

Screening report

Montenegro

Chapter 11 – Agriculture and Rural Development

Date of screening meetings:

Explanatory meeting: 6 – 9 November 2012

Bilateral meeting: 11 – 13 December 2012

I. CHAPTER CONTENT

The *acquis* on agriculture and rural development covers a large number of binding rules, many of which are directly applicable. Their proper application and their effective enforcement by an efficient public administration are essential for the functioning of the Common Agricultural Policy. This requires the setting up of a paying agency and management and control systems such as the Integrated Administration and Control System, and the capacity to implement rural development actions. Member States must be able to apply EU legislation on direct support schemes and to implement the common market organisation for various agricultural products.

The implementation, management and control of the Common Agricultural Policy (CAP) require the creation, modification and/or reinforcement of appropriate administrative structures. In some cases the *acquis* sets out detailed specifications for the required administrative structures. In many cases the *acquis* simply uses terms such as the “competent authority” to refer to the administrative structure that is needed. This means that it is left to each Member State to decide which institution is responsible for the effective implementation of the *acquis*. However, the functions that EU Member States must carry out - through the administrative structures they establish - are clearly specified in the *acquis*.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Montenegro and the discussion at the screening meetings.

Montenegro states that it can accept the *acquis* on agriculture and rural development and that it intends to transpose and implement the *acquis* by the date of accession. Montenegro stated that it has a very clear knowledge of the *acquis* covered by this chapter, that it is fully aware of the challenges ahead to ensure full implementation of the *acquis* upon accession and that it has a clear overview of the steps necessary to achieve this goal.

Montenegro has 516.070 hectares (ha) of agricultural land, which accounts for 38% of the total territory. The greatest share of agricultural land resources consists of permanent pastures (62%; 325,436 ha) and grassland (25%; 128,621 ha). Agriculture is by far the largest activity of the rural population; it is the main or a partial source of income for 48,870 holdings. The sector represents 8.3% of the gross domestic product (GDP) and agricultural employment stood at 1.2% of the total employment in 2012. Montenegro’s agriculture is characterised by traditional production and small subsistence farming, with an average size of a holding of 5 ha. This results in a less favourable structure of the agricultural sector and low productivity. Montenegro is a net importer of food products.

In the coastal region the production is dominated by fruit and olives. Production of cereals is very limited. The production in the central part of the country consists of vegetables, potatoes, tobacco as well as grapes and wine production. Wine is the biggest export commodity in the food sector. The farms in the more mountainous north are predominantly livestock breeding with cattle, sheep and goats prevailing.

Montenegro stated that its agricultural policy is based on the 2009 Law on Agriculture and Rural Development (Official Gazette No 56/09). This law sets out the objectives of agriculture policy and provides the general framework for the development of and support to agriculture and rural areas, grouped under four main strands: market price, rural development policy, activities of public interest and social transfers to the rural population. In 2006 Montenegro adopted

a strategic document "Montenegro's agriculture and the European Union", providing the basis for the development and modernisation of the sector. An operational programme for the implementation of the strategy was adopted for the years 2009 – 2013. An agricultural census took place in June 2010 and its full results became available in 2012. The latter provide a statistical basis for policymaking on agriculture and rural development.

Montenegro stated that the overall responsibility for agricultural policy lies with the Ministry of Agriculture and Rural Development. The Biotechnical Faculty of the University of Montenegro is also involved in the policy implementation (the Livestock Selection Service, the Livestock Department, the Dairy Laboratory and the Extension Service in Plant Production). The administrative capacity of the Ministry is limited. In 2011 the government adopted a rulebook on the internal organisation of the Ministry providing for strengthening the capacity in this field. Further legislation is foreseen to be adopted in the third quarter of 2013.

