

Montenegro: Agricultural Policy Brief

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1. Economic development in the country

As Montenegro formally declared its independence in 2006, it is still in a state of economic transition. Montenegro joined the World Bank and International Monetary Fund (IMF) in January 2007, while it became the member of the World Trade Organization (WTO) in April 2012. After the granting of the candidate country status by European Council (EC), Montenegro entered the process of negotiations to join EU in June 2012.

The main feature of the development of Montenegro since gaining its independence was influenced primarily by higher inflows of foreign investments, resulting in the growth of domestic consumption. The government has, consequently, undertaken several measures to liberalize Montenegro trade regime.

Table 1. Montenegro: Economic context, 2005 and 2014

	2005	2014
GDP (million EUR)	1,815	3,400
Population (million)	0.623	0.625
Land area (thousand km ²)	13,812	13,812
Population density (inhabitants/km ²)	44.6	45.5
GDP/capita, PPP (EUR)	7,483	12,710
Trade as a share of GDP (%)	-16.07	-40.2

Montenegro's economy is predominantly services-based. Most consumption goods are imported, while industrial output has been dominated by alumina and steel production. Large deficit on the balance of trade is recorded, with imports of goods in excess of 50% of GDP and exports around 15%.

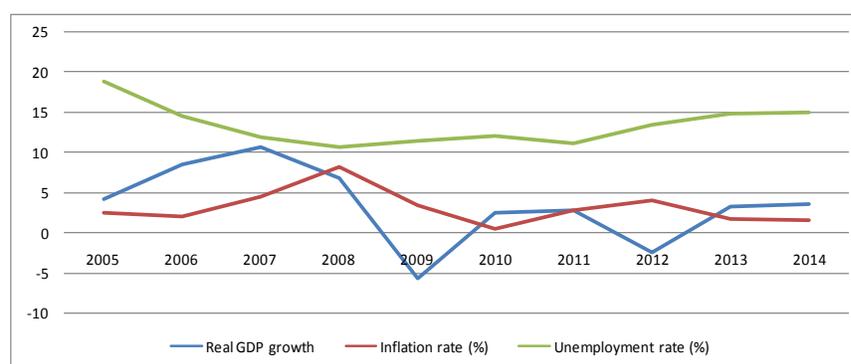
There have been significant fluctuations in the development of the country's economy since 2006. For the first two years, namely from 2006-2008, there was a boom period with recorded growth of 8.7%. However, a recorded decline of 5.7% in 2009 reflected trough double-dip recession, as well as euro area

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crisis (additional 2.5% decline in 2012) resulted in the fact that the outlook of the economy remained flat. Rebalance of the Budget in April 2012 has adapted a plan of public finance scenario to lower growth. The Government of Montenegro increased value added tax (VAT) from 17% to 19% in the year 2013, and raised income taxes from 9% to 15% for those earning more than EUR 480 per month. This was followed by pensions freezing and limited salaries increase for public enterprises and parliament members.

Figure 1. Montenegro: Main macroeconomic indicators, 2005-2014
(real GDP growth, inflation rate, unemployment rate)



Fiscal deficit is lower than the one recorded in 2013, implying the situation that fiscal consolidation measures started giving positive results. Current account deficit in 2014 recorded increase compared to the same period of 2013, pointing to Montenegro's low competitiveness. Public debt is approximated at the level of 60%, but its growing tendency has been significantly slowed³.

Inflation declined in 2013, reflecting the dissipating effect of food and oil prices. Real GDP expanded by 1.1% in the first quarter and 3.4% in the second quarter of 2013 due to positive trends in tourism, foreign direct investments and export of the electricity power. The average inflation rate measured by the consumer prices index was 2.6% while the average monthly gross wage decreased by 2.5% and to EUR 721. The budget deficit remained high, at 5.6% GDP due to lower growth rates, activation of state guarantees (12% GDP) and accumulated tax arrears. Public debt reached 52.2% GDP. The Government policy focused on strengthening fiscal and financial stability as a prerequisite for economic growth based on market economy foundations.

Labour Force Survey data showed that in the second quarter of 2014, the activity rate for the population aged 15-64 was higher by 3.9 percentage points than the average for 2013. At the same time, increasing employment trend continued so that, according to the same source, employment rate increased from 47.4% in 2013 to 51.1% in 2014. Youth unemployment rate, for those aged 15-24, remains high, and, in the second quarter of 2014, amounted to 32.5%⁴.

Montenegrin economy will face a number of risks in the upcoming period: maintaining fiscal stability, spill over of negative effects from abroad, a high level of real sector illiquidity, low competitiveness, high interest rates, non-diversified exports, high current account deficit and the like⁵.

³Pre accession economic program for Montenegro, Ministry of Finance, December 2012.

⁴ Labour Force Data Survey, Statistical Office of Montenegro-MONSTAT, 2014

⁵Recommendations to the Government of Montenegro for 2015 economic policy, Central Bank of Montenegro, 2014

Although full of economic challenges due to problems transferred from the crisis years, the last two years marked a successful beginning of many reform processes for improving business environment. The steps on creating better conditions for both investments continued through different activities and reforms of Montenegrin institutions in 2014³.

The Council for Improving the Business Environment continued with the reform projects in 2013 and 2014 with a view to creating efficient administration with shorter procedures and transparent deadlines for resolving demands and more favourable climate for domestic and foreign investors⁶.

One of priority tasks in the upcoming period is drafting of the Strategy for Economic Development. A key challenge for Montenegro, similar to all the other countries in the region, is how to again increase economic growth and to reduce or even completely eliminate those key obstacles that prevent the country from developing its potentials. The framework for the advancement is the Euro-Atlantic integration. The concept of economic policy of Montenegro, as a candidate country, in addition to the measures by which it strives to achieve fiscal stability and sustainability, is supported by a package of structural reforms that will have a direct impact on increasing the competitiveness of the Montenegrin economy, will be monitored and will accelerate the economic growth³.

The focus of economic policy in 2015 and in the medium term will be removing obstacles to economic growth and development, creating new jobs and, consequently, increasing the competitiveness of the economy.

2. Agricultural Development in the country

2.1 The role of agriculture and resources

Agriculture is one of the most important sectors in Montenegro and is a significant source of employment and income for some of the most vulnerable segments of society, especially in the north in its mountainous part where there are few other opportunities for employment. The agriculture is the most important activity for the inhabitants of rural areas. In Montenegro, agriculture with tourism and energy is a major strategic development branch. About 37% of Montenegro's population lives in the rural areas and it is assumed that about 70% of the total income of these people is realized through agricultural activities⁷.

Regardless the size, Montenegro has a wide variety of bio-diversity and richness of genetic resources in agriculture. Agricultural production in Montenegro is quite diverse. Presence of a large number of different branches of agriculture is conditioned by various environmental conditions in different regions. Thus, in the coastal region the most represented is the cultivation of olives, citruses and other subtropical fruits, in the central part fruit and vegetables are grown, along with significant extent of the meat, milk and eggs production. Karst areas are represented by livestock, mainly goats, while in the northern part of the state, the potato production, horticulture and extensive cattle breeding with cattle and sheep breeding are dominating.

Of the total area, agricultural land in Montenegro accounts for 22.3% (309,240.7 hectares - 0.5 ha per capita), which is an important resource for development. The difference in data on agricultural area (Table 3) between 2005 and 2014 is due to the changes in the methodology of the Montenegrin Statistical Office

⁶ Council for Regulatory Reforms and Business Environment Improvement, Montenegro

⁷ Montenegro Agricultural Census, MONSTAT, 2010

(MONSTAT) and the fact that the data on the area of agricultural land in Agricultural census from 2010 were overestimated. Of this, total agricultural utilised arable land in 2014 covers 230,3ha (0.37 ha per capita). In Montenegro, a total of 48,870 agricultural holdings are registered, of which 48,824 family farms. The structure of the utilized agricultural land in the highest degree is represented by meadows and pastures (94.1%). Area of utilized agricultural land of family farms makes 68.8% (212,724.4 ha) of the total available land, with an average area of utilized agricultural land per family farm of 4,4⁸.

The importance of agriculture and rural development is not solely evident from its participation in the GDP, but also considering the fact that in this sector 98,949 working persons are engaged. Therefore this sector is recognized as an important one. The share of persons engaged on family farms related to the total number of persons employed on the agricultural holdings is 99.4%.

Although dominated by small family farms, with an average size of 6,3 ha of available agricultural land Montenegro is ahead when compared to neighbouring countries (Albania 1,2 ha 3,3 ha B&H, Croatia and Serbia 2,4 ha and 3,7 ha, respectively), and even some EU Member States (Malta 1 ha, Cyprus 3,7 ha, Romania 3,6 ha and Greece 4,8 ha)⁹. In terms of size of utilized agricultural land on farms (4,6 ha), Montenegro is not far behind in Slovenia (6,5 ha), Bulgaria (6,3 ha), Poland (6,5 ha) and Italy (7,5 ha). However, it is important to emphasize the participation of agricultural holdings with area less than 2 ha (73%)⁷.

The basic macroeconomic indicators indicate the place and importance of agriculture in the economic structure of Montenegro. One of the structural characteristics of Montenegrin food production is higher share of agriculture in gross domestic product than of the food-processing sector. This indicates a low level of finalization of agricultural products, a significant share of subsistence food of the rural population, as well as the marketing of agricultural products through unregistered trade channels.

In comparison with EU countries, the share of agriculture in GDP in Montenegro is high, since it is in all of the EU-28 countries lower, and in some countries of the EU-15 is even less than 1%.

Table 2. Montenegro: Agriculture in the economy; 2005 and 2014¹⁰

	2005	2014
<i>Agriculture share in GVA (%)</i>	10,5	8,01
<i>Agriculture share in employment (%)</i>	18,7	6.9*
<i>Agro-food exports (% of total exports)</i>	18,7	29,4
<i>Agro-food imports (% of total imports)</i>	18,0	27,1

* According to the data from the first quarter of 2015, in total 6.9% of the employees were in agriculture (<http://www.monstat.org/userfiles/file/ars/2015/1/Saopstenje%20ARS%20I%20KVARTAL%202015%20konacno.pdf>)

⁸National program for food production and rural development - 2009–2013, Ministry of Agriculture, Forestry and Water Management, 2008.

