



**TRADE POLICY REVIEW**

REPORT BY

MONTENEGRO

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Montenegro is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Montenegro.

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## 1 INTRODUCTION

1.1. Government of Montenegro applied for membership of the WTO on 23 December 2004, in line with Article XII of the Marrakesh Agreement Establishing the WTO. The General Council established Working Party (WP) on accession of Montenegro on 15 February 2005. The WP adopted the Report on its work and made the recommendation on accession of Montenegro to the WTO on 5 December 2011 after eight meetings had been held, and finished the work under its mandate. Accession of Montenegro was approved by the Ministerial Conference during its eight meeting. The Protocol on accession was signed on 17 December 2011 in Geneva. Montenegro became a full-fledged WTO Member on 29 April 2012.

1.2. The first review of trade policies and practices of Montenegro was initiated in order to implement commitments undertaken by WTO membership. Report of the Government aims to provide short descriptions of the most important economic and monetary policies (by sectors and measures), as well as descriptions of the priorities of the foreign policy as regards Euro-Atlantic integration. The Report describes key activities of the Government – current and future, as well as development projects in different sectors. It covers the period from 2012 to 2017, in line with the envisaged dynamics of reporting. In addition to the Introduction the Report contains 3 parts – main information related to the economic and trade policies, as well as the objectives and development of trade policies in the context of the ongoing accession negotiation to the EU and regional integration.

## 2 ECONOMIC POLICIES

### 2.1 Macroeconomic developments in the Montenegrin economy in the period 2012-2016

2.1. During the reporting period, the average annual real growth rate of gross domestic product (GDP) was 1.8%, with a recession of 2.7% in the first year as a result of the spillover of the crisis in the Eurozone, with the average growth from 2013 to 2016, 2.9%. The growth of the economy in these years would be considerably faster, but the lack of diversification on the supply side, which caused the high import dependence, reduced the growth rates of GDP. However, strong investment activity will increase the available capital in the area of infrastructure, energy, tourism and agriculture, increasing the potential for growth of the Montenegrin economy, whose effects will positively affect the overall economic activity in the medium and long term. Such dynamics will affect the reduction of obstacles to accelerated growth and will create an even more favourable investment climate, as a prerequisite for further FDI inflows. Likewise, increasing capital through investment activity involves the introduction of new technologies and knowledge both in the investment phase and in the operational phase. This dynamics affects the increase in total factor productivity, which is the most important driver of GDP growth in the long term.

2.2. Although growth is expected to accelerate in the coming period, there are risks, but also the potential for economic development. Further implementation of the Fiscal Strategy, continuous monitoring of the financial sector, labour market reforms and improvements in the business environment are crucial for achieving sustainable and inclusive growth of the Montenegrin economy. According to the IMF, the acceleration of global growth, especially in EU, could have a positive impact on the Montenegrin economy. Montenegro uses the euro as a domestic currency, the country has been a candidate for EU membership since 2008, while accession negotiations officially began in June 2012.

2.3. Trends in international trade and foreign direct investment (FDI) reflect the importance of Europe as the main market of Montenegro. The most important partners remain the EU, Serbia, Bosnia and Herzegovina, China and the Russian Federation, which remains the main individual foreign investment direct investment partner (FDI).

#### 2.1.1 Latest economic developments<sup>1</sup>

2.4. The Montenegrin economy, after weaker growth in the first quarter of 2017, accelerates, stimulated by the intensification of works on the realization of transport infrastructure projects, as well as projects in tourism and energy.

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<sup>1</sup> The contribution is prepared by the Ministry of Finance.

2.5. In the first two quarters of 2017, the Montenegrin economy grew at a real rate of 3.1 and 5.2% on an annual basis, so the growth rate of GDP in the first half of the year was 4.2%. Economic growth was driven primarily by a high increase in domestic demand, caused by a strong increase in investment activity, which led to an increase in employment and available income, which was exacerbated by the growth of banks' lending to households. The record tourist season and the positive developments in exports and investments marks the dynamics in the third quarter. Positive trends in economic growth are expected in the fourth quarter of this year. It is expected that the tourism sector will make a significant contribution to the growth of the economy and that revenues from tourism will reach €950 million annually. We estimate that GDP growth will reach 4.0% in 2017, from 2.9% that MONSTAT announced for 2016. The assumption for the realization of this rate is that the growth in the fourth quarter will be about 3%, as the strong investment activity is expected to continue.

2.6. Inflation in 2017, measured by the consumer price index, ranged from 2.0% in January to 2.8% in September, which is also the highest recorded annual rate in this period. The influence of external factors on inflation in Montenegro is evident through the "spill" of the dynamics of food and fuel prices from the world market, while from the internal factors, the prices of tobacco have a significant impact on inflation (as of August prices of excise taxes on tobacco are applied), accommodation and food service activities (tourism) which recorded the highest annual growth rate in July of (17.1%). The average inflation rate for January-September was 2.4%.

2.7. The dynamics of the labour market during the first half of 2017, characterized by a continuous increase in employment and a reduction in the number of unemployed. According to the Labor Force Survey data (LFS), employment in the second quarter of 2017 increased by 3.5% compared to the same quarter of the previous one, and the unemployment rate fell by 2.4 percentage points (p.p.). The unemployment rate in the second quarter was 15.1%. The activity rate increased by 0.3 p.p and amounted to 54.8%. The number of employees increased in the first quarter compared to the same period last year, by 5.3 thousand, while in the second quarter the increase was 7.8 thousand. Such dynamics is primarily due to the growth of employment in the construction sector. The average gross salary in the period January-September 2017 amounted to €765 and was 2.3% higher than in the same period of the previous year, while the average salary without taxes and contributions amounted to €510 and it was by 2.4% higher compared to the same period in 2016.

2.8. According to the preliminary data, in the period January-September 2017, the current account deficit amounted to €385.8 million and was 9.2% lower than in the same period of 2016. The reduction in the current account deficit is the result of an increase in the surplus in service accounts and primary and secondary income balance.

### **2.1.2 Projections of macroeconomic trends for the period 2018-2020 (real sector)**

2.9. Basic macroeconomic scenario for the period 2018-2020, as a result of the expected economic activity developments, projected from the expenditure side would result in a real GDP growth of 3.0% in 2018, 2.7% in 2019 and 2.6% in 2020. In the period 2018-2020, the growth of the Montenegrin economy is based on the growth of investment activity and engagement of domestic potentials, primarily in the construction and transport sector, but also as multiplicative effects on related sectors. Strong contribution from the construction sector, was caused by the involvement of domestic operators in the construction of infrastructure, new tourist facilities and energy ones. In the operational phase (supply effects) of the functioning of these projects, the growth potential of the economy is expected, with a positive impact on the entire economy. A special contribution is also expected from the agricultural sector, given the significant investments in this sector, and the effects would be visible through the substitution of food imports and increased exports. Average projected GDP growth rate for the period 2018-2020, is 2.8%.

2.10. Macroeconomic scenario 2018-2020 has the following components on the demand side:

- Domestic demand will grow at a rate of 1.7%, and household consumption will have a real growth rate of 2.4% and a share in the real growth rate of an average of 1.8%. The projected growth rate of household consumption is spurred by the expected growth in disposable income through an increase in employment, wages and growth in tourism revenues. Final public consumption of the will fall by 0.9% with participation in the real

rate of -0.2%, due to fiscal consolidation measures. The projected average real growth of gross investments is 1.6%, with gross investments growing at a rate of 1.8%, while the change in inventories will fall by 0.5%. This dynamic of investment shows the maintenance of a high level of investment activity at the level of 23% of GDP.

- The dynamics of foreign demand (net exports) is caused by the growth of exports of goods and services of 3.2% in real terms, with real growth in tourism revenues of 2.8% (nominal growth rate of 4.8%). At such rates of growth, total tourism revenues are expected to exceed €1.0 billion in the next year. Although exports of goods account for only 20% of total exports (goods and services), positive developments in this segment are expected to contribute to the reduction of high foreign trade imbalances. Imports of goods and services will grow at a real rate of 1%, with an increase in imports of goods, caused by increased imports for investment purposes (import of construction materials and equipment).

## 2.2 Tax system

2.11. Montenegro's tax policy is based on the comprehensiveness of taxpayers (natural and legal persons), low and competitive tax rates and selective tax reliefs.

2.12. The tax system of Montenegro consists of several types of taxes and other fiscal positions. Direct taxes, which burden taxpayer's economic ability affecting directly their property or income, include: corporate income tax, personal income tax, real estate tax, tax on the use of passenger motor vehicles, vessels, aircrafts and airplanes and tax insurance premiums. Indirect taxes, charged in relation to the production, consumption or exchange of goods, are divided into: VAT, excise duties, customs duties, real estate sales tax and sales tax for used motor vehicles, vessels, aircrafts and airplanes. Other fiscal terms include contributions for compulsory social insurance, fees, concessions and charges. The structure of tax revenues is dominated by the indirect taxes and those are the value added tax and excise taxes, followed by the personal income tax and profit tax.

2.13. The Ministry of Finance is responsible for tax system and tax policy and the Tax Administration is responsible for implementation of tax policy, except in the area of excises for which the Customs Administration is responsible.

2.14. The tax procedure is prescribed by the Law on Tax Administration, which defines the rights and obligations of taxpayers in the tax procedure, as well as the rights, obligations and powers of the tax authority in determining and collecting tax liabilities.

2.15. The tax system is exclusively based on the principle of self-taxation, according to which the obligation of calculating and declaring of tax obligations is transferred to taxpayers. Taxes on consumption are paid according to the principle of destination, that is, by the place of consumption, and direct taxes according to the place of income generation. Double taxation at the international level is avoided by giving a tax credit on the account of paid tax on profit and income abroad to the limit of the obligation on the basis of Montenegrin tax.

2.16. According to the Common Negotiating Position on the Accession of Montenegro to the European Union, it has been established that the legislation of Montenegro closely follows the EU acquis, as well as the determined benchmarks for further harmonization.

2.17. Montenegro has established a stable and predictable tax system, where for certain taxes a tax calendar is established by 2020, so that in the mentioned period there will be no further increase in the rates, other than the tax rates already determined in advance by the tax calendar.

2.18. The most important strategy in the last few years has been directed to create conditions for voluntary performance of tax obligations, and for that purpose, results have been achieved regarding the simplification of tax procedures and transparency in the performance of tax obligations. Simplification of tax procedures is reflected in the reduction of procedures for settling tax liabilities, the establishment of a system for electronic filing of tax reportings and the reduction of deadlines for the return of the tax credit. Consolidation of different tax reportings has been established so that the calculation of the personal income tax of natural persons and social

insurance contributions are submitted on a consolidated form for the calendar month, and all the established obligations for that month are paid in a cumulative amount to one payment account. The obligation to submit tax declarations for tax on profit, income tax and social insurance contributions has been introduced, and taxpayers have been provided also with the possibility of submitting the value added tax declaration electronically. The system of repayment has been improved through the establishment of the tax authority's promptness in making decisions on the return of the tax credit for certain tax forms. The list of the largest tax debtors (black list), as well as the list of regular taxpayers (white list), is published quarterly, thus achieving transparency in the settlement of taxpayers, so that taxpayers and citizens would have insight into the regularity, that is, the liability of taxpayers in terms of settlement of tax obligations.

2.19. A special focus is the creation of an effective system for reducing the informal sector, and in connection with this special measures have been established by the Law on the Prevention of Illegal Business, and the Government of Montenegro has established a special Commission for the Elimination of the Gray Economy, which coordinates the work of the competent authorities and proposes to the Government further measures on the suppression of the gray economy. Such measures certainly include those relating to creating conditions for ease of doing business and raising tax morality.

2.20. In the forthcoming period, the main strategy will be to improve the legal framework for the suppression of the informal sector and simplify tax procedures, which will contribute to the improvement of the business environment, which will be attractive both for domestic and foreign investors.

2.21. To this end, concrete projects are being launched, and one of the most important projects is the "Modernization of Tax Administration", whose realization begins in January 2018 and is financed from the World Bank loan. This project aims to improve the institutional capacities of the Tax Administration and the management system, and to fully utilize a highly automated system that does not require significant caution and is based on risk assessment. The project involves investment over a five-year period for institutional development and modernization of the operational function of the Tax Administration, IT system and infrastructure and services to taxpayers. In this way, the conditions are created for the good services to increase the co-operativity of taxpayers in the execution of tax obligations, and that the measures are undertaken in accordance with a good automated risk assessment system, thus reducing the number of administrative procedures and at the same time increasing the efficiency of the tax authority with the reduction of tax procedure costs.

2.22. Within the framework of the World Bank loan, the project Electronic fiscalization will be implemented, which will enable the transfer of data from the payment devices used by taxpayers to the Tax Administration server. This system involves real-time data transfer of every transaction in the trade of goods and services, which gives a complete insight into the realized revenues and calculated tax liabilities by the taxpayers. The goal of this project is centralized insight into the process of issuing invoices for performed sales and tax accounting, thus gaining a powerful tool for suppressing illegal business, especially in the trade of goods and services.

2.23. The tax system will continue to adjust in order to fully harmonize with the EU acquis, and in January 2018, a Project will be launched that will produce a complex set of results for resolving the pre-accession requirements of Chapter 16 - Taxation, and which is financed from the European Fund IPA 2014. The objective of this project is to improve the conditions for administrative cooperation and mutual assistance with the EU Member States to harmonize with the applicable directives related to the exchange of information from the tax area and the establishment of a central liaison office in order to automatically exchange information in accordance with the European Union Directives regulating the field of automatic exchange of information - Directive on Administrative Cooperation (DAC) 1, 2, 3, 4.

### **2.3 Structural reforms**

2.24. The latest Doing Business Report 2018 for the period June 2016 - June 2017 shows that the reform activities undertaken for improving the business environment resulted in the overall progress, where Montenegro took the 42<sup>nd</sup> place among 190 ranked countries and thus, compared to last year's revised Report (June 2015 - June 2016), it shows an improvement for 9 places.