The agricultural policy of Montenegro is financed from the annual state budget. Implementation of the agriculture policy is detailed in the Government's decree – Agro budget – adopted at the beginning of the fiscal year. In 2012 the agricultural budget amounted to EUR 21 million. It remains targeted at direct support measures linked to production. The agricultural sector also receives support from the World Bank in the framework of the project "Montenegro Institutional Development and Agricultural Strengthening" (MIDAS). Around EUR 12 million is earmarked for the sector for the years 2009 – 2014.

II.a Horizontal issues

According to Montenegro, **direct support schemes** are based on the 2009 Law on agriculture and rural development and the yearly agro budget. Direct aid payments are granted for livestock and crop production, the development of dairy production for the market, the strengthening of the milk collection network, the collection and slaughter of cattle and for tobacco production. The administration of the schemes is carried out by the Livestock Selection Service and the Extension Service and payments are made by the Ministry of Agriculture and Rural Development.

Direct support for livestock production amounts to almost 10% of the agro budget. It covers premiums for cows and breeding heifers (EUR75/head), premiums for sheep and goats (EUR 9/head) and slaughter premiums for fattened beef cattle (EUR120/head). There are a number of eligibility criteria, including the obligation to have the animals identified with ear tags and registered in a database. There is no density requirement. The Livestock Selection Service controls, on the ground, at least 30% of applications for cows and breeding heifers and 50% of applications for sheep and goats. The applications for slaughter premiums are verified via the electronic database.

Almost 7% of the agro budget goes to support for the development of dairy production. Support of EUR 0.07/litre is granted to producers supplying milk to registered dairies and implementing the national scheme for milk quality improvement. The aid is given to farmers producing at least 300 litres per month. The Ministry makes payments once a month to dairies, which forward the payments to milk suppliers.

Support earmarked for the strengthening of milk collection networks totals almost 3% of the agro budget. Aid of EUR 0.02/litre is granted to registered dairies and cheese plants that regularly buy milk from domestic producers, which includes also the quantities of less than 300

litres per month. Extra support is provided for producers situated at a distance of more than 50 kilometres from the registered dairies.

Direct support to crop production amounts to 2% of the agro budget. Payments are made per hectare of cultivated land for cereals, potatoes, forage plants, buckwheat and other crops (apart from tobacco) and for seed production of these crops. The amounts range from EUR 150/ha paid for fodder to EUR 700/ha for certain seed production. Perennial fodder crops are eligible provided that the production is set up to a maximum of five years in the same plots and that agro-technical measures are regularly applied. The minimum surface of eligible individual crops is 0.5 ha (cereals - minimum 1 ha). Different types of crops cannot be added together to meet the eligibility criteria. The land must be registered in relevant registers kept by the Extension Service and records for seed production must be maintained by the Phyto-sanitary Administration. The Extension Service verifies on the field 100% of the applications.

Support to tobacco production constitutes 0.3% of the Agrobudget. A premium of EUR 1,000/ha is paid. The minimum plant density is 17.000 plants/ha and a record of planting is maintained by the Extension Service.

Montenegro stated that it has currently no **Integrated Administration and Control System (IACS)** as defined by the *acquis*. Controls are undertaken through a computerised system: animal register, databases related to plant production (crop, tobacco, vegetable and greenhouse), grape and wine producer register, olive register, and register of agricultural insurance policy holders. However, these databases are not integrated. On-the-spot checks are carried out for livestock and crop-related payments. One of the objectives of the World Bank MIDAS project is to set up linked information systems. Currently there is no Land Parcel Identification System (LPIS).

Montenegro has no paying agency but indicated that it plans to establish this within the Ministry of Agriculture. Montenegro stated that some procedures for the implementation of rural development measures have been established under the World Bank MIDAS project.

Apart from direct payments and rural development measures, Montenegro indicated that it applies a number of **state aid** schemes to agriculture through the agro budget. Those schemes include co-financing costs of insurance and support in case of damage due to weather conditions, support for producers' groups, subsidising promotional campaigns, bee-keeping development programme, fight against animal and plant diseases, and subsidizing interest rates. Montenegro also applies a reduced rate of VAT (from 17% to 7%) for basic products for human consumption, medicines used for veterinary medicine, and certain other products like fodder, fertilizers or devices for plant protection.

