



Development strategy of Kosovo's dairy industry

2011-2020

Editors:

Kosovo Dairy Processors Association
Kosovo Association of Milk Producers

DEVELOPMENT STRATEGY OF KOSOVO'S DAIRY INDUSTRY 2011-2020

Editors:

Kosovo Dairy Processors Association (KDPA) and
Kosovo Association of Milk Producers (KAMP)

with the support of Solidar Suisse

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SUMMARY

Since the end of the war, Kosovo's dairy industry is being rebuilt thoroughly, with the 26 dairies and 2000 farmers that supply the market with milk covering one fifth of the current dairy demand. The dairy sector is thus a growing economic field whose potentials have been used very little. On the other hand, the challenges to this sector are diverse. The insufficient legal framework is considered as the main threat to the dairy industry: the main obstacles for this sector are primarily the import of cheap subsidized dairy products and the uncontrolled dairy sales on the "green market" and the black market.

Except this, trained dairy producers and technology experts are also lacking. The insufficient implementation of the Anti-Dumping Law, the farmers' utterly low subsidies compared to other countries, unfavorable loans, and gaps of the tax legislation as well as the poor image of local products are not very beneficial for the development of the dairy industry. Ultimately, the dairies pay too high prices while the milk producers cannot cover the production costs since, unlike in other European countries, they practically must survive with almost no support from the state.

Nevertheless there are in parallel many good opportunities for the development of the dairy industry. The potential of the internal local market is used very little and there is still a lot of space for it to grow, whereas the good connections with Albania through the new highway pave the way for new markets. The endless grass and wasteland areas, which can also be used for fodder production, are another unused opportunity.

If we take into consideration the decade of repression, the war and the difficult post-war period, then it is even more important for independent Kosovo to be able to supply the population with basic foods. In this context, milk and dairy products must be appraised as a strategic and essential food to provide for the population. This is why the dairy industry targets via this strategy to increase the milk demand on the local market and to cover the biggest part of it by 2020. The aim is not anymore 45 million kg but that 60 million kg of milk are being processed in high-quality products by 2020.

In order to achieve this strategic goal by 2020, Kosovo's dairy industry has come up with a 10-point plan that emphasizes the most important steps:

- (1) Transparent and neutral sampling, quality control and fair payment of raw milk
- (2) Legal regulation of the direct marketing of dairy products on the green market
- (3) Qualified dairy technicians and producers in Kosovo
- (4) Direct payments and state subsidies for the dairy producers
- (5) State support programs for the dairy industry
- (6) Reduced value added tax for the agroindustry – Pre-tax deduction on raw milk
- (7) Government measures against subsidized dairy products and anti-dumping measures in the frame of the Central European Free Trade Agreement CEFTA
- (8) Protection of the Sharri cheese
- (9) Awareness-raising of consumers for the needs of the local dairy industry
- (10) Formation of a national lobby platform of the dairy industry

The development strategy of Kosovo's dairy industry 2011-2020 was passed as a resolution on 5.11.2012 in Pristina by the following organizations:



Kosovo Association of Milk Producers
(KAMP)



Kosovo Dairy Processors Association
(KDPA)

RESOLUTION OF KOSOVO'S DAIRY INDUSTRY

The development strategy of Kosovo's dairy industry 2011-2020 was passed as a resolution on 05.11.2012 in Pristina by the following organizations:

Kosovo Association of Milk Producers (KAMP)

Members of the board:

Chairman

Milazim Berisha

For the region of Peja:

Sali Abazi

For the region of Mitrovica:

Milazim Jonuzi

For the region of Pristina:

Naser Bajraktari

For the region of Gjilan:

Afrim Lenjani

For the region of Ferizaj:

Agim Ramadani

For the region of Prizren:

Xhevdet Morina

Kosovo Dairy Processors Association (KDPA)

Members of the board:

Chairman

Ramadan Memaj , Ajka

For the region of Gjilan:

Nehat Bixhaku, Kabi

For the region of Ferizaj:

Remzi Shahini, Rona

For the region of Pristina:

Lulzim Aliu, Magic Ice

For the region of Peja:

Driton Shkololli, Vita

For the region of Prizren:

Adnan Fusha, Abi

For the region of Mitrovica:

Gani Kastrati, Aldi

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A. DEVELOPMENT OF THE STRATEGY

I. First steps

In spring of 2009 the situation around the European dairy market deteriorated dramatically. The milk prices went down severely and endangered the existence of many farmers. The dairy industry in Kosovo was as well hit hard by this 'milk crisis' in the EU. Kosovo's unprotected market was flooded by imported products with even cheaper prices. The local dairy industry, which had just started recovering after the 1999 war, was engulfed in a real crisis. Many farmers and milk collection points could no longer sell their milk due to the partial collapse of the market of the dairies.

Due to this crisis, the Kosovo Association of Milk Producers (KAMP), the Kosovo Dairy Processors Association (KDPA) (supported by Solidar Suisse, Syri i Vizionit and the GAP Institute) compiled a policy paper in June 2009 on the occasion of the Central European Free Trade Agreement – CEFTA. In a cover letter to the government, KAMP and KDPA expressed their recommendations for action against the wave of imports and on supporting the dairy industry. After this study, on 16.09.2009, a conference was held in Prishtina with the members of KAMP and KDPA, Solidar Suisse, Syri i Vizionit, AgroDukagjini Network, Swisscontact, GTZ, and USAID. The associations determined their position and decided to compile a joint, by both KAMP and KDPA supported development strategy of Kosovo's dairy industry.

II. Planning process and participants

The associations KAMP and KDPA, initiators of this strategy, entrusted Solidar Suisse with the coordination of developing this strategy. The compilation of the strategy, which KAMP has accompanied with two surveys, has been conducted in parallel with first actions. The participants advised the Ministry of Agriculture (MAFRD) about the VAT taxation of unprocessed milk as compared to European standards, they succeeded in obtaining grants of an EU support program, and at the end of 2010 they undertook the first step of this strategy (see D.01).

In parallel, discussions were also held with members of the associations, experts in the sector and with state institutions. The essential steps of the strategy were discussed in October 2011 in the occasion of a consultation that MAFRD organized for its own document on the development of the dairy sector.

III. Authors

This strategy was prepared under the leadership of Dr. Christoph Baumann (Solidar Suisse). It was compiled in close cooperation with Ramadan Memaj (KDPA chairman), Milazim Berisha (KAMP chairman), Dr. Agim Rexhepi (KAMP), and Syzane Baja (Solidar Suisse).

