International Carbon Action Partnership

Montenegro Emissions Trading System

General Information

ETS Description

In December 2019, the “Law on Protection from the Negative Impacts of Climate Change” (Climate Law) entered into force in Montenegro. The law mandates the development of a comprehensive set of climate policies including a GHG inventory, a low-carbon development strategy, and a national MRV system. It further provides the legal basis for a national ETS covering emissions from the industrial and power sectors.

A bylaw specific to the ETS, the “Decree on Activities for which a GHG Permit is Issued” (ETS Decree), was adopted in February 2020. This regulation determines sectoral coverage and inclusion thresholds, rules governing trading of allowances, allocation rules, and a market stabilization reserve. It further includes provisions for banking allowances, a minimum reserve price of EUR 24 (USD 27.12), and a linear reduction factor for the emissions cap of 1.5% annually in the period from 2020 to 2030.

Montenegro has been an EU candidate country since 2010. It is required to bring its environmental and climate policy in line with the EU as part of accession talks that began in late 2018. Establishing a national ETS is a requirement to ensure that Montenegro has the climate policy framework in place to take part in the EU ETS should it join the bloc. The country aims to have its legal framework fully aligned for implementation of the EU ETS 1 and ETS 2 by 2028.

The ETS formally began operations in February 2020 and initially applied to three installations: the Pljevlja coal plant (TPP), the KAP aluminium plant, and the Tosčelik steel mill. Only the Pljevlja coal plant is still operating as of 2025. Covered entities must surrender allowances for all their covered emissions, and allocation is based on auctions or free allocation.

ETS Status

in force

Jurisdictions

Montenegro

Year in Review

The operation of the Montenegro ETS was negatively affected by several changes of government since 2022, which caused major delays in the adoption of the yearly allocation plans. In addition, two of the three covered installations shut down in 2022 in response to rapidly rising energy prices. This is still the case as of January 2026, leaving the Pljevlja coal plant as the only operational covered entity.

The Montenegro government set up a working group in mid-2022 to review the country’s climate legislation, including the ETS. In September 2025, the “Draft Climate Change Law” was finalized and sent to the Legislative Secretariat for an opinion.

The Draft Law on Climate Change was adopted in December 2025 and will enter into force from May 2026. This revised Climate Law will align various design elements of the Montenegro system with EU ETS regulations, including provisions on MRV, allocation of allowances, and the use of revenues. The law and accompanying bylaws, which are already in preparation, are key to the alignment of the MRV system with EU ETS rules.

Following the adoption of the revised Climate Change Law, intensive work has begun on drafting a revised ETS Decree, with adoption anticipated by May 2026.

Sectoral coverage

Industry
Power

Revenue usage

Climate mitigation
Low-carbon innovation
Pursuit of other development objectives, such as education and health

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO2e)

3.5 $MtCO_2e$ (2022)

GHG reduction targets

By 2030: 55% reduction below 1990 levels excl. LULUCF (NDC)

By 2035: 60% reduction below 1990 levels excl. LULUCF (updated NDC

By 2050: Climate neutrality (aspirational, “Sofia Declaration”)

Current Allowance Price (per t/CO2e)

- Average auction price: EUR 24 (USD 27.12) [1]

[1] No auctions took place in 2025.

Size & Phases

Covered emissions (2022)

43.00%

Verified ETS Emissions

1.50$MtCO_2e$

GHGs covered

CO2

Cap or total emissions limit

An absolute cap limits the total emissions allowed in the system and is fixed ex-ante.

2020: 3.3 $MtCO_2$

2021: 3.3 $MtCO_2$

2022: 3.2 $MtCO_2$

2023: 3.2 $MtCO_2$

2024: 3.1 $MtCO_2$

2025: 3.1 $MtCO_2$

Annual reduction factor: 1.5%

Sectors and thresholds

SECTORS: Industries listed under Appendix 1 of the ETS Decree must participate in the system. These include power plants, oil refineries, coke production, the production or processing of iron and steel, non-ferrous metals, cement clinker, glass, ceramic products, and paper (pulp).

INCLUSION THRESHOLDS:

- Power plants with a capacity in excess of 20 MW
- Installations for the production of pig iron or steel (primary or secondary fusion) including continuous casting, with a capacity exceeding 2.5 tonnes per hour
- Installations for the production of cement clinker in rotary kilns with a production capacity exceeding 500 tonnes per day or lime in rotary kilns with a production capacity exceeding 50 tonnes per
- Installations for the manufacture of glass including glass fibre with a melting capacity exceeding 20 tonnes per day
- Installations for the manufacture of ceramic products by firing, in particular roofing tiles, bricks, refractory bricks, tiles, stoneware or porcelain, with a production capacity exceeding 75 tonnes per day, and/or with a kiln capacity exceeding 4 m^3 and with a setting density per kiln exceeding 300 kg/m^3 day or in other furnaces with a production capacity exceeding 50 tonnes per day

Point of regulation

Point source (power, industry)

Type of entities

Installations

Number of entities

Three, out of which only one is currently operational (2025)

Allowance Allocation & Revenue

Allowance allocation

Auction share: 0% (2025)

2020 to 2022: Free allocation of allowances (Grandparenting)

2023: The government appointed the auctioning committee in December 2022 and auctioning took place in early 2023.

