

STABILISATION AND ASSOCIATION
BETWEEN
THE EUROPEAN UNION
AND MONTENEGRO

The Stabilisation and Association Council

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COVER NOTE

Subject: Eighth meeting of the EU-Montenegro Stabilisation and Association
Council (Luxembourg, 20 June 2017)

Delegations will find attached the position paper of the European Union tabled on the occasion of the 8th meeting of the Stabilisation and Association Council between the European Union and Montenegro.

EIGHTH MEETING OF THE

EU-MONTENEGRO

STABILISATION AND ASSOCIATION COUNCIL

Luxembourg, 20 June 2017

POSITION OF THE EUROPEAN UNION

The European Union welcomes the holding of the eight meeting of the EU–Montenegro Stabilisation and Association (SA) Council. The EU considers this meeting of the SA Council to provide a timely opportunity to review Montenegro's progress in the preparations for membership, following the publication in November 2016 of the Commission's Montenegro Report, the Stabilisation and Association Committee of December 2016, 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 2016 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 26, 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 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 increase and improve consultations with civil society.

The EU encourages Montenegro to continue focusing on implementation of 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 had welcomed 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. The elections were organised under a substantially revised legal framework and overall the election preparations were conducted in a more participatory and transparent manner. The elections were conducted in a competitive environment and characterised by general respect for fundamental freedoms.

Reactions to events on and around the election day however have led to losing some of the gains made and the opposition has boycotted the work of the parliament since the elections, which presents a key challenge to parliamentary work. The EU has repeatedly encouraged all relevant actors to return the political debate to the democratic institutions, notably to the Parliament, where it belongs. The relevant national authority, the Office of the Special Prosecutor, has investigated the Election Day events and legal proceedings are ongoing.

The EU recalls that it remains essential for the overall pace of the negotiating process that the entire rule of law system delivers more concrete results and a strengthened and sustainable track record, in particular in the fight against corruption and organised crime, including effective investigations, prosecutions and final convictions. The EU welcomes the continued implementation of the Action Plans for Chapters 23 and 24, after almost four years since their adoption.

In May 2017, 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 concludes that significant progress was achieved in the area of legislative reform as well as continuous training and awareness-raising activities. The process of institution-building is almost completed. The EU notes progress in establishing an initial track record in the area of repression of high-level corruption and some forms of organised crime. At the same time, results in terms of track records still remain limited, in particular in some areas of prevention of corruption, seizure and confiscation of criminal assets, as well as track records with regard to violence against journalists, trafficking in human beings, and money laundering.

Recalling the importance of media freedom, the EU encourages the authorities to step up their efforts and commitment in creating an environment conducive to investigative journalism and media freedom in general, where limited progress has been made over the last years. The EU calls on Montenegro to continue its activities in order to effectively investigate 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 notes that the ad-hoc commission tasked with monitoring investigation of cases of violence against journalists has been re-established in September 2016, and expects Montenegro to find adequate solutions to ensure the effective functioning of this commission.

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 Montenegro's adoption of its 2016-2020 PAR Strategy, and encourages the timely implementation of its Action Plan. It also welcomes the PAR Council under the leadership of the Deputy Prime-Minister for the Political System. The EU encourages Montenegro to further enforce practical application in terms of merit-based recruitment and promotion, at all levels of its civil service and at local level, notably via the amendment of the Law on Civil Servants and State Employees. The EU notes that these reforms need to be fully implemented in order to address many of the ongoing capacity issues in Montenegro's public service, and reiterates the importance of strengthening administrative capacity for the future effective implementation and enforcement of the *acquis*. It therefore continues to strongly recommend that Montenegro pursue the reform process in line with the timelines foreseen in order to achieve a more efficient and streamlined public administration, able to cope with the challenges of EU accession, and able to deliver better levels of services to citizens and businesses.

As regards Public Financial Management, the EU notes the timely implementation of some of the actions foreseen during the first year of the action plan of the Public Financial Management Reform Programme 2016-2020, and urges Montenegro to ensure the timely implementation of the action plan in 2017, including those actions carried over from 2016. Montenegro should ensure the establishment and staffing of the budgetary inspection. Montenegro should also ensure that the implementation of the law on public sector salaries is enforced in a transparent and appropriate manner both in the civil service and in other state bodies, ensuring the necessary levels of remuneration for key staff, i.e. by their classification at appropriate grades, but also by ensuring accountability and financial discipline – notably with regard to discretionary elements of remunerations.

