# Background Paper

# Establishing a Carbon Market in North Macedonia

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**Prepared by IENE's Research Team for the One-Day Seminar on "Establishing a Carbon Market in North Macedonia" in Skopje on December 9, 2026.**

**This Background Paper is primarily based on the findings and analysis contained in the related 2026 IENE Study "Establishing a Carbon Market in North Macedonia (M95)" and has been adapted, updated and expanded for the purposes of the one-day seminar in Skopje on December 9, 2026.**

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## Introduction – Raison d' etre

The transition towards a low-carbon economy is becoming an increasingly important element of European economic integration, energy security and industrial competitiveness. For North Macedonia, the establishment of a carbon-pricing system is no longer simply a long-term environmental policy option. It is becoming a practical economic and regulatory issue, closely connected with the country's relationship with the European Union (EU), the competitiveness of its energy-intensive industries, the future of electricity generation and trade, and the financing of the energy transition.

The introduction of carbon pricing is particularly important in the context of the EU Carbon Border Adjustment Mechanism (CBAM), which entered its definitive phase on 1 January 2026 **(1)**. CBAM changes the conditions under which certain carbon-intensive products imported into the EU compete with products manufactured within the Union. It also increases the importance of measuring, reporting and verifying greenhouse gas emissions and of demonstrating whether a carbon price has effectively been paid in the country of origin.

North Macedonia therefore faces two related challenges. First, it needs to develop a credible domestic framework for measuring and reducing greenhouse gas emissions and for putting an appropriate price on carbon. Second, it needs to ensure that its policies are compatible with the evolving EU framework and do not unnecessarily undermine the competitiveness of domestic companies.

This background paper is intended to support discussion at a one-day seminar in Skopje on North Macedonia's carbon market on December 9, 2026. It draws primarily on the attached IENE Study M95, Establishing a Carbon Market in North Macedonia (November 2026), and supplements the study with developments in the EU and other Western Balkan economies. It also identifies policy choices, institutional requirements and practical questions that could be considered by government representatives, regulators, energy companies, industrial associations, financial institutions, civil society and international partners.

The paper does not assume that a particular carbon-pricing instrument has already been selected for North Macedonia. Rather, it considers the alternatives and the conditions under which a domestic carbon market or other carbon-pricing mechanism could be introduced effectively.

The establishment of a carbon market should also be viewed as an economic competitiveness strategy rather than solely as a climate-policy instrument. As highlighted in the IENE M95 study **(2)**, carbon pricing will increasingly influence export competitiveness, investment attractiveness, electricity-trade revenues and access to European markets. For North Macedonia, the key question is not whether carbon costs will affect its economy, but whether these costs will be paid domestically and recycled into national investments or effectively transferred abroad through CBAM-related payments **(3)**. A well-designed carbon-pricing framework may therefore help retain part of these resources within the national economy while supporting industrial modernization, renewable-energy deployment and just-transition measures.

This background paper has been prepared specifically to support discussions at the one-day seminar "Establishing a Carbon Market in North Macedonia" organized in Skopje on December 9, 2026. The paper draws extensively on the analysis, findings and recommendations presented in the IENE Study M95, "Establishing a Carbon Market in North Macedonia" (November 2026), while also incorporating recent developments concerning the EU Emissions Trading System (EU ETS), the Carbon Border Adjustment Mechanism (CBAM), and carbon-pricing developments in the Western Balkans. Its purpose is not to reproduce the Study M95 in full, but to provide a concise discussion document focused on key policy issues, implementation options and matters for stakeholder consideration during the seminar.

## 1. Why Carbon Pricing Matters

Carbon pricing is based on a straightforward economic principle: greenhouse gas emissions impose costs on society, but those costs are not always reflected in the market price of energy, goods and services. When emissions are not priced, companies and consumers may have insufficient economic incentives to invest in energy efficiency, cleaner production or low-carbon technologies.

A carbon price seeks to incorporate at least part of the climate-related cost of emissions into economic decisions. It can influence decisions about fuel use, electricity generation, industrial processes, equipment replacement and investment. Two principal forms of carbon pricing are widely used. The first is a carbon tax. Under this approach, the government establishes a price per unit of greenhouse gas emissions or per unit of carbon content in a fuel. The price is known in advance, while the resulting level of emissions reductions is uncertain.

The second is an emissions trading system (ETS). Under an ETS, the government or a regional authority establishes an emissions limit, or cap, for the sectors covered by the system. Allowances are issued or auctioned, and regulated companies must surrender allowances corresponding to their verified emissions. The market determines the price of allowances, while the overall emissions limit provides greater certainty about the quantity of emissions covered by the system. Both approaches can create incentives for emissions reductions. Their effectiveness depends on the level and predictability of the carbon price, the scope of coverage, the quality of emissions data, the enforcement framework and the availability of low-carbon alternatives. **(4)**

For North Macedonia, carbon pricing could serve several purposes. First, it could support the gradual decarbonisation of electricity generation and industrial production. A carbon price would make the emissions intensity of different technologies and fuels more visible in investment and operating decisions. Second, it could improve the competitiveness of domestic companies in markets where carbon intensity is increasingly relevant. Companies that can demonstrate reliable emissions data and effective carbon-cost management will be better prepared to respond to EU requirements and customer expectations.

Third, carbon pricing could encourage investment in renewable electricity, storage, energy efficiency, electrification, low-carbon industrial processes and other technologies that reduce emissions. Fourth, it could provide a source of public revenue. If designed carefully, this

revenue could support climate investment, industrial modernisation and assistance to households and communities affected by the transition. Finally, carbon pricing could help North Macedonia align its climate and energy policies with the EU acquis and the broader objectives of the Energy Community.

It is important, however, to avoid treating carbon pricing as a substitute for all other climate policies. A carbon price cannot by itself build electricity networks, modernise district heating, improve public transport, support workers in coal regions or remove barriers to investment. It needs to form part of a broader policy framework.

## 2. The EU Emissions Trading System and its Relevance for North Macedonia

The EU ETS is the central instrument of the EU's climate policy. It was established in 2005 and has progressively expanded in scope and ambition. It covers electricity and heat generation, energy-intensive industrial activities and aviation, with maritime transport also brought within the system. The system is based on the cap-and-trade principle. A total quantity of allowances is made available for covered emissions. The cap is reduced over time in line with the EU's climate objectives. Companies covered by the system must monitor their emissions, report them annually and surrender a corresponding number of allowances.

Allowances can be allocated free of charge under specific rules or sold through auctions. Companies that reduce their emissions may have allowances available for sale, while companies whose emissions exceed their available allowances must obtain additional allowances or reduce emissions. The system is supported by detailed rules for monitoring and reporting emissions, accreditation and verification, registry arrangements and enforcement. These technical and administrative requirements are essential to the credibility of the carbon market.

For North Macedonia, the EU ETS is relevant for three main reasons. First, it provides the principal reference for the development of a domestic carbon-pricing system that could eventually become more closely aligned with the EU market. Second, the EU ETS influences the carbon-cost environment faced by companies exporting to the EU, particularly through the interaction with CBAM.

