



INTERIM REPORT ON MONTENEGRO APRIL 2019

THE PEOPLE AGAINST THE PRESIDENT

CORRUPTION AND CONFLICTS OF INTEREST

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PREFACE

On 2 February 2019 a protest on a Saturday night took place in Ulica Slobode, Podgorica, Montenegro.¹ The protest was over the corruption and criminal conduct openly known to be present in Montenegrin politics, law and business. From initially 1,000 people, the protests are now growing in size and involve 10's of thousands of this small former Yugoslav republic with a population of 620,000.² The aspiration of the population in common with others in the Western Balkans, is for EU membership and their dreams have stalled and are unlikely to be fulfilled with a President, Milo Djukanovic, who has been in power one way or another, for 30 years. President Djukanovic' politics and style of governance belong to a time when Montenegro was part of the former Yugoslavia, but the people want to join Europe and feel the freedoms and benefits that come with the Rule of Law and separation of the State from business and commerce.

Montenegro's place in the European Union's waiting room will be a long stay if issues of corruption, abuse of the rule of law and economic mismanagement are not resolved. The current internal protests by its citizens reflect the history of states that have been in transition from former regimes but never fully moved into true democracies. This interim report on Montenegro considers some of the allegations of corruption and conflicts of interest during the Djukanovic years that have arisen in the media and in official reports and makes recommendations for the future in order to avoid the problems that are apparent in this small state.

¹ Total-montenegro-news.com 3 February 2019 Protest in Podgorica Gathered over 1,000 citizens by Antonela Stjepcevic

² Euronews Videos 3 March 2019



A. FACTUAL DETAILS ABOUT MILO DJUKANOVIC'S PRESIDENCY

EARLY LIFE

1. Milo Djukanovic was born in Niksic, Montenegro on 15 February 1962. His father was a judge, who had previously worked in Bosnia and Herzegovina, and his mother was a nurse. Djukanovic attended Veljko Vlahovic University, where he was awarded a diploma in tourism studies. In 1979 he joined the League of Communists of Yugoslavia ("LCY"), of which his father was already an active member. Djukanovic was a successful member of the LCY and in 1988 was appointed to the League's Central Committee, as its youngest ever member.

DEMOCRATIC PARTY OF SOCIALISTS

2. From the end of the Second World War to the breakup of Yugoslavia in 1991, Montenegro was a constituent republic of Yugoslavia. The League of Communists of Montenegro ("LCM") was the only legal political party and it held power in Montenegro throughout the period. The party was the Montenegrin section of Yugoslavia's League of Communists of Yugoslavia ("LCY"). In 1989, as part of an 'anti-bureaucratic revolution', the LCM's established communist leadership was ousted and replaced with party members loyal to the newly established Serbian leader, Slobodan Milosevic.³ Three central figures in the putsch were Momir Bulatovic, Svetozar Marovic and Djukanovic, the latter of whom was appointed Secretary of the Presidency of the LCM.
3. In December 1990, the LCM won Montenegro's first multi-party election. Bulatovic became the leader of the LCM and held the Presidency from 28 April 1989 to 4 February 1990. On 22 June 1991, shortly after dissolution of the USSR, the LCM under Bulatovic and Djukanovic changed its name into the Democratic Party of Socialists (DPS) while retaining all the instruments of communist rule and control of the population. Thus, the renamed communists have effectively held power continuously since Oct 1944 when they seized the power upon withdrawal of the German Wehrmacht. Montenegro is the only country in Europe where there has been no change of power through ballots since the end of WW2.

³ 'The UK and the Future of the Western Balkans', House of Lords Select Committee on International Relations, *1st Report of Session 2017-2019*, 10 January 2018, p.79;

<https://thetexasorator.com/2018/10/22/slobodan-milosevics-balkan-legacy/>



DJUKANOVIC'S RISE TO POWER

4. On 15 February 1991 Djukanovic was appointed Prime Minister by President Bulatovic, with the support of Milosevic. He was 29 years old, making him the youngest prime minister in Europe. On 20 December 1992, Montenegro held a parliamentary election, won by the DPS in a landslide victory that secured the positions of Djukanovic and Bulatovic.⁴
5. In 1997, Djukanovic initiated a split from Milosevic when, in an interview in the newspaper *Vreme*, he described Milosevic as “*an obsolete politician*”. President Bulatovic continued to support Milosevic, and in 1998 he lost the presidency to Djukanovic.⁵ On 21 May that year, Bulatovic took the position of Prime Minister.⁶ He resigned on 9 October 2000 following the fall of Milosevic in Serbia.
6. In 2002, Montenegro signed the EU-brokered “Belgrade Agreement”. This dissolved the Federal Republic of Yugoslavia and created the State union of Serbia and Montenegro.⁷ On 21 May 2006, Montenegro voted in a referendum to secede from Serbia and became an independent nation state.

