

CBAM's effects on Ukraine's economy and decarbonisation efforts

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Assessing the impact of CBAM on Ukraine using a global trade model

- 60-70% of Ukraine's exports go to the EU
- Ukraine's economy is highly carbon-intensive and has a low domestic carbon price (~€0.75/t CO₂).
- CBAM risks to reduce the competitiveness for Ukrainian export industries

Approach:

- Dynamic modelling framework based on **GTAP** (Global Trade Analysis Project) database
- Compare projections assuming CBAM, with projections assuming no-CBAM (**baseline**)
- **Adjustment** of GTAP-data to represent the impact of the war in key dimensions (*Sectoral demand changes, Demographic shifts, GDP growth projections, carbon price*)
- Reliance on Ukraine's updated Low-Emission Development Strategy 2024

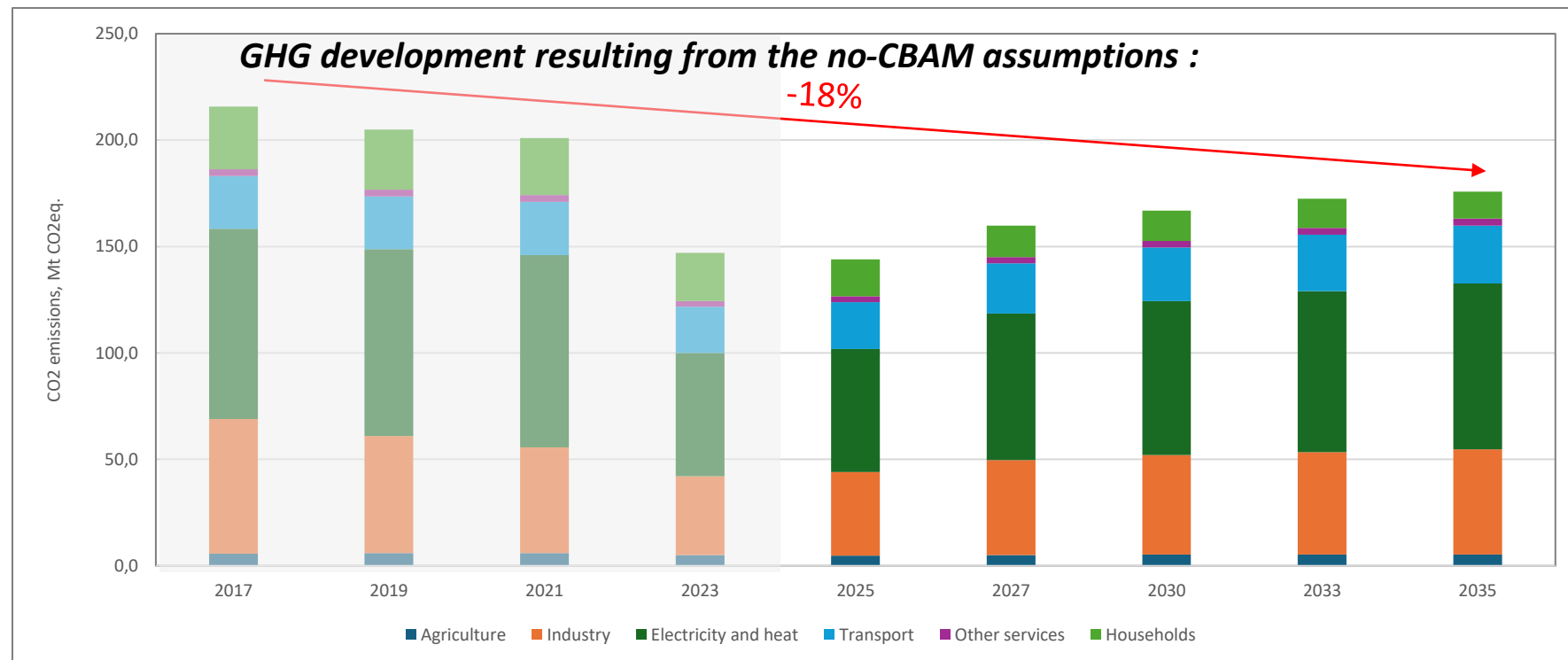
Under a no-CBAM scenario, the current economic structure would largely persist

