

**STABILISATION AND ASSOCIATION
BETWEEN
THE EUROPEAN UNION
AND MONTENEGRO**

Brussels, 25 June 2014

The Stabilisation and Association Council

UE-ME 3604/14

COVER NOTE

Subject: Fifth meeting of the EU-Montenegro Stabilisation and Association Council
(Luxembourg, 24 June 2014)

Delegations will find attached the position paper of Montenegro tabled on the occasion of the 5th meeting of the Stabilisation and Association Council between the European Union and Montenegro.



**Ministry of Foreign Affairs and European Integration
Directorate General for European Affairs**

No: 01-

Podgorica, 13 June 2014

**POSITION
OF MONTENEGRO FOR THE FIFTH MEETING OF THE EU – MONTENEGRO
STABILISATION AND ASSOCIATION COUNCIL**

(Luxembourg, 24 June 2014)

1. Adoption of the agenda

Montenegro welcomes the **fifth meeting of the Stabilisation and Association Council** between Montenegro and the EU, and reminds that the Stabilisation and Association Agreement (SAA) represents the basis for bilateral relations. Montenegro points out that it continued smooth implementation of obligations under the SAA in compliance with the defined dynamics. Montenegro continued to conduct and develop institutionalised political dialogue with the European Union.

2. Relations under the Stabilisation and Association Process

2.1. Accession strategy, particularly in the light of the EC 2013 Progress Report

Montenegro reminds that the accession negotiations were opened on 29 June 2012, the Government established 33 working groups, and the screening process (explanatory and bilateral screenings) was completed. Montenegro appropriately integrated representatives of the civil sector into all negotiating structures in order to provide transparency and legitimacy of the negotiating process. Innovative approach to establishing the negotiating structure implied open invitation to all stakeholders of the Montenegrin society to nominate representatives for work in the negotiating bodies that eventually resulted in the fact that civil sector representatives (cca 400) made one third of members of the negotiating structure.

So far, Montenegro initiated the negotiating process in **nine** negotiating chapters **two of which** were provisionally closed: **Chapter 25 – Science and Research and Chapter 26 – Education and Culture.**

Chapter **23 – Judiciary and Fundamental Rights**, as well as Chapter **24 – Justice, Freedom and Security**, which make the backbone of the negotiating process, were opened at the Intergovernmental Conference on 18 December 2013. Initiation of the negotiating process in Chapters 23 and 24 represented an additional stimulus for the part of the negotiating structure involved in these areas to continue, with full commitment, the work on the fulfilment of interim benchmarks under the previously mentioned chapters. Detailed action plans, which were adopted in the mentioned chapters, represent comprehensive guidelines for the achievement of this goal.

Following the initiation of negotiations in Chapters 23 and 24, as well as entering a new and more demanding phase of the European integration process, Montenegro renewed the negotiating structure through the establishment of the Council for the rule of law that coordinates fulfilment of obligations in this area at a high level, as well as extension of competence of working groups for conducting negotiations.

Furthermore, Montenegro intensively conducts activities in other negotiating chapters as well. Montenegro adopted negotiating positions for **seven** negotiating chapters: 4 - Free Movement of Capital, 16 – Taxation, 18 – Statistics, 29 – Customs Union, 31 – Foreign, Security and Defence Policy, 32 – Financial Control and 33 – Financial and Budgetary Provisions.

Montenegro`s Programme of Accession to the European Union for the period 2014 – 2018 was adopted in December 2013 and represents the **basic strategic document in the area of European integration**, which thoroughly and comprehensively provides for measures required for the following: complete alignment with the *acquis*, building of administrative capacities for its efficient implementation, development of the appropriate strategic framework for all chapters of the *acquis*, as well as calculation of costs for the fulfilment of these activities.

Furthermore, with a view to increasing transparency and further familiarising of Montenegrin citizens with the integration process, in March 2014 the Government adopted the **Strategy for Informing the Public on the Accession of Montenegro to the European Union** the preparation of which also involved relevant representatives of the civil sector.

On 27 June 2013 Montenegro endorsed the proposal and on 10 October 2013 adopted the Action Plans for Chapters 23 and 24, thus fulfilling the benchmark for the initiation of negotiations in these chapters. The Action Plans were developed after six months of intensive work and involvement of a large share of public administration, as well as the civil sector which gave their contribution through comments and suggestions at the public consultations held on 20 May 2013. Montenegro expresses its satisfaction regarding the process of development of the Action Plans and considers this activity as a successful test of its capacities. Montenegro initiated negotiations in Chapters 23 and 24 in compliance with the new approach at the Intergovernmental Conference held on 18 December 2013, thus entering a new phase of the European integration process. The first semi-annual Report on Realisation of the Action Plans was adopted on 26 December 2013 and represented the contribution for the Subcommittee for Justice, Freedom and Security, whereas the First Quarterly Report on Realisation of Action Plans was adopted on 24 April 2014.

The Parliament continued to enhance the efficiency of work, including planning of legislative and supervisory activities. On 31 July 2013, the Technical Report on the Work of the Inquiry Committee was presented to the Parliament for the purpose of collecting information and facts on the events related to the work of public authorities, as regards publication of the audio recordings. The Supreme Public Prosecutor's Office initiated investigation regarding published audio recordings before the Basic Public Prosecutor's Office in Podgorica and Pljevlja, where judicial proceeding had already been initiated. Montenegro indicates that independent judicial authorities are ready to consider all facts and evidence in this case and complete the already initiated proceeding accordingly.

The Parliament adopted the Law Amending the Law on the Election of Councillors and Members of Parliament, Law Amending the Law on Personal Identity Card, Law on the Electoral Roll, Law Amending the Law on the Local Self-Government and Law Amending the Law on Financing of Political Parties, which is in compliance with conclusions on building trust in the election process. On 31 May 2014, the Constitutional Court denied 16 Articles of the Law on the Financing of Political Parties, for which it determined that they are not in line with the Constitution of Montenegro.

Local elections were organised in Montenegro in 12 local self-governments, including the Capital on 25 May 2014. In these elections, Montenegro enforced the new amended election legislation for the first time, and it can be stated that the elections were held in fair atmosphere. Montenegro expresses its concern due to the possibility of violation of procedures for the allocation of resources from EU funds for the purpose of supervision of elections.

