

20 Annex - Enterprise and industrial policy

154. EXPORT PROMOTION STRATEGY

EXPORT PROMOTION STRATEGY

Podgorica, November 2005

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ABSTRACT

Achieving macroeconomic stability with an enhanced factor of economic growth focused on the increase of export production is a prerequisite of the dynamic economic development of Montenegro and a goal defined in the *Agenda of Economic Reform 2005 – 2007*.

One of the key challenges the current macro politics in Montenegro is faced with, just like in the majority of transition systems, is the substantial balance-of-payments deficit. The **issue of balance-of-payments deficit and a continual problem of massive foreign trade deficit** call for prompt and efficient action, not only because of the pressure of international institutions, but also because it is one of the **priorities of economic sustainability** in a small, open and euroized economy.

The causes of the foreign trade imbalance of many years lie in the structure of Montenegro's economy, as a residue of the former system with a lack of a suitable foreign trade strategy and a concurrent increase in competitiveness in the international commodity market. The continual presence of the foreign trade deficit, particularly the commodity deficit, as a phenomenon of several decades, is caused by the **structure of Montenegro's economy**, which was continually developed as a base of raw materials for the internal market of the former Yugoslavia, creating an imbalance of the total production stock and the consumption structure, undiversified and uncompetitive exports and a heavy import dependence. The commodity deficit is most frequently softened by a surplus in the services sector, but the real causes of the structural imbalance of the Montenegrin economy have remained a challenge for economic policy.

Therefore, the future integrated activity of economic policy-makers in this area will be defined through the creation of a **strategic framework for export promotion**, a developmental document that will approach the problem in the right manner and comprehensively, offering suitable solutions. **The Ministry of International Economic Relations and European Integration**, which is in charge of creating a foreign trade policy, embarked upon the writing of this strategic document in 2005.

It is necessary to point out that **it is the first time that this issue has been approached in a strategically focused way**, with a view to **analyzing the problem thoroughly and proposing a set of concrete measures and activities**, with the active participation and collaborative work of the Government, exporters, representatives of international development organizations and various economic associations.

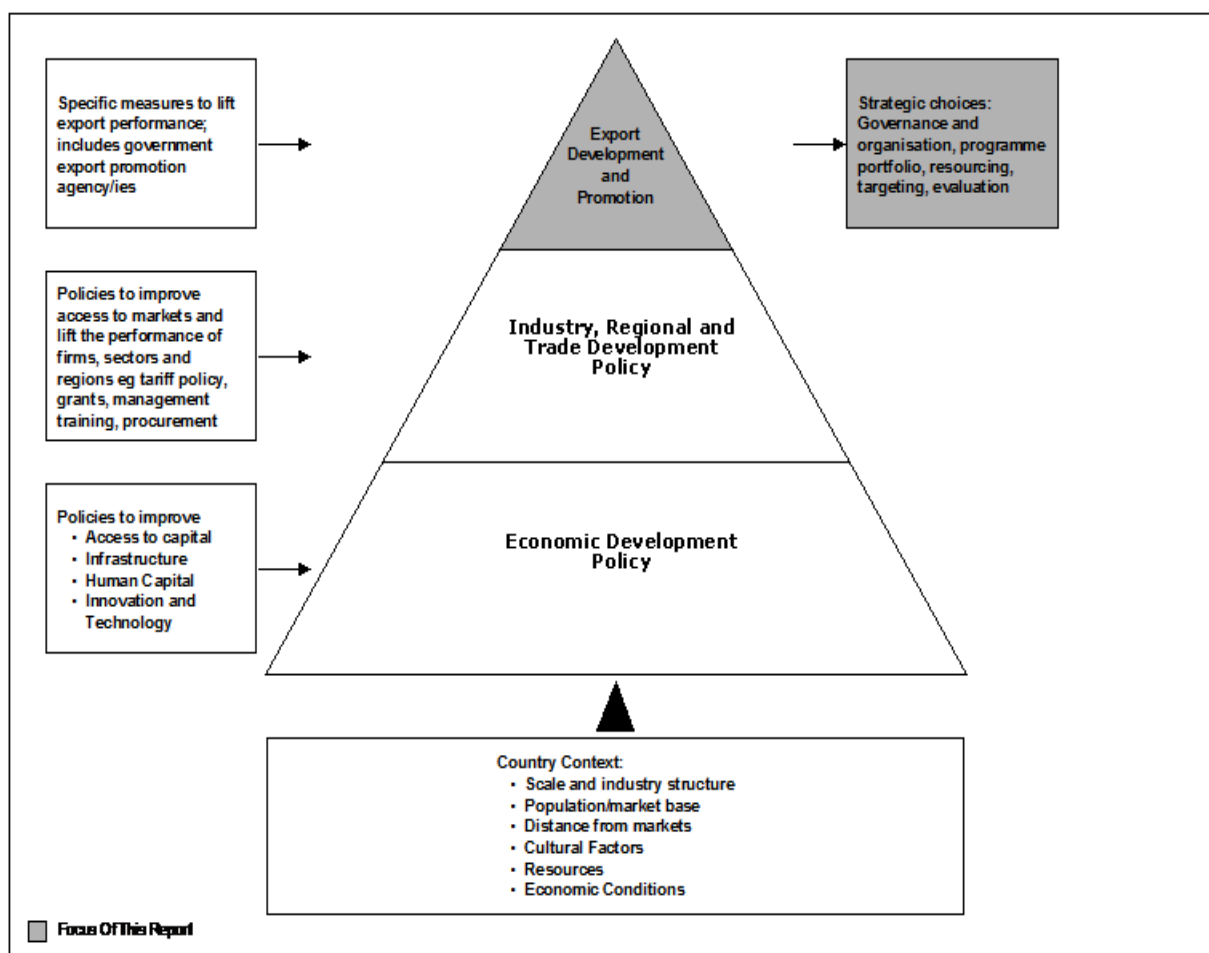
The aim of this document is to make a detailed expert analysis through which it will point to the existing problems and, in harmony with the principles of the WTO and EU, suggest suitable measures, instruments and activities necessary for the future gradual accession of Montenegro to the single European market. The document also offers a detailed monitoring and evaluation program, which should contribute to the efficient implementation of the proposed measures.

THE APPROACH TO THE EXPORT PROMOTION STRATEGY

Montenegro's export growth is highly dependent upon its positioning in the world market. In that sense, the chosen path of Montenegro should be the **creation of an institutional ambient for a more diversified and competitive export sector**, feasible only through a continuous **process of structural reform and market liberalization**.

In the present conditions it is evident that **Montenegro does not have a competitive, diversified and developed export sector**, which creates the need to **intensify activities on the promotion of the listed values**, so that Montenegrin products could be placed in the international market. Even more so for the fact that the international market is characterized by a dynamic growth of competitiveness, fast adoption of new technologies, an accelerated production cycle, increased quality of products, flexibility of companies in their activity, exceptional knowledge of other markets and the features of their demand.

Montenegro's export products have to compete in such an environment (quality, pricing policy, the promotion and speed of delivery), which means that Montenegrin export-oriented companies should be flexible and follow the movements in foreign markets, have elaborate export programs and be ready to invest in people and new technologies, which will enable them to become members of the global trade network.



Source: Export Development and Promotion, Lessons from Four Benchmark Countries, the Boston Consulting Group, 2004.

The vision of Montenegro's Export Promotion Strategy implies enabling Montenegrin exporters to think of markets globally and to invest locally, in order for them to become competitive, to constantly keep pace with the changes in the market and to respond quickly to the potential business opportunities in the vicinity.

It is on Montenegrin exporters to take the initiative, and on the Government of Montenegro, that is, on the competent institutions, to enable them, through all forms of institutional action, to join trade

flows – in this sense the Export Promotion Strategy is a document which will help the state and private sectors to join their resources, energy and potentials.

THE GOAL OF MONTENEGRO'S STRATEGY FOR EXPORT PROMOTION is to increase the scope, diversity and quality of Montenegro's export products and to provide institutional support to Montenegro's exporters in the identification of suitable markets, the placement and survival of products in the markets.

The goal defined in this way lays an **array of principles on which the Strategy will be based. While offering them, we were led by the best practice in other countries, which have ensured the efficient implementation of their own national Strategies.** Naturally, the principles have been adjusted to the needs and capacities of exporters, and the realistic capacities of the state and the private sector in the area of export policy. The success of the Strategy will mainly depend upon the active participation and commitment of all, primarily the state institutions and exporters themselves, as the carriers of its implementation.

THE BASIC PRINCIPLES OF MONTENEGRO'S EXPORT PROMOTION STRATEGY

- **Export promotion must be based on information about movements in the international market, so that, in future, export becomes flexible enough to be able to adjust to the changes in demand in these markets;**
- **While exporting their products, exporters will be given full support by the competent institutions. Financial means for export production and loan guarantees will be provided through the new financial mechanisms; at the same time, a suitable organizational form will be offered whose main function will be the provision of expert assistance (technical assistance in developing an export strategy of the company, export promotion, giving information about the possibilities and the conditions of export in certain markets...);**
- **Joint programs of promotion and assistance should be realized through the existing network of export associations, which will be supported by the competent state institutions towards strengthening their own capacities;**
- **While ranking export companies, objective criteria will be used and priority will be given to those companies that are already ready for foreign markets;**
- **Special attention will be paid to an increase in the export capacities of small and medium-sized enterprises;**
- **A heavy emphasis will be put on export promotion in the SEE region (full implementation of the free trade agreements), on developing markets, and on the developed markets of the European Union;**
- **The Export Promotion Strategy will be in full compliance with the international standards and rules, valid free trade agreements (FTAs) and future memberships in international associations - WTO and EU.**

Given that this is the first strategic export promotion document in Montenegro, which has the ambitious task of increasing Montenegro's export through participation in the existing markets and penetration into new ones, **it is necessary to analyze all system difficulties that exporters are faced with** in each phase of export operation. The mission of the Strategy is formulated in that direction.

THE MISSION OF THE STRATEGY is to reduce or soften system difficulties and other barriers to export, as well as to provide adequate technical and financial assistance to exporters in all phases of export operation.

Hence, the strategy will focus on each **phase of export**¹:

- the identification of markets and consumers,

¹ See Chapter III – Montenegro's Export Strategy – Goals and Measures

- the development and adjustment of products / the adoption of technical regulations and international standards,
- the analysis and preparation of a promotion strategy for the selected markets,
- the improvement of productivity and product quality,
- production / access to new technologies and strategic partnership,
- the launching of products, their promotion and sale;
- the analysis of the results and the implementation of the strategy.

Each of these phases calls for different forms of assistance, whether it be technical, export or financial support. Through the proposed set of measures and activities, and the Action Plan for the promotion of priority export products, the Export Promotion Strategy will attempt to contribute to the improvement of the weakest spots in this process, which have already been identified with most exporters in their financing and insufficient knowledge of the possibilities of alternative sources of financing. The strategy will pay special attention to this issue, particularly in terms of the financing of small and medium-sized companies, which have the greatest problems in ensuring both short-term and long-term sources of financing.

THE STRUCTURE OF MONTENEGRO'S EXPORT PROMOTION STRATEGY

Montenegro's Export Promotion Strategy is a project run by the Ministry for International Economic Relations and European Integration, with adequate participation of state institutions (the Ministry of Economics, the Ministry of Finance, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Tourism, the Directorate for the Development of Small and Medium-Sized Companies), representatives of international organizations (USAID, EAR, GTZ, WB), economic associations, as well as exporters themselves.²

The Strategy is divided into four chapters:

Chapter 1 – *Global Foreign Trade Flows* – provides a concise overview of the most important **trends in the world trade flows, their scope, structure and future prospects**. An overview of the trade flows of **transition and SEE countries** is given in the same way, with an attempt to provide a cross-cut of the **scope, structure and intensity of trade with the EU, as well as the significance of the current FTA implementation and trade within the Western Balkan countries**.

Chapter 2 – *Foreign Trade Analysis* – offers a detailed analysis of Montenegro's foreign trade from the following aspects:

- **The time aspect**, with a view to gaining an insight into Montenegro's trade flows in the period before and after the pursuit of an independent economic policy (until and after 2000);
- **The structural aspect**, with a view to gaining an insight into the structure of Montenegro's export, its diversification and scope;
- **The spatial aspect**, with a view to obtaining a clear picture of the most important trade partners and promising trade partners. At the same time, the detailed analyses of the most important markets – Serbia and Kosovo, EU and SEE, were also useful for the **SWOT analysis**, and the creation of the **Action Plan of the competitive Montenegrin products given in Annex 1**.

Chapter 3 – *The Export Promotion Strategy – Goals and Measures* – is the key part of the Strategy and represents a concise tabulated overview of the most important **goals, measures and instruments** for the achievement of these goals, institutions which will take part in the implementation, the time frame for their realization and the projection of the initial fiscal effect.

In terms of the scope of their implementation and effects, the measures are divided into:

1. **the macro level** – financial, fiscal and legislative solutions necessary for the creation of global conditions for export promotion,

² A significant portion of information was obtained in a direct communication with exporters through a **Questionnaire** created in accordance with the needs of this document.

2. **the micro level** – financial, fiscal and institutional measures and programs with a direct impact on export companies,
3. **the institutional level** – an overview of institutions for connecting export companies.

Chapter 4 – The Evaluation and Monitoring System – represents an overview of the principles for the creation of the evaluation and monitoring system of the Strategy, and also offers the structure of the Performance Monitoring Plan (PMP) as an instrument for monitoring the implementation of the Strategy. The PMP includes an overview of evaluation indicators, the periodicity of evaluation, institutions for the monitoring of implementation results data, monitoring institutions, institutions for evaluation, and the fiscal effect of monitoring and evaluation during the implementation of the measures described in Chapter 3.

The Strategy also includes **three Annexes**:

Annex 1 – Action Plan – provides an overview of the SWOT analysis of the competitiveness of Montenegro's export products in relation to the UN and SEE markets. It represents a tabulated overview of the currently most competitive Montenegrin export products which need to be supported by operative objectives and measures given in the same overview, with a view to bolstering their competitiveness or to reducing import dependence.

Annex 2 and Annex 3 – the Agricultural Sector of Montenegro and the Sector of Wood-Processing Industry offer a short overview of these sectors viewed from the standpoint of their present production, future prospects for the reduction of import dependence and the enhancement of export potentials.

The Summary, List of Abbreviations and List of Tables included in the Strategy enable a more efficient approach to its analysis.

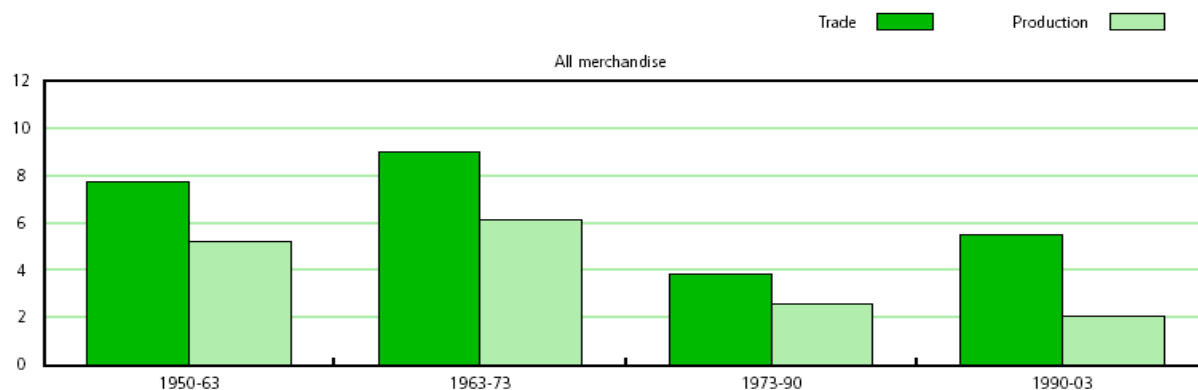
We use this opportunity to thank all state institutions, international organizations, non-governmental organizations and particularly exporters who, directly or indirectly, contributed to the creation of the Export Promotion Strategy through their suggestions, proposals, already prepared documents, analyses, and by filling in questionnaires.

I GLOBAL FOREIGN TRADE FLOWS

1. TRENDS IN WORLD TRADE

Foreign trade is the oldest and, indisputably, the most wide-spread and most developed form of economic cooperation between countries. Increasingly strong foreign trade, as well as the connection between the modern economic systems is a growing global trend which exceeds the production growth rate.

G1 - Average growth rates of world foreign trade and production 1950-2003



Source:

e: WTO, Annual Report 2004;

The expansion of foreign trade, measured by the export growth rate, showed an average 7% growth in the period 1995-2000, 3% in 2002 and 4.5% in 2003. The estimates for 2004 are at the level of 8.5% (WTO). In 2003 the growth of merchandise trade was registered in all three sectors: agricultural products (3%), industrial products (2.5%), and particularly in the exploitation of ore deposits (5%).

T1 - Growth in the volume of world merchandise exports and production by Major commodity groups, 1995 – 2003 in%

Annual percentage change	1995-00	2001	2002	2003
World merchandise exports	7	-0.5	3	4.5
1. Agricultural products	3.5	2.5	3.5	3
2. Mining products	3.5	1	0.5	2.5
3. Manufactures	8	-1	4	5
World merchandise production	4	-0.5	1	3
Agricultural products	2.5	1.5	1.5	2
Mining products	2	-0.5	-0.5	3.5
Manufactures	4	-1	1	3
World GDP	3	1	1.5	2.5

Source: www.wto.org

As regards prices in the world market, in 2003 the rise in the prices of raw materials and agricultural products exceeded the rise in the prices of industrial products. In the period 2000-2003 agricultural products achieved the highest growth rate in the world exports (7%), while various

related services in trade also increased by 7% on average. The most significant growth was achieved in 2003 (agricultural products 15%, ores and metals 21%, commercial services 13%).

The growing trend of foreign trade has its specific regional dimension, too. If we take the year 2003, the highest growth rate of exports, but of imports too, was registered in the groups of countries of Central and Eastern Europe, which is linked to the intensification of the process of economic integration in the year preceding their full accession to the EU.

2. FOREIGN TRADE FLOWS IN TRANSITION AND SEE COUNTRIES

Transition countries recorded by far the most significant GDP growth of **5.8%** in 2003, exceeding the growth of the world GDP for the past four years (3% in 2003). Transition countries achieved a two-digit growth in 2003 both in imports (27%) and in exports (28%). Industrial merchandise trade increased by a quarter, primarily in the production networks of the automobile and electronic industries with EU-15. Services trade rose by over 15%. Income from tourism and travel industry recorded the greatest growth (16% even), which, together with services, makes the most significant item in services trade in the countries of transition economies. As a consequence of the creation of various forms of free trade agreements, the reduction of market barriers in the region, as well as the additional inflows of FDI which are to complete the privatization process in transition economies, a further trade growth of 6.8% is expected in the region.³ In the listed trends we may notice a direct link with the accession process of the countries of Central and Eastern Europe towards the EU, when, with an inflow of investments in the region, the creation of a free trade zone, the abolishment of customs barriers and the reduction of other transaction expenses, an increase in foreign trade with the EU ensues. The scope of trade of new EU members immediately before the accession rose to the level of 66% of total trade, the same level that EU countries have between each other.

T2 - GDP and foreign trade in transition economies, 1995-2003⁴ (growth rates in %)

	TRANSITION ECONOMIES					I. CENTRAL AND EASTERN EUROPE					II. RUSSIAN FEDERATION				
	'95-00	'00	'01	'02	'03	'95-00	'00	'01	'02	'03	'95-00	'00	'01	'02	'03
GDP	2.3	7	4.5	3.7	5.8	3.2	3.8	2.7	2.5	3.8	1.6	10	5	4.3	7.3
Export	7	26	5	10	28	8	14	12	15	30	5	40	-2	4	25
Import	4	14	11	11	27	9	13	9	11	28	-6	13	20	12	23

Source: www.wto.org

The development of bilateral economic relations and regular economic cooperation in general in the region of South-East Europe, particularly in the so-called **Western Balkan** countries, in the last decade of the 20th century, due to the political crises and wars which adversely affected the economic development of the entire region for a rather long period of time, almost totally ceased. On the other hand, the mentioned preconditions gave rise to an increase in the grey economy in the whole region.

In the period from 1991 – 1999, from the foreign trade aspect the SEE countries did not have the character of a region since regional trade in this period was at a far lower level than could have been expected from the countries directed to each other by their geographical position. Such a low level of regional trade led to the creation of a wrong presumption that the SEE countries would not establish regional economic links, but would operate as small marginal economies with trade connections based upon the traditional economic cooperation. (Croatia – Germany, Albania – Greece, Montenegro – Italy.)⁵

³ WTO, "Internal Trade Statistics", 2004

⁴ WTO, "Internal trade statistics", 2004

⁵ Source: WIIW, Trade Flows in South-East Europe, Nov.2004;

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T3–Selected macroeconomic indicators of the countries in the region in 2003 in mill.Eur and %

	ALB	B&H	BUL	CRO	MAC	ROM	SERBIA	MONTENEGRO
GDP (Eur million)	5,326	5,499	17,600	25,460	4,065	2,316	16,267	1,375
GDP/pc	1,710	1,421	2,249	5,079	2,047	2,332	1,914	2,231
Growth rate of GDP (%)	6	3.5	4.3	4.3	3.2	4.2	5	2.5
Export (in mil.)	396	1,166	6,700	5,467	1,273	15,614	2,189	305
Import (in mil.)	1,644	4,341	9,600	12,557	1,944	19,569	6,472	713
Trade balance	(1,248)	(3,175)	(2,900)	(7,090)	672	(3,060)	(4,283)	(408)
Inflation (%)	4	1.8	5.6	1.5	1.2	14.5	7.8	6.7
FDI (million)	157	200	1,254	1,766	177	1,405	1,202	39

Source: WIIW Handbook of Statistics 2004

Gradually, in the recent years of economic recovery, transition and the opening of the process of accession to the EU, conditions were created for the establishment of new political and economic ties between the countries of the region. This was particularly prompted by the initiative of the **Stability Pact for South-East Europe** through the creation of bilateral free trade agreements, on the basis of the Memorandum of cooperation in the area of foreign trade liberalization from 2001. Free trade agreements established the Balkan free trade zone in the market of nearly 55 million consumers.

In the latest free trade matrix of the SEE region, in the documents of the Stability Pact, apart from the countries listed in the table below, there is also Turkey. Turkey has signed free trade agreements with Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia and Romania. It also has a free trade agreement with the EU. Since June 2004, Kosovo, too, has found its place in the free trade matrix of the region: it has signed a free trade agreement with Albania, and is currently conducting negotiations with Bosnia and Herzegovina, Macedonia and Romania.

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T4 - Free Trade Bilateral Agreements in the Southeast Europe

	Albania	Bosnia-Herzegovina	Bulgaria	Croatia	Macedonia	Moldova*	Romania	Serbia & Montenegro*	UNMIK/Kosovo***
Albania		Applied 01/12/04 WTO ****	Applied 01/09/03 WTO	Applied 01/06/03 WTO	Applied 15/07/02 WTO	Applied 01/11/04 WTO	Applied 01/01/04 WTO	Applied 01/08/04 WTO	Applied 01/10/03 WTO
BiH			Applied 01/12/04	Applied 01/01/05 WTO	Applied 01/07/02	Applied 01/05/04 WTO	Applied 01/12/04 WTO	Applied 01/06/02	I round FTA negotiations Pristina 21-25/02/05
Bulgaria				CEFTA 01/03/03 WTO	Applied 01/01/00 WTO	Applied 01/01/05 WTO	CEFTA 01/07/97 WTO	Applied 1/06/2004	
Croatia					Applied 11/06/97 Revised 11/06/02 Applied 11/07/02	Applied 01/10/04 WTO	CEFTA 01/03/03 WTO	Applied 01/07/04	
Macedonia						Applied 01/01/05 WTO	Applied 01/01/04 WTO	Applied 7/10/96 Reviewed 09/05	II round FTA negotiations 1Q/05
Moldova							Applied 17/11/94 WTO	Applied 01/09/04 WTO	
Romania								Applied 01/07/04 WTO	Under preliminary analysis
Serbia & Montenegro									
UNMIK/Kosovo									

Full implementation of 29 signed bilateral free trade agreements (liberalization of the agricultural and industrial markets) is planned to be carried out by the end of 2006, although now, within the Stability Pact, initiatives are being launched for the creation of a single free trade agreement, the so-called **Multilateral agreement**, which would be signed by all countries of the Region (Single Free Trade Agreement – SFTA). This agreement, as has been announced, would not be joined by Romania and Bulgaria due to their recent accession to the EU.

