicken in 2008, 3 MKD per chicken in 2009 and 2010
- Support for the production of one day chicken from oviparous hybrid, 2 MKD per chicken in 2008, 3 MKD per chicken in 2009 and 2010

According to the following table, the support for the poultry sector in general was very high in 2008, reaching 6,9 million MKD, and 22.652.160 MKD planned for 2009. The amount spent on the production of broilers decreased in the period 2007-2008. The production of one day chicken was supported with 630.000 MKD in 2008 and 2,5 mill MKD planned for 2009.

	2007	2008	2009
Measure: Production of broilers			
Amount planned in MKD	15.000.000,00	4.000.000,00	14.470.000,00
Amount disbursed in MKD	6.823.142,00	4.646.740,00	N.A.
Number of users	-	7	-
Average amount per user	-	663.820	-
Measure: Depreciated poultry sold for meat to the processing capacities			
Amount planned in '000 MKD	-	2.000.000,00	4.200.000,00
Amount disbursed in '000 MKD	-	1.390.192,00	-
Number of users	-	2	-
Average amount per user	-	695.096,00	-
Measure: Production of one day chicken for broilers			
Amount planned in MKD	1.000.000,00	205.710,00	1.498.350,00
Amount disbursed in MKD	304.176,00	205.710,00	N.A.
Number of users	1	1	-
Average amount per user	304.176,00	205.710,00	-
Measure: Production of one day chicken from oviparous hybrid			
Amount planned in MKD	-	628.910,00	2.483.810,00
Amount disbursed in MKD	-	628.910,00	-
Number of users	-	1	-
Average amount per user	-	628.910,00	-
TOTAL PLANNED	16.000.000,00	6.834.620,00	22.652.160,00
TOTAL DISBURSED	7.127.318,00	6.871.552,00	-

Table 44: Total subsidies for the poultry sector 2007-2009
Source: MAFWE, 2010

The realization of the subsidies in the sector is relatively low, due to either the inappropriate support measures, or lack of information and awareness for the support measures available. The most important part in the subsidies should be addressed in the decrease of import, further support of the increase of the export of eggs, and further support of the production of broilers.

+	-
Increased subsidies in the sector from 16.000.000 MKD in 2007 to 22.5 mill MKD in 2009	Very low realization (use)of the subsidies
More than 60% of the subsidies in the sector related to broiler production	Tremendous decrease of the production and export of eggs in the last four years
IPARD funding up to 60% covering the investment expenses available for farmers	High increase of the import of poultry meat in the last three years
IPARD funding for new slaughter houses for broiler meat available	Limited export market quota for EU

Dairy

Sector Characteristics

The Macedonian dairy farming, as the rest of the holdings, went through dramatic structural changes during the economic transition period, which started with the country's independence gained in 1991. Since then, the agricultural sector has been characterized with a lack of and insufficient markets (www, World Bank, 2009). The brake-up of the Yugoslavia and the following regional conflicts meant a loss of a large and protected traditional market, so farmers became vulnerable to the competition. The privatization of the agricultural holdings and the milk processing capacities fragmented both the production and processing capacities into small, local, regionally²¹ oriented market capacities in the decade 1996-2006. During this period, besides these small processing industries, a few national milk processing industries took the lead in the dairy production so that in 2008 there were 71 registered dairy plants in the country.

The establishment of SWEDMILK in 2006 increased the expectations of the dairy industry in the country. The system of contract-farming was improved, the groups of producers received lacto freezers for free use, and the buy-out of the milk was in time, with very competitive buy-out prices. Though unrealistic in some perspectives (limited market, no export, expansion in production, high buy-out price, and competitive retailer price), it was one of the factors, which motivated farmers to start investing in new farms, increasing the heads per farm, building new farm facilities and improving the general conditions.

Two years later, after almost 10 months of unpaid buy-out to the farmers, SWEDMILK collapsed. This collapse can be considered as one of the largest strike on the Macedonian dairy sector in the last two decades. The farmers started to sell cows; they were not solvent to repay the loan installments and went into plenty of complicated problems, where the only viable solution was to sell their business.

