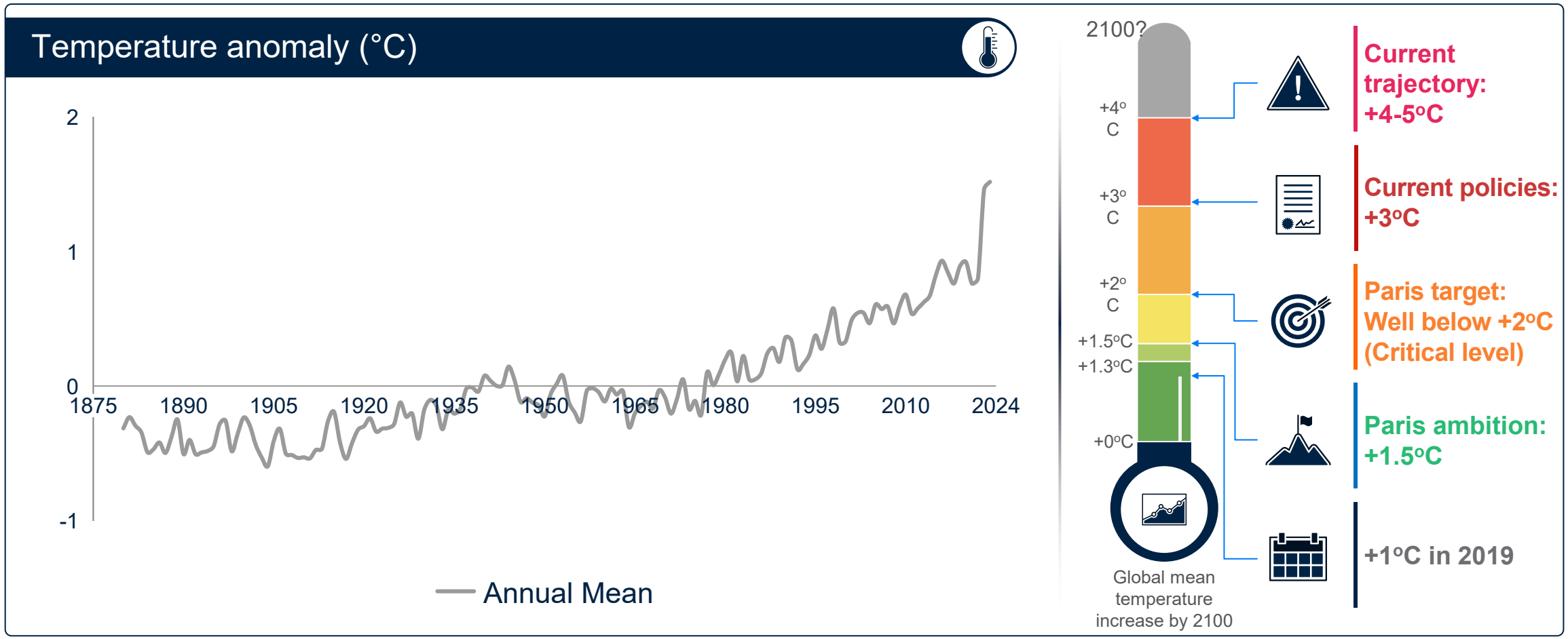
Carbon Reduction

CBAM Framework

July 2025

The rate of increase in GHG emissions and their impact on the planet is progressing faster than anticipated

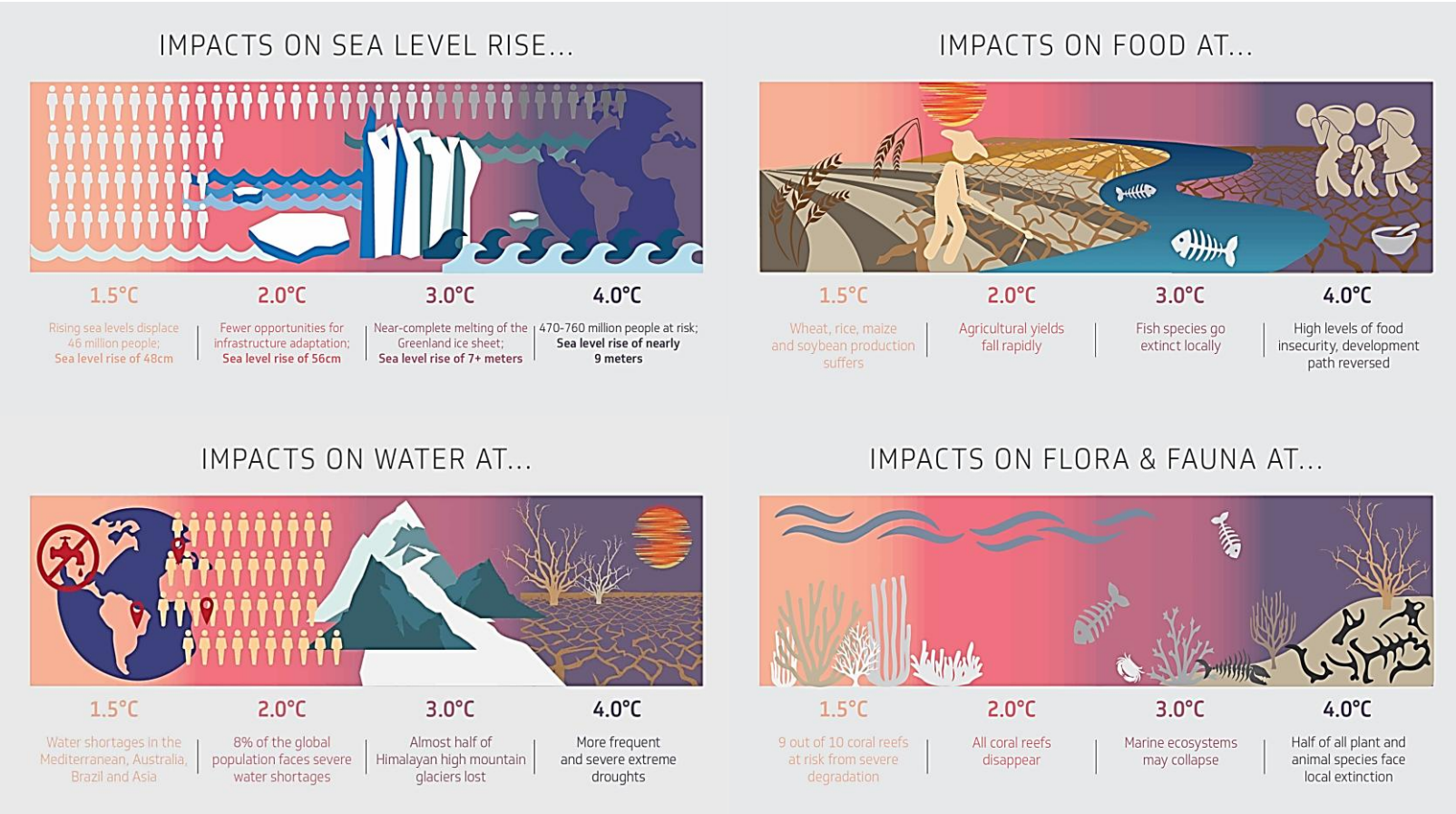
Global surface temperatures have surged above the 1.5ºC reference point