2.25. With regard to the World Economic Forum's Global Economic Indicators Index 2017-2018, Montenegro took 77<sup>th</sup> place out of 137 countries, showing a progress of 5 places compared to last year's report.

2.26. The Government of Montenegro is making efforts towards increasing the level of competitiveness for international investment market, therefore special attention in particular to improving the efficiency of the state administration, reducing the costs of administrative procedures and shortening their duration. Hence, these aspects for creating a favourable climate were in the focus of the implemented measures to improve the business environment. In this regard, the Government of Montenegro at the session of 1 June 2017 adopted the Decision on the establishment of the Competitiveness Council, with the main task of coordinating activities in the implementation of the priority reform measures defined in the strategic development documents, which are in the function of removing key obstacles for greater competitiveness and faster economic growth of Montenegro.

2.27. With regard to improving the situation as in the area of issuing building permits, the initial commitment for drafting a new law with an aim to enable the stability and security of the system, as necessary prerequisites for attracting investments. These prerequisites, along with the new construction system and use of facilities, which is significantly improved with the adoption of the Law on spatial planning and construction, enable and increase the competitiveness of Montenegro in the investment market. The law abolishes the construction and usage permit, as administrative acts on the basis of which the construction and use of the facility is carried out. The law came into effect on 14 October 2017.

2.28. An important segment of future reform activities are to ensure professional and competent staff, as well as the use of e-government in daily basis. For access services at the state and local level, a portal of e-Government has been created in the form of a unique individual point called "All in one place". In order to improve the services available on the above mentioned portal, continuous efforts are being made to provide as many services as possible, accessible to all citizens and businesses. Hence, the total number of e-services on the e-Government portal is 249, and provided by 31 institutions: 113 e-services are of an informational type and 136 e-services are of an electronic type. Additionally, more specifically, 135 are services for natural persons, 92 services are for legal entities and 22 services are for the administration. In order to create a more modern and efficient state administration by the end of the year, it is planned to involve as many institutions as possible on the e-Government Portal and thus increase the number of electronic services. Also, with the amendments to the Law on Electronic Government it is envisaged to include the services of local self-government on the e-Government portal as well as the activities planned on the technical level and other prerequisites for publishing / providing these services.

2.29. The Ministry of Finance started in 2012 with the implementation of activities to simplify the registration process of the companies, when the e-Government portal enabled the electronic submission of applications for registration of new economic entities, which in the other hand replaced the arrival at service counter as well as waiting in lines. Also, in accordance with the [Law on Business Organizations](#), the Ministry of Finance prepared Guidelines on using the Central Registry of Business Entities and Enrollment Forms (OG MNE No. 20/12 of 12.04.2012), which introduced the possibility to electronically submit the required documentation. Further activities aim at introducing a full electronic registration, a procedure that will be quick and simple; therefore the Ministry of Finance initiated amendments to the Law on Business Enterprises, which regulate better the work of the Central Register of Business Entities (CRPS). The public hearing is finished and the law is being harmonized with the line ministries.

2.30. In addition to the entire set of laws and strategic solutions that Montenegro has adopted in the field of information society development, harmonized with European standards, with an emphasis on the Strategy for the Development of the Information Society by 2020, activities for their implementation have been intensified. In this regard, action plans are defined on an annual basis.

2.31. In the part of regulatory reforms, the application of the Regulatory Impact Assessment (RIA) is continuous, with an aim to set prerequisites in order to reduce, resolve or even prevent the new barriers from happening. In this regard, from the formal introduction of the RIA into the Montenegrin regulatory system on 1 January 2012 to 1 December 2017, the Ministry of Finance



gave over 2,000 opinions on draft acts and the accompanying forms of the report on the conducted analysis of the RIA, from both aspects, implications on the business environment and the impact on the state budget.

2.32. In the area of implementing the recommendations of the "Guillotine Regulations", the recommendations are being continuously implemented, where the level of implementation, from the first adopted Action Plan (May 2012) to 30 September 2017, amounted to 1,231 out of the total accepted 1,446 recommendations, which represents a level of fulfillment of 85.13%. It is a project that refers to comprehensive analysis of Montenegrin regulations, from the aspect of simplifying administrative procedures, improving the business environment, as well as faster and better realization of citizens' rights and obligations before the state administration bodies. The specificity of the Montenegrin Guillotine Regulations, in relation to the countries in region, is the comprehensiveness, because in addition to a number of economic regulations and standards, it also concerns the reform of the misdemeanor system, the inspection procedure and the equalization of administrative procedures. It is planned that by the end of 2018 the project will be completed.

2.33. Within the framework of the public sector reform, the Ministry of Public Administration was formed in November 2016, by unifying the state administration, local self-government, electronic administration and information security. The Ministry's mission is defined by the Public Administration Reform Strategy until 2020, adopted in July 2016, with the aim of creating an efficient and service-oriented administration, by enhancing the confidence of citizens in the quality of the services. The new system of organization at the central and local level ensures a more efficient functioning, in accordance with the capacities and needs of the population, which will contribute to the valorization of resources and implementation of strategic development policies of Montenegro. In the part of improving the public administration dialogue with the civil sector, the emphasis is put on social partnership as an incentive for necessary reforms.

2.34. Within the framework of the activities undertaken for further improvement of the business environment at the state and local level, Ministry of Finance in cooperation with the UNDP Country Office in Montenegro, supported by the UK Embassy in Podgorica and other partners, worked intensively on the implementation of the project "Citizens and Business Administration". The project provided an opportunity for a public-private dialogue or an effective participation of citizens, the business community, the academic community, NGOs and other stakeholders to stress out to the state and local administration the problems that the citizens and businesses in Montenegro encounter when exercising their rights and performing business activities. During the second phase of the project, a dialogue on concrete business barriers was launched through the portal [www.bezbarijera.me](http://www.bezbarijera.me), through the "No Barriers! So Business Doesn't Wait" campaign. In the period from November 2015 to March 2016, with the modernization of the portal by independent experts, the interested public had the opportunity to point out specific shortcomings in the regulatory framework and administrative procedures.

2.35. In order to improve the business environment at the local level, in May 2016, Montenegro joined the Certification Program for Municipal Economy in South East Europe (BFC SEE). The certification program gives municipalities clear guidelines on how to create a good business climate and introduce internationally recognized standards of an efficient and transparent local administration. The certification program is an opportunity for local governments to improve the business climate in line with the best practices of the regions and countries of the European Union, as well as the chance to better position themselves on the investment map and improve competitiveness.

2.36. In order to address the problems of insolvency, the Law on Compromise Financial Restructuring of Debts to Financial Institutions entered into force in April 2015, with an aim to encourage and accelerate the recovery of borrowers, i.e. users of mortgage loans in financial difficulties troubled by debt restructuring, preserving the stability of the financial system and facilitating access to new ones by means of financing to stimulate economic recovery and growth. This implies resolving the problems of economic entities whose economic activity is economically viable and which, due to the lack of liquid assets, are late with loan repayment. Therefore, it was necessary to find an appropriate solution for restructuring a company's debt whose loans are classified in the "B" and "C" categories. The proposed law is based on the concept of volunteer participation in restructuring. Debtors and their creditors voluntarily participate in debt negotiation with the aim of reaching a mutually acceptable solution. On 22 June 2017, the amendments to the

present law came into force. In order to further simplify the administrative procedures, the procedures of Voluntary Financial Restructuring, so that the companies/clients, in turn, can save more time and money.

## **2.4 Justice reform system**

2.37. Judicial reform process has been one of the most important processes in Montenegro during the past decade.

2.38. Adoption of the Strategy for the Reform of the Judiciary 2014-2018 opens up a new phase in implementation of reform activities aimed towards further development of the judicial system in Montenegro with a view to providing more efficient enjoyment and protection of civil rights and freedoms. The strategy will provide guidelines on preparation of judicial institutions and judges and public prosecutors for the challenges presented by the European Union membership. In the forthcoming period, reform activities will focus on achievement of several strategic goals. Further strengthening of independence, impartiality and accountability of the judiciary remains priority for Montenegro in the European integration process. Increased efficiency of the judicial system will lead to improvements in the respect for human rights and rule of law. Reform processes will also contribute to the improvement of international and regional judicial cooperation and further capacity building of judicial institutions.

2.39. Reform of Civil Law, since 2012, has included adoption of the Law on Amendments to the on civil procedure, Law on Amendments to the Law on Obligations, Law on Amendments to the Law on Enforcement and Claims Securing, Law on Amendments to the Law on enforcement agents, etc. Reform of the civil law in the previous period has been mainly based on the system inherited from earlier legislation that regulated this matter, however some provisions that were imposed by development of society in general and its modernization were also introduced. According to the strategic goal of Montenegro - EU integration process, when creating new regulations, great attention is paid to compliance with relevant regulations of EU. Also, with regards to increasing the efficiency of the system of execution, speeding up the procedure and reducing the number of backlog cases, a normative framework has been created, which will have an impact on the improvement of the business environment, the creation of conditions for the elimination of business barriers and ultimately to improve the position of Montenegro in the international investment public.

2.40. Reform of Criminal Law, since 2012, has included adoption of the Amendments to the Criminal Procedure Code, amendments to the Criminal Code, amendments to the Law on Liability of Legal Persons for Criminal Offences, amendments to the Law on the Treatment of Juveniles in Criminal Proceedings etc. Changes in economic, political and general social circumstances result in emergence of the new forms of behaviour that are dangerous to society which is why the new criminal offences were introduced, while some, already existing, criminal offences were left out, whereas new criminal sanctions were introduced and punishments for certain criminal offences were prescribed different.

2.41. One of the most demanding challenges in the reform of the judicial system of Montenegro in the forthcoming period will be development, adjustment and training of judicial institutions to operate in the European Union legal system. In the accession negotiations period, which also coincides with the implementation period of the Strategy for the Reform of the Judiciary, all the judicial institutions and other professions in the judiciary should embark on.

## **2.5 Privatization**

2.42. Privatization process in Montenegro is being implemented in accordance with the Montenegrin Economic Policy, whose main objectives are reflected in the higher economic growth, ensuring new jobs and employment, increasing investments and export and creating the basis for higher income and growth of citizens' standard of living, together with the increase of competitiveness of the Montenegrin economy. Privatization process is in final stage. Since the beginning of 1999, more than 90% of the state-owned companies or companies with the majority of the state-owned capital have been privatized, including the 100% of privatization in the banking sector, telecommunications and oil distribution. Most of the companies that have not been

privatized for the time being are of the strategic relevance for the Montenegrin economy in the energy, transport and tourism sectors.

2.43. Since 2012, there have been several privatizations. Privatization of companies, through sale of shares or assets, was implemented in the transport, dairy, chemical, lumber, tobacco and tourism industries.

2.44. In addition to privatization of assets and shares owned by the state, the Government has concluded two lease agreements with reputable investors. The contract on the long-term lease of the former military barracks "Orijenski bataljon", Kumbor, Herceg Novi was signed on 10 July 2012 with the State Oil Company of Azerbaijan (SOCAR). The investment program envisages the total investment of €258.077.000 for the first 8 years of the lease, converting the location into an exclusive lifestyle world-class richest luxury retailer "Portonovi". The Resort will contain architectural and functional elements that will make Portonovi an unique destination in the Mediterranean, contributed by the management contract signed with One & Only and Henri Chenot, bringing the investment of around €650 million. The agreement on the long-term lease of the site Lastavica with the fortress "Mamula", Herceg Novi was signed on 23 February 2015 with the company Orascom Development Holding. The contract envisages reconstruction of the fortress "Mamula" and its conversion into a unique hotel museum character, category 5\* star.

2.45. Having in mind the success of public-private partnership (PPP) projects in EU member states and the lack of the budgetary funds for infrastructure development, the Government of Montenegro has decided to use the PPP model more intensively through the privatizations process. Therefore, the Government has opened all sectors to the PPP model (including healthcare and education, ports, energy, tourism and the valorisations of attractive locations in the costal and northern areas of Montenegro).

## **2.6 Investment policy**

2.46. Recognizing investment policy as one of the key elements for development and improvement of the country's economy, Montenegro has defined increasing competitiveness through structural reforms and development of infrastructure, as the primary goal of economic policy, which will definitely contribute to creating conditions for higher inflows of domestic and foreign investments. Potential for economic growth has been recognized in the sectors of tourism, energy, transport, agriculture and manufacturing Industry, which are identified as strategic priorities for development of Montenegro.

2.47. In 2017, FDI inflow trend continued, so in the first nine months net inflow of FDI amounted to €311.7 million, which represents an increase of 10.6% compared to the same period in the previous year. Observing the FDI inflow structure for the period 2010-2016., the largest investments are related to intercompany debt both in companies and enterprises (with a share of 31.2% and 31.6% of total FDI inflow), followed by investments in real estate (participation of around 30%). With a positive trend in FDI flows in Montenegro, we have the potential to flexibly fit into the world trends of foreign direct investment and investments can have a major impact on economic growth and macroeconomic stability.

2.48. With the aim of attracting new investments and improving the business environment, on 16 October 2014 Law on Amendments to the Law on Foreign Investment was adopted (OG MNE No. 45/14). Amendments to the mentioned Law additionally clarified the term of foreign investor and improved investment environment by abolishing restrictions on investments in a company engaged in the production and trade of weapons and military equipment. Foreign investors are provided with a national treatment, which means they have the same status as domestic investors and are allowed to invest in any sector of the industry and freely transfer financial and other assets, including profits and dividends. Also, the system of investor protection is improved by the provision defining that the property of a foreign investor cannot be the subject of expropriation, unless the Law stipulates a public interest, with compensation in accordance with the Law.