CURRENT POSITION

7. The President of Montenegro is elected for a term of five years. Since 1991 Djukanovic has dominated Montenegrin politics and he has been in power longer than any other statesperson in Europe:⁸

1991-1998	Prime Minister
1998-2002	President
2003-2006	Prime Minister
2006-2008	Member of Parliament and DPS Chairman
2008-2010	Prime Minister
2010-2012	Member of Parliament and DPS Chairman
2012-2016	Prime Minister
2016-2018	Member of Parliament and DPS Chairman

⁴ Montenegro Presidential Election 1992, Electoral Geography

⁵ ‘The UK and the Future of the Western Balkans’, House of Lords Select Committee on International Relations, *1st Report of Session 2017-2019*, 10 January 2018, p.81

⁶ ‘Milosevic Ally Becomes Yugoslav Premier’, Reuters, *The New York Times*, 21 May 1998

⁷ ‘The UK and the Future of the Western Balkans’, House of Lords Select Committee on International Relations, *1st Report of Session 2017-2019*, 10 January 2018, p.81

⁸ Djukanovic’s Montenegro a Family Business’, by International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC; ‘The UK and the Future of the Western Balkans’, House of Lords Select Committee on International Relations, *1st Report of Session 2017-2019*, 10 January 2018, p.80



2018-Present President

8. On 15 April 2018 Djukanovic was re-elected as President and his coalition in Parliament controls only 42 of the 81 seats. His term is due to last until 2023, by which time he will have been President or Prime Minister of Montenegro for the overwhelming majority of the past 33 years. Commentators have observed that during the few years that he has spent out of office Djukanovic was still regarded as the country's de facto leader.⁹
9. Djukanovic's personal wealth is unknown. In 2010 *the Independent* ranked him as the 20th richest world leader, with an estimated wealth of \$10m, but was unable to identify the source of his fortune and described him as "mysteriously wealthy".¹⁰ In 2010 another estimate believed him to hold shares worth at least \$14.7m. However, at the time, his government salary was under £1,700 per month, his wife earned a similar amount and his income declaration forms listed no other sources of income.¹¹ Italian prosecutors allege that Djukanovic was a central figure in a mafia tobacco smuggling ring in the 1990s (discussed below).

B. EUROPEAN AND INTERNATIONAL AGENCIES' CONCERN OF CORRUPTION AND ABUSE OF POWER

EUROPEAN CONCERNS

10. In December 2009 Olli Rehn (EU Enlargement Commissioner) told a Montenegrin television station that the primary obstacle to Montenegro joining the EU is the country's corruption and organised crime.¹² On 17 December 2010, Montenegro was formally given European Union Candidate Country Status and Djukanovic stepped down as Prime Minister (temporarily) 12 days later.¹³ Since gaining Candidate status, Montenegro has been under increased scrutiny by western agencies and dogged by allegations of corruption, nepotism, authoritarianism and is not expected to acquire membership in the near future. EU reports have consistently raised concerns that Montenegro is unfit for EU membership on the basis of endemic corruption.

⁹ 'East-West relations and mafia violence dominate election in Montenegro', Daniel McLaughlin, *the Irish Times*, 13 April 2018

¹⁰ 'Rich and powerful: Obama and the global super-elite', David Osborne, *the Independent*, 19 May 2010

¹¹ 'Djukanovic's Montenegro a Family Business', by International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC

¹² 'Djukanovic's Montenegro a Family Business', by International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC

¹³ <http://ec.europa.eu/environment/enlarg/candidates.htm>, 22 February 2019



11. In 2012 the European Commission released a report on Montenegro's progress regarding the implementation of reforms.¹⁴ The report recommended that EU accession negotiations could be commenced with Montenegro, however it also found:

*Despite its strengthened administrative capacity, the Commission for the prevention of conflict of interest still lacks the capacity to control the accuracy of civil servants' asset declarations and declarations of interest to identify illicit enrichment as it has no investigative powers and access to relevant databases. The independence of the judiciary remains a matter of concern affecting the determination to combat corruption. Corruption is still an issue of serious concern.*¹⁵

12. In February 2015, Dirke Lange, the head of the Montenegro unit at the EC's Enlargement Directorate, criticised the Montenegrin government for its continued inertia in tackling corruption and organised crime. Lange said that the reason for the lack of progress was the government's delay in implementing regulations. He said,

*"Progress that is visible in reality is what is credible – and that's what we are looking for. Such progress is needed especially in the area of fighting corruption and crime."*¹⁶

13. On 14 January 2016 the European Commission's Committee on Foreign Affairs issued a Draft motion of 155 amendments relating to its 2015 Report on Montenegro. The resolution urged Montenegro to tackle corruption and vote-buying and to investigate Prva Bank (First Bank) and the Telekom Affair (see below).¹⁷

14. On 26 October 2016 Djukanovic announced that he was again stepping down as Prime Minister, marking the beginning of a 16-month period that he spent in

¹⁴ 'Report from the Commission to the European Parliament and the Council on Montenegro's Progress in the Implementation of Reforms COM(2012) 222 final', European Commission, 22 May 2012

¹⁵ 'Report from the Commission to the European Parliament and the Council on Montenegro's Progress in the Implementation of Reforms COM(2012) 222 final', European Commission, 22 May 2012

¹⁶ Montenegro Police Chided Over Organized Crime Wave, Dusica Tomovic, Balkan Insight, 27 February 2015

¹⁷ Draft motion for a resolution, Charles Tannock (PE569.832v01-00) on the 2015 Report on Montenegro, European Commission Committee on Foreign Affairs, 14 January 2016



parliament. His departure was widely viewed as significantly improving Montenegro's prospects of being granted EU membership.¹⁸

15. In 2018 the European Commission found:

“Recent political interference in the national public broadcaster Council and the Agency for Electronic Media are a matter of serious concern...The number of defamation cases remains high.”¹⁹

These are defamation cases brought against journalists. Historically, defamation cases have been used by the authorities as a tool for controlling the press in Montenegro. For instance, in 2009 Djukanovic was awarded €20,000 in a defamation case he brought against the country's largest independent newspaper, *Vijesti*. Around the same time the newspaper's editor was the victim of a serious assault.²⁰

16. On 17 April 2018 the European Commission released its Key Findings of the 2018 Report on Montenegro:²¹

- 16.1. A low level of trust towards the electoral framework and a lack of political dialogue in democratic institutions.
- 16.2. A need for an enhancement of oversight of the executive and to strengthen transparency.
- 16.3. No discussion or reporting on the major policies and legislation passed by government.
- 16.4. Politicisation of the public service.
- 16.5. Corruption is prevalent in many areas and remains an issue of concern. All institutions should demonstrate a more proactive attitude and the credibility, independence and priority-setting of the Anti-Corruption Agency need to be addressed.
- 16.6. Successful investigations and convictions will only be possible in an environment where independent institutions are shielded from undue influence and incentivised to fully use their powers.