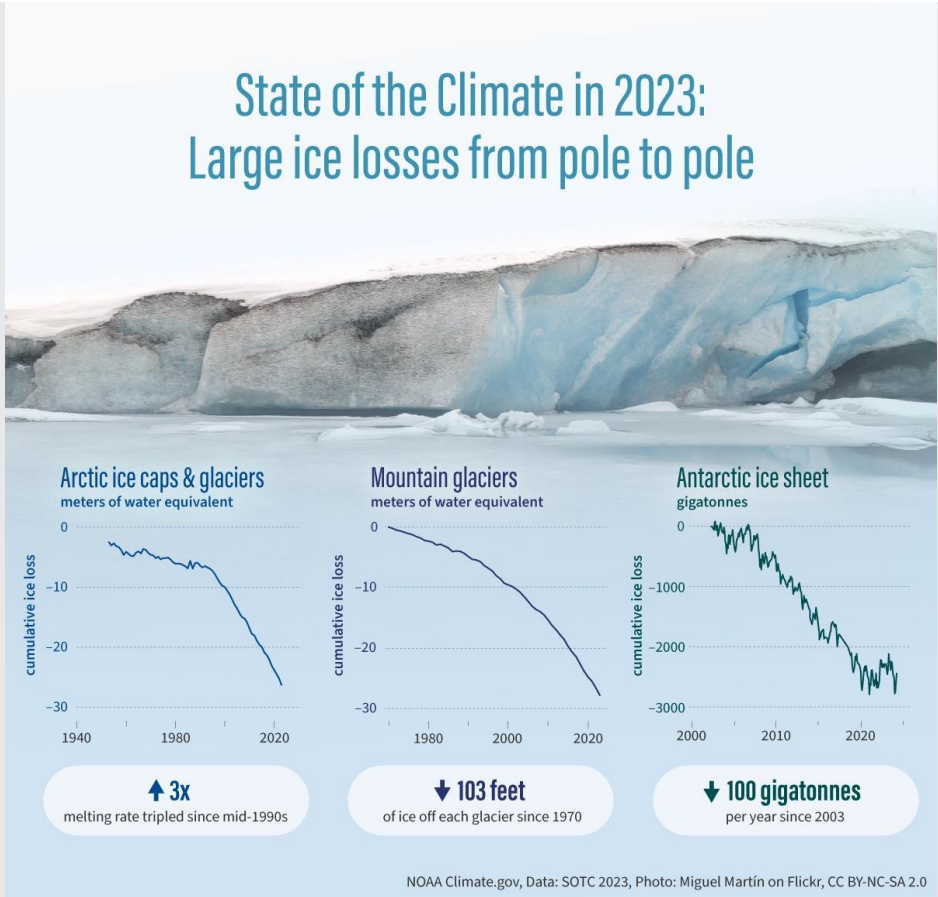


Note: Global average land-sea temperature anomaly relative to the 1961-1990 average temperature
Source: Met Office Hadley Centre (HadCRUT5)

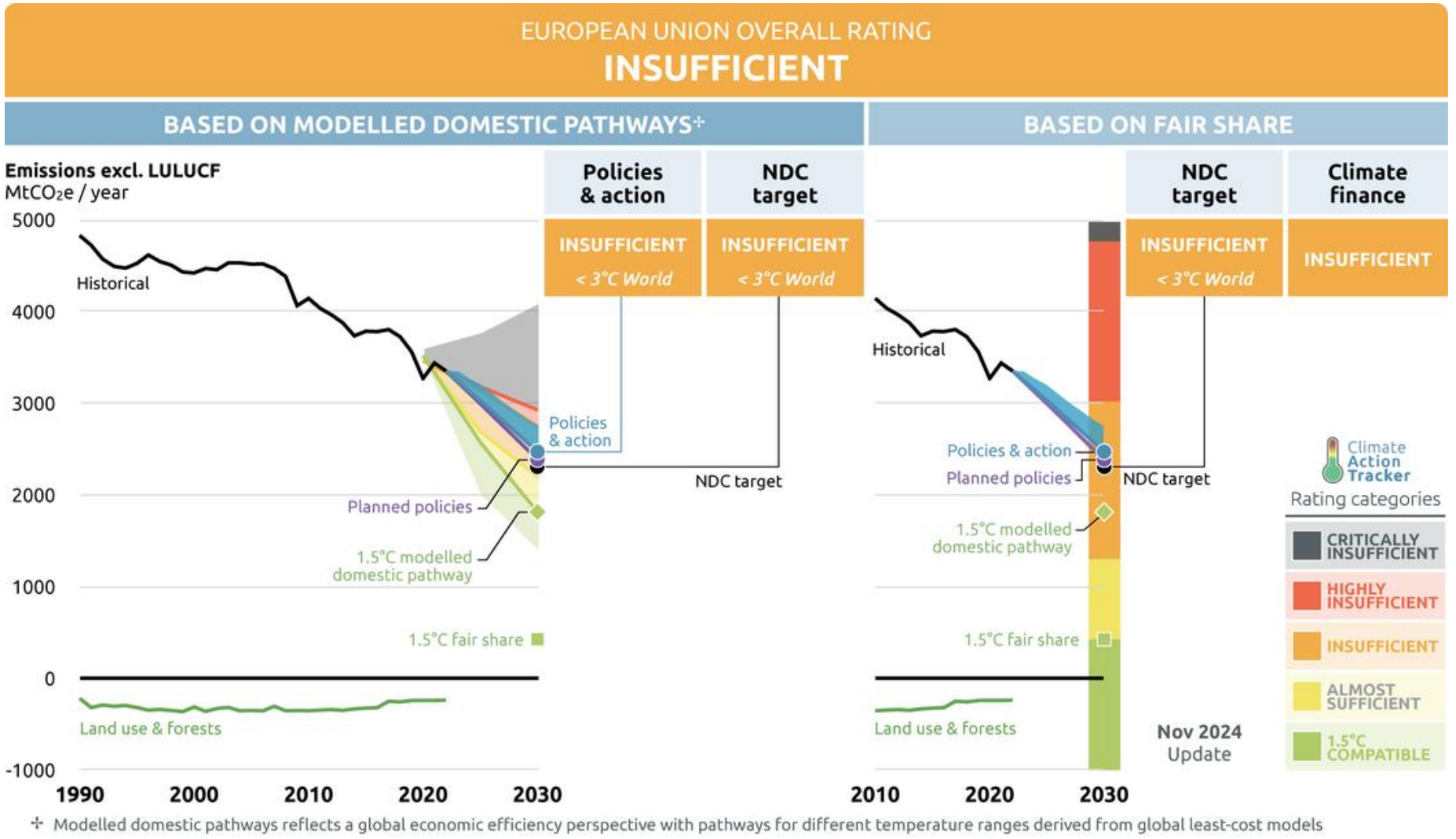
The dire effects of rising temperatures present a clear case for action