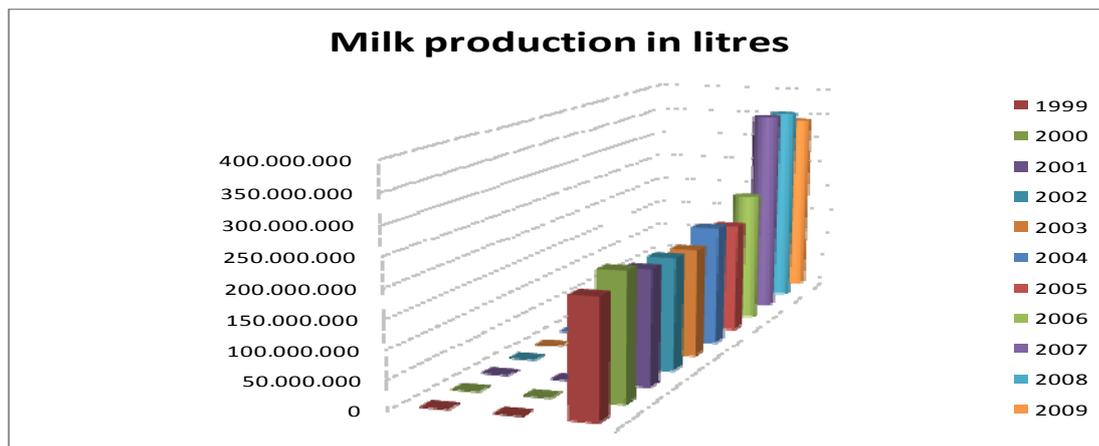


Chart 58: Milk production in liters 1999-2009
Source, SSO 2009

²¹ In the period between 1996 and 2006 the number of small milk processing capacities has raised. The market of this companies was mainly their own municipalities

The milk production in the period 2006-2008 increased and reached its zenith in 2008 with 368.217.000 liters produced milk. As a result of the SWEDMILK collapse and decrease of the farms, the milk production in 2009 fell down to 342.662.000 liters.

Important to highlight is the import of milk²² in 2008 and 2009, when there was an increase of 46, 6%, while at the same time, the export decreased for 2.74 times.

Milk	2008	2009
Export in liters	3.192.473	1.161.705
Import in liters	11.454.603	16.802.450

Table 45: Milk Export Import 2008-2009
Source: SSO, 2009

The yields have an increasing trend from 1999 onwards and have improved from 1902 liters/head in 1999 to 3004 l/head in 2010.

Cattle			
	2007	2008	2009
Republic of Macedonia	253.766	253.473	252.521
Southeast Region	70.636	61.354	
Pelagonija Region	42.768	46.237	
Northeast Region	35.936	37.540	
Polog Region	28.262	29.283	
Skopje Region	27.732	28.944	
Southwest Region	25.076	23.049	
East Region	15.900	17.402	
Vardar Region	7.456	9.664	

Table 46: Cattle Fund 2007-2009
Source: SSO, 2010

The number of cattle decreased in 2008 and 2009, and the projection is that this decrease will continue in 2010. Data on a regional level are not available for 2010, but as it could be seen from Table 46, in 2007 and 2008, most of the cattle fund was concentrated in three regions: Southeastern, Pelagonija and Northeastern. Out of 252.521 cows, 244.065 are in the individual sector. According to MAFWE, 75% of the individual producers have around 2 cows, while 20% have between 50 and 300 cows, the rest of 5% are in the category 3-50 cows. In total around 48.000 households have a cow, but only 25% can consider it as a real business.

²² UHT milk and some dairy products

The export-import data from this sector are disappointing, as the export in 2009 is more or less on the level of 1999, with a value of around 830.000 US \$, while the import in the same period has grown from a value of 5.580.849 US\$ in 1999 up to 12.926.360 US \$ in 2009. The highest export in the sector was reached in 2005, when the exported value was 5.441.843 US\$.

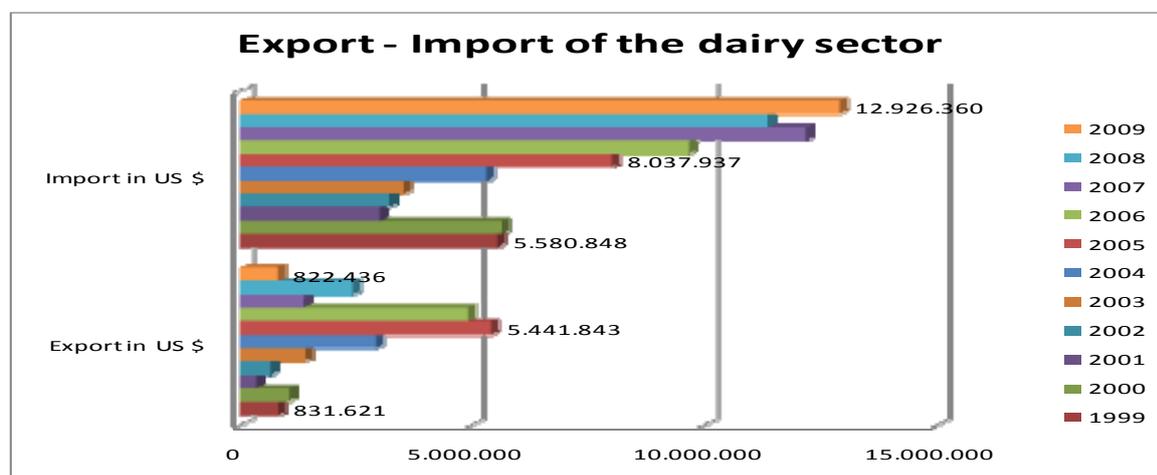


Chart 59: Export Import of the Dairy sector
Source: SSO, 2010

Participation of subsidies in the production price of dairy milk for 2009	
Production price per kg in MKD	18.41
Subsidy per kg in MKD	2,5
Participation of subsidies in the production price	14%