¹⁸ Montenegro's Prime Minister Resigns, Perhaps Bolstering Country's E.U. Hopes, Andrew Macdowall, New York Times, 26 October 2016

¹⁹ Key Findings of the 2018 Report on Montenegro, European Commission, 17 April 2018

²⁰ 'Djukanovic's Montenegro a Family Business', Miranda Patrucic, Mirsad Brkic and Svjetlana Celic, International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC, 19 May 2014

²¹ Key Findings of the 2018 Report on Montenegro, European Commission, 17 April 2018



UK CONCERNS

17. In January 2018 the House of Lords Select Committee on International Relations released a report on the Balkans. It made comments regarding the political situation in the Balkans generally (including Montenegro):

“The role of political parties was discussed by some. Participants said that they were all-powerful in the region. In order for people to have secure jobs or a career they had to be involved with the political parties. The parties also controlled the voting system. There had been cases of turnouts being higher than the eligible electorate and political parties manipulating the results. Some participants spoke about political parties knowing election results in advance, having pressurised, bribed and blackmailed the electorate so extensively that the results were easily predictable. This explains the longevity of some political parties and individuals in positions of power and also explains the occasional outbreaks of rioting (in Bosnia in 2014, Macedonia in 2015 and Montenegro in 2015)”²²

18. It also stated that corruption, organised crime and radicalisation enabled state capture and noted that one respondent described Montenegro as “a ‘private state’”.

US CONCERNS

19. In June 2014 the US Department of State issued a report on Montenegro.²³ It found:

“Montenegro continues to struggle with the perception and reality of corruption in its economic sectors, and the government has so far pursued few high profile prosecutions of alleged corrupt officials.”²⁴

As with the European Commission, the Department of State found conflicts of interest to be a major issue:

“The absence of fully developed legal institutions has fostered corruption and weak controls over conflicts of interest. The judiciary is still slow to adjudicate cases, and court decisions are not always consistently reasoned or reinforced.”²⁵

²² ‘The UK and the Future of the Western Balkans’, House of Lords Select Committee on International Relations, *1st Report of Session 2017-2019*, 10 January 2018, p.112

²³ ‘Diplomacy in Action: 2014 Investment Climate Statement’, U.S. Department of State, June 2014

²⁴ *Ibid*, p.1

²⁵ *Ibid* p.2



20. In 2017 the US Department of State's Bureau of Democracy, Human Rights and Labour released a report on Montenegro. That report was concerned with, *inter alia*, lack of judicial independence, infringements on media freedom, corruption of law enforcement agencies and the courts and highlighted the following issues:²⁶

- 20.1. Government officials engaged in corrupt practices with impunity and that the government retained an inappropriate level of influence over the police.
- 20.2. Selective and non-transparent public funding of the media, through the purchase of advertising. Funding is provided to reward media outlets favourable to the government and withheld from media that "questioned official policies or practices."²⁷ For instance, the government placed 61% of its newspaper financing in a previously state owned, low-circulation newspaper, *Pobjeda*.²⁸
- 20.3. Attacks on the media such as 22 November 2017 when in a television interview, Djukanovic stated that a number of NGOs and media outlets were conspiring as a "media mafia" to overturn the government.²⁹
- 20.4. The brother of the current Prime Minister Dusko Markovic, is alleged to have threatened Vladmir Otasevic, a reporter at *Dan*, in a phone conversation when he alluded to the 2004 murder of *Dan's* editor-in-chief, Dusko Jovanovic. Markovic was asked to comment and "stated that reporters should do their jobs as they wish but leave his family out of politics".³⁰
- 20.5. Suppression of the media through the courts such as on 21 April 2017 *Dan* was fined €5,000 for defamation, arising out of its reporting of Djukanovic's sister's alleged involvement in a bribery scheme relating to the privatisation of a government-owned telecommunications company.³¹

²⁶ Country Report on Human Rights Practices 2017, United States Department of State Bureau of Democracy, Human Rights and Labour

²⁷ Country Report on Human Rights Practices 2017, United States Department of State Bureau of Democracy, Human Rights and Labour p.9

²⁸ NB – *Pobjeda* has been described as "Djukanovic's mouthpiece", cf 'Inhabiting the Theater of War: The Discourse Models of the NATO bombing of Yugoslavia in Milošević's address to the nation and Djukanović's address to the citizens of Montenegro', by Tatjana Radanović Felberg, University of Oslo

²⁹ *Ibid* p.11

³⁰ *Ibid* p.11

³¹ *Ibid* p.13



21. In its 2018 report, the State Department found attacks directed at journalists continued to be a serious problem.³² On 8 May 2018 Olivera Lakic of the Vijesti newspaper was shot in the leg at close range by a gunman in front of her home. Lakic is an investigative journalist, and in 2012 reported on tobacco trafficking in Montenegro.³³ The report noted that, when asked to comment on the attack, Djukanovic stated, “*There is no difference if somebody from a narcotics-trafficking clan or from the media draws a target on their opponents*”. In early 2019 journalist Jovo Martinovic was convicted of drug trafficking and criminal association, facts that appear to arise out of his undercover reporting rather than any genuine criminal involvement. Critics have linked his conviction to his investigation of arms trafficking in Montenegro.³⁴
22. The State Department also commented on the presidential elections of 15 April 2018, stating “*observers noted the transparency and professionalism of the State Election Commission remained issues of concern*” (see below).³⁵

