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Travel & Tourism:

Trends and Prospects

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CONTENTS

TRAVEL & TOURISM: TRENDS AND PROSPECTS

FOREWORD

THE WORLD TRAVEL & TOURISM COUNCIL IS THE GLOBAL BUSINESS LEADERS' FORUM FOR TRAVEL & TOURISM, WITH A MEMBERSHIP OF CLOSE TO 100 CHAIRS AND CHIEF EXECUTIVES FROM THE INDUSTRY AND RELATED SECTORS. WTTC'S MISSION IS TO WORK WITH GOVERNMENTS TO RAISE AWARENESS OF THE IMPORTANCE OF THE WORLD'S LARGEST GENERATOR OF WEALTH AND JOBS.

Following similar studies carried out in 2004 and 2007, this is the third time we have embarked on a detailed assessment of Montenegro's Travel & Tourism development potential, in collaboration with our research partner, Oxford Economics. This particular report is also the second in a series of four looking at different aspects of Travel & Tourism in Montenegro. The first assessed Travel & Tourism's Economic Impact and, as the title of this second report suggests, this one focuses specifically on Trends and Prospects.

The figures speak for themselves. From the early 2000s to 2008, the impressive growth in Travel & Tourism demand for Montenegro contributed to stimulating investment, resulting in increased profits for hotels and other local tourism businesses. This was of course helped in large part by the privatisation process, which has seen more than 90% of hotel stock move out of state control into private sector hands, as well as donor-funded infrastructure projects. These have also played a major role in laying down the foundations on which Montenegro has been trying to build a competitive economy based on tourism and services.

The dampening of demand in 2009 – largely as a result of global recessionary pressures – led to a stalling of new investment and depressed growth in tourism performance in 2009 and 2010. But there are clear signs of recovery, reflected in the bullish forecasts from WTTC/Oxford Economics for Montenegro's Travel & Tourism over the next ten years.

With a new Prime Minister, Igor Luksić, taking the reins from his predecessor, Milo Đjukanović, and a new Minister for Sustainable Development & Tourism, Predrag Sekulić, Montenegro looks set to reap the benefits of both public and private sector efforts over the past decade, raising Travel & Tourism's contribution to GDP, employment, exports and investment.

We would like to express our gratitude to the former Minister of Tourism, Predrag Nenezić, and his team at the Ministry of Tourism, as well as the National Tourism Organisation of Montenegro, for their invaluable support in the preparation of this study.

Travel & Tourism is already a vital economic sector for Montenegro and, thanks to its outstanding natural resources, as well as the government's longstanding commitment to ensuring sustainable development for the benefit of all Montenegrins across all parts of the country, the future continues to look bright – despite the setbacks in recent years.

We hope, meanwhile, that by raising awareness of the enormous potential of Travel & Tourism in Montenegro, this series of reports will act as a catalyst, encouraging industry and government to continue to work together to create the conditions necessary for its potential to be realised.

David Scowsill

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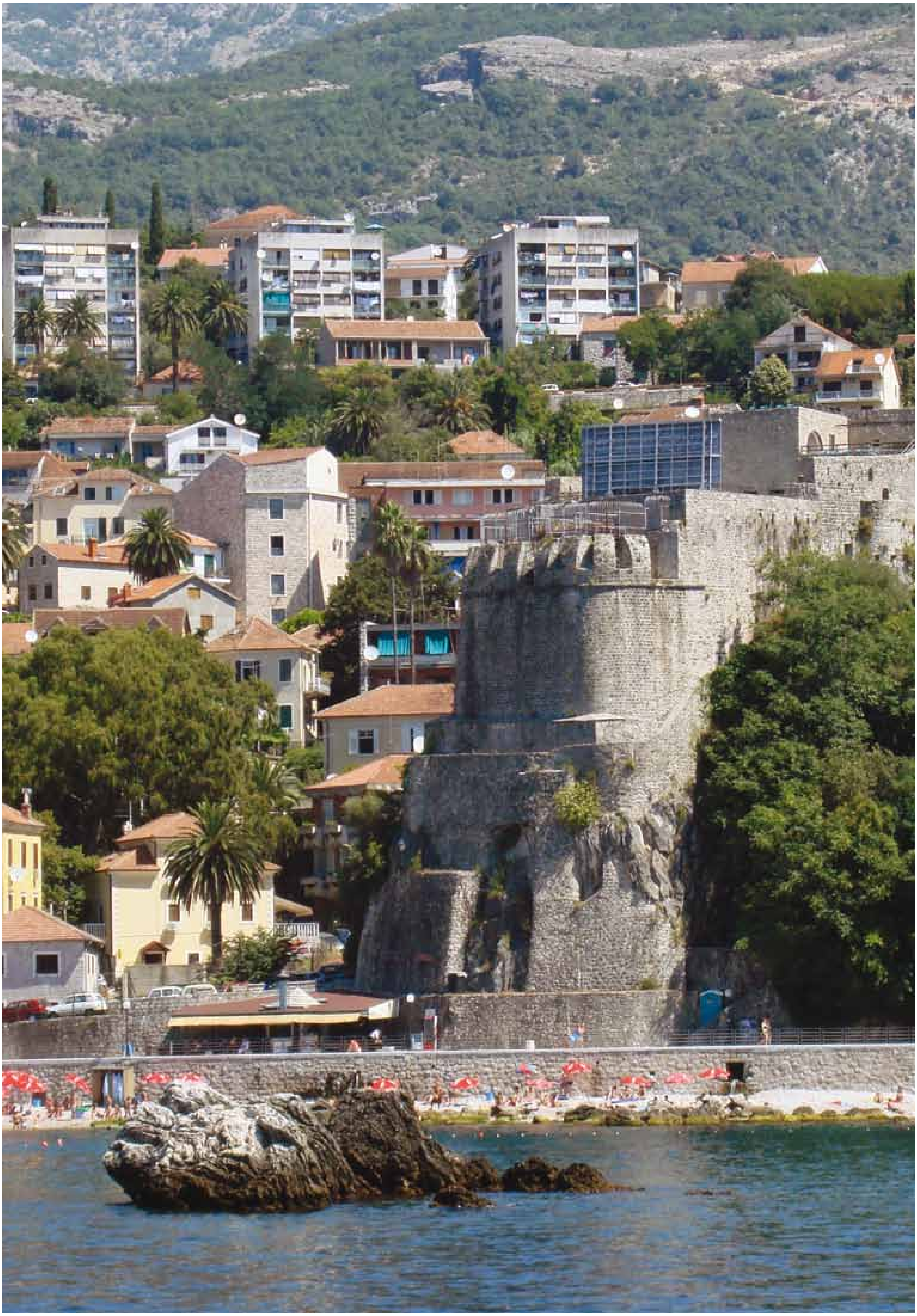
President & CEO
World Travel & Tourism Council

Geoffrey J. W. Kent

Geoffrey J W Kent
Chairman, World Travel & Tourism Council and
Chairman & CEO, Abercrombie & Kent



INTRODUCTION

KNOWN AS THE 'PEARL OF THE MEDITERRANEAN', MONTENEGRO IS A SMALL COUNTRY ON THE ADRIATIC SEA, COVERING A SURFACE AREA OF ONLY 13,812 SQUARE KILOMETRES – OR LESS THAN THAT OF THE US STATE OF CONNECTICUT. YET IT BOASTS SOME OF THE MOST SPECTACULAR SCENERY IN EUROPE, IF NOT THE WORLD, WITH AN UNPARALLELED RICHNESS AND DIVERSITY OF NATURAL AND CULTURAL RESOURCES.

Montenegro's prime attractions include 300 kilometres of stunning coastline with 60 kilometres of beaches, several mountain ranges with peaks over 2,000 metres, and virgin forests and national parks containing unique species of wildlife, flora and fauna.

Over the last decade, following its re-emergence onto the world tourism stage after years of isolation due to the Balkan War in neighbouring countries, Montenegro's international arrivals have grown from only about 100,000 (in 2000) to around 1.1 million (2010). Admittedly, domestic tourism has shrunk over the same period – largely due to the country's independence from Serbia in 2006, which turned its leading source of visitors, Serbia, into an international market. But total earnings have also risen sharply, despite a couple of challenging years at the end of the decade, highlighting the growing importance of Travel & Tourism to the national economy.

Growth has not been just a matter of luck, but is the direct result of the government's commitment to sustainable tourism development.

Preserving the country's 'wild beauty'

Importantly, the growth has not been just a matter of luck, but is the direct result of the government's – and especially the former Ministry of Tourism's – commitment to sustainable tourism development, as a means of expanding and diversifying the national economy and enhancing the well-being and living standards of local communities in Montenegro.

Nature protection, product diversification, reducing seasonality, and spreading the benefits of tourism across the population and to all regions, are at the core of Montenegro's nature-based tourism development strategy, making the rationale for preservation of the environment, culture and traditions an economic rather than a philosophical goal.

The Montenegrin Government's commitment to creating a business-friendly environment, with minimal state interference, and an open economy with low taxes has also resulted in a wide-ranging programme of structural and institutional reforms, which have enabled it to benefit from improved economic performance. In 2007, the World Bank noted that Montenegro was one of the fastest-growing non-oil economies. Adopting the euro as its local currency has also helped it to control inflation in recent years.

Poised for recovery

From the early 2000s to 2008, the impressive growth in Travel & Tourism demand for Montenegro contributed to stimulating investment, resulting in increased profits for hotels and other local tourism businesses. This was of course helped in large part by the privatisation process, which has seen more than 90% of hotel stock move out of state control into private sector hands, as well as donor-funded infrastructure projects. These have also played a major role in laying down the foundations on which Montenegro has been trying to build a competitive economy based on tourism and services.

The dampening of demand in 2009 – largely as a result of global recessionary pressures – led to a stalling of new investment and depressed growth in tourism performance in 2009 and 2010. But there are clear signs of recovery, reflected in the World Travel & Tourism Council's (WTTC's) bullish forecasts for Montenegro's Travel & Tourism over the next ten years.

With a new Prime Minister, Igor Luksić, taking the reins from his predecessor, Milo Đjukanović, and new Minister for Sustainable Development & Tourism, Predrag Sekulić, Montenegro looks set to reap the benefits of its efforts over the past decade, raising Travel & Tourism's contribution to GDP, employment, exports and investment.

BACKGROUND & HISTORY

More than 1,000 years of history, influenced by many different cultures

The land that is now Montenegro has a long history stretching back more than 1,000 years and has been by many different cultures. By way of example, Montenegro includes traces of Venetian, Austro-Hungarian, Byzantine and Islamic heritages.

In World War I, Montenegro fought with Allied troops, but was eventually defeated and occupied by Austria, then annexed by Serbia in spite of US President Woodrow Wilson's support for Montenegro's independence. The majority of the Montenegrin population opposed the annexation. As a result, on Orthodox Christmas, 7 January 1919, Montenegrins staged a national uprising – the Christmas Uprising – against the Serbian annexation, which resulted in a war of Montenegrins against Serbians that lasted until 1926. This provoked extensive emigration, and Montenegro's population totalled only around 300,000. Montenegro was absorbed by the Kingdom of Serbs, Croats and Slovenes, which became the Kingdom of Yugoslavia in 1929.

At the conclusion of World War II, the Kingdom of Yugoslavia became a constituent republic of the Socialist Federal Republic of Yugoslavia. When the latter dissolved in 1992, Montenegro joined with Serbia, first as the Federal Republic of Yugoslavia and, after 2003, in a looser union of Serbia and Montenegro.

However, in May 2006, determined to become an independent nation, Montenegro invoked its right under the Constitutional Charter of Serbia and Montenegro to hold a referendum on the issue. As a result of this vote, independence was declared on 3 June 2006 and the first parliamentary elections were held in September that same year.

Montenegro's second elections were held in 2009, confirming support for the ruling party, the Democratic Party of Socialists, and Prime Minister Milo Đukanović, who has been a dominant

figure on the country's political scene since 1991. Đukanović stepped down from office in late December 2010, passing the baton to the 34-year-old Deputy Prime Minister and Minister of Finance, Igor Luksić.

GEOGRAPHY & ATTRACTIONS

Already ranked among the world's most desirable destinations

Montenegro was recently named one of the "top ten glamorous destinations for the rich and famous" by *Lonely Planet*, demonstrating that the country is well on its way to achieving the government's goal of turning what was only a decade ago considered primarily a budget destination into one attracting predominantly high-yield upmarket visitors. Reflecting increased awareness of the destination and its attractions, it was also featured in the 25th Anniversary edition of *National Geographic* in October 2009 as one of the "50 Places of a Lifetime".

Nevertheless, Montenegro still has a long way to go before it fully merits all the accolades it is already receiving, with a mere 6.5% of its hotel rooms in the five-star accommodation category. Yet, with a slew of upmarket hotels and resorts in the pipeline, the next few years should see the realisation of the government's goal to be an upmarket, high-yield tourism destination.

A paradise for active holiday-makers

This achievement will certainly be helped by the country's rich natural and cultural attractions, which make it a paradise for active holiday-makers as well as sun & beach enthusiasts. Long obscured by decades of communist isolation and the secessionist upheavals that followed it, the country certainly lives up to the catch-phrase through which it is promoted by the National Tourism Organisation (NTO) of Montenegro: 'Wild Beauty'.

Montenegro boasts an amazing diversity of landscapes about which most destination managers and marketers could only dream, with nearly 60 kilometres of beautiful, largely unspoilt beaches, magnificent bays, huge cliffs over a dark blue sea, high mountains, lakes, waterfalls and vast pastures. The country is also home to Europe's deepest canyon, its largest bird sanctuary (there are 270 bird species in and around Lake Skadar, among which some of the last pelicans in Europe), its southernmost fjord, and its only remaining virgin forests.

Located in southeast Europe, in the southern part of the Balkan Peninsula, Montenegro shares its borders with Croatia, Bosnia & Herzegovina, Serbia and Albania, and lies across the Adriatic Sea from Italy. Its population of some 680,000, 20% of whom live in the capital Podgorica, one of 21 different municipalities, enjoys a Mediterranean climate with an average of 240 days of sunshine annually.

Montenegro boasts an amazing diversity of landscapes about which most destination managers and marketers could only dream.