Rising sea levels, severe storms, water and food shortages will become the new normal





The EU's current climate strategy will not deliver its NDC target



✣ Modelled domestic pathways reflects a global economic efficiency perspective with pathways for different temperature ranges derived from global least-cost models

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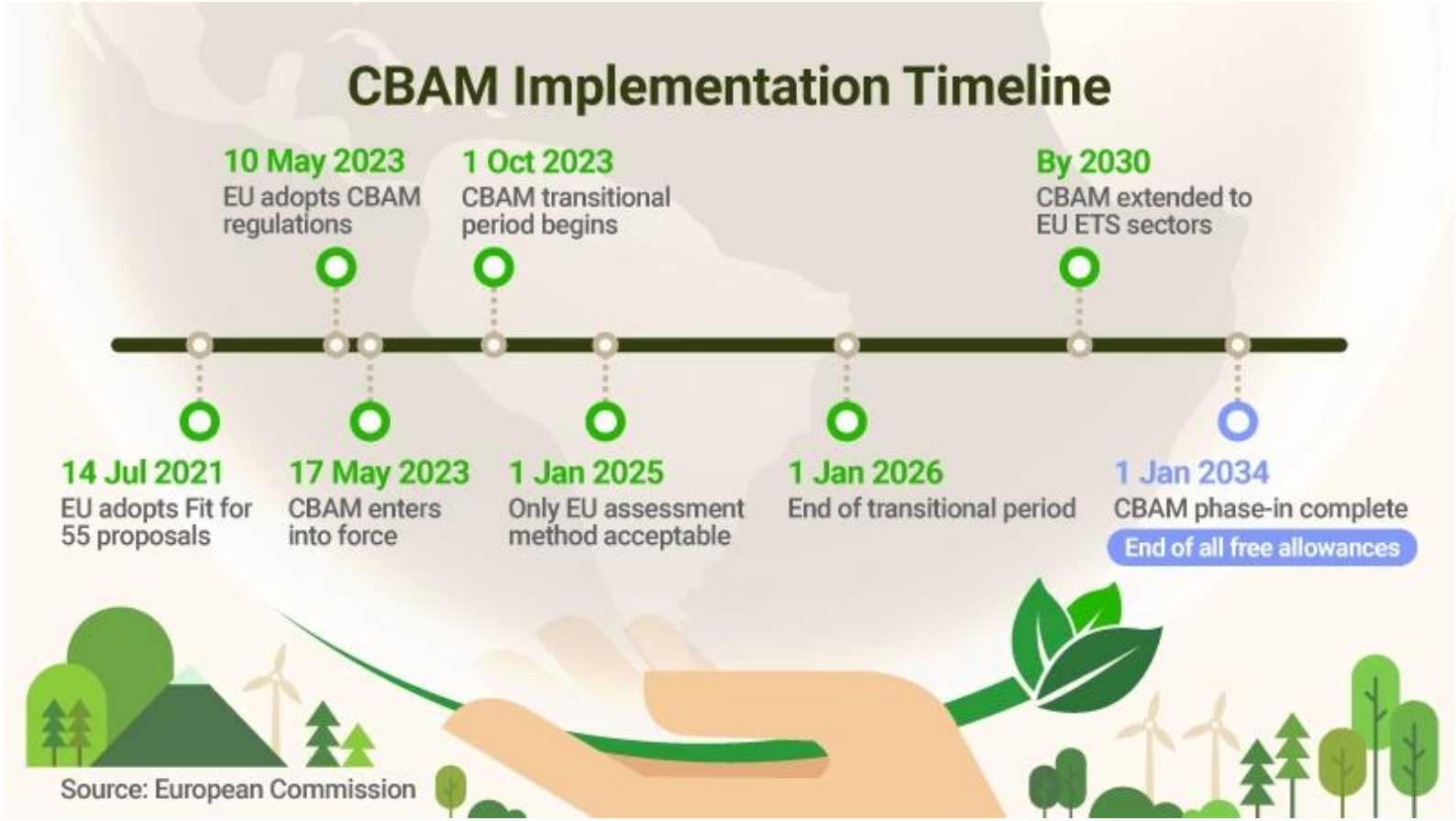
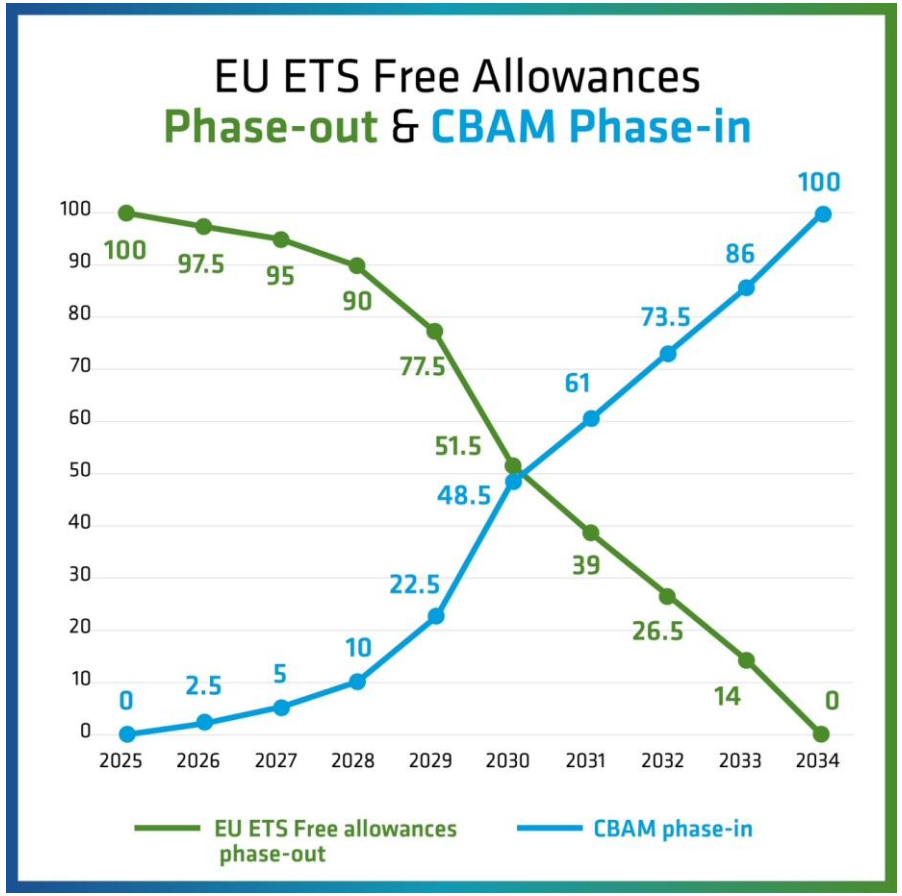
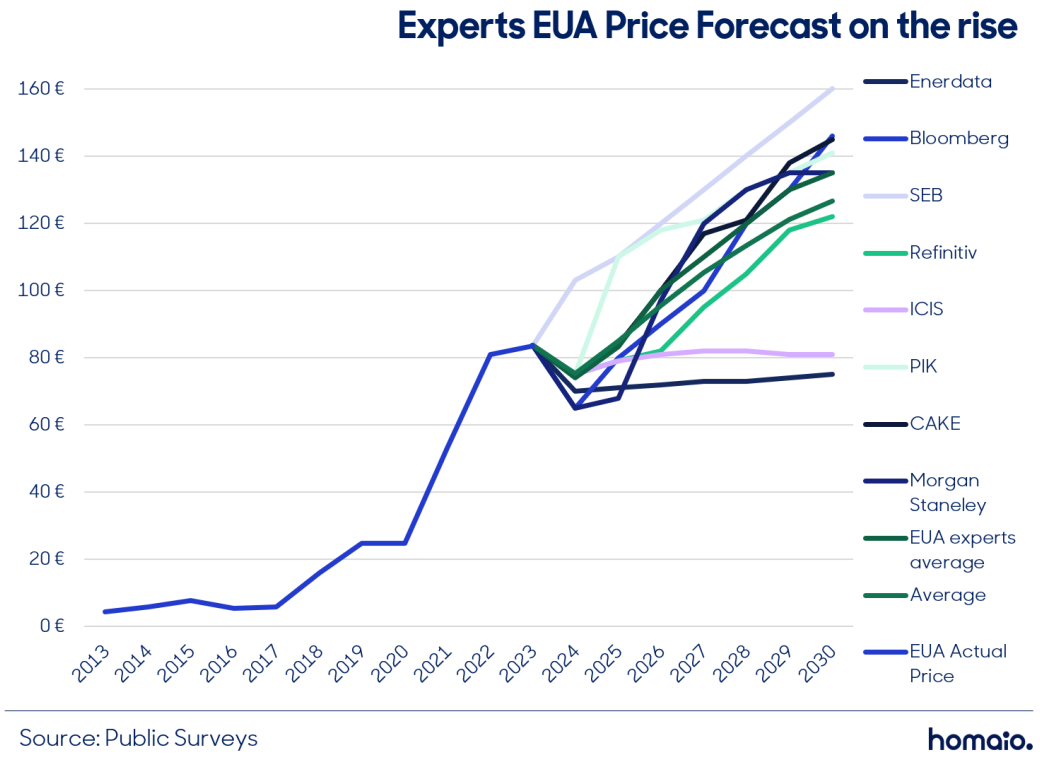
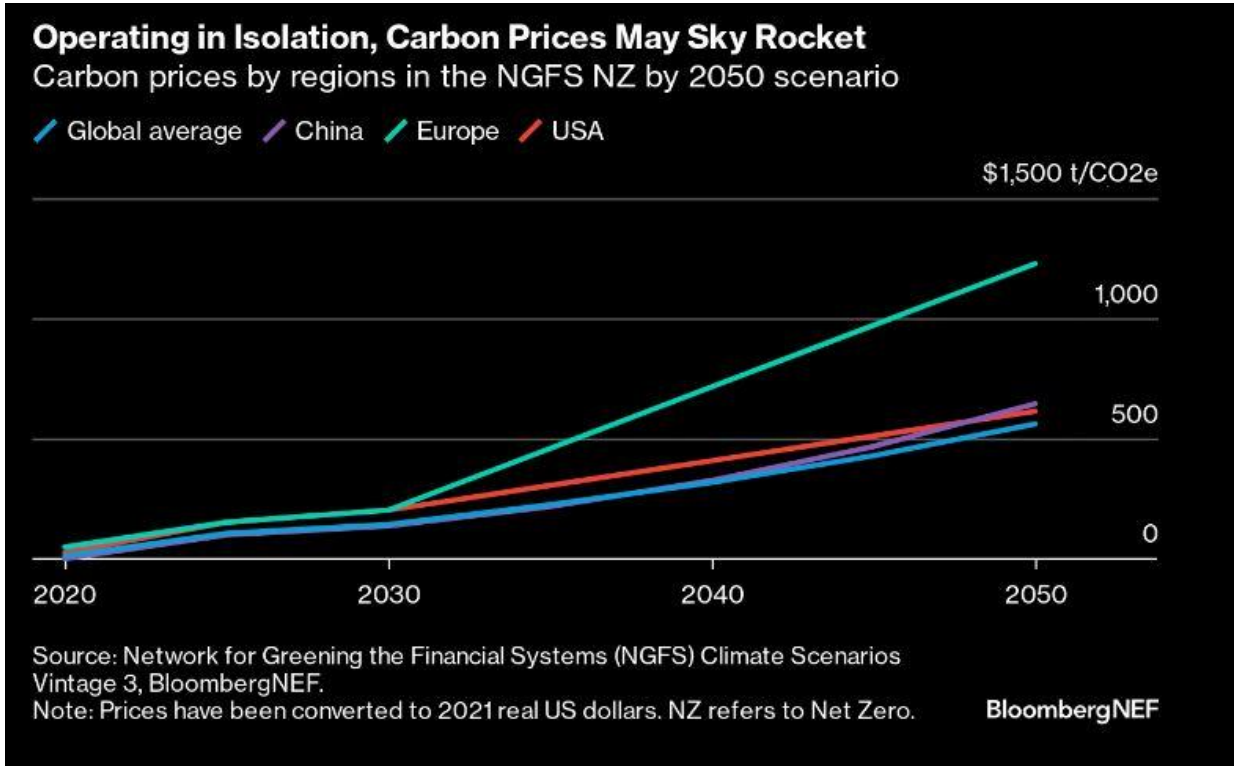
CBAM intends to address carbon leakage, focused on imports into EU



