

The move was praised by the Energy Community, an inter-governmental organisation formed by the EU and nine eastern and southeastern European countries – Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, Ukraine and Georgia – that supports the adoption of EU regulations in the field of energy to these countries.

Montenegro's climate law entered into force, paving the way for a national ETS featuring an auction floor price that could eventually help the market to link with the EU's cap-and-trade system.

The move further establishes the southeast European country as a front-runner for EU integration by giving the Montenegrin government competence to auction or freely allocate emission allowances among large power, heat and industrial installations.

It was not clear when the system could launch. Montenegro's environment ministry had not responded to Carbon Pulse's request for further details by the time of publication.

"Montenegro continues to lead the way in the Energy Community in the establishment of a complete system required to reduce greenhouse gas (GHG) emissions, protect the ozone layer and adapt to climate change," it was said in a statement.

The law establishes the total amount to be auctioned and sets a minimum reserve price of €24/tonne, meant as "an approximation of the EU price, which could potentially increase with demand", an Energy Community spokesperson told Carbon Pulse.

Benchmark EU ETS prices settled at €24.57/tonne on ICE.

The Energy Community pointed out that Montenegro's climate law includes the formation of a price stabilisation permit reserve and requires ETS auction revenue to be transferred to Montenegro's Environmental Protection Fund to be used for environmental protection measures, support for the deployment of renewable energy sources and as an innovation fund.

Aviation is also intended to be covered by the national ETS, though this will require a separate government decree that the law gives the government until Feb. 2021 to pass.

### **Linking potential**

The Energy Community's spokesperson told Carbon Pulse that the linking of Montenegro's carbon market to the EU ETS will be considered following a study on carbon pricing design among the Energy Community parties.

The study's preliminary results, expected by spring this year, will help determine whether the Montenegrin system could be mature enough to be linked to the EU market.

The linking of Montenegro's ETS would be unlikely to impact prices in the 1.7 billion-tonne

EU ETS, due to its relatively small size.

Montenegro's total CO<sub>2</sub> emissions amounted to a little over 16 million tonnes in 2016, with over three quarters of that from power and industry sources, according to the EU's EDGAR emission database.

### **EU doorstep**

The establishment of a national ETS puts Montenegro at the forefront of Energy Community contracting parties, as the first to have a cap-and-trade system that includes both power and the industrial sector.

Montenegro still needs to make progress in its alignment with the EU standards by adopting the legislation on the functioning of the ETS in line with the EU ETS Directive 2003/87/EC and its relevant amendments and secondary legislation on auditing emissions, establishing a registry, as well as establishing free allocation and auctioning.

Even without carbon pricing, Montenegro has taken significant steps forward to increase the share of renewables, especially hydro, in its power mix in recent years.

The country's plans to expand its 225 MW Pljevlja lignite power plant were put on hold in 2018, in order to prioritise the modernisation of its existing facilities, according to NGO CEE Bankwatch.

Montenegro started the formal process to join the EU in 2012. The adoption of the national climate law was a prerequisite for it to open the Chapter 27 - on environmental regulation - of the accession negotiations.

Although Montenegro has opened 32 out of the 35 chapters and has provisionally closed three of them, the prospects to join the EU by 2025 remain rather bleak, as several EU member states, most notably France and the Netherlands, are sceptical about further enlargement of the bloc.

### **Lagging behind**

Montenegro's climate law may encourage its Balkan neighbours to push their own ETS plans forward in a coal-dependent region described in a Nov. 2019 Energy Community report as "lagging behind" the EU in climate action.

The report warned that the EU's increasingly ambitious climate action efforts might lead to more punitive measures towards third countries that aren't making comparable efforts - a pointed reference to EU plans to study imposing a carbon border adjustment on imports from countries with weak climate legislation.

"The announcement to impose a carbon border tax, for instance, is an indication that the

Union is not willing to tolerate the free-riding of countries which benefit from access to the internal energy market without commitment to a similar level of ambition," the report added, referring to Brussels plans to study the potential for such border measures.

A June 2019 Energy Community report found its parties had given approximately €2.4 billion a year of direct and indirect subsidies to support the coal sector, with Serbia and Ukraine the "most generous" donors at around €80 mln and €280 mln respectively in 2017. That comes despite both of those countries putting in place legislation on carbon pricing, with Serbia submitting its draft climate law in January, according to local media.

The legislation will set the framework for the establishment of an MRV system, as a precondition for EU accession.

Ukraine, although not a candidate to join the EU, has had a limited form of carbon tax since 2011 that is currently at less than €0.50/tonne.

However, a regulation "On Monitoring, Reporting and Verification of GHG emissions" adopted in December last year, lays the groundwork for Ukraine's planned emissions trading system and is set to enter into force in January 2021.

Ukraine's larger emissions profile considerably increases the size of the Energy Community's carbon footprint, which had total GHG output of around 330 million tonnes of CO<sub>2</sub>e in 2017 - equivalent to just under 10% of the EU's emissions.

Source: carbonpulse