Investment Climate Statement 2008

A.1. Openness to Foreign Investment

Recent political events

The referendum on Montenegrin independence was held on May 21, 2006, when 55.5% of Montenegro's voters chose independence from Serbia. Montenegrin independence has led to the further opening of the market and an increase in investor awareness and confidence.

Montenegro and the EU signed a Stabilization and Association Agreement (SAA) on October 15, 2007, boosting Montenegrin hopes of becoming a full EU member. Montenegro and the EU also signed the so-called Interim Agreement (allowing for the early implementation of trade and trade-related provisions of the SAA) which took effect on January 1, 2008. Although the SAA sends a clear signal of encouragement, it will still take years for Montenegro to join the EU as it has not yet formally applied for full membership.

Montenegro's Constitution was ratified and adopted by the Parliament of Montenegro on October 19, 2007.

Foreign investments

Montenegro is quickly establishing a liberal investment regime. Although the continuing transition has not yet eliminated all structural barriers, the Government recognizes the need to remove impediments, reform the business environment, and open the economy to foreign participation. The attitude towards foreign investors is generally favorable.

Already, the country has attracted considerable interest. In the first ten months of 2007 there has been a 140% increase in foreign direct investments in Montenegro, and a 600% increase compared with 2004. According to preliminary data, the amount of foreign investments from January to October 2007 was $956.9 million (€708.1 million). In the first ten months of 2007, 57% of foreign investments were in the real estate sector. €103.6 million was invested in bonds and stocks, €75.6 million more than during the same period last year. Overall, foreign investments in 2006-2007 were larger than the sum of the previous five years.

Per capita foreign investments in 2006 reached $1,097.5 (€811). Estimated FDI per capita for 2007 is $1,418 (€1,048). For the first nine months of 2007, Montenegro was the regional leader in terms of per capita investment, with Croatia and Serbia coming in second and third, according to a report on greenfield investments published by the Center for Liberal Democratic Studies (CLDS). The report states that Montenegro leads all transition countries in central, eastern, and south-eastern Europe in per capita investment. Over 3,000 foreign-owned firms are registered and operating in Montenegro. The number of registered foreign companies has doubled in last two years. Foreign investors came from sixty countries, with no single country dominating investment. In 2006 and 2007, the most significant investments came from Norway, Austria, Russia, Slovenia, and Hungary. The highest amount of FDI is invested in the central part of Montenegro (61.2%), while 30.1% is invested in the southern part of the country, and the remaining 8.7% in the north. Based on job-creating foreign investments (i.e. not including individual real estate transactions), the sector breakdown of FDI in 2006 was as follows: 36% of all investments were made in finance, 22% in tourism, 11% in industry, 6% in transportation, 5% in services, 2% in agriculture, and the remaining 18% in other sectors.

Privatization of the largest remaining state-owned companies, including the Plantaze Vineyard, the Port of Bar, the National Railway, the National Airports of Montenegro, and Montenegro Airlines, is planned for 2008.

The Government of Montenegro twice advertised a tender for the privatization of the Pljevlja thermo-electric power plant and adjacent coal mine. However, in June 2007, Parliament voted to cancel the tender to sell the plant and the government's 31% interest in the coal mine; there is no plan to offer the tender again in the near-term.

Tenders also will be announced during 2008 for several attractive tourism sites, including Ada Bojana Island, Valdanos Bay, Velika Plaza, Jaz beach, and Buljarica Bay.

Some U.S. companies already are operating in Montenegro and the government has put an emphasis on attracting more American companies.

Philip Morris International opened a branch office with nine employees in Montenegro in May 2007. The main activity of the office is the import and distribution of Philip Morris products in the Montenegrin market. *Datacard Group* won a government of Montenegro/Ministry of Interior Affairs tender for the procurement of a system for issuing national identification documents. The value of the contract, signed in July 2007, is €8,725,725. The issuance of new Montenegrin passports will start in spring 2008. *Microsoft* officially opened its office in Montenegro in May of 2007 during a Podgorica conference aimed at presenting the company's latest technology and products. The software giant already has collaborated with the Montenegrin Government and local partners on different projects (software legalization, e-government, and IT modernization for government institutions). *Fox TV* received a national frequency after winning a tender that awarded rights of transmission and broadcasting of radio and TV signals in Montenegro. *Becovic Management Group (BMG)* purchased the Hotel Mediteran property in July 2005 from the state controlled Hotel - Tourist Company "Ulcinjska Rivijera" (UR) for €940,000. BMG intends to redevelop the property into a first-class coastal destination resort, with mixed-use resort and entertainment components. The total investment value is €6 million. *Opportunity Bank* was established in April 2002 with the goal of providing expertise and financial help to small and medium sized enterprises, agricultural producers, and entrepreneurs. The bank has influenced the continual development of the banking sector in the last few years and is a leader in the microfinance sector in Montenegro. *Media Development Loan Fund (MDLF)* bought 25 percent of the shares of "Daily Press," the publisher of Vijesti. MDLF is considering purchasing additional shares, but the local owners currently will only sell a maximum of 40 percent of Vijesti shares to MDLF. *Morgan Invest* has bought 38 percent of the shares of the textile factory "Titex" in Podgorica for €2.45 million. The U.S. company bought the shares of the bankrupt factory from the Slovenian company "Novus," which had paid €538,000 for them in 2004. In a recent tender, U.S. company *GoDaddy* successfully won its bid to become the agent for domain registration for the national Internet domain of Montenegro (the new ".ME" internet domain); GoDaddy will work for five years with a possible extension of this term.

