

TRENDS OF AGRICULTURAL POLICY IN MONTENEGRO

Aleksandra Martinovic^{1*}, Darko Konjevic¹, Jovana Drobnjak¹, Vesna Boljevic¹

¹Faculty of Food Technology, Food Safety and Ecology,
University of Donja Gorica, Oktoih 1, 81 000 Podgorica, Montenegro

²Directorate for Rural Development, Ministry of Agriculture and Rural Development,
Rimski trg 1, 81 000 Podgorica, Montenegro

*e-mail: aleksandra.martinovic@udg.edu.me

Abstract

Montenegro's economy is predominantly services-based. Most consumption goods are imported, while industrial output has been dominated by alumina and steel production. Agriculture is one of the most important sectors in Montenegro and is a significant source of employment and income for some of the most vulnerable segments of society.

In Montenegro, agriculture with tourism and energy is a major strategic development branch. About 37% of Montenegro's population lives in the rural areas and it is assumed that about 70% of the total income of these people is realized through agricultural activities. One of the structural characteristics of Montenegrin food production is higher share of agriculture in gross domestic product than of the food-processing sector. This indicates a low level of finalization of agricultural products, a significant share of subsistence food of the rural population, as well as the marketing of agricultural products through unregistered trade channels. The existing support to the agricultural sector in Montenegro is realized through annual Agro-budget. The Common Agricultural Policy (CAP), as one of the most important EU policies, envisages approximately 500 regulations governing the management of agriculture and it can be said that in a number of areas, Montenegro complies. However, there are many more areas where it is necessary to adopt a number of laws and by-laws in accordance with which they will be carried out gradually harmonization with the EU acquis in this field.

Measures aimed at the development of rural economy and creating new jobs and improving the quality of life in the rural areas of Montenegro, with the appropriate investment support to the agricultural sector, will contribute to achieving of harmonized territorial development of rural areas. It is necessary to emphasize the innovative component that includes fostering of the

research and development sector and improving the innovation potential in the country.

Key words: *Common Agricultural policy of the EU, Montenegrin Agriculture indicators, Strategy for the development of Agriculture and rural areas in Montenegro.*

1. Introduction

As Montenegro formally declared its independence in 2006, it is still in a state of economic transition. Montenegro joined the World Bank (WB) and International Monetary Fund (IMF) in January 2007, while it became the member of the World Trade Organization (WTO) in December 2011. After the granting of the candidate country status by European Council (EC), Montenegro entered the process of negotiations to join EU in June 2012.

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

There have been significant fluctuations in the development of the country's economy since 2006. For the first two years, namely from 2006 - 2008, there was a boom period with recorded growth of 8.7%. However, a recorded decline of 5.7% in 2009 reflected through double-dip recession, as well as euro area crisis (additional 2.5% decline in 2012) resulted in the fact that the outlook of the economy remained flat. Rebalance of the budget in April 2012 has adapted a plan of public finance scenario to lower growth. The Government of Montenegro increased value added tax (VAT) from 17% to 19% in the year 2013, and raised income taxes

from 9% to 15% for those earning more than EUR 480 per month. This was followed by pensions freezing and limited salaries increase for public enterprises and parliament members (Figure 1).

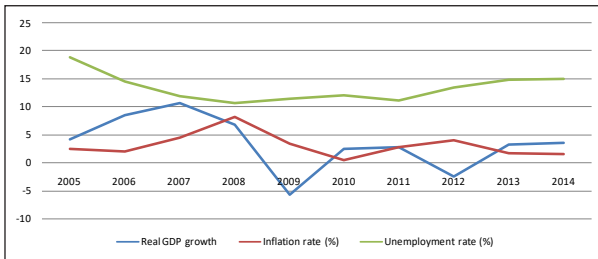


Figure 1. Montenegro: Main macroeconomic indicators, 2005 - 2014

(Real GDP growth, inflation rate, unemployment rate)

Montenegrin economy will face a number of risks in the upcoming period: maintaining fiscal stability, spill over of negative effects from abroad, a high level of real sector illiquidity, low competitiveness, high interest rates, non-diversified exports, high current account deficit and the like [1].