A rich natural heritage

Montenegro's highest mountain peak is Babotov Kuk, in the Durmitor region, at an altitude of 2,522 metres, but it counts more than 30 mountain peaks rising above 2,000 metres. The high limestone mountains are cut by the Morača, Tara, Piva and Ceotina rivers forming deep gorges and spectacular canyons. The River Tara Canyon is the deepest of these, at 1,300 metres – the deepest and longest in Europe and second in the world after the Grand Canyon. The country's largest lake, Skadar, one third of which is in Albania, is over 40 kilometres long and 10 kilometres wide, making a total of 391 square kilometres.

The central parts of the country are occupied by plains – Montenegro's most fertile areas. Along the coast, the Orjen, Lovćen and Rumija mountains rise steeply from the Adriatic Sea and form spectacular landscapes. The seacoast stretches from Herzeg-Novi, at the northwest border with Croatia, down to the Bojana River (at the border with Albania), and is highly indented with several islands off shore.

Meanwhile, the country's many 800-year-old olive trees continue to yield some of the finest olive oils in the whole of Europe.

MAIN TOURISM REGIONS

Adriatic Coast

As is reflected in the breakdown of the country's visitor arrivals and overnights, the coastal resort areas are by far the main draw for visitors to Montenegro. The most important destination along Montenegro's coast is the resort town of **Budva**, which sees more than 40% of all visitors to the country. It is one of the areas that have seen the fastest growth in the past decade – largely because it already had the basic infrastructure for tourism before the outbreak of the Balkan War – although ongoing infrastructure developments and future investment projects are expected to draw more tourists to other, less overbuilt coastal destinations in the future.

The Bay of Kotor (Boka Kotorska), listed as one of the most beautiful bays in the world in July 2000, is one of the main highlights along Montenegro's coast, combining natural beauty with history and culture. It is one of the two UNESCO World Heritage sites in the country, included in UNESCO's list in 1979, and is actually a submerged river canyon spilling into the Adriatic Sea. The bay is a natural harbour, which used to be an important commercial and art centre in the Middle Ages.

The picturesque old town of Kotor is dotted with historical sites from different periods and its rich variety of attractions includes the old fortified town walls and gates, the main square (Square of Arms), a number of palaces and churches, and ancient mosaics dating back to the 2nd and early 3rd centuries. Along the shores of Kotor Bay sits the beautiful, ancient town of Perast, established on the remains of a Neolithic settlement and rich with maritime history. During its rule by the Venetian Republic, from 1420 to 1797, it was home to four shipyards and more than 15 baroque palaces and churches.

The signature attraction of Montenegro is undoubtedly the picturesque **Sveti Stefan Island** (Saint Stefan). It is located approximately halfway down Montenegro's Adriatic coast, near Budva, and is attached to the coast by a narrow isthmus. The island represents a preserved medieval fishing village from around the 15th century, with original architecture, including three churches. In the 1950s, the village residents were moved to the mainland and it was turned into a high-end resort enjoyed by celebrities from around the world, including Sofia Loren, Monica Vitti and Sylvester Stallone. The island, along with the Villa Miločer and Queen's Beach on the mainland, is now a luxury Aman resort.

The southernmost coast of Montenegro, south of the port of Bar, is as yet little developed, but includes the **Velika Plaža**, a 13-kilometre stretch of broad, unbroken white-sand beach, which has been earmarked as a major area for upmarket investment and development over the next ten years.

Lake Skadar

Lake Skadar is the largest lake on the Balkan Peninsula, located in the Zeta-Skadar valley, and is connected to the Adriatic Sea by the Bojana River. Its surface ranges from 370 square kilometres to 530 square kilometres, depending on seasonal water level fluctuations. Two thirds of the lake belong to the territory of Montenegro and one third is part of neighbouring Albania.

In 1983, Lake Skadar and 40,000 hectares of surrounding coastal area were declared a national park. The lake is especially valuable for its rich biodiversity. Home to more than 270 bird species, many of which are rare or endangered, it is one of the most important bird reserves and winter sanctuaries in Europe, and the waters of the lake are home to more than 40 fish species. In 1996, it was included in the 'World's List of Wetlands of International Importance', in accordance with the Ramsar Convention.

In addition to natural richness, the area boasts exciting cultural and historical sites dating back to the 14th and 15th centuries. Monuments include archaeological sites, monastery complexes, fortifications and deserted fishing settlements scattered around the Skadar Lake basin. Thanks to donor-funded projects, Lake Skadar is probably the most developed and well-maintained national park in the country. It has an established visitor centre with exhibit areas and educational programmes, and provides information on nature observation, fishing, bird watching and other tourist activities.

Central and Northern Montenegro

While the main driver of the country's tourism industry is the coast, Montenegro's interior hides huge potential for tourism product diversification, but the region is still relatively unknown. Four of the country's five national parks – Biogradska Gora, Lovćen, Durmitor and, the most recently proclaimed, Prokletije – are located in the interior. Thanks largely to donor-funded projects, the region has begun to see the development of accommodation and tourist service facilities. But it is still very early days.

Durmitor National Park is the most significant, albeit largely underdeveloped, attraction in northern Montenegro. It covers a territory of 39,000 hectares in the northwest of the country, and is the second UNESCO World Heritage Site in Montenegro, nominated in 1980. Durmitor's highest point is also the highest peak in the country – Bobotov Kuk (2,525 metres). It is sprinkled with 18 glacial lakes, the biggest and most famous of which is the Black Lake (Crno Jezero). The different combinations of high mountain tops, beautiful lakes and deep river canyons create stunning landscapes and offer huge potential for adventure travel programmes. In addition to its natural beauty, Durmitor National Park offers a significant number of cultural heritage sites dating

Montenegro's interior hides huge potential for tourism product diversification, but the region is still relatively unknown.

from ancient times, including town ruins, bridges and religious sites, but its charm is enhanced by the fact that the traditional lifestyle has been preserved in many mountain villages and communities.

The **River Tara** cuts through Durmitor National Park, adding to the richness of its natural beauty and forming the deepest canyon in Europe and second in the world after the Grand Canyon. The canyon's valley is 93 kilometres long and its depth reaches 1,300 metres. It offers good facilities for rafting, which were upgraded with the efforts of a United Nations Development Programme (UNDP) project team working in the area. The Tara River and its canyon valley were included in UNESCO's 'Man and Biosphere' programme in 1977.

A whole new range of tourist facilities and attractions waiting to be developed

According to local tour operators, development of Montenegro's so-called 'Northern Region' has been slower than initially intended because of difficult access from central and coastal areas. In addition, there are significant gaps in terms of accommodation capacity and food services. But some of the problems related to tourism development in and around the national parks stem from limited capacity and ineffective management. The government is well aware of these weaknesses, which have started to be addressed – see the second report in this series: *Montenegro's Travel & Tourism: Economic and Policy Environment.*

Plans for visitor management and product development exist but fee collection, guiding and other visitor services, security control, maintenance of trails and camping areas are not fully up and running. A regional project led by UNESCO is expected to improve the integrated management of the area and some longer-term plans for new roads connecting the north to central and coastal areas are also likely to lead to a more effective development of tourism in the region.

Rich cultural heritage shaped by a variety of different influences

As already indicated, Montenegro's colourful history involving Orthodox, Slavonic, Central European, Islamic and seafaring Adriatic cultures, such as the Republic of Venice, have blessed the country with a rich cultural heritage. Montenegro has many cultural and historic sites, including heritage sites from the pre-Romanesque, Gothic and Baroque periods. The Byzantine influence is evident in architecture and religious artwork, and there are numerous sites and attractions from the Romans and Turks – such as Ostrog Monastery, Cetinje Monastery, the Cathedral of Saint Tryphon, Gospod od Skrpjela (Our Lady of the Rocks), and the Mosque of Hussein-pasha.

Clearly, these all add to the country's unique appeal and selling points as a tourism destination catering to all tastes, if not yet to all budgets.

TOURISM PERFORMANCE

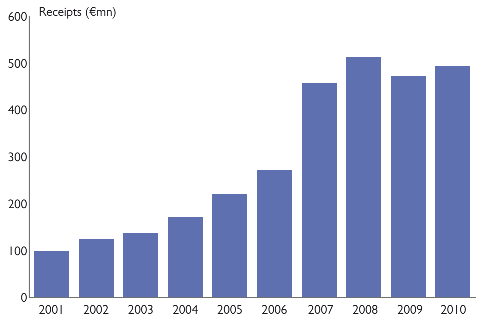
VISITOR EXPENDITURE

Above-average growth in international tourism receipts…

Preliminary estimates based on actual results reported by the Central Bank of Montenegro to the World Tourism Organization (UNWTO) point to a 4-5% increase in international tourism receipts in 2010 after a decline of nearly 8% the previous year. If confirmed, this would mean that international tourism receipts have more than doubled since 2005, and have multiplied by a factor of five since the beginning of the decade.

Montenegro's international tourism receipts[a], 2001-10

Year	Receipts (€ mn)	% annual change
2001[b]	100.00	na
2002	124.97	25.0
2003	138.35	10.7
2004	171.76	24.1
2005	221.70	29.1
2006	271.08	22.3
2007[a]	457.00	…
2008[a]	513.00	12.1
2009[a]	472.47	-7.9
2010[ab]	495.00	4.8



[a] 2007-10 figures include spending by visitors from Serbia, following Montenegro's independence in 2006, which explains the huge increase in spend for 2007

[b] Estimates

Sources: Central Bank of Montenegro (CBM); World Tourism Organization (UNWTO)

Moreover, Montenegro has performed as well as – if not better than – all its key competitors in the Balkans and the Mediterranean overall. In the five years from 2005 to 2010, international tourism receipts increased by an estimated 17% per annum in nominal terms – second only to Serbia with 22% – while the respective growth was an estimated 6% for Slovenia and just 3.5% for Croatia.

Other eastern Mediterranean destinations have had mixed fortunes. Cyprus recorded a 9% growth in receipts (nominal growth) over the five-year period and Malta 8%, but Turkey's annual increase was below 3%, according to provisional figures from UNWTO. And Greece's receipts actually declined.

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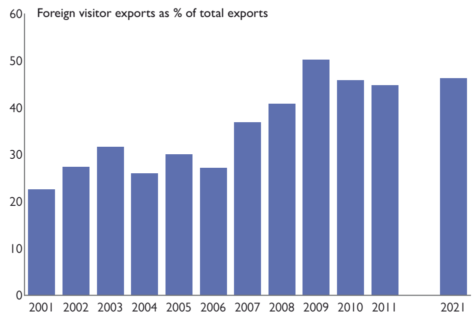
… as well as in visitor exports

Unlike UNWTO, WTTC and its research partner Oxford Economics measure visitor exports – international receipts including spending on transport within the country. Visitor export trends have followed a similar pattern to that of receipts, rising by an average 18% a year in nominal terms, with only one year of negative growth (-3%) since 2000 – in 2009.

The latest annual economic impact research from WTTC/Oxford Economics, which is based on the 2008 *Tourism Satellite Account: Recommended Methodological Framework* (TSA:RMF 2008), shows that Montenegro's visitor exports exceeded their 2008 peak in 2010 by €5.8 million, increasing at the same time by 4.5% over 2009's level.

Montenegro's visitor exports, 2005-11[a]

Year	Visitor exports (€ mn)	% annual change
2006	237.3	24.6
2006	287.7	11.2
2007	481.8	41.9
2008	539.2	1.4
2009	521.6	-6.5
2010	545.0	3.9
2011[b]	633.8	14.0
2021[c]	2,033.9	9.4



[a] WTTC's economic impact research, conducted with Oxford Economics

[b] 2011 real growth projection adjusted for inflation

[b] Annualised real growth forecast for the 10 years from 2011 to 2021, adjusted for inflation

Source: World Travel & Tourism Council ((WTTC)/Oxford Economics)

2nd fastest growth market worldwide and 1st among its regional competitors

Even more significantly, the WTTC/Oxford Economics research findings suggest that, over the next ten years, Montenegro will enjoy annual growth in visitor exports of around 9.4% – more than double the world average of 4.3%, and nearly three times the regional average of 3.5%. Indeed, this forecast growth puts Montenegro in second position in WTTC's Global League Table Rankings (behind Brazil at +11.9%).

The following table compares Montenegro's expected growth in visitor exports and ranking with that of some of its close competitors and the world average.

Visitor exports: Montenegro's ranking compared with that of some its regional competitors (2011-21 real growth pa)

Rank	Country	Growth (%)
2	**Montenegro**	**9.4**
34	Poland	6.3
50	Bosnia-Herzegovina	5.9
78	Macedonia	5.2
99	Croatia	4.6
	World average	**4.3**
118	Slovenia	4.0
140	Slovakia	3.3
144	Russian Federation	3.3
156	Italy	2.5
171	Czech Republic	1.7

Source: WTTC/Oxford Economics

2010 surpasses 2008 peak

If domestic Travel & Tourism expenditure is included in the count – €127.5 million – as well as government individual spending, total tourism earnings in 2010 (internal tourism consumption) are estimated at €674 million – some €20 million above the €654 million estimate from Montenegro's Central Bank (CBM), which is based on trends for the first ten months of the year. The difference can be explained by the different methodology used for the respective calculations.

The growth trend is nevertheless very marked in both cases (+4% for WTTC/Oxford Economics and +5% for the provisional estimate from the Central Bank), reinforcing the argument that the market is well on the way to full recovery, just surpassing its 2008 peak.

Domestic expenditure remains very modest compared with visitor exports

While visitor exports are expected to account for close to 45% of total exports in 2011 – an increase of 14% over 2010's level – domestic spending will be much more modest, according to Oxford Economics, generating just under 4% of the total – or 3% above 2010's volume.

ARRIVALS & OVERNIGHTS

Overview of 10-year Trends

Growth in international tourism is almost back on track

The last few years have been challenging ones for Montenegro's Travel & Tourism, especially given the unprecedented growth of the previous eight years or so. But the worst of the downturn seems to be over and, despite a blip in the growth curve for overnight volume, growth seems to be almost back on track.

Provisional data for 2010 shows a 4.2% increase in both international arrivals and overnight volume. This reflects a slowdown in growth in the last three months of the year as arrivals in the first three quarters were up 5% and overnights 6%.

