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SERBIAN-MONTENEGRIN TRADE RELATIONS

EXECUTIVE SUMMARY

of a case study commissioned by ESI within its Serbia-Montenegro project

prepared by the

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The views expressed in this report do not necessarily reflect those of ESI

The aim of this case study is to show the implications of the unresolved constitutional status within the Federal Republic of Yugoslavia (FRY) on Serbian-Montenegrin trade relations.

According to the federal constitution, the FRY is a single economic economic space with free movement of goods, people and capital (article 13). In line with this, the responsibility for import and export regulations, customs and the registration of imports and exports lies with federal institutions. After Montenegrin President Milo Djukanovic broke with the Milosevic regime in 1997, political and economic relations between Serbia and Montenegro deteriorated. The Montenegrin government increasingly took over federal responsibilities including foreign trade and customs and introduced the German Mark (Euro) first as a parallel currency, then as the sole official currency. Belgrade's imposition in early 2000 of a trade embargo on Montenegro led to an almost complete disruption of (official) interrepublican trade.

After the regime change in Belgrade in October 2000, economic and trade relations between the two republics started to improve again. Problems for companies conducting trade with the other republic remain, however, given that Montenegro considers the federal institutions and certain federal legislation as illegitimate, and that the newly created Montenegrin institutions are not recognised by the federal administration.

From 1970 to 1990 Montenegrin exports to and imports from Serbia made up for about 40 percent of the total Montenegrin trade with other Yugoslav republics. The disintegration of the Socialist Federal Republic of Yugoslavia (SFRY) and sanctions imposed on the FRY further strengthened Serbian-Montenegrin trade links.[1] However, due to the deterioration of political relations, trade started to decline dramatically in 2000, reaching an all-time low in the first seven months of 2001, when imports from Serbia made up only 7 percent of total Montenegrin imports and exports to Serbia only 4 percent of total Montenegrin exports.[2]

Complicated and costly procedures

The nature of trade relations between Serbia and Montenegro is illustrated by the example of a large Montenegrin company with extensive and long-established co-operation with Serbian partners. The company wishes to remain anonymous.

Movement of goods

About 70 percent of trade with Serbian partners is carried out through the company's warehouse in Serbia, and the remaining 30 percent through direct purchase by Serbian customers in Podgorica. The warehouse in Serbia has the status of a business unit of the Podgorica-registered company, rather than that of a company registered in Serbia. It has a separate account at the Belgrade branch of Montenegro Banka.

For the distribution of goods through the warehouse in Serbia taxes are paid exclusively in Serbia according to Serbian regulations. When goods are bought by Serbian traders directly in Podgorica, Montenegrin laws apply and taxes are paid to the Montenegrin authorities. However, as certain excise tax rates are different in Serbia and Montenegro, following an agreement to avoid unfair competition on the Serbian market, goods exported to Serbia are taxed by Montenegrin authorities at Serbian rates. A further problem for trade are the diverging federal and Montenegrin regulations for excise stamps, whereby products must bear the excise stamps from either the Montenegrin or the Federal Ministry of Finance, depending on their place of sale. Excise stamps therefore can be put on the products only once it is clear in which republic they are going to be sold, complicating packaging procedures and warehouse management.

In order for goods to cross the interrepublican border, documentation showing that all necessary taxes have been paid must be presented to Montenegrin and federal customs authorities. Procedures strongly resemble those of a foreign trade regime. Imports to or exports from Montenegro have to be registered with the Montenegrin customs and the Central Bank of Montenegro. At the republican border the police checks passing vehicles. Goods produced outside Yugoslavia have to pass customs procedures. While goods produced in Serbia are treated as domestic products and are exempt from custom fees, the Montenegrin financial police has to be informed of every delivery, and documentation of the payment of taxes and fees in Serbia must be provided.[3]

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1 Sources: Ļaslav Ocił, *Ekonomika regionalnog razvoja Jugoslavije* (Belgrade: Ekonomika 1998), Statistical Yearbook 1999, Central Bank of Montenegro, CEPS/ISSP, *Monet – Montenegro Economic Trends* (Nr. 7, December 2001).

2 CEPS/ISSP, *Monet – Montenegro Economic Trends*, Nr. 7, December 2001, p. 41.

3 If tax rates are lower in Serbia than in Montenegro, the difference has to be paid to the Montenegrin authorities.

Payments
Since spring 2001 a *Law on temporary procedures for money transfers on the territory of the FRY* allows Serbian companies selling products to Montenegro or Kosovo to be paid in foreign currency (mainly German Marks/Euro). Revenues from such sales have to be deposited at a foreign currency account of a Serbian commercial bank in a foreign country. The bank is then obliged to deposit the foreign currency on an account of the National Bank of Yugoslavia. Within two days the National Bank pays the equivalent in Yugoslav dinars to the commercial bank which then transfers the sum in dinars to the Serbian company.

Serbian companies buying goods from a Montenegrin company can pay in foreign currency. They transfer the agreed amount in Yugoslav dinars to a Serbian commercial bank licenced for international transfers. The bank buys the equivalent amount of foreign currency on the inter-bank market, and then transfers it to the foreign currency account of the Montenegrin company's commercial bank, most often located in Germany, which then transfers it to the account of the Montenegrin company.

The procedure for such money transfers between Serbia and Montenegro, always processed through a foreign bank, involves a lot of paper work, requires five to seven working days and costs 1-2 percent of the value of the transfer.

Conclusion
Instead of constituting a significant factor for development and for the integation of Serbia and Montenegro, trade relations between the two republics have been subject to political games and manipulation by the political leaderships on both sides. While representing an improvement over relations during the final stage of Milosevic's rule, the currently applied temporary regulations in the areas of trade and money transfer are complicated and costly, hardly fostering economic re-integration. Furthermore, the liberalization of – formerly state controlled – prices in Serbia render imports from Serbia less attractive for Montenegro than previously. The attractiveness of Serbia as a market for Montenegrin exports has also decreased with the increasing competition that has resulted from the opening of the Serbian market to imports from abroad.

Montenegro and Serbia should design their economic relations in a modern European way, responding to the interests of their companies and their citizens. A dialogue about fostering economic integration should take place between Serbia and Montenegro with the immediate aim of setting up a free trade area, which would provide for the free movement of goods and people, the respect for private property and investment, and an efficient and cheap system for monetary transfers. A technical co-ordination team, composed of representatives of both republics, could be formed in order to strengthen economic co-operation between the republics as well as with the International Financial Institutions.