On the Carbon Border

The Western Balkans and the EU Carbon Border Adjustment mechanism

DANIELLA ANDERSSON 2023

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Miljövetenskaplig utbildning
Centrum för miljö- och klimatforskning
Ekologihuset
223 62 Lund

Daniella Andersson

MVEM31: master's degree project with specialization in applied climate strategies, 30 credits, Lund University

Supervisor: Carl Dalhammar, IIIEE, Lund University

External Supervisor: Mathias Österdahl, the Swedish Civil Contingencies Agency (MSB)

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Abstract

In May 2023, the EU adopted a crucial part of their updated climate policy, the Carbon Border Adjustment Mechanism (CBAM). This thesis poses questions about how this novel legislation affects the EUs South-Eastern neighbours, the Western Balkans (WB). The relevance for applied climate change strategies lies in the policy-oriented approach to a new type of international climate policy. Previous research points to high exposure to the effects of CBAM in the region but does not touch upon the underlying exposure factors. Additionally, there is no material on the expected effects and the needs following CBAM in the area.

This thesis has aimed to initially map these factors and expected effects on the WBs. The thesis had an exploratory research design, aiming to provide a foundation for further research. Methods were a document analysis and semi-structured expert interviews with CSOs, government officials and a company. The study concluded that exposure factors mentioned in previous research, including carbon intensity and export structure were important. However, the interviewees highlighted the importance of the relation to system factors and, in some cases, external factors. As for effects, many point to economic impacts and effects on public opinion on the EU in the area, but the effects are much dependent on the actions of national governments. Additionally, many believe the EU approach in the area needs to change, pointing to a potential for putting more pressure on the governments. Some view CBAM as an instrument for that, while others are sceptical of the mechanism's effect.

Keywords: Western Balkan, European Union (EU), Carbon Border Adjustment Mechanism

Populärvetenskaplig sammanfattning

I maj 2023 antogs en viktig del av EU:s nya klimatpolicy, en mekanism för koldioxidjustering vid gränsen. Syftet med mekanismen är att förhindra koldioxidläckage, med andra ord se till att EU:s höjda klimatambitioner inte leder till att utsläpp flyttas utanför EU i stället för att minska totalt sett. EU vill säkerställa likvärdig koldioxidprissättning för importerade och inhemska produkter. Mekanismen innebär att exportföretag utanför EU, kommer behöva köpa certifikat när de exporterar varor inom vissa sektorer till EU. Sektorerna är de som har hög utsläppsintensitet samt hög risk för koldioxidläckage, alltså cement, gödningsmedel, järn och stål, vätgasproduktion, aluminium och elektricitet.

I denna uppsats undersöktes hur denna nya förordning påverkar EU:s grannländer, specifikt Västra Balkan. Tidigare forskning pekar på att Västra Balkan kan vara en region som kommer vara utsatt för effekter av mekanismen. Dock berör tidigare forskning inte underliggande faktorer bakom detta. Dessutom finns det ingen forskning som kartlägger förväntade effekter och behov i regionen till följd av mekanismen. Syftet med denna masteruppsats var att göra en första kartläggning av dessa faktorer och förväntade effekter på Västra Balkan.

I studien framkom att Västra Balkan påverkas av mekanismen dels på grund av faktorer som nära relaterar till mekanismen och som pekas ut i litteraturen, till exempel utsläppsintensitet och nära handelskopplingar till EU. Dock påverkades det också av faktorer i de nationella systemen, exempelvis dåligt fungerande nationell administration, och även externa faktorer, som energikrisen i Europa. Vad gäller effekter pekar många på negativa ekonomiska effekter och effekter på opinionen kring EU. Samtidigt är de flesta positiva till mekanismen som en drivkraft för förändring, industriomställning och mer förnybar energi. De negativa effekterna ses också som i hög grad beroende utav nationella regeringars åtgärder och reaktioner. Vissa behov uppstår i samband med mekanismen, framför allt i form av information och finansiering. Slutligen efterfrågar många att EU tar till ett ”hårdare” förhållningssätt, genom mer krav för finansiering och mer press på regeringarna.

List of Abbreviations

B&H=Bosnia and Hercegovina

BRICS= Brazil, Russia, India, China, South Africa

CBAM=The EU Carbon Border Adjustment Mechanism

CCS= Carbon capture and storage

Civil Society Organisation=CSO

EITE (sectors)= Emissions-intensive trade-exposed (sectors)

ETS= Emissions trading system/scheme

GHG= Greenhouse gases

HDI= Human Development Index

LDCs= Least developed countries

MRV=Monitoring, reporting and verification

NGO=Non-governmental organisation

N Macedonia=North Macedonia

UCPM= Union Civil Protection Mechanism

WB=Western Balkan

Contents

Introduction

The Western Balkans (WB) is a term the EU uses to refer to Albania, Bosnia and Hercegovina (B&H), Croatia, Montenegro, N Macedonia, and Serbia. The region (especially when excluding EU member Croatia) has significantly lower living standards than the EU (Knez et al., 2022). In addition, the region is subject to high disaster risk and new challenges due to climate change. This is while operating with limited budgets for addressing environmental protection, insufficient regulation and implementation, and lacking public participation and tense political relations (Knez et al., 2022). For WB countries, EU accession is an essential driver for climate action (Knez et al., 2022).

The EU is reaffirming commitments to support EU membership for the WB countries. This was highlighted during the December EU-Western Balkans summit, where EU leaders called for accelerating the accession process. Albania and B&H were invited to join the Union Civil Protection Mechanism (UCPM), and B&H was granted candidate status. Kosovo also submitted an EU membership application and is considered a potential candidate country. A few years back, the Economic and Investment plan for the WBs, including the Green Agenda, was also adopted. Altogether this points to an interest of the EU in climate, energy, and environmental questions of the neighbouring region.

Simultaneously, EU climate policy is moving forward faster than ever. In 2019, the EU pledged to be climate neutral by 2050, influencing the European Green Deal. In 2020 the EU decided it should have made a 55% decrease in GHG emissions by 2030, raising ambitions from the previous 40%. In 2021, the EU began attempting to enact the goals, creating the European Climate Law, a part of the European Green Deal. The climate law obliges EU countries to reach the 2030 and 2050 climate goals. The latest addition is the "EU fit for 55" package, a set of revisions to EU law, including modifications to existing laws and new initiatives. The EU intends the package to enable a just, socially fair transition while maintaining and strengthening innovation and EU-based industry. In addition, the package is meant to further highlight the EU as a global leader in fighting climate change. The proposals in the package cover a broad scope of EU legislation, including revisions to the EU Emissions Trading System (ETS) and the new Carbon Border Adjustment Mechanism (CBAM). On April 18th, 2023, the European Parliament voted through five key laws from the

package, including CBAM, which was signed and adopted a few days later (Council of the European Union, 2023b, 2023c).

CBAM is the first of its kind, making the EU the first jurisdiction to extend its carbon price to imported goods (Durán, 2021). CBAM is expected to promote and support decarbonisation in third countries (Regulation (EU) 2023/956 Establishing CBAM, 2023). The regulation is a significant development for the countries closest to the EU, as most are highly dependent on EU trade and laggards in climate policy. Given the EU's simultaneous effort to integrate the WBs and advance the "fit for 55" package, it is strange that there is little knowledge of the potential effects of these climate policies on the WBs. The EU is both the leading trading partner and the principal investor in the WBs, which should indicate a large policy package in the EU might significantly affect this neighbouring area. (European Commission, u.å.). Altogether this motivates the exploration of CBAM exposure and its effects on the WBs.

Purpose and research question

The purpose of the thesis is to gain knowledge on the exposure of the Western Balkans to the effects of the EU Carbon Border Adjustment Mechanism (CBAM). Part of this is the expected effects, attitudes, and reactions from the governments. In addition, part of the purpose of the thesis is to provide a better knowledge foundation for the Swedish Civil Contingencies Agency´s [MSB] IPA III project on earthquakes and health risks in the Western Balkans and Türkiye.

RQ1: What factors make the Western Balkans exposed to the effects of CBAM?
RQ2: What are the expected effects following CBAM?

Relevance for climate change strategies and delimitation

CBAM is not only a new EU climate policy but a new type of climate policy. Arguably CBAM is marking a new era in climate policy and world trade. From an applied climate strategies perspective, gaining policy-focused knowledge on such a policy is valuable. The WBs are among the most exposed to the effects of CBAM, and some countries in the region are likely to oppose it. The region is fascinating from a climate strategist perspective because it is lagging in climate policy while also already being severely affected by climate change. The case also relates to regional development, fairness and partnership, as well as the Paris Agreements' common but differentiated responsibilities.

They are also an important region for the EU, especially given the current geopolitical situation. Furthermore, the thesis is aimed at and designed for practical use, making it particularly relevant from an applied climate change strategies perspective. And most importantly, there is little research on the impact of CBAM on this region, so the thesis aims to fill a research gap.

Essential critiques of CBAM will be addressed in the analysis. However, WTO compatibility and implications on world trade are beyond the scope of this paper.

The first research question, about exposure, is oriented toward contextualized knowledge of the area. The question is intended to provide readers with an understanding of how exposure to CBAM works in the area, which can then be used to explore possible secondary consequences in their areas of expertise. This design aligns with policy research aims, providing action-oriented knowledge for various actors.

The focus of the second question is partly aimed at geopolitical matters and resilience. However, the research process also sought to incorporate interviewees' heterogeneous knowledge and attitudes. The delimitation is, in part, for practical reasons, the knowledge of the thesis writer. It is also because of the aim to provide knowledge for the IPA III project.

Methods

Due to the limited existing research on the subject, an exploratory research design was employed. The methods include a research review and document analysis; focused on mapping important parts of the CBAM regulation and its design, critiques of CBAM, and the previous knowledge on factors which influenced CBAM exposure. The document analysis formed the basis for an interview guide used to conduct 12 expert interviews.

Research design: policy research

This thesis was exploratory, focusing on generating questions for further research and generating knowledge for practical use. Hypothesis-generating research is developing a hypothesis or question for further research from an observed phenomenon (Halperin & Heath, 2020). Policy research is aimed at creating knowledge for action, as opposed to theoretical understanding (Hakim, 2012). It produces knowledge meant to be used by a broad audience, including but not limited to policy makers.

This thesis aims to conduct policy research as described by Hakim (2012). Mapping the landscape of a problem through multidisciplinary and multidimensional approaches, partly descriptive but also investigating the consequences of a problem. The dependent variables were many, as the thesis dealt with complex causal processes, and the policy emerged as the study progressed. The approach leads to a "broad-brushed" study because it provides answers quickly in areas of little academic knowledge. A common goal is to identify possible future development. Variables used are defined operationally right away, or bottom-up, in contrast to research which operationalizes from theory (Hakim, 2012). This thesis aimed at highlighting important areas to deal with following the policy rather than future developments. The variables were defined from previous research and bottom-up during the interviews.

Purposeful sampling

To gain deeper insight and higher validity of results, case studies of a few countries were used. The choice of countries was based on (1) English proficiency for practical purposes. (2) A preference for Bosnian/Croatian/Serbian/Montenegrin speaking

countries, due to the thesis writer's knowledge (3) A preference for a mix of countries with more or less clean energy mixes to mirror differences in the region (4) the strength of civil society.

The preferred countries, in order, based on each criterion, were as follows. (1) Serbia and Albania. (2) B&H, Montenegro, Serbia. (3) One from the low share of renewables group, meaning Serbia or B&H, one from the mid group, Albania, or Montenegro, and for the high share, N. Macedonia. (4) Montenegro, B&H or Albania.

The choice was unclear based on the categories' results; therefore, language and energy mix were deemed most important. A choice was made to attempt to reach interviewees in B&H, Serbia, N Macedonia, and Montenegro. Intending to later exclude one country where interviewees were hardest to reach. In the end, only B&H and Serbia were included. This is discussed in the methods discussion section.

Research review and document analysis

A combination of a research review and document analysis was conducted. The research review aimed to create a synthesis of existing knowledge of relevance to the research questions. Focus was on relevant empirical knowledge from a wide range of social sciences. Some keywords used to find this were “CBAM”, “Carbon Border Adjustment Mechanism”, “Southeast Europe”, “Western Balkans”, “third countries”, “candidate countries”, “effect”, and “exposure”. This type of information collection can be partial or selective. However, it is a practical way to gain knowledge on a policy problem. Expert interviews supplemented it to widen the perspective (Hakim, 2012). Document analysis was used to find information (1) needed to map the problem but not in current empirical research or (2) of a nature better found outside research, such as the updated CBAM design (Hakim, 2012). The purpose was to understand CBAM and include relevant information on its design.