In the period January through September, performance showed month-by-month improvements, but this positive trend was not sustained through to the end of 2010, with both October and December recording declines. It is interesting to note, meanwhile, that the January through September totals were almost at the same levels, in fact, as the total counts for the full 12 months of 2009.

From 2001 to 2010, Montenegro's international arrivals increased by 29% per annum and overnights were up 29.5% a year, despite a 4% drop in nights in 2009 – the only decline since the beginning of the decade.

If the grey market were included in the calculations, the domestic share of total arrivals and overnights would clearly be higher.

Tourist arrivals and overnights in Montenegro, 2001-10

International				
Year	Arrivals ('000)	% annual change	Nights ('000)	% annual change
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	39.0	2,196	38.6
2007	595	…	3,799	…
2008	1,031	73.3	6,966	83.4
2009	1,044	1.2	6,956	-3.9
2010	1,088	4.2	6,978	4.2

Domestic				
Year	Arrivals ('000)	% annual change	Nights ('000)	% annual change
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	5.1	3,740	3.1
2007	149	…	851	…
2008	157	5.4	829	-2.6
2009	164	4.5	856	3.3
2010	175	7.0	987	15.3

Note: Arrivals and overnights in Serbia are included in the domestic totals up to and including 2006, and in the international counts from 2007 – the year after Montenegro's independence

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

Pick-up in demand for domestic tourism

Not surprisingly, domestic tourism has performed less impressively over the same period – especially since Montenegro's independence in 2006, when the country's most important source of tourists, Serbia, became an international market. While arrivals growth remained steady, averaging just under 5% per annum from 2007 to 2009, overnights fell in 2008 and averaged only a modest 0.3% annual rise from 2007 to 2009. This also confirmed the trend towards shorter leisure breaks by Montenegrins.

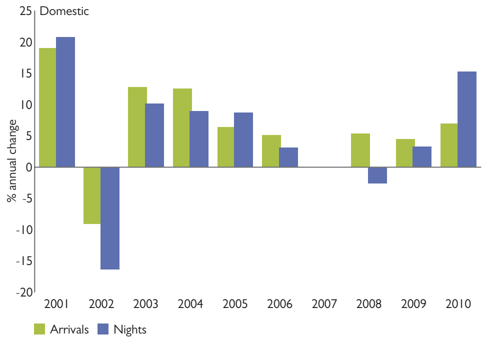
With the improved economic environment in 2010, domestic arrivals increased by 7% and overnights were up over the same period by more than 15%.

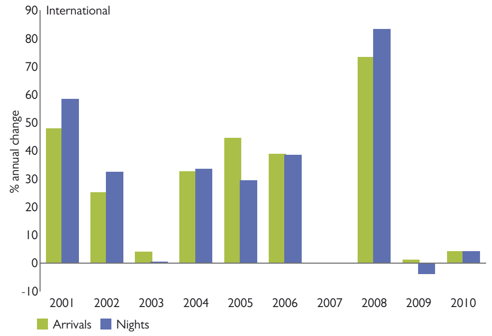
Lack of 'grey market' statistics undermines domestic tourism's importance

If the grey market were included in the calculations, the domestic share of total arrivals and overnights would clearly be higher. But, despite a massive 'clean-up' by the government in the last few years, with a campaign to encourage Montenegrins to register their accommodation for rental, there are still thousands of unregistered beds in holiday apartments and villas – probably more than 100,000 in total – especially in Budva and Bar.

Many holiday properties in these municipalities are owned by Serbs, as well as the Ulcinj region, which drives the huge grey market from Kosovo and Albania.

Growth in tourist arrivals and nights in Montenegro, 2001-10
(% annual change)





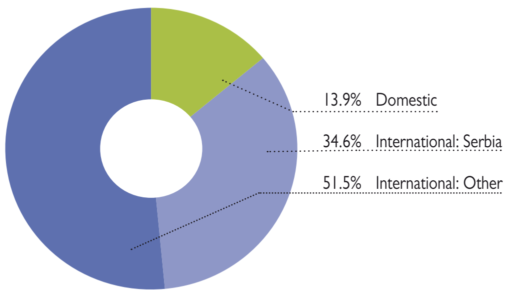
Note: See footnotes to above table

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

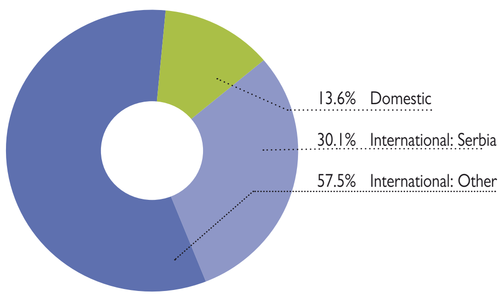
International tourism predominates

The following two charts highlight the relative importance of international tourism, which generated 86% of arrivals and 89% of overnights in Montenegro in 2010. Serbia accounted for close to one third of the international counts.

2010 breakdown of Montenegro's tourist arrivals ...



... and nights



Sources: Sources: Ministry of Sustainable Development and Tourism; MONSTAT

RECENT TRENDS

Preliminary results point to a satisfactory recovery in 2010

With a few notable exceptions (eg Serbia, Poland, Hungary, Italy ...) most of Montenegro's key markets rebounded in 2010 (see tables on pages 17-18). The results of a comparative analysis by the European Travel Commission (ETC) among its member national tourism organisations (NTOs) through the first nine months of last year also show that Montenegro was by far the best performer in several of Europe's leading source countries – eg Germany (+48% in both arrivals and nights), the UK (+55% in arrivals and +56% in overnight volume) and France (+30% and +21% respectively). The improved competitive performance is reassuring, especially given 2009's disappointing results.

Improved airline service was the main contributing factor, together with the fact that many of the new flights were tour operator charters, eg from Thomson Holidays in the UK, so this helped raise awareness of Montenegro as a tourism destination among holiday-makers generally.

Interestingly, Montenegro was also well up among Europe's leading destinations in terms of growth from the USA (+35% and +62%), Canada (+19% and +22%) and Japan (+64% and +48%) – only one of which, the USA, features in the top ten market rankings, since they are all fairly young markets for Montenegro.

Montenegro's tourism performance vis-à-vis its competitors in key tourism markets, January - September 2010
(% annual growth Jan-Sep 2010/09)

Destination/ Market	Total foreign	Germany	UK	France	Netherlands	Italy	Russia	USA	Canada	Japan	China
Arrivals											
Croatia[a]	-2.6	-3.5	-2.1	-3.8	-7.4	-15.9	24.6	5.3	15.8	-6.6	67.6
Cyprus[c]	1.7	7.3	-6.0	7.5	8.9	-21.2	52.7	23.1	31.4	110.3	28.6
Greece[bd]	-5.4	-5.5	-11.0	-8.9	-14.9	-9.2	67.3	-13.9	-27.5	0.0	0.0
Malta	12.1	-4.9	6.7	12.7	-9.1	29.2	15.1	10.4	na	na	na
Montenegro	4.6	48.0	55.0	30.0	-18.0	-9.0	3.0	35.0	19.0	64.0	na
Serbia[ac]	4.0	7.0	15.0	1.0	14.0	-8.0	24.0	17.0	11.0	na	na
Slovenia[a]	2.0	-1.9	-3.1	3.3	-8.3	-2.3	19.5	10.1	18.2	-14.7	na
Overnights											
Croatia	1.0	0.1	-3.1	-3.8	-8.2	-7.9	29.1	5.7	14.8	-4.2	43.5
Malta	11.3	0.0	7.7	6.4	-6.5	25.8	16.4	40.4	na	na	na
Montenegro	4.8	47.8	56.3	21.3	-22.5	-13.4	14.1	62.0	21.6	48.4	na
Serbia[d]	-3.0	2.0	7.0	-6.0	24.0	1.0	2.0	10.0	-28.0	na	na
Slovenia	0.7	-1.8	-0.3	0.5	-10.9	-2.2	23.2	12.3	15.0	-14.5	na

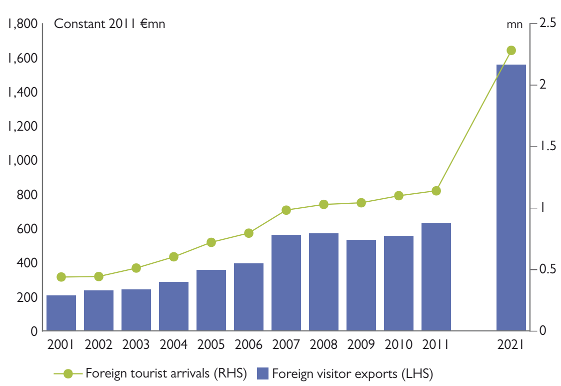
Sources: European Travel Commission; respective countries

CURRENT OUTLOOK

WTTC/Oxford Economics remain bullish about longer-term prospects...

Although the Montenegrin Government's policy focus is firmly on controlled, sustainable development of the country's Travel & Tourism industry, rather than chasing an increase in sheer numbers, forecasts from WTTC/ Oxford Economics – based on Oxford Economics' Tourism Decision Metrics (TDM) forecasting tool, point to an average annual growth of 7% in terms of arrivals over the coming decade. This would represent only half the forecast growth in visitor exports (14% per annum), but it would nevertheless result in a doubling of the international arrivals count between now and 2021 (to 2.3 million).

Visitor exports and international arrivals, 2011-21



Source: WTTC/Oxford Economics

These bullish forecasts mean that both the government and the country's Travel & Tourism industry will feel less pressure to worry about overall capacity and will be able to strengthen their efforts to ensure that the overall development is indeed sustainable, generating higher yields (through increased length of stay and higher spending), and spreading the benefits more equitably across the population in all regions of the country. By way of comparison, WTTC/Oxford Economics' forecasts for Croatia – admittedly from a higher base – point to less than 4% annual growth in arrivals and 5% in visitor exports by 2021.

...and Montenegro also improves its overall competitiveness ranking

The recently published *Travel & Tourism Competitiveness Report*, published by the World Economic Forum (WEF), also puts Montenegro in a very favourable light, showing that it has improved its ranking overall – from 49th position in 2009 and 65th in 2008 to 36th in 2011.

As reflected in the accompanying report on *Montenegro's Travel & Tourism: Economic and Policy Environment*, the country has been ranked even higher with regard to some pillars, such as Tourism Infrastructure and Policy Rules and Regulations.

And, while the country still has some way to go with regard to Price Competitiveness – for which it is ranked a much lower 48th out of 139 countries – WEF's study puts Montenegro in seventh position in the world in terms of its Affinity for Travel & Tourism.

INDIVIDUAL SOURCE MARKETS

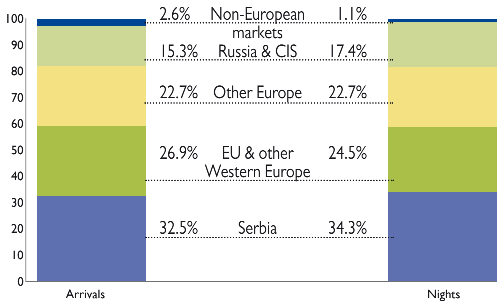
Heavy dependence on European region

Since 2010 data was not yet fully available at the time of writing this report, part of the following analysis focuses on 2009 trends. As already indicated, Serbia generates around one third of international arrivals (32.5% in 2010) and a slightly higher share of overnight volume (34%). The second most important source region is the European Union and other West European markets, accounting for 27% of arrivals and 25% of nights – and generating an average length of stay of 5.8 nights, as against 6.8 for Serbians.

Russia and members of the Commonwealth of Independent States (CIS) generate a 15% share of arrivals and 17% of nights – down slightly from their peak in 2008 – and other European countries for 23% of both arrivals and overnight volume. Most of this share is accounted for by Central and East European source countries.

Non-European markets, while reported to be showing promise, generated fewer than 3% of arrivals in 2010 and a mere 1% of nights, highlighting the fact that they remain largely untapped. Israel is one of only two non-European markets in Montenegro's top 20, with the USA. In 2009, it recorded a boom year, thanks largely to the availability of charter flights. But this was followed by a drop in nights in 2010, according to preliminary estimates.

International arrivals and nights by main source regions, 2010



Note: CIS = Commonwealth of Independent States

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

Israel is one of only two non-European markets in Montenegro's top 20, with the USA.

Need for further market diversification

It is interesting to note that non-European markets appear to have grown more strongly in 2010, albeit from a low base. Nevertheless, if Montenegro is to reduce its heavy dependence on the short-haul European sources, it will become increasingly important for the country to establish a presence in some of the fast-growing emerging economies, which hold good growth potential for Montenegro – both in terms of leisure and business tourism.

East European sources top the rankings

Montenegro's top three sources – Serbia, Russia and Bosnia & Herzegovina – dominate international demand, generating more than 52% of arrivals from abroad and nearly 58% of foreign overnight volume in 2010. These shares were nevertheless down a few percentage points over 2009's level.

Both arrivals and nights from the former 'sister state', Serbia, had already declined sharply in 2009 – by 18% in terms of arrivals and 7% in nights. (Montenegro was part of the wider Serbia until its independence in 2006, along with Kosovo, which has also since declared its independence.) Moreover, the trend seems to have continued in 2010, although average length of stay remained at around 6.7 to 6.8 nights. There was also a drop in overnight volume from Bosnia & Herzegovina (-13%), but arrivals increased by 3%, resulting in a reduction in average length of stay.

Russia leads in terms of non-commercial business

Russia, on the other hand, continued to perform well – both in terms of arrivals and overnight volume (+24% and +18%). But the growth trend was much more modest for 2010 (+3%). Nevertheless, the Russian market recorded average annual growth of just under 30% over the second half of the 2000s, thereby outperforming most other leading sources.

Since such a large volume of Russians have purchased real estate in the country, and invite their friends and families to use their apartments and villas, this helps to sustain demand. And many of these stays are not officially recorded, which means the growth and volume of Russian arrivals are understated.