B CURRENT STATE OF KOSOVO'S DAIRY SECTOR

IV. Who makes up Kosovo's dairy industry?

In the narrow sense, Kosovo's dairy industry comprises 26 dairies licensed with FVA (the Kosovo Food and Veterinary Agency) and over 1,400 milk producers (although unofficially the associations estimate to be around 2,000) who supply these dairies with milk (figures: October 2012). This strategy leaves aside the other stakeholders such as the packaging industry, forage producers (especially grain), marketing organizations, etc. In the broader sense, it is considered that the not FVA-approved 'mini-dairies' also play an important role in the dairy industry (i.e. farmers and processors who sell their products without a permit and uncontrollably). Nevertheless this black dairy market and these producers compete the legal industry, damage the image of local products, pose a threat to people's health and impede the sustainable development of Kosovo's dairy industry. Due to this, the initiators of this strategy distance themselves clearly from this illegal competition and do not treat it as part of the domestic dairy industry.

When this strategy speaks of the dairy industry, it encompasses explicitly only the licensed dairies and their milk suppliers. Out of 26 dairies, 18 belong to the Kosovo Dairy Processors Association (KDPA). Also, 300 dairy producers are members of the Kosovo Association of Milk Producers (KAMP). Although this membership is not binding for being part of the dairy industry market, the members of these associations – alongside nearly 100 milk collection sites throughout the country – are considered as important carriers of Kosovo's dairy industry. They operate in partnership relations and for several years they are having a constructive dialogue with each other, which suits the development of the industry. As organizations that represent the industry, they are important partners during the three-partite dialogue with the state organs during the phase of compilation of legal frameworks of agriculture and the dairy industry, as well as during the execution of the respective rulebooks and measures. This strategy is thus a result of the dialogue of these two associations.

V. Context and motives

After the collapse of the economy during the 1999 war, the dairy industry started being rebuilt thoroughly from scratch. Immediately after the end of the war there was only one functioning dairy (ABI, Prizren), whereas today there are 26 enterprises and some more that are in the planning phase. Having in mind that the farmers who produced milk were forced to start from scratch after the war as well, the development of the dairy industry in the post-war period can be assessed as success story.

The dairy sector is considered the most important growth sector of agriculture. According to the assessments, Kosovo's farmers produce 125 million kg of milk, but 90 million kg of this milk is used for personal needs and for direct sale. The dairies, on the other hand – according to our policy paper of 2009 – process only 35 million kg of cow milk a year, while in 2011 and 2012, according to the KAMP, over 45 million kg. Apart from that, nearly 120 million kg equivalent to milk are also imported. According to official records, Kosovo imported dairy products amounting to 27, 6 million € in 2011 but had at the same time almost no export at all. Based on USAID's *Dairy Market Assessment Study* (2008), the milk amount is distributed approximately as the following (see [fig. 1](#)):

