MONTENEGRO

Country Report

December 2006

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Abbreviations

CAP	Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development & Stabilisation
CBS	Cattle Breeding Service
€	Euro
EU	European Union
EFTA	European Free Trade Area
EUROSTAT	Statistical Office of European Union
FAO	Food and Agriculture Organisation of the United Nations
FRY	Federal Republic of Yugoslavia
FTA	Free Trade Agreement
GAO	Gross Agricultural Output
GAP	Good Agriculture Practice
GHP	Good Hygiene Practice
GMO	Genetic Modified Organisms
GMP	Good Manufacture Practice
Ha	Hectare
HACCP	Hazard Analyses Critical Control Point
IPA	Instrument for Pre-Accession Assistance
IPA-RD	IPA-Rural Development Component
ISO	International Organisation for Standardisation
Kg	Kilogram
LFA	Less Favoured Areas
l	Litre
MIEREI	Ministry of International Economic Relations and European Integration
mio	Million
MoAFWE	Ministry of Agriculture, Forestry and Water Economy
MoH	Ministry of Health
MONSTAT	Statistical Office of Montenegro
RM	Republic of Montenegro
SAA	Stabilisation and Association Agreement
SAp	Stabilisation and Association Agreement
SCG	Serbia and Montenegro
SFRY	Socialist Federal Republic of Yugoslavia
SSOP	Standard Sanitary Operative Procedures
TA	Technical Assistance
t	tons
UAA	Utilised Agricultural Area
UN	United Nations
WB	World Bank
WTO	World Trade Organisation

1. INTRODUCTION

1.1 OVERVIEW OF THE COUNTRY

Montenegro is the newest country of the Western Balkans Region, having gained full independence during the course of this study (June 2006). The path to full independence has been closely linked to the broader geo-political changes that have impacted upon the whole West Balkan Region.

In 1945, previously independent Montenegro became one of the six members of the Socialist Federal Republic of Yugoslavia (SFRY). In the early 1990s the large, multi-ethnic Yugoslavia broke up: Slovenia, Croatia, Macedonia and Bosnia and Herzegovina declared their independence and finally were recognized as independent states in 1992. After parliamentary elections in 1990 Montenegro was declared a Republic in April 1991 and in April 1992, the remaining republics of Serbia and Montenegro declared a new "Federal Republic of Yugoslavia" (FRY). In September 2000, a democratic government was established in the FRY following federal elections and also in the republic of Serbia after elections there, in January 2001.

Over the next two years, representatives of the governments of Serbia, Montenegro, and the FRY drafted a constitutional charter for Serbia and Montenegro as the basis for a new union between the two republics. This charter was adopted by the legislatures of each republic in January 2003, and it was adopted and proclaimed by the FRY parliament on February 4, 2003. At that time the FRY ceased to exist; it was succeeded by a new state called simply Serbia and Montenegro. The constitutional charter provides for a shared central government with a narrow range of competence and very few powers; almost all government authority rests with the constituent republics. The charter permitted each of the republics to seek full independence by popular referenda.

In recent years there were strong movements to gain full independence. The referendum for sovereignty was held on May 21st 2006. More than 86% of eligible Montenegrins participated in the referendum and 55.4% of them voted for independence. On 3rd June 2006 Montenegro declared its independence and the Council of the European Union recognised Montenegrin independence.

There are strong commitments by policy leaders for deeper European integration of Montenegro, adopted by the Council of the European Union on the 12th of June 2006. (*See ANNEX 3)*

The Republic of Montenegro is situated in the Southeast of Europe, with a surface area of about 13,812 square kilometres. Neighbouring countries are Croatia, Bosnia and Herzegovina, Serbia and Albania. The Adriatic Sea coastline is 293.5 kilometres long and is located at the South-West of the Republic. According to the last statistical data on population in 2003, there are about 620,150 inhabitants, the average number being 45 residents per km^2. This makes it one of the least densely populated countries in Europe. The capital city of Montenegro is Podgorica with a population of 167,578 (2003).

Montenegro is a multiethnic, multi-religious and multicultural country. The national and ethnic structure of the population is: Montenegrins (43%), Serbs (32%), Bosnians (8%), Albanians (5%), Muslims (4%) and Croats (1%). Territorially and administratively, Montenegro is divided into 21 municipalities, which represent the basic units of local self-governance.

Natural conditions in Montenegro are suitable for diversified agricultural development, and are at the same time quite manifold. Hilly-mountainous zone with distinctive relief and deficiency of lowland is a main limiting factor in agriculture development. On the basis of common features like climatic conditions, agricultural production structure, arable land, yield size, cattle density etc., Montenegro can be conditionally divided into five characteristic regions: Coastal, Zetsko-bjelopavlićki region, Karst, Northern-mountainous, Polimsko-ibarski region.

The Government of Montenegro is currently discussing the possibility to continue the SAA and WTO negotiation, but as a separate partner, with particular conditions. This will of course require changes and new instructions in the process of negotiation with EU.

1.2 DATA AVAILABILITY AND RESOURCES

This report is based in all the latest available sources of information concerning the agricultural and rural sector of the Republic of Montenegro. Major sources were the Statistical Yearbook 2005 of the country, experts estimates who conducted surveys in the Republic of Montenegro.

A valuable source of data was "Montenegro's Agriculture and European union-Food production and Rural Development Strategy" report which was prepared for the Ministry of Agriculture, Forestry and water Management of he Republic of Montenegro in 2006, financed from the European Agency for Reconstruction.

The Republic of Montenegro declared its independence in May 2006. In previous years the agricultural sector of the country and its policy were closely linked with Serbia. As a result there were many difficulties and constraints identifying data describing the situation specifically in the Republic of Montenegro.

In many cases the data provided by official statistical sources were inconsistent and did not appear to provide a clear picture of the current situation. An Agriculture Census has not been conducted since 1991 and therefore many data, which are necessary for assessment, are missing.

2. ECONOMIC COUNTRY BACKGROUND

2.1 MACRO- AND SOCIO-ECONOMIC SITUATION

The loss of previously guaranteed markets and suppliers, following the break up of Yugoslavia, significantly impacted upon the Montenegrin economy dramatically. The disintegration of the Yugoslav market and the imposition of UN sanctions in 1992[1], after the start of the armed conflict, caused the greatest economic and financial crisis since World War II. During 1993, two thirds of the Montenegrin population were assessed as living below the poverty line. Despite more positive developments in the last five years, Montenegro still has a long way in order to reach the average European level. The country and its economy underwent a turbulent period during the past 15 years. This is especially true for the agricultural sector, which was dominated by co-operatives, state owned farms, food industry and large companies. At the beginning of the transition period there was a common expectation that there would be a considerable improvement in the financial performance of privatized enterprises but this has been slow to materialise.

During the period 2000-2005 the macroeconomic situation of the country was still weak, but some positive trends have emerged. The GDP-real growth rate reached 3.7 % in 2004, showing the largest rise in the last five years. In the period under review, the inflation rate was reduced from 24.8% (2000) to 2.4% (2005) and the unemployment rate reduced from 32.7% to 22.6%.

Table 1: Main macroeconomic indicators in comparison with EU, (2005)

	2000	2001	2002	2003	2004	2005	EU-25 (2005)
Population, total (1000)	612	615	617	620	621	621	459,488
Surface area (sq km)	13,812						3,975,043
Population density (No per sq km)	45	45	45	45	45	45	115.6
UAA							162,393*
GDP (current Mio. Euro)	1022.2	1244.8	1301.5	1392	1565.1	1,642*	2,697,935
GDP per capita (current Euro)	1,679	2,031	2,113	2,252	2,516	2,638	22,600
Exports of goods and services (% of GDP)	18.2	19.0	23.7	19.9	25.2	no data	9.3*
Real GDP development	3.1	-0.2	1.7	2.3	3.7	no data	1.6
Imports of goods and services (% of GDP)	25.6	38.3	38.8	30.6	37.0		9.9*
Inflation (annual %)	24.8	28.0	9.40	6.70	4.30	2.40	2.2
Registered unemployment rate	32.7	31.5	30.5	25.8	22.6	no data	9.0*
Euro-Exchange rate (1 Euro =x units NC)**	58.7	1,9	1	1	1	1	

***Source**: Economic Reform Agenda, MONSTAT, Secretariat for Development, Central Bank of Montenegro, The Ministry of Finance of the Republic of Montenegro, Montenegrin Employment Agency, Household Consumption Questionnaire, Federal Statistical Office, Belgrade. ** In 2001 the German Mark was introduced and from 2002 onwards the Euro became an official mean of payment in Montenegro **EU 25 data** - Eurostat database: There are significant discrepancies between the various sources; Data for 2005 are provisional. *2004 data*

The reduction in the official unemployment rate could be partly explained by the significant growth of the services sector and especially tourism in 2004 and 2005. Trends in foreign trade

[1] Economic sanctions against Serbia & Montenegro were imposed by the United Nations in May 1992 as part of the intended response to the regional conflict in the WB Region, sanctions were suspended in accordance with the terms of the Dayton Peace Agreement in November 1995.

indicate simultaneous growth of import and export of goods and services (the imports being more dynamic than the exports). Inflation rates fell from above 20 to one digit rates after the introduction of the Euro as the official means of payment in 2002. The GDP per capita, which was about 2,638 Euro in 2005, remains significantly low and is about 11,2% of the average European (22,600 Euro in 2005).

2.2 AGRICULTURE IN THE ECONOMY

Food production and agriculture play an important role in the economic development of the Republic of Montenegro. The share of agriculture, hunting and forestry in total GDP of Montenegro is 11.3% (2004[2]) (see table 2). The share of food, beverages and tobacco in total household expenditures is still high with a declining trend from 56.6% (2000) to 52.1% (2003).

Table 2: Key agricultural indicators in comparison with EU, (2005)

	Montenegro			EU-25 2005
	1995	2000	2005	
Share of Agricultural land in total land use	37.4	37.4	37.5	40.8
Share of Arable Land and Permanent Crops in total land use	no data	no data	13.67	no data
Share of Agricultural GDP in total GDP	no data	no data	11.3*	1.6
Share of Agricultural Labour in total Labour	no data	no data	1.2*	5.0
Share of Agricultural Export in total Export	no data	4.0	12.5*	6.0
Share of Agricultural Import in total Import	no data	17.9	23.3*	6.0

***Source**: * 2004, MONSTAT. **EU 25 data** – Dg Agri "Agriculture in the European Union"*

The place agriculture takes in the economy is difficult to evaluate due to obvious weaknesses in the sector statistics. The discrepancy between the share of agriculture in GDP and the share of employed people in agriculture is evident, since statistics monitor movements of employees in agricultural enterprises, but not in agricultural households. Some tendencies of labour market movement and structure of the active population are presented through data on the share of active agricultural population in total number of active population. Active population (labour force) comprises all employed and unemployed persons. According to SSO data, in the period between 1961 and 2004, the share of the active agricultural population in the total number of active population decreased from 53.6% to 8.8%. In active agricultural population besides the employees in agriculture, are also included family farmers and workers. There are also considerable changes in the labour force structure, as well as large-scale migrations of population from rural to urban areas of Montenegro, which are mainly economically motivated.

[2] According to SNA concept

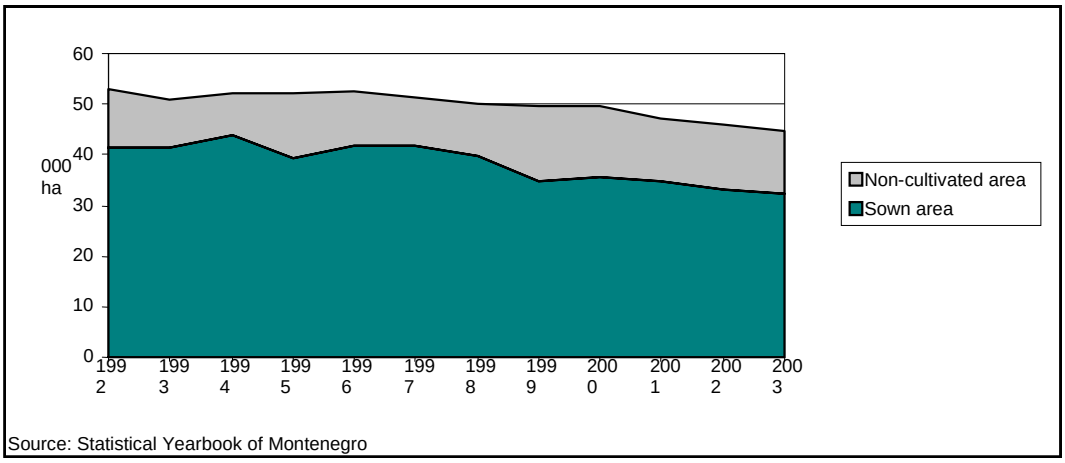
3. LAND USE, FARM STRUCTURE AND FARM INCOME

3.1 LAND USE AND QUALITY

Climate in Montenegro severely interchanges between Mediterranean, sub-continental and continental climate on a relatively small area. The climate is dominated by close proximity of the Adriatic Sea and relief intersected by deep and narrow river valleys and mountain chains amongst which narrow relief units, basins, karsts plateaus are positioned. Rainfalls in different areas of Montenegro are varying in total volume and allocation. Coastal line disposes between 1,260 (Ulcinj) and 1,940 millimetres (Herceg Novi), Central area between 2000-4500 millimetres, while Continental area has the least amount of rainfall ranging from 800 millimetres (Pljevlja) to 1,345 millimetres (Mojkovac).

Agricultural area in Montenegro occupies 38% of the total surface area (2003). The total agricultural land is of 518,067 ha or about 0.84 ha per capita. According to this indicator Montenegro is amongst the first countries in Europe. Larger agricultural area per capita in the EU only can be found in Ireland (1.10 ha), while the average (EU-25) is 0.36 ha (2003) (see table 3). Nevertheless, agricultural area is quite heterogeneous. This is the consequence of the topography and geological composition that predetermines the dominance of low production value soil. Arable land, orchards and vineyards occupy only 58,262 ha or 12% of total agricultural area.

Figure 1: Utilized arable land, (1992-2003)



Source: Statistical Yearbook of Montenegro

Table 3: Land use in comparison with EU, (2005)

In 1000 ha	Montenegro	EU-25
Land total	1,381	397,504
Agricultural land	518	162,393
Arable land & permanent crops	58	108,659
Agricultural land/capita (ha) (%)	0.8	0.36
Arable land & permanent crops/capita (ha) %	0.09	0.24

***Source**: MONSTAT **EU 25 data -** Year 2003 http://epp.eurostat.cec.eu.int/portal/page; Year 2004 Dg Agri Agriculture in the European Union; Arable land and permanent crops from AgrIS table, May 2006*

Approximately 10 % of agricultural land is cropped due to low soil fertility and low rainfall. The share of pastures and meadows in the structure of the agricultural land is high. These categories of extensive land usage together form about 88% of total agricultural area. Most cultivable land is

used for pastures (331,100 ha) and meadows (119,400 ha) with a smaller area in orchards and vineyards (14,300 ha). This is well above the respective share in all other European countries, with highest shares to be found in Ireland (73%), Great Britain and Slovenia (about 60%). The share of pastures and natural meadows in the EU 25 amounts to about 33%.

Statistical data sources show almost no change in total agricultural area in Montenegro (e.g. 1996: 517.6; 2004: 518.0 in 000ha). However, considering urbanization, construction of different industrial buildings and other infrastructure as well as expanding of woodland, and erosion degradation, statistical data on agricultural land become somewhat questionable.

Certain changes in agricultural area are to be observed if different categories are analysed. The area of arable land and gardens has decreased by 15% from 1992 to 2003, and the area of permanent crops by about 6% in the same period. On the other hand, the area of meadows has increased (11%).

Changes in sown area have influenced the land use structure, because of the continuous reduction of cereals areas, their share decreased from 43% in 1992 to 20% in 2003. In sowing structure, dominant cultivars are potato and vegetables that together form about 56% of cultivated arable land (36% in 1992).

3.2 LAND OWNERSHIP AND PRIVATISATION

Traditionally, in Montenegro the private sector predominated in both cultivated land and production. In the 1980's, around 90 % of farmland was still owned by more than one hundred thousand peasant families. The social sector in agriculture included larger agro-industrial complexes or Kombinats (agrokombinats), which dominated the food industry. Montenegro had a certain land titling and registration system in place already before the economic and political changes. According to this system, the Real Estate Office drafts laws and regulations for land sales and transactions and it also registers changes in real estate rights and maintains the cadastral registry.

Data from the 2005 Statistical Year-book show that from the total agricultural land of 518,067 ha, about 169,847 ha are cultivated (arable area, orchards, vineyards and meadows). Agricultural companies and cooperatives own 9,319 ha (1.8 %) of total agricultural and 7,040 ha (3.7%) of arable land. Private holdings own 65% of total and 96.3% of arable land. The difference of 33%, which consists of pastures, does not have a clear ownership status, but it does not prevent the farmers to use that land for grazing their livestock (common grazing right).

In case these data are put in the ratio of total agricultural land in private ownership (348,200 ha) and number of holdings (60,070), it results in an average size of holding of 5 ha. Very often, the size of these smallholdings can be considerable.

3.3 FARM STRUCTURE

One of the main characteristics of farm structures in Montenegro is that in the last decades they have remained relatively stable. Official statistical data on what happened with the number of agricultural households and their size do not exist. Despite this, according to experts' estimations, by taking into account the significance of agriculture as a conciliator of social tensions, it is to be expected that no significant changes in the agricultural land structure occurred. This is the

opposite to the prevailing trend within the European Countries, where the number of farms has declined, along with intensive technical progress and increases with the concentration and specialization of agricultural production. The country is still experiencing problems with stagnation of land and the property structure, low levels of farming professionalism and relatively low levels of labour intensity.