Arrivals from Montenegro's top 20 international source markets, 2005-10

Market	2005	2006	2007	2008	2009	2010	% change 2010/09	Av annual % change 2005-10
Serbia	395,000	419,273	389,428	412,886	338,893	314,836	-7.1	-4.4
Russia	41,011	61,092	102,350	117,680	145,557	150,194	3.2	29.6
Bosnia & Herzegovina	46,838	55,553	101,394	98,822	101,874	103,025	1.1	17.1
Kosovo	na	na	na	na	49,225	49,741	1.0	na
France	11,300	17,702	30,279	24,474	33,080	42,099	27.3	30.1
Italy	11,435	17,702	37,211	31,341	42,549	39,987	-6.0	28.5
Albania	13,234	25,925	37,801	30,540	39,252	37,601	-4.2	23.2
Hungary	6,243	8,766	16,425	29,559	32,631	28,838	-11.6	35.8
Germany	18,352	20,252	17,891	22,297	18,329	25,381	38.5	6.7
Macedonia	14,940	14,469	22,543	29,436	19,911	24,417	22.6	10.3
Czech Republic	23,517	28,674	33,100	29,837	25,928	24,085	-7.1	0.5
Slovenia	14,940	17,607	20,663	17,890	18,891	22,472	19.0	8.5
UK	7,817	13,084	15,324	12,935	14,108	20,496	45.3	21.3
Ukraine	na	na	8,775	25,173	12,295	24,467	73.4	40.7[a]
Poland	3,040	6,383	11,979	13,054	15,039	18,739	24.6	43.9
Croatia	7,543	11,636	12,809	18,624	15,677	17,497	11.6	18.3
Romania	896	1,390	1,931	3,133	7,895	14,471	83.3	74.4
Austria	3,193	5,023	16,425	17,864	12,204	12,454	2.0	31.3
Israel	4,377	6,091	5,261	4,599	11,142	10,595	-4.9	19.3
USA	3,432	5,982	7,426	7,487	6,698	8,769	30.9	20.6
Total (incl others)	**667,005**	**797,071**	**984,138**	**1,030,825**	**1,043,933**	**1,087,794**	**4.2**	**10.3**

Note: Serbia is included as an international market throughout the period for ease of comparison
[a] Average growth over 3 years

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

In addition to the two Balkan leaders, all states of the former Yugoslavia, as well as other Balkan source countries like Albania, remain very important to Montenegro's tourism, but the global economic crisis has had a negative impact on demand from most of these. As an example, Croatia and Macedonia recorded marked declines in 2009 – both in terms of arrivals and overnight volume. But both also rebounded strongly in 2010.

All states of the former Yugoslavia remain very important to Montenegro's tourism.

France, top West European source, ranks fifth overall

The largest western European market is France, which ousted Italy from fifth position in the ranking in 2010. The French market developed more slowly than anticipated, largely due to poor airline access – but it has nearly quadrupled in terms of volume of annual arrivals since 2005, increasing by some 30% a year in terms of both arrivals and overnights. Growth prospects from France also look extremely good as the French are less sun & beach focused than many Europeans travelling abroad – since they have an abundance of sunny coastal resorts at home – looking for different types of recreation and activities when travelling abroad. So they are seen as a market with good potential for mountain sports, countryside and cultural holidays.

The Italian market is interesting for Montenegro in that it is a fairly diversified market, generating business outside the main peak season from among its senior citizens and families on lower budgets, who choose the less expensive, quieter periods to visit the country. Short leisure breaks are also popular, largely thanks to the availability of low-cost direct charters from the major northern Italian cities and urban regions, notably Milan.

Like France, the UK only really started to show its potential in the second half of the 2000s, but UK arrivals declined in 2008, again due to a shortage of air access. The situation improved radically in 2010 with the launch of scheduled flights by Montenegro Airlines to Tivat from London Gatwick, but these are now expected to be suspended due to the carrier's precarious financial situation (see below).

Overnights by Montenegro's top 20 international source markets, 2005-10

Market	2005	2006	2007	2008	2009	2010	% change 2010/09	Av annual % change 2005-10	Av LOS[b] (nights) 2010
Serbia	3,058,106	2,851,106	2,644,312	2,878,395	2,298,717	2,097,051	-8.8	-7.3	6.7
Russia	253,178	455,502	789,497	897,921	1,060,458	1,217,978	14.9	36.9	8.1
Bosnia & Herzegovina	267,875	336,618	703,472	805,919	778,439	731,633	-6.0	22.3	7.1
Kosovo	na	na	na	na	292,009	410,845	40.7	na	8.3
France	64,354	103,828	181,384	143,125	193,983	233,959	20.6	29.5	5.6
Italy	49,210	64,477	205,937	151,376	225,976	199,617	-11.7	32.3	5.0
Albania	40,091	99,621	188,572	154,229	191,826	189,074	-1.0	36.4	5.0
Hungary	36,437	46,565	200,675	187,694	205,259	183,031	-10.9	38.1	6.4
Germany	133,903	142,538	116,807	137,146	109,893	151,843	38.2	2.5	6.0
Macedonia	88,905	74,581	156,371	230,340	154,530	163,961	6.1	13.0	6.7
Czech Republic	206,418	222,169	266,598	242,167	171,643	165,050	-3.8	-4.4	6.9
Slovenia	57,967	76,325	90,023	79,073	84,578	106,016	25.4	12.8	4.7
UK	48,582	79,008	90,543	75,344	79,419	115,428	45.3	18.9	5.6
Ukraine	na	na	65,944	181,022	89,681	167,874	87.2	36.5[a]	6.9
Poland	17,633	34,608	73,332	85,450	123,557	84,053	-32.0	36.7	4.5
Croatia	30,278	48,810	44,717	82,365	59,767	66,161	10.7	16.9	3.8
Romania	4,599	8,005	8,236	15,778	38,061	84,838	122.9	79.1	5.9
Austria	12,505	39,397	97,273	102,300	57,588	58,785	2.1	36.3	4.7
Israel	8,588	9,906	8,823	9,313	20,163	19,729	-2.1	18.1	1.9
USA	9,882	17,679	22,005	21,404	22,645	33,820	49.4	27.9	3.9
Total (incl others)	**4,641,616**	**5,047,091**	**6,443,485**	**6,964,755**	**6,694,514**	**6,977,860**	**4.2**	**8.5**	**6.4**

Note: Serbia is included as an international market throughout the period for ease of comparison
[a] Average growth over 3 years [a] Average length of stay

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

An increasingly diversified market from Germany

Overall flight capacity and the number of frequencies also improved significantly from Germany over the period 2008 to 2010, boosting demand from a market that has grown in fits and starts since the early 2000s. But the good news is that, in addition to large numbers of Germans now travelling to Montenegro on charters with leading mass tourism operators, the destination is becoming increasing popular with hikers and bikers and other niche segments such as bird watchers, eager to experience the natural attractions of northern Montenegro. A significant number of German tourists also travel to Montenegro by car.

An image study among Germans by the National Tourism Organisation of Montenegro showed that the profile of the average German interested in a holiday in Montenegro is totally different from the one opting for Turkey, say, or even Croatia. He/she is more than 50 years old, is a high school or university graduate, earns between €2,000 and €5,000 a month, and comes from a two-person household.

While the poor traffic situation during the peak summer months and the perceived high crime rate are major deterrents, not to mention memories of the Balkan War, the typical German tourist to Montenegro appreciates, and is drawn to, the country's untouched nature, beautiful mountain scenery, virgin forests, wildlife, flora and fauna.

BUSINESS VERSUS LEISURE TRAVEL

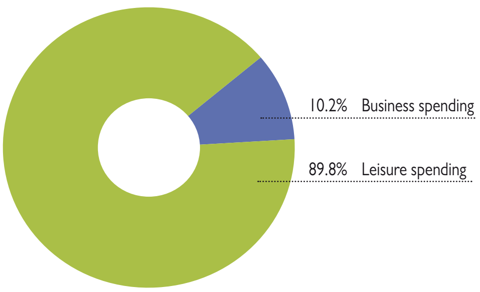
A lack of reliable data

Very little information is available on the split of business to leisure tourism in Montenegro – at least, in terms of arrivals and overnight volume. Horwath HTL's annual report on the sector attempts to assess purpose of trip for hotel guests, but this is not an exhaustive analysis. Nevertheless, it is clear that the meetings, incentives, conferences and exhibitions (MICE) business is growing, as evidenced by the increase in MICE facilities and events hosted in Montenegro. A brief analysis of this segment is provided below.

Leisure travel spend vastly outweighs that for business travel...

Meanwhile, the latest research from WTTC/Oxford Economics suggests that leisure travel spending (inbound and domestic) is nearly nine times greater than business travel spend. More significantly, it is projected to generate 82% of direct Travel & Tourism GDP in 2011 compared with just 18% for business travel spending.

Travel & Tourism's direct contribution to GDP – business vs leisure, 2011



The latest research suggests that leisure travel spending (inbound and domestic) is nearly nine times greater than business travel spend.

...but both will exceed regional and global growth over the next decade

However, the average annual growth in business travel spend is forecast by WTTC/Oxford Economics to be 10.6% between now and 2021, making it the fastest growing country in the world in terms of expenditure on this segment. And the only other country in the world's top ten from among Montenegro's competitor set is Romania (+7.5%).

As for leisure travel spend from 2011 to 2021, Montenegro ranks fifth in the global league table – behind Azerbaijan, China, Namibia and Thailand – with an average annual growth of 8.4% predicted.

Once again, it is important to note that the forecast growth for both business and leisure travel spending in Montenegro is well above the average for Europe and the world overall (see accompanying reports on *Montenegro's Travel & Tourism: Economic Impact,* and *Economic and Policy Environment*.

NEW MARKET SEGMENTS

Growing facilities for sports such as golf...

Despite the global economic crisis, the last few years have seen the emergence – or, in some cases, growth from a low base – of a number of new market segments, especially those catering to more active holiday-makers. One such example is golf, which is viewed by government and the industry as a potential source of high-yield tourism.

There are a number of plans for golf courses currently on the drawing board, most of which in the vicinity of developing coastal regions such as Tivat. More significantly, in 2010, the Montenegrin Government commissioned American design firm, Hurdzan Fry, to create a golf development strategy for Montenegro.

Ten different sites for courses are currently being evaluated and this will be followed by a search for developers, a number of whom are waiting for the go-ahead to invest in this sector. Hurdzan Fry is confident that the usual problems of land title that have slowed golf development elsewhere in the region will not affect potential course projects in Montenegro since the government owns the tracts of land in question. It is predicting that five or more courses will be built in the country over the next five to ten years.

Catering to the active holiday-maker

As discussed in more detail in the accompanying report on *Montenegro's Travel & Tourism: Economic and Policy Environment*, opportunities for a wide range of activity holidays and day-trips have also been opened up in the mountain regions – from gentle pursuits such as hiking & biking, to more adventurous sporting activities like river-rafting along the River Tara, mountaineering, caving and paragliding.

Several ski resorts have been/are being developed and Kolašin alone reportedly attracted up to 3,500 skiers and accompanying persons per weekend in the winter season 2009/10.

Success of Hiking & Biking programme

A wilderness Hiking & Biking programme, launched in July 2007 to raise awareness of Montenegro's hinterland, has had much greater success than initially expected. In the months of May through October 2010, just three years after it was launched, the number of tourists participating in the programme increased by 20% over the same period in 2009, to 40,000, whole overnight volume rose 27.5%, to 95,250. At least 70 tour operators – mainly from western Europe but also from markets as far away as the USA – package the hiking & biking product in their tour programmes to Montenegro.

Expansion of cruise and yachting business

The soft opening of Porto Montenegro's marina at the beginning of summer 2009 gave a huge impetus to Montenegro's nautical business, attracting some 20 large and small cruise ships in the month of April alone. The largest, the 2,500-passenger, 294-metre long, 93,000-ton *MSC Poesia*, was the flagship of Mediterranean Shipping Company's (MSC's) fleet until it lost its lead to the 133,500-ton *MSC Fantasia* in December 2008.

Since then, Porto Montenegro has attracted a growing number of mega-yachts and smaller sailing and power boats from around Europe, and demand for yachting and power boat facilities can be expected to expand in line with the increase in capacity. New marinas are also being developed in other parts of the coast such as Bar.

A longstanding reputation for health & wellness

Health & wellness facilities are an integral part of the holiday product offered by the new and upgraded four- to five-star hotels in Montenegro. But the main centre for health tourism is Herceg Novi, where the Igalo Hotel and associated medical institute are located. Although there have been unexpected delays in upgrading the facilities, the Igalo resort is expected to regain its position as an important centre specialising in the wellness and medical tourism business – as it used to before the outbreak of the Balkan War.

The centre's fame goes back to 1910, when an Austrian doctor, Mr Levi, made a professional report listing Igalo as the perfect place for a health centre. Years later the Institute in Vichy, France, used the natural radioactive muds of Igalo in combination with the water in the River Sutorina to create a new 'health mud'. In addition, Murava seaweed used in combination with the muds of Igalo reportedly creates a perfect remedy for rheumatism, bronchitis and other ailments.

The health centre has attracted patients and visitors from all over the world, but has traditionally been a favourite for Norwegians.

Holiday home market starts to pick up again after real-estate bubble burst

Until the global economic crisis hit sales in 2009, Montenegro was one of the fastest growing destinations in Europe in terms of holiday/secondary home sales, with prices escalating rapidly through the last decade. Indeed, the real-estate bubble caused by reckless speculation resulted in widespread corruption and illegal construction. Thankfully, the bubble burst, causing a huge drop in prices – which will, hopefully, put demand back on a more realistic growth track. The market started to pick up again slowly in 2010 and is expected to regain pace this year or next.

Savills, in a report to Montenegro's Ministry for Spatial Planning and Environment in early 2010 – on the potential of the timeshare, fractional ownership and leaseback markets – showed that Russians have been responsible for 83% of all foreign buyer purchases in the Tivat area since the beginning of 2009. Other single, important source markets – although well behind the leaders – have been the UK (4%) and Ukraine (3%), as well as the USA and other west European markets such as Germany and the Netherlands.

Typically, holiday home property buyers in Montenegro are aged between 45 and 65 years (62% of sales), but Savills says that some 28% are much younger, suggesting that a good proportion of buyers are young professionals and those with young families.