When we observe the region, i.e. when we speak of free trade in the region, we focus on Albania, Bosnia and Herzegovina, Bulgaria, Romania, Croatia, Macedonia and Serbia and Montenegro, including Kosovo. The gradual stabilization of economic and political conditions in the region, trade liberalization and the reduction of non-customs barriers through the initiatives of the Stability Pact slowly lead to an increase in economic cooperation.

According to the data of the Vienna Institute of International Economic Studies (WIIW), the share of the regional trade gradually increases in the total exports achieved, which can be seen in the table below.

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T5 - Exports to SEE7 countries as a percentage of total exports

Country Year	ALB	B&H	BUL	CRO	MAC	ROM	S&M
1998	2.3	54.1	7.0	16.0	19.2	2.9	33.0
1999	2.1	42.9	8.6	14.7	20.4	2.9	33.8
2000	2.1	30.5	12.6	12.0	30.9	2.3	28.2
2001	2.8	31.2	9.8	17.4	38.3	3.1	28.7
2002	2.2	37.2	9.3	19.2	20.0	2.9	31.1
2003	4.0	32.0	9.4	19.5	32.6	3.1	30.7

Source: IMF Direction of Trade Database, with calculations (WIIW, 2004);

Bosnia and Herzegovina, Serbia and Montenegro and Macedonia have about a third of the total **exports** achieved in the region, Croatia about 20%, Bulgaria about 10%, while Albania and Romania are the least integrated countries in the regional trade cooperation (below 4%). As regards **imports**, Bosnia and Herzegovina shows the greatest import “dependence” in the region (32.5%); it is followed by Macedonia (20.8%), Serbia and Montenegro (13.7%), Albania (6.7%), Croatia (3.9%), Bulgaria (3%) and Romania (a mere 0.9%) in 2003.

The high balance-of-payments deficit, which is characteristic of the countries of the region (10% of GDP on average), and which is primarily caused by the high **foreign trade deficit** (in 2004 it amounted to 23.4% of GDP on average), will remain a considerable structural constraint on the development of these economies.⁶

⁶ The greatest problem with the balance-of-payments deficit is faced by Bosnia and Herzegovina - 29.56% in 2003, and then Serbia - 10.47%, while this deficit in Montenegro (7.3% in 2003) falls in the category of moderate balance-of-payments deficits in the region. If we analyze the structure of balance of payments in the SEE region, we shall see that only Romania, with the foreign trade balance deficit of 9% of GDP and the balance-of-payments deficit of 7.5%, reminds of the new EU countries.

ICEC Euro Center Forecast , 2005 (for details visit www.eurocentar.com)

SOME HIGHLIGHTS FROM THE SURVEY FINDINGS:

Resources of the companies

- Western Balkan companies appear to be relatively well equipped in terms of office computerisation but they need to invest more effort and resources into modern communications, such as e-mail, and into foreign language skills of their staff in order to increase their export potential and competitiveness abroad.
- When doing their market research companies tend to rely mostly on in-house research through internet, publications and attending international trade fairs.
- A significant number of companies turn to external sources of financing, such as local and foreign banks. It is more difficult for small companies to obtain financial support from foreign banks than it is for big companies. Strong domestic banking sector is therefore vital for successful functioning of small enterprises.

The importance of South-East European market at present and potential for business

- Trade liberalisation in South-East Europe should bring about a significant or at least reasonable improvement in business prospects for Western Balkan companies. However, some companies fear that non-tariff barriers may undermine the benefits of Free Trade Area.
- In spite of the fact that quite a few companies have had a recent positive experience of trading with other South-East European countries, the Survey manifests that there are a number of non-tariff barriers that impede trade within the region. Customs procedures have been ranked as the most significant barrier to trade, closely followed by bureaucratic company registration, technical standards and certification, quality control and access to end users.

The importance of the EU market for exports and the prospect of EU accession

- Quite a number of companies claim to be fairly familiar with the EU markets and to have a long history of trading with the EU. In spite of this, the level of companies' familiarity with the EU acquis communautaire is rather low.

The areas of the EU legislation that seem to be of most relevance for the companies include product certification and technical standards, rules of origin, consumer protection and producer liability.

- A lot of companies in Western Balkans seem to be rather pessimistic about the impact that the current enlargement of the EU will have on their business prospects. They fear that potential investors would rather invest in new EU Member States than in Western Balkans. They also think that the companies in the enlarged EU will be less interested to do business with the neighbouring countries as their commercial interests will be diverted to the new comers in the single market and that protectionism in the EU will increase.

- On the other hand, companies in Western Balkans are fairly optimistic about the benefits of their countries' accession to the EU. They expect an easier access to the EU markets as well as to the EU capital markets, bigger inflow of foreign direct investment. They also think that entry into the EU will result in improvements in the functioning of the home market in terms of more transparent business practices in the area of competition rules, state aids and public procurement.

- In companies' experience Euro Info Centres, European Commission, local EU Delegations and national governments have not been very effective sources of information on EU legislation. Companies are much more satisfied with general internet sources, EU website, EU business partners and local Chambers of Commerce.

Chambers' role in international trade promotion

- The assessment of Chamber services in international trade promotion clearly manifests that there is room for improvement in the quality of the supplied services. Chambers should consider putting more resources into innovative and value-added trade promotion services, such as market research, information on commercial opportunities in foreign markets. Traditional trade promotion services, such as trade missions, trade fairs, export clubs, remain very important as well.

Source: Competitiveness of Western Balkan Companies, Eurochambers 2004.

II FOREIGN TRADE ANALYSIS

1. FOREIGN TRADE FLOWS IN THE PERIOD 1989-2004

In the late eighties foreign trade was characterized by a surplus, but with undiversified exports and a high coefficient of import dependence. Income from services, particularly from tourism and seaborne trade, made up 20% of GDP.

In the late eighties, the share of commodity exports in Montenegro's GDP was 18%, the export of goods and services almost 40% (the total exports were \$ 516m in value, imports \$ 278m, the coverage of imports by exports was 1.85, with an openness rate of 63%). However, 70% of commodity exports were concentrated in three companies, having undiversified structure, insufficient flexibility for fast adjustments and no strategy for penetrating alternative markets). This export was (and still is) expensive, for the coefficient of import dependence has been very high, e.g. in 1989 it was 0.51⁷;

T6 - Montenegro – exports and imports of goods and services in 1989.

Exports of goods:				Imports of goods:					
KAP	138,8	Željezara	22,3	263,0	KAP	44,8	Željezara	38,0	172,0
Obod	18,3	Others	83,6		Obod	19,5	Others	69,7	
Revenues from services ⁸ :						Expenditures from services:			
- tourism ⁹	130,0	- transport	123,6	279,6					77,0
- other	26,0								
Export of goods and services (mill \$)				542,6	Import of goods and services (mill \$)				249,0

Source: National Bank CG;

At the same time, in the overall production of goods, nearly 50% was placed in the markets of the former Yugoslav republics, which indicates Montenegro's great openness to other markets, as well as high dependence on the former Yugoslav republics¹⁰. According to the trade matrix from 1986, Montenegro »sold« 27% of its goods in the Serbian market (including Kosovo), while Serbia placed 3.6% of its goods in the Montenegrin market.

Montenegro's foreign trade in the past ten years has had a negative balance. The main causes are well-known and stem primarily from **three key factors**: the break-up of the SFRY and its single market, the war in the vicinity and the sanctions imposed by the international community, which resulted in the reduction of the overall economic activity, the drastic reduction of international economic relations and the reduction of export, both of goods (industry), and of services (tourism, seaborne trade). The overall economic structure has changed dynamically. We have fallen behind by several technological generations. The competitiveness of our products in the international market has dropped significantly. On the other hand, the conditions in the international market are increasingly rigid and standards higher.

Under these circumstances, we could hardly have spoken of an organized **foreign trade policy**, which could have in a short period of time significantly reduced the foreign trade deficit and encouraged local producers to increase export.

Unregulated relations in the internal market of Montenegro, Serbia and Kosovo were a major constraint. During the nineties, particularly at the time of the economic sanctions, trade relations were substantially enhanced and to a great extent were present in the informal sector, too.

⁷) The ratio of the **import of reproduction products and the export of goods**. In order to achieve \$ 1 of commodity exports, it was necessary to import \$ 0.51 of necessary commodity input. (In the structure of commodity imports, raw and production materials make up 78%. Extremely heavy import dependence, which is hard to replace by domestic production. With certain companies this coefficient exceeded 2).

⁸) Montenegro in sector of services achieved significant deficit in foreign trade (revenues from maritime industry and tourism were near 90% of total service revenues)

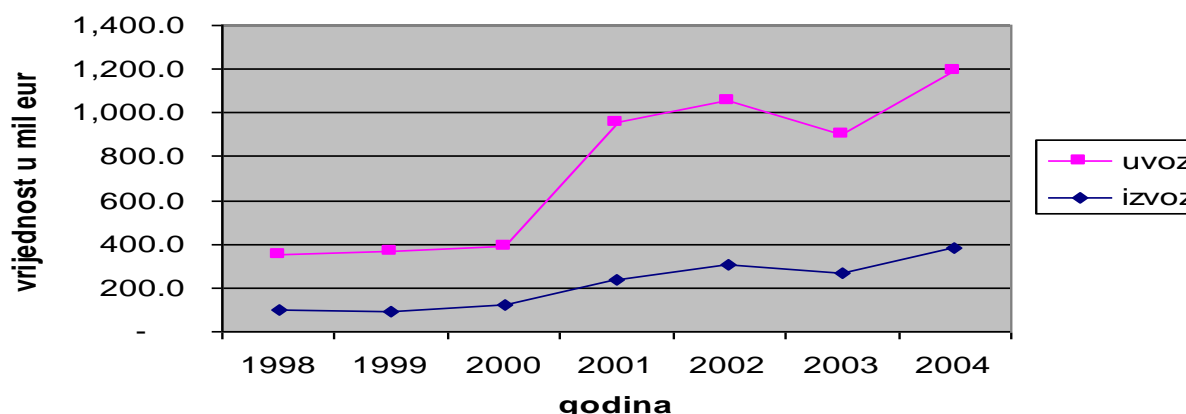
⁹) Revenues from foreigners in tourism were around 31% of total service revenues.

¹⁰) The main industrial capacities in Montenegro were mostly built for further reproduction use in the other Yugoslav republics. The rigid and over industrialized economic structure in the late eighties (to mention only the characteristics of industrial capacities such as: high consumption of electric power, high costs of essential and investment maintenance, etc) was extremely unadjusted to domestic and foreign demands, so after the break-up of the SFRY and the isolation, Montenegro was one of the republics with the greatest negative effect on the production.

However, the last challenges in the period **1997-2001** were brought by growing discrepancies in economic priorities and economic policies. **The reduction of trade flows** ensued and differences in the foreign trade and customs policies appeared (according to the estimates for 2000-2001, Montenegro placed a mere 4.4% of its goods in the Serbian market and bought under 11 % of goods from Serbia).

The foreign trade policy in the period 2001-2004 was characterized by a gradual increase in competences in the area of foreign trade and customs policy, and by trade liberalization in the region. Through free trade agreements and trade with the EU, through autonomous trade exemptions, slowly but still insufficiently Montenegro returns to the international trade flow. Montenegro's foreign trade for the period in question is presented in the following graph:

G-4. Comparable scheme of Montenegrin exports and imports, period 1998. – 2004.



The

graph above shows a clear connection between the dynamic process of foreign trade liberalization, the mild recovery of GDP and the import growth rate. The table below (T7) provides an overview of main indicators in foreign trade in relation to GDP in the period 2000 - 2004:

T7- Balance of trade and its % share in GDP of Montenegro in mill.Eur

Year	GDP	Imports of goods in Mil €	Growth rate of import	%of imports in GDP	Exports of goods in Mil €	Growth rate of exports	% of exports in GDP	Degree of openness	Import by export coverage ratio
2001*	1.245	722.4		58.02	235.2		8.89	76.92	32.56
2002*	1.250	742.8	2.8	59.42	309.6	31.6	24.77	84.19	41.68
2003*	1431.6	629.9	-15.2	45.81	270,6	-12.6	19.68	65.49	42.96
2004* ¹¹	1540.45	869.61	38.1	56.41	452.14	67.1	29.35	85.8	51.9

Source: Annual report, CBMN

On the basis of these indicators we may draw the following conclusions:

- Montenegro represents an **open economic system** (the openness rate in 2004 was 85.8%), and is characterized by considerable import dependence. Constantly high imports in 2001 and 2002, which amounted to € 722.4m, and 742.8m, in 2003 dropped by 15.2%, to rise substantially in 2004 breaking the limit of € 850m, and showing a 38.1% growth in relation to the preceding year, with a 56.4% share in GDP;
- **Great import/export dependence** – the growth of exports conditions the growth of imports. Concurrent with the growth of imports, a 67.1% growth of exports occurred in 2004 in relation to the preceding year and it amounted to € 452.14m;
- **A low level of coverage of imports by exports** – a relatively faster growth of imports compared to that of exports led to the rise in the level of coverage from 42.96% (in 2003) to 51.9% (in 2004). This becomes even more significant if we take into account the fact that

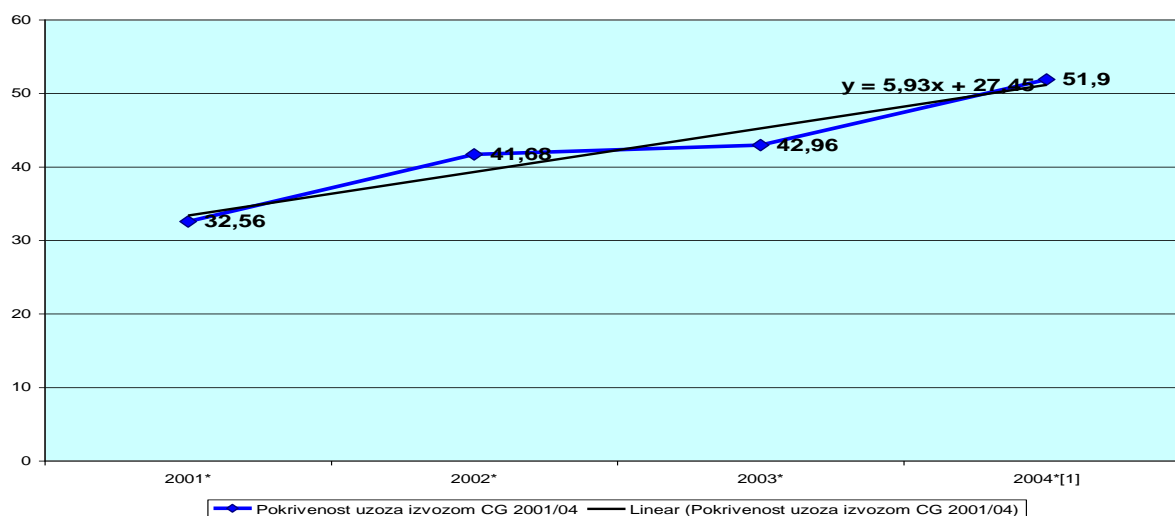
¹¹ Source: CBMN, data provided on May 10th 2005./revised, final data

the level of coverage of imports by exports in 2001 was a mere 32.56%, so we may conclude that since 2001 Montenegro has had a steady growing trend in the coverage of imports by exports, which exceeded 50% of imports for the first time in 2004.

- In 2004 the foreign trade deficit amounted to 27.1% of GDP (€ 417.4m) or slightly over a quarter of GDP, which is a rise of around 16.09% in the absolute amount in relation to the foreign trade deficit shown in 2003 (€ 359.3m) which was 25.1%.
- In 2004 a mild rise in the share of the **foreign commodity deficit** occurred¹², although the relative growth of the foreign trade deficit was 16.1% in relation to 2003; it was greatly inhibited by the positive balance of services which showed a 28.3% rise in 2004.

On the basis of the linear trend of coverage we may conclude that in the period 2001-2004 the average rise in the coverage of imports by exports was only 5.95% per year. Also, on the basis of the linear regression, we may conclude that the average decrease of the foreign trade deficit in the period 2001-2004 was € 28.21m per year.

G-5. Trend of Montenegrin import by export coverage ratio 2001-2004



2. THE ANALYSIS OF THE FOREIGN TRADE FLOW STRUCTURE

2.1. Exports Achieved by Countries and Groups of Countries

Serbia and Kosovo represent Montenegro's most important export market. The exports achieved there in 2004 were € 192.5m and make up **42.6%** of the **total Montenegrin exports**. Compared to the observed period in 2003, exports to these markets were higher by **107.1%**. In 2002 Serbia's share in Montenegro's overall exports was a mere 8.3%, and in 2003 **29.9%**; the share of Kosovo in the total exports in 2002 was 18.8%, and in 2003 **4.4%**. By the adoption of the Law on the action plan of the harmonization of the two economic systems of the member states of Serbia and Montenegro (15 August 2003) a significant part of Montenegro's exports were redirected to Serbia.

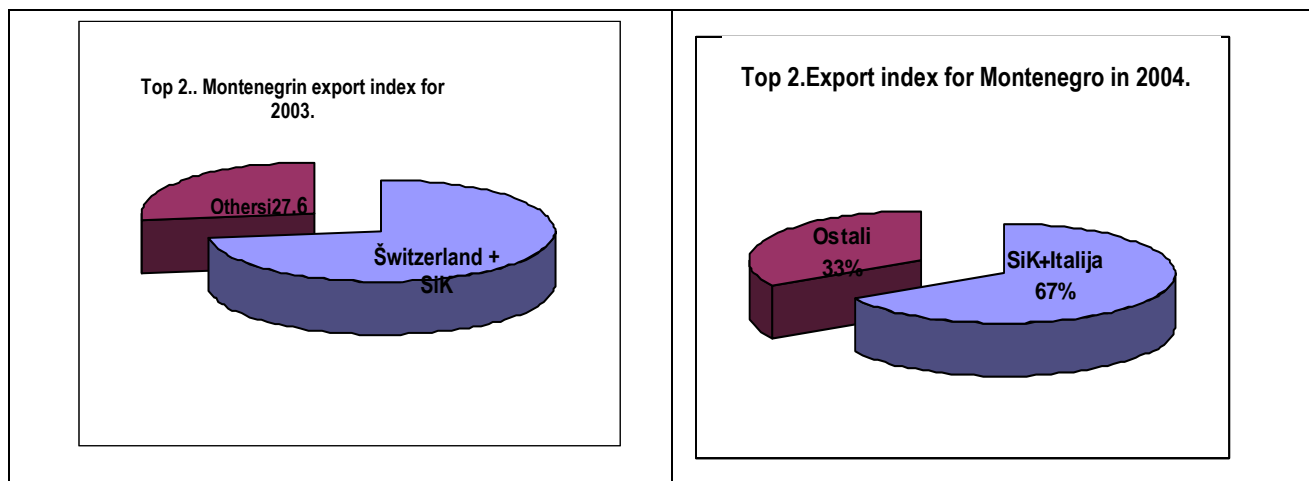
Another very important export market for Montenegro's products are EU member states, where a significant dynamics was achieved in 2004 (39.7%) compared to 2003 (15.2%). As regards the structure of the major importers, it depends on the aluminum export. By redirecting the aluminum export from the **Swiss** to the **Italian** market in **2004**, Switzerland lost the status of Montenegro's most important export market. Simultaneously, with a **24.2%** share in the total exports of Montenegro, Italy **becomes the second biggest export market** by the value achieved. **Exports to Italy are about five times higher** (G-7).

¹² Currently, the foreign trade deficit coupled with a high unemployment rate represents the most significant cause of macroeconomic instability. If we add together the values of the foreign trade deficit in the past three years, we can see that the outflow of money from Montenegro on the basis of the foreign trade deficit approaches Montenegro's GDP from 2002.

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Also, as a result of the redirection of aluminum exports, **Greece** takes the third place; in 2004 the **exports to this country increased by € 35.97m**, or nearly eight times in relation to the comparable period. The greatest relative exports growth in 2004 was achieved with **Spain**, which brought this country to the fourth place by the share in Montenegro's exports achieved. The diversification of the placement of aluminum and its products to various markets **represents a step forward as it prevents the dependence of the greatest portion of Montenegro's exports on one market – country.**

G-6 The most important export partners of Montenegro in 2003. and 2004.



Top 2. Index of Montenegro's exporters indicates the **reduction of export concentration by 5.4%** compared to **2003** (from **72.4%**, the percentage of exports towards Switzerland and Serbia and Kosovo in 2003, to **67% in 2004**, the percentage of exports to Serbia and Kosovo and Italy).

The third important export market is the Western Balkan countries, where a cumulative growth of exports is achieved in 2004. The rise of export to the Western Balkan countries points to the gradual penetration – **return to the markets in the region and an increase in the competitiveness of Montenegrin commodities**, which is primarily a product of the realization of the free trade agreements. **The most important trade partners are:** Bosnia and Herzegovina, Croatia and Albania, which can be seen in Table T-8.

Another positive change in 2004 is the fact that Montenegro managed to **improve the level of coverage of imports by exports with almost all neighboring countries (with which it has intensive trade)**

T8- Exports of Montenegro by countries in 000 € and %

EXPORTS	2003	%100,00	2004	%100,00	Index 167,10
	<u>270.574</u>		<u>452.147</u>		
Developed countries					
Italy	19.970	7,38	109.405	24,20	547,85
Greece	5.109	1,89	41.075	9,08	803,97
Switzerland	102.920	38,04	25.114	5,55	24,40
Spain	268	0,10	5.995	1,33	2236,94
Netherlands	714	0,26	5.236	1,16	733,33
United Kingdom	394	0,15	5.093	1,13	1292,64
Virgin Islands	4.473	1,65	2.869	0,63	64,14
Germany	1.824	0,67	2.501	0,55	137,12

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Cyprus	5.953	2,20	6.378	1,41	107,14
Hungary	2.420	0,89	6.052	1,34	250,08
Slovenia	2.139	0,79	2.824	0,62	132,02
Transition countries					
Serbia and Kosovo	92.999	34,37	192.594	42,60	207,09
Bosnia and Herzegovina	17.091	6,32	16.839	3,72	98,53
Croatia	5.275	1,95	7.386	1,63	140,02
Albania	2.171	0,80	5.376	1,19	247,63
FYR Macedonia	888	0,33	562	0,12	63,31
Others	8.036	2,05	16.647	3,68	304,78
Country groups					
EU-25	41.0	15,2	179.6	39,7	438,1
Western Balkans	25.6	9,5	30.4	6,72	118,6

Source: The Data based on the custom declarations and the balance of payments statistics , CBMN

2.2. Imports Achieved by Countries and Groups of Countries

The most important import partner of Montenegro are EU member states, whose share in the total imports in the past few years has been at the level of about 40%; the imports structure is based upon the products of oil industry, sources of energy, automobile and electronic industry. Among Montenegro's major import partners from the EU are: Italy, Greece, Slovenia, Germany and Austria.

The second most important import market is Serbia and Kosovo, which represents 34.8% of total imports. In the period observed, the total imports from this market increased by 39.7%. The growing trend of imports from Serbia, particularly prominent upon the adoption of the Law on the action plan of the harmonization of the two economic systems of the member states of Serbia and Montenegro. In other words, the demands of internal harmonization in the form of defining a common tariff resulted in an average rise in the customs rates in Montenegro from about 3.5% to nearly 8.5%, which led to the preference for imports from Serbia in relation to other markets¹³.

The third group of import countries is the group of Western Balkan countries, making up 13.5% of Montenegrin imports. Negligible imports are recorded from the USA and the Virgin Islands, while other countries participate in the total imports with 8.6%, which can be seen in Table T-9.