The legal basis for the implementation of **trade policy** is provided by the Law on Foreign Trade (No 28/04 and 37/07), the Decree on Customs Tariff for the current year and the Law on Intervention Procurements (No 69/03). Montenegro stated that it applies the Combined Nomenclature for the classification of products. The Government may introduce safeguard measures in foreign trade in agricultural products, in case there is a risk of serious distortion of the market. The Government may apply intervention measures of buying and selling, support to storages and withdrawal of certain agricultural products from the market.

Montenegro became member of the World Trade Organisation in April 2012. Export subsidies or special safeguard measures are not permitted. The AGRI Tariff schedule covers 2040 lines of which about 950 benefit from transitional periods for the entry into force of the final bound rates (2015 – 2020). The average of AGRI IBR (initial bound rates) is 19.10%; of FBR (final bound

rates) 14.80%. Montenegro's tariff schedule orients at the EU schedule, however all tariffs are expressed on an ad valorem basis.

The use of tariff quotas is based on the "first come first served" principle managed by the Customs Administration. A system of monitoring imports and exports with permits/licences is not applied in Montenegro on agricultural products.

The Stabilisation and Association Agreement with the EU provides Montenegro with practically duty-free access to the EU market for all agricultural products (with the exceptions of certain beef products, sugar, wine and certain fish products where tariff quotas are applied). Import tariffs for agricultural products from the EU have been gradually reduced or eliminated since the implementation of the agreement (2008) with only a number of sensitive products now maintaining a 50% reduction of the MFN duty.

Montenegro is a member of the Central European Free Trade Agreement (CEFTA). It has concluded Free Trade Agreements with EFTA countries, Turkey and the Russian Federation. An Agreement with Ukraine has not yet entered into force. Negotiations with Belarus and Kazakhstan (as members of the Customs Union with the Russian Federation) are underway.

A **Farm Accountancy Data Network (FADN)** does not exist in Montenegro. The Law on Agriculture and Rural Development foresees the establishment of an accountancy data system on selected agricultural holdings based on the following criteria: type of production, size and regional distribution. The 2010 Agricultural Census provides a good basis for establishing the FADN system. According to the census, out of the total of 48,870 agricultural holdings, 5,448 holdings keep records on income and expenditures. A farm structure survey is on-going and the results are foreseen to be published in 2014.

As regards **Non-Annex I products** basic terms of import and export are established in the Protocol of Montenegro's Accession to the WTO. Montenegro does not apply a system of customs protection for processed agricultural products (PAPs) on the basis of the content of the agricultural component. Montenegro stated that it will be able to introduce it only upon accession due to its commitments under the WTO.

II.b. Common market organisation

II.b.1 Arable crops, fibre, sugar

Production of *arable crops* in Montenegro is limited and average yields of field crops are low. According to the statistical year book 2011 only 2.5% of the consumption need for cereals was met by local production.

Fodder is sun-dried and the mountain pastures are used extensively for this purpose. Average yields of meadows are relatively low (1.5-1.8 t/ha of hay).

Montenegro indicated that it has no production or processing of *fibre crops* or *sugar* and therefore no related specific measures.

Growing of *poppy* and *hemp* is allowed for food and industrial purposes. Poppy and hemp may be grown by legal and natural persons who are licensed for that purpose and have a contract concluded on the buy-up of the entire yield with a legal entity registered for trade in poppy and/or hemp (Law on Prevention of Drug Abuse No 28/11).

There is no production of *oilseed* in Montenegro.

