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**MONTENEGRO
2014 PROGRESS REPORT**

Accompanying the document

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PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Enlargement Strategy and Main Challenges 2014-2015

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1. INTRODUCTION

1.1. Preface

The Commission reports regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes the relations between Montenegro and the European Union;
- analyses the situation in Montenegro in terms of the political criteria for membership;
- analyses the situation in Montenegro on the basis of the economic criteria for membership;
- reviews Montenegro's capacity to take on the obligations of membership, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the European Union.

This report covers the period from October 2013 to September 2014. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of Montenegro, the EU Member States, European Parliament reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Montenegro in its separate communication on enlargement,² based on the technical analysis contained in this report.

1.2. Context

The European Council granted the status of candidate country to Montenegro in December 2010. Accession negotiations were opened in June 2012. The Stabilisation and Association Agreement between Montenegro and the EU entered into force in May 2010.

1.3. Relations between the EU and Montenegro

Within the framework of the **accession negotiations**, the screening process was completed in May 2014. By September 2014, twelve chapters, including chapters 23 and 24 on the rule of law, had been opened, two of which, i.e. science and research, and education and culture, have been provisionally closed.

Montenegro is participating in the **Stabilisation and Association Process**.

¹ The rapporteur for Montenegro is Mr Charles Tannock.

² Enlargement Strategy and Main Challenges 2014-2015, COM(2014) 700.

Overall, Montenegro continued to broadly implement its obligations under the **Stabilisation and Association Agreement** (SAA). The protocol on the adaptation of the SAA, to take account of Croatia's accession to the EU, was signed in December 2013; pending its ratification, the protocol is applied on a provisional basis with effect from 1 July 2013.

Regular political and economic dialogue between the EU and Montenegro has continued through the SAA structures. The Stabilisation and Association Council met in June 2014 and the Stabilisation and Association Committee in December 2013. Various subcommittee meetings have been held since October 2013, plus two meetings of the Stabilisation and Association Parliamentary Committee, in December 2013 and March 2014.

Montenegro participates in ministerial dialogue between the economic and finance ministers of the EU and the candidate countries, which aims at helping the latter gradually meet the economic accession criteria and be better prepared in terms of economic reforms, competitiveness and job creation.

Visa liberalisation for citizens of Montenegro travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. The next report will be presented by the end of 2014. A visa-waiver suspension mechanism entered into force in January 2014. On this basis, EU Member States can request the Commission, in an emergency situation and as a measure of last resort, to examine the possibility of temporarily suspending the visa waiver for third-country nationals. A **readmission agreement** between the European Union and Montenegro has been in force since 2008.

The EU has provided **financial assistance** to Montenegro under the Instrument for Pre-accession Assistance (IPA) for the period 2007-2013, with a total allocation to Montenegro of €235.7 million. The IPA national programme 2012-2013 stands at €31.0 million overall, with most of the funding supporting the implementation of reforms relating to the rule of law, public administration and environment sectors, and rural development measures in the agriculture and rural development sector.

The implementation of the IPA allocation continues to be managed by the EU Delegation in Podgorica. Montenegro's preparations for decentralised implementation of IPA programmes (by the national authorities) have further advanced, and management of IPA components III and IV was conferred on Montenegro.

Under IPA II, Montenegro will continue to benefit from pre-accession assistance for 2014-2020, with a total indicative allocation of €270.5 million. An indicative strategy paper for the years 2014-2020, drafted in partnership with Montenegro and in consultation with all relevant stakeholders, was adopted by the Commission on 18 August 2014. Over this period, IPA assistance will aim at supporting reform efforts in the areas of the rule of law, democratic governance and competitiveness and growth.

Montenegro continues to benefit from support under the IPA multi-beneficiary and regional programmes and to participate in five cross-border cooperation programmes with neighbouring Western Balkan countries and in transnational cooperation programmes with Member States under the European Regional Development Fund and the IPA Adriatic cross-border programme.

Montenegro participates in the following **EU programmes**: the Seventh Research Framework Programme, the Competitiveness and Innovation Framework Programme, Culture, Lifelong Learning, and Customs. Montenegro has also recently concluded or is in the process of concluding new agreements for a number of programmes, including: Horizon 2020; Competitiveness of Enterprises and Small and Medium-sized Enterprises, Fiscalis, Erasmus+, Creative Europe, Europe for Citizens, and Employment and Social Innovation.

2. POLITICAL CRITERIA

This section examines the progress made by Montenegro towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and EU Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia.

2.1. Democracy and the rule of law

Constitution

No amendments were made to the Constitution during the reporting period. On the implementation of the constitutional reforms adopted in July 2013, *see Chapter 23 — Judiciary and fundamental rights*.

Elections

During the reporting period, elections were held in 17 out of 23 municipalities. They were marred by allegations of abuse of state resources for electoral purposes, vote-buying, and irregularities in the voters' register. All allegations of electoral irregularities need to be investigated, and, where necessary, prosecuted by the competent authorities. Due to the polarised political climate, the formation of the new administrations in certain municipalities after the elections has been a difficult process. The parliamentary working group on restoring citizens' trust in the electoral process failed to reach agreement on amendments to the legislative framework in the area of elections and political party financing with a view to addressing shortcomings, including those identified by the OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR) following previous elections. In January, the tasks of the working group were taken over by the parliamentary Speaker's Collegium (the Speaker, Deputy Speaker and chairs of parliamentary groups). A package of amendments, originally scheduled for adoption in September 2013, was eventually adopted in February (the law on political party financing and electoral campaigning, the law on the single voters' register, the law on personal ID cards, and the law on local self-government) and March (the law on the election of municipal councillors and Members of Parliament).

The law on political party financing and the law on the single voters' register were adopted without cross-party consensus. The other laws were adopted with the support of all political groups. Several amendments entered into force in time to take effect for the spring local elections. The law on the single voters' register and the law on the election of municipal councillors and MPs contain certain transitional arrangements which are expected to take effect only as of 1 November 2014.

The election legislation reform envisages changes in the composition of the State Election Commission (SEC), by providing for the president and a civil society representative to be non-partisan members elected by parliament. It also introduces a system of electronic

identification of voters and centralised management of the voters' register by the Ministry of Interior. The changes to the law on political party financing aimed at limiting the scope for abuse of state resources in the electoral campaign by prohibiting and restricting certain payments during the pre-election period, for example by imposing stricter limits on temporary employment. The amendments also gave the SEC increased oversight and control competences and introduced additional and stricter penalties for breaches of the law. Parliament failed to appoint the new SEC in time for the May local elections. Revision of the legislative framework did not include the law on financing election campaigns for the president of Montenegro, mayors and presidents of municipalities, as originally envisaged.

The package of amendments addresses several of the outstanding OSCE/ODIHR recommendations, while some issues remain to be addressed in line with European standards and best practices. These include e.g. the right to stand as an independent candidate, proportional public funding to promote a level playing field for all candidates, auditing of political parties, political balance in polling stations and rules on the composition of the election commissions at municipal and polling station levels. The administrative capacity of the SEC needs to be significantly strengthened for it to carry out its mandate effectively.

The implementation of the amendments to the law on political party financing was marked by controversies over the interpretation of certain provisions. In June, following a request by the ruling Democratic Party of Socialists — which had voted against the law — the constitutional court ruled a significant part of the amendments to the law unconstitutional. Certain annulled provisions had been inserted in response to outstanding OSCE/ODIHR and Group of States against Corruption (GRECO) recommendations. Some of the annulled provisions had been considered as problematic by experts when the law was being drafted.

Overall, election legislation has improved, although important issues remain to be addressed in line with international recommendations. The local elections held during the reporting period show that the goal of strengthening public confidence in the electoral system has not been achieved yet. The new provisions need to be effectively implemented. Montenegro needs to ensure that its legislative framework in the area of political party financing is fully in line with European standards and best practices and to establish a track record of effective implementation. Full cross-party support will be required for this to be achieved. Allegations surrounding the municipal elections need to be investigated and, where necessary, prosecuted.

Parliament

In March, parliament adopted the 2014 action plan for strengthening its legislative and oversight role. Follow-up to the conclusions adopted by parliamentary committees in oversight hearings remains limited and needs to be reinforced. There was no political follow-up to the technical report adopted by parliament in July 2013 on the alleged misuse of public funds for party political purposes. Judicial follow-up remains to be completed.

As regards its oversight role, parliament has continued to hold consultative and control hearings on a variety of topics. Consultative hearings were held *inter alia* on foreign policy, public procurement in the health system, the functioning of local self-government, and the implementation of the strategy against domestic violence.

The transparency of parliament's work continued to be strengthened through direct interaction with citizens and replies to all requests for access to information. Information and documents related to the work of parliament and its working bodies continue to be published regularly. The establishment of procedures for acting upon citizens' initiatives addressed to the

parliamentary committees on human rights and anti-corruption is pending. Parliament has not yet adopted its code of ethics.

In December, parliament unanimously adopted a resolution on Montenegro's path to European integration, setting out its role, and, in particular, the role of the parliamentary European Integration Committee, in the accession process. To date, the committee has conducted consultative hearings, discussed negotiating positions drafted by the government and government reports related to the EU accession process, and organised public debates on EU-related topics.

In October 2013, parliament amended its rules of procedure, in line with the new constitutional provisions concerning the selection procedures for several judicial and prosecutorial office-holders. After several attempts, the parliament finally appointed a new Supreme State Prosecutor in October. (*See also Chapter 23 — Judiciary and fundamental rights*).

Parliament continued its intensive legislative activity. Upon proposals from the working group on building trust in the electoral process, taken over by the Speaker's Collegium, parliament adopted comprehensive changes to the electoral legislative framework. Underlying tensions among political parties and a lack of consensus on some features of the reform affected the process. (*See above — Elections*).

The overall number of staff fell over the reporting period from 153 to 130. Training courses continued to be provided. Continuous efforts are needed to further increase parliament's administrative and expert capacity.

Overall, the adoption of the resolution on Montenegro's EU accession is a welcome step forward in defining parliament's competences in the accession process, including *vis-à-vis* the government. Transparency continues to be ensured. Parliament's legislative activity has grown and needs to continue to be strengthened. Parliament has continued to increase its oversight role, including through control and consultative hearings. Conclusions adopted in oversight hearings need to be followed up more effectively. Parliament's administrative capacity needs to be strengthened.

Government

The government remained focused on the objective of EU membership. It adopted a number of strategic documents in the context of the EU integration process, including the 2014-2018 EU accession programme; the 2013-2016 pre-accession economic programme; and the 2014-2018 strategy for informing the public on the EU accession process.

In March, the government adopted amendments to the decision on the establishment of the negotiating structures. In addition to enhancing the competences of the working groups, the Rule of Law Council, chaired by the Minister of Justice, was established as a new body in charge of monitoring rule of law-related activities in the negotiation process, including the implementation of the action plans for chapters 23 and 24. A new Commission for European Integration, headed by the Chief Negotiator, was also established to monitor the implementation of the 2014-2018 EU accession programme, and of the obligations stemming from the Stabilisation and Association Agreement. The new structures need to result in better coordination among the various institutions involved in the accession negotiations. The government published two reports on the implementation of the action plans for chapters 23 and 24. The government also established a commission to monitor the competent authorities' actions in the investigation of old and recent cases of threats and violence against journalists,

chaired by a representative of the media. Its recommendations need to be fully followed up by the authorities. (*See Chapter 23 — Judiciary and fundamental rights*).

The administrative capacity of the Ministry of Foreign Affairs and European Integration was further strengthened. The ministry's overall budget for 2014 was increased compared to 2013, although the EU accession programme was allocated fewer funds than in 2013. As regards transparency, the government has continued to publish, on the ministry's website, translations of the screening reports endorsed by the EU Council. Communication with citizens improved, including through direct interaction via social media and the use of existing channels for reporting suspected cases of corruption and the informal economy. The internet platform for e-petitions remains active; however, only two petitions have received a sufficient number of electronic signatures, and only one of them was endorsed by the government.

With regard to *local self-government*, in February parliament adopted amendments to the law on the territorial organisation of Montenegro, whereby Gusinje (previously part of Plav municipality) was granted municipal status. Elections were held in 17 municipalities (*see above — Elections*). The 2014 action plan for the reform of local self-government was adopted. In the context of election legislation reform, a positive step was taken in transferring management of the voters' register to the Ministry of Interior, removing this competence from local self-government.

Overall, the government remained focused on EU integration. The structures for the accession negotiations were further strengthened, as was the administrative capacity of the Ministry of Foreign Affairs and European Integration to coordinate the EU accession process. Coordination among the various institutions must be strengthened. Efforts to increase government transparency brought limited results. Transparent, efficient and accountable local administration needs to be established. The criteria for creating new municipalities should include financial and administrative sustainability.

Public administration

Montenegro has a comprehensive **strategic framework for public administration reform** in place. The Public Administration Reform strategy 2011-2016 covers the state administration, local government and publicly-owned bodies and agencies. The areas it addresses include civil service reform; public-sector wage reform; improving the quality of legislation and strategic planning, including the introduction of regulatory impact assessments; modernisation of administrative procedures for better service delivery; reform of the inspection supervision system; and local-level organisation and administration, including financing and public financial management. The coordination and monitoring mechanism for implementing the strategy was further strengthened through the establishment, in November, of an inter-ministerial body led by the Ministry of Interior, while overall coordination is led by the Deputy Prime Minister. The revised 2014-2015 action plan and reports on implementation during the previous period and the first half of 2014 were adopted in December and July respectively. A special group on PAR, established as a forum for policy dialogue between the Commission and Montenegro in the framework of the SAA, met in February and July to discuss and monitor implementation of the strategy.

Policy development and coordination across the sectors are operational, but need to be further improved. The scope of inter-ministerial consultations on legislative proposals needs to be broadened. The link between policy planning and available financial resources needs to be further developed. There is a lack of formal requirements for medium-term resource planning. Inter-ministerial coordination and consultation with civil society is mandatory and underpinned by government decree, but in practice does not happen on a regular basis. The

existing rules for regulatory impact assessments need to be amended to ensure that an impact assessment is prepared prior to public consultation and that it is updated before the government takes its decision. An impact assessment should accompany any draft law that is presented to parliament.

With regard to **public service and human resources management**, the implementing legislation for the new law on civil servants and state employees was completed at the end of 2013. The focus should now be on ensuring effective application of the new legal framework in the public sector. Appointments and dismissals need to be closely and transparently monitored and reported on, especially in the case of senior managers, in order to avoid arbitrary decisions. In the reporting period, the Human Resources Management Authority introduced a new training module for senior management staff in the public administration and induction training for newcomers. The Authority's capacity needs to be further strengthened to ensure effective monitoring of the implementation of the law on civil servants and state employees in all public-sector bodies. Human resources plans still need to be prepared in all state bodies. The central personnel records needs to be further updated, as the majority of institutions have not yet provided the relevant data. No progress has been made in enhancing the transparency, efficiency and accountability of local government administration. The law on local self-government needs to be harmonised with the new rules on public service management.

As regards the undated resignation letters submitted at the request of the government by senior officials and heads of administrative bodies, which had been an issue of serious concern, in January the Minister of Interior confirmed that they had been destroyed at the request of the government.

The plan for the reorganisation of the public sector, as part of the public administration reform (PAR) strategy, was published in November. Based on a sector analysis, the plan provides for a gradual reduction of employees in all sectors by 10% over the next four years. Major savings are expected in the health, education and internal affairs sectors. The plan, which now needs to be implemented, must also take into account the Montenegrin programme of accession. A body to monitor the implementation of the plan started its work in December, with regular reporting obligations.

The first phase of the merger of different inspection services into one centralised body was completed, aiming at enhanced transparency, consolidation of resources and greater effectiveness and efficiency of operations.

There has not been any progress in improving **accountability and service delivery**. The new law on general administrative procedures needs to be adopted. Transparency and accountability of the work of the public institutions and officials need to be ensured. Finding the right balance between the right to free access to information and the protection of personal data remains a challenge.

Montenegro still needs to develop a comprehensive **public financial management** reform programme to address more systematically the necessary reforms in the different parts of the public financial management system. The Public Expenditure and Financial Accountability (PEFA) assessment from 2013 provides a basic framework for preparing the reform programme. Montenegro adopted the legal basis for the multiannual budgetary framework and the introduction of numerical fiscal rules on budget deficit and public debt in April. A gradual shift to programme-based budgeting needs to be ensured. Significant investment is required to upgrade the expenditure management system with a focus on improving

registration, reporting and monitoring commitments in connection with contracting, and on producing real-time data on spending in relation to appropriations.

Overall, there has been some progress in the area of public administration reform. Implementation of the public administration reform strategy is on track but further efforts are needed to improve the quality of legislation and local administration. Montenegro also needs to address the necessary public financial management reforms more comprehensively and ensure appropriate sequencing of reform actions. The legislative framework and its implementation need to be improved. Public administration needs to be further rationalised and the strengthening of administrative capacity for European integration ensured. In many areas, the work on the preparations for EU accession takes up a substantial part of the human and financial resources available to the relevant parts of the administration.

Ombudsman

The capacity of the Ombudsman's office remains limited, in terms of both human and financial resources. Amendments to the law on the Ombudsman were adopted, enhancing Montenegro's alignment with European and international standards. The fact that the amendments have weakened the role of the Ombudsman in dealing with anti-discrimination cases remains a matter of concern. Despite the overall rather high number of staff, the number of posts in the departments dealing with substantive human rights and anti-discrimination issues is rather limited, and various positions remain vacant, including two out of four deputy posts. This raises concerns about the institution's capacity to fulfil its broad remit and efficiently handle complaints. Little follow-up is given to concrete cases of discrimination.

Civil society

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. In July, the new Council for development of non-governmental organisations was appointed by the government. Among its main tasks, there are those related to monitoring of the strategy for development of civil society organisations (CSOs) and the relevant part of negotiations' action plan on chapter 23. The Council should be in the position to better steer the process of development of civil society. Representatives of CSOs continue to be involved in the activities of the state and local administration, including working groups on the EU accession negotiation chapters. On various occasions, civil society representatives have voiced their dissatisfaction with their level of involvement in the process. Greater transparency is needed in the government's procedures for cooperation with and consultation of CSOs, especially in legislative drafting. Continuous cooperation between CSOs and public administration bodies is not yet guaranteed. A sustainable system of public funding for CSOs and an appropriate institutional framework need to be further developed. The current system of public funding has so far proved to be inefficient, as acknowledged by the latest report from the State Audit Institution. An enabling legal framework for volunteering activities and corporate social responsibility/philanthropy also remains to be established. Relations between CSOs and the government have been overly adversarial on occasion, especially on issues concerning the political situation, rule of law and fundamental rights. Some civil society activists have been targeted on a personal basis by local media. CSOs have a crucial role in this area, which is distinct from that of political parties but integral to the political and socio-economic process.

Judicial system

In the area of judicial reform, some progress has been made. Key reforms of the recruitment, promotion and disciplinary systems for judges and prosecutors are still pending. They need to

fully reflect European standards and best practices, and to be understood and supported by all stakeholders so as to ensure effective implementation. Following alignment of relevant legislation with the constitutional reforms of July 2013, key judicial and prosecutorial officials were elected. Parliament finally agreed on the appointment of a new Supreme State Prosecutor. The slightly negative evolution of the clearance rate and the number of pending cases as compared to last year is due to a significant increase in the number of incoming cases. The length of proceedings has decreased, and overall courts managed to solve considerably more cases than in the previous year. The efficiency of the judiciary should increase further. It is a matter of serious concern that the power to conduct misdemeanour proceedings has still not been transferred to courts. Montenegro needs to step up its efforts to fight impunity for war crimes, and effectively investigate, prosecute, try and punish war crimes in line with international standards.

For a detailed analysis of developments in the judicial system, *see Chapter 23 — Judiciary and fundamental rights*.

Fight against corruption

In the area of anti-corruption, progress has been limited. The legislative framework remains to be strengthened. Pending the establishment of a new anti-corruption agency, the capacity of existing institutions in the area of prevention of corruption needs to be improved and they need to take a more proactive approach. The system of checks for conflicts of interest and asset declarations is not effective. Following the constitutional court's annulment of a significant part of the amendments to the law on political party financing designed to reduce the scope for abuse of state resources for electoral purposes, Montenegro needs to ensure that its legislative framework in the area of political party financing is fully in line with European standards and best practice and to provide an initial track record on the correct implementation of the law, including application of deterrent sanctions where required. Increased efforts are needed with regard to the development of a solid track record of investigation, prosecution and final conviction in corruption cases, including high-level cases, and the systematic use of the power to seize and confiscate assets. Cooperation between the prosecution and the police in pre-trial investigation remains to be improved. The impact of anti-corruption measures so far has been limited. Corruption remains prevalent in many areas and continues to be a serious problem, requiring effective implementation of deep and lasting reforms.

For a detailed analysis of developments in the area of anti-corruption policy, *see Chapter 23 — Judiciary and fundamental rights*.

Fight against organised crime

In the area of organised crime, the legislation needs to better clarify the role of the judiciary and the police in the pre-trial phase. While Montenegro has continued to develop a track record in the fight against drugs, and new cases were opened on people smuggling, more needs to be done to combat trafficking in human beings, cybercrime and money laundering. Financial investigations and the confiscation of assets are not yet applied systematically. More efforts are needed to improve interagency coordination. Cooperation with neighbouring countries and EU Member States, at bilateral and regional and international levels, continued.