The Government of Montenegro continued to apply new Rules of Procedure according to which it **endorsed 75 law proposals and adopted 37 decrees**, accompanied by the reports on conducted analysis of regulatory impact assessment submitted by the proposers. Activities have been continued as regards the affirmation of work transparency of the Government and more active involvement of the public in the process of development of public policies. Authorities are obliged by the Law on Free Access to Information to publish proactively their information on their websites.

Montenegro advances in the process of the public administration reform. The Strategy for the Public Administration Reform is being implemented successfully. In this regard, Montenegro improved its institutional capacities; therefore, the Special Group for monitoring the implementation and preparation of information and reports on the implementation of all recommendations, measures and activities defined by the Action Plan for implementation of the Plan for Internal Reorganisation of the Public Sector was established on 9 October 2013, whereas the Coordination Authority for monitoring the implementation of the Strategy for Public Administration Reform was established on 25 December 2013. The Law on Civil Servants and State Employees is successfully enforced at both national and local level. On 18 July 2013, the Government adopted the Plan for Public Sector Internal Reorganisation, which is completely aligned with Montenegro's Programme of Accession to the EU, with special emphasis on the needs of the EU accession process. Montenegro also developed the Draft Law on Administrative Procedure aimed at further simplification and acceleration of the general administrative procedure, reduction of costs of the procedure for all its participants, as well as the modernisation of procedural mechanisms.

Montenegro continues its active participation in all regional initiatives.

Montenegro continues its policy of developing good neighbourly relations and building more stable and safer region for the purpose of accession to the EU. Montenegro will continue to be an active participant of negotiations on defining border issues with all neighbours. Montenegro was the first to initiate negotiations on these issues with all neighbouring countries; this was emphasised several times as an example in the region.

Negotiations between Montenegro and the Republic of Croatia on demarcation at the territory of Prevlaka, as well as agreements on border crossing points and border transport are conducted in the spirit of friendship and good neighbourliness. The Treaty on the State Border between Montenegro and Bosnia and Herzegovina with the accompanying annexes was signed on 27 May 2014 by the State Border Commissions of the mentioned countries, and it represents the first treaty of that kind in the region which sends a good message from the region and provides conditions for closer cooperation in the forthcoming period. In addition, on 26 March 2014, Montenegro signed 5 agreements with Kosovo regarding the border transport regime, common border crossing points, joint border control procedures, defining the international road border crossing point and opening of the common border crossing point, whereas the Treaty on the State Border is completely aligned and signed. Montenegro emphasizes its decision to align with the EU position on the political situation in Ukraine and fully align with all other EU statements and decisions.

Public finance management

In 2013, the public finance policy was aimed at consolidation of the public finance, sustainability of the public debt and reduction of the public consumption deficit. At the beginning of 2013, Montenegro introduced a set of fiscal adjustment crisis measures with a view to stopping the trend of deterioration of fiscal parameters, primarily a drop in income collection, and consequently increase of deficit and the level of the public debt. A set of fiscal measures aimed at increasing budget income included the following: introduction of ``crisis`` tax of 15% for salaries above the national average, increase of the VAT rate (from 17% to 19%), increase of minimum salary from 30% to 40%. Excise policy has been gradually harmonised since the date of signing of the Stabilisation and Association Agreement with the European Union, therefore, there has been an increase of excise rates in this year as well, due to the harmonisation of the amount of excise with European regulations. Charging fees for SIM cards, cable TV and electricity meters has been abolished since 1 January 2014, whereas a part of regulations related to charging the fee for smoking zones has been redefined. Activities have been continuously carried out during the whole year as regards the implementation of measures for suppression of grey economy; this exerted influence on the expansion of the tax base and improvement of fiscal discipline.

On 31 December 2013, the amount of the public debt of Montenegro was EUR 1,933.0 million or 57.95% of GDP. **The public debt of Montenegro at the end of April 2014** was 56.6% of estimated GDP, and it has been reduced by 0.4 % in comparison with the previous month.

In 2014, fiscal policy measures have been aimed at consolidation of public finances, sustainability of the public debt and decrease of the budget deficit. **Incomes of the Budget** are continuously growing in the period January – April 2014. **Budget expenditures** for the first four months of 2014 have increased by 5.6% in comparison with 2013, mainly due to increase of expenditures for payment of guarantees and interests. Austerity measures are implemented with a view to rationalising the budget consumption. Considering the fact that these measures have been implemented since 2009, the space for their effect has been largely reduced. Furthermore, it is taken into account that the efficient functioning of the entire system of the public sector is not jeopardised. **The deficit at the end of April 2014 was 1.7% of GDP**, which is EUR 16.2 million less in comparison with the deficit in 2013. If paid guarantees are excluded, the deficit amounts to 1.4% of GDP.

In January this year, the Ministry of Finance of Montenegro submitted to the EC the **Pre-Accession Economic Programme of Montenegro for the period 2013-2016**, which defines the goals of economic policy, macroeconomic and fiscal framework, as well as structural reforms for the period 2013-2016. **The Law on Budget and Fiscal Responsibility** was adopted in April 2014, with a view to promoting the public finance system and aligning with the European standards. This law introduced numerical fiscal rules, mid-term budget framework, fiscal strategy, inspection supervision, as well as appropriate penalty measures. **The guidelines for macroeconomic and fiscal policy for the period 2014-2017**, which were adopted in compliance with the new Law on Budget and Fiscal Responsibility, determine the limits of the mid-term budget consumption. The achievement of a primary surplus (deficit minus interests) has been foreseen in compliance with fiscal criteria.

The third Eurobond emission, which is considered quite successful, was launched in April 2014, with participation of more than 200 international investors, which resulted in demand five times larger than offered amount for sale.

The share of the current account deficit in GDP is 14.6% and has been reduced by 4.1% in comparison with the previous year. Improvement of the current account balance is the result of reducing foreign trade deficit by 4.3%, as well as increasing the surplus in international exchange of services by 5.6%.