In order to better promote investment and foster economic development, the Government of Montenegro established the Montenegrin Investment Promotion Agency (MIPA) in mid-2005. It seeks to advertise Montenegro as a competitive investment destination by actively facilitating investment projects in the country.

The Montenegrin Agency for Economic Restructuring was established in 1990. This agency's primary task has been privatization and restructuring state-owned companies.

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Montenegro has enacted specific legislation outlining guarantees and safeguards for foreign investors. Montenegro's Foreign Investment Law (ratified in November 2000) establishes the framework for investment in Montenegro. The law eliminates previous investment restrictions; extends national treatment to foreign investors; allows for the transfer/repatriation of profits and dividends; provides guarantees against expropriation; and allows for custom duty waivers for equipment imported as capital-in-kind.

Montenegro also has adopted more than 20 other business-related laws, all in accordance with EU standards. The main laws that regulate foreign investment in Montenegro are: the Foreign Investment Law (see above paragraph), the Enterprise Law, the Insolvency

Law, the Law on Fiduciary Transfer of Property Rights, the Accounting Law, the Law on Capital and Current Transactions, the Foreign Trade Law, the Customs Law, the Law on Free Zones, the Labor Law, the Securities Law, the Concession Law, and the set of laws that regulate tax policy.

Montenegro has made significant steps in amending investment-related legislation in accordance with world standards and in creating the necessary institutions for attracting investments. However, as is the case with other transition countries, implementation and enforcement of existing legislation remains a problem.

Dispute resolution is under the authority of national courts, but it can be under the authority of international courts if the contract designates, meaning that Montenegro allows for the possibility of international arbitration. Various foreign companies have other bilateral and multilateral organizations -- such as MIGA (World Bank), OPIC (U.S.), ECGD (UK), SID (Slovenia), SACE (Italy), COFACE (France), and OEKB (Austria) -- providing risk insurance against war, expropriation, nationalization, confiscation, inconvertibility of profit and dividends, and inability to transfer currency.

A.2. Conversion and Transfer Policies

The Foreign Investment Law guarantees the right to transfer and repatriate profits in Montenegro.

Montenegro uses the Euro as its domestic currency. There are no difficulties in the free transfer of funds exercised on the basis of profit, repayment of resources, or residual assets.

A.3. Expropriation and Compensation

Montenegro provides legal safeguards against expropriation. Protections are codified in laws adopted by the government. There have been no cases of expropriation of foreign investments in Montenegro.

However, Montenegro has outstanding claims related to property nationalized under the Socialist Federal Republic of Yugoslavia.

On March 23, 2004, Montenegro passed a new Restitution Law. The necessary sub-acts entered into effect on January 1, 2005, and the Restitution Fund (which will provide cash compensation when necessary) came into existence on March 1, 2005. The basic restitution policy in Montenegro is restitution in kind when possible, and cash compensation or substitution of other state land when physical return is not possible.

The new law establishes a set claims period, after which no further claims will be considered. Claims were submitted to the municipal Restitution Commission where the property was located within 18 months after the establishment of the relevant Commission.

At the end of August 2007, Parliament passed a new Law on Restitution, which supersedes the 2004 law. According to the new law, there will be only three Commissions: one in Bar (covering the coastal area), one in Podgorica (for the central part of Montenegro), and one in Bijelo Polje (for northern part of Montenegro). It is expected that the three Commissions will start work in early 2008.

Montenegro provides safeguards from expropriation actions through its Foreign Investment Law. Article 29 states that the government cannot expropriate property of a foreign investor unless there is a "compelling public purpose" established by law or on the basis of the law. If an expropriation is executed, compensation must be provided at fair market value plus one basis point above the LIBOR rate for the period between the expropriation and the date of payment of compensation.

A.4. Dispute Settlement

Legal System

Montenegro's Law on Courts defines a judicial system consisting of three levels of courts: Basic, Superior, and the Supreme Court. It also establishes two courts -- the Appellate and Administrative Courts (established in 2005) -- with special jurisdiction for commercial matters.

The Basic Courts exercise original jurisdiction over civil and criminal cases. There are 15 courts for Montenegro's 21 municipalities. Two Superior Courts in Podgorica and Bijelo Polje have appellate review of municipal court decisions. The Superior Courts also decide on jurisdictional conflicts between the municipal courts.