¹³⁾ Domestic commodities (commodities produced in Serbia or Montenegro, or commodities whose value in the production process was enhanced by at least 51% in Serbia or Montenegro) were exempt from customs, compensations for the work of the customs service, special duties for the export of agricultural products and foodstuffs, compensations for the work of other services and fees (Decision on the treatment of goods and passengers at the border between Montenegro and Serbia, «The Official Gazette of Montenegro» no. 26/03 (Annex 2 to the Law on Action Plan);

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T9 – Structure of import of goods by countries – comparative analysis 2003-2004 (in 000 €)

IMPORTS	I - XII 2003	% 100,00	I - XII 2004	% 100,00	Index
TOTAL	629.904		869.610		
Developed countries					
Italy	51.865	8,23	74.593	8,58	143,82
Greece	53.169	8,44	43.523	5,00	81,86
Slovenia	46.098	7,32	68.528	4,98	148,66
Germany	30.385	4,82	43.319	4,24	142,57
Austria	24.691	3,92	36.902	2,37	149,46
Cyprus	12.766	2,03	10.050	1,82	78,72
Switzerland	10.689	1,70	20.585	1,54	192,58
Hungary	8.173	1,30	15.596	1,15	190,82
France	6.718	1,07	15.824	0,99	235,55
USA	6.711	1,07	13.420	0,09	199,97
Czech Republic	5.009	0,80	11.807	1,36	235,72
Transition countries					
Serbia and Kosovo	216.813	34,42	302.880	34,83	139,70
Bosnia and Herzegovina	25.505	4,05	48.224	5,5	189,08
Croatia	38.490	6,11	42.315	4,87	109,94
Romania	3.767	0,60	9.012	1,04	239,24
FYR Macedonia	6.822	1,08	8.055	0,93	118,07
Bulgaria	4.307	0,68	7.902	0,91	183,47
Albania	2.501	0,40	1.948	0,22	77,89
Others*	63.786	10,13	75.815	8,72	118,86
Group of countries					
EU-25	261.2	41,5	354.3	40,74	135,6
Western Balkan	81.4	12,9	117.5	13,51	144,35

Source: data provided by custom declarations, CBMN;

* Under rate Others :included all other countries , trade partners with Montenegro

2.3. Exports and Imports Structure by Groups of Products

The export production structure of Montenegro. Montenegro's export is primarily based on the production in three sectors: the metal production and processing, agricultural products and the products of wood and timber industry.

Montenegro has an **exceptionally undiversified export product**, and according to the data from 2004, by far the **largest share in Montenegro's exports was achieved in the sector of metal industry (62%)**, out of which the export of unalloyed aluminum makes up 41%, **the sector of the production of beverages and tobacco 18%**, while the third place by the value of the exports achieved is taken by the sector of wood and timber industry (8%)¹⁴. In the wood and timber industry the major export items are roughly processed wood (2.89% of the total exports) or unprocessed wood (0.98%), which indicates that **Montenegro's export products are products of low level of processing and low value added, and are frequently based on the insufficiently productive usage of the existing natural resources.**¹⁵ The export structure by groups of products is given in Table T-10.

T-10 Most important exporting commodity groups and their % share in Montenegrin export 2004 In mill € and %

cOMMODITY gROUPS	Value	% share
Fresh food and agricultural products	5.67	1.82%
Meat and edible offal of sheep, goats, beef, guesses, pigs, etc.	1,274,942	0.41%
Vegetable, fresh, dried, frozen(mushrooms, tomatoes, potatoes)	1,077,020	0.35%
Processed agricultural products	4.7	1.51%
Other sugar confectionary not including cocoa (excl. liquorices extract, white chocolate and bonbons)	1,335,711	0.43%
Other bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa	1,123,141	0.36%
Beverages and tobacco manufactures, crude fertilizers and minerals, animal and vegetable materials	45.7	14.8%
Cigars, cheroots, cigarillos and cigarettes consisting wholly of tobacco substitutes	18,974,438.17	6.09%
Wine of fresh grapes and of actual alcoholic strength	11,427,735.29	3.67%
Beer made from malt	8,429,742.52	2.71%
Ice cream and other edible ice, whether or not containing cocoa	3,867,994.89	1.24%
Mineral fuels lubricants and related materials	11.64	3.72%
Artificial corundum, Aluminum oxide (other than artificial corundum), Aluminum hydroxide	3,755,412.54	1.21%
Brown coal, Lignite, whether or not pulverized, Agglomerated lignite	3,234,579.55	1.04%
Pharmaceutical and other chemical and related products	8.6	2.76%
Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up for retail sale	5,579,164	1.79%
Leather and wood products	25.33	8.14%
Wood, sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm	12,415,380	3.99%
Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared, for transmission	4,429,074	1.42%

¹⁴ The data is given at the level of custom tariff headings

¹⁵ In this sense Montenegro's exports resemble the exports characteristic of the "Third World" countries.

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line poles, unimpregnated, of coniferous wood		
Raw hides and skins of sheep and cattle	2,627,925	0.84%
Veneer sheets and sheets fiberboard of wood or other ligneous materials, (e.g. "oriented strand board" i "wafer-board")	1,253,124	0.40%
Firewood, in the form of logs, billets, twigs, faggots or similar	1,206,732	0.39%
Textile and textile products	0.56	0.18%
Finished textile and ceramic products	1.62	0.52%
Base metals and base metal products	194.06	62.31%
Aluminum, not alloyed, unwrought	156,021,176	50.12%
Hot -rolled products of iron or non-alloy steel(excl. products, not further worked than surface-treated)	17,860,416	5.74%
Bars and rods of iron or non-alloy, hammered	3,664,533	1.18%
Flat-rolled products of iron or non-alloy steel, hot- rolled,	3,112,296	1.00%
iron or non-alloy steel, in ingots, primary production	2,180,529	0.70%

cOMMODITY gROUPS	Value	% share
Machinery and electrical equipment, miscellaneous manufactured products, means of transport	11.4	3.66%
Ball bearings, roller bearings, Plain shaft bearings for machinery, Transmission shafts	2,029,673	0.65%
Wire, rods, tubes, plates, electrodes and the like, of base metal or of metal carbides, coated or cored with flux material, for soldering, brazing, welding or deposition of metal	1,869,836	0.60%
Machinery parts of Motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and racing cars, new first level of disassembly for assembly	939,885	0.30%
Various finished products /Commodities not classified by kind (toys, furniture, matrices, optical instruments original sculptures and statuary, antiques, works of art etc.)	1.6	0.51%

Source: Customs Service of Montenegro, 2004¹⁶

According to the data from Table T-10 the major export products of Montenegro in 2004 are provided in Table T-11. Due to the problems of statistical data collection, for the time being it is impossible to compare the data from 2004 with the previous series, so the analysis is based only on the one-year series.

T11 - Most important export products in 2004 in Montenegro in € and %

COMMODITY GROUPS	Value	% of total
1. Aluminum, crude	156,021,176	50,12%
2. Iron and steel products	17,860,416	8.74%
3. Cigars, cheroots, cigarillos and cigarettes consisting wholly of tobacco substitutes	18,974,438	6.09%
4a. Wood, sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or	12,415,380	3.99%

¹⁶ The classification of the most important group of export products is made at the level of the tariff number. This means that goods are assigned a "tariff number", which includes one or several products and is marked with a four-digit sign, in which the first two digits signify the number of the customs heading that the tariff number belongs to, and the other two the ordinal number of the tariff number in that heading.

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finger-jointed, of a thickness exceeding 6 mm		
4b. Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared, for transmission line poles, unimpregnated, of coniferous wood	4,429,074	1.42%
5. Wine of fresh grapes and of actual alcoholic strength	11,427,735	3.67%
6. Beer made from malt	8,429,742	2.71%
7. Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up for retail sale	5,579,164	1.79%
8. Ice cream and other edible ice, whether or not containing cocoa	3,867,994	1.24%
9. Artificial corundum, Aluminum oxide (other than artificial corundum), Aluminum hydroxide	3,755,412	1.21%

Source: CSCG 2005¹⁷

The analysis of the structure of export products leads to a clear conclusion that a dominant place in Montenegrin exports is taken by large systems which already have an organized export program, or are traditionally linked to certain markets, which can be best seen in the following Table (T-11), presenting exports by sectors of the five largest Montenegrin export companies, while the share of the **small and medium-sized companies in exports is still negligible**.

In recent years, with the development of private sector, **individual cases** have appeared **of the export of manufactured products or highly processed products** (furniture, rolling element bearings), which already make a significant portion of exports in the countries with more demanding markets (Euro zone), and companies which produce them represent positive examples of foreign or domestic investments, mainly through the privatization process.

The import production structure of Montenegro. As a very open economic system, Montenegro has **an economy dependent on imports**. Its imports are diversified (**Herfindahl index of imports diversification is 0.4125**, which points to high diversification of import products); two major elements are the import of electric power (6.81%) and the import of fuel (5.24%), which increases the price of Montenegrin products and adversely affects their regional competitiveness. Other important products taking part in the imports apart from lubricants from oil and minerals, are highly processed products from the automobile industry (5.15%), the pharmaceutical industry (3.33%), and other manufactured products (3.25) which have a high “value added”, which can be seen in Table T-12.

¹⁷ In 2003. has happened structural break of data due to change of the institution responsible for data gathering on foreign trade of goods from the Central Bank to the Custom Administration, which as a consequence has unreliable data for 2003. of Montenegrin Foreign trade. Exists an initiative that data on Foreign trade of Montenegro for 2003. has to be revised, due to problems occurred with transmission of institutional responsibilities, regarding data gathering, however, the final decision has not been brought yet.

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T 12- Production Structure of Montenegrin Import for 2004. 000 Eur and %

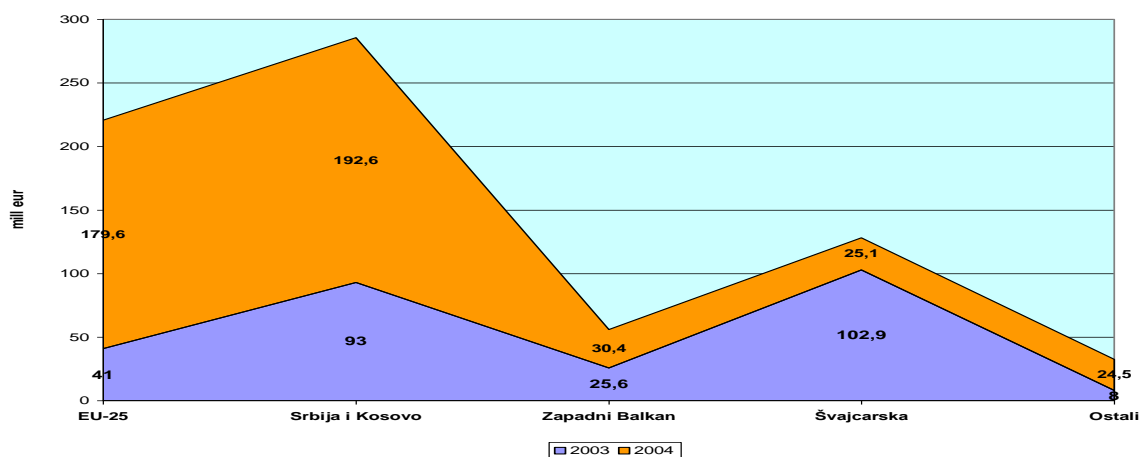
	Products	Import in Value	%
1.	Petroleum oils obtained from bituminous minerals	45.548	5,24
2.	Motor vehicles designed for the transport of persons	44.810	5,15
3.	Medicaments	28.936	3,33
4.	Various finished products	28.292	3,25
5.	Electrical energy	59.195	6,81
6.	Non-alcoholic beverages	22.418	2,58
7.	Furniture and furniture parts	20.140	2,32
8.	Wheat flour and similar products	18.146	2,09
9.	Fresh or frozen meat and edible meat offals	17.416	2,00
10.	Products from oil waste, etc.	17.231	1,98
11.	Cement, concrete or artificial stone, components for building or civil engineering, pipes, tiles, paving, bricks and the like	16.764	1,93
12.	Electrical equipment for	15.176	1,75
13.	Milk and cream, concentrated, yogurt, Buttermilk, curdled milk and cream, kephir and other fermented or acidified milk and cream excl. butter	13.945	1,60
14.	Motor vehicles for the transport of goods	13.759	1,58
15.	Telecommunication equipment	13.754	1,58

Source: CBMN, 2005

2.4. Merchandise Trade with the EU

EU countries are the most important import trade partners of Montenegro, and its second major export market after Serbia and Kosovo, which can be seen in Graph G-7.

G-7. Change of Montenegrin export structure by country groups for 2003-2004



The structure of merchandise trade with the EU countries indicates that Montenegro has intensive merchandise trade **only with two countries**: Italy, whose €109.4 million make up 24.2% of Montenegro's exports, and Greece, whose € 41.1 million make up 9.1% of Montenegro's exports, which pertains to aluminum export. The indicators shown in Table T-13 point to the fact that Montenegro has achieved a surplus only with four countries of the extended European Union:

- Italy, which represents Montenegro's biggest importer of aluminum,

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- Spain (a surplus has also been achieved due to aluminum export which makes up 98.4% of the total exports to Spain),
- Slovakia (a surplus achieved through the export of raw wood),
- Luxembourg (a surplus achieved through the export of beverages).

Merchandise trade with other EU countries is characterized by a foreign trade deficit as follows: with Slovenia € 65.5 million, Germany € 40.3 m, and Austria € 36.6 m.

T-13 Foreign trade of Montenegro with EU by countries in 2004 in mil €

COUNTRY	EXPORTS	% of total	IMPORTS	% of total	Balance
Austria	0,21	0,05%	36,9	10.41%	-36.69
Czech Republic	0,33	0,07%	11,8	3.33%	-11.47
France	0,23	0,05%	15,87	4.48%	-15.64
Greece	41	9,07%	43,5	12.28%	-2.5
Netherlands	5	1,11%	10	2.82%	-5
Italy	109	24,12%	74,6	21.06%	34.4
Cyprus	6	1,33%	10,1	2.85%	-4.1
Luxembourg	3,48	0,77%	0,42	0.12%	3.06
Hungary	6	1,33%	15,6	4.40%	-9.6
Germany	3	0,66%	43,3	12.22%	-40.3
Slovakia	5,94	1,31%	1,27	0.36%	4.67
Slovenia	3	0,66%	68,5	19.33%	-65.5
Spain	6	1,33%	0,5	0.14%	5.5
Sweden	0,02	0,00%	8,6	2.43%	-8.58
United Kingdom	5,09	1,13%	7,4	2.09%	-2.31

Source: CBMN

In terms of its export structure, Montenegro still represents an uncompetitive export market which, apart from aluminum on which it has **export preferentials**, has few products to offer to this market that should be counted upon in future.

Insufficient quality, the uncompetitiveness of prices and the lack of quality standards represent the major reasons why currently Montenegro has no significant group of products which would be competitive in the European market. The most wide-spread products in the EU market are given in Table T-14.

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T14 – Sectoral structure of foreign trade with EU countries in 2004 in mil. € and %

Sector nr.	Commodity groups	Value of Export	% Export in EU	Imports	% Imports from EU	Balance
3/4.	Beverages and tobacco manufactures, crude fertilizers and minerals, animal and vegetable materials, Mineral fuels lubricants and related materials	4.716	3,06	67.238	19,84	-62.52
5.	Leather and wood products	2.183	1,41	21.327	6,29	-19.14
8.	Machinery and electrical equipment, miscellaneous manufactured products, means of transport	1.534	0,99	116.834	34,48	-115.30
7.	Base metals and base metal products	144.483	93,95	20.251	5,97	124.23
10.	Various finished products /Commodities not classified by kind	92.269	0,60	113.174,6	33,42	-20,905.5
	Total	153.782	100,0	338.846	100,0	-185.06

Source: CBMN, 2005

The data from table T-14 indicates that Montenegro exports products from only four sectors to the EU countries:

- The production of metals and metal processing 93.95%,
- The industry of food and beverages, and mineral products /stone/ 3.06% ,
- Wood and timber and leather industries (1.41%),
- Non-electrical and electrical machines and devices, electronics and the automobile industry (1%).

Other sectors in Montenegro's exports to the EU countries make up 0.6%, while imports from the EU are present in all nine sectors, with a particular emphasis on sectors of high processing – non-electrical and electrical machines and the automobile industry.

With a view to offering a clearer picture of other products which, apart from aluminum, are competitive in the EU market, in Table T-15 we list the most significant Montenegrin products outside the sector of metal processing industry.

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T15 – Commodity groups of the most important export sectors of Montenegro in EU in 2004 in 000 € and %

Commodity groups	000 €	%share
Sector 3/4 Beverages and tobacco manufactures and minerals	4,715.92	2,63
Pebbles and gravel for concrete aggregates, for road metalling or for railway ballast, shingle and flint, whether or not heat-treated	1,721.28	0,96
Wine of fresh grapes and of actual alcoholic strength	511.10	0,28
Beer made from malt	370.49	0,21
Plum brandy, pear brandy, kirsch, Liqueurs, other fermented beverages (excl. cider, Perry, mead and dry raisin wine)	8.21	0,00
Mineral waters, carbonated	11.72	0,01
Cigars, cheroots, cigarillos and cigarettes consisting wholly of tobacco substitutes	53.76	0,03
Sector 5 Leather and wood products	2,182.83	1,22
Wood products, Anthracite coal, whether or not pulverised, but not agglomerated, Wood naphtha (crude methanol)	1,983.73	1,10
Wood, sawn or chipped lengthwise, sliced or peeled	1,696.67	0,94
Beech "fagus spp.", sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed,	236.69	0,13
Rubber, cellulose and caucous stripes	137.73	0,08
Sector 8 Machinery and electrical equipment, miscellaneous manufactured products, means of transport	1,533.86	0,85
Ball bearings, Tapered roller bearings, including cone and tapered roller assemblies	773.90	0,43
Electronic devices fir data processing and their parts, ventilators, solder machines	291.2	0,16

Source: CSCG 2004¹⁸

Sector 3: The most important export products from the industry of alcoholic beverages and mineral industry are stone, ballast and marble, which are exported to Italy and Greece; however, such export structure is not ramified (only one Montenegrin company deals with exporting stone and ballast and achieves 36.6% of the entire sector). Wine, beer and strong alcoholic drinks (brandy) make up 0.2% in the structure of total exports to the EU countries, while the share of mineral water export is even more negligible. This indicates that future export expansion must be directed to a more significant export of these products.

Sector 5: Within the sector of wood and timber and leather industries, felled (coniferous) wood, processed by length by sawing, milling, cutting and peeling has the largest share in exports. During 2004 around € 1.7 million of this product was exported to the Euro zone countries, which makes up 85.5% of wood and timber industry. Export markets for this product are Italy (66.34%), Great Britain, Spain, Sweden, Cyprus, Slovenia, while wood processed by length, planed, polished or joined together in a ring-like manner, was exported to Slovakia and Slovenia.

Sector 8: The sector of electric and non-electric machines and devices and the automobile industry shows that Montenegro engages in the re-export of electrical machines, while only one

¹⁸ Klasifikacija najznačajnije grupe izvoznih proizvoda je rađena na nivou tarifnog broja. Pod pojmom "tarifni broj" podrazumijeva se naimenovanje robe, koje obuhvata jedan proizvod ili više proizvoda i koji je označen četvorocifrenom oznakom, kod koje prva dva broja označavaju broj glave kojoj tarifni broj pripada, a druga dva redni broj tarifnog broja u toj glavi.

company engages in export¹⁹: housings for bearings and slide bearings, cog-wheels, and toothed and friction machine belts, whose share is negligible.

The trade regime with the EU countries and future prospects. The EU market is the most important foreign trade partner of Montenegro, whose share in the total exports and imports is 40%. Export is predominantly determined by aluminum and metal products, stone, marble and wood and timber industry. Import is determined by oil and non-electrical and electrical machines and devices, electronics and the automobile industry. From the aspect of the existing preferential customs regime, the EU market is not closed for Montenegrin products in terms of the direct trade barriers /autonomous trade preferentials/. However, **indirect trade barriers**, which are based on the exceptionally rigid regulations in the area of the quality system, certification, sanitary and phytosanitary measures, represent a new form of trade barriers which does not directly affect the quantity of exports, but the export is totally limited by the quality of products, i.e. by the respect of export standards and procedures.

This means that, in the future period, Montenegro must rely upon the increase in competitiveness, through the process of enhanced capital investments as a form of *greenfield* investments and more speedy privatization of the existing capacities. Apart from the existing export offer, **agricultural products** characteristic of the region, such as wine, beer, spirits, cheese, smoked ham (*pršuta*), water and the like, may have a more substantial share in the future export offer to the EU market. This must be accompanied by enhanced product quality and an upgraded production plan for these markets which would be followed by a certain **quality system** necessary for the penetration into the EU market (e.g. HACCP for agricultural products will become mandatory in the EU countries in 2006., and for the time being only one company in Montenegro has this certificate). Besides focusing on the quality and competitiveness of domestic products, it is important to introduce enhanced product differentiation towards this market.

The demands of the EU consumers have definitely changed. Today, they do not only require that products meet health, nutrition and quality standards, but they primarily **look for certificates and attestations of the origin and production methods**. Quality guaranties and the individual characteristics of products have become the main characteristics of the EU consumers' demands; the free flow of goods has enabled an extremely large number of products to appear in the EU market, which creates the need for the consumers of the Euro zone to be better informed of the products they buy.²⁰

2.5. Merchandise Trade with the Countries from the Region

Despite being an open economic system, Montenegro is **characterized by insufficient openness towards the countries in the region**. The total exports to the SEE countries in 2004 amounted to a mere € 30.4 million or **6.72% of the total exports**, while the total imports to these countries for the same period were € 117.5 million or **13.51% of the total imports**. If we analyze the structure by SEE countries, it may be noticed that Montenegro runs a trade deficit with almost all countries in the region, export activity in Romania and Bulgaria (0.07% of the total exports) is almost non-existent, and the situation is pretty similar with the geographically closest neighbors (exports to Albania and Macedonia make up less than 1% of the total exports of Montenegro). More intensive trade is achieved with Bosnia and Herzegovina and Croatia. Montenegro's trade with the SEE countries is presented in Table T-16.

¹⁹ Daido Metal, Kotor

²⁰ Working Document of the Commission Services, Guide To Community Regulations, August 2004

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T16-Foreign Trade of Montenegro with the SEE region by countries (SITC) in 000 € and %

	Exports	% of total	Imports	%of total	Balance of foreign trade
Albania	1,9	0,22%	5	1,11%	3,1
Bosnia and Herzegovina	48,2	5,54%	17	3,76%	-31,2
Bulgaria	7,9	0,91%	0,2	0,04%	-7,7
Croatia	42,3	4,86%	7	1,55%	-35,3
Macedonija	8,1	0,93%	1	0,22%	-7,1
Romania	9	1,03%	0,04	0,01%	-8,96
Total	117,4	13,51%	30,24	6,72%	-87,0
Serbia and Kosovo	303	34,84%	193	42,60%	-110

Source: CSMN, 2005

Unlike the EU market, export to regional markets is characterized by **sector diversification**, which means that each sector contains a group of Montenegrin products which is competitive in a certain SEE market. It is important to note that in the past few years Montenegro has recorded a significant rise in trade with the countries in the region.

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T-17 Foreign Trade of Montenegro with the SEE region by commodity groups (SITC) in 000 € and % of total

Commodity groups	Exports	export to SEE Countries % of total	Imports	IMPORTS from SEE COUNTRIES % OF TOTAL	FOREIGN TRADE BALANCE
1. Fresh food and agricultural products	352	1,87	2.706	3,07	-2.354
2. Processed agricultural products	1.306	6,93	4.556	5,18	-3.250
3. Beverages and tobacco manufactures, crude fertilizers and minerals, animal and vegetable materials	4.074	21,64	26.908	30,62	-22.834
4. Pharmaceutical and other chemical and related products	815	4,32	8.765	9,97	-7.950
5. Leather and wood products	2.677	14,22	3.500	3,98	-823
6. Textile and textile products	33	0,17	144	0,16	- 111
7. Finished textile and ceramic products	3.068	16,29	2.637	3,00	431
8. Base metals and base metal products	1.789	9,50	7.449	8,47	-5.660
9. Machinery and electrical equipment, miscellaneous manufactured products, means of transport	2.607	13,84	27.529	31,32	-24.922
10. Various finished products /Commodities not classified by kind	2.103	11,17	3.680	4,18	-1.578

Source: CSMN, 2005

Although all of its sectors take part in foreign trade, Montenegro produces a surplus only in the sector connected with the production of clothes. As may be noticed, the largest foreign trade deficit of € 24 million is run in the sector of machines, the IT and automobile industry, mainly through the import of electrical devices and appliances (€ 10.1 million).