For a detailed analysis of developments in the fight against organised crime, *see Chapter 24 — Justice, freedom and security*.

2.2. Human rights and the protection of minorities

Some progress was made on fundamental rights; the country is gradually familiarising itself with the international reporting mechanisms stemming from the international conventions ratified so far. A gap remains between legal alignment and implementation of human rights standards in the policy framework, and practice. This particularly affects the disadvantaged and the most vulnerable groups. Amendments to the law on the Ombudsman were adopted, in line with European and international standards; preparation for the adoption of implementing legislation should continue without delay. Human rights institutions' action is hampered by the lack of staff, skills and financial resources, and by frequent staff turnover. Attacks against the media are cause for serious concern. Some cases of violence against journalists and attacks on media property have been successfully investigated and processed. In other cases, investigations are pending and both the material perpetrators and those allegedly behind the attacks remain to be identified. Some progress was made in the area of civil registration and education of Roma. In April a new action plan to implement the Strategy for improvement of position of Roma and Egyptians in Montenegro was adopted. Overall, the Roma community face discrimination, especially in the field of employment, health issues and housing. Some progress was made on lesbian, gay, bisexual, transgender and intersex (LGBTI) issues, especially through capacity-building activities for civil servants and police officers. Attacks against LGBTI persons and activists continued, reflecting a widespread hostility to sexual diversity.

For a detailed analysis of developments in the area of human rights and the protection of minorities, *see Chapter 23 — Judiciary and fundamental rights*. For developments in the areas of trade union rights, anti-discrimination and equal opportunities, *see also Chapter 19 — Social policy and employment*.

2.3. Regional issues and international obligations

With regard to cooperation with the **International Criminal Tribunal for the former Yugoslavia**, Montenegro neither received any requests for assistance nor had cases referred back to its national authorities by the court for possible further investigations.

For the handling of domestic war crimes cases, *see Chapter 23 — Judiciary and fundamental rights*.

Montenegro still maintains a 2007 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. In doing so, it is not complying with the EU Common Positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Montenegro needs to align with the EU position in the framework of accession negotiations.

Montenegro, along with Bosnia and Herzegovina, Croatia and Serbia, has continued to closely cooperate in the **Sarajevo Declaration Process**, which aims to find sustainable solutions for people who became refugees and displaced persons as a result of the armed conflicts in ex-Yugoslavia during the 1990s. In March, the United Nations High Commissioner for Refugees (UNHCR) recommended that UN member states terminate refugee status for refugees originating from Croatia, at the latest by the end of 2017.

Implementation of the regional housing programme, expected to provide lasting housing solutions for some 6 000 people in Montenegro, has started. The legal framework and the national implementation bodies have been set up. Three waves of projects, representing € 10 million in grants, have been approved; two further projects are in the planning stage. The

construction of the first project is scheduled to begin in 2015. Good overall cooperation between the partner countries on the process and its housing programme needs to continue.

The unresolved fate of **missing persons** from the conflicts in the 1990s remains a humanitarian concern in the Western Balkans. Montenegro, Serbia, Bosnia and Herzegovina and Croatia signed in August a Declaration on the role of the state in addressing the issue of persons missing as a consequence of armed conflict and human rights.

Regional cooperation and good neighbourly relations form an essential part of Montenegro's process of moving towards the EU. Montenegro has continued to actively participate in regional initiatives, including the South-East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement, and the Energy Community Treaty. Montenegro hosted the first meeting of the Enhanced Cooperation within the Stabilisation and Association Process. Montenegro continues to actively support the Coalition for Reconciliation Commission (RECOM) and Igman initiatives on regional reconciliation.

In December, Montenegro, Bosnia and Herzegovina and Serbia signed a protocol to establish a joint centre for police cooperation in Trebinje (Bosnia and Herzegovina), which opened officially in March. An agreement between Montenegro, Albania and Kosovo, on the meeting point of the state border and its maintenance, was signed in July. On 29 September 2014, Montenegro, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia signed an agreement on reducing the prices of roaming services on public mobile communications networks.

Montenegro continues to maintain good **bilateral relations with other enlargement countries and neighbouring EU Member States**. However, the delimitation of borders with Croatia, Serbia, and Kosovo* remains pending. A bilateral convention on regional cooperation under Article 15 of the SAA was concluded in December with Serbia, but has not yet been concluded with Albania.

Montenegro continued to maintain good relations with *Albania*. In April, both countries signed an agreement on cooperation in the field of tourism.

In December, Montenegro signed a protocol on cooperation in the area of forensic examinations and expertise with *Bosnia and Herzegovina*. A protocol on exchange of information and evidence in war crimes between the state prosecutor's offices of the two countries was signed in April. A bilateral border agreement was initialled in May.

Montenegro and *the former Yugoslav Republic of Macedonia* signed an agreement on sharing diplomatic and consular services and a protocol on cooperation in the area of military training. In October 2013, Montenegro ratified the readmission agreement with the former Yugoslav Republic of Macedonia. Agreements on mutual enforcement of court decisions in criminal matters and on legal aid in civil and criminal matters were also signed in December.

The Montenegrin Prime Minister visited *Serbia* in December for the first such visit in a decade. A memorandum of understanding and cooperation in the field of tourism was concluded in February. Cooperation agreements on diplomatic training and mutual sharing of premises for diplomatic and consular offices were signed in June. A joint operation between Serbia and Montenegro contributed to the arrest of the alleged leader of a prominent

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

organised crime group. There were no developments in the dispute between the Orthodox churches in the two countries.

Concerning *Kosovo*, the embassy of Montenegro in Pristina became fully operational. An agreement on recognition of pension rights was signed in December, while agreements on police cooperation, on the opening of joint border crossings, on local border traffic as well as protocols on joint border patrols and border cooperation were signed in March. The joint commission on border demarcation continued its work. A Protocol on cooperation in the fight against trafficking in human beings was signed in April.

Montenegro ratified the readmission agreement with *Turkey* in October 2013. An agreement between the two countries on technical cooperation in the field of standardisation was signed in February, while an agreement on cooperation and mutual assistance in customs matters was signed in September.

Montenegro and *Croatia* worked closely in the field of education and scientific research. In May, the two countries signed a protocol on police cooperation during the summer season. The amended local border traffic agreement has not been signed yet. The temporary agreement on the Prevlaka peninsula continues to be implemented smoothly. In June, the prime ministers of the two countries indicated again that the issue will most likely be solved through international arbitration. No developments have taken place on border demarcation.

Montenegro and *Italy* signed an agreement on scientific and technological cooperation. In December, Montenegro ratified the two agreements concluded with Italy on enhancing the application of the European Convention on Extradition and the European Convention on Mutual Assistance in Criminal Matters. In March, an agreement on transport of passengers and freight in international road transport was also signed, while a protocol for the implementation of the readmission agreement between the two countries was initialled.

Overall, Montenegro continues to play an active role in regional cooperation and maintains good relations with the neighbouring enlargement countries and EU Member States. Certain bilateral issues with neighbouring countries are still open, notably in the area of border demarcation. Montenegro needs to align with the EU position on the integrity of the Rome Statute and with the related EU guiding principles on bilateral immunity agreements.

3. ECONOMIC CRITERIA

In examining economic developments in Montenegro, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

Monitoring of the economic criteria needs to be seen in the context of the increased role of economic governance in the enlargement process, as welcomed by the General Affairs Council of 17 December 2013. To this end, the ECOFIN Council in May adopted targeted policy guidance for Montenegro based on its Pre-Accession Economic Programme.

3.1. The existence of a functioning market economy

Montenegro's macroeconomic stability recorded some improvement and the economy recovered from the 2012 recession. However, several challenges hinder the efficient allocation of resources. The current-account and fiscal imbalances persist and domestic demand remains subdued as banks are not yet playing their intermediation role in the economy. Labour market conditions, as well as

diversification and overall competitiveness are all still weak while key investments are at an incipient phase of development or delayed.

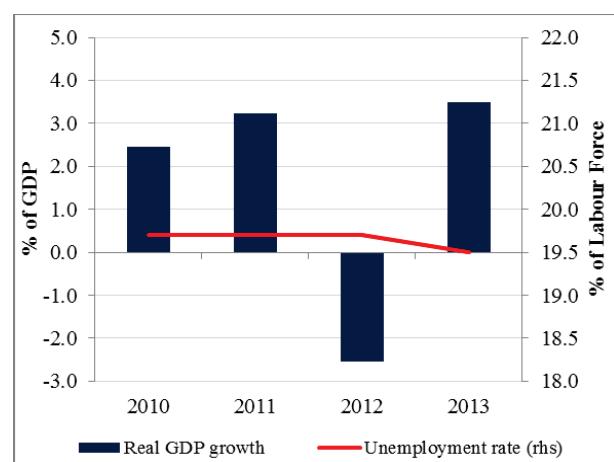
Economic policy

The government's third Pre-Accession Economic Programme (PEP), covering the period 2014-2016, presents a broadly consistent, albeit somewhat optimistic, medium-term macroeconomic and fiscal framework based on the projection of a gradual acceleration of growth from 3.6% in 2014 to 3.8% in 2016. The key objectives of the programme remain fiscal consolidation, achieving a nearly balanced budget in 2015, and improvements in the business environment to support economic growth. Overall, the political consensus on market economy fundamentals has broadly been maintained, with one particular exception concerning the resolution of the bankrupt aluminium firm (KAP) and its debt clearance. Montenegro needs to step up its efforts, in line with the conclusions from the ministerial dialogue between the economic and finance ministers of the EU and the candidate countries from May 2014 to set public debt on a declining path, reduce the high burden of banks' non-performing loans, and improve the business environment as well as labour market conditions.

Macroeconomic stability

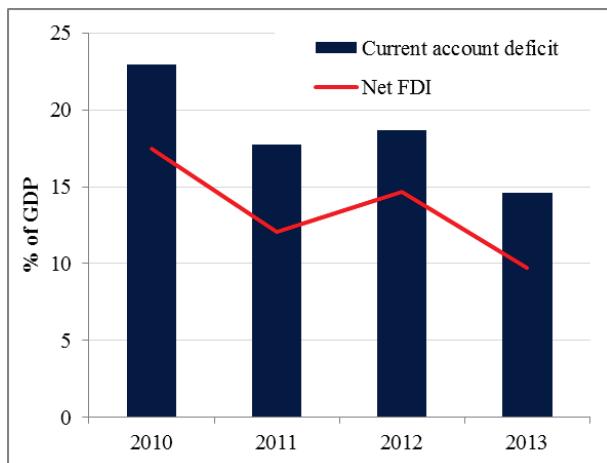
The economy recovered from a double-dip recession in 2013, growing by 3.3% after contracting by 2.5% the year before, according to latest data from the national statistical office. Growth was largely driven by investments thanks to stronger activity in the construction sector, as well as by net exports fuelled by stronger external demand for electricity and for tourism services, but also by a sharp contraction of imports. Private and public consumption recorded some slight growth of around one percentage point in real terms. Investment expanded thanks to stronger activity in the construction sector. Tourism continues generating good results, but external shocks from floods in neighbouring countries and from tensions between Ukraine and Russia — that are important tourism markets as well as foreign direct investment (FDI) sources for Montenegro — cannot be discarded. Growth continued in 2014, with the economy expanding in the first two quarters by 1.7% and 0.3% year-on-year respectively, driven by investments (mostly construction) and some recovery in private consumption. However, industrial output turned negative in the first six months of 2014. While manufacturing and mining recorded some expansion, the sharp decline in utilities after an exceptionally high electricity output the year before, led to an overall decline in industrial production, down in the first half of 2014 by an average 15% year-on-year. Moreover, downside risks to a sustained economic recovery persist as domestic demand remains subdued due to credit growth constraints, high unemployment, and falling wages. Growth recovery led to a modest rise in average per-capita income expressed in purchasing power standards to 42% of the EU average in 2013, compared to 41% a year earlier. ***Overall, the recovery remains fragile due to the weakness of domestic demand and high dependency on the external environment.***

Figure 1: GDP growth and unemployment



some recovery in private consumption. However, industrial output turned negative in the first six months of 2014. While manufacturing and mining recorded some expansion, the sharp decline in utilities after an exceptionally high electricity output the year before, led to an overall decline in industrial production, down in the first half of 2014 by an average 15% year-on-year. Moreover, downside risks to a sustained economic recovery persist as domestic demand remains subdued due to credit growth constraints, high unemployment, and falling wages. Growth recovery led to a modest rise in average per-capita income expressed in purchasing power standards to 42% of the EU average in 2013, compared to 41% a year earlier. ***Overall, the recovery remains fragile due to the weakness of domestic demand and high dependency on the external environment.***

Figure 2: External position



energy exports faded off. As a result, in the four quarters to June the current-account deficit slightly increased to 14.8% of GDP. So far, risks have been mitigated on the financing side. In 2013, total net capital inflows were greater than the current-account deficit, driven by net FDI inflows worth 9.7% of GDP and by transfers. This allowed the central bank to increase its reserves. In the four quarters to June 2014, net FDI remained broadly stable at 9.6% of GDP. ***Overall, despite some improvement, the sustainability of the external position remains a key challenge.***

Despite some marginal improvement, the unemployment rate remains very high, above 19%, with a large predominance of long-term (82%) and youth (42%) unemployment. The 2013 employment and activity rates of the population aged 20-64 stand at a low 52.6% and 65.1% respectively. These weak labour market conditions are exerting downward pressure on wages, which continued to contract, weakening private consumption. ***Overall, labour market imbalances are reflected by persistently high youth and long-term unemployment.***

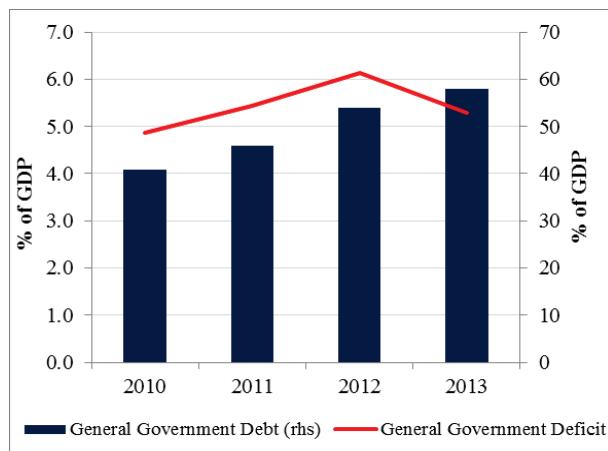
Given the unilateral use of the euro, the ability of the central bank of Montenegro to conduct monetary policy is limited. The strength of the euro together with lower international prices exert downward pressure on imported inflation from energy and food, while falling wages and tight credit conditions also added to the deceleration of prices. As a result, over the course of 2013, the average harmonised consumer price inflation declined to 1.8%, from 4.0% a year before. Disinflation turned into negative growth rates in January 2014, recording afterwards six consecutive months with negative consumer price growth, despite uninterrupted growth of retail sales during the same period. ***Overall, Montenegro faces a general fall in the aggregate price level, driven by a drop in global commodity prices in the absence of a proper monetary policy rather than by a decrease in aggregate demand.***

Fiscal reporting and accounting remains an issue. In 2013, the unplanned payment of state guarantees as well as substantial disbursements related to obligations from previous years for restitution, old foreign currency saving and some court decisions claims, brought the consolidated budget deficit to 5.3% of GDP, up from the preliminary estimate of 2.3%, albeit a marginal improvement compared to the 5.9% deficit recorded a year earlier. Measures were adopted to boost revenue, including an increase in personal income tax and in the standard VAT rates while, in order to reduce expenditure, the government froze pensions and public-sector wages and cut capital spending. Unburdened from past liabilities, the cumulated budget deficit recorded some improvement in the first seven months of 2014, declining to 1% of the full-year GDP compared to 3.6% a year earlier, as budget revenue — supported by higher

External imbalances are easing. The current-account deficit declined in 2013 to 14.6% of GDP from 18.7% a year earlier due to a stronger contraction of imports rather than an improvement in exports. Yet, the trade deficit remains one of the main structural problems, reflecting the local economy's narrow production base, lack of competitiveness and high import dependence. In 2013, the strong export performance of electricity was due to exceptionally favourable weather circumstances, and consequently exports in 2014 are more modest. In the first half of 2014, the trade deficit widened 4.5% year-on-year as exports declined much faster than imports and the base effect from past

VAT and social security contributions — kept growing faster than expenditure. In the past, loans to cover state guarantees contributed to a further increase in public debt, which has doubled since 2008 to reach 58% of GDP in 2013, although marginally declined to 57.5% of GDP at the end of June 2014.

Figure 3: Fiscal developments



by a high degree of non-discretionary spending and some persisting risks of slippages, over and above a sizable stock of state guarantees. *Overall, as the fiscal position failed to improve despite consolidation efforts, the challenge of ensuring fiscal sustainability and steering the public debt in a downward trajectory remains.*

Interplay of market forces

The development of the private sector is financed through a sustained inflow of foreign investment facilitated by public property concessions and privatisations. State ownership of the economy is comparatively low and predominantly concentrated in transport and utilities, together with a few firms in the agriculture, publishing and tourism sectors. The aluminium conglomerate KAP, in which the state had a 29% stake, was declared bankrupt in October 2013 after having accumulated debts worth several times the company's value. Its assets — divided into several groups — were sold to local companies in 2014, thus putting an end to the state's role as a shareholder. One of the former co-owners (CEAC) filed several complaints against the sale of KAP that were rejected by local courts. However, a Nicosia court adopted a decision banning the sale of KAP's assets. As a result, the sale of KAP remains on hold until the bankruptcy administrator can transfer the property free of litigation, with risks of a new round of contingent liabilities for the public finances. The state also had a 29% stake in the Nikšić bauxite mines that were declared bankrupt in February 2014 but, in the absence of a reorganisation plan by the owners (i.e. the state and CEAC); the bankruptcy administrator offered the company's property for sale at the end of July although investors have shown no interest so far. Concerning administrative prices, these remain moderate, accounting for 7.4% of the consumer price basket. *Overall, state ownership of the economy has been reduced following the bankruptcy of the aluminium factory and bauxite mines.*

Market entry and exit

The number of new companies rose substantially in 2013 to 4146, or 17% more than the previous year. These figures must be treated with caution, however, as some of these might be former companies that have re-established themselves as a way of escaping debt. It remains difficult to obtain credit particularly for small and micro businesses, which have either very few, or, in most cases, no alternative means of financing apart from the banking sector, and therefore endure severe liquidity problems. The ongoing modernisation of public administration including the

Montenegro's main policy challenge is to restore fiscal stability, together with curbing the large current-account deficit. The adoption of fiscal rules in April 2014 seems to confirm the continuity of consolidation efforts, although the efficiency of its enforcement mechanism needs to be verified once the law is implemented. However, expensive construction projects (prone to risks of delays and cost overruns) like the Smokovac-Mateševo highway section, may require additional measures to contain public debt within the fiscal rules threshold. Moreover, public finances are characterised

simplification of procedures and, ultimately, the creation of a more efficient administration remains a challenge for the years to come. In 2013, the number of companies liquidated as a result of bankruptcy proceedings declined markedly, totalling 217 or 25% less than a year before. ***Overall, as the recovery takes hold, the number of Montenegrin companies is growing.***

Legal system

Uncertainties relating to the Montenegrin legal and judicial system may in some cases entail risks for economic agents. Laws sometimes contain ambiguous provisions and are therefore difficult to implement. Moreover, the outcome of judicial proceedings is difficult to predict as Court orders are not always enforced or followed by law enforcement institutions. Out-of-court resolution of commercial disputes through the mediation centre has made further progress, with both the number and the value of commercial disputes successfully resolved increasing.

Licensing, tax administration procedures, and contract enforcement are priority issues identified by the business community as key obstacles. In April 2014 the first public bailiffs started work on the task of improving contract enforcement. In early September 21 public bailiffs, out of a total of 32 stipulated by the law, had been appointed. Progress has been made on reducing municipal fees for construction permits and making it easier to obtain them by shortening deadlines, streamlining procedures and setting up one-stop shops. However, the business registration service has yet to be extended to all regional tax administration offices. In July 2014, the parliament adopted the Law on e-Government with a view to improve communication with the users of state administration services. The e-Government Portal was revamped, although only part of the administration has started working with electronic documents in a production environment. There has been little progress on the regulatory impact assessment project, which is intended to assess the regulatory framework and issue recommendations on simplifying regulation (e.g. by means of a ‘regulatory guillotine’). ***Overall, simpler and more predictable regulation of business and further efforts to tackle corruption are needed to improve the business climate.***

Financial sector development

The banking sector has remained stable. In May 2014, the central bank of Montenegro issued an operating licence for a new local one, raising to 12 the number of banks in the country. However, the number of entities does not seem to have had a noticeable impact on interest rates for new loans, which remain persistently high, at above 10%. Risk premiums appear to be the main cause for the elevated lending rates. The sector is dominated by foreign banking groups, which account for 83.5% of total bank capital. However, all banks are increasingly resorting to own deposits financing to offset the decline in foreign funding. Banks posted positive financial results in 2013 as well as in the first half of 2014, compared to substantial losses in 2012. Credit quality still remains a key concern as banks struggle with a large stock of bad loans. Thus, the banks’ credit activity remains constrained by the high level of non-performing loans (NPL), and burdened by lengthy procedures for banks’ collateral execution through the judicial enforcement of contracts. Despite a timid recovery³ in 2013, the total amount of credit to the economy contracted in the first six months of 2014.