Third, the EU ETS offers practical experience in the design of emissions caps, allocation rules, auctioning, market oversight, compliance and the use of carbon-pricing revenues. North Macedonia should therefore study the EU ETS carefully, while recognising that a direct and immediate replication of the full system may not be administratively or economically appropriate. The design of a national system should reflect the country's emissions profile, industrial structure, institutional capacity and expected timetable for EU integration.

A key consideration is that alignment with the EU ETS involves more than choosing a carbon price. It requires reliable emissions monitoring, independent verification, enforceable compliance obligations, appropriate registries and clear legal responsibilities. A domestic system that announces a price but lacks these foundations will not provide the credibility required by companies, investors or EU authorities.

## 3. CBAM: the Immediate External Driver

The Carbon Border Adjustment Mechanism is one of the most important developments affecting the relationship between EU climate policy and international trade. CBAM was introduced by Regulation (EU) 2023/956. Its purpose is to address the risk that production may move from the EU to countries with less stringent climate policies, or that EU products may be replaced by more carbon-intensive imports. This phenomenon is commonly referred to as carbon leakage.

CBAM initially covers imports of cement, iron and steel, aluminium, fertilisers, electricity, hydrogen and certain related products. Its coverage and implementation rules are defined by EU legislation and may evolve over time. The mechanism requires importers of covered goods into the EU to comply with reporting and financial obligations based on the embedded emissions of the imported products. In the definitive phase, the financial obligation is linked to the price of EU ETS allowances, subject to the rules and adjustments specified in the regulation.

For North Macedonia, the implications are significant because the EU is an important trading partner and because several domestic activities are potentially exposed to CBAM-related requirements. These include electricity generation and exports, steel and other metal products, aluminium and cement-related production. CBAM does not mean that all exports from North Macedonia will automatically face a carbon charge. Its application depends on the product classification, the destination market, the relevant embedded-emissions rules and the responsibilities of the importer. Nevertheless, companies operating in affected sectors need to understand the requirements and prepare reliable emissions information.

A particularly important provision of CBAM concerns the treatment of a carbon price effectively paid in the country of origin. Under Article 9 of Regulation (EU) 2023/956, an authorised CBAM declarant may claim a reduction in the number of CBAM certificates to be surrendered where a carbon price has been effectively paid in the country of origin for the declared embedded emissions, subject to the regulation’s conditions and evidentiary requirements.

This creates a potential advantage for countries that introduce credible domestic carbon pricing. However, the existence of a domestic tax or ETS does not automatically guarantee recognition of every payment. The price must meet the relevant legal conditions, and the company or importer must be able to demonstrate the amount effectively paid and the emissions to which it relates.

The treatment of electricity under CBAM is particularly complex. The electricity exemption provisions are subject to demanding conditions. A country should not assume that introducing a domestic carbon price automatically removes CBAM obligations for electricity exports. North Macedonia therefore needs a coordinated approach involving government institutions, electricity producers, industrial companies, exporters and relevant EU counterparts. The country must ensure that emissions are measured consistently, that data can be verified and that companies understand the evidence required under CBAM.

**Why Establishing a Domestic Carbon Market Has Become a Strategic Priority**

The introduction of CBAM fundamentally alters the economic rationale for carbon pricing in North Macedonia. Historically, climate policies were primarily viewed through an environmental lens. Today, however, carbon pricing has become directly linked to industrial competitiveness, electricity exports, investment decisions and future access to EU markets.

Without a domestic carbon-pricing mechanism, North Macedonian exporters in electricity, steel, cement, aluminium and other carbon-intensive sectors may increasingly face carbon adjustment costs when accessing EU markets. The absence of a domestic system does not eliminate carbon costs but merely shifts the collection of those costs outside the national economy.

CBAM should therefore be viewed not only as a regulatory challenge but also as a strategic opportunity for North Macedonia. The mechanism creates incentives for the country to accelerate industrial modernization, improve emissions monitoring, strengthen energy-sector governance and move closer to European energy and climate-policy frameworks. A credible domestic carbon-pricing mechanism could enable part of the carbon-related financial flows to remain within the national economy and be recycled into investments that improve long-term competitiveness.

The key policy question is not whether North Macedonia will be affected by carbon costs, but whether these costs will support domestic investment and economic transformation or be paid externally through CBAM-related obligations. This distinction has important implications for industrial competitiveness, electricity exports, renewable-energy investment, grid modernization and economic growth.

For a relatively small economy undergoing energy transition, carbon pricing should therefore be viewed as an enabling economic policy instrument and not solely as an environmental measure. If carefully designed, a domestic carbon-pricing framework could help strengthen energy security, mobilize investment capital, support the modernization of energy-intensive industries and facilitate closer integration with European energy and carbon markets.

## 4. North Macedonia: Policy and Institutional Context

North Macedonia has established climate and energy objectives through its national strategies, international commitments and cooperation with the Energy Community and the EU. The country's energy system has historically relied significantly on coal-based electricity generation, alongside hydropower, natural gas, oil products and an increasing contribution from renewable energy sources. The transformation of the electricity sector is therefore central to the country's decarbonisation pathway.

The transition also has industrial and social dimensions. Electricity prices and security of supply affect the competitiveness of manufacturing companies and the welfare of households. Coal-related activities support employment and economic activity in particular regions. Changes in the generation mix must therefore be accompanied by investment in alternative capacity, networks, flexibility, energy efficiency and social transition measures.

Two developments during 2026 are particularly relevant. According to the Ministry of European Affairs, the Government adopted a draft Law on Climate Action in January 2026. The draft is intended to establish a legal basis for climate governance, including monitoring, reporting and verification arrangements. This is an important step towards the creation of a functioning national carbon-pricing framework, although the distinction between a draft law and legislation that has been formally adopted and implemented must be maintained.

In April 2026, the Ministry of Energy announced the adoption of the Integrated National Energy and Climate Plan 2025–2030. The plan contains 61 measures across the main dimensions of energy and climate policy: 26 measures on decarbonisation, 20 on energy efficiency, three on energy security, 11 on the internal energy market and one on research and innovation. The plan includes carbon pricing and the gradual phase-out of coal among its policy directions.

These developments suggest that North Macedonia is moving from general climate objectives towards a more defined policy and implementation framework. The challenge is now to translate the policy commitments into operational legislation, institutions, systems and investment decisions.

The IENE Study M95 provides a basis for considering the design of a carbon market in this context. It identifies the need for a comprehensive legal framework, clear institutional responsibilities, an effective MRV system, phased sectoral coverage, appropriate allocation arrangements, consideration of CBAM, transparent revenue use, industrial competitiveness measures and communication with affected stakeholders. The study also examines the possible implications for the electricity sector, including the need to assess the relationship between electricity generation and useful heat production, fuel and carbon prices, wholesale electricity prices, district heating demand and alternative heat supply options.

Its proposals should be understood as options and scenarios for discussion, not as already approved government decisions. This distinction is especially important in relation to illustrative carbon-price levels, revenue-allocation percentages and proposed implementation timetables.

## 5. Carbon Pricing in the Western Balkans: A Regional Comparison

The Western Balkan economies are at different stages in developing carbon-pricing policies. Their experience is relevant for North Macedonia because they face similar challenges: the need to align with EU climate policy, the introduction of CBAM, the transformation of coal-dependent electricity systems and the requirement to protect industrial competitiveness.