The two commercial courts (which also handle economic crimes) were established in Podgorica and Bijelo Polje. They have jurisdiction in the following matters: shipping, navigation, aircraft (except passenger transport), intellectual property rights, bankruptcy, and unfair trade practices. The Superior Courts hear appeals of Basic Court decisions, and Superior Court decisions may be appealed to the Supreme Court. The Supreme Court is the court of final judgment for all civil, criminal and administrative cases.

The commercial court system faces challenges, such as the introduction of new legislation and changes to existing laws; developing a new system of operations, including electronic communication with clients; and a lack of capacity and expertise among the judges. Some reform proposals have included creating a High Commercial Court or dedicating a chamber of the Supreme Court to commercial cases. Some judges also have suggested designating a particular court with assigned competency for specific areas in order to streamline caseloads and develop specialized expertise for complicated economic crimes/matters.

The legislative environment has been significantly changed as more than 20 business laws have been adopted. The goal was to remove barriers for doing business in Montenegro and to attract foreign investors.

The Business Organization Law, adopted in 2001, simplified the procedures for initial registration of companies; currently only one euro and four days are necessary to register an LLC in Montenegro. According to an OECD survey, Montenegro has the lowest barriers for initial registration of a business in the region. Under this law, the Central Register of the Commercial Court was founded and online searches for companies registered in Montenegro are now possible. *The Business Insolvency Law*, adopted in 2001, simplified the procedure for company insolvency. The law provides insolvent companies with three options: voluntary liquidation, restructuring, or bankruptcy proceedings. The length of the bankruptcy process has been cut, and it is easier to liquidate a company. *The Accounting and Auditing Law* has brought international standards into the Montenegrin accounting and auditing system. The Institute for Accounting and Auditing was founded as an independent institution to supervise the whole process and is in charge of granting the licenses and permits for accountants and auditors. The Montenegrin Parliament adopted a *Competition Law*, which went into force on January 1, 2006, and is regarded as an improvement to the investment climate in Montenegro. *The Law on the Participation of the Private Sector in Public Services* adopted in 2002 allows private companies to participate in public-private partnerships through: leasing, management contracts, Build-Operate-Transfer arrangements (BOT), and concessions. *The Customs Law*, in line with World Trade Organization and European Union requirements, was introduced in Montenegro in 2003. The law simplifies import-export procedures, which should increase international trade flows. The set of *Tax Laws* was implemented in 2003 and introduced the Value Added Tax (17%), which replaced the sales and turnover tax. The VAT provides for a significant amount of budget revenues. At the end of April 2004, the Parliament adopted the *Foreign Trade Law*. The law decreases barriers for doing business and executing foreign trade transactions and is in accordance with WTO Agreements. However, the law still provides for restrictive measures and discretionary government interference. In addition, the law appears to be more about protecting producers rather than consumers, who pay the costs of protection in the end. The current *Labor Law*, adopted in July 2003, is under revision and a new law is expected to be approved by the government and adopted by Parliament during 2008. Besides the Labor Law, the question of labor-based relations is also defined in a General Collective Agreement, Branch-level Collective Agreements, and with individual labor agreements between employer and employee. The new *Concession Law* is in draft and is waiting to be approved by the government and then adopted in the Parliament. The Law on Concession will create favorable conditions for obtaining and utilizing concession licenses. It will also regulate the conditions and procedures for obtaining a concession to exploit natural resources, use property in the public domain and/or conduct activities of general interest. The Concession Law is fundamental to support the Public-Private Partnership process through which a number of projects will be realized in Montenegro.

Also adopted were the *Law on the Central Bank*, the *Law on Pledges (which provides for a bailment of personal property as security for some debt or engagement)*, the *Law on Strikes*, the *Electronic Signature Law*, and *the Law on Free Zones*.

A.5. Performance Requirements and Incentives

The government does not impose any performance requirements as a condition for establishing, maintaining or expanding an investment.

Limited incentives are offered to foreign investors; for example, the government offers duty exemptions for imported equipment.

A.6. Right to Private Ownership and Establishment

In Montenegro, a foreign investor, foreign company, or foreign individual may acquire property. Article 12 of the Montenegrin Foreign Investment Law specifically permits foreign investors to purchase real estate through a contract. This right is explicitly reinforced by the Law on Property and Law Relation. The Act states that foreign persons and companies can, based on reciprocity, acquire rights to real estate, such as company facilities, places of business, apartments, living spaces, and land for construction. Additionally, foreign persons can claim property rights to real estate by inheritance in the same manner as a domestic citizen.

A.7. Protection of Property Rights

Mortgages/Secured Transactions

In July 2002, Montenegro enacted its Law on Secured Transactions and established a collateral registry at the Commercial Court in May 2003. The registry's operational guidelines have been drafted and approved by the Commercial Court. The main goal of the Law on Secured Transactions is to establish a clear and transparent framework.

In August 2004, Montenegro adopted a new Law on Mortgages by which immovable property may be encumbered by a security interest (mortgage) to secure a claim for the benefit of a creditor who is authorized, in the manner prescribed by the law, to demand satisfaction of his claim by foreclosing the mortgaged property with priority over creditors who do not have a mortgage created on that particular property, as well as over any subsequently registered mortgage, regardless of a change in the owner of the encumbered immovable property.