The last data available on the structure of agricultural households date back to 1991. According to these data the average size of farms is 2.5 to 2.8 hectares. This shows that Montegrin agricultural Households have a similar structure to that of most countries in South-eastern Europe. Compared to the situation in the EU Member Countries, similar agricultural structures are only observed in Slovenia and in a few of the Mediterranean Countries (Greece, Portugal), while the average size of the agricultural households in EU-25 Countries is notably larger (15.8 ha in 2003).

Official up-to-date statistical data on the development of the number of agricultural households and their size are not currently available. Data from the 1991 census are presented below:

Table 4: Farm Structure, (1991)

	Year of census 1991	
	Number of holdings	**Structure %**
Total	60,043	100
Up to 2 ha of UAA	39,563	65.9
Above 2 ha to 5 ha	12,307	20.5
Above 5 ha to 10 ha	5,369	8.9
Above 10 ha to 100 ha	2,062	3.5
Above 100 ha UAA	742	1.2

***Source**: Statistical Office (MONSTAT), more recent data are not available*

In 1991 Montenegro had a high share of small farms. 86.4% of the total number of holdings was classified as having less than 5 hectares (compared to 61.9% in EU 25) (see table 4).

Dominance of livestock production farming units are more evident in the northern-mountainous part of Montenegro and karsts region, whereas in the Zetsko-bjelopavlicki region there are more mixed crop and livestock farming systems. In the coastal, as well as, in the Polimsko-ibarski region, given the more favourable agro-climatic conditions, crop production is more dominant.

3.4 FARM INCOME AND EMPLOYMENT

Currently there are no reliable data available on the income situation of farms in Montenegro.

Agriculture is the primary (and sometimes the only) source of income and employment in most rural areas. Agriculture takes the role of a social stabilizer for the most vulnerable part of the population according to the 2006 MAFWE report on the situation in the agricultural sector. The group of socially sensitive households includes low-income (often deteriorated) households that predominantly practice subsistence production and those households whose members have no jobs in the industrial sector, relying on rural seasonal labour.

The actual significance of agriculture in the Montenegrin economy is difficult to determine, as there are very limited sector statistics available. For example, the official share of agriculture in total employment in 2003 was only 1.2%. But this considerably under-reports the significance of

the sector in employment as this figure only covers those agricultural workers who are employed on a contractual basis. Family farmers and their family members are not considered (see table 5) and no clear system exists to assess private sector activities, income or employment in the agri-food sector.

The actual problems in related statistics can be illustrated with the following example: According to the Statistical Office the number of employees in the food sector, with growing tendencies in the last few years, was 3,351 or 2.33% of the total number of employees (while according to a survey carried out by the Ministry of Agriculture in this sector, the number of employees amounted to 6,266 permanent and 1,578 of seasonal employees). This situation is caused by the fact that the official figure for agricultural employment does not include family farmers and workers.

Table 5: Share of agricultural labour in comparison with EU, (2005)

Country	National Statistics	
	Agricultural labour force (in 1000)	Agricultural labour force / total labour force (in %)
Montenegro	2.9	1.2
EU-25	9,653	5.0

***Source**: MONSTAT **EU 25 data** – 2004 data from Dg Agri, "Agriculture in European Union" tab 2012*

Official statistical data definitely under-estimate the real influence agriculture has on employment, having in mind an estimated number of 60,000 agricultural units, which may also be an under-representation of actual holdings given questionable evidence of further farm fragmentation in the last 15 years.

Agriculture performs the role of an important social buffer, providing livelihood and basic food and employment to significant parts of rural population. Therefore the sector is of significant importance to the country.

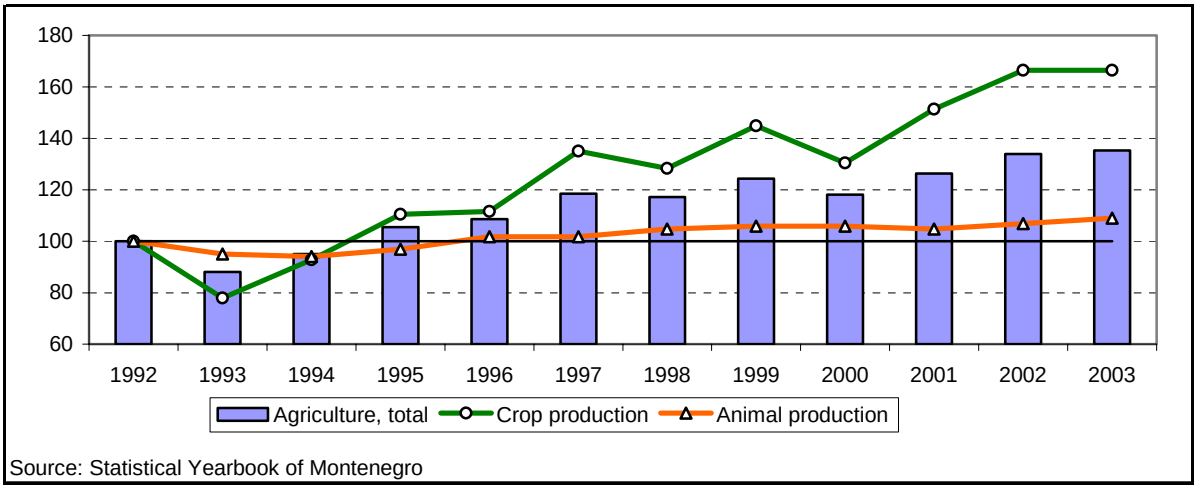
There can be observed a relatively low productivity within the agriculture sector, which is mainly due to structural and market conditions in which most of the Montenegrin households live. Their members often find themselves performing a high volume of work (as mentioned in official report of MAFWE), and receiving a low income. This situation is caused by different factors: the low level of agricultural technology and productivity that increases the need for physical work; an over supply of labour caused by reductions in industry employment; the low level of development of the agro-food sector (value-adding activities) and an insufficiently developed system of vertical cooperation in the agro-food chain, as well as the ineffective marketing and distribution system for agri-food products.

4. AGRICULTURAL PRODUCTION AND CONSUMPTION

4.1 TOTAL AGRICULTURAL PRODUCTION (GAO, main products)

Statistical data indicate no significant reduction in production after the political changes in the late 80's and early 90's. During the period between 1992 and 2003 the annual growth in total production increased on average +2.8%. The most important growth was achieved in crop production (annual growth rate +4.7%), while livestock production showed significantly smaller rates of growth at +0.8% (see figure 2).

Figure 2: Agricultural production volume indices, (1992-2003)



Source: Statistical Yearbook of Montenegro

A large part of agricultural production is generated by small-scale farm households, much of which is used and/or processed on farm and marketed through local green markets or by family channels – a situation which is poorly covered by statistics. This situation is particularly prevalent for fresh fruit and vegetables and dairy products. The data indicate, for example, that from a total quantity of milk produced, only approximately 15% is processed in registered dairies

Table 6: Gross Agricultural Output for main agricultural commodities, (2004)

Mio. Euro	**2004**	**%**
Total GAO	**366.1**	**100**
Crop Production (total)	**156.4**	**42.7**
Thereof:	no data	no data
- Cereals	3.6	2.3
- Oilseeds	no data	no data
-Potatoes	no data	no data
-Tobacco	no data	no data
-Wine	no data	no data
-Olive Oil	no data	no data
- Roots and tubers	29.5	18.8
- Fruits & Vegetables	61.4	39.3
Livestock Products (total)	**209.7**	**57.3**
Thereof:		
- Beef	25.7	12.3

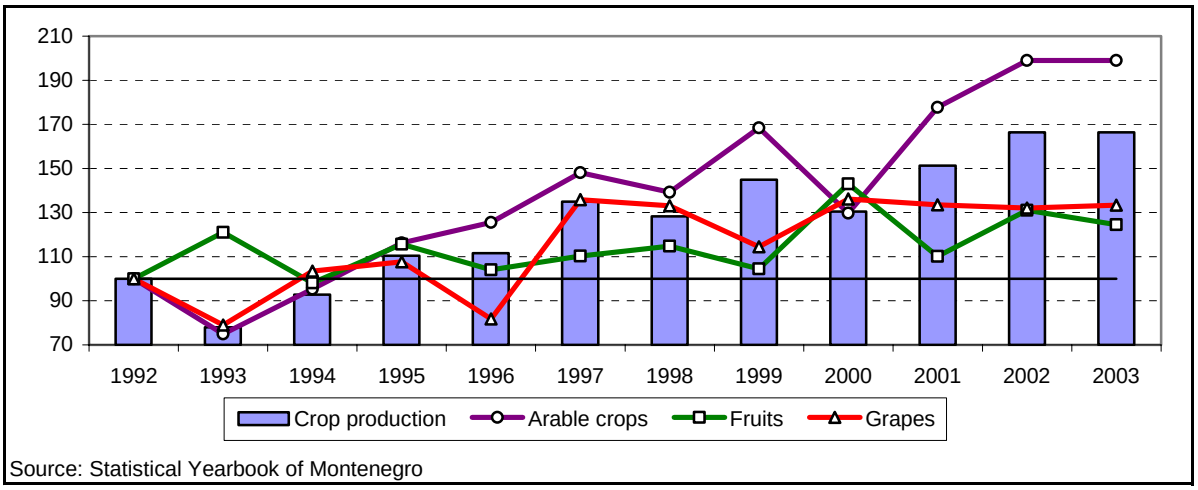
Mio. Euro	2004	%
- Pork	20.5	9.8
- Sheep & Goat	13.7	6.5
- Poultry	5.1	2.4
- Eggs	16.4	6.4
-Cow-Milk	54.3	25.9
-Others	no data	no data

Source: *Statistical Office of the Republic of Montenegro, Ministry of Agriculture 2004*

4.2 CROP PRODUCTION

According to the statistical data register, agricultural production in the Republic of Montenegro did not decreased after the political changes in late 80's and early 90's, characteristic of other countries in transition. Between 1992 and 2003 the growth of total production was evidenced. Although field crop and vegetable production area has reduced between 1992 and 2003, the production of most of the arable crops rose significantly. A major increase has been recorded with vegetables (more then three times) and potato (more than twice), which is above all the result of the yield augmented. The production increase is the result of better technical equipment and technological level of production. The figure below clearly indicates the significant increase of total production of cereals, vegetables and potato together presented as arable crops.

Figure 3: Crop production volume indices, (1992-2003)



Source: Statistical Yearbook of Montenegro

Crop production analysis shows growing trends in all plant production categories in the period 1992-2003, along with significant fluctuations (see figure 3). The fastest growth was realized in arable production, including cereal and vegetable crops, with an annual rate of +4.7%, while fruit and wine production increased moderately (+2.0% and +2.7% respectively).

Crop growing is, on average, undertaken at the area of 7.5 ha per individual holding. This sort of growing is dominated by coarse fodder growing, i.e. hay at the natural meadows, at the 86% of the area. Alfalfa and clover are grown at around 10% of the overall territory while; at the rest of the territory cereals and other sorts are grown. Almost all plant production, except for the small quantities of crops intended for food and being sent to the mills, is fodder production oriented, and it can be concluded that this type of production is mainly extensive and based on the low-yield pastures, i.e. on the natural meadows (grassland). Average yields, when it comes to crops

and corn, are 3.8 t/ha. As far as alfalfa and clover are concerned, an average yield is 5.6 t/ha and for the hay that figure is 2 t/ha.

Table 7: Crop area, production and yield trends in crop production, in comparison with EU, (2005)

	2000	2001	2002	2003	2004	EU-25 (2005)
Crop area (1000 ha)						
Cereals	9.6	8.1	7.1	6.5	5.9	52,013.8
Tobacco	0.208	0.216	0.184	0.201	0.196	no data
Grapes	3.9	3.9	3.9	3.9	3.9	no data
Olive Oil	4.1	1.0	1.4	2.2	no data	no data
Potatoes	10.6	10.6	10.5	10.5	10.4	no data
Fruits	10.8	9.5	9.5	9.6	9.7	5,838.1
Vegetables	18.3	18.5	18.6	18.1	18.2	2460.0
Production (1000 t)						
Cereals	14.7	19.0	19.9	16.1	15.9	260,561.1
Tobacco	0.274	0.342	0.384	0.398	0.419	no data
Potatoes	60.8	70.4	101.3	113.3	117.0	no data
Grapes	36.0	35.3	35.0	35.1	no data	no data
Olive Oil	1.8	0.4	0.6	0.9	2.5	no data
Fruits	34.6	22.4	30.3	27.0	33.6	63,000.8
Vegetables	118.0	128.3	138.3	126.9	no data	66,037.1
Yield trends (t/ha)						
Cereals	no data	no data	no data	no data	no data	5.0
Tobacco	1.31	1.58	2.08	1.98	2.14	no data
Potatoes	5.75	6.62	9.64	10.78	11.31	no data
Grapes	9.3	9.2	9.1	9.1		no data

Source: *Statistical Yearbook of Montenegro,* ***EU 25 data*** *– FAO database*

Table 8: Supply Balance sheets for main crop products, (1991-2004)

	1995	2000	2001	2002	2003
Cereals					
Production	34,118	14,682	18,922	19,755	16,149
Import	143,078	144,093	143,573	142,705	no data
Consumption	106,377	101,551	103,469	109,779	no data
Export	16,571	16,688	16,628	16,527	no data
Vegetables					
Production	54,648	117,966	128,318	138,322	126,886
Import	29,230	32,563	31,843	34,475	34,475
Consumption	76,807	85,565	83,673	90,588	no data
Export	7,071	64,964	76,488	82,209	no data

	1995	2000	2001	2002	2003
Potatoes					
Production	48,900	60,800	70,400	101,300	113,300
Import	2,500	2,500	2,500	2,500	2,900
Consumption	37,682	42,384	41,375	44,553	no data
Export	1,252	1,542	1,776	2,529	2,934
Fruit					
Production	12,900	34,600	22,400	30,300	27,000
Import	19,632	7,551	23,102	13,945	no data
Consumption	27,405	40,179	39,469	40,604	no data
Export	5,126	1,971	6,032	3,641	no data

Sources: *Ministry of Trade of the Republic of Montenegro*

Production of cereals shows decreasing trends over the years, while consumption remain relatively stable. Domestic needs are mainly covered by imports, 109,779 tons in 2002, which indicates that the sector is not competitive. At the same time, production of vegetables has increased significantly, from 54,648 tons in 1995 to 138,322 tons in 2002, which is about 150% increase in the last decade. Vegetable production covers the domestic needs and 82,209 tons were exported in 2002. These figures indicate that the sector has very positive trends. Fruit production is also shows increasing trends and covers a significant part of domestic needs. At the same time potatoes production fully covers domestic needs.

4.2.1 CEREALS

In 2003, 32,135 ha, out of 44,818 hectares of arable land without permanent crops, were used for field crop and vegetable production. The remaining 12,683 ha (or 28%) of the total arable land are non-cultivated areas or areas used for extensive agricultural production. The areas containing cereals including wheat, rye, grain maize, barley and oats have significantly declined, and in 2003 they occupied only one-third (36%) of the area (compared to 1992). Compared to 1992 cereal production was the only decreasing one, due to the fact that higher yield could not compensate the reduction of sown areas.

4.2.2 FRUITS AND VEGETABLES

Fruit production: Statistical data on fruit production in Montenegro are relatively rare. There is no data on areas according to individual fruit production, and some fruit categories are not statistically registered. According to statistical data from 2003, orchards (and olive trees) covered an area of about 9,580 ha. In the continental part of Montenegro, plum, apple and pear are the prevailing fruit, while in the coastal area can found figs, oranges and tangerines. In comparison with figures from 1992, there was a 10 % decrease in the total orchard area and a 5 % decrease in the number of productive trees. The number of peach trees declined significantly, while the number of orange and tangerine trees increased. Changes in tree number of other fruits have been relatively small. All fruits, except for citrus and oranges, are extensively grown in gardens or, on a small-scale basis, without the application of agro-technological measures (fertilizing, cutting, pest and frost protection, irrigation). This is the main reason why, along with weather conditions,

fruit production varies significantly. In addition, a small positive trend in production was registered during 1992-2003. The most significant growth was observed in orange and tangerine production.

Table 9: Fruit production, (1992-2003)

1000 t	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Apple	3.2	7.6	2.9	1.9	4.5	5.1	2.3	1.9	9.5	2.4	6.0	5.0
Pear	1.8	2.9	1.4	1.5	1.6	1.7	1.1	1.6	2.2	1.5	2.2	2.1
Plum	5.9	9.6	8.7	0.9	9.6	8.5	3.1	2.9	10.8	4.7	7.9	6.5
Cherry	1.7	1.7	1.6	1.3	1.3	1.5	1.5	1.6	1.7	1.7	1.5	1.5
Peach	4.1	3.2	4.0	3.4	3.6	3.5	2.5	3.1	3.0	3.1	3.2	3.4
Nut	0.4	0.5	0.3	0.4	0.5	0.6	0.4	0.6	0.6	0.4	0.5	0.6
Fig	1.7	1.7	1.8	1.7	2.1	2.5	2.4	2.5	3.6	4.5	4.2	4.4
Orange and tangerines	1.6	1.3	2.0	1.8	1.7	1.9	3.3	3.1	3.2	4.1	4.8	3.5
Total	**20.4**	**28.5**	**22.7**	**12.9**	**24.9**	**25.3**	**16.6**	**17.3**	**34.6**	**22.4**	**30.3**	**27.0**

Source: *Statistical Yearbook of Montenegro*

In the northern part of Montenegro, plum is the dominant fruit and is mainly used for production of brandy (over 95%), while the rest of it is processed for jam, or is being dried or consumed in fresh condition. These possibilities of maintaining processed plum and their relatively easy trade had had an influence on the number of plum trees, which remained relatively constant in the period between 1992 and 2003. Pear fruits have almost been used for brandy production in recent periods.

