

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

Brussels, 25 June 2014

The Stabilisation and Association Council

UE-ME 3603/14

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 European Union tabled on the occasion of the 5th meeting of the Stabilisation and Association Council between the European Union and Montenegro.

FIFTH MEETING OF THE
EU-MONTENEGRO
STABILISATION AND ASSOCIATION COUNCIL
(Luxembourg, 24 June 2014)

POSITION OF THE EUROPEAN UNION

The European Union welcomes the holding of the fifth meeting of the EU–Montenegro Stabilisation and Association (SA) Council. The EU considers that this meeting of the SA Council provides a timely opportunity to review Montenegro's progress in the preparations for membership, following the publication in October 2013 of the Commission's Progress Report and the processing of all screening reports.

Item 3. Relations under the Stabilisation and Association Process

3.1. Accession strategy, in particular in the light of the Commission's 2013 Progress Report

The EU recalls that on 26 June 2012, the Council of the European Union endorsed the Commission's assessment that Montenegro had achieved the necessary degree of compliance with the membership criteria, and in particular the political criteria set by the Copenhagen European Council in 1993, to start accession negotiations. Following endorsement of this decision by the European Council, accession negotiations were opened with Montenegro on 29 June 2012. The European Union notes that the outcome of the screening process for all chapters has been agreed by Council and that two negotiating Chapters have been opened and were provisionally closed. The EU welcomes that a number of other negotiating Chapters have been opened, including the crucial rule of law Chapters, 23 – *Judiciary and fundamental rights* and 24 – *Justice, freedom and security*. The EU looks forward to the opening of three more Chapters on 24 June 2014. The EU recalls that Opening Benchmarks have been set for demanding Chapters, and Interim Benchmarks for the rule of law Chapters and encourages further work to be undertaken so that these benchmarks are met.

The EU welcomes the fact that Montenegro's working groups for the negotiating chapters include representatives of civil society and stresses the importance of ensuring the inclusiveness of the reform process in order to achieve the necessary progress in the accession negotiations.

Political criteria

The European Union notes that Montenegro has continued to sufficiently meet the political criteria. The EU recalls the conclusions of the **General Affairs Council** of 17 December 2013, which welcomed the progress made in the accession negotiations as well as the implementation of the new approach for the chapters on judiciary and fundamental rights and on justice, freedom and security in line with the Negotiating Framework. The Council positively noted that both Chapters are being addressed early in the negotiations and recalled the need for proactive planning of financial and human resources for relevant reforms.

Following endorsement of the recommendations in the Screening Reports for Chapters 23 and 24 by the Council, Montenegro prepared Action Plans for both Chapters in June 2013. On the basis of an assessment by the Commission that the opening benchmarks had been met, negotiations on Chapters 23 and 24 were opened in December 2013. Interim benchmarks, the implementation of which will affect the pace of the accession negotiations as a whole, were set for both Chapters. A first report on the implementation of the Action Plans was delivered by Montenegro in January 2014. At its first assessment of the progress in the implementation of the Action Plans, within the framework of the Justice, Liberty and Security Subcommittee in February 2014, the EU confirmed that many technical activities were conducted by the MNE authorities according to the deadlines set in the action plans on chapters 23-24, but some important measures, requiring political responsibility, were delayed. The track record in the fight against corruption and organised crime needs to be reinforced, especially with regard to high level cases. In this regard, the EU commends the recent seizure by the Montenegrin police and customs authorities of an intended large cocaine shipment into the country.

The EU also expresses its serious concerns about the challenges faced by Montenegro in recent months. These include, in particular, the reluctant political and judicial follow up to the "Audio Recordings Affair"; drawbacks in the implementation of the constitutional reform adopted in summer 2013 as well as the fact that a number of recent and old cases of threats and violence against journalists and the media remain unsolved and full support from the government in this regard. The EU calls for swift attention to be devoted to resolving these issues.

