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Statement on sustainable development and energy issues in Montenegro

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How do You view the sustainable development in Montenegro and which, in Your opinion, should be Montenegro's fundamental related determination?

Given Montenegro's commitment to become an Ecological State, which is both an enormously visionary and challenging goal, with huge potential pay off, I think sustainable development is a good starting point for this interview. Sustainable Development is one of those phrases which seems to mean everything to everybody and is perhaps somewhat over used. So in the context of the replies I am going to give I have chosen the definition which says that **sustainable development is a dynamic process which enables all people to realise their potential and to improve their quality of life in ways which simultaneously protect and enhance the Earth's life support systems.** In a recent conversation with the leader of DPS, Mr. Djukanovic, he said one of the key sustainable development issues facing Montenegro was that of energy, a perception which recent public events have shown to be entirely correct.

These days a public debate is going on about high electricity bills for citizens as well as about the Montenegrin Energy Development Strategy, which proposes building of HPP Buk Bijela as one of modalities. Please share Your views on this issue and what is the related UNDP position? Do You think the Gov't should have reacted earlier in order to protect the most vulnerable categories of population? Do You think that the «January shock» for citizens' life standard contributed to the expansion of the gap between the rich and the poor? Is this an introduction to the plans for construction of hydro power plants in Montenegro?

In relation to energy prices Prime Minister Sturanovic has properly encapsulated both the transition challenge facing Montenegro when he said that "We should accept European prices once we have European salaries". I think most commentators agree that the free market should regulate energy prices and that all consumers should be billed at real costs of energy. There are many reasons for advocating this approach not least of all from a sustainable development perspective as homes and business do not consider better insulation, savings, alternative fuel sources until they pay real prices but most importantly of all renewable sources of energy are not competitive in a subsidized market. This is all very well in theory, but what is happen in Montenegro currently is a consequence of "social shock" with the average electricity bill increasing by 70% plus VAT in single month period. As 1/3 to 1/5 – depending on the data source - of the Montenegrin population is economically vulnerable so sudden price increase, as elsewhere in the region, can have high impact on certain groups of the population. Social instability is not desirable but another consequence of not having gradual price increases is immediate impact on the environment. ISSP work has shown that projected increases in electricity prices will mean that a further 25% of the population will resort to wood as a heating source (in addition to the current 50%). In the absence of proper bio mass production we may not only have social shock but "environmental shock". A very important part of UNDPs support to Mr Gvozdenovic & the Ministry of Economy, at their request, is to assist them determining policy impacts on the poor and on the environment in terms of the future energy strategy. This is more immediate as a concern than new generation facilities which I will talk about later.

Do you still stand by Your statement about the households in Montenegro to have subsidized KAP last year with approximately 1 Euro every day and how did You get this information?

Current debate is showing that the answer to the question UNDP asked, and stands by, - *"is it possible that the subsidy to the aluminum industry in Montenegro (KAP) is equivalent to approximately 1 Euro per household every day?"* - is that the price of energy to KAP changes all the time in relation to a complex equation. Obviously exceptional and focused attention needs to be paid to KAP in terms of the Montenegrin economy and in terms of global trends when developing both the Energy Strategy and the economic development strategy. The long term trend in aluminum prices has been dropping on average by a percent a year since the 1970's – even though we have a localized rise now - and energy prices look set to increase as we approach the regional energy market as of 2008. As Dr. Jeffrey Sachs – one of the 10 most influential economist in the world - said in a dialogue with senior Government officials on Sveti Stefan in 2004, **"can you really find a buyer that will pay the full price of electricity, cover the environmental costs properly for the future and do it on a profitable basis? If the answer is yes, than it is great. But if the answer is no, and EPCG will continue to provide subsidized energy for many years to come, then it is a different issue and a political and social problem not so much an economic investment problem. I am not convinced that on a proper full market pricing basis this project really makes sense. And that is the basic choice: is this something that in 20 years you want to be in?"**

Of course, there is now an existing contract which the Government has signed and is obligated under, so this question about KAP is for the future. The sustainability principle obviously raises the question, when you have an industry that consumes about 45% of domestic energy production and adds 15% to GDP (as opposed to agriculture and tourism which provide approx 30% of GDP with approximately 15% of energy consumption) you have to think about the medium to long term prospect.