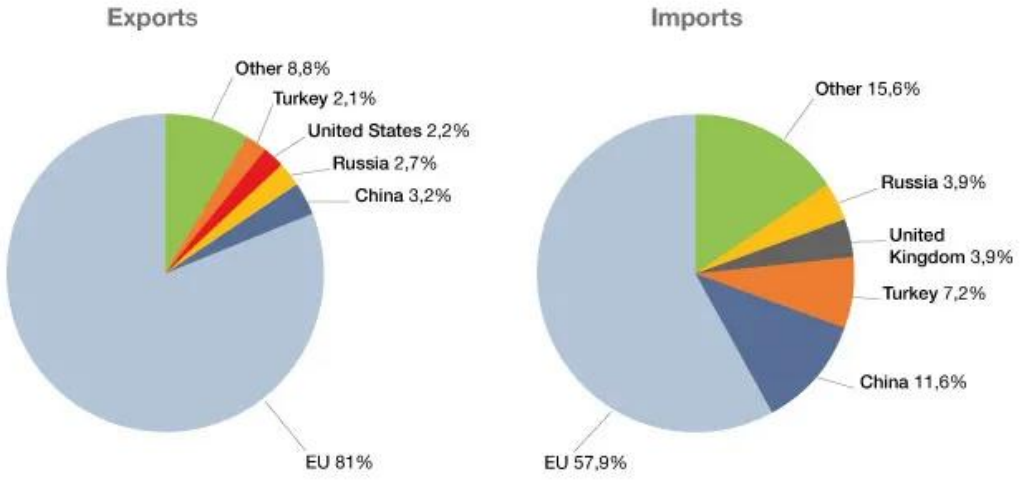


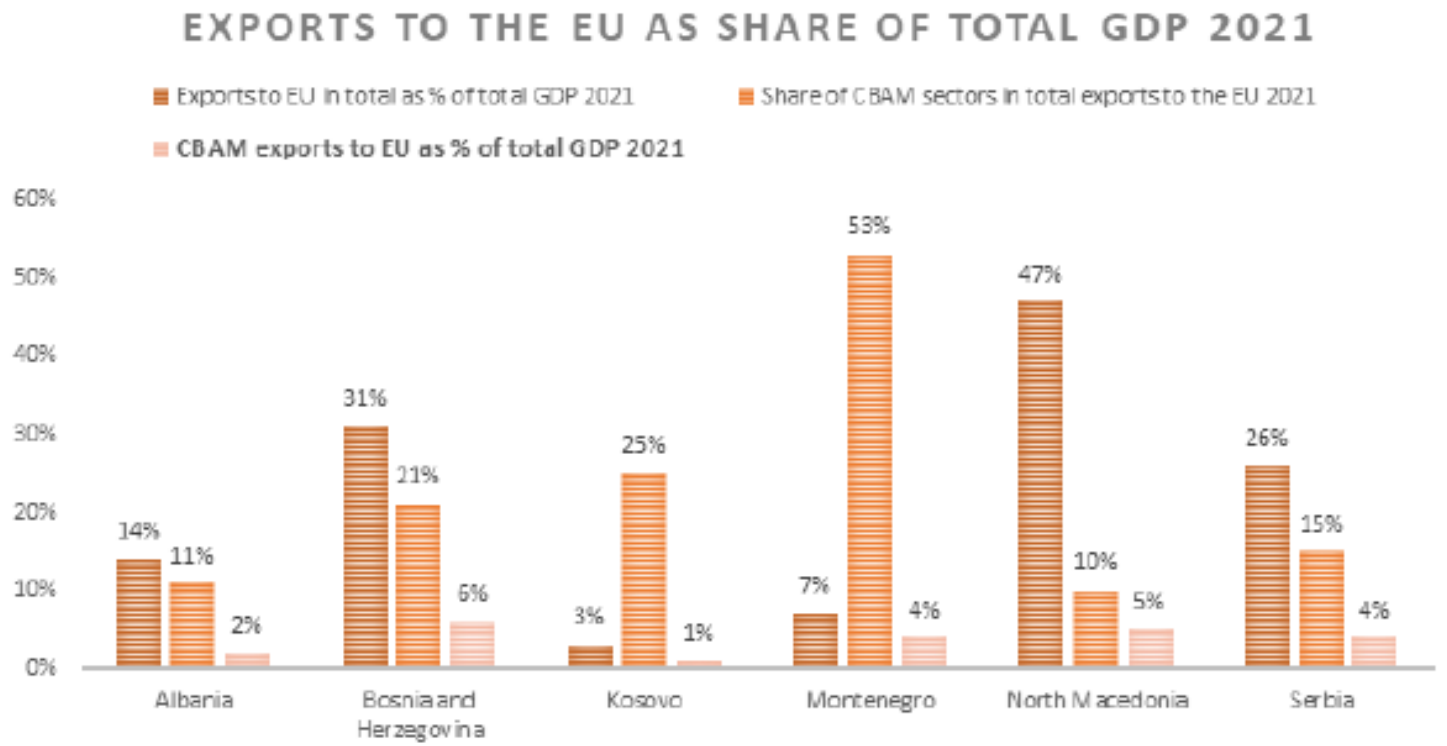
Carbon Price is expected to be over €100 by 2030





Western Balkan States Will Be Impacted By CBAM





CBAM will increase cost of goods from Western Balkan states

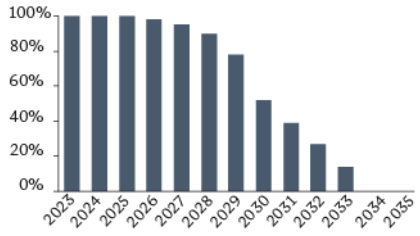
Pay up!
How the EU carbon tax is calculated