A regional report published in January 2026 by the Carbon Balance Initiative and the Oxford Sustainable Finance Group, One Region, Many Transitions, describes the uneven state of readiness across the Western Balkans. It identifies Montenegro and Serbia as relatively advanced in aspects of emissions monitoring and carbon-pricing development, while North Macedonia and Albania are progressing. Bosnia and Herzegovina and Kosovo remain at earlier stages. The differences reflect national circumstances, including institutional capacity, political structures, energy-system characteristics and the degree of progress in adopting climate

legislation.

A further important development occurred at the Energy Community Ministerial Council meeting in December 2025. The Western Balkan contracting parties expressed a preference for country-specific approaches to carbon pricing that would remain aligned with the objective of eventual integration with the EU ETS. A technical working group was mandated to support this work. This approach is important. It recognises that the countries do not necessarily need to adopt identical instruments or identical timetables. However, they do need to establish credible systems that can progressively converge with EU rules. The following country experiences are particularly relevant.

***Montenegro: the most established regional ETS experience***

Montenegro introduced a national emissions trading system in 2020. It is therefore the Western Balkan economy with the longest operational experience of a domestic ETS. The system has covered electricity generation and industrial activities. It has included free allocation and auctioning arrangements, and its development has provided practical experience in emissions monitoring, compliance and the administration of carbon pricing. **(5)**

In July 2026, Montenegro took a further step to strengthen the relationship between its carbon-pricing arrangements and EU ETS prices. The Energy Community's third CBAM monitoring report, published on 4 November 2026, identifies this reform as an important development. The reform links domestic carbon pricing more closely to the EU ETS price and directs revenues towards national climate investment.

Montenegro's experience offers several lessons for North Macedonia. First, the establishment of an ETS requires a legal and institutional framework that can be implemented consistently over time. The introduction of a system is only the beginning; the credibility of the market depends on accurate emissions data, verification, compliance and enforcement. Second, the relationship between the domestic carbon price and the EU ETS price is a strategic issue. If the domestic price is substantially lower, the incentive for emissions reduction may be weaker, and the amount of carbon cost effectively paid domestically may be limited.

Third, revenue management is important. Carbon-pricing revenues can support climate investment, but this requires transparent rules and a clear relationship between revenue collection and expenditure. Fourth, Montenegro's experience should not be copied mechanically. The size of the economy, the structure of electricity generation, the industrial base and the institutional context differ from those of North Macedonia. Montenegro nevertheless provides the most relevant nearby example of how a Western Balkan country can move from a carbon-pricing decision to an operational national system.

Montenegro's ETS experience demonstrates that establishing a carbon market is technically feasible even in relatively small economies. The country has already accumulated practical experience regarding registry operation, emissions verification, allowance allocation and compliance. Recent reforms linking domestic carbon prices more closely to EU ETS price developments provide an important model for future convergence with the European carbon market.

***Serbia: a carbon tax and import-tax approach***

Serbia adopted a Law on Tax on Greenhouse Gas Emissions and a Law on Tax on Imports of Carbon-Intensive Products in December 2025. Both measures became effective on 1 January 2026. The domestic greenhouse gas tax applies to specified emissions and activities, including electricity generation and selected energy-intensive industrial sectors. The reported tax rate is €4 per tonne of carbon dioxide equivalent. The tax framework includes reference or benchmark emissions in determining the taxable amount, rather than simply applying the rate to every tonne of gross emissions.

Serbia's approach is therefore a carbon tax model, not an emissions trading system. It provides a direct fiscal instrument for putting a price on selected emissions and is accompanied by a separate tax framework for certain carbon-intensive imports. The Serbian case is relevant for North Macedonia because it illustrates an alternative to introducing an ETS as the first step. A tax may be easier to administer in some circumstances because the government establishes the rate and collects the payment through the tax system. However, its effectiveness depends on the emissions data, the tax base, the rate, exemptions and the predictability of future changes.

The Serbian model also raises questions about the relationship between domestic carbon taxation and CBAM. A domestic carbon tax may help demonstrate that a carbon price has been paid, but the extent to which it can be recognised under CBAM depends on the detailed rules and evidence requirements. For North Macedonia, Serbia's experience provides a useful basis for discussing whether a carbon tax could serve as a transitional instrument, whether it should be applied to a limited group of sectors initially, and how it could eventually be linked to a more comprehensive ETS framework.

Serbia has emerged as one of the most important regional reference cases for North Macedonia. The introduction of greenhouse-gas taxation represents a pragmatic effort to establish a domestic carbon-pricing framework while simultaneously preparing for increasing exposure to CBAM-related costs. Serbia's experience demonstrates that carbon pricing is increasingly being viewed in the Western Balkans not only as climate policy but also as an instrument supporting industrial competitiveness, investment attractiveness and alignment with European market developments. The Serbian case further illustrates how an initial carbon-tax framework may serve as a transitional step towards more comprehensive carbon-pricing arrangements in the future.

***Albania, Bosnia and Herzegovina and Kosovo***

Albania has an existing carbon-related tax on fuels. The World Bank Carbon Pricing Dashboard records a fuel-related carbon tax, with changes to the tax treatment of coal taking effect in January 2026. This instrument is relevant to fuel consumption but should not be confused with a comprehensive facility-level emissions trading system covering major industrial installations.

Albania has also been considering further carbon-pricing arrangements as part of its broader climate and energy policy development. Its experience illustrates the distinction between taxing the carbon content of fuels and establishing a system that requires large industrial and

energy installations to monitor and surrender allowances for verified emissions. Albania has included the future establishment of an ETS in its climate-policy planning documents, while Bosnia and Herzegovina is developing ETS-related roadmaps with Energy Community support. Although neither country has yet implemented a fully operational carbon market, both are moving towards frameworks compatible with future EU requirements.

Bosnia and Herzegovina faces a more complex institutional situation. Responsibilities for energy and environmental policy are distributed across different levels of government, which complicates the establishment of a unified national framework. The country has made limited progress towards a comprehensive carbon-pricing system.

The International Monetary Fund's 2026 analysis of Bosnia and Herzegovina highlights the importance of establishing an effective MRV framework and the difficulties associated with creating a state-level ETS within the required timeframe. It also discusses the potential role of interim carbon-pricing measures, including tax-based approaches, and the need to consider the implications for households and businesses.

Kosovo has made progress in developing elements of its climate-policy framework, but it remains at an earlier stage in the establishment of a comprehensive carbon-pricing system. Its policy priorities include strengthening climate governance, improving emissions data and preparing for the implications of EU climate policy.