The sectors having the biggest share in the export structure with the region are: Sector 3 (beverages, spirits, tobacco, and mineral products), Sector 7 (manufactured textile and ceramic products), Sector 5 (wood and timber and leather industries), Sector 9 (non-electrical and electrical machines and devices, electronics and the automobile industry) and Sector 10 (optical products and other luxury products). **The ten export products that the region is most interested in are as follows: raw bovine skin, marble, ships, yachts, garden seats, bottles and jars, salt, brown coal, wheat, granite, which can be seen in Table T-18.**

T-18 Most important commodity groups exported to SEE countries in 000 €

COMMODITY GROUPS	Value	% of total
I) Fresh food and agricultural products	352.14	1,16
Vegetables (potatoes, beans, peppers, celery, etc.)	77.25	0,25
Provisionally preserved, but unsuitable in that state for immediate consumptions (olive, onion, cucumbers, sweet corn.)	50.88	0,17
Fresh apples, Fresh apricots, Fresh sour cherries, Fresh peaches	32.67	0,11
Fresh strawberries, Fresh raspberries, Fresh blackberries, Fresh kiwifruit	35.26	0,12

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II) Processed agricultural products	1,305.87	4,30
Wheat	226.8	0,84
Chocolate and other preparations containing cocoa, in blocks, slabs or bars	268.85	0,88
Uncooked and cooked pasta, not stuffed or otherwise prepared, containing eggs	185.42	0,61
Other bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa	222.15	0,73
III) Beverages and tobacco manufactures, crude fertilizers and minerals, animal and vegetable materials	4,073.85	13,40
Marble, travertine, eroxine	1,395.02	4,59
Salt and pure sodium chloride, whether or not in aqueous solution or containing added anti-caking or free-flowing agents	692.33	2,28
Granite, Porphyry, basalt, Broken or crushed stone	402.48	1,32
Brown coal, lignite	619.35	2,04
IV) Pharmaceutical and other chemical and related products	814.92	2,68
Medicaments	238.37	0,78
Safety fuses and detonating fuses	128.99	0,42
Table and kitchen plates	113.98	0,37
V) Leather and wood products	2,677.30	8,81
Raw hides and skins of bovine animals and sheep	1,852.9	6,10
Wood in the rough, whether or not stripped	372.19	1,22
Wood other than exotic, sawn or chipped lengthwise, sliced or peeled	125.96	0,41
VI) Textile and textile products	33.01	0,11
Woven fabrics and fabrics made with animal hair	29.42	0,10
VII) Finished textile and ceramic products	3,068.00	10,09
Bed-linen, knitted or crocheted, of cotton, kitchen and toilet linen	2,394.2	7,88
VIII) Base metals and base metal products	1,789.16	5,89
Carboys, bottles, flasks, jars, pots, phials and other containers, of glass	768.45	2,53
Plates, sheets and strip, of non-alloy aluminum	257.28	0,85
IX) Machinery and electrical equipment, miscellaneous manufactured products, means of transport	2,606.64	8,57
Sea-going sailboats and yachts, for pleasure or sports	953.38	3,14
Ball bearings, roller bearings, Plain shaft bearings for machinery, Transmission shafts	319.012	1,05
X) Various finished products /Commodities not classified by kind	2,102.63	6,92
Seats, with metal frames, (excl. upholstered, swivel seats with variable height adjustments and medical, dental or surgical furniture)	899.56	2,96
Metal furniture for offices, Wooden furniture for offices, etc.	336.86	1,11

Source: CSCG 2005

Import from the countries of the region implies import from the following sectors: Sector 9 (non-electrical and electrical machines and devices, electronics and the automobile industry), Sector 3

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(beverages, spirits, tobacco, and mineral products), Sector 4 (pharmaceutical products and the products of chemical industry), and Sector 8 (metal industry and metal products). Among the **TEN MOST IMPORTANT IMPORT PRODUCTS FROM THE IMMEDIATE VICINITY** are: **gasoline, automobiles, cement, caustic soda, bitumen, refrigerators, medicines, furniture and television receivers**, which may be seen in Table T-19.

T- T-19 The Most important imported commodity groups from SEE countries 000 €

Commodity groups	Vrijednost	% ucesca
I) Fresh food and agricultural products	2,705.79	2,30
Scallops, Mollusk, Shells, mussels, cuttle fish, etc.	332.24	0,28
Frozen fish, excl. fillets	291.53	0,25
Fish fillets and other fish meat for human consumption	201.61	0,17
Agrums (lemons, mandarins, oranges)	196.63	0,17
II) Processed agricultural products	4,555.68	3,88
Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa	1,174.77	1,00
Chocolate and other preparations containing cocoa, in blocks, slabs or bars	696.43	0,59
Fish (sardine, lobster, tune,)	448.03	0,38
Wheat flour	599.65	0,51
III) Beverages and tobacco manufactures, crude fertilizers and minerals, animal and vegetable materials	26,908.01	22,90
Petroleum (kerosene) , Diesel fuels	10,537.06	8,97
Sodium hydroxide 'caustic soda' solid, Kalium hydroxide , Na peroxide	2,199.05	1,87
Portland cement ,various types of cement	3,852.36	3,28
Resin ,rosin derivatives, rosin spirit and rosin oils; pitch, Pitch coke obtained from coal tar or from other mineral tars	1,333.01	1,13
Cigars, cheroots and cigarillos, containing tobacco	974.95	0,83
IV) Pharmaceutical and other chemical and related products	8,764.80	7,46
Medicaments	1,801.71	1,53
Washing preparations, incl. auxiliary washing preparations and cleaning preparations put up for retail sale (incl. organic surface-active agents, soaps and surface-active preparations)	1,147.15	0,98
Tubes and hoses of plastics and similar material	841.23	0,72
Make-up preparations	331.06	0,28
V) Leather and wood products	3,500.42	2,98
Different types of paper	523.25	0,45
Newspapers, journals and periodicals, whether or not illustrated or containing advertising material, appearing less than four times per week	498.21	0,42
Toilette paper, Handkerchiefs, cleansing or facial tissues and towels	443.16	0,38
Toilet paper and cotton paper for make-up	343.29	0,29
VI) Textile and textile products	143.68	0,12
Non weave textile	20.19	0,02
Cotton wool and cotton wool products	14.65	0,01
Single cotton yarn	16.91	0,01

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Textile impregnated, coated, covered or laminated	13.02	0,01
VII) Finished textile and ceramic products	2,636.74	2,24
Lavatories, tubs, kitchen lavatories	342.92	0,29
Ceramic products, porcelain for tubs	306.78	0,26
Glazed ceramic lamines	299.11	0,25
Products made of gyps	265.45	0,23
Products made from tar, bitumen, and resin	232.43	0,20
VIII) Base metals and base metal products	7,448.91	6,34
Wister of iron and steel	1,206.22	1,03
Carboys, bottles, flasks, jars, pots, phials and other containers, of glass	1,204.19	1,02
Constructions, roof constructions and their parts	666.46	0,57
Bars and rods of stainless steel and iron	578.52	0,49
Wire of iron or non-alloy iron and steel, in reels or coils,	406.66	0,35
IX) Machinery and electrical equipment, miscellaneous manufactured products, means of transport	27,528.5	23,43
Motor vehicles and means of transport	3,769.27	3,21
Household refrigerators, Freezers, Other deep freezing equipment	2,393.11	2,04
TV transmitters and TV devices	1,671.05	1,42
Cell phones	1,399.79	1,19
Isolated wires and wirings	1,319.73	1,12
Sea-going sailboats and yachts, for pleasure or sports	1,184.59	1,01
X) Various finished products /Commodities not classified by kind	3,680.31	3,13
Furniture and furniture parts	1,583.46	1,35
Seats and chairs	428.48	0,36
Lamps, and similar devices designed to produce light (reflectors)	378.01	0,32
Toys	158.51	0,13

The prospects of future cooperation in the SEE region. The creation of a free trade zone in the area of South-East Europe through the initiative of the Stability Pact towards more speedy overall European economic integration is certainly the unavoidable future economic ambience of this region. Foreign trade in the region is at a relatively low level, but it may be expected for its market to become a growing one in the medium-term period, when countries will place their products in each other's markets. Montenegro's imports from the region in 2004 reached 14%, while exports were half smaller. Apart from the EU market which is certainly the most desired one, the other target market should be the market of the region, where enhanced competitiveness and product quality may face the first international test.

Trade in the region has no noteworthy tradition, except for cooperation between the former Yugoslav republics, and thus, notwithstanding the relative closeness of the markets, Montenegro **does not have enough information or a real insight into what goes on in the markets of** e.g. Albania, Romania and Bulgaria, which would be a good indication of business opportunities for local exporters. On the other hand, these neighboring countries turn to their traditional partners more readily than to new ones. In order to achieve significant presence in this market, it is vitally important to identify the key export products which may be placed in the regional market from the

perspective of domestic efficiency, i.e. the competitiveness of domestic products. The group of the first ten export products (there are no historical data available due to the problem of transferring the export/import records from the CBMN to the customs declarations of the Customs Administration of Montenegro) identifies some very important **(existing/potential) EXPORT PRODUCTS: raw bovine skin, marble, garden seats, bottles and jars, salt, brown coal, wheat and granite.**

In addition to these products, however, we should consider the possibility of expansion within the **production of fresh food and agricultural products**, particularly the production of **fish and seafood**, which is currently small, but has the capacities for further development. Apart from identifying the products having relative advantages in competitiveness in relation to other surrounding countries, it is important to ensure **the sector analysis of the possibilities of placing local products in the countries from the region**, through a professional market analysis by a renowned marketing house, which should enable further selection among competitive products.

With a view to achieving a successful placement in these markets, export must be accompanied by strong promotion, which should ensure **organized appearance of producers in regional markets**, instead of the present one which has been mainly individual. In this sense, organizing exporters and joining resources for the sake of providing adequate technical assistance, receiving the feedback from the market and continually following changes in the market is one of the solutions. The foundation of a special sector in Directorate for Small and Medium Sized Enterprises is one of the possible significant incentives, which would enable the exchange of information and experiences and provide support to the export promotion.

It must be stressed that Montenegro's trade with the Western Balkan countries is greatly conditioned by a large number of **non-tariff barriers (NTB)**, which have been identified in the region and which prevent the full implementation of free trade agreements (FTAs).
Unlike the EU markets which, through a rigid system of certification, quality system and standardization, prevents the Western Balkan products from penetrating the Euro zone markets, the non-tariff barriers of the Western Balkans mostly refer to:

T-20 Non- tariff Barrers in the Western Balkans	
I) RECOGNIZED NTB IN THE WESTERN BALKANS– CUSTOM AND BORDER CLEARANCE DIFFICULTIES	
1) Inconsistent and non-transparent Custom classification procedures (non adopted HS 6 digits system)	Montenegro ,Bosnia and Herzegovina, Albania
2) Inadequate IT equipment including lack of IT links between different National Custom Administrations	Montenegro ,Serbia , Macedonia
3) Inadequate training of Custom staff	Montenegro , UMNİK-Kosovo
4) Overlapping responsibilities of different agencies at national borders	Macedonia
5) Complaints by traders of excessive documentation requirements for the purposes of Custom Clearance	Montenegro
II) RECOGNIZED NTB IN THE WESTERN BALKANS –PHITOSANITARY AND VETERINARY TESTING FACILITIES AND PROCEDURES, GENERAL PRODUCT STANDARDS AND FROM TESTING FACILITIES AND PROCEDURES	
1) Lack of severe shortage of accredited laboratories and competent testing and certification institutes ²¹	Albania , Macedonia, Montenegro, Serbia , UMNİK-Kosovo

²¹ According to disposable data 13 represents a total number of registered laboratories , institutes and control offices in Montenegro, which are registered as independent, as well as 11 laboratories , which are organizational parts of private companies.

At present, in Montenegro there is only three laboratories which have accreditation:

1. Eco-toxicological Center-Podgorica (testing)
2. Center for construction testing and construction surveillance- Podgorica
3. Horizontal logistic for testing of hronotaxograff - Bar (for etaloning)

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2) Small number of firms which have achieved internationally recognized certification eg. ISO 9000 -9001	Bosnia and Herzegovina
3)*** Failure to adapt, or imperfect adaptation, to international standards, especially EU standards, severely impairing the ability to export	Montenegro , Serbia
4) Unnecessary repetition of market inspections of some classes of imported goods which have already been approved-no provision for issue of standard or type approvals	Montenegro
III) RECOGNIZED NTB IN THE WESTERN BALKANS – GENERAL INFRASTRUCTURE PROBLEMS-ECONOMIC AND FINANCIAL	
1) Inadequacy and inflexibility of national banking system	Albania , Bosnia and Herzegovina , Montenegro , Serbia
2) Lack of adequate facilities and credit insurance scheme	Montenegro , Bosnia and Herzegovina
3) High interest rates (12+%)	Montenegro, Serbia , Bosnia and Herzegovina
4) Inadequacies of tax administration including distortions of VAT system in Albania(e.g. companies which export less than 50% of production cannot register for VAT refunds)and long delays in VAT refunds in both Albania and CG (Albania, CG).	Albania, Montenegro
5) Inadequate and degraded road system	Albania ,Bosnia and Herzegovina, Montenegro
6) Lack of competition in road transport	Albania
7) Inability to issue TIR certificates (Bosnia and Herzegovina) and lapse of bilateral TIR agreements with a number of trading partners (CG), restricting the ability of local transport undertakings to operate abroad (Bosnia and Herzegovina, CG)	Bosnia and Herzegovina, Montenegro
8) Need for rehabilitation of degraded inland waterway system	Bosnia and Herzegovina
9) Degraded and inefficient rail systems	Bosnia and Herzegovina, Serbia i Montenegro
10) Corruption-Delaying clearance of goods, Undermining quality and safety standards,	Western Balkans

Source: The EU Cards Programme For Western Balkans, Helping To Tackle NTB In The Western Balkans, HTSPE, 2004;

2.6. Trade with Serbia and Kosovo

The analysis of foreign trade with Serbia and Kosovo shows that a dominant portion of trade is achieved with this area. It is still not technically possible to separate merchandise trade with Serbia from merchandise trade with Kosovo. The total export – import activity has intensified in relation to the preceding year, so the scope of merchandise trade **has increased by € 185.6 million or by 37.47% in 2004.**

The export whose share in the total exports of the Republic is 42.6%, exceeds that from the previous year by **107.1%** (almost double), and the imports with a 34.8% share is **39.7%** bigger. The intensification of the foreign trade activity is followed by the reduction of the trade deficit by 11 index points or 13.52 million less than in 2003. The coverage of imports by exports also rose from 42.89% in 2003 to **63.58%** in 2004, i.e. the recorded coverage of imports was 48.3%.

A trade surplus was produced in two sectors only: the metal industry (€ 28.1 million) and wood and timber industry (€ 5.6 million). The greatest trade deficit was run in the sectors of agricultural production (€ 40.5 million) and the products of chemical industry (€ 30 million).

Four laboratories are in the procedure of getting accreditation.

1. Institute for black metallurgy - Nikšić
2. Institute for construction materials testing - Nikšić
3. Center for motor vehicles -metrology laboratory - Podgorica
4. Center for motor vehicles -testing laboratory - Podgorica

Adopted laws on the State Union level, concerning are of technical regulations and standards, October 2005

- " The Law on Accreditation
- " The Law on Standardization
- " The Law on Metrology
- " The Law on technical requirements and evaluation of compatibility

These laws are crucial for WTO accession as well as for SAA negotiations, therefore it is necessary to empower institutions which are(or will be in charged) for their implementation.

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The major export sectors are: Sector 8 (metal industry and metal products), Sector 3 (beverages, spirits, tobacco, and mineral products), Sector 5 (wood and timber and leather industry), Sector 4 (pharmaceutical products and the products of chemical industry), and Sector 10 (optical and other luxury products). Since Montenegro achieves the most diversified trade with Serbia, we present the list of the major export products, **the first ten** being: **raw aluminum, tobacco cigarettes, rolled wire and other metal products, wood, bread and rolls, wine, beer, medicines, ice-cream, brown coal, which can be seen from table 21.**

T-21 Montenegrin export to Serbia and Kosovo per sectors in 000 € and %

Commodity Groups	value	% of total
I) Fresh food and agricultural products	4,857.69	2.52
Fresh or frozen meat and edible meat offal of swine, bovine, etc.	1,268.45	0.66
Fresh vegetable (cabbage lettuces (head lettuce, celeries, mushrooms, peppers)	929.41	0.48
Dried vegetables (mushrooms, onions)	460.43	0.24
Fresh or chilled domestic swine carcasses and 1/2 carcasses (bone-in hams, shoulders, cuts, etc.)	393.83	0.20
II) Processed agricultural products	3,894.13	2.02
Products containing sugar (candies, chewing gums, chocolate, etc.)	1,318.08	0.68
Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa	7,775.25	4.04
Wheat flour	537.5	0.28
Prepared canned fish	262.33	0.13
III) Beverages and tobacco manufactures, crude fertilizers and minerals, animal and vegetable materials/mineral fuels	44,904.64	23.32
Cigars, cheroots, cigarillos and cigarettes consisting wholly of tobacco substitutes	18,974.43	9.85
Wine of fresh grapes and of actual alcoholic strength	8,056.27	4.18
Beer made from malt	7,147.98	3.71
Ice cream	3,765.79	1.95
Brown coal, lignite	3,228.46	1.67
IV) Pharmaceutical and other chemical and related products	7,740.39	4.02
Medicaments	5,380.91	2.79
Matches, signaling flares, fog signals and other pyrotechnic articles (excl. fireworks and rain rockets)	514.13	0.27
Percussion caps, detonators, primers and electric detonators	347.21	0.18
V) Leather and wood products	19,389.38	10.07
Wood other than exotic, sawn or chipped lengthwise, sliced or peeled, or finger-jointed, whether or not planed	9,851.75	5.11
Wood in the rough, treated with paint, stains, creosote or other preservatives	3,971.64	2.06
Veneer sheets and sheets for plywood	1,264.01	0.66
Firewood, in the form of logs, billets, twigs, faggots or similar	1,197.39	0.62
VI) Textile products and fabrics	527.95	0.27

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Textile of wool or fine animal hair, knotted, whether or not made up	248.78	0.13
Cotton textile	146.32	0.07
VII) Finished textile and ceramic products	1,267.45	0.66
Women's or girls' suits of wool or fine animal hair, knitted or crocheted (excl. ski overalls and swimwear) men's or boys' jackets and blazers men's or boys' suits	119.66	0.06
Men's or boys' shirts of cotton, knitted or crocheted (incl. nightshirts, t-shirts, singlets and other vests), Women's or girls' blouses, shirts and shirt-blouses of cotton, knitted or crocheted	346.56	0.18
Footwear (incl. waterproof footwear, sports footwear and orthopaedic footwear)	120.29	0.06
VIII) Base metals and base metal products	47,155.20	24.48
Wire of iron or non-alloy steel and iron, in reels or coils, (excl. products plated or coated with zinc, and hot-rolled bars and rods)	15,420.18	8.00
Bars and rods of alloy steel and iron	1,257.28	0.65
Hot -rolled products of iron or non-alloy steel	2,948.49	1.53
Aluminum, not alloyed, unwrought	23,765.91	12.34
IX) Machinery and electrical equipment, miscellaneous manufactured products, means of transport	7,173.41	3.72
Wires , bars, tubes, steel plates	1,825.55	0.95
Ball bearings, Tapered roller bearings, including cone and tapered roller assemblies	1,095.04	0.57
Electrical apparatus for switching or protecting electrical circuits, Plugs and sockets, co-axial cables	485.53	0.25
X) Various finished products /Commodities not classified by kind	3,680,31	1.91
Furniture, parts of furniture	304.04	0.16
Seats ,chairs	126.98	0.06
Paintings and various works of art	81.06	0.04

Source: CSMN2005

In 2004 Montenegro boosted its export to Serbia by 107%, increasing exports in all sectors. In the sector of fresh food and agricultural products, meat export was enhanced (beef and pork), as well as the export of vegetables, particularly mushrooms. The export of beer, wine, tobacco in particular, and ice-cream was increased. The major import products come from the following sectors: Sector 8 - electrical and non-electrical machines and devices, Sectors 3 and 2 - processed agricultural products, Sector 4 - pharmaceutical products, and Sector 1 – fresh food.

The prospects of future cooperation with Serbia and Kosovo. This market represents the biggest export market where 42.6% of total exports are placed, and the second biggest import market making up 34.8% of total imports in 2004. Trading with this market Montenegro runs a deficit of € 110 million. The major **export products** are raw aluminum, metal products, cigarette tobacco, bread and rolls, wine, beer, medicines, ice-cream and brown coal. The major **import products** are electrical and non-electrical machines, pharmaceutical products and agricultural products.

Regardless of the future state-legal status, the market of Serbia and Kosovo remains a very important market for Montenegro both in terms of imports and exports. The focus of Montenegro's export policy should certainly be further export expansion through further improvement of quality and competitiveness of our products, where in the medium run the liberalization of the Serbian market may be grist to our mill. However, **import substitution** may find its place here, particularly in the area of **agricultural products** (fresh food, manufactures and beverages), which made up

nearly half of imports from the territory of Serbia and Kosovo during 2004. Import substitution in the agricultural sector must be amply supported by the Government.

III MONTENEGRO'S EXPORT STRATEGY – GOALS AND MEASURES

The intensification of production and the growth of export represent key factors influencing the country's economic growth. To Montenegro, the increase in production in the export sector may be both the generator of its economic development and rise in employment (which would lead to the rise in domestic and foreign investment), and a condition for the improvement of macroeconomic stability, which, due to a massive foreign trade deficit run in the past three years in particular, adversely affected the monetary and investment trends in Montenegro.

Despite **achieving enviable results in the creation of macroeconomic stability in the past five years** (particularly in the reduction of inflation and budget deficit), Montenegro still suffers from the “illness” typical of the whole South-East Europe – **a massive foreign trade deficit**, which indicates the insufficient competitiveness of products in the region.

1. THE GOALS OF EXPORT PROMOTION

With a view to gradually reducing the foreign trade imbalance, improving exports, enhancing competitiveness, diversifying products, as well as reducing or softening export barriers, an **integral approach to the export strategy** has been devised which should enable the achievement of the described goals. The basic objectives and instruments for their achievement are given in the matrix below.

