

STABILISATION AND ASSOCIATION
BETWEEN
THE EUROPEAN UNION
AND MONTENEGRO

The Stabilisation and Association Council

Brussels, 22 June 2016
(OR. en)

UE-ME 3603/16

COVER NOTE

Subject: Seventh meeting of the EU-Montenegro Stabilisation and Association Council (Luxembourg, 20 June 2016)

Delegations will find attached the position paper of the European Union tabled on the occasion of the 7th meeting of the Stabilisation and Association Council between the European Union and Montenegro.

SEVENTH MEETING OF THE
EU-MONTENEGRO
STABILISATION AND ASSOCIATION COUNCIL
Luxembourg, 20 June 2016

POSITION OF THE EUROPEAN UNION

The European Union welcomes the holding of the sixth meeting of the EU–Montenegro Stabilisation and Association (SA) Council. The EU considers that this meeting of the SA Council provides a timely opportunity to review Montenegro's progress in the preparations for membership, following the publication in November 2015 of the Commission's Montenegro Report, the Stabilisation and Association Committee of December 2015, and the various Sub-committees held since the last SA Council meeting.

Item 3. Relations under the Stabilisation and Association Process

3.1. Accession strategy, in particular in the light of the Commission's 2015 Montenegro Report

The EU welcomes the opening of a number of negotiating Chapters since the last SA Council, bringing the total number of Chapters opened to 22, two of which have been provisionally closed.

The EU notes with satisfaction that Opening or Closing Benchmarks have been set for all Chapters, except the rule of law Chapters, where Interim Benchmarks have been set, and encourages Montenegro to continue work on meeting all benchmarks.

The EU takes note of Montenegro's recent successful steps towards further Euro-atlantic integration, as recognition of the country's reform efforts, especially in the area of rule of law.

The EU welcomes the inclusion of civil society representatives in Montenegro's working groups for the negotiating Chapters, and in the implementation of the related reform processes, and encourages Montenegro to make best use of consultations with civil society.

The EU encourages Montenegro to continue focusing on the fundamentals of the accession process: rule of law, economic governance and public administration reform.

Political criteria

The EU notes that Montenegro has continued to sufficiently meet the political criteria. The EU recalls the conclusions of the **General Affairs Council** of 15 December 2015, according to which it is now essential for the overall pace of the negotiating process that the entire rule of law system deliver concrete results, in particular to establish a solid track record in the fight against corruption and organised crime.

The EU welcomes the continued implementation of the Action Plans for Chapters 23 and 24, after almost three years since their adoption.

In April 2016, the European Commission provided its latest assessment of progress made in the implementation of the Action Plans and in meeting the Interim Benchmarks set in the framework of the negotiations. The assessment was based on Montenegro's reports on the implementation of the Action Plans for chapters 23 and 24 during the second semester of 2015, on information provided in the context of the JLS Sub-Committee (9-10 March 2016) as well as on a range of other sources, including peer review missions and reports from international organisations and civil society. The assessment concludes that significant progress was achieved in the area of legislative reform as well as continuous training and awareness-raising activities; in particular, the judicial reform and its amendments need to be implemented. The process of institution-building is at an advanced stage now but needs to be completed. The Special Prosecutor's Office and the Anti-corruption Agency need to be provided with all the necessary resources for fulfilling their mandates effectively. Overall, independent institutions remain to be strengthened. Results in terms of track records remain limited, in particular in some areas of prevention of corruption, seizure and confiscation of criminal assets, as well as with regard to high-level corruption cases, human trafficking and money laundering.

The EU welcomes the formation of a "government of electoral trust", bringing together the government and the opposition with a view to organising credible elections in October 2016 and recalls the importance of the full implementation of the new electoral legislation. The latter is the responsibility of all political parties, who are also encouraged to ensure that the upcoming elections are fully inclusive. The lessons learnt from the local elections in the municipality of Tivat in April 2016 should be taken into account.

The EU notes with concern that there has been limited follow-up to the investigations on cases of violence by law enforcement authorities during the autumn 2015 opposition protests.