EU takes note of Montenegro recently completing a major step towards further Euro-Atlantic integration, as recognition of the country's reform efforts, especially in the area of rule of law.

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 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 strongly commends Montenegro for its consistent cooperation on foreign policy issues, and in particular its full alignment with the EU Common Foreign and Security Policy

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.

Economic criteria

The EU welcomes the submission by Montenegro, in January 2017, of its third Economic Reform Programme (ERP) and draws attention to the joint conclusions of the Economic and Financial Dialogue, adopted on 23 May 2017, 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, which means that more efforts than in previous years are necessary.

The EU notes that Montenegro's economy grew by a robust 2.5% of GDP (preliminary data from MONSTAT) in 2016, which is however a slowdown compared to 2015, largely driven by investments, especially in construction, and tourism. At the same time, the current account deficit broadened markedly to 19 % of GDP, up from 13 % recorded the previous year. Significant financing needs and large imbalances between exports and imports persist, rendering the country highly vulnerable to external shocks. The slow but gradual decline of unemployment reversed in 2016 and stood at a high 17.8 % at the end of the year. Economic growth does not sufficiently translate into job creation and the introduction of life-time social benefits for mothers of three or more children negatively affected labour market activity in 2016. There is evidence that many women opted out of the workforce to become eligible for the generous benefits.

Given the absence of monetary policy tools, a rigorous fiscal policy combined with flexible product and labour market 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 promote the diversification of the sources of growth beyond the current investment cycle.

Given the high budget deficit and fast growing public debt, the EU remains concerned about the government's fiscal framework, as presented in the ERP. Fiscal imbalances are set to increase further in 2017, despite some corrective measures in the 2017 budget. The deficit target of 6 % GDP already incorporates the effects of these fiscal consolidation measures, equivalent to some 3.2 % of GDP. However, the ERP lacks a complete medium-term fiscal strategy and does not sufficiently address fiscal sustainability concerns. It is therefore important that the government adopts and implements a comprehensive medium-term fiscal strategy to set out its plans beyond 2017.

Noting the ERP's strong budgetary focus on large infrastructure and public investment projects, the EU further encourages Montenegro to complement this with less costly regulatory and administrative reforms. Attention is drawn in this regard to the EU policy guidance adopted in May 2017. To improve competitiveness, the economy needs to further diversify, and its export base needs to be broadened. Widespread skills mismatches due to lack of specialized workforce limit employment opportunities and insufficient coverage and targeting of social assistance results in disincentives to formal work. Finally, the EU calls on Montenegro to further improve the rule of law, reduce the informal sector, tackle corruption and ensure regulatory improvements in order to improve 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 still not at the pace foreseen in Montenegro's comprehensive strategy on free movement of goods, despite its revision in 2016. The EU welcomes Montenegro's continued implementation 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 and the still quite low number of conformity assessment bodies.

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 encourages Montenegro to further strengthen implementation and enforcement capacities at all levels. Key bodies of the public procurement system are in need of additional human resources and modern working methods to ensure the progressive development of the system. This concerns in particular the State Commission for Control of Public Procurement and the Inspection Service. The EU further notes that the 2016-20 Strategy on Public Procurement does not cover implementation aspects in the area of concessions, and that alignment in this area remains at an early stage. The EU recalls that the planned introduction of e-procurement represents a major change, which needs to be well-planned and accompanied by training and communication activities. 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. The EU reminds Montenegro in this regard that it has not yet provided to the Commission a list of such bilateral agreements impacting on the application of public procurement rules.

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 weak. The role of the misdemeanor courts – imposing fines in anti-trust cases – remains, on occasion, an issue of concern. On state aid, Montenegro has to make further efforts by aligning the State Aid Control Law. The enforcement track record of the state aid authority remains insufficient. Resources are lacking and state aid notifications are rare, even in crucial cases like the construction of the Bar-Boljare highway or Montenegro Airlines. The operational independence of the state aid authority, and in particular the problematic participation of state aid grantors in the state aid authority, should be addressed with the reform of the law on state aid control and the amendments to the law on protection of competition.