MATRIX1-MONTENEGRIN EXPORT POLICY GOALS

	Goals	Instruments / Measures
1.	Ensuring stable, sustainable and long-term GDP growth through increase of export	Increase of export, New investments(FDI), Creation of new products and services in the Montenegrin export base, Entrance to the new markets /"market niches"/
2.	Decrease in the existing current account deficit (trade balance deficit) through export increase/ export stimulation	Fiscal and custom subsidies, Other measures of development economic policy, Availability of financial resources, Strengthening of financial intermediaries, Promotion and advertising /new products, new distribution cannels in the new markets, etc./, Decrease of export business barriers / especially administrative and non-tariff barriers/, Free Trade Area in the Western Balkan (FTAs), Free Zones and Free Storehouses
3.	Decrease in trade balance deficit through partial substitution of import	Better utilization of natural and economic resources , Competition policy, Foreign Trade Policy, Diversification of production along with quality improvement , Substitution of import inputs/ larger share of domestic inputs in the export-oriented production, Substitution of import inputs/ larger share of domestic inputs in the export-oriented production/disposal of domestic products to foreign tourists(so-called "invisible export")
4.	Creation of competitive export-oriented products	Quality improvement, Price competitiveness, Increase in productivity, Accreditation and standardization of goods and services, Education
5.	Adopting international standards and procedures in export activities, Establishing institutions for standard implementation –e.g. Center for Standardization of Montenegro	Implementation of laws on technical standards and procedures –accreditation, standardization, technical harmonization with international standards, metrology, Increase the level; of product finalization/value added production/decrease of outsourcing, Protection of intellectual property rights , Custom policy infrastructure /laws, institutions, procedures/, Education
6.	Improvement in utilization of comparative advantages of domestic goods and services	Better utilization of natural and industrial resources, Trade mark "Made in Montenegro/Served from Montenegro", Diversification/Specialization, Increase of products with high value added /decrease of outsourcing, Programs of stimulation in the area of tourism, agriculture and wood processing industry

It is indisputable that the size and the level of openness of the Montenegrin market prompt our companies to a **more aggressive and organized appearance in the foreign market**. Export-oriented companies, however, have insufficient knowledge of the existing export procedures, and expertise in the area of finance, primarily in the provision of financial means, to be able to survive competition in foreign markets. By their selection of foreign market(s), companies become exposed to foreign currency risk, to the inability to influence the stimulating export and customs policies existing in other markets, the type of consumers different from domestic buyers, geographical distance, various non-customs barriers etc. All this taken into account, it becomes clear that **the Government must assume the role of an educator, and, more importantly, the system that should raise the awareness of export benefits** and with all the means available it should help exporters to increase their export activity, their participation in foreign markets, but also to **identify and encourage prospective exporters**.

Montenegro's Strategy for Export Promotion has been prepared with this aim in mind; with the same aim the Mission of this Strategy has been defined, which should primarily contribute to a more coordinated approach of Montenegro's export-companies to foreign markets, and ensure the creation of *value added* in Montenegro's priority export products, with an increase in their competitiveness, as well as a rise in employment in this sector.

The methods of achieving these goals are thoroughly described in the measures and action plan of this document

2. EXPORT PROMOTION MEASURES

Measures for the promotion of export of Montenegro represent the **result** of a comprehensive **foreign trade deficit analysis, of sectoral production, export structure and export products, existing tariff and non-tariff barriers, as well as of the analysis of comparative advantage of certain groups of products**, which are going to be covered by the **Action plan for stimulating Montenegrin export commodity groups**(chapter V).

In that sense, the Strategy has been structured in three separate parts, especially when having in mind the goals (chapter III), i.e. dynamics of their implementation:

1. **MACRO LEVEL OF ACTIVITY** – represents a **general part of the Strategy**, directed towards the creation of higher quality business environment and export promotion possibilities. It is based upon three groups of promotion programmes: Financial and fiscal promotion measures and measures for the improvement of the legal framework and reduction of administrative barriers;
2. **MICRO LEVEL OF ACTIVITY** – represents a part of the Strategy directed towards a **direct influence on export companies**, in the sense of assisting these companies **in all stages of export activity**. It is based upon offering expert assistance at drafting export product quality improvement programme, competitiveness improvement programme, business plans, marketing programme and education programme for export companies;
3. **INSTITUTIONAL MECHANISMS** – represents a part of the Strategy related to the **establishment and mutual linking of export Associations, Chamber of Commerce of Montenegro and other institutions**, with the purpose of stimulating export activities within the framework of sectoral export activities, but also on a general level. It is based upon a set of programmes: joint manufacturing activities, education programmes, benchmarking programmes and joint promotional activities.

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2.1. Level of activity: macro level – Creation of general conditions for export promotion

Table 22 – Financial and fiscal incentive measures

Nr.	Measure	The Implementing Institution	Deadline	Goal
1.	Financial mechanism 1. Establishment of the Export bank of MN 2. Using the existing financial institutions (The Ministry of Finance, Development Fund, Directorate) to assure intermediation of favorable loan arrangements.	The Ministry of Finance, CBMN	First half of 2006.	Decrease in existing current account deficit (trade balance deficit) through export increase/ export stimulating Creation of competitive, export-oriented products Creation of favourable conditions for the financing of export activities
2.	Availability and mediation in the process of obtaining financial means	SMECA /Serbia and Montenegro Export Credit Agency/, MEOIEI	First half of 2006.	Creation of competitive, export-oriented products Reaffirming of SMECA services, organization of seminars on the possibilities of using loans and borrowing in foreign capital markets for the purpose of financing the export
3.	Creation of new products with promotion and utilization of Fee Zones (production for export)	MIPA and MEOIEI	First half of 2006.	Ensuring stable, sustainable and long-term GDP growth through increase of export Creation (manufacturing) of competitive, export-oriented products Attracting Export-oriented FDI
4.	Remission of VAT refund period for exporters	The Ministry of Finance	The end of 2005	Creation of competitive export- oriented products Adopting international standards and procedures in export activities improvement in utilization of comparative advantages of domestic goods and services Affirmation of comparative advantages Stimulation of export activities through export sector fiscal relief
5.	Fiscal relieves - Profit tax exemption. ²² Regional fiscal relieves for exporters in the field of new employment and so on	The Ministry of Finance	First half of 2006.	Creation of competitive export-oriented products Adopting international standards and procedures in export Improving utilization of comparative advantages of domestic goods and services Affirmation of comparative advantages Stimulation of export activities through export sector fiscal relief
6.	Adopting set of procedures that are harmonious with WTO and EU technical terms /TBT/ (Phitosanitary procedures/SPS/, Rule of origin, quality measurements, etc) Mechanism generation for assurance of implementation of laws in area of technical standards Technical solutions related to product characteristics (b) Standardization Institute as the implementing authority for the Law on standardization (c) Certification (d) Testing procedures (establishment of accredited laboratories)	MEOIEI, Responsible Ministries (The Ministry of economy, The Ministry of Agriculture, Forestry and Water Management and the Ministry of Environmental Protection and Physical Planning)	First half of 2006.	Adopting international standards and procedures in export Creation of competitive export-oriented products Gradual transfer to the automatic issuance of import permits

²² Recommendation of the Ministry of Finance: Further line reduction of the tax rate on corporate profit

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Table 23-Measure–Improvement of legal framework, improvement of institutional capacities and reduction of administrative barriers				
Nr.	Measure	The Implementing Institution	Deadline	Goal
1.	The Law on Custom Tariffs	The Ministry of Finance,	The end of 2005.	Adopting international standards and procedures in export Creation of competitive export oriented products Creation of conditions for the increase of export activities on EU and WTO markets
2.	The Law on Protection of Competition	The Ministry of Economy, The Ministry of Finance	I quarter 2006	Adopting international standards and procedures in export Creation of competitive export oriented products Improvement of conditions for export penetration in EU and WTO markets
3.	Intellectual Property Law concerning Optical Discs	The Ministry of culture and media, The Ministry of economy, MEOIEI,	I quarter 2006.	Adopting international standards and procedures in export Creation of competitive export oriented products Impr in conditions for export penetration in EU and WTO markets
4.	The Resolution on Export/Import Control List	MEOIEI	I quarter 2006.	Adopting international standards and procedures in export Creation of competitive export oriented products Impr of conditions for export penetration in EU and WTO markets
5.	Simplifying and reducing the cost of Custom Procedures Improvement of Montenegrin Custom Service capacity through: Creation of the Customs Administration internet portal <ul style="list-style-type: none"> • mplementation of software for computeri processing of customs declarations and improvement of statistical data processing, networking of the ministries which issue permits, creation of conditions for electronic filling in, processing and checking of customs declarations and accompanying documents in medium-term (by 2008) (implementation of the law on electronic signature) • Foming a working group including the Customs Service of Montenegro, Ministry of Finance and Ministry for International Economic Relations and European Integrations, for drafting the plan for reduction of administrative barriers through better coordination of institutions involved in export procedures.. 	MEOIEI, The Ministry of Finance, Responsible Ministries, CSMN, EAR	I quarter 2006	Adopting international standards and procedures in export Creation of competitive export oriented products Efficiency improvement of export procedures-lowering transaction costs, number of procedures, etc.

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Nr.	Measure	The Implementing Institution	Deadline	Goal
6.	<ul style="list-style-type: none"> • Organization of seminars and trainings for custom officers, especially in the local custom units (custom service sub branches, custom service local offices, custom service departments and custom service laboratories.) • Long term goal: Establishment of the Faculty for transshipment and custom service officers 	<p>CSMN ,EAR, GTZ, USAID, CAFAO</p> <p>The Ministry of Finance</p> <p>MEOIEI</p>	I quarter 2006	<p>Adopting international standards and procedures in export Creation of competitive export oriented products</p> <p>Achieving sustainable and competitive labor potential of forwarding, shipment, custom administration and other export supporting services.</p>
<p>Explanation</p> <ul style="list-style-type: none"> • Financing export has been characterized by 76% interviewees as the most significant non-trade barrier for export promotion. • Financial Mechanism would provide: <ol style="list-style-type: none"> 1. improvement of credit potential of exporters through guarantees to commercial banks for current assets loans, intended for the production of export products 2. credit risk insurance, through the guarantee to a foreign importer (reduction of international risk in operation) 3. leasing services, forfeiting and factoring, etc. • The Bank would have the same treatment for manufacturing and servicing enterprises, and in its portfolio a special emphasis would be put on export of small and medium enterprises. • Financial influence on budget: Depending on the modality of the establishment of the bank, conditions would be ensured for its becoming operational in a relatively short period. PROPOSAL: Through the reorganization of the Development fund, this institution could be established in a relatively short period, in relation to the existing capacity of the Fund (available financial means, human potential) and its present activity. • For the sake of liquidity of exporters, the Ministry of Finance has shortened the deadline for the return of VAT from 60 to 15 days. • With the purpose for more intensive participation on international markets, we suggest for export enterprises to be exempted from the payment of profit tax, to the amount of qualified profit realized on the international markets, within the period of 5 years. Also, export companies would be exempted from the payment of profit tax to the profit realized on new markets, for the period of three years.²³ • Export oriented companies (which realize in Montenegro 30% of VAT, and more than 50% of the total income was realized through export) which perform capital investments for their own needs, have profit tax reduced by 40% at which this tax loan may not exceed 60 % of the calculated tax in the investment year. 				

²³ Source: The stated periods are standard in Export Promotion programmes (tax bakes), in the countries which proved themselves in the realization of their export strategies (Singapore, Taiwan, USA)

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2.2. Level of activity: Micro Level – Enterprise Level Programs, direct assistance to domestic exporters

Table 24.

Nr.	Measure	The Implementing Institution	Deadline	Goal
1.	Establishment of special department for export development in the Directorate for Development of Small and Medium- sized Enterprises (EXPORT – IMPORT UNIT)	The Ministry of Economy, Directorate for Development of Small and Medium- sized Enterprises	I quarter 2006	Decrease in existing current account deficit (trade balance deficit) through export increase/ export stimulating Decrease in trade balance deficit through partial substitution of import, Adopting international standards and procedures in export, Creation of competitive export-oriented products, Export stimulation through expertise, education and information networking
2.	In Directorate support will be provided at all stages of the production, marketing and export process under a series of specific programs. Programs that will support various pre-investment and pre-production export development activities are: <u>The Export Competitiveness Program</u> : Includes technical expertise to identify product and process deficiencies with a view to reduce costs and meeting the technical specifications of customers, technical expertise in creation of sale programs for exporters. Moreover this program contains technical expertise in the regional analysis for exporters, providing information about technical procedures, and technical requirements for different markets, creation of exporters' data base and their export commodities, their markets and necessary technical requirements which follows their export to a certain market.	Directorate for Development of Small and Medium- sized Enterprises, GTZ , EAR, USAID The Ministry of Agriculture, Forestry and Water management	I quarter 2006	Creation of competitive export- oriented products Improving utilization of comparative advantages of domestic goods and services Export stimulation through expertise, education and information networking
3.	The Export Quality Improvement Program: will assist exporters to qualify for ISO 9000, ISO 9001, HACCP, ISO 22000, organics, Halal or equivalent quality assurance certification required in target export markets (QUALICERT for services), especially in EU and WTO markets	Directorate for Development of Small and Medium- sized Enterprises, The Montenegrin Association of Exporters, GTZ , EAR, USAID, The Ministry of Agriculture, Forestry and Water Management, The Ministry of Economy, The Council for Quality	I quarter 2006	Creation of competitive export-oriented products Improving utilization of comparative advantages of domestic goods and services Adopting international standards and procedures in export Export stimulation through expertise, education and information networking
4.	The Export Marketing Program: will assist individual enterprises to access specialized marketing expertise to identify export markets and export customers; assess customer requirements in target markets; technical assistance in developing a detailed marketing and selling strategy(joint and organized outbreak in trade shows, seminars, business to business, joint promotion activities, etc.). Special attention to promotion for products that would obtain trademark Made in Montenegro.	Directorate for Development of Small and Medium- sized Enterprises, in cooperation with other implementing institutions	I quarter 2006	Creation of competitive export-oriented products Improving utilization of comparative advantages of domestic goods and services

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5.	<p><u>The Educational Program:</u> Directorate will ,in cooperation with international institutions that are included in SME development programs, assure participation of Montenegrin exporters in sector and firm-specific seminars and round tables with the purpose to educate exporters in various activities such as: creating export strategy/program of the firm, firm's sales programs, use of various financial means for export facilitation, creation of EXIM Portal²⁴, export's data base utilization, etc.</p>	Directorate for Development of Small and Medium- sized Enterprises, in cooperation with other implementing institutions	I quarter 2006	Creation of competitive export-oriented products Improving utilization of comparative advantages of domestic goods and services Adopting international standards and procedures in export
6.	Preparing regional analysis for commodity groups that have regional completeness potential	Directorate for Development of Small and Medium- sized Enterprises Responsible Ministries, Association of exporters	I quarter 2006	Creation of competitive export -oriented products Improving utilization of comparative advantages of domestic goods and services
7.	<p>Affirmation and organization of projects: Made in Montenegro and Buy Domestic(Homemade) Goods</p> <ul style="list-style-type: none"> • Using services of internationally prominent consulting firm with task to create requirements, to mark up and to create image of trade mark Made in Montenegro and Served from Montenegro • Organizing campaigns (seminars trainings, material for promotion) for exporters who want to obtain theses trade marks 	Responsible Ministries, Associations of producers, Directorate for Development of Small and Medium- sized Enterprises Chamber of Commerce of Montenegro(CCMN), MBA	II quarter 2006	Creating competitive export-oriented products Improving utilization of comparative advantages of domestic goods and services Adopting international standards and procedures in export Creating a trade mark Made in Montenegro , with high quality standards, in medium term creating brand Made in Montenegro
	<ul style="list-style-type: none"> • Conducting analysis on current preferences of domestic consumers concerning domestic goods and their accessibility in existing domestic or international retail chains in Montenegro 	Directorate for Development of Small and Medium- sized Enterprises, USAID,GTZ	II quarter 2006.	Decrease in trade balance deficit through partial import substitution Increasing domestic production
	<ul style="list-style-type: none"> • Developing the Strategy for promotion campaign Buy Domestic products 	Directorate for Development of Small and Medium- sized Enterprises, The Ministry of Economy, MEOIEI, The Montenegrin Association of Exporters and regional associations of producers, CCMN, MBA,USAID,GTZ	II quarter 2006.	Decrease in trade balance deficit through partial import substitution Decrease in trade balance deficit through partial substitution of import Increasing domestic production and partial substitution of imports
<p>Fiscal impact: Projected fiscal impact 300,000.00 Eur *Directorate would relay majority of activities on projects with CARDS, INTERREG, ORET, JICA, GTZ, etc. Furthermore, Directorate will enlarge existing capacities, creating a new sector for export promotion, having in mind that majority of projected measures will be implemented through activities of this newly established sector</p>				

²⁴ As a conceptual solution, look at EXIM Portal of India, <http://exim.indiamart.com/>

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2.3. Institutional level: programs aimed at industry associations, chambers of commerce and other institutions that provide general promotion, advocacy and collective sectoral level services with primary goal to connect and network Montenegrin exporters

Nr.	Measure	The Implementing Institution	Deadline	Goal
1.	Establishing sectoral associations of exporters	CCMN, Montenegrin Union of Employers MBA, MEOIEI	Permanent activities	Creating competitive export-oriented products Decrease in existing current account deficit (trade balance deficit) through export increase/ export stimulating Improving utilization of comparative advantages of domestic goods and services Export stimulation through regional institutional networking of exporters
2.	Empowering functions of export associations and their networking	CCMN, Montenegrin Union of Employers MBA, MEOIEI		
3.	Regional exporters Empowerment	CCMN, Montenegrin Union of Employers MBA, MEOIEI		
INSTRUMENTS: <ul style="list-style-type: none"> • Organization of permanent seminars , round tables with the purpose to recognize joint interest and means for cooperation and joint outbreaks on international markets joint export promotion programs, • joint export promotion programs, promotion campaigns and joint outbreaks in trade shows, trade events and international fairs • Introduction of clustering (intra-sectoral or horizontal cluster development) as a possibility for linking production within the framework of certain sectors, or on the level of several sectors • Cooperation with trade missions and Diplomatic consular missions in linking with similar institutions abroad • Organization and participation in regional and international trade shows, international fairs, buyer-seller meetings, etc. 				

IV. EVALUATION AND MONITORING SYSTEM

Evaluation and monitoring system represent the basis for the monitoring of the implementation of strategy, of the impacts on the realization of main goals set by this strategy and of the effectiveness of measures passed in the function of their realization, leaving the possibility for *on time* reaction of Strategy implementers, as well as key stakeholders with the aim of adjusting the change and improvement of quality of export measures.

1. BASIC PRINCIPLES

Basic principles which the creation of monitoring instruments, the establishment of monitoring institutions and the implementation of the Strategy are based upon are:

Implementation of the Strategy represents a process – great number of measures envisaged by the Strategy has long term effect, both in the very process of its implementation, and in relation to their effects. In that direction, at setting evaluation indicators, there is a risk of their correct selection, as well as of proper estimate of the impact of effects of individual measures on short, medium and long term.

Comprehensive and continuous commitment to the implementation of the Strategy – Since at the very drafting stage the Strategy passed through evaluation process and represents an active effort of all stakeholders (from the representatives of state institutions, international institutions, associations of exporters, employers' unions, chambers of commerce, up to general public), it represents a document the implementation of which should be supported by all the stakeholders involved in the passing of the same.

Participation of all stakeholders in monitoring and evaluation process is indispensable – The Strategy represents a document which is first and foremost directed towards exporters as a focus group. This means that through the institutional system of Strategy implementation monitoring, as well as through evaluation process it is necessary to secure their participation which will not be based solely upon assessments of effectiveness of individual measures, but which will have a proactive approach through giving proposals and suggestions for the removal of obstacles in the implementation of certain measures, the way of improvement of their effectiveness and proposal of new ones. The same activities are expected from all stakeholders who participate in the implementation of the Strategy.

Realistic expectations – basic goal for drafting the Strategy: increase of commodity export of Montenegro, represents a challenge which in itself is big enough when one considers a series of limiting circumstances: non-competitiveness of prices, insufficiently developed infrastructure, need for Greenfield investments in export oriented industries, small number of exporters, and so on, that will be covered, or already are, by other strategic documents which are focused on some of these problems. In that sense, the Strategy represents only a part of the solution which is primarily related to the empowering of competitiveness of export products and gradual spreading of export base, first of all through the improvement of export financing manner, reduction of transaction costs, reduction of administrative barriers and increase of professionalism of the existing services, etc. (as the most urgent problems exporters are faced with), which makes only one part of the mosaic in the creation of Montenegrin product which would be competitive on the international markets. Because of this, the evaluation instruments are based upon realistic expectations in accordance with all restrictions that cannot be covered by the Strategy.

2. PERFORMANCE MONITORING PLAN (PMP)

Performance Monitoring Plan / PMP represents an efficient system for the monitoring of the implementation of the Strategy, data collection on its implementation, selection of institutions and evaluation instruments, evaluation frequency, its budgeting and other elements which are necessary for efficient management of this implementation process.

At drafting the PMP according to the elaborated Evaluation and monitoring scheme (Figure VI.2.1) taking into consideration the importance of the basic goal of the Strategy, the most efficient solution is the system of monitoring that would start parallel to the implementation of the Strategy, whilst the system of evaluation indicators, having in mind monitoring institutions and available budget, would be based upon the combination of: instruments of evaluation success indicators, effects impact indicators, formal forms of quality research results (questionnaires, sample researches,...) and participatory instruments (direct participation of stakeholders in evaluation process) depending on the type of undertaken measures.

Figure V.2.1.- Evaluation process



PMP of the Strategy consists of the system matrix: measure that the evaluation is related to, success indicators, institutions for their monitoring, time frame for data collection and their analysis, institutions for their appraisal and decision making on adapting, changing or passing new measures.

The organizational structure for the implementation of the PMP system is based upon the creation of the efficient link between the state institutions and the most important stakeholders: exporters, international organizations, local administration, financial sector and general public. On the next page there is a diagram of the organizational structure of the PMP system (Figure V.2.2.)

and the organizational structure of the strategic export group (Figure V.2.3.) as the most important organizational part of monitoring and evaluation process in the implementation of export promotion strategy of Montenegro.