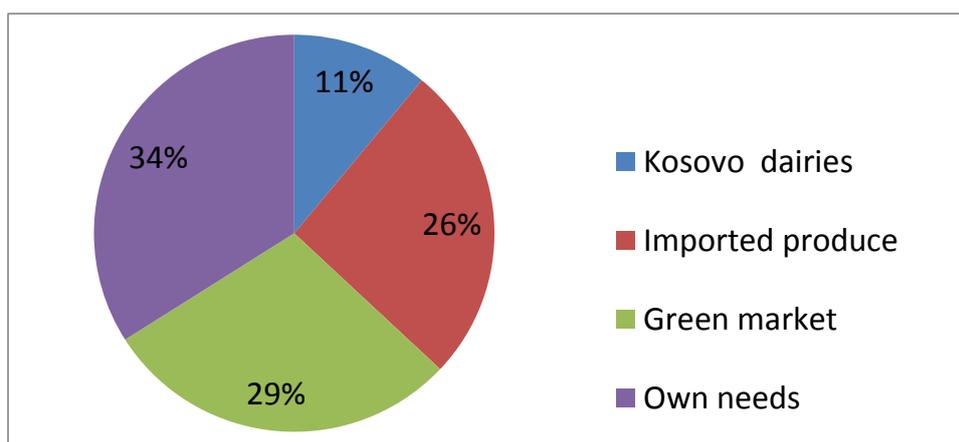


Fig. 1: Distribution of the milk amount in Kosovo (milk equivalent) in % in 2007

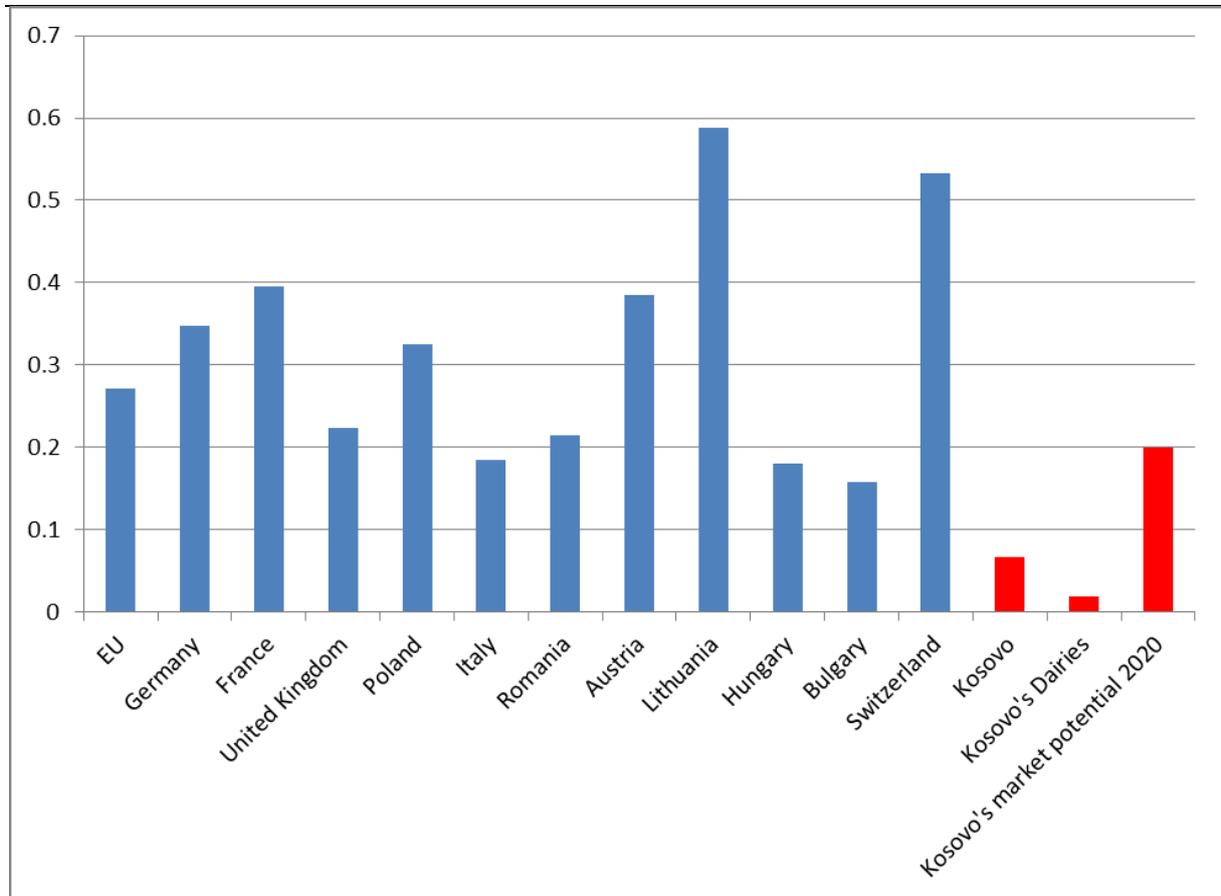


Fig. 2: Cow milk production per capita in 2008 (in tons per capita) compared with other European countries

This means that the local dairy industry covers less than one fifth of the market demand for dairy products. Hence compared internationally, the production of un-processed milk per capita in Kosovo is very low (see [fig. 2](#)).

The Europe-wide milk crisis in 2009 that engulfed Kosovo as well, has made the life of the milk producers very difficult; the sinking milk prices led to the very small producers (only one percent of the milk producers in Kosovo has 10 or more cows) giving up the commercial milk production. As a consequence, the production of unprocessed milk declined, and the prices went up - regardless of quality - to 40 cent per liter at the end of 2011, thus taking the industry again in desperate straits.

Despite the great potential that they have, the agro- and dairy industry plays a secondary role in the Kosovo Government's Development Plan 2007-2013. Only little money has been allocated in the Kosovo budget for agriculture. Compared to other CEFTA and EU member countries, the Kosovar dairy producers receive significantly less support. Monetary incentives to increase the quality and quantity of milk brought to the market are lacking.

Nevertheless, it is encouraging that since 2010/11 the Ministry of Agriculture (MAFRD) and the European Commission have compiled, applied and expanded a scheme of grants and direct payments for the dairies and the milk producers. In light of the immense needs of the dairy industry, this support is still very small, but a step in the right direction; and this strategy shows which the necessary future steps are.

VI. Strengths, weaknesses, opportunities and risks of the dairy sector

The insufficient legal framework is considered a main risk to the sector, for both the dairies and for the milk: the uncontrolled import, insufficient implementation of the Anti-Dumping Law, hardly any subsidies, legal shortcomings of the tax policy and the agriculture law, and tolerated unofficial sales of dairy products. The customs regulations are in general unfavorable for Kosovo's agriculture products. Despite CEFTA, or maybe precisely due to CEFTA, tariff and non-tariff barriers to trade including export restrictions persist.

Export subsidies in EU member countries, unfavorable loans, lack of awareness of the consumers as well as the poor energy supply (which is crucial along the entire cold chain) also threaten the dairy sector. In addition, the image of the local products is still bad, which can also be explained with the fact that there are almost no state-controlled applicable quality guidelines promoting the standardization of the products.

In the context of insufficient state support for strengthening and developing the sector, the biggest challenges are the subsidized cheap imports of dairy products as well as the sale of dairy products outside the regulated market. Obviously the products sold on the green market do not have to meet any minimal quality criteria because nobody controls them. Hence the cheap imports and the uncontrolled products on the green market rival the local regular market, without the application of the same rules to them. The unfair local and international competition damages thus both the milk producers and the dairies.

Great opportunities for the development of the dairy industry are the potential of the domestic market, which has been exhausted by far too little until now, and the considerably improved logistical access to the market of northern and central Albania since the completion of the highway in 2011/2012. The support by the EU opens up new opportunities to some dairies that are not necessarily offered in other countries. The endless areas of wasteland for pastures and fodder production are other good unused opportunities for the production of good milk, without having to import concentrated feed. Finally, the young population structure and the high youth unemployment are also a potential too because the most talented of all these young people can be recruited and to be trained as qualified, affordable labor.

This aforementioned potential is at the same time also the central weakness of the dairy sector: the lack of trained dairy producers and technologists and other occupations that are important for this sector. The use of outdated technologies and lack of suitable machines are as well not favorable to development. Last but not least, the dairies in Kosovo pay a too high milk price comparing to international price levels, whereas the dairy producers despite the sometimes high milk prices cannot cover the production costs. Unlike to other European countries, the milk producers in Kosovo must practically survive without the support of the state. Ultimately the product range is very small due to the low purchasing power and the consumers' modest demands.

Nevertheless a rather great advantage of this sector derives from this fact: the growing awareness of the milk producers and the dairies about the potential of the market. The dairy sector realized that the even the demand of the local population for 'simple' dairy products can trigger a very big growth. The awareness that one can grow without differentiation has lately led to an increasing number of investments in livestock and dairies. Still, the lack of state control mechanisms and support for the industry destabilize the framework conditions and prevent the industry from fully using its huge development potential.

VII. Expected context development until 2020

When analyzing the dairy industry developments in Europe in the past years, it is obvious that a great number of small and mid-size dairies was being driven out of the market. The market is increasingly being dominated by big companies oriented toward the international market. Nevertheless, there are also small dairies that conquer the national and international markets by identifying market niches and in particular by producing cheese specialties. The marketing of regional and bio-organic products on the local market is also growing steadily. These development trends are likely to continue in the period of this strategy.

In a context of an increasing free trade, the Kosovar dairies must assess their potential realistically. Almost all dairies have a perspective to work as small to mid-size dairies with 20 to 60 t of milk a day, and to rival other small Kosovar dairies with regional products. Only one or two companies have the perspective to produce for the local market bigger quantities of dairy products covering basic needs and facing up with low prices directly to the imported goods.