The EU welcomes the adoption of amendments to the legislative framework on elections, including the Law on political party financing and electoral campaigns, in February and March 2014. These amendments aim at addressing identified shortcomings and in particular at reducing possibilities of abuse of state resources for political party and electoral campaign purposes. The EU encourages the effective implementation of the new provisions, which will also require strengthening of administrative capacities. The EU notes that the State Election Commission in its new composition was not established in time for the May elections. The EU notes that a significant part of the amendments to the Law on political party financing has been annulled by the Constitutional Court.

The EU notes that the local elections held in twelve municipalities on 25 May 2014 were the first occasion to apply those elements of the newly adopted electoral legislation, which entered into force prior to the elections. At the same time, the EU recalls the allegations of electoral irregularities in these elections as well as the local elections of November 2013 and January, and March 2014. The EU expects that the allegations will be investigated thoroughly and in a transparent manner, and, where needed, prosecuted by the competent Montenegrin authorities, to demonstrate progress in implementing European electoral standards.

The EU regrets that the parliamentary inquiry committee into the alleged misuse of public funds for party political purposes (audio recordings affair) failed to agree on political conclusions but limited itself to a technical report. It recalls that the judicial follow-up remains to be completed.

In the field of Public Administration, the EU welcomes strengthening the coordination and monitoring mechanisms for the implementation of the overall public administration reform strategy. The EU encourages Montenegro to take steps for the implementation of the plan for reorganising the public sector taking into account the needs of the new Programme of Accession. As regards the civil service law, its practical application in terms of merit based recruitments and promotions must be ensured in all institutions and bodies, including at local level. The EU encourages Montenegro to complete the preparations for the adoption of the new law on general administrative procedures. The EU underlines the importance of administrative capacity in view of future effective implementation and enforcement of the *acquis* and encourages Montenegro to pursue the reform process to achieve a more efficient and streamlined public administration able to cope with the challenges of EU accession.

As regards Public Financial Management, the EU invites Montenegro to develop a comprehensive public financial management reform programme in the nearest future. The EU welcomes the adoption of the new legal framework for budget planning, coordination and accounting in view of the introduction of a multi-annual budget framework system and programme-based budgeting. The EU encourages Montenegro to upgrade its overall public financial management system, including expenditure management, public procurement, public internal financial control and the capacity of financial forecasting.

The EU commends Montenegro for its strong commitment to regional cooperation and its constructive role in maintaining regional stability. The EU welcomes the active participation – and co-initiation – of Montenegro 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 the pending border issues with Croatia, Serbia, Bosnia and Herzegovina and Kosovo¹, and encourages Montenegro to progress on them. A bilateral convention on regional cooperation under Article 15 of the SAA needs to be concluded with Albania and timely negotiations conducted with Serbia.

¹ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

The EU welcomes the decision of Montenegro to formally align with the EU position on the situation in Ukraine, as with the other EU statements and decisions.

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 Montenegro's growth recovery in 2013 and supports the government's efforts to continue the consolidation of public finances and the creation of conditions for rapid economic development through the improvement of the business environment.

The EU notes that the fiscal consolidation policy delivered positive results in 2013, and Montenegro maintained the budget deficit in line with the target despite the activation of substantial liabilities related to state guarantees. The EU also welcomes the adoption by Montenegro -earlier this year- of fiscal rules to anchor expectations for sustainable public finances.

However, Montenegro's public debt further deteriorated, reaching 58% of GDP at the end of 2013. In this context, the EU highlights the risks associated with the financing of the highway section Smokovac-Mateševo, and calls for careful consideration of additional measures to contain the debt and deficit within the fiscal rules limits.

Montenegro faces a number of challenges in economic competitiveness and, despite some adjustment, external imbalances still remain large. The EU welcomes the progress on business environment, in particular the facilitation of construction permits, and encourages Montenegro to remove business barriers with a view to attract Foreign Direct Investment and improve productivity.

The high level of non-performing loans continues to weigh on bank capitalisation and credit supply. The EU welcomes the voluntary financial restructuring programme (the so-called 'Podgorica approach') to help solving the issue of credit risk in the near future as the excessive level of impaired loans, liquidity constraints and intercompany debts is having detrimental consequences and represents a serious risk for macroeconomic stability.

Finally, the EU considers it important that Montenegro ensures close and timely follow up to the joint policy recommendations that were adopted by the ECOFIN Council on 6 May 2014.