Table 47: Participation of subsidies in the production price of dairy milk for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

The above table shows that the participation of the subsidy in the production price of dairy milk, taken as a sample in 2009, 14%.

Subsidies for the sector

The sector is supported by the Government of Macedonia through several measures of financial support:

- 2, 5 MKD per liter sold milk in 2010 and 2009 and 4 MKD per liter sold in 2008
- 1500 MKD per head for cattle of low quality variety for a household of 1-20 heads (21-100 cows is 60%, 101-300 is 40%, and above 300 is 10%) in 2009
- 2000 MKD per head for cattle of high quality variety for a household of 1-20 heads (21-100 cows is 60%, 101-300 is 40%, and above 300 is 10%) in 2009

The number of users of direct subsidy per head in 2009 was 15.580 for low quality species and 20.401 for high quality species. The value of disbursed amount is 357.872.764 MKD for these measure(s). The number of users of the support per liter sold milk to the processing industry decreased from 12.434 users in 2008 to 10.971 users in 2009, while the amount disbursed decreased from 408.889.568 MKD to 175.438.412 MKD.

The subsidies in this sector in line with the establishment of SWEDMILK processing industry in 2006 lead to the enlargement of the sector, which, as a result of the limited market and the collapse of one large processing capacity lost its good business performance with parameters even worse than those a decade ago. The revival of the sector will demand quite a long time and organized support.

	2007	2008	2009
Measure: Cows of low quality species			
Amount planned in MKD	-	-	152.000.000,00
Amount disbursed in MKD	-	-	151.522.700,00
Number of users	-	-	15.580
Average amount per user	-	-	9.725,00
Measure: Cows of high quality species			
Amount planned in '000 MKD	363.710.100,00	-	210.000.000,00
Amount disbursed in '000 MKD	413.046.968,00	166.767.000	206.350.064,00
Number of users	-	-	20.401
Average amount per user	-	-	10.115,00
Measure: Cow milk sold to processing industry			
Amount planned in MKD	-	447.000.000,00	156.000.000,00
Amount disbursed in MKD	-	408.889.568,00	175.438.412,00
Number of users	-	12.434	10.971
Average amount per user	-	32.885,00	15.991
Measure: Cow for slaughtering			
Amount planned in MKD	-	2.000.000,00	1.080.000,00
Amount disbursed in MKD	-	499.672,00	19.500,00
Number of users	-	23	5
Average amount per user	-	21.725,00	3.900,00
Measure: Artificial dissemination			
Amount planned in MKD	-	5.000.000,00	9.000.000,00
Amount disbursed in MKD	-	1.960.500,00	2.566.800,00
Number of users	-	467	959
Average amount per user	-	4.198,00	2.676,00
Measure: Bull (male for reproduction)			
Amount planned in MKD	-	30.000,00	50.000,00
Amount disbursed in MKD	-	-	-
Number of users	-	-	-
Average amount per user	-	-	-
Measure: Cattle from less developed areas (border areas)			
Amount planned in MKD	-	190.000.000,00	-
Amount disbursed in MKD	-	166.767.000,00	-
Number of users	-	7.628,00	-
Average amount per user	-	21.862,00	-
TOTAL PLANNED	363.710.100,00	644.030.000,00	528.130.000,00
TOTAL DISBURSED	413.046.968,00	744.883.740,00	535.897.476,00

Table 48: Overview of the subsidies in the dairy sector
Source: MAFWE, 2010

+	-
Increased yields (1902 l/head in 1999 to 3004 l/head in 2009)	Decrease of the overall production for 7,45% in one year period (2008 -2009)
Support of high quality varieties to improve the yields and overall performance	Import increase for 46,6% for period of one year (2008-2009)
Overall policy to support the cattle farming and increase the cattle fund	Export decrease for 2.74 times (2008-2009)
IPARD funding up to 60% covering the investment expenses available for farmers	Inadequate reaction by the GoM to the collapse of SWEDMILK

Further support for the high quality varieties per head continued, as the result of which there are increased yields to 3004 l/head, but still lowers than the EU average of 4120 l/head.

vii. Tobacco

Sector characteristics

The tobacco sector is an important part of the Macedonian agriculture and the economy in general. It is a source of employment and net income for the population. It is an export-oriented high quality product, which generates important incomes for the Macedonian agriculture and the economy as a whole. The tobacco is declared to have adverse effects on the human health and many pro-health policies are proposed against it. The tobacco is a significant crop for the Macedonian agriculture and economy since it is an essential income source for many families and essential source for government revenues, and it is foreseen that it will continue to persist on the Macedonian fields for the years to come.