It is expected that the dairies are going to aim at expanding and product diversification for the local market. However, the Kosovar market is small indeed, and the consumer demand is low in an international comparison. Other dairies will conclude that the improvement of the quality of the existing products is more important to survive on the regional market, especially having in mind that the demands for the quality level will surely increase in the following years. In any case, diversification and quality will significantly influence the dairies' competitiveness.

Regarding the quality requirements, an intensive process of acquisition of EU directives on milk production and procession is expected in the following years. In this regard particularly to mention is the so-called 'EU's hygienic package' which, according to Kosovo's Agriculture Plan, is planned to become an integral part of the Kosovar legislation. The European Commission has already started to encourage the Kosovar dairies to invest in this direction.

The hygienic standards and the mandatory application of the quality, food safety and environmental management systems as well as HACCP (*Hazard Analysis and Critical Control Points*) will contribute considerably to the structural change of the dairy sector. Only by applying such standards, the inclusion of Kosovo's economy in the European Union will be possible.

It is expected that the milk producers too are going increasingly to be driven out from the market. The immense reduction of small and medium-sized dairies and the development of a small number of big farms have already taken place in the European Economic Zone including its former transitional countries. This development has only just started in Kosovo; a structure of more than 20,000 dairy farmers with 1-2 cows and estimated 2,000 farmers with an average of 5 to 6 cows will hardly persist in the midterm.

In the following years the Europe-wide standards of quality, hygiene and milk production that are applied everywhere in Europe will be accepted more and more in Kosovo; bigger farms will grow to the detriment of the small ones, and the number of their livestock will increase. Measures to increase the milk yield will become more important. It may be expected that the average milk yield in will double during the following 10 years from currently around 4,000 kg to 4,400 kg a year (EU average: around 6,700 kg), since in Kosovo breeds with a high milk yield is preferred too (like Holstein and Brown Swiss). Assuming the professionalization of the farms leading to the increase of the average dairy stock to 20 milk cows, Kosovo would have the potential for 4,100 profitable farms which would cover the domestic market demand for milk.

It is beyond debate that such developments can take place only if they are accompanied with improving and more stable framework conditions. Therefore a support of the state is crucial.

C. VISION AND GOALS OF KOSOVO'S DAIRY INDUSTRY

VIII. Vision

Kosovo's consumers will be supplied efficiently with healthy, high-quality and reasonably priced dairy products of the domestic industry. Imported dairy specialties are for them a supplement to the range of local dairy products.

After a period of oppression, a war and difficult post-war time, the government will have to be not only able to be politically independent, but also to supply its population with basic foods in the case of a repeated crisis. That is why it needs to aim at substituting the import of all those products that serve as basic foods; the majority of products in Kosovo are such because luxurious dairy specialties are anyway not affordable for the poor population.

A balanced nourished population must be another vision of the government; when it comes to the dairy products, the Swiss Society for Nutrition recommends the consumption of 6 dl of milk (or dairy products made of it) per day. Hence, Kosovo must be able to produce 360 to 380 million kg of healthy and controlled milk for its population every year. Today only 45 million kg are sold to the state-controlled dairies and are considered saved.

IX. Strategic goals by 2020

Through this strategy the local dairy industry aims at supplying 95% of the demand of the domestic market for dairy products by 2010 (see [fig. 3](#)). This means:

- (1) In 2020 the dairy producers in Kosovo sell around 360 million kg of milk to the dairies (today: around 45 million kg).
- (2) In 2020 the number of dairy products that are being imported is nearly the same as those exported (import substitution). Today 100-120 million kg (amounting to over 27 million €) are imported, but almost no single product is being exported.
- (3) In 2020 the dairy farmers sell 95% of 380 million kg of produced milk to the dairies; a maximum of 5% of milk is sold directly or personally consumed (today 29% is sold directly and 34% is consumed personally).

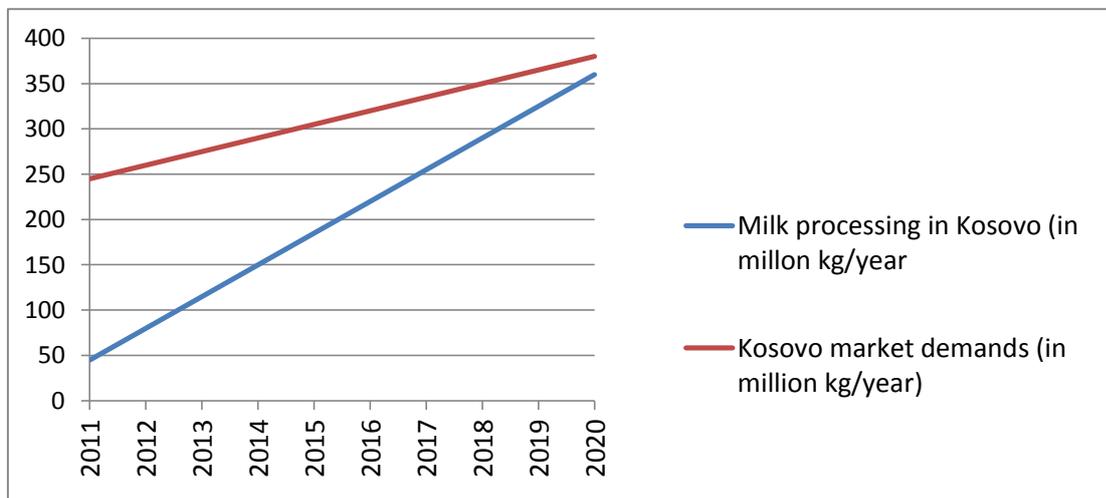


Fig. 3: The strategic goal of the dairy industry: To increase the market demand, to process 95% of the milk production

- (4) In 2020 the annual per capita consumption of milk and dairy products reaches 219 kg (compared to nowadays: 355 kg consumed in Germany, 376 kg in Switzerland).
- (5) In 2020 each of the 26 dairies processes on an average 15 million kg of milk a year respectively 41 t a day.
- (6) In 2020 the dairies buy the state-controlled milk from 4,100 dairy farms (today: 2,000 farms) with an average of 20 cows and an average yearly milk yield of around 4,400 kg.
- (7) In 2020 the milk producers work on average 20 hectares of land (total: 80,000 hectares) and keep altogether around 80,000 dairy cows.