Acquis

The EU welcomes the progress made by Montenegro in aligning its legislation and capacity with the EU acquis and in implementing its commitments under the trade and trade-related provisions of the SAA. The EU notes that Montenegro's limited administrative capacity represents a challenge in a number of areas and needs to be strengthened in view of the accession negotiations and to ensure effective implementation of the acquis.

The EU notes that Montenegro continues to address its priorities related to the internal market. The EU notes that preparations in the area of free movement of goods have continued, however the Law on Technical Requirements for Products and Conformity Assessment is still non-compliant with the acquis in several aspects. The EU welcomes Montenegro's preparations for the adoption of a comprehensive strategy on free movement of goods and invites Montenegro to adopt its strategy on conformity assessment as well as the national strategy for standardisation. The EU takes note of the gradual improvements in the area of market surveillance and in the area of standardisation where an increased number of standards are being adopted, despite limited financial and human resources.

As regards public procurement, the EU encourages Montenegro to ensure the effective enforcement and implementation of the law on public procurement and to build up the required administrative capacity including on remedies. The EU welcomes Montenegro's ongoing efforts to bring the legislation on utilities, and defence procurement in line with the acquis and invites Montenegro to further pursue the legislative agenda in order to fully comply with the relevant EU acquis, notably with the newly-adopted Public Procurement Directives (2014/23/EU, 2014/24/EU, 2014/25/EU). The EU encourages Montenegro to fully implement the Strategy for Public Procurement 2011-2015 and to provide the necessary resources for it, including as regards the strengthening of control mechanisms, as well as staffing needs for example at the Public Procurement Administration or the inspection control service.

In the field of intellectual property rights, the EU welcomes the high level of alignment achieved by Montenegro but underlines that effective implementation and enforcement of intellectual property rights will need political determination and significant strengthening of the administrative capacity of all institutions involved, with substantial allocation of financial and technical resources.

The EU notes continued alignment in the area of competition. The EU encourages Montenegro to make additional efforts to align its competition policy with the acquis, in particular as regards State aid policy where significant shortcomings have been identified, and to ensure the operational independence of the competition authorities. Montenegro must pay particular attention to the situation of the aluminium plant KAP and ensure that state aid obligations under the SAA are fully respected. The EU recalls that Montenegro needs to establish a comprehensive inventory of all state aid measures covered by the SAA to provide the basis for an Action Plan on alignment of aid measures identified as incompatible. Moreover, Montenegro must build up a solid enforcement record, consisting, inter alia, of state aid decisions of the requisite quality.

Regarding financial services, the EU acknowledges the important alignment work already done in this field, 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 notes that Montenegro has already reached a good level of alignment with the acquis. Full alignment with the acquis on electronic communications still needs to be ensured, as well as sufficient resources for its implementation. Some amendments remain to be adopted also to complete the alignment with the European media standards. The EU also notes that the independence of the regulatory bodies in the field of media and electronic communications still needs to be ensured, including their financial independence. The negotiating chapter 10 - Information society and media was opened on 31 March 2014.

The EU takes note of the progress made in the area of agriculture and rural development, but notes that, overall, alignment with the acquis is at an early stage. The EU encourages Montenegro to meet the requirement of the opening benchmark by finalising the comprehensive strategy and action plan for the alignment, implementation and enforcement of the acquis in this area. The EU encourages Montenegro to continue its efforts to meet the objectives of the national action plan towards accreditation for the management of rural development funds. The EU notes that some progress has been made in the area of food safety, veterinary and phyto-sanitary policy. Overall, alignment with the acquis remain at an early stage. The EU encourages further efforts in all aspects of this policy area in particular to meet the requirements of the three opening benchmarks by the adoption of all the draft framework laws, the reinforcement of control capacity in the veterinary field, and the assessment of hygiene standards in food and feed establishments. Furthermore, the EU encourages Montenegro to develop a comprehensive national strategy and action plan, which will serve as a basis for transposition, implementation and enforcement of the EU acquis, including plans for the development of the relevant administrative capacities and an estimation of the financial resources required. The EU notes that some progress has been made in the field of fisheries as regards administrative capacity. Efforts are needed with regard to alignment of legislation with the fisheries acquis, and implementation of EU standards, in particular in the areas of resource and fleet management, inspection and control, market policy, structural policy and State aid policy. The EU encourages Montenegro to meet the requirement of the opening benchmark by finalising the comprehensive strategy and action plan for the alignment, implementation and enforcement of the acquis in this area.

