

MONTENEGRO

TRAVEL & TOURISM: UNLOCKING
THE POTENTIAL FOR GROWTH



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THE WORLD TRAVEL & TOURISM COUNCIL (WTTC) IS THE BUSINESS LEADER'S FORUM FOR TRAVEL & TOURISM, WORKING WITH GOVERNMENTS TO RAISE AWARENESS OF THE IMPORTANCE OF THE WORLD'S LARGEST GENERATOR OF WEALTH AND JOBS.

With chief executives of more than 100 of the world's leading companies in membership, WTTC has a unique mandate and overview on all matters related to success in Travel & Tourism.

WTTC is delighted to collaborate with the now Ministry of Tourism and Environmental Protection on a second report, which is a follow-up to the initial report carried out in 2004. WTTC is further delighted and encouraged to witness the speedy implementation and take-up of the vast majority of the policy recommendations from the 2004 report, strategically placing Travel & Tourism as a priority for the country's future success.

This study, undertaken by WTTC together with our research partner Oxford Economics, quantifies all aspects of Travel & Tourism demand in the form of the Tourism Satellite Account (TSA) forecasts. The TSA model spans personal consumption to business purchases, capital investment, government spending and exports. It then translates this information into economic concepts, such as gross domestic product and employment, which can be compared with other industries and the economy as a whole to provide credible statistical information that will assist in policy and business decision-making.

Current growth in Montenegro according to the TSA's findings stands at 8.6 per cent, just behind China (9.1 per cent), the world's leading powerhouse, which tops the rankings for growth – an astounding rate of growth for a country of Montenegro's size. As Montenegro is an increasingly tourism intensive Travel & Tourism economy, employment

forecasts are also very encouraging as the Travel & Tourism economy in 2007 accounts for 17.7 per cent of total employment and with sustained policy and investment attention looks set to increase to 26.3 per cent of total employment. Nevertheless, since year-on-year growth is only projected at 4.1 per cent over the next ten years, this may still not be adequate to meet the growth in demand.

The Policy Framework puts forward WTTC's recommendations on how to unlock the potential for growth in Montenegro while, at the same time, learning from the mistakes of competitor countries in terms of how to develop sustainable resorts that ensure long-term protection of the environment. Montenegro can certainly position itself to exceed the baseline forecast if certain elements are ensured – such as providing for the human resource demand, updating the TSA on an annual basis, increasing funding for marketing and promotions, ensuring that infrastructure keeps pace with hotel capacity and that the overall product offer is diversified.

WTTC would like to express its gratitude to the many individuals and organizations that contributed their knowledge, insight and data/information to the policy review effort. A complete list of the contributors can be found on the inside back cover of the report.



Jean-Claude Baumgarten
President, World Travel & Tourism Council



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EXECUTIVE SUMMARY

FOR THE FOURTH CONSECUTIVE YEAR, MONTENEGRO HAS BEEN RANKED BY WTTC AMONG THE WORLD'S TOP THREE DESTINATIONS IN TERMS OF FORECAST TRAVEL & TOURISM GROWTH OVER THE COMING DECADE. TO BE RANKED ALONGSIDE THE ASIAN POWERHOUSES, CHINA AND INDIA, IS NO MEAN FEAT FOR A COUNTRY WHOSE TOURISM INDUSTRY GROUND TO A COMPLETE HALT DURING THE 1990s AS A RESULT OF THE BALKAN CONFLICT.

Yet the WTTC forecasts, developed with Oxford Economics, are in no way surprising, given the spectacular Travel & Tourism growth already achieved since the beginning of this decade. This, in turn, owes much to measures taken by the Government of Montenegro to ensure the necessary conditions to stimulate Travel & Tourism demand and to instil confidence among Travel & Tourism industry professionals and the investor community as to the destination's future growth potential.

The importance of Travel & Tourism to Montenegro as a strategic economic development tool is clearly evident from the decisions taken at the highest levels of government to prioritize the industry's development and to factor Travel & Tourism into mainstream policy- and decision-making. Indeed, the government has adopted most of the recommendations put forward by WTTC in its 2004 Country Report for Montenegro – exceeding both the forecasts and goals that were set.

Following the adoption of the Tourism Master Plan in 2001, developed by the Ministry of Tourism and Environmental Protection in conjunction with the German Investment and Development Company (DEG) and German tourism experts, the Montenegrin Government lost no time in implementing measures designed to stimulate and facilitate tourism development and to attract foreign direct investment (FDI) into the country.

Measures taken to date have included the privatization of former state-owned hotels and other tourism assets – this exercise is now 95 per cent completed – adoption of an open skies

policy, and the establishment of a competitive business environment. As an example, corporate tax has been reduced – with investors enjoying the right to repatriate all tourism earnings – a special VAT rate for tourism has been introduced, and there are attractive terms available to tourism investors for borrowing. In addition, efforts are now underway to diversify Montenegro's tourism products and markets, to assess human resource needs over the foreseeable future, and to work more closely with local/municipal authorities, educators and the private sector.

Inter-ministerial dialogue and consultation have been stepped up significantly, and all stakeholders take part in regular meetings to address issues of interest and concern to Travel & Tourism, such as discussions to prepare the upcoming tourism season. The last one was even chaired by Montenegro's Prime Minister, reflecting a hands-on approach from the highest levels of government.

The Ministry of Tourism and Environmental Protection also enjoys strong support from donor agencies and non-governmental organizations (NGOs), which have contributed significantly

over the past four years to the development of Montenegro's sustainable tourism strategy, as well as advising on sectoral and regional development and undertaking practical and technical projects.

The result of all these positive efforts is that, over the last three to four years, some €350 million has been invested by new Montenegrin and foreign owners in extensive hotel modernization and upgrading, including the addition of state-of-the-art wellness and conference facilities. Not surprisingly, given the dominant share of sun & beach resorts in terms of the existing hotel stock, this has focused almost exclusively on the coastal zone. Government and industry recognize that this has now created an unhealthy imbalance with the north and are making plans to redress the situation as soon as possible.

At the same time, the Montenegrin Government has invested more than €250 million in the modernization and upgrading of airports, roads, border crossings and utilities – all of which has helped boost business and consumer confidence levels. The latter is reflected in the 21 per cent average annual rise in tourism earnings over the past four years, coupled with a 31 per cent increase in international tourist arrivals every year since 2000. This growth means that demand from international markets is almost back to its pre-Balkan conflict level – a record expected to be broken in 2007.

Business confidence has also been boosted by the country's strong macro-economic indicators and the appreciation of real-estate values in Montenegro since the country's independence from Serbia less than a year ago. It is hardly surprising that the country is now rated as one of the most attractive destinations in the world, not just in Europe, in terms of return on foreign direct investment (FDI). In fact, although it is the youngest sovereign nation in the world, Montenegro is among the top three countries in Europe in FDI per capita (€1,000), and many now see it as the next Monaco.

Nevertheless, while the baseline forecasts developed by WTTC/Oxford Economics for Montenegro are generally very positive, there is no room for complacency. The last few

years have demonstrated some of the potential benefits of Travel & Tourism. But if it is to make its full contribution across the country in the coming years to job creation and wealth generation – particularly within the smaller communities in the more remote mountain regions – government must take the lead in unlocking the industry's full potential.

Montenegro is a small country and it cannot afford to make the mistakes that other destinations in Europe, including some of its neighbours, have made. It is important that Travel & Tourism growth is sustainable – environmentally, socially and economically.

The responsibility does not lie only with government, either. In line with the recommendations drawn up in WTTC's *Blueprint for New Tourism*, all stakeholders must assume their share of responsibility for the sustainable development of the country's Travel & Tourism. Montenegro now needs to focus on a Travel & Tourism vision and strategy involving public-private sector partnership – between all levels and sectors of national and local governments, as well as between government and the Travel & Tourism industry, academia and other stakeholders. Only in this way can the remaining challenges be turned into opportunities.

In order to address these challenges and achieve the vision, three fundamental conditions are required, as stated in the *Blueprint for Tourism*:

- The Government of Montenegro must recognize Travel & Tourism as a top priority, ensuring adequate funding for the Ministry of Tourism and Environmental Protection;
- Business must balance economics with people, culture and the environment; and
- All stakeholders must share in the pursuit of long-term growth and prosperity.

The additional measures recommended in this report are intended to set the stage to help ensure the larger rewards that Travel & Tourism can bring to Montenegro over the medium and longer term. The following highlights the main areas for attention.



THE BASELINE FORECASTS – A REALITY CHECK

The country's open skies policy, introduced in January 2005, together with investment in Montenegro's two airports and competitive landing charges, have attracted new airline services which, in turn, have stimulated the growth in demand.

Despite some areas of concern, the baseline forecasts for Montenegro's Travel & Tourism, developed by WTTC and Oxford Economics, are extremely positive.

In 2007, the wider Travel & Tourism Economy is expected to contribute 20.7 per cent of Montenegro's GDP – as against 10.9 per cent for Travel & Tourism in the European Union – and it should account for 28,900 jobs, representing 18.7 per cent of total employment (11.8 per cent in the EU).

Over the next ten years, Travel & Tourism in Montenegro is forecast to achieve annualized real growth of 7.1 per cent, in terms of GDP, compared with only 2.8 per cent in the EU, taking the share of Travel & Tourism GDP in the country to 27.1 per cent in 2017. Total Travel & Tourism Demand, meanwhile, is projected to rise by 8.6 per cent per annum as against 3.3 per cent in the EU overall.

Montenegro's annual growth will be second only to that of China (+9.1 per cent), WTTC/Oxford Economics predict, but will outpace that of India (+7.9 per cent). Croatia, the only other European country in the top ten WTTC ranking, is expected to come fourth with an annual growth of 7.8 per cent.

The prognosis for employment is less bullish. Although the share of Travel & Tourism Economy jobs in total employment is projected to rise from 18.7 per cent in 2007 to 25.0 per cent in 2017, it actually represents a relatively modest 4.1 per cent per annum growth over the next ten years. And this would appear to be too low to assure the level of employment required to meet the needs of the industry, given WTTC/Oxford Economics' annual growth forecasts for total Travel & Tourism Demand and visitor exports (+11.5 per cent).

Similarly, government expenditures on Travel & Tourism, which are currently estimated at just 3.5 per cent of total government expenditures – a share that is hardly expected to increase over the next ten years – could prove sorely inadequate to service the needs of a fast growing industry. If forecasts for capital investment prove accurate, it is even more critical for government to allocate sufficient funding for support services to developers, travel companies, visitors and the public at large.

TOURISM PLANNING

Travel & Tourism has steadily moved up the agenda over the past few years, in tandem with the environment and sustainability issues. But for WTTC's baseline forecasts to be realized or even surpassed, the government needs to underline the positive steps it has already taken and go even further in its prioritization of issues touching on Travel & Tourism.

An even more cohesive, public-private sector approach to tourism planning and development is advisable, involving closer cooperation between the government, local/municipal authorities and industry. Most importantly, this will facilitate adaptation of Montenegro's urban and spatial plan to the needs of municipalities, as well as encouraging the municipalities to develop their own plans in harmony with the national spatial plan.

Adequate planning is also critical to ensure that the overarching goal of sustainable tourism development is not lost from sight in the speed of development. Infrastructure should be allowed the necessary time to expand adequately to serve the new hotel stock, avoiding bottlenecks and shortages. WTTC agrees with the Ministry of Tourism and Environmental Protection's proposal to consider a moratorium on the construction of secondary residences and holiday apartments that generate low economic impact, in favour of high-quality year-round resorts.

INFRASTRUCTURE DEVELOPMENT

The sharp increase in international tourist arrivals in the country means that tourism infrastructure has been overly stretched and has created problems in the coastal zone during the peak summer season.

Not only the road network, but also electricity and water supply are affected, and there are inadequate solutions to deal with both liquid and solid waste disposal. Some of these issues are finally being addressed – the planned Skadar Lake pipeline now appears to be going ahead and different hydro-energy solutions are being explored. But progress is alarmingly slow.

WTTC supports the integration of Montenegro's road network with that of neighbouring countries, as well as the proposed Adriatic Highway. In terms of any taxes applied to road users during the peak tourism season, which WTTC also endorses, these should be reinvested directly in improving the infrastructure, adopting the 'user pays – user benefits' approach.

With regard to energy supply, WTTC is in favour of the exploration of hydro-energy as a solution or partial solution to the current constraints, but stresses that the impact of the generators on the environment must be fully evaluated before any project is engaged. Areas of beauty such as the Tara Canyon have much more potential for the country's future by remaining pristine as a tourist attraction than by harnessing energy from the water.

AIR TRANSPORT

The country's open skies policy, introduced in January 2005, together with investment in Montenegro's two airports and competitive landing charges, have attracted new airline services which, in turn, have stimulated the growth in demand.

New low-cost carriers are also expected to inaugurate services in the near future. However, if tourism growth forecasts prove accurate, the current capacity limit at Tivat will soon be inadequate to meet either the growth in tourism or demand for airline slots.

The problem needs to be tackled now before it becomes much more serious and bottlenecks are created, which would erode efficiency and reduce the growth potential. The viability of night flights into Tivat is being evaluated and WTTC would encourage the different airport authorities and the Ministry of Tourism and Environmental Protection to pursue this solution – at least for

flights up to 22:00h – since there is no space for an additional runway to increase the number of flights handled per hour. Podgorica could also be promoted more aggressively as a gateway to the coast, as well as to the mountain regions, since it has much more leeway in terms of capacity and now has improved access to the coast thanks to the Sozina tunnel.

Around 1,000 new qualified personnel will be needed every year over the next 20 years to meet forecast industry growth.

HUMAN RESOURCES

Structural unemployment is a serious problem in Montenegro. According to the Employment Agency, there are currently 40,000 unemployed, yet Travel & Tourism is suffering from an acute shortage of qualified personnel.

A recent study, commissioned from the German Organization for Technical Cooperation (GTZ), one of the leading donor agencies operating in Montenegro, to assess the human resource needs of the sector, indicated that around 1,000 new qualified personnel will be needed every year over the next 20 years to meet forecast industry growth.

The workforce deficit, exacerbated by a lack of opportunities for training, needs to be addressed urgently. Forecasts from WTTC/Oxford Economics suggest that, in 2007, the wider Travel & Tourism Economy will account for 28,900 jobs, or 18.7 per cent of total employment, and that this number will increase to 42,800 by 2017 – an average annual growth of 4.1 per cent over the next ten years. Yet even this growth is likely to fall well short of the projected growth in Travel & Tourism Demand.

WTTC endorses the proposal to set up a regional education centre to train people from neighbouring countries, as well as a change in the education system to allow adults to retrain.

But, in the longer term, the current weaknesses can only be addressed with a liberalization of the country's antiquated Labour Law, which stifles competitiveness and protects employees to the extent that non-resident employees are a much cheaper and more attractive option. There also needs to be a concerted effort by government and industry to enhance Travel & Tourism's image as an employer at all levels of the employment ladder, highlighting the opportunities for career development.

INDUSTRY MEASUREMENT

Industry measurement using the Tourism Satellite Account (TSA) developed by WTTC/Oxford Economics for Montenegro has been successfully adopted, reflecting the TSA's importance as a tool for planning and policy development.

The TSA model installed in 2004 is frequently quoted and has served its purpose of informing government, industry and other stakeholders of the full economic and social impact of Travel & Tourism.

WTTC recommends that the TSA be updated on an annual basis to help ensure that adequate data is available to factor Travel & Tourism into economic and employment strategies. In addition, in order to optimize forward planning and anticipate necessary changes to tourism supply, both government and the industry need to monitor trends in past and current Travel & Tourism demand from key source markets and market segments. This will help identify threats to growth, as well as new growth opportunities.

MARKETING & PROMOTION

The establishment of the National Tourism Organisation (NTO) for Montenegro was an important step by government in separating out the marketing and promotion function from tourism management.

The NTO is a good example of public-private partnership, with its eleven strategic partners

– three of which from outside the tourism sector – contributing to the cost of the NTO’s activities. It also works closely with the one existing regional tourist board and 17 local tourist offices in Montenegro, all of which are funded by tourist bed taxes in their respective communities.

While WTTC endorses the government’s decision to reduce its own financial contribution to the NTO over time, serious consideration should in fact be given to providing increased funding over the next few years to facilitate the operation of overseas offices in key markets. Experience has shown that demand for any tourism destination grows sharply if marketing and promotions are well funded and effective. A competitive, sustained promotional campaign in traditional and emerging foreign markets would further enhance the country’s image as a tourism destination and help to generate new demand.

Experience has shown that demand for any tourism destination grows sharply if marketing and promotions are well funded and effective.

CAPITAL INVESTMENT

Although the WTTC/Oxford Economics growth forecast for capital investment in Montenegro’s Travel & Tourism is relatively modest, at +3.5 per cent annually over the coming decade, its share of total capital investment in the country is expected to remain extremely high – falling only slightly from 2007’s 25.8 per cent to 23.4 per cent in 2017.

These forecasts could also be exceeded if the current list of projects in the pipeline, as outlined by the Montenegrin Investment Promotion Agency, are all realized. Some 20 projects are expected to be implemented over the next ten years, representing a total investment of some €4.5 billion.

Nevertheless, considerable caution will need to be exercised by government to ensure that



modernization and improvements in infrastructure do not lag behind the planned hotel/resort developments. Montenegro has been very successful in attracting high-profile investors such as Amanresorts' Adrian Zecha and the Canadian entrepreneur, Peter Munk. These will help ensure increased product quality, which will enhance the Montenegro tourism brand and result in higher yields. But if investment in infrastructure does not keep pace, this could have the opposite effect.

Meanwhile, a number of former military bases have been opened up for possible tourism development, and these Greenfield sites are clearly going to be a main focus of attention over the next few years. But, in order to reduce the imbalance in supply between the coastal zone and the mountain region, WTTC recommends that greater effort be made by government to attract investment in the north of the country – even if this means slowing development, or introducing a temporary moratorium on development, in the coastal zone.

INTELLIGENT TAXATION

WTTC commends the Government of Montenegro for the different measures it has taken over the last three years to create a favourable business operating environment.

It has clearly recognized that Travel & Tourism growth can be inhibited by local market conditions – from incoherence in planning to unfair taxation, inadequate banking and financial services, uncertainties over land ownership issues and land lease regulations, and a lack of transparency in decision-making processes.

Among the different examples of intelligent taxation in Montenegro, corporate tax is currently running at 9 per cent – the lowest in the region. While the bank base rate is 9 per cent, loans for tourism development are available at 6–7 per cent – down from 12 per cent a couple of years ago. VAT now stands at just 7 per cent for Travel & Tourism – the 17 per cent VAT on hotel rates which was introduced in 2003 was cut in 2006 on recognition that this was not aiding competitiveness and was, in fact, harming performance. As far as personal taxation is concerned, a flat tax of 15 per cent was introduced in January 2007. This will be further

reduced to 12 per cent from 2009 and to 9 per cent from 2012.

Meanwhile, two new taxes planned should help to address – albeit in a small way – some of the challenges facing Montenegro's Travel & Tourism industry. An environmental road tax is being considered for the peak summer season to help reduce traffic, especially on coastal roads, and any monies collected should be ploughed back into infrastructure development. A tax on secondary residences in Montenegro is seen as a way of recouping some of the lost income due to non-payment of bednight taxes by the grey market.

ENVIRONMENTAL PROTECTION

Montenegro has one big advantage over many of its competitors in that its ten-year disappearance from the world tourism stage means that much of the country's natural environment – one of its main tourism attractions – remains untouched by development. It also means that the country has had time to learn from its competitors' mistakes.

The temptation may exist to make up for lost time as quickly as possible but, as the Ministry of Tourism and Environmental Protection fully acknowledges, restraint needs to be exercised. The overarching plan for sustainable tourism must not be lost from sight in the speed of development and infrastructure should be allowed the necessary time to expand adequately to serve the new hotel stock, avoiding bottlenecks and shortages.

The country is on course to expand the area of land that is protected in designated national parks to 15 per cent of the total land area by 2015, with the addition of a fifth national park, Prokletije Region, this year. As the land area covered by national parks expands, investment in infrastructure such as routes, footpaths, snowmobiles and trained staff will need to be proportionally raised as well. In order to generate a source of income to carry out this work, a charge should be introduced for entrance to the national parks (at a reduced rate for Montenegro citizens), with all entry fees collected ploughed back into the parks and their administration.

NEW TECHNOLOGY

In order to build a truly sustainable Travel & Tourism industry, technology has to be part of the solution. E-marketing strategies are being piloted and technology is being applied at a good rate across the country, although at a slower pace in the north.

Fully harnessing the latest technologies and understanding how the customer is using technology to plan their tourism will help expand markets and could cut out intermediaries to some extent.

Business models are changing very fast and the industry must be enabled to stay abreast of these changes, as well as responding to the demand for online self-tailored programmes and dynamic packaging. The National Tourism Organisation's plan to commission the development of an interactive website, which would provide direct links to bookable sites run by Montenegrin suppliers, is an important step forward in this regard. The advent of low-cost airline service to Montenegro will encourage more and more visitors to make their own travel arrangements.

MARKET & PRODUCT DIVERSIFICATION

Despite its small surface area, Montenegro boasts a rich diversity of flora and fauna, as well as a contrasting geographical terrain, all of which places it in a unique and enviable position regarding its tourism potential. Sun & beach holidays have dominated tourism demand until now, and this situation is unlikely to change in the foreseeable future, especially with the creation of new tourist facilities such as hotels, resorts and yachting marinas.

Nevertheless, Montenegro has the potential to develop a large number of high-quality, niche tourism products associated with nature-based tourism, both during the winter and summer. Product diversification can also help to extend the tourism season and, in the longer term, even turn it into a year-round industry. The Ministry of Tourism and Environmental Protection has already earmarked mountain tourism as a priority development area, and is working closely with the private sector, donor agencies, national park administrations and NGOs to create new tourism products and develop the associated infrastructure and services. In addition to skiing, the different products identified include all types of adventure and sports tourism, from hiking, biking, paragliding, caving and fishing, to horse-riding, canoeing and rafting.

To fully allow mountain tourism to flourish, the bridge between the coast, central and northern regions needs to be built – not only to improve infrastructure and accessibility, but also to enhance collaboration at municipal level and to facilitate inclusion of the hinterland in tour operator packages.

With a diversified tourism offer, the NTO should also look to further diversify its source markets since, with the necessary access in place, hinterland activities and tourism can appeal to many more markets than those which have historically been attracted to the coastal region. China, Japan and India, for example, have been listed as potential sources for mountain tourism.