In July 2013, upon the proposal of the Council for Improvement of Business Environment, Regulatory and Structural Reforms, the Government of Montenegro adopted the Plan for Public Sector Internal Reorganisation. The line ministries are responsible for the implementation of measures and activities prescribed by the Plan at the sectoral level. The efforts made in the implementation of reforms have also been recognised by the World Bank in the report ``Doing Business 2014``, where Montenegro advanced at the global level by 7 positions, from 51st to 44th, regarding the global range of business climate, with the most significant progress under the indicator titled ``issuance of construction licences`` with the advance of 68 positions, and with 16 positions under the indicator titled ``real estate registration``. As regards countries of the region, FYR of Macedonia (25) and Slovenia (33) are better ranked than Montenegro, whereas Kosovo (86), Croatia (89), Albania (90), Serbia (93) and Bosnia and Herzegovina (131) are lower ranked.

At the capital and financial account, there has been a decrease of 29.8% in net inflow of foreign direct investments. **Net inflow of FDI** amounted to EUR 323.9 million or 8.7% of GDP. As regards portfolio investment account, there has been net inflow in the amount of EUR 42.0 million, whereas net outflow on the grounds of other investments amounted to EUR 54.6 million. In 2013, net inflow of FDI amounted to EUR 323.9 million, which is 29.8% less in comparison with 2012. The share of net inflow of FDI in estimated GDP for 2013 was 9.7%, which is 32.6%, or 4.7% less than the share in 2012 (14.4%). The total amount of inflow of FDI was EUR 479.2 million, where the share of equity investments was 58.1% or 36.6% less than in 2012 (investments in enterprises and 15.9% (64.2% less); the share of investments in real estate was 42.2% (10.7% less), whereas the amount of inter-company debt was 39.4% (16.2% higher) and the rest 2.5% (62.3% less). The greatest inflow of FDI at a monthly level was in December 2013 (EUR 72.9 million), as a result of increase in credit inflow between joined ownership companies. The total outflow of FDI was EUR 155.3 million, which is 9.8% less than in 2012. As regards the outflow structure, the largest share was related to a withdrawal of non-resident`s funds (83.8%), 76.1% of which are inter-company debt obligations, whereas the resident`s investments abroad make 17.4%. According to preliminary data of the Central Bank of Montenegro for the first quarter of 2014, the amount of net inflow of FDI was EUR 78.0 million, which is 19% higher in comparison with comparative data from the previous year. Furthermore, net inflow in March of the current year was EUR 32.1 million, and it is 11.2% higher than the net inflow in February of the same year (EUR 28.8 million).

The first quarter of 2014 is characterised by economic, and particularly by fiscal recovery and impetus of growth in comparison with the previous year, especially in comparison with 2012, which was marked as a year with lowest economic parameters since Montenegro gained its independence.

Financial system stability

The banking sector preserved its stability in 2013, where all key monetary indicators increased; this increase largely resulted from application of International Accounting Standards.

Solvency of banks was at the satisfactory level; this is demonstrated by solvency parameters that were above the prescribed minimum. The banking system achieved positive financial result of EUR 2 million besides the fact that the problem of bad assets and high interest rates remains. At the end of December, non-performing loans made 17.5% of total loans, whereas loans with late payment amounting to EUR 478.4 million have the share of 19.8 %.

The banking system operated with profit at the end of February, which is EUR 5.3 million at the aggregate level.

There are six microcredit financial institutions operating at the banking sector of Montenegro, and their total balance amount in February this year was EUR 35.0 million, which means that it increased by 1.1% in comparison with the previous month.

Montenegro actively participated in the process of alignment of ECOFIN`s recommendations based on the evaluation of the Pre-Accession Economic Programme for the period 2014-2016. Montenegro also supported their adoption.

Montenegro continuously monitors fulfilment of assumed obligations arising from adopted recommendations, and it pays special attention to the record of progress achieved in areas of key importance for acting within the planned timeline.

One of conclusions, i.e. ECOFIN`s recommendations in the area of banking is ``implementation of the planned voluntary financial restructuring programme`` (the so-called ``Podgorica approach``) to address the high burden of non-performing loans in banks' balance sheets from both stock and flow perspective. “

The banks tried to resolve this issue independently by restructuring, transfer of NPLs to head banks, as well as selling to factoring companies. So far, cca EUR 710 million on NPLs were transferred, along with EUR 65.5 million in this year. The Central Bank of Montenegro marked the high level of NPLs as a potential source of system risk, and prepared the Draft Law on Voluntary Financial Restructuring in line with the so-called ``Podgorica model`` in cooperation with experts from the World Bank and the Ministry of Finance. The working draft of the Law was considered at the meeting of the Council of the Central Bank of Montenegro, which was held on 29 November 2013. The draft law was submitted for public debate and it is currently in the parliamentary procedure. This Law regulates the procedure of voluntary financial debt restructuring between debtors (companies and entrepreneurs), i.e. beneficiaries of mortgage loans (natural persons) who are suitable for financial restructuring and creditors (financial institutions). The model includes indebted, but solvent companies. The goal of implementation of this project is to provide sustainability of business of economic operators in Montenegro, due to the prominent insolvency problem. This law enables restructuring of mortgage loans of natural persons as well. The law will be implemented two years following its entry into force. Under the same project, amendments to the Decision on Minimum Standards for Credit Risk Management in Banks have been adopted; with these amendments, the Central Bank of Montenegro obliged the banks to develop comprehensive strategy for treatment of non-performing loans for the period of 3 years, determine annual operational goals related to reduction of level of non-performing loans and submit the quarterly reports on fulfilment of operational goals. In the context of strengthening of financial supervision, the following phase of the project includes development of new supervision techniques and key performance indicators, which will be implemented in both direct and indirect control, as well as supervision of the process of voluntary financial restructuring of economic operators.

Montenegro achieved progress in areas governing internal market, and it will continue its alignment of legislative and institutional capacities with European standards in compliance with obligations defined by trade provisions from the Stabilisation and Association Agreement. In the area of internal market and competition, activities are carried out as regards fulfilment of administrative capacities. In 2014, two new employees were hired in the Ministry of Economy. It is expected that strengthening of administrative capacities will be continued by the end of the year according to planned dynamics.