II.b.2 Livestock products

According to Montenegro, traditionally livestock production plays a major role in the agriculture sector, accounting for more than 50% of the total output. Rearing of ruminants (cattle, sheep and goats) prevails while pig and poultry production is less developed. Dual - purpose breeds prevail, with a tendency for an increase in the presence of dairy breeds. Some positive structural changes can be noted with the size of farm and flock increasing. Domestic production of meat is far below consumption with a self-sufficiency rate of about 36%.

Milk and milk products

The sector is highly fragmented with holdings involved in cow milk production having on average 3 dairy cows. Productivity is low with an average annual yield per cow of around 2500 kg. Knowledge or use of modern production techniques and standards is weak. Over 58% of the breeding animals are on small farms of 1-3 cows/heifers. Milk production in 2011 is recorded at 205 million litres, 93% of which was cow milk and 7% sheep of goat. Only about 15% of total milk is purchased by registered dairies, on-farm consumption prevails and direct sales are negligible. Montenegro's self-sufficiency rate for milk is 80%.

Out of 18 dairies operating regularly, the three biggest account for 60% of milk processing, the rest are small, privately-owned units. Milk collection has been increased by 2.9 million litres (15.4%) in the period from 2004 to 2010. The range of milk products is modest, although it has been increasing in recent years. Yoghurt is the main product in Montenegro's processing industry, cheese is produced in several small dairies, but the majority of cheese is home-made for local markets.

Dairy farmers receive direct support to milk production: a premium of EUR 0.07/litre is paid for milk delivered by the farmers to the approved dairy. Montenegro also supports strengthening the milk collection network: a premium of EUR 0.025/litre of milk collected is paid to the dairies. Headage payments are made for ruminants. Premiums per breeding heifers and cows of EUR 70 are granted to farms with more than 3 heads of cattle; premiums for breeding sheep amount to EUR 9/head, for animals above the threshold of 20 up to a maximum of 300 heads per flock; premiums for breeding goats are EUR 9/head, for animals above the threshold of 10 up to a maximum of 300 heads per flock.

Montenegro stated that a tradition in milk production and large areas of available grazing are positive attributes to develop the sector.

Beef

There were 87,173 head of cattle in 2011, the number slowly but steadily decreasing in recent years. There is no division between dairy and beef production and bovine meat is mainly a side product from milk production. Purebred beef breeds are not reared in Montenegro. Cattle are farmed on more than 50% of agricultural holdings, or on 75% of holdings engaged in livestock production. 98% of these holdings are family farms while about 2% are business entities. The average farm has 3 cows, while the number of holdings with more than 3 breeding animals is 4331 (altogether 28,337 animals).

Around 40% of the animals slaughtered are reared in Montenegro, the remainder imported. Locally produced young stock is mostly slaughtered as calves, as price is higher and there is no appropriate domestic feed production for intensive bull fattening. There are a few specialized cattle feedlots. Domestic or imported male calves are also intensively fattened to produce beef of young bulls. Bovine meat is also produced from culled cows, breeding bulls, oxen in certain regions. Most cattle are slaughtered at big companies that integrated slaughtering and processing plants. The four biggest meat plants cover 2/3 of the total national meat processing.

Montenegro has a system for the identification and registration of bovine animals, an electronic database has been set up and all bovine animals are identified by two eartags. Montenegro stated that its national labelling system of beef products is not in line with EU requirements.

Sheep and goats meat

There were 208,771 sheep in Montenegro in 2011. Sheep breeding is the second most important livestock subsector after cattle farming. Semi-extensive or extensive farming systems prevail. Sheep production is present mostly in the rural areas of the north. An average flock counts 61.6 heads. Lamb meat is the main product of the sheep sector, 60-65% of the total revenue value, milk accounts for the rest (30-35%).

There were 35,001 goats in Montenegro in 2011, mainly for milk production. Goat production is mostly present in the central region. An average flock counts 46 heads. Half of the population is reared as individual animals, with much higher milk yield and number of kids born per doe.