⁹European Commission, Directorate General for Agriculture and Rural Development (2010), Developments in the income situation of the EU agricultural sector, <http://ec.europa.eu/agriculture>

¹⁰The data include trade relating also to raw hides and skins, cotton, linen, hemp, etc.

Table 3. Montenegro: Characteristics of the agricultural sector; 2005 and 2014

	2005	2014
<i>Agricultural area (AA)(thousand ha)</i>	517	309
<i>Share of arable land in AA (%)</i>	8,7	8,9
<i>Share of crop in total agricultural production (%)</i>	47,7	56,4
<i>Average wheat yield (t/ha)</i>	3,10	3,5
<i>Average milk yield (t/dairy cow)</i>	2,4	2,5
<i>Agro-food export to import cover ratio (%)</i>	22,66	20,55

2.2 Agro food trade and production changes

Agricultural and food products have an important role in foreign trade. Montenegro is a net importer of agricultural and food products facing with trade deficit. Although the deficit has declined over the last years, there is still a relatively low rate of coverage of imports by exports.

Several factors affect the structure and volume of agricultural production and the problems such are fragmented farms, low volumes of primary production, underdeveloped processing sector, the lack of the skilled labour force, unfavourable age structure of the farmers, low level of the application of modern production technologies, underdeveloped rural and general infrastructure, relatively high cost of inputs (including the feed, which is mainly imported), set purchase systems, lack of storage capacities, result in low level of the competitiveness of the Montenegrin agriculture.

Montenegro has a transparent and predictable environment for trade and foreign investment. The framework for implementation of trade policy measures is provided by:

- *The Law on Foreign Trade* (Official Gazette of the Republic of Montenegro No.28/4 and 37/07);
- *The Protocol on Montenegro's Accession to the Marrakesh Agreement on establishing of the World Trade Organization* (Official Gazette – International Agreements No. 3/2012) defined the initial and final bound rates (IBR and FBR) as well as the period of implementation for the World Trade Organization, states that Montenegro is not entitled to apply export subsidies or special safeguard measures and lays down the obligation of Montenegro to gradually reduce its import customs duties for agricultural products during the transition period, (from 3-10 years), with the final deadline of application as stated to be in 2022;

Customs duties: the overview of the amount of basic tariff rate duties by products, as well as preferential tariff rate duties by products and countries, is published every year in the *Decree on Customs Tariffs*, which is harmonized with the Combined Nomenclature EU. The import customs duties on agricultural and food products are applied depending on the value (ad valorem), while for a number of sensitive products is also applied by the specific customs duties expressed in EUR/kg. Montenegro became the 154th member of the WTO in April 2012. Since becoming a WTO member, Montenegro has had a fairly liberalized export-import regime. As part of it's the WTO accession commitments, Montenegro has agreed to further liberalize its trade regime and accelerate its integration in the world economy¹¹.

Montenegro applied CEFTA 2006 Agreement (Central European Free Trade Agreement) since 2007, FTAs with EFTA countries (European Free Trade Association) since 2012, Russian Federation (since 2000),

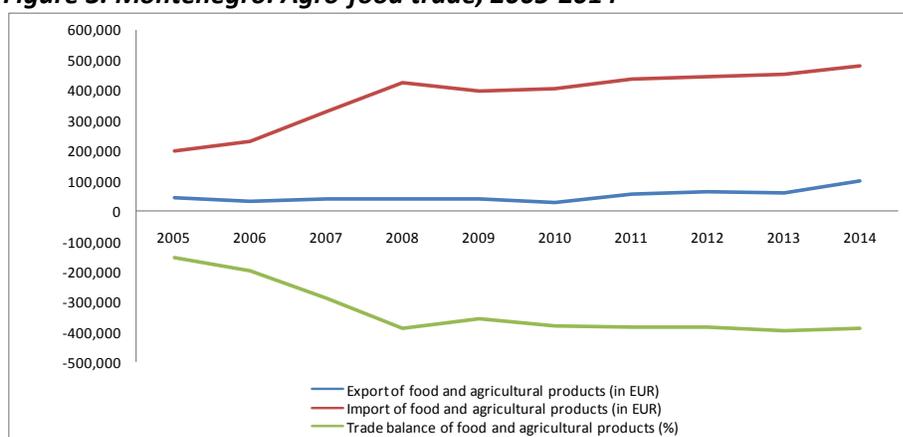
¹¹Ministry of Finance of Montenegro, (2013), National Development Plan of Montenegro 2013-2016

Ukraine (since 2011), Turkey (since 2008), and the SAA with EU under the Interim Agreement on trade and trade-related issues (since 2008).

After a big drop of 37.2% in 2009, Montenegro's exports bounced back by 12.7 % in 2010 and continued to grow by 43.7 percent in 2011. However, Montenegro remains an import-dependent country in terms of agricultural and food products¹² (WTO). The total external trade of Montenegro for the period January-December 2014, according to preliminary MONSTAT data amounted to EUR 2121.7 million, which is 1.3% less, compared to the previous year. Total trade of agricultural products in 2014 amounted to EUR 583.03 million and increased to 12.49% (or EUR 64.7 million) compared to the previous year. The share of agricultural products in total exports in 2014 was 29.40%, and 27.12% of total imports. Total imports of agricultural products in 2014 when compared to 2013 increased for EUR 28 million (or 6.15%), were higher as well, increasing by EUR 36.7 million (or 58.66%). The coverage of imports by exports amounted to 20.55%, thereby higher by 6.80 percentage points when compared to 2013¹³.

Main partners in imports and exports continued to be CEFTA countries and the EU. Serbia is still the most important partner in the total trade with share in import of 42% (EUR 203.3 million) and the share in exports of 17% (EUR 16.9 million)¹⁰.

Figure 3. Montenegro: Agro-food trade, 2005-2014



Import trends

For years foreign trade is dominated by certain groups of products. Almost 50% of total imports in 2014 refer to the six product groups.

In Montenegro there is no ongoing production for most of the products that dominate in import, or these are not produced in sufficient quantities to meet the needs of the domestic market, especially in periods of the summer season, when the demand is significantly increasing. However, although the tourist season and increasing number of tourists affect the consumption of domestic products, this consumption is referring to the so- called "disguised export" which is not registered under foreign trade.

¹²WTO- Montenegro, member information; https://www.wto.org/english/thewto_e/countries_e/montenegro_e.htm

¹³Information on foreign trade of agricultural products in Montenegro in 2014, Ministry of Agriculture and Rural Development, Podgorica, March 2015.

There is no official statistical data on total consumption of domestic products and self-sufficiency in the agricultural sector. MONSTAT is still unable to apply the suitable data system on the basis of which it would be possible to calculate self-sufficiency in the agricultural sector¹⁰. It is important to note that the most of the import is realized during the summer months that are during the touristic season. In addition, the number of foreign tourists is growing every year, being over one million of tourists annually during past several years. This, of course, represents the opportunity for the domestic agricultural production, but also is a significant factor influencing the increase in imports.

Table 4. Montenegro: The most significant groups of products in the import (2014)

Type of the product	KG	EUR	Share in export (%)
Meat fresh, chilled or frozen	45.182.132	103.426.782	21,38
Cereal- based products: flour, starch, pastry products, etc.	15.284.805	31.566.599	6,53
Various food products (soups, ketchups, yeasts, fruit syrups, coffee, tea, etc.).	10.963.948	31.228.335	6,46
Carbonated soft drinks	59.555.034	26.223.474	5,42
Milk and dairy products other than cheese	34.781.918	25.161.681	5,20
Cocoa and cocoa products	6.266.697	21.771.476	4,50
Fruits	42.207.048	20.727.548	4,29
Meat preparations	6.958.471	20.597.097	4,26
Live animals	9.121.867	20.048.089	4,15
Products of the milling industry	60.610.999	17.172.312	3,55
Other	257.697.479	165.740.620	34,27
TOTAL	548.630.398	483.664.013	100

SOURCE: Statistical Office of Montenegro, Customs Administration

Over the years the imports of fresh, chilled or frozen meat takes up the highest percentage of total imports of agricultural products. In 2014 it amounted to 21.38% of the total imports. The highest imported amounts relate to the imports of fresh pork meat (EUR 75.7 million or 73.2%). The average value of imports of pork meat per kilogram is 2.3€. Fresh pork is mainly imported from the EU countries (Germany, Austria, Hungary, the Netherlands, Belgium and Romania) and Serbia¹⁰.

In addition to pork, that has not only the highest share in the import of meat, but also in the total imports of agricultural products, the value of imports of beef and poultry meat still has a significant share. The value of imported beef in 2014 amounted to EUR 12.1 million, while the value of imports chicken meat amounted to EUR 11.3 million. Beef is imported from the Netherlands, Austria and Serbia, while the fresh poultry meat is mostly imported from Croatia, Bosnia and Herzegovina, Serbia, Germany and Brazil.

The share of dairy products in the total import of agricultural products in 2014 accounts for 8.18%. Highest part refers to cheeses (36.41%) and non-concentrated (UHT) milk (31.64%). Also, a significant percentage goes to other dairy products that are not produced in Montenegro, such as butter, yogurt and flavoured milk with the addition of fruits and sugar, concentrated infant and powdered milk. Production of milk and dairy products is very important for Montenegro, especially if the Government direct support for farmers is taken into account. Compared to 2013 there was a decrease in imports of milk and almost all dairy products¹⁰.

Cereals, products of the milling industry such as flours, starches and other cereal preparations make a third biggest group of imported products, with total value for 2014 of EUR 31.6 million and participation in the total import with 6.53%. Customs tariffs on imports for these products with all of the countries with which Montenegro has signed free trade agreements, with the exception of Turkey, is 0%. The largest percentage of these products is imported from EU (Croatia, Italy, Germany, Greece, Poland), Serbia and Bosnia and Herzegovina. The substitution of imports requires significant investments in the manufacturing sector, purchase of modern technology, skilled labour, packaging, marketing and further serious import of most of the raw materials.¹⁰

Fruits in the total imports of agricultural products in 2014 accounted for 4.3% and it is mostly related to fruit species that are not produced in Montenegro. The highest share in the structure of imported fruits goes to bananas (24.6% in imports of fruit, or 1.1% of total imports of agricultural products with a total value of EUR 5,096,290). A high percentage of imports take the citrus fruit (20.7% or EUR 4.3 million), apples (12.8% or EUR 2.7 million), nuts (9.7% or EUR 2 million) and grapes (8% or EUR 1.7 million).