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*. Sufficient resources for the implementation of the *acquis* remain to be ensured.

The EU acknowledges the progress made in the area of agriculture and rural development. Overall, alignment with the *acquis* remains at an early stage. The EU welcomes the ongoing implementation of the comprehensive strategy and the action plan for the alignment, implementation and enforcement of the *acquis* in this area, particularly the inclusion of decoupled support measures in the 2017 agricultural budget. Concerning the management of rural development funds, the accreditation of the IPARD structures has advanced well, so that implementation is expected to start soon.

The EU notes progress in the area of food safety, veterinary and phyto-sanitary policy. Implementing legislation in various fields of food safety, veterinary and phyto-sanitary policy has been adopted and vaccination successfully carried out. The implementation of the comprehensive national strategy, a basis for the transposition, implementation and enforcement of the EU *acquis*, remains a priority, including the development of the relevant administrative capacities, in particular for inspection services and laboratories.

Some progress has been made on fisheries' legislative framework, on control and management of fisheries and in capacity building on data collection. Implementation of the comprehensive strategy for the alignment, implementation and enforcement of the *acquis* should continue, in particular on structural policy, market policy, state aid and international fisheries agreements. Administrative capacity should be further strengthened.

In the transport sector Montenegro adopted plans for 2017 for road safety improvement and investments in the road sector (80 Million Euro) and rail sector (6.8 Million Euro). The independent accident investigation body for air, rail and maritime transport is now fully operational. Ensuring the independence of the railway regulatory body and full membership to the Paris Memorandum of Understanding remain important issues.

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 to complete the alignment with the *acquis* on energy efficiency and start to implement it. The EU encourages Montenegro to establish a stockholding body as well as intended storage capacities and to start accumulating the mandatory physical oil reserves, in accordance with the relevant Action Plan.. On energy connectivity, the remaining part of the submarine cable to Italy was laid down and the project should be completed by end 2018. The WBIF grant for the preliminary design of the Adriatic Ionian Gas Pipeline was approved.

As regards progress on customs and taxation, on taxation the EU notes the strengthened cooperation between the tax and customs authorities, however there has not been further progress in alignment with the *acquis* in regard to direct taxation. Montenegro is also encouraged to avoid adopting tax measures applicable to only some businesses, as such measures complicate tax administration and potentially distort the market. The EU welcomes some progress regarding IT systems, but notes that Montenegro needs to further strengthen its taxation system and reinforce its administrative capacity and infrastructure in order to ensure enforcement, collect taxes effectively and fight tax fraud and evasion. As regards customs, the EU welcomes the amendments to the Montenegrin customs rules, adopted in 2016, aimed at further aligning provisions on non-preferential rules of origin, summary declaration, simplified procedures, and IPR enforcement, among others. 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. With regard to combatting the illicit trade in tobacco products, the EU encourages Montenegro to step up efforts in this area, including through strengthened international cooperation, as well as by ratifying the Protocol to Eliminate Illicit Trade in Tobacco Products to the World Health Organisation's Framework Convention on Tobacco Control. The EU also encourages Montenegro to promote a more service-oriented organisational culture in customs service and strengthen efforts to expand the use of its trade facilitation instruments.

The EU welcomes Montenegro's continued progress in the area of statistics, notably regarding the signature of four cooperation agreements in this area, and with regard to the implementation of the ESA2010 which it urges to continue. The EU notes that the court case on confidentiality of the 2011 census data has ended and commends Monstat's handling of this case. The EU invites Montenegro to continue its investment in a number of statistical areas, notably, despite the small increase in the reporting period, regarding the staffing of Monstat.