NUMBER OF CERTIFICATES

(Actual emissions of the installation producing imported product (tCO2/tonne of product) − Emissions covered by free allocation in the EU (tCO2/tonne of product)) × Tonnes of imported products × EU ETS PRICE (Average weekly EU ETS price) − THIRD COUNTRY CARBON PRICE (Obligation paid in exporting country) = **CBAM Adjustment**

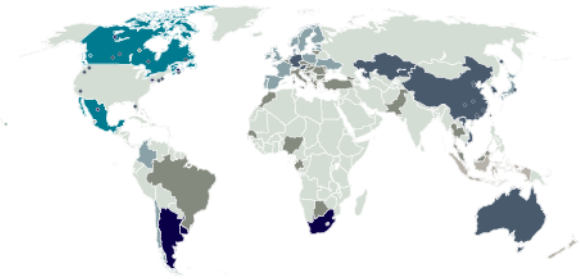
During the Implementation Phase, failure to report verified emissions, or failure to use actual emissions will result in use of punitive default values

Free allocation phase out trajectory



EU ETS Price

Carbon pricing map



CBAM creates several opportunities for Western Balkans

- Accelerating decarbonization and innovation – position region as low carbon leader
- Facilitating access to EU Markets – by aligning with EU carbon regulations, strengthen their position as exporter and grow market share
- Attracting investment and funding – EU support through instruments like Instrument for Pre-Accession (IPA III), Economic and Investment Plan (EIP) which offers 9 billion in grants and 20 billion in guarantees for green investment
- Stimulating skills and capacity building – new job creation, positive impact on unemployment
- Promoting policy alignment with the EU – increased access
- Encouraging regional co-operation – shared challenges, knowledge sharing and pooled investment options

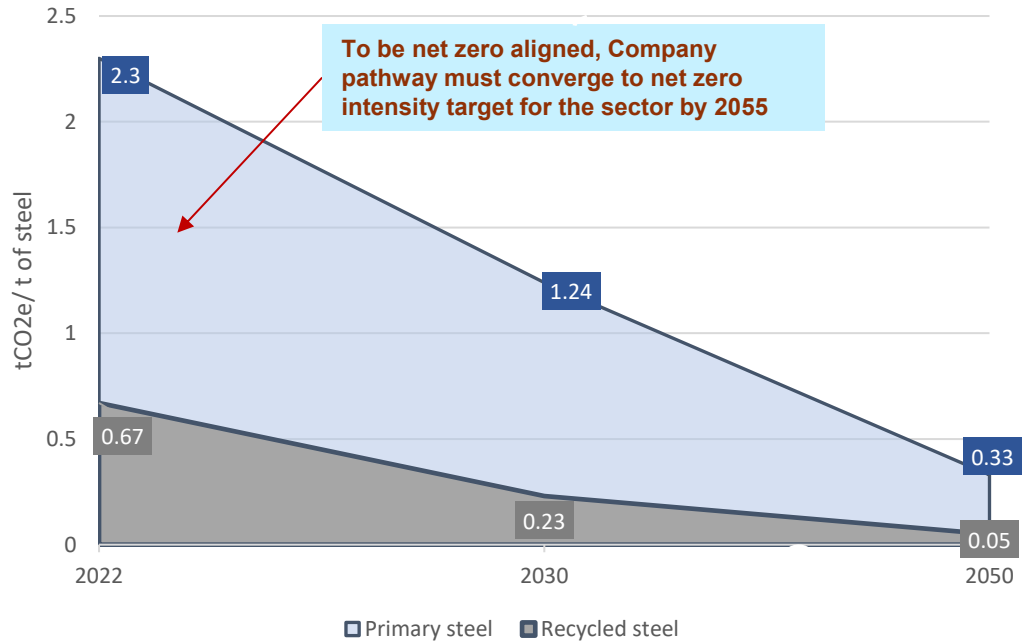
Maximum potential increases for phase 1 of CBAM

- *Example 1 - Cement Producer*
  - Emissions per ton: 100kg per ton of cement
  - EU Carbon Price: €70 per ton CO_2
  - Local Carbon Price: €0 (Most states do not have carbon price, exception is Montenegro)
- *CBAM Cost Calculation*
  - CO_2 emissions: 0.1 ton
  - Cost per ton: 0.1 x €70 = €7/ton cement exported to EU
- *Example 2 - Steel Producer*
  - Emissions per ton: 1.8 tons per ton of steel
  - EU Carbon Price: €70 per ton CO_2
  - Local Carbon Price: €0 (Most states do not have carbon price, exception is Montenegro)
- *CBAM Cost Calculation*
  - CO_2 emissions: 1.8 ton
  - Cost per ton: 1.8 x €70 = €126/ton steel exported to EU

The Steel industry has a well-developed set of Net Zero pathways

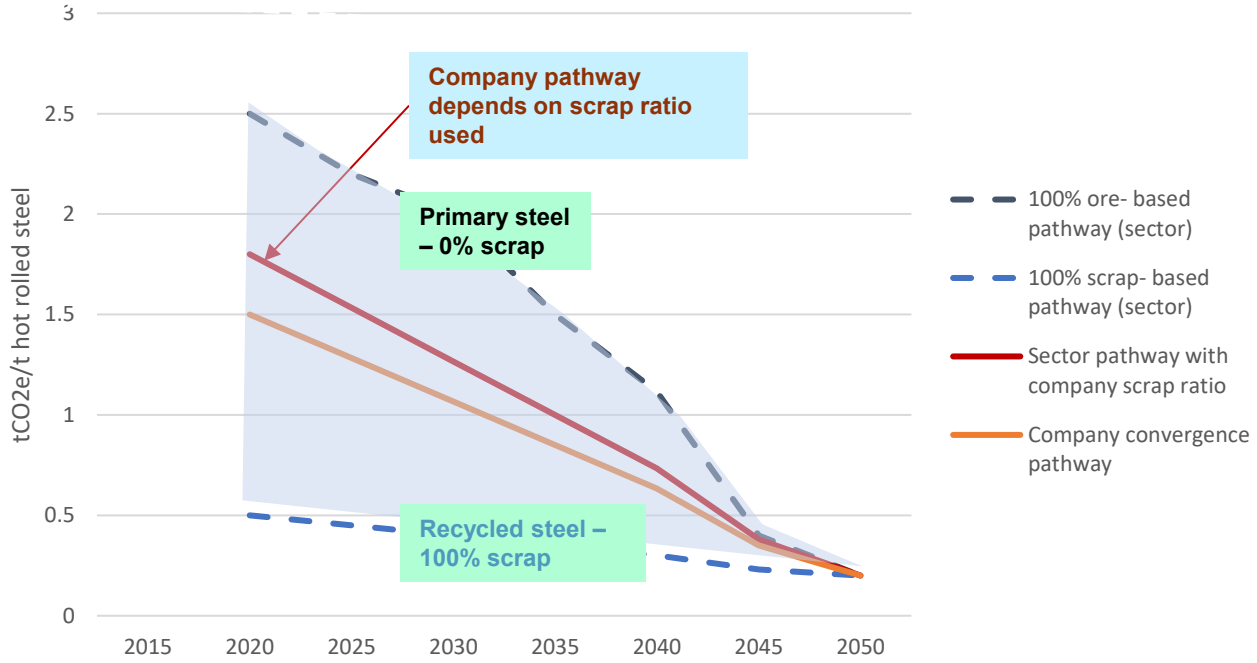
The target carbon intensities for primary and recycled steel production are different