INTERNATIONAL ORGANISATIONS

23. Reporters Without Borders has noted serious ongoing challenges to the independent press by the Montenegrin government. This includes the government seeking to influence and shape the independent editorial policies of the public broadcaster (RTCG) and that leading supporters of the DCP are in senior positions at the broadcaster.³⁶ Reporters Without Borders ranks Montenegro 103rd worldwide in its Press Freedom Index.
24. Transparency International has urged the Montenegrin government to withdraw its amendments to the Law on Classified Information. The amendments would allow the government to declare information as classified if it affects a government body’s ability to function. The amendments directly conflict with the Montenegrin constitution and are widely viewed as a measure intended to prevent the media and wider society from detecting state corruption. There has been no public debate or expert consultation on the amendments.³⁷

³² ‘Country Report on Human Rights Practices 2018’, United States Department of State Bureau of Democracy, Human Rights and Labour

³³ <https://www.theguardian.com/world/2018/may/10/organised-in-montenegro-on-rise-amid-claims-of-gang-links-to-government>

³⁴ ‘RSF decries Montenegrin journalist’s 18-month jail sentence’, Reporters Without Borders, 15 January 2019

³⁵ Ibid, p15

³⁶ <http://rsf.org/en/montenegro>

³⁷ ‘Proposed law in Montenegro is an unconstitutional attack on freedom of information’, Transparency International Secretariat, 18 March 2019



C. THE ABUSE OF THE RULE OF LAW, ELECTORAL SYSTEM, CORRUPTION

OVERVIEW

25. In 2015 the Organised Crime and Corruption Reporting Project (“OCCRP”) named Djukanovic “2015 Person of the year in Organised Crime and Corruption”. Djukanovic is one of only seven recipients of this award. Previous winners have included Vladimir Putin and Ilham Aliyev and subsequent winners have included Nicolas Maduro and Rodrigo Duterte. The OCCRP stated that “[Djukanovic] *has built up one of the most dedicated kleptocracies and organised crime havens in the world.*”³⁸
26. In 2016 the Economist Intelligence Unit designated Montenegro a “Hybrid regime”.³⁹ This indicates a nation that falls between an authoritarian regime and a democracy. These regimes are characterised by irregularities in elections that prevent them from being fair and free, governmental pressure on political opponents, non-independent judiciaries, endemic corruption, weak rule of law and problems with the general functioning of government.
27. Milka Tadic, editor of *Monitor* magazine, said “*Montenegro is a lawless country and if you are part of the government or close to its circles you can do whatever you want.*”⁴⁰ In Spring 2019 thousands of protesters gathered in Podgorica protesting against Djukanovic’s premiership, demanding that he resign over allegations of corruption, cronyism and abuse of office.⁴¹

TOBACCO and NARCOTICS SMUGGLING

28. In 2002, Italian prosecutors in Naples indicted Djukanovic, naming him as a suspect in an investigation into a tobacco smuggling ring organised by the Montenegrin government and the Italian Mafia, that operated between 1994 and 2002. The prosecutor produced a report detailing the allegations, including transcripts of recorded telephone conversations between Djukanovic and members of the Italian Mafia.⁴² The allegations were that Montenegrin government officials would provide false documents that claimed that cigarettes

³⁸ ‘2015 Person of the Year’, Organised Crime and Corruption Reporting Project

³⁹ ‘Democracy Index 2016’, *The Economist Intelligence Unit*, www.eiu.com.

⁴⁰ ‘Djukanovic’s Montenegro a Family Business’, Miranda Patrucic, Mirsad Brkic and Svjetlana Celic, International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC, 19 May 2014

⁴¹ ‘Thousands in Montenegro rally against President Djukanovic’, Stevo Vasiljevic Reuters, 2 March 2019

⁴² ‘Montenegrin PM accused of link with tobacco racket’, Ian Traynor, *the Guardian*, 11 July 2003



were bound for non-EU countries. The cigarettes were then transported across the Adriatic to Italy in speedboats, picked up by the Mafia and sold in EU countries. The EU estimated the tax revenue it has lost to tobacco smuggling is in the billions of Euros.⁴³ Montenegro is estimated to have made between €700m-1bn per annum from this trade during a period of sanctions imposed by the West during the Balkan conflict.⁴⁴ In 2003, in the course of litigation in New York, the European Commission named Djukanovic in connection with another money laundering conspiracy, connected to the American tobacco company PJ Reynolds.⁴⁵

29. In March 2008, Djukanovic attended the Prosecutor's offices in Bari, Italy, to answer questions. In October 2008, Italian prosecutors filed charges against a number of Djukanovic's associates. Djukanovic had originally been named as a Defendant (he was listed as the first Defendant on the indictment)⁴⁶ but escaped prosecution as a result of his diplomatic immunity as a head of state.⁴⁷ Prior to the 2006 independence referendum, there had been legal debate as to whether he could claim diplomatic immunity, as he was not technically a head of state until Montenegrin independence. Djukanovic has admitted that the Montenegrin state benefitted from revenue from smuggling over the alleged period but denied he so profited.⁴⁸ The Italian Direzione Investigativa Antimafia alleged that Djukanovic had huge amounts of money illicitly earned from the trade, held in bank accounts in Switzerland, Monte Carlo and Cyprus. They wrote:

*"Djukanovic was absolutely aware of what was going on in Montenegro, as well as of the repercussions on the Italian State and the other EU members. He was aware since he was involved in it and had a direct interest in it. He himself was conscious of the huge amount of money, in hard currency, drawn from illicit tobacco trafficking handled by Italian organized crime. His greed for riches made him so unprincipled that he fit in with the association. He went so far as to assure protection to fugitives wanted in Italy, disregarding the most basic legal norms. He did that through the state security apparatus."*⁴⁹

⁴³ 'Djukanovic Indicted; Avoids Trial', Organised Crime and Corruption Reporting Project, 9 October 2008

⁴⁴ 'The Montenegro Connection: Love Tobacco and the Mafia', Leo Sisti, Public Integrity, 19 May 2014

⁴⁵ Djukanovic's Montenegro a Family Business, International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC

⁴⁶ 'Documents tarnish Montenegro's EU bid', Liz MacKean and Meirion Jones, *BBC Newsnight*, 29 May 2012

⁴⁷ 'Djukanovic Indicted; Avoids Trial', Organised Crime and Corruption Reporting Project, 9 October 2008

⁴⁸ 'Montenegrin PM accused of link with tobacco racket', Ian Traynor, *the Guardian*, 11 July 2003

⁴⁹ 'The Montenegro Connection: Love Tobacco and the Mafia', Leo Sisti, Public Integrity, 19 May 2014



30. In 2012, *Foreign Affairs* magazine dubbed Montenegro a “Mafia State” (along with Bulgaria, Guinea-Bissau, Myanmar, Ukraine and Venezuela), on the grounds that “*the national interest and the interests of organised crime are now inextricably intertwined*”.⁵⁰
31. Commentators have recorded a number of suspicious deaths relating to Montenegrin tobacco smuggling. This includes Orazio Porro, a figure connected to the smuggling operation, who having given evidence in 1998, became a police informant and whilst placed in witness protection was murdered on 30 May 2009.⁵¹
32. Montenegro is a transit country for illegal drugs entering Western Europe along traditional Balkan smuggling routes,⁵² with recent large seizures being in Malta⁵³ of a consignment bound for Bar, and a discovery on the military training ship “*Jadran*” whilst moored at Tivat. It was reported in Reuters:
- “Montenegro, a member of NATO, also aspires to join the European Union but it must first do more to tackle organized crime and corruption and to improve the rule of law.”*⁵⁴
33. There are reports that elements of the government are linked to criminal networks involved in the drugs and tobacco smuggling trades and this may explain why NGOs such as Daliborka Uljarevic of the Civic Centre for Education claim: “*This state has never had a genuine policy to fight organised crime*”.⁵⁵

PRIVATISATION AND INVESTMENT

34. When Djukanovic took up a position as a Member of Parliament in 2006, he established five companies: Capital Invest, Global Montenegro, Universitas, Primary Invest and Select Investments.⁵⁶ Between 1999 and September 2013, 90 percent of Montenegrin companies were privatised.⁵⁷ The Privatisation and

⁵⁰ ‘Measuring the Mafia-State Menace’, Peter Andreas and Moises Naim, *Foreign Affairs*, July/August 2012

⁵¹ ‘The Montenegro Connection: Love Tobacco and the Mafia’, Leo Sisti, *Public Integrity*, 19 May 2014

⁵² <https://www.state.gov/j/inl/rls/nrcrpt/2016/vol1/253290.htm>

⁵³ <https://www.timesofmalta.com/articles/view/20190420/local/another-massive-cocaine-haul-customs-seize-144kg-at-malta-freeport.707820>

⁵⁴ <https://www.reuters.com/article/us-montenegro-drugs/montenegrin-authorities-seize-drugs-on-navy-training-ship-idUSKCN1RV0XQ>

⁵⁵ <https://www.theguardian.com/world/2018/may/10/organised-in-montenegro-on-rise-amid-claims-of-gang-links-to-government>

⁵⁶ ‘Djukanovic declared his assets’, *Café del Montenegro*, 19 February 2018

⁵⁷ ‘Diplomacy in Action: 2014 Investment Climate Statement’, U.S. Department of State, June 2014, p14



Capital Projects Council was established to manage and control the implementation of the privatisation process. Djukanovic was appointed and remains the president of this council. Alexander Damjanovic, member of the Socialist People's Party of Montenegro, has stated *"What is obvious is that Mr Djukanovic and a number of government officials amassed enormous riches during the 1990s, and now with that money they are unabashedly buying Montenegrin companies."*⁵⁸

35. Djukanovic is the President of the Montenegrin Investment Promotion Agency, which gives him control over foreign investment negotiations. In 2006 the Network for the Affirmation of the NGO Sector ("MANS") a non-profit organisation, brought a court case arguing that this appointment constituted a conflict of interest. The Court found that it was a conflict. However, the Commission for Determining Conflicts of Interest found that it did not constitute a conflict of interest and Djukanovic still holds the position.⁵⁹
36. In July 2008, the Montenegrin Parliament passed a law declaring 5-star hotels to be in the "National Interest of Montenegro". This allows those hotels, owned by companies such as Djukanovic's Global Montenegro, to confiscate land surrounding their properties for development.
37. Since 2006, Djukanovic has used state money to provide \$300m in state funds to provide guarantees for interest-free private loans. More than half of this money has not been repaid and \$130m of the debt is owned by Russian aluminium magnate, Oleg Deripaska.⁶⁰

PRVA BANK

38. In 2007 Prva Bank (First Bank) was privatised. The rules for this privatisation were manipulated by the Privatisation and Capital Project Council in such a way that the IPO resulted in a single bid for the 30% privatised share of the bank.⁶¹ The bid was from Monte Nova, a company owned by Djukanovic's brother Aco, and through Monte Nova he took control of the bank by appointing four out of seven of its directors, gaining a majority of the board. Shares in the bank were then offered for sale at prices significantly below market value (\$187 per share, market value \$250-\$1,500). Djukanovic bought 7% of these shares through his company Capital Invest, and his sister 0.5% of the shares.