Assuming that the number of tourists in Montenegro in the next three years to be at the level of 2013-14, by strengthening the processing sector and strengthening the local industry, it will be possible to reduce imports by about 8-10% (or EUR 24-30 million)¹⁰.

Export trends

Table 5. Montenegro: The most significant groups of products in the export (2014)

Type of the product	KG	EUR	Share in export (%)
Meat fresh, chilled or frozen	14.502.233	41.694.677	41.96
Wine	6.143.323	14.039.902	14.13
Tobacco	1.237.055	5.902.843	5.94
Other agri products used in processing	1.589.188	5.735.938	5.77
Vegetables	1.240.672	4.282.754	4.31
Fruits	6.246.037	4.128.839	4.15
Beer	6.143.323	4.025.712	4.05
Cocoa and cocoa products	773.703	3.736.829	3.76
Meat preparations	852.197	3.149.620	3.17
Oils and fats	3.656.073	3.108.286	3.13
Other	16.861.248	9.567.596	9.63
Total	59.245.042	99.372.996	100

SOURCE: Statistical Office of Montenegro, Customs Administration

Similarly to imports, there are products that dominated in total exports. This primarily relates to wine, meat products and beer.

The development of the wine industry and the meat industry has influenced the growth of exports of wine and meat products. In addition, export of beer and tobacco products has an important place in the export¹⁰.

The export value of fruits in 2014 amounted to EUR 4.1 million, EUR 4.2 million for vegetables, flour EUR 2.1 million (which is processed in Montenegro, but the raw materials mainly imported) and oil in the amount of EUR 3.2 million (mainly the re-export of sunflower oil). Although there is the olive oil production in Montenegro, it is still producing insufficiently competitive not primarily regarding of quality.¹⁰

Data relating to the structure of arable land in Montenegro, points out the insufficient utilization of existing resources and constraints such as soil structure and fragmentation that disable faster development of crop production. At the same time, in addition to these constraints, there is a problem related to the inadequate agricultural practices, bad choice of assortments, the seasonal nature of production, etc., that altogether is directly affecting the productivity and continuity of supply¹⁰.

Table 6. Country: Main developments on agricultural markets between 2005 and 2014

	Traditionally, the country is	Since 2005, the production has	Significant changes (e.g. surplus, drop in production, price increase etc.)
Fruit and vegetables	Net exporter	Increased	
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Wine	Net exporter	Increased	
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Potatoes	Net exporter	Increased	
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Tobacco	Net exporter	Increased	
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Beef and veal	Net exporter	Increased	The value of imported beef in 2014 was 12.1 million € , Beef imported from the Netherlands , Austria and Serbia The number of heads has increasing trend 5% in the last five years
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Pigmeat	Net exporter	Increased	In accordance with the free trade agreements that Montenegro applied with the EU and Serbia, the tariff rate on imports of fresh pork is 0%. Import substitution for pork economically makes sense if the price per kilo of fresh pork in Montenegro is below € 2.3.
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Sheep and Goat meat	Net exporter	Increased	The number of sheep animal decreased by 8% in comparison to 2007-2012 period The number of goats increased by 28% for the same period
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Poultry Meat	Net exporter	Increased	Fresh poultry meat mostly imported from the Croatia, Bosnia and Herzegovina, Serbia, Germany and Brazil.
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		
Milk and milk products	Net exporter	Increased	
	Net importer	Decreased	
	Self sufficient	No significant trend	
	No significant prod.		

2.3 Comparative analysis of agricultural production and foreign trade of agricultural products

The structure of imports shows that for the major part of products imported there is no production in Montenegro and/or it is unable to produce enough to meet the needs of the market, especially during the tourist season when demand is growing. Products from the sectors of livestock production represent a significant percentage of total imports. The total value of imports of these products in 2014 amounted to about EUR 200 million. Montenegro has recognized comparative advantages for the development of the livestock sector. This primarily refers to cattle, sheep and goats.

It is positive to note that the producers of the meat industry are the ones that took the advantage of free trade agreements, by applying so-called cumulating of origin (to import cheaper raw materials from EU countries and export finished products to the markets of CEFTA countries).

Towards the beginning of this century meat processing industry in Montenegro was at a low level, while domestic consumption was based on imports. In the last five years the growth rate of imports in Montenegro in relation to the world, especially in the region and the new EU member states is negative and it all at a time when trade in meat products in Europe and the region extremely grow.

In the recent years, the production of milk and dairy products is getting stronger. A big problem of the grey market still remains, with a large quantities of products sold on the doorstep selling (cheese and cream), without any record on trade. Economic value of production is nowhere officially displayed. Inspection control in this section is not sufficiently intense.

Another problem in the dairy sector represents the uncompetitive price of raw milk that occurs due to costly production caused by fragmented farms, underdeveloped infrastructure and expensive animal feed which is imported.

The apiculture sector shouldn't be neglected as well as the potential that Montenegro has in this area. Since the production and consumption of quality honey in Montenegro is a tradition, producers of honey have no problems in the placements. However, there remains the problem of the grey market, and the fact that the growing trend in imports of honey is still present. The total value of imports in 2014 amounted to EUR 700,000. This import is mostly related to the importation of small packages for restaurants. The Project "House of honey", implemented by the Ministry of Agriculture and Rural Development (MARD) makes the extra effort for the development and promotion of the sector¹⁰.

Montenegro doesn't have comparative advantage for the production of the greater volumes of plants and cereals. The total value of imports of cereals and products of milling industry, including products based on cereal, in 2014 amounted to EUR 60.1 million. Also, a large proportion applies to imports of oil (of which dominates the import of sunflower oil) and sugar, raw coffee, cocoa.

Most of the plant production in Montenegro refers to the production of fruit and vegetables. There is production of a wide variety of fruits and vegetables, but still not to the extent that would be self-sufficient and reduce imports. The value of imports of fruits in 2014 amounted to EUR 20.7 million and vegetables EUR 12.8 million¹⁰.

Reduction of the foreign trade deficit for agricultural products and overall development of agriculture requires enhanced investments in the new knowledge and improvement of the quality of domestic products, while reducing production costs. Furthermore, it is necessary to continue with work on solving

the crucial problems related to the increase in production volume, by addressing the issues such as fragmented farms, unresolved property - legal relations and the development of rural infrastructure. Additional resources and investments are needed for improving the quality and safety of products, further development of the processing sector, tighter integration of agriculture and tourism sector and raising the awareness about the necessity of more intense association of the producers.

3. Agricultural policy development in the country

3.1 Agricultural policy development in the country

When analyzing the development of the agricultural policy in the last two decades in Montenegro, the three distinctive periods can be seen. Initial changes in agricultural policy start at the beginning of this century, by freeing agro-food process from price controls. After the adoption of the Montenegro's Agriculture and Rural Development Strategy (Strategy for Development of Food Production and Rural Areas) in July 2006, there have been significant improvements in terms of modernization of the administration, turning towards sustainable utilization of the resources and ensuring food supply and higher living standards for the rural populations¹³. Numerous other documents and strategies such as the National Programme for European Integration and the National Strategy for Sustainable Development, Montenegro Ecological State, the Spatial Plan of Montenegro, the Millennium Developmental Goals, Regional Development Strategy, Master Plan of Tourism Development and Strategy of Tourism Development in the Northern Region of Montenegro, Economic Reforms Agenda (2003 and 2005), Strategy of Development and Poverty Reduction (2003), the Economic and Fiscal Programme for Montenegro 2007–2010, etc¹⁴ contributed to the implementation of the set up goals relating to development of agriculture and rural areas.

After adopting the „Montenegro's agriculture and European Union Agriculture and rural development Strategy,, for the period (2007-2013) Montenegro has started a process of gradual introduction of rural development measures similar to those applied in the EU. National program of food production and rural areas has been adopted for the period from 2009 to 2013 in order to implement the Strategy. The measures for the support of agriculture and rural areas were divided in those related to market interventions, including direct payments, rural development policy and financial support to general services. This like arrangement of the distribution of the Agro-budget is retained until now, but, however, has to be changed to certain extent in order to be more compliant with the requirements and practices of the EU in the light of the future Montenegrin accession.

Existing budgetary support to agriculture and rural development

Government measures for the development and implementation of agricultural policy are implemented through the annual agriculture budget. Agriculture budget contains a number of measures and incentive schemes aligned with the priorities of agricultural policy in the context of national strategies and programs of the MARD. For ease of monitoring (monitoring) indicators for the analysis of agricultural policy, the budget is seen by the following types of policies and groups of measures:

- Market-price policy measures,
- Rural development measures,
- Public services and in agriculture,
- Measures for fisheries development.

¹⁴ ADA (2010). Montenegro Country Strategy 2010–2012. Austrian Development Agency (ADA) Vienna

Agro-budget is defined annually and reflects the course of the implementation of the agrarian policy. Recently, the emphasis has been placed on improving the quality of the products (especially milk), but also on further investments in the sector of milk production, olive and vegetable, as well as support of the producer associations. More resources have been dedicated for the introduction of the necessary standards (i.e.. HACCP) and quality schemes, as well as for the organic production.

Agro-budget for 2014 consists of general budget revenues in the amount of EUR 14.03 million and grants and loans from the World Bank banks earmarked for the implementation of the institutional development and strengthening of Agriculture of Montenegro (MIDAS) in the amount of EUR 6.4 million. The budget consists of 16 rural development measures and eight direct payments measures.

The objective of the measures for rural development is to improve living conditions in the rural areas, as well as the standard of living of agricultural producers; to provide the necessary infrastructure and investments, to improve production processes, to increase the competitiveness of domestic producers and improve manufacturing capacity, provide support to the preservation of traditional products, etc. In order to increase transparency, the majority of funds under rural development measures are granted through public calls. This increases institutional capacities for the upcoming calls from the IPARD program and enables farmers to prepare for the new EU procedures and requirements.

Direct support measures are realized through measures of market pricing policy and are planned annually. This support is granted for livestock production, crop production, dairy sector and tobacco production.