Another important segment that the Ministry of Tourism and Environmental Protection and National Tourism Organisation are currently trying to develop is the meetings, incentives, conferences and exhibitions (MICE) market, especially during the shoulder seasons. Meeting facilities have been expanded, both in the mountain region – Kolašin's Hotel Bianca can accommodate small to medium-sized groups of up to 100 or so delegates – and, more especially, in the coastal resort of Bečići, where a number of large new and renovated four-star hotels can cater to events involving more than 1,000 participants. WTTC recommends that, as facilities expand and business grows, a dedicated National Convention Bureau should be established to coordinate marketing and promotions for the sector.

ECONOMIC IMPACT

IN 2007, MONTENEGRO'S TRAVEL & TOURISM IS EXPECTED TO GENERATE €644 MN (US\$858 MN) OF ECONOMIC ACTIVITY (TOTAL DEMAND). THE INDUSTRY'S DIRECT IMPACT INCLUDES:

14,900

jobs representing 9.6% of total
EMPLOYMENT.

€212 mn

(US\$282 mn) of
GROSS DOMESTIC PRODUCT (GDP)
equivalent to 10.7% of total GDP.

HOWEVER, SINCE TRAVEL & TOURISM TOUCHES ALL SECTORS OF THE ECONOMY, ITS REAL IMPACT IS EVEN GREATER. MONTENEGRO'S TRAVEL & TOURISM ECONOMY DIRECTLY AND INDIRECTLY ACCOUNTS FOR:

28,900

jobs representing 18.7%
of total EMPLOYMENT.

€411 mn

(US\$189 mn) of
GROSS DOMESTIC PRODUCT (GDP)
equivalent to 20.7% of total GDP.

€366 mn

(US\$487 mn) of
EXPORTS, SERVICES & MERCHANDISE
or 34.1% of total Exports.

€142 mn

(US\$189 mn) of
CAPITAL INVESTMENT
or 25.8% of total investment.

€21 mn

(US\$28 mn) of
GOVERNMENT EXPENDITURES
or a 3.5% share.

GROWTH

IN 2007, TRAVEL & TOURISM IN MONTENEGRO IS FORECAST TO SEE REAL GROWTH OF:

17%

in TRAVEL & TOURISM INDUSTRY GDP to €212 mn (US\$282 mn) for the industry directly and 22% to €411 mn (US\$548 mn) for the Travel & Tourism Economy overall (direct and indirect expenditures).

13.5%

in TRAVEL & TOURISM INDUSTRY EMPLOYMENT (direct impact only), to 14,900 jobs, and 18.3% to 28,900 jobs in the Travel & Tourism Economy overall (direct and indirect).

OVER THE NEXT TEN YEARS, MONTENEGRO'S TRAVEL & TOURISM IS EXPECTED TO ACHIEVE ANNUALIZED REAL GROWTH OF:

8.6%

in total TRAVEL & TOURISM DEMAND, to €1,970 mn (US\$2,390 mn) in 2016.

8.9%

in total TRAVEL & TOURISM GDP, to to €664 mn (US\$808 mn) in 2017 for the industry directly and to €1,090 mn (US\$1,320 mn) for the Travel & Tourism Economy overall.

5.8%

in TRAVEL & TOURISM EMPLOYMENT, to 26,200 jobs directly in the industry, and 4.1% to 42,800 jobs in the Travel & Tourism Economy overall in 2017.

11.5%

in VISITOR EXPORTS, rising to €1,360 mn (US\$1,660 mn) by 2017.

3.5%

in terms of CAPITAL INVESTMENT, increasing to €252 mn (US\$307 mn) in 2017.

4.5%

in terms of GOVERNMENT EXPENDITURES to €44 mn (US\$53 mn) in 2017.



MONTENEGRO'S TRAVEL & TOURISM

OVERVIEW OF CURRENT TRENDS AND DEVELOPMENTS



FULFILLING ITS PROMISE

The world's youngest sovereign state

Since the World Travel & Tourism Council produced its first Tourism Satellite Account and Country Report for Montenegro in April 2004, the Republic of Montenegro – now the world's youngest independent nation – has demonstrated that it is well on the way to fulfilling its Travel & Tourism promise. Although the destination really only re-emerged onto the world's tourism stage at the end of the 1990s, when its tourism plant was still suffering from years of neglect due to international sanctions during the Balkan conflict, international tourist arrivals and tourism receipts have recorded strong double-digit annual increases.

Just in the three years since 2004, arrivals from abroad have more than doubled (+101 per cent), foreign tourist overnights have risen by 79 per cent, and international tourism receipts are up 58 per cent.

The unique 'wild beauty' of Montenegro is still a long way from being fully tapped. But its mountainous regions covered by forests, its lakes, rivers and national parks, which boast some of Europe's most spectacular scenery, as well as a rich diversity of flora and fauna, offer unparalleled opportunities for 'authentic' tourism – one of the fastest growing segments in tourism today. Meanwhile, leading Western markets have returned to the country's coastal resorts and new emerging markets are starting to show interest in what has become widely known as the 'jewel in the Balkan crown'.

Europe's new Monaco

More than 95 per cent of Montenegro's existing hotels have now been privatized and, during the past four years, private investors have poured over €350 million into extensive renovations and modernization, including the addition of state-of-the-art wellness and conference facilities, in 12 large privatized hotel and resort complexes. At the same time, the Montenegrin Government has invested more than €250 million in the modernization and upgrading of airports, roads, border crossings and utility infrastructure projects. And this is only the beginning.

Since independence, less than a year ago, the value of real estate has soared, making Montenegro one of the most attractive destinations in the world, not just in Europe, in terms of return on foreign direct investment (FDI). In fact, Montenegro is among the top three countries in Europe in terms of FDI per capita. Many now see this small Adriatic state as the next Monaco.

Moreover, while the country still only has two five-star hotels, interest from developers in building high quality resorts is growing rapidly. Negotiations are underway with a number of international hotel groups and, just in the last six months, two major projects have been signed. In late October 2006, a deal was concluded with Peter Munk (one of Canada's leading industrialists and the chairman of the world's largest gold producer, Barrick Gold) for the purchase of a former shipbuilding and naval yard once controlled by the Yugoslav Army, at a superb location on Kotor Bay with easy access to Tivat airport. The deal paves the way for developing a major marina and related resort infrastructure in the coastal town of Tivat.

Meanwhile, one of the world's most respected hoteliers, Adrian Zecha, Chairman of Amanresorts, has signed a landmark agreement for a 30-year lease of the former fisherman's village of Sveti Stefan, once a favourite summer haunt of the rich and famous, as well as two adjacent properties – the Villa Miločer, a former royal villa, and the Queen's Beach Hotel. The first two will be operated by Amanresorts, and Queen's Beach will become a GHM property after a complete rebuild. Four beaches are included in the deal. The three resorts are due to open sometime in 2008 and/or 2009.

In total, more than €500 million has been committed for modernizing six additional hotel complexes and for the construction of the Peter Munk-led marina and upscale mixed-use resort complex. This level of investment will clearly pave the way for more similar projects, helping Montenegro transform its tourism product from that of a low-yield, mass-market destination to one offering the highest quality for customers and the highest yields for investors.

TRAVEL & TOURISM TRENDS

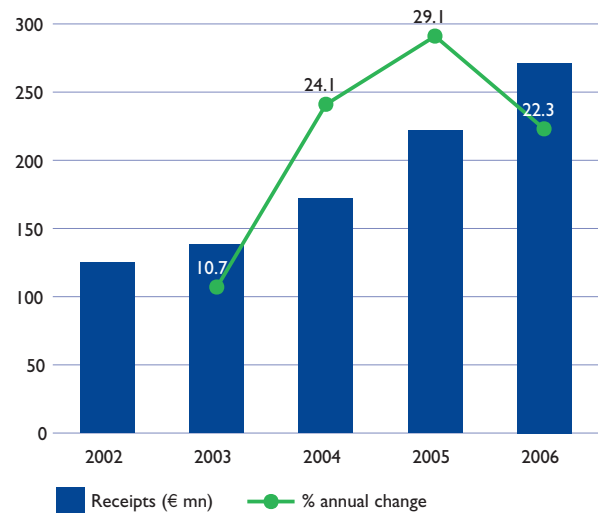
Record tourism earnings

The widespread interest among investors in Montenegro is hardly surprising given its spectacular tourism performance over the last seven years or so. International tourism receipts (excluding spending on international transport) increased by 22 per cent in 2006, to €271 million, thereby exceeding the previous record achieved as long ago as

1990, ie before the outbreak of the Balkan conflict. The annual increase in international tourism earnings has averaged 21 per cent over the four years to 2006, and 26 per cent over the past two years.

Average spending per arrival for international tourists is estimated at some €715, and the average per night is just over €120, with about two thirds going on accommodation and, in the case of tourists on package tours, all the different elements offered in the package (ie meals and drinks for all-inclusive guests).

Montenegro's international tourism receipts^a, 2002-07



^a Based on the no. of tourist overnights determined by MONSTAT and estimated average daily spending.

Source: Central Bank of Montenegro

Arrivals continue to soar

Preliminary figures for 2006 point to a 39 per cent increase in international tourist arrivals, to 378,000, as well as a 39 per cent rise in overnight volume, to 2.2 billion. This means that international tourist arrivals and overnights have grown by more than 31 per cent annually since 2000. The 2003 decline was due to the fact that hotels were temporarily taken off the market during a period of major renovation and reconstruction.

By comparison, domestic tourism – including tourism from Serbia, which is now of course considered an international source – has only shown moderate growth although, by European standards generally, the increases are still commendable. Annual growth in domestic arrivals has averaged 7.5 per cent since the beginning of this decade and overnight volume has risen by 5.3 per cent a year.

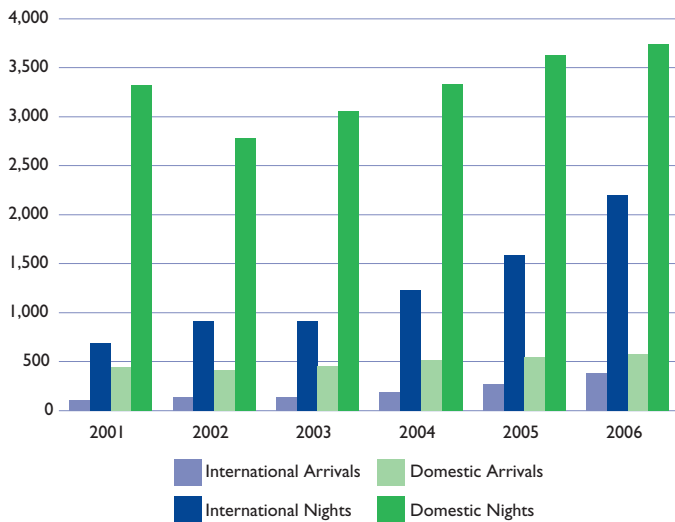
Since independence, less than a year ago, the value of real estate has soared, making Montenegro one of the most attractive destinations in the world, not just in Europe, in terms of return on foreign direct investment (FDI).

Tourist arrivals and overnights in Montenegro, 2001-07

Year	Arrivals ('000)	% annual change	Nights ('000)	% annual change
International				
2001	109	47.9	688	58.4
2002	136	25.1	912	32.5
2003	142	4.1	916	0.4
2004	188	32.6	1,224	33.6
2005	272	44.6	1,584	29.4
2006	378	38.9	2,196	38.7
Domestic				
2001	446	19.1	3,323	20.8
2002	406	-9.1	2,778	-16.4
2003	458	12.8	3,061	10.2
2004	515	12.6	3,337	9.0
2005	548	6.4	3,628	8.7
2006	576	5.0	3,740	3.1

Source: Ministry of Tourism and Environmental Protection

Tourist arrivals and overnights in Montenegro, 2001-07

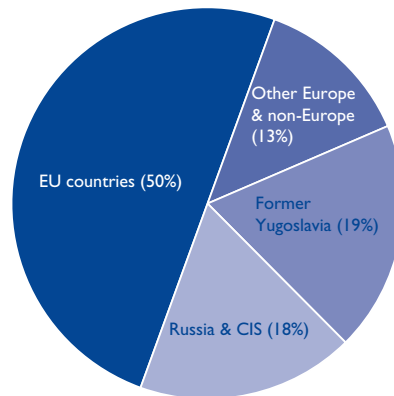


Source: Ministry of Tourism and Environmental Protection

EU countries dominate in Montenegro's market mix

Tourists from member countries of the European Union account for some 50 per cent of all arrivals in Montenegro, with other Europeans and non-Europeans generating a further 13 per cent. Countries of the former Yugoslavia represent 19 per cent, and Russia and other members of the former Soviet Union (now the Commonwealth of Independent States, or CIS) 18 per cent.

Breakdown of international arrivals by main source regions, 2006



CIS = Commonwealth of Independent States

Source: Ministry of Tourism and Environmental Protection

Russia ranks number one, in terms of arrivals...

Thanks to an annual average growth in arrivals of nearly 50 per cent since 2000, Russia has become the clear leader in terms of absolute volume of arrivals, overtaking Bosnia-Herzegovina in 2005. A major contributor to the growth from Russia is that Russians have been key players in FDI. With investments estimated at US\$2 billion until now, they dominate a sizeable chunk of the economy. Among other strategic assets, they own the crucial aluminium factory in Podgorica.

In third place in the ranking, some way behind the leaders, is the Czech Republic, followed – somewhat surprisingly, perhaps – by



Albania, which has shown the strongest growth of all leading markets over the past six years.

Other significant growth markets include Italy, up 55 per cent a year since 2000, France (+57 per cent) and the UK (+67 per cent). But their absolute numbers remain modest. With the exception of Macedonia, countries from the Balkan region have generally shown good growth but, along with Russia, West European markets are expected to generate most of the new arrivals over the short term, increasing their already dominant market share.

Average length of stay in Montenegro in 2006 was 5.8 nights, with all top three markets – Russia, Bosnia-Herzegovina and the Czech Republic – exceeding the average. Although the average stay for a summer holiday is likely to remain at around seven nights, the expected increase in short breaks – especially if low-cost airlines start serving Montenegro – could bring the average down, especially out of the main summer season.

Arrivals from Montenegro's top ten international source markets, 2000 and 2004-06

Market	2000	2004	2005	2006	ALOS ^a (nights)
Russia	6,218	16,270	41,011	61,092	7.5
Bosnia-Herzegovina	29,943	32,706	46,838	55,553	6.1
Czech Republic	2,365	24,356	23,517	28,674	7.7
Albania	na	8,853	13,234	25,925	3.8
Germany	2,228	19,873	18,352	20,252	7.0
France	826	2,047	11,300	17,702	5.9
Italy	3,035	5,642	11,432	17,702	2.9
Slovenia	2,979	10,114	13,659	17,607	3.5
Macedonia	2,557	10,187	14,940	14,469	5.2
UK	1,045	5,462	7,817	13,084	6.0
Total (incl others)	73,559	188,060	272,005	377,798	5.8

^a ALOS = average length of stay (2006 nights)

Source: Ministry of Tourism and Environmental Protection

...and overnight volume

The ranking of foreign markets by overnight volume is very similar to that of arrivals. However, given the lower than average length of stay in Montenegro by tourists from these countries, Albania, Macedonia and Slovenia come lower down the ranking and Italy – which has the lowest stay of all the leading markets – slips out of the top ten altogether, replaced by Slovakia in seventh position.

Like Albanians, Italian visitors to Montenegro are frequently on long weekend breaks, with package prices reportedly starting at around €300 out of the main season, including charter flights and meals. Other short-stay visitors include the non-European markets – such as Israelis (1.6 nights average stay), Japanese (2.4 nights) Australians/New Zealanders (2.4) and Americans (3.0) – who are often on tours of three or more countries in Europe. Business travellers, who make up a significant share of visitors from the USA, of course, also tend to stay a shorter time in Montenegro.

As far as the emerging Asian markets are concerned, there are plans to try to stimulate demand from source countries like India and China – not surprisingly, given the Chinese Government's granting of Approved Destination Status (ADS) to Montenegro in 2006. However, a shortage of funding for marketing and promotions and the existence of other, higher market priorities mean that these sources are still largely untapped.

In terms of overnights, the strongest average annual growth over the past six years has come from France, the UK and Germany.

Overnights by Montenegro's top ten international source markets, 2000 and 2004-06

Market	2000	2004	2005	2006
Russia	51,329	128,507	253,178	455,502
Bosnia & Herzegovina	195,428	190,066	267,875	336,618
Czech Republic	20,715	211,430	206,418	222,169
Germany	10,821	188,439	133,903	142,538
France	2,405	8,273	64,354	103,828
Albania	na	26,806	40,091	99,621
Slovakia	24,148	52,902	63,918	89,212
UK	3,572	36,072	48,582	79,008
Slovenia	14,576	53,506	57,967	76,325
Macedonia	16,190	21,388	88,905	74,581
Total (incl others)	434,539	1,223,847	1,583,510	2,196,091

Source: Ministry of Tourism and Environmental Protection

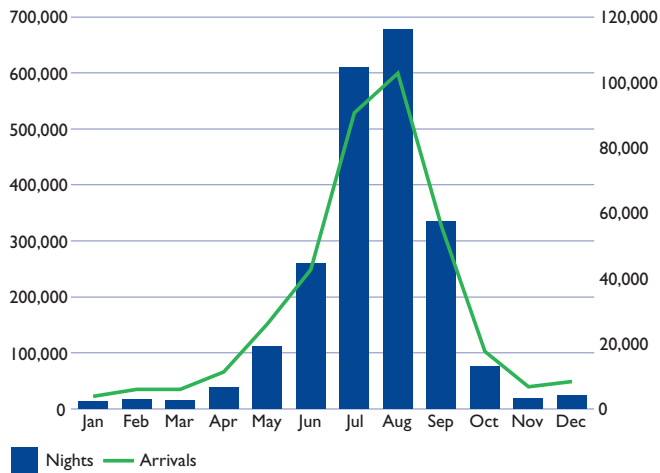
Seasonality of international demand

Although there has been some improvement, as government and the industry have made concerted efforts to stretch the season, Montenegro's tourism continues to be characterized by high seasonality of demand. The five months of May through September account for as much as 91 per cent of total foreign overnight volume and 84 per cent of arrivals. The peak summer season – just the two months of July and August – generate more than 59 per cent of all overnights and 51 per cent of arrivals.

The winter months of October through March, in contrast, account for a very modest 7 per cent of nights and 13 per cent of arrivals. (It should be noted, nevertheless, that the respective shares in 2003 were 5 per cent and 10 per cent.) Average length of stay during these months falls to a low of some 1-2 nights as against the 6-night average stay overall. And it is clearly much longer in the peak summer months.

Montenegro's tourism continues to be characterized by high seasonality of demand.

International tourist arrivals and overnights in Montenegro by month, 2006



Source: Ministry of Tourism and Environmental Protection

Organization of travel to Montenegro

Little research has been carried out to date on how tourists organize and book their travel to Montenegro. Most domestic travel from neighbouring states – those formerly part of Yugoslavia – is organized independently, but the majority of trips from West European markets are either fully or partly packaged holidays, booked through tour operators and/or travel agencies.

Data on hotel performance gathered during Horwath International's latest annual survey (see below) shows that as many as 70 per cent of all hotel roomnights comprise bookings for group leisure tourists and tour operator allotments. Fully independent leisure travellers (FITs) account for only 18 per cent.

While the Ministry of Tourism and Environmental Protection, in cooperation with the industry, has taken serious steps to try to establish quality standards, there is still a risk that the type of packages most widely available to the lower-end markets could attract too many of the wrong type of holidaymaker to Montenegro, ie those looking for bargain prices and interested solely in sun and beach.

The internet's share of total bookings is currently very low, although it can be expected to rise fairly sharply in the short to medium term, especially since the National Tourism Organisation is planning to commission specialist consultants to develop a new, interactive website, which will link to suppliers' and tour operators'/travel agents' bookable sites. Some of Europe's leading tour operators, such as TUI/Thomson and Thomas Cook, also offer Montenegro through their own electronic channels.

The grey market

Domestic tourists – from Montenegro, but also the different regions of Serbia – generated around 50 per cent more arrivals in 2006 than the international market, with average length of stay slightly above the international average. If the grey market were included in the overall count, the domestic share would probably be higher. There are over 100,000 unregistered beds in holiday apartments (many owned by Serbian citizens) in Budva and Bar, and a high number of unregistered holiday apartments in Ulcinj, which drive a huge grey market from Kosovo and Albania.



Domestic arrivals in Montenegro, 2000, 2003 and 2006

Market	2000	2003	2006	ALOS ^a 2006
Montenegro	123,126	85,854	156,857	5.8
Serbia	251,421	371,789	419,273	6.8
- Central Serbia	206,083	277,812	300,727	6.8
- Vojvodina	38,161	43,997	68,122	7.1
- Kosovo & Metohija	7,177	49,980	50,424	6.0
Total	374,547	457,643	576,130	6.5

^a ALOS = average length of stay (2006 nights)

Source: Ministry of Tourism and Environmental Protection

Montenegro's Statistics Agency (MONSTAT) estimates that there are at least as many beds available for rent in private apartments in the country as the official bed capacity, of 120,270, which is spread across registered accommodation of all types.

A significant number of Serbs own properties on the Montenegrin coast and many thousands of others rent apartments during the peak summer months. Although their prolonged presence does bring benefits to the apartment owners and to restaurant and café operators, most of the apartment rentals are not registered, and generate no bednight taxes or VAT. Of even greater concern, as discussed in the Policy Recommendations of this report, is the fact that the short-term attraction of the grey market often encourages the local authorities to turn a blind eye to illegal construction along the coast.

FAVOURITE DESTINATIONS

Given the huge investments in recent years following privatization, the coastal resorts continue to dominate very strongly in terms of tourist arrivals and overnights. The most popular destination, the Budva Riviera, generates 39 per cent of both arrivals and overnight volume, while Herceg Novi at the mouth of the Boka Kotorska accounts for 20 per cent and 25 per cent respectively. This means a combined share of 59 per cent of arrivals and 64 per cent of bednights for the two most popular destinations.

Tourist arrivals in Montenegro by major destinations, 2006

Municipality	Domestic	Foreign	Total
Budva	197,523	174,243	371,766
Herceg Novi	129,004	62,788	191,792
Bar	77,120	31,484	108,604
Ulcinj	74,489	24,927	99,416
Kotor	34,262	25,778	60,040
Podgorica	16,890	22,405	39,295
Tivat	13,960	14,326	28,286
Žabljak	9,541	6,734	16,275
Cetinje	6,039	2,951	8,990
Kolašin	4,252	4,189	8,441
Nikšić	4,026	3,743	7,769
Total (incl others)	576,130	377,798	953,928

Source: Ministry of Tourism and Environmental Protection

Tourist overnights in Montenegro by major destinations, 2006

Municipality	Domestic	Foreign	Total
Budva	1,244,851	1,074,488	2,319,339
Herceg Novi	1,089,960	416,093	1,506,053
Bar	503,552	218,222	721,774
Ulcinj	450,865	137,415	588,280
Kotor	220,715	126,308	347,023
Tivat	82,595	126,706	209,301
Podgorica	31,044	43,125	74,169
Žabljak	33,669	13,638	47,307
Cetinje	34,081	5,867	39,948
Nikšić	18,857	16,969	35,826
Kolašin	10,928	7,647	18,575
Total (incl others)	3,740,179	2,196,091	5,936,270

Source: Ministry of Tourism and Environmental Protection

Bar, in third position, is Montenegro's primary port, linking the destination by ferry with Bari and Ancona in Italy, as well as being the rail terminus for trains from Podgorica, the Montenegrin capital and points beyond. Except for transit visitors, most people travelling to Bar are on business although, thanks to the opening of the Sozina tunnel from Podgorica, it is now also a transit stop en route for the southern coastal regions of the country.