Recalling the importance of media freedom, the EU calls on Montenegro to continue its activities in order to resolve old cases of violence against journalists, including the 2004 murder case, and identify not only the material perpetrators but also those behind the attacks, as well as the shortcomings and delays in the investigation. The EU expects Montenegro to find adequate solutions to ensure the effective functioning of the ad-hoc media commission tasked with monitoring investigation of cases of violence against journalists, whose mandate has expired. The EU encourages the authorities to step up their efforts in creating an environment conducive to investigative journalism. The EU takes note of the revision of the Journalists' Code of Ethics under the auspices of the OSCE.

In the field of Public Administration, the EU welcomes ongoing efforts to strengthen the coordination and monitoring mechanisms for the implementation of the overall public administration reform strategy, notably the recently mooted idea of creating a PAR Council under the leadership of the deputy prime-minister. It encourages Montenegro to finalise and adopt its 2016-2020 PAR Strategy, and to subsequently ensure the timely implementation of its action plan. The EU further encourages Montenegro to fully enforce its practical application in terms of merit-based recruitment and promotion, at all levels of its civil service and at local level. The EU notes that there are still considerable capacity issues in Montenegro's public service, and reiterates the importance of administrative capacity for the future effective implementation and enforcement of the *acquis*. It therefore strongly recommends, once again, that Montenegro continues to pursue and accelerate the reform process to achieve a more efficient and streamlined public administration, able to cope with the challenges of EU accession.

As regards Public Financial Management, the EU welcomes the adoption of a Public Financial Management Reform Programme 2016-2020, and encourages Montenegro to ensure the timely implementation of its action plan. The EU welcomes Montenegro's establishment of the new Anti-Corruption Agency on 1 January 2016, as foreseen, but urges it to urgently address its capacity issues [*see also Chapter 23 – Judiciary and fundamental rights*]. Montenegro should ensure that the implementation of its recently adopted law on public sector salaries actually establishes the necessary levels of control on salaries and increases transparency and fiscal accountability, without placing further strain on public finances. The EU commends Montenegro for its continued commitment to regional cooperation and its constructive role in maintaining regional stability. The EU welcomes Montenegro's active participation in numerous regional initiatives in South Eastern Europe and the good neighbourly and bilateral relations it entertains with other enlargement countries and EU Member States. The EU welcomes the tangible progress achieved since the last Stabilisation and Association Council with the signing of the bilateral agreements between Montenegro and Bosnia and Herzegovina, and Montenegro and Kosovo^{*}. The EU takes note of the ongoing activities towards finding mutually acceptable solutions to pending border issues with its neighbours in line with international law, good neighbourly relations and established principles, and encourages Montenegro to make progress on them. A bilateral convention on regional cooperation under Article 15 of the SAA remains to be concluded with Bosnia and Herzegovina.

The EU welcomes Montenegro's decision to fully align, when invited, with all Council decisions and EU declarations.

The EU recalls that the 2007 bilateral immunity agreement with the United States of America does not comply with the EU Common Position on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements, and that Montenegro needs to align with the EU position before accession to the EU.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

Economic criteria

The EU welcomes the submission by Montenegro in January 2016 of its second Economic Reform Programme (ERP) and draws attention to the joint conclusions of the Economic and Financial Dialogue adopted on 25 May 2016 between the EU ECOFIN Council and the Western Balkans and Turkey. The EU stresses the importance for Montenegro of following up the policy guidance given in these conclusions in a full and timely manner.

The EU notes that Montenegro's economic recovery accelerated in 2015. The economy grew by 3.2% of GDP (preliminary data from MONSTAT), largely driven by investments, construction, and tourism. Good results in the latter also contributed to a gradual reduction of the current account deficit. However, significant financing needs and large imbalances between exports and imports persist, rendering the country highly vulnerable to external shocks. Despite some improvement in labour market conditions, the unemployment rate remains very high.

Given the absence of monetary policy tools, a rigorous fiscal policy combined with flexible product and labour markets remain important to maintain macroeconomic stability and increase competitiveness. While growth is set to remain robust, assuming that the investment pipeline develops as planned, the EU considers that a key challenge for Montenegro is to find new ways to boost the productivity and competitiveness of its economy, and find complementary (and diversified) sources of growth beyond the current investment cycle.

Given the high budget deficit and fast growing public debt, the EU expresses its concern that the government's fiscal framework, as presented in the ERP, does not offer an appropriate policy response. The 2016 budget and recent increases in pensions, social benefits, and public sector wages undermine efforts to stabilise the public debt ratio and improve fiscal sustainability. While the construction of the Bar-Boljare highway supports future economic growth, its significant fiscal burden requires a sustained commitment to fiscal discipline as well as a sound public debt management strategy.