- **Auction share:** 19% (385,657 allowances)
- **Free allocation share:** 222,515 allowances
- **Auction volume:** 600,000 allowances
- **Auction share:** 19% (535,310 allowances)
- **Free allocation:** 875,242 allowances
- **Auction volume:** 600,000 allowances

2024: The government appointed the auctioning committee in May 2024 and auctioning took place in June 2024.

For the years 2022 and 2023, the total amount of allowances allocated in the Montenegro ETS was significantly below the cap for the respective year. This is a result of two of the three covered installations having ceased operations in 2022 and the corresponding reduction in demand for allowances.

2025: Due to a temporary closure of the only remaining installation in the ETS (TPP) and a corresponding reduction in demand for allowances, no auctions took place in 2025 (for the 2024 compliance year).

- **Auction share:** 0%
- **Free allocation:** 831,480 allowances (all to TPP)

Auctioning share

0%

Total Revenue

EUR 22.1 million (USD 25 million) since the beginning of the program

Use of Revenues

Auction revenues go to Montenegro's Environmental Protection Fund (*Eko Fond*) to finance low-carbon innovation, renewable energy, and environmental protection.

Flexibility & Linking

Offset credits

The use of offset credits is not allowed.

Banking and borrowing

Banking is allowed.

Borrowing is not allowed.

Links with other Systems

The Montenegro ETS is not linked to any other system.

Compliance

Compliance mechanism

Covered entities must surrender one compliance unit (emission allowance) per tCO_2e emitted for all their covered emissions.

Compliance Period

One year.

Participants are obliged to submit a verified report on GHG emissions to the Environmental Protection Agency (EPA) by the end of March of the year following the reporting period. The date for surrendering allowances is not fixed in existing legislation.

Monitoring, Reporting, Verification (MRV)

FRAMEWORK: The legal basis for MRV obligations in Montenegro is defined in the "Law on Protection from the Negative Impacts of Climate Change" and the "Regulation on the Content of the Plan for Monitoring Greenhouse Gas Emissions from Facilities". The latter determines the methodologies and procedures required to measure GHG emissions from stationary plants.

MONITORING: Covered entities must submit, together with the allowance application, a plan for monitoring GHG emissions from the installation. The content of the Monitoring Plan, the procedures, processes and the methodology for monitoring GHG emissions are laid down by the bylaws. The entity is also obliged to improve the methodology for monitoring GHG emissions and amend the Monitoring Plan on the request of the administration authority (EPA).

REPORTING: Participants are obliged to submit an annual verified report on GHG emissions to the EPA by the end of March of the year following the reporting period. If the covered entity fails to submit the verified report, the EPA makes a conservative estimate of the level of GHG emissions. The costs of making the estimate are to be paid by the entity.

The form and content of the report, procedures and method of making a conservative estimate are prescribed by the bylaws.

VERIFICATION: Verification of the GHG reports may be performed only by an accredited legal entity that fulfils the requirements regarding personnel and equipment for report verification.

Penalties and enforcement

Penalties as stipulated by the Climate Law range from EUR 2,000 (USD 2,260) to EUR 40,000 (USD 45,199) and can be imposed against legal entities and responsible natural persons in the legal entity.

Market Regulation

Market Stability Provisions

INSTRUMENT NAME: Price floor

Instrument type: Price-based instrument

Functioning: There is a (permanent) minimum price of EUR 24/tCO_2 (USD 27.12) for auctions

Market Design

MARKET PARTICIPATION: Due to the very small size of the Montenegro ETS, participation of non-compliance entities (intermediaries) is not possible.

MARKET TYPES:

Primary: Allowance auctions are organized by the government.

Secondary: There is no established secondary market. Due to only one entity remaining in the market, there is no trading activity as of January 2026.

LEGAL STATUS OF ALLOWANCES: Allowances are considered financial instruments under Montenegrin law.

Other Information

Institutions involved

Ministry of Ecology, Spatial Planning, Urbanism and State Property: Responsible for environmental and climate policy, including the national ETS.

Environmental Protection Agency (EPA): Responsible for allowance issuance and monitoring of verification reports.

Regulatory Framework

Decree promulgating the Law on Climate Change (2025)

Regulation on the Content of the Plan for Monitoring Greenhouse Gas (GHG) Emissions from Facilities (2022)

Decree on Activities for which a GHG Permit is Issued (2020)

Law on Protection from the Negative Impacts of Climate Change (2019)

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