Although almost totally undeveloped for tourism, and therefore not yet suited to the international market, the ancient seaport of Ulcinj – in fourth position in the favourites' ranking – is very popular with domestic tourists because of the nearby 13-kilometre long, 50-metre wide sandy beach, Velika Plaža. By 2020, when/if the different projects proposed in the 2001 Tourism Master Plan for Montenegro are realized, this could be the most popular region for tourism – and it will certainly compete with Budva in terms of hotel room capacity.

Inland and mountain regions lag seriously behind

Apart from the capital, Podgorica, and the industrial town of Nikšić, only two inland destinations – Žabljak in the Durmitor National Park and Kolašin in the Bjelasica region, close to the Biogradska Gora National Park – feature among the leading destinations visited by tourists. This is expected to change over the next few years as money is increasingly invested into the mountain region.

The different donor organizations working in Montenegro have all been involved in trying to improve infrastructure, expand and modernize accommodation and other facilities, and also ensure the level of training required to provide the necessary human resources. Different projects are also planned to stimulate demand for tourism in the north of the country, including marketing and promotions to raise awareness of the region's potential, in order to establish Montenegro as the hiking and biking paradise of the Mediterranean.

TRANSPORT AND ACCESS

Improved access, but there are still bottlenecks

The increase in the number of airlines serving Montenegro has been a main driver of growth over the past three years. In 2006, more than 40 airlines – both scheduled and charter – operated regular services to/from the country, linking Montenegro with more than 30 airports in about 20 countries. As discussed in the Policy section of this report, Montenegro's two international airports, Podgorica and Tivat, have benefited from around €30 million investment since 2004, €23 million of which came from a European Investment Bank and European Bank for Reconstruction and Development loan.

Among other improvements, Podgorica's passenger terminal has been completely rebuilt and the number of check-in desks doubled, raising passenger capacity to one million. Tivat, meanwhile, has been upgraded and modernized, although the work carried out was more cosmetic than structural.

Tivat attracts a higher share of traffic

Not surprisingly, given its dominant share of holiday traffic, Tivat recorded a higher international passenger throughput in 2006 (excluding traffic to/from Serbia) – 217,717 as against Podgorica's 143,349, and up 55 per cent on 2005's level compared with a 50 per cent increase for Podgorica. But the capital's airport had a larger number of aircraft movements, reflecting the smaller aircraft operated, as well as lower seat loads experienced on what are predominantly scheduled flights. In contrast, Tivat receives mainly charters from abroad, and these tend to operate at higher load factors.

International air transport to/from Montenegro^a, 2003-2006

Year	Aircraft movements	% annual change	Passenger throughput	% annual change
Podgorica				
2003	2,186	na	77,228	na
2004	2,188	0.1	82,084	6.3
2005	2,548	16.5	95,281	16.1
2006	3,545	39.1	143,349	50.4
Tivat				
2003	928	na	70,044	na
2004	1,082	16.6	93,109	32.9
2005	1,558	44.0	140,501	50.9
2006	2,552	63.8	217,717	55.0

^a Excludes traffic to/from Serbia

Source: Airports of Montenegro

In line with the increased holiday demand for coastal resorts, Tivat has shown far stronger growth in international passenger throughput over the last few years – at least since 2003. Its annual growth has averaged 46 per cent as against 23 per cent for Podgorica.

The airport's main problem is that it can only operate until 16:00h every day, restricting the number of flights in and out of the main tourism-generating region of the country. Once night flights are permitted – or, what is more likely, flight departures and arrivals up to

22:00h – total passenger capacity should increase significantly from its present 800,000.

As the following table shows, while the number of domestic airline passengers – essentially people travelling between Montenegro and Serbia – remains higher than the international count, whether in Podgorica or Tivat, growth has been fairly sluggish over the past few years. As might be expected, a significant, if unidentified, share of domestic traffic is for business purposes.

Domestic air transport in Montenegro^a, 2003-06

Year	Aircraft movements	% annual change	Passenger throughput	% annual change
Podgorica				
2003	4,326	na	226,473	na
2004	4,894	13.1	245,532	8.4
2005	4,046	-17.3	224,384	-8.6
2006	4,228	4.5	238,488	6.3
Tivat				
2003	3,626	na	230,875	na
2004	3,468	-4.4	243,424	5.4
2005	3,486	0.5	236,512	-2.8
2006	3,970	13.9	233,572	-1.2

^a Includes traffic to/from Serbia

Source: Airports of Montenegro

Hoping for low-cost airline services

Although the number of airlines operating into Montenegro has increased significantly, there are still some unfortunate gaps in coverage. The most important is access from the UK market. At the moment, a sizeable share of UK visitors come through Dubrovnik airport and some industry players believe that the country is losing business to Croatia as a result – eg tourists who plan to drive down to Montenegro, but who finally choose to stay in Croatia.

The Ministry of Tourism and Environmental Protection and Airports of Montenegro are also looking to attract at least one low-cost carrier (LCC) to the country. Their preferred LCCs are germanwings, Air Berlin and easyJet, but negotiations are also underway with Ryanair, which is well known to be the most demanding in terms of the incentives it requires. There is no doubt that LCC operations would attract more independent travellers to Montenegro and would help to raise awareness of the destination across a wider segment of the European population.

ACCOMMODATION

Hotels account for a modest share of tourist bed capacity...

Montenegro's hotels – 237 of which have now been officially classified – account for a relatively modest share (25.5 per cent) of total tourist bed capacity in the country. If non-registered private rooms were included, the share would be even lower. Estimates by MONSTAT put the number of beds available to rent in private apartments at a similar level to the total registered bed count.

Tourist accommodation in Montenegro, 2005

Type of accommodation	No. of beds	% share of total
Hotels	30,651	25.5
Motels	147	0.1
Tourist apartments	131	0.1
Apart'hotels	746	0.6
Tourist villages	9,235	7.7
Boarding houses	854	0.7
Campsites	10,118	8.4
Rest homes, sanatoria, mountain homes	13,214	11.0
Individual accommodation/private rooms	55,174	45.9
Total	120,270	100.0

Source: MONSTAT

Of the 237 hotels now classified, just two (1 per cent) are five-star properties, and their share of the total room count in the country is even lower, given that they are both fairly small boutique hotels. Two-star hotels (41 per cent) have the highest share of rooms (46 per cent), followed by three-star properties (a 30 per cent and 32 per cent share respectively). However, given the increased focus on four-star accommodation by new developers and hotel owners looking to build, or upgrade, this is the category likely to show the biggest growth over the foreseeable future, followed by five-star hotels.

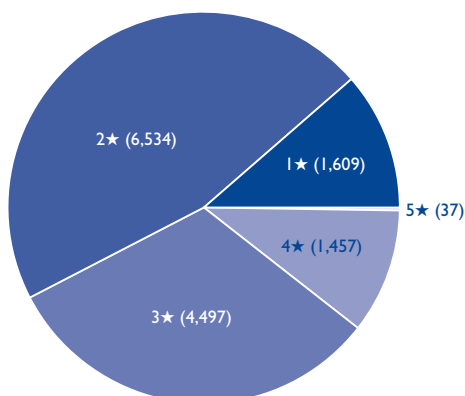
Of total hotel bed capacity, 96 per cent is located in the coastal region of Montenegro, 1 per cent in the mountains and 3 per cent in the capital and central region generally.

Hotel accommodation in Montenegro by star category, 2006 (Bed capacity)

Category	Hotels	Rooms	Beds
5★	2	37	80
4★	35	1,457	3,214
3★	70	4,497	11,956
2★	98	6,534	16,879
1★	32	1,609	3,627
Total	237	14,134	35,756

Sources: Horwath Hotel Industry Survey Montenegro 2006; MONSTAT

Hotel accommodation in Montenegro by star category, 2006 (No. of rooms)



Sources: Horwath Hotel Industry Survey Montenegro 2006; MONSTAT

...but almost two thirds of tourist arrivals and bednights

Although hotels account for a relatively modest share of total registered commercial room and bed capacity in Montenegro, data from MONSTAT suggests that they attract 62 per cent of international tourists and 56 per cent of total bednights.

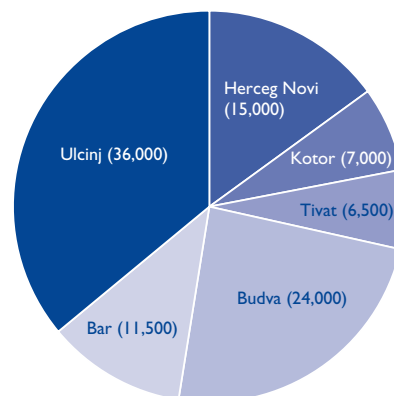
According to the *Horwath Hotel Industry Survey 2006*, some 69 per cent of total roomnights are generated in the months of July and August. Year-round average occupancy was 34 per cent, up from 31 per cent in 2005, while average room rate increased from €31.86 to €37.29 over the 12-month period. Gross operating profit, meanwhile, increased from 11.8 per cent to 20.1 per cent of total revenues, and revenue per available guest room (revPAR) averaged €11,363, with four-star properties recording the highest revPAR, of €18,517.

Bed count to increase to 100,000 in the coastal resorts

Based on the Tourism Master Plan for Montenegro, drawn up by experts from the German Investment and Development Company (DEG) in 2001 and currently being reviewed, the country's coastal resort region is due to expand hotel capacity to some 50,000 beds by 2010 and to 100,000 by 2020.

Although there are a number of concerns, as reported in the Policy Recommendations, that this may be too rapid a rate of development – given the need to ensure that infrastructure development keeps pace with that of new hotel construction – the forecast growth has been incorporated into the latest draft of the Physical Plan of the Republic of Montenegro, published in August 2006. According to the Master Plan, Ulcinj will eventually have the highest number of beds, of 36,000, 50 per cent more than Budva.

Hotel capacity planned for Montenegro in the coastal zone (No. of beds by 2020)



Source: Tourism Master Plan for Montenegro, German Investment and Development Company (DEG), 2001

A breakdown of the planned coastal zone expansion shows that five-star hotels should account for a 14.5 per cent of total bed capacity by 2020, with four-star properties representing 39.5 per cent, three-star having 35.5 per cent, and two-star 10.5 per cent.

Hotel capacity planned for Montenegro in the coastal zone by category (No. of beds by 2020)

Location	5★	4★	3★	2★	Total
Herceg Novi	2,000	6,500	4,500	2,000	15,000
Kotor	500	2,500	3,500	500	7,000
Tivat	500	3,000	2,500	500	6,500
Budva	4,500	9,500	7,500	2,500	24,000
Bar	1,500	3,500	4,500	2,000	11,500
Ulcinj	5,500	14,500	13,000	3,000	36,000
Total	14,500	39,500	35,500	10,500	100,000

Source: Tourism Master Plan for Montenegro, DEG, 2001

Hotels in the mountain regions...

The current review of the Tourism Master Plan is expected to develop a detailed proposal for the expansion of hotels and other accommodation in the mountain regions of Montenegro, and particularly in Durmitor and Bjelasica. For the time being, these two regions have a total hotel bed capacity of only 700 and 521 respectively.

While there has been some upgrading and modernization of hotels – the most notable being the Bianca Hotel in Kolašin (Bjelasica), bought by the UK-based Beppler & Jacobson – these projects have so far been few and far between.

...as well as alternative forms of accommodation

With the strong support of the donor organizations, however, steps are also being taken to modernize and expand alternative accommodation facilities, such as campsites, mountain and eco-lodges. One project, led by German Technical Cooperation (GTZ), is the development of a new, home-built brand of mountain hut/lodge.

In addition to construction and other physical improvements, the donor organizations support also includes tourist information centres, tourist attractions, signposting for hikers and bikers, and the creation of local arts and crafts, brochures, maps, postcards, etc – all designed

to meet the needs of the new breed of tourist expected to visit in the country over the foreseeable future.

Some believe that, because of Montenegro’s unique natural attractions, tourism demand for the country’s hinterland could one day match, or even exceed, that for its coastal resorts.

CURRENT OUTLOOK Opportunities for growth and diversification

Since the adoption of the Tourism Master Plan in 2001, the Montenegrin Government has pursued a sustainable tourism and product development strategy, with the aim of creating a distinctive brand, capitalizing on the natural beauty and diversity which characterizes this small nation. Its first step was to privatize the state-owned accommodation sector, encouraging investment to upgrade and modernize existing hotels in line with its goal of moving from the low budget tourism of yesterday to a new brand of quality tourism for tomorrow.

Among the main challenges still facing the government, the most important is to ensure that improvements to the basic infrastructure – water, waste disposal, electricity, etc – keep pace with the expansion of hotels and tourist facilities. If this does not happen, there is a serious risk that the high-yield, quality tourists the government and industry are targeting will lose interest in the destination and go elsewhere. In addition, in order to take pressure off the coastal zone and spread the benefits of tourism more equitably across the country, efforts to facilitate and promote tourism in the hinterland need to be stepped up.

For the time being at least, it would seem that the government is on the right track, thanks in no small part to the strong support of the donor organizations and other interested parties. The positive investment climate and the attractiveness of Montenegro’s unique natural environment, along with the genuine hospitality of the Montenegrin people, should continue to drive sensible, ecologically and economically sound investments in the future of Montenegro’s tourism industry.



TRAVEL & TOURISM SATELLITE ACCOUNT

TOURISM SATELLITE ACCOUNTING

THIS REPORT FOLLOWS THE CONCEPT OF SATELLITE ACCOUNTING DEFINED IN THE *TOURISM SATELLITE ACCOUNT: RECOMMENDED METHODOLOGICAL FRAMEWORK* (TSA:RMF), AND DEVELOPED UNDER THE AUSPICES OF THE WORLD TOURISM ORGANIZATION.

Over the last three decades, countries have estimated the economic impact of Travel & Tourism through a range of measures using a variety of definitions and methodologies. Such approaches have prevented meaningful comparisons among nations. Even for the same nation over different periods of time, they have frustrated business and government attempts to draw valid conclusions about the nature and course of Travel & Tourism demand in national economies. This regime has obscured the substantial, positive role the industry plays in national economies and has thwarted business and government attempts to optimize economic programmes and policies.

The World Travel & Tourism Council (WTTC) recognized the dearth of crucial Travel & Tourism intelligence from the time of its establishment in 1990 and it published the first detailed estimates of world tourism's economic impact that same year.

Since then WTTC has worked to improve its methodologies and to encourage individual countries to enhance their measurement and understanding of tourism's impact on their national economies. Furthermore, in the spirit of joining forces to enhance world comprehension of the role of Travel & Tourism in national economies, WTTC has strongly supported the programmes of the World Tourism Organization (UNWTO) to improve tourism statistics worldwide.

WTTC'S RESEARCH

WTTC and its economic/research partners – Oxford Economics, since 1999, and Global Insight (previously known as DRI•WEFA), from 1990-1999 – have developed and published research on the economic contribution of Travel & Tourism to the world, regional and national economies.

Starting in 1990, WTTC's research team has been working to develop practical, real-world models to illustrate Travel & Tourism's economic contribution based on the needs of private sector leaders, public sector policy-makers and industry researchers, and on the interpretation of the system of national accounts. The research is now firmly anchored in the international standard for tourism satellite accounting that was developed by UNWTO, OECD and Eurostat, and approved by the United Nations Statistical Commission in 2000. It was launched at the TSA Conference held in Vancouver in May 2001 and published as the *Tourism Satellite Account: Recommended Methodological Framework* (TSA:RMF) in 2001.

Since 1999, WTTC's research has assumed the conceptual framework of the UN-approved standard with a number of discretionary extensions, and it combines the most sophisticated economic modelling and forecasts available with the most up-to-date, publicly available data to generate a comprehensive implementation of Travel & Tourism satellite accounting.

This special simulated TSA for Montenegro is the product of work commissioned by the Montenegrin Ministry of Tourism and Environmental Protection. In carrying out the work, Oxford Economics has drawn extensively on the methodology drawn up over the years by WTTC to develop TSAs as operational tools, and has worked closely with the Ministry of Tourism and Environmental Protection, the Central Bank of Montenegro, and the Montenegro Statistical Office (MONSTAT) to review the assumptions, models and results produced by this exercise.

WTTC'S APPROACH TO TOURISM SATELLITE ACCOUNTING

WTTC has endeavoured to implement and produce the most comprehensive TSA provided for within the TSA:RMF – by developing the narrow concept of the ‘Travel & Tourism Industry’ in addition to the broader concept of the ‘Travel & Tourism Economy’. WTTC advocates full implementation of the TSA as defined in the TSA:RMF in order to achieve the highest level of benefits for industry and governments. These include:

- A wealth of customer and consumer information on tourism-related purchases (before, during and after trips – whether domestic or international, imported or exported – as well as services, durables and non-durables) that has never been identified until now;
- Comprehensive documentation and analysis of the full tourism-product service chain and government’s ability to deliver quality and timely service to visitors;
- Linkages between Travel & Tourism and other sectors of the economy such as agriculture and manufacturing to illustrate the flow-through of spending;
- Complete outlook for public works that benefit visitors and Travel & Tourism companies in order to leverage public sector plans and priorities for growth;
- Focused opportunities for domestic production, as

well as incentives from the public sector, to aid in the growth of businesses that help alleviate trade balance issues;

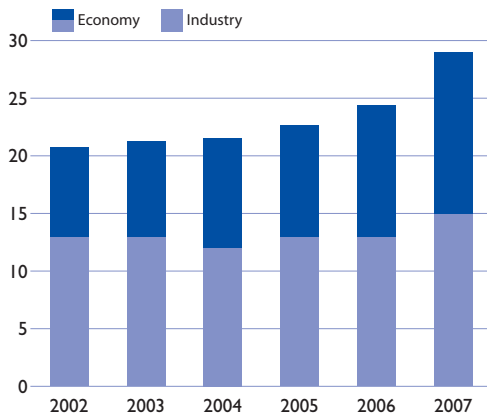
- Demand- and supply-side information on employment that allows for human resource planning and development.

WTTC has worked towards developing a comprehensive TSA – not because it is eager to exaggerate the size of Travel & Tourism’s impact, but because the information that can be garnered from the exercise by governments and industry is crucial for making intelligent and informed policy and business decisions. WTTC believes that history will document its pioneering implementation of the simulated TSA as one of the most important turning points for Travel & Tourism’s long overdue economic recognition.

In the WTTC research, no country receives special treatment or favours. WTTC uses internationally available data sources and the same scope of tourism satellite accounting for all countries, as well as the same basic assumptions through the same system of models. WTTC’s TSA research utilizes a universal and internally consistent modelling framework and generates harmonized results and forecasts for 176 countries around the world. Details of the methodology used by WTTC/Oxford Economics in its TSA research are available on WTTC’s website (www.wttc.travel).