In the area of social policy and employment, EU notes reforms adopted, and now it is important that this translates into improved services to citizens. 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 encourages Montenegro to improve it, especially in the private sector and at the local level. In the field of employment policy, the critical market situation remains a matter of concern. 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 reconsider the legislative measures discouraging women's participation in the labour market and to increase the allocations for the active labour market measures targeting youth, women and hard to employ people. The EU welcomes the adoption of the Strategies on Employment and Human Resources Development, on Quality of Health and Safety at Work, on the Integration of People with Disabilities and on Social Inclusion of Roma, but underlines the need to assure adequate resources for their implementation. In the area of social protection, further measures are needed to decentralise the standardised local social services and to strengthen the cooperation with CSOs.

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 almost completed. The translation of legislative and institutional reforms into concrete results on the ground will require further efforts to strengthen administrative capacity, pro-activeness of all the stakeholders and institutions to implement the reforms in the spirit in which they were designed, and an environment where independent institutions are provided with the necessary resources, shielded from any interference and incentivised to fully use their powers. To this end, political and institutional commitment, responsibility and leadership need to be demonstrated.

As regards judicial reform, the EU welcomes the initial efforts of the Judicial and Prosecutorial Councils to implement the new systems of recruitment, professional assessment and promotion. The EU underlines, in particular, the need to fully and timely implement the new system of regular professional assessment, as well as 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 still remain limited. The EU encourages Montenegro ensure effective application of mechanisms to detect and follow-up on irregularities that give grounds for disciplinary sanctions as well as on breaches of the Code of Ethics. The EU welcomes the continuous reduction of judicial backlogs. However, measures aimed at increasing the efficiency of the judiciary need to continue.

The EU welcomes the adoption of the 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 improve the statistical capacity and to actively use data on the performance of the judicial system for management and policy-making purposes, as well as to put in place transitional solutions to support implementation of the results and recommendations of the case-weighting study, until the IT strategy is fully implemented. The EU underlines the need for Montenegro to step up rationalisation of the court network. In relation to the *domestic handling of war crimes*, the EU notes opening of new investigations as first results of the implementation of the Prosecution Strategy. The EU encourages Montenegro to continue with the efforts to fight impunity in, and to effectively investigate, prosecute, try and punish war crimes in line with international humanitarian law and the jurisprudence of the ICTY, and to demonstrate a pro-active approach. Access to justice in line with European and international standards and reparations for the victims of war crimes in line with Montenegro's commitments should also be ensured.

As regards prevention of corruption, the EU welcomes the results achieved by the Anti-Corruption Agency since it became operational in January 2016. The EU stresses that the Agency needs to ensure that it has the necessary expertise and capacity for all areas within its mandate, including through specialised training and to demonstrate a more pro-active approach. Track records of detecting irregularities need to be further consolidated 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, effective and deterrent sanctions as provided for by law need to be applied. In order to increase the impact of anti-corruption measures in particularly vulnerable areas, further strengthening of inspection and internal control capacities is needed.

With regard to the fight against corruption and organised crime, the EU welcomes the formation, in the course of 2016, of the Special Police Unit to support the Special Prosecutor's Office for the fight against corruption, organised crime, war crimes, terrorism and money laundering. The EU calls on Montenegro to provide both the Special Prosecutor's Office and the Special Police Unit with all the necessary resources, and sufficient staff to be able to fulfil their tasks. The Special Prosecutor's Office also needs to be provided with adequate premises. The EU acknowledges the establishment of initial track records of investigations, prosecutions and final convictions in cases of high-level corruption, and some areas of organised crime. The EU expects that the track records will be consolidated by additional new investigations and further processing of cases leading to results in terms of indictments and final court decisions, as well as with regard to seizure and confiscation of assets where track records remain limited. The EU recalls that financial investigation skills need to be enhanced as a matter of priority, and financial investigations should be used systematically.

On fundamental rights, Montenegro has continued the dialogue with international human rights organizations. The EU welcomes the adoption of the new law on minorities, aimed to eliminate the risk of conflict of interest in the process of attribution of funds to minorities. The EU further encourages Montenegro to adopt 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). The EU takes note of the delays in progressing in investigations and prosecutions of cases of violence by law-enforcement officers, including those taking place during the autumn 2015 opposition protests which show difficulties of eradicating ill-treatment and establishing a record of deterrent sanctions. In respect of prisons, the EU observes that, despite some small improvements, the material conditions of detention and medical support in prisons remain poor and overcrowding of prisons remains a problem. The EU welcomes the adoption of the new Strategy for execution of criminal sanctions for 2017-2021 which foresees to address challenges in legislation, organisation, judicial bodies and alternative sanctions, as well as the issue of material conditions of detention and security situation in prisons. The EU expects that sufficient resources will be made available for the implementation of the strategy.