In the area of **free movement of goods** activities have been continued as regards alignment of national regulations with the *acquis*, as well as standards in this area which regulate standardisation, metrology, accreditation and assessment of conformity with European standards. Development of the Strategy for Free Movement of Goods for the period 2014-2018 is in its final stage. The Government endorsed the Proposal for the Law on General Product Safety and Proposal for the Law on Supervision of Products on the Market. Two new rulebooks transposing directives of the New Approach have been published as well: the Rulebook on Safety of Lifts and the Rulebook on Electrical Equipment designed for Use within Certain Voltage Limits. The Institute for Standardisation adopted total 1,447 Montenegrin standards (MEST) and related documents, and it established the following technical committees: ISME/TK E 013: Information technologies, ISME/TK 014: Health protection technologies and ISME/TK 015: Wood and wooden products. The Accreditation Body of Montenegro adopted the Proposal for the Strategy for Accreditation Development in Montenegro for the period 2015-2018 and proposal for the Action Plan for Implementation of the Strategy for Accreditation Development for 2015. In November 2013, the Accreditation Body of Montenegro accredited one new body for conformity assessment which belongs to the group of testing laboratories: University of Montenegro, Faculty of Electrical Engineering – Laboratory for the Measuring of Level of Electromagnetic Emissions (accreditation scope: testing the strength of electric field). Furthermore, in March 2014, the Accreditation Body of Montenegro accredited the new body for conformity assessment which belongs to the group of calibration laboratories: Metrology Office of Montenegro- Laboratory for Length, Laboratory for Mass and Laboratory for Temperature (accreditation scope: calibration of length, mass and temperature).

In the area of **public procurement** the Draft Law on Amendments to the Law on Public Procurement is being developed. The text of Guidelines for Development of Integrity Plans has been adopted in compliance to the Law on Civil Servants and State Employees. On 19 July 2013, the State Commission endorsed the Rulebook on Internal Organisation and Job Descriptions of the Professional Service.

In the area of **intellectual property**, on 26 March 2014, the Parliament adopted the Law Amending the Law on Trademark, by which Montenegro almost completely aligns with the *acquis* in this area. This chapter was opened on 31 March 2014 at the Intergovernmental Conference in Brussels. Implementation of the Twinning project, the holder of which is the Government of the Kingdom of Denmark started in April; this project deals with assessment and development of legislative and institutional framework in this area through provision of trainings to all institutions dealing with implementation of PIS and raising awareness on the importance of these rights. Adoption of the new Law on Patents has been foreseen following consultations with the EC; its adoption has been planned for the third quarter of 2014. The law has been submitted to the EC for comments.

In the area of **competition**, four decrees enabling enforcement of the Law on Protection of Competition were adopted at the session of the Government held on 27 February 2014. Competition policy will be completely aligned with the *acquis* by adoption of two remaining decrees, which has been planned for the third quarter of 2014. Decree on more detailed criteria, conditions and method of granting of the state aid has been amended, whereas the amended Law on Personal Income Tax and Law on Tax of Profit of Legal Entities have been adopted. In the segment of the **state aid**, the Commission for the Department for Preparation of the State Aid of the Ministry of Finance defined 18 new laws that create the legal grounds for provision of the state aid, thus complementing comprehensive list of state aid measures.

In the area of *financial services* the Central Bank prepared the draft version of the Law on Voluntary Financial Restructuring in cooperation with the World Bank, under the project “Podgorica approach for solving NPL¹“, which refers to preparation and implementation of specific strategy for reduction of level of non-performing loans within the financial sector of Montenegro. In the area of capital market, with the view to aligning with the *acquis*, the Securities Commission developed the Analysis of Implementation of MIFID Directive into Montenegrin Regulatory System and the Analysis of Effects of Introduction of Tax Reliefs and State Incentives for Payments into Voluntary Pension Funds. In the area of insurance, the Insurance Supervision Agency developed the Draft Law on Bankruptcy and Liquidation of the Insurance Companies.

In the area of *information society and media*, Montenegro adopted the Law on Electronic Communications on 30 July 2013. Preparation of bylaws prescribed by this Law is underway; these bylaws will deal with the following: transparency of procedures conducted before the Agency, maintaining of registers, protection of users, quality of services, network planning etc. Bylaws will be adopted by August 2014. On 20 November 2013, Montenegro adopted the Law on Amendments to the Law on Electronic Commerce. On 30 January 2014, the Government adopted the II phase of the Project of Transition from Analogue to Digital Broadcasting Systems. Proposal for the Law on the eGovernment is currently under parliamentary procedure. On 12 September 2013, the Government adopted the Strategy for Cyber Security in Montenegro. On 10 October 2013, the Government adopted the proposal for the Action Plan for Development of the eGovernment by 2016. In compliance with the Law on Electronic Media (Article 14), in September 2013, the Council of the Agency for Electronic Media adopted the Working Plan and Financial Plan of the Agency for 2014, as well as the Decision of the Level of Parameters for Determination of Fees for Provision of Audio-Visual Media Services in 2014. These plans were adopted by the Parliament of Montenegro on 27 December 2013.

¹ non-performing loans

Montenegro conducts activities with the view to aligning legislation in the area of agriculture **and rural development, food safety, veterinary and phytosanitary control with** the *acquis* and implementing the EU standards, particularly regarding resource management, inspection and control, structural policy and state aid. Ministry of Agriculture and Rural Development is actively working on development of the Strategy and the Action Plan in the area of agriculture and alignment of national regulations with the *acquis*. The Government adopted the Decree on conditions, method and dynamics of implementation of agrarian policy measures for 2014 (Agro budget). The amount of the agro budget is EUR 20,429,670.60 and it consists of general budget revenues in the amount of EUR 14,029,778.00 along with donations and loans of the World Bank aimed at implementation of Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS) in the amount of EUR 6,400,000.00. In compliance with the Agro budget for 2014, three public calls were announced as regards provision of support in the areas of olive growing, as well as fruit and wine growing. The agreement with 244 agricultural producers (value of contracted investments by the IV call is EUR 6.55 million) was signed on 15 November 2013, under implementation of MIDAS programme and the IV Public call for support to investment in farms.