Self-sufficiency for sheep and goat meat stands at 92%. From 2008 to 2012, Montenegro imported sheep and lamb meat originating from Serbia and the former Yugoslav Republic of Macedonia and as of 2012 also from the Netherlands. During the past five years, Montenegro has exported fresh lamb meat, smoked sheep meat and processed sheep products to the countries of the region - Serbia, Kosovo*, Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia.

The system of identification and registration of sheep and goats was developed in 2011.

Pig meat

Montenegrin farms kept 21,398 pigs in 2011 with an additional 20,000 pigs imported from Serbia for fattening. Pig meat consumption has the largest share of total meat consumption. Since self-sufficiency is 13%, production of traditional dry-cured ham relies on imports and pig meat is the main imported meat. Fattening of pigs is largely done on family households for own consumption. The total production of pig meat was about 4.339 tons in 2011 (19% of the total meat production). Most pig slaughterhouses are privately owned.

There is no identification and registration system for pigs. There is no stocks system in Montenegro. System of pricing is not based on carcass quality, but mostly on live weight.

Eggs and poultry

According to the 2010 Agricultural Census, 16,313 farm holdings were involved in poultry and egg production, breeding 620,802 poultry heads. The production of eggs in 2011 reached about

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

75 million pieces, 60% of which originated from purely commercial production. The level of self-sufficiency in 2011 was 72%. Montenegro stated that eggs produced in intensive farming, accounting for less than 1% of the whole production, are produced in line with the EU regulations on the keeping of laying hens.

Broiler breeding is the most important in poultry farming with some 100 tons of meat per year; the quantity of meat produced from other species is negligible. Poultry meat processing is carried out in seven approved establishments, some of which integrated broiler breeding, slaughtering and processing.

Honey

In 2010 there were 2,533 holdings involved in beekeeping which had in total 50,024 honey bee colonies (20 honey bee colonies per household). The total annual honey production ranges from 300 to 500 tons. Only a small share of this production is marketed through retailers, most is sold through local markets or house to house.

The Ministry of Agriculture and Rural Development carries out a beekeeping development programme with funds allocated in the agro budget. The programme aims to improve competitiveness of beekeeping, to improve genetic potentials of honey bee colonies, to preserve the quality and improve the health safety of honey bee products, and to train beekeepers. The programme is implemented by the Federation of Beekeepers' Associations of Montenegro, gathering more than 2,000 beekeepers.

The sector also receives support for selected queen bees rearing (selection and reproduction centres) and improving quality of bee products and health status of bee colonies. Support is also provided to young newcomers to beekeeping and professional development of beekeepers.

Carcass classification and price reporting

A carcass classification system has not been established in Montenegro yet. Montenegro stated that its system for monitoring prices is not in line with the requirements of the *acquis* and the sector-related data gathering system will be established by the day of accession.

II.b.3 Specialised crops

Fruit and vegetables

Fruit and vegetables are grown on a small scale and the yield is relatively low. In 2011 the total production of fresh fruit reached 40,569 tonnes and the production of vegetables amounted to 330,004 tonnes. Montenegro applies a per hectare subsidy for planting new orchards, which is not in line with the *acquis*. Processing is limited with only two processing facilities operating in 2012.

Montenegro has introduced minimum quality requirements for fresh fruit and vegetables intended for consumption, as well as certain packaging requirements to ensure the preservation of quality and the safety of products. These requirements must be fulfilled both in production and marketing. Montenegro stated that the standards are not fully in line with the *acquis*. Montenegro also indicated that there are no producer organisations as defined by EU legislation but that associations of producers undertake certain functions. Montenegro already operates a system of price reporting for domestic and imported fruit and vegetables.

Flowers and plants

122 entities were engaged in nursery production on a total area of 561.8 ha in 2011. This data includes all categories of planting material, i.e. fruit varieties, grapevine, decorative plants, and vegetables. A total of 334,300 decorative plants were produced in 2011; the majority by one business entity. As regards support to the sector, grants are provided for the construction of greenhouses and glasshouses through the MIDAS project funded by the World Bank and the Global Environment Fund (GEF).