Although full of economic challenges due to problems transferred from the crisis years, the last two years marked a successful beginning of many reform processes for improving business environment. The steps on creating better conditions for both investments continued through different activities and reforms of Montenegrin institutions in 2014 [3].

One of priority tasks in the upcoming period is drafting of the Strategy for Economic Development. A key challenge for Montenegro, similar to all the other countries in the region, is how to again increase economic growth and to reduce or even completely eliminate those key obstacles that prevent the country from developing its potentials. The framework for the advancement is the Euro-Atlantic integration. The concept of economic policy of Montenegro, as a candidate country, in addition to the measures by which it strives to achieve fiscal stability and sustainability, is supported by a package of structural reforms that will have a direct impact on increasing the competitiveness of the Montenegrin economy, will be monitored and will accelerate the economic growth [3].

2. Agricultural development in the country and EU integration process

2.1 Agricultural development in the country

Agriculture is one of the most important sectors in Montenegro and is a significant source of employment and income for some of the most vulnerable segments of society, especially in the north in its mountainous part where there are few other opportunities for em-

ployment. The agriculture is the most important activity for the inhabitants of rural areas. In Montenegro, agriculture with tourism and energy is a major strategic development branch. About 37% of Montenegro's population lives in the rural areas and it is assumed that about 70% of the total income of these people is realized through agricultural activities [2].

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

Of the total area, agricultural land in Montenegro accounts for 22.3% (309,240.7 hectares - 0.5 ha per capita), which is an important resource for development. The difference in data on agricultural area (Tables 1 and 2) between 2005 and 2014 is due to the changes in the methodology of the Montenegrin Statistical Office (MONSTAT) and the fact that the data on the area of agricultural land in Agricultural census from 2010 were overestimated. Of this, total agricultural utilised arable land in 2013 covers 223,131 ha (0.36 ha per capita). In Montenegro, a total of 48,870 agricultural holdings are registered, of which 48,824 family farms. The structure of the utilized agricultural land in the highest degree is represented by meadows and pastures (94.4%). Area of utilized agricultural land of family farms makes 68.8% (212,724.4 ha) of the total available land, with an average area of utilized agricultural land per family farm of 4.4 [3].

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

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

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

Table 1. Montenegro: Agriculture in the economy; 2005 and 2014

Parameters	2005	2014
Agriculture share in Gross Value Added - GVA (%)	10.5	8.01
Agriculture share in employment (%)	18.7	6.9*
Agro-food exports (% of total exports)	18.7	24.4
Agro-food imports (% of total imports)	18.0	27.1

*According to MONSTAT [2]

Table 2. Montenegro: Characteristics of the agricultural sector; 2005 and 2014

Parameters	2005	2014
Agricultural area - AA (thousand ha)	517	309
Share of arable land in AA (%)	8.7	8.9
Share of crop in total agricultural production (%)	47.7	56.4
Average wheat yield (t/ha)	3.10	3.5
Average milk yield (t/dairy cow)	2.4	2.5
Agro-food export to import cover ratio (%)	22.66	20.55

2.1.1 Agro food trade

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

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

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

provided by The Law on Agriculture and Rural Development (Official Gazette of Montenegro No. 56/09) [9], The Law on Foreign Trade [10]; The Protocol on Montenegro's Accession to the Marrakesh Agreement on establishing of the World Trade Organization [11]; The Law on Intervention Procurements [12]; The system of quotas, defined by the Agreement on Stabilization and Association, as well as under Free Trade Agreement with Turkey ensures that the use of tariff quotas agreed is in accordance with the system „first come first served“ and that the tariff quota management is in hands of the Customs Administration, etc.

Montenegro has signed Free Trade Agreement (FTAs) with Central European Free Trade Association (CEFTA) in 2007, European Free Trade Association (EFTA) in 2012, Russia (since 2000), Ukraine (since 2011), Turkey (since 2008), and the EU under the Interim Agreement on trade and trade-related issues (since 2008).