*Table: Current Carbon Market Status in the Western Balkans*

| Country | Carbon pricing status | Comments |
|---|---|---|
| **Albania** | No operational carbon market | Draft NECP foresees the introduction of an ETS |
| **Bosnia and Herzegovina** | No operational carbon market | Preparing an ETS roadmap with Energy Community support |
| **Kosovo*** | No carbon pricing | Climate legislation is under development; no ETS or carbon tax yet |
| **Montenegro** | Operational ETS since 2020 | The only WB6 country with a functioning ETS, covering mainly the power and industrial sectors |
| **North Macedonia** | Carbon fee under preparation | Climate Law includes provisions for introducing a carbon fee rather than an ETS |
| **Serbia** | Carbon tax effective since 1 January 2026 | Law on Tax on Greenhouse Gas Emissions and related import-tax framework adopted in December 2025; implementation ongoing |

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

**Source: Energy Community Secretariat**

North Macedonia can benefit from examining both the Montenegrin ETS model and the Serbian carbon-tax approach. The regional experience demonstrates that there is no single pathway towards carbon pricing, but rather a range of instruments that may gradually

converge towards European carbon-market requirements.

The comparison across the region demonstrates that there is no single model currently applied by all Western Balkan economies. Montenegro provides an ETS example; Serbia has introduced a carbon tax; Albania has a fuel-related carbon tax; and Bosnia and Herzegovina and Kosovo are still developing the institutional and legal foundations for more comprehensive arrangements. North Macedonia should use these experiences to identify practical options rather than assume that one regional model can simply be transferred to its own circumstances.

The regional trend is now unmistakable. All Western Balkan economies are under increasing pressure to develop carbon-pricing mechanisms, strengthen emissions-monitoring systems and prepare for growing carbon-cost exposure under CBAM. The policy debate is rapidly shifting from whether carbon pricing should be introduced to how it should be introduced and managed. **(6)**

## 6. What the Regional Comparison Means for North Macedonia

The regional comparison suggests that North Macedonia has an opportunity to learn from the different approaches now being implemented. Montenegro demonstrates the administrative and regulatory requirements of an operational ETS. Serbia illustrates how a carbon tax can be introduced as a relatively direct fiscal instrument. Albania demonstrates the limitations of relying on fuel taxation alone when the policy objective is to address emissions from major industrial installations. Bosnia and Herzegovina highlights the risks of delayed institutional coordination, while Kosovo illustrates the importance of building basic climate governance and emissions-data capacity early.

The regional context also creates an opportunity for cooperation. The countries face similar challenges in electricity trade, industrial competitiveness, MRV development and the implementation of CBAM. Cooperation could reduce administrative costs, improve the consistency of emissions data and facilitate the exchange of technical experience. For North Macedonia, the central question is not simply which instrument is easiest to introduce. It is which instrument can deliver credible emissions reductions, meet the requirements of EU alignment, provide a predictable framework for businesses and be administered effectively by national institutions. The choice should be informed by a realistic assessment of the country's administrative capacity, the emissions profile of covered sectors, the readiness of companies to comply, and the expected pace of EU integration.

## 7. Choosing an Appropriate Carbon-Pricing Instrument for North Macedonia

One of the most important decisions facing North Macedonia is the choice of the initial carbon-pricing instrument. The main options are a carbon tax, an emissions trading system, or a staged approach that begins with a simpler mechanism and develops towards an ETS compatible with the EU framework. The decision should not be driven only by the desire to introduce a carbon price quickly. It should take account of the country's institutional capacity, the availability and quality of emissions data, the structure of the energy and industrial

sectors, the investment horizon of companies and the expected relationship with the EU carbon market.

A carbon tax offers a relatively clear price signal. The government determines the tax rate, the taxable activities and the rules for collection. This can make the system easier to understand and administer, particularly where the tax administration already has experience collecting energy or environmental taxes. A tax also provides greater certainty about the carbon cost faced by companies over a given period. However, it does not guarantee a particular level of emissions reduction. If the tax rate is too low, or if companies lack access to cleaner technologies, the effect on emissions may be limited.

An ETS provides greater certainty about the total emissions covered by the system because the government establishes a cap. However, the carbon price is determined by supply and demand for allowances and may fluctuate. An ETS also requires more extensive administrative arrangements, including allowance allocation, registries, market oversight, compliance procedures and the prevention of market abuse.

A staged approach could combine elements of both instruments. North Macedonia could initially introduce a carbon-pricing mechanism for selected sectors, while developing the legal, technical and institutional infrastructure required for an ETS. The initial mechanism could be designed so that it does not create unnecessary barriers to future alignment with the EU ETS.

The IENE Study M95 considers possible pathways and implementation scenarios. Its proposed carbon-price levels and sequencing should be treated as analytical options for discussion rather than as adopted national policy. The appropriate starting price should be determined through an assessment of emissions, economic impacts, CBAM exposure, company readiness and the need to avoid abrupt cost increases.

## 8. Monitoring, Reporting and Verification: The Foundation of a Credible Carbon Market

A carbon market cannot function effectively without reliable emissions data. Monitoring, reporting and verification (MRV) is therefore not merely a technical component of the system. It is the foundation on which the carbon price, compliance obligations and credibility of the market depend. **(7)**

MRV involves three connected stages.

**Monitoring** requires each regulated installation to measure or calculate its greenhouse gas emissions using approved methodologies. The monitoring plan should identify relevant emission sources, fuels, production processes, calculation methods and data-management procedures.

**Reporting** requires companies to submit emissions reports to the competent authority according to a defined timetable and standard format. Reports should be sufficiently detailed to permit assessment and comparison.

**Verification** involves an independent assessment of the emissions report by a competent and accredited verifier. Verification is intended to confirm that the reported information is complete, accurate and consistent with the applicable methodology.

The EU has established detailed rules for monitoring and reporting through Commission Implementing Regulation (EU) 2018/2066 and for verification and accreditation through Commission Implementing Regulation (EU) 2018/2067. These regulations provide important technical references for North Macedonia.

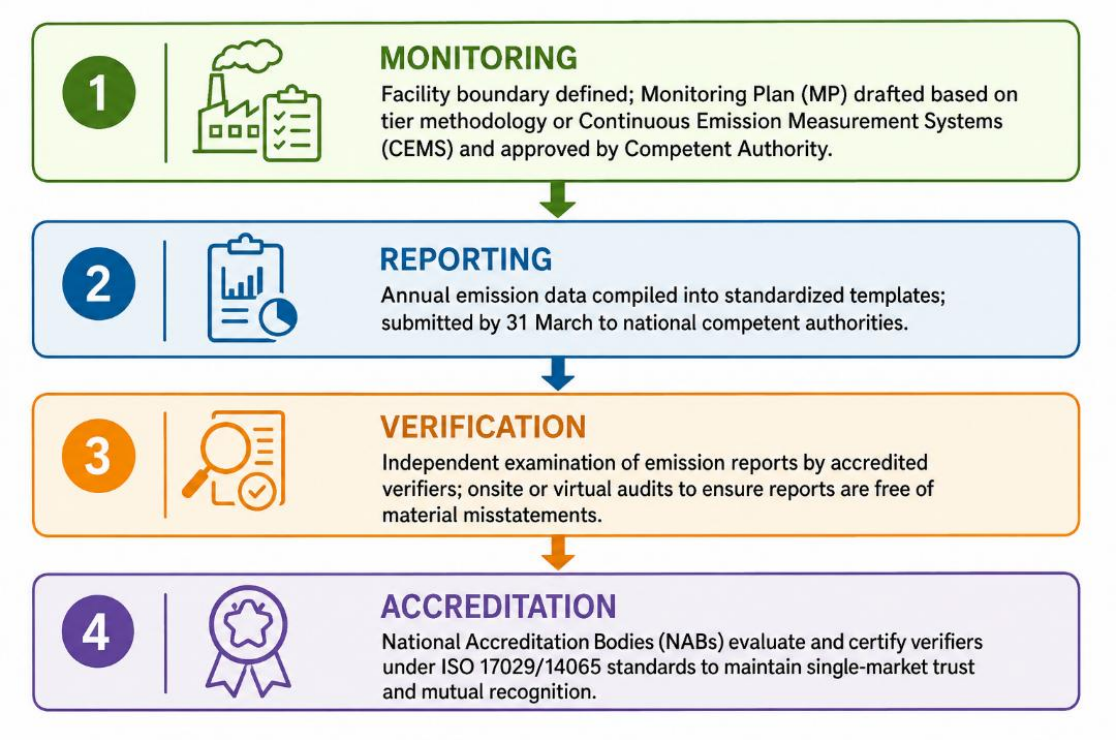
The country should establish MRV requirements that are consistent with the relevant EU principles and capable of supporting future alignment. This would help avoid the creation of a domestic system that later requires extensive redesign.