Support is given:

- Per hectare of cultivated land for cereals, potatoes, fodder plants, buckwheat and other crops (except tobacco) and seed production of crops or per hectare sown and / or planted areas for the production of tobacco;
- According to the head of breeding cattle, breeding sheep and goats and organized breeding heifers, bulls and oxen;
- Per litre of milk produced and the number of slaughtered cattle.

These payments are not in accordance with the EU rules laid down under Regulation (EC) no. 1307/2013. During the accession process, the reforms that will be focused on the decoupling of payments from production will be gradually introduced and will be based on rights per eligible hectare¹⁵.

Market policy measures

Market interventions set of the measures is divided to the measures of direct payments, program of the improvement of beekeeping and market stabilization measures.

Direct payments refer to the direct support to the primary agricultural production, namely farmers. For premiums for all types of livestock, a prerequisite is that the animals are marked with ear tags and

¹⁵Detailed description of the current situation and the plan of harmonization with EU legislation is given under the Action Plan for Chapter 11 issued by the Government of Montenegro.

registered in the database of the Veterinary Administration, that the holder of the animals has the animal passports and duly keep records in accordance with the law.

Direct support for *livestock production* includes:

- A) Premium per head for cows and heifers for all farms rearing more than four heads, and only for the number of animals above this minimum. The criterion is fulfilled if a farm keeps this number of head for a minimum of six months. The basic premium per head for breeding cows and heifers amounts to EUR 70.
- B) Premium per head for breeding sheep and goats entitled to all farms rearing more than 40 sheep and / or more than 30 goats in the herd. The payment applies only for the animals above this minimum number. The criterion is fulfilled if a farm keeps this number of head for a minimum of six months. The basic premium per head for breeding sheep and goats amounts to EUR 8.
- C) Premiums for organized fattening calves, bulls and oxen entitled to the organized fattening of cattle for the farms which cattle is sold to the registered slaughterhouses. Minimum number of animals to qualify for a premium is three heads from their own production or for ten purchased heads regardless of origin (from Montenegro or imported). The requirement for premium eligibility is that the head is stayed on the farm for fattening at least six months. Basic slaughter premium for fattened beef cattle, bulls and oxen is in the amount of to EUR 140 per head from its own production and up to EUR 120 for heads purchased, regardless they are purchased in Montenegro or are imported. There is no premium for slaughter calves. The pre-condition for slaughterhouse premium for fattened beef cattle, bulls and oxen is to have minimum weight at slaughter of 400 kg, with the exception of beef cattle fattened in the pastures, which can have a minimum weight of 350 kg.

Direct support for market milk production refers to the premium per litre of milk delivered in the amount of EUR 0.06 per litre. The requirement for premiums that supplied milk per farm is minimum 400 litres per month. Additional support in the amount of EUR 0.01 is envisaged for dairy producers who produce more than 5,000 litres of milk per month. Support is given to amounts above 5,000 litres. Furthermore, support for the quality is given in the amount of EUR 0.03 per litre of delivered cow's milk for milk with less than 100,000 bacteria's and less than 400,000 somatic cells in ml, EUR 0.01 per litre of delivered cow's milk with more than 100.000 but less than 200,000 bacteria's and less than 400.000 somatic cells in ml, EUR 0.02 per litre of delivered goat and sheep milk with less than 1.5 million microorganisms in ml.

Direct payments for crop production are directed for the production of agricultural crops and seed crop culture production. Support is implemented in the form of direct payments per hectare sown and / or planted. Producers of perennial forage crops, except in the year of plantation, are entitled to direct payments in the next four years for the same land with the condition that they regularly apply agro-technical measures and to annually submit a support request. In the financial year of 2014, the right to this type of support have had the producers who started production in the 2011 and later. Minimum area to support the production of individual crops is 0.5 ha, except for cereals where at least 1 ha is required.

Direct payments are also envisaged for the *tobacco breeding support*, where the amount of direct payments per hectare of planted tobacco is EUR 1,000, with a minimum of planting density of 17,000 plants per ha.

Support to the beekeeping sector is the continuation of the support for the operation of selection bee centres that strictly follow the prescribed criteria in the selection of high quality nut, as well as support to repro-centres in the cultivation of parent breeding materials (Project "Raising the Centres for selection,

breeding and parent reproduction"). Support for improving the quality of bee products and health of bee communities. This support is available to beekeepers that treat their bee communities against Varroa destructor with organic preparations, with the exception of organic acids (formic acid, oxalic acid, etc.). Support is given in the amount up to 50% of the approved investments for the purchase of specific equipment and shortage of beekeeping. Support the professional training of beekeepers directed to different aspects of education and training of the beekeepers. Support for young beekeepers beginners refers to the purchase of three formed bee communities. Beekeeper has to be between 18 and 30 years old, with the obligation for continuing with the beekeeping in the next five years. Young beekeepers are accounted for 20% of investment. Furthermore, Beekeeping Associations are supported for the organic production for the purchase of organic wax in the amount of EUR 0.25/kg of processed wax. Support aims at preserving the quality of the wax from domestic production, covering the costs (support operation) and to increase efficiency in the processing of wax.

Market interventions address the needed of annual interventions for the purchase of up to 20,000 market surplus lambs in predominantly rural areas, having a seasonal character (September, October) and the measures related to the risk management in the agriculture, trough financing a part of the costs of insurance against damage to agricultural crops and livestock for registered farms.

Rural development measures

Inadequate, fragmented structure of agricultural holdings in Montenegro is the key obstacle for the agricultural sector as a whole. There are a large number of small farms with livestock, inadequately maintained facilities, insufficient to technical and technological equipment, resulting in low productivity, reduced production volume and under-utilization of human resources.

Axis I- measures to strengthen the competitiveness of producers includes the largest set of measures (11 out of 17), and of the total budget for rural development for these measures is 85%, or 27% of the total agricultural budget for 2014. Support from this segment of the agricultural budget in the production and processing of meat refers to support investment in agricultural holdings through MIDAS (Montenegro Institutional Development and Agriculture Strengthening Project) grants, support investments in processing on family farms, improving product quality, promotion of agricultural products and agriculture, support the activities of cooperatives and the national associations. Support for investments in agricultural holdings aimed at the implementation of programs for grants in accordance with IPARD (Instrument for Pre- Accession in Rural Development) requirements with the aim of enabling agricultural farms and agricultural producers for the effective management and use of IPARD funds through modernization of production, achieving the standards in the field of environmental protection, animal health and welfare, increasing quality, hygiene and food safety, linking agriculture and tourism sectors. The focus is also exploiting grants relating to the support of traditional models of seasonal grazing on natural and semi-natural pastures, support the local economy of farmers in mountainous areas, the contribution of preserved biodiversity, helping farmers to start applying good agricultural practices, environmental principles, animal welfare and food safety in accordance with EU standards.

Support for the improvement of the quality of products is aimed at improving the competitiveness of family farms, increase processing efficiency, the introduction of new technologies and innovation, improve product quality, food safety and environmental protection, support to producers who are involvement of the quality schemes, and enrich the tourist offer with specific products of high quality.

Support for the activities of cooperatives and the national association aims to improve the functioning of cooperatives and the national associations, strengthening market infrastructure for agriculture and production planning in accordance with the requirements of the market.

Axis II- Measures for the sustainable management of natural resources (5% of the total value of a set of measures for rural development) relating to the conservation of genetic resources in agriculture, organic production and sustainable use of mountain pastures. Out of the dedicated funds, the largest part relates to the sustainable use of mountain pastures (51%), while 39% of the funds is foreseen for the improvement in the field of organic production in the sector of livestock breeding cows and heifers, sheep, goats and poultry with the goal of sustainable forest natural resources, reducing negative impact of agriculture on the environment, biodiversity, raising the quality of agricultural products and contribution to the affirmation of Montenegro as an ecological state.

Axis III- Measures for the diversification of economic activities in rural areas in order to improve the conditions and quality of life, increase employment rates and suppressing the depopulation of rural areas and measures for the restoration and further development of villages and infrastructure construction amounted to 8.6% of the total budget devoted to rural development.

Support for general services to agriculture

These funds are earmarked for the budget support to the services of public interest such as education, research, development and analysis, improving of the livestock programs, the program of professional and advisory services in the livestock production, the program of measures for the quality control of products and amounts in 5% of the total agricultural budget for 2014.

Social transfers to rural population

The number of holdings that use different lines from the agro- budget in Montenegro is near to 20.000 (11.000 of holdings directly subsidized; 1.300 using support for purchase of crops; 5.500 elderly persons benefit from the old-age allowances). In addition, 2.000 holdings use some sort of water management programs, pensions and health insurance schemes in agriculture¹⁶. In the Montenegrin rural areas many farmers engaged in agriculture due to specific social policies were not able to exercise their right to a pension. Therefore, a special form of single support and other assistance supports for holders of agricultural holdings is envisaged through this set of measures. Namely, benefits for elderly are provided to a spouse, if living in the rural area and are dealing with the agricultural production, without having any other income. This type of support is directed to the most vulnerable rural households in the form of one-off and intervention by the basis of a claim supported by local authorities or centres for social work or the Ministry of Labour and Social Welfare.

Other sources of funding

So far a number of projects in the field of agriculture have been realized, funded by the EU and by other forms of bilateral cooperation. The most important projects in the field of capacity building, rural

¹⁶European Commission Questionnaire (2008): Additional Questions of the European Commission to the Ministry of Agriculture, Forestry and Water Management. Podgorica. Available at <http://www.questionnaire.gov.me/Q2/Doc/K11.pdf> (accessed 11 November 2013).

development, strengthening of laboratory capacities, food safety is realized through the support of EU funds, the Delegation of the European Union to Montenegro.

Budgetary expenditures after 2005 show that there was more active and more consistent policy. Significant increases in the total budget were recorded, as well as in all policy group measures. The fastest increase was recorded in funds for rural development and for general services in agriculture. The tendencies in policy change and budgetary funding followed the concept of the Strategy, adopted in 2006⁶.

The principles of harmonization of the agricultural and the policy for rural development

Agricultural policy is relying on the legal framework defined under the Law on Agriculture and Rural Development¹⁷ adopted in 2009. It defines the objectives of the policy in the area and modalities of the support for the agriculture and rural areas such are market prices rural development policy, activities of public interest and social transfers to the rural population¹⁸.