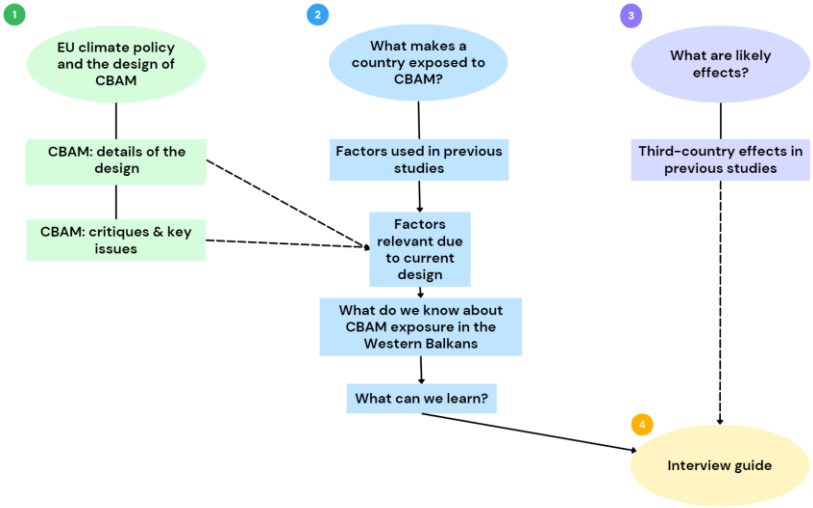
Interviews

Data collection

Semi-structured expert interviews were conducted. The experts had different perspectives, including businesses, government officials, and CSOs. There were 12 interviews, divided between Serbia, B&H and some regional organisations. Unfortunately, the business perspective ended up being smaller than originally intended. See methods discussion. The interviews were conducted to gather new information and to test, corroborate or find other perspectives on the background information. The information was gathered from individuals with specialised knowledge of relevant issues (Halperin & Heath, 2020, p.324).

Semi-structured interviews were used because they suit the exploratory design. They contained structured questions to gather information and unstructured questions to go deeper into specific topics. An interview guide guided the interviews in this study. It included a list of questions and subtopics to supplementary questions. During the interview, questions were reordered, some follow-up questions were unplanned, and some questions were skipped or added in some interviews. (Halperin & Heath, 2020, p.312-314).

Figure 1: How the interview guide was built up



The chart details how the interview guide was built. See appendices 3-5.

Using semi-structured interviews increases the validity of the research by diving deeper into respondent experiences and views on a phenomenon. However, it takes away from the reliability; this is because questions will be slightly different in each interview, and thus the interviews are hard to replicate, retest and standardize. This also makes results hard to generalize (Halperin & Heath, 2020, p.312-313). Due to the aim and delimitation of the study, generalisations were not prioritized. In addition, assuring validity in a structured interview would be difficult given the limited previous knowledge of the subject.

Several challenges arise when using interviews as a method. A common problem is the interview effect, in which the respondent alters answers to be more socially acceptable to the interviewer while the interviewer can fail to ask questions that make them uncomfortable or fail to listen to answers they do not want (Halperin & Heath, 2020, p. 314). Additionally, language barriers were expected to cause problems. Problems are discussed in the methods discussion.

The interviews were conducted through online meeting software, which is not ideal but reasonable within the scope of this study. Common challenges during online interviews, such as lags, will be dealt with by minimizing disturbances and actively working to gain trust. See methods discussion (Halperin & Heath, 2020, p.321).

The interview guide was designed to go from lighter to more difficult topics. There were slightly different interview guides for the different groups of interviewees. See the interview guides in appendices 3-5.

Choice of interviewees

To create a multifaceted view of the situation, interviewees from CSOs, businesses, ministries, and state agencies were invited to participate.

Criteria were used to identify appropriate interviewees. The interviewee (1) has knowledge of topics relevant to the thesis. (2) Can participate in an interview in English and provide informed consent. (3) Works or is active in a CSO in the countries covered in this thesis. (5) Is engaged in or works with CBAM or related areas.

The requirements skew the pool of potential interviewees. However, since this thesis interviews them as experts, their societal position is less relevant. The organisations contacted were found through online searches and snowball selection; this also affects the nature of the pool of interviewees.

Table 1: Summary of Interviewees
Note interviewee identifiers indicate the country and type of interviewee to make the result easier to read.

Interview identifier	Type of organisation	Country	Comment
B-C01	CSO	B&H	
S-C02	CSO	Serbia	
B-C03	CSO	B&H	
B-C05	CSO	B&H	
S-C06	CSO	Serbia	
R-C07	CSO/NGO	Region (Serbia based)	

B-C08	CSO	B&H	
R-C09	NGO	Europe/region	Written
B-(B)01	Business	B&H	Not in the CBAM sectors
B-G01	Government	B&H	
S-G02-03	Government	Serbia	Two interviewees were interviewed at the same time. Different perspectives.
B-G04	Government	B&H	

Consent and ethics

With interviews comes a set of ethical considerations. Therefore, informed consent should be given. Participants were informed of the purposes of the study and other information normally provided through the information sheet (Halperin & Heath, 2020, p.334-335). For more detail, see the information sheet and consent form in appendices 1-2. If interviewees agreed, the interviews were recorded (sound only), and notes were taken. In most interviews, consent was provided verbally; this was to avoid participants pulling out of the interview out of inconvenience and to allow them to ask questions directly. In the interviews where consent wasn´t given verbally, they gave written consent in advance.

Interviewees were kept as anonymous as possible to minimize any negative consequences for them. Sometimes it would have been useful to specify the interviewees' knowledge areas. These occasions were rare, and the added value would not have compensated for risking the quality of answers.

Data analysis

The data analysis encompassed three steps, data reduction, coding and drawing conclusions. Given the semi-structured nature of the interviews, attention was paid to different questions and different types of answers across interviews. Comparisons between interviews were made with care, especially when questions were different (Halperin & Heath, 2020, p.329). In this process, validity, reliability, and generalizability were considered. Attention was directed toward the consistency of findings and whether the study investigated what it was intended to investigate (Halperin & Heath, 2020, p.331-332).

Data reduction included supplementing the interview notes by listening to the interviews again. Select parts were transcribed if there was a reason the exact wording was needed (Halperin & Heath, 2020, p.329). The next step was extracting the interesting parts of the interviews through a first read. Here text was marked with first impressions and as positive, negative, or informative. The interviews were then reread for patterns, similarities, differences and thematic connections (Halperin & Heath, 2020, p.330). Coding required a coding frame due to the open questions. The coding frame lightly leaned on concepts, such as carbon intensity or MRV capacity, identified in the background literature (Halperin & Heath, 2020, pp. 330–331). However, since this was exploratory research, many relevant concepts appeared in the interviews only. The final step was analysis, where codes were brought together into categories, such as "system exposure, climate change" or "CBAM exposure, MRV". Here it was assessed what the analysed data means for the research question (Halperin & Heath, 2020 s.331-332).

Delimitations

Methodological delimitations included limiting the study to Serbia and B&H, limiting the interviews to a maximum of 20, and limiting the number of topics in the interview guide. Effects listed from previous research are limited to those of clear relevance for the WBs because there was no room to assess the relevance of effects mentioned in studies of very different countries. All methodological delimitations are motivated by practical considerations.

Validity and reliability

Internal validity is about measuring what we aim to measure; avoiding systematic errors. While reliability is about executing the study as intended (Esaiasson et al., 2017, pp. 58–66). The policy was a moving target, causing problems with validity. For example, the interview guide was based on the first proposal and the previous research of the first proposal. See appendices 3-5. The final regulation differs on a few significant points. This is further discussed in the methods discussion and details of the adopted regulation sections. The main problem with reliability was the difficulty coding semi-structured interviews where the interviewee's knowledge is allowed to direct the follow-up questions and the focus of the interview. The language barrier and the internet connection might also have influenced how interviews are conducted and what questions can be asked.

Lastly, external validity is the possibility to generalize results to a bigger population or a different context (Esaiasson et al., 2017, pp. 58–66). This study was intended to be contextual and of practical use. Therefore generalizing to a different

context is not the goal. As for generalizing to a bigger population, this study should be useful for understanding the whole WB area. However, this was set back by some practical delimitation. Further discussed in the methods discussion.

Results Part 1: Research Review and Document Analysis

EU Climate Policy and CBAM

As highlighted in the introduction, the EU is moving forward with its climate policy faster than ever. This section includes a dive into relevant details, starting with funding. The green transition is financed through public and private investments. The EU long-term budget for 2021-2027 has 30% set aside for climate projects. In addition, NextGenerationEU is the pandemic recovery plan aiming to build back better through "making it green". Within NextGenerationEU, there is an agreement to invest €806.9 billion in, among other things, the green transition. The Just Transition Mechanism (JTM) ensures fair transition through financial and technical support to the most affected EU regions. The EU also aims to shape global action by supporting high ambitions working toward the Paris Agreement. The EU and its Member States are the largest global climate financing provider (Council of the European Union, 2023b; European Commission, n.d.-c; European Union, n.d.).

The EU emissions trading scheme

The EU ETS is a vital part of EU climate policy and is considered essential to reducing GHG emissions cost-effectively. The system was set up in 2005 as the world's first international emissions trading system. Today, it operates in all EU countries, and Iceland, Lichtenstein, and Norway, currently covering about 40% of EU GHG emissions. The EU aims to link the system with other compatible systems in the future (European Commission, n.d.-b)

EU ETS is a cap-and-trade system, which means a cap is set to limit the total amount of GHGs emitted in the installations covered by ETS. Within this cap, installations can buy or receive emissions allowances to trade between them. The cap is reduced over time, which reduces total emissions. The trading is intended to ensure emissions are cut where it is cheapest to. While a carbon price should promote investment in low-carbon technology (European Commission, n.d.-b), only some sectors and gases are covered. With some exceptions, participation is mandatory (European Commission, n.d.-b).

Within ETS, the EU grants free emissions allowances to energy-intensive trade-exposed sectors. Free allowances are currently used to avoid carbon leakage: The concern is that when carbon prices rise, emissions drop within the EU but increase elsewhere; the concept of carbon leakage is further explained in the next section. However, providing industries with free emissions allowances is not an ideal solution, as it weakens the carbon price and discourages investments in low-carbon production (Durán, 2021).

The "fit for 55" package has several revisions to EU ETS. These revisions should produce an emissions reduction of 61% in covered sectors by 2030 (compared to 2005) (Council of the European Union, 2023a). EU ETS and other climate legislation have substantially reduced GHG emissions within the EU. However, in other markets, the carbon price is significantly lower, and the GHG emissions embedded in imports to the EU have been increasing. The increasing GHG emissions associated with imports undermine the efforts to reduce the footprint of the EU, which is why CBAM is deemed necessary (Regulation (EU) 2023/956 Establishing CBAM, 2023; *Live Carbon Prices Today*, n.d.).

The Carbon Border Adjustment Mechanism

On May 10th, 2023, the European Council and Parliament signed the CBAM regulation. Following the adoption, a final set of rules and methods will be specified in the implementing act (European Commission, n.d.-a).

Table 2: Definition of carbon leakage

Carbon leakage in the EU
(1) when industries move production to countries with lower climate policy standards, thus offsetting emissions reduction within the ETS system through additional emissions outside EU borders (Council of the European Union, 2023a; European Union, 2022)
(2) the process where EU-produced products are replaced by products made outside EU borders (European Commission, n.d.-a).

CBAM is designed to work with the EU ETS by stopping carbon leakage, creating fair competition, and reducing emissions in the EU and globally (Council of the European Union, 2023a; European Union, 2022). With EU ETS and CBAM operating, EU-based producers will need to buy ETS allowances to cover emissions, while companies exporting into the EU must adjust prices by buying CBAM certificates (European Union, 2022). CBAM thus mirrors the carbon price of EU ETS on imported goods (Council of the European Union, 2023a).