In order to address this problem, the central bank adopted a decision in November 2013 requiring banks to develop resolution strategies for non-performing loans. However, the parliament still needs to adopt the law on voluntary financial restructuring known as the ‘Podgorica approach’. This would provide a framework for out-of-court proceedings for restructuring the debts of economically viable companies, including through purchases of debtors’ claims supported by tax

³ Note: the introduction of international accounting standards (IAS) in the banking sector as of January 2013 hinders data comparability.

and supervisory incentives. Meanwhile, some banks have offloaded part of their bad loans to factoring companies. However, factoring services are not regulated, creating legal uncertainties for some types of transactions. Hence, the authorities initiated in September 2014 proceedings to prepare a law on factoring with a view to improving the legal framework and establishing an appropriate level of supervision.

Altogether, the non-banking financial sector remains relatively small and underdeveloped. In 2013, the total annual market turnover of the stock market represented less than 1% of GDP, while insurance companies' gross premiums accounted for some 2% of GDP. However, some recent developments could help to expand these markets in the future. Thus, in May 2014, Montenegro's stock exchange recorded the first trade in government bonds, while the Insurance Supervision Agency delivered the first licence to a bank to engage in insurance operations.

Overall, together with other measures, the swift implementation of the 'Podgorica approach' to tackling banks' non-performing assets will be instrumental in restoring bank lending and thereby support domestic demand.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Human and physical capital endowment

The high unemployment rate requires the gap between supply and demand for labour skills to be bridged by supporting labour mobility and by making active labour market policies and education more effective. Internal labour mobility remains a key issue. Montenegrins are reluctant to apply for seasonal jobs (which account for some 70% of the total offer of employment) and employers resort instead to recruiting workers from neighbouring countries.⁴ Standard active labour market programmes have been implemented with relatively few funds, focusing on finding work for young people and seasonal workers. Based on evaluations, more effective and outcome-oriented active labour market measures should be expanded, with greater emphasis on the poorest areas of the country. There is also a need to increase the quality of education, particularly vocational education and adult learning.

A number of major infrastructure projects in energy, transport and tourism are being developed in an effort to diversify and strengthen the economy. The electric power company is in the process of selecting the bidder for the construction of a new block for the thermal power plant. Once completed, this plant will reinforce energy independence (including from weather conditions) with the potential to gradually turn -together with two planned hydropower plants- the country into a net exporter of electricity. Meanwhile, construction works for the electricity interconnection with Italy and the reinforcement of the transmission grid are ongoing. In June 2014, concession contracts for building 10 small hydropower plants were signed. On transport infrastructure, in May 2014 the government adopted a law on the Bar-Boljare highway, and in September, the Chinese Exim Bank approved the loan for this project, providing for construction work to start by the end of 2014. The container and general cargo terminal in the port of Bar started investing in new equipment. Construction of two large tourist resorts started at the end of 2013, and concessions for developing new ones are at different stages of development.

Montenegrin institutions have started to participate more actively in international programmes run by the EU and in bilateral cooperation with EU Member States. The funds allocated to research and development (R&D) programmes increased in 2014; a centre of excellence in bioinformatics

⁴ To illustrate the mismatch between demand and supply, note that in 2013 there were 48 900 unemployed persons despite an offer of 37 869 job vacancies. In addition, 22 498 work permits for foreign workers were delivered to cover employers' needs.

(BIO-ICT) began operations in July 2014 and plans for the establishment of a science and technology park (Technopolis) are advancing. The Ministry of Science continued co-financing in 2014 the second research year, counting with 104 national projects, although total R&D financing (at some 0.5% of GDP) still appears modest. Moreover, private sector participation in R&D remains low.

Overall, further efforts are required on research, development and innovation to strengthen the competitiveness of domestic companies as well as on building the necessary infrastructure to support sustainable expansion of the economy. Pursuing education reform to reduce the skills gap, strengthening active labour market policies, and introducing more flexibility in the labour market through distinct collective agreements for the public and private sectors are essential to reduce unemployment.

Sector and enterprise structure

The structure of the economy has changed in the last decade. It is no longer driven mainly by industrial production — metallurgy, in particular — but by the service sector, mainly tourism, together with transport, retail sales, and to a lesser extent, construction and energy production. While the restructuring of the aluminium industry remains uncertain, the renovation of the steel mill by its new owner is well underway. The company, acquired in May 2012 following bankruptcy by its former owners, has invested in new machinery and, on completion — planned within two years — production capacity is expected to increase substantially. Furthermore, the new owner is in the process of procuring two other companies; a machine builder and a foundry located next to the steel mill. In the network industries, various services of the port of Bar have been privatised. The railways and Montenegro Airlines are being restructured and listed — for several years now — for privatisation. In the energy sector, the state remains the major shareholder in the electric power company EPCG, and increased its share by two percentage points to 57% after the company's tax arrears were converted into equity in July 2014. However the influence of the state remains contractually limited as the privatisation contract — by which an Italian investor acquired a participation of more than 40% — also assigned the management rights to the company. The state also retains a majority stake (55%) in the electricity transmission system operator CGES.

Public-sector support schemes for small and medium-sized enterprises (SMEs) remain limited. The — de facto — development bank of Montenegro (the Investment and Development Fund), provides support through a variety of instruments, mainly credit lines, but also credit guarantees, factoring, and to a lesser extent, support for start-up businesses, export promotion programmes and studies. However, the fund's financial capacity to sustain all these activities appears modest (around 1% of GDP per year). The government is also supporting the economic development of the less developed regions. It has adopted development plans for six municipalities, set up two new business zones, and provided incentives for five industrial clusters dealing with agro-food and forestry products. In addition, the government continued the efforts to reduce the informal economy by stepping up checks on excise goods, retail trade, and labour.

Overall, the economy is going through a transformation process, reinforcing the services and energy sectors while older industries like metallurgy and transport are being restructured.

State influence on competitiveness

The aluminium conglomerate has severely drained public funds. Between its privatisation in 2005 and its recent liquidation in June 2014, KAP cost the government some €350 million in state guarantees and subsidies for electricity, in addition to unpaid taxes and social security contributions. The total amount of state aid granted in 2013 reached 3% of GDP compared to 1.3% a year earlier. The activation of state guarantees accounts for a substantial share of this aid in

the last two years. The general government budget foresees a substantial decline in state aid for 2014, planning 0.6% of GDP for subsidies in addition to 0.3% of GDP for state guarantees -already disbursed- in the first half of this year. However, other forms of state support, apart from direct budgetary transfers, are also available, either from the Investment Development Fund, or through grants and loans for agricultural producers. Investors may also benefit from tax exemptions (usually releases from municipal utility fees while premises are under construction). In addition, for some very large projects of strategic importance, ad hoc measures may be adopted to help the investor, like the law on the Bar-Boljare highway, granting exemption from VAT and custom duties. *Overall, after the liquidation of the former aluminium conglomerate, the allocation of state aid funds has dropped markedly.*

Economic integration and convergence with the EU

Montenegro remains a very open economy. In 2013, the total trade of goods and services was close to 104% of GDP, albeit down from 113% the year before. Exports of goods and services totalled 42% of GDP in 2013, according to the latest national data. Merchandise exports to the EU represented 41% of Montenegro's total exports compared with 49% to CEFTA countries, while goods from the EU remain predominant, accounting for 44% of total imports compared with 39% from CEFTA. In services and foreign investment, Russia remains Montenegro's single most important partner, accounting for 28% of tourism stays and of FDI inflows. The EU accounts for 20% of tourism and 39% of foreign investment, while CEFTA's contribution stands at 36% of the tourism total, but only 4% of FDI inflows. Since 2011, Montenegrin exports have gained some marginal competitiveness as wages have continued to contract in real terms. *Overall, further efforts are still necessary to strengthen export capabilities and the integration of Montenegrin businesses in the common market.*

4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

This section examines Montenegro's ability to take on the obligations of membership — that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses the country's administrative capacity to implement the *acquis*. The analysis is structured according to the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers the progress achieved during the reporting period, and summarises the country's overall level of preparation.

4.1. Chapter 1: Free movement of goods

As regards **horizontal measures**, the strategy and action plan for introducing free movement of goods have been prepared but not yet adopted. The coordination role and powers of the Department for Quality Infrastructure have been strengthened in some respects. In contrast, budgetary resources have declined over the last few years. More work is needed to ensure the functioning of a contact point dealing with World Trade Organisation (WTO) and EU technical regulations.

As regards **standardisation**, 11 393 standards were adopted, 26% of which are harmonised standards, and 15 technical committees were established. Further work is needed to meet all membership criteria of the European Committees for Standardisation and for Electrotechnical Standardisation (CEN/CENELEC). Preparations for membership in the European Telecommunications Standards Institute are at an early stage. The number of accredited *conformity assessment* bodies increased to 21 but remains low. Montenegro's 2014-2018 accreditation strategy was finalised in March but is still awaiting adoption. A formal

application to sign the European Cooperation for Accreditation Multilateral Agreement has not yet been submitted.

As regards *metrology*, the Bureau of Metrology calibration laboratories for length, mass and temperature were accredited in March. Three other laboratories — for time and frequency, pressure, and electric quantities — are preparing for accreditation. In January, a regulation on fixed storage tanks entered into force.

In the area of *market surveillance*, parliament adopted amendments to the law on market surveillance in July. Rulebooks for recording inspections and for fees for phytosanitary inspections were also adopted in March. In 2013, 24 512 dangerous products were identified, of which 9 384 high-risk items have been banned from the market.

As regards '**Old Approach**' **product legislation**, three rulebooks on textiles, footwear, and crystal glass were prepared but have not yet been adopted.

As regards '**New and Global Approach**' **product legislation**, parliament adopted the new law on construction products in March. The rulebooks on low voltage equipment and on lifts were adopted in January. Amendments to the law on explosive materials were adopted in July. The rulebooks on measuring instruments and on non-automatic weighing instruments were found to comply with the EU *acquis* on European Conformity (CE) marking. The rulebook on radio and telecommunications terminal equipment and on electromagnetic compatibility still needs to be aligned in this regard.

In the area of **procedural measures**, in March the government adopted the 2014-2018 strategy for integrated border control and a five-year action plan.

Conclusion

There has been limited progress to align the legislation and build up implementation capacity in the area of free movement of goods, but work is ongoing. Montenegro needs to strengthen its capacity, coordination and ownership in order to implement the ambitious harmonisation programme and ensure the implementation of newly adopted EU legislation. The limited resources of all quality infrastructure bodies are an issue of concern. Preparations in this area are relatively advanced.

4.2. Chapter 2: Freedom of movement for workers

In the area of **access to the labour market**, the current legislation still requires EU nationals to obtain work permits.

Administrative capacity for the **coordination of social security systems** still requires strengthening. Negotiations on bilateral social security agreements with Slovakia and Bosnia and Herzegovina progressed further.

Training on the **European Health Insurance Card** took place in March 2014.

Conclusion

There has been limited progress in the field of freedom of movement for workers. A number of important adjustments to Montenegrin legislation are necessary to align it with EU rules on access to the labour market. Sustained efforts are also required in particular to develop administrative capacity for the coordination of social security systems. Preparations in this area are still at an early stage.

4.3. Chapter 3: Right of establishment and freedom to provide services

With regard to **the right of establishment**, electronic company registration is not yet fully available. Activities on streamlining procedures for issuing construction permits at local one-stop-shops further continued.

As regards **freedom to provide cross-border services**, preparations for transposing the Services Directive continued.

Some of the implementing legislation for the law on **postal services** was adopted. The postal service (*Posta Crne Gore*) is still planned for privatisation in 2014. The administrative capacity of the National Regulatory Authority remains unchanged but is sufficient.

In the field of **mutual recognition of professional qualifications**, in April the government adopted a national plan for developing qualifications for practising regulated professions and an action plan for 2013-2018.

Conclusion

Some progress was made on the right of establishment and freedom to provide services. Substantial efforts are still needed to implement the *acquis* on mutual recognition of professional qualifications and the Services Directive. Overall, preparations are moderately advanced.

4.4. Chapter 4: Free movement of capital

As regards **capital movements and payments**, further efforts are needed to complete legislative alignment with the *acquis*.

In December, parliament adopted a new law on the **payment systems** to bring legislation further in line with the *acquis*.

With regard to the **fight against money laundering** and terrorism financing, Montenegro adopted the 2013-2014 action plan to implement the Strategy for the Prevention and Suppression of Terrorism, Money Laundering and Terrorism Financing 2010-2014. A new law addressing the Financial Action Task Force recommendations in this area was adopted in July. Montenegro amended its criminal code and drafted a new law on capital markets based on part of the Moneyval recommendations. Interagency cooperation still needs to be strengthened. The IT system of the Administration for the Prevention of Money Laundering and Terrorism Financing (APMLTF) still needs to be upgraded.

Conclusion

Some progress was achieved in the area of free movement of capital. The legal framework still needs to be upgraded in line with Moneyval recommendations in particular. The IT system of the APMLTF needs to be upgraded. More efforts are needed to enhance interagency coordination and the capacity to carry out financial investigations. Overall, preparations are moderately advanced.

4.5. Chapter 5: Public procurement

As regards the **general principles** applying to public procurement, Montenegro prepared amendments to the law on public procurement, in view of further harmonising the legislation with the EU rules particularly in the utilities and defence sectors. Adoption is pending and

some further harmonisation efforts will be needed. Montenegro has to also align its legislation with the 2014 EU procurement *acquis*. The process of accession to the WTO Government Procurement Agreement was launched in November and is at an advanced stage.

As regards the **award of public contracts**, the number of contracting authorities has been reduced further. The public procurement market shrank in terms of the number of contracts, total value, and percentage of GDP. The public procurement administration's capacity to enforce the law on public procurement and to monitor the award of public contracts is improving. Annual reporting and data collection needs to be strengthened. The quality of the procurement process and the business communities' awareness of the existing remedies have gradually increased as a result of capacity-building measures. Further efforts are needed to improve the use of framework agreements and central purchasing. The number of public procurement inspectors increased from one to two, but the capacity of the inspection service needs to be built up to ensure more effective control of contract procedures and of the contracts awarded.

As regards **remedies**, the 2012 annual report of the State Commission for the Control of Public Procurement (SCCPP) was adopted by parliament in November 2013. In July, the government adopted the 2013 Annual Report. The number of SCCPP decisions taken in 2013 rose by 30% compared to 2012, but capacity needs to be increased still further. Nine per cent of the decisions were challenged in the Administrative Court. The high rejection rate of SCCPP decisions by the Administrative Court and the rate of implementation of the SCCPP recommendations remain issues of concern.

Conclusion

Limited progress has been made with regard to public procurement. The efficiency and effectiveness of the public procurement system improved but progress in this direction needs to continue, and administrative and enforcement capacity at all levels needs to increase. Monitoring should focus on economic impact, effectiveness, and efficiency as well as formal requirements. Overall, preparations in the area of public procurement remain moderately advanced.

4.6. Chapter 6: Company law

National legislation on **company law** is largely in line with the *acquis*. Key outstanding issues relate to legislative alignment in the areas of transparency, cross-border mergers and takeover bids. Following the introduction of the electronic application for registration in May 2012, full electronic registration of companies remains to be completed.

Regarding **corporate accounting** and **auditing**, preparations have advanced for initiating the World Bank project on the setting up and implementation of an independent public oversight body for auditors and a related system of quality assurance.

Conclusion

Little progress was made in the field of company law. Overall, preparations remain moderately advanced.

4.7. Chapter 7: Intellectual property law

In the area of **copyright and neighbouring rights**, the Intellectual Property Office of Montenegro authorised the collective management of film producers' rights in Montenegro.

Alignment with the new *acquis* of the terms *protection*, ‘*orphan works*’ and *collective rights management organisations* remains to be achieved.

In the area of **industrial property rights**, amendments to the law on trademarks aimed at further alignment with the *acquis* were adopted in March. The regulation on the professional exam for representatives of trademarks and designs was adopted in April. The Intellectual Property Office’s IT infrastructure is still weak.

With regard to **enforcement**, the Ministry of Economy prepared a report on the implementation of the national intellectual property rights (IPR) strategy for 2013. Overall, enforcement in the commercial court and customs administration is good, with the exception of criminal prosecution. The number of cases brought before the commercial court fell in 2013 due to the introduction of a simplified customs procedure, which provides for seized goods to be destroyed in customs detention. The Intellectual Property Office recruited two new staff members. Specialised training for the office’s staff and employees of other IPR-related bodies increased. Specialisation of first-instance judges and market inspectors is still needed. The office cooperated with universities and SMEs to raise awareness of the practical implications of IPR, research and innovation.

Conclusion

Some progress was made in the field of intellectual property. Legislation on intellectual property is largely in line with the *acquis*, but further work is needed to achieve full legislative alignment, in particular with regard to the laws on copyright and related rights, the legal protection of industrial design, the protection of semiconductor topographies, and patents. Coordination of all IPR-related bodies needs to be further strengthened through the introduction of formal cooperation mechanisms. Lack of IT and human resources are still a challenge for the Intellectual Property Office. More work is needed on specialisation and training, and on setting up effective enforcement mechanisms. Overall, preparations are advanced.

4.8. Chapter 8: Competition policy

As regards **anti-trust and mergers**, in February the government adopted seven by-laws regulating block exemptions. Cases of conflicting legislation should be eliminated, notably as regards third parties’ access to confidential information.

Montenegro’s enforcement record has improved, particularly as regards anti-trust policy. The fact that merger control consumes a substantial part of the agency’s resources may jeopardise the enforcement of cases concerning cartel and abuse of dominance. More resources need to be devoted to such cases. On abuse of dominant position, the agency initiated one *ex officio* case, completed four new cases and conducted its first dawn raid. A ruling by the administrative and supreme courts upholding a previous agency decision on abuse of dominance, along with agency decisions on anti-competitive agreements, contributed to raising public awareness of competition rules and their enforcement. The agency’s current administrative and investigative capacity is still insufficient and needs to be strengthened. Moreover, the capacity of the judiciary to deal with complex competition cases must be reinforced.

As regards **state aid**, in March the new decree on criteria, conditions and procedures for granting state aid was adopted, obliging the Ministry of Finance to publish all relevant EU *acquis* related to state aid on a regular basis. Amendments to the law on state aid control remain necessary, in particular on procedural aspects, to ensure that Montenegro’s state aid

procedures comply fully with the *acquis*. The State Aid Control Commission (SACC) prepared a harmonisation programme for aligning aid schemes and measures with the state aid rules. In December, parliament adopted amendments to the laws on personal income tax and on corporate profit tax but further alignment is still needed. Amendments to align the business development incentive programme and the law on free zones with the state aid rules have yet to be adopted. A new regional map of state aid was adopted in June.

The administrative capacity and operational independence of the SACC and the State Aid Control Unit (SACU) still need to be strengthened and their enforcement record improved. Progress was made with the upgrade of the SACC's internet site, on which its state aid decisions are published. The state aid reports for 2012 and 2013 have not been adopted yet by parliament.

The resolution of the bankruptcy procedure of the aluminium plant KAP remains an issue of serious concern and must be done in compliance with state aid rules. The company is still operating and aid is still being granted in breach of SAA obligations. The sole bid for the assets made by the privately-held firm *Uniprom* was accepted by KAP's bankruptcy administrator in February but no final agreement has been reached on the price of electricity supplied to KAP or the company's future.

As regards liberalisation, Montenegro needs to align its system with the EU rules and redefine the scope of 'services of general economic interest' in its legislation.

Conclusion

Some progress was made on competition policy. Administrative capacity needs to be improved, as does the independence of the state aid authorities. Compliance with SAA state aid rules in the case of KAP needs to be urgently ensured. Overall, preparations are moderately advanced.

4.9. Chapter 9: Financial services

In the area of **banks and financial conglomerates**, the central bank of Montenegro passed a set of implementing decisions for the consumer credit law in October. In November, amendments to the decision on minimal standards for management of credit risk in banks were adopted.

In the area of **insurances and occupational pensions**, the Insurance Supervision Agency adopted several rulebooks, notably on restrictions related to depositing and investing technical reserves funds and capital funds, on detailed contents of books of claims and on the professional exam for working as a certified actuary. In terms of staffing, the agency has 21 full-time employees, excluding the president of the Agency's Council.

No developments have taken place on **financial market infrastructure**.

In the area of **securities markets and investment services**, the Securities and Exchange Commission produced several analyses, notably on the implementation of the directive on markets in financial instruments in the Montenegrin regulatory system and on the impact of the introduction of tax exemptions and state incentives in voluntary pension funds. The capacity of the Securities and Exchange Commission needs to be further upgraded.

Conclusion

There has been some progress in the field of financial services. The Insurance Supervision Agency strengthened its operational capacity. The capacity of the Securities and Exchange Commission needs to be further upgraded. Substantial efforts are needed to further align with the *acquis*, notably in the insurance field. Overall, preparations are moderately advanced.

