

# Montenegro:

## Towards renewables and gas extraction



Montenegro is a small coastal and mountainous country with 620,000 inhabitants. **It has considerable potential for renewable energy** - mainly hydro and wind, but also solar. Having high ambitions as regards the green transition, it is so far the only Western Balkan country to **introduce a national carbon pricing system in 2020**.

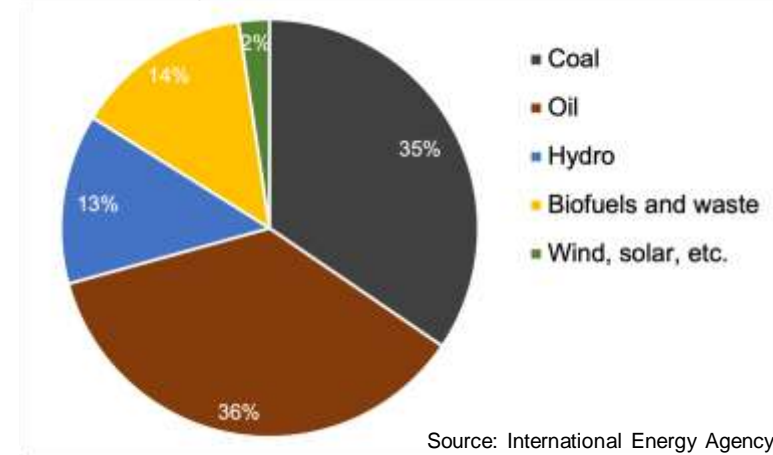
The main sources of electricity are currently **two large hydroelectric power plants - Perućica and Piva, which combined produce about half of the electricity generated**. Wind farms in Krnovo and Možura account for around 9% of electricity production, while the use of solar energy is negligible. However, the government, with EBRD support, **plans to increase wind and solar capacity**.

**The lignite-fired Pljevlja power plant remains the single greatest electricity source**, accounting for around 35% of all production. In 2019, a plan for the construction of a new unit of that power plant, in which the Czech company Škoda was also interested, was abandoned. The intended 'ecological reconstruction' of the existing unit has not started, although the exemption from the Large Combustion Plant Directive was **already exhausted in 2020 and the plant's operation is now breaching it**. Revitalisation would extend the life of the plant by at least 15 years.

In the overall energy mix, a significant component (45 %) is made up of petroleum products, mainly used in transport. Montenegro currently does not produce oil and has no refinery, **all consumption is imported in the form of petroleum products**. Biomass, specifically wood used for domestic heating, is also strongly represented (18 %).

**Montenegro is not gasified but has ambitious plans in this area, including connection to the gas grid through the Trans Adriatic Pipeline and the recently announced construction of three gas-fired power plants to replace the Pljevlja power plant**. The potential for **gas and oil production in the Adriatic Sea is also being explored and plans are underway to build an LNG terminal in the port city of Bar**.

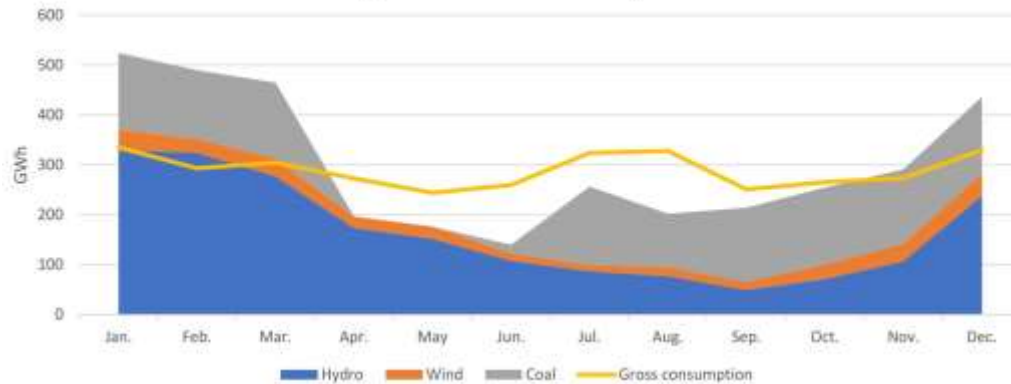
### Total energy supply by source, 2019 (%)