2.49. The Government of Montenegro, aware of the need for improvement of the investment environment, adopted the Decree on Fostering Direct Investment (OG MNE No. 80/15), on 31 December 2015, which defines a new set of incentive measures for domestic and foreign investors. Based on ten criteria defined by the Decree, the investor has the possibility of allocating

direct funds for investment projects in the capital city and southern region, with a minimum value of €500,000, which provides opening of minimum 20 new jobs, and in the central and northern region minimum €250,000 and minimum 10 new jobs. Investment Investors, according to their investments, are entitled to incentives ranging from €3,000 to €10,000 per newly employed person. In addition, any capital investment in excess of €10 million and generating at least 50 jobs is eligible for incentives of up to 17% of its worth. The Decree also envisages the possibility to reimburse the costs of construction of the infrastructure required to implement the investment project. The mentioned Decree seeks to attract new investors, increase employment, in particular in the less developed areas, and balance out regional disparities.

2.50. On 17 November 2016, the Government of Montenegro adopted the updated version of the Decree on Business Zones (OG MNE No. 20/11 and 20/15). The mentioned Decree on Business Zones defines the model of designation, establishment and management of business zones, their classification according to the strategic importance, the way of regulating the zone, the concept of the user of the business zone, the way of entry into the zone and the benefits that potential users of the business zone have. Nine local governments have identified business zones of local importance so far, enabling the investors to invest under favourable terms in Berane, Bijelo Polje, Kolasin, Mojkovac, Niksic, Cetinje, Ulcinj, Podgorica and Rožaje. The Ministry of Economy has also prepared specific guide with individually presented business zones, their locations, capacities and facilities, and all necessary information are available in Directorate for Investments, Ministry of Economy, as well as on the website [www.bizniszona.me](http://www.bizniszona.me).

2.51. The business zone is a unique entity in the area of local municipality, partly or fully equipped with infrastructure, which provides potential investors with additional tax and administrative facilities from the state and local levels, in addition to the common space and infrastructure. By the Decree on Business Zones, the beneficiary is exempted from paying compulsory social security on salaries, contributions to the Labor Fund and personal income tax for a period of 5 years from the date of positioning the capacities in the business zone. Incentives have been provided from the local level in terms of: favourable price of land lease / purchase, relief or reduction of utility fees, construction land placement fees, reduction of the tax rate on real estate, exemption of personal income tax and one stop shop. The Decree on Business Zones stipulates that local municipality that have designated business zones, must comply local regulations and decisions with the provisions of the sub-legal act by 21 June 2018, in order to consider the business zones of local importance as functional and infrastructurally equipped to future users.

2.52. The Law on Free Zones (OG RM No.42/04, OG MNE No. 11/07, 76/08, 40/11 and 40/16) regulates the establishment of the free zones and warehouses, management and conditions for carrying out economic activities in them, as well as the conditions for terminating operations of the zone and warehouse. In order to further harmonize with EU legislation, on 25 June 2016, the Law on Amendments to the Law on Free Zones was adopted and came into force on 8 July 2016. Given that free zones should be transit and production-oriented, amendments to the mentioned Law prescribe tax and customs reliefs for goods that are entered into a zone or warehouse and used for the purpose of its processing, active refining or subject to the usual forms of handling. In order to provide control of foreign trade with weapons and military equipment, amendments to the Law on Free Zones prescribe the exemption of the mentioned goods from the free-trade regime in the zone or warehouse. Also, provisions on regulating economic activities are improved, in terms of their additional compliance with other regulations for environmental protection and other values of the public interest and the procedure for the establishment of free zones has been also improved, but also the deadlines for starting the operation of the zone or warehouse have been extended.

### **2.6.1 Incentive programmes available to investors**

2.53. Within the Programme for supporting industry modernization, companies have the opportunity to reduce the cost of purchase of equipment, by subsidizing the costs up to 20%, more precisely up to €20,000, which will ultimately lead to the improvement of technological processes, products and services and increase in volume and value of turnover.

2.54. In addition, under the Programme for enhancing innovation in SMEs, companies have support available in the form of co-financing the part of the costs for engaging external consultants for the implementation of innovative activities, more precisely for technical studies and solutions, the introduction of special ICT solutions and softwares in the business, creation of new

product design and similarly, which means that companies can obtain financial support amount to 50% or up to €3,500 without VAT.

2.55. The objective of the Cluster Development Program in Montenegro is to provide financial support for entrepreneurs, micro, small and medium sized enterprises within clusters, through investments in tangible or intangible assets or operational costs, in order to strengthen the capacities of clusters and their positioning in the local and international market.

2.56. Programme for Enhancing Regional and Local Competitiveness through Harmonization with International Standards of Business aims to support entrepreneurs and SMEs, in particular the ones from the less developed municipalities, to increase their competitiveness through harmonization with the product-related international standards and support for conformity assessment accreditation.

2.57. Support is available also through the Decree on subsidies for employment of specific categories of unemployed persons, for legal persons and entrepreneurs who decide to hire some categories of unemployed persons who are registered in the Employment Agency of Montenegro from 1 January 2016 until 31 December 2017. In December 2017, the Government adopted a Decree on amendments to the Decree on Subsidies for employment of specific categories of unemployed persons, which extended its implementation until 31 December 2018. During 2016, 503 employers applied Decree on subsidies for employment of specific categories of unemployed persons, for employment of about 5,500 employees.

2.58. The self-employment support program is implemented in Montenegro since 2008 (Innovated program for continuous stimulation of employment and entrepreneurship) is intended for unemployed persons, techno-economic surpluses, individual agricultural producers, entrepreneurs and legal entities with the status of a small enterprise. Through this program, loans are granted under more favourable market conditions, and a loan of €5,000 can be obtained for each newly created job. The projects are financed for up to three jobs, therefore the maximum loan amount is €15,000.00. In 2016, 10 loans were awarded to entrepreneurs and legal entities amounted to €90,000.00 and 18 new jobs were opened. In addition to entrepreneurs and legal entities, 20 loans to unemployed persons were also granted and 22 new jobs were opened and the mentioned loans amounted to €110,000.00. This program will continue in 2018.

## **2.7 Competition policy**

2.59. In accordance with the provisions of the Law on Protection of Competition (OG MNE No. 44/12) that came into force on 9 October 2012, the Agency for Protection of Competition was established as an institution with public authorizations, which independently performs tasks within the scope of its competencies established by the Law, and which is accountable for its work through annual report to the Government and the Parliament of Montenegro. The Agency started its work on the day of registration in the Central Register of business entities of the Tax Administration (8 February 2013).

2.60. By passing ten (10) by-laws, which came into force by the end of 2014, the legislative framework was fully completed, in the largest part harmonized with the EU acquis.

2.61. Activities related to the draft of the Amendments to the Law on Protection of Competition are in progress. Amendments to the Law on Protection of Competition have been initiated with the aim of forming a single body that would perform activities related to the protection of competition and state aid. Namely, in the amendments, inter alia, it is envisaged that the powers and actions of the State Aid Control Commission come under the jurisdiction of the Agency for Protection of Competition. This will enable that operations of the state aid control are carried out within the existing institutional arrangements, without expanding the network of regulatory bodies.

2.62. Since the entry into force of the Law on Protection of Competition, the Agency for Protection of Competition has issued a total of 166 decisions, out of which 142 decisions related to the control of concentrations (merger control); 5 decisions related to the abuse of dominant position (of which 2 are suspension of proceedings and 3 decisions establishing infringement of competition); 7 decisions related to restrictive agreements (of which 1 is the suspension of proceedings and 6 decisions establishing infringement of competition); 12 decisions on individual



exemption from restrictive agreement. Also, in the period from 2012 to 2017, the Agency has, at the request of the undertakings, and the competent state authorities and institutions at the local level, issued 127 opinions and statements on this basis.

## **2.8 Public Procurement**

2.63. In July 2015, by handing over the instruments of ratification, Montenegro became a full member of the (GPA) of the WTO (the Decision on Montenegro's accession to Government Procurement Agreement (OG of MNE - International Treaties, No. 6 of 29 May 2015).

2.64. As a candidate country for EU membership, Montenegro has assumed the obligation to establish an effective, transparent and sustainable system of public procurement, through further harmonization of national legislation with EU standards. The activities on the adoption of the new Law on Public Procurement are under way, and the Law will be fully harmonized with the EU acquis of 2014.

2.65. With an aim of improving the transparency of the system, Montenegro launched the activities on establishing electronic public procurement system through the project IPA 2014, with a value of €1.65 million. The selection of the most appropriate bidder to establish the electronic public procurement system is expected in the second half of 2018. This system should enable a full implementation of public procurement procedures in electronic form. The introduction of electronic procurement will improve the efficiency and transparency of public procurement and enhance the monitoring system. This ultimately leads to further opening of public procurement market and better management of information, allowing the monitoring of the public procurement cycle.

## **3 TRADE POLICY**

### **3.1 Small and medium enterprises (SMEs)**

3.1. The principles and directions of the development of entrepreneurial policy in Montenegro are defined in the Strategy for Development of Small and Medium sized Enterprises for the period 2011-2015 (Hereafter to as the Strategy). Implementation of SME development policies is under the authority of a large number of institutions, the private and public sectors, and is being implemented continuously, in accordance with the measures of the Strategy. In the framework of the Strategy, the following activities are planned for further improvement of the business environment within the four defined strategic objectives: improvement of the business environment, strengthening of financial support, strengthening of competitiveness of SMEs and promotion of entrepreneurship, and support to beginners in business - start up.

3.2. In line with the objectives of the Strategy, the following effects have been achieved: progress has been made in creating a more favourable business environment, the macroeconomic environment for the operations of SMEs is stable and transparent, and Montenegro's position on the ranking lists of international economic reports has been improved, the strategic objectives of the Strategy have been successfully implemented (the increase in the number of SMEs, employees in SMEs, increased participation of SMEs in total exports, total investments in fixed assets, turnover and gross value added).

3.3. In 2017, in Montenegro, according to Tax Administration data, there were 25,962 SMEs, which, is an increase of 23.62% compared to 2012. The participation of SMEs in the total number of companies in 2017 is 99.75%, which coincides with the EU average where SMEs account for more than 99% of the total number of enterprises. In the gross added value SMEs participate with 69%, while in the total turnover the SME sector participates with 78% in 2016<sup>2</sup>, and employs over 75% of the total number of employees in Montenegro in 2017. Most enterprises are in the trade sector (30.9%), accommodation and food services (12.4%), construction (10.7%), manufacturing industry (8.4%) and transport (5.1%).

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<sup>2</sup> According to the Classification of activities - KD2010, from B-S, apart from K-Financial activities sector and the O-State Administration and defence sector and mandatory social security. Source: Research "Foreign Affiliate Statistics".

### 3.2 Trade in goods

3.4. As a small country and economy, Montenegro is open to trade in goods. Openness of Montenegrin economy of international trade and its goal of integration into the world economy is reflected in relation to its trade. In the period 2012-2016, the growth of foreign trade of Montenegro was recorded. While exports varied from year to year, imports recorded growth from 2013.<sup>3</sup>

**Table 1 Foreign trade of Montenegro for the period 2012-2016**

Value in '000 €

Period		World	Europe		EU-28		CEFTA 2006 <sup>a</sup>	
		Value	Value	%	Value	%	Value	%
(1)	(2)	(3)	(4)	(5) = (4/3*100)	(6)	(7) = (6/3*100)	(8)	(9) = (8/3*100)
2012	Import	1,820,850	1,584,402	87%	809,886	44%	702,314	39%
	Export	366,896	356,766	97%	189,004	52%	143,667	39%
2013	Import	1,773,352	1,527,887	86%	784,201	44%	687,091	39%
	Export	375,585	360,667	96%	155,791	41%	185,771	49%
2014	Import	1,784,214	1,542,019	86%	816,623	46%	669,580	38%
	Export	333,166	317,674	95%	119,215	36%	151,754	46%
2015	Import	1,841,524	1,523,013	83%	759,771	41%	698,476	38%
	Export	317,172	289,515	91%	113,177	36%	137,483	43%
2016	Import	2,061,688	1,731,954	84%	992,567	48%	627,546	30%
	Export	325,846	290,701	89%	122,376	38%	146,800	45%

a Agreement on Amendment of and Accession to the Central European Free Trade Agreement.

Source: Data MONSTAT.

3.5. In the structure of imports (according to the SITC classification) in 2012, the largest share (20%) of imported goods refers to food and live animals, while in 2016 the largest share of imports (26%) refers to machinery and transport devices.

3.6. In the structure of exports (according to the SITC classification) in 2012 as well as in 2016 (42% and 27% respectively) the most represented goods are products classified by material (e.g. non-ferrous metals with 35.1% of the total exports in 2012 and 19.3% of total exports in 2016). In the mentioned period, the biggest growth of share of exports had the Raw material sector, except fuel (15% in 2012 and 22% in 2016).

3.7. In the observed period 2012-2016 main foreign trade partners of Montenegro were the European Union and CEFTA 2006 Parties (see Table 1). The main individual trading partners were: Serbia, Bosnia and Herzegovina, Germany, Hungary and China.

### 3.3 Industry – Manufacturing industry

3.8. The industry sector (mining and quarrying, manufacturing, electricity, water supply) in Montenegrin economy contributes 10.1% of gross value added (2016), which leads to its indisputable importance in respect of employment and sustainable regional development.

<sup>3</sup> The Statistical Office of Montenegro (MONSTAT) is the competent institution responsible for the production and dissemination of data foreign trade in goods of Montenegro (EXTRASTAT system, compliant with Regulations (EC) No 471/2009, (EU) No 92/2010, (EU) No 113/2010, (EU) No 1724/2016, (EU) No 2119/2016, (EU) No 1253/2016). In the documents submitted by the Secretariat used data is extracted from the Comtrade Database of the United Nations (<https://comtrade.un.org/>), to which MONSTAT delivers data on a monthly basis. Bearing in mind that according to the UN methodology, it is possible to use other trading systems, to use another currency (US dollar), as well as non-existence of Republic of Kosovo \* in their data, it is possible that there is discrepancy in data (example of export participation for CEFTA 2006 Parties that differs exactly for the value of exports towards Kosovo).