⁵⁸ 'Djukanovic's Montenegro a Family Business', International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC

⁵⁹ Ibid

⁶⁰ '2015 Person of the Year', Organised Crime and Corruption Reporting Project

⁶¹ 'Djukanovic's Montenegro a Family Business', International Consortium of Investigative Journalists/Centre for Public Integrity, Washington DC



39. In March 2007 Vuk Rajkovic, who was best man at Djukanovic's wedding, was appointed president of the Bank's board of directors and was made a member of the committee responsible for overseeing the bank's compliance with regulations. A number of Rajkovic's companies subsequently obtained favourable loans from Prva Bank, including a promissory note for a €3m loan to his company Kia Montenegro, not recorded on the records.⁶² Djukanovic became a partner in Kia Montenegro a year later.⁶³
40. Following Djukanovic's investment, numerous state entities were enjoined to deposit funds in the bank (\$104m in 2006, \$579m in 2007) and thereby inflate the value of the bank's shares. The bank made numerous low-interest, long-term loans to private individuals. These loans did not require a monthly repayment, and payment was often due in a single lump sum many years later. Loans of this kind provided the bank with a substantial liquidity deficit, recognised by the Montenegrin Central Bank. The Central Bank advised Prva Bank not to make further loans. This advice was ignored, and in 2010 Djukanovic's sister was provided with a loan.⁶⁴
41. Prva Bank has been badly mismanaged and has been described as "*the personal ATM of the country's top*".⁶⁵ PWC found that, whilst the majority of deposits made to the bank came from public funds, up to two thirds of loans made by the bank went to the Djukanovic family and their associates.⁶⁶ It broke anti-money laundering laws by failing to collect complete information from its clients, and a report by PWC in 2008 found contrary to the Bank's regulations, 18 transactions over €15,000 unreported, raising serious concerns of potential money laundering.⁶⁷ The PWC report could not be finalised, as Prva Bank failed to provide sufficient documentation. The Bank's own board of directors said that they were unsure about the Bank's financial situation because of a lack of documentation.⁶⁸ Many of the loans were not properly supervised, for instance in 2007 two loans were made to Moninvest, a company that had a 2.33% of the shares and was owned by Svetozar Marovic, Vice-President of the DPS.⁶⁹ One loan was for €2m for the construction of a waterpark that was never constructed and another for a €5m development on Cape Zavala, for which planning permission was never obtained.

⁶² 'Best man, Best Loan Terms', Organised Crime and Corruption Reporting Project, 2 June 2012

⁶³ 'First Bank: Let's Make a Deal', Organised Crime and Corruption Reporting Project, 1 June 2012

⁶⁴ 'First Bank - First Family', Organised Crime and Corruption Reporting Project, 20 May 2012

⁶⁵ Ibid

⁶⁶ 'First Bank: Let's Make a Deal', Organised Crime and Corruption Reporting Project, 1 June 2012

⁶⁷ 'Banking above the law', Organised Crime and Corruption Reporting Project, 5 June 2012

⁶⁸ 'First Bank - First Family', Organised Crime and Corruption Reporting Project, 20 May 2012

⁶⁹ 'Zavala: Cape Corruption', Organised Crime and Corruption Reporting Project, 11 June 2012



42. At the end of 2008 Prva Bank faced serious financial jeopardy as a result of lack of liquidity. Prva Bank approached the government requesting an emergency, short-term loan, made possible by a new law (the Law on the protection of the banking system) passed the previous year.⁷⁰ The government gave the bank €28m in loan paybacks and a €44m publicly-funded bailout. The Central Bank asked to review Prva Bank's financial records, however it was unable to effectively review them as some of its documents were incomplete and others were 'lost' in their entirety. The Central Bank found that Prva Bank had approximately €30-40m in immediate liabilities and required an injection of €110m. It advised intervention by the government to take control but that was resisted.
43. Instead, the Treasury made 11 payments of €1m to Prva Bank into the account for the public water agency. Simultaneously, Prva Bank made 11 payments of €1m to the Treasury's account, thereby transferring the debt of the bank onto a government agency.⁷¹ This strategy was ineffective, and at the end of 2009 the government announced the sale of the state electricity company, Elektroprivreda Crne Gore ("ECG"). Some of its shares were sold to the Italian company A2A. The deal required A2A to make a €100m investment in Prva Bank (overall a total of €192.2m realised from the sale of ECG shares was deposited in the bank), which finally stabilised the bank.⁷²
44. The Governor of the Central Bank, Ljubisa Krgovic, was subsequently ousted. He has since commented:

*"Montenegro needs an independent Central Bank which will not adjust its whole system and its basic policies (supervisory, regulatory and obligatory reserve policy) to a single bank."*⁷³

In 2011, the European Commission stated:

*"The law also has to safeguard institutional and personal independence, especially regarding the case of the Governor of the Central Bank."*⁷⁴

45. In 2012 Prva Bank said that too much time had elapsed for it to comment on the allegations. The new Governor of the Central Bank, Radoje Zugic showed lack of

⁷⁰ 'Bailout: Protecting the First Family's Investment', Organised Crime and Corruption Reporting Project, 5 June 2012

