

NEWSLETTER

UKRAINE

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How big will the short-term impact of CBAM be for Ukraine?

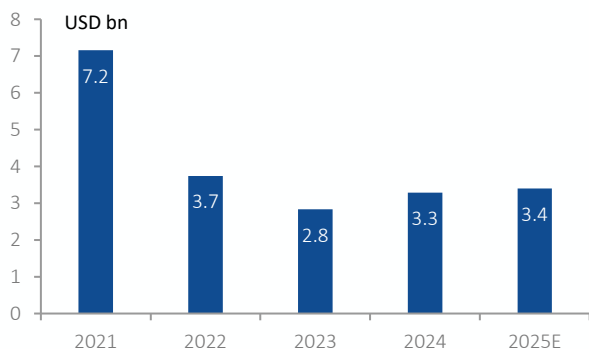
The Carbon Border Adjustment Mechanism (CBAM) is an EU climate policy tool that applies a carbon price to imports of selected goods from non-EU countries to address carbon leakage and align carbon costs with EU ETS producers. Although the regime entered its definitive phase on 1 January 2026, uncertainties remain — both about how it will work in practice and about the short-term economic impact on Ukraine's industries and its economy overall. Cost estimates circulating in the Ukrainian public debate vary widely: industry voices warn of existential pressure forcing plant shutdowns, while some academic projections suggest only marginal macro effects before a full phase-in in 2034. Our analysis puts the cumulative loss in Ukrainian exports to the EU at USD 1.4 bn over 2026-27 (41% decline against the 2025 baseline), iron and steel accounting for USD 1.2 bn, or 89% of that total. Getting closer to the truth will shape how Ukraine can negotiate with the EU on what support measures can be found to mitigate the impact on Ukraine's already stressed industry and economy.

Ukraine's export structure shows high CBAM exposure

CBAM-covered goods exported to the EU amounted to around USD 3.4 bn in 2025 — roughly 15% of Ukraine's total exports to the EU and close to 2% of GDP. That figure is already dramatically lower than the USD 7.2 bn recorded in 2021, before the full-scale invasion destroyed much of Ukraine's industrial capacity.

But the war has also made Ukraine more vulnerable in a different way. As traditional export routes eastward collapsed, Ukrainian producers pivoted sharply to EU markets: the EU's share in Ukraine's total CBAM-related exports rose from 41% in 2021 to 68% in 2025. With fewer alternative markets available, any disruption to EU-bound makes reorientation much harder.

Ukraine's exports of CBAM goods to the EU



Source: Own display based on estimated UKR exports using quantity of EU imports from UKR in 2021-2025 (Eurostat) and UKR unit values of exports to the EU (Ukrstat)

The exposure is also highly concentrated. Iron and steel alone account for 92% of Ukraine's CBAM exports to the EU, with cement (4%) and aluminium (3%) as the only other sectors with a meaningful share.

How will CBAM work in practice?

Under CBAM, EU importers are required to submit an annual declaration of imported quantities and the embedded emissions of the goods they purchase. To do so, they need verified emissions data from the non-EU producer, submitted through the Third Country Operators Portal in the CBAM Registry. Importers then purchase and surrender corresponding CBAM certificates equal to the embedded emissions, at a price linked to the EU ETS allowance price (Regulation (EU) 2023/956).

Where verified data are not available, importers fall back on default values published by the European Commission — but this comes at a cost. The defaults are set deliberately above typical actual emissions to incentivise compliance, with additional mark-ups of 10% in 2026 and 20% in 2027 (Regulation (EU) 2025/2621). Using defaults is not just a bureaucratic necessity but rather a financial penalty that directly inflates the CBAM bill.

Payments for 2026 imports are not due immediately: certificate purchases open on 1 February 2027, and the first surrender deadline is 30 September 2027. If a carbon price has already been paid in the country of origin, that amount can be deducted.

Calculation of CBAM payment obligations (EUR/t)

$$\left[\text{Embedded emissions } tCO_2e/t - \left(\text{CBAM Benchmark } tCO_2e/t \times \text{CBAM factor} \right) \right] \times \text{EUA price} - \text{Domestic carbon tax}$$

Source: Own display based on European Commission Regulation (EU) 2025/2620

Default vs actual emissions values: the big uncertainty

The question of whether Ukrainian exporters can report actual verified emission values — rather than punitive defaults — is arguably the most consequential short-term issue.

