MINISTRY OF FOREIGN AFFAIRS OF DENMARK
THE TRADE COUNCIL

SECTOR OVERVIEW

Food Processing Sector

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Basic country indicators

Indicator	2010	2011	2012	2013	2014	2015
GDP, in bn USD	39.5	46.5	40.7	45.5	44.2	36.5
GDP growth, in %	0.6	1.4	-1	2.6	-1.8	0.7
GDP per capita, in USD	5,850	5,910	5,700	6,050	5,840	5,500
Unemployment rate, in %	20.0	23.6	24.6	23.0	20.1	18.5
Foreign direct investments, bn EUR	1.7	5	1.3	2	2	2.3
Inflation, in %	6.1	11.1	7.33	7.7	2.1	1.4

Source: World Bank and IMF

Basic sector indicators

Indicator	2011	2012	2013	2014	2015
Food production, base index, 2010=100	97.1	97.8	93.1	97.3	N/A
Beverages production, base index, 2010=100	102.6	106.0	98.2	97.7	N/A
	EXPORTS, in USD thousands				
Meat and meat products	58,809.8	63,644.0	70,858.1	147,3421.9	97,136.5
Dairy products and eggs	90,723.9	86,003.0	82,987.2	107,503.5	89,469.5
Fish and seafood	4,434.1	4,120.0	4,971.0	7,147.3	5,799.5
Cereals and cereal products	731,840.8	834,905.1	663,691.7	787,023.2	639,566.6
Vegetables and fruits	657,613.4	538,827.7	669,877.7	747,676.7	763,982.0
Meat and meat products	57,141.2	79,219.0	92,218.0	127,632.1	102,215.4

Dairy products and eggs	57,801.5	59,146.	57943.6	57,698.8	50,163.0
Fish and seafood	96,683.7	95,013.2	87,181.6	87,245.1	81,927.8
Cereals and cereal products	84,217.8	86,544.0	101,672.1	112,734.3	89,971.2
Vegetables and fruits	302,386.8	294,916.8	315,644.7	327,200.9	310,915.5

Source: Statistical Office of the Republic of Serbia

1. GENERAL ECONOMIC AND MARKET DEVELOPMENT IN SERBIA

In 2014 the newly established Serbian government introduced a number of economic reforms as well as started the official negotiations of EU-membership. The market has now become more transparent and easier to do business in. The World Bank's 'Ease of Doing Business list' now ranks Serbia as 47 compared to 93 in 2014. Also Serbia now witnesses positive economic growth. The growth in GDP was 0.7 % in 2015 in spite of large reductions in the public sector. And the growth is expected to be 2.5 % in 2016 and 2.8% in 2017. As a result, the Serbian economy and market now offer an increasing number of business opportunities for Danish exporters and investors. One sector of interest is the food processing sector.

2. KEY SECTOR INFORMATION

Serbian foreign trade has increased a lot in the past years. This also goes for both import and export of food products since there are multiple free trade agreements.

The increased local purchasing power and larger export quantities within the many free trade agreements is expected to further boost trade in the coming years. But the purchase power in society is still fairly low and too low for some product items/types. High end Danish food products will only be able to find a small segment on the market – such as Horeca. But due to the expected economic growth in the coming years this segment will begin to grow.

There are still trade barriers such as import licenses that food importers must obtain prior to the import. Also there are still import tariffs on several food products such as cheese, etc.

The EU accession process will eliminate some tariffs and the EU integration process will strengthen the standards of Serbian producers in order for them to fully penetrate new markets. Especially optimization, cost-efficiency and compliance with foreign markets are central. But also quality demands and food safety rank high on the agenda.

In comparison with various competitive EU markets, the Serbian market still faces some level of monopolism among local food producers and food importers. This leads to higher prices for the time being. But in the past years, foreign food retail chains, such as Delhaize, have entered the market. And German Lidl has opened its first store and is presently establishing a larger number of supermarket outlets planned to open from 2017. This combined with the fact that the EU accession process will lead to the removal of the last trade barriers, will make access to the market easier for the Danish exporters of food products. The local food processing companies are having an increased number of export opportunities, but are also facing more competition, which demands production equipment and know-how to become more competitive and better explore export opportunities.

3. The Serbian food processing sector

Serbia is the largest agricultural market in the Western Balkans, with a strong tradition in agricultural production and food processing. Of the former Yugoslav republics, Serbia had the most agricultural land. Even today Serbian producers supply the entire Balkan region.

The food processing industry accounts for approx. one third of the entire processing industry in Serbia. Annually it exports goods for approx. 1 billion EUR, which is double of the value of import. The industry employs around 65,000 people and is one of the rare examples of industries that have not been hit adversely by the economic crisis in the past 5 years.

Many food processing companies have been active for more than 50 years. Some of the larger companies have gone through modernization process and now have new management and ownership structures. There is still, however, a lot of room for improvement of production facilities and the companies are investing into newer and more modern production lines. This is happening due to the opening up of the Serbian economy, bringing along increased number of export opportunities for the Serbian food processing companies. But the companies are investing also to keep up with the market needs and foreign competition.

The food processing market is dominated by several big conglomerates, such as Carnex and Matijevic, which often have a regional company portfolio and are actively investing into expansion, modernization and quality management. In February 2015 London-based investment fund, Mid Europa Partners, bought Danube Foods Groups, which generated more than 400mio EUR in revenues in 2014. More mergers and acquisitions are to be expected.

4. MARKET STRUCTURE AND DOING BUSINESS IN SERBIA

The Serbian market is very price sensitive, but the low labor costs enable the companies to stay competitive. This is however also a challenge to Danish exporters of processed food.

Generally speaking, the Serbian food processing industry functions in a very similar manner to other European countries – the same standards of operation are in place and similar corporate culture can be expected.

In the meat production and processing industry, there is a tendency towards increasing import of fresh meat. Serbia is a net exporter of meat products, but a net importer of fresh meat and livestock. Food processors usually also have a primary production in their business portfolio but due to the lack of specialisation, production remains too expensive. The upcoming years will likely see changes in the obsolete business models and there will be a higher degree of specialisation.

5. SPECIFIC SECTORS

- In the dairy sector, about 1.5 billion litres of cow milk is produced annually. It is estimated that the existing dairy farms are using only about 50% of their capacities, which leaves room for a lot of investments in the production facilities.

- Confectionary and snacks is a sub-sector with an overall production of 130,000 tons per year and increasing importance in the food production in Serbia. Many of the brands are regional favourites with high consumer preference.

- In 2013, 5,320,652 litres of beer were produced in Serbia with Carlsberg owning one of the biggest breweries and being the market leader. The beer market has seen increased focus on new brands and new flavours such as ciders etc. Despite the general progress in Serbia, the beer market has seen a slight decrease in volume during past years.

6. DANISH OPPORTUNITIES

Due to the EU-accession process EU norms are increasingly being implemented in the industry. This process creates opportunities for Danish companies within equipment and know-how for the food industry. Thanks to the free trade agreements with both the EU and Russia, there are excellent trade opportunities in and out of Serbia which Danish companies can take advantage of.

These challenges for Serbian producers lead to market opportunities for Danish producers within production input and materials such as: Better technology and by-products, like proteins and flavours etc.

We see opportunities in the following areas:

- Food safety – know-how needed due to the higher EU standards
- Traceability – is being implemented in the large companies, but is becoming more prevalent.
- Machinery and equipment
- By-products for food production
- Food additives

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