

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Bosnia and Herzegovina**

**Post:** Sarajevo

### **Dairy and Products**

**Report Categories:**

Product Brief

Dairy and Products

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**Report Highlights:**

Bosnia and Herzegovina consumes about 500,000 MT/year milk and milk products annually. The country has a fairly well-developed dairy industry that produces mainly high-volume, and fast-turnover products like fluid milk, yogurt, and fresh/cottage cheese. As a result, BiH imports most value-added milk products from neighboring countries and the European Union. Annual dairy imports exceed \$90 million. Import replacement opportunities exist for niche market products such as cheese, yogurt, sour cream, and ice cream.

## General Information:

### SECTION I. MARKET OVERVIEW

Bosnia and Herzegovina consumes about 500,000 MT/year milk and milk products annually. The country imports 40% of all milk and dairy products it consumes. There are approximately 310,000 dairy cows but the average milk yield of about 1,400 liters per lactation is low. Approximately 100,000 farms raise cattle in Bosnia and Herzegovina, of which only one-third are commercial milk-producing farms. Estimated milk production is around 450 million liter annually. However, local dairies purchase and process only about 50% of total production. The remainder is either consumed on the farm or processed and sold at the numerous local outdoor markets. Imported dairy products, including fluid milk, are mainly consumed in urban areas.

There are around 35 active dairies with total annual capacity of 400 million liters. Capacity utilization averages around 60% or 240 million liters. These dairies produce mainly high-volume, fast-turnover, low-margin products like fluid milk, yogurt, and fresh/cottage cheese. Only a few dairies produce value-added products like aged cheese. As a result, most value-added milk products are imported from neighboring countries and the European Union. Production of hard aged cheese is low because of its lower profitability in comparison with fluid milk and yogurt. Production of cream, spreads, flavored milk drinks, butter, and flavored yogurts supplies only about 10% of the domestic market and the rest is imported.

Processed dairy products production is as follows: pasteurized milk 1.8%, UHT milk 53.1%, fermented products 22.2%, cheese 19.2%, spreads and butter 2.5%, milk powder 1.2%. About 80% of the dairies produce short shelf-life products

There are many opportunities for investors. Joint ventures, licensing arrangements, and mergers that could help domestic producers compete effectively with imports by introducing new quality and safety standards, more efficient supply-chain management, modernized equipment, and effective marketing strategies. Import replacement opportunities also exist for niche market products such as cheese, yogurt, sour cream, and ice cream. There is insufficient cold-chain capacity and poorly organized milk collection in most rural areas.

There are a number of structural problems in the dairy sector, including poorly organized milk collection from small farmers, late payments from dairies to farmers, and late payments of government subsidies to farmers. Small milk producers dominate and most of milk produced is for on farm use or sold as homemade products in local markets. Therefore BiH consumers in urban areas still consume a lot of imported milk and milk products, and local dairies can meet only around 50-60% of domestic demand for milk products.

Furthermore, access to capital is limited and interest rates are high. Small production units and volumes tend to raise production costs and there is a lack of application of modern breeding techniques and genetics that could increase production. Exports of specialty dairy products, especially to the EU, are constrained by the low quality of raw milk that is delivered to processing plants and absence of quality production standards.

<b>Advantages</b>	<b>Challenges</b>
Insufficient domestic production, especially cheese, cream spreads, flavored milk drinks, and butter	Weak economy affects consumer purchasing power
Relatively low costs for introduction and promotion of new products using local broadcast and print media or in-store promotions	Long distance, bad transportation conditions, absence of highways, limited railway service
Average consumption of dairy products per capita is relatively high	Illicitly imported and low-quality products compete with legitimately imported foods
The U.S. has a good reputation for quality	Strong regional competition because of the free trade agreement CEFTA

Annual imports of milk and dairy products are approximately 130 million KM (\$93), and exports are approximately 55 million KM (\$39). The main trading partners are Croatia (50% of total imports) and EU countries (40% of total imports).

	2007	2008	2009
Total Local Production	167,560 MT	212,150 MT	200,293 MT
Total Exports	KM 42 million	KM 54 million	KM 57million
Total Imports	KM 116 million	KM 131 million	KM 129 million
Imports from the U.S.	KM 0 million	KM 0.3 million	KM 0 million

Currency note: \$1.00 = 1.40 KM (Bosnian Convertible Mark)

## SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Croatia and Slovenia supply the largest share of imported dairy products, which account for over 60% of all imports, bringing in primarily yogurt and fluid milk. Germany and Slovenia supply most of the imported cheese. Most of the foreign companies have established a representative office locally for marketing, and some foreign investors from key trading partner countries have established their own in-country operations. Dairy products are usually retailed together with other food products, and there are only a few specialized retail stores.

The domestic industry is working to meet the requirements of consumers, processors, traders, and supermarkets regarding consistency, stability, quality, food safety, and labeling, packaging, and regular supply. However, BiH still lags behind competitors, including Germany, Slovenia, Croatia, and Hungary. Consumers in BiH have demonstrated significant demand for aseptically packed UHT milk and for stable fermented products. There is also increased demand for fruit yogurts, sour cream, soft cheese, and milk in 0.5-liter packaging. There also is interest in UHT milk with additives such as Omega 3, vitamins, and minerals.

Importers/wholesalers/distributors provide transportation, product storage, market information, financing, and some insurance. Finding an agent and/or distributor is the most effective way to market consumer goods.

The U.S. Foreign Commercial Service can help you locate qualified distributors. For more information, please see: <http://www.buyusa.gov/bosniaandherzegovina/en/>. The Economic and Commercial Service Office at the U.S. Embassy Sarajevo assists U.S. companies in exporting to BiH by identifying local opportunities for the sale of U.S. products or services, providing counseling on the market, and meeting the advocacy needs of U.S. firms.

## SECTION III. COSTS AND PRICES

The Value Added Tax (VAT) of 17% is applied to all domestic and imported products.

The tariffs can be found at <http://www.uino.gov.ba/download/Dokumenti/Dokumenti/bos/Carina/2008-b-CTBiH.pdf>.

## SECTION IV. MARKET ACCESS

BiH food regulations are a mixture of 30-years-old regulation inherited from the former Yugoslavia and new regulations that the Food Safety Agency has been drafting since 2006. Food regulations are subject to change often, so please contact FAS Sarajevo for specific information on current food regulations. For more information, please refer to FAIRS Country Report and FAIRS Export Certificate Report 2010: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>.

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