The production area of tobacco decreased from 25.001 ha in 1998 to 17.716 ha in 2004. Since 2005, it has a slight increase which is stable - around 17.800 ha. On the other hand, the yields (in relation to production technology and climate conditions) did not change drastically and amount to 1.200 kg per ha in average.

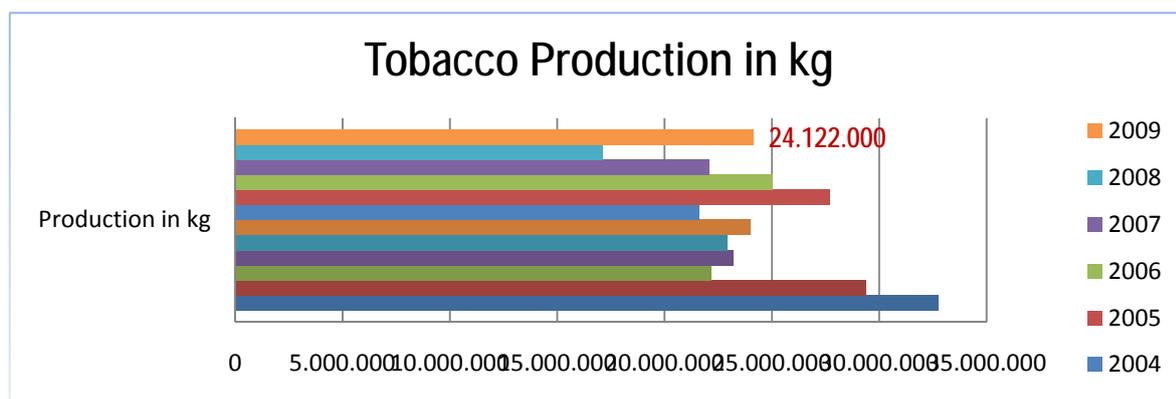


Chart 60: Tobacco Production in kg 2001-2009
Source: SSO, 2009

The tobacco production per kg has decreased since 1999, with an increase of 40,1% in the period 2008-2009. The increase of the production goes in line with the expansion of the production areas, as well as the development of new production technology.

Subsidies for the sector

Tobacco is the most controversial agricultural plant in the world. There is an actively ongoing anti-smoking campaign, which affects both cigarette consumption and consequently the tobacco production. The Warsaw declaration for a Tobacco-free Europe from 2002 identifies tobacco as a great threat to people's well-being and proposes aggressive policies against it. The declaration states that human health outweighs tobacco production and therefore a solution for its replacement should be considered. All future regulations will concern lowering the volumes of tobacco production and the production areas in all EU member countries²³.

²³ The tobacco sector in Republic of Macedonia, Emelj Tuna, SLU, Department of Economics, Uppsala 2008

This imposes a threat to Republic of Macedonia, that has a pre-accession status as EU candidate member, and these regulations could have an economic and social impact on the Macedonian tobacco sector when the country officially enters the EU union. Until then, the tobacco will continue to exist on the agricultural fields in the years to come, since so far there has been no visible alternative agricultural primary product that will provide the same economic and social effects for the Macedonian economy²⁴.

Macedonia continues with a large and permanently increasing support of the sector over the last four years. The tobacco is one of the highly subsidized crops. The subsidy to this sector is in two fields: 1. Subsidy per kg tobacco sold, 2. Subsidy for the production of certified tobacco seed. The subsidy for 1 kg sold tobacco was 30 MKD in 2008 and has increased to 60 MKD in 2010, without any justification (like increase of production costs, implemented standards or other perspectives). The total annual support for the sector increased from 342.431.972 MKD in 2006 to 725.608.683 MKD in 2009. This represents rapid growth of the sector support.

	2006	2007	2008
Export in US \$	111.695.766	106.140.154	123.277.486
Total Subsidies in US \$	6.150.000	10.175.389	15.116.848
% of subsidies from the total export of tobacco	5,51%	9,59%	12,26%

Table 49: Participation of subsidies in the export of tobacco 2006-2008
Source: MAFWE, 2010

The sector export in US \$ has increased in the last several years, and with 123.277.486 US\$ it is one of the top 5 export products in general and definitely number 1 in the agriculture. The export from 2006 to 2008 increased for only about 11%, while the subsidies increased 2.45 times. The participation of the subsidies as costs in the total income from the export has increased from 5, 51% to 12, 26%, which illustrates that the support of the sector is speedy and much higher than the export increase.