MONTENEGRO

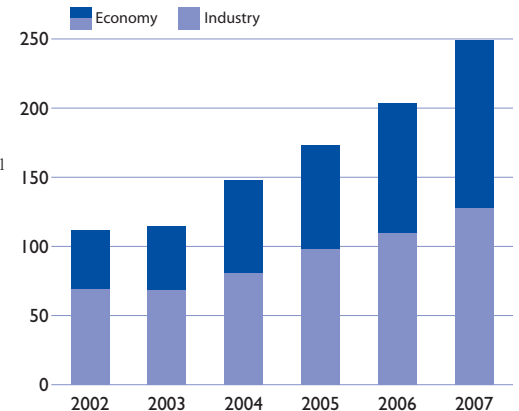
**Travel & Tourism Employment
(‘000 Jobs)**



T&T ECONOMY
Direct and indirect impact of visitor activities, capital investment, exports and government services

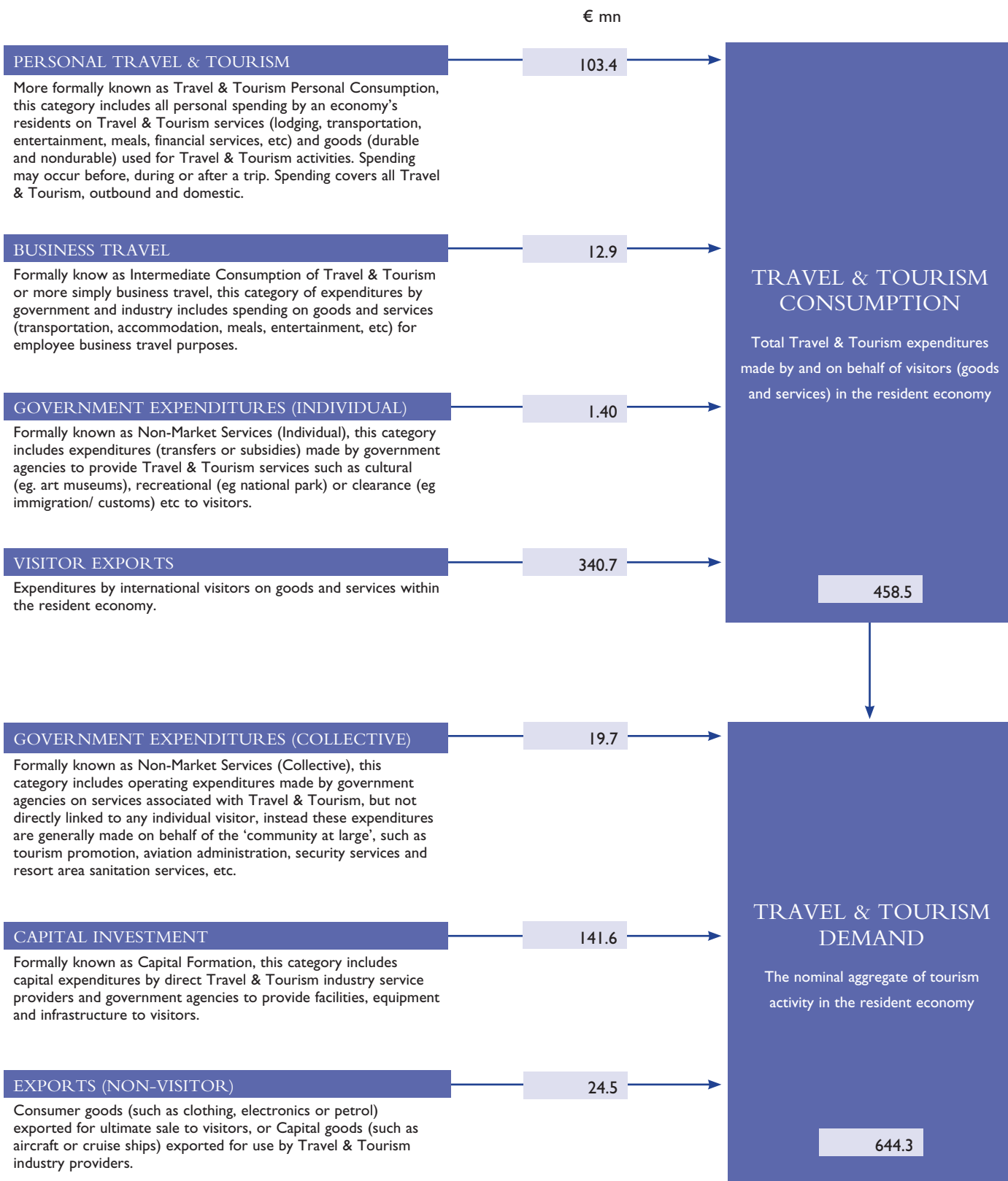
T&T INDUSTRY
Direct impact of visitor activity (transportation, accommodation, food and beverage, recreation, entertainment and travel services)

**Travel & Tourism Gross Domestic Product
(2000 Constant US\$ bn)**



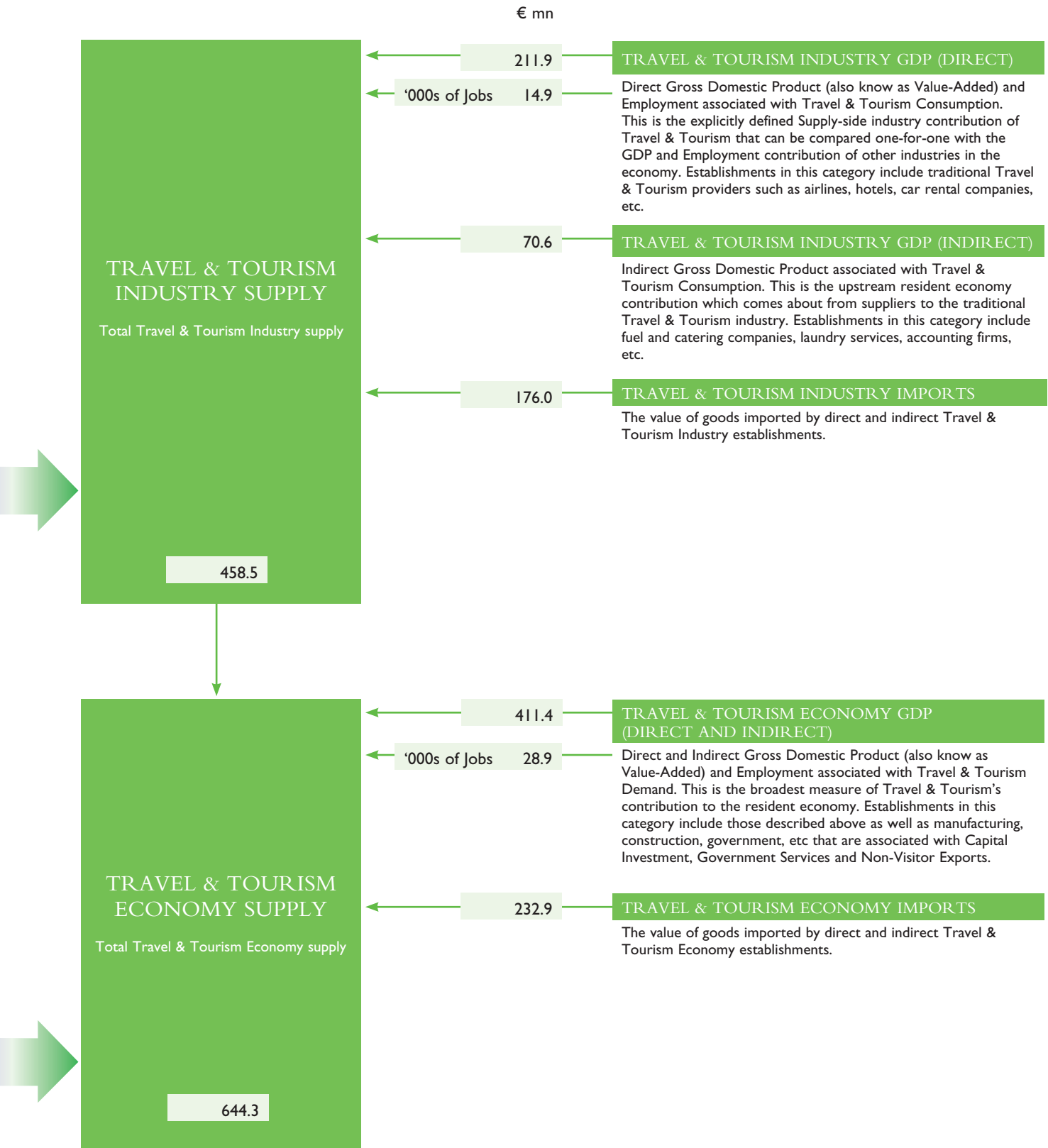
TSA CONCEPTS & STRUCTURE

Demand Side Accounts



The Travel & Tourism Satellite Account is based on a 'demand-side' concept of economic activity, because the industry does not produce or supply a homogeneous product or service like traditional industries (agriculture, electronics, steel, etc). Instead, Travel & Tourism is an industrial activity defined by the diverse collection of products (durables and non-durables) and services (transportation, accommodation, food and beverage, entertainment, government services, etc) that are delivered to visitors. There are two basic aggregates of demand (Travel & Tourism Consumption and Total Demand) and by employing input/output modelling separately (blue/green arrows) to these two aggregates the Satellite Account is able to produce two different and complementary aggregates of Travel & Tourism Supply: the Travel & Tourism Industry and the Travel & Tourism Economy. The former captures the explicitly defined production-side 'industry' contribution (ie direct impact only), for comparison with all other industries, while the latter captures the broader 'economy-wide' impact, direct and indirect, of Travel & Tourism.

Supply Side Accounts



TRAVEL & TOURISM'S ECONOMIC IMPACT

TRAVEL & TOURISM – ENCOMPASSING TRANSPORT, ACCOMMODATION, CATERING, RECREATION AND SERVICES FOR VISITORS – IS ONE OF THE WORLD'S HIGHEST PRIORITY INDUSTRIES AND EMPLOYERS.

DEMAND

Worldwide in 2007, it is expected to post US\$7,060 bn of economic activity (Total Demand) and this is forecast to grow to US\$13,232 bn by 2017.

Travel & Tourism Demand in the European Union (EU) is expected to generate €1,867.5 bn (US\$2,486.9 bn) of economic activity (Total Demand) in 2007, growing to €3,204.8 bn (US\$3,898.3 bn) by 2017.

In Montenegro, in 2007, Travel & Tourism is expected to post €644 mn (US\$858 mn) of economic activity (Total Demand), growing to €1,967 mn (US\$2,393 mn) by 2017.

GDP

In 2007, the Travel & Tourism Industry should contribute 3.6% to worldwide gross domestic product (GDP). The broader Travel & Tourism Economy should contribute 10.4% to world GDP in 2007.

In the EU, the Travel & Tourism Industry is expected to post a GDP contribution of 3.9% in 2007, while the Travel & Tourism Economy contribution will be 10.9%.

Montenegro's Travel & Tourism Industry is expected to contribute directly 10.7% to GDP in 2007 (€212 mn or US\$282 mn), rising in nominal terms to €664 mn or US\$808 mn (16.6% of total) by 2017. The Travel & Tourism Economy contribution should rise from 20.7% (€411 mn or US\$548 mn) to 27.1% (€1,087 mn or US\$1,323 mn) over the same period.

GROWTH

Travel & Tourism is a high-growth activity, which is forecast to increase its total economic activity by 3.9% per annum worldwide in real terms over the next ten years.

In the EU, Travel & Tourism is expected to post average annualized gains of 3.3% between 2007 and 2017.

For Montenegro, Travel & Tourism activity is expected to grow by 8.6% per annum in real terms between 2007 and 2017.

EMPLOYMENT

Travel & Tourism is human resource intensive, creating quality jobs across the full employment spectrum. In 2007, 1 in 12 jobs will be generated by the Travel & Tourism Economy. The Travel & Tourism Economy accounts for 8.3% of global employment. Today there are 76.1 mn Travel & Tourism Industry jobs and 231.2 mn jobs in the Travel & Tourism Economy, and these will rise to 86.6 mn Travel & Tourism Industry jobs and 262.6 mn Travel & Tourism Economy jobs by 2017.

The EU's Travel & Tourism Industry is expected to generate 9.3 mn jobs in 2007 (4.3% of total employment), while the broader Travel & Tourism Economy will account for 25.7 mn jobs (11.8% of total employment).

Montenegro's Travel & Tourism Economy employment is estimated at 28,900 jobs in 2007, 18.7% of total employment. By 2017, this should total 42,800 jobs, 25.0% of total employment or 1 in every 4 jobs. The 14,900 Travel & Tourism Industry jobs account for 9.6% of total employment in 2007 and are forecast to total 26,200 jobs or 15.3% of the total by 2017.

VISITOR EXPORTS

Travel & Tourism is a major exporter, with inbound visitors injecting foreign exchange directly into the economy. Travel & Tourism exports in the EU are expected to represent 7.5% of total exports in 2007.

In Montenegro, visitor exports make up a very important share of Travel & Tourism's contribution to GDP. Of Montenegro's total exports, Travel & Tourism is expected to generate 31.8% (€341 mn or US\$454 mn) in 2007, increasing to €1,364 mn, or US\$1,659 mn (43.3% of total), in 2017.

CAPITAL INVESTMENT

Travel & Tourism is a catalyst for construction and manufacturing. In 2007, the public and private sectors combined are expected to spend US\$1,155.6 bn on new Travel & Tourism capital investment worldwide - 9.5% of total investment - rising to US\$2,393.0 bn, or 9.9% of the total, in 2017.

In the EU, Travel & Tourism Capital Investment is expected to total US\$299.2 bn in 2007, or 8.9% of total regional capital investment.

Travel & Tourism Capital Investment in Montenegro is estimated at €142 mn, US\$189 mn or 25.8% of total investment in 2007. By 2017, this should reach €252 mn, US\$307 mn or 23.4%.

GOVERNMENT

Travel & Tourism is both a generator and receiver of government funds. EU-wide, in 2007, Travel & Tourism is expected to garner US\$105.4 bn of government expenditures, or 3.2% of total expenditures. By 2017, government spending on Travel & Tourism should increase to US\$135.4 bn - 3.0% of the total.

Government Travel & Tourism operating expenditures in Montenegro in 2007 are likely to total €21.1 mn (US\$28.1 mn), or 3.5% of total government spending. In 2017, this spending is forecast to total €43.8 mn (US\$53.3 mn), or 3.6% of the total.

MONTENEGRO ESTIMATES AND FORECASTS

	2007			2017		
	€ mn	% of Tot	Growth ¹	€ mn	% of Tot	Growth ²
Personal Travel & Tourism	103.0	7.1	16.2	230.0	7.8	5.2
Business Travel	12.9	---	12.3	28.6	---	5.1
Government Expenditures	21.1	3.5	6.2	43.8	3.6	4.5
Capital Investment	142.0	25.8	52.4	252.0	23.4	3.5
Visitor Exports	341.0	31.8	15.2	1,360.0	43.3	11.5
Other Exports	24.5	2.3	4.5	48.0	1.5	3.8
Travel & Tourism Demand	644.0	---	21.0	1,970.0	---	8.6
T&T Industry GDP	212.0	10.7	17.0	664.0	16.6	8.9
T&T Economy GDP	411.0	20.7	22.0	1,090.0	27.1	7.1
T&T Industry Employment	14.9	9.6	13.5	26.2	15.3	5.8
T&T Economy Employment	28.9	18.7	18.3	42.8	25.0	4.1

¹2007 Real Growth Adjusted for Inflation (%); ²2007-2017 Annualized Real Growth Adjusted for Inflation (%); '000 of Jobs

EUROPEAN UNION ESTIMATES AND FORECASTS

	2007			2017		
	US\$ mn	% of Total	Growth ¹	US\$ mn	% of Total	Growth ²
Personal Travel & Tourism	1,031,588.0	11.1	3.8	1,503,517.0	11.5	2.5
Business Travel	252,126.1	---	5.2	358,100.7	---	2.3
Government Expenditures	105,351.6	3.2	0.7	135,390.3	3.0	1.2
Capital Investment	299,229.5	8.9	6.4	475,594.8	9.3	3.2
Visitor Exports	414,115.4	7.5	6.0	659,395.4	6.1	3.4
Other Exports	384,471.2	7.0	10.0	766,272.1	7.1	5.9
Travel & Tourism Demand	2,486,881.0	---	5.4	3,898,271.0	---	3.3
T&T Industry GDP	624,838.4	3.9	4.3	895,613.7	3.9	2.3
T&T Economy GDP	1,767,665.0	10.9	5.6	2,663,928.0	11.6	2.8
T&T Industry Employment	9,323.2	4.3	3.3	10,247.5	4.5	0.9
T&T Economy Employment	25,712.4	11.8	4.1	29,361.6	12.9	1.3

¹2007 Real Growth Adjusted for Inflation (%); ²2007-2017 Annualized Real Growth Adjusted for Inflation (%); '000 of Jobs

WORLD ESTIMATES AND FORECASTS

	2007			2017		
	US\$ mn	% of Total	Growth ¹	US\$ mn	% of Total	Growth ²
Personal Travel & Tourism	2,976,555.0	9.7	3.5	5,169,167.0	9.8	3.6
Business Travel	743,429.4	---	5.8	1,314,496.0	---	3.7
Government Expenditures	334,244.9	3.8	3.0	545,850.7	3.9	3.0
Capital Investment	1,155,570.0	9.5	6.3	2,392,958.0	9.9	5.0
Visitor Exports	968,163.8	6.4	4.6	1,805,132.0	5.1	4.6
Other Exports	879,618.1	5.8	8.2	2,001,284.0	5.6	6.8
Travel & Tourism Demand	7,060,471.0	---	4.9	13,231,780.0	---	4.4
T&T Industry GDP	1,851,250.0	3.6	4.2	3,121,768.0	3.4	3.3
T&T Economy GDP	5,391,024.0	10.4	5.1	9,781,502.0	10.7	3.9
T&T Industry Employment	76,082.0	2.7	2.4	86,634.6	2.8	1.3
T&T Economy Employment	231,224.4	8.3	3.8	262,633.9	8.3	1.3

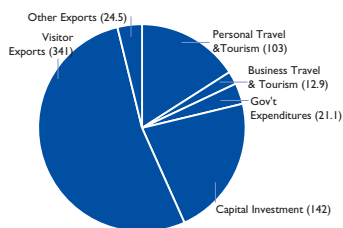
¹2007 Real Growth Adjusted for Inflation (%); ²2007-2017 Annualized Real Growth Adjusted for Inflation (%); '000 of Jobs

TOTAL DEMAND

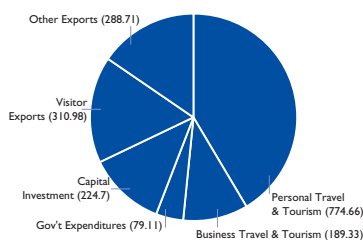
TRAVEL & TOURISM IN MONTENEGRO IS EXPECTED TO TOTAL €644.3 MN (US\$858.0 MN) OF TOTAL DEMAND IN 2007, INCLUDING:

- €103.4 mn (US\$137.7 mn) of Personal Travel & Tourism consumption by residents of Montenegro (7.1% of total personal consumption);
- €12.9 mn (US\$17.2 mn) of Business and Government Travel by resident companies and government employees;
- €21.1 mn (US\$28.1 mn) of Government Expenditures, 3.5% of total government spending in Montenegro, to provide individual and collective services to the Montenegro Travel & Tourism Industry and its visitors;
- €141.6 mn (US\$188.6 mn) of Capital Investment, 25.8% of total capital investment in Montenegro, in personal, commercial and public Travel & Tourism facilities, equipment and infrastructure by residents, Travel & Tourism companies and government agencies;
- €340.7 mn (US\$453.7 mn) of Visitor Exports, or 31.8% of total exports in Montenegro, generated from international visitor markets; and
- €24.5 mn (US\$32.7 mn) of Merchandise Trade Exports, or 2.3% of total exports in Montenegro.

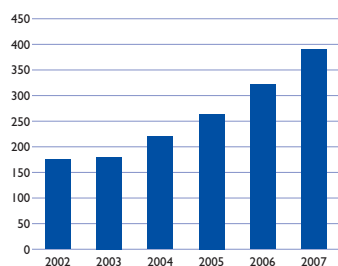
MONTENEGRO
Travel & Tourism Total Demand
(2007 Est. € mn)



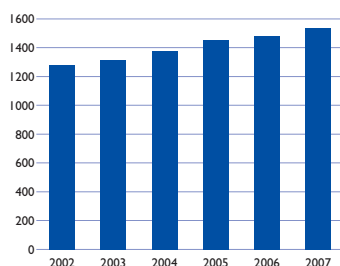
EUROPEAN UNION
Travel & Tourism Total Demand
(2007 Est. US\$ bn)



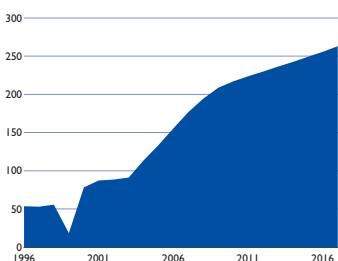
MONTENEGRO
Travel & Tourism Total Demand
(2000 Constant US\$ mn)



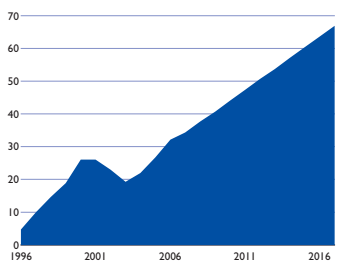
EUROPEAN UNION
Travel & Tourism Total Demand
(2000 Constant US\$ bn)



MONTENEGRO
Travel & Tourism Total Demand
(Cumulative Real Growth, %)



EUROPEAN UNION
Travel & Tourism Total Demand
(Cumulative Real Growth, %)



Thus, international visitor spending accounts for 53% of Montenegrin Travel & Tourism Demand, suggesting that priority must be given to protecting and ensuring international (inbound) Travel & Tourism.

Over the past ten years (1997–2007), Montenegro's Travel & Tourism activity has recovered rapidly in terms of Travel & Tourism Demand. This compares with more normal cumulative growth over the same period for the European Union. Although there have been minor blips since the mid-1990s, Montenegro has convincingly re-emerged as a tourism destination and is now showing a rapid rise in Travel & Tourism demand.

The long-term outlook for Montenegro's Travel & Tourism Demand is likely to be consistently positive (with growth at 8.6% per annum). Strong growth in visitor exports is expected (at 11.6% per annum), providing necessary support for personal Travel & Tourism, business travel, capital investment and government expenditures. Overall, Montenegro's Travel & Tourism Demand is expected to grow by 21.0% in 2007.

Over the next ten years, growth in Montenegro's Travel & Tourism Demand is expected to average 8.6% per annum. This would significantly exceed expected worldwide growth of 4.4% per annum, and the 3.3% annual average growth projected for the European Union.

EMPLOYMENT

THE TRAVEL & TOURISM INDUSTRY IN MONTENEGRO IS EXPECTED TO GENERATE 14,900 JOBS DIRECTLY IN 2007.

A total of 28,900 jobs (direct and indirect) are expected to be generated across the broader spectrum of the Travel & Tourism Economy encompassing:

- travel company employment,
- government agency employment, and
- supplier company employment.

The first category represents Travel & Tourism Industry jobs, while all three categories represent Travel & Tourism Economy jobs.

Travel & Tourism Industry jobs in Montenegro, totalling 14,900 in 2007, represent 9.6% of the country's workforce. By 2017, Travel & Tourism Industry employment is expected to increase by 11,300 jobs to 15.3% of total employment in Montenegro.

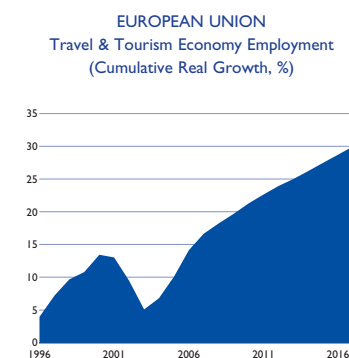
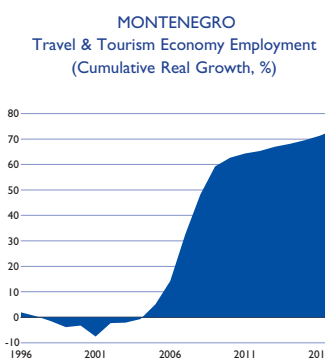
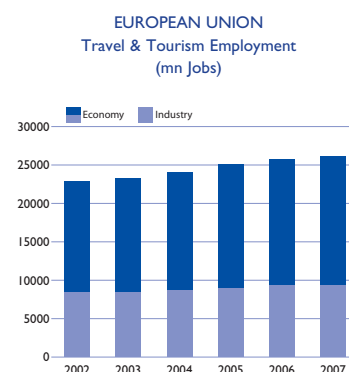
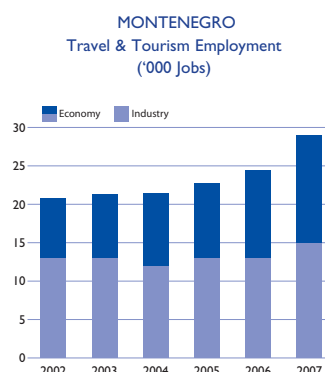
The 28,900 Travel & Tourism Economy jobs in Montenegro in 2007 represent 18.7% of the total workforce. By 2017, Travel & Tourism Economy employment is expected to increase by 13,900 jobs in Montenegro to 25.0% of total employment.

Over the past ten years, Travel & Tourism in Montenegro has increased its employment by 7,400 jobs. In 2007, due to continued strong growth in visitor exports, the employment outlook for Travel & Tourism is significantly positive with employment gains expected to approach nearly 4,500 jobs. Assuming a continuation of such positive trends, potential exists over the next decade to create 1,400 new jobs every year or to raise tourism employment by 4.1% per annum between 2007 and 2017.

The charts below highlight a few points of interest. First, Montenegro's Travel & Tourism employment growth was positive but weak following the ending of hostilities in the early-1990s, but has picked up significantly since 2001.