In case all these strategic goals are achieved, the milk production in Kosovo would be very similar to the one in Switzerland with its small-scale structures and the production mainly in small farms. Nevertheless, the farms will on an average be at least four times larger than today and there will be twice more farms. Of course there is quite some potential that all the currently existing 2,000 dairy farms, who sell the milk to the dairies, increase the dairy stock to over 40 cows. In addition Kosovo has a potential for 36 dairies with a capacity of 10 million kg a year (27 t a day).

D. THE 10 MOST IMPORTANT STEPS FOR ACHIEVING THE STRATEGIC GOALS

In order to achieve the strategic goals, measures in creating more favorable framework conditions for the dairy industry should be undertaken primarily. Both associations need fair market conditions which don't benefit the import and the uncontrolled sales of dairy products on the black and green market to the detriment of the dairy industry. This is why a transparent quality control is necessary, which would revive the confidence among all the stakeholders, a consistent application of the existing laws (including the Anti-Dumping Law) and the regulation of the green market. These are structural conditions that the government can create easily. They are the foundations of a sustainable development of the dairy industry.

Furthermore, monetary incentives and steering instruments should be carried out in order to make the dairy industry as soon as possible competitive on the international market. These include inter alia support programs and direct payments allocated according to fair, transparent and appropriate incentives, in order to exploit the potential of agricultural land and labor as well as the market. The capacities of the existing dairies have to increase utterly; the farmers should invest in modern and bigger stables, in land and the dairy stock.

Ultimately, it will be a task of the industry and the government to encourage the population to consume quality and healthy dairy products from the local production.

This present strategy includes a 10-point program; these 10 most important steps for achieving the strategic goals are to be presented hereafter. All the steps are mandatory to come close to the goals. It is evident that further measures should also be undertaken, however these presented below should take top priority.

01 Transparent and neutral sampling, quality control and fair payment of raw milk

Problem

Until 2010, the dairies have sent milk samples to the state laboratory and have notified the dairy farmers about the results of the milk quality control. The milk producers did not trust these results that much, and have had no incentives to deliver good un-processed milk. The lack of transparency, neutrality and contractual reliability have blocked the establishment of a fair system for direct payments and subsidies to dairy farmers, prevented the milk producers to invest in their business, represented a risk to the food safety and did not provide the dairies any guarantee to purchase constantly good quality raw milk.

Solution

Since 2011 we strive for a public coordinated, transparent, professional and reliable organization for sampling and quality control through the laboratory of the Food and Veterinary Agency of Kosovo (FVA). The control system should be recognized by both the dairies and the milk producers and for this reason it must be neutral.

Benefits for dairy farmers

Transparent controls and sampling guarantee that the payment according to milk quality criteria is fair. This motivates the dairy farmers to improve the milk quality, to expand their business and through this to achieve higher prices. Last but not least a transparent quality control is an important basis for benefiting from fair direct payments and subsidies.

Benefits for dairies

Professional quality control and bigger confidence of the dairy farmers considerably allow in long-term purchasing higher-quality raw milk. This is a basis for development of the dairies.

Benefits for consumers

A transparently proven high milk quality builds trust of the consumers in local dairy products. So, Kosovo's population will increasingly enjoy domestic dairy products and save unnecessary costs by buying more expensive products from abroad.

Impact on the state economy, budget and health

The professional quality control is the most important basis for a sustainable and stable economic development of the dairy sector. It increases the food safety provision of food products and with that it improves the health too. Finally it is followed by a reduction of imports, which causes a rise of the economic and social welfare in Kosovo.

02 Legal regulation of the direct marketing of dairy products on the green market

Problem

The direct uncontrolled sales on the black market (around 30% of the milk volume in Kosovo), especially on the 'green market', destroy the domestic industry; they represent an unfair competition and a punishment for all those milk producers and dairies who sell their products in accordance with the laws. Last but not least they also prevent the establishing and implementing of rules, administrative instructions on food safety, fair state subsidies and market mechanisms in favor of all, especially the consumers.

Solution

Fair marketing rules, equally applicable to all, are of essential importance for a progressive development of the dairy industry in Kosovo. Experiences from Western countries from the past decades show that a dairy industry develops only after the prevention of the black market. It should also be added that dairy products on the green markets should be legally treated equally on the quality aspect, in the same way as all dairy products sold; only then can we talk of a fair competition which pushes forward the development of the industry.

There is a need for a foodstuffs regulation which defines the rules for direct marketing of dairy products (especially an obligation to obtain a license for all sellers of dairy products) and monitors their application. The associations request a fast and consistent implementation of such rules. For this reason, KDPA and KAMP are going to present a proposal with measures to MAFRD and FVA and discuss its implementation.

Benefits for dairy farmers

With the supervision of the mandatory minimum quality of raw milk on the black market as well, all those milk producers in Kosovo, who sell their milk to a licensed dairy or at a milk collection point, will no longer be discriminated. Only when all milk producers are treated equally, the milk producers who are already subject to milk controls will have the guarantee that their investments are also fruitful in the long-term.

Benefits for dairies

Only with regulating and quality checks controls of all sellers of dairy products, fair conditions for the already regulated and controlled dairy industry in Kosovo can be created. Such a legal regulation will trigger decisive impulses for the development of the dairy economy. This, among the first measure (D.01), is considered the cornerstone of our strategy and hence our future success.

Benefits for consumers

The regulation of direct marketing primarily represents for consumers an essential increase of the food safety compared to the current situation.

Impact on the state economy, budget and health

On the basis of formalization of all milk sales, a significant decline of evading taxes emerges, which has a positive impact on the state's fiscal situation. The public health improves significantly, since much less spoiled dairy products can be sold.

03 Qualified dairy technicians and producers in Kosovo

Problem

The dairy entrepreneurs have gained great knowledge in the past decade. Nevertheless they are not qualified dairy technicians, while such specialized experts are lacking on Kosovo's labor market. This means that the dairies are forced to 'buy' technicians from foreign countries in order to be competent competitors. Neither vocational schools nor the universities provide curricula for dairy technicians. Corresponding training courses of a high quality are financeable only partially, having in mind Kosovo's size.

The education of the dairy farmers is also problematic: although most milk producers have many years of experience and can partially prove some proper education in the field of agriculture, they still lack a profound education required for a modern dairy production. This causes a lower profitability, a small milk yield and an insufficient animal health. Anyhow, there are vocational schools with an education in the field of agriculture, but there is still no practical and higher education with specialization in dairy production.