The EU notes Montenegro achieved good progress in the transport sector, in particular in the area of road safety and the transposition of the social acquis for road transport. The EU encourages further progress in the rail transport sector, with a view to improving regional and intermodal connections, as well as ensuring setting up an independent accident investigation body for air, rail and maritime transport.

As regards energy, the EU welcomes the continued progress that Montenegro has made in its alignment with the acquis and its successful participation in the Energy Community Treaty. The EU encourages Montenegro to continue the preparations for the alignment with 'the third energy package' and for further liberalisation of energy market. The EU recalls the importance of ensuring sufficient administrative capacity in this sector.

As regards customs and taxation legislation, the EU takes note of the progress made in the alignment with the acquis, in particular through the amendments to the Montenegrin Customs law at the end of 2013. The EU encourages further improvements in the areas of VAT, excises and direct taxation. The EU encourages Montenegro to strengthen the administrative and operational capacity (including IT) of both the customs and tax administrations and to step up the implementation of existing procedures and working methods. In the area of customs, the EU welcomes the adoption of the Customs Business Strategy and encourages Montenegro to now also adopt an IT strategy for this area, as well as its ongoing actions for preparations in view of possible accession to the Convention on a Common Transit Procedure.

The EU takes note of the good progress in several areas of statistics. The EU invites Montenegro to make further investment in a number of statistical areas, to increase staffing levels in Monstat and ensure full harmonisation with the EU statistical standards and methodologies.

The EU notes that Montenegro continues to address its challenges in the area of social policy and employment and to work on the alignment with the acquis where a number of amendments to the existing legislation, especially as regards health and safety at work, are under preparation. The EU takes note of the adoption by the Parliament of the Law on Anti-discrimination in March 2014. It encourages Montenegro to continue legal alignment also in the area of equal opportunities. In the field of employment policy, the EU encourages Montenegro to continue to address low activity and employment rates and the mismatch between the skills available and needs, including through strengthening the capacity of the Public Employment Service. In the area of social inclusion, efforts should be stepped up as regards poverty reduction, improving the inclusion of the Roma, Ashkali and Egyptian (RAE) population, people with disabilities and other vulnerable groups and their access to healthcare. In the area of social protection, further measures are needed for improving the sustainability of the pension system, as well as for creating community-based services as an alternative to institutionalisation. As regards social dialogue, the EU welcomes the adoption by the Parliament of amendments to the Law on Trade union representation in July 2013 to increase transparency of trade union pluralism, but notes that efforts need to continue to improve the overall functioning of social dialogue.

As regards enterprise and industrial policy, the EU welcomes Montenegro's preparations to develop a comprehensive industrial policy strategy and the continued progress on some sectoral policies.

The EU expects Montenegro to ensure that the reform momentum in the area of the judiciary and fundamental rights, as well as in the area of justice, freedom and security, is maintained. As regards judicial reform, the EU welcomes the adoption of the constitutional amendments aiming at strengthening the independence and professionalism of the judiciary. At the same time, it stresses the need to implement the constitutional amendments and related legislation in line with European standards and best practices, including with regard to the process of re-appointment of state prosecutors. The EU calls on Montenegro to elect a new Supreme State Prosecutor without delay and in line with the amended constitution. All political forces should show democratic maturity and responsibility and demonstrate that they are able to achieve a compromise on key reforms in the area of rule of law. Efforts also need to concentrate on the strengthening of accountability and integrity safeguards in the judicial system as well as on the establishment of a single countrywide recruitment system for judges and prosecutors and an objective and merit-based promotion system. The EU welcomes that the transparency of the work of the courts has improved and that the backlog of old court cases has decreased. The EU stresses the need to further improve the efficiency of the judiciary, including through the promotion of alternative dispute resolution.