Intellectual Property Rights

The acquisition and disposition of intellectual property rights are protected by the Law on the Enforcement of Intellectual Property Rights, which entered into force on January 1, 2006. The law provides for fines for legal entities of up to € 30,000 for selling pirated and/or counterfeited goods. It also provides ex officio authority for market inspectors in the areas mentioned above. In April 2005, the Montenegrin Parliament adopted the Regulation on (TRIPs) Border Measures that provides powers to the custom authorities to suspend the customs procedure and seize pirated and counterfeit goods.

Montenegro's Penal Code acknowledges infringement of all intellectual property rights, ex officio prosecution and stricter criminal penalties. The Law on Optical Disks was adopted in December 2006; it requires the registration of business activity when reproducing optical disks for commercial purposes and provides for surveillance of optical disk imports and exports, and imports and exports of polycarbonates (the material used in production of optical disks) and equipment for the production of optical disks.

Since independence, the relevant authorities (the Ministry of Culture and Media, the Deputy Prime Minister's Office for European Integration, as well as various NGOs) have begun to work on establishing an institutional and regulatory framework for intellectual property protection. They are currently in the process of establishing an IPR office. In addition, the Anti-Pirating Association of Montenegro was established in November 2006.

Montenegro is not on the Special 301 Watch List.

In practice, enforcement is weak and insufficient. The sale of pirated optical media (DVDs, CDs, software) as well as counterfeit trademarked goods, particularly sneakers and clothing, is widespread. Enforcement is slowly improving as customs, police, and judicial authorities obtain the necessary tools, but institutional capacity is still limited. Since 2006, the government, in partnership with the IPR Committee has funded a number of training programs to help regulatory authorities address the problem.

Strengthening IPR protection will continue to be a challenge in the medium-term.

International Agreements

The former State Union of Serbia and Montenegro ratified many conventions and agreements. It should be noted that in its Declaration of Independence Montenegro stated:

"The Republic of Montenegro will apply and assume international agreements and treaties which were concluded by the State Union and which are in accordance with the Montenegrin judicial system."

The following conventions and agreements in the field of intellectual property have been signed and continued with implemention after independence:

· Convention Establishing the World Intellectual Property Organization (1967) (member since October 1, 1973);
· Paris Convention for the Protection of Industrial Property (1883) (member since February 26, 1921);

· Berne Convention for the Protection of Literary and Artistic Works (1886) (member since June 17, 1930);
· Madrid Agreement Concerning the International Registration of Trademarks (1891) (member since February 26, 1921);
· Protocol relating to the Madrid Agreement Concerning the International Registration of Trademarks (member since February 19, 1997);
· Patent Cooperation Treaty (1970) (member since February 1, 1997);
· Hague Agreement Concerning the International Deposit of Industrial Designs (1925) (member since December 30, 1993);
· Universal Copyright Convention (1952) (member since 1966);
· Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Trademarks (1957) (member since August 30, 1966);
· Locarno Agreement Establishing an International Classification for Industrial Designs (1968) (member since October 16, 1973);
· Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite (1974) (member since August 25, 1979);
· Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977) (member since February 25, 1994);
· Trademark Law Treaty (1994) (member since September 15, 1998);
· Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (1958) (member since June 1, 1999);
· Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (1891) (member since May 18, 2000);
· Nairobi Treaty on the Protection of the Olympic Symbol (1981) (member since March 18, 2000);
· Treaty on Intellectual Property with Respect to Integrated Circuits (1989) (signed, not ratified);
· International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (member since December 20, 2002);
· Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms (member since December 20, 2002);
· WIPO Copyright Treaty (member since December 20, 2002);
· WIPO Performances and Phonograms Treaty (member since December 20, 2002);

WTO Accession

Montenegro has made considerable progress towards meeting legislative obligations, and, in fact, has nearly completed all required legislation necessary to move forward on its WTO accession process.

The Government of Montenegro applied for accession to the WTO, as a separate customs territory, in December 2004. At the February 15, 2005 meeting, the General Council accepted separate membership applications from both Montenegro and Serbia and agreed to establish independent working parties to continue the accession process.

Montenegro submitted a package of legislation to WTO for review in July 2007, including: amendments to the Foreign Trade Law and the Decree on Implementation of the Foreign Trade Law; amendments to the Law on Foreign Investment and the Law on Business Entities; the draft Law on Undisclosed Information; the draft amendments to the Law on Technical Regulations and the Law on Standardization; the revised Decision on the Control List; and the draft Decree on Prices of Medicines. Also, provisions related to SPS measures from the draft Food Safety Law were translated and submitted. Questions on the Memorandum on the Foreign Trade Regime were received from United States and European Communities after the third Working Party Meeting in February 2007, and answers to these questions were returned in May 2007.

Montenegro has already accomplished a large part of the legislative reform required for WTO accession and is now entering the later stages of its WTO accession.