Second, if Travel & Tourism employment as a percentage of total employment in Montenegro is compared with the respective shares of neighbouring and competing destinations, Montenegro ranks 34th in the list, up more than ten places in the past three years. More importantly, though, it ranks favourably at 12th position among the list of 176 countries whose future performances are estimated by WTTC/Oxford Economics.

Finally, the growth projected for Montenegro's Travel & Tourism employment over the next ten years includes a particularly rapid phase of expansion in the short term. Although visitor numbers have recovered strongly in recent years, much potential remains for employment growth as new facilities come on stream.



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy Employment (2007, % of Total Employment)

18	Malta	28.8
22	Cyprus	27.4
27	Croatia	21.6
28	Greece	20.0
34	Montenegro	18.7
41	Slovenia	16.4
58	Slovakia	13.1
61	Bulgaria	12.3
69	Italy	11.5
75	Albania	11.2
86	Bosnia-Herzegovina	9.5
123	Turkey	6.9

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy Employment (10-Year Real Growth, Annualized, %)

7	Croatia	3.2
12	Montenegro	4.1
28	Greece	3.4
72	Albania	2.4
129	Slovakia	1.1
131	Malta	1.1
141	Bosnia-Herzegovina	0.9
145	Italy	0.6
153	Cyprus	0.4
158	Slovenia	0.1
166	Turkey	-0.3
171	Bulgaria	-0.9

GROSS DOMESTIC PRODUCT

THE TRAVEL & TOURISM INDUSTRY IN MONTENEGRO IS EXPECTED TO PRODUCE €211.9 MN (US\$282.2 MN) DIRECTLY OR 10.7% OF TOTAL GROSS DOMESTIC PRODUCT (GDP) IN 2007.

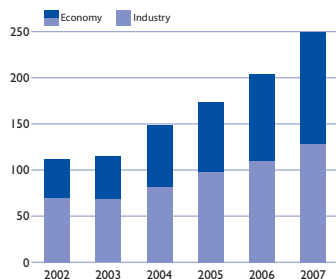
The broader Travel & Tourism Economy (direct and indirect) is expected to produce €411.4 mn (US\$547.8 mn), or 20.7% of total GDP. The long-term expectations for Travel & Tourism GDP growth are positive at 7.1% annualized real growth. By 2017, Travel & Tourism Economy GDP is forecast to gain 6.4 percentage points to total 27.1% or €1087.2 mn (US\$1322.5 mn).

The Travel & Tourism Economy results and forecasts illustrate the significant and sometimes massive economic stimulus of Travel & Tourism. The first set of charts (stacked bar) show how the tourism industry acts as a leading economic catalyst as its contribution permeates through Montenegro's Travel & Tourism Economy. These charts also illustrate how positive and negative changes in the Travel & Tourism Industry, especially visible in the EU chart in 2001 and 2002, result in a much larger impact on the broader Travel & Tourism Economy.

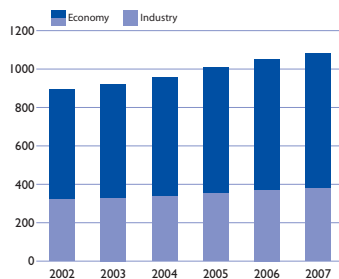
In the second set of charts (Cumulative Real Growth), Montenegro's Travel & Tourism Economy shows a significant recovery with only a brief interruption in 1999. Also evident is the strongly positive outlook for growth over the next ten years. Overall, this level of growth is even stronger than the overall Montenegro economy, which continues to post positive, but more modest gains. Because Montenegro's Travel & Tourism economy is still re-emerging and is relatively young by European Union standards, the cumulative growth charts illustrate the major gains in recent years and continuing positive long-term outlook.

The third set of charts (right) compares Montenegro with WTTC estimates for its neighbours and competing destinations, showing respective Travel & Tourism Economy GDP as a percentage of total GDP. Ranked in 2007 at number 27 of 176 countries – above Croatia at number 33 and below Cyprus at 25 – Montenegro is clearly at the moment among the second-tier tourism-intensive countries. In addition, the second league table extract illustrates how Montenegro's prospects for GDP growth are also leading most of its neighbours and competitors within the world ranking – in 9th position with annualized real growth in excess of 7%.

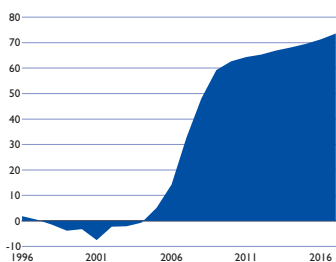
MONTENEGRO
Travel & Tourism GDP
(2000 Constant US\$ mn)



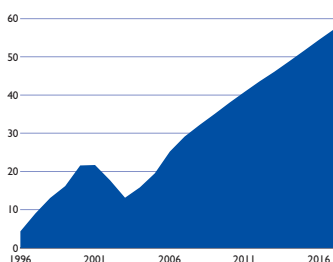
EUROPEAN UNION
Travel & Tourism GDP
(2000 Constant US\$ bn)



MONTENEGRO
Travel & Tourism Economy GDP
(Cumulative Real Growth, %)



EUROPEAN UNION
Travel & Tourism Economy GDP
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy GDP
(2007, % of Total GDP)

23	Malta	23.7
25	Cyprus	21.5
27	Montenegro	20.7
33	Croatia	19.0
43	Greece	16.5
50	Slovakia	14.9
54	Bulgaria	14.5
57	Slovenia	14.2
58	Albania	13.8
70	Turkey	9.1
72	Bosnia-Herzegovina	11.7
81	Italy	10.2

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Economy GDP
(10-Year Real Growth, Annualized, %)

1	Croatia	8.9
9	Montenegro	7.1
31	Albania	5.5
32	Slovakia	5.5
37	Bosnia-Herzegovina	5.3
70	Bulgaria	4.5
103	Greece	4.0
105	Turkey	3.9
107	Slovenia	3.9
108	Cyprus	4.6
119	Malta	3.7
172	Italy	1.3

CAPITAL INVESTMENT

IN 2007, TRAVEL & TOURISM CAPITAL INVESTMENT IN MONTENEGRO IS EXPECTED TO TOTAL €141.6 MN (US\$188.6 MN), OR 25.8% OF TOTAL INVESTMENT.

The largest component of capital investment originates from the private sector in new plant and equipment, while the public sector invests in new Travel & Tourism infrastructure.

Montenegrin Travel and Tourism Investment has revived markedly since 2002, as both the private and public sectors have recognized tourism's potential. Over the next ten years (2007-2017), the contribution of Travel & Tourism to Montenegro's capital investment account is expected to increase at an average rate of 3.5% per annum in real terms, with growth in the near term likely to be especially rapid if currently planned projects are realized as expected.

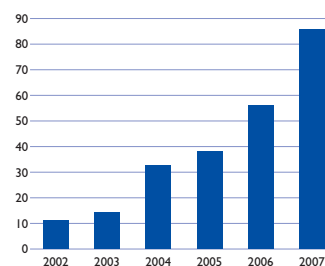
Examination of Travel & Tourism Capital Investment results and forecasts lends greater insight into the market forces at work in a given economy and the expectations by the public and private sectors to meet the challenges and opportunities in the years ahead. For the most part, Travel & Tourism Capital Investment tends to be cyclical, with strong links to major public policy initiatives, the business/market cycle, major events (such as natural disasters or the re-emergence of a destination) and significant socio-political changes.

Worldwide, Travel & Tourism Capital Investment is expected to total 9.5% of total investment in 2007. The expectation for global growth for 2007-2017 is 5.0% per year (in constant US dollars). In the European Union, the respective figures are 8.9% of total capital investment in 2007 and 3.2% real growth over the coming decade.

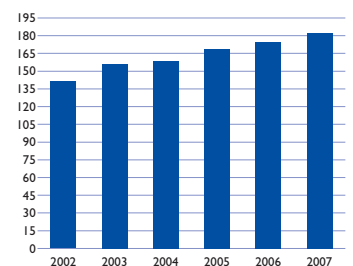
The charts below illustrate several interesting points. First, Montenegro's Travel & Tourism Capital Investment is expected to build on its recent marked revival, especially in the short term. Second, when compared with neighbouring and competing countries, Montenegro already ranks favourably among the list and well on the broader list of 176 countries in investment percentage terms for 2007. At 25.8% of total investment, Montenegro is placed in 22nd position, between Malta in 21st position and Cyprus in 34th.

However, at first glance, growth over the coming decade looks lacklustre – at 3.5% giving a ranking of 119th. But this reflects the already high level of tourism investment, its recent rapid growth and the likelihood that it will prove difficult to sustain such high levels of investment in the second half of the decade once the backlog of projects has been dealt with.

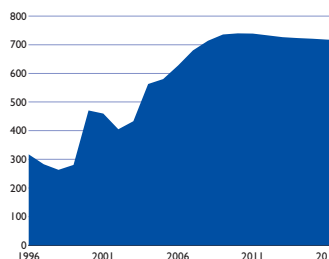
MONTENEGRO
Travel & Tourism Capital Investment
(2000 Constant US\$ mn)



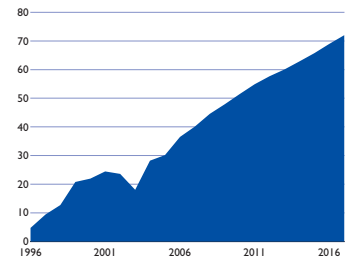
EUROPEAN UNION
Travel & Tourism Capital Investment
(2000 Constant US\$ bn)



MONTENEGRO
Travel & Tourism Capital Investment
(Cumulative Real Growth, %)



EUROPEAN UNION
Travel & Tourism Capital Investment
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Capital Investment
(2007, % of Total)

21	Malta	26.8
22	Montenegro	25.8
34	Cyprus	19.3
53	Greece	14.4
64	Turkey	13.0
77	Bulgaria	12.2
80	Slovakia	11.3
96	Bosnia-Herzegovina	10.7
101	Croatia	9.8
105	Slovenia	9.7
123	Italy	8.3
156	Albania	6.4

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Capital Investment
(10-Year Real Growth, Annualized, %)

14	Croatia	7.1
22	Bosnia-Herzegovina	6.6
29	Albania	3.6
32	Bulgaria	6.1
68	Greece	4.5
79	Slovakia	4.3
81	Cyprus	4.2
88	Slovenia	4.1
97	Malta	3.9
103	Turkey	3.8
119	Montenegro	3.5
170	Italy	1.0

PERSONAL & BUSINESS

IN 2007, MONTENEGRO IS EXPECTED TO GENERATE €103.4 MN (US\$137.7 MN) OF PERSONAL TRAVEL & TOURISM CONSUMPTION BY RESIDENTS, OR 7.1% OF TOTAL PERSONAL CONSUMPTION.

In Montenegro, business travel in 2007 is expected to total €12.9 mn or US\$17.2 mn (77% corporate, 23% government).

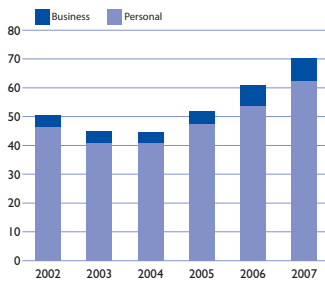
Unlike visitor exports, which depend on international markets for consumers, the business generated in these two categories depends on Montenegro's economy itself. As Montenegro's economy grows, consumer and business travel follows suit. Montenegro's Personal Travel & Tourism jumped immediately following the conclusion of hostilities, and, after some declines in the late 1990s, it has grown at a strong pace in recent years. Over the next decade (2007-2017), Personal Travel & Tourism in Montenegro is expected to slow down and to expand at an annual rate of 5.2%, while Business/Government Travel is expected to grow at 5.1%.

Although most of this Travel & Tourism occurs within Montenegro, a portion takes place abroad. When the spending does take place abroad, the satellite account generates a corresponding 'import credit', providing for an accurate assessment of Travel & Tourism 'produced' in Montenegro and Travel & Tourism 'produced' by the rest of the world.

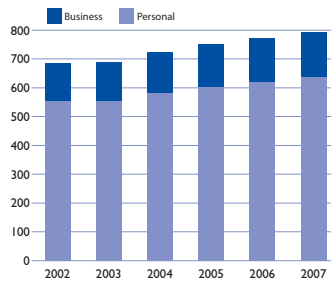
Analysis of Montenegro's results highlights a few interesting points. First, Montenegro residents have recently spent about 7.1% of their personal expenditures on Travel & Tourism. This percentage is well below the world average of 9.7% and lags behind the European Union average of 11.1%. Generally, the level of personal Travel & Tourism spending is directly linked to the development of the resident economy. As per capita income increases, so does Travel & Tourism spending. Second, Montenegro's macroeconomic situation has recently improved significantly, and this is reflected in a recovery in resident spending on Travel & Tourism as illustrated in the stacked bar and cumulative growth charts below.

Furthermore, the cumulative growth charts for Montenegro and the European Union below illustrate the strong growth prospects for Montenegro well beyond that of EU Travel & Tourism spending. If, as expected, the economy continues to show positive growth, residents' spending on personal and business Travel & Tourism is also likely to accelerate. Finally, the league table extracts reinforce this message of cautious positive spending. Montenegro ranks in the mid-tier of countries (79th position) in terms of current Travel & Tourism spending vis-à-vis total personal consumption, but ranks much higher (at 43rd) in terms of future growth in Travel & Tourism spending.

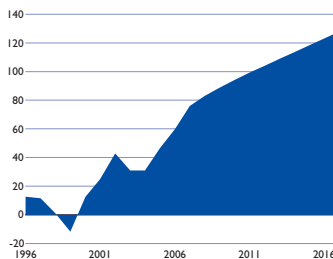
MONTENEGRO
Personal & Business Travel & Tourism
(2000 Constant US\$ mn)



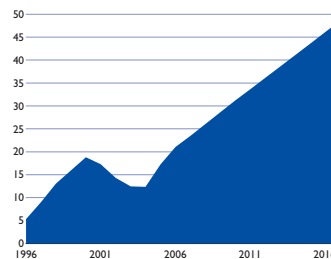
EUROPEAN UNION
Personal & Business Travel & Tourism
(2000 Constant US\$ bn)



MONTENEGRO
Personal Travel & Tourism
(Cumulative Real Growth, %)



EUROPEAN UNION
Personal Travel & Tourism
(Cumulative Real Growth, %)



WTTC LEAGUE TABLE EXTRACT
Personal Travel & Tourism
(2007, % of Total Personal Consumption)

30	Greece.....	11.8
39	Croatia.....	11.1
45	Cyprus.....	10.1
49	Albania.....	9.7
52	Italy.....	9.6
82	Slovakia.....	8.4
67	Slovenia.....	7.8
71	Turkey.....	7.6
79	Montenegro.....	7.1
91	Malta.....	6.2
93	Bulgaria.....	6.1
154	Bosnia-Herzegovina.....	3.5

WTTC LEAGUE TABLE EXTRACT
Personal Travel & Tourism
(10-Year Real Growth, Annualized, %)

20	Croatia.....	6.2
25	Albania.....	5.8
38	Turkey.....	5.3
43	Montenegro.....	5.2
50	Malta.....	5.0
59	Bulgaria.....	4.8
60	Slovakia.....	2.7
74	Cyprus.....	4.5
90	Slovenia.....	4.3
124	Greece.....	3.5
153	Bosnia-Herzegovina.....	2.6
170	Italy.....	1.5

EXPORTS

TRAVEL & TOURISM EXPORTS PLAY AN ABSOLUTE AND VITAL ROLE IN MONTENEGRO'S TRAVEL & TOURISM BUSINESS.

In 2007, Travel & Tourism services and merchandise exports for Montenegro are expected to total €365.3 mn, or US\$486.4 mn (93% by visitors, 7% by exported consumer and capital goods), representing some 56.7% of total Travel & Tourism Demand. Without question, as this category grows and contracts, the health and vitality of Montenegro's Travel & Tourism sector will follow the same trend.

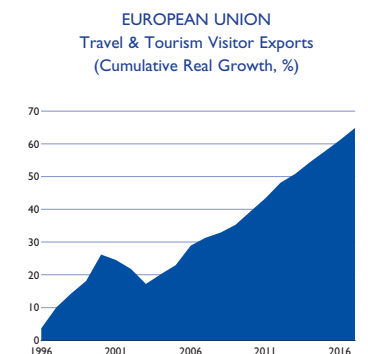
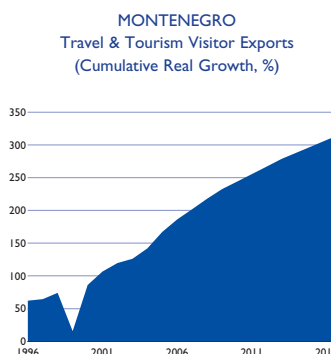
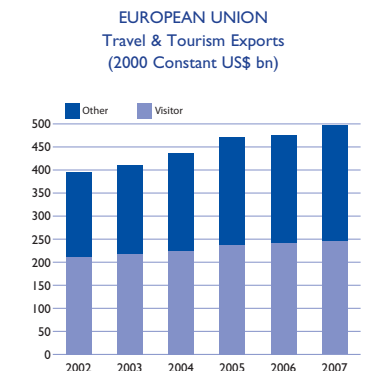
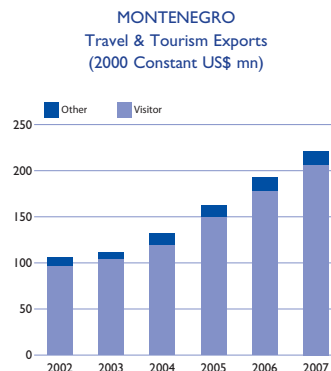
Over the past ten years, with the exception of 1999, the gains for Travel & Tourism Visitor Exports have been impressive by any measure. In constant price terms, the country recorded average annual gains of 20.0% in the last three years, after a brief pause in the aftermath of 9/11. If considered over a longer period, (1995-2006), Montenegro's Visitor Exports experienced an impressive three-fold expansion in real terms. Over the next ten years, Montenegro Visitor Exports are expected to grow by 11.6% per annum, while Travel & Tourism Merchandise Exports (non-visitor exports) are expected to show more limited growth at 3.8% per annum.

Globally and for the European Union, visitor exports are expected to grow at 4.6 and 3.4% per annum respectively over the next ten years (2007-2017).

Clearly, based on these forecasts, Montenegro's Travel & Tourism Visitor Exports' growth is excellent and well ahead of its regional and global peers.

Although long-term expectations for Montenegro's Travel & Tourism export growth (2007-2017) are positive these forecasts, like any others, depend on future events and are therefore not guaranteed. Hurricane Katrina in 2005, for example, which had a major negative impact on tourism in the USA, is a perfect example of the uncertainty inherent in forecasting.

Examination of the WTTC league tables reveals that Montenegro is well placed on the basis of its current visitor exports as a percentage of total exports. In the second league table, Montenegro's visitor exports' growth illustrates the positive outlook ahead, since Montenegro is ranked in 2nd place. This would suggest that significant attention should be paid by the public and private sectors to maintaining international visitor growth at current high levels.



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Visitor Exports
(2007, % of Total Exports)

12	Albania.....	49.1
23	Cyprus.....	34.6
26	Montenegro.....	31.8
27	Croatia.....	31.3
37	Greece.....	26.7
45	Malta.....	22.8
61	Bosnia-Herzegovina.....	17.4
62	Bulgaria.....	17.0
64	Turkey.....	15.6
86	Italy.....	11.4
93	Slovenia.....	7.9
145	Slovakia.....	2.9

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Exports
(10-Year Real Growth, Annualized, %)

2	Montenegro.....	11.6
11	Croatia.....	8.4
49	Bosnia-Herzegovina.....	5.6
51	Albania.....	5.6
101	Turkey.....	4.4
108	Greece.....	4.2
116	Cyprus.....	6.3
125	Malta.....	3.9
130	Bulgaria.....	3.8
158	Slovakia.....	3.2
165	Italy.....	2.6
167	Slovenia.....	2.6

GOVERNMENT

IN 2007, NATIONAL AND LOCAL GOVERNMENT AGENCIES IN MONTENEGRO ARE EXPECTED TO SPEND €21.1 MN (US\$28.1 MN) OF CURRENT OPERATING FUNDS FOR TRAVEL & TOURISM.

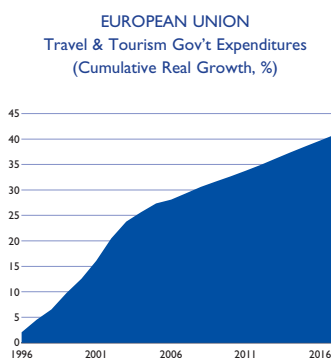
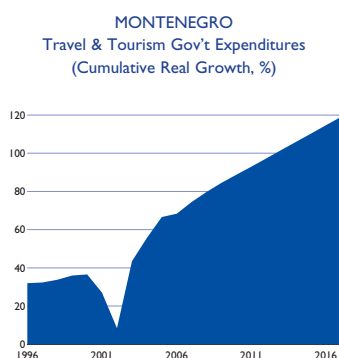
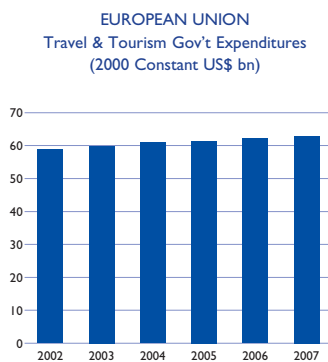
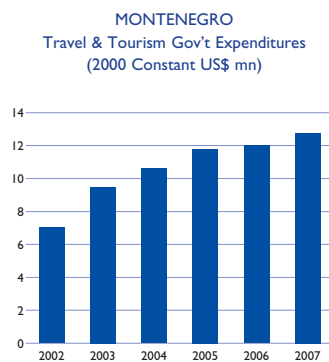
This represents 3.5% of total government expenditures and they are allocated to providing individual and collective government Travel & Tourism services to visitors, travel companies and the community at large. Over the next ten years (2007-2017), Travel & Tourism Government Expenditures in Montenegro are expected to increase by an average of 4.5% per year in real terms.

Globally, the average government is expected to contribute 3.8% of government expenditures to Travel & Tourism-related functions and to increase this spending by 3.0% per annum over the next ten years. The corresponding figures for the European Union are 3.2% of total government spending and 1.2% real growth for the coming decade. Based on these results, Montenegro's 2007 government contribution of 3.5% suggests that it is currently at similar relative levels than its regional and global competition for Travel & Tourism support and services.

In this WTTC report, 2007 government expenditures include: individual expenditures of €1.4 mn (US\$1.9 mn) that can be linked to individual visitors, such as museum subsidies or immigration services. But also included are collective expenditures of €19.7 mn (US\$26.2 mn) that are undertaken for the community at large – such as airport administration or tourism promotion – but which have a logical service connection to Travel & Tourism.