Noting the ERP's strong focus on large infrastructure and public investment projects, the EU encourages Montenegro to complement this with less costly regulatory and administrative reforms, as identified in the joint policy guidance. To improve competitiveness, the economy needs to further diversify, and its export base needs to be broadened. Widespread skills mismatches limit employment opportunities and insufficient coverage and targeting of social assistance is likely to result in disincentives to formal work. Finally, the EU calls on Montenegro to further improve the rule of law, reduce the informal sector, and tackle corruption to ensure that regulatory improvements translate into an improved business and investment climate.

Acquis

The EU welcomes the progress made by Montenegro in aligning its legislation with the EU *acquis* and implementing its commitments under the trade and trade-related provisions of the SAA.

The EU notes with satisfaction that Montenegro continues to address its priorities related to the internal market. The EU notes that progress on alignment to the *acquis* in the area of free movement of goods has continued, though not at the pace foreseen in Montenegro's original comprehensive strategy on free movement of goods, which is now being revised to reflect this. The EU welcomes Montenegro's adoption of an action plan to ensure compliance with Treaty principles in this area. The EU takes note of the continued gradual improvements in the areas of market surveillance on conformity assessment and standardisation, despite ongoing financial and human resource limitations.

Regarding the right of establishment and freedom to provide services, preparations for transposing the Services Directive continued. Implementation of the national plan for developing qualifications for regulated professions has progressed but Montenegro needs to continue work in this area.

As regards public procurement, the EU welcomes the adoption of a new Strategy on Public Procurement 2016 – 2020 and encourages Montenegro to provide the necessary resources required for further strengthening implementation and enforcement capacities. The EU notes that the strategy does not cover implementation aspects in the area of concessions. Montenegro also needs to ensure that any bilateral agreements do not unduly restrict competition, comply with the Stabilisation and Association Agreement, the EU *acquis* and related TFEU provisions on public procurement, as well as with commitments taken under the WTO Government Procurement Agreement.

In the field of intellectual property rights, Montenegro needs to ensure effective implementation and enforcement. Strengthening the administrative capacity of all institutions involved with substantial allocation of financial and technical resources is still needed.

The EU notes that Montenegro continued legislative alignment in the area of competition. As regards antitrust and mergers, the record of enforcement remains insufficient. The role of the misdemeanor courts – imposing fines in anti-trust cases – remains, on occasion, an issue of serious concern. On state aid, Montenegro has made significant progress in aligning legislation, although further efforts are needed to complete the process. The enforcement track record of the state aid authority remains insufficient. The problematic participation of state aid grantors in the state aid authority is being addressed with the reform of the state aid control law. Resources are lacking and state aid notifications are rare, even in crucial cases like the construction of the Bar-Boljare highway or Montenegro Airlines.

Regarding financial services, the EU acknowledges the important alignment work already achieved, but notes that substantial further alignment efforts are required to align with and implement the existing *acquis* in this area.

In the area of information society and media, the EU takes positive note of the fact that Montenegro has already reached a good level of alignment with the *acquis*. Full alignment with the *acquis* remains to be ensured, as well as sufficient resources for its implementation.

The EU acknowledges the good progress made in the area of agriculture and rural development. Overall, alignment with the *acquis* remains at an early stage. The EU welcomes the adoption of the comprehensive strategy and action plan for the alignment, implementation and enforcement of the *acquis* in this area. Good progress can also be seen in the preparation of the IPARD II programme for the management of rural development funds and the accreditation of the IPARD II structures is progressing.

The EU notes that good progress has been made in the area of food safety, veterinary and phytosanitary policy. All framework laws are now fully aligned with the *acquis*. The EU welcomes the adoption of the comprehensive national strategy and action plan, which will serve as a basis for the transposition, implementation and enforcement of the EU *acquis*, including plans for the development of the relevant administrative capacities and an estimation of the financial resources required. Control capacity in the veterinary field must be reinforced.

Good progress has been made on fisheries as regards administrative capacity. The EU welcomes the adoption of the comprehensive strategy and action plan for the alignment, implementation and enforcement of the *acquis* in this area. Further efforts are needed on alignment and implementation of EU standards, in particular in the areas of resource and fleet management, inspection and control, market policy, structural policy and state aid policy.