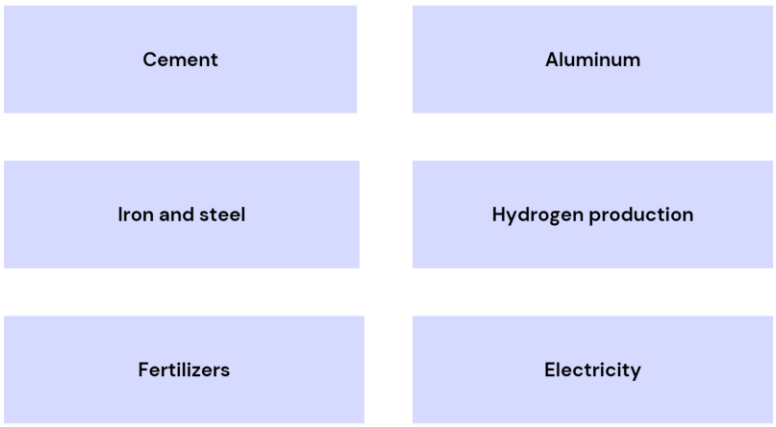
Table 3: Aims of CBAM
Aims stated in the regulation (Regulation (EU) 2023/956 Establishing CBAM, 2023).

Address GHG emissions embedded in specific goods (listed in the regulation) on their importation to the EU. In order to prevent the risk of carbon leakage
Reducing global carbon emissions, also by
Supporting the goals of the Paris Agreement
Creating incentives for the reduction of emissions by operators in third countries.
Replace the mechanisms established under Directive 2003/87/EC, meaning replacing free allocation of emissions allowances within ETS

The transitional phase of CBAM will enter into force on October 1, 2023. During the transitional phase, importers will report on direct and indirect GHG emissions associated with imported products; however, there are no payments or adjustments (European Commission, n.d.-a).

On January 1, 2026, the permanent system is supposed to enter into force. To import, companies will surrender CBAM certificates, which are priced based on the weekly average cost of ETS allowances. As CBAM is phased in over the course of 8 years, free ETS allowances will be phased out (European Union, 2022).

Figure 2: Sectors included in the first phase of CBAM



CBAM will cover sectors with high emissions and risk of carbon leakage. In the future, CBAM is expected to expand to more sectors (European Union, 2022).

Details in the adopted regulation

In the original proposal, CBAM would apply to direct emissions; it would later be decided about indirect emissions. Likely indirect emissions would be included for cement and fertilizers (Regulation Establishing a CBAM, 2021). The final regulation says CBAM will initially apply to both direct and indirect emissions. However, some goods are exempt from paying for indirect emissions because financial measures apply in the EU. During the transitional period, data should be collected further to specify the methodology for calculating indirect emissions. Information should be collected to help further extend CBAM to embedded emissions (Regulation (EU) 2023/956 Establishing CBAM, 2023).

Table 4: Definitions from the CBAM regulation

CATEGORY	DEFINITION
DIRECT	emissions from the production processes of goods, including emissions from the production of heating and cooling consumed during the production processes, irrespective of the location of the production of the heating or cooling
INDIRECT	emissions from the production of electricity, which is consumed during the production processes of goods, irrespective of the location of the production of the consumed electricity
EMBEDDED	direct emissions released during the production of goods and indirect emissions from the production of electricity consumed during the production processes
MARKET COUPLING	the allocation of transmission capacity through a Union system which simultaneously matches orders and allocates cross-zonal capacities
CARBON PRICE	the monetary amount paid in a third country, under a carbon emissions reduction scheme, in the form of a tax, levy or fee or in the form of emission allowances under a GHG ETS.

The emissions calculations should be done according to what is specified in the regulation and implementation act (Regulation (EU) 2023/956 Establishing CBAM, 2023). Note these were defined differently in the original proposal.

There is a possibility of reduction of the amount of CBAM certificates paid for. This applies when a carbon price has been paid in another jurisdiction. If the production of goods has been subject to EU ETS applied in third countries or a pricing system fully linked to the EU ETS, full exemption applies. Note both the reduction and exemption only apply if the carbon price has been effectively paid (Regulation (EU) 2023/956 Establishing CBAM, 2023).

Additionally, there is an exception for electricity exports from third countries, which are closely integrated into the EU market through market coupling. If technical solutions to apply CBAM to the exported electricity cannot be found, the countries will get an exemption until 2030, only with regards to electricity. It only applies if all conditions are met.

Table 5: Selection of conditions and ground for withdrawal of electricity exemption
Information in table from (Regulation (EU) 2023/956 Establishing CBAM, 2023).

Conditions: *(1) Develop a roadmap and committing to implementing carbon pricing equivalent to EU ETS* (2) *committing to carbon neutrality by 2050* (3) *aligning with EU legislation in the areas of environment, climate, competition, and energy.* Withdrawal: (1) *the country does not fulfil its commitments* (2) *the country has taken steps contrary to its decarbonisation objectives such as providing public support for the establishment of new generation capacity emitting more than 550[1] grammes of carbon dioxide ('CO2') of fossil fuel origin per kilowatt-hour of electricity* (3) *if there is evidence emissions per kilowatt-hour of electricity produced has increased by at least 5% compared to January 2026, due to increased exports of electricity to the EU*

A few paragraphs refer to environmental practices of third countries. They are all, however, related to the electricity exemption.

A paragraph on actions to be taken by the commission in the case of unforeseeable, exceptional, or unprovoked circumstances with destructive consequences on the economic and industrial infrastructure of third countries has been included in the CBAM regulation (Regulation (EU) 2023/956 Establishing CBAM, 2023). Note this was not in the 2021 proposal, which is what the interview guide was based on (Regulation Establishing a CBAM, 2021). The final regulation states that should such an event occur, the commission should submit a report or, if appropriate, a legislative proposal to the parliament and council, setting out time-limited measures appropriate for the circumstances while preserving the objectives of this Regulation (Regulation (EU) 2023/956 Establishing CBAM, 2023).

[1] For reference this is about half of what U.S. coal plants release on average and just above what a gas power releases according to U.S. Energy Information Administration.

Table 6: mentions of the approach to third countries
Information from (Regulation (EU) 2023/956 Establishing CBAM, 2023).

(1)	dialogue and cooperation with third countries should continue and inform choices on details of CBAM
(2)	the commission should strive to engage, with third countries whose trade to the EU is affected, in an even-handed manner and in line with international obligations.
(3)	the commission should explore concluding agreements which consider third countries' carbon pricing mechanisms.
(4)	technical assistance should be provided for developing countries and LDCs for the abovementioned purposes.
(5)	CBAM calls for development of bilateral, multilateral, and international cooperation with third countries. a forum of countries with carbon pricing instruments or other comparable instruments ('Climate Club') should be set up, to promote the implementation of ambitious climate policies in all countries and pave the way for a global carbon pricing framework. The climate club is further detailed in (72) of the regulation.
(6)	the EU should further support third countries in achieving the goals of the Paris Agreement.
(7)	providing financial support for the LDCs to achieve these goals and decarbonisation is desirable. The support should also contribute to the adaptation of industries concerned in the regulation.
(8)	as CBAM aims to encourage cleaner production, the EU is committed to working with and supporting low and middle-income third countries towards the decarbonisation of their manufacturing industries as part of the external dimension of the European Green Deal and in line with the Paris Agreement.
(9)	the EU is working towards introducing a new own resource based on the revenues generated by the sale of CBAM certificates

Critiques and key issues with CBAM

As mentioned in the introduction, CBAM is the first of its kind, which, as Durán puts it, raises a few legal and policy questions, will CBAM be effective, legal, and fair? In this section, we will go through some general critiques and key issues to keep in mind. Note this, too, is subject to change. As details of the implementation of CBAM change, some issues and critiques might decrease in importance.

In relation to effectiveness, one problem has been limited scope, especially only applying to direct emissions, as it would have meant electricity used in production would not have been included (Durán, 2021). However, in the final regulation, the scope has widened to indirect emissions (Regulation (EU) 2023/956 Establishing CBAM, 2023). Moreover, no conclusive evidence details the risk of carbon leakage (Durán, 2021).

However, a case study on Morocco shows a potential scenario whereby countries or companies redistribute their domestic use of clean energy to production for EU export. Reducing CBAM effectiveness in mitigating global emissions (Durán, 2021). A study by Overland and Sabyrbekov investigates which countries are most likely to oppose CBAM. They conclude there will likely be significant push back following CBAM, especially from Iran, Ukraine, the USA, Egypt, China, India, Kazakhstan, Russia, and Belarus (Overland & Sabyrbekov, 2022). Furthermore, Brazil, China, India, South Africa and Russia are accusing the EU of creating new trade barriers and violating the principle of common but differentiated responsibilities (Durán, 2021).

Several researchers point to legal issues and WTO incompatibility; the EU emphasises CBAM is compliant. Additionally, some point to the cost and effects on world economy (Durán, 2021; Lim et al., 2021). These questions are outside the scope of this paper.

CBAM will also lead to losses for non-EU countries and developing nations while seriously impacting steel and aluminium. The EU is expected to see a redistribution in competitiveness its own favour, an increase by 0,38% while the rest of the world sees a decrease by 0,1% at a carbon price of US dollars 100/tCO2e (Zhong & Pei, 2022).

Considering these issues, Lim et al, argue for a delay of CBAM implementation, to allow time for new reviews and a discussion of a system of international cooperation. A rational CBAM can be created when the carbon history of a product can be accurately estimated (Lim et al., 2021). Zhong and Pei (Zhong & Pei, 2022) stress the need to address the burden on developing nations.

This brings us to the fairness of CBAM. Meaning the Paris Agreement principle of common but differentiated responsibilities and respective capabilities. Durán claims compatibility with this principle has received little attention in the Commission's proposal. On the one hand, the principle calls on developed nations to take the lead, which would be hard if carbon leakage occurs when attempting to increase carbon prices. On the other hand, imposing the same carbon price on imports, no matter the degree of development of the country imported from, is failing to recognize differentiated responsibilities and capabilities (Durán, 2021). For example, a case study on Mozambique shows CBAM can adversely affect countries with low-carbon production but low statistical capacities. This indicated countries might need time, financial and technical support (Eicke et al., 2021).

In addition, Durán stresses; the intended use of the revenues is vaguely formulated and should perhaps revert to developing countries and LDCs. Similarly, Lim et al conclude backlash against CBAM can be reduced by international agreement on the ways to use the revenue. They also argue all revenue should be used for environmental technology in developing countries. Developing countries should also be given special and differentiated considerations (Lim et al., 2021). The current system of exemption for carbon price already paid can also increase the burden on less developed regions. The EU might need to help developing nations establish carbon pricing or invest CBAM revenues in technology transfer (Zhong & Pei, 2022).

The Green Agenda for the WBs

The Green Agenda for the Western Balkans relates to the Economic and Investment Plan for the Western Balkans. It includes five pillars: climate action, circular economy, biodiversity, fighting air pollution, water and soil pollution, and sustainable food systems and rural areas. ETS is mentioned in the commission's working document detailing the implementation of the Green Agenda. It says early access to the EU ETS can be explored for the WBs. However, the WBs would require "significant technical assistance and administrative capacity building" to reach a stage where it is feasible. The implementation guidelines detail many types of funding available to implement this, while also highlighting private investments are needed and EU member states and beneficiary parties mobilizing would be helpful (Guidelines for Implementation of the Green Agenda for the Western Balkans, n.d.).

What makes a country exposed to CBAM effects?

Exposure to adverse effects of CBAM and, the help needed to address effects, differ substantially between countries. Innovation capacity is the main problem for smaller developing countries, while for countries with a high carbon intensity in the energy supply, support with decarbonizing efforts, through technology transfers, are integral (Overland & Sabyrbekov, 2022).

Factors used in previous studies

The index made by Overland and Sabyrbekov contains some factor indicating exposure. These factors are: trade with the EU, carbon-intensity, and capacity for innovation (Overland & Sabyrbekov, 2022). Eicke et al.'s index of third-country effects contains some corresponding factors: export structure and emissions intensity. In addition, they look at emissions reduction targets and institutional capacity to monitor and report product-based emissions (Eicke et al., 2021).

The case study of B&H in Eicke et al. shows an EU-oriented export strategy combined with exports from EITE sectors becomes a problem for a country. They stress similar patterns are seen in the region (Eicke et al., 2021). Similarly, Zhong and Pei highlight this as a general principle (Zhong & Pei, 2022).

