


Chapter 6


CBAM and the Western Balkans: Assessing Impacts on Production and Exports of 35 Carbon-Intensive Goods

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ABSTRACT

The chapter examines the effects of the EU's application of the Carbon Border Adjustment Mechanism (CBAM) on the Western Balkan countries, whose economies rely significantly on exports of goods produced with high levels of greenhouse gas emissions. The potential impact of CBAM on these countries is assessed across 35 product groups by comparing several indicators (absolute export volumes, the degree of dependence on the European market, significance for national exports, the existence of stable trade relationships, location and size of production facilities). The chapter also assesses national initiatives related to the implementation of the EU climate policy principles, in particular the establishment of carbon pricing instruments, which may be taken into account in the calculation of CBAM costs. In addition, indicative CBAM costs for ten carbon-intensive products from Serbia are estimated, taking into account embedded and direct emissions, exports to the EU, and projected CBAM certificate prices.

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INTRODUCTION

The contemporary world is confronted with the urgent challenge of climate change, requiring comprehensive and immediate action from the international community. A substantial body of research attributes current climate change to the greenhouse effect, which arises predominantly from human economic activity. The efforts of numerous international organizations and states are focused on reducing the carbon footprint of key economic sectors such as energy, industry, and transportation. The European Commission explicitly recognized the “green transition” as one of six priorities for EU development in 2019-2024. Under the European Green Deal (European Commission, 2019), EU member states established the objective of creating a climate-neutral economy, defined as attaining net-zero human-induced greenhouse gas emissions by 2050. Achieving this objective is envisaged through a set of measures that includes the expansion of renewable energy sources, the diversification of the energy import structure, and the deployment of energy-efficient technologies. The “Fit for 55” package (European Commission, 2021a) establishes a goal of cutting net greenhouse gas emissions by a minimum of 55% by 2030 compared with 1990 levels, with the aim of attaining climate neutrality by the middle of the 21st century.

In an effort to contribute to global greenhouse gas (GHG) reduction, the EU has implemented the Carbon Border Adjustment Mechanism (CBAM). In July 2021, the European Commission unveiled the initial legislative proposals for CBAM as part of the “Fit for 55” package, which received formal adoption from the European Parliament and the Council of the EU (European Commission, 2021b). CBAM entered into force in May 2023.

Aligned with the policy goals of the EC, CBAM is designed to address the negative impacts resulting from the uneven application of climate policies and to encourage other countries to pursue development pathways consistent with the “green transition.” The application of CBAM is expected to foster technological modernization in sectors producing carbon-intensive goods, notably aluminium, iron and steel, fertilizers, cement, electricity and hydrogen¹. Moreover, it is intended to curb carbon leakage, whereby European companies transfer manufacturing activities to jurisdictions with lower environmental standards to reduce compliance costs associated with climate policies². As a result, cheaper but more carbon-intensive products return to the EU market³. It is apparent that Brussels’ intentions extend further than the development of a “green economy” and are also linked to enhancing industrial competitiveness and reducing the relocation of production outside the EU. In this regard, a number of experts consider CBAM as an instrument of protectionist policy, the application of which, inter alia, would enable member states to generate additional revenues to finance programmes related to the “green transition”⁴. In addition, the question arises regarding the compatibility of CBAM with World Trade Organisation (WTO) rules.

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