Montenegro achieved some progress in the transport sector, in particular in the area of road safety and in aligning with EU *acquis*. The EU encourages further progress in aligning with the rail and maritime safety *acquis*, as well as in ensuring the fully operational function of the independent accident investigation body for air, rail and maritime transport.

As regards energy, the EU welcomes the continued progress that Montenegro has made in its alignment with the *acquis*, including the adoption of the new energy law which aligns Montenegro legislation with the third energy package, as well as on renewable energy and energy efficiency. The EU encourages Montenegro to implement the new energy law and ensure further liberalisation of the energy market, as well as implementation of the Action Plan to align its legislation on minimum stocks of crude oil and/or petroleum products including establishing stockholding structures, intended storage capacities and gradually increasing the stock levels in terms of days of net imports.

As regards progress on customs and taxation, on taxation the EU notes Montenegro's ongoing efforts to ensure that Value Added Tax (VAT) rules and rates are further aligned with the VAT Directive, and to improve the collection of taxes and other duties, particularly where a taxpayer fails to settle its tax obligations. However, Montenegro is encouraged to avoid adopting tax measures applicable to only some businesses, as such measures complicate the tax administering and potentially distort the market. Montenegro needs to further strengthen its taxation system and reinforce its administrative capacity and infrastructure, including IT, so as to ensure enforcement, collect taxes effectively and fight tax fraud and evasion. As regards customs, the EU welcomes the amendments to the Decree on the Implementation of the Customs Law, bringing about further alignment with the Union Customs Code. Montenegro still has to further align its legislation and to ensure the implementation of the customs business and IT strategy, including the required strengthening of the relevant IT units. The EU encourages Montenegro to start preparations for possible accession to the Convention on a Common Transit Procedure.

The EU welcomes Montenegro's continued progress in the area of statistics, including ensuring quarterly GDP based on the expenditure-approach in current and constant prices. The EU invites Montenegro to continue its investment in a number of statistical areas, notably to increase staffing levels in Monstat and to further align its statistics with ESA 2010, including government finance statistics.

In the area of social policy and employment, Montenegro needs to continue its efforts to align with the *acquis*, notably regarding labour law and health and safety at work law. As regards social dialogue, the EU welcomes Montenegro's signature of a memorandum with the International Labour Organisation (ILO) and social partners. In the field of employment policy, high long-term unemployment and low labour market participation of youth and women remain a challenge. The EU welcomes the adoption of the National Strategy for Employment and Human Resources Development 2016-2020. Montenegro needs to continue addressing low activity and employment rates, as well as the mismatch between available skills and labour market needs. The EU calls on Montenegro to strengthen measures to increase labour market participation of women and to prolong working lives. In the area of social inclusion, efforts should be stepped up as regards poverty reduction, improving the inclusion of all vulnerable groups (with emphasis on the Roma and Egyptian populations and persons with disabilities) and their access to healthcare, housing, education, and the labour market. In the area of social protection, further measures are needed to improve the sustainability and adequacy of the pensions system. Montenegro is encouraged to continue the establishment of the integrated social welfare information system. There is a need to expand community-based services as an alternative to institutionalisation for persons with disabilities and persons with mental health problems, children, older people, and homeless people.

As regards enterprise and industrial policy, the EU encourages Montenegro's adoption of its industrial policy and related action plan. It is important to put in place sufficient administrative capacity for its effective implementation.

The EU notes that in the area of the judiciary and fundamental rights, as well as in the area of justice, freedom and security, the legislative reforms have been mostly completed, and that the process of institution building is advanced. In order to translate these reforms into results on the ground, Montenegro needs to create an environment where independent institutions are shielded from any interference and incentivised to fully use their powers, and ensure transparent and merit-based recruitment throughout the public administration.

As regards *judicial reform*, the EU welcomes the continued implementation of the constitutional amendments, through appointment of high-level judicial officials in line with the new procedures, the establishment of a new disciplinary commission under the Judicial and Prosecutorial Councils, and functional immunity of judges. The EU underlines, in particular, the need to properly implement the new single nationwide system of recruitment of judges and prosecutors and to further strengthen the administrative capacity of the Judicial and Prosecutorial Councils. With regard to accountability and integrity of the judiciary, the EU notes that track records of enforcement of disciplinary accountability and of the Codes of Ethics for judges and prosecutors remain limited. The EU encourages Montenegro to put in place mechanisms to detect and follow up on irregularities that give grounds for disciplinary sanctions as well as on breaches of the Codes of Ethics. The EU welcomes the continuous reduction of the number of cases older than three years. However, continued attention needs to be given to measures aimed at increasing the efficiency of the judiciary.