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. Regarding *discrimination against persons with disabilities* the EU welcomes that the Faculty of Economics is now accessible to persons with reduced mobility, but notes the delays in the process to adapt public buildings to the needs of persons with reduced mobility and calls on Montenegro to continue the work on making additional public buildings accessible, including health centres and facilities.

On *LGBTI rights* the EU welcomes the adoption of the new action plan in 2016. The EU also takes note of the preparations of the draft Law on Civil Partnerships, as well as constructive cooperation with CSOs in this area and improved cooperation between LGBTI community and the police. The EU recalls that the 2016 national pride parade was organized in Podgorica in December without incidents. It observes however that the situation remains difficult at local level and within the society itself where acceptance of sexual diversity is still advancing at a slower pace.

The EU notes that *domestic and gender-based violence*, as well as *violence against children*, remain an overall concern. It observes that the implementation of the Istanbul convention proceeds slowly and that the track record of effective multi-disciplinary cooperation in this area remains limited.

In the field of *rights of the child*, Montenegro is invited to demonstrate a more pro-active approach in addressing the problems of child-begging as well as forced marriages, which continue to be reported by CSOs.

The EU stresses that persons belonging to the Roma minority remain the most vulnerable and at risk of evictions. The EU encourages Montenegro to set up a procedure for evictions in line with international standards. The lack of any identification document, especially for children, remains a matter of concern. The EU observes that Montenegro has not yet introduced into its legislation a separate procedure for determining statelessness. The EU invites Montenegro to take the necessary steps to regulate this issue.

In the area of Justice, Freedom and Security, the EU welcomes Montenegro's continued efforts to align with the EU acquis in the field of migration, asylum, visa policy, judicial cooperation in civil and criminal matters, police cooperation, and fight against terrorism. It welcomes in particular the adoption of the new law on asylum and expects that Montenegro will ensure its proper implementation by adoption of implementing legislation and proper training of staff. Montenegro needs to remain alert to shifts in the routes crossing its borders, adjust its national capacity accordingly, including accommodation of vulnerable groups, and trigger the contingency plan if and when needed.

In respect of migration, the EU also takes positive note of the preparation of a new law on foreigners which should constitute a substantial progress as regards Montenegro's alignment with the EU acquis in the field of legal migration. It further welcomes the adoption of the Strategy for Integrated Migration Management for 2017–2020 and the adoption of Schengen Action Plan. The EU stresses the need for Montenegro to ensure the necessary financial means to implement the Schengen Action Plan and to continue to work pro-actively against criminal activities at its borders. Montenegro should continue to prioritise people smuggling as a security threat and instruct its law enforcement community and prosecution service to act accordingly.

The EU notes that Montenegro satisfactorily implements measures recommended in the framework of post-visa-liberalisation monitoring, including in respect of better integration of Roma community. The EU calls on Montenegro to continue to be vigilant as regards potential abuses of the visa-free regime with the EU.

The EU takes note of the preparation of the Law on Judicial Cooperation in Criminal Matters with EU Member States. It further invites Montenegro to ensure a sufficient human capacity to be able to implement the EU *acquis* in the field of judicial cooperation in criminal, civil and commercial matters, including at the level of courts and prosecution offices.

The EU notes active participation of Montenegro in regional and international police cooperation. It further notes the preparation of amendments to the Law on Internal Affairs aimed at the reform of the police organisation. The EU underlines the importance of introduction of transparent and merit-based system of recruitment, assessment and promotion within the police. The EU calls on Montenegro to improve its preventive mechanisms in the field of money laundering, as well as to step up its efforts to investigate and prosecute money laundering offences.

The EU continues to stress the need to ensure professional and effective protection to victims of trafficking in human beings and to step up its activities in the area of fight against trafficking in human beings.

