Required Report - public distribution

Date: 12/5/2014

GAIN Report Number: HR1410

Croatia

Exporter Guide

Annual Report

Approved By:
Andreja Misir
Prepared By:
Christine Sloop

Report Highlights:

Croatia imports a significant portion of the food it consumes. However, most imports come from neighboring countries or other EU member states. At the same time, slow but continued economic reforms as a result of the EU accession and growing tourism, make Croatia a potential market for certain US food products, such as seafood, snack foods, pet food, wine, tree nuts, and rice. Nevertheless, Croatia has not been immune to the global economic crisis and still faces significant challenges. This report's statistical data were updated in October 2014.

Post:
Zagreb

Executive Summary:

Author Defined:
I. Market Overview

Economic Situation

On October 3, 2005, Croatia began negotiations for accession into the European Union (EU). On July 1, 2013, Croatia became the 28th EU Member State. In addition, Croatia is a member of the World Trade Organization and a NATO member, which provides a security framework for its improving economic and social prospects.

Croatia has progressed considerably in creating a market economy and establishing macroeconomic stability. With the Kuna (HRK) closely tied to the Euro, Croatia enjoys a stable currency. Unemployment was very high in 2000/2001 and positive trends (more employment in private sector firms) began in 2002 and continued until 2008. However, Croatia has not been immune to the global economic crisis. Thus, employment statistics for 2010, 2011, 2012, 2013 and 2014 all show a downward trend. Moreover, GDP also declined (- 0.9% in 2013). Croatia's external trade imbalances and high foreign debt present risks to continued access to foreign credit.

Demographic Developments and Their Impact on Consumer Buying Habits

Croatia’s population is approximately 4.284 million and is slowly decreasing. The age distribution, based on 2011 census, is as follows: 1 to 14 years/15.23 percent; 15 to 64 years/60.70 percent; 65 and over/24.07%. The purchasing power of an average Croatian citizen is approximately €5,208 according to a 2013/14 Gesellschaft für Konsumforschung (Society for Consumer Research) - Gfk Purchasing Power Europe Study*. The number of elderly and retired persons is rising, but they tend to have small pensions and are not the economic force they are in some countries.

Food Expenditures

In 2011 (most current data available), total consumption of goods per household was $12,876 (HRK 74,941). From that total consumption, food and beverages accounted for 31.70%, while alcoholic beverages and tobacco accounted for 3.70%.

*Purchasing power is a measure of per-capita disposable income (including any received state benefits) after the deduction of taxes and charitable contributions. The study indicates per-person, per-year purchasing power levels in euros. GfK purchasing power figures reflect the nominal disposable income, meaning that the values have not been adjusted for inflation. The study draws on statistics on income and tax levels, government benefits and forecasts by economic institutes.

Size and Growth of the Consumer Foods Market

General

In 2013, Croatia imported agricultural, fish and forestry products valued at $2.98 billion and exported $2.27 billion worth of these goods, which puts the agricultural trade deficit at approximately $710 million.

There is little specific data on domestic sales of food products by class or type.

Consumer foods

Croatia's total imports of consumer foods have steadily grown over the last few years and reached $1.79 billion in 2013. Flourishing tourism along the Dalmatian coast and rebounding consumer demand in urban areas have fueled demand for consumer foods, as evidenced by the growing number of supermarket stores. Trade statistics on US exports of consumer foods to Croatia are severely understated due to transshipment via other EU member states. Demand for medium to high quality consumer foods will continue to rise and should be a boon for US companies, provided they can overcome less than competitive high ocean freight rates into the Adriatic Sea from US ports. Nevertheless, US companies can take advantage of the weak dollar.