Figure V.2.2.- Organizational structure of PMP system

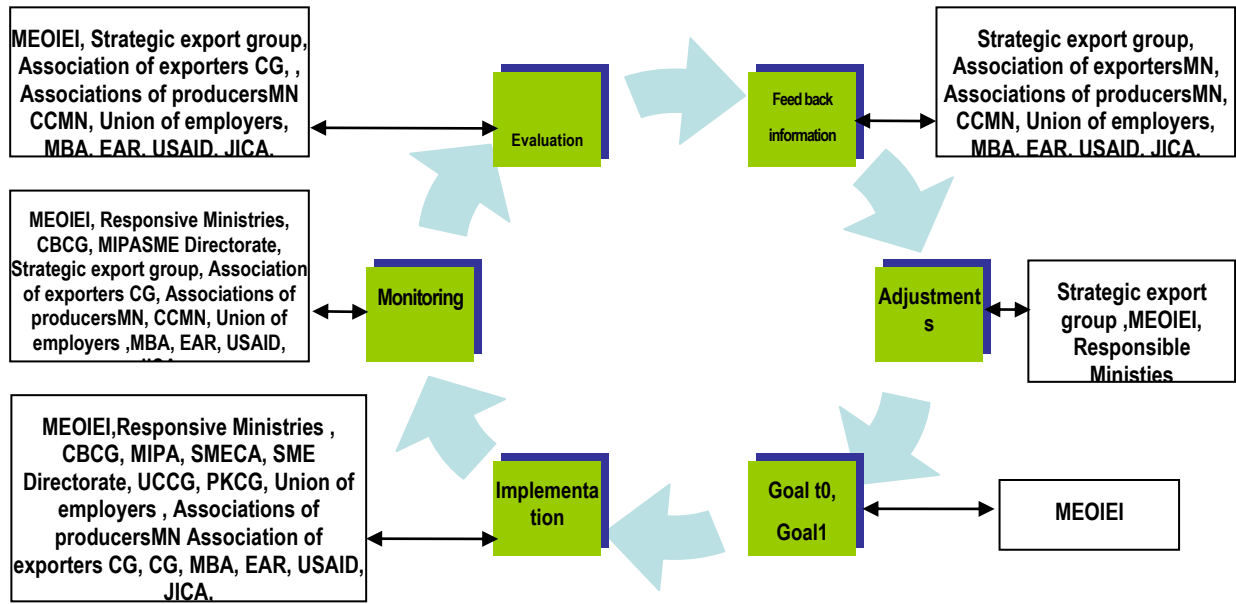
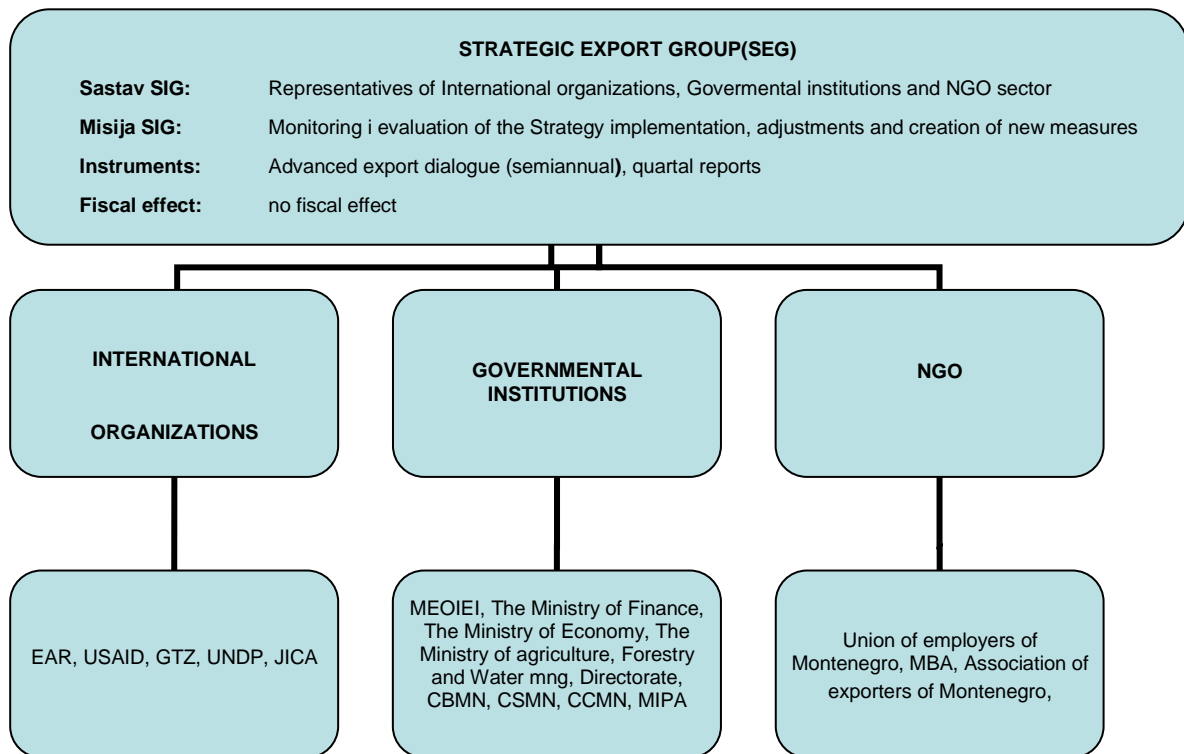


Figure V.2.3.- Organizational structure of strategic export group



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3. PERFORMANCE MONITORING PLAN – SURVEY

The tables below give the survey of the most important elements of the PMP system the details of which will be determined by the agreement of the Strategic Group:

Table 26 – PMP Measures 1 and 2

Measure	1.Establishing the financial mechanism	2. Availability and mediation in the process of obtaining financial means
1. Evaluation indicators	The number of exporters which would use financial means Obtained funds from international organizations	1.Controlling Number of SMECA clients 2.Controlling the number of organized seminars and trainings potential various financial mechanisms and means (the letter of assurance, forfeiting , factoring, etc.) for export facilitation
2. Frequency of evaluation	Annual	Semi-Annual
3. The institution for ensuring data collection on results obtained with Strategy implementation	CBCG	SMECA
4. The institution for monitoring	CBCG	Export Strategy Group, MEOIEI
5. The institution for evaluation	Export Strategy Group, CBCG, Directorate for Development of Small and Medium-sized Enterprises, MEOIEI	Export Strategy Group, MEOIEI
6. Fiscal and financial effect	-	WB

Table 27. – PMP Measures 3 and 4

Measure	3. Creation of new products with promotion and utilization of Free Zones (production for export)	4. Remission of VAT refund period for exporters 4.a. Fiscal relieves - Profit tax exemption.
Evaluation indicators	1.Number of Green Field FDI in the manufacturing sector and export oriented sectors 2. The level of investment in technology and know how 3. Controlling the Number of exporting firms 4. Increase in export of existing exporters	1. Increase in export of existing exporters 2. Increase in export on regional markets 3.In the Long term: Increase of corporate tax revenues (through wider tax base) 4. Increase of capital investments connected with the measure 4.a.)
Frequency of evaluation	Annual	Annual
The institution for ensuring data collection on results obtained with Strategy implementation	MIPA, CBCG	The Ministry of Finance, MEOIEI, Directorate for Development of Small and Medium-sized Enterprises
The institution for monitoring	Export Strategy Group, MEOIEI , MIPA	The Ministry of Finance, MEOIEI, Directorate for Development of Small and Medium-sized Enterprises
The institution for evaluation	Export Strategy Group, MEOIEI, MIPA	Export Strategy Group, The Ministry of Finance, MEOIEI, Directorate for Development of Small and Medium-sized Enterprises
Fiscal and financial effect	-	-

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Table 28. – PMP of Measures 5, 6, 7, 8 and 9

Measure	<p>5. Adopting set of procedures that are harmonious with WTO and EU technical terms /TBT/ (Phitosanitary procedures/SPS/, Rule of origin, quality measurements, etc)</p> <p>Mechanism generation for assurance of implementation of laws in area of technical standards</p> <p>Technical solutions related to product characteristics</p> <p>(b) Standardization Institute as the implementing authority for the Law on standardization</p> <p>(c) Certification</p> <p>(d) Testing procedures (establishment of accredited laboratories)</p>	<p>6. The Law on Custom Tariffs</p> <p>7. The Law on Competition</p> <p>8. The Law on optical discs</p> <p>9. The Resolution on Export/Import Control List</p>
1. Evaluation indicators	<p>The number of adopted procedures that are in accordance with WTO and EU standards:</p> <p>Controlling the number of exporters with obtained ISO 9000, ISO 9001, ISO 14000, HACCP, HALAL etc.</p>	<p>Controlling deadlines for law adoption</p> <p>Achieved degree of harmonization with EU standards</p>
2. Frequency of evaluation	Annual	Annual
3. The institution for ensuring data collection on results obtained with Strategy implementation	MEOIEI, Responsible Ministries	MEOIEI, The Ministry of Economy, The Ministry of Finance
4. The institution for monitoring	MEOIEI, Responsible Ministries	MEOIEI, The Ministry of Economy, The Ministry of Finance
5. The institution for evaluation	MEOIEI, Responsible Ministries, Export Strategic Group, EAR, USAID, GTZ	MEOIEI, The Ministry of Economy, The Ministry of Finance, Eksport Strategic Group, EAR
6. Fiscal and financial effect	-	-

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Table 29. – PMP of measures 10, 10A, 10B, 11

Measure	<p>10.a. Simplifying and reducing the cost of Custom Procedures Improvement of Montenegrin Custom Service capacity through:</p> <p>10.b. <u>Creation of the Customs Administration internet portal</u></p> <p>Implementation of software for computerized processing of customs declarations and improvement of statistical data processing, networking of the ministries which issue permits, creation of conditions for electronic filling in, processing and checking of customs declarations and accompanying documents in medium-term (by 2008) (implementation of the law on electronic signature)</p> <p>Forming a working group at the level of the Customs Service of Montenegro, Ministry of Finance and Ministry for International Economic Relations and European Integrations, for drafting the plan for reduction of administrative barriers through better coordination of institutions involved in export procedures..</p>	<p>11. Organization of seminars and trainings for custom officers, especially for the local custom units (custom service sub branches, custom service local offices, custom service departments and custom service laboratories.)</p> <p>Long term goal: Establishment of the Faculty for transshipment and custom service officers</p>
1. Evaluation indicators	<ol style="list-style-type: none"> 1. Controlling the number of web site visitors 2. Quality of the site and its updating frequency Controlling the quality of exporters' data base 3. Controlling the number of export procedures 4. Controlling the number of days necessary to obtain export permission 5. Controlling the average waiting period on custom service points 	<ol style="list-style-type: none"> 1. Controlling the number of seminars 2. Controlling the number of participants 3. Ex-post evaluation of seminar's impact 4. The Quality of lectures
2. Frequency of evaluation	Semi-Annual	Semi-Annual
3. The institution for ensuring data collection on results obtained with Strategy implementation	CSCG, CBCG, The Ministry of Finance, MEOIEI, Monstat	MEOIEI, CSCG, Directorate for Development of Small and Medium-sized Enterprises, JICA ,
4. The institution for monitoring	CSCG, CBCG, The Ministry of Finance, MEOIEI, Monstat	MEOIEI, CSCG, Directorate for Development of Small and Medium-sized Enterprises, JICA, USAID, EAR, GTZ
5. The institution for evaluation	CSCG, CBCG, The Ministry of Finance, MEOIEI, Monstat, Export Strategic Group, Association of exporters, EAR, GTZ, USAID	MEOIEI, CSCG, Directorate for Development of Small and Medium-sized Enterprises, JICA, USAID, EAR, GTZ

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Table 30. – PMP Measure 12 i 13

Measure	12. Establishment of special department for export development in the Directorate for Development of Small and Medium- sized Enterprises (EXPORT – IMPORT UNIT)	13. In Directorate support will be provided at all stages of the production, marketing and export process under a series of specific programs. Programs that will support various pre-investment and pre-production export development activities are: <u>The Export Competitiveness Program</u> : Includes technical expertise to identify product and process deficiencies with a view to reduce costs and meeting the technical specifications of customers, technical expertise in creation of sale programs for exporters. Moreover this program contains technical expertise in the regional analysis for exporters, providing information about technical procedures, and technical requirements for different markets, creation of exporters' data base and data base of the most important export commodities, their markets and necessary technical requirements which follows their export to a certain market.
1. Evaluation indicators	<p>Increase in the number of exporters</p> <p>Increase of exporting goods</p> <p>Results of Export market development</p>	<p>The number of web site visitors</p> <p>The number of organized seminars</p> <p>The number of exporters in exporters' data base</p> <p>Increase of exports</p> <p>The number of exported products</p> <p>Presence of domestic firms on international trade fairs</p>
2. Frequency of evaluation	Annual	Semi-Annual
3. The institution for ensuring data collection on results obtained with the Strategy implementation	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, MEOIEI	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, MEOIEI
4. The institution for monitoring	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, MEOIEI, Export Strategic Group
5. The institution for evaluation	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, MEOIEI, Export Strategic Group	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, MEOIEI, Export Strategic Group, Association of exporters, USAID , EAR, JICA, GTZ
6. Fiscal and financial effect	300,000.00 €	Technical assistance

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Table 31. – PMP Measures 14 and 15

Measure	14. The Export Quality Improvement Program: will assist exporters to qualify for ISO 9000, ISO 9001, HACCP, ISO 22000, organics, Halal or equivalent quality assurance certification required in target export markets(QUALICERT for services), especially in EU and WTO markets	15. The Export Marketing Program: will assist individual enterprises access specialized marketing expertise to identify export markets and export customers; assess customer requirements in target markets; technical assistance in developing a detailed marketing and selling strategy(joint and organized outbreak in trade shows, seminars, business to business, joint promotion activities, etc.). Special attention to promotion for products which would obtain trade mark Made in Montenegro
1. Evaluation indicators	1. Controlling the number of seminars 2. Controlling the participation in seminars 3. Controlling the number of exporters with export trade certificates 4. Number of contacts with firm for certifications	1. Controlling the number of seminars 2. Controlling the participation in seminars 3. Quality of promotion materials 4. Controlling the number of visits on international trade shows 5. Controlling the number of international business contacts and business partners through trade show's participation
2. Frequency of evaluation	Annual	Annual
3. The institution for ensuring data collection on results obtained with the Strategy implementation	Directorate for Development of Small and Medium-sized Enterprises	Directorate for Development of Small and Medium-sized Enterprises, Association of Exporters
4. The institution for monitoring	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, Export Strategic Group	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, Export Strategic Group
5. The institution for evaluation	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, Export Strategic Group, USAID, GTZ, EAR, JICA	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, Export Strategic Group, USAID, GTZ, EAR, JICA
6. Fiscal and financial effect	Technical assistance	Technical assistance

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Table 32. – PMP Measures 16 and 17

Measure	16. Preparing regional analysis for group of products that have regional completeness potential	17. Affirmation and organization of projects: Made in Montenegro and Buy Domestic(Homemade) Goods Using services of internationally prominent consulting firm with task to create requirements, to mark up and to create image of trade mark Made in Montenegro and Served from Montenegro Organization of campaign (seminars trainings, material for promotion) for exporters who want to obtain this trade mark Conducting analysis about current preferences of domestic consumers concerning domestic goods and their accessibility in present domestic or international retail chains in Montenegro Developing Strategy for promotion campaign Buy Domestic products
1. Evaluation indicators	1. Controlling the increase of export in the region 2. Controlling the number of exporters which exporting in the region 3. Controlling the number of exported goods	1. Quality of adopted standards for the trade mark Made in Montenegro 2. Controlling the number of goods which would obtain trade mark Made in Montenegro 3. Controlling the number of seminars on trade mark requirements 4. Qualitative evaluation on public opinion about trade mark Made in Montenegro 5. Controlling the number of goods with trade mark Made in Montenegro which are exported in EU and regional markets 6. Ex ante and ex post Analysis on the Strategy for Promotion campaign Buy domestic goods
2. Frequency of evaluation	Annual	Semi-Annual
3. The institution for ensuring data collection on results obtained with Strategy implementation	EXIM Unit in Directorate, Custom Service of Montenegro, Chamber of Commerce of Montenegro, MEOIEI	EXIM Unit Directorate for Development of Small and Medium-sized Enterprises, Association of exporters, Export Strategic Group, CCCG
4. The institution for monitoring	Directorate for Development of Small and Medium-sized Enterprises, Responsible Ministries, GTZ, EAR, USAID	Directorate for Development of Small and Medium-sized Enterprises, The Ministry of Economy, Export Strategic Group, MEOIEI

List of abbreviations:

- **BDP** – GDP (Gross Domestic Product)
- **CARDS** – Community Assistance for Reconstruction, Development and Stabilisation
- **CBCG** – Central Bank of Montenegro
- **EAR** – European Agency for Reconstruction
- **EU** – European Union
- **FDI** – Foreign Direct Investments
- **FTA** – Free Trade Agreement
- **GDP** – Gross Domestic Product
- **GTZ** – Gesellschaft für Technische Zusammenarbeit
- **HACCAP** – Hazard Analysis and Critical Control Point
- **IMF** – International Monetary Fund
- **IT** – Information Technology
- **JICA** – Japanese International Cooperation Agency
- **JIE** – Southeast Europe
- **MBA** – Montenegrin Business Alliance
- **MEOIEI** – Ministry for International Economic Relations and European Integrations
- **MIPA** – Montenegrin Investment Promotion Agency
- **NTB** – Non-tariff Barriers
- **ORET** – Ontwikkelingsrelevante Exporttransacties
- **PDV** – VAT (Value Added Tax)
- **PKCG** – Chamber of Commerce of Montenegro
- **PMP** – Performance Monitoring Plan
- **SDI** – FDI (Direct Foreign Investment)
- **SEE** – South Eastern Europe
- **SFTA** – Single Free Trade Agreements
- **SME** – Small and Medium Sized Enterprises
- **SMECA** – Serbia and Montenegro Export Credit Agency
- **SPS** – The Sanitary Phytosanitary Agreement
- **STO** – WTO (World Trade Organization)
- **SWOT** – Strength Weaknesses Opportunities Threats
- **TIR** – Transport International Relations
- **TBT** – Technical Barriers to Trade
- **UCCG** – Customs Administration of Montenegro
- **UNDP** – United Nations Development Programme
- **UNMIK** – United Nations Mission In Kosovo
- **USAID** – United States Agency for International Development
- **WB** – World Bank
- **WIIW** – Wiener Institut für Internationale Wirtschaftsvergleiche
- **WTO** – World Trade Organization

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Annex I – PRODUCT GROUP PROMOTION ACTION PLAN

The Action Plan, as an operative part of the Export Promotion Strategy, presents the review of a group of products that are currently relatively competitive on foreign markets, as well as a set of products that might become so in the forthcoming period (2006-2008).

The Action Plan is based on the sectoral analysis, focusing on two dimensions:

- **Increase of exports in currently exported products**
- **Creation of new export-gearred products**

It means that the Action Plan is based not only on “promotion building“, but above all on “product building“, as the primary principle in developing the Action Plan, particularly in view of the present non-diversification of Montenegrin exports. The increase of exports in existing products and chances of developing new export-gearred products is focused on the consolidation of current level of export of individual products that are competitive in the SEE Region or on the EU markets.

The selection of products listed in the Action Plan is based on the analysis of trade trends at the sectoral level, SWOT analysis and operational goals derived from the SWOT analysis:

1) Analysis of production and trade trends at the sectoral level²⁵

- Current level of production,
- Number and capacity of producers,
- Current level of export,
- Current level of import of the same product,
- Identification of export markets in SEE countries,
- Identification of export markets in EU countries

2) SWOT analysis

This analysis **identifies comparable advantages and weaknesses of products possessing market competitiveness on the basis of the sectoral analysis.**²⁶ Based on the SWOT analysis, export products are classified in 3 groups, according to the current competitiveness on SEE and EU 25 markets criterion:

- **Import substitution – limited export possibilities in the mid-term**
- **Export substitution – export possibilities in the mid-term**
- **Regional competitiveness – increase of market share in SEE markets and penetration to EU markets.**

3) Common operational goals

Common operational goals are the most significant activities to be taken in resolving the recognized weaknesses and hindrances identified through SWOT analysis. The detailed review is given in Table 4.

²⁵ More detailed explanations are given in the Strategy, Chapter III

²⁶ In the SWOT analysis, EU 25 and SEE markets were reviewed separately considering different standards of quality and price competitiveness and the structure of Montenegrin exports.

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Table: Action plan for export stimulation of competitive commodity groups ²⁷

Commodity groups	Current state	Current obstacles-constrains	Operational goals
Automotive industry***			
Automotive components and Parts (The slide elements for motor vehicles)	<ul style="list-style-type: none"> • Currently in Montenegro, there is only one company, which basic production programs are the slide elements for motor vehicles • Adopted quality systems SO 9001, ISO 14001, IS –TS 16949 • Strong competition from the region (Bosnia and Herzegovina, Serbia, Croatia) • Implementing quality management principles, this company is competitive in EU markets 	<ul style="list-style-type: none"> • High custom tariffs rates on some types of tools (5%-10%), gadgets made by synthetic material (e.g. Work wear 18%) • High custom tariff rates on imported inputs for manufacturing • Delay of VAT remission • Unprofessional export support services (especially forwarding) • A deficiency of information regarding tariff and no tariff barriers and other measures posed by EU in automotive industry 	<ul style="list-style-type: none"> • Conducting analysis on reducing custom duties on imported intermediary products of automotive industry • Long term: Founding of the Academy for forwarding and other export supporting services • Making data base of European Standards concerning automotive industry, as well as updating info on technological achievements showed in international trade fairs • Utilization of Free Zones for new manufacturers as well as extension of existing capacities
Agriculture Sector***			
Wine and Beer***	<ul style="list-style-type: none"> • Production of small quantity for localized trade(excluding Plantaze), which are not enough to satisfy domestic demand (Only one small commercially-orientated winery) • Industry dominated by one big exporter of wine and one big exporter of beer (Planataze and Brewery Trebjesa) • Prominent groups of goods in this industry (eg. Vranac, Procorden, Regular Niksicko) in regional markets, insufficient penetration on EU markets • Recognized quality of beer (16 points of 20) according to the beer standard grading 	<ul style="list-style-type: none"> • USG restrictions on working with wine sector • Existence of quota for imports in EU markets, (however , these quotas aren't achieved) • Increase of competition in this sector mainly from Albania and Serbia 	<ul style="list-style-type: none"> • Privatization of Plantaze • Obtaining a loan for capacity increase • Investments in new technology(FDI attracting in this sector) • Improvement of promotion instruments • Ministry of agriculture should take active approach for development of this sector, especially in areas which cover standardization, penetration on new markets and creation of new products • Tourist promotion (sectoral cluster with tourism sector) • Progressive promotion and standardization of quality (Firstly trade mark , in the long path brand Made in Montenegro) • Frequent and intensive organization of trainings and curses of technologists in wine and beer industry (seminars, visits to regional varies and breweries in the region Croatia, Italy -INTERREG)

Commodity groups	Current state	Current obstacles-constrains	Operational goals
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²⁷ Selection of products, given in tables, was determined with results of the questionnaire survey, which the Ministry distributed to exporters, as well as with the findings of the Analysis of the Agricultural sector, which was conducted by the USAID (Assesment of the Agricultural sector,2005)

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<p>Mushrooms ***</p>	<ul style="list-style-type: none"> • Low domestic demand • Export oriented to France, Serbia and Italy • High export value of fresh mushrooms • Over 50 different eatable species 	<ul style="list-style-type: none"> • Relies on efficient collection system and timely transportation to processing facility, insufficient processing capacities • Increasing regional competition (Kosovo and BiH) • Limited/specific international demand • Under investing in processing machinery 	<ul style="list-style-type: none"> • Identify suitable packaging • Marketing assistance • Rationalization of taxes and inspection practices • Organization of seminars and trainings on standards, certification and possibilities for product development • Tourist promotion (sectoral cluster with tourism sector)
<p>Sage ***</p>	<ul style="list-style-type: none"> • Major producers are CG, BiH, Albania (1,200MT) • CG production 150-200MT/yr • Some sage imported from BiH and processed in CG (up to 25%) • Recognized internationally as First Quality ("Dalmatian sage") • Albanian quality inferior (lower oil content) • Major international market is USA 	<ul style="list-style-type: none"> • Administrative taxes • Import taxes on wet sage from BiH (10% customs + 17%VAT) • Manipulation of CG domestic market by non-domestic competitors (e.g Albania) • Direct export to USA problematic as CG not member of WTO or EU, (sometimes must use intermediary in Cyprus) 	<ul style="list-style-type: none"> • Rationalization of taxes and inspection practices • Promotion of commercial production (Reaffirmation of sage producers' association) • Tourist promotion (sectoral cluster with tourism sector)

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Tabela: Action plan for export stimulation of less competitive commodity groups **

Commodity groups	Current state	Current obstacles-constrains	Operational goals
Wood processing and furniture industries**			
Furniture and high value added wood products	<ul style="list-style-type: none"> • In Montenegro at present there are few furniture exporters mostly from the SME sector • Around 80 saw mills with joint capacities around 130.000 m³ of wood²⁸ • Strong competition (Serbia, Croatia, Bosnia and Herzegovina, IMPO, Nipex, TVIN, Dallas, Velux,...) 	<ul style="list-style-type: none"> • TIR CARNET documents are not recognized by the Custom Service • Underinvestment in technology and know how • Overpriced concessions in comparison to the region (high input costs) • In most cases unskilled working labor in especially in technology of fibers, design, and product development. 	<ul style="list-style-type: none"> • Organizing negotiation among companies , Chamber of Commerce, Custom Service of Montenegro, and responsible Ministries regarding TIR CARNET document. • Setting up The New Law on Woods, and New Law on Concessions, in coordination with the Ministry of Agriculture and the Ministry of Economy • Privatization of state owned enterprises • Founding wood processing producer's associations, seminar organizing , idea of clustering • Organizing seminars , training courses concerning technological upgrading , development of wood products, promotion, analysis of the market • Affirmation of Free Zones in the North of Montenegro
Aluminum products**			
Aluminum products, Aluminum alloys, slide doors, optical discs, aluminum locking systems, etc.	<ul style="list-style-type: none"> • There are only few producers and exporters of aluminum products (UNIPROM, Rapex, Vugomal) ecl. "Aluminijum Kombinat" • Significant natural resources and capacities for production 	<ul style="list-style-type: none"> • Some exporters have problems with double VAT paying (in Serbia) • Undeveloped technology • Unfavorable financing schemes (for this industry usually needed high sink investments 	<ul style="list-style-type: none"> • To organize a meeting with Ministry of Finance and Custom service regarding double VAT calculation • Conduct analysis on aluminum product development and regional possibilities for market penetration f these products.(Ministry of Economy) • Seminars on various possibilities for product development in this sector , new technologies of production, and market niches for these products in the region. • The law on optical discs
The Agriculture Sector **			
Honey **	<ul style="list-style-type: none"> • Montenegrin production is 250-350MT/yr 	<ul style="list-style-type: none"> • Hive husbandry and hygiene 	<ul style="list-style-type: none"> • Using existing association in this sector organize