In the final regulation indirect emissions are included in all sectors, with some goods excluded. However, the following description, based on the original proposal, is what was used to make the interview guide. All direct and indirect emissions will be measured during the transition phase, however, when CBAM is implemented only some sectors are expected to pay for indirect emissions. Therefore, we can assume reliance on exports to the EU in these sectors - cement and fertilizers - combined with a high reliance on fossil energy, makes a country more vulnerable to CBAM (Regulation (EU) 2023/956 Establishing CBAM, 2023).

Figure 3: Factors of CBAM exposure

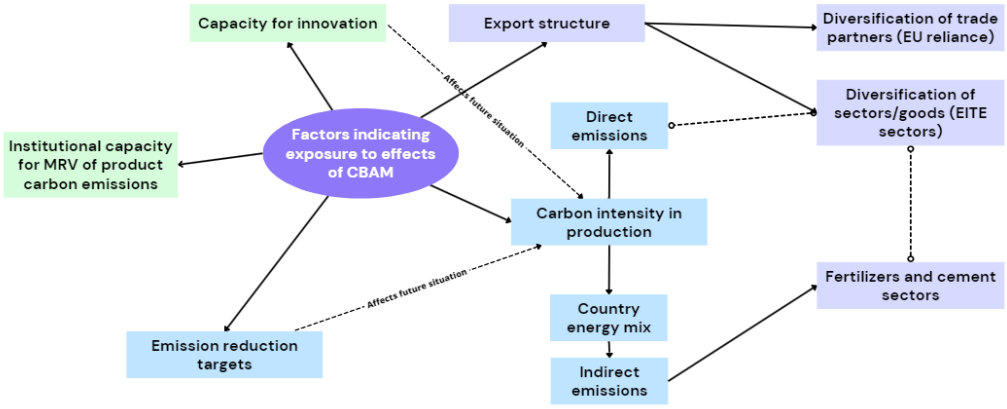


Figure detailing the factors of CBAM exposure and their connection.

CBAM exposure in the Western Balkans

In this section, some information, and numbers relevant to understanding CBAM exposure will be gathered.

Table 7: Overview of CBAM exposure factors in B&H and Serbia

FACTOR/COUNTRY	B&H	SERBIA	NOTE
EMISSIONS REDUCTIONS TARGETS	36,8% in conditional and 33,2% in unconditional emissions reduction target by 2030 (compared to 1990 levels) (UNDP, 2023a) Last revised NDC is from 2021 and has higher ambitions than the original NDC. (UNDP, 2023a) The share of global GHG emissions in 0,05% (UNDP, 2023a)	33,3% Unconditional emissions reduction target by 2030 (compared to 1990 levels) (UNDP, 2023b). Last revised NDC is from 2022 and has higher ambitions than the original NDC (UNDP, 2023b). The share of global GHG emissions is 0.12% (UNDP, 2023b).	

CARBON INTENSITY	In one of the articles about CBAM B&H and Serbia are mentioned as countries with a high carbon intensity in the energy supply (Overland & Sabyrbekov, 2022). Another one of the abovementioned studies concludes B&H has high carbon intensity (almost double the EU average) due to a large reliance on coal power (Eicke et al., 2021).		
EXPORT STRUCTURE	The case study on B&H mentioned above showed a low diversification of trade partners and -goods (72% of export going to the EU, making up 26% of GDP) (Eicke et al., 2021).		
ENERGY MIX	Share of renewables: Albania 45%, B&H 28%, Montenegro around 50%, N Macedonia 83%, Serbia 26%.		
INNOVATION CAPACITY RANKING (WORLD INTELLECTUAL PROPERTY & ORGANIZATION (WIPO), 2022)	#70	#55 Serbia is among the ten best ranked in its income group.	Both countries perform in line with their development level.
HUMAN DEVELOPMENT INDEX (HDI)	#74 (UNDP, 2023a)	#63 (UNDP, 2023b)	(lower number is better). Both are above average in HDI
POLITICAL CORRUPTION (VARIETIES OF DEMOCRACY, N.D.).	0,77	0,69	(index from 0-1, from low to high corruption). In the region Montenegro (0.53) and Kosovo (0.33) rank the best. The EU average is 0,15 (Varieties of Democracy, n.d.).

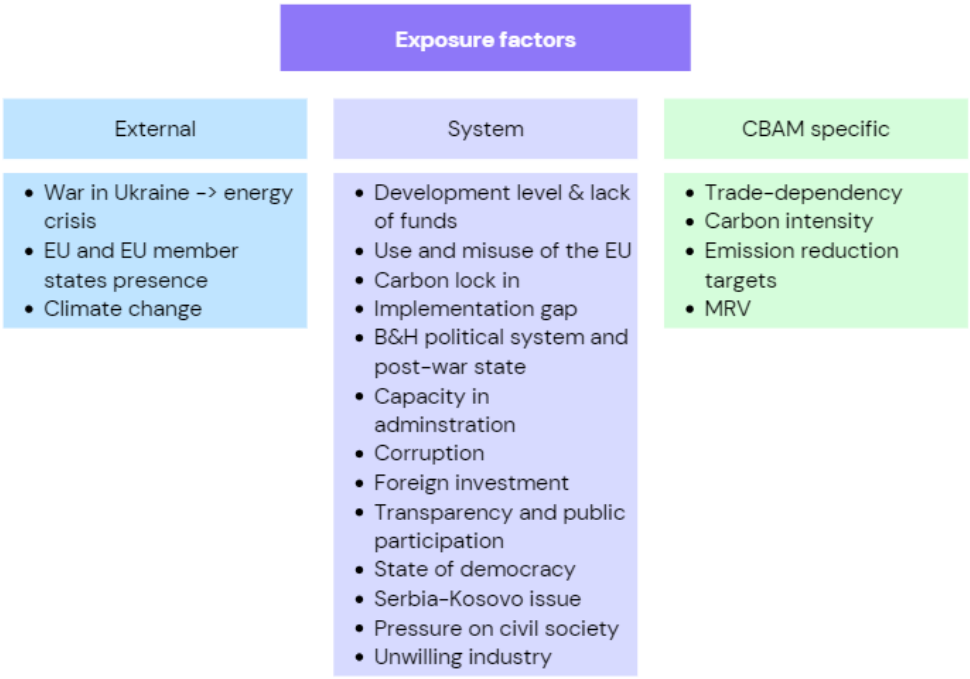
CBAM effects in third countries

A selection of third-country effects and stakeholder reactions of potential relevance is (1) effects on GDP, (2) stranded assets, (3) reorientation of trade, (4) opposition to the mechanism. A case study on Turkey points to an effect on GDP growth in third countries. In the case of Turkey, it would cause economic losses if the country does not act to transform the economy (acar et al., 2021). Stranded assets are shown as a potential risk for B&H because of an EU oriented export strategy heavily based on EITE sectors. This risk applies to several countries, including for example Ukraine and many WB countries (Eicke et al., 2021). Regarding a reorientation of trade, this is also mentioned in the B&H case study but deemed highly unlikely. The assessment is based on the close political and economic ties with the EU. The option B&H is left with is rapid decarbonisation (Eicke et al., 2021). Lastly, opposition to CBAM, some of the WB countries rank relatively high in a CBAM opposition index. B&H ranks 14th while Serbia ranks 19th while N Macedonia and Albania rank about 30th. B&H stands out by ranking by far 1st in the WTO-dispute index (Overland & Sabyrbekov, 2022).

Results Part 2: Interviews

Exposure to effects of CBAM

Figure 4: Summary of exposure factors



External factors

Several interviewees mentioned the Russian war on Ukraine and the energy crisis as external exposure factors. The post-covid situation is also mentioned in this context. Increasing costs and problems covering electricity needs are affecting the WBs and their ability to invest in emissions reductions (B-C05; S-G02-03). This was further exacerbated by nearly non-existing hydropower due to drought, and therefore reducing GHG emissions was taking second place (B-C03; R-C09; S-G02-03). It also affects the ability to predict the effects of CBAM (B-C05). The energy crisis is also seen to have compromised the firmness of EU member states' climate efforts by going back to

coal. Another effect mentioned is putting the Russian export market out of reach due to the sanctions (B-C03; R-C09; S-G02-03).

The presence of the EU and its member states is mentioned by several interviewees. There isn´t a strong standing of the EU to insist on candidates adhering to CBAM (B-C03). The EU is not relevant in the conversation in the region right now. It is present, but there is a feeling the EU has no strategy. The EU is seen to focus on geopolitical questions, particularly Kosovo and Serbia, overshadowing issues of importance to people. This, the recent granting of new candidates (Ukraine and Moldova), the development of the EU standards and the lagging behind of the WBs, have raised questions on the importance of the criteria for accession. Spreading a feeling the EU does not want the WBs and, therefore, there is no point in fulfilling criteria (B-C03; R-C07). CBAM is seen as connected to the accession (S-C02). The EU is seen by interviewees to not always be supporting actors aligning with the EU values, and member states are sometimes not constructive players either (R-C07). Additionally, there are examples of EU-based companies using subsidies for small hydro in problematic ways and using intimidation against activists (B-C03; R-C07). A final aspect is in relation to brain drain; one interviewee expressed the developed parts of Europe are draining B&H of people (B-C05).

Lastly, the effects of climate change and the 2014 floods, which were directly attributed to climate change, have caused an increase in awareness in the population. However, many face more acute problems, such as energy poverty and the prices of food (B-C05; B-G04).

System exposure

Both Bosnian and Serbian government interviewees and some civil society interviewees spoke of the degree of development of their countries and the lack of funding for these issues. There are huge funds available for the EU member states, including the Just Transition Fund, more support is needed for the WBs. Time is a related aspect, as huge funds are needed to transition in such a short period of time. There is also the matter of starting at different times; for example if implementing ETS in the WBs, the interviewee argues free allocation won´t be possible. The lack of funds is related to development in the region, especially for B&H and N Macedonia (B-G04; S-G02-03). CSOs highlight poverty, unemployment and the general development level as factors of importance (B-C03; B-C08; S-C02). S-C02 believes the development level in the WBs should be considered and may imply a need to "take a step back" with CBAM. Serbia has attempted to increase development by attracting foreign investment through cheap coal- and gas-powered electricity. This has now produced circumstances creating problems in relation to CBAM and opening for increased Russian influence. The interviewee does not see decision-makers stepping away from fossil fuels because they are seen to connect to economic development (S-C02). Additionally, the systems needed are not in place or underdeveloped, such as subsidies for greening production (S-G02-03). Lastly, the development level affects citizens' agendas, and climate comes

second in the face of energy poverty (B-C03; B-G04). People are busy with survival from day to day and see no problem using fossil fuels because they are viewed as cheap (B-C03). A slightly opposing view, specific to B&H, expresses that people would live and work for half the pay if they would see real change in their country (B-C08).

Another problem is how the EU is used and misused in the area. There are a lot of funds, but local majors are struggling to reach them (R-C09). They are allocated by national governments and mainly used for large infrastructure projects instead of decarbonisation or renewables. The funding priorities of the EU are also mentioned as a problem, further elaborated under expected needs following CBAM (B-C05; R-C09; S-C06). The EU rules and procedures are also misused in the region, including proposing laws leading to environmental degradation (R-C07). The approval of the EU accession is dropping in both B&H and Serbia, which many interviewees link to malign narratives from politicians. These practices are made easier by information being hard to access, huge expectations on the EU, a low understanding of the accession process, and generally low awareness of related matters (B-C03; R-C07; S-C02; S-C06).

There is also a carbon-lock in due to an industry dependency on coal, a societal dependency on fossil fuels in general, a lack of funds for transition, and a lack of political will. In B&H, there are still new developments in coal capacity (B-C03; B-C08). A Bosnian government interviewee highlighted; while climate goals are important, energy security needs to be kept in mind. The mining sectors will be deeply affected, and this will influence other parts of the economy and communities dependent on it, which is why funds for transition are important (B-G04). Pointing to this reasoning, one interviewee says leaders want to take it both ways: funds for transition from the EU and loans to build coal power from China (B-C08).

Both governments recognize implementation of climate policies as a problem (B-G01; S-G02-03). CSOs in B&H point to a near-complete lack of implementation (B-C01; B-C03; B-C05). This is pointed to as a systemic problem relating to the complex structure of the government, widespread corruption, and a lack of public participation and transparency (B-C01). As an example, CSOs point to the lack of implementation of the Green Agenda for the WBs. Huge funds are available, there is an inability to withdraw from them (B-C01; B-C03). In the case of Serbia, one interviewee says the government is uninterested in the treaties signed. Unless the obligations benefit Serbia, they will be more than capable of neglecting the agreements (S-C02).