The import of tobacco is small and it was around 17.000.000 US\$ in 2009. It is mainly related to the import of additional raw tobacco for the production of cigarettes in the country. The market wholesale price increased over the last three years and from 112,5 MKD in 2007 it rose up to 159,4 MKD in 2009. Macedonia has a high per capita smoking rate, with cigarettes accounting for the majority of tobacco sales in the country. Tobacco volume sales declined in 2006 due to the increase in the availability of illegally imported cigarettes. Although this trend was reversed in 2008 due to tougher smuggling controls, illegally imported products are still estimated to account for 12-15% of total tobacco sales in the country²⁵.

Participation of subsidies in the production price of tobacco for 2009	
Production price per kg in MKD	123.05
Subsidy per kg in MKD	45
Participation of subsidies in the production price	37%

Table 50: Participation of subsidies in the production price of tobacco for 2009
Source: MAFWE, FAOSTAT, SSO, 2008-2009

²⁴ http://www.euromonitor.com/Tobacco_in_Macedonia

²⁵ http://www.euromonitor.com/Tobacco_in_Macedonia

It could be seen from the above table that the participation of the subsidy in the production price of tobacco, taken as a sample in 2009, is 14%. In accordance with the international agreements and as a step towards harmonization with EU legislation, tobacco smokers and tobacco products are now subject to rigorous regulation in Macedonia.

A crucial development in 2008 was the equalization of excise rates for domestic and imported cigarettes, which forced domestic producers to increase prices and to reduce pack-sizes to 19 cigarettes in order to maintain prices. Enforcement of the 'Law on Tobacco and Tobacco products', which prohibits the sale of high-tar cigarettes, has prompted many manufacturers to replace high-tar products with mid-tar alternatives. Another impact on sales was caused by several adjustments to the 'Law on Protection Against Smoking' which, by the end of 2008, banned smoking in many public places, with a total ban expected to be brought into force at the beginning of 2010.

Since January 2009, all manufacturers have been obliged to print health warnings on their tobacco products. Whilst warnings are currently limited to text, it is expected that new legislation will be passed on in 2010 that will oblige producers to provide graphical warnings as well²⁶. The subsidies directly influence the further development of the sector, keeping trapped around 35.000 families²⁷ that see their only future existence in the production of tobacco. The process of replacing this crop will be hard and complicated, especially if not planned in advance in terms of support by the Government. Currently, the subsidies used in this sector influence:

	2007	2008	2009
Measure: Tobacco sold to processing industry			
Amount planned in MKD	295.200.000,00	-	726.000.000
Amount disbursed in MKD	No information available	488.418.681,00	725.608.683
Number of users	-	26.268	25.791
Average amount per user	-	18.594,00	28.134,00
Measure: Production of certified tobacco seed			
Amount planned in '000 MKD	500.000,00	600.000,00	780.000,00
Amount disbursed in '000 MKD	-	-	-
Number of users	-	-	-
Average amount per user	-	-	-
Measure: General measure for tobacco			
Amount planned in MKD	4.300.000,00	6.350.000,00	-
Amount disbursed in MKD	-	3.000.000,00	-
Number of users	-	165	-
Average amount per user	-	18.182,00	-
TOTAL PLANNED	300.000.000,00	6.950.000,00	726.780.000,00
TOTAL DISBURSED	No information available	491.418.681,00	725.608.683,00

Table 51: Overview of the subsidies in the tobacco sector
Source: MAFWE, 2010

²⁶ http://www.euromonitor.com/Tobacco_in_Macedonia

²⁷ The average of tobacco growers in the country in the period 1994-2004 was 35.714 according to SSO

+	-
Increase of the overall export for 11% in three years	Increase of the subsidies in the total tobacco export for 6,75%
Increase of active labor	Absence of criteria related to production technology
Expansion of production area	No proposal or support for replacement of the crop
Overall improvement of agriculture indicators	Overall decline on the harmonization with Common Agriculture Policy of the EU
Maintenance of the active population in dry and remote rural areas	No active policy for sustainable rural development

c. The direct subsidies for and effects on the national economy

The effects of the direct subsidies (financial support packages for the farmers) are subjected to permanent discussions. Recently, the elaboration presented by the MAFWE representative in front of the National Bank of the Republic of Macedonia with the comparison of the subsidies in 2006 and 2007 stated that there are no negative effects on the macroeconomic parameters of the country.