The EU welcomes the draft IT Strategy for replacing the judicial information system PRIS. Its implementation will need to be backed by adequate financial and human resources and a clear allocation of responsibilities. The EU stresses that there are still concerns as regards consistency and reliability of statistical data. The instructions for collecting statistical data in compliance with the European Commission for the Efficiency of Justice (CEPEJ) guidelines are not yet fully implemented. The EU encourages Montenegro to fully implement the regulation on the collection of judicial statistics in line with CEPEJ guidelines and to actively use data on the performance of the judicial system for management and policy making. The EU calls on Montenegro to take a more pro-active approach in fighting impunity in relation to the *domestic handling of war crimes*, and to effectively investigate, prosecute, try and punish war crimes in line with international humanitarian law and the jurisprudence of the ICTY. The EU welcomes the adoption of a Prosecution Strategy with a view to open new cases; its implementation needs to yield concrete results. Access to justice and compensation for the victims of war crimes should also be ensured.

As regards *prevention of corruption*, the EU welcomes the completion of the reform of the strategic framework, and that the Anti-Corruption Agency became fully operational in January 2016. The EU stresses that the Agency's staff need to undergo intensive specialised training to acquire the necessary expertise, notably in the areas of political party financing, whistle-blower protection, and lobbying. Integrity of the agency's management and staff is key. Track records in the area of prevention of corruption overall remain limited. Track records of detecting irregularities need to be established, in particular in the areas of conflict of interest, political party financing, whistle-blower protection and codes of ethics. In all areas of prevention of corruption, including in the field of education, misdemeanour courts need to apply effective and deterrent sanctions as provided for by law.

With regard to the *fight against corruption and organised crime*, the EU welcomes the adoption of the amendments to the criminal procedure code and of the new law on seizure and confiscation of assets, and the establishment of a new Special Prosecutor's Office for the fight against corruption, organised crime, war crimes, terrorism and money laundering, which became operational in July 2015. The EU calls on Montenegro to provide the Special Prosecutor's Office with all the human and material resources it requires, especially with regard to the attached police unit and secure IT tools. The internal reorganisation of the police and the establishment of the Special Prosecutor's Office should be followed up by adequate training, to develop expertise in the most complex forms of crime, investigate financial flows and be able to seize and confiscate assets related to criminal activities. So far, in no corruption case has the confiscation of assets been ordered. It is of the utmost importance that Montenegro continues to develop an initial track record of investigations, prosecutions and final convictions in corruption and organised crime cases. The EU notes that financial investigations have begun to be used in such cases, but are still not systematic. There is a lack of financial investigation skills which must be addressed in view of leading to confiscation orders. The EU continues to call for a stronger approach – pro-active, victim-oriented and multidisciplinary – in effectively addressing the trafficking in human beings.

On *fundamental rights*, the EU welcomes the adoption of the law on gender equality and the law on fighting discrimination against persons with disabilities, as well as a law on public gatherings and the legislative package on prisons. The EU encourages Montenegro to adopt a new law on minorities, eliminating the risk of conflict of interest in the process of attribution of funds to minorities and brought overall in line with Council of Europe's Venice Commission's recommendations and a fully *acquis*-compatible law on antidiscrimination. The EU urges all institutions, notably Judiciary and the Police, to make additional efforts to protect human rights.

Some progress was made in the field of *civil and political rights*. Montenegro has continued to work to fully implement all recommendations of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment (CPT), including those from 2013. The EU takes note of the difficulties of eradicating ill-treatment and establishing a record of deterrent sanctions. Investigations and prosecutions remain slow, even in recent cases. An independent prison medical service will be key in this regard. The EU welcomes the adoption of the prison laws package and the initial phase of its implementation. The EU recalls that the resources of the probation department remain limited and do not ensure coverage of the entire country.