The political system in B&H is an obstacle for climate action and handling CBAM. Especially the constitutional divide between entities, they are organized differently and the handling of questions such as climate and industry are is divided between entity and state levels. Subsequently, all policies must be established three times (B-C01; B-C05; B-G01; R-C07). Interviewees gave examples of how this can often lead to a lack of joint strategies or unambitious strategies (B-C05; B-G01). The system in turn affects the political situation. It can help the political elite grab power and make harmonisation difficult. Additionally, there are problems following the 2022

to elections, and the new government is still not installed. All factors make it difficult to work with climate issues (B-C05; B-C08; R-C07). Lastly, the political will is lacking in the region broadly, due to the nature of the governance and politicians not working in the public's interest (B-C01; B-C05; B-C08; R-C07).

Regarding capacity, the knowledge in administration and brain drain are key problems. Again, particularly relevant in B&H. (B-G01; R-C07). There is also a lack of knowledge about CBAM specifically and a lack of understanding of the needs of companies (B-B01). Moreover, the government is not seen to think about, for example, entering the carbon market (B-C08). Serbian government officials also mention a lack of knowledge specifically regarding CBAM, not necessarily connected to a general lack of knowledge in administration (S-G02-03). Furthermore, again for B&H, there is a lack of all types of capacity – in relation to administration, staff, funding and technical capacity - which affects options of, for example, joining the EU ETS (B-G01; R-C07). One CSO interviewee said the state cannot execute its basic functions (B-C05). Lastly, several interviewees mention a lack of regulatory frameworks for measuring carbon emissions of businesses also for implementing potential solutions to the carbon emissions (B-B01; B-C01). There are also already issues with permits for some exports, and preconditions for further introductions are lacking (S-C06).

Corruption emerges as a significant problem in the interviews, and several respondents see it as a main barrier to effectively handling CBAM exposure. In B&H, corruption stands in the way of transitions and further exacerbates problems in the political system (B-C01; B-C03; B-C05). The personal interest of politicians is often prioritised over the well-being of citizens. Profits are drained from state companies, energy companies being particularly relevant in this issue. Small hydro development in B&H is seen as one example of corruption. Where connections between private investors (often foreign) and officials made small hydro a personal business opportunity, and the energy potential and environmental issues took second place. Subsidies were directed toward only this type of renewable energy (B-C01; B-C03; B-C05; B-C08). For Serbia, corruption is a significant issue concerning the relationship with foreign investors. Serbia provides unreasonable benefits to attract foreign investors, even motivating breaking laws to speed up processes (B-C01; S-C06). This is particularly common in huge infrastructure projects, primarily roads and bridges in Serbia. Echoing a problem with how EU loans are used in B&H. Infrastructure projects like highway constructions, roads, and tunnels are prevalent among politicians because they can easily extract funds from them (B-C05; S-C06). Corruption is described as "the modus operandi" in the region at large. However, some possibly positive developments, such as high-level arrests, exist in Kosovo and Montenegro (R-C07).

There are two main problems with foreign investments in the WBs. Firstly, who will benefit from it? In the energy sector, renewables potential is used up, emissions are addressed to B&H, while profits and electricity go abroad. Apart from a few jobs

citizens are not seen to benefit. They also question to which country emissions reductions are credited. However, foreign investors are not seen as the main problem, but the politicians allowing for it are (B-C01; B-C05). The second main concern is counter-productive investments in combination with corrupt officials. The conditionality of funding, or loans, from Turkey, China and Russia is non-existent, which is applauded by governments in B&H. One interviewee points to criminal practices in all aspects of some Russian investments (B-C03). There is a significant presence of Chinese companies in Serbia, which has resulted in some unwanted environmental impacts, such as pollution. The concern is echoed by a Bosnian interviewee, exemplifying the negative environmental impacts of both Chinese and Russian investments (B-C05; S-C02). Interestingly, the links between state and private capital and overall corruption leading to environmental damage have been important for increasing awareness of environmental issues (B-C08; S-C02).

Transparency, information, and public participation are also discussed (B-C01; B-C03; B-C05; S-C06). Emissions data are hard to get hold of, even for experts working on the issues (S-C06).

There are also some fundamental issues and developments in the region. Firstly, there is democracy; while some countries, such as Montenegro and Kosovo, seem to be moving in a democratic direction, Serbia and Albania seem to be doing the opposite. Media freedom is an issue (R-C07). B&H is also described as being led by autocrats benefiting from the system (B-C03; B-C08). Secondly, the Kosovo-Serbia issue is something which is affecting the whole region. Being one of the fundamental issues keeping the counties from their EU memberships. This, combined with Russia, is also heavily impacting the EU presence in Serbia. Thirdly, civil society is pressured, both by governments and private companies (R-C07). Fourth, specific to B&H, the instability and war in the 90s still heavily impact the political environment and rhetoric (B-C08).

Interviewee B-G01 claims the industry is against any limitations or taxes. It increases administration which the private sector dislikes because more administration mean you can hire less staff in production. The private sector wants clear rules and to function as easy as possible. If they face problems, they want to get around them by shutting down companies and establishing new companies connected to EU companies (B-G01).

CBAM specific exposure

The trade dependency differs between the countries. Exposure mainly comes from the intensity of trade in electricity, making N Macedonia, B&H and Montenegro the most vulnerable. Serbia and Kosovo do not trade a high percentage of the electricity with EU countries (R-C09). For B&H electricity is a primary export, banning the import could cause serious problems. Interviewees argue using electricity to help the economy would be better (B-C01; B-C08). For B&H, many dominant sectors, like wood, textiles, and military products, are not included in CBAM. For Serbia, more than 20%

of trade is in CBAM sectors, but steel exports to the EU have decreased over the past years, and remaining sectors are less important in the trade balance (B-C01; S-G02-03).

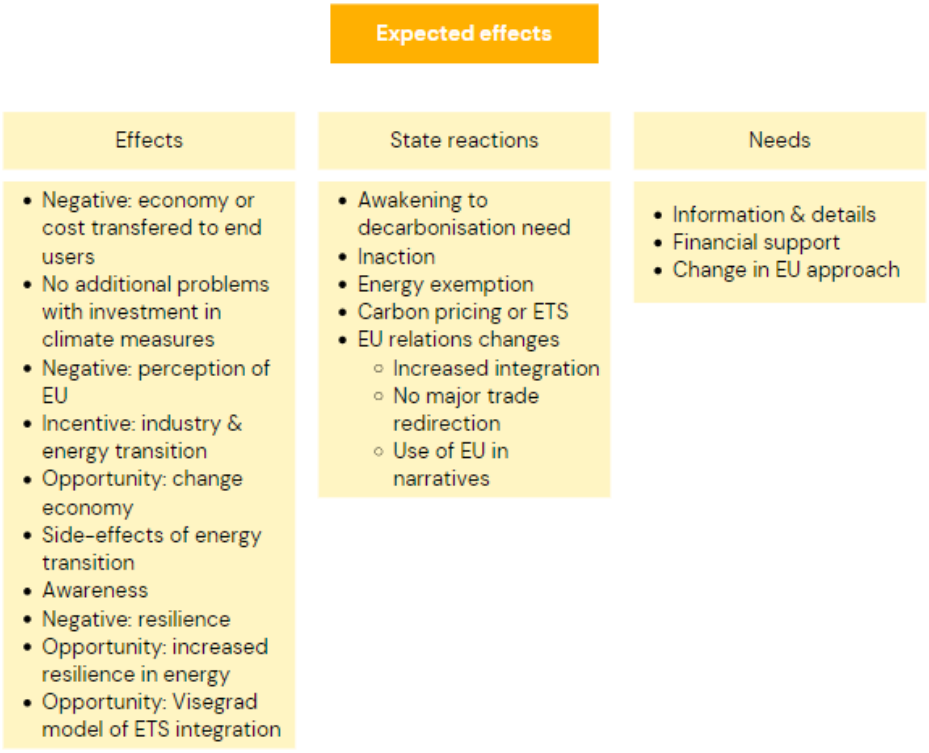
Regarding carbon intensity, interviewees mainly mention coal-dependent electricity production. Serbian electricity is integrated into the EU network, but the share of renewables is low compared to the EU (B-G04; R-C09; S-G02-03). One interviewee says B&H outperforms the EU goal for share of renewable energy. Pointing to a potential for further renewable energy development in B&H (B-C08).

Emission reduction targets are rarely mentioned concerning exposure; there are, however, some comments on emission reduction goals. For Serbia, no strategic documents are in place, no time frame, and no clear activities. The law on climate change, which was drafted in 2016-2017, is unambitious, didn't introduce anything new except the reporting part for the ETS, and there are still bylaws missing (S-C06).

MRV is by far the most mentioned exposure factor. MRV is a concern for the entire region, but B&H has a deficient capability (R-C07). Both B&H government interviewees confirm there is no suitable MRV. It is also deemed hard to establish MRV capacity. One interviewee explained where they are with MRV today; reporting for several other purposes is double-checked and cleared by external actors (B-G01). From a business perspective, the most challenging part is adopting an MRV scheme in line with CBAM because the system is not set up for it (B-B01). The lack of MRV capacity is due to the current system, including the complex governance structure, no harmonization between entities, and regulatory flaws enabling cheating. However, one interviewee highlighted the way CBAM would be measured would make cheating hard (B-C01; B-C05; B-C08). Serbia does not have an entirely functioning system for MRV for these purposes, but the government interviewees and a CSO mention the establishment of a system has started. However, some bylaws are yet to be developed or under development (S-C06; S-G02-03).

Expected effects following the introduction of CBAM

Figure 5: Summary of expected effects



Negative effects on the economy following CBAM is an expected effect commonly mentioned by interviewees (S-C06, B-C01, B-C05, B-B01, B-C02, B-C03, R-C07, S-G02-03, B-G04, B-G01). The risk is that (electricity) costs will be transferred to WB end-users. This concern is relevant to B&H, which exports a lot of energy to the EU. The Bosnian citizens would be heavily impacted and struggle to pay a higher price. The possibility of increasing electricity prices following CBAM is also seen as a way for corrupt politicians to extract more profit (B-C01; B-C03). One interviewee doubts electricity prices will rise in B&H; they would be subsidised to avoid politicians losing elections (B-C05). Some stress the price of exported products will increase (B-B01; S-G02-03). One interviewee says CBAM-exposed sectors have been dominant in the economies, and therefore this policy is dooming people and companies, burdening already suffering economies (S-C02). Importantly, the effects on the economy depend on how CBAM is dealt with. It could deeply touch the WB economies, or companies could be negatively affected (B-C05; B-G04; S-G02-03), but if managed well, it can be an opportunity to decarbonise the economy and an opportunity to develop companies in the long run (B-C05; B-G01; S-G02-03).

Many interviewees skipped the question on the ability for investments in mitigation and adaptation. Those who answered agreed CBAM would not cause any major problems with investment, especially if the implementation process goes well. Most point to other, more significant issues standing in the way. A particularly telling statement was maybe CBAM would have an effect if there was an economy to talk about. The current struggles with investment in B&H are connected to many system problems outlined in the section on exposure and CBAM exposure factors, such as EU trade dependency (B-C03; B-C05; B-C08).

Several interviewees raise concerns about the effects on EU relations. It is emphasised that if CBAM is perceived or painted out to be a punishment or an additional burden imposed on citizens, it could harm the view of the EU integration process and create resentment. Implementation of past EU policies and a harsh EU approach has led to problems, underpinning the fear (B-C03; B-C08; R-C07; S-C02). One interviewee sees postponing CBAM for the WBs as needed (S-C02). Again, interviewees connect to system problems, stating that politicians will likely use this to form narratives. Citizens' knowledge of CBAM is important to how the narratives take root (B-C03; B-C08; R-C07; S-C02). Some point to a level of common responsibility because the countries are candidates and have close EU relations (B-C05; S-C02).

CBAM is expected to impact the energy sector significantly, driving a transition to renewable energy due to a decrease in profitability for coal power. The profitability will decrease because EU importers will not be willing to pay the CBAM price. Coal power will then be sold on the domestic market, where prices are low, reducing profit. Many highlight this produces an opportunity for renewables (B-B01; B-C01; B-C03; B-C05; B-G01; B-G04; R-C07; R-C09; S-C06).