It was stated that the inflator effect of the agriculture subsidies can have limited direct inflator impact, but causes indirect support to the inflation on the global market. The increase in subsidies for the agriculture in 2007 was 63%, on the level of 27 million Euros from 17 million in the 2006th. The amount of subsidies in relation to the value of agricultural production is 7.7% which is not a significant individual risk for causing the non-balance of funds available in respect of goods (if viewed apart from the other factors mentioned) and there is a single reason for the rise in prices. Increased prices of products occurred before the entry of the support measures money mass of cash in circulation assets in 2007.

It is estimated that most of the funds for direct payments by their nature are directed toward supporting the income of the primary producers. In 2008 the Government established a procedure of transfer of money in phases, which are mainly used for covering the production costs in the present year, and not at the end of the fiscal year as before. It is expected that the prices of the agricultural products will grow as a result of the liberalization of the market conditions, improvement of the access of the domestic products to foreign markets, decrease of the tariff barriers etc..

MAFWE has justified the use of financial support measures for the agriculture as a social transfer to the rural families, taking the "Farm Bill Reforms" USA example from 1996 when the State financially supported the farmers every time the market prices decreased below the minimum defined price.

According to this debate, there is some influence on the macro economy level, but the impact on the inflation is still very low compared to the effects of this instrument on the stimulation of the agriculture, rural development, decrease of emigration and poverty reduction.

Overview of the participation of subsidies in the production price in %

#	Product	Participation of subsidies in the production price in %
1	Grapes	54%
2	Lamb	45%
3	Melons	38%
4	Tobacco	37%
5	Sour Cherry	36%
6	Apples	35%
7	Poultry	21%
8	Cabbages	20%
9	Peaches	19%
10	Dairy Milk	14%
11	Greenhouse Tomato	13%
12	Greenhouse Pepper	12%
13	Greenhouse Cucumber	9%
14	Open field pepper	4%
15	Open field tomato	3%
16	Open field cucumber	3%

Table 52: Overview of the participation of subsidies in the production price in %
Source: MAFWE, 2010

5. Key findings and recommendations

The findings of the study are given in each of the chapters, related to the section, or in specifics related to the sectors, or products. The findings are divided as pros and cons, marked with + or -. Based on all of the findings, further analysis and grouping has been made in order to systematically define the key findings with the overall relevance for the agriculture subsidies program in Macedonia.

Key Finding 1: There is no correlation between the National Agriculture and Rural Development Strategy (NARDS) and the Financial Agriculture Support Program

The Financial Agricultural Support Program is not based on the NARDS and there are no indications that the strategic objectives and orientation in NARDS are operational in the direct subsidies measures. Even if the direct subsidies are considered, to a large extent, to represent a social measure, rather than a developmental measure, they still represent the most efficient mechanism, a tool for making changes in the agriculture. For this reason, the measures employed in the subsidies program should influence the outcome of the NARDS that puts the changes into practice. The present absence of correlation makes the Financial Agriculture Support Program non-measurable, non-effective, and in overall, not serious in its content even though the money foreseen and disbursed over the last years rises to considerable amounts.

Recommendations:

- Further planning of the Financial Agriculture Support Program should be based on the existing NARDS
- Reconsideration of the direct subsidies as a tool for the development of agriculture and more efficient use of this mechanism

Key Finding 2: Agriculture financial support programs on annual basis

The Financial Agricultural Support Program is made on annual basis, which is a very short term for planning and making any changes in the specific VC based on the existing measure. The inconsistency of the measures in the program is so high that even during the present year, changes are made in the program, rebalancing the amount of money for several times (in 2006 the program was amended 4 times, in 2007- 4 times, in 2008- 8 times, and in 2009 -8 times). This is just additional information in relation to the absence of strategic orientation of the support of agriculture.

Based on the present conditions, in some of the sub-sectors or value chains the program undergoes changes in order to support some specific interventions in the sector, that were absolutely not planned and caused by fluctuations in the market (such as increasing support during the present year for specific product buy-out, or even making a new support measure for a specific product, that did not exist before). Another situation is spending part of the amounts for other measures, for intervention on the overall level, caused by in favorable climate conditions that have decreased or ruined the production of specific products. These kinds of measures cannot be avoided, but they should be planned specifically and apart from the existing measures for specific sectors.

The short-term agriculture financial support programs limit the planning of the production to several years in advance, which has a negative impact on the competitiveness of the VCs.

