

Montenegro

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 26.08), 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 EU.

The ETS formally began operations in February 2020 and applies to three installations: the Pljevlja coal plant, the KAP aluminium plant, and the Tosčelik steel mill. Covered entities must surrender allowances for all their covered emissions, and allocation is based on auctions or free allocation. They received 100% of their allowances for free in 2020 and 2021. For 2022, 64% of all allowances were auctioned.

ETS Status

in force

Jurisdictions

Montenegro

Year in Review

The operation of the Montenegro ETS was negatively affected by several changes of government in the past two years, which caused major delays in the adoption of the yearly allocation plan. In addition, two of the three covered installations shut down their operations in 2022 in response to rapidly rising energy prices. This is still the case as of January 2024, 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. This work was still ongoing as of January 2024, with the adoption of the revised Climate Law expected by mid-2024. Following this first step, the ETS Decree is due to be renewed. This will likely involve a revision of the ETS cap as well as the introduction of auctioning for 100% of allowances.

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)

3.4 MtCO₂e (2021)

GHG reduction targets

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

By 2050: Climate neutrality (aspirational, Sofia Declaration)

Size & Phases

Verified ETS Emissions

1.46MtCO₂e

Cap or total emissions limit

A cap limits the total emissions allowed in the system.

2020: 3.3 MtCO₂e

2021: 3.3 MtCO₂e

2022: 3.2 MtCO₂e

2023: 3.1 MtCO₂e

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 day or in other furnaces with a production capacity exceeding 50 tonnes per day
- 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 m³ and with a setting density per kiln exceeding 300 kg/m³

Point of regulation

Point source

Type of entities

Installations

Number of entities

3, out of which only 1 is currently operational (2023)

Allowance Allocation & Revenue

Allowance allocation

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: 64% (385,657 allowances)
- Free allocation share: 36% (222,515 allowances)
- Auction volume: 600,000 allowances

Auctioning share

64%

Total Revenue

EUR 9.26 million (USD 10.06 million) since the beginning of the program

EUR 9.26 million (USD 10.06 million) in 2023

2023

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 allowance per tCO₂e emitted for all their covered emissions, and allocation is based on auctions or free allocation.

Compliance Period

One calendar year

Monitoring, Reporting, Verification (MRV)

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, the Environmental Protection Agency (EPA).

REPORTING: Participants are obliged to submit a verified report on GHG emissions to the EPA by the end of March for the previous year.

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 the 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.

Enforcement

Penalties as stipulated by the Climate Law range from EUR 2,000 (USD 2,173) to EUR 40,000 (USD 43,478) and can be imposed against legal entities and responsible natural persons in the legal entity.

Market Regulation

Market Stability Provisions

INSTRUMENT NAME: Price floor

TRIGGERS: There is a (permanent) minimum price of EUR 24 (USD 26.08)/tCO₂ 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. However, the covered entities can trade allowances among themselves.

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

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

Evaluation / ETS review

The Climate Law and ETS Decree are currently under revision. A new Climate Law is expected to be adopted by mid-2024 and the ETS Decree is due to be renewed in late 2024.

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