Wine

Wine production is an important sector in Montenegro with a share of 0.87% of GDP. Montenegro is a net exporter of wine. Wine is the biggest export commodity in the food sector. A dual structure exists: on the one hand, there is "Plantaze" with a capacity of 140,000hl of wine, the largest in the country; on the other, there are a number of small wineries with the capacity of up to 100,000 bottles per year and a number of small scale producers producing for their own needs. According to data from 2011, there were 2001 holdings growing grape vine on a total area of 2535 ha. Grapes are used for the production of wine and brandy.

A register of grapes and wine producers has been set up in accordance with the Law on Wine (Official Gazette No 36/07). Authorization is needed for grape vine growing but each producer producing grapes on an area above 0.05 ha or having more than 200 vine plants has the obligation to be registered in the Register. There were 380 such producers in 2012. The Register also keeps track of changes in vineyard areas, grape variety structure and planting density. Production of grapes and wine is monitored through the Register. Such grapes may only be traded and used as raw material for wine production intended for the market. Montenegro stated that classification of wine is done according to quality. Montenegro also indicated that certain rules on labelling of wine are not in line with the *acquis*.

Spirit drinks

The Law on Spirit Drinks (Official Gazette No 83/09) governs the production and trade in spirit drinks. Montenegro stated that the Law is partly harmonised with the *acquis*. The law recognises three categories of alcoholic beverages: brandies, hard liquors, and other alcoholic beverages. Montenegro stated that the definition of brandy is not in line with the *acquis*.

In 2011 the production of spirit drinks included 4,114 hectolitres of natural hard liquors, 157 hectolitres of liquors, and 364 hectolitres of artificial hard liquors. There were four distilleries engaged in the production of spirit drinks in 2012.

Olive oil

Olive and olive oil production is governed by the Law on Olive Growing (Official Gazette RMNE No 55/03). Montenegro stated that the law is not aligned with the *acquis* and that a new law aligning the sector with EU requirements is expected to be adopted in 2013. Montenegro stated that in 2011 it recorded 436,000 olive trees producing 1,600 tonnes of olives. Production is characterised by a low yield of 4.1 kg of olives per tree and 0.8 litre of olive oil per tree. Over 90% of collected olives are processed into oil. Olives are processed in 25 oil press facilities.

Montenegro stated that it implemented measures providing support to the reconstruction and revitalisation of existing tree plantations between 2007 and 2012.

As a member of the International Olive Oil Council, Montenegro applies marketing standards on olive oil that are harmonised with the EU.

Tobacco

Production and marketing of tobacco products is free in Montenegro. 258 tons of raw tobacco (mostly oriental variety) was produced in 2011 on 125 ha of land. Tobacco is harvested on small farms which sell their entire yield to three Montenegrin processing companies. Virtually all tobacco producers are members of a producer organisation. Aid is given to tobacco production (see section on direct support for details).

Seeds

There is no production of seeds for agricultural purposes in Montenegro and no particular measures are in place.

Chocolate products

Montenegrin indicated that its legislation has no provisions regarding chocolate products.

Hops

There is no production of hops in Montenegro. There are no restrictions or specific requirements for hops in Montenegrin legislation.

II.c. Rural development

Montenegro stated that it has been gradually introducing measures on rural development comparable to those in the EU since 2007. In 2006 Montenegro adopted "Montenegro's Agriculture and Rural Development Strategy", whose main aims were sustainable resource management, a stable and acceptable supply of safe food, ensuring an adequate standard of living for the rural population and increasing the competitiveness of food producers. "The National Programme for Food Production and Rural Development" was adopted for the period 2009 – 2013 to implement the Strategy. Out of 36 measures provided for in the programme, 17 relate to rural development and account for 39.3% of the budget. Montenegro stated that certain measures or parts thereof are not compatible with the *acquis*.