Beverages

In 2013, fruit and vegetable juice imports reached $16.43 million. Annual average consumption per household member is:

Mineral water 26.30 liter
Beer 16.30 liter
Fruit juices 15.40 liter
Soft drinks 10.20 liter
Wine 10.10 liter
Coffee 3.60 kg
Syrups for preparation of beverages 3.50 liter

Seafood

Although Croatia is a net-exporter of fish and seafood, with farmed tuna being the most important export item, Croatia imports a significant quantity of these products as well. The economic downturn has affected seafood imports, but Croatia's imports of these products still reached $101.46 million in 2013. Furthermore, Croatia is expected to continue to import over $100 million in fish and seafood annually for the foreseeable future. Promising areas for US exporters include fish feed for tuna production and fish for the local fish processing industry such as sardines, and mackerel.

Annual average consumption of fish (fresh and salt water) and seafood per household member is 8.20 kg. The demand for fresh-water fish and seafood is expected to increase with modern changes in nutritional habits and increased demand from tourism. The small blue fish is the most consumed fish on the national market, but due to changing nutritional habits and consumer demand, salted fish production has increased significantly, as well as frozen fish, smoked fish (smoked sea bass, eel, and freshwater fish), fish pâté, marinated fish, and other such products.

Advantages and Challenges of US Suppliers in the Croatian Market

Advantages	Challenges
Growth in tourism	Negative attitude towards foods containing or made from biotech products
Urban population growth	Retailers rarely import US products directly into Croatia, they prefer purchases from central distributors/ mainly located in other member states (mainly Germany)
Certain fruits, vegetables, dried fruits and rice are not produced domestically	The government adopted restrictive EU Phytosanitary regulations
Good reputation of certain US products like dried fruits and nuts	Reservations towards products with chemical food additives
US style food is popular among the younger generation	High shipping costs and Croatian buyers demand quality but also low prices
Shortages of some agricultural products like beef, pork, soybean meal, and certain types of seafood	Competition from EU member states
Most importers speak English	Lack of awareness of US goods; no consumer understanding of US quality
EU membership may make it less expensive to source US products from another member state hub	High promotion costs to increase consumer awareness

II. Exporter Business Tips

Local Business Customs

Except for the largest retailers, food retailers generally buy domestic and imported products from wholesalers. The wholesale sector is completely privatized. Restructuring of the retail segment occurred in the 1990s, when retail chains were privatized and acquired by larger groups and new private retailers emerged on the market. The retail sector is dominated by foreign supermarket chains such as Billa, Kaufland, DM, Ipercoop, Lidl, Metro, and Interspar and domestic supermarket chains such as Konzum and Plodine. The largest supermarket chains have their own purchasing sections that buy, store, and distribute foodstuffs centrally. These purchasing units also import products. In addition, they also purchase some items through specialty wholesale importers.

General Consumer Tastes and Preferences

"Gfk", a market research agency, carried out a survey in October 2009 on "(non)recognition of healthy foods" and explored public opinion and potential purchase habits of genetically engineered foods (GMOs), organic foods, and functional foods. They compared the results of their survey with similar surveys they conducted in 2005 and 2008. The following are some of their findings:

GMO food – Croatians are becoming less skeptical approximately GMO foods. The percentage of citizens that refused to buy GMO products decreased from 67% in 2005 to 51% in 2009. However, in the 2009 study, only 6% of citizens would unconditionally buy GMO products, which is a decrease from 8% in 2005. The percentage of citizens that do not care approximately GMOs rose from 9% in 2005 to 14% in 2009. In addition, in the 2009 study, 29% of respondents acknowledged that they didn't know enough approximately GMO foodstuffs, while only 16% said the same in 2005. The study also showed that 90% of respondents believe that GMO foods must be clearly labeled on the store shelf.

Functional foods - Research from 2009 showed that 57% of respondents have heard of functional foods like omega-3 margarine and LGG yogurt.