The practical development of MRV should include:

- A national inventory of installations and other relevant emissions sources.
- Clear definitions of regulated entities and responsible operators.
- Standardised monitoring methodologies.
- Approved monitoring plans.
- Reporting templates and a secure data-submission system.
- Rules for the accreditation and oversight of verifiers.
- Procedures for reviewing emissions reports.
- Compliance deadlines and penalties for inaccurate or late reporting.
- A process for correcting errors and resolving disputes.
- Appropriate data protection, transparency and public reporting arrangements.

The competent authority will need sufficient technical expertise to assess monitoring plans, review reports, supervise verifiers and enforce compliance. Training will be needed not only for public officials but also for companies, consultants and verification bodies. An important early step would be to require selected large installations to prepare emissions-monitoring plans before the financial obligations of a carbon-pricing system become operational. This would allow the government and companies to identify gaps in data and technical capacity. **(8)**

*Figure. The operational architecture of the MRVA framework*




## 9. Institutional Responsibilities and Governance

The effectiveness of a carbon market depends on clear institutional responsibilities. If several institutions are involved without a well-defined division of tasks, the system may suffer from delays, inconsistent decisions and weak enforcement. North Macedonia should therefore establish a clear governance structure before the introduction of financial compliance obligations.

The institutional framework will need to cover at least the following functions:

- Preparation and implementation of climate and carbon-pricing legislation.
- Identification and registration of regulated installations.
- Approval of monitoring plans.
- Administration of emissions reporting.
- Accreditation or recognition of independent verifiers.
- Verification oversight and quality control.
- Administration of allowances or carbon-tax obligations.
- Operation of a registry, where an ETS is introduced.
- Collection and management of revenues.
- Compliance monitoring and enforcement.
- Coordination with EU institutions and the Energy Community.
- Communication with businesses and the wider public.

The government should determine which institution will act as the competent authority for the carbon-pricing system. This decision should be based on existing legal mandates, available expertise and the ability to coordinate across energy, environment, finance, economy and

other relevant policy areas.

The Ministry responsible for environment and climate policy will have an important role in climate legislation, emissions monitoring and national climate targets. The Ministry responsible for energy will be central to the electricity-sector implications and the relationship with energy planning. The Ministry of Finance and the tax administration will be important if the country introduces a carbon tax or collects auctioning revenues. The Ministry responsible for the economy will have a key role in industrial competitiveness and the support of affected businesses.

The precise division of responsibilities should be established in law and supported by formal coordination arrangements. An inter-ministerial working group could help coordinate the preparation of the carbon-pricing system. It should include the institutions responsible for climate policy, energy, finance, economy, industry and social policy. The group should have a defined mandate, timetable and reporting obligations.

The system should also include transparent consultation with regulated companies and other stakeholders. Consultation is particularly important when deciding which installations are covered, how emissions are calculated, how allowances are allocated and how revenues are used.

## 10. Carbon Price, Emissions Cap and Allowance Allocation

If North Macedonia chooses an ETS, it will need to determine the overall emissions cap, the number of allowances available, the rate at which the cap declines and the method for allocating allowances. The cap is the central element of an ETS. It determines the total quantity of emissions that covered installations may produce, provided that they surrender the required allowances.

A cap that is too generous may fail to create a meaningful incentive for emissions reductions. A cap that is too restrictive, particularly during the initial years, may create abrupt cost increases and impose difficulties on companies that have limited access to cleaner technologies. The cap should therefore be based on verified historical emissions, expected production levels, the national climate pathway and the country's longer-term relationship with the EU ETS.

The government will also need to decide whether allowances should be allocated free of charge, auctioned or distributed through a combination of the two approaches. Free allocation can reduce the immediate financial burden on sectors exposed to international competition. However, excessive free allocation can weaken the carbon-price signal and reduce public revenue.

Auctioning can provide a more transparent price signal and generate revenue for climate investment. It can also expose companies to higher costs from the beginning, particularly if the auctioning share is introduced too quickly. A balanced approach may be appropriate during a transitional period. However, the criteria for free allocation should be transparent, predictable and linked to objective benchmarks rather than negotiated individually with companies.

The government should also consider how the allocation framework would evolve as the country moves closer to the EU ETS. A domestic system that relies on extensive free allocation may be difficult to reconcile with the direction of EU policy over the longer term. If a carbon tax is selected instead, the main design questions will concern the tax rate, the taxable emissions, exemptions, benchmarks, reporting obligations and the timetable for future adjustments. In either case, the carbon price should be predictable enough to support investment decisions. Companies need to understand not only the price applicable in the first year but also the likely direction of policy over the following years.

## 11. Use of Carbon-Pricing Revenues

The use of revenues is one of the most important political and economic questions associated with carbon pricing. Carbon taxes and auctioned ETS allowances can generate public revenues. The way these revenues are used can influence the economic and social acceptability of the system and determine whether carbon pricing contributes to the wider transition.

For North Macedonia, possible uses include:

- Investment in renewable electricity generation.
- Development of electricity networks and storage.
- Energy-efficiency improvements in industry and buildings.
- Modernisation of district heating systems.
- Support for low-carbon industrial technologies.
- Research, innovation and demonstration projects.
- Retraining and employment support in affected regions.
- Targeted assistance for vulnerable households.
- Rehabilitation of former coal-mining and industrial sites.
- Support for emissions monitoring and institutional capacity.

A dedicated climate or decarbonisation fund could provide a transparent mechanism for managing a portion of the revenues. Such a fund would need clear governance, eligibility criteria, independent auditing and public reporting. The government should avoid treating carbon-pricing revenue as an unrestricted source of general budget income without a clear explanation of how the system contributes to climate and social objectives.

At the same time, the use of revenues should remain consistent with public financial management rules. The creation of a dedicated fund should not weaken budget transparency or create unnecessary institutional complexity. Revenue recycling can also help address distributional effects. If higher energy costs disproportionately affect lower-income households, part of the revenue could be used to support targeted energy-efficiency measures, building renovation or direct assistance to vulnerable consumers.