4.10. Chapter 10: Information society and media

As regards **electronic communications and information and communications technologies**, following the adoption in July 2013 of the new law on electronic communications, the Ministry of Telecommunications and Information Society and the Agency for Electronic Communications and Postal Services (EKIP) adopted 48 pieces of implementing legislation. EKIP is still required to transfer any budget surplus to the state budget. Parliament continues to have the authority to dismiss the entire EKIP Council in case the latter does not approve EKIP's financial report. In the context of the new law, EKIP re-launched an appeal against this provision before the constitutional court. The court had dismissed the previous case on the same provision in February. The government has abolished the one-euro tax on all SIM cards and internet and cable connections. While competition in mobile services has resulted in the highest mobile penetration in the region at 160% and over 35% penetration of the mobile broadband (when including 3G services), competition in fixed voice and broadband services remains low. In 2013, fixed broadband penetration was at 14.1% (EU average of 29%). EKIP has paid particular attention to broadband access and pricing. In February, an EKIP decision resulted in a reduction in prices for fixed and mobile networks in accordance with the cost method of accounting and separate accounting.

As regards **information society services**, the law on e-government was adopted in July. Montenegro has not yet established a legal basis for the re-use of public-sector information. The 'wireless Montenegro' project is currently providing free public wireless internet access for around 300.000 users in specific locations and its services are being further expanded to cover new locations throughout the country. In March, parliament adopted a law ratifying the European Convention on the Legal Protection of Services Based on or Consisting of Conditional Access.

In the area of **audiovisual policy**, the Agency for Electronic Media remains obliged to transfer all budget surpluses to the state budget and to have its financial and technical reports approved by the parliament. This clearly undermines the Agency's independence. Its overall capacity to fulfil its tasks has been strengthened, particularly its monitoring capacity. A number of broadcasters have not been able to pay licence fees to the agency, and the agency filed lawsuits against them to recover revenues. The lack of or delay in collecting revenues puts at risk the agency's capacity to meet its mission. The digital switchover is on track. The state public service broadcaster RTCG's main challenge remains financial unsustainability, with its three public channels

Conclusion

There has been some progress in the area of information society and media. A good level of legal alignment has been reached. There are still concerns as regards the independence of the EKIP and of the Agency for Electronic Media, particularly for want of a decision by the constitutional court. The independence of the state broadcaster RTCG is undermined by the lack of appropriate financial resources to meet its public broadcasting and digitalisation obligations. Overall, preparations in the area of information society and media are moderately advanced.

4.11. Chapter 11: Agriculture and rural development

In the area of **horizontal issues**, the amended law on agriculture and rural development and implementing legislation on the registration of agricultural holdings were adopted. The strategy for agriculture and rural development remains to be adopted. Direct support measures will need to be brought into line with the *acquis*, by decoupling them from production and introducing a system of payment entitlements.

In the area of **common market organisation**, preparations are at an early stage. Efforts to develop the olive oil sector are being made. A law on olive growing remains to be adopted.

As regards **rural development**, the Directorate for payments in the Ministry of Agriculture and Rural Development is set up to undertake its duties for the Instrument for Pre-accession Assistance for Rural Development (IPARD) agency. A separate budget was approved for the directorate, which consists of five departments responsible for implementing IPARD. Thirty-six members of staff are assigned to setting up systems in the payments sector. Clear individual responsibilities have been assigned and a budget for additional staff allocated. Permanent staff members need to be recruited in line with the organisation chart to ensure continuity. The premises for the future IPARD agency were designated but still need to be renovated and furnished. The programme has not yet been adopted. Review of the accreditation package by an external audit company has been finalised. Major findings for the IPARD Agency and the Managing Authority are mostly related to human resources management. Further preparation for accreditation of operating structures will depend on the audit findings. Capacity building for the payments sector, the rural development sector and the National Fund within the Ministry of Finance is on track.

In the field of **quality policy**, Montenegro's law on designations of origin, geographical indications and designations of traditional specialty agricultural products and foodstuffs is broadly in line with the *acquis*. Implementing legislation needs to be adopted and particular attention should be paid to implementation.

With regard to **organic farming**, the law on organic production was adopted in December.

Conclusion

There has been some progress on agriculture and rural development policy. The agriculture and rural development national strategy needs to be adopted and additional capacity building is required to ensure future implementation of the IPARD programme and to develop overall capacity for implementing the common agricultural policy. Overall, alignment with the *acquis* is at an early stage.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

As regards **general food safety**, a strategy for the transposition and implementation of the *acquis* in this area remains to be adopted. The implementing legislation on the method and sampling procedure for laboratory testing of food of plant origin in primary production was adopted in February. The revised law on food safety remains to be adopted. Capacity building is on track in the fields of controls on contaminants in feed and food; EU legislation on feed; veterinary and plant health inspection; food composition and information; investigation of foodborne outbreaks; food hygiene and controls; and veterinary and food safety control checks at border inspection posts.

In the area of **veterinary policy**, the implementing legislation on prevention, detection, control and eradication of classical swine fever was adopted in March. The multiannual

programme for the eradication of rabies continued. The 2013 programme of mandatory animal health protection measures was implemented and the programme for 2014 adopted. Veterinary control checks at border inspection posts are on track and construction works have started at the border inspection post in the port of Bar, to facilitate checks on animal products (not live animals). The extension of the animal identification and registration system to pigs and the establishment of the monitoring system of live bivalve molluscs are on track.

With regard to the **placing on the market of food, feed and animal by-products**, preparations for the classification of all food establishments and all establishments handling animal by-products, based on the *acquis*, have started.

In the area of **food safety rules**, the monitoring programmes for pesticide residues in and on food of plant and animal origin and for nitrate in plant foods and leafy vegetables for 2014 were published, as was the list of active substances permitted for use in plant protection products. The 2013 programme for pesticide residues has been implemented.

In the area of **phytosanitary policy**, amendments to the law on plant protection products were adopted in April, as was implementing legislation on several issues, such as control and eradication of some harmful organisms, inspections, the register of plant protection products, licences for scientific research and the register of agricultural plants. The 2013 programme of phytosanitary measures was implemented. The programme of phytosanitary measures and the action plan for the eradication and control of red palm weevil was adopted and published and implementation started. Amendments to the law on plant health protection remain to be adopted.

Conclusion

There has been some progress in the field of food safety, veterinary and phytosanitary policy. Further efforts are needed on all aspects of this policy area, in particular the conclusion of the strategy for the transposition and implementation of the *acquis*. Overall, preparations remain at an early stage.

4.13. Chapter 13: Fisheries

Montenegro has started preparing a strategy and action plan on the EU requirements and future implementation needs under this Chapter. Amendments to the law on marine fishery and mari-culture are under preparation. Montenegro has adopted a number of implementing legal acts.

In the area of **inspection and control**, the capacity of the fisheries inspectorate remains very limited. Substantial work is still needed to ensure systematic processing of data from logbooks, adequate registration of catches and landings, the use of sales notes and systematic cross-checking between catch composition and logbook records.

Conclusion

No progress was made in the field of fisheries. The national strategy and action plan need to be adopted. Work is needed to strengthen administrative capacity, align legislation with the *acquis* and implement EU standards, particularly in the areas of resource and fleet management, inspection and control, market policy, structural policy and state aid policy. Overall, preparations in this area are at an early stage.

4.14. Chapter 14: Transport policy

In the area of **road transport**, amendments to the law on road transport, adopted in March, provided for further alignment with the *acquis* relating to the road transport market, but full alignment still needs to be achieved. Montenegro adopted the action plan for implementing the road safety strategy for 2014 and rulebooks for applying the law on road traffic safety. Further efforts are needed to improve technical and administrative capacity to ensure adequate implementation of the relevant road safety *acquis* in connection with roadside inspections, vehicles roadworthiness tests, driving licences, professional drivers' qualifications and infrastructure safety. Legislation aimed at alignment with the *acquis* on the transport of dangerous goods was adopted in July.

As regards **rail transport**, the new law on the safety, organisation and efficiency of railway transport was adopted in December, providing further alignment in the area of safety and interoperability. Preparations are being made to set up a joint national body for independent investigation of accidents in air, railway and maritime transport. The business plan for 2013 - 2017, drafted by the Railway Directorate, has yet to be endorsed by the government due to financial constraints.

On **air transport**, a memorandum of understanding on setting up a functional airspace block (FAB) was signed in November between the Montenegro's Agency for Civil Aviation, Serbia's Directorate of Civil Aviation and the Serbia and Montenegro Air Traffic Services. Further work to ensure compliance with European Common Aviation Area (ECAA) Agreement requirements needs to be carried out, especially regarding consumer protection (air carrier liability and passenger compensation for denied boarding and flight cancellation). The National Commission for Investigation of Accidents and Serious Incidents in Civil Aviation is still not fully operational due to financial constraints. Further work is needed to increase and improve incident reporting as part of safety management. The government privatisation plan for 2014 includes Montenegro Airlines.

As regards **maritime transport**, the new law on maritime safety and security, further aligning the national legislation with the *acquis*, entered into force in January. Amendments were made in June to the law on the prevention of sea pollution from vessels. The amendments aim to further align the legislation with the relevant international conventions and the *acquis* on port reception facilities for ship-generated waste and cargo residues. The new rulebook on qualification, training and authorisation of the seafarers serving on ships was adopted in November. Montenegro is now participating in the European Union Long-Range Identification and Tracking Data Centre. (EU LRIT). Montenegro agreed with EMSA (European Maritime Safety Agency) on a roadmap for the integration of Montenegro into the EU LRIT Data Centre. The European Commission has approved Montenegro's participation in CleanSeaNet (CSN). Montenegro is active in identifying and tracking sea surface polluters. Further work is still needed to align the legislation with the EU *acquis* on reporting formalities for ships. The availability of properly qualified, trained and authorised officers, in particular harbourmasters, remains a major challenge.

Regarding **intermodal transport**, Montenegro adopted in June a new law on combined freight transport. The country needs to further develop as a priority a balanced intermodal environmentally-friendly and competitive transport and mobility system.

Conclusion

Overall, some progress has been made in the area of transport policy. Further efforts are needed to implement the road safety *acquis* effectively, and to establish and operate an

independent accident investigation body for air, maritime and rail transport. Montenegro has to ensure further investment in all transport areas and further harmonisation with the EU's safety standards and interoperability. Overall, preparations in the area of transport policy are moderately advanced.

4.15. Chapter 15: Energy

Montenegro adopted in July its Energy Development Strategy for the period to 2030.

In the area of **security of supply**, Montenegro made no progress in implementing EU requirements for mandatory oil stocks.

As regards the **internal energy market**, the Energy Regulatory Agency adopted further implementing legislation necessary for the functioning of the energy market. The distribution company is still part of the Montenegrin Electric Power Company (EPCG). There has been no progress with regard to the development of a gas market in Montenegro. Montenegro has yet to accede to the Energy Charter Treaty. Montenegro continued preparations for alignment with the Third Energy Package by 1 January 2015, as required under the Energy Community Treaty.

As regards **renewable energy**, Montenegro's national target for the share of energy from renewable sources in gross final consumption of energy in 2020 is 33 %. Montenegro has not yet adopted a National Renewable Energy Action Plan to meet this target. In line with the energy law, the government adopted a decree in January 2014 on incentives for electricity production from renewable energy sources and co-generation. Measures to regulate biofuels and promote renewable energy in transport have yet to be introduced. Construction work on small hydropower plants on eight watercourses progressed. One wind power plant obtained the building permit, while a second one still requires one prior to the launch of the construction works. The government adopted the 2013-2015 action plan for **energy efficiency**, and annual operational plans for energy efficiency for public institutions. Administrative capacity for the promotion of energy efficiency remains limited. The new law on energy efficiency has not yet been adopted. Full alignment with the *acquis* on the labelling and energy performance of buildings has yet to be achieved. Projects to improve the energy efficiency of public buildings are ongoing.

As regards **nuclear energy, nuclear safety and radiation protection**, the government adopted the sixth, seventh and eighth national report and declaration on nuclear materials in November, February and May respectively. The government adopted the first biannual report on implementation of the strategy for protection from ionising radiation, radiation safety and radioactive waste management. Montenegro has not yet acceded to the Convention on Nuclear Safety. The focus of administrative capacity building was on training existing staff.

Conclusion

Some progress was made on energy. Preparations for alignment with the third Energy Package need to be stepped up. Legislation on oil stock reserves and the renewable energy action plan still need to be adopted. Preparations in the area of energy remain moderately advanced.

4.16. Chapter 16: Taxation

In the area of **indirect taxation**, the new law on excises remains to be adopted. A new methodology regarding the calculation of the amount of the weighted average selling price of

cigarettes was applied as from January. Further alignment is required, both on the *value added tax* (VAT) and on *excises*.

In the field of **direct taxation**, the following laws were amended in January: the law on personal income tax extending the tax on gross monthly salaries over 720 € to 15% for another year to comply with fiscal consolidation measures; the law on corporate taxes regarding tax exemptions on corporate and personal income for activities in less developed municipalities to further comply with state aid rules. The law on ratification of the agreement between Montenegro and Azerbaijan on the avoidance of double taxation of income tax was adopted in October. The government announced that plans for the withdrawal of the bank secrecy have been agreed so that the required legislative amendments are scheduled to enter into force in 2017.

As regards **operational capacity and computerisation**, the business strategy for the Tax Administration for the period 2014-2018 remains to be adopted. The new rulebook on the internal organisation of the Ministry of Finance established a new tax police department in the Tax Administration with the aim to strengthen the Tax Administration's capacity to fight tax evasion, money laundering and other economic crime. The tax police department still needs to be staffed. The Tax Administration continues to publish quarterly the list of tax debtors which is now expanded to the 200 largest tax debtors covering also debts arising from excise tax. The Tax Administration introduced electronic VAT registration and electronic submission of VAT returns. The capacity of the Tax Administration's IT department has been increased by three new members of staff. A comprehensive IT strategy, including EU accession requirements, should be adopted before the end of the year.

Conclusion

Limited progress has been made in the area of taxation. Legislation in line with the EU *acquis* should be gradually adopted. The business and IT strategies need to be adopted. The capacity of the Tax Administration and IT functions and preparations for accession need to be further strengthened. Further action is needed on administrative cooperation and mutual assistance where Montenegro needs to start preparing for alignment. Montenegro is moderately advanced in this area.

4.17. Chapter 17: Economic and monetary policy

As regards **monetary policy**, Montenegro does not have standard monetary policy tools at its disposal, as it uses the euro as legal tender. This leaves fiscal policy as the main effective policy instrument. The practice of monetary financing and privileged access by the public sector to financial institutions are not in line with the EU *acquis*.

In the area of **economic policy**, Montenegro submitted its third Pre-accession Economic Programme to the European Commission in January, covering the period 2014-2016. The programme is *de facto* incorporated in the national budget planning exercise, using the same macroeconomic and fiscal frameworks as the country's annual budget. In April, parliament adopted a new budget and fiscal responsibility law, which introduces numerical fiscal rules, such as upper limits for the budget deficit and public debt of 3% and 60% of GDP respectively, which represents partial alignment with Directive 85/2011 on the requirements for budgetary frameworks. The government further pursued fiscal consolidation, but the challenge of fiscal sustainability and taming growing public debt remains. While the analytical work has been further improved, continued efforts are needed to complete all statistical requirements, including alignment with the European System of Accounts standards (ESA 2010) regarding the general government deficit and debt levels and the submission of

fiscal notifications. Capacity for economic policy formulation and coordination needs to be strengthened.

Conclusion

There was some progress on economic and monetary policy. Monetary financing and the public sector's privileged access to financial institutions require additional alignment. Montenegro's present use of the euro, decided by the Montenegrin authorities in exceptional circumstances, is fully distinct from membership of the euro area. Capacity for economic policy formulation and coordination needs to be strengthened. Overall, alignment in the area of economic and monetary policy is moderately advanced.

4.18. Chapter 18: Statistics

As regards **statistical infrastructure**, Montenegro adopted in January the 2014-2018 strategy for official statistics, the medium-term statistical programme for 2014-2018 and the 2014 annual plan for statistics. The professional independence of the national statistical office, Monstat, was boosted with the appointment of the Director for a five-year term. No progress was made as regards the office's staffing and management capacity, which reached critically low levels. Some progress was achieved on coordination as regards agricultural statistics as well as economic and financial statistics following the signature of the memorandum of understanding with the Central Bank. Cooperation between official statistics producers, particularly with regard to government finance statistics, macroeconomic and business statistics, needs to be significantly enhanced.

In the area of **classifications and registers**, Monstat improved the business and agricultural registers and issued a publication on relevant statistical classification in January providing detailed information on four statistical classifications. In June, Montenegro adopted the International Standard Classification of Education (ISCED).

In the area of **sectoral statistics**, concerning national accounts, Monstat has started preparations for introducing ESA 2010 focusing on capital expenditure, R&D, and governmental investment in military equipment. As regards agricultural statistics, Monstat harmonised the livestock and crop statistics and started providing data on milk and dairy production. In agro-monetary statistics, methodological improvements were introduced as regards agricultural price indices. In business statistics, Monstat compiled a publication on business operations in Montenegro for 2012, started publishing industrial turnover indices as a key short-term indicator in September 2013 and improved the tourism statistics. In December, Monstat started providing maritime statistics. In the area of social statistics, the SILC (Statistics on Income and Living Conditions) survey was harmonised with Eurostat methodology. In December, Monstat published the last release from the 2011 population and housing census. Overall, transmission via eDamis is done for 20 domains and 29 subdomains but efforts to send more statistical data need to be intensified.

Conclusion

Progress was achieved in the area of statistics, particularly in harmonising the statistical methodology with the EU standards. Concerning national accounts, significant efforts still need to be invested to ensure the alignment with ESA 2010. The key concerns remain Monstat's inadequate human and financial resources and the need for coordination with the other producers of official statistics. Overall, preparations in this area are moderately advanced.

4.19. Chapter 19: Social policy and employment

Amendments to the **labour law** to regulate the rights of employees in the event of bankruptcy were adopted in July. Implementation and enforcement of the legislation in this area remains a challenge.

The law on occupational **health and safety at work** aiming at further aligning with the *acquis* was adopted in July. The capacity of the Directorate for Inspection Affairs, including the labour inspectorate, remains weak. The Department for Labour Inspection is not sufficiently mobile. Risk assessment at the workplace is rare.

In the field of **social dialogue**, the general collective agreement entered into force in March. Amendments to the law on the social council were adopted by parliament in December, allowing the council's secretariat to be set up. It has been given a budget to build up its technical and administrative capacity. Bipartite and autonomous social dialogue remains weak, especially in the private sector and at corporate level. Social partners still lack capacity.

In the area of **employment policy**, a 2014 action plan was adopted in December to implement the 2012–2015 national strategy for employment and human resources development. Montenegro is preparing its first employment and social reform programme, with a view to identifying and addressing key challenges in employment policy and social inclusion. A kick-off meeting took place in May 2014. The labour market situation remains critical, with some signs of slight recovery as more vacancies are being advertised through the employment agency. According to the EU Labour Force Survey, the unemployment rate remained high at above 19%. Standard active labour market programmes have been implemented with relatively small funds, focusing on the employment of young people and of seasonal workers. An action plan on youth employment for 2014 was adopted in November. The promotion of adult education, especially in the private sector, is slow. Development and employment gaps between the north and other parts of the country remain to be addressed. There are still many implicit advantages to take up undeclared work over regular employment. Intensive efforts have been made in order to decrease this phenomenon, especially on the coast and in Podgorica. In general, developing reliable data and statistics remains an outstanding issue in several areas, in particular for labour market analysis.

As regards preparations for the **European Social Fund**, the administrative capacity of the operating structure for IPA component IV has been stepped up through seminars, workshops and on-the-job training. Preparations for implementing the operational programme for human resources development, including preparations for conferral of management powers, are on track. Staff training in the Audit Authority is insufficient, including training on working methods. There is a lack of coordination between ministries and the relevant public services. (*See also Chapter 22 — Regional policy and coordination of structural instruments*)

In the area of **social inclusion**, implementing legislation for the law on social and child protection has been adopted; a government decree was adopted in February with a view to setting up an institute for social and child protection. A new action plan to implement the strategy for improving the position of Roma and Egyptians in Montenegro was adopted in April. As regards de-institutionalisation, the number of day-care centres for children with disabilities has increased to eight. Concerning people with disabilities, the government adopted an action plan for the strategy for integration of people with disabilities 2014–2015 in March. Overall access to buildings for people with disabilities, including those in the areas of education and medical facilities, remains limited. None of the thirteen priority buildings in public use have so far been adapted. The law prohibiting discrimination against people with

disabilities still has shortcomings. Financial support paid to employers for employing people with disabilities is insufficiently protected against misuse.

In the field of **social protection**, the process for introducing the Social Card / Social Welfare Information System is continuing smoothly. Implementing legislation related to cash benefits and social welfare procedures was adopted in December with a view to contributing to the reform of social care. In December, the law on contributions for compulsory social insurance and the law on pensions and disability insurance were amended by parliament. The introduction of standards for service delivery, and professional empowerment of service providers to meet them, is not yet complete. Administrative and fiscal decentralisation of social services needs to be improved. Funded pension schemes based on mandatory savings have not yet been introduced. Further measures are needed to make the pension system more adequate and sustainable. In the health care sector, equal access to health care services also needs to be ensured for members of socially disadvantaged groups.