Vegetables: Due to the reduction of total areas of arable land and gardens, and because of the permanent high share of non-cultivated land, areas of field crop and vegetable production decreased by 23% in the period 1992-2003. The decrease in these production areas is also conditioned by a moderate decline is also notable in forage areas, while data on potato and vegetables show an increase.

Production increases appear to be the result of better technical equipment and an improved technological level of production, use of high yield species and hybrids, extension work and favourable retail prices, as well as direct payment support.

Montenegrin yields of main field crop and vegetable cultures, although still experiencing growing tendencies, are relatively low and far below yields in Western European countries. They are at the level of neighboring countries, which are also in a transition process. Main limiting factors in arable crop production are the following: low fertility of land, inadequate basic processing and pre-sowing preparation, inadequate selection of species and hybrids, unfavourable plant constitution, diseases and pests, unfavourable rainfall distribution, climatic stresses, as well as insufficient level of knowledge of the agricultural producers. Production of vegetable is characterised by lack of intensive arable land production and sowing structure. Production of vegetable seeds (besides potato seed) is not yet developed in Montenegro.

Vineyard areas in Montenegro amount to 3,859 ha (2003). No major change occurred in the level of areas under vineyards in the period between 1992 and 2003, only slight growing tendencies are registered. In grape assortments, grape varieties (90%) for production of red (Vranac, Kratosija, Merlot, and Cabernet) and white wines (Krstac, Chardonnay, Rkaciteli, Sauvignon) prevail. The share of table grape varieties for consumption in fresh condition (Cardinal, Ribijer, Italia) is 10%. The Biotechnical Institute owns a collection of grape species

consisting of 550 species, hybrids and grape varieties. The Montenegrin vineyard areas are dominated by autochthonous varieties (over 70%), their yields are equitable, stable and of standard quality due to suitable climatic and soil conditions. The grapes produced in Montenegrin vineyards are used for the production of Montenegrin wines.

Production of grapes in Montenegro experiences growing tendencies. Wine is the most important exporting product of Montenegro. It has relatively comparative prices. About one half of production is realized in areas of AD "13 jul - Plantaze", that produce wine in modern equipped operations with high technological standards, including ISO and HACCP quality standards. Capacity of the processing operation is about 3,000 thousand litres.

Olive production: Olive production is mainly traditional and rarely intensive in the Republic of Montenegro. Traditionally cultivated orchards are usually planted with density of 100 to 200 olive trees per ha. Areas that are systematically cultivated for olive production are reducing. There are 412,000 olive trees on the coast of Montenegro, out of 620,000 that existed before. As the areas used for cultivating production are reducing, the marginal areas of low productivity and lower density of olive trees are firstly abandoned. In this way areas that are more fertile and productive and consequently more intensively planted, are maintained in production. As a result the number of olive trees is reducing in a lower rate than the areas. Trees 100 years old and older are predominant. About 70% of trees are traditional ones, while there are less than 10% young trees. Autochthonous varieties amount to 90% (zutica and other), which are mainly used for the production of oil and conservated fruit in the traditional way. Despite the potential for production of olive oil of excellent quality, production is extremely extensive, which is why the existing capacities are not adequately used (below 50%). According to estimates, about 30-40% of total potential is being used, while the rest of it is neglected and endangered by urbanization. Despite the potential for production of olive oil of excellent quality, production is extremely extensive, which is why the existing capacities are not adequately used (below 50%). As statistical yield data divide the total collected yield (collected from less than half a number of trees) with the total number of olive trees, this causes the data on olive yield to remain permanently low. Market and demand for domestic olive products do exist, but due to insufficient use of potentials and besides the slight growth rate in the previous years, olive production does not satisfy national demand.

4.2.3 INDUSTRIAL CROPS

Tobacco: Increase in production is also obvious in tobacco production in the last few years. In 2004, 419 tons of tobacco was produced and it is expected that the yield in 2005 will be about 750 tons. Production is located in the area of Podgorica (region of Zeta and Malesija). Until 2003 the only tobacco cultivated there was the Herzegovacki, and later on two new, high-yielding American tobacco varieties were introduced: Berley and Maryland. Growing trends of tobacco production in Montenegro are influenced by stimulating retail prices, along with subsidies of the Ministry of Agriculture, aiming at stimulating tobacco production.

Permanent grassland: Grassland areas (according to official statistics) remained relatively stable between 1992 and 2003. There are indications that the reduction in livestock production resulted in a reduction of grassland utilisation. This is especially true for extensive categories of pastures, which became permanent forestland, and these changes are not yet covered in statistic

databases. According to the Statistical Yearbook of 2005 published by MONSTAT, the forested areas increased from 485,440 ha in 2003 to 527,165 ha in 2004.

Natural meadows form 90% of the total areas under meadows. Average yields on meadows are low (1.5-1.8 t/ha). Low yield of hay on meadows is accompanied with low quality, as the result of the unfavourable floristic composition, late mowing and inappropriate storing. Natural meadows and pastures, as the most important potential for forage production, are exposed to degradation because of the unfavourable changes in botanical composition, increased share of paltry, harmful species and similar. From the aspect of production some positive trends are noticeable in the period 1992-2003. Production on meadows increased about twice compared to 1992, while production on pastures increased with about 30%.

4.3 LIVESTOCK PRODUCTION

Livestock production is the largest contributor to Montenegro's agricultural economy. The importance of the livestock sector becomes even more evident when one considers its role in the past - it was the main occupation of the local population and in some areas the only one.

Regarding the number of animals, cattle and pigs number in the last decade remain relatively stable, while the reduction in the number of sheep and horses is evident. The number of poultry during the 90s has been in slight fall, and from year 2000, started an important positive trend. Official statistics do not register data on number and production of goats, and according to estimates made by the Biotechnical Institute the existing population of goats accounts to 50-55,000 heads.

Table 10: Livestock numbers and production and comparison with EU, (2005)

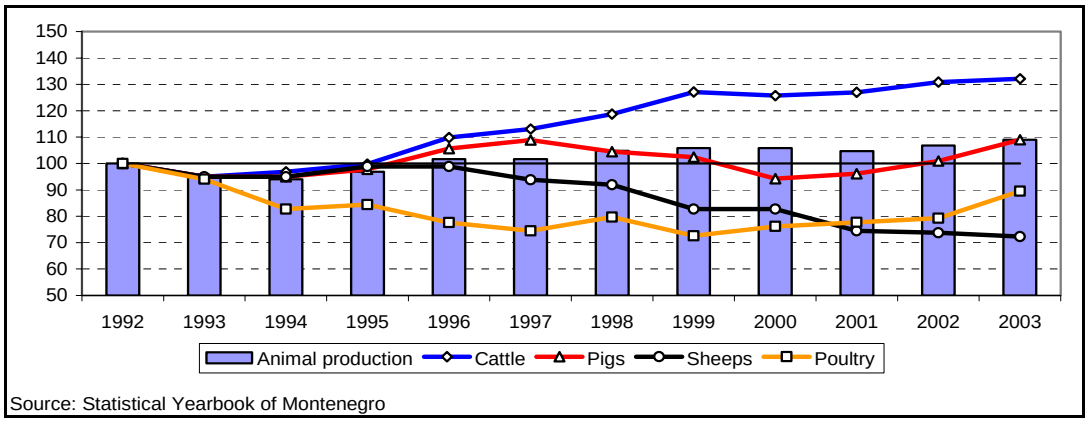
		2001	2002	2003	2004	2005	EU-25 (2005)
Cattle	1000 heads	179	178	183	175	169	86,411
Goats	1000 heads	51.3	52.5	53.8	55.0	56.3	11,996
Sheep	1000 heads	293	244	241	252	254	89,305
Pigs	1000 heads	19	21	22	24	27	151,143
Chickens	1000 heads	790	814	838	890	799	531,1391
Beef and veal (live-weight)	1000 t	12.6	13.5	13.3	12.1	no data	8,084
Milk	1000 litres	194.4	197.6	202.8	209.1	no data	141,324*
Pig meat	1000 t	4.5	4.8	5.2	5.8	no data	21,194
Poultry meat	1000 t	2.0	2.0	0.6	no data	no data	10,990
Sheep/goat meat	1000 t	7.3	7.4	7.1	7.5	no data	1,058
Wool	1000 t	0.5	0.4	0.3	0.3	no data	no data

Note: *Live weight* ***Source****: MONSTAT* ***EU 25 data -*** *Agriculture in the European Union - Statistical and economic information 2005: - for* ***cattle and pigs*** *tab 4.15.0.1 data for 2005 preceding; for* ***sheep and goats*** *- tab 4.17.0.1, data for 2004, preceding year;* ***for chickens*** *tab 4.18.0.1, data for 2004,* ***for milk production:*** *Gross internal production, 2004, tab 4.20.1.1 for meat; tab 4.14.1.1;*1000 t*

The volume of total livestock production shows positive trends (see figure 4). The largest growth compared to 1992 is realized in cattle production (average annual rate 2.6%), while sheep production shows a decline (-2.6% annually), although this reduction has been slowed down in the last three years. Cyclic oscillations are characteristic for pig meat production without some

special trends. Poultry production shows falling trends evident up to year 1999, and in recent years production rose moderately.

Figure 4: Livestock production volume indices, (1992-2003)



Source: Statistical Yearbook of Montenegro

Table 11: Supply Balance sheets for main Livestock products, (1995-2003)

	1995	2000	2001	2002	2003
Beef (carcass weight)					
Production	5,900	5,800	6,100	6,600	6,500
Import	3,173	4,789	6,966	4,941	No data
Consumption	8,834	10,228	12,541	11,169	No data
Export	0,239	0,360	0,524	0,372	No data
Pork Meat					
Production	3,500	3,400	3,500	3,700	No data
Import	2,974	3,874	2,797	2,939	No data
Consumption	6,250	6,982	6,086	6,417	No data
Export	0,224	0,291	0,210	0,221	No data
Sheep & Goat Meat					
Production	4,900	3,800	3,500	3,600	3,500
Import	0,216	0,202	0,202	0,240	No data
Consumption	2,163	2,021	2,028	2,406	No data
Export	2,952	1,980	1,674	1,434	No data
Eggs					
Production	7,322	6,822	6,805	6,910	No data
Import	2,984	3,938	3,974	4,639	No data
Consumption	9,901	10,224	10,239	10,920	No data
Export	0,405	0,535	0,540	0,630	No data

Sources: *Ministry of Trade of the Republic of Montenegro*

4.3.1 COWS

Cattle production represents the most important area of livestock production with a total number of 175,000 heads and 127,000 of cows and heifers, and about 200 millions litres of

milk/annually. Cattle production has a wide distribution and is more or less present in most agricultural households in the country.

Average number of cows and heifers per regions ranged from 6.6 heads of cattle/farm in the Coastal region up to 8.8 heads of cattle/farm in Zeta-Bjelopavlici region. About 62% of cattle inventory is raised in Polimsko-ibarska and Northern-mountainous region, which represents about 60% of the agricultural area. The number of cattle in these two regions in the last few years is reducing, as a consequence of farmer migration out of the country side. At the same time the number of cattle in Karsts region, Zetsko-bjelopavlicka ravnica and Coastal region is slightly increasing which is probably conditioned with development of processing capacities in these areas and vicinity of large cities.

The most important cattle category – cows and heifers were, on average, presented with 7.7 heads of cattle as follows: younger categories (up to 12 months old) with 4 and older categories (older than 12 months) with 2 heads of cattle per household. This low share of old cattle, including the category where heads of cattle were up to 12 months old, shows that, generally speaking, farmers were not interested in meet production through fattening process, nor were they interested in keeping breeding sorts of cattle; therefore the practice of having the calves slaughtered, when they are 3-4 or 5 months old, was very obvious and present nation-wide. Farms are predominantly small-scale, mainly part-time, subsistence holdings, typically comprising 1-3 older cows, with very few larger commercial farms having over 10 cows. Beef cattle is not regionally equally distributed.

According to estimates from the Biotechnical Institute, breeds of beef cattle are unfavourable, various crossbreeds account for 50% of total population. Artificial insemination includes only 25% of the population. Tyrol Grey breeds constitute about 15%, while highly productive breeds Holstein and Brown together form about 32% of the population. This kind of breed structure causes dual-purpose beef production - milk and meat production, although the emphasis is still on milk production. Over the last ten years, meat production is increasing moderately, although with numerous fluctuations, while milk production in the same period had a much more intensive growth. Relatively moderate meat production is caused by high proportion of calves in the total number of slaughtered animals. Statistical data indicate that calves accounted for 48% up to 54% of the total number of beef slaughtered in slaughterhouses and private butcheries. Regarding the fact that in households slaughtering of calves is more present compared to other categories, these percentages become larger on an overall level. Calf slaughtering practice is also evident if we consider the number of slaughtered heads according to categories. Cows and heifers accounted for 68% of Montenegro total, while other categories represent only 32%. Compared to other countries, Slovenia, for example, share of other categories in total population accounted for 60%.

This ratio between the supply in young and old categories of cattle best indicates that farmers are more inclined to supplying the market with young calves than fattening them. The reason for that situation may be low collection prices for older cattle, bad organization of the collection itself, as well as lack of coarse feed, which would be cheap and affordable.

In the last ten years production of beef meat was experiencing slight growing tendencies (at the total level 10%) and it now amounts to 9.6 million tons, which is followed with the decrease in the number of slaughtered heads, and increase in the carcass weight from 98 to 118 kg/head.

Cow milk and cheese: Total production of milk in the last ten years increased from 140 to 200 million litres, while the number of heifers in the period under review increased inconsiderably (from 123 to 127,000 heads). This indicates relatively significant increase of milk yields. However, average production of 2000 litres per head (according to data and estimates made by Biotechnical Institute) is still well below the average of most of the European countries (Holland 7,296, Austria 5,476, Switzerland 5,447, and Slovenia 4,066). Selection service data show that the average milk yield of the cows included in the dairy control (2% of the population) is significantly larger and amounts about 4,100 kg per cow. Only 10-12% of the total milk production is being delivered to dairies and is industrially processed. The remaining quantities of milk are being processed in different sorts of autochthonous milk products (mainly various kinds of chesses and partially skorup and kajmak) in the household and are used for own/consumption or for sales.

4.3.3 SHEEP AND GOATS

Sheep production has nearly the same importance in livestock production as cattle production. Current sheep production is based on the 250,000 heads, distributed in the northern part of Montenegro, or Northern-mountainous (37%) and Polimsko-ibarskoi region (32%). This region disposes the major permanent grassland area (60%). Its production is characterized by extensive sheep breeding-, mainly local breeds of Pramenka for a three-purpose production (milk, meat, wool). Sheep production is present in mountainous areas where the process of out-migration continues, which is one of the main reasons why the number of sheep decreased.

As far as the breed structure is concerned, Pramenka prevails with a number of local autochthonous breeds, while the share of the highly productive purebreds (Virtemberg, II de frans, and East-African breed) is very low, almost negligible. Two breeds of Pramenka are dominant: Pivska or Jezeropivska and Sjenicka. Breeds like Bardoka, Ljaba or Zetska Zuja, have less economic value because they are fewer in number. However, these three breeds are invaluable from the aspect of genome of autochthonous breed preservation. Share of crossbreds in total number of population is very high (about 40%). These are crossbreds of local breeds of Pramenka, as well as crossbreds of Pramenka and more productive breeds, Virtemberg above all. The second group of crossbreds is particularly important regarding productive capacities; the most important ones are crossbreds of Sjenicka Pramenka and Virtemberg, which are at the same time most numerous ones.

Sheep production possesses triple production features: meat-milk-wool. Current value of these products is estimated as follows: meat 65-70%, milk 30-35% depending on area, production means and milking capacities of the sheep; while the share of the wool is almost negligible. Production of sheep milk, according to research results moves between 80 to 110 kg per sheep, only bardoka achieves to produce up to 150 kg of milk in favourable conditions. Sheep fertility is basically uniform and is approximately 120%, and depends more on the way the sheep is grown and on the quality of nutrition, than on the breed.

According to research indicators (Biotechnical institute, survey), the average annual production per ewe amounted for 45 kg of milk and about 30 kg of live weight gain in the last ten years, while in year 2003, average milk production was 58 litres per ewe, and live weight gain 37 kg. Better breeding conditions (nutrition above all) and on the other hand higher share of crossbreds

with better productive traits, contributed to this result. Sheep numbers make up 0.3% from the EU-25 stock and 0.7% of EU-25 sheep/goat meat production.

Goat production: Although goat production is smaller in volume than sheep production (about 50 to 55 thousand productive heads) it is of high importance for the karsts regions in Montenegro (areas of Niksic, Cetinje, Danilovgrad, Podgorica municipalities, as well as coastline), where natural conditions do not allow breeding of other kinds of ruminants (cattle or sheep).

Breed structure of goats in Montenegro can be roughly divided into three groups: modern breeds (mostly Alpine and sporadically Sanska) and domestic Balkan goat with a few varieties according to coat colour; and crossbreds, developed through unplanned crossing of different varieties of domestic Balkan goats, and the same ones with noble breeds. Positive trends in goat production are being noticed in an increase of the number of farmers breeding larger herds as well as in the increase of the number of heads per herd. According to data of the Ministry of Agriculture on breeding subsidies for 2004, about 200 farmers owned more than 30 breeding animals in a herd, while the average number of heads being 75 per herd. The rest of the population are smaller farms with 2 to 30 heads per herd. Although this production is significant in number and volume, statistics do not register it yet. According to the results of a detailed analysis carried out by the Biotechnical Institute the average production of milk per head is 140 kg, and the average production of meat per head is 15 kg. Annual production of goat meat (young goats, and meat of the mature and culled animals) is estimated at about 850 tons, and annual production of milk is estimated at about 5 thousand tons.