According to our information, the UN agency UNIDO works with the Government on the Energy Strategy. Do You have any information on whether an assessment of its impact on the poor was done? Is there a coordination between UNDP and UNIDO?

UNIDO has just started work on this issue in Montenegro and I am sure that they will say more about their work in due course. Suffice to say that UNIDO is a very well respected sister UN organization and **energy has been a central theme of their work for over 30 years**, with its programmes addressing both the supply (provision of energy for industry, use of renewable energy resources) and the demand sides (improving industrial energy end-use efficiency). UNIDO helps its clients solve two fundamental problems: **reducing the environmental damage that occurs with energy use and de-linking intensity of energy use from economic growth.**

In terms of these goals several institutions including UNDP would share these principles and for concrete recommendations in relation to how both of the above goals might be applied to the energy sector we need look no further than WB sponsored draft report on the Spatial Strategy recommending that "given the emphasis on achieving sustainable development one of the prerequisites should be the development of policies for energy conservation and the assessment of future needs on a sector by sector basis. The assessment should also include options for importing and exporting power to neighbouring countries in the region. As Montenegro's industrial and manufacturing activities are transferred to the private sector this is likely to have a big impact on energy conservation with a reduction in overall energy demand.

Having established the context for growth in energy demand, a careful assessment of alternative means of both reducing demand for and supplying energy is needed.”

And they continue by saying that “much of the planned growth in tourism activity on the coast should involve construction of energy efficient buildings where the aim should be to make these carbon-neutral. In other words, buildings should be designed to be self sufficient in energy by incorporating insulation and solar and photo-voltaic power sources.” This a classic example of how to de-link growth and energy consumption because with the right policy all new tourism hotel development becomes energy neutral.

In relation to minimizing the impact on the environment the Energy Efficiency Director of EBRD (European Bank for Reconstruction and Development) **Bernard Jamet** co-authored a recent book on sustainable energy, in which the very simple argument is put that saving a kilowatt of energy is much more cost effective than generating a new kilowatt. “After all”, Bernard Jamet says, “expanding the supply of electricity can easily take hundreds of times, even more than a thousand times, as much capital as building a factory to make (say) compact fluorescent lamps in Bombay or super windows in Bangkok to produce the same increments of light and comfort. And since the power plant also ties up its capital for about ten times as long as the factory, the product of capital intensity times capital velocity can make electrical supply effectively about one thousand to ten thousand times more capital-consumptive than investing in devices that use less electricity far more productively to provide the same service with the same or better quality. No country, even the richest, can afford to get that choice wrong for very long.”

Having taken into account the poor and then savings in the context of future needs we come to the issue of energy generation. Obviously UNDP supports in the long term development of renewable energy but whether it comes from current proposals for dams (with associated seismic, ecological and international water rights and conventions issues) or, for example from a groups such as Umwelt Kontrol, who in the past couple of years offered to invest half a billion euros in Montenegro focused around two wind farms is an open question. A question that can only be answered after a strategy is developed then proper comparative analysis is made of the benefits to Montenegro and its citizens.

According to some information, Montenegro is a champion of the region in attracting foreign investments. Will this, in Your opinion, have effect on most vulnerable categories? Regardless of it all, how to make sure that the most vulnerable categories of population achieve dignified life standard and which are, in Your opinion, true ways of reducing poverty?

Indeed Montenegro is the “Darling of the Region” in terms of investment, following is smooth transition to independence. As regards whether this inward investment will bring benefits to all Montenegrins the message is a simple one. It is widely recognized that without growth it is hard to reduce poverty. However, it is possible to achieve significant economic growth without reducing poverty at the same time, unless action is taken to prioritize action towards impoverished groups, link priorities to ring-fenced budget resources and monitor the impact. Having spoken with Minister Radunovic I understand that the Government is about to refresh the PRSP which is an ideal opportunity to put in place these important mechanisms.