Assumptions - Economy:

- **Between 2025-2035:** average growth rate of ~6% per year expected
- **Substantial differences within the energy sector** (visible growth of solar and wind, whilst more moderate numbers for fossil sector)

Exports: Export Dynamics resulting from the no-CBAM assumptions mirror the economic development

- average annual export growth rate of almost 6%
- Agricultural exports continue to grow; and services exports overtake primary goods exports



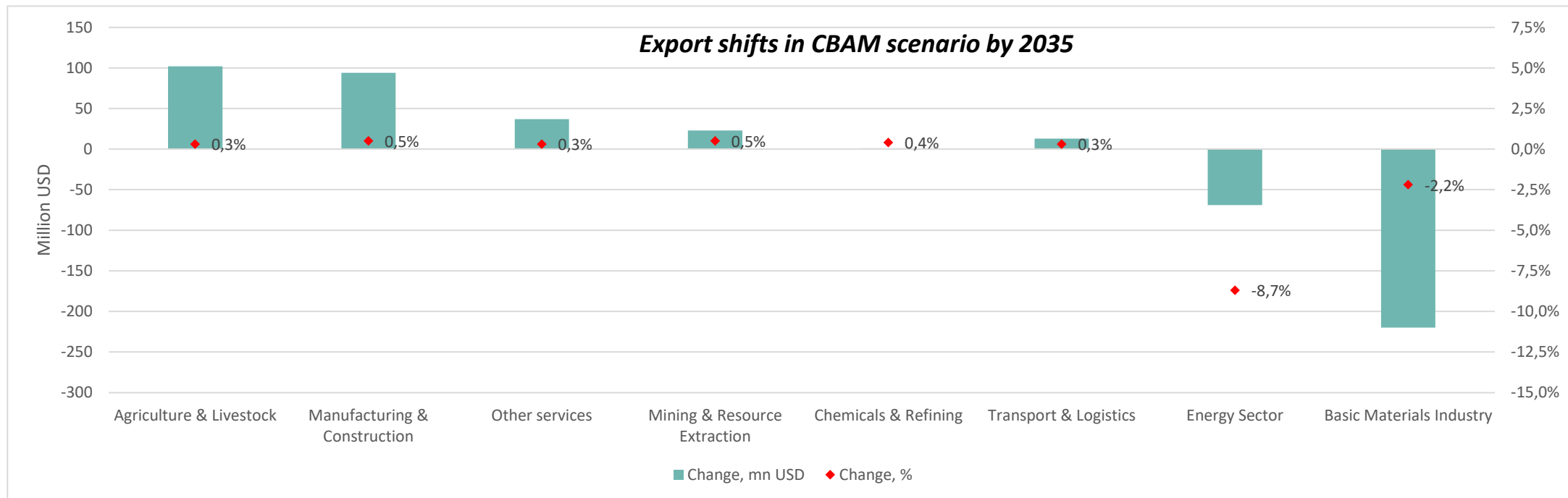
CBAM will have only a limited impact on Ukraine's economy

Overall impact on **output/growth** is small:

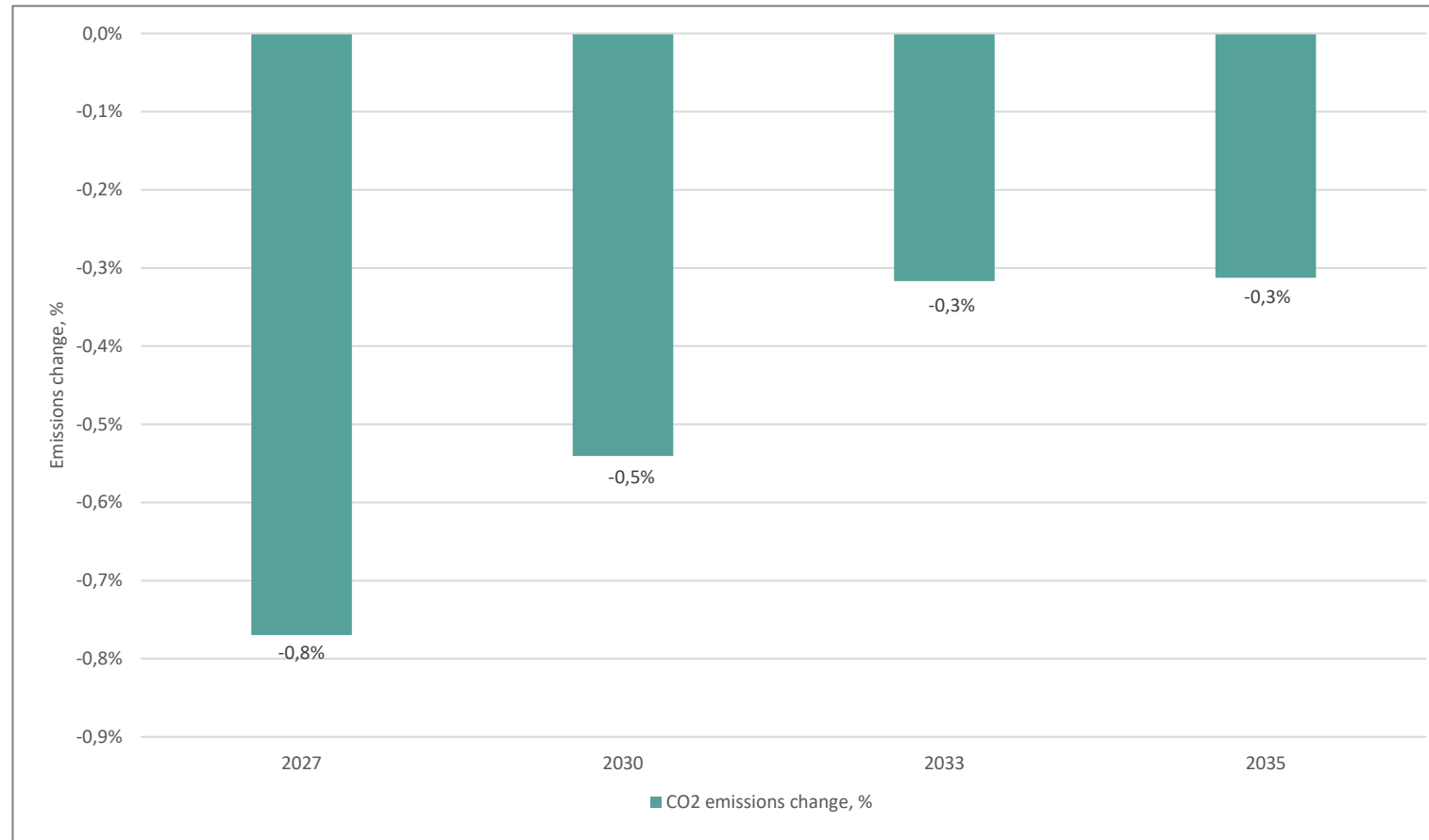
- CBAM implementation would lead to minor shifts in output structure (minor decline in emission-intensive sectors: -1% for Basic Materials Industry; -0.5% for Energy Sector)

CBAM affects **sectoral exports** (2035 vs. baseline) more strongly than output

- Exports of iron and steel decline by over 3%, cement declines by ~14% (*Basic Materials*)
- Energy exports decline by ~9%
- Export changes for other sectors are between +0.5% and -2.2%



CBAM: No sufficient driver for Ukraine's decarbonisation efforts



- **Additional tools needed to enable EU-aligned industry decarbonisation**
- **One idea:** A reformed Ukrainian Decarbonisation Transformation Fund to transparently reallocate CBAM revenues into Ukraine's decarbonisation (*Green Deal Ukraine paper on that is in progress*)

Annex: Representing the impact of the war

Dimension	Adjustments
Sectoral demand changes	Increased activity of the construction sector following the post-war reconstruction efforts taking into consideration
Demographic shifts	Followed Ukraine’s Low-Emissions Development Strategy
GDP growth	Followed Ukraine’s Low-Emissions Development Strategy
Carbon price rate increases	Study assumed a carbon price increase of 7% annually, from \$1 per ton in 2023 to \$4 per ton in 2035
Factor Market Considerations	<p>Labor market rigidities were addressed through partial wage flexibility</p> <p>Sector-specific investment risks in Ukraine’s post-war economy were considered through capital frictions in sensitivity analyses</p>
Territorial Considerations	Followed Ukraine’s Low-Emissions Development Strategy