Organic foods – In 2009, most Croatians claimed to have heard of organic products. Approximately half of the respondents said that they are able to distinguish organic products in shops. Approximately 72% of the respondents said they recognized the products as organic because of a logo "Croatian Eco Product" or by seeing a label with a statement "healthy product". Only 4% of the respondents buy organics regularly, 5% buy organics often, 24% buy organics from time to time, 23% rarely buy organics and 43% do not buy organics. Similar research in 2011/2012 showed that the percentage of organics buyers has decreased, possibly because of the economic downturn. In the 2011/2012 survey 66% of Croatian consumers were aware of organics and 20% buy organics from time to time. However, the long term forecast is that this market segment will grow when the economic situation improves in Croatia.

"Gfk" also found in a March 2010 survey on "How we eat" that:

For food preparation Croatians use sunflower oil (84%), olive oil (51%), lard (41%), butter (31%) and margarine (26%). Most of the respondents (90%) eat all types of meat. White bread is a staple for 50% of respondents, dark bread is consumed by 30% of respondents and integral bread is consumed by 19% of respondents. More than half of the respondents consume cakes and sweet cookies daily and weekly. Chocolate is also consumed by 60% of respondents daily and weekly. Coffee is consumed daily by 80% of respondents. In terms of daily dairy product consumption: 54% consume milk, 33% consume plain yogurt and 30% consume cheese. Croatians claim to value: good quality and good taste (each approximately 95%); low price, domestic origin, no artificial coloring, no artificial flavorings (each approximately 65%); and no preservatives and low fat products (each approximately 56%). Half of the respondents stated it was important to know the producer and that the product is organic in origin. The least valued characteristics were whether it was a foreign producer (11%) or had attractive packaging (24%). Some changes can be seen in consumer habits in that they are eating more fruits and vegetables, less fatty food, less "fast food", and drinking more fluids.

Research done in 2011 by the Croatian Food Agency revealed that a large number of Croatians think that domestic food is safer than imported food and that food was generally safer ten years ago. Their research showed that Croatians mostly worry approximately pesticide residues in food, food quality and freshness, GMOs, antibiotics, and hormones.

The economic downturn has spurred an increase in supermarket private label and generic-brand purchases.

Trade Regulations, Customs, and Standards

Croatia's agricultural sector is governed by The Common Agricultural Policy (CAP). Similarly, Croatia, as a 28th EU Member States, employs the same tariffs and border measures as all other EU Member States. Product imported into Croatia will need to meet all the Croatian and EU food safety and quality standards, as well as labeling and packaging regulations. It is important to work with experienced importers, and/or to have an agent to work with Croatian regulatory authorities to ensure the acceptability of specific products. Personal relationships and language ability are of value when conducting business transactions. For more information on Product Trade Restrictions, Food Standards and Regulations, please refer to the latest Post's FAIRS GAIN Report at http://zagreb.usembassy.gov/business/doing-business-in-croatia-agro-food-products.html

General Import and Inspection Procedures

Incoming goods must go through customs storage at transport terminals or airports. After the goods arrive at the customs storage, the importer or freight forwarder initiates the clearance process by submitting the required documents to the Inspection Departments and the Customs Office see FAIRS report for Croatia at http://zagreb.usembassy.gov/business/doing-business-in-croatia-agro-food-products.html The procedure starts at the Sanitary Inspection Department of the Ministry of Health, which checks all products (except animal products, which are checked by the Veterinary Inspection Department from the Ministry of Agriculture). Random sampling is done for food safety, quality and biotech testing. The owner of the consignment (usually the importer) must pay for product inspections. If the products are deemed to be of suspicious quality and/or of health concern the consignment is held until all of the results from the analyses are received. Customs clearance and removal from storage is carried out under the supervision of a customs officer who compares the documents with the commodities after they have been checked by the sanitary or veterinary inspector for ingredients and health standards.

Import certificates must be in the official language of Croatia, which is Croatian. For the time being, however, the English version of certificates is being accepted by the inspection team although this is considered to be a temporary measure. At some point in the near future, goods will be expected to be accompanied by bilingual certificates (English and Croatian).