²⁸ Source :The Ministry of Economy

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	<ul style="list-style-type: none"> • 50MT/yr imported, mostly from Serbia, Croatia and Slovenia • CG honey doesn't have price competitiveness on domestic market €7-8/kg; imported is €4-6/kg 	<ul style="list-style-type: none"> • Queen selection (ban on queen importation into CG) • Undeveloped marketing and technology of production(Equipment, Packaging, development of distribution channels, United outbreak on regional tradeshows and large retailers) • Networking of Honey producers' association(Days of Honey is positive shift) 	<p>seminars regarding possibilities of business merging and capacity enlargement through establishment of partnerships and Ltd, organizing joint participations on international trade fairs, and distributors</p> <ul style="list-style-type: none"> • Organizing visits of experts in technologic, development of products, disease treatment, ways of cost reduction, etc • Organizing seminars on technical standards posed by EU office on honey import • Organizing seminars on financial facilitation of export through financial leasing • Creation of list of needed quality characteristics , necessary for honey producers to join their products to the trade mark Made in Montenegro • Product development (propolis, tea ampulla, cosmetics, etc)
<p>Medicinal and aromatic herbs**</p>	<ul style="list-style-type: none"> • Regional cottage industry located mainly in the North • Geographically specific (generally in mountainous areas) • Formerly 10 companies were operating in Montenegro; now 2-3. • Currently 100 different species of commercial interest • Strong competition from BiH and Albania • Sold either as dried or oil (from steam distillation process) 	<ul style="list-style-type: none"> • Unfavorable taxes and tariffs • Lack of drying/processing facilities • Unorganized collection points • Limited international buyers • Inconsistent quality and quantity(unexplained standards of quality and sorting according to international standards) • Lack of organized association to represent industry 	<ul style="list-style-type: none"> • Identification/liason with international buyers • Processing Capacity enlargement (leasing) • Introducing quality standards(Made in Montenegro),organizing trainings for raising , and processing activities • Assist national association formation • Packaging • Tourist promotion (sectoral cluster with tourism sector) • Range expansion (essential oils, beverage infusions, etc)

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Commodity groups	Current state	Current obstacles-constrains	Operational goals
Organic food**	<ul style="list-style-type: none"> • Domestic production currently zero • Many producers believe much of current CG production is "organic" but uncertified • Increasing International demand 	<ul style="list-style-type: none"> • Certification and regulation • Unknown local demand • Irregular retail supply • Export dependent on consistent quality, supply and price • Domestic costs of production unknown 	<ul style="list-style-type: none"> • Conduct regional market analysis concerning existing demand for these products • It is necessary to set a list of technical regulations, testing procedures, and certification standards in order to establish internationally recognized brand of ecological organic food, with Montenegrin origin • To Establish technological institute, department, for organic food processing in accordance with internationally recognized technical standards. • Enhancing joint exploitation of existing processing capacities • Networking with regional associations • Linkage to other groups • Packaging • Marketing
Mandarins, pomegranate and kiwi**	<ul style="list-style-type: none"> • Regional export potential • Annual production of mandarins is 4,000 MT 	<ul style="list-style-type: none"> • Lack of facility for packaging and sorting • Sales in bulks (20-25 kg.), mixed quality • Small Retailing (market) type of sale • Technologically undeveloped treatment of mandarin trees • No association of producers 	<ul style="list-style-type: none"> • To find company for sorting and packaging • Organizing fixed purchase points • Conduct regional analysis (Ministry of agriculture) on existing demand for agrumes in the region (Albania, Bosnia, Serbia) • Founding association of producers • Promotion
Ice cream **	<ul style="list-style-type: none"> • In recent years there is significant increase in ice cream production and market penetration in the region • Only on large exporter „Donze“ • Recognized quality of the product 	<ul style="list-style-type: none"> • Increasing strong competition from the region • Lack of HACCP certification and therefore export to EU market is still impossible 	<ul style="list-style-type: none"> • Investment in a new technology • Improving promotion instruments • HACCP • Tourist promotion • Aggressive proactive promotion (Made in Montenegro)

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Table: Action plan for export stimulation of less competitive commodity groups oriented on partial import substitution*

Group of products	Current state	Existing Constrains	Operative Goals
Milk*	<ul style="list-style-type: none"> Annual CG production: 187.5 mil l cow milk 10.5 mil l sheep milk Small quantity goat milk Very low production per unit/low productivity (2,200l/cow/yr) Major fresh milk suppliers from Serbia UHT from Serbia/Croatia/Slovenia 	<ul style="list-style-type: none"> Small farms (2-3 head) Very few farms(around 30) with herds over 20 head (Semi)manual milking High costs of milk collection Standardization of quality needed Herd husbandry poor Plethora of mini-associations Strong competition from Serbia(import of milk from Serbia for processing in Montenegro) Uncompetitive fiscal incentives(fundamental good, VAT Treatment) Undeveloped technology of production increase 	<ul style="list-style-type: none"> Stranhening of activities of Association through cooperation ctreaiion and foundation of bigger farms through partnership arrangements Organization of fix collection points with lowest costs Decrease of VAT rate on milk (fundamental good) Organization of seminars and trainings concerning productivity increase, technical and phitosanitary standards, technology of production and quality standardization) Setting up Veterinary Faculty Increase of offices for veterinary service
Processed milk products*	<ul style="list-style-type: none"> Major imports from Serbia/Slovenia/Croatia Several processors producing and packaging: ice-cream2, yoghurt 15 ,butter 1 	<ul style="list-style-type: none"> Insufficient capacities and sometimes inconsistent supply for domestic market Undiversified production (limited butter production, fruit yoghurt) CG processors only produce yoghurt (no kefir, fruit yoghurt) Insufficient investments in technology , marketing and water and waste management 	<ul style="list-style-type: none"> Marketing assistance Packaging (esp. single serve) Training in kefir, fruit youghurt production and quality development (training courses INTERREG) Training in EU standards

Commodity groups	Current state	Current obstacles-constrains	Operational goals
Olives*	<ul style="list-style-type: none"> Production areas around Ulcinj and Bar 10-12 private oil processors Supply/yield very small and seasonally variable (150000 trees in mostly old-aged) 	<ul style="list-style-type: none"> Low and low productive processing capacity Local oil more expensive than imported Poor agronomic practices Trees very old (>100 years); local variety Manual harvest of ground drop olives Almost zero planting of new trees Processing and value-adding technologies limited 	<ul style="list-style-type: none"> Networking and seminar organization with partners in the region (Italy , Greece , Croatia) Necessary additional help in investing in a new technology and capacity enlargement(leasing) Investments in packaging, new technologies of olive picking, and olive processing Organized activities in the Ministry of Agriculture for development of this sector Investment in horizontal and vertical product development Trainings on certification and internationally recognized quality standards and production adjustments to those standards Production education/extension Range expansion Tourist promotion
Potatoes *	<ul style="list-style-type: none"> Annual CG production of 70-100,000MT (10- 	<ul style="list-style-type: none"> No facilities for sorting, quality grading and 	<ul style="list-style-type: none"> Identify suppliers of new/used washing line, sizing line

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	<p>15MT/ha).</p> <ul style="list-style-type: none"> • Domestic CG production is 50% of domestic demand • Imports generally from Serbia (opportunistic imports from Turkey, Egypt, Libya) • Seed potatoes imported from Holland, Canada 	<p>packaging in smaller packs(2-3 kg),at present potato sold in bulk 20-25 kg. (sold "dirty"</p> <ul style="list-style-type: none"> • Undeveloped collection and distribution channels • Undeveloped technology of seed preservation and seed creation • Noncompetitive prices of biotechnical means and preservatives(mainly imported) • Low Value added (chips, mashed potato, etc.) 	<p>and suitable packaging (local/imported)</p> <ul style="list-style-type: none"> • Development of distribution channels to big retailers • Education and extensive training on new technological procedures , biochemical means for production improvement • Improvement of biotechnological means for seed preservation , and seed creation • Fiscal incentives on imported biotechnical means
Early vegetables*	<ul style="list-style-type: none"> • Started export of early vegetables in the region • Permanent increase of production and increase of cultivated fields for greenhouses 	<ul style="list-style-type: none"> • High tariff and no-tariff protection in the region 	<ul style="list-style-type: none"> • To develop system of sorting and packaging • Education on new technological measures with purpose to increase productivity per hectare.

Commodity groups	Current state	Current obstacles-constrains	Operational goals
Slaughtering industry*	<ul style="list-style-type: none"> • Several state and private facilities • Most facilities slaughter mix of animals (cattle, sheep, pigs etc) • Annual meat production • Bovine - 9,000 MT • Sheep/goat - 5,000 MT • Pig - 4,000 MT • Chicken - 2,400 MT 	<ul style="list-style-type: none"> • Very few (2-3) private abattoirs • No abattoirs meet EU standards • No waste water treatment facilities • No carcass/offal disposal facilities • Current slaughter capacity underutilized • Current flock/herd size does not justify investment in new large facilities(oversized facilities in comparison to the current meat production) 	<ul style="list-style-type: none"> • Needs for adopting EU phytosanitary and hygienic standards in newly established mini private slaughterers, which at this point of time doesn't seek a lot of investment in achieving these goals. • To make analysis on rationalization and specialization of slaughtering companies (especially state owned) • "To build a facility with larger capacity(planned end 2006)
Fish processing *	<ul style="list-style-type: none"> • Only two companies ("Ribarstvo"and new company in Bar) in CG processing/canning fish • I the region there are 4 companies in Croatia; 1 in Slovenia, 1 in Albania • Ribarstvo canning and smoking both freshwater and sea fish • Ribarstvo has had JV negotiations with Italian co. • Current SCG market demand is 70 million cans/year; current production only 10 % of demand • Competition from Morocco, Tunisia (with both frozen and canned fish) • Severe competition from Albania-Posejdon bluefish (newly established company Posejdon from Albania) 	<ul style="list-style-type: none"> • Ribarstvo's current facilities are very dilapidated- does not meet EU standards • needs assistance in equipment selection, refurbishing of production facilities, implementation of new technology and staff education • Fishing on the lake is not well organized and its capacities are not satisfactorily used • Need to determine sustainable catch and fleet size • CG has no modern fishing boats; maybe use Italian or Greek boats (case with Albanian company) • Sea products processing, (fish and mollusk). 	<ul style="list-style-type: none"> • Looking for Joint Venture arrangements or strategic partner for company Ribarstvo, as well as looking for new foreign investors (utilization of Free zone in Bar)) • To make a comparative analysis: Leasing of Italian and Greek fishing boats vs. Purchasing mini fleet • Improvement of technology in fish processing procedures, adopting European quality standards and new technologies of fish processing through organization of set of seminars • Applying projects for development of Montenegrin fishery on tenders of international organization e.g. JICA, which has special program of technical assistance for fishery industry • Organization of fishery association

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JOINT OPERATIONAL GOALS

Operative activity	Implementing institution	Dead line
<p>1. Regional comparative market assessment of competitive commodity groups</p> <ul style="list-style-type: none"> • Review primary and secondary sources/documents to determine Montenegrin agribusiness products for which there is a potential market in the other Balkan countries. The analysis will provide an initial snapshot of the regional trade dynamics, revealing existing or potential trade gaps, which can then be exploited for the benefit of Montenegrin agribusinesses • Survey potential MPSDC client firms (as well as other potentially involved Montenegrin agribusiness firms) to determine their past involvement in Balkan countries and their interest in and capability to enter or increase their marketing activity in the region. • Prior to traveling, to identify, contact and arrange meetings with potential buyers and others who could serve as intermediaries for the marketing of Montenegrin agribusiness products marked in Strategy • Visit markets in the region to identify: <ul style="list-style-type: none"> -What types of fresh and processed food products and other agribusiness products that Montenegrin agribusiness firms could supply are currently for sale, at what price, and quality level? -What are the current sources used by the markets? -What are some consumer perceptions, preferences and attitudes toward these various products and their country of origin? -What are the consumers'/markets' perception of Montenegrin products? <p>Meet with potential buyers (wholesales, distributors, large retail chains, brokers, etc.) in neighboring countries to assess their interest in and attitude regarding potentially sourcing Montenegrin agribusiness products.</p> <p>Identify potential contract buyers for later contact by Montenegrin firms and determine the characteristics (package size, quality level, price range, quantities required, etc.) required by the buyers and the markets, as well as an analysis of the distribution chain once the products reach the various borders.</p> <p>Propose fairly detailed, phased marketing strategies for competitive Montenegrin products and a set of policies to strengthen those strategies for accessing Balkan/regional markets.</p> <p>Identify regulatory and policy constraints hindering the export of Montenegrin products to the Balkan countries and provide indications of potential problems for increased trade.</p> <p>Provide the staff in Directorate for small and medium sized enterprises with practical capacity building knowledge on how to approach an export market, identify and examine market opportunities, and how to relate information gathered back to agribusiness clients.</p>	<p>Responsible Ministries in coordination with producer associations and SME Directorate, Chamber of Commerce, Montenegro</p>	<p>2006-THE FIRST QUARTER</p>
2. Packaging and labeling	<p>Directorate for development of small and medium-sized enterprises, GTZ</p>	<p>2006-THE SECOND QUARTER</p>
3. Presentation of General EU integration regulations and standards	<p>MEOIEI, EAR I GTZ</p>	<p>2006-the second quarter</p>
4. Marketing concept development, brand creation Made in Montenegro which would be harmonized with Mutual Recognition Agreements on Conformity Assessment Procedures (MRA)	<p>Dir for development of small and medium-sized enterprises</p>	<p>2006-THE SECOND QUARTER</p>
5. Establishing new association, networking and strengthening their activities	<p>Chamber of commerce-MN, Montenegrin association of exporters, MEOIEI</p>	<p>2006-THE FIRST QUARTER</p>

SWOT ANALYSIS *****Table 1 Characteristics of commodity groups: Regional competitiveness – increase of market share in SEE markets and penetration to EU markets.**

Factors of advantage-disadvantage	SEE Market (including Serbia and Kosovo)			EU 25 markets		
	Advantage	Neutral	Disadvantage	Advantage	Neutral	Disadvantage
1. Technical competitiveness						
Technology	x	x			x	x
Level of productivity		x			x	x
Existing capacities		x	x			x
Quality management	x	x				x
2. Exporting potential						x
Knowing market	x	x			x	
Trade contacts	x				x	x
Reputation of the product	x	x			x	
Relative competitiveness	x				x	x
3. Competitiveness of human resources						
Unit cost of working labor	x	x		x		
Level of technical skills- Firm specific trainings	x	x				x
4. Availability of natural resources						
Quality of natural resources, inputs of production	x	x				x
Quality of resources	x				x	x

SWOT ANALISIS **

Table 2 Characteristics of commodity groups: Export substitution – export possibilities in the mid-term

Factors of advantage-disadvantage	SEE Market (including Serbia and Kosovo)			EU 25 markets		
	Advantage	Neutral	Advantage	Neutral	Advantage	Neutral
1. Technical competitiveness						
Technology		x				x
Level of productivity			x			x
Existing capacities			x			x
Quality management		x				x
2. Exporting potential						x
Knowing market		x				x
Trade contacts	x				x	x
Reputation of the product	x	x				x
Relative competitiveness	x	x				x
3. Competitiveness of human resources						
Unit cost of working labor		x	x	x		
Level of technical skills- Firm specific trainings		x				x
4. Availability of natural resources						
Quality of natural resources, inputs of production	x	x				x
Quality of resources	x	x				x

SWOT ANALYSIS ***Table 3 Characteristics of commodity groups: Import substitution – limited export possibilities in the mid-term**

Factors of advantage-disadvantage	SEE Market (including Serbia and Kosovo)			EU 25 markets		
	Advantage	Neutral	Advantage	Neutral	Advantage	Neutral
1. Technical competitiveness						
Technology			x			x
Level of productivity			x			x
Existing capacities			x			x
Quality management			x			x
2. Exporting potential		x				x
Knowing market		x				x
Trade contacts		x				x
Reputation of the product		x	x			x
Relative competitiveness		x	x			x
3. Competitiveness of human resources						
Unit cost of working labor			x	x		
Level of technical skills- Firm specific trainings			x			x
4. Availability of natural resources						
Quality of natural resources, inputs of production			x			x
Quality of resources		x	x			x

Annex II – Wood Processing Industry

Wood processing industry, together with forestry, represents a significant economic activity in Montenegro, **though more as a potential than by the current performance. The raw materials and considerable capacities** constitute a good basis for much larger level of production, as well as greater share in the total **domestic product, export and employment**. That is why this economic complex deserves special attention in the definition of the strategy of future development of the Republic.

At the end of 1989, the system of composite organization has fallen apart. Thus the wood industry got separated from forestry and, also, some parts belonging to other economic activities were singled out. **Parallel to such disintegration ran the process of dissolution of former SFRY and losing of significant part of the market, to culminate with radical closing off through the sanctions**, so that from **1989, which is taken as a benchmark in the achieved output, there has been, basically, a continuing negative trend in the wood processing sector until virtually the present days.**

Outstanding **unfavorable trends in the development of wood processing** for a longer period of time, compounded by evident aging of production facilities and devaluation of production programs, were reflected, in the period from 1989-2003, in **the reduction of share of wood processing in overall industrial production from 6.38% to 1.6%, and the decline in exports (at the average annual rate of 11.2%) from \$8.4 mil. in 1989 to \$1.6 mil. in 2003.**

Current situation and assessment of possibilities for further development of wood processing – **Currently used equipment** in our wood processing industries is **technically worn out and technologically outdated**, so that most of the existing facilities cannot provide quality and efficient production. In the world, it has been a long time since a new generation of equipment with numerical management has become widely used, ensuring flexibility of production systems, high quality and accuracy of production, more rational use of material and energy inputs, considerably higher work productivity, application of new materials and absence of possible human errors. The extent to which the equipment and technology are back warded is best indicated by the fact that, e.g. in Germany, which is the most significant manufacturer of equipment of wood industries in Europe, practically all the equipment for industrial production in wood processing is numerical, not older than 3-5 years. Over 10% of revenues from the sale of equipment are allocated to the development of new, even more sophisticated equipment. Unfortunately, even today, we are still buying the old equipment, which largely went out of use.

Besides obvious overcapacity of primary facilities from the aspect of ability to provide regular alimentation with forestry raw materials from the territory of Montenegro, **existing primary wood processing facilities**, as a whole, **are characterized by technical and technological outdatedness, where average useful life of equipment and technology is 20, and not rarely more than 30 years.**

The most recent renewal of equipment in sawmills happened in early 80-ies, with the exception of two smaller sawmills /within the companies “Javorak” and “Impregnacija Drveta”/, as well as a couple of private sawmills in the territory of the towns of Pljevlja, Andrijevica, Kolasin and Niksic, which can be considered as well designed and technologically relatively well equipped. The main characteristics:

1. The sawmills are characterized by outdated equipment and technology of some 20 years ago, with technical solutions appropriate to a considerably higher level of processing, so that today we have sawmills with a lot of more or less functional equipment, installed in spacious production halls, requiring relatively large number of workers to operate such equipment and large electricity and maintenance expenses.
2. Out of existing industrial producers of joinery in Montenegro, practically only the plant in Rozaje has slightly better technical conditions for the making of joinery with quality and functionality that may adequately meet the requirements of present construction standards.
3. As for the final wood processing, the existing facilities for the production of furniture are mostly outdated (with individual exceptions), and in individual technological phases, they are also incomplete or inappropriate for actual main needs. Similar deficiencies are characteristic for the plant for prefabricated houses in Pljevlja.

A special problem, permanently present in this significant segment of wood processing, is related to the **non-defined part of facilities, specifically that for product development and design, work preparation and organization, lack of creative personnel, etc., which are the key issues in this type of production.**

Concerning **the production programs**, it should be noted that due to communication with European markets, it is **necessary to accept and apply new EU standards for products that are being introduced in place of JUS.** The ongoing processes of globalization broadened the **demands of the world market, in which the product quality and innovation are key factors of competition**²⁹. Our long **absence from international market** is a serious hindrance to domestic manufacturers, which needs to be overcome. A special problem is how to **organize export**, which is currently carried out by **several small export firms**, and their small size objectively **decreases the main price of products by even up to 20%.**

Assessment of possibilities for future development of wood processing – Due to extremely low level of production activities in existing wood processing companies (with most of key plants suspending the production wholly or almost wholly), **the Government of Montenegro, in mid-2003, defined and adopted the Forestry and Wood Processing Rehabilitation and Development Program that foresaw the integration of forestry and processing facilities in local regions and their revitalization through bankruptcy and privatisation.** The Program has given certain **results so far, reflected in increased output in primary and part of final production, with the growth rate of 2.2% in comparison to 2003.** Further development of existing wood industries is possible only after the successfully conducted **privatisation.**

This leads to the **conclusion** that in the next period **the basis of future development of wood processing industries in Montenegro will be the existing production units, from the former social sector, and now privatised,** since the new processing facilities formed in the recent years by private capital have not justified expectations (excluding individual cases)³⁰.

The following is seen as **guidelines** for the development of this sector, which could be defined primarily through the **restructuring program, and then through clearly designed strategy** of development of this significant industrial sector:

- **Change of product structure**, to make it **compatible** with the product structure in the **European Union;**
- **Change of dominant share of products in lower levels of processing** in favour of **final products**, with higher participation of creativity and knowledge;
- **Return to and winning of markets of individual EU countries for export** through cooperation or final products;
- Optimum **valorisation of existing forest resources** from local areas;
- Contribution to **employment growth** for the population capable for work, especially in the less developed part of the Republic, with higher utilization of production capacities.

²⁹ In the meantime, **significant achievements were made in the world in the change of concept of production programs**, which may be illustrated through the following:

- In sawmills, in addition to traditional riding cut, it is a widely spread practice to dry and additionally process products for laminated joinery elements, layered supports and laminated structures for building, then laminated panels for furniture and interior design etc.
 - In the production of **veneer and panels**, the qualities of traditional kinds of panels have significantly improved and **stringent standards** have been introduced, especially for environment, where production of new types of wood panels has been won, with significant further progress made through better quality of veneer and application of new technologies.
 - In the parquet production, there is a strong trend to replace traditional parquet by layered and laminated parquet, in different combinations.
 - In **joinery**, in spite of high esthetic requirements, **strict rules with respect to accuracy and quality of processing** have been introduced.
 - In the production of furniture, in spite of high requirements for quality and application of adequate materials, every larger company has its own recognizable style, which all together form a certain impression of the product with an image of a special "trademark".
- Source: Ministry of Agriculture, Forestry and Water Management.

³⁰ It is obvious that these companies lacked **knowledge and organization in the design of technology, definition of production programs, selling etc.** (Source: Ministry of Agriculture, forestry and Water Management)

More significant increase of export, as one of main strategic objectives of the future development of wood industries, **would be carried out through export programs**, which would consist of the following groups of products:

1. **Furniture and parts for furniture,**
2. **Sawn wood and lumber,**
3. **Particle boards, veneer, plywood and panelling, veneer pressed items, laminated wood panels,**
4. **Impregnated railroad sleepers and**
5. **Other final products /joinery, parquet, packaging/.**

Since the **present export includes almost only the primary products**, of marginal volume, **it is necessary first to bring the existing processing facilities /or at least some of them/ to such technical and technological condition to be able to generate a quality product**, and then to go back to the market gradually.