### Key challenges for the energy transition

- **Moving away from burning coal** by finding a replacement for the ageing coal-fired Pljevlja power plant.
- **Problems of non-transparency as well as protection of the environment and tourism in projects related to gasification and gas extraction in the Adriatic Sea**.
- The **planned expansion of solar and wind power capacities** and the long-discussed **construction of the Komarnica hydroelectric power plant**, in view of negative environmental impacts, insufficient legal framework for RES, or problems with financing and corruption.
- Increasing the **efficiency of electricity use and modernising the high-loss transmission system**.
- Linking the emissions trading system to the EU ETS.
- **Stabilisation of electricity production during the year**. Dependence on hydropower leads to a drop in production in the summer months when consumption increases due to the tourist season.

Electricity generation and consumption in 2021



## Position of domestic actors

The **Ministry of Capital Investment** works on the preparation and evaluation of energy investment projects and monitoring of the whole sector, while environmental aspects are handled by the **Ministry of Ecology, Spatial Planning and Urban Planning**. The government of **Zdravko Krivokapić (2020-22)** has taken a more proactive approach to the green transition than previous Democratic Socialist Party governments, withdrawing from several controversial projects and increasing Montenegro's climate commitments in 2021. The minority government of **Dritan Abazovic** of the liberal-green URA movement, which held power for only four months, then made energy and environmental protection top priorities with the idea of creating a 'green state.'

**Electricity generation in Montenegro is predominantly in the hands of the state.** The Pljevlja power plant, the Pljevlja coal mine, and the large hydroelectric plants Peručica and Piva are managed by the **state-owned Energy Plants of Montenegro (EPCG)**. EPCG also owns the distribution company CEDIS. The transmission company has been independent of EPCG since 2009, but remains majority state-owned. The independence of the state energy regulator REGAGEN was strengthened in 2020.

Other domestic players are concentrated in the ownership structures of small hydropower plants, which account for around 3% of electricity generation.

## International actors

**European companies, especially Italian ones,** have long been present in Montenegro's energy sector. The Italian firm A2A owned a 40% stake in EPCG until 2019, when the state took control of the company. Another Italian company Terna holds a 20% stake in the state-owned company that manages the transmission system, and an **undersea cable has connected the Italian-Montenegro electricity markets**. The oil market is dominated by Jugopetrol, owned by Greece's Hellenic Petroleum, and Croatia's INA also has a significant presence. Russia's Lukoil share accounts for around 10%.

Montenegro's **energy sector does not suffer from dependence on Russia** due to the absence of gas and pipelines. The planned connection to the IAP pipeline, which would link the TAP pipeline to the Croatian gas system, will **bring gas from Azerbaijan**.

**To strengthen its position** in the energy sector, **China is trying to take advantage of the green transition** in a way typical for the region, namely by **revitalising old coal-fired power plants in what it calls 'green reconstruction', although it amounts to carbon lock-in**. The Chinese firm Dongfang has signed a contract with EPCG to 'green' Pljevlja CHP plant. However, it is currently unclear whether the project will be implemented.

**Other non-Western players are concentrated in the wind sector.** The Krnovo wind park is co-owned by a company from the United Arab Emirates and the Mozur wind park by a consortium of Maltese and Chinese state-owned companies.