As far as tourism performance is concerned, although holiday home sales dropped sharply in 2009, and remained depressed in 2010, the numbers are still significant. The majority of these tourists, while included in border arrivals, almost certainly do not feature in accommodation statistics as the properties, unless available for official rental, would not be registered.

The key criteria for potential buyers are reported to be proximity to the beach, a safe location, access to shops and ease of access to an airport.

SEASONALITY

INTERNATIONAL MARKETS

High seasonality of demand

One of the critical tourism issues challenging government and the industry is that of seasonality. Although the longer-term trend since the 1990s suggests that the main tourism season in Montenegro is lengthening, with demand picking up in the shoulder months, the country's tourism industry still suffers from high seasonality of demand during the peak foreign tourist season. In fact, the situation has become worse since the beginning of the 2000s. The four months of June through September 2010 accounted for as much as 85% of arrivals and 92% of total overnight volume, compared with 87% and 79% respectively in 2000.

The share of foreign arrivals in the two peak months of July and August alone rose from 49% to 61%, with overnights increasing in share from 56% to 67%. The higher share of nights than arrivals is not surprising during the summer peak when most tourists are taking their annual vacations.

Meanwhile, the winter months of January to March and October to December generated a 7% share of arrivals and 4.5% of nights in 2010 – as against 10% and 5% in 2000. This shows that there is still a lot of work to be done to boost demand during the off-season and, in particular, to extend length of stay.

Efforts to position Montenegro as a year-round destination

The development of alternative tourism products – such as health & wellness tourism, golf and other sporting facilities – as well as the growing number of nature-based tourism facilities and opportunities, and the upgrading of new winter tourism accommodation capacity, are all important steps towards the strategic goal of positioning

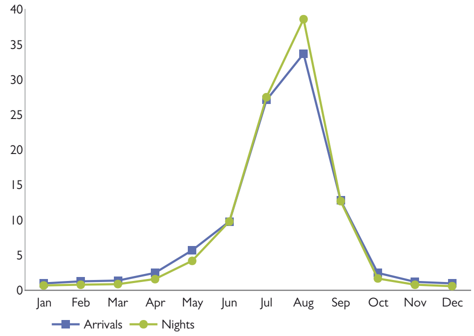
Montenegro as a year-round destination. But inconsistent quality, as well as infrastructure issues and limited marketing and promotions, are still significant hindrances to a multi-season tourism offer.

International tourist arrivals and nights in Montenegro by month, 2010

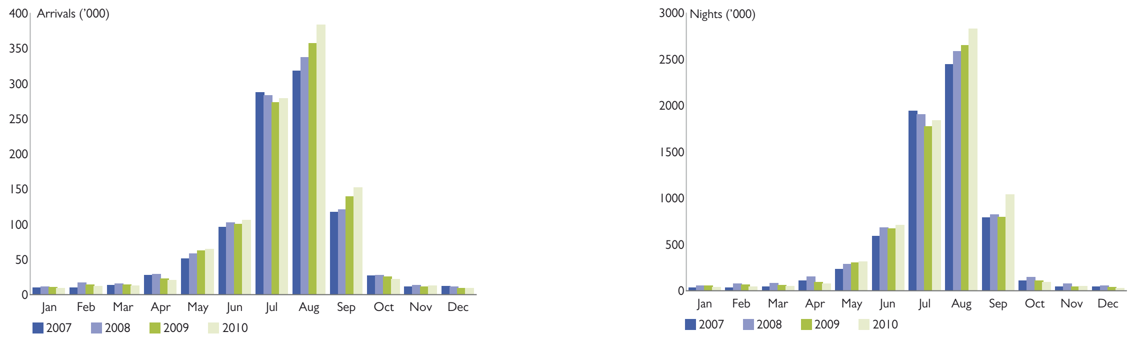
Month	Arrivals	% change 2010/09	Nights	% change 2010/09
Jan	9,138	-17.9	38,477	-34.1
Feb	12,457	-13.6	47,164	-28.9
Mar	13,049	-10.8	51,761	-19.6
Apr	20,824	-9.6	79,323	-18.1
May	65,371	4.2	315,496	2.4
Jun	106,161	5.7	715,204	6.0
Jul	279,472	2.3	1,843,520	3.7
Aug	384,065	7.4	2,830,076	6.7
Sep	152,394	8.9	1,042,931	30.9
Oct	22,258	-13.1	93,552	-17.0
Nov	13,368	14.6	49,107	4.7
Dec	9,237	-2.4	29,323	-25.7
Total	**1,087,794**	**4.2**	**6,977,860**	**4.2**

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

Seasonality of international tourist arrivals and nights, 2007-10
(Av % of annual arrivals and nights by month over the 4-year period)



International tourist arrivals and nights in Montenegro by month, 2007-10



Sources: Ministry of Sustainable Development and Tourism; MONSTAT

DOMESTIC TOURISM

Less marked seasonality, but still much room for improvement

As far as domestic tourism is concerned, the summer peak is less marked and the troughs less deep, but there is still a clear need for countrywide promotion and marketing to attract demand from Montenegrins outside their main holiday periods. Even though some parts of the country are difficult to access, the overall surface area is so small, relatively speaking, that this should not prove too big a challenge.

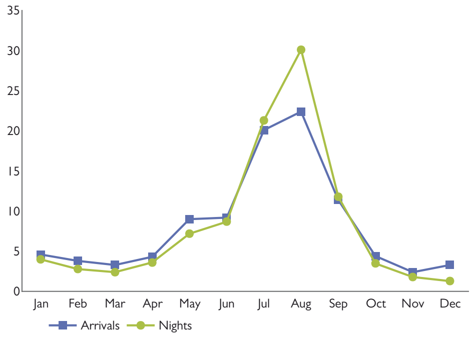
It is interesting to note that, with regard to domestic tourism, seasonality has become even more marked in the last four years. The following table highlights the fact that the recovery in domestic tourism demand did not start until the month of May, with the result that pent-up demand was released during the peak summer season last year, as well as during the end-of-year holidays. And the year ended on a very positive note overall, with arrivals up 7% and overnight volume 15% above 2009's level..

Domestic tourist arrivals and nights in Montenegro by month, 2010

Month	Arrivals	% change 2010/09	Nights	% change 2010/09
Jan	5,062	-21.3	18,620	-26.3
Feb	4,609	-17.1	17,296	-23.2
Mar	4,157	-5.0	19,528	9.9
Apr	5,097	-23.7	17,740	-33.6
May	13,777	9.3	62,229	21.2
Jun	15,175	11.1	91,662	36.7
Jul	40,815	23.3	250,787	27.8
Aug	48,203	14.0	338,858	19.7
Sep	23,242	0.7	106,856	-3.4
Oct	6,451	-20.2	30,615	-0.9
Nov	3,748	15.6	17,671	5.0
Dec	4,855	5.8	15,171	87.9
Total	**175,192**	**7.0**	**987,033**	**15.3**

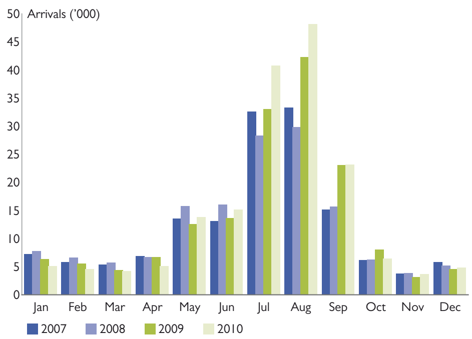
Sources: Ministry of Sustainable Development and Tourism; MONSTAT

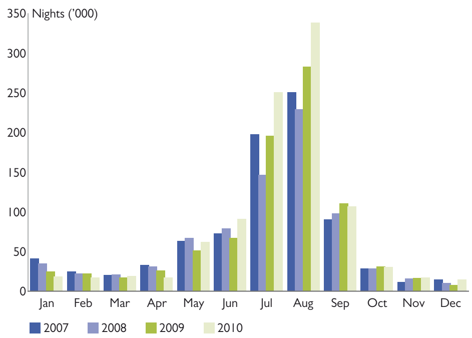
Seasonality of domestic tourist arrivals and nights in Montenegro, 2007-10
(Av % of annual arrivals and nights by month over the 4-year period)



It should be noted that Serbia was already an international market in 2007, so it is not included in any of the figures for the different years analysed in the following chart.

Domestic tourist arrivals and nights in Montenegro by month, 2007-10





Sources: Ministry of Sustainable Development and Tourism; MONSTAT

Predominance of sun & beach distorts demand patterns for different regions

Most of the improvement in balancing seasonal flows of both international and domestic tourists has occurred in destinations away from the coastal region, where 90% or more of demand is for the peak summer months. The imbalance is much less marked in the central and mountain regions – in the former, because of the higher share of business travel and, in the latter, due to growing demand in the winter season for skiing and other winter sports. http://www.businessart.me/fajlovi/bussinessart/attach_fajlovi/eng/projects/touristic-marinas/2010/03/jpg/thumb/Porto_Montenegro_1_projekat.jpg

There is little doubt that the growth of both MICE facilities and capacity building in the northern mountain region will help to diversify the market further and attract increased business in the shoulder and low seasons.

DESTINATION BREAKDOWN

BRIEF OVERVIEW

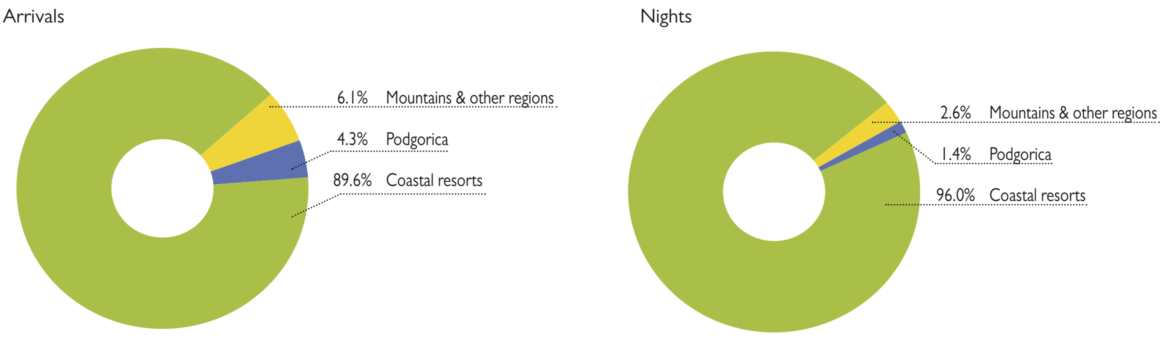
Unhealthy imbalance in terms of arrivals and nights

A breakdown of tourism demand by destination region confirms that the coastal resorts continue to attract the vast majority of tourists (whether local Montenegrins or foreign visitors): a 90% share of arrivals and a 96% share of overnight volume in 2010, as in 2009.

The capital Podgorica generates a 4% share of arrivals and just over 1% of nights – most business travellers are on short trips – and the share for mountain resorts is very similar, although both arrivals and nights are starting to grow in line with the development of new tourism products.

The balance is made up by business primarily to other cities in the central region. All non-coastal regions combined managed to attract a very modest 10% share of arrivals and an even lower 4% of nights, reflecting at the same time the much lower average length of stay in these regions.

Breakdown of total arrivals and nights by region visited, 2010



Sources: Ministry of Sustainable Development and Tourism; MONSTAT

The different regions of Montenegro and their respective tourism development are discussed in more detail in the accompanying reports on the *Economic and Operating Environment* and the *Investment Potential* of Montenegro's Travel & Tourism. But the following provides a brief overview of the main destinations/municipalities in each region and their ranking in terms of tourist arrivals and overnights.

The numbers speak for themselves. In the seven years from 2003 to 2010, total arrivals (international and domestic) in Montenegro doubled in volume and overnights increased by 90%. Yet while there has been considerable effort on the part of government to develop the northern region of the country over the past few years, in order to ensure a more equitable distribution of tourists, these efforts are only starting to pay off. And it will take still more time.

In 2010, however, the northern region registered strong, double-digit growth in terms of both arrivals and nights – and especially with regard to arrivals – while resorts in the coastal region showed more modest gains.

ADRIATIC COAST

Budva strengthens its lead...

The municipality of Budva, the favourite sun & beach destination in Montenegro, actually increased its share of overnights by 135% over the same period, thanks largely to the existing infrastructure, but also to the construction of new hotels and attractions and massive redevelopment and upgrading programmes in line with the government's privatisation of ageing state-owned hotels and resorts.

Tourist arrivals ...

Municipality	Domestic	Foreign	Total
Budva	54,978	506,983	561,961
Herceg Novi	44,554	182,347	226,901
Bar	17,436	126,211	143,647
Ulcinj	13,284	95,533	108,817
Podgorica	5,580	48,616	54,196
Kotor	3,685	41,216	44,901
Tivat	6,727	37,878	44,605
Kolašin	5,525	15,341	20,866
Žabljak	9,088	11,272	20,360
Nikšić	2,138	6,240	8,378
Cetinje	4,507	3,287	7,794
Total (incl others)	**175,191**	**1,087,794**	**1,262,985**

... and nights in Montenegro by major municipalities, 2010

Municipality	Domestic	Foreign	Total
Budva	294,700	3,144,175	3,438,875
Herceg Novi	363,213	1,433,437	1,796,650
Bar	99,223	994,453	1,093,676
Ulcinj	84,325	705,984	790,309
Tivat	16,353	252,272	268,625
Kotor	12,785	242,400	255,185
Podgorica	15,496	97,073	112,569
Žabljak	28,160	24,317	52,477
Kolašin	12,564	29,692	42,256
Cetinje	25,237	5,212	30,449
Nikšić	4,435	17,039	21,474
Total (incl others)	**987,033**	**6,977,860**	**7,964,893**

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

With total arrivals of nearly 562,000 in 2010 (a 44% share of the total count) and 3.4 million registered overnights (43%) – not to mention the large numbers of locals and foreigners staying with friends and families or in illegally rented (ie non-registered) accommodation – Budva remains the clear favourite, generating an average length of stay of 6.1 nights.