One would naturally assume there should be a direct link between the impact of an industry/sector like Travel & Tourism on the economy (in terms of GDP) and the amount of funding allocated by governments towards that industry/sector. In Montenegro, the 2007 ratio of Travel & Tourism GDP (percentage of total GDP) to government expenditures is 5.9:1.0. Worldwide and in the European Union, the respective ratios are 2.7:1.0 and 3.4:1.0. This would suggest that the Montenegro government is returning significantly less to Travel & Tourism than governments generally.

The league tables below reinforce this particular point. First, Montenegro's government expenditures for Travel & Tourism are currently only middling on a relative scale at 88th out of 176 countries. More encouraging is the outlook for growth – fourth among its regional neighbours and 50th among the global research list of 176 countries. Although the Montenegro Government clearly has other significant spending priorities and requirements that may be affecting these results, Travel & Tourism spending is suffering a competitive disadvantage in the world marketplace from lagging public spending support.



WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Gov't Expenditures
(2007, % of Total Gov't Expenditures)

25	Malta	11.2
30	Cyprus	9.1
33	Greece	8.1
69	Slovenia	4.2
78	Albania	3.8
86	Italy	3.5
88	Montenegro	3.5
94	Bulgaria	3.2
135	Slovakia	2.1
155	Croatia	1.4
165	Bosnia-Herzegovina	4.6
171	Turkey	0.7

WTTC LEAGUE TABLE EXTRACT
Travel & Tourism Gov't Expenditures
(10-Year Real Growth, Annualized, %)

22	Turkey	5.5
27	Bulgaria	5.3
36	Albania	5.0
50	Montenegro	0.4
86	Slovenia	3.6
97	Slovakia	3.4
100	Bosnia-Herzegovina	3.3
104	Malta	3.3
130	Cyprus	2.7
162	Croatia	1.2
170	Greece	0.6
175	Italy	-0.2

THE POLICY FRAMEWORK

POLICY RECOMMENDATIONS

ALTHOUGH TRAVEL & TOURISM HAS ALWAYS ENJOYED THE SUPPORT OF THE GOVERNMENT OF MONTENEGRO, THIS SUPPORT HAS BEEN SIGNIFICANTLY STEPPED UP IN THE LAST COUPLE OF YEARS. TRAVEL & TOURISM IS NOW SEEN AS THE FUTURE ECONOMIC DRIVER OF THE COUNTRY AND HAS BECOME “TOP OF THE PYRAMID OF PRIORITY INDUSTRIES”, TO QUOTE DEPUTY PRIME MINISTER, VUJICA LAZOVIĆ. IT IS NOT DIFFICULT TO UNDERSTAND WHY.

Since 2004, when WTTC and its research partner Oxford Economics produced the first Tourism Satellite Account and Country Report for Montenegro, Travel & Tourism has made enormous progress, reaping the benefits of investment by government and the private sector. While there are still a number of challenges to address, the adoption by the government of most of WTTC’s recommendations – not to mention its additional measures to ensure optimum conditions for tourism development and investment – has also helped to catapult Montenegro to the top of WTTC’s ranking of growth economies.

Over the past three years, and particularly since the country’s independence from Serbia in June 2006, Montenegro has pursued an open market economy, and all its macro-economic indicators are stable. Inflation is running at 2.6 per cent, having averaged just 2.0 per cent in 2006 – considerably lower than for some European Union member countries – and GDP is growing at 6.5 per cent a year. Montenegro can also boast a budget surplus for the first time in its history, so it is little wonder that it ranks so favourably in terms of foreign direct investment (FDI) and has the best developed capital market in the whole region.

In 2006, FDI totalled around €1,000 per capita, ranking Montenegro within the top ten in the world and third in Europe, according to this measure. And total capitalization in 2006 was €2.4 billion, or 140 per cent of GDP.

Montenegro is now a member of the World Bank and the International Monetary Fund, and has signed an EU Stabilization Association Agreement in preparation for future membership of the European Union. Ratification of the Kyoto Protocol is also pending. On the tourism front, the country will be formally admitted to the United Nations World Tourism Organization as a full member at its General Assembly in November 2007, and it is a new member of the European Travel Commission.

Since the combining of the Ministries of Tourism and Environmental Protection, tourism has become part of the larger picture for Montenegro, particularly in terms of achieving overarching goals of sustainable development. Moreover, the combined ministry, led by the dynamic

and visionary former Minister of Tourism, Predrag Nenezic, bodes well for the future coordination of both tourism and environmental policy, facilitating communication and the cross-fertilization of ideas between the two aligned departments.

The only drawback is the size of the respective annual budgets – a modest €2.3 million for tourism and €1.7 million for environmental protection, excluding funding from the capital budget for specific projects. This represents only a 7 per cent annual increase for tourism over the past four to five years, although the government does contribute significantly to the National Tourism Organisation’s annual budget of €650,000.

One of Minister Nenezic’s major achievements over the last few years has been the privatization of 95 per cent of former state-owned hotels and other tourism-related companies in Montenegro and the subsequent, and ongoing, raising of standards in the country’s hospitality industry, thanks to investments by new owners in modernization and upgrading of their hotels. This is totally in line with the Ministry’s stated goal of transforming Montenegro’s tourism product from that of a low-yield, mass-market destination to one offering the highest quality for customers and the highest yields for investors.

Investors are clearly being won over as well. As detailed in the accompanying analysis of hotel development in Montenegro (cf page 40), the country has attracted two major, high-profile groups in the past six months alone – Adrian Zecha’s Amanresorts, which has taken a 30-year lease on Montenegro’s main jewel, the island of Sveti Stefan, and

properties on two adjacent beaches, and leading Canadian industrialist, Peter Munk, who will develop an 800-berth marina and related deluxe resort on the former naval base at Tivat. Investments have come from international groups in more than ten different countries in Europe, North America and Asia (cf table on page 42), and negotiations are underway with a number of other high-profile brands.

One important factor contributing to the significant growth in tourism and investment since WTTC produced the first Montenegro Country Report has been the harmonious working relationship between the Ministry of Tourism and Environmental Protection and the different donor agencies operating in the country. Their support has been paramount, not only in elaborating detailed guidelines as to the steps necessary to ensure sustainable tourism development, but also in providing practical help and technical assistance where it is needed. In many instances the donor agencies and non-governmental organizations (NGOs) have been coordinating their efforts to avoid duplication, as well as pooling their skills, in the many different projects launched across the country.

Nowhere is there more tangible evidence of this than in the mountain regions, which are now the main focus of government. The goal is to integrate the north with the already discovered, and much more widely developed, coastal regions – a wise and laudable strategy, which will provide an opportunity to narrow the now obvious disparity between the north and the south, both in terms of wealth and demographics, as well as diversifying Montenegro's tourism product and relieving some of the intense pressure on the coastal zone during peak periods.

Also very positive are the ongoing dialogue and regular meetings between the Ministry of Tourism and Environmental Protection, other interested ministries and government agencies – including the Cabinet – the donor agencies and NGOs, local municipalities and the different private sector stakeholders in Montenegro's Travel & Tourism industry.

Forecasts by WTTC/Oxford Economics are once again extremely bullish for Montenegro's Travel & Tourism, as shown by the detailed economic data included in this report. Nevertheless, a number of challenges still remain, and these must be addressed to ensure the long-term sustainable development of the industry, generating maximum benefits for all stakeholders and at all levels of the economy. Against this background, WTTC has a number of recommendations for the Government of Montenegro.

INDUSTRY MEASUREMENT

Need for an annual TSA

Travel & Tourism needs to be effectively measured in order to understand its full impact throughout the economy. As a new industry, it is not discretely identified in charts of national or state accounts – its component parts are scattered throughout the accounts – and public sector analysis and related policies tend to overlook, or understate, the impact of the industry, or deal with its smaller individual components.



The technique of satellite accounting is designed to measure the new service sectors, and the Tourism Satellite Account (TSA) model, developed by WTTC/Oxford Economics for Montenegro in 2004, has been successfully adopted by the government. It is frequently quoted and has served its purpose of informing all levels of government, industry and other stakeholders of the full economic and social impact of Travel & Tourism.

WTTC urges the Government of Montenegro to assume responsibility for developing a TSA on an annual basis to help ensure that adequate data is available to factor Travel & Tourism into economic and employment strategies.

Importance of demand- and supply-side research

Thanks in large part to the financial and technical support of donor agencies and NGOs, a number of different studies and surveys have been carried out over the past few years. These include the recent assessment of human resource needs in Travel & Tourism, undertaken by the German Organization for Technical Cooperation (GTZ), and a study on the country's cruise/yachting potential, also conducted by GTZ. The main objective of these studies is to identify opportunities for, and threats to, tourism growth, as well as to develop guidelines on the best way of tapping the potential.

Apart from these supply-side studies, little research has been carried out by the Ministry of Tourism and Environmental Protection to determine actual market needs.

In order to optimize forward planning and anticipate necessary changes to tourism supply, both government and the industry need to monitor trends in past and current Travel & Tourism demand from key source markets and market segments. This will also help identify threats to growth, as well as new growth opportunities.

INFRASTRUCTURE

An infrastructure capable of sustaining the projected growth

The huge investments in Travel & Tourism since the beginning of the decade have stimulated rapid growth in demand, with the result that infrastructure and utilities have become strained in different parts of the country, and especially in the coastal zone. The inadequacy of the existing infrastructure is of course in no small part due to the sustained period of neglect and starvation of investment during the years of the Balkan conflict.

Furthermore, given the sharp increase in arrivals in the region, transport infrastructure – roads, the railway network and airports – are stretched and struggling to keep up with the pace of development of hotel capacity. This poses a very real challenge, as infrastructure is integral to the overall tourist experience and could therefore have a major impact on return visits.

It is also possible that some of the Greenfield sites that have been put out to tender along the coast would impose a further strain on infrastructure, given the additional planned capacity the related hotel/resort developments would bring to the coastal region.

It is critical for the future of Montenegro's Travel & Tourism industry that no further development is allowed to go ahead – particularly the construction of low economic impact secondary residences/holiday apartments – without the necessary infrastructure being put in place beforehand. WTTC would therefore endorse the initiative of the Ministry of Tourism and Environmental Protection to consider a construction moratorium on such developments in order to allow for the infrastructure to 'catch up' with the development of accommodation and other tourist facilities.

The government should give priority in terms of project approvals to hotel resorts which have the greatest potential for year-round occupancy, thereby generating the best economic potential. In view of the fact that the government accounts are currently so healthy, and its level of debt is so low, now is an opportune time to make infrastructure investments and to support the private sector investments taking place. Travel & Tourism will not be the only industry or sector to benefit. Infrastructure improvements and modernization will provide a fillip for all regional development, as well as enhancing the quality of life and well-being of the Montenegrin people.

It is critical for the future of Montenegro's Travel & Tourism industry that no further development is allowed to go ahead without the necessary infrastructure being put in place beforehand.

HOTEL DEVELOPMENT IN MONTENEGRO

Privatization issues

Since the government's adoption of the Tourism Master Plan for Montenegro in 2001, more than 95 per cent of the former state-owned hotels in the country have been privatized in line with the government's policy of privatization of all state-owned enterprises.

Overseen by the Privatization Council, which includes the Agency for Reconstruction and Investments and the Ministry of Tourism and Environmental Protection, the properties have been disposed of through different privatization models, among which asset sales, bankruptcy sales and mass voucher privatization. (Some 27 per cent of the core capital of Montenegrin companies was distributed among the country's adult citizens, who were free to invest in whichever companies they wished.)

While the hotel privatization process has been generally very successful – some €350 million additional investment has been made by new owners in upgrading – the mass voucher scheme has been disappointing, in terms of attracting additional investment. This is due to the fact that the resulting joint stock companies involve a large number of small shareholders, who either have no additional funds to invest in renovations and modernization, or who prefer to sit on their assets and wait until the properties have appreciated in value before selling them at a profit. The rapid appreciation in real-estate values in the country since independence from Serbia in May 2006 has clearly exacerbated the situation.

Integrated coastal zone management strategy

Several Greenfield sites have also been offered for hotel development, primarily along the 13-kilometre stretch of undeveloped beach, Velika Plaža, in the south of the country. The overall number of Greenfield sites available has increased sharply since independence and the release of former military sites for development. These include prime property in the coastal zone, in locations such as Ada Bojana, Buljarica Valdonos, Jaz, the Župa-Bonići region and the island of Mamula at the entrance to Kotor Bay. In all, between 15–20 potential sites have been earmarked as possible tourism resorts.

Most Greenfield sites are being offered for joint venture development, the government's preferred development model, although long-term leases are also likely and land sales have not been totally discounted. The land in question might be fully government owned – as in the case of the former military sites – or involve a combination of public-private ownership, or be totally in private hands, with private landowners usually forming an association to represent their joint interests.

Planning requirements, which also include related infrastructure needs, are fairly strict, designed to ensure balanced development in harmony with Montenegro's spatial development plan. Tenders stipulate the maximum number of rooms permissible, residential requirements, green areas to be incorporated, etc, as well as opportunities to add golf courses, conference centres, entertainment and sports complexes. Developments also have to respect the 'non-building line' – ie minimum construction distance from the sea.

Different requirements and related coastal zone legislation are covered by the Integrated Coastal Zone Management Strategy (ICZM), developed by the German Organization for Technical Cooperation (GTZ), one of the leading donor agencies operating in Montenegro, which is funded by the German Federal Ministry for Economic Cooperation and Development. This has been developed in cooperation with the Ministry of Tourism and Environmental Protection and other relevant ministries, agencies, coastal municipalities and national level non-governmental organizations (NGOs). GTZ was also responsible for the Guide to Investment and Development in the Hospitality of Montenegro published in 2006, which provides a one-stop guide for potential investors.

Developing the hinterland

Real-estate investment opportunities are not restricted to the coastal zone. On the contrary. There are increasing projects available in other regions of Montenegro, including the capital Podgorica, Skadar Lake and – most importantly, given the minimal investment to date – the mountain regions, which the government, donor agencies and NGOs are now promoting heavily. Not only will development of these areas ensure a more balanced development between the hinterland and the coast, but it will also help reduce Montenegro's seasonality problems, stretching tourism demand beyond the current five months or so.

Although the basic infrastructure, as well as accommodation, needs significant upgrading and modernization to cater to a growth in demand, Montenegro has huge potential as a mountain resort destination, whether for winter sports or summer outdoor enthusiasts. Two of the regions offering the greatest opportunities are Bjelasica, which includes the Biogradska National Park, and Durmitor, where the country's largest national park of the same name is located, and which is close to the country's world-renowned Tara River and Canyon. But the whole of the mountain region in the north of country boasts a wide range of attractions for nature-based and active tourists, from its well-preserved natural environment to its unique wildlife, flora and fauna.

The German Investment and Development Company (DEG), which was responsible for the Tourism Master Plan for Montenegro, is currently reviewing the Master Plan and undertaking a more detailed analysis of development needs in the mountain regions. Meanwhile, donor agencies and NGOs have earmarked specific projects for funding and support, such as the development of mountain lodges, ski lifts and recreational facilities, the creation of hiking trails with related signposting, the training of mountain guides, and the publication of promotional and information brochures.

So far, upgrading of existing hotels and new development has been modest. The highest-profile project to date has been the modernization of the Hotel Bianca (formerly the Bjelasica Hotel) in Kolašin, owned by the UK-based Anglo-Russian company, Beppler & Jacobson, which also has a four-star resort on the coast in Budva. There is talk of Amanresorts developing some kind of upmarket eco-lodge in the Durmitor region, including a helicopter service for its guests to transfer to/from Sveti Stefan. But nothing concrete has been announced.

Foreign investment

Foreign investment until now has been almost exclusively in Montenegro's coastal zone, although there has been quite a lot of interest from international brands in developing or managing upmarket, quality resorts. Negotiations by private investor groups with hotel chains such as Hilton and Starwood are currently in progress. The Ministry of Tourism and Environmental Protection also expects Club Méditerranée to return to Montenegro. The French group had a resort, since abandoned, on the island of Sveti Marko in the 1980s.

Among foreign owners/management companies currently operating in the country, in addition to Beppler & Jacobson, the Slovene company HIT Slovenia has rebuilt the 180-room Maestral in Bečići, the Spanish Iberostar is managing the four-star, 576-room Bellevue in Bečići, and an Irish-American group, United Investment Partners (UIP) – owned by United Entertainment Partners – has bought Hotel Fjord in Kotor, plus two other development sites. It plans to build three hotels with a total capacity of 700 rooms, at a total investment cost of €200 million, due for completion in 2010. The hotels will be operated under the UIP brand, and the group plans to purchase four Airbus aircraft to provide direct year-round flights from major European source markets. In total, investments have come from international groups in more than ten different countries in Europe, North America and Asia.

Arrival of the deluxe brands

The most exciting projects for Montenegro's tourism industry so far, which should help raise the overall quality image of the destination, have both been signed in the last six months. In late October 2006, a deal was concluded with Peter Munk (one of Canada's leading industrialists and chairman of the world's largest gold producer, Barrick Gold) for the purchase of a former shipbuilding and naval yard once controlled by the Yugoslav Army, at a superb location on Kotor Bay with easy access to Tivat airport.

The deal, which also reportedly involves the Rothschild family, paves the way for developing a major marina – one of up to nine planned over the next ten years – as well as the related resort infrastructure in the coastal town of Tivat. The marina will have 800 berths, 125 of which for mega yachts. The European Bank for Reconstruction and Development (EBRD), meanwhile, has pledged €5 million to clean up the bay.

Adrian Zecha, Chairman of Amanresorts, also signed a landmark agreement in early 2007 for a 30-year lease of the former fisherman's village of Sveti Stefan, once a favourite summer haunt of the rich and famous, as well as two adjacent properties – the Villa Miločer, a former

royal villa on the adjacent King's Beach, and the Queen's Beach Hotel. The first two will be operated by Amanresorts, and Queen's Beach will be rebuilt as a GHM hotel/spa resort (another deluxe Zecha-owned brand). Four beaches are included in the deal. The resorts are due to open between 2008 and 2009 after investment of more than €40 million.

Future challenges

In total, more than €500 million has been committed for new developments and rebuilds. This level of investment will clearly pave the way for more similar projects, helping Montenegro transform its tourism product from that of a low-yield, mass-market destination to one offering the highest quality for customers and the highest yields for investors. Efforts to improve the quality of existing hotels are also encouraging. Among the hotels surveyed by Horwath for its 2006 Hotel Industry Survey, some 37 per cent said they were planning to invest an average of €348,000 per property in upgrading and improvements last year while, in 2007, 26 per cent expected to invest an average of €1.05 million.

Further modernization and diversification of the hotel sector are still needed, to reduce the growing supply and demand imbalance and the lack of capacity in the four- to five-star hotel segments, and this needs to be supported by a parallel improvement in infrastructure to cope with the increased capacity and projected growth in demand.

DEG and the Ministry of Tourism and Environmental Protection estimate that current modernization/upgrading projects will generate approximately 900,000 more overnights, mostly from EU tourism markets, thus assuring the momentum of growth during the next four years.

Nine international standard hotels with approximately 1,300 rooms are expected to be added in 2007. These will generate approximately 170,000 additional nights, as well as around €1 million in VAT and profit tax revenues, as well as an estimated €35 million investment.

The next two years, 2008-09, will see a further 13 properties with around 2,800 rooms – generating an estimated increase of 220,000 nights, €3.3 million in VAT and profit taxes. These new rooms should represent a total investment of some €150 million – due to the number of high-profile, upmarket properties scheduled to come on line during this period.

The renovation/upgrading of seven hotels in the mountain region in the north of Montenegro would add approximately 460 rooms – a projected increase in tourist overnights of 70,000, some €260,000 in VAT and profit taxes and new investment of €12 million.

In total, more than €500 million has been committed for new developments and rebuilds. This level of investment will clearly pave the way for more similar projects, helping Montenegro transform its tourism product from that of a low-yield, mass-market destination to one offering the highest quality for customers and the highest yields for investors

Foreign owned, managed and franchised hotels in Montenegro – status quo as at April 2007

Hotel	Location	Star category ^a	Ownership/management	No. of rooms/ suites ^b
In operation by end-2007				
Maestral	Bečići, Budva	4*	HIT, Slovenia	180
Tara	Budva	3*	Unis Tours, Bosnia-Herzegovina	243
Rivijera	Petrovac, Budva	4*	Perni Bau, Germany	91
Mediteran	Budva	3*	Maestraltours, Budva	222
Queen of Montenegro	Budva	4*P	Springer Plaetzer, Austria	136
Vila Olivia	Budva	4*P	Springer Plaetzer, Austria	150
As	Budva	5*P	Sibinergo Resurs, Russia	150
4 July	Petrovac, Budva	4*P	Moskovskaja Trastovaja Group, Russia	9
Avala	Budva	5*P	Beppler & Jacobson	225
Bianca	Kolašin	4*	Beppler & Jacobson	143
Bellevue	Bečići, Budva	4*P	Immobilier Budva/Iberostar, Spain	576
Sveti Stefan/Miločer	Sveti Stefan, Budva	5*P	Amanresorts, Singapore ^c	50
Queen's Beach	Sveti Stefan, Budva	5*P	GHM/Amanresorts, Singapore ^c	125
Sun Resort	Herceg Novi	4*P	Hunguest Hotels, Hungary	250
Hotel Riviera	Herceg Novi	2*	Israel Hotel Company	119
Hotel Splendid	Budva	5*P	Hotel Group Montenegro Stars ^d	343
Hotel Otrant	Ulcinj	4*P	Barkli SK, Russia/Park Inn by Rezidor	250
Hotel Mediteran	Ulcinj	P	Becovic Management, USA	150
Contract negotiations and/or modernization underway				
Hotel Village Slovenska Plaža ^c	Budva	3*	Soravia Group, Austria	1,000
Hotel Kotor Excelsior (plus Kotor Palace and Kotor Bay)	Kotor	5*P	United Investment Partners	700
Marina Resort Development	Tivat	4/5*	Peter Munk, Canada	500
Hotel Topolica	Bar	4*P	Azelea Hotels, Austria	150
Hotel Complex Korali	Bar	P	Azelea Hotels, Austria	250
Hotel Lido	Ulcinj	4*P	Management contract	300
Hotel Crna Gora	Podgorica	5*P	Management contract	150
Hotel Ljubovic	Podgorica	3*P	Franchise negotiations	80
Hotel Planinka	Žabljak	4*P	Management contract	150
International tenders pending				
Ada Bojana Hotel Village	Ulcinj	4/5*P		2,500
Mediterranean Health Center	Herceg Novi	4*P		400
Plaza Hotel	Herceg Novi	4*P		250
Hotel Igalo	Herceg Novi	3*P		250

^a P = pending classification ^b Actual or planned ^c Long-lease agreement ^d International management (but no management contract)

Sources: Agency for Economic Restructuring and Foreign Investments; Ministry of Tourism and Environmental Protection



Upgrading the country's road and railway networks

Montenegro has a total of nearly 5,200 kilometres of roads, with the two major roads being the Adriatic motorway from Igalo to Ulcinj and the motorway that links the south and the north, from Petrovac through Podgorica to Kolašin and Bijelo Polje. The latter, which passes through the Morača Canyon and continues on to Serbia, is considered one of the most dangerous routes in Europe, especially during the winter. Preparatory work has nevertheless begun on a bypass for the canyon.