Average length of customs clearance for food products is one day, if all documents are in order and the consignment is not randomly selected for testing. Otherwise, customs clearance when awaiting test results can take between 5 and 10 days.
Complete information on EU import rules for food products may be found at: http://www.usda-eu.org/trade-with-the-eu/eu-import-rules/ and for Croatian specifics refer to the latest FAIRS report for Croatia at http://zagreb.usembassy.gov/business/doing-business-in-croatia-agro-food-products.html

III. Market Sector Structure and Trends

Retail Sector Key to High Value Imports

The internationalization of the Croatian retail food trade started in 1997, with the opening of the supermarket chain "Drogerie Markt". Supermarkets developed rapidly in Croatia, leaving the traditional retail system for food far behind. Currently most consumers shop at supermarkets and imports are being distributed increasingly through the larger supermarkets. In 2013, Croatia's total imports of consumer foods reached $1.8 billion.

Promotion and Marketing Strategies

A media campaign is considered necessary for the success of any new food product. In that respect, advertising is a very important marketing tool in Croatia. Businesses use all available media like internet, radio, billboards, newspapers, magazines and TV, although television is the food industry's favorite media. Supermarkets also use direct marketing thru mostly mailing flyers. Consumer participation contests on TV and radio are also very common.

Tourism Sales

Tourism, although highly seasonal, is an important economic activity in Croatia. Each year between 10-12 million foreign tourists visit Croatia (compared to Croatia's population which is just under 4.3 million). The majority of visitors come from Germany, Italy, Slovenia, Austria, the Czech Republic, Poland, France, the Netherlands, Hungary, Slovakia, the UK and Bosnia &Herzegovina. Tourists from countries outside of Europe are mostly from America and recently from Japan. Tourist infrastructure is satisfactory, but still developing.

Internet Sales

Most of the Internet shopping in Croatia involves travel services, IT equipment, books, and electrical appliances. Despite this, there are a few companies providing online sales of retail food products.

While retail online transactions in Croatia still represent only a small percentage of total retail trade in the country, e-commerce in Croatia is considered to be a common place occurrence. Internet is available in most of the country and heavily used.

IV Best High Value Product Prospects

The consumer food/edible fishery products that offer the best US export opportunities are as follows:

Product	2013	5-Yr.	Import Tariff	Key Constraints of	Market Attractiveness for

Category	Imports	Avg. Annual Import Growth in value (2008-2013)	Rate 2013	Market Development	USA
Pork	$206million (63,583 MT)	8.90%	See at: http://ec.europa.eu/ taxation_customs/ customs/ customs_duties/ index_en.htm	Only companies that are registered exporters of pork for the EU market can supply the Croatian market. Competition from EU companies.	Croatian meat processors are importing significant quantities of pork because of the volatile domestic situation. Domestic pig production is cyclical and responds to the price of feed. In addition, sometimes there is a market shortage of products that meet certain quality standards.
Snack Foods	$198million (48,951 MT)	3.73%		Strict biotech legislation and competition from other EU member states and Croatian franchises.	Growing market.
Fish & Sea Food (products)	$101million (30,033 MT)	-4.06%		Competition from some E.U. seafood exporting member states.	Demand and consumption should pick up again and grow along with tourism for the next several years.
Pet Food (Dog & Cat Food-retail)	$53million (44,146 MT)	1.92%		Competition from European companies and US franchisees in the European Union.	Croatia doesn't have pet food. Production and usage of these products is expected to grow with an increase in the standard of living.
Beef	$48million (10,437 MT)	8.28%		Strict EU legislation prohibiting imports from animals treated with growth promotants. High quality beef quota	Croatia does not produce sufficient quantities.
Tree Nuts	$23million (3,217 MT)	6.88%		Market is price sensitive and must conform to EU certification scheme and quality standards.	Croatia does not produce sufficient quantities and quality varies.
Wine	$22million (13,156,125 Liters)	-4.06%		High transportation costs. Significant competition from EU origin wines.	Consumption of quality wines is expected to grow with Croatia's standard of living.
Rice	$11million (10,980 MT)	-2.57%		Transshipments from other EU member states.	Croatia has no domestic production.