Amendments to the **anti-discrimination** law were adopted by parliament in March to further align it with the *acquis*. There are still some shortcomings in its scope (concerning racial discrimination) and provision for penalties. Training on and promotion of anti-discrimination measures have continued, particularly at local level. The administrative capacity of the council for protection against discrimination has increased, but its work still lacks transparency and openness. Judges' and prosecutors' awareness of the anti-discrimination *acquis* needs to be further improved. Attention should be paid to making sufficiently comprehensive statistical data available in order to allow monitoring of discrimination on the basis of different grounds. (*See also Chapter 23 — Judiciary and fundamental rights*)

In the field of **equal opportunities**, training for civil servants and state employees continued. The legal framework needs to be aligned with the EU *acquis*. There was limited strengthening of financial and human resources to ensure that gender equality mechanisms work well, particularly in rural areas, but also that the gender equality action plan is implemented. Women remain underrepresented in the labour market. Gender-segregated statistical indicators need to be provided. (*See also Chapter 23 — Judiciary and fundamental rights*)

Conclusion

There has been some progress in the area of social policy and employment. Resolute action is needed to further advance legal alignment and to address the critical labour market situation. Work should be stepped up as regards poverty reduction and improving the inclusion of the Roma and Egyptian population, and people with disabilities and other vulnerable groups. Proper and transparent social dialogue needs to be ensured. Administrative capacity needs to be strengthened across all sectors. Overall, preparations in the area of social policy and employment are still at an early stage.

4.20. Chapter 20: Enterprise and industrial policy

In the field of **enterprise and industrial policy principles**, there is a need for enhanced sector coordination and ownership of the process, and strengthened administrative capacity. Montenegro is implementing the Small Business Act and has made progress, showing a good performance in the area of entrepreneurship and insolvency procedures. Registering new companies has become easier with the improved online registration system and speedier land registry procedures. Administrative procedures for issuing permits and licences remain costly and time-consuming.

In the area of **enterprise and industrial policy instruments**, the Ministry of Economy began implementing the 2012-2016 support programme for the development of clusters in the north of the country and in less developed municipalities. The agreement on Montenegro's participation in the EU programme on Competitiveness of Enterprises and Small and Medium-sized Enterprises was signed in June. Administrative capacity and support measures need to be strengthened to make full use of such programmes.

In the area of **sector policies**, in January the government adopted the 2014-2018 strategy for the development of the manufacturing industry. The government also adopted the 2014 action plans for the strategy on SMEs and the promotion of micro-level competitiveness.

Conclusion

Limited progress has been made in the area of enterprise and industrial policy. The lack of administrative capacity and fragmented strategies impede the effectiveness of the instruments that have been put in place. Overall, preparations in this area are moderately advanced.

4.21. Chapter 21: Trans-European networks

In the area of trans-European **transport networks**, Montenegro has continued to participate in work under the memorandum of understanding on the development of the South-East Europe Regional Transport Network. Montenegro should focus on the development and prioritisation of projects on the routes defined in the indicative extension of the TEN-T to the Western Balkans region. As regards the Bar-Boljare motorway project (SEETO route 4), further steps were taken to start construction on the priority section from Smokovac to Mateševac. Montenegro and the Chinese companies involved signed a contract for the design, construction, and supply and installation of equipment in February. Montenegro and China signed an amended intergovernmental agreement, ratified by the Montenegrin Parliament in June 2014, which provides the legal basis for the contracts for this project. The financial agreement has yet to be concluded, and construction works have not yet commenced.

As regards the privatisation of the port of Bar, in December parliament approved the act awarding concessions for the reconstruction and commercial exploitation of the harbour terminals for a period of 30 years. The concession and sale agreements, with a Turkish company acquiring 62% of the state share in the container and general cargo terminals, were concluded in January.

In the area of trans-European **energy networks**, construction of the underwater interconnection cable with Italy continues. The implementation of a 400 kV overhead line linking the coast (Lastva) with the north of the country (Pljevlja) has advanced further. As regards gas, in December Montenegro signed a memorandum of understanding with Azerbaijan, Albania, Bosnia and Herzegovina and Croatia on cooperation in the construction of the Ionian-Adriatic Pipeline (as a branch of the Trans-Adriatic Pipeline).

Conclusion

Some progress has been made in the area of trans-European networks. Significant work still remains to be done on improving road and rail links. The electric transmission system requires further upgrading. Overall, preparations in this area remain moderately advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

As regards the **legislative framework**, the decision assigning responsibilities for decentralised management of the pre-accession funds was published in October. Amendments

to the decree on decentralised management of IPA components I-IV were adopted in December. The relevant national policies (competition, state aid, public procurement, environmental protection, transport, anti-discrimination, gender equality) are not yet fully in line with EU standards and requirements.

As regards the **institutional framework**, the final report of the conferral of management audit for IPA components III and IV was formally accepted by the national authorities in January 2014. Updated versions of the manuals of procedure were approved in December 2013. The Commission Decisions for conferral of management for Component III and IV were adopted.

The **administrative capacity** of the operating structures for IPA components III and IV was reinforced with the appointment of two heads of department for the management of EU funds. Staffing and longer-term employment prospects in all the operating structures improved.

In the area of **programming**, for component III, preparations for a major project application for environment and for one operation identification sheet for transport started with the assistance of JASPERS. Project preparation and strategic planning capabilities still need to improve in order to secure full absorption capacity for the programme. Regarding Component IV, six operation identification sheets were drafted. Further improvements in project preparation and strategic planning capabilities are required to achieve better quality and compliance with the operational programme. Procurement documents, draft communication action plans and guidelines for applicants are under preparation.

In the area of **monitoring and evaluation**, the project management and accounting systems were tested with a view to compliance with international IT security standards. The development and installation of a comprehensive computerised management information system is still at an early stage.

As regards **financial management, control and audit**, the head and deputy head of the Audit Authority were appointed in December. The authority has moved to new premises. The capacity of the authority and of the internal audit units in the line ministries needs to be enhanced. A new audit methodology was prepared. A decision setting up the coordination body for monitoring and preventing fraud and irregularities (the anti-fraud coordination service (AFCOS) network) was adopted in December.

Preparations for a detailed action plan and timetable for meeting the requirements for future use of EU structural funds have started.

Conclusion

Good progress has been made as regards the establishment of necessary structures for management of pre-accession funds, where the conditions for conferral of management powers have been created. Preparations as regards the management of the future European Structural and Investment Funds are at an early stage.

4.23. Chapter 23: Judiciary and fundamental rights

As part of the ‘new approach’ on the rule of law, and in line with the negotiating framework, this chapter was opened in December 2013 after Montenegro produced a detailed action plan. Interim benchmarks have been set for this chapter based on the action plan. The implementation of the action plan is assessed below.

Judicial system

In the area of judicial reform, the action plan is generally being implemented on time. Key reforms are still in progress. They need to fully reflect European standards and best practices, and to be understood and supported by all stakeholders to be effective.

The new judicial reform strategy for 2014-2018 was adopted in April. The strategy reflects and complements the main reform priorities identified and addressed by the action plan.

Independence of the judiciary

Following alignment of the relevant legislation with the constitutional reform of July 2013, key judicial and prosecutorial officials have been elected. In December, parliament elected judges to the constitutional court. The election and appointment procedures for the reformed Prosecutorial Council and the Judicial Council were completed in February and June respectively. In July the President of the Supreme Court was elected in line with the new procedures; the previous office-holder, who occupies this post since 2007, has been re-appointed.

Parliament failed in its first attempt to elect the Supreme State Prosecutor. The required two thirds (first round of voting in December) and subsequently three-fifths majority (second round of voting in March) was not reached. In April, a third round of voting, requiring a three-fifths majority, was also unsuccessful. The legal basis for this third round of voting were new provisions introduced in the parliament's Rules of Procedure in October 2013. In July the constitutional court declared these provisions unconstitutional. A new procedure for election of the Supreme State Prosecutor was launched in May; in the first round of voting held in July the candidate proposed by the Prosecutorial Council did not receive the necessary majority. In October, parliament finally appointed the new Supreme State Prosecutor.

On the basis of the constitutional amendments and the amended law on the state prosecutor's office, the Prosecutorial Council completed the procedure for selecting the heads of state prosecutor's offices. All former office-holders who applied for the position were confirmed. The appointment of state prosecutors (former deputy state prosecutors) needs to be carried out in line with European standards. A decision of the Constitutional Court on the constitutionality of the (re)selection of prosecutors is pending.

The systems of recruitment and career development of judges and prosecutors still leave room for undue influence affecting the independence of the judiciary. Work on the legislative basis for introducing a single, countrywide recruitment system for judges and prosecutors, a system of voluntary horizontal mobility and a new system of promotion of judges and prosecutors and of periodic professional assessment of their performance is at an advanced stage.

Independent and impartial functioning of the Judicial and Prosecutorial Councils needs to be ensured, and their staffing and budget increased. The selection criteria for appointments and promotions continue to be vague and magistrates are not assessed on the basis of clearly defined indicators. The grounds for decisions are not fully documented. Uniform, objective, and transparent assessment of candidates has yet to be guaranteed. The Judicial Council's transparency, in terms of publication of information about its decisions, has improved. Although the website of the Supreme State Prosecutor's Office has started publishing some information on the activities of the Prosecutorial Council, its work needs to be more transparent. Most courts have been publishing their decisions online in a timely manner.

The number of decisions granting presidential pardons dropped significantly in 2013 compared to 2012. Out of a total of 337 requests, the President granted a pardon in 49 cases (2012: 146 cases). Out of the decisions granting pardon in 2013, one dealt with a serious crime (ill-treatment); pardon was not granted in relation to the criminal offences of corruption, organised crime and torture.

Competence for conducting misdemeanour proceedings should be transferred to courts without further delay. It is a matter of serious concern that, under the current system, prison sentences can be imposed by misdemeanour bodies appointed by the executive.

Impartiality and accountability of the judiciary

As regards safeguards to ensure the impartiality of judges, random allocation of cases continues to be ensured in courts, but shortcomings still persist in smaller courts. In 2013 judges made 666 requests to recuse themselves in cases of potential conflicts of interest, of which 612 were adopted; out of 530 requests made by parties 48 were adopted.

New codes of ethics aligned with the relevant European and international standards were adopted in March for judges and in May for prosecutors.

The procedure for establishing disciplinary accountability of a judge or prosecutor is initiated and conducted by the disciplinary commissions under the Judicial Council and the Prosecutorial Council respectively. Five disciplinary proceedings were initiated against judges and two against prosecutors. All the cases against judges were dismissed. One prosecutor received a reduction in salary, while the second case was dismissed. A procedure for dismissal has been initiated against one judge. The Administrative Court annulled a decision of the Prosecutorial Council on dismissal of a state prosecutor. Acting upon four initiatives submitted, the commission for monitoring compliance with the code of ethics for judges found that in one case a judge breached the code of ethics, while in the other cases no violations were established. No violations of the code of ethics for prosecutors have been reported. Efforts to raise public awareness of complaint mechanisms should continue.

The disciplinary system remains to be improved to fully comply with the principles of legality and proportionality and to reduce discretion in the application of disciplinary rules. The disciplinary commission's dual role in investigating and deciding on disciplinary proceedings needs to be reviewed. Work on the new law on the state prosecutor's office, which will also address the reform of the disciplinary system, is at an advanced stage. Immunity rules and their practical application need to be clarified to ensure full accountability of judges and prosecutors under criminal law.

Professionalism, competence and efficiency of the judiciary

In 2013 overall courts managed to process slightly less cases than they received. The clearance rate for all courts was 98.6% (2012: 102.5%). At the end of 2013, 37 125 cases were pending (2012: 35 546). The slight increase in pending cases in 2013 (4%) is due to a significant increase in new cases (22%). Overall, in 2013, courts managed to solve considerably more cases (17% increase) than in the previous year. On 31 December 2013 there were 4 089 cases older than three years pending before all courts. The administrative court reduced the number of pending cases by 17%, while the number of cases pending in the commercial courts remained more or less constant. Efforts to monitor and further decrease backlogs should continue.

The efficiency of the constitutional court needs to be significantly improved. Although the amendments to the law on the constitutional court of September 2013 envisage that cases should be decided within 18 months, given that on 1 January 2014 1 352 cases were pending, it is unlikely that this can be achieved in the short term. Out of these, 1 167 cases were constitutional appeals due to the violation of human rights and liberties.

In the area of enforcement, the high number of pending cases has further increased (by 5%). 21 bailiffs (out of a planned 32) have been recruited; 13 began work in April, while additional eight started their work in September. The majority of new enforcement proceedings will now be processed by bailiffs. This is expected to significantly relieve the burden on the courts. The impact of the new bailiff system needs to be monitored. As regards monitoring of the recovery rate, costs and duration of enforcement proceedings, every bailiff uses his/her software. A reliable system to monitor these data on the national level still has to be established.

The enforcement of civil and administrative decisions remains weak.

Overall, the length of proceedings has decreased. In 2013 the disposition time for first-instance proceedings in civil cases was 237 days and in commercial cases 303 days. The possibility of referring cases from higher to lower instances without going into the merits of the case remains one of the main reasons for lengthy trials; this option should be limited to extraordinary circumstances in accordance with European best practice.

Frequent changes to the relevant legislation hinder the effectiveness of the fight against corruption and organised crime. A high percentage of cases are referred back to the lower court for retrial, mostly on the basis of formal infringements of the criminal procedure code.

Work on the legislative basis for setting up the new special prosecutor's office is ongoing. The new office needs to have a clear and well-defined mandate to effectively investigate and prosecute cases of high-level corruption, organised crime as well as war crimes and terrorism. It needs to be well resourced, enjoy the necessary independence and have swift access to all relevant information held by other institutions. Appropriate facilities remain to be provided.

Alternative dispute resolution still has a low impact. While the use of mediation has been promoted via a publicity campaign, it is not widely used yet and needs to be further promoted — both among judges and parties to the dispute.

The 2014 judicial budget (including the courts and the prosecution) is €26.6 million (0.86% of GDP) (2013: 26.1 million), of which €20.6 million (2013: 20.3 million) is allocated to the judiciary and €6 million (2013: 5.8 million) to the prosecution. The main beneficiaries of the slightly increased budget were the prosecution and administrative services in courts. The salaries of magistrates and administrative staff continue to account for the bulk of the judicial budget, thus limiting the scope for remedying shortcomings in infrastructure and equipment.

Comprehensive statistical data were collected through the judicial information system, (PRIS). Concerns remain as to the reliability and consistency of these data. Implementation of Council of Europe CEPEJ (European Commission for the Efficiency of Justices) standards is underway. Arrangements for calculating all relevant indicators and for measuring the length of trials are in the process of being entered in PRIS. Statistical data are not yet used for analysing shortcomings in the performance of the judicial system and finding adequate solutions. Currently there is no budget allocated to maintaining and upgrading PRIS, for which Montenegro relies entirely on donations. A regulation about procedures, methodology

and timeframes for the collection of statistical data in compliance with CEPEJ guidelines remains to be adopted.

A medium- and long-term human resources strategy needs to be developed. Standards for the workload of judges and standard timeframes for proceedings for specific types of cases and specific courts have yet to be set as a basis for determining the resources needed to eliminate the backlog and to resolve the influx of new cases.

The Judicial Training Centre continued to provide initial and continuous training to judges and prosecutors. Its independence, administrative and financial capacity need to be strengthened. It is a matter of concern that for 2013 it was allocated no own budget. For initial training, funds are made available through re-allocation from other budget lines, while for continuous training Montenegro relies on donors.

With regard to **access to justice**, 564 requests for free legal aid were registered in 2013 (2012: 428), of which 464 were approved (2012: 304). The use of this mechanism needs to be further promoted in all courts and sufficient resources need to be made available. Free legal aid services are inaccessible to some ethnic groups, notably asylum-seekers, due to linguistic barriers. Efforts need to be made to ensure access to free legal aid for marginalised groups and victims of domestic violence. Further efforts are necessary to introduce an effective system of free legal aid.

Handling of domestic war crimes cases

As regards domestic handling of war crimes, no serious efforts to tackle impunity have been demonstrated. Montenegrin courts and judicial bodies seem to take a rather formalistic approach to implementing the action plan measures on this issue.

In December, the Bijelo Polje High Court acquitted all eight defendants accused of war crimes in the Kaludjerski Laz (1999) case. In August, the state prosecution appealed the judgment. In the case of war crimes committed against prisoners of war and civilians in the Morinj camp (1991), in April the Appellate Court upheld the judgment of the Podgorica High Court of July 2013. The four defendants were given sentences ranging between two and four years of imprisonment, which is below the statutory minimum of five years' imprisonment. Decisions by the Montenegrin judiciary on war crime cases need to be in line with international humanitarian law, to reflect the case-law of the International Criminal Tribunal for the former Yugoslavia, and to fully apply domestic criminal law. Charges of command responsibility, co-perpetration and aiding and abetting have so far not been brought.

In April, the state prosecutor's offices of Montenegro and Bosnia and Herzegovina signed a Protocol on Cooperation in Prosecution of Perpetrators of War Crimes, Crimes against Humanity and Genocide. The agreement is designed to facilitate the exchange of evidence and information on war crimes cases.

Montenegro needs to step up its efforts to fight impunity for war crimes, and effectively investigate, prosecute, try and punish war crimes in line with international standards. All outstanding allegations of war crimes need to be duly followed up. Montenegro needs to ensure that victims of war crimes have access to justice and reparations.

Anti-corruption policy

In the area of anti-corruption, several important measures in the action plan are behind schedule, in particular the adoption of legislation. While many technical tasks have been carried out, overall the impact of anti-corruption measures has led to limited tangible results.

Implementation of the strategy for the fight against corruption and organised crime and the accompanying action plan for 2013-2014 continued. Given the many institutions and bodies involved in this area, Montenegro needs to strengthen its overall capacity to properly coordinate, implement and monitor all the actions planned. During the reporting period the national commission for the fight against corruption and organised crime held only two meetings. The parliamentary committee on anti-corruption held a total of 11 sessions, three of which were control hearings. So far the committee has not lived up to its potential and has not been actively involved in preparing key anti-corruption legislation.

Prevention measures in the fight against corruption

Limited progress has been made in strengthening the legal and institutional anti-corruption framework. The adoption of a number of relevant laws has been significantly delayed: these include the law on lobbying, the law on general administrative procedure and amendments to the law on public procurement (adoption had been scheduled for December 2013). Also the code of ethics for MPs (adoption had been scheduled for December 2013) as well as the law on prevention of corruption, setting out the competences of the future anti-corruption agency, and amendments to the law on prevention of conflicts of interest (adoption had been scheduled for June 2014) are yet to be adopted. The anti-corruption agency needs to have a clear and well-defined mandate and effective powers to carry out its tasks. It needs to enjoy the necessary independence, have sufficient resources as well as access to all relevant information held by other institutions.

Amendments to the law on political party financing, originally scheduled for adoption in September 2013, were adopted in February. The changes to the law aimed at meeting outstanding OSCE/ODIHR and GRECO recommendations. They introduced additional rules to prevent abuse of public resources for political party and election campaign purposes by prohibiting and restricting certain payments during the pre-election period, *inter alia* imposing stricter limits on temporary employment. The amendments also increased the oversight and monitoring responsibilities of the State Election Commission, and introduced additional and stricter penalties for breaches of the law. The recommendations on auditing of political parties have not yet been fully addressed.

In June, the constitutional court annulled a significant part of the amendments to the law on political party financing. Certain annulled provisions were a response to outstanding OSCE/ODIHR and GRECO recommendations. Some annulled provisions had, in the process of drafting the law, been considered as problematic by experts. Efforts are needed to put in place a legislative framework that is fully in line with European standards and best practice and to develop a track record of effective implementation.

Based on the amendments to the law on political party financing adopted in February, the State Audit Institution (SAI) will audit the political parties' annual financial statements, while the State Election Commission will be the main institution in charge of monitoring political party and electoral campaign funding. The administrative capacity of the SAI has been strengthened by providing additional staff, new equipment and training. Also in view of its greater responsibilities, the administrative capacity of the State Election Commission needs to be significantly increased as a matter of urgency. For several years now it has not had the resources to perform its tasks effectively. The development of a track record of effective control of party financing, including deterrent penalties for proven wrongdoing, has not yet started.

On the amendments to the law on political party financing, *see also Political criteria — Elections.*

As regards checks on asset declarations, 3 793 (97%) out of the 3 907 public officials submitted income and assets Declaration for 2013/2014. In 2014, the commission for the prevention of conflicts of interest checked significantly more asset declarations on substance than in 2013 (January — August 2014: 1 957; 2013: 1 489), comparing the declared data with data from the tax administration, the real estate administration, the administration for public procurement, the Securities and Exchange Commission, the Ministry of Interior and the Ministry of Transport. The number of officials found to have reported inaccurate or incomplete data has substantially increased in 2014 (January — August 2014: 519; 2013: 206). The decision on which asset declarations to fact-check is not based on a risk-assessment methodology. The practice of discontinuing proceedings if officials provide additional information and correct their data should be abolished. Misdemeanour proceedings mostly resulted in admonitions or small fines. The Commission is not yet connected to the databases of all relevant institutions. It also still lacks the power to access information held by banks and other financial institutions and to check for illicit enrichment. The current system of checks on asset declarations is not effective and sanctions are not deterrent. In line with Article 20 of the United Nations' Convention Against Corruption, Montenegro should consider criminalising inexplicable wealth.