In the area of **food safety, veterinary and phytosanitary control**, monitoring programmes in veterinary and phytosanitary policy had been continuously implemented and completed in December 2013. The Programme of mandatory measures for animal health care in 2013 was implemented through 18 special programmes on the whole territory of Montenegro. The Programme of mandatory measures for animal health care in 2014 was adopted as well. On 16 January 2014 the Ministry of Agriculture and Rural Development formed a Working Group which will conduct an analysis of border inspection posts where veterinary and phytosanitary control in international trade are conducted. The Law Amending the Law on Plant Protection Products and the Rulebook on measures for prevention, detection, suppression and eradication of classical swine fever was adopted.

In the area of **fisheries**, on the basis of the screening report, the Ministry of Agriculture and Rural Development makes efforts with a view to strengthening the administrative capacity and drafting of the Strategy and Action Plan for the area of fisheries for 2014-2020. Three new by-laws were adopted with a view to achieving alignment with EU acquis: Rulebook on the type of satellite monitoring system of fishing vessels and type of fishing vessels for which the system is established, Rulebook on the form of permits, manner of paying fees, form, content and manner of keeping registers of permits for mariculture, Rulebook on determining the line where the water ceases to be stably salt in rivers that flow into the sea and determining boundaries of protected fishing areas.

In the area of **transport**, the Law Amending the Law on Contracts on Transportation in Road Transport, as well as the Law Amending the Law on Transportation in Road Transport were passed. The Law on Railways has been applied since January 2014. New legislative solutions fully defined obligations and competences of the Railway Directorate, as a regulatory authority and body in charge of safety and monitoring of investments in railway infrastructure, and secured the autonomy of the Railway Directorate from the Ministry of Transport and Maritime Affairs in conducting these tasks. Funds were allocated from the national budget for 2014 for the establishment of the National Safety Authority (NSA) which will be a joint body for air, rail and maritime transport, with three employed inspectors (chief investigators) for each type of transport who will coordinate the work of this body in accordance with the law and who will be in charge of implementation of all necessary activities.

In the area of **energy**, in December 2013 the Ministry of Economy determined the final version of the Energy Development Strategy of Montenegro by 2030 – the Green Book. At the beginning of 2014, at the request of the Ministry of Economy, the Environmental Protection Agency issued the Decision on Approval to the Ministry of Economy for the Strategic Environmental Impact Assessment Report of the Draft Energy Development Strategy of Montenegro by 2030. After that, the first version of the draft White Book was prepared. Finalization of the White Book is expected to happen soon and it will be adopted by the Government in the second quarter of 2014. The National Renewable Energy Action Plan (NREAP) had been prepared and submitted on 10 April 2014 to the Energy Community Secretariat for comments. Drafting of the Action Plan for mandatory reserves of oil and/or oil derivatives is ongoing. As regards energy efficiency, on 3 April 2014, the Government endorsed the Proposal for the Law on Efficient Use of Energy. Preparation of the new Law on Energy is under way and it is expected to be adopted by the end of the year.

In the area of **taxation**, the legislative framework related to excise has been amended with a view to adjusting the amount of excise duties on cigarettes by which the specific excise duty on cigarettes has been increased from 15€ to 17.5€ per 1,000 units and proportional excise duty rate has been decreased from 36% to 35% with the introduction of the weighted average retail selling price of cigarettes as the basis for the calculation of the minimum excise duty. In addition, the Law prescribes excise tax elimination on coffee as of 1 January 2015.

Amendments to the Law on Tax on Profit of Legal Entities and the Law on Personal Income Tax amended tax exemptions for starting business in underdeveloped municipalities, by which alignment was achieved with EU Regulation concerning state aid. With the new software solutions which are currently being developed, the Tax Administration will enable e-services related to the registration of business entities in the Central Registry.

Implementation of the project Upgrading IT Capacity of the Tax Administration, which was financed by IPA, enabled electronic submission of tax returns for profit tax, VAT, as well as financial statements.

In the area of **customs**, the Law on Amendments to the Customs Law and the Decree on Customs Tariff for 2014 were adopted. On 19 September 2013, the Agreement was signed in Podgorica between the Government of Montenegro and the Government of Turkey on cooperation and mutual assistance in customs matters. On 31 March 2014, the Customs Administration adopted the Integrity Plan which contains a set of measures of legal and practical nature which prevent and eliminate possibilities of occurrence and development of various forms of corruptive behaviour. The Customs Administration, with the financial support of the EU, drafted and accepted the information-technical-communication strategy based on the Business Strategy of the Customs Administration.

In the area of **statistics**, with a view to strengthening administrative and spatial capacity, three employees of the Statistical Office did their internship in Eurostat, and the Government of Montenegro allotted an additional area of 100 m² to the Statistical Office. The Statistical Office sends data to Eurostat through Edamis portal and Edamis application from 20 domains and 27 sub-domains. Work is constantly being done on increasing the number of domains and sub-domains for which data are sent through Edamis. In June 2013, the Agreement on Cooperation was signed with the Ministry of Agriculture and Rural Development with a view to developing agricultural statistics, and in January 2014, 5 working groups were formed in accordance with the Agreement. Three key strategic acts were prepared for the area of statistics: Development Strategy of Official Statistics 2014-2018, Programme of Official Statistics 2014-2018 and Annual Plan for Official Statistics for 2014.

Montenegro points out that in the area of **social policy and employment**, at the session held on 26 December 2013, the Government endorsed the Action Plan for employment and human resources development for 2014 the implementation of which is ongoing. The Action Plan for 2014 defined the measures and activities following the goals defined by the National Strategy for Employment and Human Resources Development 2012-2015. Trends on the labour market in 2013 show that, to a certain extent, it is recovering from the impact of global economic crisis. Additionally, measures implemented through the realization of the Action Plan of Employment for 2013, and particularly the Programme of vocational training for persons who acquired high education, contributed to an improvement of the position of groups covered by this Programme. The General Collective Agreement was published on 22 March 2014 and it entered into force on 30 March 2014. By concluding the General Collective Agreement, the employees will be able to exercise full scope of rights deriving from the Labour Law. In total registered unemployment, the Roma population accounts for 3.3%. Currently, 10 representatives of Roma minority are included in two educational and training programmes. 13 members of this population are included through a public works project.