V. Key Contacts and Further Information

Andreja Misir
Agricultural Specialist
American Embassy
Agricultural Section
Thomas Jefferson 2
10010 Zagreb
tel. 011 385 1 661 2467
fax. 011 385 1 665 8950
mob. 011 385 91 4552365
e-mail: andreja.misir@usda.gov
http://zagreb.usembassy.gov/business/doing-business-in-croatia-agro-food-products.html
http://www.fas.usda.gov

Central Bureau of Statistics
Republic of Croatia
Ilica 3
10000 Zagreb
tel. 011 385 1 4806154
fax. 011 385 1 4806148
e-mail stat.info@dzs.hr
web page: www.dzs.hr

Croatian Chamber of Economy (Commerce)
Central office
Rooseveltov trg 2
10000 Zagreb
tel. 011 385 1 4561555
fax. 011 385 1 4828380
e-mail: hgk.@hgk.hr
web page: www.hgk.hr

Government of the Republic of Croatia
Ministry of Agriculture
Grada Vukovara 78
10000 Zagreb
tel. 011 385 1 6106111
fax. 011 385 1 6109201
e-mail: office@mps.hr
web page: www.mps.hr

Government of the Republic of Croatia
Ministry of Health
Ksaver 200a
10 000 Zagreb
Tel. +385 1 4607 555
Fax. +385 1 4677 076
http://www.zdravlje.hr/

Government of the Republic of Croatia
Ministry of Economy
Grada Vukovara 78
10000 Zagreb
Tel: +385 1 6106 111
Fax: +385 1 6109 110
e-mail: javnost@mingo.hr,
webpage:www.mingo.hr

APPENDIX I – STATISTICS

TABLE A. KEY TRADE AND DEMOGRAPFIC INFORMATION

Ag Imports From All Countries ($Mil)/US Share %	2013	2,983 / 0.81%*
Consumer Food Imports From All Countries ($Mil.) / US Share %	2013	1,786 / 0.97%*
Edible Fish Imports From All Countries ($Mil) / US Share %	2013	102 / -6%*
Total Population (Millions) / Annual Growth Rate per 1000	2011	4.3 / -2.2**
Urban population (Millions) / Annual Growth rate (%)	2013	n.a.
Number of Major Metropolitan Areas	2013	-
Size of the Middle Class (Millions) / Growth Rate (%)	2011	2.6/n.a.
Per Capita Gross Domestic Product	2013	$ 13,480
Unemployment Rate ILO (%)	2013	17.1%
Per HOUSEHOLD Food Expenditures (US Dollars)	2011	$ 4,445
Percent of Female Population Employed	2013	32%
Exchange Rate (US$1 = X.X local currency)	2013	$1=HRK 5.71

* Source: Global Trade Atlas
** 2011 census

TABLE B. IMPORTS OF AGRICULTURE, FISH & FORESTRY PRODUCTS

Croatia Imports (In Millions of Dollars)

	Imports from the World			Imports from the US			U.S Market Share		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
CONSUMER-ORIENTED AGRICULTURAL TOTAL	1,562	1,514	1,786	23	21	17	1.45%	1.42%	0.97%
Snack Foods (Excl. Nuts)	177	169	198	0	0	0	0.00%	0.03%	0.00%
Breakfast Cereals & Pancake Mix	22	20	22	0	0	0	0.03%	0.06%	0.00%
Red Meats, Fresh/Chilled/Frozen	174	198	245	0	0	0	0.27%	0.01%	0.03%
Red Meats, Prepared/Preserved	52	46	52	0	0	0	0.05%	0.07%	0.00%
Poultry Meat	36	40	50	0	0	0	0.21%	0.00%	0.00%
Dairy Products (Excl. Cheese)	105	97	153	0	0	0	0.00%	0.00%	0.00%
Cheese	49	44	60	0	0	0	0.00%	0.00%	0.00%
Eggs & Products	11	11	12	0	0	0	0.92%	0.22%	1.81%
Fresh Fruit	131	134	152	0	0	0	0.04%	0.00%	0.00%
Fresh Vegetables	71	63	86	0	0	0	0.00%	0.00%	0.00%
Processed Fruit & Vegetab	130	126	133	3	2	2	2.00%	1.86%	1.86%