⁷¹ Ibid

⁷² Ibid; 'First Bank - First Family', Organised Crime and Corruption Reporting Project, 20 May 2012;

⁷³ Ibid

⁷⁴ 'Montenegro 2011 Progress Report SEC(2011) 1204 Final', European Commission, 12 October 2011



independence when he vowed to find out who had leaked the central documents that lead to the OCCRP/BBC report, and the state-owned newspaper Pobjeda subsequently published a series of critical, unfounded articles about the editor of the report.⁷⁵

46. The Serbian Prosecutors Office for Organised Crime brought criminal proceedings against one of Prva's biggest customers, Darko Saric, who ran an international cocaine smuggling ring that smuggled tons of cocaine from South America to Europe and laundered millions of Euros through Prva bank described as "*at the center of an unholy alliance between government, organized crime and business in Montenegro.*"⁷⁶ The connection of political figures with Saric's businesses is evident and Prva although it did not issue suspicious transaction alerts to the Montenegro Anti-Money Laundering Agency has not been sanctioned for the multitude of regulatory breaches it has committed.⁷⁷ Saric was convicted in December 2018 by the High Court in Belgrade of smuggling 5.7 tons of cocaine and sentenced to 15 years imprisonment.⁷⁸

MONTENEGRO TELEKOM

47. In 2005 the Montenegrin state telecoms company, Montenegro Telekom ("TCG"), was privatised. In March 2005 the Hungarian company Magyar Telekom acquired a 51% share in the company.⁷⁹
48. In 2011 the US Securities and Exchange Commission brought a complaint against Magyar Telekom and Deutsche Telekom for breaches of the US Foreign Corrupt Practices Act. In its filing at the Southern District Court of New York, it provided details of a series of contracts between TCG and Magyar Telekom that had been agreed as part of the purchase.⁸⁰ It stated that one of the contracts:

"was intended to conceal payments made to the sister of a senior Montenegrin government official through a nominee entity identified in the contract. The official's sister did not actually render any bona fide services to Magyar Telekom or TCG under the contract. Magyar Telekom falsely

⁷⁵ 'Montenegro: mafia state in the EU neighbourhood', Valerie Hopkins, Open Democracy, 5 July 2012

⁷⁶ <https://www.cin.ba/en/dukanoviceva-porodicna-banka-opsluzivala-sarica/>

⁷⁷ <http://www.mans.co.me/en/sarics-relationship-with-the-montenegrin-government-are-still-under-wraps/>; <https://www.cin.ba/en/crna-gora-fudbal-politika-i-kokain/>

⁷⁸ <https://balkaninsight.com/2018/12/10/serbian-court-convicts-alleged-balkans-drug-lord-12-10-2018/>

⁷⁹ 'Former Montenegrin Prime Minister Denies Corruption Accusations', Organised Crime and Corruption Reporting Project, 9 March 2012

⁸⁰ *Securities and Exchange Commission v Magyar Telekom PLC, and Deutsche Telekom AG, Complaint 11 Civ 9646*, United States District Court Southern District of New York, 29 December 2011



recorded the payments under this contract as a consulting expense on its accounting books and records."

49. Djukanovic accepted that the lawyer named in the filing was his sister, Ana Kolarevic (on the basis that no other Montenegrin government official had a sister who was a lawyer), but rejected allegations of bribery on the grounds that it is not possible to bribe a lawyer by retaining them for legal services.⁸¹ Following the purchase, TCG retained Kolarevic's law firm for consulting services.

ATLAS BANK

50. In March 2019 Dusko Knezevic, a Montenegrin businessman and Chairman of the Atlas Group a banking and financial services conglomerate, issued criminal proceedings against Djukanovic alleging that he, with others, including Radoje Zugic the Governor of the Central Bank of Montenegro and Tanja Teric the temporary administrator of Atlas Bank were part of a criminal organisation that abused their official positions to put Atlas Bank into bankruptcy.⁸²

51. Knezevic alleges that Djukanovic orchestrated those actions because he wanted to remove Atlas Bank as a competitor to the family bank Prva and take over its accounts and assets. The financial attack being motivated by Knezevic's unwillingness to provide economic support to the President.

"I told him that it was not normal for him to have a house of such size and value immediately next to Vila Gorica [the presidential palace] and that when the government changes it is not normal for him to live there. When I refused [to finance the construction], that was when the first disagreements started, then I refused some other transaction..."⁸³

52. Knezevic left Montenegro in January 2019 when allegations were made against him and others for financial misconduct at Atlas, initiated by the Central Bank putting it into administration.

⁸¹ 'Former Montenegrin Prime Minister Denies Corruption Accusations', Organised Crime and Corruption Reporting Project, 9 March 2012

⁸² <http://www.intellinews.com/head-of-montenegro-s-troubled-atlas-banka-sues-president-central-bank-governor-159438/>

⁸³ V.I.P. Daily News Report, "New Accusations by Businessman Knezevic Against President Djukanovic", 28 January 2019, p. 3.