Companies are already preparing for CBAM by implementing measures to reduce emissions and diversify the energy supply. Pressure from clients, particularly EU export clients, and their business being in exports is driving companies to both reduce and report emissions (B-B01; B-C01; B-C05). Interestingly, B-B01s company, which is not in the CBAM sectors, is also sensing a change in what information EU customers are requiring. Industries are reducing emissions in production and electricity supply, for example, by installing solar (B-B01; B-C01; S-C06). Interviewees point to differences in knowledge levels, willingness to adapt and views on the cost of renewables. Domestic companies, the energy sector and policy-makers were seen to fall behind because of these differences (B-B01; B-C03; S-C02). There are some differences in the region. Because energy is a smaller share of exports in Serbia, it is less affected and thus less incentivized to transition than B&H when only direct emissions are included (S-C06). There is also a general scepticism that transition will happen because of the system (R-C07; S-C06).

Some point to opportunities for changing the economy with this, reconsidering electricity as an export product and instead using new renewables to reach national climate targets and use it to produce end-products for export (B-B01; R-C09). There is also the rush for solar and wind, but it will induce a land-grabbing competition

between state and private investors. The interviewee emphasised in the rush; state success is crucial but also unlikely (B-C05). Lastly, training and finding jobs for employees in affected industries is seen as an opportunity when CBAM drives the transition (B-G01).

However, there are concerns about how this energy transition will be conducted. System problems, in combination with CBAM as a driving force, could lead to increased pressure on biodiversity, more environmentally damaging foreign investment projects, and exports of green energy while using carbon-intensive energy for domestic purposes. The redirection of renewable energy for export could lead to the countries missing their own climate targets because they are measured by energy consumption, not production. It could also postpone the transition. In other words, there are concerns the policy is a blunt instrument, causing side effects, such as incentivising practices causing local problems, ranging from environmental to a destructive focus on energy exports for profit (B-C01; B-C05; R-C09; S-C02).

Increased awareness of emissions since CBAM was announced is a positive impact both in companies and among the public. It seems a good consequence for companies, raising awareness of both the policy and the emissions while creating positive consequences for the business community (B-B01). Public awareness could be more about the negative consequences of the policy (B-G04).

Resilience to disaster and possible double adverse economic effects of, for example, damage to hydropower was discussed with some interviewees. One said this was a risk, stressing the effects of poor construction and climate change (B-C01). Another assumed it would be dealt with under Article 30 (7) about unforeseeable events. See more under details of the adopted regulation.

CSOs bring forward several suggestions for opportunities to be taken with CBAM. Firstly, the WBs could be integrated into the EU ETS through a similar model to that used in the Visegrad countries. Goals would be achieved using the ETS revenues for decarbonisation while avoiding financial consequences (S-C06). Secondly, increasing resilience through the energy transition. This would be done by introducing prosumers, small-scale producers and consumers to prevent the investment problems described under system exposure. Additionally, adding energy storage, both in the form of iron oxide batteries and reversible hydropower. Of course, these solutions would require investment and research (B-C01).

Expected reactions from the governments following the introduction of CBAM

Some interviewees see CBAM as a promising robust mechanism able to awaken decision-makers to the need to act on carbon pricing and phase out coal. Before CBAM, there was a feeling of endless time to procrastinate, and the EU accession process had stalled. CBAM cannot be delayed or controlled. There are consequences to inaction which will motivate officials to work within a timeline and for the best of the country. It also makes it politically easier to introduce carbon pricing. They can now truthfully say; either they introduce it and collect the money for the countries'

transition, or they don´t and then all the CBAM revenues go to the EU budget (B-C08; R-C09). Based on the government interviewees' elaborations, this seems plausible. Both Bosnian and Serbian interviewees mention keeping the money in the country as a motivation to introduce an ETS (B-G04; S-G02-03). Serbian government officials mention levelling the playing field as another motivation. Accelerating ETS adoption is mentioned as a good consequence (S-G02-03). A Bosnian government official says getting closer to the EU through establishing mechanisms (B-G01). Some interviewees are hopeful but more sceptical, for example, stating the immediate application of CBAM would benefit the countries by forcing authorities to act but doubting it will be implemented fast (B-C03).

Several general comments point to inaction in dealing with this policy, especially in the case of B&H. This is even coming from a government official explaining a lack of explicit government initiative and that such initiative usually comes from external actors. The cramped timeline is not a consideration yet, as political issues are more pressing, leading to a lack of decisions in these matters from top ministers (B-G01). CSOs paint a similar picture of a lack of governmental response. They pointed to political issues, the new government have not yet taken seat, and there is a lack of environmental orientation of the politics. A concern was raised the politicians might be too ignorant to see the potential of the policy or that mistakes will occur in the implementation due to the poor functioning of the political system. Ultimately, it will be on the shoulders of the NGO sector to educate people and to push forward legal and administrative changes (B-C08).

For Serbia, a lack of understanding of the available options, such as carbon pricing, is brought up. There is also a lack of preparation for CBAM. The government is adopting a narrative that there is nothing to be done. CBAM will eventually happen, assuming nothing will happen to them but to Russia or China. One thing was that during the negotiations within the stabilisation and associations agreement Serbia requested prolongation periods to implement ETS (S-C06).

The CBAM regulation includes a possibility for a temporary exemption in the energy sector. See details in the adopted regulation. The B&H government seems to rely heavily on this, while Serbia is exploring other paths. The Serbian government explored the option but viewed the rules as unclear. They say it is a hope and a matter for discussion with the European Commission. To receive other exemptions was their first position, but they think that different parts of the administration also know it is not an option (S-G02-03). However, civil society interviewee S-C06 criticizes Serbia's heavy reliance on being excluded from CBAM until 2030, particularly for electricity, as it contradicts current EU legislation (S-C06). For B&H, the government interviewees gave possibly contradictory answers. However, B-G01s answers are tough to interpret on this matter and are therefore excluded. See methods discussion. B-G04 says B&H are on their way to fulfilling all needed exemption conditions, hopefully by the end of 2025. Something which has been worked on for about two years: to a follow-up question, the interviewee stresses that the exemption applies to electricity,

unfortunately, as they would have liked exemptions for more sectors. There is no comment on the EU ETS possibility, but this is likely due to the poor phrasing of the follow-up question (B-G04). R-C09 is sceptical to exemptions and points to the lack of strategy of the governments, 2026 being right around the corner. To get an exemption, they need to meet all the criteria. See details of the adopted regulation. It might be better to forget exemptions until 2030 and introduce ETS. The timeline is mentioned by S-C02 as well but points to a need to postpone the whole mechanism.

However, steps toward carbon pricing are happening in the region, with both Montenegro and Kosovo moving forward with ETS. The other countries in the region have not made clear announcements (R-C09). Regarding Serbia, there is a working group coordinating efforts related to CBAM. Studies are being conducted to assess the situation and determine the best action. Serbia has several options, including implementing ETS, ETS in specific sectors, a carbon tax, or taking no action. The pros and cons of each approach are being evaluated, and there is ongoing communication with the EU Commission and discussions at the regional level. In short, carbon pricing has the benefit of keeping the money in the country but the drawback of pricing no matter the intended market (S-G02-03). The potential impact of a carbon tax or ETS on exports to third countries is also considered. A concern is that some companies may relocate to countries like B&H if they do not implement taxation to avoid taxation on goods not sold on the EU market. External factors are involved; current sanctions against Russia remove that market from the equation (S-G02-03). A CSO interviewee highlights; because there is no need to invent something new, three years is much time to introduce renewables, close thermal power plants and introduce an ETS (S-C06).

In the case of B&H, there is hope for an exemption for electricity, and the focus is on fulfilling conditions for this. Questions related to monitoring, analysis of carbon pricing, emissions trading infrastructure, and regulatory frameworks need to be resolved. Bilateral donors, the Energy Community Secretariat and other international actors are assisting, and a final report with the World Bank's involvement is expected soon (B-G04). Interestingly, according to B-G04, UNDP has helped develop an MRV system, while B-G01 says an MRV system for ETS needs to be established. A possibility of a joint ETS in the WBs or trading between countries in the region before potentially joining the EU ETS is brought up. However, there is no proposal for this (B-G01).

Several positive and negative aspects are mentioned regarding the policies' effect on EU relations. There is a concern that politicians will present CBAM or the effects of CBAM in narratives that negatively affect public opinion on the EU—perhaps tying it to the accession process (B-C01; B-C03). Serbian government interviewees mention that explaining CBAM to the public and businesses will be demanding. Especially why Serbia should further integrate with the EU market when that means there will be a new tax (S-G02-03).

A major redirection of trade is not expected; some goods could be redirected, but the economies will still need the EU (B-C05; S-C02; S-C06). Some point to diverting

unprofitable trade flows due to, among other aspects, transport costs (B-G04; S-C02). It is, however, a business decision, often of foreign-owned companies. They can stop exporting to the EU or move production elsewhere (S-G02-03). How business reacts is, however, also dependent on the policy. Taxing carbon emissions would affect trade with third countries (B-G01; S-G02-03). Serbia cannot get around the EU export in part due to the barriers related to trade with Russia (S-C06).

CBAM seems to have a neutral or positive effect regarding long-term EU relations. All significant stakeholders confirm B&H stays on the accession path (B-G04). The mechanism will bring the countries closer by creating opportunities to introduce some EU acquis, EU ETS, and fulfil goals earlier (B-G01; S-G02-03). Serbian government interviewees mention that you want to help companies and be in line with EU targets, CBAM will accelerate decisions.

Expected needs following the introduction of CBAM

Most government interviewees express a need for and expect more information from the EU. This includes explaining more precise details on the mechanism. Interviewees expect some guidelines when the delegated acts are finished (B-G04; S-G02-03). Business says help understanding CBAM is necessary for the governments, as they do not understand the needs of companies. In contrast, the Serbian government says they need help training businesses because CBAM will be an obligation for them, not the country. They are, however, also hoping for technical assistance for governments (B-B01; S-G02-03). One Bosnian government interviewee mentions the need for support and technical assistance several times, stressing the need for someone who understands the situation in B&H (B-G01). CSOs also mention, for example, a need for support establishing ETS (S-C06). Additionally, some stress the need for cooperation and partnership between the EU and the candidate countries. Again, the candidate countries are seen to be incapable of transition by themselves and entitled to help with the change. It will also take time (S-C02). Others stress cooperation because the EU designed CBAM (B-C08).

Interviewees stress the need for financial support to enable the speed of transition needed (B-G04; R-C07; R-C09). Matching the funding available to EU countries. For example, a just transition fund could be set up for the WBs. It is needed to aid the transition and help the coal-dependent communities. It can also be seen as a motivation (R-C07; R-C09). However, the nature of governance and corruption makes funding a tricky question. Firstly, incentives are difficult to work with when governments don´t work in the interests of the public. Secondly, in the current Green Agenda for the WB package for green structural investments, the money is not earmarked between the countries, and some, for example, B&H, struggle to withdraw funds from it (B-C03; R-C07). Third, there are different views on the approach to funding. One interviewee stresses; financial incentives work better than punishment, while another thinks the EU should stop the PPRD funding for highway construction because it is counterproductive (B-C05; S-C02).

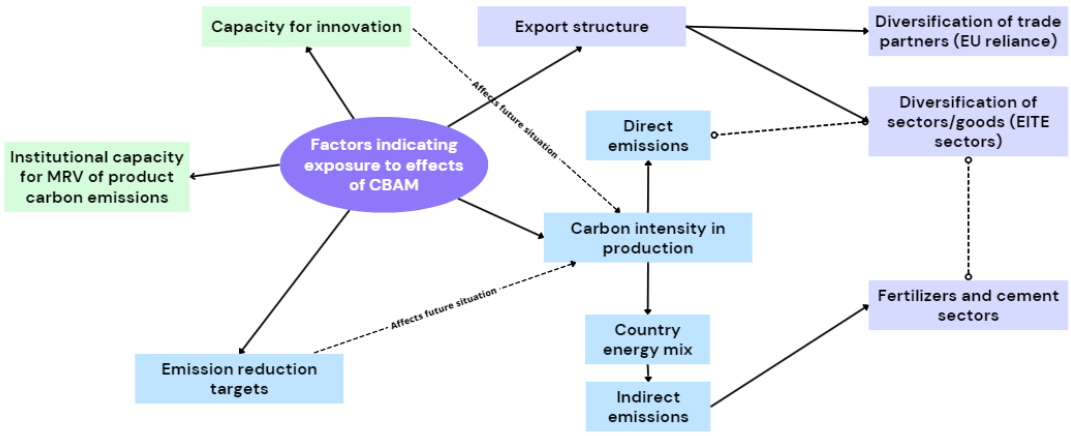
This relates to the general debate on the EU approach in the region. Relating to needs arising with CBAM, there are two differing views. Most interviewees agree help is needed in some form, but many problematise the previous EU approach and are asking for a different approach this time. Again, it is about the nature of the governance, and several interviewees argue the soft approach does not work when dealing with corrupt and poorly functioning governments. No prolongation is good because it will not be done.