Montenegro agro-food trade for period 2005 - 2014 is presented in Figure 2. After a big drop of 37.2% in 2009, Montenegro's exports bounced back by 12.7% in 2010 and continued to grow by 43.7 percent in 2011. However, Montenegro remains an import-dependent country in terms of agricultural and food products [4] (WTO). The total external trade of Montenegro for the period January-December 2014, according to preliminary MONSTAT data amounted to EUR 2121.7 million, which is 1.3% less, compared to the previous year. Total trade of agricultural products in 2014 amounted to EUR 583.03 million and increased to 12.49% (or EUR 64.7 million) compared to the previous year. The share of agricultural products in total exports was 29.40%, and 27.12% of total imports. Total imports of agricultural products in 2014 when compared to 2013 increased for EUR 28 million (or 6.15%), were higher as well, increasing by EUR 36.7 million (or 58.66%). The coverage of imports by exports amounted to 20.55%, thereby higher by 6.80 percentage points when compared to 2013 [5].

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

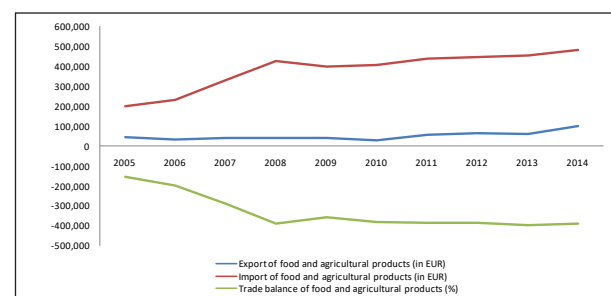


Figure 2. Montenegro: Agro-food trade, 2005- 2014

2.1.2 Agricultural policy development in the country

When analysing the development of the agricultural policy in the last two decades in Montenegro, the three distinctive periods can be seen. Initial changes in agricultural policy start at the beginning of this century, by freeing agro-food process from price controls. After the adoption of the Montenegro's Agriculture and Rural Development Strategy (Strategy for Development of Food Production and Rural Areas) in July 2006, there have been significant improvements in terms of modernization of the administration, turning towards sustainable utilization of the resources and ensuring food supply and higher living standards for the rural populations [13]. Numerous other documents and strategies such as the National Programme for European Integration and the National Strategy for Sustainable Development, Montenegro Ecological State, the Spatial Plan of Montenegro, the Millennium Developmental Goals, Regional Development Strategy, Master Plan of Tourism Development and Strategy of Tourism Development in the Northern Region of Montenegro, Economic Reforms Agenda (2003 and 2005), Strategy of Development and Poverty Reduction (2003), the Economic and Fiscal Programme for Montenegro 2007 - 2010, etc., [6] contributed to the implementation of the set up goals relating to development of agriculture and rural areas.

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

2.1.3 Existing budgetary support to agriculture and rural development

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

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

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

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

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

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

Support is given:

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

These payments are not in accordance with the EU rules laid down under Regulation (EC) no. 1307/2013 [14]. During the accession process, the reforms that will be focused on the decoupling of payments from production will be gradually introduced and will be based on rights per eligible hectare [7].

2.1.4 Rural development measures

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

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

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

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

Axis II - Measures for the sustainable management of natural resources (5% of the total value of a set of measures for rural development) relating to the

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

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

2.1.5 Support for general services to agriculture

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

2.1.6 Social transfers to rural population

The number of holdings that use different lines from the agro- budget in Montenegro is near to 20.000 (11,000 of holdings directly subsidized; 1,300 using support for purchase of crops; 5,500 elderly persons benefit from the old-age allowances). In addition, 2,000 holdings use some sort of water management programs, pensions and health insurance schemes in agriculture [8]. In the Montenegrin rural areas many farmers engaged in agriculture due to specific social policies were not able to exercise their right to a pension. Therefore, a special form of single support and other assistance supports for holders of agricultural holdings is envisaged through this set of measures. Namely, benefits for elderly are provided to a spouse, if living in the rural area and are dealing with the agricultural production, without having any other income. This type of support is directed to the most vulnerable rural households in the form of one-off and intervention by the basis of a claim supported by local authorities or centres for social work or the Ministry of Labour and Social Welfare.

2.1.7 Other sources of funding

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

projects in the field of capacity building, rural development, strengthening of laboratory capacities, food safety is realized through the support of EU funds, the Delegation of the European Union to Montenegro.