In addition to planned legislative activities, Montenegro is preparing to amend existing legislation as may be necessary to comply with WTO requirements. According to the Government of Montenegro, Montenegro places the highest priority on completing its WTO accession as rapidly as possible.

The U.S. Government, through USAID, has been providing technical assistance to Montenegro on the WTO accession process; the project is anticipated to wrap up in early 2008.

A.8. Transparency of Regulatory System

On January 22, 2004, the Parliament of Montenegro established an Energy Regulatory Agency, which has authority over the electricity, gas, oil, and heating energy sectors. Its main tasks are approval of pricing, development of a model for determining allowable business costs for energy sector entities, issuance of operating licenses for energy companies and for construction in the energy sector, and monitoring of public tenders. The energy law prescribes that those energy sectors where prices are affected by the monopoly positions of some participants, business costs will be set at levels approved by the Agency. In those areas deemed to function competitively, the market will determine prices.

The Agency for Telecommunications was founded by the Montenegrin government in 2001. It is an independent regulatory body whose primary purpose is to design and implement a regulatory framework and encourage private investment in the sector.

Taxation

According to the World Bank/International Finance Corporation publication "Doing Business 2007," Montenegro is among the 31 countries in the world with the highest tax reduction in the world, having lowered its tax rate by a significant amount over a one-year period.

Montenegro launched reforms of the tax system and overall financial system in 2001 in order to: encourage domestic production and investments; make Montenegro more attractive to foreign investors; make locally produced goods more competitive in foreign markets; harmonize the tax system with EU Directives and international standards; make the tax system simpler, more efficient, and easier to implement; and generate income for the state budget.

Key segments of the tax reform package include a value added tax (applied since April 1, 2003), which replaced the previous retail tax and use of a self-assessment principle (according to which tax liability was calculated by the taxpayer, while the related procedure was controlled by a tax authority). In addition, the tax administration has also been transformed, and some competencies related to the collection of local revenues have been delegated to the local government.

Tax rates:	
Personal income tax rate	15%
Corporate tax rate	Flat rate: 9%
Value added tax	Standard rate: 17% Lower rate: 7% Zero rate: 0%
Real Estate Tax	- The real estate tax rate is proportional. - The real estate tax rate can range from 0.08% to 0.80% of the real estate market value. - Local government units can determine the real estate tax rates according to types of real estate. - A local government unit can increase the tax rate for agricultural land which is not cultivated to 50% in relation to the tax rate for agricultural land which is cultivated.
Real Estate Transfer Tax	2% of the market value of a real estate property (on a newly constructed real estate transfer, the VAT is paid at the rate of 17%).

The tax system in Montenegro is comprised of the following tax laws:

- Corporate Profit Tax (effective from January 1, 2002)
- Personal Income Tax (effective from January 1, 2007)
- Property Tax (effective from January 1, 2003)
- Excise Tax (effective from April 1, 2002)
- Value Added Tax (VAT) (effective from April 1, 2003).

The *Corporate Tax Law* proscribed a proportional tax rate of 9%. The corporate income taxpayer is defined as a resident or non-resident legal person performing an activity for profit. A limited partnership is also subject to corporate income tax.

The new *Law of Personal Income Tax* entered into force on January 1, 2007. This law proscribes a flat tax rate of 15% on personal income. This rate will be reduced in 2009 to 12%, and in 2010 to 9%. A personal income taxpayer is defined as a resident or non-resident natural person who earned income from sources determined under the law. When two or more natural persons jointly earn income, a taxpayer is any of these persons in proportion with the sharing of such income.

The *Value Added Tax* rate is 17%. Amendments to the law have reduced the tax rate from 17% to 7% on accommodation services in tourism, on medicines which are not on a list designated by the Health Fund, and on communal services, transport services, and authorial services (such as copyrights and services in the area of education, literature, and art). The reduction of the VAT for tourist services has fostered the growth of that sector. A zero VAT rate is applied on export transactions and on delivery of medicines and medical devices which are funded by the Health Insurance Fund.

The law also provides for several types of exemptions: *for services of public interest* (public postal services, health services, social security services, pre-school education services, sport, religious and other public services); *import of goods* (products brought into Montenegro with transit customs procedure, services relating to import of goods etc.); *temporary import of goods* (products imported on a temporary basis provided that they are exempt from customs duty according to customs regulations), and *special exemptions* (import of goods to be inspected by the customs authority; products that enter free customs zone or free customs warehouse; and products under customs storage procedure or under import procedure for export on the basis of delay).

The tax period for the VAT is defined as a calendar month, and taxpayers are obliged to file monthly VAT returns. These returns are filed by the 15th of each month following the month for which a tax liability is paid. The VAT on imports is paid concurrently with the customs duty payment. (VAT is a part of the customs liability).

The taxpayer shall be refunded VAT for: local transactions within 60 days from the day of filing VAT to be calculated (until January 1, 2008, the deadline was 90 days); major importers and taxpayers who disclose more than three times in a row a surplus of input VAT, shall be refunded that VAT within 30 days from the day of filing (previously, 60 days).