3.9. According to its volume, manufacturing industry remains the most important and the biggest industrial sector in Montenegro and as such has a big influence on the employment, GDP and the export of the overall economy. Measured by the volume of industrial production, the currently most significant activities in the structure of the manufacturing industry includes: manufacture of pharmaceutical products, manufacture of basic metals, manufacture of metal products, manufacture of food products, beverages and tobacco products. In addition to this, manufacturing industry is the most significant in terms of employment. The greatest numbers of workers in the manufacturing industry are employed in: manufacture of basic metals, manufacture of metal products except machinery and equipment, repair and installation of machinery and equipment, manufacture of food products, manufacture of wood and of products of wood and cork. As in the case of employment, the manufacturing industry achieves the largest share in the total export of industry, and it is held by the manufacture of basic metals, manufacture of food products, manufacture of beverages as well as manufacture of wood and of products of wood and cork except furniture.

3.10. In order to create the conditions for increasing the competitiveness of Montenegro's economy, Government of Montenegro has adopted in 2016 Industrial policy of Montenegro for the period until 2020, which defines priorities and measures for long-term development of competitiveness. These priorities refers to stimulating growth and development of enterprises based on efficiency and productivity, especially in priority sectors, establishing preconditions for more efficient use of available resources, development of infrastructure as well as guiding industry towards higher value-added production.

### **3.4 Energy**

3.11. The Energy Law came into force on 28 January 2016, and the Law on Cross Border Exchange of Electricity and Natural Gas came into force on 19 July 2016. With these two laws, the EU Third Energy Package has been implemented in primary legislation, which, together with the harmonization of bylaws, implies that the legal framework has been completed and that a major step was made towards invigorating the market and strengthening market orientation in the organisation and functioning of the energy sector.

3.12. The Energy Law stipulates the obligation to integrate the electrical energy market of Montenegro into the regional and European markets, and that the organisation, management, functioning and development of electrical energy market shall be implemented in a manner that ensures security of supply, reliable and quality services, at prices that reflect the price trends in the market and/or are the result of transparent tenders. The complete opening of the electrical energy market is the basic precondition on which the planning of the electrical energy sector is based in the Energy Development Strategy of Montenegro by 2030.

3.13. Starting from 1 January 2015, all electrical energy customers are qualified customers, which means that households obtained the right to choose their electrical energy suppliers.

3.14. The prices of electrical energy are formed freely in the organized market or by contract between seller and buyer. The Energy Law envisages limits in price increase for households and small-scale buyers, meaning that until a liquid market is formed, these prices cannot be raised above the weighted price recorded during the previous year or above the futures for the subsequent year in the relevant stock exchange.

3.15. The electrical energy market in Montenegro consists of the wholesale and retail markets. Participants in the wholesale market are the producers, traders, suppliers and buyers, self-suppliers, the operator of the transmission system and the operator of the distribution system when they are buying energy to cover the losses in their own systems, whereas participants in the retail market include suppliers and end buyers (consumers across all voltage levels).

3.16. In 2016, there were 36 participants in the wholesale electrical energy market. An important segment of the wholesale electrical energy market is the allocation of available interconnector transmission capacities, which takes place via auctions which have been organized for the past several years in South-East Europe by the South East Europe Coordinated Auction Office (SEE CAO).



3.17. In order to create conditions for efficient functioning of the transparent short-term electrical energy market on the national and regional levels, in August 2017, the Energy Stock Exchange was founded as a limited liability company (*Berza električne energije*).

3.18. In 2016, the separation of the distribution system operator from the vertically integrated electrical electric power company (EPCG) was finished, and a special electricity distribution company was formed – *Crnogorski elektrodistributivni sistem* (CEDIS), which is extremely important for the appearance of new suppliers, and for invigorating and developing the retail market.

3.19. One of the general goals of economic and also energy development of Montenegro is the provision of sufficient amounts of electrical energy which allow citizens to live comfortably and companies to work and develop freely, while achieving the most favourable prices and meeting the high quality of services. To this end, in the previous period, the Government concluded 34 concession contracts for the construction of small hydropower plants. The contracts stipulate the construction of 53 small hydropower plants, with total installed power of 94 MW and the planned annual production of around 310 GWh. The investment of approximately €138 million has been envisaged for this purpose.

3.20. Based on the signed agreements, another wind farm will be constructed – Možura Ulcinj, with the planned annual production of around 90 GWh. The first wind farm – Krnovo – was completed; the use permit has been issued and it has started to operate commercially, producing around 180 GWh.

3.21. The submarine cable which will transfer electrical energy from South East Europe to Italy and other countries of the European Union will give a special incentive to the development of the energy sector in Montenegro. This project is not only important as an energy connection between Montenegro and the European Union, but also as a means to increase energy supply security and to develop the region as a whole.

3.22. As for the gas market, the Government of Montenegro in late 2013 appointed the limited liability company Montenegro Bonus as the operator of the gas transmission system, even though gas infrastructure still does not exist in Montenegro. Since its appointment, Montenegro Bonus has been implementing many activities which aim to allow the possibility of gasification of Montenegro, and during 2015, activities were implemented in two main work streams:

- creation of necessary preconditions for the implementation of the Ionian Adriatic Pipeline project, and
- participation in the implementation of other projects whose final goal is the gasification of Montenegro.

### **3.5 Mineral resources of Montenegro**

3.23. Mineral raw materials are natural resources which are owed by state, the use of it is carried out under the conditions and in the manner provided by the Law on Mining (OG MNE No. 65/08 as amended by 74/10 and 40/11), Law on geological researches (OG RM No. 28/93, 27/94, 42/94 and 26/07) and Law on Concessions (OG MNE No. 08/09).

3.24. Mineral raw materials are representing the basis for the development of every modern society. The importance of geological research and the discovery of new deposits of mineral resources is enormous, in that way the mining sector is growing, and with it the industry and other branches of the economy. Cooperation between government institutions and companies that are investing significant material resources in the processes of geological exploration and exploitation of mineral resources is extremely important.

3.25. In Montenegro, mineral resources, primarily coal, have a significant place, and in the upcoming period, oil and gas are also expected. It is followed by metallic raw materials such as red bauxite, copper ore with supporting gold and silver metals, lead and zinc ore that with basic metals also contain prospective quantities of silver, gold, copper, bismuth and cadmium, mercury ores, chromium and titanium ore, iron ore. Besides these, Montenegro has several types of

non-metallic mineral raw materials of extremely important reserves (architectural or decorative building stone, technical-construction stone, gravel and sand of glacial origin, bigar, bentonites, brick clay, cement marl, white bauxite, dolomites, barites, quartz sand, cherts, gypsum, sea salt). Montenegro has a significant number of groundwater reservoirs, among which are mineral waters, which are under the authority of the Water Directorate.

3.26. So far, 26 types of mineral resources have been found in the territory of Montenegro. Today, based on concessions, 6 are exploited (lignite coal, brown coal, red bauxite ore, lead and zinc ores, architectural or decorative stone and technical-construction stone), and in the previous period, 9 (cement raw materials, marl and tuff - Pljevlja, ore barite - Pljevlja, clay for brick and cement - Pljevlja, Berane, Bijelo Polje, Kolašin, Danilovgrad and Tivat, bentonite - Bar (Crmnica), tuff - Savnik, white bauxite ore - Cetinje's capital, gravel and sand of glacial origin - Žabljak and the sea salt - Ulcinj), while 10 types of mineral raw materials were not in exploitation (peat, oil and gas, ore mines, chromium ores and titanium ores, iron ores, copper ore, dolomites, quartz sand, chert and gypsum).

3.27. So far geological explorations have determined the reserves of available mineral resources at different levels, potential and exploitable. Except for four mineral resources (sea salt, mineral waters, groundwater and gravel and sands from the watercourse), which are part of the renewable, they remain non-renewable.

### **3.5.1 Exploration and Production of Hydrocarbons (Oil & Gas)**

3.28. Results of previous studies, on land and in the waters, indicate that there are objective conditions for the formation of hydrocarbons. Finding oil and wet gas in the undersea of Montenegro confirm that in this area the mother rocks are present, and that the thermal transformation level of organic matter is analogous to the oil and gas generation zone.

3.29. Territory of Montenegro is divided into blocks (grid-based system) having the size of 12 arc minutes East-West and 10 arc minutes North-South.

3.30. At its session held on 25 December 2014, the Government of Montenegro adopted the Decree on Amendments to the Decree on Organization and Manner of Work of the State Administration (OG MNE No. 6/15), which establishes the Hydrocarbon Administration as an independent state administration body.

3.31. The Hydrocarbon Administration, in accordance with Article 7 of the Law on Hydrocarbon Exploration and Production (OG MNE No. 41/10, 62/13) and Article 33b of the Decree on Organization and Manner of Work of the State Administration (OG MNE No. 05/12, 25/12, 44/12, 61/12, 20/13, 17/14, 06/15 and 80/15), perform administrative and professional tasks in the field of research and production of hydrocarbons.

## **3.6 Agriculture, fishery and forestry**

### **3.6.1 Agriculture**

3.32. Agriculture is one of the most important development sectors in Montenegro. Agriculture sector has an important role in the economy of Montenegro, with significant share in GDP, which in 2016 including the forestry and fisheries sector amounted to 7.5%. Total gross value of agricultural production in 2016 amounted to €476.4 million.

3.33. Montenegrin agriculture is characterized by a number of small, fragmented agriculture holdings. Average size of holdings in Montenegro is 4.6 ha and this is the main reason for the lack of competitiveness of Montenegrin small agricultural producers. According to the Agricultural Census from 2010, the total number of agriculture holdings was 48,870, on which 98,949 persons were engaged in agricultural activity. Sector of agriculture is the most important sector for the development of rural areas of Montenegro, livestock breeding, given the land configuration, represents most important branch. Livestock production allows Montenegro to use less productive areas (pastures and meadows), which are dominant in the structure of the total agricultural areas in Montenegro. Plant production is characterized by a large number of small agricultural holdings

which cultivate different plant crops. Favorable natural conditions allow the cultivation of citrus and continental fruits, as well as almost all kinds of vegetables.

3.34. Bearing in mind the characteristics of Montenegrin agriculture, the future directions of development are focused on achievement of several strategic goals, which are: development of rural areas through investment in infrastructure and the growth of population standards in rural areas, increase productivity and competitiveness agricultural production, improvement of quality standards of agricultural products and systems of food safety, development of the processing sector, encouraging the association of agricultural producers, conservation of biodiversity and environmental protection.

3.35. The agriculture and rural development policy of Montenegro is in line with the goals and directions of development defined by the Agriculture and Rural Development Strategy 2015-2020. Development strategy agriculture and rural areas was created with the aim of adequately defining the process of future reforms in this sector. The strategy provides an answer to the changed environment, caused by the external and internal factors and sets the basis for meeting upcoming challenges on the path of accession Montenegro in the EU. Considering that Montenegro is a country that has begun membership negotiations The EU opened the Negotiating Chapter 11 - Agriculture and Rural Development, an integral part of this document it also represents an action plan for harmonization with the EU acquis. During the development of the document and planning of assuming obligations under EU legislation, account was taken especially of the obligations of Montenegro arising from membership in the WTO.

3.36. In order to fulfill the basic goals of agricultural development in Montenegro, which would ultimately need to have a sustainable and competitive sector, which encourages balanced economic development in rural areas support, while maintaining the stability of rural population income and maintenance stability in food supply produced by the highest standards of food safety, Montenegro continued to invest in the agriculture sector. Annual national support through measures of Agro budget has continued the amount of support in the period 2012-2017 have increased, and it has been harmonized with the WTO Agreement on Agriculture.

3.37. In addition to the funds that are financed from national funds, Montenegro has, since 2012, started the project of supporting investments in agricultural farms, the so-called MIDAS Project (Montenegro Institutional Development and Agriculture Strengthening) implemented with World Bank, by co-financing principle. Within this project they are mostly supported investments in the construction of new facilities, the purchase of machinery, the modernization of production, and the level of support amounted to €6.47 million. In the continuation of the MIDAS project, for the preparation of agricultural manufacturers for the implementation of rural development programs (IPARD program – Instrument for Pre- Accession Assistance in Rural Development), the Ministry, with the support of the World Bank and European Union, implements the IPARD like. Through the implementation of the project, support has been provided the amount of €3.6 million, of which €2.7 million is financed from EU funds.

3.38. Montenegro is a net importer of food and the coverage of imports by exports is at the low level, and in 2016, it was 11.4% in the year. In the period from 2012-2017 exports had an uneven growth since year up to the year, while imports are still mild. The main export product has been wine for years. In addition to wine, export growth is recorded in meat products, certain types of fruits and vegetables, beer, essential oils and medicinal herbs.

3.39. Policy of Agriculture and rural development includes several main elements:

- Policy of Rural development aims to improve living conditions in rural areas, the standard of living of agricultural manufacturers, the provision of necessary investments in infrastructure and improvement of the production process, increasing the competitiveness of domestic producers and improvement of processing capacities, providing support in preserving traditional products, etc. Through the measures of rural development, at the same time, efforts are being made to strengthen institutional capacities, the basic goal is to prepare sector for future membership in the EU and the possibility of using funds from EU funds (IPARD).

