

# Montenegro....The Next Monaco?

Fortune, October 15, 2007

## Canadian magnate Peter Munk aims to turn a crumbling Montenegro naval base into the next yacht hot spot.

In 2004, Peter Munk and a handful of Montenegrin government officials took off in a rickety old army helicopter for a flight along the country's coast. There were no seats - just ammunition crates screwed to the floor. When Munk inquired about safety straps, the captain pointed to the iron handles on the sides of the crates and hollered, "Hold on tight!" The flight took them over lush, green hills and jagged outcroppings that tumbled down toward azure seas, till they finally reached their destination: a rusting naval base in a town called Tivat on the Bay of Kotor.

Another businessman might have dismissed the site (and for that matter the entire country, which was still reeling from years of war following the collapse of Yugoslavia) as a hopelessly complicated spot to develop. But Munk - who is best known for taking a small oil company called Barrick and turning it into the largest gold-mining outfit in the world - has a history of making contrarian bets. And he had what he calls a "crazy dream": to transform the abandoned harbor into an international destination for Russian oligarchs and their \$100 million yachts, tanned heiresses blowing money at high-end boutiques, and chic travelers drinking Belinis at seaside cafés. In other words, Munk wanted to build the Monaco of the eastern Mediterranean.



PHOTO: HARF ZIMMERMAN



*Munk is investing \$135 million of his own metals fortune in Montenegro*

Recounting the harrowing flight, Munk, 79, slaps the table with delight. He is near the end of a holiday with his family aboard the *Serena M*, a borrowed 150-foot yacht anchored about 40 miles northwest of Tivat off the Croatian coast. The cocktail hour is fast approaching, and the mostly English crew are fussing around us, polishing the gleaming balustrades and plumping cushions. Munk has good reason to be ebullient. After three years of negotiations with the Montenegrin government, local unions, and financing partners around the globe, he has just taken possession of the base and will soon start construction on his waterfront playground.

Munk's business logic is actually quite simple: The number of large yachts under construction has more than tripled during the past ten years. Meanwhile, existing ports with the infrastructure to service them, such as Antibes and Monaco along the French Riviera or Porto Cervo and Palma along the Italian one, are horribly overcrowded.

Munk's goal is to attract the mega-millionaires now bumping into one another across the Mediterranean. His development - to be called Porto Montenegro - is slated to have mooring space for 800 yachts, repair yards, provisioning services, and hotels, as well as 1,000 apartments where captains and crew can make their homes. There is already an airport close by, and plans are afoot for a golf course. Is the strategy elitist? Certainly. But, Munk counters, "One large yacht spends more than 1,500 people buying a straw hat."

And in a way, Porto Montenegro would signal more of a rebirth than a revolution. In the 1950s and

'60s, film stars like Sophia Loren and Elizabeth Taylor, as well as Communist Party leaders, populated nearby Sveti Stefan, a former fishing village transformed into a luxury getaway. Now government officials are following the lead of Croatia, whose coastline and cities swarm with hip visitors, by wooing investors. Aman Resorts has acquired Sveti Stefan and hopes to restore its luster, while Donald Trump, Venus and Serena Williams, and the Formula 1 driver Michael Schumacher are rumored to be investing in property. There is, in addition, Russian money everywhere. It's a testament to Montenegro's up-and-coming status that it was the location for the climactic poker game in the latest Bond film, *Casino Royale*.

Standing in "the Arsenal," Munk's new naval base, it is not difficult to see the potential. It's located on the largest natural harbor in the eastern Mediterranean, with pristine blue water and soaring hills in every direction. Munk is planning a museum for the rusting submarines and frigates, the detritus of the Montenegrin navy, which came with his purchase. The centerpiece: a launch that belonged to Marshal Tito, the former President of Yugoslavia, which is falling to pieces in the boat yard.

George Nicholson, the chairman of Camper & Nicholson International, a leading yacht brokerage and chartering and services company, first visited the site in February. "I've never seen a greater opportunity," he says. "Kotor Bay is very sheltered. And yet turn right and you have the Dalmatian coast with all the beautiful islands off Croatia; turn left and you go down the Albanian coast." With picturesque coastline wending from charming fishing villages to discreet beaches, Nicholson calls it "the best cruising in the Mediterranean."

"Obviously, now we're a very desirable investment target, but when Peter Munk appeared, we weren't," says Milo Djukanovic, the former Prime Minister and President, who navigated his country through the chaos of the Balkan war and then secured its independence in a referendum last year. In his dark, wood-paneled office in Podgorica, Djukanovic, who now leads the Democratic Party of Socialists and remains the most powerful and controversial politician in the country, vividly recalls Munk's arrival. Montenegro had just battled through years of war along its borders, refugee crises, and seemingly endless instability. "We met on his boat and he presented to me the idea of building a mega-yacht marina. He is definitely a man with a vision, which for a country struggling to become independent is very important."

Instability is certainly familiar to Munk, who was born in Budapest in 1927 to a wealthy family. They fled to Switzerland during World War II and eventually emigrated to Canada. He is one of a remarkable generation of Hungarian Jews, including George Soros and Andy Grove, a co-founder of Intel, who escaped Hungary to make their fortunes in North America.

Munk's endeavors have included everything from electronics manufacturing in Canada to South Pacific hotels and, most spectacularly, gold. Barrick, the oil company he acquired in 1983 with \$40 million, is now the largest gold producer in the world, with a market cap of \$35 billion. He also has his tentacles in real estate: after the collapse of the Soviet Union, he swooped into Eastern Europe and through his company TriGranit made a fortune buying up and developing real estate. His contacts in the region alerted him to the opportunity in Montenegro.

Munk is putting \$135 million of his own money into Porto Montenegro and has lined up investors ranging from individuals to the European Bank of Reconstruction and Development to fund the additional \$1 billion it will take to complete the project. The EBRD and World Bank are also investing to upgrade Montenegro's roads and railways, water systems, airports, and local banks to create a better environment for foreign capital.

Still, given Montenegro's history, it's not surprising there are lingering problems. At the end of June, Djukanovic was accused by Italian prosecutors of conspiring with the Mafia to smuggle cigarettes

into the European Union from 1994 to 2002, when Montenegro's economy was on its knees. He has denied the charges. He also recently sued a local newspaper whose editor claimed to have been beaten up on Djukanovic's orders.

In addition, there are doubts about the origins of the flood of money flowing into Montenegro from Russia. The roads between Budva, Tivat, and Kotor along the Montenegrin coast are often clogged with Range Rovers driven at furious speeds by newly rich Russians. "I have no prejudice about money from the East or the West, but I am anxious that the money comes from good sources," says Djukanovic.

For his part, Munk is sanguine about the notion of a country with GDP per capita of less than \$5,000 betting its future on serving individuals worth billions. "The disparity in the world is unbelievable," he says, shaking his head. "People making \$250 million a year. That wouldn't be the way I would set up the world." But the important thing, he says, is that his project "will spew out prosperity for people." And, one imagines, prosperity for the believers who placed their bets early.