The EU welcomes the improvement in the internal organisation of the Ministry of Human and Minority Rights and of the Ombudsman and the additional job posts filled. The EU stresses the need for the Ministry to focus on improving procedures and mechanisms of control in the distribution of funds for minorities and for religious communities. The EU welcomes the adoption of a new law to fight *discrimination against persons with disabilities*, increasing the level of fines in cases of discrimination, and that the Parliament is now fully accessible. Work needs to continue to make additional public buildings accessible, including health centres and facilities.

The EU welcomes the fact that Montenegro continued to show overall openness towards promoting LGBTI rights, and that the Ministry of Human and Minority Rights is now ensuring government coordination in this field. The EU encourages the authorities to remedy the lack of funds for implementing the relevant strategy. The EU regrets, however, that attacks against LGBTI persons continued and that the pride parades in Niksic were banned several times, reflecting the difficulties in the societal acceptance of sexual diversity – especially at local level.

The EU welcomes the initial steps undertaken by Montenegro to implement the Istanbul convention, including improving inter-institutional coordination and data collection. The EU calls on Montenegro to ensure a timely revision and adoption of the action plan on gender equality. The EU notes that domestic and gender-based violence, as well as violence against children, remain an overall concern in the country, and the level of reporting by relevant institutions remain low.

The EU takes note of the continuous irregularities in the reporting cycles related to the fund for minorities, calling into question the capacity of state organs to supervise the current expenditure of its budget and prevent and detect possible abuses. The EU encourages Montenegro to remedy this situation as soon as possible. The EU stresses that persons belonging to the Roma minority remain the most vulnerable and at risk of statelessness – a condition which threatens their access to housing and social rights.

The EU welcomes Montenegro's continued efforts to align with the EU *acquis* in the field of police cooperation, including by integrating the national databases with those from the European Union, Europol and Interpol and exchanging information. The EU also welcomes the posting of a Montenegro liaison officer to Europol in November 2015, to implement the operational agreement. The EU also calls on Montenegro to increase its analytical and supervision capacities in the field of *money laundering*. The EU stresses the need to ensure professional and effective protection to victims of trafficking in human beings. The EU recalls that institutional awareness need to be increased to monitor possible terrorist threats, including radicalised Montenegro nationals returning from battlefields. Preventive activities in this area need to be strengthened and anti-radicalisation measures implemented.

The EU takes positive note of the fact that reforms in the field of migration and asylum are progressing, including through the adoption of a contingency plan at the end of 2015 for the possibility of a sudden increase in the number of migrants entering the country. The EU stresses that Montenegro needs to remain vigilant towards shifts in migration routes which may cross its borders, and adjust national capacity accordingly, including accommodation of vulnerable groups. Reception centres should be monitored for possible infiltrations by criminal organisations.

The EU welcomes the increased number of people granted international protection in Montenegro (14 people in 2015 as opposed to 4 in 2014), and encourages Montenegro to adopt a fully *acquis*-compatible asylum law. The EU also encourages Montenegro to finalise the national Schengen Action Plan, following a thorough analysis of the legal framework and overall resources available in the country to perform border controls and prepare to take over in the future the control of the external borders of the EU. The EU stresses the need for Montenegro to proceed with the modernization of its border infrastructure to ensure good coverage of the state border and its crossing points. Recalling the provisions of the Visa Regulation, the EU calls on Montenegro to continue implementing measures as recommended in the Commission's reports on post-visa liberalisation monitoring, including in terms of better integration of the Roma community. The EU welcomes the adoption of a reintegration strategy for Montenegro nationals according to the relevant EU-Montenegro readmission agreement, together with the relevant Action Plan for 2016. The EU points out that Montenegro should now focus on its implementation, including by devoting sufficient resources to it and involving local authorities and communities.

Concerning science and research, the EU recalls the importance of continuing efforts with respect to investment in research and development, both by the public and private sector.

To improve the quality of education at all levels, the EU encourages Montenegro to continue implementing existing strategies and action plans. Of particular importance is improving the teaching of basic skills and key competencies (as measured by PISA), as well as soft skills, at the basic levels of education. This should be complemented by relevant teacher training. The EU notes steps taken by Montenegro to improve vocational education and training outcomes in line with labour market needs. Attention should also be given to introducing work-based learning, promoting entrepreneurship and career guidance. The EU also notes Montenegro's plans for additional pre-school facilities and encourages Montenegro to complement the measure with activities to increase participation in, and the quality of, pre-school education