All proposed laws and regulations are published in draft form and open for public comments, generally for a 30 day period.

A.9. Efficient Capital Markets and Portfolio Investment

The capital market together with the banking sector is the main pillar of overall transition in the Montenegrin economy. Overall, Montenegro's capital market is characterized by openness, low transaction costs, transparency, and adequate protection of private property.

Montenegro's capital market developed from the privatization process, especially mass voucher privatization (implemented in 2001). The legal and institutional framework for the capital market was established between 2001 and 2003, starting with the implementation of the Law on Securities and establishment of the Securities Commission (SCMN), which regulates exchanges and industry activities.

In comparison with other regional markets, Montenegro's capital market has an underdeveloped primary market and trades a limited variety of securities. However, it has significant growth potential and has become competitive with others in the region, particularly as both domestic and foreign investors have become increasingly interested in the Montenegrin capital market in recent years.

Montenegro has two stock exchanges (Montenegro stock exchange and NEX Montenegro), fifteen broker houses and three broker-dealer houses. Securities are dematerialized and three types are traded: shares of companies, shares of privatization - investment funds, and old currency savings bonds.

The total turnover on Montenegrin exchanges amounted to $510 million (€ 377 million) in 2006, representing an increase of 90% in relation to 2005. The turnover for 249 trading days was made through 114,073 transactions.

The average monthly turnover amounted to $42.5 million (€31.4 million), which was 89.9% higher than the average monthly turnover in 2005. An average of 458 transactions were made daily, while daily turnover amounted to $2 million (€ 1.5 million).

Companies' shares (81% of total turnover) made up the largest contribution to the turnover structure. Shares of investment funds made up 13.9%, while 5.1% of total turnover was related to the trade of bonds.

In relation to 2005, the turnover structure remained almost the same in 2006 with respect to the companies' shares (81.0% in 2006 and 82.4% in 2005), but the trade with investment units of investment funds increased (13.9% in 2006 and 9.5% in 2005), while trading with bonds decreased (5.1% in 2006 and 8.6% in 2005).

These trends also can be seen in the stock exchange indices. The Montenegro stock exchange is calculated in the MOSTE index which includes prices of 35 securities, including investment units of all Investment Funds, and NEX Montenegro, which is calculated in two indices. NEX 20 represents shares of the twenty companies with the largest market capitalization and liquidity on the NEX Montenegro stock exchange and NEX PIF represents the price trend of the investment units of Investment Funds. The Montenegro stock exchange's MOSTE index recorded growth in 2006 of 455.8 index points (a 98.4% increase), while the NEX 20 index increased in 2006 by 8269.6 index points (an 84.5% increase).

The banking system in Montenegro is 100% privately owned. The total capital of Montenegrin banks amounted to $200 million (€148.7 million) as of December 31, 2006, which is $57.1 million (€42.3 million) or 39.7% more in relation to year-end 2005.

At the end of 2006, the structure of disbursed loans showed a large share of long-term loans (68.04%; the remaining 31.96% were short-term loans). The structure changed in comparison with the previous year, with long-term loans growing at a higher rate. Loans granted to private companies represented the most important item of the aggregated loan portfolio in 2006, comprising 52.68% of the total. They increased at a rate of 114% in comparison with 2005.

During the last several years, Montenegro has experienced a stabilization of the banking sector, the gradual development of the capital market, and restored consumer confidence in banks. Foreign banks entered the Montenegrin market, competition increased, electronic banking was introduced, savings increased, and customer credits were allowed. Depending on the type of credit and the time period, interest rates in Montenegro range from 8% to 20%, annually.

A.10. Political Violence

Montenegro has been led by democratically-elected governments that have contributed to regional stability. The current government supports Montenegro's integration with the European Union and the reforms necessary to achieve this goal.

There is no sustained anti-American sentiment in the general public despite U.S. involvement in regional NATO actions. Montenegro and the United States share many policy goals and cooperate productively in many areas. There is broad support for a strengthening of ties with the United States, especially in the economic/commercial sphere.

A.11. Corruption

As is the case with many countries in transition and in the region, corruption is a significant issue in Montenegro. Corruption routinely places high on the list of citizens' concerns in opinion polls. According to the Transparency International Corruption Perceptions Index for 2007, Montenegro ranked 84 (out of the total 179 countries included in the study, with higher numbers meaning more corruption).

The government's goal of integrating with European and Euro-Atlantic institutions has spurred efforts to counter corruption. In 2001, the government established an Anti-Corruption Agency responsible for preparing anti-corruption legislation, improving the transparency of financial and business operations, coordinating activities with NGOs, and promoting awareness in combating corruption.

In 2005, the government adopted an official Program for the Fight Against Corruption and Organized Crime, and adopted an Action Plan to implement the Program the following year. In 2007, the government established a National Commission to monitor the implementation of the Action Plan. Deputy Prime Minister for European Integration Gordana Djurovic currently heads the Commission.