4.3.4 OTHER LIVESTOCK

For many years production of broilers was less important in livestock production, because of the fact that concentrated feed was imported. This is especially important when compared to ruminant meat production (cattle, sheep and goat), which is carried out through usage of natural grassland resources.

However, in recent years significant changes occurred in poultry production of Montenegro, ranging from creating numerous family farms for egg production, expansion of broiler production, to founding of slaughterhouses and processing capacities for this sector. Statistics do not register these changes in an adequate manner. This creates a great disproportion between official static data and real production parameters showing tendency of growth over the last few years. According to data of the Ministry of Agriculture more then 1.5 million of broilers and more than 2000 tons of poultry meat in 2004 were produced.

Poultry: Faster development of poultry farming, and especially poultry meat was caused by encircling production processes through foundations of animal feed, upbringing of parent flock hybrids of difficult line, foundation of incubator station and production of one-day chickens, foundation of contemporary slaughterhouses for poultry and development of processing capacities.

Eggs: Also egg production has significantly improved. Besides one large farm (former public), capacity of 120,000 layers, a number of family farms was also founded, capacity of a few hundred up to few thousand layers. According to data from the Ministry of Agriculture and the Association of Poultry Farmers, intensive production in Montenegro today accounts to about 250,000 of layers

in cage systems, which results in the production of about 75 million pieces of eggs. In extensive production on family farms, about 600,000 layers and other poultry species are grown, and the production of eggs estimates at about 60 million pieces, mainly used for household consumption. In the last few years turkeys are also bred in smaller percentage mainly for own-consumption, a fewer number is involved in market production.

Pig meat production in general terms is part of the livestock production. However, in Montenegro this production is still not that important as cattle, sheep or poultry production. According to statistical data, disposes of about 24,000 pigs, of which 2000 is breeding stock (breeding sows and boars), mainly crossbreds of Landras and Large Yorkshire, and smaller number of breeding animals of Duroc and Pietren. Usual means for achieving better results in swine production, crossing and hybridization, are not planned. This is the reason why moderate results are being achieved when it comes to the number of bred piglets per sows and the daily gain.

Sows: A relatively small number of farms raise sows (about 500 of them), which produce about 15,000 of pigs per slaughter, with the average slaughter weight of 100 kg. Besides this, about 40 thousand young pigs for fattening are imported from Serbia every year. Total production of pork, according to live-weight gained, accounts to 5,000 tons. Swine production, and especially pig fattening, is mostly done in households, in few medium and only one big enterprise with 550 sows that annually produce about 6,000 fattening pigs. This is practically seen as the only farm where professional knowledge on this production exists.

Relatively expensive inputs (mainly imported) for production, and particularly low prices of live weight for this level of production, do not encourage a further development. Pig numbers are 0.02% from the EU-25 stock, and pig meat production is just 0.03% of EU-25 total.

Horses have not yet completely lost their place in the agriculture of Montenegro due to relief features and its level of development. In hilly and mountainous regions horses are used for load transfers and to a much lesser extent for the tillage of fields. Continuous depopulation of countryside, and especially higher application of techniques and mechanization, caused a marked reduction in the number of horses. Official statistics today register less then 10 thousand heads. The horse most often breed is a domestic hilly horse because of the capabilities (endurance and strength for carrying burdens on extremely hilly and rocky terrains). However, also cold-blooded breeds are to be found, and even horses used for sport. In area of karsts (south and southwest part of Montenegro), mule and donkeys are raised, serving for transport of loads.

4.4 FOOD CONSUMPTION

The total share of household expenditure on food and non-alcoholic beverages in Montenegro, during the 2000-2004, appears to have decreased from the 54.0 % (2000) to 48.0% (2004) or by an annual rate of –2.4% (see table 12). The share of household expenditures is significantly higher in mixed (49.7%) and non-agricultural households (48.7%). In agricultural households the share is about 34.8%, indicating that the agricultural households are consuming a part of their production. More detailed analysis about the share of household expenditures on food and non-alcoholic beverages is required based on more comprehensive data sources such as livelihoods survey data.

Table 12: Average share of household expenditures on food and non-alcoholic beverages in comparison with the EU, (2000 – 2004)

	2000	2001	2002	2003	2004
Montenegro	54.0	51.7	50.0	49.7	48.0
EU-25	12.9	12.9	12.9	12.9	12.7

***Source**: MONSTAT, **EU 25 data** – Eurostat Yearbook 2005*

In Montenegro consumption of agro-food products is represented according to data gathered through a Household consumption survey (2003/2004). Growth of consumption per capita is recorded in all products, except for sheep and goat meat, which remained fairly constant. Within meat consumption structure beef meat takes the first place. Poultry meat is characterized by most significant growth trends. In addition, the significant growth of consumption was recorded with other meat categories, including smoked meat products. Total consumption of meat increased in the period under review on an annual average rate of +5.3%.

Table 13: Per capita consumption of basic agricultural products and comparison with EU, (2004)

		Montenegro (2002)	EU-25 (2004)
Per capita consumption			
Total cereals	kg/capita/year	no data	91.9
- Wheat	kg/capita/year	59.1	68.7
Potatoes	kg/capita/year	72.2	76.9
Sugar	kg/capita/year	14.6	31.8
Fruits	kg/capita/year	65.8	no data
Vegetables	kg/capita/year	146.8	no data
Meat (total)	kg/capita/year	49.8	no data
- Pig meat	kg/capita/year	3.2	43.4
- Poultry meat	kg/capita/year	9.3	23.0
- Beef meat	kg/capita/year	18.1	17.9
- Sheep meat	kg/capita/year	3.9	2.9
- Other meat	kg/capita/year	9.7	no data
- Offals	kg/capita/year	5.6	no data
Milk	kg/capita/year	254.7	no data
Butter	kg/capita/year	no data	4.13
Cheese	kg/capita/year	17.5	17.6
Eggs	kg/capita/year	11.5	13.4

***Source**: Monstat **EU 25 data** - Agricultural Situation in EU 2005, from tables on supply balances for year 2003/2004; 2004/2005 and DG-Agri "Prospects for agricultural markets 2004-2011", Tables A.9-A.17, July 2004*

Milk consumption (total quantity in milk equivalent) ranged between 200 to 300 kg per capita, reaching a maximum in the year 1996, and staying at the level of 250 kg since 2002. Increase in milk consumption, at an annual average rate of 3.0% reflects the increasing significance of milk in total food consumption for the Montenegrin population. Potato is also of increasing importance, likely to reflect the reduction in purchasing power of average consumers (and increasing poverty of many) and the need to shift to lower cost staple foods and other lower cost sources of protein. In line with this trend, between 1992 and 2002 an increase in fruit production is also evident,

fluctuating from 35 kg to 65 kg per capita (109%), and also with vegetables, ranging from 102 kg to 146 kg per capita (43.1%). According to the available data, pig and poultry meat consumption (3.2 and 9.3 kg/ capita) in Montenegro is significantly lower than the average EU (43.4 and 23.0 kg/capita).

Table 14: Agro-food Products Consumption per capita, (1992-2002)

PRODUCT (kg)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Meat (total)	29.6	31.0	32.6	41.7	42.1	56.3	43.5	42.7	44.7	43.1	49.8
Beef meat	14.6	11.6	11.9	14.7	15.3	24.4	19.2	17.6	16.7	20.4	18.1
Pig meat	2.5	5.7	6.1	6.0	6.7	9.0	3.3	4.0	4.5	3.4	3.2
Poultry meat	2.6	1.6	2.1	3.8	4.2	7.1	7.1	7.4	7.3	8.8	9.3
Sheep and goat meat	4.1	3.5	3.3	3.6	3.4	4.2	3.1	2.3	3.3	3.3	3.9
Other meat (smoked meat)	4.4	6.6	6.4	7.4	9.3	6.9	6.5	7.2	8.2	10.5	9.7
Remnants (other fresh meat and offalls)	1.4	2.0	2.8	6.2	3.2	4.7	4.3	4.2	4.7	6.7	5.6
Milk (in raw milk equivalent)	189.6	211.0	202.3	244.7	293.2	249.6	218.1	210.7	232.0	241.0	254.7
Fresh milk and dairy products	116.1	123.5	102.2	129.2	169.3	132.0	119.4	116.9	122.8	129.7	133.2
Butter	0.1	-	-	-	-	0.1	-	-	-	-	-
Cheese	10.5	12.5	14.3	16.5	17.7	16.8	14.1	13.4	15.6	15.9	17.5
Eggs (in pieces)	121.3	123.5	127.7	172.6	188.3	165.0	176.1	167.0	174.9	174.5	185.4
Sugar	10.4	9.1	13.3	13.0	13.7	17.5	15.5	14.8	14.8	14.0	14.6
Flour and bread											
Wheat, rye and corn flour	65.3	60.2	65.2	63.1	71.7	67.1	66.1	54.4	63.8	58.4	59.1
All kinds of bread	68.3	58.7	86.9	113.9	97.5	109.5	104.2	118.5	102.0	109.9	118.8
Potatoes	43.0	44.9	60.0	67.8	65.4	73.9	64.2	69.4	69.2	67.3	72.2
Fruit	31.4	42.4	38.5	45.6	59.8	64.3	59.4	57.0	65.6	64.2	65.8
Vegetables	102.7	80.6	95.4	127.8	134.5	138.9	133.4	131.9	139.7	136.1	146.8
Wine	1.9	1.7	2.2	3.8	3.1	2.5	2.9	2.3	1.9	1.9	2.6

Source: *Household consumption Questionnaire, Federal Statistical Office, Belgrade.*

4.5 AGRICULTURAL PRICES

In general, there is no consistent data set on producer prices for agro-food products available. Data on average producer prices in Montenegro, although they are periodically collected and published by the Federal Statistical Bureau (they ceased publishing it in 2002), are not complete and methodologically not up to EU standards. There is a lack of data on certain products and years, the prices are often based on estimates, and they are not always related to Montenegro only (some of them are for Serbia and Montenegro together). However, these prices allow for rough comparison with the EU countries, although they must be taken with caution.

There are two groups of products in table 15. First those products whose prices, during the 2001-2004 increased by an annual rate of: +10.9% apples, +6.7% peaches, +1.0% potatoes, +1.0% eggs, +0.1% calves for slaughter. The second group consists of products whose prices decreased, during the same period, by an annual rate of: - 6.3% lambs for slaughter, - 6.0% raw cows milk, - 6.0% tomatoes, - 0.5% wine grapes and –0.5% adult cattle for slaughter.

Table 15: Producer Prices for Agricultural and Food products and comparison with EU, (2005)

		2001	2002	2003	2004	EU-25[1)]
Crop products						
- Wheat	EUR / t	120.0	114.0	no data	no data	105.8
- Corn/Maize	EUR / t	124.0	90.0	no data	no data	119.5
- Barley	EUR / t	119.0	104.0	no data	no data	104.1
Sunflower	EUR / t	117.0	200.0	no data	no data	no data
- Sugar beet	EUR / t	30.0	31.0	no data	no data	no data
- Potatoes	EUR / t	250.0	180.0	350.0	260.0	111.5
- Apples	EUR / t	430.0	680.0	580.0	650.0	410.5
- Pears	EUR / t	no data	600.0	no data	150.0	no data
- Peaches	EUR / t	710.0	700.0	1,000.0	920.0	no data
- Wine grapes	EUR / t	1,020.0	1,070.0	970.0	1,000.0	no data
- Tomatoes	EUR / t	770.0	300.0	620.0	600.0	no data
Livestock products						
Calves for slaughter (live weight)	EUR / t	2,343.0	2,044.0	2,390.0	2,350.0	no data
Adult cattle for slaughter (live weight)	EUR / t	2,039.0	2,539.0	1,570.0	2,000.0	2,785.7
Pigs for slaughter (live weight)	EUR / t	3,300.0	1,840.0	no data	no data	1,268.3
Lambs for slaughter (live weight)	EUR / t	2,369.0	2,332.0	2,080.0	1,830.0	no data
Raw cows milk (actual fat content)	EUR / 000 litre	372.0	305.0	290.0	290.0	no data
Eggs for consumption	EUR / 000 pieces	96.0	100.0	110.0	100.0	no data

***Source**: MONSTAT – **1)** No aggregate data available for EU 25 – 2005*

Cereal production has declined in the last years, which implies that this sector is uncompetitive. The market is practically open and border protection is very low. Data for 2001 and 2002, for the Montenegro and Serbia, show that prices are relatively low, almost at the level of world prices. Without the budgetary support to producers the cereal production in Montenegro cannot be competitive on broader markets.

Tobacco prices in Montenegro are falling and are significantly lower then in the EU, where Greece could be taken as an example (average price level in 2001-2004: 2,915€/t). Compared to the EU, Montenegro has much lower budgetary support in this sector, so it might be assumed that tobacco production is competitive. However, the long term prospects of this sector in Montenegro and generally in Europe are uncertain, since it would be difficult to be competitive with market prices outside the EU and moreover, the budgetary support has been abolished with the CAP reform in 2004.

Fruits: Producer prices of fruits are relatively high, for grape and citrus products also, with the falling tendency in the period 2000-2004. The reason for high price level is similar to those mentioned earlier for potatoes and other vegetables. The Montenegrin market, due to underdeveloped trade channels, is not entirely subject to the international competitive pressures. It is expect that in the next period significant changes will happen.

Calves: Producer prices of calves in Montenegro are relatively low and on the level of prices in Malta and Greece. The reason for this lies in the small and specific market. There is no organised fattening and calves might be considered as a by-product of milk production.

Eggs: Producer prices of eggs are, according to data provided by Monstat, stable and if compared to European prices, relatively high. Prices in most of the European countries are significantly lower than in Montenegro. Experiences from other countries that have liberated their eggs markets show that in this sector globalisation is not so much evident and that regional characteristics of markets remain important.

Milk: The producer prices of milk are slightly decreasing, so Montenegro falls in the category of the EU countries with lower prices. Furthermore, if we consider that the quality of milk in the EU is much higher, we can conclude that the milk prices in Montenegro are relatively high and uncompetitive. The competitive pressures on dairies (small in volume of production and none of them complies with the hygienic standards in the EU) will rise significantly in the future.

Comparing prices for main products in Montenegro with ***EU averages*** shows cereal prices in 2002 (no data available in Montenegro after 2002) were similar to EU price levels. Potato and apple prices are well above EU averages. Regarding livestock production beef prices are below EU averages and pork prices above.

5. AGRI-FOOD INDUSTRY

5.1 OVERVIEW

Development of food processing industry in Montenegro during the past decades was under a great influence of a relatively unfavourable agricultural raw material base (natural conditions, structure of sector). Some food processing capacities were an integral part of former publicly owned large agricultural estates, which mainly provided outlets for own production (e.g. grapes, fruits, milk, slaughtering animals). Agricultural activity on private farms was mainly subsistence or semi-subsistence. In consequence, Montenegro traditionally exhibits a considerable trade deficit for processed food and agro-food products in general. Therefore, a large proportion of processed foods originate from imports, mainly from Serbia.

Montenegro's agro food industry has unfavourable (small) size distribution of enterprises. Survey data shows that more than 70% of foods processing enterprises in Montenegro employ up to 15 workers on permanent or temporary basis. Only four companies employ more than 250 workers. Therefore food industry in Montenegro is highly fragmented. However one might expect such a structure due to the economic environment and stage of economy restructuring. There is no available data about industrial structure and actual trends, however it is clear that most of the existing companies in food processing activities have been established in the last decade.

According to data provided by Monstat (2004), the food processing industry in Montenegro generated about EUR 83 million of gross domestic product in 2002, which represented about 6% of total GDP. Nearly one-fifth of the total came from tobacco production.

Primary agriculture was a key component of the overall agri-food system of Montenegro, which is characteristic of most transition countries. This implies that further processing of the agricultural products (canning, drying, etc.) is at low level. Large shares of the products, which are produced in rural areas, are used for self-consumption, as well as for sale within informal channels.

The low competitiveness is the main characteristic of the whole Montenegrin agro-food sector and there is plenty of room for increasing the competitiveness of Montenegro’s agriculture and food products in terms of price and quality. Inadequate competitiveness at the regional market, not to mention the world market, is a result of low intensity, low production volume and high input prices.

There are major problems in both sectors (agriculture and food processing industry) that contribute to low competitiveness. These include: obsolete equipment and technology in production; Inadequate use of mechanisation; Low level of technology and production specialization; Land fragmentation of agriculture; Low production volume per holding unit; Relatively high price of inputs that affect the price of final products; Low level of market sale through organised market channels; Inadequate organization and lack of solid structures of horizontal and vertical integration of producers in agriculture and food processing; Inadequate quality standard level (hygiene and environment) in agriculture and food processing; and Lack of efficiency and competitiveness of food processing industry mainly due to low production volume, technological backwardness, inadequate investments and market inefficiency).