3.2 Budgetary transfers to agriculture

Montenegro in comparison with countries in the region set aside funds for agriculture of about 1% of the total budget (4% Serbia, Macedonia 4.89% and Croatia in the pre-accession period 4%), while in the EU countries for the agriculture is less than 4% of the total budget is allocated.

Having in mind the support provided through different agro-budget lines, it can be seen that in the course of the last ten years the share of the agro-budget in the total budget of Montenegro has decreased from 3% in 2001 to less than 2% in 2005 and onwards. Close to 22% of the budget is related to direct support measures (Table 7) for the livestock and crop production. Since 2011 the measures, within rural development component, were close to the mil. EUR 7 dedicated to the improvement of the competitiveness of primary agriculture and processing, as well as environmental protection and improving living conditions in rural areas.

Table 7. Montenegro: Budgetary allocations for agriculture by measure groups in the period 2008-2015

¹⁷ Law on Agriculture and Rural Development¹⁷ adopted in 2009 (Official Gazette of Montenegro no. 56/09 of 14 August 2009)

¹⁸ EC (2011b). Standard Summary Project Fiche – IPA centralised programme. Project Fiche 9: Strengthening rural development Programme under IPARD. Available at: http://ec.europa.eu/enlargement/pdf/montenegro/ipa/2011/pf_9_ipa_2011_ipard.pdf

	Budgetary allocations (national budget; 000 EUR)							
	2008	2009	2010	2011	2012	2013	2014	2015
Market price policy measures	3,709	5,304	5,082	5,710	6,520	6,183	5,448	6.130
- Direct payments schemes	2,734	4,309	4,312	4,688	5,553	5,333	4,951	5.630
- Beekeeping support	40	235	230	182	182	200	147	148
- Market stabilisation measures	935	760	540	840	785	650	350	350
Rural development policy measures	6,053	5,946	4,743	6,615	5,838	5,615	6,581	8,013
- Axis 1: Measures for strengthening the competitiveness of agriculture	4,222	4,241	3,210	4,070	4,090	4,815	5,631	6,980
- Axis 2: Measures for support to sustainable natural resources management	432	625	853	929	800	340	378	440
- Axis 3: Measures for improving the quality of life and diversification of economic activities in rural areas	1,399	1,080	680	1,616	948	460	572	593
General services and social transfers in agriculture	4,684	6,002	7,722	6,951	6,708	6,760	6,728	7,143
Fishery	18	315	1,124	171	171	214	250	300
Vet. & Phyto program	221	2,150	1,720	1,670	1,337	1,540	1,422	1,390
TOTAL	14,750	19,750	20,391	21,117	20,574	20,312	20,429	22,976

SOURCE: MARD

Over the last 10 years agro-budget has increased by approximately 3.2 times. Financial distribution shows that the market policy measures (direct support measures) show constant growth, while the support to general services in agriculture varies over the examined period.

Detected growth of the agro-budget can be assigned mostly to the realization of the MIDAS project and the Danish grant for „Organic Agriculture Development Project,¹⁹ in the amount of approximately 30% in the years 2012 and 2013. Market price policy measures and rural development measures (approx. 30% and 27% of the total agro-budget funds) are supported by MIDAS project in the share of nearly 18%.

Distribution of agricultural budget by specific pillars of agricultural policy and by purpose under the pillars is presented in the Figures below, using APM approach.

Gradual adjustment of the Montenegrin agro-budget measures to the ones under Common Agricultural Policy (CAP) of the EU is evident during the last 10 years. Never the less, in order to achieve satisfactory alignment significant number of measures is still to be introduced, since only few of the existing ones can be compared to the EU CAP.

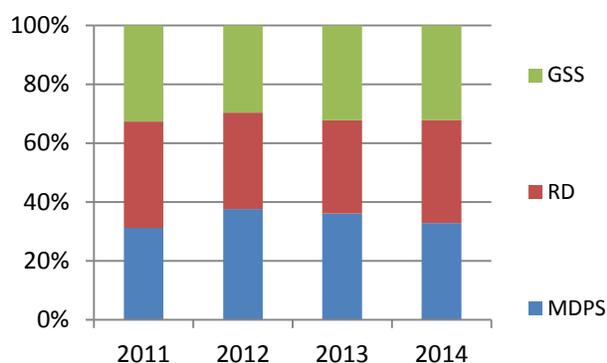
As stated above, the share of the agro-budget in the total Montenegrin budget is 1.4 1%, which is quite low when compared to the average in the EU countries of approximately 3.5%. This also indicates that the funds are insufficient and it is very difficult to address all of the challenges that need to be resolved. However, envisaged changes should be made gradually in the course of the ongoing EU integration process.

¹⁹DANIDA project (2013): Development of organic agriculture in Montenegro. Final Report, Danish International Development Agency, 2009–2003.

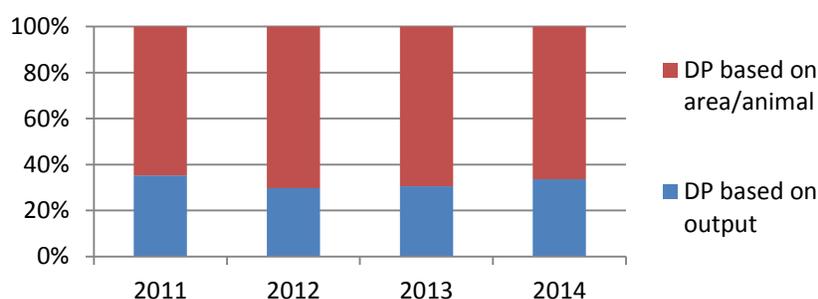
When analyzing the budgetary support, the slight increase in the funding can be observed, with more-even distribution between Market and Direct Producer Support measures (MDPS), General Service Support measures (GSS) and Rural Development (RD) measures (Figure 4-a), with in average highest percentage allocated for MDPS. The future orientation of the budgetary support should be towards strengthening of the RD measures, especially the modernization of the production process.

Figure 4. Montenegro: Development of budgetary support to agriculture, 2011-2014

a) Structure of budgetary expenditure for agri-food sector and rural areas (%)



b) Structure of budgetary expenditure of Direct Payment measures (%)



Direct payments relate mainly to the payments per animal, per area, or to the support based on the quantity of the product, which is not in line with the current CAP measures (Figure 4-b). The national payment schemes are not in liaison with the ones currently applied in the EU. This is reflected through realization of all of the payments for the primary production (68% for the livestock sector), the producers are not obliged for fulfilling horizontal conditions and there is no application of the IACS/LPIS systems for the management and the control of direct payments.

Support based on the quantity of the product is directed for the milk production sector, namely for the producers that distribute produced milk to the registered dairies. However, there is a vast majority of the farmers that are unable to deliver the milk produced to the dairies due to the numerous reasons, particularly due to the farm distance and underdeveloped infrastructure. These farmers are therefore forced to process their milk directly on the farm in the dairy products that difficult to place on the market, in addition to the fact that they are not eligible for the support.

Payments per animal are limited to the households growing more than four cows or heifers, more than 40 sheep, or more than 30 goats, without the possibility of cumulative application for the premiums for different animal species, for the households that grow different animals, meaning that the farmers growing more animals are favoured by this set of support measures. On the other hand, the actual fact is that in Montenegro, the average number of cows per farm is 3.5 this measure should be reconsidered and the threshold should be decreased in order to stimulate also the small farmers, while at the same time the upper limit of the animals for the support for bigger producers should be set up, so they don't use the economic advantage on the market. This adjustment is also in line with the EU CAP measures.

Support for the area of the mercantile crop production is 160 €/ha which is quite high, but it is necessary to take into consideration the producers of hay- farmers using natural meadows, since this production comprises a significant part of the agriculture utilized area.

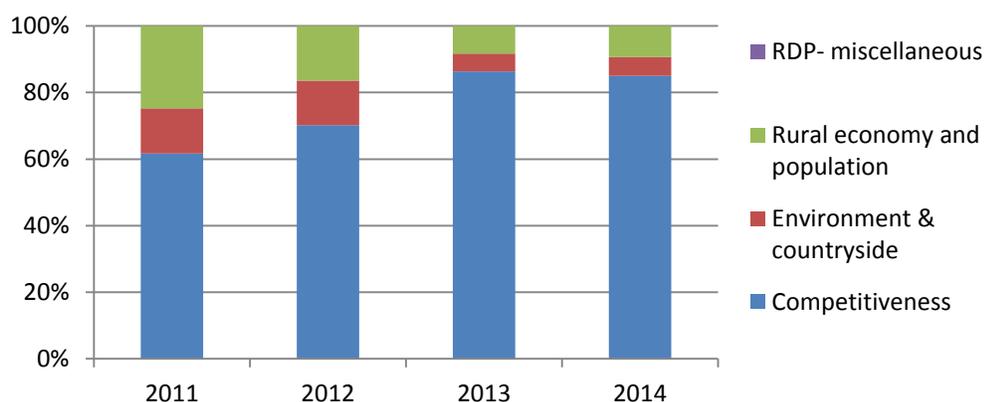
In order to strengthen the direct payments support system it is necessary to further enhance animal identification system, and to fully establish LPIS system.

Montenegrin Agro- budget needs stronger support to the overall rural development measures, e.g. needs to be more development oriented. On farm investments/competitiveness (Figure 5) are supported through MIDAS Project (World Bank) in its axis 1.

During 2013, within the framework of realization of assets secured by MIDAS project, 158 agricultural producers received funds for investment in agricultural holdings. Investments related to the construction and renovation of barns, stone and retaining walls, construction of manure pools in order to preserve the environment and the purchase of equipment and machinery, which aims to increase production and reduce costs and reconstruction of the barns.

The number of producers applying for funds from the MIDAS project calls increases significantly and it is estimated that in the next four years the planned funds for investments will be between EUR 10 million and EUR 15 million. Investments through the MIDAS project have already given the effect, so that the 299 applicants successfully completed investments, resulting in the increase in production volume by an average of 40.9%, while the number of cows in herds has increased by 35% on average per farm, which have successfully completed the investment. Production costs fell down by 28% in average per farm, and when it comes to mechanization a 13% increase is recorded along with 18% increase in additional equipment when compared to the period before the start of the MIDAS project.