ELECTORAL INTERFERENCE

53. Djukanovic has exerted a high degree of control over Montenegrin politics over the past three decades. Even his intermittent, temporary resignations, have been timed so as to follow on immediately after a perceived political landmark has been achieved: in 2006 he resigned shortly after Montenegro seceded from Serbia. In 2010 he stepped down shortly after Montenegro was granted European Community Candidate Status, claiming “*I want to ease back on the throttle in a more relaxing business environment.*” However it has been suggested that the real catalyst for his second resignation was that he had incurred the anger of the US Drug Enforcement Agency and Serbian criminal investigators, following the controversial acquittal of Goran Sokovic (accomplice of Darko Saric, a narcotics smuggler and a major creditor and customer of Prva Bank⁸⁴) by the Montenegrin authorities. They dropped the prosecution citing insufficient evidence and were supported in their decision by Djukanovic.⁸⁵
54. In 2016, Djukanovic stepped down on the night of the parliamentary elections. The messaging apps WhatsApp and Viber were temporarily shut down by the government, citing “*undesirable publicity messages*”.⁸⁶ Prosecutors said that Djukanovic’s abdication was a result of an attempted assassination attempt and coup orchestrated by pro-Russian and pro-Serbian actors, a claim that is widely believed to be false.⁸⁷ 20 Serbian nationals were arrested and accused of planning an attack on the government. Djukanovic claimed that there was “*undeniable and material evidence of a plot*”.⁸⁸
55. Djukanovic’s resignations are timed to deliver a consistent, authoritarian message: that he acts selflessly in the best interests of Montenegro and achieves concrete goals for the country; and his government is beset by malign, violent foreign agents. The *Economist* reports that a leaked tape by an official in 2012 recorded that every public-sector job secures four votes for the ruling party.⁸⁹ It is said that anyone who dares to criticise the government risks being labelled “*an enemy of the state*” by the pro-government media.

⁸⁴ ‘Montenegro: Prime Minister’s Family Bank Catered to Organized Crime’ Organised Crime and Corruption Reporting Project, 8 April 2014

⁸⁵ ‘Letter from Montenegro: Organized Crime’s State of Play’, Chris Deliso, *The American Interest*, 27 October 2015

⁸⁶ ‘Montenegro: RSF condemns blocking of messaging apps on election day’, Reporters Without Borders, 18 October 2016

⁸⁷ ‘East-West relations and mafia violence dominate election in Montenegro’, Daniel McLaughlin, *Irish Times*, 23 April 2018

⁸⁸ ‘Montenegro’s Prime Minister Resigns, Perhaps Bolstering Country’s E.U. Hopes’, Andrew Macdowall, *New York Times*, 26 October 2016

⁸⁹ Why Milo Djukanovic is one of Europe’s Most Durable Leaders, *The Economist*, 11th April 2019.



56. On 15 April 2018, Djukanovic was elected president for a second time. Draginja Vuksanovic, a leader of the rival Social Democratic Party, said that *“This result is a consequence of two factors: A captive state [by the ruling party] and a problem within the opposition.”*⁹⁰ The *Washington Times* and *Deutsche Welle* (which has dubbed Djukanovic “Montenegro’s Eternal President”⁹¹) have argued that Djukanovic needs to retain power in Montenegro in order to forestall criminal charges of corruption and bribery, a strategy that proved effective in relation to the charges brought by Italian prosecutors in relation to tobacco smuggling.⁹²

MONTENEGRO’S CHINESE INFRASTRUCTURE PROJECT⁹³

57. The highway intended to link the Adriatic port of Bar to Serbia’s capital Belgrade, exemplifies China’s divisive investment on the fringes of the EU and the pitfalls of funding large infrastructure projects with loans from Beijing. The Montenegrin government’s borrowing from China to finance the road project (estimated at 1.3bn Euros) has sent the country’s debt soaring. The debt level has risen from 63% of GDP in 2012 to almost 80% in 2019. If Montenegro were to default, the terms of its contract for the loans give China the right to access Montenegrin land as collateral.

58. The highway is being built by the Chinese Road and Bridge Corporation, or CRBC, and is 85 per cent financed by a dollar-denominated loan from China’s Eximbank. The IMF said in its recent country report, that if the highway had not been built, Montenegro’s debt-to-GDP ratio would have declined to 59 per cent of GDP in 2019, instead of rising to 78 per cent.

“The highway project and the way it is being financed has brought Montenegro for the first time into a deficit situation that is higher than EU standards, limiting the future space for financial manoeuvring of the government.”

59. According to a 2018 study by the Center for Global Development, a US think-tank, the project puts Montenegro in the unhappy company of Djibouti, Mongolia and

⁹⁰ Djukanovic takes back Montenegro with the blessing of Brussels, Giorgio Fruscione, EastWest.eu, 17 April 2018

⁹¹ Montenegro’s Milo Djukanovic: The eternal president, Dragoslav Dedovic, DW 14 April 2018

⁹² Montenegro’s Milo Djukanovic: The eternal president, Dragoslav Dedovic, Deutsche Welle, 14 April 2018; The Count of Montenegro, L Todd Wood, Washington Times, 23 February 2018

⁹³ Montenegro Fears China-backed highway will put it on road to ruin by Valerie Hopkins in Podgorica and James Kynge in Hong Kong, April 2019



Tajikistan and four other countries that “*could suffer from debt distress due to future [Belt and Road Initiative] related financing*”.

D. RECOMMENDATIONS

60. The allegations of corruption and conflicts of interest that have led to abuses of power require:

57.1 An inquiry by the United Nations Committee on Economic, Social and Cultural Rights into the existence of corruption and links between politicians, state officials, private business and state contracts.

57.2 Registration by politicians and state officials of all business interests directly or indirectly held by them through nominee or family agents.

57.3 An inquiry by the United Nations Committee on Economic, Social and Cultural Rights into the existence of corruption within state business regulation agencies.

57.4 An inquiry by the United Nations Committee on Economic, Social and Cultural Rights into the links between politicians, state officials and the media.

57.5 An inquiry by the United Nations Human Rights Committee into the independence of the judiciary and law enforcement authorities.

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18 April 2019