The more uncompromising American approach does push some movement. The EU needs to put pressure for something to happen. For a mechanism to work, a funding cut needs to be conditioned on it. Otherwise, politicians see no reason to act (B-C03; B-C08; S-C06). One interviewee opposes this view, highlighting the involuntary nature of CBAM as a problem relating it to EU policies as unrealistic. Perhaps exceptions are not the ideal solution, but clear milestones should have been set. They stress cooperation as essential, especially for the neighbouring EU countries. Because they don´t want a neighbour with close economic ties to other actors, making it vulnerable to political influence from interests not aligned with the EUs (S-C02). As for the ideal approach, most interviewees express a need for clear communication, rigid deadlines, and more substantial pressure on politicians to ensure progress and avoid negative EU sentiment. Perhaps pressure can be put behind closed doors. Democratic allies and leaders working in the countries' best interests are crucial. Funds should directly benefit citizens, and a less technocratic approach should be taken, particularly towards civil society. The EU should address the challenges in B&H, be harder on specific officials and create a stronger conditionality of funds. Otherwise, authorities expect requirements to be dismissed. There is some hope the EU is beginning to respond to these challenges (B-C03; B-C08; R-C07; S-C06).

Analysis

Exposure

Figure 6: Detailing the factors of CBAM exposure.



This figure shows the factors of CBAM exposure used to make the interview guide. The figure was based on the details of the proposed regulation and the research on that version.

Table 8: Exposure factors, interviews compared to research review and document analysis.

POINT	RESEARCH REVIEW DOCUMENT ANALYSIS	INTERVIEWS
INSTITUTIONAL CAPACITY FOR MRV OF PRODUCT CARBON EMISSIONS	Not a central problem for WBs	A problem for the WBs, especially for B&H. The low capacity for MRV is a symptom of system problems. This includes a low capacity in administration, a lack of needed regulatory

		frameworks and widespread corruption.
CAPACITY FOR INNOVATION	Not a central problem for WBs. They rank quite well globally.	Not mentioned
EMISSION REDUCTION TARGETS	A problem for WBs	A problem for the WBs, but the more acute problem is the implementation gap. This seems to be a central problem.
CARBON INTENSITY IN PRODUCTION	A central problem for WBs	Central problem for WBs
EXPORT STRUCTURE	A central problem for WBs	A central problem for WBs
DIVERSIFICATION OF SECTORS/GOODS (EITE SECTORS)	A central problem for WBs	A problem, but not the main problem in terms of export structure. EITE sectors do not make up a huge portion of EU exports. For Serbia, it is only 20%, and steel is the main problem. For B&H the electricity export is a big problem. Montenegro seems to suffer from the same problem.
DIVERSIFICATION OF TRADE PARTNERS	A central problem for WBs	A central problem for WBs. This is the factor that differentiates Serbia and B&H the most, while Serbia has a lot of EU trade in the sectors, they are less dependent on it. A main reason for this is that B&H exports large quantities of electricity to the EU while Serbia does not. However, Serbia might be more exposed with the new design, including indirect emissions.
TRADE IN FERTILIZERS AND CEMENT SECTORS	Unknown. This was posited as a potential factor due to the design at the time, which pointed to indirect emissions being included in fertilizers and cement sectors. This is no longer relevant because indirect emissions in all sectors will be included. However, this makes	No longer important.

energy mix more applicable in general.

With the new design of the CBAM regulation and the interview input, an updated chart would look more like the chart below. However, more system and external factors are involved, discussed in the next section.

Figure 7: Updated CBAM exposure factors

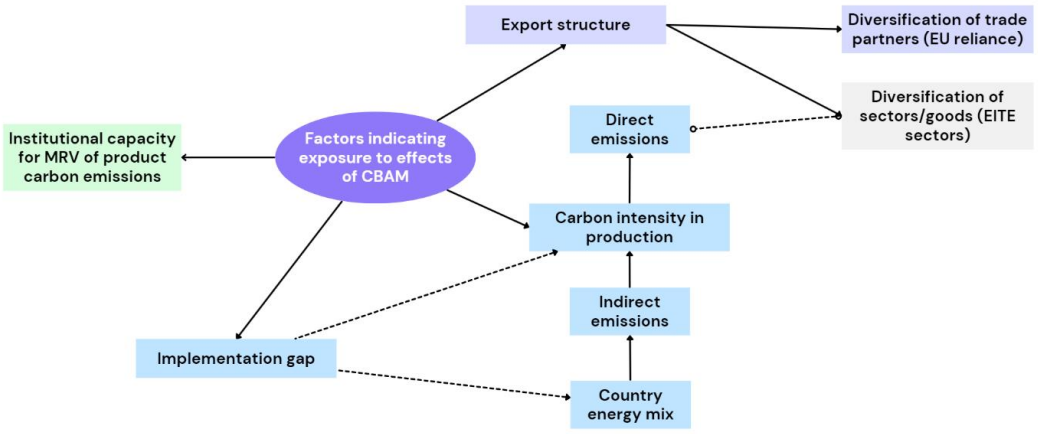
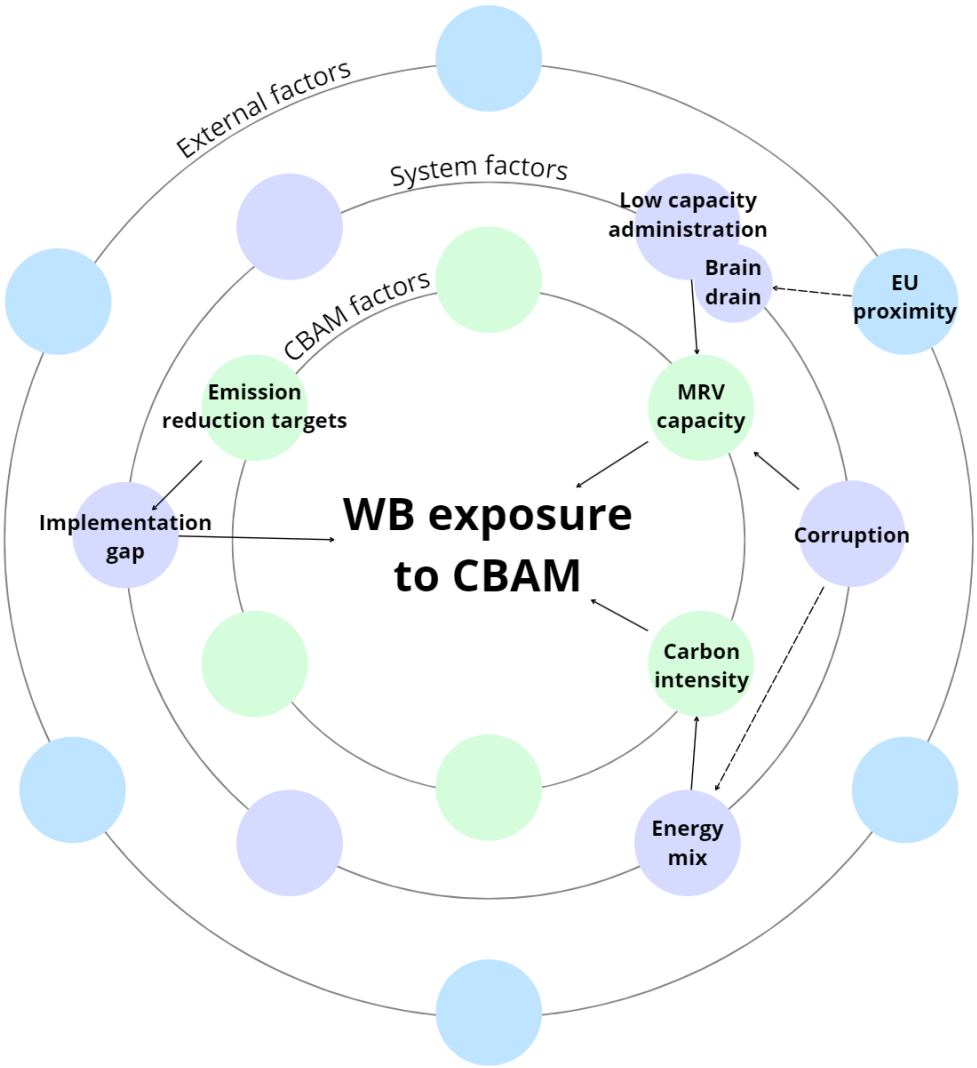


Figure on the factors of exposure to CBAM based on interviews and the new design of the regulation.

A web of exposure

The picture that emerges when talking to interviewees is that the exposure to CBAM is complex and contextual. Factors such as carbon intensity, capacity for MRV, close trade relations with the EU, and trade in the exposed sectors are important. These factors differ in degree of importance between the countries. However, many point to how external factors and system factors affect CBAM factors and exposure to CBAM. For example, MRV in B&H is not just a problem of lack of capacity in MRV for CBAM. A lack of capacity in the administration and the country generally is linked to brain drain, which in turn could be connected to an external factor, the EU as an actor in the area. Moreover, more system factors are involved, such as widespread corruption and the complex political system. The web of factors complicates how CBAM exposure can be dealt with.

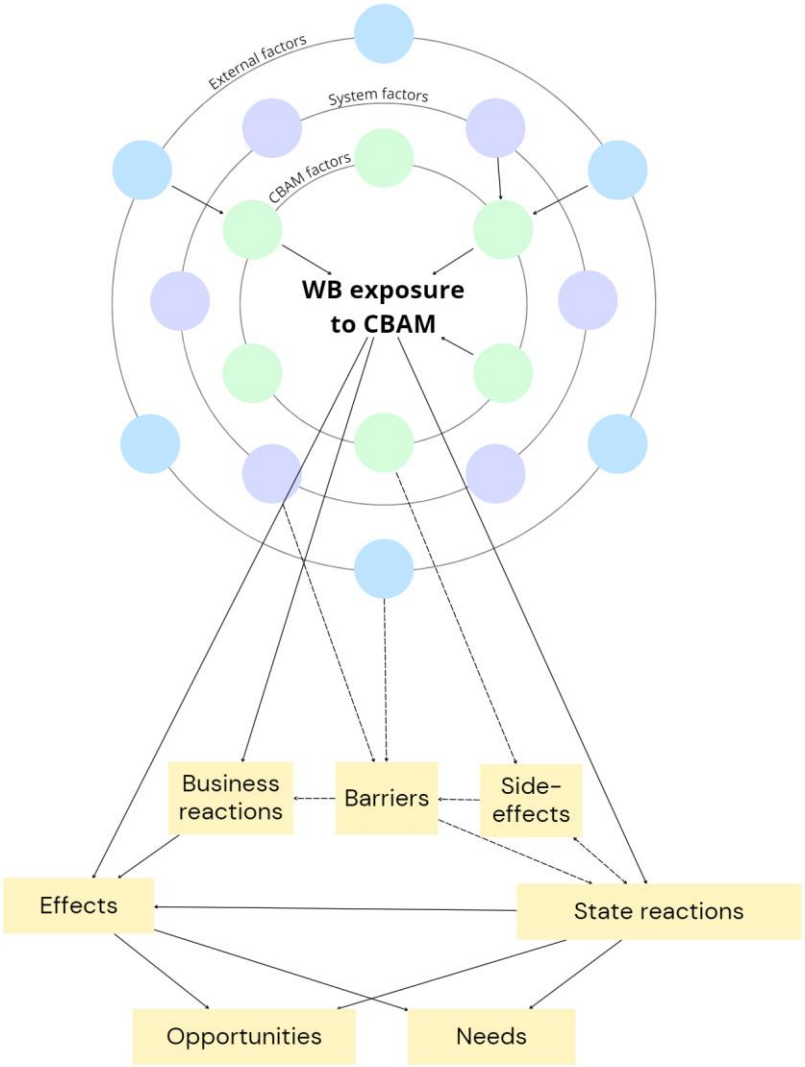
Figure 8: Web of exposure to CBAM



The figure shows a simplified illustration of how CBAM exposure factors and other factors interact and form a system or a web of exposure. It includes some factors to exemplify the connections.