The country's road network is of strategic importance in that it provides the only seaport link to the Republic of Serbia and the major road axis from Croatia and Bosnia-Herzegovina to Albania, Kosovo and the former Yugoslav Republic of Macedonia (FYROM). However, the natural terrain of the region limits road geometry and, therefore, speed and capacity, as well as involving relatively high maintenance costs.

The opening of the Sozina tunnel linking Podgorica to the port of Bar on the coast has had a very positive impact on traffic flows, cutting the journey time from the Montenegrin capital by half, to about one hour. Over the last three years, other parts of the country's road network have also been upgraded, and a more skilled workforce is now engaged on the maintenance of the roads so that the general quality and safety standards have risen.

There are a number of road improvements underway, some of which are being financed by a loan from the Czech Government. Construction of a highway from Podgorica to Belgrade, and on to Budapest, is being part-funded by the European Bank for Reconstruction and Development (EBRD). The planned Adriatic Highway, part of the Marco Polo Road Programme – a joint venture of the Italian, Czech, Slovene and Greek governments – would link all countries down the Adriatic coast from north to south. This coastal road would in theory ease the bottlenecks currently experienced in the coastal region, and especially around Budva, during high season.

Meanwhile, Montenegro's railways, which suffered from chronic underfunding in the 1990s, are considered to be well below minimum standards. As an example, safety problems culminated in the Bioče train disaster, when a passenger train derailed, killing 47 passengers. The Montenegrin part of the Belgrade-Bar railway line is the backbone of the Montenegrin railway system. It opened in 1979 and was at that time a state-of-the-art railway, with features such as the Mala Rijeka viaduct – the highest railway viaduct in the world – and the 6.2 kilometre long Sozina tunnel. About one third of the Montenegrin part of the railway is in a tunnel or on a viaduct. It is also the only railway corridor in Montenegro that is fully electrified.

Efforts are currently being made to completely rebuild the country's rail network, in part to relieve pressure on the roads. Loans are being sought for new railway stock and the longer-term goal, once the reconstruction is completed, is to privatize the maintenance of the railway system. This is also the plan for the roads, and there is already interest from potential concessionaires, such as Bechtel.

Given the many different priorities for redevelopment and regeneration, it is perhaps not surprising that progress on rebuilding roads and railways has appeared slow to date. WTTC urges the

Government of Montenegro to speed up the process, not just for the benefit of the tourism industry. Travel & Tourism is an important driver of economic development, and a modern transport infrastructure will stimulate Travel & Tourism growth and will help distribute wealth and jobs across the country.

Illegal construction continues to challenge the government

Illegal construction continues to be a problem, notably in Montenegro's coastal zone, and this needs to be addressed urgently. Such construction not only threatens to spoil the attractiveness of certain areas – by ignoring the 'non-building line' and siting property too close to the beaches – but it also can also cause obstructions in areas planned for infrastructure development, such as roads or pipelines delivering water. Currently, the government lacks the power to intervene as it is only responsible for buildings of more than 1,000 square metres, with smaller buildings falling under the remit of the municipalities. In addition, although the municipalities have the power to formulate their own physical or spatial plans, they often lack the funding or expertise to do this. Sometimes, it is simply a lack of will. One exception to this rule is the municipality of Budva, which has (finally) developed its own spatial plan for 'approval' by the local community.

In order to tackle this problem, WTTC would advocate a greater horizontal and vertical flow of information from both national government to the municipal authorities, and vice-versa. At the moment, the legal framework preventing corruption and conflicts of interest is lacking. Undoubtedly, a judicial system that lags behind constitutional advances should be revised and brought up to speed in order to better serve a fast growing and developing country, rather than crippling its efforts to provide for the rising demand.

Building the capacity for water supply and disposal

The water supply issue, which has been particularly evident during peak seasons at the coast is now slowly being addressed. The proposed pipeline from Skadar Lake is a project involving a number of different donor agencies, including World Bank and EBRD. It has been under discussion since 2000 but it has been beset with problems, primarily the necessary lack of approvals to date from different municipalities. With an overall investment of €120 million, the pipeline would provide five coastal municipalities as far west as Tivat with enough clean potable water to match demand. And it could be ready by 2009 if a final go-ahead is given without any further delays.

While this project is extremely important, WTTC believes that long-term investment should also be focused on a rehabilitation of the water grid, since estimates suggest that 80 per cent is lost through leakage across the grid. A more efficient system would be able to deliver a far greater share of the required water supply.

Waste disposal is another major concern but, once again, different projects are in the pipeline. A Water Master Plan is also being drafted. This is a vital link in the infrastructural challenge as the coastal waters must be protected at all costs to preserve the natural habitats and to safeguard against the degradation of Montenegro's natural beauty.

WTTC fully endorses the exploration and development of hydro-energy generators as Montenegro is blessed with a vast amount of hydro potential.

As for sewage disposal – a major problem in coastal resorts during the peak summer months – a Dutch Government fund has committed to sponsoring sewage plant development over the next three to four years. However, the issue of solid waste disposal, and plans for a landfill, are still being negotiated between the relevant neighbouring municipalities. There is a risk of losing the financial support arranged with the World Bank if the municipalities involved cannot come to an agreement on the landfill location before this summer.

WTTC maintains that the government needs to be able to intervene in instances such as this to break deadlocks, since local disputes threaten to undermine efforts to solve the regional resource deficit and to harm the overall competitiveness of the country.

It also urges the government to adopt practical solutions to the problems of water supply, as well as water and waste disposal since, without these vital utilities, Montenegro's tourism product is implicitly threatened and undermined.

Harnessing the country's latent energy potential

For a country with such enormous hydroelectric potential, it is astonishing that Montenegro currently imports 30 per cent of its energy supply from abroad. When the grid is overstrained in the peak season, power cuts can occur, particularly in the towns near the border with Croatia where the supply is dependent on the Croatian energy feed. And across the region electricity is expensive because of the challenging terrain across which it has to be conveyed. Therefore, while so much potential for hydro-energy exists, there is a natural incentive to develop this potential.

Power cuts are clearly not sustainable for inhabitants or tourists, so new ways of providing for the country and its seasonal tourism needs is essential. Five hydro-energy plants already exist in Montenegro, but it is estimated that these only tap about 15–17 per cent of the country's total potential hydro-energy output. According to the Agency for Reconstruction and Investments, these plants will ultimately be privatized. A strategy for hydro-energy in Montenegro has been drafted and will be made public by the end of June 2007. Beyond this, the government aspires to having an energy surplus in two to three years time.

In the north, biomass is being put forward as an alternative source of energy for micro-businesses and small communities, but this can probably only work at a mini- or micro-level. Studies into the potential of biomass and wind energy have been commissioned by the government and are currently underway.

WTTC fully endorses the exploration and development of hydro-energy generators as Montenegro is blessed with a vast amount of hydro potential. However, areas of superlative natural beauty, such as the Tara River and Canyon, must of course be protected, and the potential impact on the river and its habitat downstream from any hydro-energy plant must also be borne in mind and evaluated before such a project is initiated.

Furthermore, as is the case with the water grid, the electricity grid would benefit from a study addressing points of leakage or loss before any final decisions are taken, in addition to assessing domestic supply needs, so that the exact amount of energy supply required can be quantified more accurately.

AIR TRANSPORT

Looming capacity constraints

Montenegro has two international airports – Tivat in the northern coastal region and Podgorica just outside the capital. Thanks to a €23 million loan from EBRD and the European Investment Bank (EIB), in addition to funding of €7 million from the Government of Montenegro, for upgrading at the two airports, Podgorica has been given a completely new terminal building and new ground-handling facilities. Check-in desks have doubled and passenger throughput capacity now stands at 1 million a year. In 2006, Podgorica Airport saw a 19 per cent growth in passenger throughput to 382,000 – 38 per cent of which was international.



The upgrading of Tivat Airport accounted for only €8 million of the total €30 million investment, but most of the work was cosmetic. As lack of space means the runway cannot be extended, there are plans to add a new runway, but no time-scale has been announced for this project. Tivat handled some 451,000 passengers in 2006 – 56 per cent of its total 800,000 capacity – up 20 per cent on 2005. Both airports are projected to see a further 10 per cent increase in 2007.

Structurally, airports and air access are now coordinated under the institutional umbrella of the Civil Aviation Authority (CAA), which was established in November 2006. It works closely with Airports of Montenegro to bring the country's airports in line with guidelines from the International Air Transport Association (IATA) on installing a departure control system (DCS) so that e-tickets are enabled and luggage can be checked through multiple flights. There are currently no plans to privatize Montenegro's airports but the airport authorities are looking to privatize non-air transport activities to generate commercial revenues. Obvious areas for privatization include fuel supply and duty-free sales.

WTTC agrees with current policy regarding airport privatization, but encourages the airport authorities to pursue their plan to privatize non-air transport operations and appoint concessionaires.

More than 40 airlines, including charter carriers, operate to/from Montenegro, linking the country to around 20 different cities in Europe. Not surprisingly, given the higher share of tour operator package tourists to the coast, charter carriers predominate at Tivat. While year-round capacity would seem to be adequate at Tivat, the fact that flight movements and passenger numbers fall sharply outside

the peak summer season means that peak season capacity is often very constrained. And this will become more acute if current growth forecasts prove accurate.

WTTC recommends that, for the short term at least, the Ministry of Tourism and Environmental Protection should pursue efforts to obtain local approvals for night-flight operations, even if an extension is only permitted up to 22:00h. Without this extension, Montenegro's coastal tourism could become increasingly dependent on Dubrovnik Airport in Croatia.

A new airport for the north of the country

Access to the mountain regions in the north of Montenegro would be greatly enhanced if the region had its own international, or even regional airport. Berane, located in the northeast of the country between Bjelo Polje and Kolašin, was used as a commercial airport from 1961-76, but it now handles only flights for sports trips and the like. An airport at Žabljak, meanwhile, is only partially completed.

A feasibility study is currently being carried out to determine whether Berane could be upgraded and reinstated as a commercial airport. Preliminary results, according to Airports of Montenegro, indicate that there would be sufficient traffic to warrant this, not only for the winter season but also for the summer, when the region offers many activities and different types of adventure sports. The arguments are all the stronger given current plans for the expansion of hotel and other accommodation capacity. If the final results are as positive, a tender for the airport is expected to be published in 2010.

Meanwhile, in order to manage the growth in tourist arrivals and related airline traffic over the next few years, WTTC recommends that Podgorica be marketed as a valid alternative to Tivat to reach the Montenegrin coast, thereby reducing pressure on Tivat and bringing more international traffic and recognition to Podgorica and the central region.

Need to woo the low-cost carriers

Not surprisingly, the 98 per cent state-owned Montenegro Airlines, which is the country's flag carrier, is the airline with the highest number of flights and it serves the greatest number of destinations. Nevertheless, since an open skies policy was adopted in January 2005, there has been almost no evidence of protectionism on the part of government – something that was very prevalent in the early years of this decade.

The number of foreign airlines flying to Montenegro has increased sharply over the last few years, attracted by the growth in traffic demand and competitive landing charges. Nevertheless, a significant share of services are operated in the summer season only. Among the leading markets, the least well served in terms of direct scheduled flights is the UK. Although the British market ranks only tenth in terms of arrivals and eighth in overnight volume, it is the second biggest spending market after Scandinavia, according to the Central Bank of Montenegro.

Airports of Montenegro would like to attract British Airways, or another UK airline. But, for the time being, the only existing direct flights are charters and British Airways operates only to Dubrovnik over the border on the Croatian coast.

Meanwhile, WTTC supports the Government of Montenegro's efforts to search for a low-cost carrier (LCC) to fly into the country. The Ministry of Tourism and Environmental Protection, together with the two airport authorities, has been in talks with numerous LCCs, including Ryanair, Air Berlin, easyJet and germanwings. The preferred LCCs are easyJet and germanwings, since Ryanair is seen as overly demanding in terms of the commercial support it expects. But the experience of other emerging tourism destinations would appear to justify the costs involved. LCCs can generate new short-haul markets and contribute to boosting awareness of the destination.

TAXATION

Taxing intelligently

In line with WTTC's recommendations in its 2004 Country Report, the Government of Montenegro has focused considerable effort over the last three years on reducing fiscal barriers to growth and ensuring that taxation is fair, whether for companies, employees or investors. Its main objective has been to create a favourable business operating environment since it recognizes that Travel & Tourism growth can be inhibited by local market conditions – such as unfair taxation, and incoherence in planning, to inadequate banking and financial services,

uncertainties over land ownership issues and land lease regulations, and a lack of transparency in decision-making processes.

Among the different examples of intelligent taxation in Montenegro, corporate tax is currently running at 9 per cent – the lowest in the region. While the bank base rate is 9 per cent, loans for tourism development are available at 6-7 per cent – down from 12 per cent a couple of years ago. VAT now stands at just 7 per cent for Travel & Tourism – the 17 per cent VAT on hotel rates which was introduced in 2003 was cut in 2006 on recognition that this was not aiding competitiveness and was, in fact, harming performance. As far as personal taxation is concerned, a flat tax of 15 per cent was introduced in January 2007. This will be further reduced to 12 per cent from 2009 and to 9 per cent from 2012.

Meanwhile, WTTC supports proposals from the Ministry of Tourism and Environmental Protection to introduce two new taxes. An environmental road tax is being considered for the peak summer season to help reduce traffic, especially on coastal roads, and WTTC urges that any monies collected should be ploughed back into infrastructure development. The second tax, one on secondary residences in Montenegro, is seen as a way of recouping some of the lost income due to non-payment of bednight taxes by the grey market. Such a tax is a good idea, according to WTTC, as long as it remains in essence simple and does not run up exorbitant costs in administration and collection. Otherwise, the main objective of the tax is defeated.

HUMAN RESOURCES

A serious imbalance between demand and supply

Structural unemployment is a serious problem in Montenegro, and this situation is exacerbated by the fact that the population is ageing – it is one of the 30 fastest ageing populations in the world – and is largely inactive. The Employment Agency says that there are 40,000 unemployed, constituting just under 15 per cent of the country's official workforce. But this is a conservative figure, according to the August 2006 Household Survey, which puts the total at 60,000 or 22.5 per cent.

Despite the number of Montenegrins out of work, Travel & Tourism suffers from an acute shortage of qualified personnel, and the opportunities to retrain these people to meet the supply needs of the industry are few and far between. Admittedly, the lack of suitable personnel is partially compensated for by non-resident workers. But a recent study, commissioned from the German Organization for Technical Cooperation (GTZ), one of the leading donor agencies operating in Montenegro, to assess the human resource needs of the sector, indicated that around 1,000 new qualified personnel will be needed every year over the next 20 years to meet forecast industry growth.

A tourism fair organised in Budva in early 2007 attracted 1,700 applications from different regions of the country for seasonal jobs in tourism – admittedly, mainly for low-skilled positions – highlighting

the fact that interest and the will to work in tourism do exist. However, mobility is a problem – few Montenegrins from the north and central regions are prepared to leave their homes and work in coastal resorts, especially since most jobs are seasonal.

WTTC strongly recommends that the Government of Montenegro address the overall employment situation as a matter of urgency. Travel & Tourism is clearly not the only sector to suffer from the imbalance in demand and supply. The current problems will become more acute in time. The share of Montenegrins aged 60 years and over increased from 13 per cent in 1991 to 17 per cent in 2001, and this is continuing to increase at a rate which should be raising alarm bells. Even more worryingly, the share of young people aged 19 years or under is falling, which means that the human resource supply is dwindling.

Education and training at all ages and levels

All sectors of the Travel & Tourism industry in Montenegro are concerned about the implications of the shortage of qualified personnel, especially the hospitality sector. The Montenegrin Tourism Association has identified education and training as two of its top priorities. Since the education system has not evolved at the same speed as the workplace, school leavers find themselves without the necessary vocational skills. So training schemes are being provided by the association and donor agencies. A two-month training scheme organised in Herceg Novi this spring will be geared towards openings in hospitality.

Other similar projects have been organized and there are also plans, based on recommendations of the GTZ study, to enable adults to retrain for tourism positions. Internships are also available, mostly in hotels in the coastal resorts, but the take-up from the potential Montenegrin workforce is very low. This is a symptom of the industry's poor image in the eyes of Montenegrins, as well as the lack of mobility. As a result, more opportunities go to non-residents.

There is now a plan to develop a regional training centre to train people from neighbouring countries, since there is concern that it will take too long to introduce changes to the education system in Montenegro.

This is clearly not a satisfactory long-term solution. Travel & Tourism's future growth will be seriously compromised if the problems are not tackled urgently. And it is not just a matter of education and training. The Government of Montenegro also needs to work closely with the industry and educators to raise the image of the industry and convince Montenegrins of all ages and educational levels that there are well-paid career opportunities, as well as seasonal jobs, in Travel & Tourism. When and if recruitment becomes an increasing challenge, salaries should also be raised to discourage employees to move to other better-paid sectors.

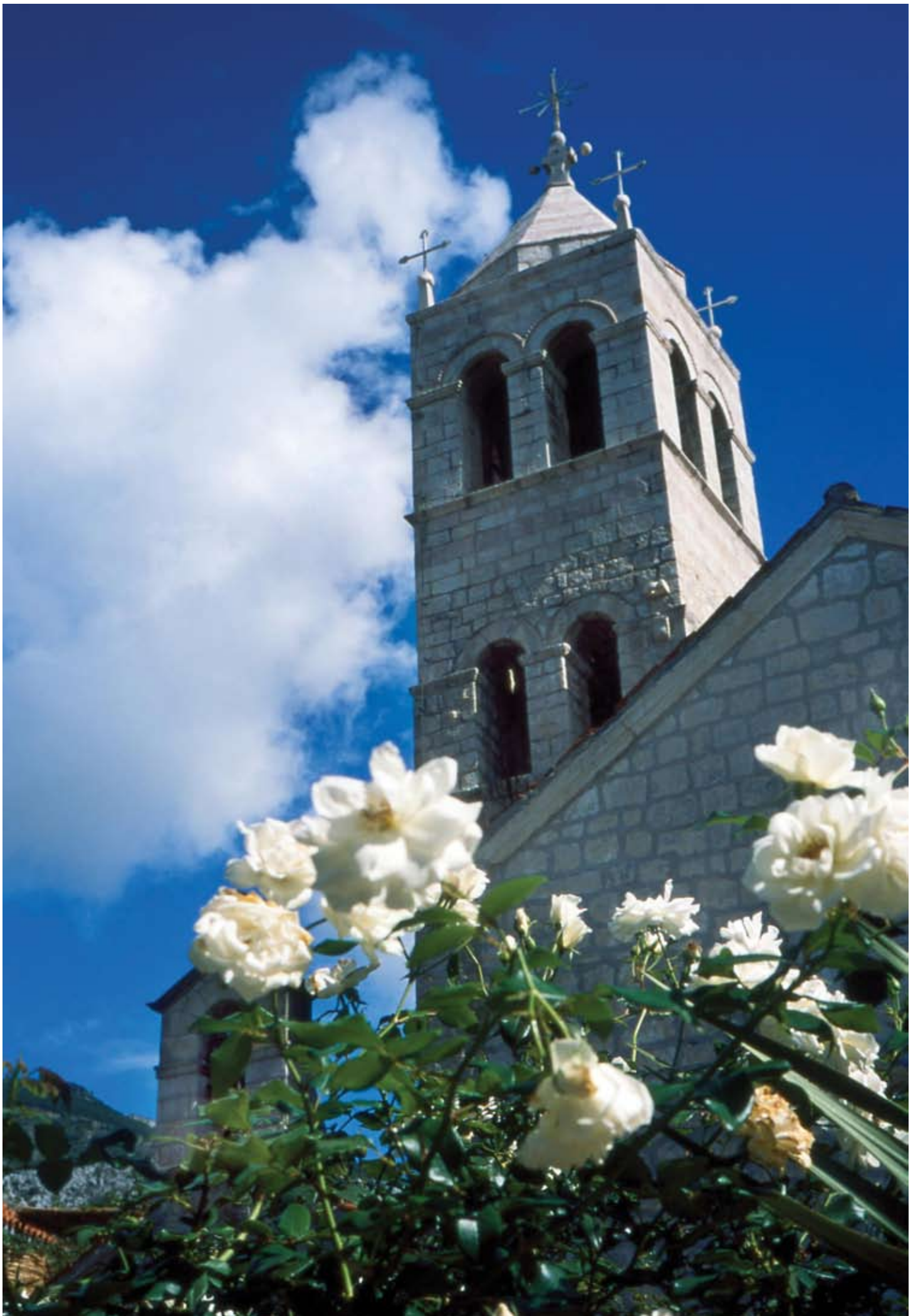
An archaic Employment Law

The workforce shortage seems to spring from what is seen by the Centre for Entrepreneurship and Economic Development (CEED), as an “overly bureaucratic regulatory Labour Law”. As it stands, the law diminishes the scope for negotiation, a cornerstone to healthy business and market practices. The current Labour Law assumes an employment market of stable jobs. As this is not the case and Montenegro is very much governed by seasonal work patterns, a liberalization of the Labour Law taking this into account would bring down barriers to employing Montenegrins over non-resident workers for seasonal jobs. In the current legal system, dismissal of a Montenegrin is costly.

The Montenegro Business Alliance, meanwhile, recommends that regulations be adapted so that “employment will be regarded as a mutually useful agreement between employer and employee”.

WTTC supports this recommendation and urges the government to revise the Labour Law with input from all stakeholders, so that investors are not deterred from setting up businesses because of unfavourable labour conditions. It also warns that the dominance of non-residents in the labour market, and particularly the seasonal labour market, should be avoided.

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ENVIRONMENTAL SUSTAINABILITY

Enshrined in Montenegro's Constitution

As highlighted in WTTC's 2004 Country Report, the Montenegrin Parliament adopted a declaration on Montenegro as an 'ecological state' even before the Rio Earth Summit in 1992, and this commitment was enshrined in Montenegro's Constitution in 1992. The commitment to sustainable development was reconfirmed in 2001, when the government adopted a strategy document entitled *The Developmental Directions of Montenegro as an Ecological State*, and more firmly in 2002 when Montenegro relaunched the concept of Montenegro as an ecological state at the World Summit for Sustainable Development in Johannesburg. That was followed by the foundation of The National Council for Sustainable Development (NCSD), which has been leading the process of developing a sustainable development strategy and action plan, and whose Chairman is Advisor to the Prime Minister.