During the previous transitional period, trade continued based on reported actual emissions but reported is not the same as verified. Verification requires an accredited third-party auditor, often an on-site visit, and disclosure of operational data. For Ukraine, the wartime context adds a further massive layer of difficulty. An honest answer is that for most of 2026, they probably cannot.

The verification window for 2026 emissions will not open until 1 January 2027, leaving just nine months before the September 2027 surrender deadline. With a limited pool of accredited verifiers and a large number of installations to cover, most Ukrainian exporters are likely to be forced relying on default values. Industry stakeholders are increasingly aware of this risk and increasingly concerned

that what sounds like a transitional problem could persist well into the compliance period.

CBAM adds high costs to Ukrainian CBAM products

Against this backdrop, our analysis estimates the CBAM cost burden using the EC's country-specific default values (the values EU importers are most likely to apply in practice). These represent an upper-bound estimate. The cost burden differs sharply by sector. Ukraine's iron and steel face the highest exposure, with a sector-average CBAM cost of USD 146.6/t in 2026 rising to USD 178.6/t in 2027. For hot-rolled steel coil, a core export product for Ukraine, the CBAM cost reaches USD 114/t in 2026, slightly above Turkey's USD 110/t. For smaller producers, cost jumps of this magnitude can threaten the viability of operations altogether, which may be different for larger manufacturers as they may have more room to absorb the shock. Ukraine's industry, weakened by the war, has less of that capacity than it once did. Cement is also disadvantaged relative to competing exporters: Ukraine's CBAM cost for grey portland cement is 70.7 USD/t compared to USD 63-64/t of Egypt and Algeria.

CBAM cost on UKR exports, average by product group

CBAM cost, average by product group, USD/t	CBAM cost 2026	CBAM cost 2027
Cement (grey portland)	70.7	86.0
Fertilisers	78.9	82.6
Aluminium	63.0	72.5
Iron and steel	146.6	178.6
Hydrogen	570.0	690.9

Source: Own estimates based on European Commission Regulation (EU) 2025/2621 and Regulation (EU) 2025/2620

Estimated short-term economic impact is substantial

We model a scenario where CBAM acts as an import duty that EU buyers absorb through higher prices, with demand adjusting accordingly. We account for Ukraine's *relative* position vis-à-vis competing exporters to the EU, as what matters is not just the absolute CBAM cost Ukrainian producers face, but how that cost compares to the carbon burden on other suppliers competing for the same EU buyers. We also model trade reallocation, the extent to which export flows to the EU change as relative competitiveness shifts.

	UKR exports to EU, USD m			2027 vs 2025	
	2025	2026E	2027E	USD m	%
Cement	147	10	5	-142	-96%
Aluminium	105	103	104	-2	-2%
Iron and steel	3,140	2,107	1,895	-1,245	-40%
Fertilizers	9	6	6	-3	-34%
Total	3,401	2,227	2,010	-1,392	-41%

Source: Own estimates

Under this scenario, Ukraine's exports to the EU would decline by around USD 1,175 m in 2026 and a further USD 217 m in 2027, for a cumulative loss of USD 1,392 m, or

41%, relative to the 2025 baseline. The impact is heavily concentrated in iron and steel, which accounts for USD 1,245 m (89%) of the total projected loss. Cement faces a steeper decline of 96%, reflecting that Ukraine's CBAM costs are higher than those of competing North African exporters to the EU.

Policy recommendations

The most urgent task is to get Ukrainian exporters off punitive default values. This means building plant-level emissions measurement and reporting capacity now, before the 2027 verification window opens. Direct financial support for accredited third-party verification is needed - whether from domestic sources or international financial institutions- and the government should work with verifiers and EU counterparts on practical arrangements that make on-site auditing feasible under wartime constraints.

Ukraine should also raise its domestic carbon tax strategically. At around EUR 0.6/tCO₂, the current rate is negligible. A higher rate, designed to be creditable under CBAM rules and properly documented, would keep more carbon pricing revenue in Ukraine rather than sending it to the EU budget, with funds channelled through a Decarbonisation Fund into industrial modernisation and the chance to attract blended EU finance. Additionally, that fund should be deployed with CBAM exposure explicitly in mind. With fiscal space severely constrained by the war, allocation cannot be diffuse. Priority should go to investments that simultaneously reduce embedded emissions and strengthen compliance readiness. Finally, Ukraine could engage the EU on relief under the Article 30(7), for example via a political commitment to recycle CBAM revenues collected on Ukrainian exports back into reconstruction and decarbonisation.

This newsletter is based on the Policy Study: "[CBAM and Ukraine: Short-term implications](#)"

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