Interestingly, this is slightly shorter than the overall average stay of 6.3 nights, and significantly shorter than for the second and third favourite destinations, Herceg Novi (7.9) and Bar (7.6). Among the most likely reasons for this are easy access, which has stimulated short leisure breaks in Montenegro, and the development of large-capacity, four-star resorts around Budva, notably in Bečići, which have attracted growing MICE business.

...as do the other coastal regions

The top five municipalities in arrivals and overnight volumes are all on the coast, but both Kotor and Tivat have fallen behind the capital Podgorica in terms of arrivals, although they remain ahead of the capital in terms of overnights. Herceg Novi appears to have lost share in 2010 – probably because it has fewer larger-capacity resorts than other parts of the coast, and the expected upgrading of hotels following privatisation did not fully materialise in the municipality – but Bar's growth was well above average. This is attributed in some part to the increases in trade between foreign ports and the port of Bar.

NORTHERN AND CENTRAL REGIONS

Average length of stay remains low

The two most important municipalities in the mountainous, northern region of Montenegro are Žabljak and Kolašin, which are now growing winter sports' centres. Indeed, the development of new starred hotels (Kolašin now has two four-star properties) and more modest accommodation is increasingly attracting skiers and snowboarders in winter and active holiday-makers in the summer months, drawn by the wide range of possibilities for active, outdoor sports. As already indicated, these include hiking & biking, bird watching, mountain climbing, caving, fishing, hunting, horse riding and even rafting and paragliding.

For the moment, however, average length of stay is fairly modest, at 2.6 nights in the municipality of Žabljak and 2.0 in Kolašin. But it is expected to pick up as the northern region is further developed and marketed abroad.

Average length of stay in major municipalities, 2010
(nights)

Municipality	Domestic	Foreign	Total
Budva	5.4	6.2	6.1
Herceg Novi	8.1	7.9	7.9
Bar	5.8	7.9	7.6
Ulcinj	6.5	7.4	7.2
Kotor	3.5	5.9	5.7
Podgorica	2.8	2.0	2.1
Tivat	2.4	6.6	6.0
Žabljak	3.1	2.2	2.6
Kolašin	2.3	1.9	2.0
Nikšić	2.1	2.7	2.6
Cetinje	5.6	1.6	3.9
Total (incl others)	**5.6**	**6.4**	**6.3**

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

Cetinje ranks in eleventh position in terms of favourite tourism municipalities, but the majority of visitors to Montenegro's ancient capital are day-trippers, stopping en route to/from the coast and the capital or the mountains.

Nikšić, in tenth place, primarily attracts business travellers. Nevertheless, a new, non-governmental association, Zagrad Montenegro, is aiming to popularise and develop rural tourism and organic agriculture and cultivation, as well as promoting and protecting the cultural/historical monuments of the village of Zagrad, which is situated within the Župa Nikšićka. Zagrad is recognised for its ancient monuments, such as Gradina, the hill where the remains of an ancient culture are located, including the tombstone of Nikša, which is 500 years old. The village is still involved in organic agriculture, which is seen as a possible attraction for rural tourists.

TRANSPORT

ACCESS AND INFRASTRUCTURE

Improving, but still weak

Inadequate access coupled with relatively high-prices are considered two of the main weaknesses of Montenegro's tourism product, notably in its less developed mountain region, but also in terms of access to the country overall. However, a number of projects have focused on improvements of the road system and airport facilities with visible results. And a €1.25 million programme funded by the European Union is supporting the development of a national Transport Development Strategy focused on legislative and structural reforms in the sector.

AIR TRANSPORT

Podgorica is now the leader...

Montenegro has two international airports: one serving the capital, Podgorica; and the other in Tivat, in one of the fastest growing coastal resort areas. Due to the limited number of flights and airport capacity constraints – especially with regard to Tivat – Cilipi Airport over the border with neighbouring Croatia, in Dubrovnik, has also become the *de facto* third entry point for airline travellers to Montenegro.

Podgorica International Airport is located at around 11 kilometres away from the capital. It underwent a major renovation in the mid-2000s, costing upwards of €23 million, which significantly modernised and upgraded its facilities and services. But the airport is still relatively small and does not have the capacity to receive very large aircraft. Nevertheless, preliminary indications suggest it recorded an increase of 28% in aircraft movements and 46% in passenger throughput in 2010 – taking its annual increase in passengers to 9.4% since 2007.

2009 was in fact the only year that registered a decline over the past decade, with passenger traffic falling by 16% over the previous year, but Podgorica Airport has since overtaken Tivat in terms of passenger throughput. It has always been the leader in number of aircraft movements, reflecting the much higher number of small-aircraft commuter services to/from the airport, as well as lower seat loads on what are predominantly scheduled services.

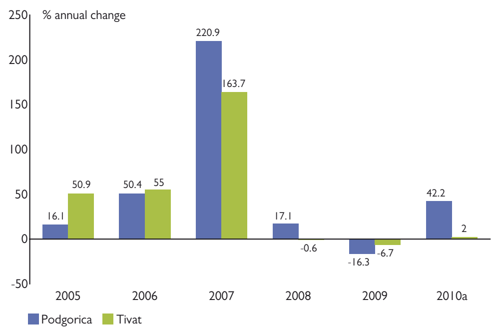
Aircraft movements and passenger throughput at Montenegro's two main airports, 2005-10

Year	Aircraft movements	% annual change	Passenger throughput	% annual change
Podgorica				
2005	2,548	16.5	95,281	16.1
2006	3,545	39.1	143,349	50.4
2007	4,918	38.7	460,020	220.9
2008	5,689	15.7	538,477	17.1
2009	5,442	-4.3	450,501	-16.3
2010[a]	6,851	25.9	640,726	42.2
Tivat				
2005	1,558	44.0	140,501	50.9
2006	2,552	63.8	217,717	55.0
2007	4,079	59.8	574,011	163.7
2008	4,630	13.5	570,636	-0.6
2009	4,226	-8.7	532,156	-6.7
2010[a]	4,018	-4.9	542,805	2.0

[a] Estimate based on Jan-Nov 2010
Note: The sharp increase in 2007 is due to the inclusion of traffic to Belgrade from that year

Source: Airports of Montenegro

Growth in passenger throughput at Montenegro's two main airports, 2005-10



...with Tivat's growth stymied by noise restrictions...

Tivat Airport, also recently renovated – but more for cosmetic than structural reasons – is located at about 4 kilometres from the town of Tivat, and is the favourite airport for holiday charter carriers. However, following very strong growth in the first half of the 2000s, Tivat's passenger throughput has actually declined by an estimated 2.5% per annum over the past three years.

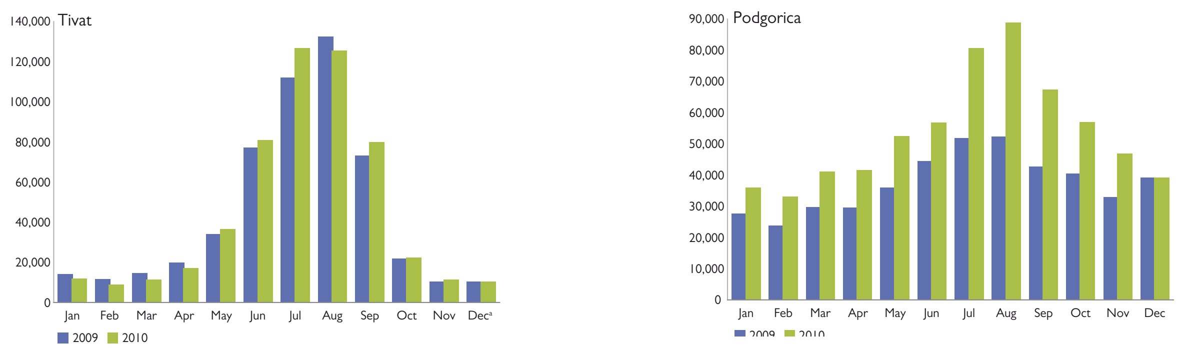
Tivat's main problem is that aircraft movements are only allowed until 16.00h every day, restricting the number of flights into and out of the main tourism-generating regions of the country. It was once hoped that night-time take-offs and landings up to 20.00h would be permitted eventually, but this now looks unlikely. What is far more likely is for Podgorica's capacity to be further expanded and for Tivat to become an airport reserved for commuter and private airlines serving the high-yield, upmarket resorts of Porto Montenegro, Luštica, Sveti Stefan and the like.

...and capacity constraints

Between them, Podgorica and Tivat airports attracted more than 1.1 million arriving and departing passengers in 2010 – only about half the total number of tourist arrivals. This demonstrates clearly the fact that a large number of foreign tourists travel to Montenegro by road, with a small share also arriving by sea.

As already indicated, a convenient location and a larger number of flights/frequencies – including several operated by low-cost airlines – have turned Cilipi Airport in Dubrovnik into the country's third entry point. In fact, it is often a more cost-effective and traveller-friendly option for tourists arriving from western Europe and long-haul destinations.

Passenger throughout at Montenegro's airports, 2009-10



Source: Airports of Montenegro

Tivat also suffers from seasonality

Not surprisingly, given its location and main clientele, Tivat Airport also suffers from an imbalance in terms of demand, with the months of June through September generating 75% of passenger throughput, and July and August alone accounting for 47%. By comparison, Podgorica Airport attracts a more balanced 25% of passengers in the peak months of July and August and 46% in the main summer season of June through September.

AIRLINE OPERATIONS

Seat capacity is growing but is still constraining demand...

As discussed more fully in the accompanying report *Montenegro's Travel & Tourism: Economic and Policy Environment,* Montenegro Airlines is the predominant scheduled carrier on air routes in and out of Montenegro. However, past performance and current operations need to be considered in the context of its precarious financial situation, which has resulted in the suspension of many services.

During summer 2009 (April 2009 data), according to Innovata's SRS Analyser, the national flag carrier operated 72 (one-way) flights weekly with a capacity of 7,200 seats. This represented 53% of total flight capacity and 62% of total seat volume. Belgrade-based JAT Airways was the second most important carrier – with 31% of flights and 23% of seat capacity – followed along way behind by Adria Airways, Malev Hungarian Airlines and Austrian Airlines.

2010 saw a number of new scheduled airlines inaugurate flights to Montenegro, mainly from Russia, but also including Turkish Airlines from Istanbul. Air Berlin launched services from the German capital and Nuremberg this year.

Main scheduled airlines operating to/from Montenegro, 2008-09

	No. of flights weekly			No. of seats weekly		
Airline	**Apr 08**	**Oct 08**	**Apr 09**	**Apr 08**	**Oct 08**	**Apr 09**
Montenegro Airlines	54	62	72	5,400	6,200	7,200
JAT Airways	39	36	42	3,314	3,064	2,732
Malev Hungarian Airlines	5	7	6	224	321	359
Adria Airways	3	3	4	178	252	336
Austrian Airlines	5	5	6	272	272	300
Kras Air	1	2	2	121	266	266
S7/Sibir	2	3	1	294	375	125
Rossiya Airlines	2	0	0	308	0	0
Croatia Airlines	0	3	3	0	170	316
Aerosvit	0	1	0	0	170	0
Other	3	3	0	456	456	0
Total	**114**	**125**	**136**	**10,567**	**11,517**	**11,634**

Source: SRS Analyser

There has been talk of easyJet launching service to Montenegro (it already operates to Croatia, Slovenia and Pristina in Kosovo), but it would seem that the conditions – ie the financial support proposed by the Montenegrin Government to ensure that operations break even – are not (yet) acceptable to the airline.

...but charter carriers boost capacity, especially in the peak season

In addition to scheduled airlines, a large number of charter carriers also operate regular services. In the first quarter of 2010, for example, around 140 charter flights were operated, although numbers are understandably far greater during the peak summer and shoulder seasons.

Charters significantly boost the overall airline and seat count, opening up, or increasing, access from many different markets, such as Russia, the Ukraine, the Nordic countries, the UK, France, Belgium and Israel. However, they exacerbate rather than improve seasonality problems.

Montenegro Airlines set for privatisation

Montenegro Airlines, which was set up in 1994, is 99.88% state owned with a nominal value (2010 estimate) of €25.7 million. It is due to be privatised but, so far, serious bidders have not come forward. El Al reportedly made a bid in 2009 for a 30% share, but this was turned down as it also wanted control of Airports of Montenegro, which the government not surprisingly refused. In 2010, four interested parties bought the new tender documents – including Arkia, another Israeli airline, Etihad and Innuendo Ltd from Cyprus – but the early expressions of interest came to nought.

The national flag carrier operates a fleet of some ten aircraft comprising Fokker 100s (102 to 109 seats each) and 116-seat Embraer 195s. Because of the global economic crisis, it postponed an order for a new Embraer due for delivery in 2009, but this was finally delivered in June 2010. Nevertheless, 2009 turned out to be a good year as it carried 522,000 passengers (+12% over 2008) – a 53% share of passenger traffic handled by Airports of Montenegro – and achieved a 4.6% growth in earnings. Its passenger count rose by a further 19% in the first nine months of 2010.

Of the 72 flights weekly operated by Montenegro Airlines in summer 2009, 29 were to/from Tivat (from Belgrade, Paris's Charles-de-Gaulle Airport, Moscow's Domodedovo, London Gatwick and Zurich. Podgorica was better served, with 43 flights weekly: to/from Belgrade, Domodedovo, Rome's Fiumicino, Frankfurt, Ljubljana, Milan Malpensa, Vienna and Zurich. New services were added in 2010 – to Pristina (in Kosovo), Skopje (Macedonia), Düsseldorf and Copenhagen – but a number of these have since been suspended.

The new route additions should have brought Montenegro Airlines' network of scheduled destinations to 18, but a number of routes have been suspended. Given the growth projections in terms of demand, flights capacity remains seriously inadequate, anyway. And, together with the high prices charged, often makes connecting flights through Belgrade, Zagreb or Vienna more attractive for inbound visitors.