- Consolidated domestic support policy, which is financed from the national budget, is divided into rural development measures (green box) and direct support measures (amber box). Measures of rural development relate to payments directed at investments in farms aimed at improving quality of products, development of organic production, diversification of production, strengthening of processing on farms and others. Sectors supported through direct support measures are: livestock breeding, production milk, cereals, crop and tobacco. In addition, there are certain programs of related payments in the sector Beekeeping. More dominant participation has support for rural development measures. The future directions of the reform direct payments policy will refer to a reduction in the number of measures related to related payments and separation of payment from production.
- Institutional development and implementation of regulations that are in line with the Common Agricultural Policy European Union policies (EU CAP), aim to harmonize regulations with EU policies. Strengthening administrative capacities and construction of infrastructure for transposing of EU acquis into domestic ones Legislation is one of the priorities of future institutional development.

### 3.6.2 Fishery

3.40. Fishery is a centuries-old branch of industry in Montenegro, represented in the fishing areas of the marine coastal area and Skadar Lake, which is of great importance for the economic development of coastal countries. It provides livelihoods, jobs and an important source of food for the domestic population of coastal communities and the development of local economies. In addition to the economic, fisheries in Montenegro has also important sociological and cultural role.

3.41. On the whole, the fisheries sector can be categorized as small, without industrial fishing (about 80% of Montenegrin fishing fleet uses gears for small-scale coastal fisheries), and is performed along the coast and on Skadar Lake (freshwater fishing).

3.42. Montenegro has valuable, but unused resources in this sector, due to poor development of fishing fleet. Total participation of Montenegro in catching fish in the Adriatic sea is less than 1%.<sup>4</sup>

3.43. In June 2015, the Fisheries Strategy of Montenegro 2015-2020 with the Action Plan was adopted, and it provides a general strategic framework, identifying the key steps which Montenegro intends to take in order to be prepared for the complete fulfillment of its obligations arising from the Common Fisheries Policy. The Action Plan contains a detailed overview of activities that will address the current problem, such as berths of fishing vessels, places of first landings and sale of fish and strengthening the joint action of fishermen which is crucial for the future functioning of this sector in the EU. The European Commission gave a positive opinion on the submitted Strategy and a very high assessment for the progress achieved.

3.44. Perspective of the development of fisheries in Montenegro, in accordance with the strategic commitment 2015/2020, includes the modernization of fishing fleet, the transition to more selective gears, modernization and increase catching efficiency, achievement of European standards in terms of food safety, construction and equipping infrastructure facilities on land for the purpose of storage and transportation, as well as solving the issue of berths of fishing vessels and fuel supplying.

3.45. Chapter 13 - Fisheries is officially opened on 30 June 2016 at the Intergovernmental Conference in Brussels. Full compliance with the EU acquis in this chapter will be reached at the latest by the date of accession of Montenegro to the EU.

3.46. Fishery development support measures relate to marine fisheries and mariculture, as well as to freshwater fisheries and aquaculture. Specific measures to support fisheries include modernization of professional fishing fleet, respectively co-financing of professional fishermen in the cost of equipping, reconstruction, adaptation, replacement of main generators and procurement of fishing equipment, replacement of fishing equipment with the purpose to increase efficiency when catching, or switch to more selective fishing gears. Support to improving the

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<sup>4</sup> Source: Ministry of Agriculture and Rural development.

competitiveness and efficiency of the mariculture sector relates to co-financing fish breeders and shellfish breeders for the reconstruction of a breeding ground, the construction or reconstruction of facilities for storage of food and storage of equipment, procurement of equipment for automatization of the breeding process, procurement of equipment for improving hygiene in terms of food safety and placement of breeding products on the market.

3.47. Montenegro is a member of the General Fisheries Commission for the Mediterranean (GFCM) and is in process for the accession to the International Commission for the Conservation of Atlantic Tunas (ICCAT).

3.48. Montenegro's policy in the field of fisheries is very dedicated to protect marine resources and establish a system based on sustainable fisheries, the protection of marine biodiversity and the suppression of illegal unreported and unregulated fisheries (IUU fisheries). Therefore, we absolutely support the abolition of subsidies that support IUU fisheries and adversely affect already overexploited fish resources. Yet, bearing in mind that Montenegro, due to the outdated fleet, has a poorly developed fisheries sector, we expect that the specificities of individual countries will be taken into account during future negotiations and during making decisions. For the same reason, Montenegro will continue to invest in the existing fishing fleet, but with constant awareness of the importance of sustainable fisheries and the protection of marine resources.

### 3.6.3 Forestry

3.49. According to the National Forest Inventory data from 2012, Montenegro is one of the most forested State, where 59.5% of the State is covered with forest, and 9.9% makes non forest land. Forests and forest land cover 69.4% of the total territory of the country, which places Montenegro in the second place under forest cover in Europe, right behind Finland. Forestry is an important industry in Montenegro, especially in rural areas where the population in large numbers depends in some way on this natural resource.

3.50. The strategy with the forest development and forestry development plan with the Action Plan has been adopted in 2014, in which guidelines are given how to improve and valorize this important natural resource. In 2017, year is begun with the reform of the organization and system of forest management in cooperation with international experts and it is expected that the new concept will start with the realization in 2018.

### 3.7 Customs system

3.51. The Montenegrin customs system is regulated by the Customs Act (OG MNE No. 62/13), the Law on Customs Tariff (OG MNE No. 28/12) and the Law on Customs Service (OG MNE No. 3/16 and 80/17), as well as by the by-laws for the implementation of the said Laws.

3.52. The Ministry of Finance is in charge of customs policy, while the Customs Administration is responsible for the implementation of customs policy, which is supervised by the Ministry of Finance.

3.53. When placing goods for free circulation, the taxpayer is obliged to pay the customs debt in which the customs duties, value added tax and excise duty are included, if the excise goods are imported. At the request of the participants in the customs procedure, the goods can be cleared out of working hours and/or outside official premises.

3.54. Customs duties are calculated and charged at a percentage rate in relation to the value of goods (*ad valorem*) and in a certain amount per unit of measure for the mass of goods (specific customs duty). For a part of agricultural food products a combined customs duty is established, that is at the same time, "*ad valorem*" and specific customs duties are charged. Pursuant to the obligations set forth in the Protocol on Accession to the WTO for products for which the combined customs duty is applied, an upper limit of customs loading was established when importing them into Montenegro. The rates of duty prescribed by international treaties apply only to goods with preferential origin from the countries covered by the contract. Pursuant to customs regulations, no export duties are charged.

3.55. The Law on Customs Tariff has given the authority to the Government of Montenegro to carry out harmonization of the level of customs rates with obligations undertaken within the framework of the World Trade Organization and other concluded international agreements in November each year for the next year. In this regard, the Proposal for Decree on Customs Tariff (submitted to the Government for adoption) for 2018, the customs rates are fully compliant with the obligations undertaken in the process of Montenegro's accession to the World Trade Organization.

3.56. Namely, in the context of obligations from membership of Montenegro in the World Trade Organization, in August 2017, the Ministry of Finance in cooperation with the Customs Administration carried out a comprehensive analysis of the nomenclature of the Montenegrin Schedule of Concessions<sup>5</sup>, as a result of the WTO request to approve the Transposed Schedule of Concessions (from HS6<sup>6</sup> 2007 to HS 2012). In September 2017, a consent was granted to the mentioned Schedule of Concessions. By the proposal of the Decree on Customs Tariff for 2018, all tariff positions are fully harmonized with the transposed Schedule of concessions. The said Decree is applied as of 1 January 2018.

3.57. The Government of Montenegro has demonstrated its commitment to the realization of the concept of trade facilitation, which has been stymied by the Agreement on Trade Facilitation of the WTO (TFA), by establishing the National Committee for Trade Facilitation (Committee). Namely, the Committee was established by the decision of the Minister of Finance in May 2015 and functions according to the principle of co-chairs between the Ministry of Finance and the Ministry of Economy. The composition of the Committee is currently composed of representatives of 17 different bodies, of which 6 representatives of various private sector associations. Its role is to monitor, coordinate and report to the Government of Montenegro on the dynamics of implementation of reforms related to trade facilitation at the national level.

3.58. In addition to the WTO Trade Facilitation Agreement, the concept of trade facilitation is included in the CEFTA Additional Protocol 5. Also, the recommendations from the process of Montenegro's accession to the European Union point to a series of activities that need to be undertaken in order to facilitate trade. Bearing in mind the set of listed obligations, under the supervision of the National Committee for Trade Facilitation, the first National Strategy for Trade Facilitation is under preparation. The aim of the Strategy is to enable the process of reforms related to trade facilitation systemically to be rounded up for the forthcoming period, thus defining a common agenda for all border authorities on this issue. Expert support for the implementation of this document has been provided under the Trade Facilitation Support Program (TFSP) of the World Bank Group.

3.59. In addition, all projects in the field of trade facilitation, which are implemented or planned at the national level, are regularly reported at the sessions of the Committee. Also, all activities of this body are realized and coordinated in very close cooperation with representatives of the private sector.

3.60. In particular, within the mentioned TFS program, the Customs Administration, in cooperation with the International Finance Corporation (WBG member), implements the Project for Implementation of Simplified Procedures and Full Implementation of the Program of Authorized Economic Operators. Following the successful completion of the pilot project in June 2017, the approval for simplified procedures on the basis of the accounting entry was granted to the three companies, while proceedings are under way at the request of two companies. Also, after the realized activities related to simplified procedures, the Business Plan for the implementation of the program of the Authorized Economic Operators has been harmonized.

3.61. In addition to the above, within the TFSP program the first Time Release Study was also prepared, which was conducted according to the methodology of the World Customs Organization. The study measured the average time needed for import, export and transit of goods, taking into account the total time required to complete all formalities, while separately measuring the average time of public and private actors. Also, the Study contains a number of recommendations for

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<sup>5</sup> Annex I of the Law on Ratification of the Protocol on the Accession of Montenegro to the Marrakesh Agreement on the Establishment of the World Trade Organization.

<sup>6</sup> Harmonized system of the name and codes of the World Customs Organization.

improving efficiency and overcoming bottlenecks in the implementation of procedures for import, export and transit of goods.

3.62. Within the aforementioned program, in the previous period, it was actively worked on the further improvement of the risk analysis system in the Customs Administration, while the further focus of the work will be on: improvement of the previous control of the entities applying for approval for simplified customs procedures, improvement of the ex post control, extension of the application of simplified procedures, development of the AEO Program and accompanying documents for its full implementation and implementation of the AEO Pilot Project.

3.63. In addition, the Customs Administration, in cooperation with the German Organization for International Cooperation - GIZ, and within the Global Alliance for Trade Facilitation, implements the Project "Pre-Processing of Data for Accelerated Consignments". The project will enable the development of additional functionalities of the customs information system, a customs declaration or an appropriate simplified document to be submitted to the customs authority electronically, before the goods arrive in the customs territory of Montenegro. The goal of the project is to increase the number of consignments that will be released for free circulation immediately after arrival (within 1 hour at the latest), from the current 25% to 65%.

3.64. Through the Project "Support to the Customs Administration" funds from IPA 2014 have been provided for the establishment of the National Computerized Transit System (NCTS) and the implementation of activities related to the accession to the Convention on Common Transit and the Convention on Trade Facilitation. In accordance with the above, activities on the preparation of tender documentation for implementation of IT implementation contracts and business support contracts are in progress. Montenegro's accession to conventions will enable faster, cheaper, safer and easier movement of goods, as well as better control over movement of consignments.

3.65. At the beginning of the second quarter of 2017, at the level of CEFTA 2006, has started the implementation of a project funded by the European Union, and supported by the Ministry of Economic Cooperation and Development (BMZ) of the Federal Republic of Germany, while GIZ and International Trade Center (ITC) are in charge of the implementation. The main objective of the Project is to strengthen trade relations and deepen economic integration among CEFTA 2006 Parties. The project is designed to support all CEFTA structures in their efforts to implement CEFTA commitments to Additional Protocol 5 and thus simplify and facilitate trade procedures in the region. The innovative approach of the project is reflected in close cooperation with the private sector (bottom-up approach) in the two approved sector supply chains. Direct involvement of enterprises will contribute to more efficient identification of trade barriers, which will provide the necessary framework for improving trade between CEFTA 2006 Parties.

3.66. Decision of the Joint Committee of the Regional Convention on Pan-Euro Mediterranean Preferential Rules of Origin, No. 2/2017, which introduced full cumulation of origin and tax refund in trade between CEFTA 2006 Parties, was adopted in May this year. The beginning of the implementation of the Decision is envisaged for 2019. The introduction of full cumulation and the possibility of tax refunds will facilitate and simplify the management of the rules of origin for economic entities from the CEFTA 2006 Parties, and will also significantly increase the trade flows and economic integration of the CEFTA Parties. The application of these institutes will contribute to increasing the competitiveness of the CEFTA region in the Pan-Euro-Mediterranean Free Trade Area, and hence economic growth, development and integration.

### **3.8 Sanitary and Phytosanitary Measures**

3.67. Montenegro has adopted amendments to several framework laws and has adopted a new law, since the WTO accession. Amended laws are the following: Veterinary Law (OG MNE No. 30/2012 and 48/2015) and the Law on Plant Health Protection (OG MNE No. 28/2006, 28/2011 and 48/2015). The new Law on food safety was adopted in 2015 (OG MNE No. 57/2015). Also, a number of by-laws on food safety, veterinary and phytosanitary areas have been adopted. The adopted legislation is fully aligned with the European legislation for Chapter 12 - Food Safety, Veterinary and Phytosanitary policy.

3.68. Legislation on SPS is implemented by the respective structures under the Ministry of Agriculture and Rural Development, the Administration for food safety, veterinary and



phytosanitary Affairs. There are 12 Border Inspection Points under the Administration for food safety, veterinary and phytosanitary affairs. The inspection procedures of BIPs are in conformity with the legislation, which is in the alignment process with the EU acquis.