The commission for the prevention of conflict of interest publishes data from asset declarations kept in the register of income and assets. In May, the Supreme Court suspended a decision whereby the administrative court had ordered the commission (in February) to remove some data taken from public officials' asset declarations from its website.

Following the adoption of the relevant implementing legislation on the declaration of assets by police officials, since the end of November about 500 high-ranking police officers submitted declarations to the Ministry of Interior. So far 20 asset declarations have been cross-checked on substance by the police internal control unit. In four cases irregularities have been found. So far preliminary investigations have been launched in one case. In order to ensure equal treatment of all officials with an obligation to declare their assets, it is advisable that a single body be in charge of the checks.

As regards control of conflicts of interest, checks have been limited to the area of incompatibility of functions. So far, the commission for the prevention of conflicts of interest has not dealt with cases of public officials taking official decisions that benefited themselves or persons close to them.

At present, the law on the prevention of conflicts of interest does not apply if other laws (e.g. the law on public procurement) lay down their own rules. This should be reconsidered with a view to ensuring a consistent and effective legal framework.

The commission's administrative capacity (budget, staff and IT infrastructure) needs to be increased and the commission should carry out its tasks in a more proactive manner. A system of electronic submission of asset declarations should be introduced. The lack of electronic case-management threatens the transparency and impartiality of the work of the commission, in particular since case-management (the distribution of cases and instructions on action to be taken) is at the discretion of the president of the commission. The penalties laid down by law are low and are not deterrent; in practice, misdemeanour bodies regularly go even below the legally prescribed penalties.

The new law on general administrative procedure, originally intended for adoption in December 2013, remains to be adopted. Integrity plans have been adopted in four pilot institutions (the police force, the customs administration, the Basic Court in Podgorica and the Supreme State Prosecutor's Office) and in a number of other institutions (32 out of a total of

102 state authorities) but are not being systematically implemented in practice. (*see also Political criteria — Public administration*).

Progress was made on achieving transparency in the public procurement process. Amendments to the law on public procurement aiming at strengthening provisions on prevention of corruption, including control of conflict of interest remain to be adopted.

The number of employees dealing with public procurement in the Administration for Inspection increased from one to two, but its capacity needs to be further enhanced. Montenegro still needs to introduce full e-procurement as an instrument for more transparency and to strengthen monitoring and control measures. Work on the development of a risk-assessment methodology has started. Checks on contract implementation remain a cause for concern, particularly in the light of the weak internal audit function. Neither the state commission for control of public procurement nor the SAI have ever signalled any suspicions of corruption to state prosecutors. The capacity of the judicial system to deal with public procurement cases needs to be increased. (*See also Chapter 5 — Public procurement*)

The Directorate for Anti-Corruption Initiatives (Daci) continued to implement awareness-raising campaigns and to provide anti-corruption training courses and workshops on integrity plans for public officials. Whistle-blower protection needs to be made more effective in practice, in order to facilitate reporting of corruption acts.

The right balance must be found between the right to free access to information and the rules on personal data protection, taking into account the need to ensure the transparency and accountability of the work of public institutions and officials. In 2013 almost half of the complaints received by the agency for personal data protection and free access to information were about administrative silence. No penalties have ever been applied as a result of misdemeanour proceedings for non-compliance with the law on free access to information. As regards the application of provisions on grounds for restricting access to information, the agency established in all cases that public interest is prevailing. The agency's administrative capacity to deal with access to information has been strengthened by two additional staff. Staff training on applying the law in line with European standards and best practice has continued. The electronic database of published decisions could be improved and made more user-friendly.

Repressive measures in the fight against corruption

The institutional and operational capacity of prosecutors, judges and police to fight corruption remains insufficient. The prosecution service, including the special prosecutor's office, lacks administrative staff. The special prosecutor's office has been reinforced with two economists. Additional specialised staff, including two IT experts, remain to be recruited. The office's special investigative team still lacks direct access to relevant databases, as well as human and financial resources, in particular financial expertise. Further specialised training is needed at all levels. The capacity to carry out systematic financial investigations in corruption cases needs to be enhanced. The professional capacity of the Public Property Administration, responsible for the management and sale of the proceeds of crime, needs to be reinforced. An electronic register of confiscated property was set up in September 2013.

The formation of a multidisciplinary team in the special prosecutor's office, including financial and economic experts, has been postponed until the new special prosecutor's office is set up. Interagency cooperation needs to be further developed. Cooperation between prosecutors and the police in pre-trial investigation is not yet efficient. The balance between effective direction by the prosecution and the appropriate level of police autonomy and

initiative remains to be found. In April the state prosecutor's office and the police administration in the Ministry of Interior signed an agreement on cooperation in pre-trial and criminal procedures with a view to further clarifying their respective roles. The main elements of this agreement should also be included in the criminal procedure code. Work on amendments to the criminal procedure code is in progress.

Limited progress was made in developing an initial track record of investigation, prosecution and final conviction in corruption cases, including high-level corruption cases. Several investigations were launched, including investigations into two mayors and two former mayors (in three of these cases, preliminary investigations); so far they have resulted in indictments in two cases. No final convicting judgments have been issued in high-level cases. In the retrial of the 'Zavala' case, involving a former mayor of Budva and a national MP charged with abuse of office and bribery, in July the court issued the same sentences as in the previous proceeding: 10 defendants were sentenced to imprisonment ranging between 2 to 5 years; one person was acquitted. The judgment is not final yet. As regards allegations of misuse of public funds for political party purposes (the 'audio recording' affair), first-instance proceedings were held before the Pljevlja Basic Court against 12 persons charged with abuse of power. In September the court issued conditional prison sentences of 6 months against the director of the local Social Welfare Centre in Pljevlja as well as one employee in the centre. Ten persons were acquitted.

Neither financial investigations nor the instruments of seizure and confiscation of assets are used systematically. In no corruption case has the confiscation of assets been ordered.

Law enforcement authorities do not take a proactive stance towards looking into allegations of corruption, especially those involving high-level officials. A high rate of investigations into reported corruption-related offences never results in charges. The vast majority of tip-offs of corruption received by the state prosecution service come from citizens, NGOs and private companies. Very few cases are submitted by the police and not a single complaint has come from public supervisory authorities. There is a strong and urgent need to improve and strengthen control and inspection mechanisms within the public administration and to improve their cooperation with law enforcement authorities.

Shortcomings with regard to the independence and accountability of the judicial system remain a matter of serious concern and hamper the fight against corruption.

A system for statistical monitoring of criminal offences that involve an element of corruption in all criminal proceedings via the Judicial Information System PRIS has been established.

Construction and land planning, education, healthcare and public procurement continue to be particularly vulnerable to corruption.

Fundamental rights

Alignment with the EU *acquis* and international standards

Overall, Montenegro continued to respect **international human rights instruments**. It ratified the Convention on Reduction of Statelessness in October 2013. In February, It presented its second and third reports on the implementation of the Convention on the Elimination of All Forms of Racial Discrimination to the UN Committee on the Elimination of Racial Discrimination, and its report on the implementation of the UN Convention on the Rights of Persons with Disabilities. In April, the Council of Europe's committee of ministers decided to discontinue the regular stocktaking dialogue with Montenegro, welcoming

Montenegro's progress in fulfilling accession commitments and statutory obligations and with the understanding that the Montenegrin authorities will complete the reforms under way, according to the timetables adopted by the country.

Montenegro continued to ensure a good level of cooperation with the **European Court of Human Rights**; none of the 14 cases under supervision is subject to the enhanced monitoring mechanism. The court delivered judgments on two applications related to the right to a fair trial and to prohibition of torture. A total of 255 new applications have been allocated to a decision body since September 2013, bringing the number of pending applications to 670. Training for judges on human rights law and on the way the court works should continue.

Effective application of human rights

As regards **promotion and enforcement of human rights**, amendments to the law on the Ombudsman were adopted, enhancing Montenegro's alignment with European and international standards. The fact that the amendments have weakened the role of the Ombudsman in dealing with anti-discrimination cases remains a matter of concern. Despite the overall rather large staff, the number of posts in the departments dealing with substantive human rights and anti-discrimination issues is rather limited, and various posts remain vacant, including two out of four deputy posts. This raises concerns about the institution's capacity to fulfil its broad mandate and efficiently handle complaints. Little follow-up is given to concrete cases of discrimination. The parliamentary committee for human rights and freedoms continued to promote human rights by holding sessions open to the public, including hearings.

Overall, the capacity of the institutions in charge of protection and enforcement of human rights, including the judiciary and police, remains weak and needs strengthening. Concerning the judiciary and police, well-trained, specialised members of staff are needed. Vulnerable groups are most affected by the shortcomings in this area.

In the field of **prevention of torture and ill-treatment**, the amendments to the law on the Ombudsman better define the role of the Ombudsman as the national preventive mechanism. A framework plan for visits in this capacity to relevant authorities and facilities has been adopted. Urgent recommendations following a visit by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment in 2013 have been implemented and a plan has been drawn-up to follow-up to all the remaining recommendations. In November, the Bijelo Polje High Court sentenced four police officers from Berane to a total of nine years of imprisonment for attempting to murder three people in 2007. These police officers had been previously suspended by the Minister of Interior. In June, the Podgorica Basic Court sentenced three police officers to three months of imprisonment each, for ill-treatment of a detainee. Cases of ill-treatment in police facilities are a major cause for concern and require a firm response at the highest level. In general, processing of such cases continues to be slow and the number of officers punished is low. The treatment of convicted persons and detainees still needs to be brought in line with international standards, as do the screening and reporting capacity of the prisons' medical services and their cooperation with judicial authorities.

As regards the **prison system**, the law on execution of suspended sentence and community work sentence has been adopted, as part of the broader reform of the penitentiary system in Montenegro. In November, a community service agreement was signed between the Ministry of Justice and five municipalities, to enable convicted persons to serve alternative sentences by providing community work. Two community work sentences have been passed so far and are in the process of being implemented. Cooperation with civil society is satisfactory and the prison administration has concluded memoranda of understanding with local NGOs to

facilitate the monitoring of the condition of detainees. The weak human resources capacity of the Probation Office risks undermining the credibility of the alternative sanctions system and needs to be addressed as a matter of priority. The lack of adequate infrastructure and programmes for the rehabilitation and re-socialisation of detainees, including drug addicts, needs also to be addressed, notably by providing adequate financial resources. The prison health service is understaffed and its overall material conditions poor.

Freedom of expression has been undermined by new cases of violence against journalists, and attacks on media property. A commission for monitoring the activities of the competent authorities in the investigation of old and recent cases of threats and violence against journalists was set up in December. It is composed of representatives of the Ministry of Interior, the prosecutor's office, the police, the National Security Agency, NGOs and media representatives. Its recommendations need to be fully followed up by the authorities. Among preventive measures taken, the police have provided protection for two journalists and for a newspaper's property. Some cases of violence against journalists and attacks on media property have been successfully investigated and processed, while in others investigations are pending and both the material perpetrators and those allegedly behind the attacks remain to be identified. Overall, violence against journalists remains a source of serious concern. Older cases in particular need to be addressed as a matter of urgency to avoid them being time-barred. Public statements in support of media freedom help create a climate conducive to respect for and the protection of journalists.

The lack of professional and ethical standards among media practitioners also remains a cause for concern, contributing to further tensions in the media environment. Some mainstream media have introduced their own media ombudsman. The media community remains divided over the creation of one authority responsible for monitoring and upholding professional and ethical standards in journalism.

Montenegro continues to uphold **freedom of assembly and association**.

Freedom of thought, conscience and religion continues to be guaranteed and enforced; tensions persist between the Serbian and the Montenegrin Orthodox Churches, especially on property issues. A new law on the legal status of religious communities has not yet been adopted.

Progress regarding **women's rights and gender equality** remains limited. In January, Montenegro presented a report on the steps taken to implement the Convention on the Elimination of All Forms of Discrimination against Women. Legislation implementing the law on domestic violence was adopted, providing for counselling and protection. Local action plans on gender equality have been adopted in 5 out of 23 municipalities, and two offices set up. Institutional capacity remains weak, with the central gender equality department facing high turnover. An informal network of coordinators for gender equality, composed of representatives of ten municipalities, was established in October. Cooperation with civil society needs to improve. The role of parliament and the involvement of MPs in gender-related issues remain limited. At present, only 13% of MPs are women. The newly adopted amendments to the law on the election of MPs and municipal councillors require that one out of every four places on the electoral list goes to a candidate of the less-represented gender. It also provides that an MP or councillor of the less-represented gender can be replaced only by a representative of that gender. However, the new amendments have only marginally improved women's political representation and further efforts are needed in this regard. In November, the Gender Equality Committee questioned the Minister of Labour and Social Welfare and the Chief of Police about the implementation of the 2011–2015 strategy for protection against domestic violence. The hearing revealed that the statistics on domestic

violence are unreliable and that inter-institutional cooperation, especially between social services and the law enforcement authorities, needs to be significantly improved. Further efforts are needed to strengthen the capacity of the police and social services dealing with individual cases of violence against women, and to consistently implement the relevant protocol of procedures. The first rehabilitation and re-socialisation centre for drug-addicted women is under construction.

Children's rights continue to be enforced. The Council for the Rights of the Child was re-established in January. The Council is chaired by the Minister of Labour and Social Welfare and is composed of 12 other members, including four representatives of the NGO sector. One of the key tasks of the Council is to monitor the implementation of the 2013-2017 national action plan for children. Implementing legislation for the law on social and child protection, as well as the plan to transform the residential institution for children in Bijela, remain to be adopted. A manual for working with juveniles in conflict with justice was developed, with a view to preparing individual treatment plans and training the relevant staff.

Montenegro took some positive steps to improve the situation of the **socially vulnerable and/or persons with disabilities**. The 2014-2015 strategy and action plan for the integration of people with disabilities were adopted, together with a strategy on inclusive education. A new council for the care of disabled people was set up, which includes NGO representatives. The government allocated €400 000 in 2014 for building ramps to improve access to public institutions, including medical facilities, schools and universities. None of the 13 buildings marked as priority objects has been adapted. The law prohibiting discrimination against people with disabilities still needs to be amended in line with the *acquis* and international standards. The newly adopted amendments to the law on the election of MPs and municipal councillors have shortcomings regarding the accessibility of polling stations for people with disabilities. Financial support paid to employers for employing people with disabilities is still insufficiently protected against misuse. Monitoring and penalties in this area remain weak.

Protection of minorities and cultural rights

In the field of **anti-discrimination** policies, the anti-discrimination law has been amended and brought almost fully into line with the *acquis*, notably as regards direct and indirect discrimination, but some shortcomings still persist concerning racial discrimination and as regards the provisions on sanctions. Training on the provisions of the new law has started. The Ombudsman and the Ministry of Human and Minority Rights continued to promote the protection of all vulnerable groups, but with limited follow-up to cases relating to human rights violation and discrimination. The relevant department in the Ombudsman office remains understaffed.

As regards **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the 2014 action plan for the LGBT Strategy was adopted. The first pride parade in Podgorica took place in October 2013, supported adequately by the authorities; however, groups of anti-LGBTI protesters damaged property in the city and injured several police officers. The first LGBTI community centre opened in Podgorica and was subject to several attacks. In none of these cases the perpetrators have been identified and prosecuted; the issue of police protection needs to be better addressed. A first wave of training for police officers was organised, with a view to establishing trust between law enforcement personnel and the LGBTI community. Ongoing anti-discrimination campaigns in schools, aimed at students and teachers, should be continued. A memorandum of understanding was signed between the Supreme Court and one of the LGBTI civil society organisations in March, to improve the cooperation in the field of trainings for judiciary. However, criminal convictions for attacks against members of the LGBTI community remain few, while cases are often classed as minor offences. Attacks on

LGBTI community members and activists continued, reflecting a widespread hostility to sexual diversity.

Labour and trade union rights are generally respected. The role of the social council was strengthened following the adoption of amendments to the relevant law in December. A new general collective agreement entered into force in March and covers a two-year period; the registries of trade unions and information on union representativeness are made public. Bipartite and autonomous social dialogue remains weak, and the social council still faces staff shortages. Fully transparent representation and the right to form new unions need to be ensured.

Regarding **property rights**, restitution of property in line with Montenegro's legislation continues to be slow due to cumbersome procedures and a lack of administrative capacity. Efforts are needed to address pending cases, in line with the national legislation and with the European Convention on Human Rights. Displaced persons permanently resident in Montenegro still face discrimination with regard to access to land.

Montenegro continues to ensure respect for and the protection of **minorities** and cultural rights. Interethnic relations in the country continue to be good and funds continued to be allocated to developing cultural identity and language. The Minority Fund continues to operate with significant shortcomings, notably regarding the allocation of funds and proper implementation and overall management of projects; annual activity reports were not submitted to parliament in 2012 or 2013. A report from the State Audit Institution has also questioned the capacity of the Ministry for Human and Minority Rights to supervise the legality of work of the national minority councils. Most of them appear to lack work programs and financial plans. A working group has drafted recommendations for improving the performance of the fund.

As for the inclusion of **Roma**, Ashkali and Egyptians, within the framework of its presidency of the Decade of Roma Inclusion, Montenegro hosted in January an international conference on combating discrimination against Roma. A second seminar on Roma issues, organised by the European Commission, was held in Montenegro in June; it brought together all the relevant local and international stakeholders to discuss the five priority areas identified by the EU-Roma summit of April 2014. In April a new action plan to implement the Strategy for improvement of position of Roma and Egyptians in Montenegro was adopted. In education, the number of Roma students attending primary school has increased markedly compared to previous years, and the desegregation process continued; however, drop-out rates and the low proportion of female Roma students among the total population of Roma students is a cause for concern. Discrimination remains prevalent in access to employment and to social care and healthcare. Participation in seasonal employment programmes needs to be fostered. Domestic violence and child begging largely affect the Roma community. Roma continue to be underrepresented in politics, partly because there are no lower electoral thresholds set for them as there are for other minorities.

There have been three working meetings of the coordination board in charge of overseeing the implementation of the strategy for finding durable solutions to the status of **internally displaced persons** (IDPs) since October 2013, which is an improvement in comparison to last year. Efforts continued to solve the status issue for remaining IDPs who are still not registered. According to the law on foreigners, the deadline for submitting documents to acquire permanent or temporary residence has been extended for the third time, with the final deadline being 31 December 2014. A new draft law foresees that the status of IDPs will cease to exist as of January 2015; no provisions have been made for the remaining IDPs who have not yet applied for foreigner status. Yet, there are still almost 1 500 people in this situation,

most of them internally displaced from Kosovo. Raising awareness and information campaigns on registration, especially in Romani and Albanian languages, need to continue. Only part of the IDPs willing to go back to Kosovo has managed to do so. Construction is ongoing in Kosovo to resolve the situation of 10 families, among those willing to go back; 12 have already returned. A sustainable solution remains to be found for the remaining 54. The law on non-contentious proceedings has yet to be amended to facilitate subsequent birth registration for 448 people of the 1 500 above. With regard to the gradual closure of the Konik camps, the construction of apartments began in September. Overall, the implementation of measures included in the IDPs strategy should be accelerated.

As regards **personal data protection**, the right balance must be found between the right to free access to information and the rules on personal data protection, taking into account the need to ensure that public institutions and officials are accountable and their work transparent. Trainings for the staff of the data protection agency have continued.

Conclusion

Overall, in the area of judiciary and fundamental rights progress has been uneven.

In the area of judicial reform, some progress has been made. Key reforms of the recruitment, promotion and disciplinary systems for judges and prosecutors are still pending. They need to fully reflect European standards and best practices, and to be understood and supported by all stakeholders so as to ensure effective implementation. Following alignment of relevant legislation with the constitutional reforms of July 2013, key judicial and prosecutorial officials were elected. Parliament finally agreed on the appointment of a new Supreme State Prosecutor. The slightly negative evolution of the clearance rate and the number of pending cases as compared with last year is due to a significant increase in the number of incoming cases. The length of proceedings has decreased, and overall courts managed to solve considerably more cases than in the previous year. The efficiency of the judiciary should increase further. It is a matter of serious concern that the competence for conducting misdemeanour proceedings has still not been transferred to courts. Montenegro needs to step up its efforts to fight impunity for war crimes, and effectively investigate, prosecute, try and punish war crimes in line with international standards.

In the area of anti-corruption, progress has been limited. The legislative framework remains to be strengthened. Pending the establishment of a new anti-corruption agency, the capacity of existing institutions in the area of prevention of corruption needs to be improved and they need to take a more proactive approach. The system of checks for conflicts of interest and asset declarations is not effective. Following the constitutional court's annulment of a significant part of the amendments to the law on political party financing designed to reduce the scope for abuse of state resources for electoral purposes, Montenegro needs to ensure that its legislative framework in the area of political party financing is fully in line with European standards and best practice and to provide an initial track record on the correct implementation of the law, including application of deterrent sanctions where required. Increased efforts are needed with regard to the development of a solid track record of investigation, prosecution and final conviction in corruption cases, including high-level cases, and the systematic use of the power to seize and confiscate assets. Cooperation between the prosecution and the police in pre-trial investigation remains to be improved. The impact of anti-corruption measures so far has been limited. Corruption remains prevalent in many areas and continues to be a serious problem, requiring effective implementation of deep and lasting reforms.