The Commission's first report, which covered the September 2006 – May 2007 time period, found that only 69 of 280 recommended measures had been implemented (however, another 56 measures were partly realized, the Government hopes to make considerable progress on others). The next report will be prepared in January 2008.

A legal framework against corruption and organized crime has been in force since August 2006 (Law on Witness Protection/Action Plan to Fight against Corruption and Organized Crime). Montenegro is also preparing a criminal intelligence system, and has been a full member of the International Criminal Police Organization-Interpol since September 2006.

Over the past year, progress on combating corruption has been achieved through the passage of important legislation on public procurement, the treasury and budget system, and the courts. Implementation of these laws is now a key priority for the government.

A.12. Bilateral Investment Agreements

Montenegro signed the Central European Free Trade Agreement (CEFTA) -- which is intended to eliminate all custom restrictions for industrial and agricultural products in member states by 2010 -- in December 2006. The Parliament ratified CEFTA on March 21, 2007, and it took effect in Montenegro (and simultaneously in Albania, Macedonia, Moldova, and Kosovo) on July 26, 2007. Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia were already parties to the Agreement.

The United States does not have a Bilateral Investment Treaty (BIT) with Montenegro. It is possible that, given the presence of U.S. investors, Montenegro could be a BIT candidate in the future.

Other free trade agreements

- **Free Trade Agreement with Russia.** A free trade agreement with Russia, concluded in August 2000, provided for the gradual elimination of barriers to Montenegrin exports to Russia by 2005. The agreement stipulates that the importing country regulate the rules of origin, in accordance with WTO principles. The list of products not covered by the duty free agreement is updated annually, and it currently includes poultry, sugar, chocolate, alcoholic beverages, soap, cotton, carpets, wooden furniture, household appliances, and motor vehicles.

- **Preferential Trade Agreement with the European Union.** The EU has taken steps to stimulate the export of goods among countries in the region through the establishment of autonomous trade preferences (ATP), which provide duty-free entry for over 95 percent of goods. Exemptions include wine, meat, and steel. Products originating from Montenegro are generally admitted into the European Union without quantitative restrictions and are exempted from custom duties and charges. The products exempted from the free import regime are agricultural products, “baby beef” products, and textile products.
- **EFTA countries** (Switzerland, Norway, Iceland, Liechtenstein). A preliminary declaration of cooperation was signed with EFTA in December 2000, pledging asymmetric treatment of Montenegro products in the markets of the four member countries. This declaration has paved the way for a future free trade agreement between EFTA and Montenegro.

The United States restored Normal Trade Relations (Most-Favored Nation status) to Montenegro in December 2003. This provides improved access to the U.S. market for goods exported from Montenegro. The U.S. Government is reviewing Montenegro’s request to be designated a beneficiary developing country under the U.S. Generalized System of Preferences (GSP) program, which would provide duty-free access to the U.S. market in various eligible categories.

A.13. OPIC and Other Investment Insurance Programs

OPIC is a self-sustaining U.S. Government agency, which promotes growth in developing countries by encouraging U.S. private investment. OPIC’s key programs are its loan guarantees, direct loans and political risk insurance. Montenegro, through the State Union of Serbia and Montenegro, became eligible for OPIC programs in July 2001. OPIC's activities include: (1) insurance for investors against political risk, expropriation of assets, damages due to political violence and currency convertibility; and (2) insurance coverage for certain contracting, exporting, licensing and leasing transactions. OPIC also established the Southeast Europe Equity Investment Fund that is managed by Soros Management. This fund is capitalized at $150 million.

For more information see: http://www.opic.gov.

A.14. Labor

Montenegro's unemployment rate has dropped in recent years and wages have increased steadily. Montenegro’s total labor force is comprised of approximately 257,000 people; the unemployment rate in October 2007 was 11.7%. The Employment Agency states that there are currently 30,908 unemployed people. Average wages, in 2007, increased 17.8% compared to 2006, despite the constant minimum wage level. It is expected that this trend will continue in 2008. The average monthly wage in 2007 was $658 (€508), while the average monthly wage without taxes and contributions was $465 (€345).

Over the past few years, employment in private companies has increased, and total employment in the social sector (including state-owned companies) has decreased. Major sectors generating employment in Montenegro are tourism, port/shipping, and manufacturing (i.e. aluminum).

Bringing Montenegro's labor market legislative framework into accordance with EU standards is one of the primary tasks of the Montenegrin Government. The labor market, which is still not fully liberalized, is currently regulated by the Labor Law (adopted in 2003). Montenegro has amended the law to permit direct negotiations between employees and employer, and it is expected that a new Labor Law will be adopted in 2008. Labor relations are governed by national, sector, and company collective bargaining agreements. Another significant piece of legislation is the newly adopted Law on Pension Insurance, which has helped to reform the pension system.

A.15. Foreign-Trade Zones/Free Ports

In June 2004, Montenegro passed a Free Trade Zone Law, which offers businesses benefits and exemptions from custom duties, taxes, and other duties. The Port of Bar is currently the only free trade zone.