Figure 5. Montenegro: Development of Structural and Rural Development measures (%), 2011-2014



The level of production at the individual holdings, as well as the output of agriculture in general terms is highly dependent on the increase of the budgetary funding related to primary production. Therefore, direct investments in farms, from the MIDAS project, stimulate the utilization of the new production technologies, renovation of barns, which results in the increase of the productivity and the higher level hygiene standards. These investments comply with the process of the alignment of the EU requirements and have direct implications to the overall agricultural production. Hence, the project is still at its early stage, with positive effects already recorded, but its real impact can realistically be measured yet in the years to come.

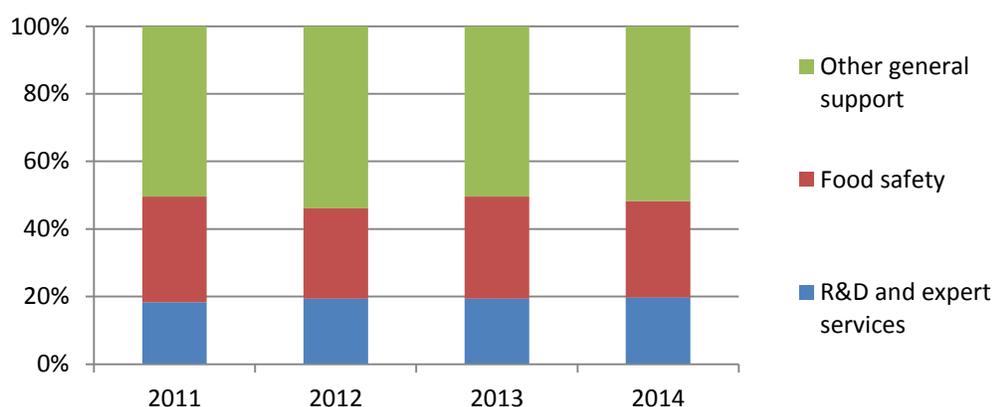
There are also the opportunities for the application of measures for small farmers, which enable participation in a simplified scheme that serves as alternative to the basic payment scheme under certain conditions. This form of payment is important for Montenegrin agriculture because of the structure of holdings. The procedure for this scheme is simplified and the conditions for the application of cross-compliance are not required.

Since the component of the rural development is linked to the further development and strengthening of the under-developed sub-regions (axis 2), Regional Development Strategy, adopted in April 2011 links the environment protection issues and encourages private investments into green businesses²⁰, although this component has small share in overall Structural and Rural Development measures (Fig. 5).

Future steps in harmonization should enforce conduction of the IPARD II program by inclusion of the existing national measures (Axis 1 and 3 of the Agro budget), inclusion of the existing national agro-ecological measures (Axis 2) with their harmonization and the implementation of the new measures not implemented before such is the LEADER approach.

Special attention should be given to stimulating of the clustering of producers in stronger groups and associations, thus strengthening the whole supply chain.

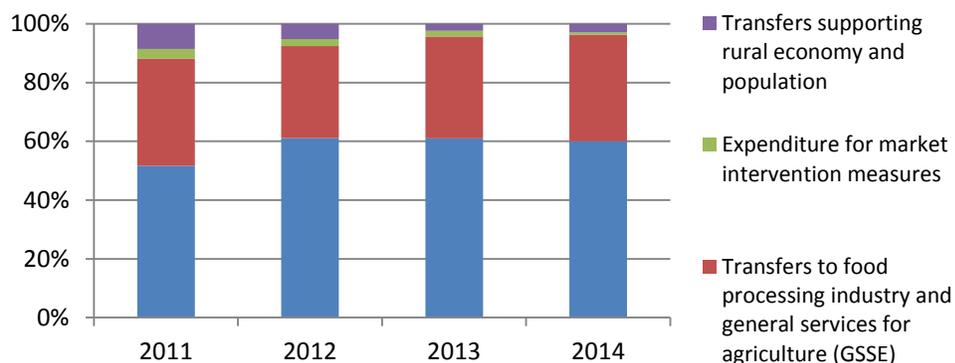
Figure 6. Montenegro: Development of General Service Support measures (%), 2011-2014



²⁰ EC (2011). Montenegro 201 Progress Report. European Commission (EC), Brussels.

General Service Support measures (Fig. 6) are decreasing in their share in the total budget but still social transfers (15% of the total budget), operational support to veterinary and phyto services (8%) and general services to agriculture (7%) are significant part in the overall budget structure.

Figure 7. Montenegro: Development of budgetary expenditure for agri-food sector and rural areas (%), 2011-2014



The structure of the budgetary expenditure for agri-food sector and rural areas (Fig. 7) shows that it is necessary to enhance stronger connections between research community and the producers in order to fuel production quality and increase the rate of product finalization.

Generally speaking, Montenegrin agro-budget declined over the examined 10 yrs period, especially for the rural development. This situation can also be interconnected with the implementation of the restrictive measures due to recent global economic crisis.

Experiences from other countries, now the members of the EU, show that one of the most demanding sectors is the sector of agriculture. In the coming years, it is necessary to accomplish full integration of the EU legal system, overcome some structural weaknesses of the sector, increase absorption capacity of agriculture, etc. Following these priorities MARD is putting efforts on strengthening its capacities, particularly through creating the conditions for allowing the access to funds under EU's IPARD (Chapter 5 of this document). According to the EC report from 2014²¹, some progress has been made on horizontal issues relating to the establishment of the structures necessary for management of the CAP, as well as in the field of rural development. However, the utilization of the available financial assistance in the field of rural development remains fairly limited. Generally, alignment with EU *acquis* in the area of agriculture and rural development still holds on at the early stage.

Montenegro now does not follow all the parameters that will be necessary for the successful accession process since in the coming period it will be necessary to conduct proper analysis and improve agricultural statistics.

Considering the capacity of Montenegro in terms of market competitiveness of agricultural products, it is clear that it should be strengthened in the part of primary agricultural production, along with stronger

²¹(2011). Montenegro 2014 Progress Report. European Commission (EC), Brussels.

stimulation of the development of tourism in the rural areas and utilisation of the potentials for the production of high-quality agricultural and food and local specialties.

With the aim of the development of agriculture and rural areas in the context of the overall priorities of Montenegro to pursue a policy of joining EU, the Strategy for the development of agriculture and rural areas for the period of 2015-2020 will be enacted in June 2015.

Agricultural policy of the country should not solely rely to the budget measures, but additional sources of funding should be more exploited such are the measures of fiscal and credit facilities, bank loans, international cooperation, EU IPA fund, etc. Therefore, it is necessary to implement the gradual increase of the agro-budget funds in the line with the projected increase of the GDP in the forthcoming years.

4. Farm issue

Table 5. Country: Main farm structure indicators, 2010

	2010
<i>UAA per holding (ha)</i>	4,5
<i>Holdings with UAA <1 ha (% of total)</i>	40
<i>LSU per holding with LSU</i>	3,6
<i>Holdings with LSU < 1 (% of total)</i>	0,9
<i>SO per holding (EUR)</i>	2.600,00
<i>Holdings with SO < 2000 EUR (% of total)</i>	64,6

As reported in previous publications of the Census of Agriculture 2010 listed the 48,870 agricultural holdings, of which 46 are business entities that perform agricultural activity. Total 48,870 agricultural holdings has 230,3 ha (2014) of the total utilized agricultural land and an average agricultural holding has 4.6 hectares of utilized agricultural land. According to the Agricultural Census 2010, work force in agriculture, expressed in full-time equivalent (FTE) was 47,042.7FTE. Of a total of 48,824 farms used by 28,987 or 59.4% have less than 1 FTE. While 56% family farms with EUR 0 –EUR 4,000 has also below 1 FTE.

The economic size of agricultural holdings is closely related to the type or types agricultural household, so that the level and structure of economic sized family farm is significantly different than in business subjects.

Total of the economic size of agricultural holdings in Montenegro is expressed in EUR 127,064, or an average of EUR 178.3, 2,600 per farm. The economic size of family agricultural holdings is EUR 2,276.6 or EUR 522.5 per hectare family farm. The average of the economic size of agricultural holdings in Montenegro amounted to EUR 2,600.0 and the reason is a dominant share of family farms¹¹.

Breeding livestock is very important agricultural activity in Montenegro. The Census of Agriculture in 2010 covered 32 675 of agricultural holdings breeding livestock and they make 66.9% from 48 824, and this is

total number of agricultural holdings in Montenegro. In accordance with the census data, total number of livestock unit (LSU) is 117 753,1, the share of family agricultural holdings is 95.9%²².

From the total 32 675 of agricultural holdings breeding livestock, approx. 75.4% are holdings rearing bovines, i.e. 24 624 of holdings. From 80 209 heads of bovines 98% are in family agricultural holdings, and approx. 2% within business entities. From the total number of heads of bovine, 63.8% are dairy cows. Average number of bovine per agricultural holdings is 3,3 heads compared to the total number of holdings rearing bovines¹¹.

Out of the total 32,675 of agricultural holdings engaged in breeding livestock, 6,088 of holdings breed sheep. From 229,037 heads of sheep, 99% are in family agricultural holdings, and 1% in business entities. From the total number of heads of sheep, 57.5% are sheep for dairy. Average number of sheep per agricultural holding is 37.6 compared to the total number of holdings breeding sheep.

Out of the total 32,656 of agricultural holdings engaged in breeding livestock, 3,583 of holdings breed goats. From 35,756 heads of goats, 60.4% are dairy goats. Average number per agricultural holding is 10 goats.

Montenegro does not have a system that is equivalent to the integrated management and control system, as specified in EU legislation, but has taken steps towards its implementation. The Regulation allowing the establishment of a Farm and Land Parcel Identification System (LPIS) has been adopted. The process of establishing an integrated system of management and control will be defined by the Action Plan. After the establishment of the LPIS, additional requirements for eligibility for direct payments will apply to those owning agricultural land of a certain size.

Montenegro currently has no established system equivalent FADN system (Farm Accountancy Data Network). MARD is responsible for the implementation of the FADN system in accordance with the methodology and legislation. Activities on the establishment of the FADN system in Montenegro envisage including extension services and universities. MPRR will be responsible for estimating the number of households to be included in FADN system.