Solution

In order to achieve the strategic-quantitative goals, in 2020 Kosovo should be able to provide vocational education as dairy technicians for around 15 pupils a year, and depending on the structure of the companies to train 2 technicians on a university level (reference values: from Germany and Switzerland). For this reason we ask for one vocational school with a practically oriented curriculum for dairy technicians; this is why one class should be established for each school year, whose pupils are trained at least in half of the school time 'on the job' in a dairy. As temporary solution to the problem should be sought vocational schools abroad. For higher education as dairy technicians, the Ministry of Education should find a solution at the university institutes abroad.

For the professionalization of the agricultural education in vocational schools should be offered modern, supplementary modules in the field of fodder production, feeding as well as dairy cattle farming and breeding. Apart from the education in Kosovo, internships and temporary labor should be mediated abroad (for instance to Switzerland and Germany).

Benefits for dairy farmers

The dairy farms thus gain the opportunity to employ qualified farmers and to let experienced farmers working and learning temporary abroad. This increases the farms' profitability and hence their incomes. Kosovo needs around 4,100 farmers with a good education as milk producers.

Benefits for dairies

The dairies can employ trained dairy technicians; this is in favor of both the professionalization and the innovative capacity of the farms. Since the dairies take over a responsibility for training dairy technicians, they benefit from labor which already gets familiarized with the company during the education.

Benefits for consumers

The more trained labor are engaged in the dairy industry, the bigger is the consumers' trust in the industry and the local products. This will have a positive impact on the consumption and the enjoyment of domestic products.

Impact on the state economy, budget and health

On one hand, with the increasing professionalization of the work force the economic performance of the industry is raised, on the other hand it can be expected that the skilled experts are highly employable: in this way every year around 15 trained dairy technicians and 2 highly-trained dairy technicians find properly-paid jobs. Moreover, by 2020 the labor market demands for one hundred to two hundred trained milk producers a year. Consequently, these jobs open other important jobs required for the industry.

04 Direct payments and state subsidies for the dairy farmers

Problem

Until now the milk producers in Kosovo, unlike in other European countries, receive very little direct payments and no subsidies; this puts them at a disadvantage. There is no monetary incentive by the state for increasing the production of high-quality raw milk. This causes the situation in which the milk producers' incomes despite the high milk prices are by far too low for producing milk of high quality and in higher quantities. Not only do milk producers suffer from this, the dairies suffer too: they have to pay high prices without getting the milk quantity and quality like in the countries with subsidized milk producers.

The introduction of a direct payment system, to which all milk producers can obtain access, is necessary. But this would be done now at a time in which the support for milk production is fading in entire Europe, when milk quotation systems are to be abolished and when the market is increasingly being liberalized in the agricultural sector too. In order to avoid conflicts in the WTO and CEFTA, the payments should be from the very beginning only partially product-bound, but still promoting the milk production.

Solution

We demand the introduction of fair direct payments. Kosovo must establish its food sovereignty. Therefore, like in Switzerland, the milk producers should be paid 'contributions for ensuring the food supply'; they are linked to the dairy stock for which a minimal number of one and a maximal number of two dairy cows per hectare should be defined. 200 euros are paid for each hectare: 100 euros for each unit of dairy cow and heifer. The primary purpose of these contributions is to increase the production of raw milk, but without over-exploiting the landscape and without jeopardizing the animals' health. In this way, all those milk producers would benefit whose milk is controlled by the FVA and meets at least the second-class quality criteria. This is a little bureaucratic and most suitable solution for Kosovo.

Furthermore, we request subsidies for the milk producers until the achievement of the quantitative objectives of the strategy: for the milk of the Extra class 0.07 €/l, for the first-class milk 0.05 €/l and for the second-class milk 0.03 €/l.

Benefits for dairy farmers

The benefits are the increase of incomes and a certain financial security during the planning of investments in the dairy production.

Benefits for dairies

The dairies receive more milk and of better quality. Through this they become again competitive and can offer the milk producers long-term contracts, which guarantee themselves the future availability of the raw milk.

Benefits for consumers

The population enjoys increasingly local high-quality products.

Impact on the state economy, budget and health

The macro-economic impacts of the direct payments are expressed primarily in a much lower dependence of Kosovo from imports of food products, while this is a contribution to the growth of the GDP. They contribute essentially for around 4,100 farms, i.e. one of 70 families in Kosovo, to generating fair incomes through the dairy industry solely.

The direct payments would put a burden on Kosovo's fiscal budget with 1.5 million euros in the 2012 fiscal year, while in 2020 with 12 million euros. But the increase of the value added within the country through higher fiscal revenue (in particular the VAT) would compensate the burden to the fiscal budget in a long-term.

05 State support programs for the dairy industry

Problem

Many companies lack the financial means for investing; at the same time the interest of the local banks is so high that very often they refrain from taking up a loan. The start-up phase is in most dairies and farms still ongoing. That is why an expensive loan acts even more as a deterrent. While a part of the dairies is benefiting since 2011 from an EU grant scheme, many milk producers are being supported by the Ministry of Agriculture to invest in their farms. However, the support through the Ministry of Agriculture is less transparent and not fair enough, because most of dairy farmers are discriminated only due to the small dairy stock, regardless of the milk quality.

Solution

We ask for an agricultural bank regulated by public law, which serves as a credit institute milk producers and dairies with cheap and long-term loans. Such a state bank is in the public interest because it promotes security of supply to Kosovo.

Furthermore, we ask for more fairness when allocating the funds and more transparency during the co-financing of investments for farm start-ups. KAMP and KDPA request to be consulted on the criteria and procedures for the allocation of funds. KAMP and KDPA also ask for the creation of an emergency fund to mitigate the negative financial impact from natural hazards.

Benefits for dairy farmers

Most of the milk producers have been excluded until now from the state support funds, because they had less than 10 milk cows. This would change and guarantee all farmers a fair chance to obtain state means.

Such an agricultural bank would provide small milk producers with fair and favorable loans.

Benefits for dairies

The agricultural bank, which also covers the food industry, provides the dairies with favorable loans, especially with long-term ones. The long-term aspect is of particular importance.

Benefits for consumers

Consumers benefit primarily from the rise of the milk production and through this from a broader range of local products

Impact on the state economy, budget and health

A credit institute under public law must make sure not to compete unnecessarily with private banks. Other industrial sectors can formulate their own specific demands to the state. However, the goal of the bank is of public interest, i.e. to guarantee food sovereignty. Until the food sovereignty is not established, this bank has the right to exist, but not afterwards. That is why this credit institute should be a temporary institution. The associations' starting point is that the loans will be returned fully. The loss risk is insignificant. Nevertheless, the necessary capital brought in for the dairy industry of around 100 million euros (as well as other funds for other agriculture sectors) represents a burden to Kosovo's budget. Kosovo must negotiate with international donors about their contributions for depositing this capital.