The EU calls on Montenegro to ensure domestic handling of war crimes in line with international humanitarian law and the jurisprudence of the ICTY. The EU welcomes the signing of a Protocol on cooperation in the area of war crimes between the state prosecutor's offices of Bosnia and Herzegovina and Montenegro on 29 April 2014.

With regard to the fight against corruption and organised crime, the EU reiterates the particular importance it attaches to the systematic development of a solid track record of investigations, prosecutions, final convictions, seizures and confiscations in corruption and organised crime cases and underlines that Montenegro needs to increase its efforts in this regard. The EU welcomes the amendments to the Criminal Code to further align with international standards in the area of anti-money laundering and trafficking in human beings and encourages Montenegro to continue improving the legal, but also institutional and policy framework as well as the inter-agency cooperation of the judicial and law enforcement authorities. Special attention should be devoted to the development of a solid system of public procurement control and supervision over the implementation of awarded contracts, as well as to the increase of capacities of the police and relevant institutions to fight complex forms of crime such as money laundering and economic crime, trafficking in human beings and cybercrime.

As regards prevention of corruption, the EU notes that several important Action Plan measures related to the adoption of key legislation have not been implemented as scheduled. The EU stresses that even before the start of operation of the new Anti-Corruption Agency, a pro-active and effective implementation of the anti-corruption legal framework needs to be ensured, including through enhancing capacities of the current oversight bodies in the area of prevention of corruption.

The EU encourages Montenegro to consolidate the legal and institutional framework to protect and enforce fundamental rights, in line with EU and international standards. The EU welcomes the adoption of the law on anti-discrimination, further aligning with EU standards. It also calls for adoption of the law on the Ombudsman and the law on enforcement of prison sentences as foreseen in the negotiations' action plan. The EU encourages Montenegro to address remaining shortcomings so as to more effectively protect human rights and fight against discrimination in terms of proceedings and sanctioning mechanisms, both at the level of judicial and law enforcement authorities.

The EU takes note that some progress was made by Montenegro in the field of civil and political rights. The EU welcomes the implementation of the urgent recommendations from the Council of Europe's Committee for the prevention of torture (CPT), following its visit last year. Nevertheless, it encourages Montenegro to step-up the efforts to prevent cases of torture and ill-treatment and eradicate impunity. The EU recalls that prison and detention conditions remain to be aligned with international standards, especially for what medical services are concerned. As regards freedom of expression, the EU welcomes the establishment of the Commission for monitoring of investigations of violence against journalists and the first activities undertaken in this regard, but regrets that serious recent and old cases remain unsolved. The EU stresses the expectation that the authorities conduct thorough investigations and prosecute without delays the perpetrators of these attacks.

The EU calls on Montenegro to step up the efforts in the area of social and economic rights, including by improving Ombudsman's capacities to follow-up on cases of discrimination and human rights violations. It welcomes the ratification of Istanbul Convention but stresses that violence against women and domestic violence remain a serious concern. The EU observes that access to public buildings for persons with disabilities remains difficult and encourages Montenegro to implement the relevant plan to adapt public buildings.

The EU notes positively the efforts of state authorities to protect LGBTI rights during July and October's pride parades; it however regrets that violence and hate speech against LGBTI persons continue, showing a high level of homophobia to be addressed. The EU stresses that criminal offences related to these attacks must be properly prosecuted and penalties reinforced to give a clear sign from the side of the authorities.

The EU calls on Montenegro to step-up the efforts in the field of women's rights and gender equality, and, in particular, in the field of employment.

The EU notes that, although Montenegro continued to ensure the rights of persons belonging to minorities, discrimination related to Roma still persists. Despite the efforts to include Roma in compulsory education, the drop-out rate remains high and discrimination remains in the fields of employment and political representation, as well as on access to education, housing and health care.

The EU welcomes the amendments to the law on foreigners, to extend the deadline for displaced persons to apply for foreigner with permanent status; it encourages Montenegro to deploy continuous efforts to solve the status issue of all those affected, including by the removal of legal and practical obstacles preventing registration.