The IENE Study M95 discusses possible approaches to revenue allocation, including illustrative distribution scenarios. These should be treated as options for policy consideration rather than as agreed allocations. The final decision should follow a fiscal assessment and public consultation.

## 12. Electricity-Market Implications and the Role of TE-TO

The introduction of carbon pricing may have important implications for electricity generation, wholesale prices and the operation of combined heat and power plants. For North Macedonia, the interaction between electricity generation and useful heat production is particularly relevant to the assessment of the TE-TO natural gas power plant and the wider district-heating system (since TE-TO provides part of Skopje's district heating system).

A combined heat and power plant produces electricity and useful heat from the same fuel input. Its economic performance cannot be assessed solely by comparing the carbon cost of electricity generation with that of other power plants. The value and necessity of heat production must also be considered.

The IENE Study M95 highlights the importance of analysing different scenarios for TE-TO, including:

- The relationship between electricity generation and useful heat output.
- Natural gas prices and carbon prices.
- Wholesale electricity prices.
- Seasonal demand for district heating.
- The availability and cost of alternative heat sources.
- The implications of changing electricity-market conditions.
- The role of TE-TO in the reliability of the wider energy system.

The study's approach is important because a carbon price may change the relative economics of different technologies, but it does not automatically determine which plant should operate or whether a particular investment is justified. A comprehensive assessment should compare several scenarios. These should include different fuel-price assumptions, different carbon-price trajectories, alternative electricity-price assumptions and varying levels of heat demand.

The assessment should also examine the potential contribution of alternative heating technologies, energy efficiency, heat pumps, renewable heat and storage. The policy objective should be to reduce emissions while maintaining reliable and affordable heat supply. Decisions should be based on transparent system-wide analysis rather than on the carbon cost of one facility considered in isolation.

**CBAM and Regional Electricity Trade**

Electricity exports deserve particular policy attention because electricity is among the sectors covered by CBAM. For North Macedonia, electricity trade with neighbouring EU Member States represents both an economic opportunity and a potential source of future carbon-cost exposure. The implications extend beyond direct compliance costs and are linked to investment decisions, generation portfolios, grid development and long-term energy-security considerations.

Recent developments across the Western Balkans highlight the importance of early preparation. According to the Energy Community Secretariat's Third CBAM Monitoring Report, published on 4 November 2026 **(5)**, electricity exports from the Western Balkans to

the EU during the third quarter of 2026 were approximately 14% lower than during the corresponding period of 2025. The report emphasizes that CBAM was only one of several factors influencing trade performance, alongside hydrological conditions, electricity market developments, weather patterns and generation availability. Nevertheless, the findings illustrate how carbon-related regulation is increasingly becoming one of the relevant variables affecting regional electricity trade.

For North Macedonia, the policy implication is clear. Strengthening emissions measurement, improving transparency and gradually developing a domestic carbon-pricing framework could improve the country's ability to participate competitively in future European electricity markets. Such actions could also enhance investor confidence in low-carbon generation projects and support greater integration with regional electricity markets.

From an energy-security perspective, revenues generated through domestic carbon pricing could help finance renewable-energy deployment, storage facilities, grid modernization and flexibility resources. These investments would strengthen the resilience of the national electricity system while reducing future exposure to carbon-related trade measures.

## 13. Industrial Competitiveness and Investment

The introduction of carbon pricing will affect companies differently depending on their emissions intensity, energy consumption, production technology, exposure to international competition and ability to pass additional costs on to customers. For companies exporting to the EU, CBAM creates an additional reason to improve emissions measurement and reduce the carbon intensity of production. Companies that are able to demonstrate lower embedded emissions may be better positioned in markets where customers increasingly consider the climate performance of suppliers. For North Macedonia, the challenge is to ensure that carbon pricing encourages industrial modernisation without imposing costs that cannot be managed by companies that have limited access to finance or technology.

Industrial competitiveness should become one of the principal considerations in the design of a future carbon-pricing framework. The objective should not simply be the introduction of a carbon cost, but rather the creation of incentives that encourage technological upgrading, improved energy efficiency and access to low-carbon investment. A predictable carbon-pricing signal can support long-term business planning and improve the attractiveness of North Macedonia for industrial and energy-sector investments seeking alignment with European decarbonisation objectives.

The strategic challenge for North Macedonia is therefore to transform carbon compliance into competitive advantage. Companies that invest early in emissions monitoring, energy efficiency and cleaner production technologies are likely to be better positioned within increasingly carbon-conscious European value chains. In this sense, carbon pricing should be viewed as part of a broader industrial modernization strategy rather than merely a regulatory obligation.

The government should therefore consider a package of measures alongside carbon pricing. These could include:

- Technical assistance for emissions monitoring and reporting.
- Energy audits and energy-management systems.
- Access to finance for energy-efficiency investments.
- Support for electrification and low-carbon production processes.
- Development of renewable electricity supply arrangements.
- Support for industrial innovation and demonstration projects.
- Clear information about CBAM requirements.
- Assistance for small and medium-sized enterprises in supply chains.

The government should also avoid granting broad exemptions that undermine the effectiveness of the carbon-pricing system. Any transitional support should be transparent, time-limited and designed to encourage emissions reductions. A useful distinction should be made between support for companies to modernise and compensation for continuing high emissions. Public support should help businesses move towards cleaner production rather than permanently protect inefficient technologies.

The IENE Study M95 emphasises the need to consider the competitiveness implications of carbon pricing and the relationship with CBAM. This should be a central part of the policy design, especially for sectors exposed to international trade.

## 14. Just Transition: Workers, Regions and Households

Carbon pricing and decarbonisation will have consequences beyond the companies directly covered by the system. The effects will be felt by workers, municipalities, suppliers, households and communities that depend on coal-related economic activity. For North Macedonia, the transition of coal-dependent regions, including the areas associated with Bitola and Oslomej, requires particular attention. A just transition approach should ensure that the costs and benefits of decarbonisation are distributed fairly. It should also provide practical opportunities for workers and communities to participate in the new economic activities created by the transition. **(9)**

The main areas for action include:

**Employment and skills:** Workers in coal mining and related activities may require retraining and support to move into other sectors. Training programmes should be linked to realistic employment opportunities, including renewable energy, construction, building renovation, electricity networks, environmental rehabilitation and industrial services.

**Economic diversification:** Coal-dependent municipalities need opportunities to attract new investment. Local development plans should identify the skills, infrastructure and economic assets that can support new activities.

**Site rehabilitation:** Former mining and industrial sites may offer opportunities for environmental restoration, renewable energy projects and new economic uses. Rehabilitation should be integrated into regional development planning.

**Household protection:** Changes in energy prices can affect vulnerable households. Support should prioritise energy efficiency, building renovation and targeted assistance rather than

rely only on broad subsidies that may benefit higher-income consumers as well.

**Local participation:** Municipalities, workers, businesses and civil society organisations should participate in decisions concerning the future of affected regions. Transition plans are more likely to be effective when local communities have a meaningful role in their design.