Recommendations:

- Definition of measures for a several year period that are based on a strategic orientation
- Decrease of the rebalances of the existing program measures
- Linking the measures to the market (analysis based on the market sales, export orientation)

Key Finding 3: The direct subsidies do not correct the market prices

The objectives of the direct subsidies in some of the descriptions and overviews are to influence and correct the market prices of the products, increasing farm gate return, and increasing the sales revenues of the primary producers. The reality shows that this objective cannot and will not be achieved. The reasons behind are: first, the domestic market is not isolated, and it is very well integrated into the regional and international markets; second, the market price dependence is linked mostly with our export markets (the agriculture is export oriented). In addition, the competitiveness of the products is measured according to different characteristics of which the price is the last criterion after the other criteria (certified seedling, variety, production technology, standardization, quality of products etc.) are satisfied. For that reason, the subsidies should be much more oriented to the improvement of the other characteristics in the production cycle than the price itself. Only in this way they will influence the competitiveness of the products, and will improve the position of the Macedonian products on the export markets.

Recommendations:

- Analyses of the production and sale cycles and identification of gaps influencing the competitiveness and sales
- Definition of specific criteria for the measures in line with the efforts to improve the competitiveness of the products

Key Finding 4: Absence of monitoring indicators for the subsidies program

The financial agriculture support program does not have any monitoring indicators, or adopted monitoring scheme, where the relevant institutions could follow the implementation of the measures, the level of changes and the areas in which these measures are taken. The absence of indicators can be only explained as a result of lack of, or limited planning of the support measures. Another problem, besides the lack of indicators, is the availability and the systematic approach of creating, maintaining and using the data. The preparation of this study has once again shown that even though the specific institutions for maintenance of data exist, still most of the data are not organized in the ready to use format, or not available, or not analyzed. This is one of the crucial problems, since appropriate planning and follow up are only possible if the indicators exist, data are available and the monitoring mechanisms work.

Recommendations:

- Definition of indicators in the Financial Agriculture Support Program
 - Improvement of the inter-coordination among the institutions
 - Collection, analysis and maintenance of data in a ready to use format
- 1.

Key Finding 5: Absence of a long-term policy for replacement of the old varieties

The present measures of the direct subsidies program are related to specific products, but do not specify the varieties, or other criteria related to the product. This overall support to all varieties of a specific product does not improve the competitiveness of the specific VC or the sector in general. This is especially obvious in the fruit sector, the support of apples, where large part of the producers still produce the traditional, industrial varieties of the apples that are not accepted by the EU, and are less accepted by the regional markets in the last years. This creates large problems in the sub-sector because though the produced varieties are not competitive, they are still supported by the GoM through the subsidies. The same example can be found in the grapes subsector, where though the subsidies should be focused on the market oriented table grapes varieties, most of the support is disbursed for the local, non competitive wine varieties like “Smederevka”, or “Zilavka”.

The support of the GoM through this subsidies measure should be so oriented as to create a business environment and improve the competitiveness of the sector by the introduction of new export market demanded varieties in all agricultural sub-sectors. This support should be based on a long-term policy taking into account all the factors of the internal capacity of the agricultural sector as well as the external influence. The absence of a long-term policy for the replacement of old varieties increases the risk of a total crash of some of the agriculture sectors in a short- and mid-term period and the alternative is still not visible.

Recommendations:

- Development of a long-term policy for the replacement of old varieties in correlation with the NARDS
- Prompt introduction of new measures in order to start the process of adaptation of some sub-sectors to the export market demands

Key Finding 6: Lack of time planning in the whole direct subsidies process

The time planning in the whole process is absent. There are no clear terms of when the program is planned, when the process of discussion is open, when the application procedure starts and the most important of all, when the disbursement period is. This changes every year, and there is no consistency. The other more important problem is that the time planning is not connected to the season of the specific products, so instead of receiving the money before the season, the producers receive it long after the season is finished. The late and inadequate disbursement period instead of covering the production costs is used for absolutely different reasons.

There is a need for appropriate time planning in the financial agriculture support program that will enable permanent, in time and relevant support to the agriculture.

Recommendations:

- Time planning of the whole direct subsidies process in relation to the agricultural season of each of the products
- Permanent and continuous time planning for several years

Key Finding 7: No prioritization and focus on strategic crops

The present measures support a full spectrum of crops, where there is no prioritization or focus on specific, competitive and market oriented crops. Instead of selecting a specific group of crops, that based on the relevant analysis are considered as market oriented, the support is overall and uncompetitive. There is a need for an exhaustive analysis of the Macedonian agriculture with a follow up definition of strategic crops, taking into account the advantages and disadvantages of the other countries, producers of the same crops, competing on the export market etc.. At the moment, the measures are still oriented to crops that have good current financial performance, but whose future is questionable within global market frames. The support of tobacco is a classic example of inappropriate long-term measure from the point of view of the global market and our EU pre-accession process. The tobacco is strongly promoted instead of other much more promising crops, such as industrial pepper; the participation of the subsidies in the tobacco production price is much higher (37%) than in pepper (4%), based on the measures in 2009.