Origin/destination points served by airlines to/from Montenegro, summer 2009

Airline	Total flights	Total seats	Origin/ destination points
To/from Tivat			
Montenegro Airlines	29	2,900	BEG (14), CDG (2), DME (3), LGW (3), ZRH (7)
JAT Airways	21	1,302	BEG (21)
Kras Air	2	266	VKO (2)
S7/Sibir	1	125	DME (1)
To/from Podgorica			
Montenegro Airlines	43	4,300	BEG (21), DME (3), FCO (3), FRA (7), LJU (2), MXP (2), VIE (2), ZRH (3)
JAT Airways	21	1,430	BEG (21)
Malev Hungarian Airlinesa	6	359	BUD (6)
Austrian Airlinesa	6	300	VIE (6)
Croatia Airlines	3	316	ZAG (3)

[a] Some flights are operated by the airlines' subsidiaries, eg Tyrolean Airways

Note: BEG: Belgrade; CDG: Charles-de-Gaulle, Paris; DME: Domodedovo, Moscow; LGW: London Gatwick; ZRH: Zurich; VKO: Vnukovo, Moscow; FCO: Fiumicino, Rome; FRA: Frankfurt; LJU: Ljubljana; MXP: Malpensa, Milan; VIE: Vienna; BUD: Budapest; and ZAG: Zagreb

Source: SRS Analyser

ROAD TRANSPORT

Congested coastal roads and difficult mountainous terrain

Provisional estimates suggest that, in 2010, Montenegro counted 10.4 million border crossings in 2.7 million vehicles. Despite the introduction of an eco-tax for all vehicles entering the country – paid once a year and ranging from a low of €10 for private cars and vans to €150 for coaches and other large transport, numbers do not appear to have fallen – as might have been hoped. Traffic congestion is a major problem during the summer months.

Recent data with regard to road infrastructure is unavailable but, in 2007, Montenegro's road network included 7,402 kilometres of modern paved roads. The mountainous terrain makes road development difficult and expensive. Most of the existing roads are of one lane only and extremely curvy. This makes a trip by car from Podgorica to Žabljak (158 kilometres), for example, into a three- to four-hour journey, depending on the season and weather conditions.

Some of the main roads are part of Europe's trade routes and are used by heavy trucks, which creates further congestion on the roads. All these factors have contributed to the worsening road safety record of the country. National statistics reveal that the number of traffic accidents increased by 20% in 2006 and 2007, but more recent statistics are not available. However, the survey conducted by the National Tourism Organisation of Montenegro among German visitors showed that one of the most unsatisfactory elements of visiting Montenegro is road transport (the transport mode of choice for many Germans), characterised by poor roads, dangerous traffic, and a lack of road signage.

Big improvements in road infrastructure…

Thanks to significant donor funding, Montenegro has been actively upgrading the road network in the country. In 2008, the government reported investing around €5 million on road improvements. Due to the geographical terrain of much of the country, even in areas where pavements and safety infrastructure have been improved, roads remain narrow and slow.

One of the major improvements in recent years has been the €70 million development in 2006 of the 4-kilometre long Sozina tunnel, which shortened the journey time between the capital city and the coast to around 40 minutes.

...but development requires huge investments

Despite the small territory of Montenegro, real improvement of the country's road system requires significant investment in expensive infrastructure such as tunnels and highway bridges. This has postponed the implementation of many plans for years. One of the projects now underway is the construction of a new highway connecting Bar and Boljare – a 170-kilometre long highway that will connect the coast to northern Montenegro. It will be part of the Bar-Belgrade-Budapest European corridor, which will link Montenegro to Central Europe. The cost of the project is estimated at €1.75 billion.

Among the strategically important projects identified by Montenegro's Ministry of Transport and Maritime Affairs is the development of the Adriatic-Ionian transport corridor. The corridor starts in Trieste, Italy, and ends in Kalamata, Greece, connecting seven countries along the Adriatic coast. The highway is expected to be approximately 1,500 kilometres long. According to the government, the construction of the Montenegrin part of the road is expected to take six years and will cost €770 million.

The completion of these projects and other road improvements in the country are expected to have a very beneficial impact on the tourism sector. They will significantly improve road access between Montenegro and important European source markets, and should encourage more regional, car-based travellers to include Montenegro in their itineraries.

Traffic congestion is a major problem during the summer months.

RAIL INFRASTRUCTURE

Decline in the use of Montenegro's railways

The railway network in Montenegro is 250 kilometres long and includes 47 stations throughout the country, with international access possible only via Belgrade, Serbia. According to national statistics, the number of passengers using the railways has been declining in recent years, largely because the network has been pretty well ignored by the government's efforts to upgrade transport infrastructure.

Nevertheless, the Ministry of Transport and Maritime Affairs has identified several railway improvement projects as strategic: reconstruction of the Bar-Belgrade line, reconstruction of the Podgorica- Nikšić line, rehabilitation of the Podgorica-Skadar line and the construction of additional terminals in Bar and Bijelo Polje. The implementation of the projects is planned for the next several years and is estimated to require an investment of €96 million.

The number of passengers using the railways has been declining in recent years

MARINE TRANSPORT

Ongoing privatisation will expand port facilities

There are three main seaports in Montenegro – the port of Bar, and Kotor and Zelenika harbours. The port of Bar, which is the largest and services both passenger and cargo vessels, is currently under tender for privatisation. The planned upgrade and modernisation of the port and the completion of the above-mentioned road construction projects are expected to elevate its importance for trade in the region.

Zelenika and Kotor harbours are both located in the Bay of Kotor and Kotor harbour is a port of call for a number of cruise ships during the summer. Since the opening of Porto Montenegro in 2009, the town of Tivat also has its own marina/yachting harbour. And as part of its efforts to encourage nautical tourism, the government has announced several more projects for marina development along the coast.

ACCOMMODATION

RECENT DEVELOPMENTS

A decade of dramatic change…

Prior to 2001, all hotels in Montenegro were owned by the government but, since the government's adoption of the first Tourism Master Plan for Montenegro in 2001, ownership in the hotel sector has changed dramatically. Some 95% of all hotels are now privately owned, and private investment has progressively helped to modernise the country's hotel stock.

Montenegro is of course not a new tourism destination. Before it re-emerged onto the world's tourism stage in the early 2000s, following a decade of civil war in neighbouring Balkan states, the country had had a vibrant and prosperous tourism industry for many years. So many of the 'old-stock' hotels have been renovated to accommodate demand. By way of example, over 25 major hotels have been completely gutted over the past five to seven years, and rebuilt to mostly four-standards.

In addition, a number of new hotel complexes have been developed, driven by foreign investment, and more than 50 new small hotels (with fewer than 100 beds) have been constructed in strategic locations, driven by local investment. Most of these are also in the four-star category. Meanwhile, some 70 small family hotels have been upgraded to three-star quality and most of them have also been legalised.

…but a lot of old hotel stock remains to be upgraded

However, the country's hotel offer does suffer from the fact that it has been no easy task to transform a former state-run hotel industry into a private sector-driven industry that needs to operate according to the international 'rules of competition' in an open market environment. It has also been a major challenge to commit all stakeholders in the tourism sector supporting the government's strategy of developing a high-quality, year-round tourism offer. Too many small businesses in coastal regions simply close after the peak tourism season, leaving hotel guests with few facilities on the beaches and in the towns.

The transformation requires continuing government efforts to set the right direction, provide a favourable business and investment climate, encourage small businesses to prolong the season, and enforce quality standards – not only in hotels and tourist apartments but in all tourist service businesses.

Tourist accommodation capacity in Montenegro, 2009-10

Type/ category	2009 Beds	% share	2010 Beds	% share
Basic accommodation	**43,786**	**25.2**	**34,630**	**20.8**
Hotels:	32,724	18.9	26,907	16.2
5-star	1,075	…	1,065	…
4-star	8,391	…	8,206	…
3-star	8,921	…	7,333	…
2-star	11,629	…	8,423	…
1-star	2,708	…	1,880	…
Apartment-hotels	957	…	810	…
Tourist apartments	248	…	207	…
Pensions	1,491	…	843	…
Motels	187	…	103	…
Tourist lodges	12	…	12	…
Holiday villages	8,167	…	5,748	…
Complementary accommodation	**129,777**	**74.8**	**131,658**	**79.2**
Private rooms	109,840	63.3	125,006	75.2
Convalescent centres	800	…	1,440	…
Alpine huts	132	…	24	…
Company recreation centres	4,237	…	978	…
Youth hostels	9,462	…	2,302	…
Campgrounds	5,306	…	1,908	…
Total tourist beds	**173,563**	**100.0**	**166,288**	**100.0**

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

CAPACITY AND PERFORMANCE

Complementary accommodation dominates the supply

The total number of beds in complementary accommodation is now nearly four times greater than in basic accommodation, and if unregistered private rooms were included in the calculations, the share would be even greater. The complementary accommodation sector comprises beds primarily in private rooms, but also in youth hostels, recreation centres, alpine huts, campgrounds and the like. This type of accommodation tends to be sold either direct or though local travel agents.

A campaign by the Ministry of Sustainable Development and Tourism, conducted jointly with the Montenegro Tax Administration and entitled 'Register Your Accommodation', has been running for more than five years now. According to reports, it led to an increase in 2008 of 11% in the number of registered beds and an 18% increase in number of operating licences.

Hotels constitute a small share of the overall bed and room count

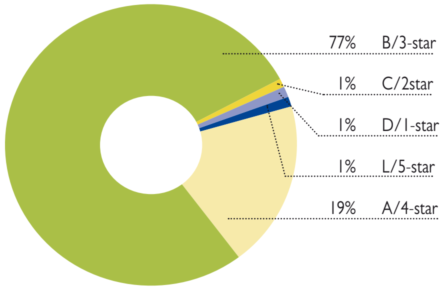
According to the Ministry of Sustainable Development and Tourism, hotels *per se* accounted for a very modest 16.2% of total accommodation in 2010, in terms of bed capacity – down from 18.9% in 2009. There are an estimated 310 hotels in operation (estimate for end-2010).

The reason for the decline in share is that old stock continues to be phased out, resulting in a drop from 32,724 beds in 2009 to 26,907 in 2010, with one-star properties suffering the brunt of the drop. And market reports suggest that, of the total, some 44% of capacity is below the level required by the international market.

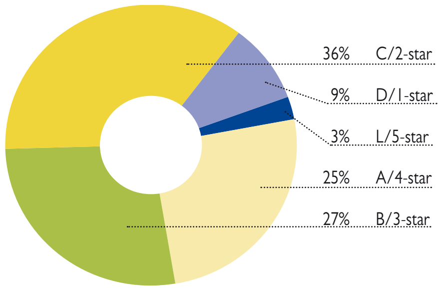
Basic accommodation overall – including apartment-hotels, motels, tourist lodges, etc – represented just under 21% of the total bed count.

Room capacity in Montenegro by hotel category, 1989 and 2009

1989



2009



Note: In 1989, hotel category was defined as L (today's 5-star), A (4-star), B (3-star), C (2-star) and D (1-star).

Source: Horwath Hotel Industry Survey Montenegro, 2009; MONSTAT

Sharp drop in three-star hotel room capacity since 1989

More details on trends in hotel development and investment are provided in the fourth report in this series on *Montenegro's Travel & Tourism: Investment Potential*. However, in summary, between 1989 and 2009 the number of hotels in Montenegro increased by 243%, to 254, while the overall room capacity grew by 37.6%, to 14,251.

The biggest growth, in terms of room count, was in the two-star category while the number of three-star hotel rooms actually fell dramatically, with the result that its share of the overall room count dropped from 77% to 27%.

More than 96% of total accommodation is in coastal regions

An analysis by Montenegro's Ministry of Sustainable Development and Tourism suggests that more than 96% of total accommodation (bed capacity) – or 88% of basic accommodation – is in the southern, or coastal, regions of the country, with only 1.5% (5%) in the central region, including the capital Podgorica, and 2% (7%) in the north, or mountainous regions.

ARRIVALS/NIGHTS BY TYPE OF ACCOMMODATION

Hotels still account for a low share of the total

Hotels generated only one third of total arrivals in Montenegro in 2010 (36%), with four- and five-star business accounting for just over 15% – up from less than 13% in 2009. The respective shares of overnights were even lower, at 26% and 11%. Nevertheless, the total volume of arrivals and nights is growing fast, albeit from a low base – with overnights in four- and five-star hotels, by way of example, up 25% and 60% in 2009.

Arrivals in basic accommodation overall increased by more than 3% in 2010 after falling by nearly 11% in 2009. The respective figures for overnights were +6% and +18%, highlighting the fact that average length of stay in hotels and similar accommodation is increasing.

Increase in complementary accommodation

Meanwhile, complementary accommodation – primarily comprising private rooms – attracted an increase of 5.5% in arrivals and 5% in nights in 2010 – following growth of 14% and 6% respectively the previous year – confirming that, even without taking unregistered accommodation into account, the basic accommodation's share of the overall market is falling and that uncontrolled

Arrivals in Montenegro by type of accommodation, 2010

Type of accommodation	Arrivals Domestic	Foreign	Total
Basic accommodation	**79,930**	**459,641**	**539,571**
Hotels:	71,073	382,626	453,699
5-star	2,464	24,296	26,760
4-star	19,130	146,513	165,643
3-star	21,049	115,047	136,096
2-star	25,788	86,436	112,224
1-star	2,642	10,334	12,976
Pensions	1,383	6,588	7,971
Motels	1,434	972	2,406
Tourist lodges	38	63	101
Holiday villages	6,002	69,392	75,394
Complementary accommodation	**95,261**	**628,153**	**723,414**
Private rooms	81,716	586,313	668,029
Medical/wellness	7,034	6,977	14,011
Alpine huts	24	43	67
Company recreation centres	2,013	8,628	10,641
Youth hostels	4,386	7,886	12,272
Campgrounds	21	4,673	4,694
Other	67	13,633	13,700
Total	**175,191**	**1,087,794**	**1,262,985**

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

Overnights in Montenegro by type of accommodation, 2010

Type of accommodation	Nights Domestic	Foreign	Total
Basic accommodation	**302,164**	**2,313,302**	**2,615,466**
Hotels:	262,184	1,841,761	2,103,945
5-star	5,318	97,161	102,479
4-star	60,381	697,072	757,453
3-star	76,830	496,004	572,834
2-star	109,171	492,902	602,073
1-star	10,484	58,622	69,106
Pensions	5,366	53,348	58,714
Motels	2,883	5,550	8,433
Tourist lodges	260	162	422
Holiday villages	31,471	412,481	443,952
Complementary accommodation	**129,777**	**74.8**	**131,658**
Private rooms	544,413	4,400,880	4,945,293
Medical/wellness	99,882	89,074	108,956
Alpine huts	33	49	82
Company recreation centres	11,078	80,250	91,328
Youth hostels	29,065	66,994	96,059
Campgrounds	198	24,703	24,901
Others	17,789	2,608	82,808
Total tourist beds	**173,563**	**100.0**	**166,288**

Sources: Ministry of Sustainable Development and Tourism; MONSTAT

accommodation is set to dominate the market for some time to come. This could threaten the destination's guarantee of quality in its overall tourism product.