5. EU integration process

The Government of Montenegro, in December 2013, has adopted a program of Montenegro's accession to the EU for the period 2014-2018. Accession program defines the dynamics of the adoption of the *acquis*, the dynamics of strengthening administrative capacities and institutional development. Montenegro has, with the adoption of national legal and strategic documents confirmed the strategic commitment for acquisition of basic principles and values tailored to national needs.

The key documents setting out the Government policies is outlined under the Accession Programme of Montenegro (2014-2018) that plans the legislative alignment and administrative capacity needed for Montenegro to be able to assume the obligations of membership. The Montenegro Development Directions (MDD) 2013-2016, adopted by the Government in March 2013, represents a first attempt by Montenegro to prepare a national development plan. The MDD set out a vision of socio-economic development, including the required investments and development measures to achieve smart, sustainable and inclusive growth. It identifies three priorities for development: Tourism, Energy, and

²²Montenegro Agricultural Census, MONSTAT, 2010

Agriculture and Rural Development, which will be addressed through interventions in 18 individual sectors.

The Pre-accession Economic Programme (PEP) 2014-2016, adopted in January 2014, aims at determining the appropriate economic policy and structural reforms, as well as at developing institutional and analytical capacities for participating in the multilateral surveillance procedures of the Economic and Monetary Union (EMU). The PEP will be further developed and replaced by an annual National Economic Reform Programme and a biennial Competitiveness and Growth Programme.

Furthermore, for the country, agriculture, rural and agro-industry development strategic documents are the National Strategy of Sustainable Development; the Foreign Direct Investment Incentives Strategy; Food Safety Strategy; National Strategic Plan for Fisheries sector 2009–2013; SME Strategy for 2011-2015; the National Programme of Consumer Protection; Strategy on Scientific Research Activities for 2008-2016. The new Strategy for the development of agriculture and rural areas 2015-2020 was enacted in June 2015.

The Strategy along with the Action plan for its implementation are the prerequisite for the opening of the Chapter 11 (Agriculture and rural development) within the accession process. The Strategy clearly defines all necessary steps towards acquisition of the EU *acquis* and its transposition in the national legal frame. The Strategy itself, represent the frame to be realized through the measures of the IPARD programme, especially concerning direct payments. It has been approved by EC, accepted by the Government of Montenegro and sent to the EC for further comments by the member states.

The Common Agricultural Policy (CAP), as one of the most important EU policies, envisages approximately 500 regulations governing the management of agriculture in the Member States and provides a unified legal framework for the effective functioning and implementation of measures for the promotion and protection of agriculture in the Union. For Agriculture and Rural Development in the pre-accession period, the most important harmonization refers to a system of support that is given to farmers and control system.

When it comes to the compliance of Montenegrin legislation with the EU *acquis*, it can be said that in a number of areas, Montenegro is progressing in compliance, however, there are many more areas where it is necessary to adopt a number of laws and by-laws in accordance with which they will be carried out gradually harmonization with the EU *acquis* in this field.

For the full implementation of EU standards is necessary to establish administrative structures of MARD, to strengthen the extension services and to train and inform agricultural producers about EU standards, criteria for entitlement to payment of the application process for all the schemes of the CAP. Ministry of Agriculture and Rural Development, through the Agriculture Budget, each year introduces new procedures and criteria and gradually abolish the regulations that are not in line with the CAP.

In the framework of the CAP, it is governed by the market of agricultural products in such a way that there are clearly defined minimum quality standards, rules for the import and export of products and market interventions, as defined under Common Market Organisation Regulation of the EC²³, Montenegro, in this area, cannot be fully harmonized with the EU *acquis* before accession. Law on market organizations is planned for 2016. In this context, the new Law on wine, will be adopted. It is also necessary to adopt the

²³Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation)

new Law on alcoholic beverages and the Law on establishing the Agency for payment which both have been drafted. In accordance with the amendments to the acquis for organic farming and quality policy, MARD will enact the changes to the national regulations governing this area.

In June 2013, MARD has published a Code of Good Agricultural Practice (CoGAP). This document provides recommendations and principles of agricultural practices regarding the environment, animal welfare, soil conservation, water management and waste management. Code will be applied gradually and will be in connection with the support given to farmers. Meanwhile, the code was presented to farmers through the workshops, that MARD and advisory services organize continuously throughout Montenegro.

Also, it is important to adopt a new Law on agricultural land, which will enable better management of state land and areas that are not processed. Land policy in the part referring taxes should contribute to achieving these goals.

The new Strategy is the basis for the harmonization of national policies on the Common Agricultural Policy (CAP) in the context of the process of integration with the EU. Harmonization with EU standards will continue in parallel with the alignment of the legal framework, institutional capacity building and skills of the private sector to comply with the requirements, based on the following principles:

- National policies for the support of the development of agriculture and rural areas will be harmonized with the CAP through gradual introduction of measures and activities in line with the CAP and IPARD measures.
- Support measures and activities that are not in line with the CAP will be gradually shut down, and the measures that are consistent with the principles of the CAP will be introduced;
- The EU requirements related to the regulation of markets, quality and organic production, hygiene standards, environmental protection and climate change mitigation will be introduced gradually, in line with short-term and medium-term needs of Montenegro;
- Institutional capacities will be developed simultaneously with the introduction of new standards and procedures to ensure the full implementation and compliance with legal regulations in force.

To achieve this vision, the strategic objectives for the development of agriculture and rural areas for the period 2015-2020 are defined as follows²⁴:

- Develop an effective, innovative and sustainable agri-food sector that provides a healthy, high-quality, specialized food products based on the added value of natural resources and traditional way of production, which is able to meet the demands and resist the pressure of competition on the EU market;
- Develop economic activity and create jobs in rural areas with special emphasis on the development of quality tourism offer and a short supply chain in the production of quality products and services, while at the same time respecting the cultural heritage and sustainable use of natural resources;
- Promote rural development and social services to improve the quality of life in rural areas to reduce migration of rural population to urban areas.

²⁴Strategy for the development of agriculture and rural areas 2015-2020, DRAFT, MARD (2015).

To achieve the set goals, policy measures will be selected based on the following horizontal principles:

- Investments in the promotion of the production of quality agricultural products with added value based on natural resources, tradition and organic production;
- Measures to facilitate the development of a better functioning of the agricultural market;
- Measure to encourage farmers association and merging of agricultural land,
- Promotion of knowledge transfer to farmers and processors in the field of new production techniques, development and product and service innovations;
- Institution and capacity building in order to provide a good structure for the implementation of policy measures and their transparent enforcement.

The measures will focus on the development of the sector that has the potential to be competitive in the domestic market and to develop products with high added value intended for export and touristic market. Implementation of policy and harmonization of national policies with the CAP in the context of the EU integration process will be realized through the implementation of policy measures in the short term (2014 - 2016), and implementation of policy measures in the medium term (2017 - 2020) preparing the agri-food sector and rural areas for the full implementation of the *Acquis Communautaire*.

In the period 2015-2020 direct payments to EU farmers under the CAP will be implemented through the basic payment scheme, which provides annual direct payments to farmers (separate from that for the purpose of an orientation of farmers towards market). The basic payment scheme builds on schemes that provide additional payments such as:

- Support farmers who apply agricultural practices in a way that does not influence the climate and the environment,
- Support farmers who live in areas with natural constraints,
- Support for young farmers.

The relatively limited number of payments will be linked to the support scheme, based on the established areas and yields or on the basis of the established number of heads. These schemes include support for a number of agricultural products, animal products and fruits and vegetables. These are limited to areas where there are specific types of agricultural production or are treated as special agriculture sectors with certain difficulties and are of importance due to economic, social and/or environmental reasons.

Furthermore, as stated under Chapter 4 of this report there are opportunities for the application of measures for small farmers, with the simplified application procedure.

Montenegro currently doesn't have the Integrated Administration and Control System (IACS) as defined by the *acquis*. Controls are undertaken through a computerised system: animal register, databases related to plant production (crop, tobacco, vegetable and greenhouse), grape and wine producer register, olive register, and register of agricultural insurance policy holders. However, these databases are not integrated. On-the-spot checks are carried out for livestock and crop-related payments. One of the objectives of the World Bank MIDAS project is to set up linked information systems.

Currently there is no Land Parcel Identification System (LPIS). The Regulation allowing the establishment of a Farm and Land Parcel Identification System has been adopted so the full introduction of direct payments (irrespective of production) will take place gradually until the date of accession.

Farm Accountancy Data Network (FADN) does not exist in Montenegro. The Law on Agriculture and Rural Development foresees the establishment of an accountancy data system on selected agricultural holdings

based on the following criteria: type of production, size and regional distribution. The 2010 Agricultural Census provides a good basis for establishing the FADN system. A farm structure survey is on-going and the results are foreseen to be published in 2015.

The process of introduction of decentralized system of funds management in Montenegro is particularly emphasized when acquiring the candidate status for the EU membership, when Montenegro was entitled to use also the IPA (Instrument for Pre-Accession Assistance) III, IV and V, besides I and II of the IPA components.

Within the Ministry of Agriculture and Rural Development (MARD), the new structures for the utilization of the Pre-Accession Assistance for Rural Development- Managing Authority and IPARD Agency have been formed. As the Managing Authority, the Directorate for Rural Development has been appointed which has the task to program IPARD measures and provides monitoring of their implementation. Directorate for IPARD payments is envisaged as a future IPARD Agency. The Accreditation package for the IPA Component V, consisted of two parts has been submitted to the Ministry of Finance. The aim is that the operating structure for the implementation of IPARD Directorate for IPARD payments and the Directorate for Rural Development receive accreditation by the European Commission by 2016. Taking into account the entire process of preparation for IPARD it is important to emphasize that the administrative capacity is one of the key preconditions for its implementation. MARD, in December 2014, issued aIPARD like call for support to agricultural producers from the IPA funds. Funding for this call originates from 2011 and 2012. Through this call, in the course of 2015, the implementation of around EUR 8 million investments in agricultural holdings will be realized, of which the share of EU funding was about EUR 4 million. Through rural development measures to be financed from IPARD and national budget, farmers will be provided with additional support for investments.

Current number of employees of the Ministry working on the process of harmonization of legislation and procedures for accreditation for the use of IPARD funds is insufficient to meet all the requirements Montenegro must fulfil in the process of negotiations.