The GoM should make prioritization and put the focus on the strategic crops from which the Macedonian agriculture will become more competitive and will improve its performance.

Recommendations:

- Making prioritization of the crops in agriculture
- Definition of the strategic crops and design of specific measures for their support

Key Finding 8: Low level of implementation of the general measures

The general measures in the financial agriculture support program are on a very low level of implementation. This is especially true for measures such as certified seedling material, training, education, laboratory tests etc. The reason behind lies in the low level of information and awareness of the target groups, and for some of the measures, it is also the bad format of the measure itself. All in all, most of these measures have a tendency to professionalize the agriculture and create conditions for the improvement of the production process. However, the very low level of their application leads to a conclusion that even well designed measures, without appropriate follow up activities that will approach the measures closer to the potential applicants, can by themselves be a failure. In this case, there is a need for an analysis of why these measures were applied insufficiently, that would lead to the improvement of all the other follow up activities.

Recommendations:

- Analysis of the reasons for the low use of the measures
- Continuation and improvement of the information and awareness activities
- Reformulation and redesign of the measures in order to make them more effective

Specific Recommendations for MAFWE

1. Revision and upgrading of the existing NARDS with possible sub-strategies focusing on the export oriented and competitive products
2. The financial support programs to be multi-year based that will enable planning of the production for short-term period
3. Enhancing the capacity of the Department for Analysis of the Agriculture Policies dialogue in MAFWE related to continuous management of data from multiple sources, that should help the monitoring process of the direct and indirect subsidy programs and lead to improvement of the Macedonian export competitiveness;
4. Definition of specific criteria for the measures following the findings and recommendations in the analysis of the production and sales cycle implemented by AgBiz
5. Definition of the indicators in the Financial Agriculture Support Program
6. Improve the visibility for the planning and use of the specific measures in the Financial Agriculture Support Program
7. Based on the analysis and specific recommendations given by AgBiz program to define the key products in order to decrease the dispersion of finances to different products and focusing it to the key products

Specific Recommendations for AgBiz

1. Organization of larger public debate (forum and open discussion tables) for the stakeholders related to the analysis and recommendations in this document
2. Support of the use of general measures given in the financial subsidy program (standardization, GLOBALGAL, pre-harvesting soil analysis and others) by supporting the cooperation between the processors and the producers for introduction of GLOBALGAP standards on the production fields
3. Analysis of the production and sales cycle and identification of gaps influencing the competitiveness and sales for the key products
4. Support for development of system (software) in the MAFWE for collection, organization and maintenance of the data in the ready to use format
5. Analysis of the export demand (clients demand) for the specific key products and its characteristics (variety, production technology, standards) and provision of recommendations to MAFWE to be incorporated in the Financial Agriculture Support Program

6. Annex: List of participants in the interviews and focus group discussions

1	Nikolco Kolev	Bee keeper
2	Goran Petrusev	Bio humus producer
3	Ljubica Zafirova	Dairy producer
4	Adrananova Biljana	Grapes producer
5	Radmila Zdravkovska	SLATKO, Fruit Processor
6	Misevski Ivan	Organic Bee keeper
7	Jovica Sekov	Tobacco producers
8	Stojance Micev	Dairy producer
9	Krumco Bogatinov	Organic Bee keeper
10	Petkova Zlata	Vegetables producer
11	Petrova Jovka	Grapes and fruit producer
12	Zafirov Stojanco	Sheep breeder
13	Ljubica Dzonic	Vegetables producer
14	Kiril Filov	Vegetable producer
15	Vasil Miskov	Grapes and melons producer
16	Vlado Bacev	Vegetables producer
17	Dean Filov	Sheep breeder
18	Svetozar Knezevic	Cattle farm
19	Nikolov Vasko	Grapes and vegetables
20	Zoran Tasev	Agriland, export of fruits and vegetables
21	Risto Endzekcev	BADZO, export of fruits and vegetables
22	Viktor Petkov	VIPRO, processing of vegetables and fruits
23	Nakil Elezi	Sheep breeding association

24	Saso Krcoski	Chicken broiler producer
25	Dragi Georgievski	Dairy processing
26	Aleksandar Nikolovski	AFSARD
27	Toni Dimovski	AFSARD
28	Kostadin Kus Ivanov	AFSARD
29	Valentina Gjosevska	AFSARD
30	Zoran Nikolovski	MAFWE
31	Pance Nikolov	MAFWE
32	Mome Mladenovski	MAFWE
33	Vasko Hadzievski	AgBiz
34	Goran Damovski	AgBiz
35	Lovre Risteski	AgBiz