The EU also recalls that institutional awareness needs 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 notes the increase of drugs transiting through the Western Balkans region and encourages Montenegro to continue its efforts to detect and confiscate drugs at its borders.

Concerning science and research, the EU recalls the importance of continued efforts to develop this area by increasing investment in research (in particular stimulating private sector investment), and focusing efforts to improve participation in the EU's Horizon 2020 Programme through greater cooperation between the public research sector and industry.

Regarding education, the EU takes note of Montenegro's ongoing reform measures where particular attention is given to streamlining education output at vocational and university levels with labour market needs. The EU recalls the need to improve the quality of education at all levels, ensuring inclusive education throughout; this should start at pre-school level where participation rates remain low. Of particular importance is teacher training and development, to implement reformed curricula and contribute to student attainment. Efforts should also focus on reinforcing quality-assured basic and transversal skills, introducing work-based learning, promoting entrepreneurship and developing stronger career guidance services. The EU underlines the need to ensure a system of monitoring and evaluation to determine the impact of current (and future) reform measures, thus providing a solid evidence base for future policy developments.

The EU acknowledges that important legislative and policy measures have been adopted in the area of environment and climate change. The new law on the environment was adopted in July 2016 as well as the National Strategy and Action Plan for the Alignment, Implementation and Enforcement of the EU *acquis* on the Environment and Climate Change. The EU encourages the implementation of the Strategy and its Action Plan and to make progress as regards transposition, implementation and enforcement of the EU *acquis* in this area, in particular in the areas of water, waste, nature and climate change.

Administrative capacities at national and local level have to be considerably strengthened throughout all sectors, notably in the field of environment inspections and given the international commitments and reform efforts needed at national level. 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 notes that Montenegro has adopted the Spatial Plan of Ulcinj municipality. However, the Ulcinj Salina site needs to receive an adequate protection status under national and international law as soon as possible. The EU calls on Montenegro to complete the process to protect this site by preserving its ecosystem and implementing sustainable management of the site in line with the requirements of nature conservation.

The EU welcomes the planned ratification of the Paris Climate agreement. The EU encourages Montenegro to start implementing its contribution to it, in line with the EU 2030 Framework for Climate and Energy Policies. Montenegro's gradual alignment with the EU climate policy and legislation will be of high importance.

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 continued to increase. The EU notes some progress in the field of communicable diseases with regard to EU quality and safety standards and to preparations for cooperation with and reporting to the EU by further alignment and implementation the EU *acquis*. Due attention continues to be needed regarding *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, notably with regard to alignment to EU standards on the use of tobacco in public places.

As regards financial control, the EU notes the progress made on public internal financial control and, in particular, the comprehensiveness of its annual report in this regard. It also welcomes Montenegro's continued reform efforts regarding managerial accountability, and notably to ensure an agreed definition of managerial accountability, including its application and reporting requirements. The EU also welcomes further progress in establishing internal audit units, notably the establishment of training capacities to ensure qualified auditors. The EU welcomes the increasing number of performance audits performed by the state audit institution, and encourages Montenegro to continue efforts to ensure that this body is adequately resourced. In addition, the EU encourages Montenegro to establish a solid track record of cooperation with the European Anti-Fraud Office (OLAF) on investigations and the reporting of irregularities, as well as 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 2016, the contracting rate for IPA I Component I stood at 97.3% and payments at 87% for the 2007-2013 allocations. For Cross-Border Cooperation, during the same period, the contracting rate was over 90%. For Component III the contracting level reached at the end of 2016 was 84.99% and 95% for Component IV. Montenegro should focus now on the closure of the Operational Programmes under these components. In particular, Montenegro should concentrate on successful implementation and full utilisation of the available funds in order to contribute to achievement of the planned objectives. The functionality of the structures engaged in the implementation of these components should be maintained and strengthened. The EU encourages Montenegro to spread the good financial practices established in these structures to other parts of the administration.

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 that the entrustment decision for IPARD II programme was postponed for 2017.

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. However the EU notes that Montenegro should strengthen its efforts in the field of state aid in order to fully comply with the provisions laid down in the Stabilisation and Association Agreement.

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), the Union Civil Protection Mechanism, 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.