06 Reduced value added tax for the agroindustry – Pre-tax deduction on raw milk

Problem

Currently, the dairies pay the full value added tax (VAT) rate of 16%, and they are not even entitled to deduct pre-tax on raw milk. The dairies and indirectly the milk producers too are therefore considerably disadvantaged compared to their counterparts in other European countries. There is a reduced VAT of 7 % in Germany instead of 19 %, 2.5 % instead of 8 % for milk products in Switzerland. In the UK, Ireland, Cyprus and Malta there is even a zero rate for dairy product supplies, i.e. tax exemptions with the right to deduct the pre-tax on raw milk.

Solution

KAMP and KDPA ask for a VAT exemption for local products of the food industry respectively 0% VAT for the un-processed milk for a five-year period, or until the most important problems of the dairy industry have been solved.

Afterwards we espouse having a halved VAT for local dairy products (8 % instead of currently 16 %). Furthermore, we also ask for the right to deduct the pre-tax of un-processed milk. This means that the dairies are entitled to deduct additional 8 % of the value of purchased milk (pre-tax).

Benefits for dairy farmers

For the milk producers this means a higher contractual security for selling their milk. The pre-tax deduction is for the dairies possible only if there are transparent contracts with the milk suppliers. Also, the reduction of the VAT increases the possibility for negotiating better milk prices with the dairies.

Benefits for dairies

For the dairies the tax incentives are a significant financial relief that allows investments in the companies and by this a notable increase of profit and turnover.

Benefits for consumers

The prices of the local dairy products will decrease in the mid-term; by this the consumers will choose local products over the imported ones and in this way benefit increasingly from the low-cost products from Kosovo.

Impact on the state economy, budget and health

With an 8 % VAT rate and with the possibility to deduct the pre-tax to milk, the fiscal authority will still collect more than the double of VAT through the dairies; of course given the case that the dairies expand their production once on such a scale that they can supply the local demands for milk.

07 Government measures against subsidized dairy products and anti-dumping measures in the framework of the Central European Free Trade Agreement CEFTA

Problem

The imported dairy products are often highly subsidized, with cheapened prices and sometimes adulterated, and they comprise more than a quarter of the entire milk volume in Kosovo; 70% of the dairy products that are sold via the regulated trade are imported. This is why the competitiveness versus the foreign products is of such importance for the local industry. In case the regulation of the direct marketing takes place and if the sales through the green market are decline, then it is expected that Kosovo will be flooded even more with imported dairy products, if decisive and helpful measures are not undertaken. On the basis of its unfavorable role in CEFTA Kosovo's trade policy has therefore only little chances to affect the practices of the other countries from which these products originate and which often break the agreed trade practices (subsidies, dumping, faulty declarations, etc.).

Solution

As presented to Kosovo's government and Parliament in our 2009 statement, a better implementation of the CEFTA agreement on free trade is not only necessary, but also possible. There is a series of trade measures which needs to be checked and come into effect if necessary. In this regard, the implementation of the 2010 Anti-Dumping Law takes top priority. Both associations will, in the frame of this law and in close cooperation with the relevant ministries – campaign for three areas of intervention to act on the imported (subsidized) dairy products:

1. Collection of import duties (protective tariffs) on subsidized dairy products
2. Collection of punitive duties (retorsion tariffs) as anti-dumping measure against too cheap imported dairy products
3. Ban on imports of mixed dairy products with wrong or deceptive declaration respectively which are adulterated.

Benefits for dairy farmers

The milk producers can sell more milk and find dairies as reliable contractual partners. Such protective measures promote rural development.

Benefits for dairies

The protective tariffs on subsidized dairy products increase the competitiveness of the local dairies versus those abroad. The punitive duties prevent the further destruction of the local market through an unfair dumping.

Benefits for consumers

The imported products become more expensive for the consumers, but they benefit from the growing range of local products with fair prices.

Impact on the state economy, budget and health

The impact of appropriate trade measures in the short-term is the import substitution of all those dairy products that are already produced (or can be produced) in Kosovo. Thus the state increases in the short or medium-term the fiscal revenue through collection of duties which - though not appropriated – are needed among other things for direct payments and support programs. In the mid to long-term, the state generates additional income from the domestic industry.

08 Protection of the Sharri cheese

Problem

Both inside and outside of Kosovo the products with the brand 'Sharri Cheese' are sold, which in fact should not be named as such, because the recipe does not stick to the original recipe of the Sharri cheese and/ or because this product does not originate from the Sharri region in Kosovo. This fraudulent labeling hampers the marketing of an authentic Sharri cheese, damages the credibility of Kosovo's dairy industry domestically and internationally, and hinders its development and international positioning. This should not happen because an original Sharri cheese is the flagship product of the local dairy industry and one of very few products that under certain preconditions have the potential to be exported to the countries with a strong Diaspora.

Solution

The Sharri cheese producers in Kosovo compile jointly, following the example set by the AOC seal in France and Switzerland (*Appellation d'Origine Contrôlée*), a binding manufacturing method (functional specification) that guides the production of the cheese, determines the origin and quality of the milk as well as the geographical indications that need to be protected. A joint committee of industry representatives supervises the compliance with these rules and authorizes the sale under the name 'Sharri Cheese'.

The cheese will be legally protected by Kosovo through a law on trademarks and should later also enjoy protection in the entire European Union; as a product with a *protected designation of origin* (PDO) as well as a product with *protected geographical indication* (PGI), the 'Sharri Cheese' must be protected by the legal framework of the EU on geographical indications and traditional specialties.

Benefits for dairy farmers

Depending on the content of the functional specification, a part of the milk producers may have the possibility to produce milk according to the defined origin and quality criteria, to establish long-term contracts with the dairies and achieve better prices.

Benefits for dairies

The dairies can position themselves in the international market with a product but not competitor can abuse the brand 'Sharri'. Ultimately, a cheese protected by Kosovo is a good opportunity to advertise the acceptance of Kosovo's dairy industry at home and abroad, and to place also other products (with no specific protection) on the market.

Benefits for consumers

The consumers in Kosovo and outside the country (especially the diaspora) can enjoy an authentic Sharri cheese.