Table 16: Sales Values and Number of Employees in Food processing Industry, (2003)

Activity	Sales values (mio €)	Structure (%)	Num. of employees	Structure (%)
Processing of meat, production of canned meat	156.1	55.7	620	10.2
Processing and conservation of fish	2.4	0.8	119	2.0
Processing and conservation of fruit and vegetables	0.1	0.0	203	3.3
Production of plant and animal fats	0.1	0.0	60	1.0
Milk processing	14.0	5.0	475	7.8
Milling industry	7.0	2.5	227	3.7
Production of animal feed	2.9	1.1	79	1.3
Bakery	19.5	6.9	968	15.9
Production of wines and brandy	24.5	8.7	853	14.0
Production of beer	26.1	9.3	317	5.2
Production of mineral waters and non-alcohol beverages	6.1	2.2	271	4.5
Production of tobacco products	18.3	6.5	1,226	20.2
Proiduction of other food produtcs	3.3	1.2	658	10.8
TOTAL	**280.4**	**100.0**	**6,076**	**100.0**

***Source**: MONSTAT*

5.2 MAIN FOOD INDUSTRIES

According to the Ministry of Agriculture (questionnaire on subjects in agriculture/food processing industry, 2003) total value of food processing industry accounted to EUR 280 million; beer, wine and brandy production accounted for 10% of the value each; and share of the bakery and tobacco industry accounted about 6 and 7 %, respectively. This sector generated 6,067 jobs (of which 824 are temporary). The tobacco industry has the largest share of employees (20.2%) and bakery and production of beer and brandy accounted for 15% of total number.

Milk processing: This industry absorbs a small part of the primary production of milk (estimates are about 10 or 15%). Conditions for milk processing are specific and limited (low competitiveness, low capacities and standards of the processing operations). Nevertheless, a few new operations for the production of the various milk products were set-up in the last few years (although their capacities are relatively small compared to EU standards) for production of different products (different fermented products, UHT milk, cheeses). Representatives of the industry emphasize the problem of unfair competition of milk and products from Serbia. A major role in provision of milk products is played by green markets and direct sales, which could become an important trade channel. Establishing specific sanitary normative for those products could help strengthening their market role (hotel management and tourism, export).

Meat industry: This sector witnessed some positive trends in production volume and product assortments. Meat processing represented more than half of the value (EUR 156.1 million). There are a few important entities that have increased their capacities and expanded their assortment. Sanitary-technological conditions with new operations are at the relatively solid level and can respond to the needs of local market. Procurement of primary raw materials is very specific - almost all quantities of pork are imported (EU), poultry meat production is limited, and beef meat (especially for confection) and lamb meat are of domestic origin. Regarding the lamb meat, real

possibilities for more intensive and broader trade exist, since Montenegro has clear comparative advantages and natural conditions for this livestock sector. Market demands of the EU for lamb meat are evident, and more than one third of requirements are covered with import. There is a real potential for lamb meat export on foreign markets, but at the same time there are great challenges and barriers that must be superseded. There are certain potentials for intensification and export orientation in processing of fish. There are operations for preparation of fresh fish in Montenegro, which have started with exporting activities, but the volume of production is still moderate.

Processing of fruit and vegetables: Production of these food products has been at a low level in the last few years, because of current difficulties within industries. Existing production of primary raw material (industrial fruit and vegetables) is of a limited volume, due to unresolved issues of collecting. In recent times, processing and distribution capacities for fruits and vegetables have been adapted, but the production has not yet significantly increased.

***Production of beverages*:** Production of wine is one more sector were optimal trends in beverage production are registered. Moderate positive trends are evident in beer and alcohol beverages production also. Production of non-alcohol beverages and water is difficult to market. The production of beverages (especially non-alcohol beverages and brandy) confronts the problem of the existence of domestic products that do not comply with regulations. Lately, there has been some interest for packaging of spring water and two new companies have begun with production, and few of them got a permission to use springs.

Tobacco industry: Capacities are concentrated in one company that faces numerous problems: grey economy, difficult financing conditions and unresolved privatisation issues. Tobacco industry has the largest share of employees (20.2%).

Production of concentrated animal feed: Although production is based on imported raw material, this sector has great influence on development of intensive livestock production. Two larger producers have significant capacities and integrate successfully their production in higher repro-chain (eggs, poultry meat, pork).

6. SUPPORT SERVICES

6.1. FINANCIAL SUPPORT SERVICES

The main financial support services in Montenegro are provided by the commercial banks and foreign investment departments registered in Montenegro, including those who have received the license from the Central Bank of Montenegro, namely the Montenegrin Ministry of Agriculture, Forestry and Water Management together with the Development Fund of the Republic of Montenegro, Agency for Small and Medium Size Enterprises Development. The Unemployment Fund of the Republic of Montenegro is providing all necessary support to banks, farmers and agro food sector in order to have easier access to loans.

Over the past few years some governmental institutions and funds have focused part of their capital on agriculture, crediting entrepreneurship projects and self-employment. Beginning 1999 the government initiated the ”Programme for stimulating entrepreneurship and employment”. In 1998 the Ministry for Agriculture, in association with the Fund for Development and Employment Bureau, initiated the ”Programme for crediting individual agricultural producers”.

In Montenegro there is no specialised bank for crediting agricultural activities. The government uses indirect ways for motivating banks with the aim of crediting agricultural production (beneficial interest rates, advance interest payment etc.). In 2004 an agreement was signed with six Montenegro banks, thus ensuring 13.2 million Euros for supporting financially the “Programme for legalisation of existing and opening new positions”, which encourages entrepreneurship, employment, tourism and agriculture. The projects from the agricultural sector implied the development of livestock breeding, plant production, fisheries, poultry, and agricultural industry (five crediting lines), and their value amounted to 3.5 million Euro. Maximum credits amounted to 100,000 Euro with a 24 month grace period, repayment period to 4 years, and a 3-7% annual interest rate.

In February 2006 the project “Programme for encouraging entrepreneurship” was initiated, with the aim of uniting financial support via the banking sector in association with the Employment Bureau, the Office for the development of small-scale and medium scale enterprises and the Development Fund. Depending on the credit amount, the conditions of crediting were: 3-7% interest rate, 3-7 years repayment deadline and 12-24-month grace period. The Programme was intended for crediting projects in the field of agriculture, with the aim of creating commodity producers in primary agricultural production with enterprises that relate to agricultural industry.

Agricultural producers in Montenegro usually turn to institutions allowing micro-credits because the crediting procedure is much simpler and easier (though the interest rates are far higher). Three micro-crediting programmes were initiated, thanks to donations aimed to offer support to small- and medium scale enterprises and the rural population. More than 30,000 credits were thus issued. The German organization “Help” supports those in need by offering interest-free credits and 15% repayment of the total credit. Until now a couple of micro-credits were available in the field of agricultural production. The programme supports persons with sound business ideas to start up or resume economic activities that are suitable to provide them with a regular income. These may be small repair work shops (for all kind of craftsmen’s trades such as metal work, carpentry, electricians and the like), fishing, tailor workshops, mini farms, production of cheese,

drying of herbs, small bakeries, packaging and the like. A total of 200 beneficiaries, including refugees, internally displaced persons and socially vulnerable people in the local population will benefit from this project.

6.2. AGRICULTURAL EDUCATION, EXTENSION AND INFORMATION SYSTEMS

Montenegro has a relatively weak institutional set up in the field of agricultural education, extension and information system. However, after the years of resignation some positive development in the institutional building, especially in the livestock breeding and plant pro extension were done. The main institution is Biotechnical Institute, which has developed the research as well extension and education functions. There is also relatively broad network of regionally located high schools. Specialised information system institutions do not exist.

Biotechnical Institute: The Biotechnical Institute is a scientific institution conducting research in the area of agriculture. Since year 2005 the institute launched a study program for Agriculture in two departments: plant and livestock production. Researches are being conducted in areas of land, fruit growing, vineyard, crop production, plant protection, livestock production, veterinary, forestry, fresh water fisheries, bee-keeping, agricultural economics and environmental protection. The activities of the development sector relate to breeding-selection in livestock production, as well as the inventory and prognosis of diseases and pests, quality control of agro-food products (plant origin), control of the quality and fertility of land, projecting and engineering, marketing and economics of agricultural production. The institute currently employs over 50 staff members (PHD and MSc).

Cattle Breeding Service is a unique service for the whole territory of Montenegro, which was founded in the Biotechnical Institute. It comprises 6 regional centres covering all municipalities in the Republic. Field centres are unified and their activities are coordinated from the Republic centre. Staff member include nine expert associates - engineers of livestock production and six control assistants with high-school degree.

Cattle Breeding Service (CBS) performs a number of activities in order to monitor the cattle-breeding sector. Labeling the animals is one of the activities performed for creating a database for all the animals. Other activities are birth control for ensuring the new animals health, dairy control to prevent production and distribution to the markets of dairy products that may be of low quality or even hazardous for public health. CBS also applies a Program of artificial insemination of cows (seed selection and control of the implementation). Some other activities are selection of bulls for propagation; selection of quality heifers for breeding, exposition of heifers, realization of the projects and incentive measures financed form Agriculture budget (development premiums, fattening of calves, program young farmers and so on.), and also provision of expert advices and directions to farmers.

The Dairy laboratory, situated within the Biotechnical Institute, aims at improving the quality of milk products in Montenegro. The new laboratory has a corresponding capacity for milk and product analysis for current needs of producers and processors in Montenegro. Seven staff members are employed (4 PhD, 3 technicians).

High-school Education: High school education on agriculture, food processing and veterinary can be gained in six schools. Only one of them is vocational (the High-School in Bar), while most of them are mixed schools.

Table 17: Outline of the Agricultural High schools in Montenegro

School	Vocational level IV	Vocational level III
Mixed high school Andrijevica	Agricultural technician	Agricultural producer
	Fruit-vineyard technician	Agricultural tractor driver
	Crop and vegetable technician	Butcher
	Livestock technician	Baker
	Food processing technician	Milk producer
	Veterinary technician	Tobacco producer
Agricultural high school Bar	Agricultural technician	Agricultural producer
	Fruit-vineyard technician	Agricultural tractor driver
	Livestock technician	Baker
	Food processing technician	
	Veterinary technician	
High school »Vukadin Vukadinović« Berane	Agricultural technician	Agricultural producer
	Veterinary technician	
Chemical-technological high school »Spasoje Raspopović« Podgorica		Milk producer*
Mixed high school Šavnik	Livestock technician	
Mixed high school »25 maj« Tuzi	Agricultural technician	Agricultural producer

Sources: *own compilation, * Milk producer is a new educational program that started this school year*

Based on a significant number of mixed vocational schools with different educational programs, the Government of Montenegro aims at developing training centres, because of the considerable investments in school equipment. It is recommended that those centres are regionally organized, and that trainings are provided for specific economic areas (agriculture, tourism, forestry, wood processing). Up to now, training centres have been formed in Berane, Herceg Novi and Podgorica. Through the project "VET" (a project supporting high school education and training), workshops for dairy and bakery production are planned. There are no open jobs on labour market of agriculture, or knowledge gained in high school is not properly adapted to market demands. Number of students in specialized high schools, especially agricultural sciences is in decline. Reform of high school education is in progress and new programs are developing, and the old ones are being reformed.

Extension Services: An Extension Service in support of crop production started working in 2003. Services are provided throughout the whole territory of Montenegro and are organized through five centres located at: Bar, Bijelo Polje, Berane, Niksic and Podgroica. The Extension Service is financed by the Ministry of Agriculture, Forestry and Water management of the Republic of Montenegro. The Extension Service employs 2 MSc, 13 agricultural engineers and one technician. The objective of the service, defined by the MoA, is to provide support for the improvement of plant production in yield and quality of products. To achieve this, the service provides technical expert advice, recommendations and directions to farmers at farm level. In addition, round tables with different kinds of plant production topics are organised. Given the limited size and capacity of the service, the actual range of services and farmer contact is currently very limited.

6.3. INPUT INDUSTRY

In former Yugoslav times Agro-Kombinats had a significant role in supplying the farms with agricultural inputs and purchasing their products. The privatisation of these enterprises and the termination of State support in purchasing agricultural inputs, affected severely the input supply system. The agricultural sector of Montenegro is heavily dependent upon imports of fertilisers, seeds and seedlings, agricultural machinery, fuels and other inputs supplies. The large number of small and fragmented farms causes insufficient demand for investments to the inputs industry. Small farm size raises the cost of inputs and therefore farmers use their own production for sowing or limited and low quality inputs. As a result, total production is small and of low quality.

The input industry is weakly developed. Animal feed production is the only sector, which is listed as an organised branch, covering two major producers. During the last years, this sector was characterized by growth in production. While production of concentrated animal feed is mainly based on imported raw material, the significance of this sector in stimulating intensive livestock production is huge. One of the subjects in this sector has been the vertical integration of breeding of parent stock for the production of feed chickens, which involves modernized concepts of the agro-food chain.

Agricultural households in Montenegro appear to be poorly equipped with mechanization. In recent surveys it was estimated that only about 45% of the holdings possessed on-farm processing equipment such as milking machines, lacto-freezers, brandy production equipment, equipment used in apiculture, irrigation systems, pumps, mills for grainy products, vine production equipment etc. but only few of them owned more that one device. Generally speaking, 58,6% of holdings used tractors in agricultural production, in comparison with Slovenia, where 88% of holdings use it (This number included moto-cultivators with ploughs as well, so that the real participation of tractors was even lower).

Judging by the regions, most fertilizer was used in the Coastal and Polimlje-Ibar regions (around 2 500 kg), while plant protection chemicals and pesticides were mostly used in the coastal region (even up to 180 kg/holding). This can be associated with intensive vegetable and fruit growing and production. In the other regions, use of the chemicals and pesticides is far less present (10 to 20 kg) although the very data on the quantity of the pesticides and chemicals used do not mean much if the sorts of the pesticides and chemicals used are not known.

7. AGRICULTURAL AND FOOD POLICY

7.1 INSTITUTIONAL FRAMEWORK AND POLICY CONCEPTS

The Ministry of Agriculture, Forestry and Water management, as a governmental body of the Republic of Montenegro, which was gradually restructured since 2003, is responsible for proposing and implementing policies for the agriculture sector. The Ministry proposes to the Government the allocation of subsidies and other incentives (Agro-budget) in the total budget of the Republic, as well as a series of other documents, acts and regulations, necessary for the harmonized functioning of agriculture in Montenegro. The Ministry takes care of the implementation of health control of animals, follows market conditions and price trends of the basic agro-food products, and enforces legal matters related to this area, as well as inspection control in agriculture.

The Ministry is divided into three sectors: (i) Agriculture, (ii) Forestry and Hunting, and (iii) Water management , as well as a separate Department to follow up incentive measures, prices and market interventions and a Unit for normative legislation matters in the field of Veterinary services and a general Unit for general administrative affairs.

The Agriculture Sector deals with the following issues: current and developmental policy, normative activities, administrative surveillance and law implementation and other regulations in area of agriculture and agro-industry through two departments: Department for agriculture and Department for Inspection Surveillance.

Agricultural policy in the past was closely related to the general political concept and a defined role of agriculture therein. Before the 1990's, the emphasis on the state policy was the "social" sector, were the main objectives were to provide stable prices for the consumers and high prices for farmers through the administrative setup of prices and market protection. In political turbulences the government was still in control of many sectors through price policy and control of imports. Budgetary support for the realization of the developmental objectives stated above has been significantly changed over the last decade. Support is no longer directed to "social" sector (were prices were setup by the administration and the markets were protected), but to family holdings. The regional scope of measures has been significantly extended and the number of support measures and number of beneficiaries has been significantly increased.

In period 1999-2000, an ambitious reform programme was embarked upon and greater liberalization of the market was introduced. Since July 2001, all agri-food prices were freed from price controls. However, this change was not complemented by other measures to help farmers adjust to the more liberal market conditions and certain negative effects were experienced in the sectors, like, for example, in milk production.

After 1991 agricultural policy, according to MAFWE's 2006 report, was significantly oriented towards production. Besides incentives in food production, growth of total agricultural output and quality improvements of the products; programs of budget support were provided, aiming at increasing income of farmers and stimulating rural population for agricultural production. Major components of agricultural policy targeted the recovery of specific sectors (e.g. production of early vegetables, Mediterranean fruits etc.), whose volume, compared to previous period, significantly declined due to economic sanctions and loss of markets. In addition, building of basic

market infrastructure and establishing stronger connections between primary productions and processing, had an important role in measures realized through budget support.

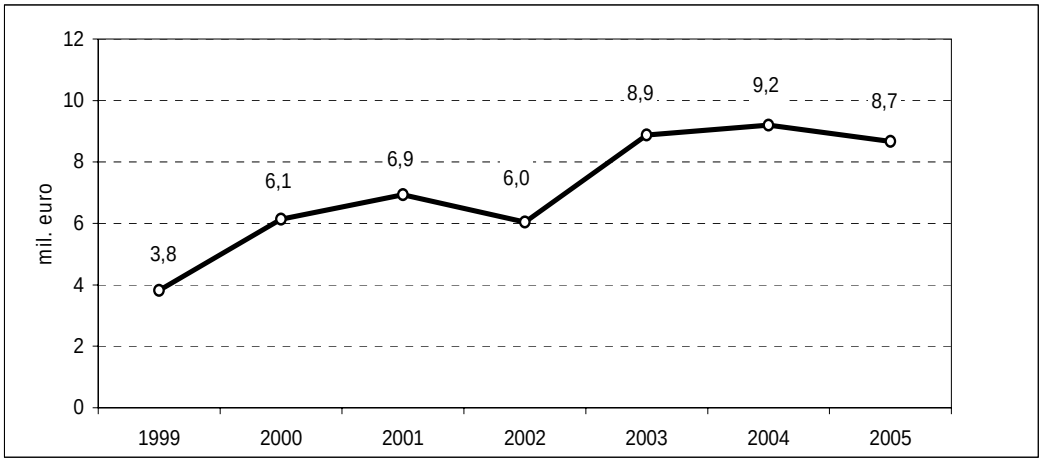
For the last few years, it is possible to determine five main objectives of agriculture development in Montenegro namely: (i) Ensure the food security, including the needs of the domestic population and increasing demand in tourism; (ii) Increase competitiveness of agro-food producers in the domestic and foreign markets; (iii) Provide support to exports of specific products of Montenegro (early vegetables, wine, lamb and kid meat, Njegusi smoked ham, cheese, fish, honey, medicinal herbs, forest fruit and other final products of the processing industry); and (iv) To achieve balanced regional development of Montenegro and establish better conditions for life in rural areas and finally join the regional, European and international integration processes.

