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Kupari, Yugoslavia

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Agro-Industry in Yugoslavia

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Dear Peter:

Yugoslavia's agriculture has basically three levels of organization-- private farms, cooperatives and "kombinats." In previous newsletters (BFH-4 and BFH-15), I've written about some aspects of cooperatives and private farms, and more recently I've been getting a better idea of what the kombinats are all about. After visiting half a dozen of these big agri-businesses, it's obvious to me that this is where Yugoslavia thinks the leading edge of its agricultural system is. Kombinats pay the highest salaries in agriculture; they're where the best young agricultural graduates want to work, and they're what the Yugoslavs like to show off in their agriculture.

Take for example UPI (United Agriculture Trade and Industry), one of the three kombinats that dominates Bosnia-Hercegovina. I had a chance to visit UPI and some of its operations when I was in Sarajevo in July. To see all parts of UPI would take several weeks, though, because it has 35,000 employees. It specializes in growing, processing, and distributing food, with over 60 different food processing firms, including bakeries, slaughterhouses, milk processing plants, candy and pasta factories, and more than 3,000 retail units plus exporting facilities. They estimate that in 1982, they had a total turnover of about 1.5 billion dollars.

Thus UPI is big. The reason it's big is because it's essentially a monopolist within the territory it dominates. Of Bosnia-Hercegovina's 4 million consumers, more than half buy their food from one of the outlets owned by UPI. In areas where they have a choice of stores, it's likely to be merely a choice between a UPI-owned store or a store owned by one of the other two kombinats in Bosnia-Hercegovina. Private stores do exist, but there's no real possibility

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for them to buy food outside the distribution system controlled by the three kombinats in Bosnia-Hercegovina. So the difference between food distribution in Yugoslavia and that in other socialist countries with state food monopolies is mostly a difference in the degree of centralization rather than in the degree of competition. Yugoslavia has decentralized it to the regional level, but systems like UPI still control most of the food supply in their respective territories.

Theoretically, a competitor could come in, but in practice it rarely happens. A good illustration is with the beer industry. Beer is best produced in the inland grain-growing regions, but the main consumption area is on the coast. Nevertheless, the beer producers I talked to in the Province of Vojvodina, in the northern part of Yugoslavia, often find it easier to export to other countries than to the coast. Dalmatian stores won't handle Vojvodina beer, because their supplies are dictated by their own regional kombinat distributors. When traveling around Yugoslavia, if you read the labels on food products, you'll find you're almost always consuming something local. The consumer market is effectively divided up according to kombinat dominance at the regional level.

The source of UPI's and other kombinats' retail food monopolies is their control of regional food production, production that is funneled to their own processing units. They control production in two ways-- the most direct is through ownership of their own land. UPI, for example, owns 60,000 hectares of farmland, which is organized into so-called "social farms," in effect state farms. The second method is through cooperation with individual farmers. In almost every commune in UPI's territory, there is a cooperative that is a member of UPI's system. These cooperatives have permanent contracts with the farmers in their commune to supply inputs and buy what the farms produce. In the case of UPI there are 20,000 farmers under such arrangements, plus an additional 40,000 farmers who do business with the cooperatives on a more temporary basis. Taking all this into account, UPI controls 260,000 hectares of farmland, or 22 percent of the arable land in Bosnia-Hercegovina.

The arrangements UPI has with farmers are voluntary, but a farmer has few alternatives for selling his produce. No other organized market really exists. He can take his products directly to consumers by selling in the peasant markets in the towns and cities, but it's time-consuming and sale is uncertain. Or he can try to sell through an otherwise-affiliated cooperative in another territory, but that usually means prohibitive transportation costs.

This doesn't necessarily mean that UPI or other kombinats necessarily pay low prices or exploit the farmers-- it simply means there's little competition for the farmer's business. He can sell to the kombinat or eat it himself. This may help explain why many small farms in Yugoslavia produce little surplus for the market, because the kombinats and their member cooperatives haven't developed the mechanisms for bringing these small farmers into the system.

Because there's so little competition in the kombinat's territory, the kombinats are less efficient and productive than they could be. The way they're organized also contributes to the problem. With the worker-management system, on which Yugoslavia's economy is based, the kombinats are composed of many semi-independent organizations, each managed by an elected council of workers. The most fundamental unit is called a Basic Organization of Associated Labor. In general, several Basic Organizations make up a larger so-called "Working Organization". Working Organizations can be either completely independent or can, in turn, be part of a larger System Organization; UPI and most other agro-industrial kombinats are System Organizations. These System Organizations however have only limited authority over the Working Organizations of which they consist. A Working Organization can individually decide to leave a system or to join one. In Vojvodina I visited a large agro-industrial enterprise, a Working Organization, called BIK-Becej, which had just a few days earlier struck out on its own, getting out of the System Organization, Agro-Coop in Novi Sad, of which it had been a member.

(This way of organizing the economy covers everything in Yugoslavia, even the universities. The Faculty of Agriculture in Novi Sad, which corresponds to what we would call a College of Agriculture, is a Working Organization itself and the individual departments within it, for example the Department of Agricultural Economics, are Basic Organizations.)

When the enterprises are hierarchically organized, with a Basic Organization belonging to a Working Organization that's part of a System Organization, the worker's council for each unit elects representatives to the next higher level, and all major decisions are sent back down to the lower levels for approval. This means that a system kombinat, no matter how large, can't simply decide to close down a line of business or change the direction of one of its Working Organizations without getting clearance from the various worker's councils. The decision-making process is thus slow and cumbersome and it reduces the likelihood

of making hard decisions, that might be good for the long-run health of the whole firm but costly to its members in the short-run.

It also struck me while I was at UPI and other kombinats that despite having a good deal of autonomy in management, the financial responsibility of the individual organizations within a system is unclear. All the firms claim when you ask them that they're making a profit. This may be true in most cases, because the individual firms do have the discretion to reduce wages in order to make the firm profitable. But even if they do lose money, the consequences aren't always that severe. UPI told me that it has both a risk fund, through which unforeseen short-term shortfalls of individual units are covered, and also another fund for which each firm negotiates its percentage contribution. Through this fund the profitable firms in the system may end up covering the losses of unprofitable ones, sometimes indefinitely. It seemed to me that each firm has just as much incentive to be a skilful negotiator within the system as to be a really successful business on its own.

Yugoslavian agri-business doesn't look so bad, though, in comparison with other east European countries. With all its problems the system does have incentives for innovation and my general impression is that the technical level in agro-industry is relatively good. Individual firms where they see an opportunity can go ahead with new ideas and new technologies. For example, Yugoslavia has built Soja-Protein, the only plant for processing soybeans into human food in eastern Europe. (The plant can also produce animal feeds.) When I was in Vojvodina, I had a very interesting discussion with the manager of the plant, about the difficulties and intrigue involved in building such a plant entirely with Yugoslavian technology. Many key techniques are industrial secrets held by American firms. Soja-Protein negotiated for a license from Ralston-Purina for four years before concluding that there was little hope of getting it on their terms. They finally succeeded in doing it on their own at a much higher cost in time and money. Other East European countries have now come to them wanting to buy the technology, but Soja-Protein, in turn, is reluctant to sell. Yugoslavian agri-business thus may lag behind Pillsbury and Ralston-Purina, but it seems to have an edge on its socialist neighbors.

Sincerely,


Bruce Hall

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