Impact on the state economy, budget and health

The protection of a local cheese represents in the macro-economic aspect an opportunity for the Kosovo industry to conquer foreign markets, i.e. to integrate itself in the international market. In order to achieve a favorable trade balanced of dairy products, it is a must that the imports and exports of various products reach the same levels, relating to this the Sharri cheese can be an important export product in the midterm.

09 Awareness-raising of consumers for the needs of the local dairy industry

Problem

The reputation of Kosovo's dairy products is not very good. Many consumers trust only in foreign product, although they have relatively little quality and assortment expectations. This extends to public institutions such as the administration, schools, hospitals and military institutions: although the tenders are public, the local dairies come away empty-handed. It is the responsibility of the entire dairy industry and of the state to rebuild the lost confidence. Nevertheless, the problem can be solved only if the dairy industry makes sure that all dairies sell high-quality products and buy only raw milk that meets the basic standards determined by the FVA.

Solution

The problem of lack of trust can be solved only jointly by the entire dairy industry. That is why the milk producers and the dairies will conduct joint marketing campaigns in order to raise the population's awareness on local products. The campaigns should focus primarily on the young generation.

It is a task of the state to secure the food sovereignty. This is why the state must task the local dairy industry to bring to the market sufficient quantities of dairy products and provide this industry with the necessary means for carrying out marketing campaigns. Also, ecological criteria that prioritize the local dairy products must apply for public procurements.

Benefits for dairy farmers

The milk producers together with the dairies are tasked by the government to guarantee sufficient milk supply. This gives them the security to increase their production until the amount marked as a goal of this strategy is achieved.

Benefits for dairies

The state provides the dairies with the means to carry out PR together with the milk producers about the Kosovo dairy products. From the increase of the sector's market in general, each separate dairy has more benefits (and less costs) than if it attempted to increase its relative share on the market.

Benefits for consumers

The awareness of the high quality of local products increases the pleasure in consuming dairy products and the population's confidence in producing good products also in other industries.

Impact on the state economy, budget and health

The dairy industry can serve as a best practice for a successful promotion of trade and industry, and might push also the other industries to undertake similar initiatives.

10 Formation of a national lobby platform of the dairy industry

Problem

Prior to their formation the associations KAMP and KDPA were organized in one single association. The dissolving of this association in 2004 was understandable and necessary having in mind the different interests of the milk producers and dairies. Nevertheless, this strategy shows that there are many common requests for improving the framework conditions of the dairy sector. However, a platform that would advocate these requests is lacking.

Solution

The associations KAMP and KDPA found a lobby organization because this important voice will represent and address our interests to the government, foreign investors, trade and consumers. Such an association enables an efficient implementation of this strategy. Its goal is the strengthening of the profitability of commercial milk producers and dairies by facilitating the gaining of additional market shares primarily in Kosovo. However, the autonomy and independence of KAMP and KDPA are not going to be affected.

Benefits for dairy farmers

The lobby organization effectively stands up for the milk producers' interests. In such discussion platform also current problems can be reviewed. If necessary, it can take joint short-term marketing measures so that possible market problems and milk surpluses don't lead to heavy income losses of the dairy farmers.

Benefits for dairies

The lobby organization advocates better framework conditions of the dairy industry. The structured dialogue with the milk producers and the government facilitates solving the dairy industry's problems faster and much better than until now. Especially the dairies' interests are better represented in an organization, which covers the whole industry, than in an entrepreneurs association.

Benefits for consumers

The consumers respect the dairy industry in Kosovo as a serious branch. This is conducive to a greater confidence in the local products and increases as well their enjoyment.

Impact on the state economy, budget and health

A good representation of the dairy industry's interests will also improve the framework conditions of the entire agriculture and the food industry, and thus increases the country's economic performance.

X. What else it needs!

The organizations and institutions which support this strategy are aware that also other important actions must be taken in order to achieve the goals. The Kosovo Association of Milk Producers (KAMP) must professionalize itself to successfully protect its own interests toward the dairies, the authorities and the population; the same applies also to the Kosovo Dairy Processors Association (KDPA).

Except the milk marketing (see step 09), the milk producers association should also have as a task to supply the members with information regarding the developments on the dairy market and to provide them with technical advice in dairy stock housing, hygiene, fodder production, feeding and in business management.

The Dairy Processors Association should not deal with marketing issues, but also to compile a binding guideline on good manufacturing practice for its members, and to consult on the application of the EU hygiene package and on the introduction of ISO standards. The association should also advocate export promotion.

Finally, the Kosovo Parliament must foresee much more funds for the Ministry of Agriculture. On one hand, it is extraordinary important that the veterinary services improve and that the government supports dairy stock breeding measures.

That is why it is going to be important for the KAMP and KDPA to be represented in the parliament and co-determine the allocation of funds.

E. MASTERPLAN

	Measure, project	Start	Date of achievement	Source of verification, indicators	Responsibilities
1	Transparent and neutral sampling, quality control and fair payment of raw milk	January 2011	December 2013	Institutionalization of the project by the FVA; complete database	FVA
2	Legal regulation of the direct marketing of dairy products on the green market	January 2013	December 2014	Administrative instruction to regulate the green market; every seller has a license	FVA
3	Qualified dairy technicians and producers in Kosovo	January 2013	December 2018	Diploma and curricula	MEST
4	Direct payments and state subsidies for the dairy producers	August 2012	December 2013	Laws and administrative instructions on direct payments	MAFRD
5	State support programs for the dairy industry	January 2014	December 2016	Agricultural bank regulated by public law; criteria and procedures for allocation of funds to dairies and farmers	MAFRD, MEF
6	Reduced value added tax for the agroindustry – Pre-tax deduction on raw milk	January 2013	January 2018	Policy on VAT	MEF
7	Government measures against subsidized dairy products and anti-dumping measures in the frame of the Central European Free Trade Agreement CEFTA	August 2012	December 2020	Anti-dumping measures undertaken in concrete cases	MEF, MIT, MAFRD
8	Protection of the Sharri cheese	January 2014	December 2018	Functional specifications for production of Sharri cheese; law on trade brands, protected geographical indication (EU)	KAMP, MIT
9	Awareness-raising of consumers for the needs of the local dairy industry	May 2012	December 2020	Media reports on campaigns; public procurement criteria	KAMP, KDPA, MAFRD
10	Formation of a national lobby platform of the dairy industry	August 2012	December 2013	Statutes and registration of lobbying platform	KAMP, KDPA



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