North Macedonia has developed a Just Transition Roadmap, which provides an important policy foundation. The implementation of this roadmap should be linked to the carbon-pricing framework, particularly through the use of revenues and the design of complementary investment programmes. Carbon pricing should not be presented as an isolated environmental measure. It should be part of a wider economic transformation that offers credible alternatives to affected workers and communities.

## 15. Risks and Safeguards in Introducing Carbon Pricing

A carbon-pricing system can support decarbonisation, but poor design can create unintended economic and social consequences. The principal risks for North Macedonia include:

**Insufficient institutional capacity:** If the competent authority lacks staff, technical expertise or reliable information systems, reporting and compliance may become inconsistent. The response should be to build capacity before imposing substantial financial obligations.

**Unreliable emissions data:** If emissions data are incomplete or inaccurate, the carbon price may not reflect actual emissions. This can undermine confidence in the system and create disputes between companies and regulators.

**Excessive or insufficient carbon prices:** A price that is too low may fail to encourage investment. A price that rises too quickly may create financial stress for companies and households. The government should develop a transparent price pathway supported by economic and emissions analysis.

**Industrial competitiveness:** Companies exposed to international competition may face additional costs. Support should focus on modernisation and emissions reductions, while avoiding permanent exemptions that weaken the system.

**Electricity affordability and security:** Carbon pricing may influence the relative cost of different generation technologies. The electricity-market impact should be assessed alongside investment in networks, storage, renewable generation and flexibility.

**Social opposition:** If households and workers perceive carbon pricing as an additional burden without visible benefits, public acceptance may be limited. Transparent revenue use and targeted social support are therefore essential.

**Regulatory uncertainty:** Frequent changes in carbon-pricing rules can discourage investment. The government should publish a clear timetable and consult affected stakeholders before introducing major changes.

**Weak coordination:** Carbon pricing involves several policy areas. Poor coordination between ministries and regulators can lead to conflicting objectives and delays.

These risks can be reduced through phased implementation, transparent legislation, stakeholder consultation, a robust MRV system and regular assessment of economic and social impacts.

## 16. Regional Cooperation and the Relationship With the Energy Community

North Macedonia should not develop its carbon-pricing system in isolation. The Western Balkan economies face similar challenges, and regional cooperation could reduce costs and improve policy consistency. The Energy Community provides an important platform for cooperation on energy-market integration, climate policy and alignment with EU legislation. Its work on CBAM monitoring and carbon-pricing developments is particularly relevant.

Potential areas for regional cooperation include:

- Exchange of experience on MRV systems.
- Training and accreditation of emissions verifiers.
- Sharing of technical guidance and monitoring methodologies.
- Dialogue on carbon-price pathways.
- Cooperation on electricity-market implications.
- Exchange of experience on revenue management.
- Coordination on CBAM implementation.
- Development of common approaches to just transition.
- Cooperation on regional electricity and clean-energy investment.

A regional approach does not require all countries to introduce the same instrument at the same time. It does, however, create opportunities to develop compatible systems and avoid unnecessary differences in technical rules. The January 2026 report by the Carbon Balance Initiative and Oxford Sustainable Finance Group, together with the Energy Community's third CBAM monitoring report of November 2026, provides a useful basis for further regional dialogue.

For North Macedonia, cooperation with Montenegro and Serbia could be particularly useful because both countries have taken concrete steps towards domestic carbon pricing. Albania's experience with fuel-related taxation and the challenges faced by Bosnia and Herzegovina can also provide important lessons.

## 17. Financing the Transition and Mobilising Private Investment

The introduction of carbon pricing should be connected to a wider strategy for financing decarbonisation. North Macedonia will require investment in renewable generation, electricity networks, storage, energy efficiency, district heating, industrial modernisation and the rehabilitation of affected regions. Public resources alone are unlikely to be sufficient.

Carbon pricing can contribute to financing, but it should not be regarded as the only source of funds. Its revenues can help mobilise additional public and private investment when used in a predictable and transparent way.

Potential financing sources include:

- National budget resources.
- Carbon-tax revenues or ETS auctioning revenues.
- International climate finance.
- European Union funding instruments.
- International financial institutions.
- Commercial bank lending.
- Green bonds and other sustainable-finance instruments.
- Private investment in renewable energy and industrial modernisation.

A key objective should be to use public resources strategically to reduce investment risks and attract private capital. For example, public support could help finance feasibility studies, project preparation, grid connections, energy-efficiency programmes or innovative technologies that are not yet commercially mature. The government should also ensure that carbon-pricing revenues are not committed to expenditure that creates long-term obligations inconsistent with the declining-emissions pathway.

## 18. Communication, Consultation and Public Acceptance

Public understanding and acceptance will influence the success of carbon pricing. The term “carbon market” may be unfamiliar to many citizens and businesses. It can also be misunderstood as a mechanism that simply increases energy prices or imposes new taxes. Communication should therefore explain the objectives, operation and expected effects of the system in clear and accessible language.

The government should explain:

- Why carbon pricing is being introduced.
- Which companies and sectors will be covered.
- How emissions will be measured.
- How the carbon price will be determined.
- What the likely economic effects will be.
- How revenues will be used.
- What support will be available to affected households and businesses.
- How the system relates to EU requirements and CBAM.

Consultation should take place before the final design is adopted. Industrial companies, electricity producers, trade unions, municipalities, consumer organisations, civil society and academic institutions should have opportunities to comment on the proposed arrangements. The government should publish the results of consultations and explain how stakeholder comments have been considered. This would strengthen transparency and help identify practical problems before the system becomes operational.

## 19. The Economic Case for Carbon Pricing in North Macedonia

While climate objectives remain important, the economic rationale for carbon pricing in North Macedonia is becoming equally significant. The introduction of CBAM, the evolution of the EU ETS and changing investor expectations mean that carbon policy is increasingly interconnected with trade, competitiveness, energy security and economic development.

A domestic carbon-pricing mechanism offers North Macedonia an opportunity to shape its own transition pathway. Rather than remaining a passive recipient of external regulatory developments, the country can develop a framework that supports national economic priorities while remaining consistent with European integration objectives.

A carefully designed carbon-pricing system could contribute simultaneously to four strategic objectives:

- improving industrial competitiveness through modernization and efficiency improvements;
- strengthening energy security through investments in domestic energy infrastructure;
- mobilizing public and private investment for low-carbon technologies;
- facilitating closer integration with European electricity and carbon markets.

This broader perspective is particularly important. The central purpose of carbon pricing should not be revenue collection alone. Rather, carbon pricing should be viewed as a strategic economic instrument capable of improving long-term competitiveness while supporting North Macedonia's European integration pathway.

## 20. Proposed Implementation Roadmap for North Macedonia

A phased roadmap would allow North Macedonia to develop the legal and technical foundations of carbon pricing while avoiding unnecessary disruption. The following sequence is proposed as a basis for discussion. It is not an approved government timetable.

**Phase 1: Legal and institutional preparation**

The first phase should focus on finalising and adopting the relevant climate legislation, defining the legal basis for carbon pricing and assigning institutional responsibilities. The government should establish an inter-ministerial coordination mechanism and identify the competent authority. It should also begin a structured consultation process with regulated companies and other stakeholders.