Montenegro has not yet established regional institutions in order to promote Regional Development. The Government of Montenegro will have to create such in administration structure in the process of adopting EU procedures.

7.2 BUDGETARY RESOURCES FOR AGRICULTURE

The most important governmental support for agricultural development was realised through agriculture budget. The Agro-budget comprises a set of incentive measures in the form of direct payments deriving from the total budget of Montenegro and envisaged for agricultural development. The Agro-budget incorporates budget lines (programs), so that all necessary elements (aims, agencies for implementation, timelines, results, cost structure, description) are elaborated in detail. The Agro-budget (1.8% of total Budget as projected at 462.8 mil Euro in 2005) is implemented at the Government level, and published in the Official Gazette of the Republic of Montenegro. Agro-budget amounts a very small percentage of total GDP (1.642 billion euro in 2005).

Figure 5: Agro-budget in real terms, (1999-2005)



***Source**: Ministry of Agriculture, Forestry and Water management: Questionnaire on Subjects in Agriculture/food processing industry, 2003.*

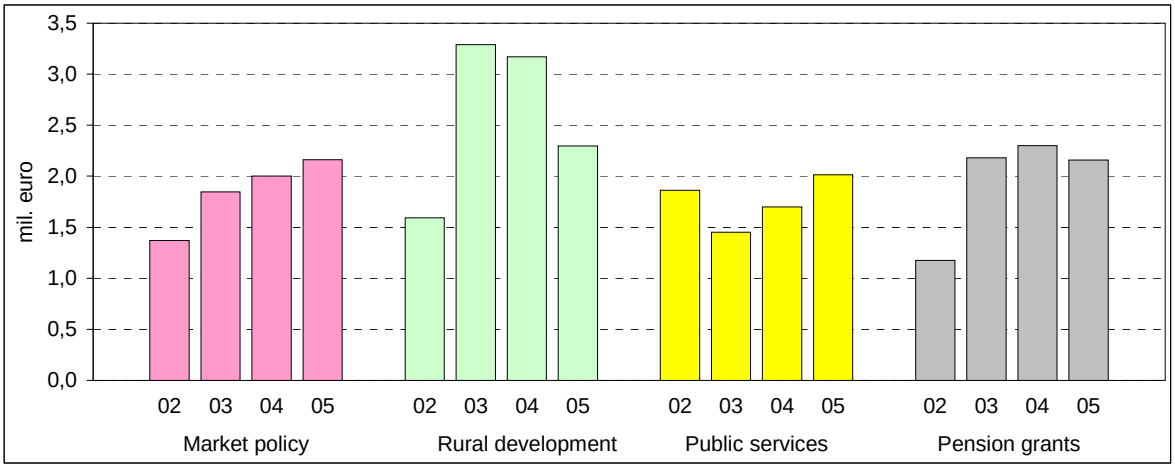
Table 18: Agricultural budget structure analysis, (2004)

	2004		
Sector	**Number of programs**	**Total (000 €)**	**Share (%)**
Livestock	10	1,520	16.5
Veterinary	13	914	9.9
Bee-keeping	4	57	0.6
Fisheries	6	97	1.1
Crop production	15	855	9.3
Total by sectors	**48**	**3,443**	**37.4**
Programs of general significance (without old-age grants)	14	3,457	37.6
Old-age grants for farmers	1	2,300	25.0
Total programs of general significance	**15**	**5,757**	**62.6**
Total	**63**	**9,200**	**100.0**

***Source**: Ministry of Agriculture, Forestry and Water Management*

A budget review by years indicates changes in extent and structure of the budget and the purpose of the incentive measures. In previous years these measures were meant for direct payments (milk subsidies, premiums for plant and livestock production, etc.); and in the last few years the number of programs that stimulate agriculture as a whole, has enlarged. For budget analysis, only planned (and not realised) budget lines are used. At that time many constraints such as administrative difficulties; poor situation of the economy prevented the Government from applying budget expenses as planned. However, as in the last few years the budget lines were very precisely defined, there was little deviation in realizations of predicted measures. Total agro-budget was conditioned with numerous factors like initiation of new programs, level of international support, changing currency from Dinar to German Mark, and later on Euro as an official means of payment in Montenegro.

Figure 6: Agro-budget by basic groups of measures, (2002-2004)



***Source**: Ministry of Agriculture, Forestry and Water management*

The budget shows in real terms growing tendencies at an annual level in the last seven years. However, the growth was not stable (see figure 5). A decline in budget support in real terms took place 2002 and 2005 compared to previous years, which led to some difficulties during the realization of individual programs. Besides the growing tendencies over the last few years, its

share in the total budget of Montenegro has significantly reduced. Real growth of total budget in 2001 was considerably larger compared to growth of agro-budget. In 2005, share of agro-budget in total budget accounted for 1.8% while in the period 1999-2001 it was about 3%.

Table 19: Agro-budget by groups of measures, (2002-2005)

Measure	2002		2003		2004		2005	
	000 €	%	000 €	%	000 €	%	000 €	%
Market policy measures	1,369	22.7	1,847	21.0	2,001	21.8	2,162	24.9
Rural development	1,594	26.4	3,289	37.4	3,171	34.5	2,298	26.5
Public services	1,863	30.9	1,450	16.5	1,701	18.5	2,014	23.2
Special pensions grants for farmers	1,176	19.5	2,180	24.8	2,300	25.0	2,160	24.9
Reserves	32	0.5	27	0.3	27	0.3	34	0.4
Total	**6,033**	**100.0**	**8,793**	**100.0**	**9,200**	**100.0**	**8,668**	**100.0**

***Source**: Ministry of Agriculture, Forestry and Water management*

The Agro-budget structure by sectors has significantly changed in recent years. Share of the programs of general importance increased from year to year on the account of other sectors. Significant changes in budget structures occurred in 2002, when some of the measures ended: milk premiums, some input subsidies in crop production, investments in the building of Distributive centre for fruits and vegetables, etc. On the other hand, new budget lines were introduced, like old-age grants for farmers and young farmers insurance.

Since 2002, changes in the agro-budget structures were mainly influenced by old-age grants for farmers. In the 2004 budget, for example, these grants accounted for 25 % percent of the total budget (see table 19). The largest share amongst the programs had been the program of improvement of market position of Montenegrin agriculture products with 19.6%. Other programs had a considerably smaller share.

Agro-budget structure for period 2002-2004, for which total budget support was classified according to groups, indicates that only measures of market policy were stable, while other groups of measures varied from year to year. Variations of these basic budget groups reflect that a considerable amount of measures is not sustainable yet.

Measures of market policy averaged about 23% of total agro-budget, ranging from 21% in 2003 and reaching the peak level of 25% in 2005. Share of measures of rural development is a little above and varies more, averaging about one third of total budget (32%). General services in total agro budget account for one fifth, and fluctuated the most in the respective period. Special pensions program, which is basically a social transfer, accounted for quarter of total budget, which shows the social dimension in the agro-budget, and to some extent decreases in its role for development.

7.3 AGRICULTURAL AND FOOD POLICIES

Market-price policy measures are shown for individual sectors in the table below (see table 20). It is evident that the largest share of these measures is for livestock production. As far as the livestock production is concerned the largest share was allocated for beef premiums in areas with climate or soil disparities (in terms of Gross Domestic Product)[3] areas (EUR 50 or 60 per head,

[3] **Less Favoured Areas:** Full implementation of the EU model requires the development of a classification system that would enable determination of what area belongs to the less favoured ones. The implementation of this model

only for herds above minimum level of five heads) and sheep premiums (EUR 7 per head, with a minimum of 40 heads per herd), followed by programs of artificial insemination of cows. In plant production, the largest share of support was for tobacco production, seed potato production and a program for olive production development.

Table 20: Outline of the Market Policy Measures by Sectors, (2002-2005)

	2002		2003		2004		2005	
Sector	**000 €**	**%**	**000 €**	**%**	**000 €**	**%**	**000 €**	**%**
Livestock	961	70	1,190	64	1,258	63	1,351	62
Veterinary	0		0		0		0	
Bee-keeping	40	3	20	1	43	2	43	2
Fisheries	0		0		0		0	
Plant production	327	24	377	20	425	21	354	16
Programs of general significance	41	3	260	14	275	14	395	18
Total	**1,369**	**100**	**1,847**	**100**	**2,001**	**100**	**2,163**	**100**

***Source**: Ministry of Agriculture, Forestry and Water management*

Programs of general significance are programs related to the realization of international support (common implementation) and participation in grants for damages in agriculture. It should be emphasised that only support for tobacco production is a classical support for product through price aids. All other programs contain rural development policy elements, like support for less favoured areas (beef premiums), maintenance of extensive production (sheep premiums) or support for investments (program of olive production development).

In the last few years, market policy measures in form of direct payments per head or per hectare had the biggest share in the budget. These measures record the strongest improvement in period between 2002 and 2005. The most of the increment went for premiums in cattle and sheep production. The second largest group according to volume of budget lines was aimed at cost reductions (input subsidies). Budget for price aids increased moderately under the support for tobacco production. Support per product unit (kg of dried tobacco) was the same during the period under review, while the total production increased continuously.

According the Law on PDV, Montenegro established taxation rate amounting 17% (base), as well as lower taxation rate amounting 7%, related to: animal feed, pesticides, fertilizers, seed and planting material and breeding cattle.

According to Law on excise tax, excise tax on cigarettes are determined - domestic and foreign (based on quality, and not origin), as well as excise tax on alcohol and alcohol beverages: beer, wine, other fermented beverages, medium alcoholics beverages and ethyl alcohols. The excise tax for cigarettes consists of two parts: specific excise tax in amount for 1000 pieces and proportional excise tax as % of the retail price of cigarette. Specific excise tax for cigarette is 1.00 € for 1000 pieces, proportional excise tax for cigarettes is 26% by their retail price. The excises for alcoholic beverages are 1.90 € per volume contents of alcohol on hl of beer; "0" (zero) to 35 € per hl of vine; 70 € per hl medium alcoholics and 550 € per hl (ethyl alcohol).

should start after the implementation of the Rural Development Strategy. In general, according to EU standards, these regions are characterized by high unemployment rates, low investment levels, poor quality of basic infrastructure (such as roads) and lack of services for businesses and individuals.

Taxes on cigarettes and alcohol are imposed to all consumers. Lack of data constrains the effort to estimate the impact of these taxes in the agricultural production of these products. Additionally, tax exemptions (like diesel fuel for tractors), which are meant to relief farmers, also do not affect all of the rural population since about 60% of the agricultural household own machinery and are mostly labour intense. There is no information available if there is any other specific type of taxation in agriculture.

7.4 FOOD SAFETY

Currently the system of food control appears to be under-developed and inefficient and not structured according to basic European Union concepts. Multiple institutions under the authority of three Ministries are involved in food inspection activities, which cause unclear division of responsibilities and control. As a result, the level of food safety and quality control on the Montenegro market is unsatisfactory. There are two main aspects regarding the food control and quality system. The first concerns the system of food safety and quality control and standardization, while the second involves the upgraded surveillance systems for high quality food products. Both aspects finally influence the ability of the agro-food industry to compete on domestic and international markets.

The system of food control activities in Montenegro is split among the three Ministries with additional subdivisions. The Ministry of Agriculture, Forestry and Water Management has authorities over Veterinary and Phytosanitary control through existing inspection services, supported by the Biotechnical institute and the main veterinarian laboratory. The same institute carries out also analysis of raw milk (composition) used to define the price paid by dairies to farmers. Food control activities under the authority of Ministry of Health are performed within the sanitary control department and subordinated Institute for public health and Local health services.

The Ministry of economy has food control activities under the Market inspectorate which monitor foodstuff already distributed on the market (labeling, packaging, date of expiry). The Market inspectorate is responsible for a wide range of goods at a retail level to regulate consumer protection, metrology and other When talking about control of imported foods in year 2000 the Regulation of common, sanitary, veterinary and Phytosanitary control in foreign trade was issued. Its intention was to simplify border control of food; however in reality still all inspectorates are responsible and coordination is not yet at a satisfactory level to meet international standards.

Involvement of several institutions under the authority of three Ministries in food inspection activity in Montenegro certainly results in overlapping and duplication of work and in some instances even in omission of control due to unclear division of responsibilities. Furthermore, potentials for inconsistency in the application of food control standards among the different inspectorates could cause unsatisfactory quality and safety level of food on the Montenegro market.

The regulations, which are enacted at the Republic level, are applied as well as previous Federal regulations. When the authority had changed from the Federal to the Republic level, during the period of 1998 -2000, Montenegro took over the complete control of foodstuffs in regard to the export / import foreign trade and food control.

Since Constitutional Chart has been set, all legal regulations as well as application of all regulations in the food safety area are in charge of the Government of Montenegro. The Standardization Law, the Law on Technical requirements for products and assessment of product compliance with the prescribed requirements. A great number of laws were applied in the food safety area, Codes of practice, Regulations, Directives, Guidelines and other regulations and general acts, which are set at republic and federal level. The existing legislative framework of the food safety system represents a legal inheritance from the previous periods, when regulations were based on traditional approach, which lacked preventive measures and responsibilities of producer. The surveillance and responsibilities focused on inspection services and to final product.

Having in mind the current situation, there is no sufficient coordination and communication between various state institutions in Montenegro, scientific institutions, non-government organisations and other services in the area of the food safety "from farm- to table" system.

There is also a lack of prescribed procedures for «Good agriculture practice» – GAP; Good hygienic practice» - GHP; « Good manufacture practice» - GMP, «Standard sanitary operative procedures» SSOP; «Hazard analyses critical control point» - HACCP; for all kind of productions as well as risk assessment system and risk management, are slowing down the effects of surveillance food safety system.

Montenegro system in the area of food control has no clear structure as proposed in the legislation of the European Union; however there have been initiated harmonisation activities. According to the Agenda of the Government of Montenegro Ministry of Agriculture, Forestry and Water Management and Ministry of Health are responsible for preparing the law on food until end of year 2006. Currently food control regulations are still incomplete and inconsistent, inspection procedures are insufficiently coordinated and infrastructure is inadequate and inspections are largely under equipped. Existing laboratories in the area of food control (MoH) are not accredited; however system of accreditation is at an early stage. Some laboratories (Veterinary lab at the Biotechnical institute) are involved in incorporating quality assurance systems into their procedures and they are actively involved in international networks of laboratories to continuously check the accuracy of their work.

8. AGRICULTURAL TRADE AND TRADE POLICY

8.1 TRADE POLICY

Already as part of the Federal Republic of Yugoslavia (FRY) in 1997, started pursuing an independent path of political and economic reform, with a view to achieving economic autonomy from FRY. In 2000, the Republic of Montenegro introduced its own customs tariffs, which were different from those of FRY, and started collecting customs revenue at its border crossings. The Montenegrin Decree on Customs Tariffs enacted in 2000 drastically lowered the previously existing customs duties.

In 2001 the Stability Pact agreement led to the Memorandum of Understanding for trade liberalization between the SEEC's. Bilateral free trade agreements Free Trade Agreements (FTAs) were signed, together with Serbia as part of FRY, in 2003 with the following states: Macedonia, Bosnia and Herzegovina, Albania, Croatia, Romania, Bulgaria and Moldavia. The FTAs cover a significant part of exports and imports of Montenegro. The Agreement represents a first phase on the road to the overall participation of South-East Europe region (Western Balkans), in the EU integration processes.

In parallel, throughout 2000, the Montenegro government introduced a number of decrees and regulations aimed at enforcing its control of foreign trade. In particular, it formally took over the responsibilities for foreign trade policy that, according to the FRY Constitution, are held by the federal government. FRY, at that time the Union of Serbia and Montenegro has thus to negotiate its Accession to the WTO. A Working Party has been established to this end in February 2001 and a Memorandum on the Foreign Trade Regime has been submitted in June 2002.

Therefore, in early 2002, FRY submitted to the WTO the Memorandum on its Foreign Trade Regime. The memorandum hardly takes account of the separate trade and customs regime of Montenegro. On the other hand, the Montenegro government seems to be interested in participating in the trade benefits of FRY's WTO accession and in closer EU integration, without abandoning its objective of achieving economic autonomy. Therefore, the Republic of Montenegro was formally represented in the FRY Commission on WTO accession at Ministerial level. Meanwhile, the Parliament of the Republic of Montenegro also decided to establish a Commission on WTO accession. In January 2002, the Republic of Montenegro adopted a new Customs Law, which had been elaborated with assistance from USAID.

In December 2004 Serbia and Montenegro notified the WTO of a new constitutional agreement by which they agree to maintain separate customs and trade regimes and decided to apply individually for accession to the WTO. In February 2005 the General Council of WTO decided to establish two separate Working Parties on accession.

The Government has taken note of the observations of the SAA feasibility study on the state of play of legal harmonization with the EU Acquis and institutional development in the key areas of internal market and trade legislation as well as future compliance with WTO rules. The Government Action Plan for the Implementation of the European Partnership Recommendations as well as its Work Plan for 2005/2006 includes the firm commitment to advance harmonization and create the capacity for enforcement of trade legislation, competition policy and state aid,

intellectual property rights as well as consumer protection. Montenegro has introduced a compulsory review of any draft legislation as regards consistency with the EU Acquis. In this regard, a new law on Foreign Trade along with the implementing regulations has been adopted.