Budgetary expenditures after 2005 show that there was more active and more consistent policy. Significant increases in the total budget were recorded, as well as in all policy group measures. The fastest increase was recorded in funds for rural development and for general services in agriculture. The tendencies in policy change and budgetary funding followed the concept of the Strategy, adopted in 2006 [6].

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

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

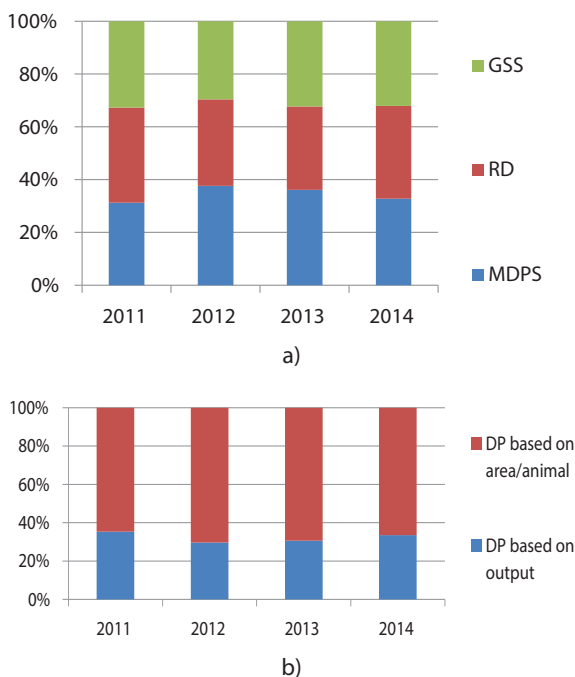


Figure 3. Montenegro: Development of budgetary support to agriculture, 2011 - 2014

a) Structure of budgetary expenditure for agro-food sector and rural areas (%); b) Structure of budgetary expenditure of Direct Payment measures (%)

When analysing the budgetary support, the slight increase in the funding can be observed, with more- less even distribution between Market and Direct Producer Support measures (MDPS), General Service Support measures (GSS) and Rural Development (RD) measures (Figure 3 a), with in average highest percentage allocated for MDPS. The future orientation of the budgetary support should be towards strengthening of the RD measures, especially the modernization of the production process.

Direct payments relate mainly to the payments per animal, per area, or to the support based on the quantity of the product, which is not in line with the current CAP measures (Figure 3 b). The national payment schemes are not in liaison with the ones currently applied in the EU. This is reflected trough realization of all of the payments for the primary production (68% for the livestock sector), the producers are not obliged for fulfilling horizontal conditions and there is no application of the Integrated Administration and Control System - IACS/ Land Parcel Identification System - LPIS systems for the management and the control of direct payments.

2.2 EU integration process

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

The key documents setting out the Government policies is outlined under the Accession Programme of Montenegro (2014-2018) that plans the legislative alignment and administrative capacity needed for Montenegro to be able to assume the obligations of membership. The Montenegro Development Directions (MDD) 2013 - 2016, adopted by the Government in March 2013, represents a first attempt by Montenegro to prepare a national development plan. The MDD set out a vision of socio-economic development, including the required investments and development measures to achieve smart, sustainable and inclusive growth. It identifies three priorities for development: tourism, energy, and agriculture and rural development, which will be addressed through interventions in 18 individual sectors.

The Pre-accession Economic Programme (PEP) 2014 - 2016, adopted in January 2014, aims at determining the appropriate economic policy and structural reforms, as well as at developing institutional and analytical capacities for participating in the multilateral surveillance

procedures of the Economic and Monetary Union (EMU). The PEP will be further developed and replaced by an annual National Economic Reform Programme and a biennial Competitiveness and Growth Programme.

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

The draft of the new Strategy for the development of agriculture and rural areas 2015 - 2020 is in the focus of public debate and it is expected that the Strategy will be enacted very soon.

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

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

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

3. Conclusions

- Future rural development policy measures are needed for the improvement of the structure and economic situation in the agricultural sector through support for the development of economically sustainable farm production. Taking into account the structure of agriculture in Montenegro, many small farms face difficulties in terms of long-term economic sustainability.

Therefore, measures should be created in order to allow pooling of these farms into associations or groups of producers in order to strengthen their position on the market and to influence the diversification of activities on farms.

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

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