### 3.9 Technical regulations and standards

3.69. Since 2012, Montenegro has continued with adoption of technical regulations for industrial products in order to harmonize national legislation and remove barriers to trade. In accordance with the national legislation, the Ministry of Economy has been recognized as a contact point for the notification of technical regulations and conformity assessment procedures under the WTO Agreement on Technical Barriers to Trade.

3.70. Institute for Standardization Montenegro (ISME) is competent for adopting of Montenegrin standards. The number of Montenegrin standards and related documents that are identical with European and international standards is 17,102 by the end of 2017. In order to strengthen the standardization system in Montenegro, the Strategy for the Development of Standardization in Montenegro was adopted in 2014. Since 2012, the Institute for Standardization of Montenegro has signed bilateral agreements with the Institute for Standardization of Turkey (February 2014) and the competent body for standardization of China (September 2016), while 2015 Memorandum of Understanding with the American Society for Testing and Materials was concluded.

3.71. In order to strengthen the Accreditation Body of Montenegro (ATCG) and the accreditation system, the Accreditation Development Strategy in Montenegro was adopted in 2014. In addition, in order to improve the legislative framework, the Law on Amendments to the Accreditation Act was adopted in 2015. By the end of 2017, 34 bodies for conformity assessment were accredited (21 testing laboratory, 6 control bodies, 1 medical laboratory, 2 calibration laboratories, 1 certification body for product and 1 certification body for management systems).

3.72. The Strategy for the Development of Metrology in Montenegro 2016-2018 defines the goals and directions of development in order to improve the metrology system. Metrology activities in Montenegro are performed by the Bureau of Metrology (BoM) accredited by the Accreditation Body of Montenegro and the Croatian Accreditation Agency for Calibration Activities in accordance with the requirements of the MEST EN ISO/IEC 17025:2011 standard. The Bureau of Metrology represents Montenegro in regional and international organizations: EURAMET (European Association of National Metrology Institutes) - member, OIML (International Organization for Legal Metrology) - Associate Member, WELMEC (European Legal Metrology) - Associate Member, CGPM (General Conference on Weights and Measures) - Associate Member. A full membership of Montenegro in the International Bureau for Weights and Measures (BIPM) is expected in 2018.

3.73. Montenegro is committed to further strengthening the legislative framework, in accordance with the best international experience and practice in all areas of the quality infrastructure that are the basis for free trade, as well as continuing work on strengthening administrative capacities as a prerequisite for the effective implementation of legislation.

### 3.10 Trade in services

3.74. Montenegro as a small and highly open economy is strongly oriented towards the services sector. The volume of services grows every year, and most importantly, Montenegro in this area consistently achieves surpluses. The surplus in services ranged from 15.3% of GDP in 2010 up to a maximum of 21.6% of GDP realized in 2015. In 2016, the surplus amounted to 19.4% of GDP. Exports of services ranged from 25.8% of GDP, which was in 2010 up to a maximum of 33.2% of GDP, which was in 2015. In 2016, a high inflow from service exports was also achieved, and it amounted 31.7% of GDP, which is 3.6 times higher than that of export of goods in the same year.

3.75. Looking at the structure of revenues from services in the period 2010-2016, revenues from tourism were 67, 3% out of total revenues and they represent the main generators of revenue growth from services. The following revenues in the transport sector with a share of 17.4%, followed by a significantly smaller share revenues amounted in the area of other services (7.2%) and revenues amounted in the construction services and other business services (by 3.6% and 4.5%). The significant investments, especially foreign direct investments in the area of tourism



and infrastructure, have resulted in an increase in tourism revenues from €125 million in 2002, to €821.5 million, in 2016.

3.76. When it comes to the import of services during 2010-2016, it ranged from 9.5% of GDP to 12.3% of GDP. During this period, the most paid were services in the field of transport (37.1% of total expenditures of the services), followed by other services (23.1%), other business services (21.6%), services related to tourism (10.3%) and construction services (7.9%).

### **3.10.1 Tourism**

3.77. In line with key strategic commitments of the State of Montenegro, the sector of tourism and travel is perceived as one of priorities for development. It earned such position due to continuous growth of all important parameters in tourism and growth projections for the future period. The first screening of tourism in the negotiations with the EU was done in 2012, and activities were undertaken in all important aspects, including the enhancement of the legislative framework, preparing strategies, diversifying tourist product etc. until and including 2017. The tourist product of Montenegro is predominantly based on the activities relating to the coastal area (the Adriatic Sea) while additional efforts are being made to further diversify the tourist product and valorise comparative advantages in other parts of Montenegro so as to overcome seasonal character of the destination which is characteristic of Mediterranean destinations.

3.78. In the period between 2012 and 2016, revenues from tourism increased by 25%, number of tourists increased by 26% and number of overnight stays by 22.9%. According to estimates made for the first 10 months of 2017, Montenegrin tourism still records a growth trend in all major parameters, including also the very important return and increase in the number of tourists from traditional markets – Great Britain, France, Germany, growth from Scandinavian countries and from the markets of the former USSR republics, including also attracting new markets - Israel, UAE, and PR China through regional tours largely as a result of visa-free regime for organized tourist arrivals. To achieve further growth from important markets, better accessibility of the destination, and especially important is the air-accessibility. This is the reason why we are currently in the process of selecting a consultant for the improvement of incentive models, while further improvement of the capacity of airports is inseparable from this activity.

3.79. The enhancement of legislation has been a continuing activity. Thus, the new Law on Tourism and Hospitality was adopted in December 2017. The key novelties of this Law relate to the introduction of new types of hotels and models of operations in hotels, aligning provision of tourist and hospitality services with modern trends in underdeveloped areas, support to investors, as well as the implementation of the EU standards.

3.80. The commitment of Montenegro to sustainable development is of great importance to tourism. The National Strategy for Sustainable Development until 2030 was adopted in 2016 and its aim is to improve national policy of sustainable development by setting up a comprehensive framework for national response to challenges which will be faced on the path to sustainable development of the Montenegrin society until 2030, while taking into account the results of implementation of the previous National Strategy and the requirements in the process of Montenegro's accession to the EU. Strong competition among destinations and tourists' expectations require well designed and strategically managed marketing activities, which is why the development of the Strategic Marketing Plan for Tourism in Montenegro for the period 2018-2022 is in its final stage. Preparatory activities for the development of the Health Tourism Strategy and the Rural Development Strategy are equally important, including also further activities based on the current Study on the Development of Sports Tourism.

3.81. Due to stimulating environment, Montenegro attracted some of the largest investments in this part of the Mediterranean and the entry of a number of leading hotel brands has been recorded. It has also been planned to valorise the areas of Long Beach (Velika plaza), Buljarica, Jaz and a number of localities in the north of the country. In the period between 2012 and 2016, Montenegro improved its tourist offer with 57 new 4-star and 5-star hotels (nearly 5,000 new beds), and with 22 more 4-star and 5-star hotels (1,081 beds) in 2017. In 2017, 16 building permits were issued and 16 more building permits for 4-star and 5-star hotels are in the process of being issued.

3.82. Using the Adriatic Sea as our main resource, we include as one of our advantages the growth of nautical tourism that we associate with the growth of turnover in the Port of Kotor, named among 10 busiest cruise ports of the Mediterranean, and also with the beginnings of cruising in the Port of Bar and with the growing importance of luxury marinas along the Montenegrin coast. The Study of Development of Bar as a cruising destination, showing the potential for further development of cruising, was also prepared. It is also planned preparation of the Strategy for Sustainable Development of Nautical Tourism.

3.83. The valorisation of cultural heritage is also one of a number of priorities and the activities with a view to selecting the author for the development of the Strategy of Development of Cultural Tourism with an Action Plan until 2023 are ongoing. This is important if we take into account that Montenegro has rich cultural and historic heritage from different historical epochs, out of which 4 sites are on the UNESCO list, 4 sites are on the tentative list, while an important place will be accorded also to intangible cultural heritage and programmes of support for further development will be defined. This segment also includes ongoing activities through TAIEX project "Economic and Reputational Valorisation of Cultural Heritage of Montenegro", as well as with Paradores de Turismo, aimed at valorisation of fortresses from different periods on sustainable bases. The activities aimed at making a replica of the Crnojević Printing House, the first one in the Southeast Europe are also ongoing.

3.84. We should also note the existence of five national parks and other protected natural sites, water abundance, which are good preconditions for the growth of nature-based tourism. Within the diversification of the nature-based tourist product, Hiking & Biking projects, panoramic routes, snowshoeing etc. are also worth mentioning. The Peaks of the Balkans, a joint project of Montenegro, Albania and Kosovo, was awarded the first prize of the World Travel & Tourism Council in 2013.

3.85. The efforts are also being made to valorise the advantages of the northern part of Montenegro in order to achieve better regional balance, and a precondition to accomplish that is to make investment in the section of the highway which will connect the north and south of the country. Some of the largest projects include the development of ski resorts with focus on Bjelasica and Komovi regions. In the initial phase, priority has been placed on three localities – *Kolašin 1600* in Kolašin, *Žarski* in Mojkovac and *Cmiljača* in Bijelo Polje, for which it has been planned to invest around €70 million by 2022. In 2018, it has also been planned to make investments in the existing ski resorts Durmitor and Hajla. A company named "Montenegro Ski Resorts" (DOO "Skijališta Crne Gore") has been founded, which institutionalized further development of project activities in this area. The activities are also carried out in order to valorise the speleological heritage of Djalovica Cave (*Đalovića Pećina*), while the value of the works has been estimated at €13 million. In both of these projects, the subsequent management has been planned to be implemented according to the model of private-public partnership.

### 3.10.2 Transport

3.86. In accordance with strategic objectives of the Government of Montenegro, in the transport sector, continuous improvement is being done for the transport infrastructure through responsible use and efficient planning, quality maintenance and management of the transport infrastructure. The Berlin Process, as one of the most important regional cooperation platforms, began in Berlin on 28 August 2014, during the first Western Balkans Conference. The Berlin process focuses on economic governance and infrastructure connectivity projects, through several financial programs (e.g. the Western Balkans Investment Framework (WBIF)) and various types of instruments aimed at identifying and supporting national investments, in line with existing EU transport initiatives. Montenegro benefits from the Berlin process and continuously invests in attracting transit traffic flows, seeking ways to finance development projects that do not imply new credit indebtedness, investing efforts for the continued development of state roads with full respect for safety and security standards, supporting airport modernization and expanding ports capacity.

3.87. The continuation of the intensive activities within the framework of the Western Balkans Connectivity Platform - Connecting Agenda (so-called Berlin Process) is carried out through the definition of the Main Western Balkans Transmission Network within the indicative expansion of the Trans-European Transport Network (TENT), identification of the most significant projects related to the indicative expansion of the corridor of the main transport networks for the Western Balkans, included in the Single National List of Projects, are continually making efforts to create the Single

Project pipeline and implementing soft (reform) measures that will facilitate the transport and trade of the countries of the Western Balkans. The main transport network in the Western Balkan region is now included in the expansion of the three key Trans-European Corridors to the Western Balkans region (Mediterranean Corridor, Middle East-Eastern Mediterranean Corridor and Rajna-Dunav Corridor).

3.88. At the Fourth Summit of the Presidents of the Western Balkans Six (WB6), held in Trieste, on 12 July 2017, the Prime Minister of Montenegro signed the Agreement on the establishment of the transport community in the original in English language and in Brussels on 9 October 2017 in the original in Montenegrin language and in the official languages of the institutions of the European Union and foreign signatories from South East Europe. The agreement on establishment of the transport community in the Western Balkans region will serve for better and faster integration of transport markets, better treatment of transport operators in a non-discriminatory manner in terms of their access to transport infrastructure, the desire of each individual Southeast European (SEE) partner to comply with its transport laws and related issues with EU laws, including the future development of the Union's legal framework, provide significant technical support, including better addressing the challenges and needs of environmental protection and the fight against climate change, enable the development of the transport sector in a sustainable way, enable more adequate consideration of the social dimensions of the transport community and establish the structure of social dialogue with the SEE Contracting Parties and by this way will support the resolution of the candidate and potential candidate countries to come closer to the European Union and enforce its legal framework, especially in the field of transport.

3.89. The Ministry of Transport and Maritime Affairs has drafted the Transport Development Strategy 2018-2035, which establishes the continuity of the long-term strategic framework for the assembly, coordinates the national system with the European standards of sustainable development and ensures the respect of the socio-economic needs of the population. Through this Strategy, priority is given to the traffic network, traffic infrastructure is defined and needs and plans for implementation are identified, and infrastructure investments are prioritized.

3.90. Regarding the functioning of the railway market and the import and export that takes place through the railways of Montenegro with the legal solutions from 2013, conditions have been created for the smooth entry into the market of private operators, with equal conditions for doing business as domestic operators. Licensing procedures are implemented in accordance with European rules and as such apply with neighbouring countries, coordinated with customs, police and food inspection services.

3.91. Air traffic services are regulated by the Law on Air Traffic and by the Law on Obligatory relations and the basis of property-related legal relations in air traffic. These laws regulate the provision of services in the field of air traffic in a competitive and non-discriminatory manner in accordance with ECAA (European Common Aviation Area).

3.92. Access to the market of passenger and cargo traffic is regulated by national legislation and bilateral agreements on road transport. Regarding the system of issuing the licences and permits for transport, we are fully compliant with EU legislation. Cabotage is prohibited in Montenegro, as well as in other countries, except in special cases (when it can be approved).

3.93. In maritime transport, there are no limitations regarding services provision, nor regarding access to international lines between Montenegrin and foreign ports. Montenegrin ships are authorized for cabotage when it comes to transportation of passengers and cargo between Montenegrin ports. However, it should be noted that the question of liberalization of maritime cabotage will be harmonized with the EU acquis during the accession of Montenegro to the EU.

