Swathes of under-invested land, a strong tradition of agricultural production, and access to EU markets and funds are draws for investors in Central and Eastern Europe (CEE). Recent years have seen landmark investments in the region's agricultural sector, including from food-insecure Gulf countries. But businesses still grapple with fragmented land holdings and patchy infrastructure. This analysis focuses on two neighbouring countries in South-East Europe, Serbia and Romania, which have attracted big-ticket investments from around the globe and face similar challenges.

Serbia: Berries and plains

Serbia may be a relatively small country, but its agriculture sector is a major economic contributor, generating around 20% of export earnings and more than 10% of GDP.[1] It also has at least one global success story, as one of the world's largest exporters of raspberries. In 2018 the country accounted for nearly 30% of the global market in frozen raspberries and blackberries, generating around $260m in exports.[2] The industry is particularly active in the west and centre of the country, while in the northern autonomous province of Vojvodina, grains and oilseed crops predominate.

It is Vojvodina that attracts many foreign investors, including those from the Middle East. In October 2019 UAE-based Al Dahra Agricultural Company acquired Poljoprivredna Korporacija Beograd (PKB) from the Serbian government for $172.5m.[3]PKB is an agricultural company based in a northern suburb of the capital, Belgrade, with more than 20,000 ha of land in eight farms near the city. Crops include sugar beet, wheat, sunflowers, barley, oil seeds, and soya.

Separately, Al Dahra will acquire PKB's livestock, worth €17m ($19m), and dairy business. As part of the privatisation deal, the UAE company will invest €30m ($33m) over the next three years to upgrade PKB's operations, and has said that it is willing to invest a further €15m ($17m). The UAE has become an increasingly active investor in Serbia over the past decade, and agriculture is considered one of the major areas for cooperation.[4]

Serbia has substantial agricultural potential, but the sector is under-invested, while the UAE is a net food importer (like most MENA countries) and looking to improve food security. Gulf companies are also looking to diversify investments into new markets, and the countries of CEE are a natural choice, with higher rates of growth and a greater need for capital than most Western European countries.

Serbia's competitive advantages include its free trade agreements with the European Economic Area (which includes the EU) and fellow member states of the Central European Free Trade Agreement. These have led to increasing integration with the rest of the continent, as well as knowledge and technology transfer, according to officials from the European Bank for Reconstruction and Development, which has been investing in Serbian agriculture for some years.

The bank sees opportunities from privatisation of companies such as PKB, the growth of modern retail (German discounter Lidl opened 14 stores in the country in November 2018), and support to the food processing industry. The latter sector includes investors such as Belgian chocolate company Barry Callebaut, which recently announced a €50m greenfield investment in Vojvodina.

Romania: Sleeping giant

Romania is one of the most populous countries in CEE, with a market of 20m people, and has swathes of farmland and a range of attractive agricultural assets. The country is the EU's leading corn producer, with a record 19m tonnes in both 2017 and 2018, and the bloc's fourth-largest wheat producer, with output of 10.3m tonnes, according to the Bucharest office of regional law firm Wolf Theiss. Romania's grain market overall is worth €2.2bn ($2.5bn), and the country accounts for 30% of all EU grain exports. Nonetheless, structural weaknesses mean that the country is still a net agri-food importer.

Romania has attracted substantial foreign direct investment in recent years. In 2018 Al Dahra acquired Agricost Braila, which owns the largest consolidated farm in the EU, for around €200m-250m ($223m-278m). The company announced plans to invest a further $500m in the country with a view to acquiring more farmland and upgrading equipment.[5]

Chinese-owned companies have also become active: Smithfield Foods, owned by China's WH Group, is the largest pig producer in Romania, and has acquired a local meat company Elit Cugir in pursuit of vertical integration. In October 2015 ChemChina subsidiary Adama acquired a 10% stake in Romanian agricultural company Agricover. French and Spanish companies have made acquisitions and hold market-leading positions in milk and meat processing, respectively.

Given the size of the sector, there remains a wide range of opportunities for investment. Lawyers at Wolf Theiss note growing interest in primary processing units, as well as storage and logistics infrastructure. Substantial amounts of land in the southern plains are also available for acquisition and investment.[6]

Beyond its size, Romania benefits from its EU membership and its location, making it a natural base for regional operations. The Port of Constanta is the largest-capacity cereals and oilseeds port in the EU, and provides an export node for the MENA region and beyond – Egypt and Turkey are two major markets for Romanian grain. Wolf Theiss highlights state-aid schemes worth up to €1m for agricultural start-ups, and targeted support for various types of crops and livestock.

According to Wolf Theiss, the new government has embryonic plans for a new agricultural strategy, including raising subsidies for every hectare of agricultural land to €266 ($296) per ha, and boosting support for vegetable crops.

Transport, land and labour challenges

Agriculture in Romania and Serbia faces similar challenges, particularly patchy infrastructure, fragmented land holdings, and lack of investment in technology and equipment. Emigration from both countries has been fairly high in recent years, and affects rural areas in particular.

Poor transport infrastructure has long been an impediment to broader economic growth in Romania. This is particularly acutely felt in the agriculture sector, with a paucity of motorway or high-speed rail links to the markets of Western Europe.

The issue of fragmented land holdings is also particularly acute due to the nature of post-communist restitution of property in the country, which has also led to disputes over land. The authorities are working on an ongoing cadastral registration programme to ease consolidation, with just over half the 8.24m ha targeted registered thus far. Work also continues on another priority area: improvements to the irrigation system.

In Serbia infrastructure challenges include improving the navigability of the River Danube and the rail system, and addressing neglected investment in irrigation. Though Serbia is an EU candidate country, there is little imminent prospect of membership, meaning that agricultural enterprises miss out on EU funding, though the market has been opened to strong competition from European agribusiness.

Advantages outweigh the risks

Three decades after the fall of communism, several countries in CEE are still grappling with the impact of restitution and the breakup of collective farms. The prospect of consolidation continues to present a challenge for policy-makers, farmers and large-scale investors alike. Patchy infrastructure is a drag on development – particularly in Romania.

Nonetheless, there are sound reasons that agriculture in Romania and Serbia continues to attract big-ticket investment from across the world, including location, land, trade access, and financing.

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