Montenegro is in the process of establishing complete structures for the implementation of the Instrument for Pre-Accession Assistance for Rural Development (IPARD). The rural

development programme under IPARD has been prepared and is expected to be adopted in 2013. The Ministry of Agriculture and Rural Development is the responsible body; the sector for rural development was appointed as the Managing Authority and the sector for payment as the future IPARD agency.

Montenegro indicated that it benefits from rural development support for farmers offered within a World Bank loan under the MIDAS project. Assistance concerns investment projects to strengthen the economic performance of the agricultural sector. It is being implemented with the involvement of the national structures.

II.d. Quality policy

The Stabilization and Association Agreement requires the harmonization of the national legislation with the *acquis* in the field of quality policy. The area is governed by the Law on Designations of Origin, Geographical Indications and Designations of Traditional Specialty Agricultural Products and Foodstuffs (Official Gazette No 18/11). Montenegro stated that further alignment will be ensured by adopting implementing legislation and by taking measures to implement a quality scheme.

II.e. Organic farming

Montenegro stated that organic farming is governed by the Law on Organic Agriculture (Official Gazette No 49/04), which regulates the production of organic agricultural products, processing, marking, packing, storing and transport.

The sector of organic farming in Montenegro is relatively small. There are 67 producers involved in organic production on 110 ha of land (2010). Producers involved in organic farming receive state support in the form of a payment per hectare or per livestock unit (EUR 150 per hectare for crops and medicinal herbs grown, EUR 250 per hectare for vegetables, perennial plants, seed and planting material, EUR 50 per livestock unit, EUR 2 per head of poultry, EUR 30 per bee hive). Support is also granted for the participation of agricultural producers in the registered quality schemes. In 2011, payments amounted to a maximum of EUR 1000 for organic farming and EUR 600 for participation in other quality schemes.

"Monteorganica" is the only accredited body for control and certification of organic agriculture.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Montenegro has reached a low level of alignment with the *acquis* in the chapter agriculture and rural development. Upon Montenegro's accession to the EU, the application and enforcement of the *acquis* on agriculture and rural development will need to be ensured. This will in particular require that Montenegro applies EU rules on direct payment schemes and ensures the implementation of the common market organisation for various agricultural products. There is a substantial amount of work to be undertaken as regards the transposition of legislation and the establishment of the necessary administrative and control capacities required by the *acquis*.

Montenegro needs to adopt a comprehensive strategy for the agriculture and rural development sector describing its initiatives and long-term policies for aligning with the *acquis*. Montenegro

needs to demonstrate its programming plans for its policy-related, legislative and institutional preparations.

III.a. Horizontal

The bulk of the agricultural budget in Montenegro is targeted at direct support measures linked to production. Direct aid payments are granted for Montenegro's production sectors as follows: livestock, arable crops, dairy and tobacco. These payments are not in line with the EU rules laid down in Regulation (EC) No. 73/2009. While some efforts are being made to de-link from production, support measures will need to be brought into line with the *acquis*, decoupling them from production and introducing the system with payment entitlements. The possibilities to apply coupled aids in line with the *acquis* exist only in certain sectors and with limited budgetary ceilings (suckler cow, sheep and goats, specific support).

Particular efforts will be required to establish a paying agency and the necessary Integrated Administrative and Control System (IACS) in order to comply with the detailed requirements of the *acquis* and under which all payments to farmers, direct payments and rural development measures, are administered. Extensive investment and institution building will be necessary well in advance of accession. The present control systems as applied in Montenegro are not compatible with EU IACS rules. The land register is poorly developed and a significant part of parcels has an unknown position. It is therefore not possible to use the register for EU area based direct payments. A computerised database exists only for animals registration, wine and olives producers. A single farm register has not yet been established. The timely establishment of all operational structures for implementing IPARD is therefore key. Montenegro will also need to develop a farm accountancy data network (FADN) in line with the *acquis*.