les									
Fruit & Vegetable Juices	20	15	16	0	0	0	0.34%	1.08%	0.00%
Tree Nuts	20	19	23	7	7	6	32.87%	34.28%	25.19%
Wine & Beer	49	41	50	0	0	0	0.34%	0.38%	0.11%
Nursery Products & Cut Flowers	50	44	38	0	0	0	0.71%	0.67%	0.28%
Pet Foods (Dog & Cat Food)	48	48	53	1	1	1	1.51%	0.98%	0.85%
Other Consumer-Oriented Products	408	390	433	11	11	8	2.76%	2.92%	1.88%
FISH & SEAFOOD PRODUCTS	117	108	101	7	2	2	5.78%	1.94%	1.51%
Salmon	3	2	3	0	0		10.39%	0.80%	0.00%
Surimi	0	0	0	0	0	0	0.00%	0.00%	0.00%
Crustaceans	13	14	12	0	0	0	1.14%	0.94%	0.24%
Groundfish & Flatfish	9	7	6	0	0	0	0.00%	0.15%	0.00%
Molluscs	32	29	24	1	1	1	4.47\4%	4.21%	2.11%
Other Fishery Products	61	57	55	5	1	1	8.13%	1.29%	1.79%
AGRICULT	2,	2,	2,	2	2	2	1.1	1.	0.

URAL PRODUCTS TOTAL	436	393	639	7	5	2	0%	03%	84%
AGRICULTURAL, FISH & FORESTRY TOTAL	2,808	2,729	2,983	34	28	24	1.22%	1.02%	0.81%

Source: Global Trade Atlas

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS

CONSUMER-ORIENTED AGRICULTURAL IMPORTS

Croatia - Top 15 Suppliers	**Import in $1,000**		
	2011	**2012**	**2013**
Germany	272,854	271,258	357,363
Italy	212,377	207,303	229,495
Hungary	82,613	84,222	146,802
Netherlands	129,658	125,239	145,413
Poland	96,156	93,704	117,999
Austria	87,159	79,368	103,417
Slovenia	65,114	67,136	85,332
Spain	61,630	64,226	73,182
Bosnia & Herzegovina	99,734	89,585	72,143
Serbia	32,553	35,726	43,703
Macedonia	37,687	37,758	41,231
Belgium	33,811	29,727	39,539
Czech Republic	22,569	22,157	38,806
France	33,624	27,452	29,472
Ecuador	35,924	34,532	26,512
Other *(19. United States)*	258,002 *(22,616)*	*244,643* *(21,445)*	235,145 *(17,404)*
World	1,561,465	1,514,036	1,785,554

Source: Global Trade Atlas

FISH & SEAFOOD PRODUCTS IMPORTS

Croatia - Top 15 Suppliers	**Import in $1,000**		
	2011	**2012**	**2013**
Spain	21,250	18,655	23,795
Italy	7,441	6,704	11,763
Argentina	6,118	5,972	5,668
Falkland Islands	7,640	7,937	4,376
Thailand	4,833	4,511	4,236
Sweden	3,313	5,234	3,901
United Kingdom	5,788	5,567	3,790
Denmark	922	1,148	3,080
Slovenia	2,577	2,663	2,908
Vietnam	2,936	3,617	2,740
China	3,435	3,663	2,732
Iceland	3,452	2,691	2,502
Indonesia	2,731	2,799	2,454
Germany	1,966	1,608	2,453
France	2,824	2,392	2,117
Other *(20. United States)*	39,618 *(6,752)*	32,559 *(2,088)*	22,945 *(1,528)*
World	116,844	107,720	101,460

Source: Global Trade Atlas