3.94. Construction of the first section of the Bar-Boljare highway in the length of 41 km began on 15 May 2015. The deadline for the construction of this section is four years. The total amount for the construction of this section is €809.6 million, out of which 85% of the amount (688.16 million) is financed through the Chinese EXIM bank through a 20-year long loan, while the remaining amount (121.44 million) is secured through the state budget.

3.95. The most demanding section Smokovac-Uvač-Mateševo in construction and financial terms is defined as a priority section because of the significance it has as a central road which connects

north and south of Montenegro. Through the implementation of this project it is expected that there will be: significant decrease of the number of traffic accidents, increase in the access to the areas which are difficult to access, increase in mobility, significant demographic changes, changes market business conditions and increase of competition of enterprises, facilitated access to the regional market, and decrease of the related expenses of procurement, better valorization of potential from the field of agriculture, forestry and water management, development of tourism; employment increase and change of the employment structure, better usage of the potentials of the Port of Bar and the container terminal and their better connection to the gravitational zone, direct engagement of domestic construction operation potentials, equipment, materials and workforce in the construction phase, which will have multiplied effects with indirect benefits and the appearance of the so-called newly created/generated traffic and economic benefits on basis of the newly created/generated traffic.

### 3.10.3 Banking sector

3.96. Montenegro's financial system is prevailed by the banking sector whose assets make up about 90% of the financial system assets - which is about 100% of GDP, according to the IMF. Thus the Central Bank of Montenegro (CBCG) plays an important role as a banking system regulator and supervisor, and also as an institution which creates and implements microprudential policy with the main goal of maintaining the financial system stability as a precondition for the economic growth.

3.97. Fifteen banks operate in Montenegro's banking system. Five banks are domestically owned, ten banks have mainly foreign capital, while the state's share in the banks' capital over the past few years averaged at less than 3%. In that period, foreign banks' subsidiaries in Montenegro held more than three quarters of the banking sector assets and almost equally as high share in total deposits.

3.98. Since 2012, banks' assets have increased by 45%, amounting to €4,095.6 million at end-September 2017. The increase in assets was driven mainly by the investment in securities, whereby the government portfolio gained importance. However, loans maintained their highest share in assets, increasing almost by 40% by September 2017 when they reached €2,594.4 million, as a result of the moderate annual increase of 0.7%. This was a result of the mismatch between the banks' increasing liquidity and the fact that they raised their credit standards, inducing a mild credit growth in the private sector, which accounts for the main share of non-performing loans (NPLs) in Montenegro's banks. Credit growth was boosted only in 2017, as a result of an increased competition between banks, induced by the establishment of four new banks (three foreign-owned banks and one domestic MFI transformed into a bank) encouraged by the favourable business environment in Montenegro.

3.99. Increased competition also contributed to the reduction of effective lending interest rates by several percentage points, making loans more available to a wider spectrum of potential banks' clients. Credit growth also benefited from the NPL decline, with their share in total loans dropping from 17.6% at end-2012 to 7.1% at end-October 2017. Such developments were mainly due to the following two factors: the implementation of the EU regulation by the foreign parent banks of the Montenegrin subsidiaries, some of which accounted for the main share in NPLs in Montenegro, and the implementation of the three-year strategies and annual action plans for NPL reduction starting as of 2014. These factors were an important part of the NPL reduction project implemented by the CBCG in cooperation with the World Bank, between 2012 and 2014 (the so called Podgorica Approach). The Law on Voluntary Financial Restructuring of Debts towards Financial Institutions, as yet another important segment of this NPL resolution framework, did not show its full effectiveness before it was amended in June 2017, after which it resulted in more than €11.2 million of restructured loans over the period of only five months. All the above mentioned developments were reflected on the improvement of the banks' assets quality.

3.100. As of 2012, the banking activities have been increasingly financed by deposits, which, on average, accounted for 77% of total assets, while parent banks' loans declined. Loans to deposits ratio declined (0.9 in October 2017) as a result of a more robust growth of deposits in relation to that of loans, and it continued regardless of the effective deposit interest rates' decline in the range of a few percentage points, followed by the decline of lending interest rates. Deposits reached 60% by end-October, growing by 10% annually on average, mostly due to the increase of 41% in retail deposits, which made up 56% of total deposits on average over the observed period.

However, in the past several years, corporate deposits increased due to higher liquidity, which was a result of high investments in infrastructure and tourism in Montenegro.

3.101. Since 2012, banks' capital has made up an increasing share in total liabilities, rising by more than 80% to €523.2 million by end-September 2017. Banking sector's exposure to liquidity risk has been low, as presented by the liquid assets to short-term liabilities ratio, which averaged at 36.6%, considerably above the regulatory minimum.

3.102. Over the past few years, the Montenegrin banking system implemented a set of regulatory and institutional reforms, including, *inter alia*, the regulation of the credit consumer protection. In 2017, the Law on Voluntary Financial Restructuring of Debts towards Financial Institutions was amended with a view to supporting loan restructuring as a means for NPL reduction. In November 2017, the Central Bank of Montenegro Law was amended in the aim of reinforcing the supervisory framework of the financial sector by strengthening the institutional, financial and personal independence of the CBCG, an enabling the regulation and supervision of the payment system institutions, including the e-money institutions in line with the EU Directive on the EU payment systems. At the same time Montenegro adopted the new Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations, covering some of these financial market mediators by the CBCG's regulations and supervision for the first time, with a view to increasing efficiency in providing services on the supply side and consumers' rights protection on the demand side. Regulation and supervision, especially over factoring companies (special purpose vehicles) will increase the financial system transparency and improve the supervision of contamination risk arising from the transfer of banks' assets to their subsidiaries. In the upcoming period, Montenegro will target its activities to creating conditions for further strengthening of financial sector and financial stability supervisory framework by adopting a new Banking Law, in order to improve conditions for reaching higher quality of capital, liquidity, and lending buffers by transposing the European CRD IV-a<sup>7</sup> and adopting amendments to the Banking Law, Bank Resolution Law, and Deposit Protection Law in order to improve the bank resolution framework.

#### **3.10.4 Insurance**

3.103. The regulatory framework in the insurance sector is established through three main laws: the Law on Insurance, the Law on Compulsory Traffic Insurance and the Law on Liquidation and Bankruptcy of Insurance Companies. By establishing the relevant legislative framework, a portion of the regulatory and supervisory function has been entrusted to the Insurance Supervision Agency, whilst a portion is retained under the competence of the Ministry of Finance. Previous normative activities in the insurance sector were dominantly oriented towards harmonization of the Montenegrin regulatory framework with the relevant directives of the European Union, therefore a full compliance with the EU regulatory framework of Solvency I has been achieved. After opening negotiations with the European Union on the Chapter 9 – Financial Services, the Insurance Supervision Agency has been working on further amendments and adoption of new regulations in the insurance sector, aimed at harmonization with the directive of the European Union (which came into effect in 2016). The respective new regulation of the European Union includes comprehensive standards under the accompanying implementation measures and new guidelines for supervision, which represent the main focus in operations of the Insurance Supervision Agency and the Ministry of Finance for the upcoming period.

3.104. There are ten insurance companies operating on the Montenegrin market, five in the segment of life insurance and five in the segment of non-life insurance.

3.105. Insurance market of Montenegro, under the conditions of the relevant regulatory framework and adjustments to the EU standards, is characterized by stability and continuous growth, which is shown by relevant indicators. Namely, the total gross written premium in the period 2012-2016 grew in the average rate of 4.4%. Regarding the insurance groups, such growth has been generated by the growth in both segments. The total non-life insurance premium in the observed period noted growth in the average rate of 3.66%, whilst the total life insurance premium noted growth in the average rate of 8.75%. The share of gross written premium in the gross domestic product during the period 2012-2016 remained at almost the same level of 2.1%

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<sup>7</sup> Transposing the European legislation governing banking operations (CDD IV package, composed of the Directive 2013/36/EU and the EU Regulation 575/2013).

and followed the growth of gross written product. Moreover, the gross written premium per capita noted growth from €107.83 in 2012 to €128.78 in 2016, which represents a growth of 19%. During the observed period, the Montenegrin insurance sector was also characterized by reduction in concentration and the growth of market competition, development of product portfolio, especially in life insurance, growth of solvency ratio and growth in the share of voluntary insurances.

3.106. In the period since 2012, the negative effects of global trend in low interest rates have continued to impact Montenegrin insurers in the domain of placement of funds, particularly in the field of life insurance. The return on investment has been continuously low, reverting insurers to additional cost reduction and shifting the focus to development of new products that are adjusted to the low interest rate environment.

### 3.10.5 Electronic communications

3.107. The Law on Electronic Communications (OG MNE No. 40/2013, 56/2013 and 2/2017) created conditions for the further development of electronic communication networks and services, ensuring competition in the market, open and equal access to networks and services of electronic communications, encouraging efficiency, cost-effectiveness and the introduction of new technologies and services in this sector, more efficient protection of the interests of users of electronic communication services, provision of Universal Service with reduced prices and higher quality, rational use of limited resources (radio frequency, numbering and address), transparency of all subjects on market, easy access to price information, expenditures and terms of providing electronic communication services, efficient supervision of general conditions of service provisioning and subscription contracts, security of communications, the declared quality and respect of technical regulations and standards.

3.108. In accordance with the provisions by the Law, a whole set of regulations and acts have been adopted in order to regulate electronic communications market in more detailed manner. In 2016 the Strategy for Information Society Development for the period 2016-2020 was adopted, having Strategy for development of Broadband Internet Access as its integral part. As one of the main prerequisites for further social and economic development of Montenegro and its transition towards digital society, the provision of availability of high speed broadband is foreseen as follows:

- fast speed broadband access (30 Mbit/s or higher) ⇒ coverage: 100% of population by 2020, and
- ultra-fast speed broadband access (100 Mbit/s or more) ⇒ usage: 50% of households by 2020.

3.109. High-end technologies are currently integrated into electronic communication networks in Montenegro thus offering to domestic users all electronic communication services that are available globally. Operators continuously invest significant amounts in the development of infrastructure for high speed broadband access, better quality and availability of services, provision of spectrum necessary for the development of 4G<sup>8</sup> networks and services. The penetration of broadband Internet access is above 70%, while market share of operator with significant market position in the fixed segment has been constantly decreasing. All major operators have already migrated their networks to the IP<sup>9</sup> environment, so they provide voice, data transmission, and distribution of AVM<sup>10</sup> content over a single network based on IP.

3.110. With 99% of population coverage with signal of mobile networks, Montenegro can be compared with the most developed Europe countries. Coverage of the territory is over 90%. The population coverage with 3G<sup>11</sup> signal is significantly improved and it is now higher than 90% in all of three operators networks. The most up-to-date LTE<sup>12</sup> technology is currently available on cca 70% of Montenegro's territory, and cca 90% of the population is also covered with LTE signal. Given the number of users, degree of competition, variety of services and applied technologies, it

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<sup>8</sup> 4G – 4<sup>th</sup> generation networks.

<sup>9</sup> IP- Internet Protocol.

<sup>10</sup> AVM - Audio Visual Management.

<sup>11</sup> 3G – 3<sup>rd</sup> generation networks.

<sup>12</sup> LTE – Long-Term Evolution.



can be considered that mobile communication networks and services represents the most developed segment of the electronic communications market in Montenegro.

### **3.10.6 Postal services**

3.111. The Law on Postal Services (OG MNE No. 57/11 and 55/16) regulates the conditions and procedures for the provision of universal postal service and other postal services, as well as other issues of importance for the provision of postal services. In accordance with this law, a reserved postal service (a reserved postal service is part of universal postal service performed by a universal postal operator, limited by weight and price - 50 gr/mail) ceased to exist as of 1 January 2013. Regarding the improvements in postal sector in 2018, the Law will be amended, and it is also planned to prepare a new Strategy for the development of postal sector for the period 2019-2023.

3.112. All Postal Operators delivered a total of 23,290,341 postal services in 2016, which is 6.6% more than in 2015.

### **3.11 Intellectual property rights**

3.113. The main strategic document in the field of intellectual property - National Intellectual Property Strategy was in force in the period 2012-2015. The above mentioned strategy has significantly contributed to improvement of the situation in this field. A special working group has been established in order to monitor its implementation. As a main strategic goals were recognized the following: improved enforcement of intellectual property rights, increased economic growth through effective use of intellectual property, improved methods of acquiring and managing of intellectual property, better understanding of the usage and the value of intellectual property by the companies and the public, as well as the importance of the enforcement of intellectual property rights and improvement and modernization of information systems in terms of intellectual property issues.

3.114. During the period 2012-2017, several amendments to the laws in the field of industrial property were adopted, namely: Law on Trademarks (OG MNE No. 72/10, 44/12, 18/14, 40/16 and 2/17), Law on Legal Protection of Industrial Design (OG MNE No. 80/10, 27/13, 42/16 and 2/17) and the Law on the Protection of Topography of Semiconductors (OG MNE No. 75/10 and 40/16). In 2015, a new Patent Law (OG MNE No. 42/15 and 2/17) was adopted. The subject amendments have additionally enhanced the legal framework, both in terms of harmonization with the relevant international agreements and the European Union legislation, as well as in addressing the problems identified in the application of the laws. In 2016, amendments to the Law on Copyright and Related Rights (OG MNE No. 37/11 and 53/16) have been adopted, by which the status of authors and holders of related rights has been raised to a higher level. Notifications in relation to the changes of national legislation were regularly submitted to the World Trade Organization.

3.115. Concerning the accession to relevant international agreements, Montenegro ratified the Protocol Amending the TRIPS Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights) and the International Convention for the Protection of New Varieties of Plants in 2013.

3.116. In accordance with the new Law on Courts (OG MNE No. 11/15) the Commercial Court of Montenegro in 2015 became competent for resolving all disputes in the field of intellectual property.