In the preparation and definition of **new production programs** it is necessary to apply **the market-based approach, i.e. modern marketing concept³¹**, which will provide, through strategic measures and marketing campaigns (promotions etc), **the marketing of appropriate products with competitive process to the target markets.**

Evaluations and conclusions

In connection with problems related to current work processing industries and possibilities for their further development in Montenegro, the following evaluations and conclusions may be made:

a/ Wood processing, together with forestry, is undoubtedly a significant economic activity for Montenegro, from the aspect of resources and potential;

b/ From technical and technological, as well as production and product aspects, complete existing wood industries are in serious lag and need large investments into renovation of equipment, modernization of technology and creation of new products, as well as Government incentives for the establishment of new facilities, primarily in the field of final processing;

c/ Important prerequisite for more intensive wood processing is intensification of started privatisation processes that need to be finalized as soon as possible. In that, foreign partners and foreign capital should be insisted on.

d/ In new investments, only modern equipment and technology should be supported, and the assessment of project viability should be based exclusively on the production, technical and market parameters;

e/ The idea for some of existing trade companies or a new company to develop marketing activity for the needs of wood processors should be initiated and supported, since that would contribute to the formation of a unique offer in the market for particular product groups, like some large companies with similar business are doing taking European practices as an example;

f/ Parallel to the rehabilitation and development of production facilities, it is necessary to plan and organize education and training of appropriate technical staff to meet the needs of new, modern concepts of wood processing to be constituted.

³¹ **Research and segmentation of market, determination of priority segments and positioning on target markets, pricing and products, distribution and promotion** (Source: Ministry of Agriculture, Forestry and Water Management)

Annex III - Agricultural Sector in Montenegro**AIII.1. Basic information about current agricultural potential of Montenegro:**

Montenegro has relatively small areas of agricultural land (518,000 ha) and about 180,000 ha of arable land. However, from the aspect of **arable land per capita**, Montenegro has **0.80 ha of agricultural or 0.29 ha of arable land per capita, which is significantly above the available surfaces in most European countries.**

When the exploitation of agricultural land is concerned, the main feature of Montenegrin production units (mainly small farms) is **fragmentation of holdings**, which prevents economies of scale needed for getting advantage of price competition, created additional expenses for processing industries and at the same time unable inflow and profitability of larger investments, especially in the area of agricultural mechanization.³²

The work force employed in agriculture as their main source of income **has considerably fallen in the period between 1961 and 1991** - from **56.6% to 9.3%**³³; however for about 60,000 households agriculture remains to be an additional source of income³⁴.

AIII.2. Key comparative advantages for the development of agriculture in Montenegro – Key Characteristics

1. **Favorable agro-climatic conditions** for specific products, ranging from olives and citrus fruits in the coastal region, early vegetables and other labour-intensive cultures in the central region (Zetsko-Bjelopavlicka plain), to heap livestock production on the wide expanses of pastures in the northern mountainous part of the Republic,
2. **Land, water and air well-preserved** from pollution, which helps Montenegro to affirm organic production to a greater extent,
3. **Large non-utilized areas of arable land**, as well as areas where yield per unit of surface may be significantly increased without threatening the resources,
4. **Market availability – local market and tourist demand** – numerous specific Montenegrin products have potentially good merchantability on foreign markets.

Main restrictions for the agricultural development:

1. **Inferiority of agriculture for many decades** during the period industrialization, with private sector largely neglected,
2. **Unfavourable economic situation in the last 10 years** and its negative consequences for agricultural development,
3. **Fragmented land holdings** and lack of legislation that would prevent further fragmentation,
4. **Agriculture is still to a great extent an additional occupation only**, which slows down the modernization and market orientation of farms,
5. **Absence of a strategic approach** to the development of agriculture,³⁵
6. **Unsatisfactory level of education and skills of producers** for engaging in agriculture as business, insufficient number of high educational institutions in this sector, needed for the implementation of new technologies and development of know-how,
7. **Insufficiently developed, non-competitive with respect to prices, and import-dependant processing industries**,
8. Underdeveloped **rural infrastructure**,
9. **Long period of absence of any investments in agriculture** – lack of modern equipment, machines and new technologies,
10. **Limitations of processing facilities** and a modest range of final products for which there are enough raw materials in Montenegro,
11. **Non-competitive financial sector**, unfavourable structure, repayment periods and interest rates for loans to farmers, lack of credit institutions specially focused on agriculture,

³² According to 1991 data, 46.4% of farms have less than 1.0 ha, and only 13.5% are larger than 5 ha.

³³ Statistical Yearbook for 2003.

³⁴ Source: Ministry of Agriculture, Forestry and Water Management

³⁵ Preparation of agricultural development strategy is planned for the next year. The drafter: Ministry of Agriculture.

12. Insufficiently active associations and NGOs in agricultural sector,
13. Scarce presence of extension services related to agricultural production.

AIII.3. Value of annual output in agriculture

Primary production in agriculture in Montenegro has been recording a visible growth in most of more important branches in the last couple of years. That growth has been the result, primarily, of the complete turnaround towards agriculture and the Government's orientation to foster the development of private sector, through incentives and international support.

Agricultural development in Montenegro has an upward trend since 2001, and **in the period 2001-2004, the total agricultural output grew by 12.66%, where 3.98% in the last year only.**

Regarding the **structure of production**, the highest **growth** was achieved in the production of **tobacco (56.45% in 2004)**, which **has almost tripled in relation to 2001**. Also, the production of potato, vegetables in greenhouses, poultry and other agricultural products recorded a significant increase in the past period.

TABLE 1. VALUE OF AGRICULTURAL OUTPUT 2001-2004 €

Commodity group	2001	2002	2003	2004
Meat	63.401.280	66.043.000	68.684.700	71.432.000
Milk	62.160.000	64.750.000	67.340.000	70.033.600
Eggs	9.600.000	10.000.000	10.400.000	10.816.000
Fish	5.233.160	5.451.250	5.669.300	5.896.100
Honey and similar products made with honey	2.592.000	2.700.000	2.808.000	2.920.350
Fruits and Grapes	34.369.000	35.801.000	37.233.000	38.722.350
Vegetables	33.056.832	34.434.200	35.811.628	37.244.093
Other (, Various types of worked grains, herbs ,forest food and vegetables-mushrooms, strawberries,, etc.)	9.600.000	10.000.000	10.400.000	10.816.000
Total	220.012.272	229.179.450	238.346.628	247.880.493

Source: Ministry of Agriculture, Forestry and Water Management (preliminary data for 2004)

The mentioned values indicate that in the final value of primary production, **livestock development has a share of 61.4%, or 65% including fish and bee products.**

Out of individual products, by far the largest share is achieved by **meat and milk**. It should be noted here that a considerable portion of these products does not go through official trading channels, but remains in households to be used as food for members of farm families or to be processed into home-made products and then sold on domestic retail market.

AIII.3.1. Agroindustries

In all developed countries, value added in agroindustries is larger than the value of primary production, in some countries even several times. It is not the case in Montenegro, which indicates a **low degree of finalization of agricultural products**. Unsatisfactory relation of values in primary agricultural production and agroindustries has been inherited from earlier time.³⁶

According to analyses of the Ministry of Agriculture conducted in 2003, the **total value of output in agroindustries was € 202,700,017**, of which about one half represents the value added. **The total number of employees**, according to the same analysis, amounted to: **6,266** of permanent staff and **1,578** of temporary employees.

³⁶ In that period, Montenegro mostly relied on supply of processed products from Serbia and other ex-Yugoslav republics, and did not stimulate or develop even the segments in which it possessed enough raw materials. Thus, for example, it started to produce UHT milk only two years ago, and meat products only several years ago. The situation with processed fruit and vegetable products is not satisfactory either. (Source: Ministry of Agriculture)

Vast unused potential for faster development of Montenegrin economy lies in the strengthening and further development of processing industries that rely on available domestic resources. The strengthening of agroindustries would mean a new momentum for primary agriculture, and would also encourage development of many other sectors (such as packaging and equipment, transport various services, tourism, trade, services etc.). Processing industries offer large opportunities for employment of redundancies because it is labour-intensive sector.

AIII.3.2. Production potentials and their utilization by individual sectors

AIII.3.2.1. Feed mills

Montenegro does not have its own raw materials for the production in this sector, **but it has facilities that are pretty successful** in processing the raw materials. Thus, larger mill industry facilities ("Zitopromet" and "Montemlin Sajo" from Spuz, and the mills "Muharem Asovic" and "Abonus" from Niksic) have a **capacity that can be exploited even more than 80% through optimum utilization**, instead of present 35% of the needs in Montenegro. Significant facilities are possessed by feed mills (ABS and Koprom from Niksic and Feed Mill from Spuz) and they could satisfy the domestic needs in concentrated fertilizers.

AIII.3.2.2. Milk processing

The existing capacities of milk industries are not fully used, since the **processing industries may absorb** and process between 55 and 60 mil. litres per year, instead of current 20-25 mil., and to cover the existing deficit in milk and milk products.

The recent construction and expansion of capacity in a larger number of private plans, including the construction of the dairy plant «Zora» from Berane, considerably increased not only the overall capacity but also the range of products: for the first time UHT milk, butter, various kinds of yoghurt, cheese (fresh and spreading cheese, etc.).³⁷

AIII.3.2.3. Meat industry

This is the industry that has made the biggest **progress with respect to increase of capacity in the several last years**. It is best evidenced by data (Table 2) on capacity relating to important private companies, established in the last couple of years. It is obvious that those capacities **are sufficient to meet the domestic demand for processed meat products** and to **offer significant quantities of products for export**.³⁸

³⁷ AD Dairy Plan in Podgorica has a daily production of 30,000 liters of milk, and 40,000 of ice-creams. The raw material comes from domestic purchase in the areas of Ulcinj, Podgorica, Danilovgrad, Mojkovac and Kolasin. Investmente programs for developemnt of cheese line and for procurement of 100 conserving machines and 50 window cabinets for the sale of milk and ice-creams are in prepration. This company is seeking foreign partners to assist in providing financing for the construction or relocation of the existing dairy plant with a capacity of 100-120 thousand liters per day, with the worth ranging about € 8-10 mil. as well as newly formed companies AD Zora Berane and Srna Niksic.

³⁸ Some of this entities offer more than 100 products, while the latter two focus on smoked and dried products, primarily «Njegushi prosciutto».

Table 2. Processing capacities of meat processing industry

Company name and company headquarters	Annual processing capacities, in t.
Industry of meet "Goranović"- Nikšić	4 000
Pantomarket Bijela – Herceg Novi	2 600
Mesopromet – Bijelo Polje	2 700
Trojica – Pljevlja	1 400
Gradina Company – Rožaje	1 000
Niksen Trade Kotor (drying facilities)	3 000
Martex Cetinje (drying facilities)	2 500
Total	17 200

Source: The Ministry of agriculture, Forestry and Water management

AIII.3.2.4. Fruit and vegetable processing plants

The existing plants **processing fruits and vegetables** are not satisfactory. The problem would be overcome by completing the Distribution Centre and adding to it fruit and vegetable processing plant (AD "Plodovi" CG). Agroindustries has significant capacities in other sectors such as: beer and fruit industries, alcoholic and soft drinks, bakery, sweet production, ice-cream production etc.³⁹

³⁹ In the mentioned areas there are several good companies that have already developed their own image and achieve remarkable exports:: AD "Plantaze", Brewery "Trebjesa", Bakery "Aleksandrija", Ice-cream Plant Don-ze, Fruit Juice Plant Pirella, Rada Bjelasica, samller export-gearred private wineries etc.

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Table 3- Most important producers in fruit and vegetable processing industry

Company	
D.O.O.'PIRELLA' - PODGORICA	production of juices, and other non alcoholic refreshment beverages
'MEDITERANO ZAČINI' - DANILOVGRAD	production of spices, flavor, condiment and oils
'OLIOPROM' - BAR	production of olive oil
'L'ARS MONTENEGRO' - PODGORICA	production of highly ecological food of fruit and vegetable originated from Montenegro
'MEDUZA – COOP' - BIJELO POLJE	production of highly ecological food of fruit and vegetable ,processing and fruit preserving (raspberries)
'PLANTAŽE AD' - PODGORICA	production of high quality wines, brandy's and other montenegrin drinks
AD 'TREBJESA' - NIKŠIĆ	production of beer, juice and other non-alcoholic drinks
'SJEKLOĆA' - BAR	production of grapes, wines, brandy's and other Montenegrin drinks
'BJELASICA RADA' - BIJELO POLJE	production of high quality 'drinking' water - natural mineral water
'GORSKA' - ŠAVNIK	production of high quality 'drinking' water from Durmitor springs - low mineral water
'ALEKSANDRIJA' - HERCEG NOVI	Production of pastry, bread, paste, food preparations of flour,
'INPEK' - PODGORICA	Production of pastry, bread, paste, food preparations of flour
AD 'CRNAGORACOOP' - DANILOVGRAD	Production of spices, sugar confectionary, sweets and coffee procesing
'DON-ZE' - PODGORICA	Production of ice creams
Ital product d.o.o.	Cheese production
LAR'S d.o.o.	production of highly ecological food (sweet and sour programme) of fruit and vegetable originated from Montenegro

Izvor: www.ecomontenegro.com

AIII.4. Agricultural trade developments

In 2004, Montenegro exported agricultural products in the value of € **56.52 mil.**, **which represents 17.8% of overall exports**. The products with greater share in exports are: beverage and spirits (beer and wine make 7% of overall export), tobacco and tobacco products (6.02% of overall exports).

The export of agricultural and food products shows an upward trend in the recent years: in 2000 it was €**6.2 mil.**, in 2001 it was €**12.9 mil.**, in 2002 it was €**15.8 mil.**, while in 2004 it was €**56.5 mil.** and four times bigger than in 2002.

The import trend is still growing, but it is encouraging that it is growing at a slower pace than exports. Import of agricultural and food products in 2004 amounted to € 203.0 mil., resulting in **foreign trade deficit** in agriculture of 146.4 mil. €.

Though Montenegro is still highly dependent on imports, it is evident that the coverage of import by export is rising from year to year. In 2000, it was 8.3%, in 2001 it was 14.5 %, in 2002 it was 12.9 %, and in 2004 it was 2.8%.

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TABLE4: EXPORT AND IMPORT OF AGRICULTURAL PRODUCTS IN 2004.

Commodity Groups	Imports in Eur	% share of total imp	Exports in Eur	% share of total exp
Live animals	1,929,076.08	0,22%	86,186.50	0.03%
Meat and other slaughtering products	19,229,423.20	2,2%	1,685,805.00	0.53%
Fishes, mollusks and other water invertebrates	2,067,948.65	0,24%	589,027.70	0.19%
Milk and milk products, birds' eggs, poultry eggs, natural honey, other products of animal origin	19,546,001.55	2,2%	55,473.37	0.02%
Edible products of animal origin, not elsewhere specified or included	283,123,18	0,03%	30,161.12	0.01%
Live plants (including their roots), cuttings and slips , Fresh cut flowers and buds, Mosses and lichens, for bouquets or ornamental purposes,	629,103.23	0,07%	17,387.10	0.01%
Vegetables ad various eatable vegetable roots	2,093,578.87	0,24%	1,742,325.54	0.55%
Fruit for human consumption, Peel of citrus fruit or melons, incl. watermelons,	4,200,461.51	0,48%	1,318,152.23	0.42%
Coffee, tea, mate, spices	11,780,119.10	1,35%	150,786.56	0.05%
Various types of worked grains	9,812,151,42	1,12%	582,580.48	0.18%
Worked grains Inulin, wheat starch, wheat malt	9,118,201.75	1,04%	282,103.77	0.09%
Oil seeds and oleaginous fruits, various seeds	894,038.97	0,1%	280,311.81	0.09%
Natural gums, resins, gum-resins and balsams, rubbers and oils	62,992.71	0,007%	317.00	0.00%
Vegetable materials of a kind used primarily as stuffing or as padding , other unmentioned vegetable products	44,206.65	0,005%	900.00	0.00%
Various vegetable and animal oils , waxes and fats	10,434,628.66	1,2%	181,514.33	0.06%
Prepared or preserved meat, fish, mollusc, or other water invertebrates	13,037,718.99	1,5%	504,102.59	0.16%
Sugar and other sugar confectionary	10,892,350.77	1,25%	1,511,663.40	0.48%
Cocoa and other food preparations containing cocoa	7,237,841.70	0,83%	224,633.74	0.07%
Food preparations of flour, meal, starch or malt extract or milk, pastry products	14,730,907.69	1,7%	1,139,558.91	0.36%
Food preparations and products made from vegetables, fruits or their parts	11,742,798.70	1,35%	171,994.27	0.05%
Various products and food preparations for human consumption	11,133,087.55	1,28%	4,053,634.98	1.28%
Beverages (alcoholic, non alcoholic), vinegar and vinegar substitutes	30,865,266.84	3,55%	22,199,699.2	6.99%
Preparations for animal food	3,998,928.63	0,46%	611,220.30	0.19%
Manufactured tobacco and tobacco substitutes;	7,244,455.77	0,83%	19,105,072.0	6.02%
Total	203,008,412.20	23,3%	56,524,611.9	17.80%

SOURCE:CSMN 2005

High import of meat is evident but it may be explained by a need of expanding meat processing capacities to provide sufficient raw materials. **Milk import is also rather high** – more than € 9.0 mil, then **yoghurt about €2.3 mil, cheese more than €5.6 mil, eggs €1.3 mil**. Considerable quantities of beer are imported, **about €4.8 mil** (particularly in peak tourist season), then mineral water 5,5 mil €. **Import of carbonated drinks is more than €15.3 mil, cigarettes about €4.4 mil., ice-cream about €2,0 mil. Coffee is imported to a large extent (more than €11. 2 mil.** Among fruit imports, the most significant item is **banana (about € 2.2 mil, while the import of grapes and fruits that are produced in Montenegro is symbolic** (peaches, mandarins, kiwi, raspberries, water melons).

Of total export of agricultural and food products, the following make about 86% (about € 48.0 mil.) of total exports:

Table 5 : Most important exported products

Product	Value in mill Eur.	Product	Value in mill. Eur
Cigarettes	16,3	Super concentrate feed for poultry and cattle (cattle flour)	0,56
Vine	11,4	Dried or smoked meat products	0,40
Beer	8,50	Peaches and nectarines	0,33
Ice-cream	3,90	Pelim herbal	0,27
Mushrooms	1,70	Grapes	0,24
Dried or smoked meat products	1,30	Raspberries	0,18
Candies	1,30	Sardines	0,11
Cookies, biscuits; waffles, chocolate	0,85	Figs	0,05
Various type of fish	0,60		

Source: CSMN, 2005

Surplus in export is achieved in the trade with cigarettes, beer, wine, ice-cream, mushrooms, mint, sardines etc, except in the trade in dried meat products, where the export is steadily growing.⁴⁰

AIII.5. Potential possibilities for reduction of import dependence and increase of export

AIII.5.1. Possibilities for reduction of import dependence and increase of export in agricultural sector

Montenegro has arable land for greater scale production of various types of products. It is especially the case with vegetables, where **20,000 ha** of arable land are used for that purpose (since before the nineties, Montenegro used to be significant vegetable producer, selling on ex-Yugoslav markets).

Arable land of about 20,000 ha, on which cereals and fodder can be grown, under more labour-intensive methods, also represents a good potential. In addition to **120,000 ha of natural meadows**, Montenegro also has vase pastures (over 300,000 ha) for the livestock development. Also, the existing number of yielding fruit trees, with more regular application of agrotechnical measures and appropriate protection, may result in significant production increases.⁴¹

⁴⁰ Export of Montenegrin products is growing significantly, especially in a number of products that have a growing production, such as dried meat products, smoked and dried meat, ice-cream, sweets, raspberry etc.

⁴¹ In the coastal region only there are more than **400,000** of yielding olive trees and over **250,000** mandarine and orange trees. New plantations of various fruit varieties, particularly raspberries, will contribute to large increase in fruit production.

For years, Montenegro has been recording a **high milk and meat deficit**, including processed milk and meat products. On the other hand, livestock capacities allow for larger scale production.

The most important part of livestock development is **cattle raising**, which has about 170,000 of heads and 120,000 cows that produce the worth of nearly € 90 mil. in milk and meat per year. The existing number of cows, which exceeds 100,000 by every estimate, may produce much greater quantity of milk.⁴²

The next in economic importance is **sheep raising**, with annual revenues of about € 20 mil, or 13.7% of the overall revenues from livestock growing, or 8.7% of all agricultural revenues.⁴³ During the 60-ties Montenegro had about 600,000 of heads of sheep. Since that period, intensive industrialization led to drastic reduction in number of livestock heads, so that today we have the same capacity of about 240,000 heads, or only 40% in relation to 1960.⁴⁴

Goat raising, in spite of much smaller number of animals compared to sheep (50.000 head of breeding stock, value of production about € 7 mil.), has large importance for certain areas of Montenegro, where natural landscaping does not enable the raising of other types of ruminants (cattle or sheep). Goat production shows positive tendencies lately, through increase of number of farmers owning larger herd and seeking to integrate their herds.⁴⁵

In comparison to **meat production from ruminants** (cattle, sheep and goats), which are using available natural pastures and meadows, **there is much less production of poultry and pork**, primarily due to dependence on procurement of concentrated feed from foreign countries.⁴⁶

In the production of **pork**, there are possibilities for its increase, and the confirmation is the Pig Farm in Spuz, which increased production largely, during the previous several years, as well as the growing number of private farms. However, there is still sharp competition with large producers from Serbia, which small producers from Montenegro can hardly beat. **The solution is in better connection of primary production with meat industries;** particularly larger companies that also produce dried meat products.

In the fishery sector, particularly sea fishing, there is considerable potential. This is best evidenced by the researches into the biological mass of «blue» fish (sardelles and anchovies), conducted in mid-2002 by the Ministry of Agriculture, assisted by Sea Biology Institute of Kotor and Fishing Institute of Ancona. The results suggest that **maximum biological level of exploitation of anchovies and sardelles should be about 40,000 t per year**, which exceeds the capacity of Fisheries in Rijeka Crnojevica. Having in mind the selling prices of this product, the value of this potential is estimated at about **30 million euros per year**.

AIII.5.2. Possibilities for reduction of import dependence and increase of export in the processing sector

One of the conclusions of international experts indicates that **Montenegrin agricultural products are not competitive through price to similar products in the region**. That non-competition lies in **high input prices, primarily electricity, labour and mineral fertilizers, protection substances, seeds, etc.**

⁴² Increasing the milking capacity of cows from the present **2,000 l to 2,300 l** (only 1 liter daily per milking cow) will result in additional 30 million liters of milk, which would completely eliminate the deficit. That can be achieved without problems only with improved nutrition and care of milking heads of present genetic potential. There are great possibilities for increase in the production of beef as well. To neutralize the deficit of more than 3000 t of beef, it is sufficient to substitute the slaughtering of about 20 thousand of baby calves by fattening process (practically **1/5** of total number of calves obtained in a year or about **1/3** of calves slaughtered in a year).

⁴³ Sheep raising has an additional importance as its development is closely related to the keeping the labour stay in rural areas of the Republic.

⁴⁴ However, considering the size of territory and number of population, even that number of sheep is relatively high so that Montenegro has surplus lamb meat even with current number of heads of sheep – the main product in this sector. Last year purchase (2004) shows that the surplus amounted to at least 30,000 lambs. If there would be export opportunities, it is realistic to assume that twice as many lambs could be sold on foreign markets in a couple of years. In that, the domestic and tourist demand would be fully satisfied. This is further supported by data on last year's premiums showing that about 1,250 sheep owners grow over 80 sheep per herd on an average, or almost 110,000 sheep and that the number of sheep in larger herds is significantly increasing in the last several years. The number of sheep in larger herds increased by 10.4% in 2004 as compared to 2003.

⁴⁵ Thus in 2004, the number of goats in larger herds (covered by premiums) was increased by 15.8%, compared to the previous year. Also, through application for credit lines for livestock growing, a great interest in goat raising has been shown. Also there are significant reserves for the increase of production of goat milk per milking head for the mentioned number of breeding goats, so that **significant production of high quality dairy products is a proof for possible export**.

⁴⁶ There has been a tendency lately to increase the production of **poultry** through the fattening of broilers, which was almost unknown until several years ago. Today this production is at such level then it meets almost 60% of local needs. Considering the modernized feed mills that may provide concentrate for the fattening of chickens, and this production does not require great investments, so that further growth is expected. Confirmation that poultry production may develop in a relatively short period is the **production of eggs**, where in the last 10 years developed capacities exceed Montenegrin needs.

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The largest success in the achievement of price competitiveness was made in the meat processing and non-alcoholic and soft drink industries. A large portion of these products is cheaper than the ones imported from the region, but it should be mentioned that the dominant use of imported raw material is rather disadvantageous.