IEA emission intensity pathways for primary and secondary steel.



Source IEA and World Economic Forum

Examples of SBTi Net zero emissions intensity pathways (applied to hot rolled steel), … consistent with IEA data

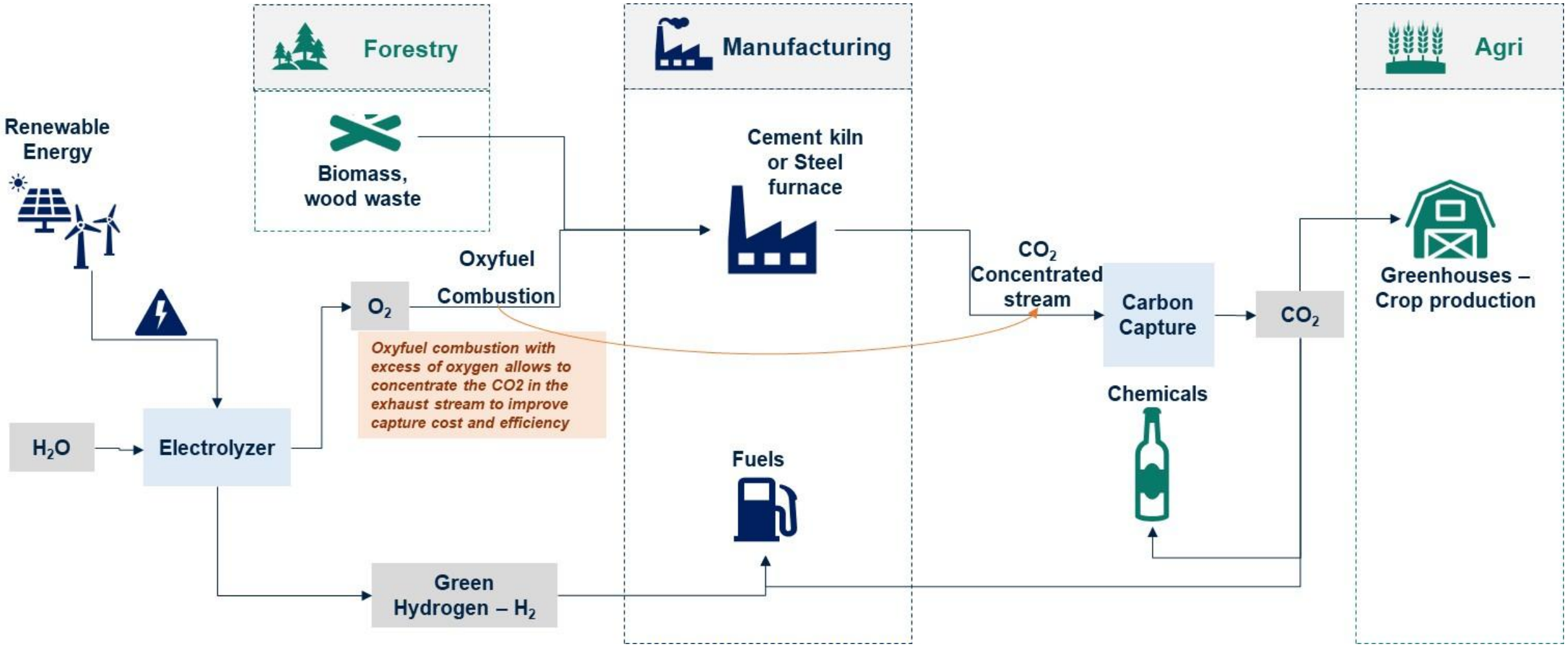


Source SBTi: https://sciencebasedtargets.org/resources/files/SBTi-Steel-Guidance.pdf

- **Circular economy will play a key role in decarbonizing the steel industry;**
- ***"Steel decarbonization is likely to be faster in regions where competitively priced clean power and scrap steel are readily available"*** - IEA