There is a considerable degree of consensus across the political spectrum and throughout civil society that Montenegro's future lies in realizing this vision of being an ecological state. And the combining of the Ministries of Tourism and Environmental Protection has provided a rare opportunity to harmonize the Travel & Tourism industry with the protection of what is effectively the product – what the tourists come to see and experience.

The National Strategy for Sustainable Development, the final draft of which was submitted by the NSCD to government in May 2006, has just been approved. WTTC urges the government to ensure that clear guidelines are included in the strategy to advise developers as to their rights and obligations. Procedures and guidelines should be communicated to all stakeholders and implemented as widely and as quickly as possible. Implementation of these procedures and their impact should also be closely monitored.

A newly designated national park

There are four national parks in Montenegro: Skadar Lake, Biogradska Gora, Lovćen and, the largest, Durmitor. Ratification of a fifth national park, Prokletije Region, is planned for later in 2007. The new addition is a step towards expanding the protected areas of land in Montenegro with the long-term goal of covering 15 per cent of the country's total land area with national parks by 2015.

A number of donor agencies and NGOs are involved in providing technical assistance in national parks, including training national park personnel, building and clearing footpaths, establishing universal signage, compiling brochures, maps and guides, and investing in equipment for hire, such as snowmobiles or snowshoes. The Austrian Government's Office of Technical Cooperation for Regional Development (ÖAR) has been working on projects in Biogradska Gora, for example, while, in Durmitor, the United Nations Development Programme (UNDP) is very active.

WTTC recommends introducing a charge for entry into national parks, with Montenegrins paying a lower charge than foreign tourists – as is currently being considered by the Ministry of Tourism and Environmental Protection. If some kind of entry fee system is established, it is important for the money collected to be reinvested into the national parks and training of its staff.

Spatial planning

The Physical Plan of the Republic of Montenegro, a document detailing how urban areas should be developed, is currently in its final draft awaiting Parliamentary approval. Critics of the Plan claim that it is not legally binding and often not specific enough, which means that developers can find ways to circumnavigate the Plan. Moreover, the municipalities have been given the role of developing their own spatial plans and this has been thwarted, reportedly due to the fact that the municipal authorities change every two years, which disrupts the process. They also often lack the necessary expertise to develop their own spatial plans. One piece of welcome news, nevertheless, is that the municipality of Budva has, against all odds, just come up with its own spatial plan that is being distributed to all stakeholders for comment. GTZ, tasked with an advisory role in the area of spatial planning, estimates that the investment needed to successfully formulate all the local urban plans is around €500 million and that, at this point in time, there are insufficient funds for this. The lack of funding is an obstacle to investment for the following reasons. Potential investors cannot be certain of plans for the future, and permissions are only issued on a temporary basis, which does not offer an adequate safeguard for investment. The lack of security breeds a reduction in overall quality of investment and development.

WTTC therefore recommends that, if the current status quo is to be maintained vis-à-vis the municipalities' role in the formulation of spatial plans, training needs to be provided as a matter of priority to build the capacity for this. Furthermore, procedures need to be in place to smooth the spatial plan development when municipal authorities change. WTTC recommends the involvement of the municipality's citizens by convening a 'spatial planning committee' to make this possible. It is also evident that more money needs to be invested in supervision of the lawful implementation of the plan. Otherwise, the quality of investment and development will be at risk.

A new 'home-built brand' takes root in the north

The real-estate boom is likely to continue for at least the next few years in light of the favourable political and economic conditions in Montenegro. Second homes are being built throughout the coastal municipalities and in the mountain region.

As this is not likely to be a short-lived phenomenon, the Ministry of Tourism and Environmental Protection is commissioning and preparing the framework for a 'home-built' architectural brand for the north. This is in reaction to the discordant styles that have already sprung up in places like Žabljak, for example. The Faculty of Architecture at the University of Podgorica, with a grant from GTZ, is developing architectural models for nine indigenous, or 'home-built', brands and two eco-lodges.

This approach should have two benefits, WTTC maintains. First, it will ensure that the built environment blends in, and harmonizes, with the natural environment, and it will also provide solid examples as to the use of energy-efficient building technologies and the incorporation of energy-efficient features into the building itself. This is a worthy initiative but will need funding and expertise to allow for its implementation and supervision. The guidelines

must be made available to the necessary authorities, seminars should be held and promotional campaigns undertaken, to ensure stakeholders are aware of, and understand, the new guidelines.

The grey economy

The Institute for Strategic Studies and Prognoses (ISSP) estimates that the grey economy could account for 25 per cent of the country's GDP. This is partly due to the common practice of only declaring the minimum wage as a salary in order to avoid a higher rate of employment tax. Informally, employees are paid at a higher rate. The Montenegrin Tourism Association, which represents 80 per cent of Travel & Tourism businesses, also estimates that up to 50 per cent of the profits made in Travel & Tourism are lost to the grey economy. This 'grey' 50 per cent escapes taxation and undercuts the *bona fide* tourism enterprises.

While it might be naïve to assume that this part of the economy could be eliminated, continuing with such a high coefficient is not sustainable and undermines the quality and competitiveness of the industry, WTTC maintains.

The biggest contributors to the grey market are domestic and foreign owners of secondary/holiday residences, which they rent outside the country, thereby avoiding the tourist tax that all rentals are supposed to incur.

WTTC supports the recommendation to impose a tax on secondary residences/holiday homes to compensate for this loss in income from non-paid tourist bednight taxes.

MARKETING & PROMOTIONS

Montenegro's international image has been greatly enhanced in recent years. The smooth transition to being the youngest sovereign state in the world has also helped raise awareness of the destination and created an image of an economically stable country offering unique attractions for tourists. These are summed up aptly by Montenegro's 'wild beauty' branding, reinforced by the high-profile advertising campaigns on television channels such as CNN. Promotion and brand continuity have been concretised by the National Tourism

Organisation (NTO), which has been operating as a public-private partnership since its inception. The NTO is funded in part by government – including a contribution of 20 per cent of the total tourist bednight taxes collected (80 per cent goes directly to the local tourist boards of the respective municipalities) – and partly by contributions of €50,000 from each of its eleven strategic private sector partners. Of these (see below for listing), three are not from the tourism sector – the banking group CKB (Crnogorska Komercijalna Banka); T-Mobile, which has recently taken over the Montenegrin telecoms company, Monet; and Plantaže, the country's leading wine producers. Six of the partners represent hotels and/or hotel groups.

The NTO's strategic partners

- CKB (Crnogorska Komercijalna Banka)
- The Queen of Montenegro (hotel)
- Beppler & Jacobson (hotel group)
- Plantaže
- Budvanska Rivijera (hotel group)
- Montenegro Stars Hotel Group
- HTP Boka (hotel group)
- JPMD (coastal zone real-estate management)
- HTP Primorije Tivat (hotel group)
- Montenegro Airlines
- T-Mobile (telecoms)

The NTO's activities also involve training staff in the 17 local tourist offices and one regional office (in the north) in the country's 21 municipalities, and it works closely with the Montenegrin Tourism Association, including the different sector representatives incorporated in the association.

There are plans for the NTO to open offices in some key markets over the next year or two. Belgrade, Frankfurt – where it already has *ad hoc* PR representation – and London are the preferred choices for the first stage. Estimates put the annual cost of operating in each market at some €250,000.

WTTC recommends that, once its offices abroad are up and running, the Government of Montenegro steps up its funding of the NTO – at least on a temporary basis – to ensure adequate

The smooth transition to being the youngest sovereign state in the world has also helped raise awareness of Montenegro and created an image of an economically stable country offering unique attractions for tourists.

marketing and promotions in the markets in which it is established. There is little point in opening an office if there are insufficient funds to operate effectively.

Regional cooperation

Five municipalities – Bijelo Polje, Berane, Andrijevica, Kolašin and Mojkovac – have come together to foment municipal cooperation and to coordinate their efforts in this domain, created a regional tourism organization. So far the emphasis has rested on marketing materials, guide materials for visitors, investment in equipment for hire and national park guide training. Plans for the future include the introduction of surveys of guests to canvass opinion on accommodation and accessibility to the area.

WTTC believes that this is an important first step towards sustained cooperation and collaboration in tourism management and marketing. Neighbouring municipalities and local tourist offices should be encouraged to follow this example of best practice. In this way, municipalities can combine their strengths rather than competing and pulling in opposite directions to the detriment of Travel & Tourism.

NEW TECHNOLOGIES

New technologies are already, and will become increasingly important to Travel & Tourism. Harnessing the latest technologies and understanding the ways in which customers use them will help cast the marketing net wider and could also help to cut out intermediaries. Online facilitation via the NTO's website, www.visit-montenegro.org, is planned. Some €1.4 million is being invested by government to develop a new, interactive website, which will incorporate a destination management system linking to the bookable websites of Montenegrin suppliers from all sectors. This could be an indispensable way of maximizing earnings and making the customer's life easier.



The NTO's website will be endowed with a number of attractive features facilitating one-on-one marketing, targeting independent travellers looking to self-tailor their own holiday packages. The NTO is also working on a new venture involving mobile phone technology. It will soon be able to send an SMS message to a visitor's mobile, recommending local restaurants and hotels.

MARKET & PRODUCT DIVERSIFICATION

Spreading the benefits of tourism

During the past few years, while 1989's level of arrivals has not quite been regained, Montenegro has more or less rebuilt its coastal tourism. The Ministry of Tourism and Environmental Protection has recognized that it must look for ways to stretch the season and the product offer in the coastal resorts but, more importantly, to look inland at what else the country has to offer. The challenge is to link the different tourism regions together and to facilitate industry cooperation to achieve this goal.

A National Tourism Congress, with a different venue each year, showcasing a different region, could go some way to bringing the different municipalities together, encouraging them to discuss the challenges they are experiencing, as well as creating the opportunity to network and to work more closely together.

Opportunities for many niche products

Despite its small surface area, Montenegro boasts a rich diversity of flora and fauna, as well as a contrasting geographical terrain, all of which places it in a unique and enviable position regarding its tourism potential. Sun & beach holidays have dominated tourism demand until now, and this situation is unlikely to change in the foreseeable future, especially with the creation of new facilities and attractions such as nine new marinas.

Nevertheless, Montenegro has the potential to develop a large number of high-quality, niche tourism products associated with nature-based tourism, both during the winter and summer. Product diversification can also help to extend the tourism season and, in the longer term, even turn it into a year-round industry. The Ministry of Tourism and Environmental Protection has already earmarked mountain tourism as a priority development area, and is working closely with donor agencies and NGOs to create new tourism products and develop the associated infrastructure and services. In addition to skiing, the different products identified include all types of adventure and sports tourism, from hiking, biking, paragliding, caving and fishing, to horse riding, canoeing and rafting.

To fully allow mountain tourism to flourish, the bridge between the coast, central and northern regions needs to be built – not only to improve infrastructure and accessibility, but also to enhance collaboration at municipal level and to facilitate inclusion of the hinterland in tour operator packages.

While still modest in terms of absolute numbers, demand for Montenegro's mountain regions is growing fast. In 2006, registered hotels received 63 per cent more tourists than in 2005. Furthermore, a significant share of the profits made from the provision of activities such as rafting remain with the local communities. In 2005, of the €1.05 million earned from rafting, €800,000 stayed in the communities, according to WWF International's Mediterranean Programme.

UNDP has been working to cement local government, national parks, local entrepreneurs and NGOs to improve communication and collaboration on areas of mutual interest and benefit. A Sustainable Tourism Festival was launched in 2006 in Durmitor, and donor agencies have been working on a strategic development plan for the region.

A programme has been implemented by the ÖAR and the Ministry of Tourism and Environmental Protection to standardize qualifications in adventure sports, for example, so that sports supervisors or instructors have an internationally recognized standard in their specific field. The programme also includes the training of nature and mountain guides.

The challenges the region faces are the ongoing domination of the capital and the south. The young often migrate to the south or the capital, which leaves the north struggling demographically. The north, and the mountains in general, also suffer from their remote location. Links to the coast, such as the possible helicopter link between the Sveti Stefan resort (Amanresorts) and an eco-lodge under the same brand in the mountains is an attractive proposition, although it would probably be reserved for Amanresorts' guests.

Central region tourism

The central region of Montenegro boasts an enviable array of attractions for tourists such as Cetinje, formally capital of Montenegro for 500 years. The city holds many museums, a royal palace, monastery and theatres and is in close reach of Lovćen National Park. However, tourist spend is minimal in Cetinje as overnight stay is small and entrance is not charged at the attractions. Since Cetinje is only a short distance from the capital or the coastal resorts, it is often treated as a day-trip destination, reducing its potential to generate hotel roomnights.

WTTC would recommend the introduction of a charge for the museums in Cetinje and for entrance to the Lovćen National Park to start harnessing its tourism potential.

The MICE market

Following the Ministry of Tourism and Environmental Protection's decision to establish a core of large new and renovated hotels in Bečići with conference and related facilities, Montenegro is fast developing its potential as a conference destination. The NTO launched its new brochure for the meetings, incentives, conferences and exhibitions (MICE) market at IMEX travel trade fair in Frankfurt in April 2007. For the time being, only one hotel in the mountain region, the Hotel Bianca in Kolašin, has adequate conference facilities, but the situation is being addressed.

While marketing of Montenegro's conference product offer is most easily handled under the remit of the NTO, there will inevitably be a need for a National Convention Bureau if Montenegro is to become

truly recognized as a destination for conferences and events. The Bureau would handle promotion, client contact, business allocation, coordination and ensuring that information flows between different stakeholders. These are broad responsibilities which would require a dedicated team.

Gastronomic and agro-tourism

Montenegro has local produce and a national cuisine which is not widely known outside the country, but which is nevertheless quite distinct, diverse and an essential part of the country's heritage that can appeal to tourists. The popularity of wine tours in relatively undiscovered winemaking regions throughout the world is ever on the increase. It would be a wise investment to raise the profile of the local grape varieties such as Vranac and Kratošija.

GTZ has already been working on a wine route with the Ministry of Tourism and Environmental Protection. The work has focused on creating the right legal conditions for small wineries to exploit this niche. In addition, the local Njeguši smoked ham could be promoted in a similar way to, or in tandem with, the wineries, providing an opportunity for complementary wine and ham dégustations. Not only will the wineries prosper from the initiative, but the local municipalities also stand to benefit if restaurants and guesthouses can satisfy tourist demand and curiosity for the local cuisine.

The NTO and the local tourism organizations of Skadar Lake, Bar, Cetinje and Podgorica, in consultation with GTZ, have been proactive and produced a brochure providing information on the local wines and wine growers along a defined route. An extended and larger

promotional drive could reap dividends. Much could also be made of organic produce and cookery courses.

Spa, wellness and medical tourism

Spa tourism is already well established along the coastal region and should be extended into the north where it is less developed. Bianca Resort and Spa, opened in Kolašin in 2006, has introduced a spa to the region. Along the coast, development plans for Velika Plaza, Ada Bojana, Jaz, Tivat, Valdanos, Mamula, Flower Island, etc include a strong wellness component among other facilities and services, in order to prolong the tourism season. As with medical tourism in Igalo, the season is not dependent on the sun or particular weather conditions, so incentives can be offered to attract tourists outside the traditional season.

Catering to the cruise/yachting tourism market

Maritime tourism is already growing along the coast of Montenegro, but plans are afoot to significantly expand the coast's berthing capacity. A good example of an increased private sector participation in tourism development is the project at the old shipyard in Tivat. The yard will be converted into a luxury marina with some 800 berths by Canadian industrialist Peter Munk.

Negotiations are pending for a further eight or nine marinas to be developed or renovated over the next ten years, ultimately offering a total of 1,900 berths. Apart from Tivat, the other locations earmarked for marinas are Buljarica, Jaz and Velika Plaža, and investment for all marina projects is expected to total some €10 million over the period.



SATELLITE ACCOUNT

MONTENEGRO

	2002	2003	2004	2005	2006	2007	2017E
Travel & Tourism - € mn							
Personal Travel & Tourism	63.20	58.10	62.70	75.00	86.60	103.00	230.00
Business Travel & Tourism	5.42	5.65	5.43	6.65	11.20	12.90	28.60
Corporate	3.42	4.18	4.24	2.27	8.89	9.96	20.50
Government	2.00	1.47	1.19	4.37	2.32	2.97	8.09
Gov't Expenditures - Individual	0.60	0.78	0.94	1.09	1.28	1.40	2.91
Visitor Exports	132.00	146.00	183.00	237.00	288.00	341.00	1,360.00
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Travel & Tourism Consumption	201.00	211.00	252.00	320.00	387.00	458.00	1,630.00
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Gov't Expenditures - Collective	8.91	12.60	15.30	17.60	18.00	19.70	40.90
Capital Investment	14.90	20.00	49.50	59.90	90.40	142.00	252.00
Exports (Non-Visitor)	12.30	10.40	18.50	19.90	22.80	24.50	48.00
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Travel & Tourism Demand	237.00	254.00	335.00	417.00	518.00	644.00	1,970.00
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Travel & Tourism Industry Aggregates (Direct Impact Only)							
Employment ('000)	13.00	12.60	11.70	12.70	13.10	14.90	26.20
Gross Domestic Product	94.30	97.50	124.00	155.00	176.00	212.00	664.00
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Travel & Tourism Economy Aggregates (Direct and Indirect Impacts)							
Employment ('000)	20.80	20.90	21.20	22.40	24.50	28.90	42.80
Gross Domestic Product	151.00	162.00	225.00	274.00	328.00	411.00	1,090.00
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Travel & Tourism Accounts as % of National Accounts							
Personal Travel & Tourism	5.92	5.67	5.52	6.43	6.43	7.08	7.82
Gov't Expenditures	2.81	3.32	3.69	3.99	3.46	3.48	3.58
Capital Investment	7.50	9.95	17.30	18.50	19.60	25.80	23.40
Exports	29.90	33.90	28.70	32.50	32.70	34.10	44.80
T&T Imports	10.50	13.00	11.30	12.90	12.00	13.10	19.50
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Travel & Tourism Industry Aggregates (Direct Impact Only)							
Employment	9.04	8.81	8.12	8.78	8.69	9.64	15.30
Gross Domestic Product	7.24	7.01	7.92	9.16	9.61	10.70	16.60
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Travel & Tourism Economy Aggregates (Direct and Indirect Impacts)							
Employment	14.50	14.60	14.80	15.50	16.20	18.70	25.00
Gross Domestic Product	11.60	11.60	14.40	16.20	17.90	20.70	27.10
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Travel & Tourism Real Growth (per annum except 2017 = 10-year annualized)							
Personal Travel & Tourism	17.90	-12.00	0.12	15.50	13.30	16.20	5.19
Business Travel & Tourism	5.35	-0.15	-10.90	18.10	65.50	12.30	5.13
Gov't Expenditures	-18.60	35.00	12.10	11.10	1.66	6.19	4.46
Capital Investment	-54.90	28.20	130.00	16.90	48.10	52.40	3.54
Visitor Exports	12.80	6.61	15.60	25.30	19.30	15.20	11.54
Other Exports	-10.60	-19.10	65.30	3.93	12.60	4.47	3.83
Travel & Tourism Consumption	14.00	0.62	10.60	22.60	18.80	15.30	10.20
Travel & Tourism Demand	1.27	2.65	22.30	20.20	22.00	21.00	8.62

TABLES

	2002	2003	2004	2005	2006	2007	2017E
Travel & Tourism Industry Aggregates (Direct Impact Only)							
Gross Domestic Product	11.90	-0.93	17.70	20.70	11.80	17.00	8.88
Employment	25.60	-2.48	-7.88	8.11	-1.00	13.50	5.81
Travel & Tourism Economy Aggregates (Direct and Indirect Impact)							
Gross Domestic Product	-6.02	2.53	28.90	17.30	17.80	22.00	7.10
Employment	5.26	0.19	1.42	5.76	9.22	18.30	4.10
Travel & Tourism - US\$ mn							
Personal Travel & Tourism	59.70	65.70	78.00	93.40	109.00	138.00	280.00
Business Travel & Tourism	5.12	6.39	6.76	8.27	14.10	17.20	34.80
Corporate	3.24	4.73	5.27	2.83	11.20	13.30	25.00
Government	1.89	1.67	1.49	5.44	2.91	3.96	9.84
Gov't Expenditures - Individual	0.57	0.89	1.17	1.35	1.61	1.87	3.54
Visitor Exports	124.00	166.00	227.00	295.00	361.00	454.00	1,660.00
Travel & Tourism Consumption	190.00	239.00	313.00	398.00	486.00	611.00	1,980.00
Gov't Expenditures - Collective	8.42	14.30	19.00	21.90	22.70	26.20	49.80
Capital Investment	39.00	46.50	67.20	82.70	88.40	113.00	323.00
Exports (Non-Visitor)	11.60	11.70	23.00	24.80	28.70	32.70	58.40
Travel & Tourism Demand	224.00	287.00	417.00	519.00	651.00	858.00	2,390.00
Travel & Tourism Industry Aggregates (Direct Impact Only)							
Employment ('000)	13.00	12.60	11.70	12.70	13.10	14.90	26.20
Gross Domestic Product	89.10	110.00	154.00	193.00	221.00	282.00	808.00
Travel & Tourism Economy Aggregates (Direct and Indirect Impacts)							
Employment ('000)	20.80	20.90	21.20	22.40	24.50	28.90	42.80
Gross Domestic Product	143.00	183.00	280.00	340.00	412.00	548.00	1,320.00
Travel & Tourism - 2000 Constant US\$ mn							
Personal Travel & Tourism	46.70	41.10	41.10	47.50	53.90	62.60	104.00
Business Travel & Tourism	4.00	4.00	3.56	4.21	6.97	7.83	12.90
Gov't Expenditures - Individual	0.44	0.56	0.62	0.69	0.80	0.85	1.31
Visitor Exports	97.20	104.00	120.00	150.00	179.00	206.00	614.00
Travel & Tourism Consumption	148.00	149.00	165.00	202.00	241.00	277.00	732.00
Gov't Expenditures - Collective	6.58	8.93	10.00	11.10	11.20	11.90	18.40
Capital Investment	11.00	14.10	32.50	38.00	56.20	85.70	114.00
Exports (Non-Visitor)	9.08	7.34	12.10	12.60	14.20	14.80	21.60
Travel & Tourism Demand	175.00	180.00	220.00	264.00	322.00	390.00	886.00
Gross Domestic Product							
Travel & Tourism Industry	69.70	69.00	81.30	98.00	110.00	128.00	299.00
Travel & Tourism Economy	112.00	115.00	148.00	173.00	204.00	249.00	490.00



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