Some progress was made on fundamental rights; the country is gradually familiarising itself with the international reporting mechanisms stemming from the international conventions ratified so far. A gap remains between legal alignment and incorporation of human rights standards into the policy framework, into practices of administration, especially those of law enforcement agencies, and into the courts' case-law. This affects particularly disadvantaged and most vulnerable groups. Amendments to the law on the Ombudsman were adopted, in line with European and international standards in this area; preparation of the implementing legislation should continue without delays. Human rights institutions' action is hampered by the lack of staff, skills and financial resources, and by frequent staff turnover.

4.24. Chapter 24: Justice, freedom and security

As part of the 'new approach' on the rule of law, and in line with the negotiating framework, this chapter was opened in December 2013 after Montenegro produced a detailed action plan. Interim benchmarks have been set for this chapter, based on the action plan. The implementation of the action plan is assessed below.

Legal and irregular migration

In December, the centre for irregular migrants was finally opened and put into operation. The centre can accommodate 46 persons and reports to the Ministry of Interior. Implementing legislation was adopted in October. A readmission agreement with Serbia entered into force in January. In 2013, 753 irregular migrants were detected, mostly nationals of Albania, Syria and Kosovo. In May, 28 persons were indicted for people smuggling, following the dismantling of two international rings allegedly smuggling migrants to EU countries. Further efforts are necessary to ensure full alignment with the *acquis* in the field of legal migration, and to raise the authorities' awareness of the issues of mixed migration, the integration of migrants and the protection of vulnerable groups.

Asylum

Montenegro faced a further increase in the number of asylum applications lodged in 2013 (3 554, compared to 1 529 in 2012); none of the applicants was granted protection. A new centre for asylum-seekers was opened in February and is fully functioning and able to host a maximum of 65 persons. The centre's capacity should be increased, including to assist with the adequate reception of asylum-seekers who choose to remain in the centre, and of unaccompanied minor asylum seekers; implementing legislation needs to be adopted. Training on the principle of non-refoulement, as well as on the EU directives on asylum, should continue for the asylum office staff and for the border police. The lack of interpreters remains an obstacle, and solutions should be found. The law on asylum remains only partially aligned, including as regards the limitation of subsidiary protection to six months. Efforts should continue to prevent the migrants' and asylum centres from being targeted by organised crime groups involved in smuggling migrants.

Visa policy

The number of visas issued at the border continued to be low. Decisions temporarily suspending visa requirements for nationals of Azerbaijan, Armenia and Kazakhstan were adopted for the summer season. Amendments to the decree on visa regime entered into force, allowing nationals of the United Arab Emirates and of Moldova to enter, cross or stay in Montenegro up to three months without visa and with a valid travel document.

Implementation of the visa-free regime with the EU continued to be smooth overall. The majority of travellers to the Schengen area are bona fide, however in 2013 there were over 1 000 unfounded asylum applications lodged by Montenegrins nationals in the EU and Schengen-associated countries. The authorities need to continue their actions in the framework of the post-visa liberalisation monitoring mechanism to counter this phenomenon through closer operational cooperation and information exchange with EU Member States and Schengen-associated countries, carrying out investigations of facilitators of irregular migration. Efforts should also include more effective border controls in line with fundamental rights, information campaigns for travellers and implementation of short- and long-term measures to improve social and economic inclusion of the most vulnerable groups of the population most likely to migrate, including Roma.

Schengen and external borders

Montenegro adopted a revised 2014-2018 Integrated Border Management (IBM) Strategy and action plan, in line with the EU concept of IBM. Additional equipment was procured to enhance green border supervision; all border crossing points are now connected to Interpol's travel document database. Practical cooperation with Frontex, including in the framework of the Western Balkans Risk Analysis Network (WB-RAN), has continued and needs to be consolidated. A 'training the trainers' system for the border police is in an early phase of development. Cooperation with neighbouring countries remained good; joint patrols continued. The negotiations on border demarcation moved forward with Bosnia and Herzegovina and with Kosovo; talks are ongoing to close the unauthorised border crossing points, or to revise the status of some of these roads in line with EU standards. A package of bilateral agreements on border control was signed with Kosovo in March and an agreement with Albania was signed in December. The joint police cooperation centre with Bosnia and Herzegovina and with Serbia has started working. Overall, the legislative framework for border control has yet to be entirely aligned with the *acquis*. A comprehensive border surveillance system at sea and land, and the streamlining of the border police, to make it more effective, remain among the top priorities. The security of the green and blue border needs to be reinforced, including in ports. Further steps are needed to foster operational interagency cooperation between all agencies at the border and to enable the border police to directly coordinate international affairs in their area of responsibility. Participation of the border police in investigative activities would contribute to increase its awareness on the most complex forms of cross-border crime, and to the overall fight against organised crime. A joint plan for measures to prevent and deal with corruption at border crossings was drafted by all the relevant institutions in April and needs to be effectively implemented.

Judicial cooperation in civil and criminal matters

Parliament adopted a new law on international private law in December, with a view to further aligning Montenegro's legislation with the *acquis*. In December, Montenegro also ratified two bilateral agreements with Italy to facilitate the implementation of the European Conventions on Mutual Legal Assistance in Criminal Matters and on Extradition. In July, Montenegro ratified two bilateral agreements with the former Yugoslav Republic of Macedonia on mutual enforcement of decisions in criminal matters and on legal assistance in civil and criminal matters. Training for judges and prosecutors continued. A new curriculum for specialised training on judicial cooperation in civil matters was approved in March by the Judicial Academy. A fact-finding visit by Eurojust took place in Montenegro in October 2013, with a view to the future signing of a cooperation agreement. The recommendations included in the report of Eurojust, following its visit, are being implemented, including those on improving the handling of personal data by the prosecution and on prosecutors' cooperation with the data protection authority. The Montenegrin Ministry of Justice became

observer to the Network for Legislative Cooperation between the Ministries of Justice of the EU in October 2013.

Police cooperation and the fight against organised crime

Montenegro continued to be active at international and regional level. In December, the Ministries of Interior of Montenegro, Bosnia and Herzegovina and Serbia signed a protocol on the establishment of the joint centre for police cooperation in Trebinje. Additionally, the Ministries of Interior of Montenegro and Bosnia and Herzegovina signed a protocol on cooperation in forensic examinations. In March, Montenegro signed a police cooperation agreement with Kosovo. In close cooperation with Serbia, the United States and several European intelligence and security services, Montenegro took an active part in arresting one of the most wanted persons for alleged trafficking of cocaine. The 24/7 service needed for police cooperation has been established. The operational agreement with Europol was signed in September 2014.

The promotion of ethical standards in the police force was strengthened by the adoption of an integrity plan in March. In line with the amended law on internal affairs, about 500 high-ranking police officers submitted asset declarations. Amendments to the Criminal Procedure Code, especially to improve the pre-trial phase, remain to be adopted. Independent and transparent oversight of the police, a fair and uniform recruitment policy and an effective complaints' mechanism have yet to be established. The current specialised units of the police remain understaffed, including at regional level. A secure platform to store and exchange data between law enforcement agencies has yet to be established.

An agreement on mutual cooperation between the police and the prosecution was signed in April, to improve understanding of their respective roles in investigations. The prosecutor's leading role in investigations and cooperation with the police require further enhancement and clarification with a view to build consistent and effective relations between the two institutions and increase the efficiency of criminal investigations. The 2013 Serious and Organised Crime Threat Assessment was adopted, providing a strategic picture of the organised crime situation in Montenegro. A clear link now needs to be established between the findings of the assessment and implementing policy priorities. As regards Montenegro's track record in tackling cases of organised crime, new cases were launched in the area of migrants' smuggling and drug trafficking but further work is required. Frequent changes to the relevant legislation are a serious cause for concern, as is the lack of independence and initiative of the investigative police, which is accountable to the prosecution.

Amendments to the law on witness protection were adopted in June. They aimed at improving the witness protection system in the country, including by increasing the number of potential witnesses, and by introducing the category of 'collaborator of justice'. Financial investigations to map and confiscate the financial flows of criminal organisations are underused. There have been no new cases of *seizures of criminal assets*. Montenegro needs to align its legislation with the new *acquis* in this area. A single manual on operational procedures in the field of asset confiscation has been compiled, and an e-register established, to record the assets managed by the relevant agency. Operational interagency cooperation needs to be improved. The strategy for the control and reduction of small arms and light weapons 2013-2018 has continued to be implemented, including by organising various training and rescue exercises.

The capacity of the prosecutor's office and of the police in the area of *cybercrime* is still weak, including as regards monitoring of e-sites. Training modules in this area need revision. Five criminal charges were filed in the reporting period.

In relation to *anti-money laundering*, Montenegro responded to a number of Financial Action Task Force (FATF) recommendations through the 2013 amendments to the criminal code and through the amendments to the relevant law, adopted in July. The law reinforced the sanctioning system, but overall the legal framework still presents shortcomings and its effective implementation is still needed. The number of suspicious transactions reported and investigated continues to be very low. The anti-money laundering administration has a high staff turnover. Training in this area is limited, including awareness-raising on reporting obligations. The IT system of the Administration for the Prevention of Money laundering and Terrorist Financing needs to be upgraded to continue the international data exchange.

In the area of *trafficking in human beings*, training for judges, prosecutors and others has continued and should be enhanced, including for the police and border police. One person was put up at the shelter for trafficked persons, and one new investigation opened in the reporting period. A comprehensive, multidisciplinary and victim-oriented approach has yet to be developed. The low number of victims of trafficking identified and few criminal cases prosecuted remain of concern; the identification of victims needs improvement, as do investigations, prosecution and convictions against human beings traffickers.

Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

Anti-terrorism

The laws on explosive substances and on transport of dangerous substances were adopted to further align with the *acquis*. An action plan was adopted in March to implement the United Nations Security Council resolution on non-proliferation of weapons of mass destruction. Montenegro will need to step up its capacity to prevent radicalisation, including developing adequate measures to address the phenomenon of foreign fighters.

Cooperation in the field of drugs

The implementation of the strategy for the prevention of drugs abuse has continued, including by delivering training in the field of drug identification, on international investigations and on evidence collection. Additional technical equipment was provided to the police division responsible for the fight against drugs. Work by the relevant institutions to address the marginalisation of people with drug addictions needs to be enhanced; cooperation between the relevant institutions and NGOs dealing with people with drug addictions remains limited.

The amount of seized drugs rose of around 30% compared to 2012. A total of 1 338 kg of cannabis and 7.1 kg of heroin were seized both at border crossings and within Montenegro. In June 2014 the police, in close cooperation with the customs, seized 250 kg of cocaine on a ship in the port of Bar which came from Ecuador. The market value of the seized drugs is estimated at €12.5 million. New criminal cases were opened, while various police operations are ongoing, including in cooperation with international partners. A risk-assessment analysis and a technical equipment needs assessment for the port of Bar were jointly developed by the police and customs authorities, to improve checks on passengers and goods; joint control teams were formed and premises allocated. Sustainable implementation of these measures remains crucial, as Montenegro is on the main drug trafficking routes throughout the Western Balkan region. Cooperation with the European Monitoring Centre for Drugs and Drug Addiction continued and Montenegro participated in training on the early warning system and in meetings of the European information network on drugs and drug addiction (Reitox).

As regards **customs cooperation**, representatives of the administration took part in joint operations organised by the European Anti-Fraud Office. Following the adoption of the risk analysis for the port of Bar, relevant profiles were entered into the customs administration's risk management system; they are also available to the police.

For measures against **counterfeiting of the euro**, see *Chapter 32 — Financial control*.

Conclusion

Overall, Montenegro has made some progress in the area of justice, freedom and security. The implementation of the action plan is broadly going according to schedule. Montenegro should now start matching legal and institutional progress with better results on the ground in terms of establishing sustainable track records in various areas. Alignment with the *acquis* in the field of legal migration, asylum and visas is still at an early stage. Attention should be paid to monitoring the functioning of the two new centres for migrants and for asylum-seekers, and in adjusting their capacity to that of migration flows. In this area, additional efforts are needed to ensure awareness and an appropriate response from all the institutions involved. Further investment is required to control the borders. Montenegro remains actively involved in regional and international judicial and law enforcement cooperation. In the area of organised crime, the legislation requires fine-tuning to better clarify the role of the judiciary and the police in the pre-trial phase. While Montenegro has continued to develop a track record in the area of the fight against drugs, difficulties remain in addressing the most complex forms of crime such as trafficking in human beings, cybercrime and anti-money laundering. Financial investigations and confiscation of assets are not yet used systematically. More efforts are needed to enhance interagency coordination. The legal framework on anti-money laundering and terrorism financing needs to be aligned with European and international standards; the IT system of the relevant administration needs to be upgraded as a matter of priority.

4.25. Chapter 25: Science and research

The overall level of participation in the EU **framework programme** for research (FP7) remained stable — with an overall success rate of 23.9% compared to the EU average of 21.6% — but participation of SMEs, and successful Marie Skłodowska-Curie grants, remained very weak. Montenegrin research teams continued participating in EUREKA actions as well as cooperating in the frame of COST. The agreement associating Montenegro with the new EU research and innovation programme Horizon 2020 (covering 2014-2020) was signed in July 2014, allowing for retro-active participation of entities from the country as from 1 January 2014. Montenegro successfully hosted a regional Horizon 2020 event in Budva in March. It has also taken the necessary administrative measures to ensure participation in Horizon 2020 and notably nominated its network of national contact points and representatives in the programme committees. In June, the government adopted the Framework Programme for Cooperation with the International Atomic Energy Agency.

Regarding further integration into the **European Research Area** (ERA), Montenegro is participating as an observer in the European Research Area Committee and in all other bodies overviewing EU policy actions on research and innovation. Montenegro also agreed to contribute on a voluntary basis to the second ERA Progress Report. The level of investment in research slightly increased to 0.50% of GDP in 2013, but is still much lower than the EU average of 2.07%. Based on the amended strategy for scientific research activities (2012-2016), Montenegro aims to invest 1.4% of its GDP in research by 2016. A centre of excellence in bioinformatics (BIO-ICT) began operations in July at the Faculty of Electrical Engineering in the University of Montenegro in Podgorica. This, together with the planned establishment of the first science and technology park in Nikšić, should facilitate reaching the

1.4 % target, as will the further increase in the national funding budget which almost doubled in 2013 compared to 2012.

With respect to the **Innovation Union**, Montenegro took some steps to encourage innovation in research and the Ministry of Science issued calls for proposals to co-finance scientific research activities such as co-financing for authors of patents and innovative solutions, and calls emphasising applied and developmental research and the development of innovation. Montenegro has been active in cooperating at regional level and co-signed the Western Balkans Regional R&D Strategy for Innovation adopted in October 2013.

Conclusion

Good progress was made in the area of science and research. Steps were taken to strengthen the research and innovation capacity at national level and facilitate integration into the European Research Area. Serious efforts and good monitoring will be necessary to reach Montenegro's own investment target by 2016, and to meet the challenges of participation in the new EU programme Horizon 2020. Overall, preparations in this area are well on track.

4.26. Chapter 26: Education and culture

In the field of **education, training and youth**, parliament adopted amendments to the law on higher education in September 2013. An external evaluation of initial teacher education was started to measure the matching between education skills and labour market needs. Montenegro finalised its own study on labour market requirements and higher education. In July the government adopted an analysis on the state of play in the field of recognition of foreign education documents with recommendations for improvement in this area. Non-discrimination between EU and Montenegrin nationals needs to be guaranteed by the date of accession and alignment with the EU Directive on the Education of Children of Migrant Workers ensured.

Montenegro has advanced well in the referencing of the National Qualifications Framework to the European Qualifications Framework and presented this to the relevant EU Advisory Group in June. Montenegro achieved weak results in OECD / PISA testing of 15-year olds on language, mathematics and science. Gross enrolment rates in upper secondary education (ISCED 3) remain, with ca. 90 %, close to the OECD average. Access to secondary education remains problematic for Roma, Ashkali and Egyptian (RAE) children, students with disabilities and those living in remote, mountainous areas.

Regarding the reform of vocational education, entrepreneurship centres were established in three secondary vocational education schools in north-east Montenegro. The share of enrolment in upper secondary VET, with roughly two thirds, is relatively high. However, attractiveness, in particular of the 3-year VET programmes, is decreasing.

In June Montenegro signed an agreement to participate in the policy support networks and electronic platforms of the Erasmus+ programme. As a candidate country, Montenegro should track statistics on the EU's five education and training indicators.

The Youth in Action programme saw an increased number of young people involved in international youth activities.

In the area of **culture**, Montenegro signed an agreement with the EU on participation in the Culture strand of the Creative Europe programme.

Conclusion

Some progress has been made in the field of education and culture. The mismatch between skills available and labour market needs still remains an issue. Overall, preparations are advanced.

4.27. Chapter 27: Environment and climate change

As regards the **environment**, in the area of *horizontal legislation*, the government adopted amendments to the decree on projects that are subject to environmental impact assessment (EIA) to fully align with the relevant directive. Further efforts are needed to implement EIA and Strategic Environmental Assessments Directives, both at national and local level. As regards access to environmental information, the three Aarhus Centres are functioning well. The law on environmental liability was adopted. Cooperation with civil society organisations needs to be further strengthened.

The government adopted the first report on the implementation of the national strategy for *air quality* management for 2013. In line with the national strategy, plans for air quality management have been produced for the two most affected municipalities, Niksic and Pljevlja. The Environmental Protection Agency has developed an online platform for air quality monitoring and reporting in real time. Administrative capacity in the area of air quality needs to be increased.

In line with the law on *waste management*, implementing legislation was adopted, notably a decree on waste disposal methods, and the rulebook on the register for licences issued to collectors, transporters and traders in waste. The national strategy for waste management has not yet been adopted. Further efforts are needed to implement and enforce legislation in this area. Cooperation between state and local authorities needs to be strengthened.

Water quality remains an issue of concern. Significant efforts are needed to align water quality legislation with the *acquis* and to implement it. Monitoring networks and river-basin water management plans are in their infancy, as is the infrastructure for wastewater treatment. Two new wastewater treatment facilities were put into operation, in Zabljak and in Budva.

In December 2013, parliament amended the law on *nature protection*, mainly as regards the evaluation of plans, programmes, projects, actions and activities that may have a significant impact on the maintenance and integrity of the ecological network and ecologically significant sites, together with compensatory measures. It still misses out essential articles of the Habitat and Birds Directive. In March, the Agreement on conservation of whales and dolphins (cetaceans) in the Black Sea, Mediterranean Sea and Atlantic Ocean area was ratified. The law on national parks has been adopted. Administrative capacity needs to increase, especially with regard to scientific work, inspection and enforcement.

In the field of *chemicals*, the government adopted the national implementation plan for the Stockholm Convention for 2014-2020. Parliament adopted amendments to the law on protection from *noise* in December.

Montenegro signed in September 2014 the agreement for participation in the EU **Civil Protection** Mechanism. Disaster risk reduction and disaster management need to be treated as a matter of priority at national and local level, given the fact that the region is prone to natural disasters.

In the area of **climate change**, a comprehensive national climate policy and a climate change strategy needs to be developed in line with the expected EU 2030 policy framework on

climate and energy. Substantial efforts are also needed to fully integrate climate considerations into all relevant sectoral policies and strategies. The second national communication was submitted to the United Nations Framework Convention on Climate Change, in December. Montenegro regularly associated itself with EU positions at international level. The Council needs to be strengthened further. The country has not yet put forward a mitigation commitment by 2020 under the Copenhagen Accord. Montenegro needs to put forward by the first quarter of 2015 its intended nationally determined contribution to the 2015 Climate Agreement, consistent with those of the EU and its Member States.

Regarding alignment with the climate *acquis*, significant efforts are especially required to strengthen the country's monitoring, reporting and verification capacity. The establishment of the National Council for Sustainable Development and Climate Change marks a positive development in inter-institutional coordination and cooperation. Montenegro participated regularly in the Environment and Climate Regional Accession Network project.

Administrative capacity in the area of climate change needs to be significantly strengthened in order to address the need for enhanced climate action in a sustainable manner, beyond the project-by-project basis. Strengthening administrative capacity in the fields of environment and climate change needs to be a priority for the country.

Conclusion

Montenegro has made little progress in the areas of environment and climate change. Administrative capacity in all areas of environment and climate change has to be strengthened at both central and local level. Strategic planning, substantial investment and significant further efforts are needed to ensure alignment with and implementation of environment and climate *acquis*. The country needs to put forward by the first quarter of 2015 its intended contribution to the 2015 Climate Agreement. Cooperation with civil society organisations needs to be further strengthened. Preparations in these areas are still at an early stage.

4.28. Chapter 28: Consumer and health protection

In the area of **consumer protection**, the 2013-2014 action plan for the implementation of the 2012–2015 national consumer protection programme was adopted in December. In January, the Department for Consumer Protection in the Ministry of Economy was replaced by a Directorate for the Development of National Brand and Consumer Protection, supervising an Office for Consumer Protection. The trial of the first collective lawsuit filed in May 2013 by the consumer protection centre CEZAP to protect consumer credit is still pending. Support for consumer protection NGOs, including regular funding, is still needed, as is awareness-raising with the general public.