Furthermore, customs systems and procedures have been improved. A set of implementing laws on protection of intellectual property rights has been enacted, based on previous legislation adopted at the level of the state union. Significant progress has been made in preparing for negotiations on WTO accession. The first working party has already taken place at the beginning of October 2005. In February 2005, Montenegro submitted the Memorandum on Independent Association with the WTO. In October 2005 negotiations started, which should, according to optimistic prognoses, be closed by the end of 2006. Bilateral negotiations with WTO members on trade in goods and services have also been initiated.

An EU and WTO compliant Law on Foreign Trade has been adopted in 2005 along with implementing regulations. These provide the legal framework for trade defense instruments or trade remedies such as safeguards, anti-dumping measures and countervailing duties. Trade remedies cases can be initiated ex officio or following a formal complaint from the private sector, in conformity with WTO rules. Investigations shall be conducted by Ministry of International Economic Relations and European Integration (MIEREI) and decisions to use trade remedies shall be taken by the government. Presently, the capacity of the private sector to undertake the research required to lodge a duly substantiated complaint against dumping with the responsible Ministry is seen as limited. The administration's capacity to use these *Trade* instruments requires considerable strengthening. Considering the size of the Montenegrin economy and the cost of investigations regarding antidumping and subsidy cases, there is consensus that emphasis should be on safeguards, which require less resources and information than the other two instruments.

With WTO accession and the SAA agreements, the Republic of Montenegro will enter global market as an equal partner in a competitive environment. This in turn requires policy change and strengthening of the capacity in policy analysis and formulation. More attention will need to be given to defining a framework for rural development and move sector support to "green box measures". Trade in products of animal and plant origin requires Montenegro to meet the legal and institutional requirements of the Agreement on Sanitary and Phytosanitary Measures. In order to benefit from access to the EU market it moreover needs to accelerate the harmonization of its veterinary, phytosanitary and food hygiene legislation to a the Aquis and strengthen its capacity of inspection and control. This is critical as third country trading partners will need to provide assurances of having equivalent legislation and systems in place.

Taking into account the size of the sector and a quite liberal policy in agriculture, Montenegro should not face any serious difficulties in the course of negotiations on WTO membership. However, particular care must be taken to distinguish between a success by pace of association and the time that passed from the day of submitting the Memorandum until the day of gaining full membership in WTO. The WTO membership is important for Montenegro, but of at least equal importance is to ensure the minimum of safeguard trade instruments for protecting its own agriculture, particularly when compared to possible oscillations in the market towards the countries in the region.

8.2 AGRICULTURAL TRADE

Montenegro is a net importer of food products. The high dependence on food imports is shown in the share of agricultural products in total import, which exceeds two times their share in export. Agro-commodity trade is in continuous growth. Increment of export and import causes deficit to grow, too.

Regarding agricultural trade the specific situation of Montenegro has to be considered. Taking 2004 as the first representative year regarding availability of complete data on the commodity trade of Montenegro with other countries (including Serbia), the total exchange of agro-food products (groups 01 to 24 of combined nomenclature of custom tariffs) was € 259.5 million, with a deficit of € 14.5 million. This deficit was evident in all product groups except tobacco (tariff 24). Import-export coverage of aggregate was at the level of 28%.

Table 21: Share of Agro-food trade in total trade, (2004)

	Montenegro
Agro-food export/ total export	12.5
Agro-food import/ total import	23.3
Agro-food balance/ total balance	35.0

Source: *Custom service of the Republic of Montenegro, processed by the Ministry of Agriculture, Forestry and Water management of the Republic of Montenegro*

The breakdown of the total import structure is valued at EUR 203 million in 2004 (see table 22), major tariff groups being group 22 - Beverages (15.2%), 04 - Milk (9.6%), 02 - Meat (9.5%), 16 - Processed meat (6.4%) and group 19 – Preparation of cereals (7.3%). Among main agro-food products the most significant share have group 20 - Preserved fruit and vegetables (5.8%), 17 - Sugar and products (5.4%) and group 15 - Fats and oils (5.2%). These eight groups of products account for 65% of the overall import.

Import of individual products according to groups represents best the needs of Montenegrin processing sector and preferences of domestic consumers. Within group 22 - Beverages, import of mineral and aerated water is prevailing (EUR 20.9 million). The most important importing products in-group 04 - Milk, were fresh milk (EUR 7.9 million), cheese (EUR 5.6 million), yoghurt (EUR 2.2 million) and milk powder (EUR 1.1 million). In group 02 - Meat, the major importing product was pig meat (EUR 13.9 million), followed by poultry (EUR 2.5 million) and beef meat (EUR 1.8 million). Most of the imported products in group 20 - Preserved fruit and vegetables, were juices (EUR 6.8 million).

The Export value of agro-food trade in 2004 amounted to EUR 57 million. Almost 3/4 of this value goes to two groups of products - Beverages (39.2%) and Tobacco (33.8%). Amongst beverages, the most important exporting products are wine (EUR 11.4 million) and beer (EUR 8.4 million). Other relevant exporting products are ice-cream (EUR 3.8 million) from group 21 (Miscellaneous food products); mushroom (EUR 1.6 million) from group 07 (Vegetables); smoked meat products (EUR 1.3 million) from group 02 (Meat); chewing gums and toffees (EUR 1.3 million) from group 17 (Sugar); and grape, peaches, tangerines and bilberries (EUR 0.9 million) from group 08 (Fruits).

Table 22: total value of Exports and Imports, (2004-2005)

(value in million EUR)	2004				2005			
	Exports	Imports	Balance (€)	Imp-Exp Coverage (%)	Exports	Imports	Balance (€)	Imp-Exp Coverage (%)
Total	**56.5**	**203.0**	**-146.5**	**27.8**	**45.3**	**195.4**	**-150.1**	**23.1**
Live animals	0.1	1.9	-1.8	5.3	0.0	3.0	-3.0	0
Edible meat	1.7	19.2	-17.5	8.9	1.6	24.5	-22.9	6.53
Fish	0.6	2.1	-1.5	28.5	0.4	2.6	-2.2	15.3
Dairy	0.1	19.5	-19.4	0.5	0.1	20.6	-20.5	0.5
Other animal products	0.0	0.3	-0..3	0	0.0	0.2	-0.2	0
Trees & Plants	0.0	0.6	-0.6	0	0.0	0.8	-0.8	0
Edible Vegetables	1.7	2.1	-0.4	80.9	2.4	2.0	0.4	120
Fruits & Nuts	1.3	4.2	-2.9	30.9	1.2	5.8	-4.6	20.6
Coffee, Tea	0.2	11.8	-11.6	1.7	0.2	11.6	-11.4	1.7
Cereals	0.6	9.8	-9.2	6.1	1.7	4.7	-3.0	36.1
Milling Products	0.3	9.1	-8.8	3.3	0.1	10.5	-10.4	0.9
Seeds & Fodder	0.3	0.9	-0.6	33.3	0.3	1.0	-0.7	10
Vegetable Glues & Gums	0.0	0.0	0	0	0.0	0.0	0	0
Other vegetable product	0.0	0.0	0	0	0.0	0.0	0	0
Fats & Oils	0.2	10.4	-10.2	1.9	0.2	11.2	-11	1.8
Prepared Meats & Fish	0.5	13.0	-12.5	3.8	0.2	7.6	-7.4	2.6
Sugars	1.5	10.9	-10.4	13.8	1.9	11.4	-9.5	16.6
Chocolate	0.2	7.2	-7	2.8	0.1	7.6	-7.5	1.3
Pastries & Milk Preparation	1.1	14.7	-13.6	7.5	1.4	13.1	-11.7	10.7
Vegetable & Fruit Preparations	0.2	11.7	-11.5	1.7	0.1	7.3	-7.2	1.4
Other prepared foods	4.1	11.1	-7	13.2	4.2	10.7	-6.5	39.3
Beverages, Spirits & Vinegar	22.2	30.9	-8.7	71.8	22.9	29.8	-6.9	76.8
Wastes from Food Industry	0.6	4.0	-3.4	15	0.1	4.9	-4.8	2
Tobacco	19.1	7.2	11.9	265.2	8.8	4.3	4.5	204.6

Sources: *Central Bank of Montenegro, Ministry of Agriculture * Percentage of imports covered by exports (%)*

A positive balance in foreign trade of agro-food products in Montenegro is only with tobacco (+ EUR 11.9 million), export amounting three times the import. Above average is the import-export balance of vegetables (83.2%), beverages (71.9%), various food products (36.4%), fruits (31.4%) and fish (28.5%). With other groups of products export-import balance is much lower and with most of the groups it does not surpass 10%. Milk group has the lowest balance (0.2%) and the largest deficit was created (-19.5 million EUR) within this group.

Table 23: Export-import of Agro-food Products according to Destinations, (2004)

Country	Export		Import		Import-export
	Value (€)	(%)	Value (€)	(%)	coverage (%)
EU-25	1,349,121	2.4	59,721,712	29.5	2.3
Albania	841,625	1.5	240,112	0.1	350.5
B I H	3,829,822	6.8	4,595,446	2.3	83.3
Bulgaria	6,855	0.0	275,730	0.1	2.5
Croatia	425,293	0.8	5,715,854	2.8	7.4
Macedonia	223,306	0.4	2,345,658	1.2	9.5
Rumunia	30	0.0	190,630	0.1	0.0
Serbia	49,354,529	87.3	114,959,780	56.6	42.9
Russia	72,466	0.1	no data	-	-
Other countries	421,565	0.7	14,963,490	7.4	2.8
Total	**56,524,612**	**100.0**	**203,008,412**	**100.0**	**27.8**

Source: *Custom service of the Republic of Montenegro, processed by the Ministry of Agriculture, Forestry and Water management of the Republic of Montenegro*

As far as the exporting/importing destinations are concerned, Montenegro's most important market is Serbia - reaching 66.3% of the total foreign trade of agro-food products, with a share in total imports of 56.6%, and in total exports of 87.3% (see table 23). A relatively big share in export has Bosnia and Herzegovina (6.8%). In addition, other countries have an import share of 7.4%.

Positive trends with foreign markets occurred only in trade of agro-food products with Albania and Russia, due to the fact that the export volume with those countries was very low. Import/export coverage was relatively high in trade with Bosnia and Herzegovina (83%). The rate of export/import coverage with Serbia was 42.9%. General conclusion is that Montenegro is highly dependant on import with significant dispersion of imported product assortments. Relatively small number of exported products emphasizes the problem of competitiveness of domestic products, considering the quality, price competitiveness and potential quantities that may be distributed outside the Republic.

One major problem in producing a real balance in production and consumption of food is lack of quality data. Data on flow of commodities have been collected in 2004 for the first time, including Serbia – it has not been done before. According to these data, import of agricultural food products was € 203.0 million, exports € 56.5 million, which resulted in foreign trade deficit of € 146.4 million. Export-import ratio is still low (28%), although, when compared to the previous years, it has increased (in 2000 it was 8.3%, in 2002 12.9%). The following products have the greatest share in exports: beverages and alcohols (beer and wine make 39% of the total exports), tobacco and tobacco products (34% of the total exports), then ice-cream, mushrooms, etc. Imports mainly consist of: meat, milk and milk products, carbonated beverages, coffee, sugar, edible oil, beer, mineral water etc. An almost complete dependence on imports of major inputs (fertilizers and pesticides) as well as equipment and mechanization should be added to these items.

Until May 2006, the Republic of Montenegro was part of a loose state union with Serbia. The trade of the foodstuffs between Serbia and Montenegro was not subject to the foreign trade procedures and is treated as inner trade, according to previous regulations. As the data indicate, this union

significantly affected Montenegro's international trade. More than half of the countries imports and almost 90% of the exports were with Serbia. The independence most likely will affect significantly the international trade affairs of the country.

8.3 AGRICULTURAL TRADE WITH EU

The relationship between the EU and Montenegro in recent years have been influenced significantly by two elements and led to an accelerated increase in foreign trade. Montenegro agreed with EU-25 in abolishing[4] import duties on most products. At the same time and as part of the process of trade liberalization (WTO and SAA negotiations) Montenegro reduced it import duties and increased the access of EU goods to the domestic market.

More importantly Montenegro along with Serbia has benefited since 2000 from Autonomous Trade Measures (ATMs) granted by the European Community. These measures allow almost all imports originating in Serbia and Montenegro to enter the EU without quantitative restrictions and exempt from custom duties. The only exceptions are some beef and fish products, sugar and wine, to which tariff quotas apply.

Montenegro has been granted a generous regime of trade preferences by the EC. Under the Autonomous Trade Measures (ATM) the majority of Montenegro's products are on a unilateral free trade regime with the EU. However, the experience in the last three years shows that exports to the EU increased only marginally. Many reasons exist including the small number of export oriented industries. However there is also the difficulty of Montenegrin industry to produce and certify products according to EU and international quality and safety requirements. Beyond the comprehensive intervention in this area which has started strengthening the enterprise sector, the legal base and regulatory environment, additional activities need to be carried out in terms of further legal alignment, institutional reform, training and quality control infrastructure including that of products of animal and plant origin.

Trade with EU Countries amounted to 23.5% of total agro-commodity trade. EU members are important partners especially in import (29.4%), while their share in export is moderate (2.4%). The rate of export/import coverage with the EU countries it was only 2.3%. Almost half of the Montenegrin exports in 2004 went to the EU countries, the major export partners being Italy (28.7%) and Greece (10.8%). The EU accounted for 44% of Montenegrin imports, Italy (9.2%), Slovenia (8.4%), Greece (5.4%), Germany (5.3%), Austria (4.5%) having the biggest share. Total imports to EU (25) in 2004 from Montenegro 0.227 billion EUR and total exports from EU (25) to Montenegro 0.139 billion EUR.

[4] Counsil Regulation (EC) No 2007/2000 amended by Counsil Regulation (EC) No 2563/2000

9. RURAL DEVELOPMENT AND RURAL POLICY

9.1 MAIN CHARACTERISTICS OF RURAL AREAS

General demographic trends: Montenegro is a typical rural country. Less than 1% of the area can be determined as urban area[5]. These figures indicate that the largest part of the country's population lives in significantly rural areas, with the highest percentage of elderly people. The percentage of aged people (over 65 years) is slightly higher in Predominantly and Significantly Rural areas than in urban areas.

Table 24: Indicators for Rural Development, Environment and Quality of Life, (2003)

Issue	Predominantly rural	Significantly rural	Predominantly urban
RURAL DEVELOPMENT INDICATORS			
Population (as % of national population)*	27.6	49.8	22.6
Area (as % of national area)	51.09	48.02	0.89
Population (inhabitant per km^2)	30	58	130
Share (%) of older people (>65) to total population in each region	12.1	11.9	9.9
Importance of aged people (% people aged more than 65 years in total population)	35.25	62.61	2.14
Demographic Labour Pressure (Ratio population aged 5-14 to population aged 55-64)	1.66	1.50	1.46
Agricultural Employment (% labour force working in agriculture, hunting, forestry and fisheries in total employment)	51.95	47.85	0.20

***Source**: Biotechnical Institute compilation based on MONSTAT, * Calculations based on Municipalities data*

According to the data presented in the above table, in 2003 the share of population living in the countryside[6] according to national definitions, accounted for 77.4% of total population. Members of the households involved in migration were mostly involved in seasonal employment, civil engineering and provision of services. Migration to the EU Countries was most evident as well as within Montenegro, far less to Serbia and other countries of the region and to the USA.

Migration trends indicate that people are leaving rural areas (around 1% in period between 1991 and 2001 left for urban areas) and the growing of the average age groups (from average 38 years in 1991 to 58 in 2001) indicates moderate depopulation of rural areas, and simultaneous ageing (considerable out-migration of young people). The percentage of older people is dramatically higher in predominantly and especially in significantly rural areas. This indicates that rural areas have an ageing population. Such negative trends are more intense in distant rural areas.

[5] The OECD identifies local areas (municipalities) as rural if the population density is below 150 inhabitants per square kilometer. At regional level (NUTS 3 – what is usually the county level) the OECD distinguishes:
Predominantly rural regions: over 50% of the population lives in rural communes (with less than 150 inhabitants/ km2)
Significantly rural regions: 15 to 50% of the population living in rural communes
Predominantly urban regions: less than 15% of the population living in rural communes

[6] OECD nomenclature of rural areas. Disproportion between rural and urban areas is based on population density on local (municipality) level.

Education: According to a recent survey of the MoAFWE, most of the farm holders were either General High School or Vocational High School graduates (51.2%), and the same situation was with their household members (58%). Relatively low productivity of agriculture is also a common characteristic of this sector. This problem is even more emphasized in structural and market conditions in which most of the Montenegrin households function. The situation is driven by a number of factors, one of them being the low technical level of agricultural production, causing the need for physical labour to increase.

Infrastructure: The average access of surveyed holdings to basic infrastructure (roads and institutions) is not much different compared to the average situation in the country. Food stores and Elementary Schools are at the distance of about 3 to 4 km on average, and High schools and banks at the distance of about 10 km. On average the distance from the bus station, is 2.5 km and from the Post Office 7.5 km. The distance from the agricultural stores (equipment and similar) is quite large (28 km on average). These results would not be so unfavourable if there wasn't for such a great variation (standard deviation), where the distance from some institutions is up to 50 km. This distance is especially significant if we consider bad road infrastructure.