Montenegro notes that in the area of **enterprise and industrial policy**, as regards industrial policy, activities have been launched in terms of developing industrial policy. A proposal for the Terms of Reference for expert assistance in the area of industrial policy in the context of strengthening administrative capacities in the creation of industrial policy has been prepared and the IPA reserve funds 2012/2013 are basically granted.

Montenegro notes that further progress has been achieved in the area of **judiciary**. On 31 July 2013, the Parliament of Montenegro passed Amendments I to XVI to the Constitution of Montenegro and Constitutional Law for enforcement of amendments. New constitutional solutions conditioned the adoption of amendments to the Law on the Constitutional Court of Montenegro, Law on the Judicial Council, Law on Public Prosecutor's Office and the Law on Courts on 24 September 2013. In accordance with the constitutional amendments, composition of the Prosecutorial Council was selected, as were all seven judges of the Constitutional Court, procedure of selection of members of the Judicial Council was concluded, while the Supreme Public Prosecutor was not elected in the first competition following two rounds of voting at the plenary session of the Parliament, which is why, pursuant to the Constitution, a decision was made on 29 May 2014 to repeat the competition.

On 3 April 2014, the Government adopted the **Judicial Reform Strategy for 2014-2018** which includes strategic goals of strengthening judicial independence, strengthening the efficiency of the judiciary, Montenegrin judiciary as part of the European judiciary, increasing accessibility, transparency and public trust in the judiciary, development of judicial institutions and other institutions related to the judiciary.

Backlog of cases has been reduced so that at the end of 2013 in all Montenegrin courts there were only 4,251 ongoing cases older than three years.

Montenegro continues to treat the cases of war crimes in accordance with international rules, as well as with international and regional cooperation regarding these issues, while an agreement has been signed with Bosnia and Herzegovina on cooperation between public prosecutor's offices regarding these issues.

Montenegro has amended the Criminal Code in order to adapt it to relevant European standards in the area of protection of child rights, fight against corruption and organized crime, fight against human trafficking and fight against money laundering, by which the normative framework in this area has been reinforced.

Montenegro continuously builds its normative and institutional frameworks for fight against corruption. Drafting of the Law on the Prevention of Corruption is ongoing and it will create conditions for the establishment of the Anti-Corruption Agency as a body that will combine the present competences of the Commission for Prevention of Conflict of Interest, Administration for Anti-Corruption Initiative, partly of the State Audit Institution and the State Election Commission.

In 2014, Montenegro will adopt amendments to the Law on Public Procurement which will improve the control system in this area through appointment of the president and members of the State Commission for the Control and Monitoring of Public Procurement Procedures by the Parliament of Montenegro. This law will also establish the system of control and sanctioning of public procurement agents who committed misuse or breached the deadlines and will establish the system of supervision over contract execution.

By the end of 2014 Montenegro will pass a special law which will regulate the competence of the Special Public Prosecutor's Office which will be in charge of treatment of all cases with elements of corruption, within which specialization will be ensured for vulnerable areas and high-level corruption. This law will also regulate the organizational structure of the special prosecutor's office for treatment of cases of organized crime and corruption, with a special emphasis on high-level corruption, as well as create the basis for the establishment of a functional link between the Financial Investigation Unit of the Police Administration and the multidisciplinary team to the Special Prosecutor's Office.

In order to improve its capacity for financial investigation, in 2014 Montenegro will adopt a special law on financial investigation and confiscation of property, by which conditions will be created for the establishment of a special body that will deal exclusively with these tasks. With EUR 40 million worth of seized property Montenegro almost has the highest value of seized property per capita in Europe.

With a view to improving the institutional framework for fight against organized crime and corruption, on 14 November 2013 the Government adopted the Analysis of the organizational structure, capacities and authorities of the state bodies and administration bodies in combating organized crime and corruption with recommendations for the improvement of the normative and institutional framework, while the Plan for realization of conclusions of this Analysis was adopted at the session held on 13 February 2014.

Montenegro amended the Law on Anti-Discrimination which further stimulates promotion of equality and protection of fundamental rights in line with the European standards, and the Law on the Protector of Human Rights and Freedoms. The Law on Execution of Criminal Sanctions which is currently being drafted is expected to be passed.

In order to improve the position of persons with disabilities, on 31 October 2013 the Government adopted the Action Plan for adjustment of public facilities for access, movement, and use of persons with reduced mobility and persons with disabilities for 2014. Also, on 18 December 2013 the Government adopted the Strategy for Inclusive Education 2014-2018 and adopted the Action Plan for 2014-2015.

With a view to improving the protection of journalists from threats and violence, on 26 December 2013 the Government of Montenegro formed the Commission for monitoring actions of competent authorities in investigations into old and recent cases of threats and violence against journalists and murders of journalists. President of the commission is the deputy editor-in-chief of the Independent Daily “Dan” while members include representatives of the prosecution, police, the National Security Agency, journalists and NGO representatives. The Commission began its work and holds regular meetings discussing the materials concerning cases of violence.

Montenegro strives to improve the environments as regards the rights of sexual minorities. Hence, the Strategy for improving quality of life of sexual minorities 2013-2018 was adopted. The activities from the Action Plan for implementation of the Strategy for improving the quality of life of LGBT persons have been almost fully realised. The Action Plan for 2014 was adopted and its realisation has commenced.

Montenegro continues to provide the environment for full exercise of minority rights. In the previous period Montenegro presided over the Roma Decade, during which time special attention was paid to the inclusion of this national minority in all spheres of society with a particular emphasis on health care, education and employment. Pursuant to the Law on Minority Rights and Freedoms, electoral assemblies were held during 2013 and Albanian, Bosniak, Croatian, Muslim, Roma and Serbian Minority National Councils were constituted.

In the area of migration, by opening the Reception Centre for Foreigners, Montenegro created adequate reception capacities for accommodation of irregular migrants. Also, by opening the Centre for Asylum Seekers and by providing alternative accommodation capacities, conditions were created for the reception of asylum seekers, even in case of a suddenly increased influx.

Montenegro adopted the innovated Integrated Border Management Strategy 2014-2018. Good relations with the countries of the region are continuously maintained as regards solving the issues of inter-state border. In this respect, the most significant activities in the previous period were signing of the Agreement on inter-state border with the Republic of Albania and signing of five agreements on supervision of the state border with the Republic of Kosovo.