Most significantly, private rooms still generate nearly twice as many arrivals and more than double the volume of nights that hotels do. This clearly demonstrates the fact that hotel capacity remains well below the optimum level to meet the expected – or, at least, hoped for – growth in demand from more upmarket sectors over the coming decade.

HOTEL PERFORMANCE

Occupancy and average room rate

Although it includes only a selection of properties, thus risking a distortion of overall trends, Horwath HTL's annual report, *Hotel Industry Survey Montenegro,* provides a useful indication of hotel operating performance. The following graphs highlight average room occupancy and room rate (ADR) in the different regions of the country in 2008 and 2009.

It should be noted that 2009 was the worst year for Montenegro's hotels since before the Balkan War. This is reflected in the decline in average occupancy in all but the central region, where business travel has driven demand. ADR has risen most sharply in the mountains/ northern region, albeit from a low base, despite a significant drop in occupancy in 2009 due to new capacity coming on line.

The northern region's hotel performance can be expected to show the biggest improvement over the next few years as greater emphasis is placed by government on stimulating mountain tourism year round.

Market breakdown highlights dependence on tour group business

The budgeted market mix in Montenegro's hotels, according to Horwath's 2009 survey, was a high 71.5% allotments and tour group business. Business travellers accounted for just over 9% and independently booked leisure travellers for 18%. This highlights the dependence of the country's hotels – especially the newer, larger properties in Budva – on the demand from mid-market package holidays, with the large tour operators putting huge pressure on pricing.

Some 26 hotels along the coast, primarily in Budva, and which together have a capacity of 3,850 rooms, are the main choice of accommodation by tour operators. They account for some 38% of total hotel roomnights – approximately 1.7 million in 2009 – and 62% of revenues. Their main geographic markets for tour group business are Russia and the Ukraine (accounting for the bulk of room sales), followed (in order of importance) by Italy, France, Germany, Austria, Norway and Slovenia.

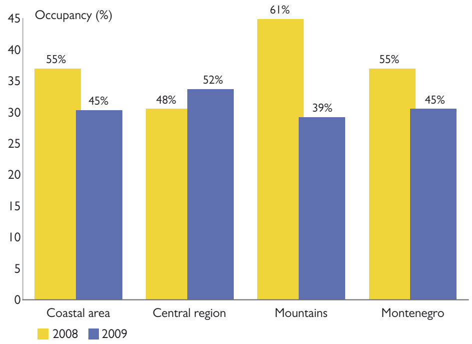
Business travellers tend to stay in four-star accommodation – partly due to the lack of five-star branded hotels in the main business locations.

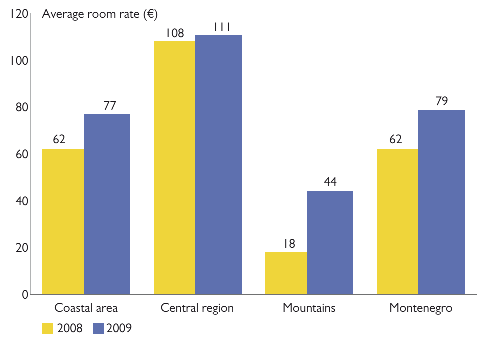
Upmarket hotels show the least seasonality

Different analyses by the Ministry of Sustainable Development and Tourism suggest that hotels in Montenegro operate for an average 9.1 months a year, with five-star properties enjoying the longest 'season', averaging 10.7 months, and one- to two-star hotels managing only 7.4 months.

The average is of course distorted by the predominance of coastal hotels, which suffer more from unbalanced seasonal flows. The increased focus on meetings, conferences, incentives and exhibitions business (MICE) is due in large part to industry and government efforts to stretch the season further and turn Montenegro into a year-round tourism destination.

Budgeted room occupancy and average room rate in Montenegro's hotels by region, 2008-09





Source: Horwath Hotel Industry Survey Montenegro, 2009; *MONSTAT*

International brand hotels have been slow to establish a presence

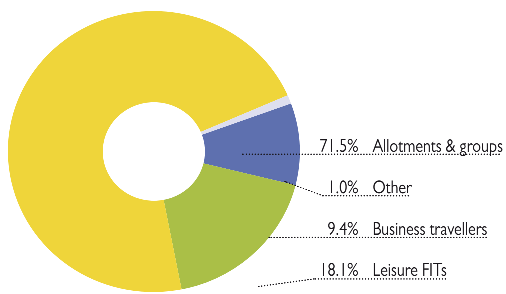
As at June 2010, Montenegro had an estimated 292 hotels with 14,710 rooms, according to the Ministry of Sustainable Development and Tourism. Of these, a modest six hotels and 782 rooms were in internationally branded properties.

While developments under construction and on the drawing board should ensure a rapid increase in internationally managed and even owned properties, as detailed in the accompanying report, *Montenegro's Travel & Tourism: Investment Potential*, there has been no significant growth of branded hotels in Montenegro over the past decade.

The implementation of Montenegro's Strategy for Tourism Development to 2020 has clearly been negatively impacted by the lack of global hotel chain-operated hotels, since Montenegro's hotel owners are largely having to rely on regional tour operators to fill their rooms. A greater number of global brands would help increase room occupancy from international markets, as well as improving operating margins and helping to prolong the season with diversified business opportunities.

At present, only Iberostar (a resort operator), Aman Resorts, (a luxury resort operator) and Best Western (a membership franchise) are established in Montenegro. But Four Seasons, Kempinski, W Hotels, Radisson, Banyan Tree and Hilton, among others, are at various stages of negotiation and plans to enter the country. Other leading chains such as Starwood, Hyatt, Intercontinental and Accor are still being – or still need to be – pursued.

Breakdown of budgeted market mix in Montenegro's hotels by type of guest, 2009



Source: Horwath Hotel Industry Survey Montenegro, 2009; *MONSTAT*

The European tour operator-driven sun & beach market – while not a segment on which the local industry or government wants to depend too heavily – would also benefit if the large tour operator hotel brands were to establish a presence in Montenegro. These include, for example, TUI (with hotel brands such as Atlantica, Magic Life, Robinson Club, Sensatori, etc), Thomas Cook, Alltours (Club Alltoura), Rewe and Club Med.

The owners of the recently emerged Small Hotels of Montenegro have introduced 'boutique' and 'designer' hotels to the market, but none has yet opted for consortium membership in organisations/associations such as the Small Luxury Hotels of the World, Relais et Châteaux, Preferred

Montenegro's leading hotel brands in operation as at June 2010

Hotel/ group	No. of hotels	No. of rooms	Rooms per hotel	Ownership/ brand
Basic accommodation	**43,786**	**25.2**	**34,630**	**20.8**
Adriatic Stars	3	421	87-227	Regional
Iberostar	2	429	134-295	International
Aman Resorts	2	66	6 to 60	International
Best Western Premier	1	48	48	Local
Total	**8**	**964**		
National Hotel Groups				
Montenegro Stars	3	537	24-341	Local
Normal Company	3	274	61-134	Local
Vektra Boca	3	558	144-270	Local
Atlas Hotel Group 1	2	469	65-404	Local
Atlas Hotel Group 2	3	219	25-162	Local
HTP Budvanska	3	1381	171-966	Local
HTP Primorije	3	602	122-330	National
HTP Mimoza	3	264	26-173	Local
HTP Onogost	4	407	8-172	National
HTP Ulcinj Rivijera	3	720	120-380	Local
Maresa Travel	2	43	14-19	Local
HM Durmitor	2	141	29-69	Local
Total	**34**	**5,615**		
Individual Hotels	**144**	**6,990**		
Boutique (Mali) Hotels	**108**	**1,323**		
Total	**294**	**14,892**		

Source: Ministry of Sustainable Development and Tourism

Hotels and Resorts, etc. This would certainly help enhance their potential for distribution in international markets.

MARKETING AND DISTRIBUTION

Booking sources vary according to region and category of hotel

While tour operators, retail travel agents (mainly local) and direct bookings all account for similar shares of total hotel roomnight bookings, Horwath's hotel industry survey in 2009 showed that the shares vary significantly from hotels in one region of the country to another, as well as according to the category of hotel. Tour operators generate the highest share of bookings in the four-star-plus and five-star coastal resort properties – most of which fall in the former category – while the country's mountain regions attract primarily direct bookings.

Not surprisingly, hotels like the four-star Best Western premier in the capital of Podgorica count mainly on their own reservation systems to generate business and, to a much lesser extent, on their own websites.

Other distribution sources – such as hotel representatives, the global distribution systems (GDSs), airlines and other internet sites – remain relatively unimportant, at least for the time being.

THE MICE MARKET

A fast-growing market...

Business tourism is a relatively new market in Montenegro, having emerged only in the late-1990s. As already indicated, WTTC's latest research suggests that Travel & Tourism's direct contribution to GDP comes approximately 90% from leisure travel and 10% from business travel. For 2011, WTTC projects a total volume of €77.4 million, or just over 2% of total visitor demand (international and domestic combined), or a growth of 10.5% over 2010's level. And the share is expected to almost double over the next ten years, to €212.7 million – an annual growth of 10.6%.

The meetings, incentives, conferences and exhibitions (MICE) market is seen as important because it will help to support the Government of Montenegro's strategy to reduce seasonality and stretch the tourist season. Considerable investment has been made in terms of both infrastructure – roads, airports, utilities, etc – and MICE facilities in hotels and conference centres, and a national Convention Bureau was set up three years ago under the auspices of the National Tourism Organisation.

...with growing capacity and facilities to cater to the demand

The main hotels serving the MICE market are located on the coast, mainly in Budva, including the five-star Hotel Splendid, the four-star Queen of Montenegro and Mediteran in Bečiči, and the Hotel Maestral in Pržno. The following table highlights the most important of these – on the coast, in Podgorica and in the mountain region. But a number of smaller hotels and resorts with conference facilities have also been developed, or existing facilities expanded and modernised, in Kotor, Bar, Herceg Novi and other locations.

The Splendid and the Mediteran have the largest existing conference facilities in the country, with the former catering to a maximum of 780 delegate seating, theatre-style in one hall. The Mediteran Convention Centre, which opened in 2009, is a multipurpose venue, ie it is capable of accommodating conferences, seminars, theatre performances, a movie theatre, fashion shows, concerts, etc. The entire complex has been equipped with the most contemporary audio and video communication systems and satellite connection, and it offers video conferencing with any country around the world.

Most of the other hotels have smaller facilities with capacities ranging from around 50- to 300-seat meeting rooms. But the number of quality properties, both along the coast – such as the Princess Hotel in Bar – and the mountain region (eg Hotel Bianca in Kolašin) is growing.

There have been discussions about the development of a full-scale convention centre but no firm plans have so far been announced.

Sources of advance hotel reservations, 2008

(% breakdowns)

Source	Total	Coast	Central area	Mountain region	5* & 4+* hotels	4* hotels	3* hotels	2* hotels
Direct	26.8	23.5	22.3	45.6	12.3	28.1	25.2	29.6
Tour operator	25.2	31.2	1.7	9.6	48.5	23.2	7.6	35.4
Travel agent	22.7	22.3	12.7	30.8	19.1	5.1	33.5	26.3
Own reservation system	9.6	7.5	37.0	4.0	8.2	18.1	14.4	0.3
Own website	6.5	6.6	14.0	1.6	5.7	15.6	4.1	2.7
Hotel representative	2.6	2.3	0.0	5.6	4.2	4.4	2.3	2.5
Independent reservation system	3.3	4.0	3.3	0.0	0.0	1.3	10.0	0.0
Other internet sites	2.3	2.1	6.7	0.4	2.1	3.3	1.5	2.3
Global distribution system (GDS)	0.5	0.4	2.3	0.0	0.0	0.9	1.0	0.0
Airlines/other transport companies	0.5	0.2	0.0	2.4	0.0	0.0	0.4	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Horwath Hotel Industry Survey Montenegro 2009

Distribution of meetings and conference facilities across Montenegro, 2009

Hotel	No. of rooms	Conference area (m²)	Facilities
Hotel Splendid Conference & Spa Resort – Bečići, Budva	322 rooms, 19 suites	700	Hall of Dynasties is a multi-functional, flexible venue, with a max of 780 seats theatre style, dividable into flexible areas and layouts, plus all other supporting facilities
Hotel Mediteran – Bečići, Budva	230	1,300	Separate convention centre with 2 conference halls with 700- and 450-seat capacity, plus 7 smaller meeting rooms for up to 50 each. Additional 4 meeting rooms in hotel.
Queen of Montenegro – Bečići, Budva	210 double and single, 21 family, 5 suites and 9 resident suites	203	2 conference rooms – the Kadmo Conference Hall is 108 m2 and offers 95 seats theatre style, and the Harmonija Conference Hall is 95 m2 and offers 44 seats
Hotel Maestral – Pržno, Budva	180 rooms and apartments	317	368-seat conference hall that can be divided into three smaller rooms seating 100, 100 and 70, plus breakout rooms
Bianca Resort & Spa – Kolašin	102 rooms, 15 suites	-	50-seat conference hall/executive meeting room
Hotel Podgorica, Podgorica	44 rooms and suites	-	Conference room for a max of 120 delegates theatre style, 40-50 classroom style, plus meeting room for max 45
Avala Resort & Villas, Budva	113 renovated superior rooms, 96 standard, 11 suites, 67 villas	-	2 conference rooms with a max of 228 theatre style, 114 classroom style, plus one meeting room for max 50 – currently being completed/upgraded

Sources: Respective hotels; Montenegro Convention Bureau, National Tourism Organisation of Montenegro


SCOTT

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Statistical Office of Montenegro (MONSTAT)

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