In general, quality of life in rural areas is at a low level and job opportunities are limited. In some areas, there is a serious social and economic degradation, which results in poverty. This is highly emphasized in areas distant from city centers; where intensive depopulation exists, in certain cases the villages are almost completely deserted. This resulted in the closing of schools, shops or even village health stations, and impoverishment in general. In addition, the economic situation, at least in remote rural areas, will continue to decline and out-migration will still be present, if more attractive life and economic surrounding are not provided.

Agri-environment: The use of mineral fertilizers varies from a higher use (300-400 kg/ha) in zones of intensive vegetable production, to a minimal or no use in larger areas of hilly-mountainous zone. At the area of Zetska Ravnica where intensive application of Sodium fertilizers in plant production is very frequent, the level of nitrate has increased. However, not one of the analysed soil samples contained Nitrate Sodium over the maximum allowed limit of 130 mg/kg. Presence of high concentration of Phosphor inhibits access of some biogenic microelements (Iron, Copper, Manganese, and especially Zink), which can influence loss of nutritive elements of land structure and provoke physiological illnesses.

Results of land research in municipalities show that soils with a low level of accessible Phosphorus prevail. Potassium fertilizers positively influence yield and plant quality and they increase resistance on unfavourable conditions of the surroundings, as well as disease resistance. Potassium chloride is the most often used fertilizer amongst Potassium fertilizers. Presence of chloride in land is in constant increase, but analysis conducted on different localities showed that there was a low level of accessible Potassium, while only a small number of localities possess a high content. Presence of hard metals in lowlands of Montenegro is on average at normal levels, and can thus be assigned as unpolluted[7].

Hilly-mountainous area accounts for 75% of the total territory of Montenegro, and represents a natural constraint limiting an intensive agriculture. These areas are airily unpolluted, remote from

[7] Source: Center for Land research and Meliorations of the Biotechnical Institute in Podgorica

traffic, plants, and hydro plants, etc. Conditions for development of organic agricultural production exist here, though development of organic farming is at the beginning.

Water resources are presently abundant and their quality has been and continues to be unaffected. Nevertheless, some issues concerning water resources exist. Continuous overflows and a need to regulate the water regime of the Skadar Lake and the Bojana Rive, by taking at the same time the relation - agriculture, environment protection – energy into account. Furthermore, there are still some important areas that are in demand of hydro-melioration in sense of drainage or protection from floods. These are lowlands around Plavsko jezero, part of the areas in basin near Niksic, some areas in Mrcevo and Tivatsko polje;

More intensive industrial and urban pollution of water is observed especially the Moraca, Cehotina, Zeta and Skadarsko jezero; with rivers polluted partly from agriculture. Cijevna is influenced by the Albanian agriculture, the Rijeka Crnojevica, and to a little extent the Tara River and all river flows in upper basin.

The influence of agriculture on water is still not explored, but according to some expert assessments, it is not of primary importance. Pollution of air in specific areas is mainly caused by industry, while the agriculture impact is less important. Larger farms have ceased to exist at the beginning of 90s; volatilization of Ammonium on agricultural areas is reduced to minimum with appropriate tillage and irrigation. From the aspect of agricultural influence on air the most important data relates to average value of Ammonium in air in the surrounding of Podgorica municipality, where, according to expert opinion, industrial pollution of air with Ammonium prevails.

Regarding the level of intensity, it can be considered that agriculture not significantly pollutes the environment. Montenegrin areas are still well preserved from pollution of air, water and land, except from narrow municipality areas of Pljevlja, Podgorica, Niksic, Bijelo Polje and Berane, where the level of pollution is influenced by industrial factors, like hydro-plants, exploitation of mineral raw materials, communal sewage, etc. However, besides few industrial centres located in five municipalities, there are still areas untouched by civilization, which implies that the great part of Montenegrin territory is ecologically clean.

Due to the lack of reliable (sometimes even basic) statistical data, a detailed elaboration and illustration of the status and process of rural development is seen as very limited.

9.2 RURAL DEVELOPMENT POLICY

According to the "Strategy of development of Montenegrin agriculture and rural areas in compliance with CAP of EU" Report 2006, in Montenegro there is no Rural Development Strategy in compliance with EU principles. The current Rural Development Policy consists of a small number of programs from individual sectors: maintenance of genetic resources in plant and livestock production, improvement of market structure, environmental programs, etc. The most common share has building of rural infrastructure, averaging about 10% of total agricultural budget.

The program for restructuring the agriculture and food processing industry accounted for 20% in 2004. This program started in 2003, and is mainly designated for restructuring the dairy sector.

Budget for rural development policy measures varies a lot and depends on specific programs of limited duration. This is why the structure by groups is constantly changing.

Table 25: Measures of Rural Development by Sectors, (2002-2005)

Sector	2002		2003		2004		2005	
	000 €	%	000 €	%	000 €	%	000 €	%
Livestock	138	9	60	2	60	2	55	2
Veterinary	0		100	3	100	3	0	
Bee-keeping	123	8	0		0		0	
Fisheries	44	3	29	1	31	1	30	1
Plant production	281	18	30	1	150	5	155	7
Programs of general significance	1,007	63	3,070	93	2,830	89	2,057	90
Total	**1,594**	**100**	**3,289**	**100**	**3,171**	**100**	**2,298**	**100**

***Source**: Ministry of Agriculture, Forestry and Water management*

Montenegro has decided to strengthen the European integration process with the ultimate objective of joining the EU. For this purpose the country will have to emphasize in the harmonisation process using the objectives and instruments of the common agricultural policy.

Central to the strategy for Rural Development, measures will be directed through three axes: Improvement of competitiveness, Sustainable resource management and Programs of development of rural areas that includes leader projects.

The following table (see table 26) shows projections of budget with individual axes of rural development. Besides the stated estimates on the importance of individual support and measures, it can be seen from the table that in the transition - pre-accession period the most important policy orientation will be towards improvement of competitiveness. This will strengthen the national sector and prepare it for the common EU market.

Table 26: Budgetary projections of major directions of rural development, (2005-2012)

Measure	2005		2006		2007-09		2010-12		Accession	MN
	MN	Don.	MN	Don.	MN	Don.	MN	Don.		
Competitiveness improvement	1.55	1.0	2.85	1.0	4.5	1.5	6.4	2.4	15.60	3.1
Sustainable resource management	0.91		0.90		3.2		6.0	1.2	16.55	3.3
Village development and leader projects	0.53	0.5	0.62	0.5	0.8	1.0	1.5	2.4	5.85	1.6
Total	**2.99**	**1.5**	**4.37**	**1.5**	**8.7**	**2.5**	**13.9**	**6.0**	**38.00**	**8.0**

***Source**: Ministry of Agriculture, Forestry and Water management*

9.3 REGIONAL POLICY

The objective of the Strategy for Regional Development of Montenegro, adopted by the Government in February 2005 is "to enable faster development of under-developed sub-regions, establishment of permanent policy for reduction of regional differences in the development level with preservation and equalization of population in jeopardized areas and application of the principle of sustainable development and perseverance of ecological balance." Towards these objectives, in the last years, agricultural budget focused in a number of programs that stimulate agriculture as a whole as analysed in Chapter 7.2.

Regional development of Montenegro is characterized by long-term and complex structural phenomenon, with regional disproportions in the level of development and significant negative effects on overall Republic development. Geneses of the reasons for such a condition are specific social-historical circumstances, which caused some traditional activities in specific regions to become unattractive, which then caused the devastation of resources with unfavourable demographic processes and desertion of rural areas. In the transition period and transformation of economic system, the problem of general development level of specific regions expressed itself in a more severe reform. A detailed strategy for regional development is still under preparation. Goals and priorities of regional development policy shall be supported through activities on republic, local and municipal level. (*See Annex 2).*

However, general goals and directions of Montenegro development are gradually being adjusted to EU principles. This assumes: incentives to development of regional policies through inter-municipal cooperation with decentralized stimulation of social and economic development of specific regions, partnership among local communities, gradual territorial decentralization, harmonization with regulations in EU, WTO and other international subjects, harmonization of regional strategy and policy with the strategy for economic development and financing development programs and projects in cooperation with local communities. The basic method for realization of regional policy is polycentric development with decentralization of economic activities with relying on enterprises as development carriers.

For the purpose of realization of the policy of balanced and uniform regional development and reduction of differences in the level of development, the economic policy shall further develop strategic commitments. This primarily refers to investment policy and other measures for encouraging development of under-developed areas. Stimulation of investment activities in the function of equalization of regional differences shall be done through programs: of continuing support to employment and entrepreneurship, development and strengthening free zones and construction of specific infrastructure facilities financed from own resources. Realization of capital infrastructure development projects is in the function of reduction of regional disproportions and realization of better connections and integration of regions. Sector priorities of regional development are compliant with general development commitments and objectively respectable resources in the area of under-developed regions. The Strategy envisages a developed system of incentive measures for implementation on several levels.

9.4 AGRI-ENVIRONMENTAL POLICY

The officially declared goal of the Government of Montenegro is "To establish a modern environmental protection system that provides the foundation for sustainable development of Montenegro as an 'Ecological State". Montenegro declared itself as an 'Ecological State' in its Constitution. While some elements of a national environmental management system are in place, the system has a number of deficiencies. Some of those deficiencies are the lack of environmental data, the lack of clearly defined monitoring responsibilities and poor information exchange among responsible institutes. There is generally a low level of understanding of issues concerning the environment.

There is currently a fragmented legal framework on environmental protection and the difficulties in fulfilment of nature conservation goals and compliance with the European Union accession

criteria; furthermore there is no clear policy and division of responsibilities exist to combat industrial pollution; The country also suffers shortage of trained staff; competencies and responsibilities are divided among various ministries and their relevant inspections. A new approach requires: integrated environmental protection management, harmonization of existing laws and adoption of new laws in line with EU environmental protection standards.

On the basis of adjustment and further development of the legal framework the country intends to implement efficient environmental management systems at Republic and local-self government levels. Specific short-term priorities are the Implementation of the principle "polluter pays" through better application of economic instruments and financing mechanisms. Ensure active public information and participation measures. Effective pollution control and management of natural resources and improved monitoring of protected areas. In previous years, Serbia and Montenegro had no overall strategy supporting coordination and environmental integration in the development of different sectors, although they declared a general political commitment for adopting sustainable development principles and environmental integration.

In Montenegro there are certain regulations within its agricultural policy that address certain environmental impacts (or services) of agriculture, but comprehensive systems of agro-environmental measures — i.e. agro-environmental programs — do not exist yet. There are some initiatives that formulate certain agro-environmental objectives, but they are more on the level of direct support schemes and lack a thorough review or systematic approach to agriculture's environmental problems.

Due, in large part, to difficult economic conditions, farmers generally receive little payment through direct financial support. In most cases improvements are planned. It is widely recognised that there are many positive initiatives and more support needs to be provided to agriculture for both production and non-production services, although direct support is rarely incorporated into an overall strategy of applying both commodity-based payments and incentive/compensation payments. Direct financial support explicitly focused on improving the environmental aspects of agriculture is provided in Montenegro. The monitoring of surface and ground waters in Serbia and Montenegro is regulated by the Law on Waters (Regulations on Hazardous Substances in Waters, *Official Bulletin of SRS,* No. 31/1982), and Regulations on Methods and Sampling for the Assessment of Wastewater Quality, *Official Bulletin of SRS,* No. 47/83).

Two additional policies and regulations outside agricultural policy have been found to be of specific relevance for regulating environmental impacts of agriculture, namely the National Official Gazette of RM and the Law on Genetically Modified Organisms (Official Journal of the FRY, No. 18/2001) of Serbia and Montenegro. In 2001, the government of Serbia and Montenegro adopted the federal Law on Genetically Modified Organisms, which regulates the control of GMO operations, their contained use, and introduction into production and environment, and market placement. The authority responsible for the law's implementation is the Ministry of Agriculture and Water Management, Department of Genetic Resources and GMOs, which, during the licensing process, consults the National Biological Safety Council to provide expert opinion on the risks of using certain GMOs and GMO products. Regulations concerning the application of pesticides and fertilizers did not existed in Montenegro in the previous years.

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Annex 1: Donor Support

Up to now Montenegrin agriculture has received a total of €4.8 Million of EU assistance managed by the European Agency for Reconstruction.

In agriculture and the rural economy, projects have included the importation of breeding cows, the procurement of modern dairy production and delivery equipment. Assistance is provided to the line Ministry to update policy issues and assess the business plans of participating enterprises. Support to veterinary and Phytosanitary services enhance inspection capacity and reduce the potential for the spread of transmissible animal diseases and harmful organisms.

Within the context of the 2003 Programme, the European Agency for Reconstruction funded a project on the Strengthening of the Veterinary and Phytosanitary Services, Montenegro with the following components: Construction of the New Veterinary laboratory, Supply of the Phytosanitary equipment to the Plant Protection Department, Supply of the Equipment to the Phytosanitary inspectorate of Montenegro.

Within the 2000 Programme, the European Agency for Reconstruction contracted a procurement team to purchase and distribute state-of-the-art dairy production equipment to replace outdated machinery. The procurement team assisted the Ministry of Agriculture in policy issues and assessing the business plans of the selected enterprises receiving the equipment.

In 1999/2000, some 1,000 breeding cows were delivered to vulnerable rural families.

For the near future, it is planned to finance a project on the Strengthening of Veterinary and Phytosanitary Services. It will receive approximately €1.5 million EU contribution. The programme components are:

- TA Development and Implementation of an Animal Identification System in Montenegro

- Information system for Animal Identification and Registration

- Laboratory equipment

Since 1999, agriculture in Montenegro had a significant international support. Different means of support contributed the undertaking and accelerating of certain level of reforms in agriculture: new laboratories were founded and existing ones were modernised, support was given for organising of farmers, new technological solutions were implemented in a number of sectors of agriculture and food processing industry. It is of utmost importance that a huge number of local experts have gone through trainings and specializations for specific areas of agriculture.

With all benefits arising from international projects, their influence on an aggregated level and structure in agriculture can be assessed as limited. This is particularly true since the so-called floating funds for further investments and the limited number of support recipients decreased the influence of donors they had on this sector, especially since this support was not accompanied with budget investments. In addition, in recent period there were individual investments of farmers and entrepreneurs, and part of the investments represented only the realization of international projects. It can be concluded that donations were more of a contribution to investments in agriculture and to support capacity building, than of support in a regular production for which more investments from the budget were designated.

Table 27: International donations for Agriculture support

Project	Donor	Value
Donations in agricultural goods:		
- Wheat and corn	USA	3.6 mio€
- Heifers, technological equipment for dairy production	EU	2.1 mio€
- Mineral fertilizers and agricultural mechanisation	Japan	1.1 mio€
Development projects aimed at certain subjects:		≈ 6 mio€
- Luxemburg projects	Luxemburg	
- PSO projects	Holland, Italy, Germany, etc.	
Technical support for development of different agricultural segments		≈ 1 mio€
USAID projects for development of rural areas through investments in specific infrastructure projects	USA	≈ 1.5 mio€
EU projects for capacity building aimed at implementation of agrarian policy	EU	2 mio€

***Source**: Ministry of Agriculture, Forestry and Water management*

Annex 2: Regional Strategy Objectives 2006-2020

- Regional Development Strategy shall be harmonized with Spatial Plan of the Republic by 2020;
- The implementation of economic policy according to sectors shall continue with existing sources of funds for encouragement of development. Within that framework, the policy of faster development of small and medium size enterprises shall be implemented in the area of under-developed regions;
- The resolution of issues of transport, technical, utilities and other infrastructure is an important prerequisite for regional and overall development. That's why the project of building regional roads, provision of security in electricity supply, water supply, waste management and other shall be realized;
- The tax policy measures are focused on provision of more favorable conditions for development of activities in under-developed area. In that respect, new businesses and new employees shall be exempted from tax for a specific period of time, and also the possibility to give a part of revenues realized from VAT to the local self-government, in which territory the revenues are realized, to use them will be considered.
- Credit-monetary policy shall support the employment and entrepreneurship plans in under-
- developed regions;
- International economic relations policy shall provide the inclusion of Montenegro in the flows for accession to EU. Within that framework, mechanisms for regional development support shall be realized;
- Separate Fund for Regional Development shall be established;
- Local government reform is to enable decentralization of responsibilities in specific segments of development and implementation of regional development policy.

Source: *The Government of Montenegro, Ministry of Agricultural, Forestry and Water Management (2005)*

Annex 3: Council of European Union Declaration

"The Council has taken note that, on 3 June 2006, based on Article 60 of the Constitutional Charter of the State Union of Serbia and Montenegro and following the Montenegrin referendum of 21 May 2006, the Parliament of Montenegro has passed a Declaration on the Independence of the Republic of Montenegro which states that the Republic of Montenegro is an independent State with full legal personality under international law.

Furthermore, the Council has taken note that, on 5 June 2006 following the above-mentioned Declaration, the Parliament of Serbia has passed a Decision that defines the Republic of Serbia as the continuing State of the State Union of Serbia and Montenegro.

The Council recognizes that these Parliamentary Acts were taken in conformity with the arrangements and procedures foreseen in the Belgrade Agreement of 14 March 2002 as well as in compliance with Article 60 of the Constitutional Charter of the State Union of Serbia and Montenegro.

The European Union and its Member States have therefore decided that they will develop further their relations with the Republic of Montenegro as a sovereign, independent State, taking full account of the referendum result and the afore-mentioned Parliamentary Acts. Member States will take the subsequent measures implementing this decision nationally in accordance with international law and practice.

The Council calls on Serbia and Montenegro to pursue a direct and constructive dialogue on their future relations. The European Union stands ready to support this dialogue. The Council reaffirms the European perspective of the Western Balkans on the basis of the Stabilisation and Association Process. "

Source: *http//ue.eu.int/Newsroom*