Montenegro will soon initiate drafting of the **Schengen Action Plan** through which it will incorporate the Road Map as regards necessary steps in order to align the national legislation with the Schengen acquis.

Montenegro continually has a good international and regional cooperation as regards the fight against organized crime which resulted in numerous international actions and seizures of a large quantity of narcotics. 1.346 kilograms of narcotics were seized in 2013 which represents a 30.55% increase compared to the previous year. Montenegro continues to suppress illicit trafficking in narcotics in 2014 as well, with particular attention to transit routes, so that 250 kilograms of cocaine intended for distribution in other countries were seized in the Port of Bar in June.

Montenegro actively conducts all activities with a view to acceding to Europol with which it expects to sign the agreement by the end of 2014, as well as to Eurojust with which it expects to sign the agreement in 2015. Intelligence is continuously exchanged, through secure communication links (via INTERPOL, EUROPOL and SELEC) with a view to preventing and suppressing crime.

Montenegro is committed to the fulfilment of all obligations deriving from the visa-free regime and continuously reports to the European Commission on achieved progress. In this respect, special attention is given to the improvement of the concrete track record in the most important areas, hence, so that in the period from September 2013 to April 2014 322 persons were prevented from irregularly crossing the state border, no visas were issued at the state borders, while there were 99 requests for readmission which were related to the reception of a total of 192 persons.

In the area of **education and culture**, the Strategy for Inclusive Education (2014-2018) was adopted. The Council for Qualifications adopted initiatives for development of qualifications: two initiatives for the development of professional qualifications at level III and one initiative for the development of professional qualifications at level V, one initiative for the development of qualification for education level VII1, as well as two occupational standards (level IV1). The Ministry of Culture prepared the Proposal for the new Law on Cinematography, and after the conducted public discussion the proposal for the law is in the procedure of consideration. At the session held on 3 October 2013, the Government of Montenegro accepted the initiative of the Ministry of Culture on full participation of Montenegro in the Programme Creative Europe which includes the sub-programmes Culture and MEDIA.

In the area of **environment and climate change**, on 12 December 2013 the Government endorsed the Proposal for the Law on Accountability for Environmental Damage, and on 18 December 2014 Proposal for the Law on National Parks. In addition, on 18 December 2013 the Government adopted the Report on implementation of the National Strategy for Air Quality Management for 2013. The National Report on implementation of the Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) was submitted on 21 February 2014 to the Aarhus Convention Secretariat. With the aim to further align the Montenegrin legislation with the European Union legislation and achieve more efficient implementation of the Law on Waste Management, the activities are ongoing on amendments to this act the passing of which is planned for the second quarter of 2014. Pursuant to the Law on Waste Management, an obligation was established to draft a new National Waste Management Plan. This document and the Waste Management Strategy are done from IPA 2009 funds. Completion and adoption of the Waste Management Strategy are planned for the second quarter of 2014, and of the National Waste Management Plan for the third quarter of 2014. Based on the new National Waste Management Plan the exact number of regional waste processing centres and other infrastructural facilities required for the area of waste management will be defined. Also prepared is the Draft of the second national report of Montenegro on climate change in accordance with the United Nations Framework Convention on Climate Change. On 13 and 14 May 2014 a meeting was held in Podgorica on the benchmark for opening Chapter 27 where it was agreed that by the end of 2015 Montenegro will develop a comprehensive strategy and action plan which will serve as the basis for transposition, implementation and application of the acquis covering the area of environment and climate change, including plans for development of relevant administrative capacities and assessment of the needs for financial resources with defined goals and deadlines. The Working Group for development of the strategy and action plan will be formed soon.

In the area of **consumer and health protection**, on 23 December 2013, the Government adopted the Law on Consumer Protection, which will be applied as of 24 July 2014. On 3 March 2014, the Government endorsed the Proposal for the Law on General Product Safety and the Law on Supervision of Products on the Market. On 17 October 2013, the Government discussed and adopted the annual Report on realisation of the National Consumer Protection Programme for the period July 2012 – June 2013. The annual report on realisation of the National Consumer Protection Programme for the period July 2013 – June 2014 was adopted on 18 December 2013. In the area of health, The Government adopted the Law on Blood Provision and endorsed the Proposal for the Law on Health Care at the session held on 21 November 2013 and the Proposal for the Law on Removal and Transplantation of Human Body Parts for the Purposes of Medical Treatment at the session held on 26 November 2013. The Law on Consumer Protection prescribes active participation of NGO sector in the area of consumer protection in relevant stages of preparation of laws and other regulations, in drafting of the National Consumer Protection Programme and other measures for the protection.

As regards **financial control**, with a view to improving the implementation of PIFC in practice, particularly at the local level and in public enterprises of managerial accountability and control system, on 3 April 2014 Montenegro adopted the Law Amending the Law on the System of Internal Financial Controls in the Public Sector, as well as the innovated Action Plan for implementation of the Strategy of further development of the system of internal financial controls in the public sector for 2015-2017. Montenegro will ensure regular updating of the progress through the contribution in the Progress Report and Special Working Group for Public Administration Reform. Particular effort in the forthcoming mid-term period will be given to the strengthening of the inter-ministerial cooperation and ensuring that the public administration reform rests on the key principles of the PIFC concept – efficiency, effectiveness and cost effectiveness, as well as responsibility. Montenegro will increase financial and operational autonomy of the State Audit Institution by adopting amendments to the Law on the State Audit Institution by the end of 2014. The Decision was adopted on the establishment of the Coordinating Body for monitoring and managing the policy for prevention and suppression of irregularities in order to protect the financial interests of the European Union (AFCOS network) (5 December 2013). Trainings and certification of internal auditors were conducted.

Pre-accession assistance

Through the Instrument for Pre-Accession Assistance (IPA), Montenegro is currently using in its operations funds of components I and II (Support for transition and institution-building and Cross-border cooperation). Implementation of the projects under component I from the programmes IPA 2007, 2008, 2009 and 2010 is for the most part finished while implementation of the projects under IPA 2011, 2012 and 2013 is ongoing. At the beginning of 2014, the second part of the Financial Agreement for IPA 2013 programme was signed by which EUR 7.3 million were reallocated from component V to component I. Also, at the beginning of 2014 Addendum to Financial Agreement for IPA 2013 programme was signed which enables the use of additional EUR 2.3 million.