With regard to state aid, other than market-related subsidies and rural development measures, Montenegro applies a number of additional measures for granting aid to farmers. Montenegro will need to bring all its state aid measures into line with the *acquis* upon accession.

On trade mechanisms Montenegro's tariffs will have to be aligned with the *acquis* upon accession.

III.b. Common market organisation

Montenegro does not produce all agricultural products produced in the EU and therefore has no rules for those products. It will need to be able to apply the complete set of market mechanisms of the *acquis* upon accession, including intervention stocks. Montenegro will have to establish required trade measures (e.g. certificates, customs controls).

III.b.1 Arable crops, fibre, sugar

Due to its specific natural conditions, Montenegro has small areas of arable land that are under-utilised, so that arable crop production is limited. All measures will need to be fully aligned with the *acquis*.

III.b.2 Livestock products

The existing system of coupled direct payments in the livestock sector will need to be brought fully in line with the *acquis* as regards the payment for dairy sector, cattle and sheep. Montenegro needs to establish a carcass classification system for beef and pigmeat and a system for monitoring prices for the main animal productions in line with the *acquis*.

III.b.3 Specialised crops

As regards **fruit and vegetables**, Montenegro applies a per hectare subsidy for the planting of new orchards, which is not in line with the *acquis*. While there are associations of producers which undertake certain functions, these are not producer organisations as defined by the *acquis*. Montenegro will need to develop its administrative capacity to operate this scheme.

The existing marketing standards are not aligned with the *acquis* and will need to be harmonised with EU standards. A quality inspection body will need to be set up. Montenegro already operates a system of price reporting for domestic and imported fruit and vegetables but its full compliance with the *acquis* will need to be ensured.

In the *wine* sector, Montenegro needs to review its legislation with a view to aligning with the *acquis*. A vineyard cadastre needs to be developed. As regards **spirit drinks**, Montenegro's legislation will need to be harmonised with the EU legislation in the spirits sector. Montenegro grants a per hectare subsidy for the planting of new vineyards which is not in line with the *acquis*.

Subsidies are in place for the setting-up and reconstruction of existing **olive** groves. These measures are not in line with the *acquis*. As a member of the International Olive Oil Council, Montenegro applies marketing standards on olive oil that are harmonised with the EU.

III.c. Rural development

Montenegro's policy on rural development is partly aligned with that of the EU. This approach will need to be further strengthened and consolidated in line with EU requirements. Certain measures will need to be aligned with the *acquis*. Selection criteria and targeting of measures must be established. Programming, monitoring, controlling and evaluation capacities must be further enforced. The environmental and climate orientation of the policy should be strengthened in line with the EU objectives and framework in the rural development area. Knowledge transfer and advisory services will need to be strengthened in order to upgrade human capacity. Information activities aimed at the local communities for the formation of Local Action Groups (LAGs) and capacity building activities for LAGs must also be foreseen.

The Ministry of Agriculture and Rural Development has overall responsibility for rural development policy and implementation. This capacity will need to be strengthened. Thorough preparations will be required to adopt implementing capacities. As a first step, the timely establishment of complete IPARD structures for implementing pre-accession assistance needs to be ensured.

III.d. Quality policy

Montenegro applies a quality policy scheme similar to the EU scheme of geographical indications and traditional names. Montenegro's law on Designations of Origin, Geographical Indications and Designations of Traditional Specialty Agricultural Products and Foodstuffs (Official Gazette No 18/11) is broadly aligned with the *acquis*. Further alignment needs to be achieved by adopting implementing legislation. Attention needs to be focused on the implementation of the legislation.

III.e. Organic farming

Montenegro's legislation on organic farming has been revised to bring it in line with the *acquis*. This legislation is currently awaiting adoption and once adopted will need to be supplemented with implementing legislation. The supervisory activities on organics need to be strengthened.