Success in the negotiations and the question how Montenegro will access the funds for agriculture development from the EU funds highly depends on allocations from the national budget in the pre-accession period.

Investment in the manufacturing industry has so far amounted to over EUR 50 million. Given that the EU requirements regarding the construction of facilities, hygiene requirements and the quality of the product are quite high, the assumption is that a significant number of manufacturers of smaller capacity will not be able to respond to market demands and will have to stop working.

Investments should be directed towards improving the capacities and hygiene standards, the treatment of waste from slaughterhouses and industry and field of specialization on the supply side.

Paying Agency will be responsible for managing the funds of the European fund management in agriculture (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). Currently, the Directorate for IPARD payment is responsible for the implementation of rural development measures, especially for the allocation of grants component, which is being financed by the MIDAS Project. Realization of MIDAS public call was very important to raise the awareness of all of the stakeholders in Montenegro and their introduction to the EU approach in the implementation of rural development measures. Starting with the first MIDAS call, the main IPARD requirements are incorporated and

respected, and that includes pre-financing, the introduction of the package of documents that applicants should submit, the requirement that the investment can be realized only after the signing of contracts, etc. Throughout the past five MIDAS calls for grants, procedures and capacities of the Directorate for IPARD payments significantly improved in terms of meeting the IPARD requirements.

MARD, in consultation with the European Commission and the World Bank signed an agreement on the allocation of funds from the IPA Component V IPA Component I for 2012 and 2013. The plan is to allow the withdrawal of funds through measures similar to IPARD measures/IPARD Like (Trust Fund I and II), with the support of the World Bank, and to continue with the gradual strengthening of the Montenegrin farmers for IPARD II (2014-2020).

In addition to the redistribution of funds from the IPA components to the IPA Component I for 2013, the Ministry of Agriculture and Rural Development has continued with the process of accreditation for the IPA component V with the Ministry of Finance and formally requested national accreditation. In order to meet all the requirements defined under the EU acquis and the implementation of measures defined by the EAGGF and EAFRD it is necessary to adopt a legislative framework for the establishment and proper functioning of the Paying Agency in Montenegro, such as the Law on the establishment of the Paying Agency and bylaws. Also, it is important to continue with further strengthening and capacity building of the Directorate for IPARD payments.

In Montenegro, the legal framework for regulating the marketing standards regulated by the Law on Amendments to the Law on Agriculture and Rural Development (2014), which is the basis for the adoption of bylaws which prescribe minimum quality of agricultural products and the establishment of producer organizations in accordance with the rules of the common market organization (CMO).

In the following period (up to 2016) the adequate by-laws will be adopted which will define the minimum quality for certain agricultural products and will be partly aligned with the standards under CMO. The Law on the Organisation of marketing standards, which will be partly aligned with the acquis, is envisaged to be adopted by the end of 2016. The law will define and specify horizontal measures such as market interventions, producer organizations, the system of import and export licenses and export refunds system. These provisions will be harmonized with the EU acquis, but their full implementation will be possible after accession.

Montenegro has a correspondent status in the International Organisation of Standardization (ISO) and it is a member of the *Codex Alimentarius* Commission. Issues of protection of human health in general and in particular from food-borne risks are dealt with the Law on Food Safety (2007) which is currently under revision for the full approximation with Reg. EC 178/2003, the Veterinary Law (2004), the Law on Animal Welfare, the Law on Plant Health Protection, the Law on Inspection Control (2003), the Law on General Product Safety (2008), the Law on Standardization (2008), Law on Accreditation (2005), the Law on metrology of 2008, and the Law on Technical Requirements for Products and Conformity Assessment (2008). Montenegro has taken initial steps to bring its national product-specific laws and technical regulations into line with the principle of free movement of goods and the EU requirements concerning food safety, hygiene rules, labelling, additives, food enzymes, flavourings, contact materials, supplements and contaminants. The National Council for Food Safety Assessment was established in 2009, which provides scientific advice and assistance towards all risk assessment activities concerning food and feed safety.

The Stabilisation and Association Agreement requires the harmonization of national legislation with the EU *acquis* in the field of quality policy. This area is regulated by the labels of origin, geographical indications and designations of traditional specialties guaranteed for agricultural products and foodstuffs ("Off. Gazette of Montenegro" no. 18/11).

Organic production is regulated by the Law on Organic Agriculture (Official Gazette of Montenegro, no. 49/04), which regulates the production of organic agricultural products, processing, labelling, packaging, storage and transport. Producers who are engaged in organic production receive government assistance in the form of compensation per hectare of land or livestock animals.

In terms of harmonization of legal documents there is still a lot to be done in the future period and there is a determination of the Government towards the intensification where the harmonization degree is still at the lower level.

Considering the results achieved so far, it can be seen that significant improvement has been made in the field of the harmonization of legislation. However, the administrative capacities for the successful implementation of the laws and regulations are still not sufficient enough and have to be significantly strengthened. It is very important to create appropriate conditions for the establishment of the FADN system and LPIS, as soon as possible, along with the other elements necessary for the efficient utilization of the support funds. In parallel, it is also necessary to rapidly initiate the implementation of the IPARD program, so the EU funds can be used for the strengthening of the Montenegrin agriculture.

6. Strength and weaknesses of agriculture

As it can be seen from the SWOT analysis, future rural development policy measures are needed for the improvement of the structure and economic situation in the agricultural sector through support for the development of economically sustainable farm production. Taking into account the structure of agriculture in Montenegro, many small farms face difficulties in terms of long-term economic sustainability. Therefore, measures should be created in order to allow pooling of these farms into associations or groups of producers in order to strengthen their position on the market and to influence the diversification of activities on farms.

As stated in previous chapters, along with the fact that agriculture is very important sector for the Montenegrin economy, it is obvious that Montenegrin agriculture needs further investments. These are related to the strengthening of the administrative and other capacities in order to increase the quantity as well as the quality of the agricultural production.

	Strengths (S)	Weaknesses (W)
	<ul style="list-style-type: none"> ▪ ▪ Increasing development and tourism trend ▪ Suitable climate for diversified production ▪ Good quality of soil ▪ Low level of soil contamination ▪ Richness in diversity ▪ Tradition in the agricultural production ▪ Suitable conditions for organic production ▪ Relatively cheap work force ▪ Growing potential of domestic and regional markets ▪ Development of small and medium entrepreneurship ▪ Expanding of market without trade barriers 	<ul style="list-style-type: none"> ▪ High import rate ▪ Small size of agricultural holdings ▪ Seasonal production ▪ Insufficient application of modern technologies and innovations ▪ Old mechanisation ▪ Lack of standardized product quality ▪ Unsuitable age structure of the farmers ▪ Low level of cooperation between the producers associations ▪ Underdeveloped institutional capacities for the project support
Opportunities (O)	<ul style="list-style-type: none"> ▪ Growing demand on the domestic market ▪ New trends in touristic demands ▪ Increase of the market for organic products ▪ Availability of national and EU aid ▪ 	<ul style="list-style-type: none"> ▪ Positive international market trends ▪ Cultural and historical heritage ▪ Implementation of the quality and safety standards
Trends (T)	<ul style="list-style-type: none"> ▪ High import dependence ▪ Grey market ▪ Poor competitiveness due to the high input process ▪ Continuous increase of the production costs and trend of decreasing of the price for agricultural products ▪ High costs for reconstruction and modernisation ▪ Lack of training in food safety and quality 	<ul style="list-style-type: none"> ▪ Nonconformity to the EU standards ▪ Underdeveloped consumers preferences toward domestic products ▪ Complicated access to the funds for farmers (credits)

National direct payments are currently defined by the Law on Agriculture and Rural Development, the Budget Law for 2015 and the Decree on conditions and dynamics of the implementation of agricultural policy measures for 2015 agricultural adopted annually.

National payment schemes are not in line with those currently applied in the EU. The structure of the payments shows that all of the payments are directed towards the production, especially meat and dairy sector (68% of total direct payments), cross-compliance is not required for the support and IACS / LPIS systems are not applied in the management and control of direct payments.

Law on Agriculture and Rural Development represents the legal basis for the adoption of by-laws, which prescribe minimum quality of agricultural products, the establishment of producer organizations, provides for the possibility of intervention on the market in case of serious disturbances, etc.

However, unlike the EU *acquis*, this Law is not a single legal framework on the basis of which the functioning of agricultural markets can be regulated. The provisions relating to marketing standards for wine and olive oil in Montenegro are defined by corresponding laws that are partly harmonized with the EU *acquis*. In addition to these laws, Montenegro is applying numerous ordinances, most of which are not harmonized with the EU *acquis*.

Therefore, it will be necessary to enact the Law on Organisation of Agricultural Markets, harmonized with the one in EU, so the horizontal measures can be implemented. Furthermore, the provisions relating to trade with third countries that Montenegro cannot be applied until the date of EU membership.

Bearing in mind that Montenegro does not produce most of the products covered by the marketing standards, the future policy should be aimed at the harmonization of standards for wine, beekeeping products, olive oil and table olives, fruits, vegetables, milk and dairy products, beef, sheep and goat meat.

Implementation of the LEADER approach (links between local action groups), as well as an integrated instrument for territorial development at the local level should be accepted since it directly contributes to the balanced development of rural areas, and this is one of the general objectives of rural development policy. LEADER is planned to be financed from the national budget.

At the end, it is important to emphasize some of the key directions towards future development of the integrated food production sector in Montenegro. In addition to all of the abovementioned structural and legal changes it is necessary to emphasize the innovative component that includes fostering of the research and development sector and improving the innovation potential in the country.

Another important component, taking into account the lower competitiveness of the Montenegrin agro-food products, is the stimulation of stronger cooperation modules between producer organizations with the respect to the whole supply chain, especially in standardizing of the product quality, paying special attention to organic farming and geographical indications. This could be achieved through stronger supply chain approach of all of the stakeholders.

Special measures should be directed especially to the market-oriented farmers and suppression of depopulation of the rural areas.

Finally, by staying in line with, Montenegro as an ecological state, aspect of sustainable production, along with stronger linkage with the tourist sector should be stimulated, through territory-based focused production. Thereby, the touristic offer will be enhanced with safe supply of traditional food products of a standard, good quality.

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