Within the financial perspective for the period 2007-2013 Montenegro participated in eight programmes: five bilateral programmes (with Albania, Bosnia and Herzegovina, Croatia, Kosovo and Serbia); IPA Adriatic Cross-Border Cooperation programme (IPA Adriatic CBC) and two transnational programmes – South East Europe (SEE) and Mediterranean Programme (MED). Within the mentioned programmes, Montenegrin partners participated in 172 programmes in total value of EUR 27,356,242.13.

In the previous period the national institutions included in the establishment of a decentralized system took part in preparation of responses to audit reports of the European Commission and conducted activities related to eliminations of shortcomings identified in the stated reports in case of IPA components I, II, III and IV. Significant progress has been made, on which the National Fund reports to the Government of Montenegro and the European Commission on a quarterly basis.

On 25 April 2014, the European Commission made a decision to confer management of EU funds for IPA component III (Regional Development) to Montenegrin institutions, while similar decisions are expected for IPA components II and IV as well. After that, activities will intensify towards signing the Financial Agreement between the Government of Montenegro and the European Commission, by which all preconditions will be in place for autonomous management of EU pre-accession assistance.

As regards IPA component V, an assessment has been conducted on whether preconditions have been met for granting national accreditation to the Operating Structure by the National Authorising Officer and the final report of the independent audit firm is pending. After that, the dynamics of sending of accreditation package will be determined and it depends not only on the report, but also on the adoption of documents by the European Commission which represent an integral part of the package such as Sectoral Agreement and IPARD programme.

At the beginning of 2014, national institutions started programming the funds allocated for IPA 2014 under IPA II. The programming process is carried out with coordination of the National IPA Coordinator's Office and with constant consultations with the European Commission. The national action programme for IPA 2014 is expected to be adopted during the fourth quarter of 2014. Simultaneously, Montenegrin institutions are working on preparation of sectoral planning documents the first drafts of which were submitted to the EC at the end of May 2014. In addition, during 2013 and 2014 the national institutions worked on annexes and comments for the Strategic Document of Montenegro for 2014-2020 and Multi-beneficiary Strategic Document for 2014-2020.

In the course of 2013, preparation started for cross-border and transnational programmes in which Montenegro will take part under IPA 2014-2020. Within the new financial perspective Montenegro will participate in 9 cross-border and transnational programmes: four bilateral (with Albania, Bosnia and Herzegovina, Kosovo and Serbia), 2 trilateral (Croatia – Bosnia and Herzegovina – Montenegro and Italy – Albania – Montenegro) and 3 transnational programmes (Danube, Mediterranean – MED and Adriatic-Ionian programme).

2.2. Bilateral relations under the Stabilization and Association Agreement

Efficient implementation of the SAA and obligations in planned deadlines has been ensured, as well as implementation of the SAA in line with the defined dynamics. Also, Montenegro continues the process of comprehensive political, economic, legislative, institutional and structural reforms.

Montenegro was the first country of the Western Balkans to sign, in December 2013, the Protocol amending the Stabilization and Association Agreement due to accession of Croatia to the European Union. This once again confirmed the good relations between Montenegro and Croatia, as well as the responsible attitude that Montenegro has towards the European Union.

Given the current stage of the process of European integration and increasingly complex and demanding obligations deriving from the negotiating process, the process of alignment of national legislation with the EU acquis and fulfilment of obligations laid down in the SAA, Montenegro expresses its satisfaction with the continuity of economic and political dialogue with the EU.

The first meeting of the Special Working Group for public administration which was formed with the aim to monitor national strategic documents and discuss improvements of administrative capacities for the efficient implementation of the acquis in all areas was held in Podgorica on 6 and 7 February 2014.

Six regular annual meetings of sectoral sub-committees were also held in the course of which two sides exchanged views on the newest developments at the bilateral level and on the status of institutional, political and economic reforms in Montenegro. The Sub-committee on innovation, human resources, information society and social policy was held on 10 and 11 September 2013 in Brussels, Sub-committee on agriculture and fisheries was held on 6 November 2013 in Brussels, Sub-committee on economic, financial matters and statistics was held on 19 November in Podgorica, Sub-committee on justice, freedom and security including issues of migration was held on 4 and 5 February 2014 in Podgorica, Sub-committee on innovation, human resources, information society and social policy was held on 9 and 10 April 2014 in Podgorica and Sub-committee on internal market and competition was held on 12 May 2014 in Brussels.

Montenegro continues its participation in EU programmes for the period 2014-2020 and is currently awaiting conclusion of agreements for several programmes:

- **Horizon 2020 - EU Framework Programme for Research and Innovation (2014-2020):** On 29 May 2014, the Government adopted the International Agreement between EU and Montenegro on participation of Montenegro in the EU programme Horizon 2020.
- **“COSME” – EU Programme “Competitiveness of Enterprises and Small and Medium-sized Enterprises” (2014-2020):** On 16 January 2014, the Government accepted the Agreement between EU and Montenegro on participation of Montenegro in the EU programme “COSME”.
- Montenegro has been taking active participation in the European Union programme **“Customs 2013”** since April 2012. This active participation will be continued in the programme **“Customs 2020”**. Also, the Tax Administration of Montenegro is in the process of applying for the beneficiary of the programme **“Fiscalis 2020”**. The Tax Administration will become a beneficiary of this Programme in January 2015.
- Accession of Montenegro to the **“Erasmus+”** programme is ongoing. Also in the adoption procedure is the signing of the Memorandum on participation in the Programme **“Creative Europe”** and a coordinating body for the Creative Europe Desk has been appointed (the Ministry of Culture). The Memorandum defined that Montenegro will take part in the sub-programme **“Media”** from the date of receiving the written confirmation that it meets the conditions laid down in AVMS Directive (it was said at the Sub-committee in April that this is related to the adoption of three rulebooks that are created by the Agency for Electronic Media).
- Montenegro is preparing for participation in the new **European Programme for Employment and Social Innovation**. The areas in which it will take part are the areas of microfinance and social entrepreneurship.