**Phase 2: Emissions data and MRV preparation**

The second phase should focus on identifying major installations, preparing monitoring plans, developing reporting procedures and building verification capacity. Selected companies could be required to undertake emissions reporting before the system introduces full financial obligations. This would allow weaknesses in data and procedures to be identified and corrected.

**Phase 3: Instrument selection and system design**

The government should complete an assessment of the alternative instruments, including a carbon tax, an ETS and a staged approach. The assessment should include economic modelling, sectoral analysis, CBAM exposure, administrative costs and distributional effects. If an ETS is selected, the government should determine the cap, allocation rules, auctioning arrangements, registry requirements and compliance procedures. If a carbon tax is selected, it should establish the tax base, rate, benchmarks, exemptions and reporting arrangements.

**Phase 4: Initial implementation**

The initial system should focus on sectors and installations for which emissions data and administrative capacity are sufficiently developed. The government should provide guidance to regulated companies, establish reporting and verification procedures and ensure that enforcement arrangements are operational.

**Phase 5: Review and expansion**

After an initial period, the system should be reviewed to assess its effectiveness, costs, emissions impact and administrative performance. The government should then consider expanding sectoral coverage, adjusting the carbon-price pathway and increasing alignment with the EU ETS.

**Phase 6: Progressive alignment with the EU carbon market**

The longer-term objective should be a domestic framework that is increasingly compatible with EU ETS rules and capable of supporting North Macedonia's integration with the EU carbon market. The timetable should be based on measurable milestones rather than only on calendar dates. These milestones could include the adoption of legislation, the registration of installations, the percentage of emissions covered by verified reports, the accreditation of verifiers and the successful operation of compliance procedures.

## 21. Key Questions for the One-Day Seminar in Skopje on December 9, 2026

The seminar should be structured to move from the strategic rationale to practical policy decisions. It should not be limited to presentations on carbon markets in general. Its main purpose should be to identify the choices North Macedonia needs to make and the steps required to implement them.

The following issues are proposed for discussion.

**A. Strategic objectives**

- What should be the primary objective of introducing carbon pricing in North Macedonia: emissions reduction, EU alignment, CBAM preparedness, industrial modernisation, revenue generation or a combination of these objectives?

- How should carbon pricing be integrated into the Integrated National Energy and

Climate Plan 2025–2030?

- What should be the relationship between the national carbon-pricing framework and the country's longer-term EU accession objectives?

**B. Choice of instrument**

- Should North Macedonia introduce a carbon tax, an ETS or a staged combination?
- What are the advantages and disadvantages of following Montenegro's ETS experience or Serbia's carbon-tax approach?
- What criteria should determine the initial carbon price and its future development?
- How can the system be designed to avoid major changes when alignment with the EU ETS becomes necessary?

**C. Sectoral coverage**

- Which sectors should be included in the first phase?
- Should electricity generation, iron and steel, cement and aluminium be prioritised because of their emissions and CBAM exposure?
- What should be the relationship between a carbon-pricing system for large installations and taxation of fuels in transport and buildings?
- How should indirect emissions from electricity consumption be treated?

**D. MRV and institutional capacity**

- Which institution should act as the competent authority?
- Are the existing institutions sufficiently prepared to administer monitoring, reporting and verification?
- What training and technical assistance will be required?
- How should independent verifiers be accredited and supervised?
- What information systems and registries will be needed?

**E. CBAM and industrial competitiveness**

- Which North Macedonian exports are most exposed to CBAM?
- How can domestic companies improve the accuracy and reliability of embedded-emissions data?
- Under what conditions can a domestic carbon price be recognised under CBAM?

- What support is required to help companies modernise and reduce emissions?
- How can the government avoid unnecessary duplication between domestic reporting requirements and EU CBAM requirements?

**F. Electricity and energy security**

- What could be the impact of carbon pricing on electricity generation costs and wholesale electricity prices?
- How should the impact on coal-based generation be assessed?
- What are the implications for TE-TO and district heating?
- What investments in renewable energy, storage, networks and flexibility are necessary to support the transition?
- How can carbon pricing be introduced without undermining security of supply or creating excessive energy-price volatility?

**G. Revenue use and just transition**

- Should carbon-pricing revenues be directed towards a dedicated climate or decarbonisation fund?
- Which investments should receive priority?
- How should revenues support affected workers and coal-dependent municipalities?
- What measures are required to protect vulnerable households?
- How can the Just Transition Roadmap be connected to the carbon-pricing framework?

**H. Regional cooperation**

- What lessons can North Macedonia draw from Montenegro's ETS and Serbia's carbon tax?
- What technical cooperation could be developed through the Energy Community?
- Could regional cooperation help reduce the cost of MRV, verification and institutional development?
- How should North Macedonia coordinate with neighbouring countries on electricity trade and CBAM implementation?

## Discussion

The establishment of a carbon-pricing framework in North Macedonia is becoming an increasingly important element of the country's energy and economic policy. The introduction of CBAM, the evolution of the EU ETS and the development of carbon-pricing systems in other Western Balkan countries mean that North Macedonia needs to move from policy preparation towards a clearer implementation pathway.

The country has made relevant progress during 2026 through the draft Law on Climate Action and the adoption of the Integrated National Energy and Climate Plan 2025–2030. These developments provide a basis for further action, but the creation of an effective carbon market will require additional legislation, institutional arrangements, technical capacity and stakeholder engagement.

The regional experience offers valuable lessons. Montenegro demonstrates the practical requirements of operating an ETS. Serbia illustrates the use of a carbon tax as an alternative instrument. Albania provides experience with fuel-related carbon taxation, while Bosnia and Herzegovina and Kosovo underline the importance of institutional readiness and effective coordination. For North Macedonia, the choice of instrument should be based on national circumstances and long-term strategic objectives. The country should avoid adopting a system that is either too complex to administer or too weak to provide a meaningful incentive for emissions reductions.

A credible carbon-pricing framework should be built on five essential foundations:

1. A clear and predictable legal framework.
2. Reliable monitoring, reporting and verification of emissions.
3. Strong institutions and transparent governance.
4. A realistic approach to industrial competitiveness and electricity security.
5. Transparent use of revenues to support decarbonisation and a just transition.

The introduction of carbon pricing should be seen as part of a wider economic transformation. It should encourage investment in clean energy, modernise industry, improve energy efficiency and support the development of new economic opportunities in regions affected by the transition away from coal.

The introduction of CBAM and the continuing evolution of European climate policy create both challenges and opportunities for North Macedonia. The country's response should not be limited to compliance with external obligations. Instead, policymakers have an opportunity to design a domestic carbon-pricing framework that supports competitiveness, strengthens energy security, mobilizes investment and accelerates economic modernization.

The experience of neighbouring countries demonstrates that different pathways are available. Montenegro's ETS experience, Serbia's carbon-tax approach and the wider regional discussion on CBAM provide valuable lessons for North Macedonia.

The central strategic question is therefore not whether North Macedonia should prepare for carbon pricing, but how it can develop a system that maximizes national economic benefits while facilitating progressive integration into European energy and carbon markets. If designed effectively, carbon pricing can become an important instrument for national competitiveness, industrial modernization, energy-system transformation and sustainable economic growth rather than merely a climate-policy obligation.

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