The EU welcomes the opening of the centre for foreigners and of the reception centre for asylum seekers. It encourages the authorities to continue the alignment of the legislation and of the administrative capacities in the area of migration and asylum with EU and international standards, with a view to establish a modern and efficient system to manage mixed migrations. The EU recalls that the administration needs to be adequately trained to strike a balance between security and protection of human rights of migrants and asylum seekers. The EU welcomes the adoption of a new integrated border management strategy and action plan, in line with the EU acquis, and calls for its implementation. The EU encourages Montenegro to advance in the cooperation in the field of borders with its neighbouring countries. The EU stresses the importance to develop strong ethical standards for the police, as well as a transparent system of oversight and complaint mechanisms. The EU invites Montenegro to continue the legislative alignment in the field of judicial cooperation in civil and criminal matters, and welcomes the enhanced dialogue of Montenegro with Europol, with a view of signing the operational agreement in the next period.

The EU recalls that efforts should continue to properly implement all the obligations arising from the visa free regime for Montenegrin citizens and its relevant roadmap, following the Council's decision on visa liberalisation of November 2009. The EU encourages Montenegro to continue its efforts to counteract the cases of visa-free regime abuses in the EU and in the Schengen Associated member states. The Commission points out that strict implementation of the recommendations included in the Post-visa Liberalisation Monitoring Reports is of vital importance, including of those measures to increase social cohesion of vulnerable groups. The Commission will continue to monitor the implementation of the measures taken under the basis of the visa liberalisation roadmap through the post-visa liberalisation monitoring mechanism as well as in the framework of the SAA sub-committee on Justice, Freedom and Security. The Commission will present its fifth monitoring report by the end of 2014.

The EU encourages Montenegro to make continued efforts with reforms in the education sector and notes that although a good level of legal alignment has already been achieved, implementation of existing strategies and action plans remains a challenge. Montenegro needs to guarantee non-discrimination between EU and Montenegrin nationals by the date of accession, and alignment with the EU Directive on the Education of the Children of Migrant Workers must be assured. The issue of mismatch between skills available and needs of the labour market needs to be further addressed and monitored. More efforts should be made to improve the quality of education at all levels and to approach the EU benchmarks on education and training.

Regarding environment and climate change, the EU notes that Montenegro should focus on meeting the requirements of the opening benchmark for Chapter 27 – Environment and Climate Change by preparing a comprehensive strategy and action plan. The areas of water, waste, nature and climate change have been highlighted as particularly demanding. Montenegro needs to prepare strategic plans for the fulfilment of the alignment, implementation and enforcement of all *acquis* areas, which should encompass indicative timelines backed by the financial resources needed. Furthermore, the EU stresses the need to adopt and implement a comprehensive climate strategy, which should be complemented by analytical cross-sector action plans for the transposition and implementation of the climate *acquis*. The EU underlines the need to integrate environment and climate change considerations more systematically into other sectors, including through a process of sound and genuine environmental assessments at strategic and project level sectorial policies and planning documents with a view to foster sustainable economic development, with a special focus on sustainable tourism. In regard to legislative alignment, little progress has been made in the areas of environment and climate change *acquis*. The EU encourages Montenegro to step up its efforts to enhance its greenhouse gas emissions monitoring and reporting capacities. Administrative capacity and inter-institutional cooperation must be significantly enhanced, especially in the area of waste and water quality, and climate change. The EU notes that the lack of political priority and adequate financing, as well as limited awareness of environmental requirements are hampering progress in this field.

The EU notes that, overall, Montenegro has already reached a good level of alignment with the acquis in the area of consumer and health protection. Legal alignment and administrative capacity building need to continue in both areas and due attention needs to be paid to acquis enforcement and application of EU technical standards, in particular in the area of public health. Support for consumer non-governmental organisations as well as awareness-raising with the general public are needed.

As regards Financial Control, the EU welcomes the continued progress in the area of public internal financial control (PIFC). However, the EU notes that practical implementation of the legal framework for PIFC could usefully be stepped up, especially at local level and with publicly owned enterprises. The EU encourages Montenegro to strengthen the managerial accountability arrangements and control systems, including in the context of the public administration reform. The EU encourages the adoption of the law to enhance financial and operational independence of the State Audit Institution.