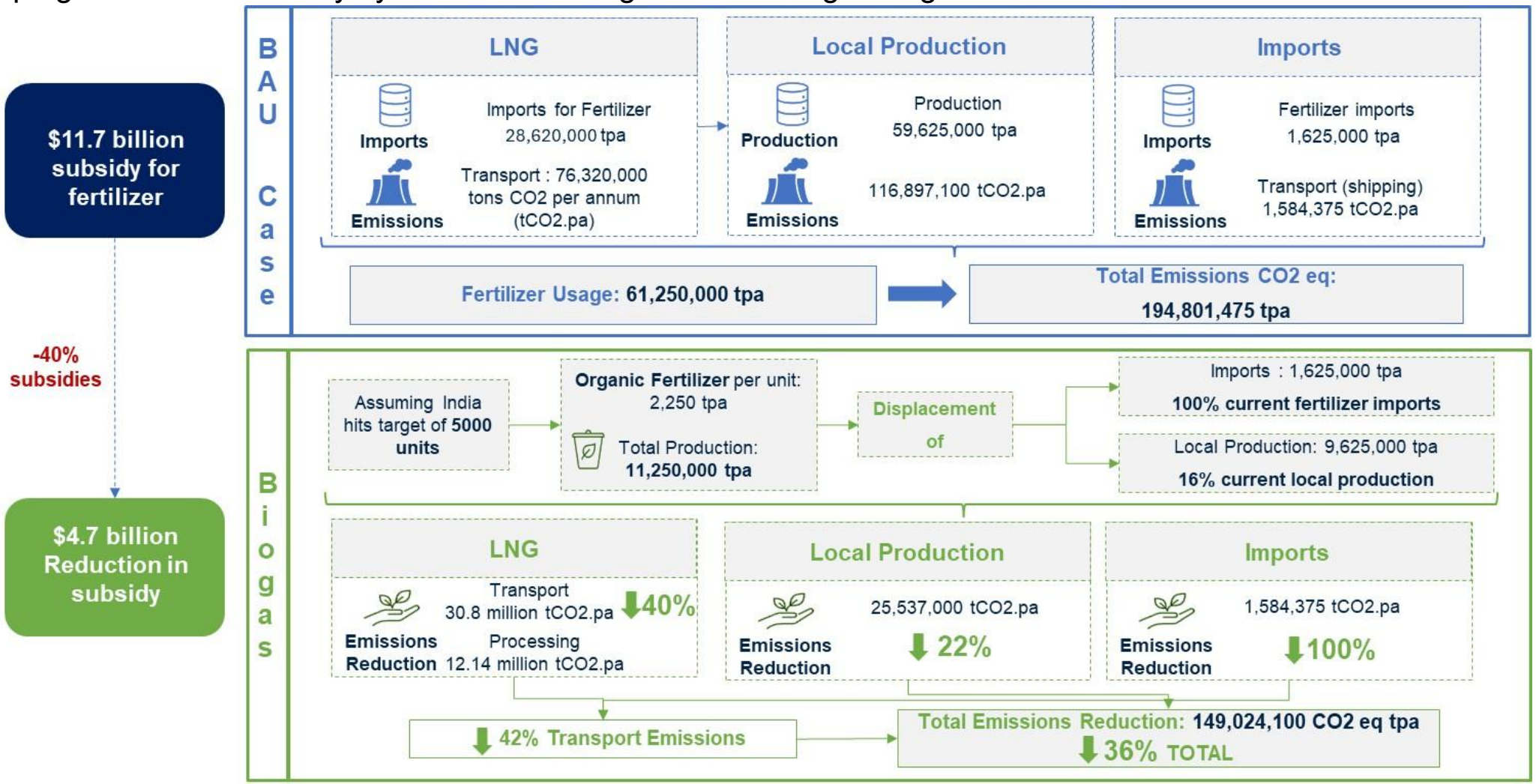
Applying circular economy principles to drive multi sector integration

Delivering maximum GHG reduction, reduced costs and building sustainable refineries



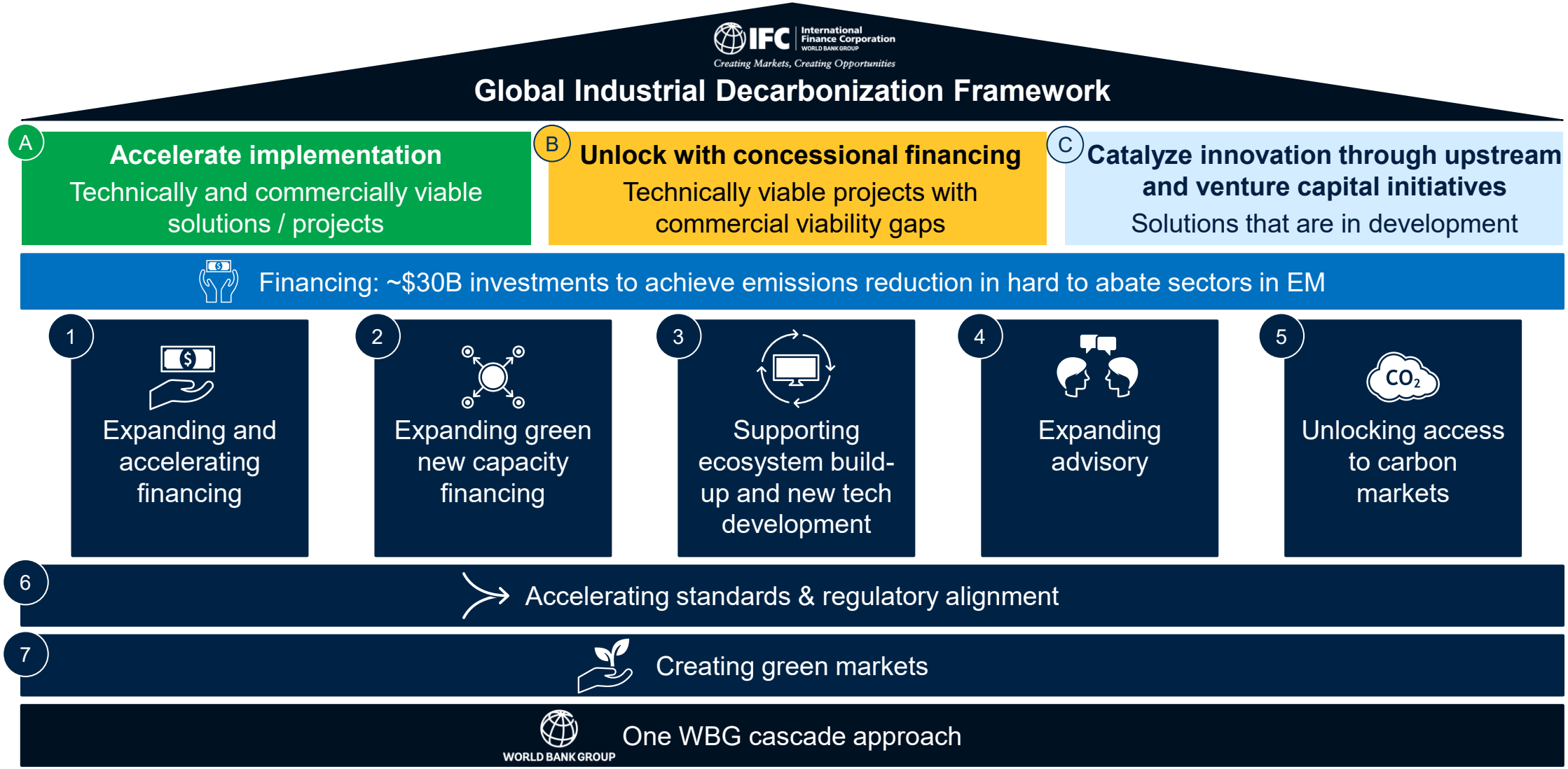
Case Study: Biogas production in India

Developing a circular economy system that leverages India's biogas targets



IFC has developed a framework focused on decarbonization

The GID framework was developed by consulting with internal and external stakeholders



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