Regarding environment and climate change, Montenegro needs to prepare a comprehensive strategy and action plan for the alignment, implementation and enforcement of all *acquis* areas. This should include indicative timelines backed by the administrative, technical and financial resources needed. Preparation in the areas of water, waste, nature and climate change has been highlighted as particularly challenging for Montenegro. Regarding waste management, the EU welcomes the adoption of Montenegro national strategy until 2030 and the management plan 2015-2020. The EU underlines the need to integrate environment and climate change considerations more systematically into other sectors, including through proper environmental assessments at strategic and project-level sectorial policies and planning documents. The EU welcomes the adoption of the climate strategy and of Montenegro's Intended Nationally Determined Contribution (INDC) to the Paris Climate agreement and emphasises that the implementation of the latter should be a priority. The EU notes that Montenegro has taken initial steps to protect the Ulcinj Salina nature and bird reservation site. However, it calls on Montenegro to complete the process to protect this site by preserving its ecosystem, implementing sustainable management of the site in line with the requirements of nature conservation and ensuring legal protection. The EU welcomes the establishment of a new civil society coalition on Chapter 27 – *Environment and climate change*.

Regarding consumer and health protection, the EU notes Montenegro's efforts in the area of consumer protection, where the number of safety and non-safety related inspections performed has increased, as has the number of irregularities found. Since the opening of the new Blood Transfusion Institute important steps have been taken to improve upgrading and restructuring of facilities that handle blood, blood components however further steps are needed including in the field of-tissue and cell facilities, and in the field of communicable diseases to meet EU quality and safety standards and prepare for cooperation with and reporting to the EU by further aligning and implementation the EU *acquis*. Due attention needs to be paid to *acquis* enforcement, and capacity strengthening based on adequate financial and human resources, in particular in the area of public health. The prevention of smoking and smoke-free environments should also be strengthened

As regards financial control, the EU welcomes the gradual improvement of the capacity of the Central Harmonisation Unit (CHU) and its increased focus on methodological guidance and monitoring. The EU also welcomes progress in establishing internal audit units, but Montenegro also needs to ensure that these units are adequately staffed by qualified auditors. The EU encourages Montenegro to continue strengthening managerial accountability arrangements and control systems, including in the context of its public administration reform, to ensure that the state audit institution is adequately resourced, and to ensure the implementation of the national anti-fraud strategy.

Pre-accession Assistance

Montenegro has benefited since 2007 from the two first components of IPA I (I - Transition assistance and institutional building and II - Cross-border cooperation). At the end of 2015, the contracting rate for IPA I Component I stood at 93.5% and payments at 84.3% for the 2007-2013 allocations. For Cross-Border Cooperation, during the same period, the contracting rate was over 80.1% and payments reached 72.8%.

The EU welcomes the commencement of project implementation under IPA components III and IV. Montenegro should focus on project preparation and implementation to ensure full absorption of funds available within the Operational Programmes under these components. The functionality of the structures engaged in the implementation of these components should be maintained and strengthened.

The EU has entrusted budgetary implementation tasks to Montenegro for IPA II allocation and encourages Montenegro to continue its efforts regarding the sector approach and develop the capacity for multi-annual strategic planning for the implementation of IPA support.

The EU takes note of the fact that Montenegro has ratified the Sectoral Agreement for the rural development programme under IPA II.

The EU welcomes the adoption of the action plan for the management of the future cohesion and structural funds.

3.2. Bilateral relations under the Stabilisation and Association Agreement

The EU reiterates that the Stabilisation and Association Agreement (SAA), within the framework of the Stabilisation and Association Process, remains at the core of the relationship between the EU and Montenegro. The EU welcomes Montenegro's positive track record in implementing its obligations under the SAA, including its trade related provisions, since its entry into force on 1 May 2010. The EU encourages Montenegro to complete the alignment of the law on state aid control.

The EU notes that Montenegro has been actively participating in EU programmes since January 2008. IPA funds are used to meet part of the costs. Montenegro is currently participating in the following EU programmes: Erasmus+, Creative Europe (Culture and Media strands), Employment and Social Innovation (EaSI), Horizon 2020, Customs 2020, Fiscalis 2020, Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) and Europe for citizens.

The EU encourages Montenegro's participation in further EU programmes in the future, where pertinent to the accession process of Montenegro.

Item 4. Exchange of views on developments in the Western Balkans

The European Union and Montenegro will proceed to an exchange of views regarding developments in the Western Balkans.