Pre-accession Assistance

Montenegro has benefited since 2007 from the two first components of IPA (I - Transition assistance and institutional building and II - Cross-border cooperation). The EU notes at the end of 2013 the contracting rate for IPA 2007-2013 Component I stood at over 75 %, with the 2007-2010 programmes fully contracted up to 98 %. For Cross-Border Cooperation the contracting rate was, at the end of 2013, at 62 %, with the calls for proposals covering the years 2011-2013 still to be contracted.

The EU welcomes the progress made in the preparations of Montenegro for the establishment of the necessary structures for the decentralised management of IPA components I, II, and IV and its finalisation of preparations for the establishment of the necessary structures for the decentralised management of IPA Component III. The EU also welcomes the submission of the accreditation package to the Commission services for IPA component III which eventually led to a Commission decision conferring management powers on Montenegro for this component. However, the EU encourages Montenegro to strengthen its project preparation and strategic planning capabilities in order to ensure sufficient absorption capacity, especially for the Operational Programmes under IPA Components III and IV.

The EU welcomes the preparations by Montenegro for IPA II including the drafting of the Montenegro Strategy Paper and the introduction of the sector approach. The EU urges Montenegro to continue efforts to develop the capacity for multi-annual strategic planning for the implementation of IPA support.

The EU notes the decision by Montenegro to develop a Rural Development Programme under IPA II and encourages Montenegro to continue its efforts to meet the objectives for the entrustment of budget implementation tasks for the management of rural development funds.

3.2. Bilateral relations under the Stabilisation and Association Agreement

The European Union reiterates that the Stabilisation and Association Agreement (SAA), under the framework of the Stabilisation and Association Process, remains at the core of the relationship between the EU and Montenegro. The EU welcomes in this regard the joint signature at the end of 2013 of a Protocol to the SAA in order to take account of Croatia's accession to the EU. The Protocol is applied on a provisional basis as of 1 July 2013. The EU, for its part, notified Montenegro on 26 May 2014 that it had completed the necessary internal procedures for the protocol's entry into force. The Protocol will enter into force on the first day of the first month following notification by Montenegro of the completion of the internal procedures necessary for this purpose on its side.

The EU recalls that the instruments of acceptance of the Regional Convention on pan-Euro-Mediterranean rules of origin (PEM Convention) were deposited by the EU and Montenegro in 2012. A decision by the Council has been initiated; this will enable the EU to agree to the required modification of Protocol 3 on rules of origin within this body, i.e. the SAA Council. It is envisaged that the modifications could take effect in autumn 2014, so that it is proposed to take the joint decision of the SAA Council by written procedure as soon as the internal decision-making is completed on both sides.

The European Union welcomes Montenegro's positive track record in implementing its obligations under the SAA, including its trade related provisions, since its entry into force on 1 May 2010. The European Union notes that some gaps remain as regards state aid, where further efforts towards alignment are needed.

Montenegro has contributed to the smooth functioning of the various joint institutions. Since the third Stabilisation and Association Council of December 2012, the sixth meeting of the Stabilisation and Association Parliamentary Committee between representatives of the European Parliament and the Parliament of Montenegro, was held in April 2013 and advanced the parliamentary dimension of EU-Montenegro relations.

Montenegro has been actively participating in EU programmes since January 2008. IPA funds are used to meet part of the costs for the participation in these programmes. Under the financial framework 2007-2013 Montenegro has participated in the following programmes: the Seventh Research Framework Programme; the Entrepreneurship and Innovation Programme, and the Information Communication Technologies Policy Support Programme 2011, (both under the Competitiveness and Innovation Framework Programme); Customs 2013; Lifelong Learning (centralised); and Culture 2007-2013.

Montenegro is continuing its participation in EU programmes for the period 2014-2020 and it is currently in the process of concluding agreements for a number of programmes, including:

- Horizon 2020
- COSME
- Customs and Fiscalis 2020
- Erasmus+ and Creative Europe
- Employment and Social Innovation

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

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 and other international issues of common interest

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