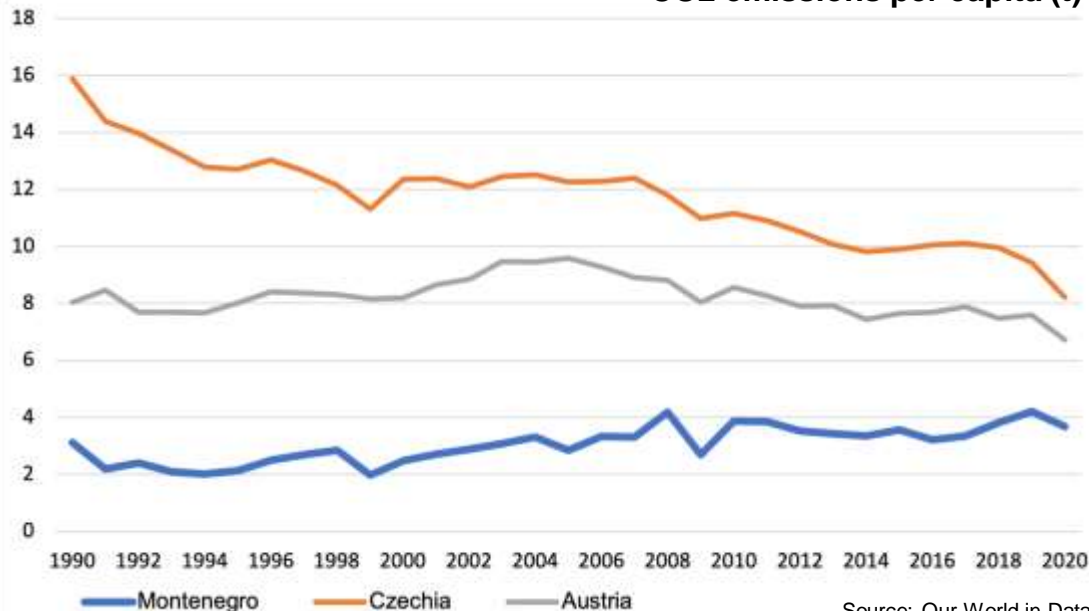
**The position of international players in the energy sector may be significantly strengthened with the planned gasification of the country.** Italian oil company ENI and Russian gas giant Novatek have started drilling exploratory wells in the Adriatic Sea in 2021. The Bar LNG terminal is to be built by EPCG in partnership with Singapore's LNG Alliance. **International players, including US firms, are also showing interest in investing in renewable energy.**

## Role of the EU

The European Union and its Member States are clearly the **main foreign player in the Montenegrin energy sector**. Montenegro is a **member of the Energy Community**, which aims to create a single energy market between EU countries and their neighbours. As such, it is **bound by the EU regulatory framework** in energy matters - directives in the areas of electricity and gas markets, environment, renewables and energy efficiency.

**Further energy issues and alignment with European climate targets are being addressed in the framework of accession negotiations with the EU.** The process also includes the development of a National Energy and Climate Plan (NECP), the preparation of which has been very slow and the country therefore lacks a clear vision and strategy for the energy transition. Montenegro is also a **signatory to the Sofia Declaration on the Green Agenda for the Western Balkans**, to which the EU investment package is linked. The green transition is further supported by the EIB, EBRD and other European development agencies.

CO2 emissions per capita (t)



Source: Our World in Data

## Relevance for Czechia

Montenegro has published a list of priority infrastructure projects this year, including 13 from the energy sector. The expected investments are also an opportunity for Czech exporters.

**As a long-standing supporter of the integration of the Western Balkan countries into the EU, the Czech Republic should avoid supporting projects in the mining and oil industries that are not in line with European climate goals** (Škoda, for example, bid for the construction of the second unit of the Pljevlja coal-fired power plant in 2014). Although Czech companies have much to offer in this sector, the **state should be reticent to support such investments and should not provide guarantees.**

On the contrary, participation in the expansion of renewable energy capacities is an opportunity for Czech companies. Support for the construction of small hydroelectric power plants, in which some Czech companies participated, has been discontinued due to the negative environmental impact, but **new opportunities lie in the planned development of photovoltaics. Another promising sector is transport**, in the modernisation and greening of which Czech companies can participate.

Although Montenegro is not among the priority countries for Czech development assistance, the state should **look for opportunities to support local civil society organisations** that are engaged in energy and environmental issues and require greater transparency in the sector.

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