3.117. In 2017, the Coordination Team for the Enforcement of Intellectual Property Rights was established, consisting of representatives of the Ministry of Economy, Intellectual Property Office, Customs Administration, Police Administration, Administration for Inspection Affairs, Commercial Court of Montenegro and the State Prosecutor's Office. The primary task of the Coordination Team is improvement and strengthening of cooperation between the bodies competent for the protection and enforcement of intellectual property rights in Montenegro, as well as coordination of activities aimed at the prevention and suppression of the violation of intellectual property rights.

3.118. Montenegro is committed to further strengthening of the legislative framework, in line with the best international experiences and to continuing of the work on strengthening administrative capacities as a precondition for the effective protection of intellectual property rights.

## **4 OBJECTIVES AND DEVELOPMENT OF TRADE POLICY**

### **4.1 WTO negotiations**

4.1. Trade Policy of Montenegro is determined by its membership to the WTO.

4.2. By membership to the WTO Montenegro has liberalized its trade regime. When it comes to the market access for goods successive cuts of customs rates have been implemented annually on the first day of January from the date of membership, while the last cut is envisaged for year 2022.

4.3. During accession negotiations to the WTO Montenegro undertook commitment to join to the plurilateral agreements. Hence, after becoming a full-fledged Member of the Organization Montenegro joined to the Agreement on Trade in Civil Aircraft - CA and Ministerial Declaration on Trade in Information Technology Products - ITA in 2012. Market access for information technology (ITA/ITA2) and civil aircraft products was additionally liberalized in 2016 (the Decree on amendments of the Decree on Customs Tariff for 2016, OG MNE No. 46/16). In July 2015, Montenegro became 44<sup>th</sup> member of the Agreement on Government Procurement (GPA), as a first country which acceded to the version of the agreement revised in 2014.

4.4. Montenegro signed the Protocol amending the TRIPS Agreement (the Law confirming the Protocol amending the TRIPS Agreement, OG of MNE – International Agreements No. 6/2013 as of 24 July 2013).

4.5. Notifications are one of the key instruments providing transparency of trade policies within the WTO system. It is a continuous activity and since 2012 Montenegro has submitted 66 notifications.<sup>13</sup>

#### **4.1.1 Agreement on Trade Facilitation (TFA)**

4.6. The Agreement on Trade Facilitation (TFA) is the first multilateral agreement concluded since the establishment of the WTO. Montenegro supported entry into force of the Agreement as it is important step forward towards further development of international trading system. The Agreement entered into force on 22 February 2017, after two-thirds of the WTO membership completed their domestic ratification process, in accordance with the relevant procedures (Montenegro submitted instrument of ratification on 10 May 2016).<sup>14</sup>

4.7. The National Committee on Trade Facilitation was formed in May 2015 as a permanent multiagency body. The Committee operates in accordance with the principle of co-chairing between the Ministry of Finance and the Ministry of Economy.

4.8. Montenegro is preparing the Strategy on Trade facilitation in order to implement Articles of the TFA for which it asked implementation period (the notification of A category commitments was submitted in October 2014, while the notification on B and C categories commitments was submitted in May 2017.)

### **4.2 Process of Montenegro's accession to the EU**

4.9. Before opening of negotiations in 2012, Montenegro set its integration course by signing the Stabilisation and Association Agreement (SAA) on 15 October 2007, i.e. entering into its first contractual relation with the Union. The SAA entered into force on 1 May 2010. Even now, this agreement represents the framework for monitoring the progress achieved in the course of the

<sup>13</sup> Viewed online at: <https://www.wto.org/> on 31 December 2017.

<sup>14</sup> The Law confirming the Protocol amending the Marrakesh Agreement Establishing World Trade Organization – The Agreement on Trade Facilitation (Official Gazette of Montenegro – International Agreements, No. 5/16) approved by the Parliament on 22 March 2016.



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negotiating process, through the work of the SAA Committee, seven sectoral Subcommittees, Special Working Group on the Public Administration Reform and Stabilisation and Association Parliamentary Committee.

4.10. In this regard, in the context of political dialogue, Montenegro established two consultative committees as well: Joint Consultative Committee between Montenegro and the European Economic and Social Committee and Joint Consultative Committee between Montenegro and the EU Committee of the Regions. In the context of assuming of obligations under the SAA, Montenegro put particular emphasis on strengthening of regional cooperation through bilateral conventions on regional cooperation with a view to intensifying cooperation with countries of the region. Thus, the joint EU accession-related committees are with the FYR of Macedonia, Republic of Serbia and the Republic of Albania have been established and their meetings are held on a regular basis. The Agreement on cooperation between the Government of Montenegro and the Council of Ministers of Bosnia and Herzegovina in the process of accession to the EU, which represents the base for establishment of this committee entered into force on 27 October 2017, while the same agreement with Kosovo is being harmonized.

4.11. Following submission of application for EU membership in December 2008 and answers to comprehensive EC Questionnaire in December 2009 and April 2010, the EU Council granted the candidate status to Montenegro on 17 December 2010. What can be considered as an important indicator that the EU has recognized commitment of the Montenegrin administration to preparations for assuming obligations arising from the integration process is the visa liberalization, according to which Montenegrin citizens are free to travel without visa to 25 members of the Schengen zone, Iceland, Norway and Switzerland.

4.12. Even before the official beginning of negotiations, the Government of Montenegro started establishing its negotiating structure by appointing the Chief Negotiator in December 2011. Negotiations opened in June 2012 are coordinated by the Ministry of European Affairs of Montenegro, which is headed by the Minister and Chief Negotiator. Since the establishment of the negotiating structure in 2012, which consists of more than 1,300 members (around 30% of them being civil society representatives) in 33 working groups, Montenegro became prominent example of transparency and inclusiveness in the entire region due to the level and method of direct involvement of civil society representatives in the negotiating process. Furthermore, the Parliament of Montenegro plays an important role in monitoring the course of accession negotiations and alignment of legislation with the *acquis*. In order to strengthen the parliamentary role in integration process, the Committee on European Integration was established in May 2012 as a key parliamentary authority in monitoring of negotiations with the EU. In addition, all of the seven central committees monitor and evaluate alignment of Montenegrin legislation with the *acquis*, as well as the enforcement of laws based on the Government's reports.

4.13. Montenegro remains committed to European integration as its next priority after becoming the newest NATO member in June 2017 and fulfilling one of the most important foreign policy goals. After five years of negotiations, under the hardest negotiating conditions so far, Montenegro is coming to the end of its work when it comes to the fulfilment of all the opening benchmarks defined by the EC in thirteen fields of the *acquis*, meaning that it is about to complete a demanding stage of the negotiating process. Namely, Montenegro is the first country to enter the EU negotiations under the so-called "new approach", which means that chapters 23 - Judiciary and Fundamental Rights and 24 - Justice, Freedom and Security are among those chapters that are being opened first and that remain open until the closure of all other chapters. In that context, with 30 opened and 3 provisionally closed negotiating chapters (out of the total of 33), Montenegro continues its defined negotiating dynamics. It is expected that the activities related to the fulfilment of the remaining closing benchmarks will be intensified in the forthcoming period, bearing in mind the fact that 26 negotiating chapters with 74 closing benchmarks are currently opened<sup>15</sup> and that the Government of Montenegro also adopted 31 negotiating positions in the previous period.<sup>16</sup>

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<sup>15</sup> Activities necessary to be undertaken in order to achieve the European standards in certain negotiating chapters, all with a view of meeting conditions for their provisional closure.

<sup>16</sup> A document, by which Montenegro, while opening a negotiating chapter, states that it accepts the *acquis* of the European Union covered by specific negotiating chapter, as well as that it will be ready to fully implement it by the date of accession to the EU. Furthermore, in its negotiating position, Montenegro presents

4.14. In order to achieve the progress in chapters 23 and 24 under the "new approach", rounding of the legislative framework included adoption of more than 60 reform laws, while strengthening of the institutional framework primarily implied establishment of key institutions such as the Anti-Corruption Agency and Special Public Prosecution Office, as well as continuous building of the existing relevant institutions in this field. The implemented reforms also provided measurable track record, particularly when it comes to implementation of innovated organizational laws in judiciary, which ensure its full independence and impartiality. In addition, initial training courses were organized for judges and prosecutors being appointed under the new system for the first time.

4.15. The EC expert missions, which are mainly organized in the field of rule of law, but also in several other negotiating fields, represent a particularly important form of evaluation of Montenegro's progress in negotiations, as well as a form of information exchange and cooperation.

4.16. Benefits of Montenegro's membership in the WTO are deeply intertwined with the process of Montenegro's accession to the EU, bearing in mind the fact that they are linked with important issues from almost every negotiating chapter, particularly in the field of finance, agriculture and rural development, fishery, intellectual property, etc.

4.17. Montenegro became a member of the WTO's Government Procurement Agreement in July 2015, which will enable it to approach the public procurement market and which is directly linked with negotiating chapter 5 - Public Procurement. Commitments from Chapter 30 - External relations, which is one of the three provisionally closed chapters, address, inter alia, the matters related to WTO. Montenegro demonstrated its commitment to transparency, openness and rule of law by entering multilateral trade system. On the other hand, the WTO membership is a clear sign that Montenegro is determined to set up competitive and dynamic economy, which will further lead the integration into the global market.

4.18. In the context of three pillars of European integration that include the rule of law, economic governance and public administration, the rule of law represents one of the key priorities of the Government's internal policy, precisely due to the fact that the success in this field is directly linked to the reform in the public administration, institutions and economic progress. Montenegro achieved excellent results in fiscal consolidation measures at the very beginning of the implementation, even in the first months of 2017. The real increase rate of the national economy in the second quarter of 2017 was 5.1% and represents the highest rate since 2008. The budget revenues for the period January-September 2017 amounted to 26.6% of estimated GDP. When compared with the plan, the revenues increased by €1.3 million or 0.1%. When compared with the same period of the previous year, the revenue increased by €32.9 million or 3.0%. Furthermore, the fifth meeting of the Special Public Administration Reform was held at the end of September 2017 and we are dedicated to realization of all twelve conclusions formulated thereof, which includes development of the first three-year Government Working Plan as well (2018-2020), in addition, the Interministerial working group for document preparation has been established. In terms of preparation of the Economic Reform Programme for the period 2018-2020, on 31 August 2017, the Government adopted Information regarding the drafting of the aforementioned document for the said period, as well as a Decision establishing a working group in charge of drafting the document. This group consists of representatives of line ministries and the Central Bank and it can be expected is that this document will define a medium-term plan of the state's economic policy and a basis for a dialogue with the European Commission on the integration process.

4.19. In order to support the potential candidate countries and candidate countries in their efforts to meet the criteria for membership in the EU, in 2016, the European Commission decided to consolidate all the previous forms of assistance that has been provided to the candidate countries and potential candidate countries into a single Instrument for Pre-Accession Assistance (IPA). Montenegro is using this instrument under IPA for 2007 and, at this moment, has the experience when it comes to the programming and implementation of two IPA financial perspectives for the period 2007-2013 and for the period 2014-2020. During the period 2007-2013, Montenegro had €235 million of EU grant support at its disposal and has so far spent 90% of funds. Due to such success, but also because of continuous progress of Montenegro in the negotiating process, the

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its current legislative and strategic framework in a specific negotiating chapter, and possibly asks for permanent exemptions or transitional periods for implementation of the *acquis* covered by that chapter.

European Union has decided to increase the amount of funds available for the period 2014-2020 by 10%, i.e. to €270.5 million.

4.20. In the forthcoming period, we will continue working on fulfilling the remaining commitments with a special focus on the rule of law and economic governance in close cooperation with the European Commission and other Member States. The Government remains committed to full implementation of reforms that have been initiated, with the support of and in partnership with all relevant institutions and key actors in the society.

### **4.3 Regional integration**

4.21. In addition to the Stabilization and Association Agreement Montenegro applies Free Trade Agreements with following non-EU Members: the Russian Federation (signed on 28 August 2000 in Belgrade and entered into force on 19 May 2001), the Agreement on Amendment of and Accession to the Central European Free Trade Agreement – CEFTA 2006<sup>17</sup> (signed on 19 December 2005 in Bucharest and entered into force on 22 November 2007), Turkey (signed on 26 November in 2008 in Istanbul and entered into force on 1 March 2010), Ukraine (signed on 18 November 2011 in Kiev and entered into force on 1 January 2013) and EFTA countries (signed in Geneva on 14 November 2011. The Agreement entered into force in 2012 as follows: on 1 September with Switzerland and Lichtenstein, on 1 October with Island and on 1 November with Norway).

#### **4.3.1 Agreement on Amendment of and Accession to the Central European Free Trade Agreement – CEFTA 2006**

4.22. Montenegro was the Chair in the office of the CEFTA 2006 for 2016, the same year when the tenth anniversary of signing the Agreement was celebrated. The most important activities during the chairmanship referred to the further liberalization of trade including concluding the negotiations on CEFTA Additional Protocol 5 on trade facilitation and negotiations on CEFTA Additional Protocol 6 on additional liberalization on trade in services.

4.23. CEFTA Additional Protocol 5 was adopted on 26 May 2017 in Belgrade. The Proposal of the Law confirming the Additional Protocol 5 was confirmed by the Government of Montenegro on 5 October 2017, and currently is in the Parliament's procedure. Implementation of the Additional Protocol 5 is directly linked to the WTO TFA, but since not all CEFTA Parties are WTO Members, it was necessary to define those issues within the CEFTA 2006 as well.

4.24. Adoption of the CEFTA Additional Protocol 6 on additional liberalization of trade in services is expected for 2018. Liberalization of services is to contribute to further development and improvement of trade and economic cooperation, as well as to creation of relevant legislative framework, elimination of existing barriers and simplification of administrative procedures. In addition, the negotiations have been conducted so a large number of SMEs could benefit from the more favourable access to the markets of CEFTA Parties, as well as from easier export of their services.

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<sup>17</sup> Parties of the CEFTA 2006 are Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and UNMIK-Kosovo.