As regards *product-safety-related issues*, legal alignment on liability for defective products was completed, with the adoption of the law on consumer protection. Revision of the legislation on general product safety is ongoing. A national programme of surveillance of products on the market for 2014 was adopted by the government in October 2013. In the reporting period, there were 3 847 inspections in the area of product safety. These uncovered 134 irregularities related to placing dangerous products on the market. The system for exchange of information between the different inspection authorities is in use (*see also Chapter 1 — Free movement of goods*).

As regards *non-safety-related issues*, a law on consumer protection, aiming at further alignment with the *acquis*, was adopted in December 2013 and entered into force in July 2014. The law on consumer credits entered into force in February. A media campaign was

organised to inform citizens about it. 5 437 market inspections were conducted and 3 766 irregularities found. The total number of completed inspections in the area of consumer protection is 9 284. In total, 3 900 irregularities were found.

In the area of **public health**, implementation of e-health proceeds slowly.

As regards *tobacco control*, a licensing agreement for the use of pictorial warnings on tobacco packages was signed with the European Commission in March. Enforcement of the law limiting the use of tobacco products, which extends the areas where smoking is prohibited, continues to pose challenges, especially in restaurants. Inspections, on hold since June 2012, have not resumed.

In the area of *communicable diseases*, a programme of mandatory immunisation of the population against certain communicable diseases on the territory of Montenegro for 2014 was adopted in November. Plans and programmes for maintaining the country's status as free of poliomyelitis for the period 2014–2016, and for removing smallpox and rubella and preventing congenital rubella syndrome for the period 2014–2016, were both adopted in March. Montenegro has no formal surveillance system for antimicrobial resistance. The national commission on hospital infections has not met so far. The majority of small laboratories suffer from a lack of adequate equipment. There is also a lack of an adequate system of coordination between laboratories and insufficient quality control.

As regards *blood, tissues, cells and organs*, the law on blood provision, aiming at further alignment with the *acquis*, was adopted in December, followed by six by-laws. In October 2013, the Ministry of Health signed a memorandum of cooperation with Croatia in the field of organ donation and transplantation. A Commission assessment mission in the field of substances of human origin took place in July, providing for follow-up recommendations in this field. Upgrading and restructuring of facilities for handling blood, blood components, tissues and cells will continue to be necessary to meet EU technical standards.

In the area of *patients' rights in cross-border healthcare*, preparations still need to start.

In the field of *pharmaceuticals*, two rulebooks on clinical trials of human medicinal products and on advertising of medicinal products were adopted in January, along with guidelines on good clinical practice for human medicines.

In the field of *mental health*, training for nurses and psychiatrists working in various mental health care institutions was organised during 2013. Measures are being taken to introduce community-based services as an alternative to institutionalisation. A new service — house visits to mentally ill patients — has notably been implemented.

In the field of *health inequalities*, activities have been carried out to inform the Roma population about their right to healthcare in all health facilities. Health mediators have been established and trained. In the area of *nutrition*, a multi-country workshop on action to reduce salt intake took place in November.

Conclusion

There has been further progress in the area of consumer and health protection. Legal alignment and administrative capacity building need to continue in both areas. Due attention needs to be paid to *acquis* enforcement and the application of EU quality and safety standards, in particular in the area of public health. Better support for consumer NGOs is needed. Preparations in these areas are on track.

4.29. Chapter 29: Customs union

As regards **customs legislation**, amendments to the customs law were adopted in December. These amendments refer to exemption from customs duties, implementation of transit procedures in line with the convention on a common transit procedure, and safety and security provisions for international trade in goods. The customs tariff was updated in line with the 2014 version of the EU's Combined Nomenclature. In the framework of CEFTA, since 1 April 2014, Serbia, Albania, Montenegro and the former Yugoslav Republic of Macedonia started applying the regional Convention on Pan-Euro-Med Preferential Rules of Origin.

As regards Montenegro's **administrative and operational capacity**, the customs administration continued with activities to boost the capacity and efficiency of the risk analysis system, by developing new instructions and IT tools. Understaffing of the IT units needs to be addressed. On the basis of the customs administration 2013-2015 business strategy and action plan, a new ICT strategy for 2014-2020 was adopted. Customs' operational capacity to apply simplified procedures and security measures needs to be increased. An agreement on cooperation and mutual assistance in customs matters between Montenegro and Turkey was signed in September 2013. Some efforts were invested in strengthening internal control to effectively prevent and detect corruption and other misconduct. The customs administration conducted anti-corruption campaigns, adopted an integrity plan in line with the customs' anti-corruption policy, and appointed intellectual property rights coordinators in the customs branch offices. A customs transit system compliant with the EU's new computerised transit system has yet to be put in place, but preparations are ongoing.

Conclusion

Further progress has been achieved in the area of customs legislation, in particular through amendments to the customs law. Work on further alignment with the *acquis* needs to continue. In the areas of administrative and operational capacity, the customs administration needs to fully implement the customs business and IT strategies, and enhance the capacity of the IT units. Preparations for possible accession to the convention on a common transit procedure need to be stepped up. Overall, preparations in the field of customs union remain moderately advanced.

4.30. Chapter 30: External relations

In the field of the **common commercial policy**, the process of accession to the World Trade Organisation (WTO) Government Procurement Agreement was launched in November and is at an advanced stage. The law on control of exports of dual use goods needs to be further aligned with the *acquis*, in particular with a view to improving control mechanisms.

As regards **bilateral agreements with third countries**, Montenegro is negotiating bilateral free trade agreements with Belarus and Kazakhstan, in line with its obligations under the Free Trade Agreement with Russia and taking into account the Eurasian Customs Union formed in the meantime. Economic cooperation agreements were signed with Romania and Slovakia. Montenegro signed a bilateral investment treaty with the Republic of Moldova and is currently negotiating bilateral investment treaties with 12 countries. Montenegro continues to play an active role in the Central European Free Trade Area.

As regards **development policy and humanitarian aid**, fully operational administrative structures still need to be set up. Humanitarian contributions are still decided on a case-by-case basis without a legislative framework.

Conclusion

Little progress has been made in the area of external relations. Montenegro has continued to fulfil the commitments it made upon accession to the WTO. Preparations in the fields of development and humanitarian aid remain at an early stage. Overall, preparations in the area of external relations remain on track.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and Montenegro on foreign and security policy issues continued. (For more information on relations with other enlargement countries and EU Member States, see *Political criteria — Regional issues and international obligations*.)

As regards the **common foreign and security policy (CFSP)**, Montenegro aligned itself, when invited, with all relevant EU declarations and Council decisions (100% alignment). (As regards the International Criminal Court, see *Political criteria — Regional issues and international obligations*.)

Montenegro generally aligned itself with and implemented *restrictive measures* introduced by Council decisions, including EU restrictive measures in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine. Montenegro voted in favour of the UN General Assembly Resolution on the territorial integrity of Ukraine. The law on international restrictive measures is yet to be adopted.

Montenegro is participating in some, but not all, international export control arrangements and instruments concerning *non-proliferation* of weapons of mass destruction. Compliance with international commitments on small arms and light weapons (SALW), including the aims of the EU strategy on SALW, is continuing with the aid of national laws and control systems. Montenegro adopted the 2014-2018 action plan for the implementation of UN Security Council Resolution 1540 to prevent the proliferation of nuclear, chemical and biological weapons. Montenegro ratified the UN Arms Trade Treaty in July 2014.

Montenegro continued to engage actively in *cooperation with international organisations*. In October, Montenegro presented its fourth Annual National Programme, launching the fourth cycle of the NATO Membership Action Plan.

As regards *security measures*, Montenegro continued its work on practical arrangements necessary to comply with Council decisions on information security, including the handling of classified information. Parliament adopted amendments to the law on classified information in March.

Montenegro continued to participate in *civil and military crisis management* operations under the **common security and defence policy (CSDP)**. Montenegro continued to participate in the EU operation ATALANTA in Somalia. It also continued to participate in the international operations ISAF in Afghanistan, UNMIL in Liberia and UNFICYP in Cyprus. Montenegro deployed one officer to the EU mission in Mali (EUTM) in June and expressed readiness to participate with one officer in the EU mission in Central African Republic (EUFOR CAR).

Conclusion

Montenegro continued to participate in civil and military crisis management operations. The country continued its full alignment with EU declarations and Council decisions in the field of

foreign and security policy. Overall, preparations in the area of foreign, security and defence policy are well on track.

4.32. Chapter 32: Financial control

As regards **public internal financial control** (PIFC), Montenegro updated the action plan for the PIFC strategy for 2013-2017, focusing specifically on activities that will further strengthen managerial accountability and improve senior management's delegation of responsibilities to middle management, in April. Amendments to the PIFC law entered into force in August. The Central Harmonisation Unit prepared guidelines on risk management and launched two pilot exercises to assess the quality of financial management and control in two ministries. Recruitment of internal audit staff at central and local level continued and more internal auditors were trained and certified, with special emphasis on auditing EU funds. Montenegro needs to continue to build a comprehensive risk management system and to ensure that the principle of managerial accountability is fully embedded in the management culture, including delegation of responsibilities. A PIFC-compatible budget inspection function has yet to be created.

In the area of **external audit**, the amendments to the Law on State Audit Institution, aimed at enhancing the SAI's financial and operational independence in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI) were adopted in July. The oversight function of the State Audit Institution (SAI) was strengthened by enhanced parliamentary scrutiny of the public spending and audit findings in 2013. The government also took steps to improve implementation of the SAI's audit findings by adopting an action plan and by establishing a coordination committee for monitoring its implementation. The Audit Authority was fully separated from the SAI in December 2013. There is a positive trend in the implementation of the SAI's annual audit programmes, but the audit capacity still needs to be strengthened. The focus on performance audits remains very limited. The vacant position in the SAI Senate still has to be filled.

In the area of **protection of the EU's financial interests**, the government adopted a decision on the establishment of the anti-fraud coordination service (AFCOS) network for the monitoring and prevention of fraud and irregularities and cooperation with the Commission in December 2013. Preparations for an anti-fraud strategy to protect the EU's financial interests started in March. The capacity of the AFCOS unit in the Ministry of Finance needs to be further increased.

As regards **protection of the euro against counterfeiting**, there is a high level of legislative alignment. Active measures were taken to train cash handlers in the commercial banks and the post office of Montenegro to ensure systematic use of technical devices to detect counterfeit currency and to submit data to the relevant national and international authorities. National legislation on medals and tokens similar to euro coins has yet to be aligned with the *acquis*.

Conclusion

There has been progress in the area of financial control. Montenegro needs to ensure further implementation of the managerial accountability and delegation frameworks in the public sector, and to strengthen the capacity of internal audit. In the area of external audit, the SAI's audit capacity needs to be enhanced. As regards protection of the euro against counterfeiting, the 1929 Geneva Convention needs to be ratified and national legislation needs to be aligned with the *acquis* on medals and tokens similar to euro coins. Overall, preparations in this area are moderately advanced.

4.33. Chapter 33: Financial and budgetary provisions

Concerning the rules of administration of the own resources system, including **traditional own resources**, the **value added tax-based resource** and the **gross national income-based resource**, Montenegro is not yet aligned with the *acquis*. (*For developments in the underlying policy areas, see Chapters 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control.*)

As regards **administrative infrastructure**, the administrative capacity of the institutions in the policy areas that indirectly affect the own resources system (customs, taxation, statistics, financial control) needs to be further strengthened.

A department for the coordination and management of the EU's own resources has been set up in the Ministry of Finance. This structure will need to be fully operational to ensure correct calculation, accounting, forecasting, collection, payment and control of own resources and reporting to the EU on the implementation of the EU's own resources rules.

With regard to tools for fighting tax evasion and fraud and reducing the size of the informal economy, the government continued with the fiscal consolidation measures launched in 2013. The focus of government action against the informal economy includes emphasis on the market for tobacco products and the labour market.

Conclusion

There has been limited progress on financial and budgetary provisions. The administrative framework for applying the own resources rules, and capacity to apply the rules correctly will need to be further built up. Preparations in this area are at an early stage.

STATISTICAL ANNEX

STATISTICAL DATA

Montenegro

Basic data	Note	2001	2009	2010	2011	2012	2013
Population (thousand)		615	630	618b	620	620	621
Total area of the country (km ²)		13 812	13 812	13 812	13 812	13 812	13 812
National accounts							
Gross domestic product (GDP) (million euro)		1 295	2 981	3 104	3 234	3 149	:
GDP (euro per capita)	1)	2 113	4 720	5 011	5 211	5 063	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	9 685	10 143b	10 546	10 863	:
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		:	41	42	42	41	42
Real GDP growth rate: change on previous year of GDP volume (%)		1.1	-5.7	2.5	3.2	-2.5	:
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		:	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		:	:	9.3	9.5	8.8	:
Industry (%)		:	:	14.8	12.2	12.4	:
Construction (%)		:	:	5.9	5.8	5.5	:
Services (%)		:	:	70.1	72.4	73.3	:
Final consumption expenditure, as a share of GDP (%)		100.1	106.2	105.6	104.0	105.2	:
Gross fixed capital formation, as a share of GDP (%)		17.5	26.7	21.1	18.4	18.5	:
Changes in inventories, as a share of GDP (%)		5.9	0.4	1.7	-0.3	1.0	:
Exports of goods and services, relative to GDP (%)		38.4	32.1	34.7	42.7	44.1	:
Imports of goods and services, relative to GDP (%)		61.9	65.4	63.1	64.9	68.8	:
Industry	Note	2001	2009	2010	2011	2012	2013
Industrial production volume index (2010 = 100)		110.5	85.1	100.0	89.8	83.5	92.3
Inflation rate and house prices	Note	2001	2009	2010	2011	2012	2013
Consumer price index (CPI), change relative to the previous year (%)		:	:	:	3.3	4.0	1.8
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:
Balance of payments	Note	2001	2009	2010	2011	2012	2013
Balance of payments: current account total (million euro)	2)	:	-830	-710	-710	-588	-487
Balance of payments current account: trade balance (million euro)	2)	:	-1 322	-1 267	-1 267	-1 389	-1 329
Balance of payments current account: net services (million euro)	2)	:	401	464	464	612	653
Balance of payments current account: net income (million euro)	2)	:	5	-22	-22	54	66
Balance of payments current account: net current transfers (million euro)	2)	:	85	114	114	135	123

of which government transfers (million euro)	2)	:	5	16	16	18	22
**3 year backward moving average of the current account balance relative to GDP (%)	2)	:	-39.1	-33.5	-24.6	-21.5	-18.7
**Five year change in share of world exports of goods and services (%)	2)	:	3.4	3.3	3.3	-2.9	-1.6
Net inward foreign direct investment (FDI) (million euro)	2)	:	1 066.5	552.1	389.1	461.6	323.9
Foreign direct investment (FDI) abroad (million euro)	2)	:	32.9	22.1	12.3	20.8	13.0
of which FDI of the reporting economy in the EU-28 countries (million euro)	2)	:	6.9	18.9	-9.4	20.6	11.1
Foreign direct investment (FDI) in the reporting economy (million euro)	2)	:	1 099.4	574.2	401.4	482.4	336.9
of which FDI of the EU-28 countries in the reporting economy (million euro)	2)	:	787.8	292.7	204.9	219.7	79.8
**Net international investment position, relative to GDP (%)		:	:	:	:	:	:

Public finance	Note	2001	2009	2010	2011	2012	2013
General government deficit / surplus, relative to GDP (%)		:	-5.4	-4.6	-5.2	-5.9	-2.3
General government gross debt relative to GDP (%)		:	38.2	40.9	46.0	50.9	58.0

Financial indicators	Note	2001	2009	2010	2011	2012	2013
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		:	:	:	:	:	:
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)	3)	:	2 372	2 166	1 945	1 842	1 966
**Annual change in financial sector liabilities (%)		:	:	:	:	:	:
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)		:	9.38	9.63	9.73	9.47	9.36
Deposit interest rate (one year), per annum (%)		:	3.87	3.26	3.02	3.23	2.54
euro exchange rates: average of period (1 euro = ... national currency)		1	1	1	1	1	1
Trade-weighted effective exchange rate index (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		:	397	416	303	348	424

External trade in goods	Note	2001	2009	2010	2011	2012	2013
Value of imports: all goods, all partners (million euro)		:	1 658	1 646	1 828	1 818	1 769
Value of exports: all goods, all partners (million euro)		:	278	329	451	365	372
Trade balance: all goods, all partners (million euro)		:	-1 381	-1 317	-1 377	-1 454	-1 396
Terms of trade (export price index / import price index * 100) (number)		:	:	106	101	96	102
Share of exports to EU-28 countries in value of total exports (%)		:	51.6	57.2	59.9	51.2	41.0
Share of imports from EU-28 countries in value of total imports (%)		:	42.4	42.6	40.6	44.5	44.1

Demography	Note	2001	2009	2010	2011	2012	2013
Crude rate of natural change of population (natural)		5.5	4.4	2.9b	2.2	2.5	2.5

growth rate): number of births minus deaths (per thousand inhabitants)							
Infant mortality rate deaths of children under one year of age (per thousand live births)		14.6	5.7	6.7b	4.4	4.4	4.4
Life expectancy at birth: male (years)		:	72.9	73.6	73.4	74.3	74.1
Life expectancy at birth: female (years)		:	77.6	78.5	78.9	78.4	79.0

Labour market	Note	2001	2009	2010	2011	2012	2013
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	:	:	:	:	65.1
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	:	:	:	:	52.6
Male employment rate for persons aged 20–64 (%)		:	:	:	:	:	57.8
Female employment rate for persons aged 20–64 (%)		:	:	:	:	:	47.5
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		:	:	:	:	:	38.7
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	:	:	5.6	5.7	4.5
Industry (%)		:	:	:	13.0	11.7	11.9
Construction (%)		:	:	:	6.0	5.7	5.9
Services (%)		:	:	:	75.5	76.9	77.7
Unemployment rate: proportion of the labour force that is unemployed (%)		21.2	19.1b	19.7	19.7	19.7	19.5
Male unemployment rate (%)		:	18.0	18.9	19.5	19.3	20.1
Female unemployment rate (%)		:	20.4	20.7	20.0	20.3	18.8
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		:	:	:	43.7	41.6	
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		:	15.6	15.5	15.7	15.6	16.0

Social cohesion	Note	2001	2009	2010	2011	2012	2013
Average nominal monthly wages and salaries (national currency)	4)	211	463	479	484	487	479
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		91.6	219.6	226.1	221.6	214.3	206.1
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	:	:	:	:	:

Standard of living	Note	2001	2009	2010	2011	2012	2013
Number of passenger cars relative to population size (number per thousand population)		161.0	283.9	267.1b	278.2	279.9	287.0
Number of mobile phone subscriptions relative to population size (number per thousand population)		639.6	2 496.5	2 260.3b	1 875.0	1 595.0	:

Infrastructure	Note	2001	2009	2010	2011	2012	2013
Density of railway network (lines in operation per thousand km ²)		18.1	18.1	18.1	18.1	18.1	18.1
Length of motorways (kilometres)		0	0	0	0	0	0

Innovation and research	Note	2001	2009	2010	2011	2012	2013
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.75	1.12	:	0.41	:	:
Percentage of households who have internet access at home (%)		:	:	:	51.4e	55.0e	55.8e

Environment	Note	2001	2009	2010	2011	2012	2013
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2000 constant prices)		:	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	:	44.4	:
Road share of inland freight transport (based on tonne-km) (%)		60.3	64.1	52.5	43.1	51.0	:
Energy	Note	2001	2009	2010	2011	2012	2013
Primary production of all energy products (thousand TOE)		:	423	690	700	684	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		:	211	426	434	393	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		:	416	305	443	394	:
Gross inland energy consumption (thousand TOE)		:	845	994	1 143	1 078	:
Electricity generation (thousand GWh)		2.5	2.8	4.0	2.7	2.8	:
Agriculture	Note	2001	2009	2010	2011	2012	2013
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		107	:	:	:	:	:
Utilised agricultural area (thousand hectares)	5)	518p	516	516	516	:	:
Livestock numbers: live bovine animals (thousand heads, end of period)	6)	178e	101	96	87	85	89
Livestock numbers: live swine (thousand heads, end of period)	6)	21e	12	11	21	18	20
Livestock numbers: live sheep and live goats (thousand heads, end of period)	6)	244e	200	198	232	230	220
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)	7)	194e	152	143	202	159	:
Harvested crop production: cereals (including rice) (thousand tonnes)	8)	4p	3	17b	18	:	:
Harvested crop production: sugar beet (thousand tonnes)		:	:	:	:	:	:
Harvested crop production: vegetables (thousand tonnes)	9)	:	:	151	150	:	:

: = not available

b = break in series

e = estimated value

p = provisional

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) Excluding financial intermediation services indirectly measured (FISIM).
- 2) 2013: Based on BPM6 (balance of payments manual edition 6).
- 3) Loans include total banks' loans granted to non-MFI residents and other claims (factoring and forfeiting, claims on outstanding bills of acceptance, guarantees and bills of exchange).
- 4) 2001: in German marks (DEM).
- 5) Until 2010: agricultural area includes arable land, land area under pasture, fishponds and ponds. 2011: for private agricultural holdings, data on areas are estimates based on data from the Overall Cadastre; the data on area are obtained by estimates.
- 6) Including livestock held by enterprises, cooperatives and households.
- 7) Net quantity, from enterprises, cooperatives and households.
- 8) Including production of enterprises, cooperatives and households. Until 2009: wheat production only.
- 9) Including production of enterprises, cooperatives and households.