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A.16. Foreign Direct Investment Statistics

Investing Company: Interbrew
Country: Belgium
Investment: Acquisition of Niksic Brewery for USD 25.2 million

Investing Company: Societe Generale
Country: France
Investment: Acquisition of 64.45 percent of Podgoricka Bank for USD 16.8 million

Investing Company: Hellenic Petroleum
Country: Greece
Investment: Acquisition of the 54.4 percent of Jugopetrol Kotor petroleum refinery for USD 120 million

Investing Company: Telenor
Country: Norway

Investment: Acquisition of Promonte mobile operator for USD 145 million

Investing Company: Matav (with Deutche Telecom)
Country: Hungary
Investment: Acquisition of 51 per cent of Telecom Montenegro for USD 142 million

Investing Company: Rusal
Country: Russia
Investment: Acquisition of aluminum plant for USD 58.2 million

Investing Company: Daido
Country: Japan
Investment: Acquisition of Factory of Ball Bearings for USD 11.2 million

Investing Company: HIT Nova Gorica
Country: Slovenia
Investment: Acquisition of the Hotel Maestral for USD 48 million

Investing Company: Beppler & Jacobson
Country: England
Investment: Acquisition of Hotel Bianca for USD 10.8 million

Investing Company: Njega Tours
Country: Russia
Investment: Acquisition of Hotel AS for USD 18 million

Investing Company: Salomon Ent
Country: Russia
Investment: Acquisition of Bauxite Mine (Rudnici boksita AD Podgorica) for USD 12.5 million

Investing Company: Beppler & Jacobson
Country: England
Investment: Acquisition of Hotel Avala for USD 15.2 million

Investing Company: Gradex HPB
Country: Slovakia
Investment: Acquisition of Rudnik mrkog uglja (Dark coal mine) for USD 12.7 million

Investing Company: Springer & Sons
Country: Austria
Investment: Acquisition of Hotel Panorama for USD 9.3 million

Investing Company: LB leasing Ljubljana
Country: Slovenia
Investment: Greenfield investment in LB Leasing Podgorica of USD 10.1 million

Investing Company: Hypo Group
Country: Austria
Investment: Greenfield investment in Hypo Alpe Adria Montenegro of USD 15 million

Investing Company: OTP Bank
Country: Hungary
Investment: Acquisition of CKB bank for USD 134 million

Investing Company: PM Securities
Country: Canada
Investment: Acquisition of Arsenal for USD 4 million

Investing Company: Strabag AG
Country: Germany
Investment: Acquisition of Public Enterprise Crnagora put for USD 10.5 million

Investing Company: MN Speciality
Country: England
Investment: Acquisition of Steel factory Niksic for USD 6.5 million

Investing Company: Aman Resorts
Country: Singapore
Investment: Lease of HTP Budvanska Rivijera ("Sveti Stefan", "Milocer", "Kraljicina plaza") for 1.95 million per year; first year 2.1 million (for 30 years)

Investing Company: Bepler & Jacobson
Country: England
Investment: Acquisition of Ski center "Jezerine" for 0.5 million

Investing Company: Telecom Serbia and Ogalar B.V.
Country: Serbia and Holland
Investment: Greenfield of 16 million

Investing Company: Balkan Energy
Country: Greece
Investment: Portfolio investment in Dark coal mine Berane of 1.5 million

Investing Company: Petrol Bonus
Country: Slovenia
Investment: Acquisition of Montenegrobonus for USD 154.5 million (for six years)

Investing Company: BT International
Country: Switzerland
Investment: Acquisition of "4. Novembar" Mojkovac for USD 6.3 million

Investing Company: Intereuropa
Country: Slovenia
Investment: Portfolio investment in Zetatrans for USD 12.3 million

Investing Company: Morgan Invest
Country: USA
Investment: Portfolio Investment of Titex for USD 2.45 million

Investing Company: Springer & Sons
Country: Austria
Investment: Acquisition of Hotel Panorama for USD 2.5 million

Investing Company: Platzer Leasing & Monte Mlin Sajo
Country: Austria & Montenegro
Investment: Acquisition of Hotel "Vila Oliva" for USD 3.5 million

Investing Company: Barkli SK
Country: Russia
Investment: Acquisition of Hotel "Otrant" for USD 2.5 million

Investing Company: Becovic Management Group
Country: USA
Investment: Acquisition of Hotel "Mediteran" for USD 1 million

Investing Company: Capital Estate
Country: Russia
Investment: Acquisition of Hotel "Grand Lido" for USD 10.8 million

Investing Company: HLT fund & Primorje Tivat
Country: Slovenia & Montenegro
Investment: Acquisition of Hotel "Centar Igalo" for USD 3.1 million

Investing Company: Hungest Hotels
Country: Hungary
Investment: Acquisition of Hotel "Topla" for USD 0.8 million

Investing Company: Hungest Hotels
Country: Hungary
Investment: Acquisition of Hotel "Centar" for USD 1 million

Investing Company: Beppler & Jacobson
Country: England
Investment: Acquisition of Ski center Bjelasica for USD 0.5 million