The interactions between exposure and effects

Figure 9: Illustration of interactions between exposure and effects



The chart above shows an initial mapping of how exposure and effects relate. This study does not produce a definitive mapping of all these interactions but does map

what is mentioned in the interviews. An example is EU negative narratives. They already exist as a system exposure factor but are further driven by the effects and side effects, making this reaction possible for politicians. This process, in turn, produces a need for awareness raising.

Effects and government action

The economy

The most raised category of effect is economic. Rising electricity prices are the primary concern. In terms of needs, financial assistance is commonly mentioned. However, the interviews indicate the EU should direct its funding toward the well-being of the citizens. This reprioritisation is needed because current funding systems seem misused, and conditionalities are not taken seriously. It should be noted funding exists, but even the EU calls for more, including from beneficiaries. See section Green Agenda for WBs.

Stranded assets, a third-country effect for B&H from previous research, are not mentioned directly. However, both Serbian and Bosnian government interviewees raise related matters. For B&H, impacts on business climate are presented. Companies don´t like complex admin, and when things get tough, they tend to close business or let themselves be absorbed by EU-based companies. The question here is if it is still as interesting for EU companies to absorb the B&H companies given CBAM. For Serbia, foreign businesses might move if Serbia introduce ETS or a carbon tax and neighbouring countries do not.

Geopolitics

Interestingly few interviewees are concerned about a major change in trade relations. The concern is more significant for Serbia than B&H, but most agree a substantial shift will not be possible. Another critical factor relevant for B&H is the main export being electricity, an export restricted by existing infrastructure. It should be noted it is a business choice, and many companies in the area, such as Serbian Steelworks, are Chinese-owned. Meaning geopolitics is a concern in relation to foreign investment and subsequent influence.

Interviewees expect CBAM will increase incentives for renewable energy but are concerned this will lead to even more foreign investment in the area. This concerns them because previous foreign investment has adversely affected everything from biodiversity to the climate in which civil society operates. Aims for the electricity exemption may mitigate this, explained further below.

On the other hand, several interviewees point to this legislation taking them closer to the EU. The idea of the climate club detailed in the legislation also points toward CBAM potentially strengthening relations with neighbouring countries.

However, an opposing concern is that CBAM will adversely affect the public opinion of the EU in the WBs. In terms of the geopolitical situation, perhaps this last point is the most important one for the EU, as it determines the willingness of close neighbours to stay on the accession path. The EU should support knowledge-building on both how the accession works and what CBAM is.

Resilience

The proposal did not include a paragraph on unforeseeable events. The final resolution does. Nevertheless, questions remain. What is an unforeseeable event? This is fundamental when dealing with climate change, as climate change increases the frequency of disasters, yet that increase, cannot be seen as unforeseeable.

Commonly disasters are defined intuitively to mean infrequent and sudden disasters, such as earthquakes. However, slow-onset disasters constitute a large share of losses in the world today. In addition, climate change increases the frequency of disasters. Lessons learnt from the Hyogo Framework for Action, detailing action to manage disaster risk, highlight that disasters are frequent, infrequent, sudden, and slow onset. On the other hand, how unforeseeable is damage to poorly managed hydropower in countries where drought and floods are becoming more frequent with climate change? Additionally, whose responsibility is it? For the WBs, these questions tie to differing views on the region's development and the EU's responsibility.

As for the clarity and efficiency of the regulation, one could question if a broad definition of unforeseen events is good for the WBs. It could disincentivise action on vulnerable infrastructure. If unforeseen events are defined only as those of a magnitude and infrequency which is not rational to plan for, there is an incentive to increase resilience to, for example, the ever more frequent droughts. As the latest IPCC report highlights, adaptation and mitigation can and must be done in unison, the solutions exist, but we lack political drivers, CBAM can be one such driver.

Introducing ETS or a carbon tax

The most unambiguous indication that CBAM drives climate action is that WB countries are preparing or considering carbon pricing. However, it not only drives carbon pricing but also makes it politically easier.

The ETS implementation timeline would be different if ETS were implemented in Serbia. This is a valid concern; at the same time, as one interviewee stated, at least someone invented the wheel. At this point, lower carbon technology has become cheaper, and other developments have occurred. Furthermore, it is not necessarily true that Serbia cannot have free ETS allowances or put a lower carbon price than the EU. The CBAM regulation states; fewer certificates will be needed, corresponding to the carbon price paid in the country of origin. This means a portion would be paid to the EU with a lower initial carbon price. The EU price would be a demand should they fully integrate with EU ETS.

The electricity exemption

Given the far-reaching conditions for the electricity exemption, B&H opting for this will, despite the exemption, lead to ambitious work toward decarbonisation. It forces movement in several areas and, if implemented correctly by states, should ready them for the 2030 end of the exemption. Many of the CSOs hope for no exemptions, but the exemption could even solve CBAM-related problems the CSOs point to. Conditions include aligning with environmental EU legislation and mitigating possible adverse impacts of the renewable energy transition on the environment. Additionally, the exemption can be withdrawn if steps contrary to decarbonisation are taken, including supporting new carbon-intense energy production or producing increased emissions due to increased EU exports. This should end new coal capacity and mitigate any exacerbation of the overreliance on electricity exports. Notably, the EU needs to stick to these conditions and withdrawal grounds if this is to work as a driver. If the EU intends to keep CBAM, there is no ethical motivation as to why they should not be strict with this, as any progress not made until 2030 will harm B&H. As for the assessment by a CSO that there is no point in working towards the exemption, instead B&H should opt for carbon taxation. This is a valid assessment. However, working toward the exemption is not bad for the country.

Inaction

Many developments are happening, yet indications of inaction or lack of reaction to CBAM exist. If CBAM is to be as effective as possible, the EU needs to help provide knowledge in administration and differentiate between countries in the region. The countries suffer from differing fundamental issues lying in the background of all efforts. B&H needs significant pressure to get started, and the EU should coordinate this with international actors in the area. The country requests help from actors who understand the situation; perhaps, in many ways, this is more important than huge funding.

Critique and the way forward

When discussing fairness concerning the WBs, the countries´ development level is essential. Several interviewees argue that their country is still developing. However, this is a highly questionable statement. No WB country is indeed an Annex I or II country in the Paris Agreement, and thus not viewed as the countries needing to take the most responsibility for climate mitigation. However, in HDI rankings, the WB countries are close behind or even above several Annex I countries, such as EU members Romania and Bulgaria and non-EU member Belarus. Additionally, they are all far from being an LDC. Therefore, one could argue this argument does not hold for many, or indeed any, of the WB countries. Additionally, one could argue the WBs should even

be obliged to take more responsibility, and CBAM is a good driver for this process. It should be recognized that this does not mean citizens of the WBs will not be adversely affected by CBAM, and this risk should be thoroughly respected. However, at the same time, there are citizens of WB countries and other countries adversely affected by the WB governments' lack of responsibility for climate mitigation. The key question here is, what benefits the citizens of the WBs and what harms them? This could arguably be a much-needed force for change if trade-offs are managed. Another point to be made, the countries opposing CBAM with reference to the common but differentiated responsibilities, according to the literature, are not developing countries but often BRICS or similar countries.

In the WB case, maybe the fairness argument is more related to the EU closeness. There is partnership, expectations and, in the case of B&H, a far-reaching dependence not just in trade but in all aspects. However, when WB governments expect exemptions on worldwide trade policies when LDCs are not getting them, expectations must be adjusted. Huge expectations of the EU are key in forming harmful narratives about the EU. There is no positive outcome from allowing assumptions that conditions will be dismissed. The EU needs to manage expectations by providing clear communication on time. If the EU has decided on a "harder approach", which many CSOs are requesting, this should also be clearly communicated to ensure efficiency and to reduce effects on citizens.

However, these countries are closely tied to the EU both for their own and the EUs benefit. Therefore cooperation is and should be assumed. It is reasonable to expect more cohesive communication as a partner country, yet in the Green Agenda, the EU sees these countries as needing significant assistance to integrate into the EU ETS but are suddenly expected to have the option to establish some carbon pricing before 2026. The message is unnecessarily unclear. Furthermore, the EU is sending mixed signals in its own actions, assuming these countries can decarbonise quickly, yet the EU could not manage their own energy crisis without burning coal.

One critique in previous research is the efficiency in reducing emissions globally. For the WBs, however, interviews point to CBAM as a potential driver of climate mitigation. Making private companies measure and reduce emissions and pushing states toward carbon pricing. Additionally, the profitability of the Serbian "reindustrialisation" through foreign investment and coal, described by one interviewee, should decrease with CBAM. The description of the tactic echoes the picture of concern regarding carbon leakage and points to some efficiency in preventing carbon leakage, at least regarding the WBs.

Another concern regarding efficiency was a redirection of renewable energy toward EU export. This was not a concern mentioned for the WBs in the research review; it was brought up concerning B&H in the interviews. However, it is questionable how relevant this is given the general lack of administrative capacity and the dysfunctionality of the state-owned energy company, also mentioned by interviewees. It could also become less relevant with the new design where indirect

emissions are included because more renewable energy would generally be needed. However, should this happen, it would threaten the fulfilment of national climate goals because they are measured by consumption.

Some previous research argues that because of efficiency and fairness problems, CBAM should be delayed, see critiques and key issues. Interestingly, from all perspectives, most interviewees are cautiously optimistic about CBAM. There is concern citizens will carry the weight of transition and unintended or undesirable side effects. However, CBAM is also seen as a mechanism which might finally cause movement. Because while the effects of CBAM exist and could be extremely hard to bear, the main problems are in the systems or other external factors.

Concerns do exist, but for the most part, CBAM seems to be a real driver for change in the WBs. Especially for EU export-oriented companies pushed forward and ahead by EU importers. From the WB perspective, it could be argued a plan for a more comprehensive CBAM should be produced and released as soon as possible. The worst adverse consequences of CBAM are connected to a lack of information and preparation from the WB governments. Additional consequences are best circumvented by a clear plan for potential extensions of the CBAM scope; this is also in line with the regulation's statements on cooperation with third countries. Furthermore, many concerns with CBAM are in terms of side effects due to a lack of holism in the design; arguably, the more included in the scope, the lesser these concerns become. A clear plan would reduce the possible pushback while forcing change and avoiding the worst adverse effects.

As for the future design of CBAM, including transport could be good for the WBs. A well-advertised extension to transport would be an incentive to move away from road transport. This could, perhaps, with a push from the EU, lead to investment in railroad infrastructure instead of road infrastructure. Such investments would redirect traffic from roads, decreasing the need for additional road infrastructure. These investments ensure the WBs align with developments on the EU level instead of increasing the gap again. Additionally, the decreased pressure on roads will leave room for essential purposes such as rescue services, increasing overall resilience. Unfortunately, the changed infrastructure priorities do not solve the corruption in infrastructure projects; however, at least the infrastructure will be more sustainable, assuming a switch from coal.

Renewables will be needed, and a proposed way of avoiding the funds going towards corrupt officials is directing money and attention towards enabling prosumers. This has the added advantage of benefiting citizens directly.

Including indirect emissions, as was done in the final proposal, is also positive for the WBs. It further threatens coal and incentivises companies to invest in renewable energy. It would make it harder to redirect renewable energy for exports and keep the coal for domestic consumption, thus helping emissions reduction goals.

As for the revenues from CBAM, they should arguably be redirected toward climate transition in third countries. Not only from a fairness perspective, which would

tie to the EU as an Annex II entity but also from a CBAM efficiency perspective, as CBAM intends to reduce emissions globally. Additionally, as previous research and interviewees state, reverting it will reduce backlash against the mechanism. The EU should keep being the biggest climate financer. Moreover, if CBAM increases the competitiveness of the EU, as research suggests, the gains from this could also be reverted for development purposes, altogether, this would reduce the burden on developing nations.

There is one threat with reverting the revenues; it could reduce the incentive to develop domestic carbon pricing and integrate into EU ETS. The disincentivising would happen because the primary motivation for domestic carbon pricing in the WBs is to keep the money in the country. Therefore, it would be beneficial to redirect most of the money to countries still unable to implement carbon pricing. The WBs also express a need for funds for these purposes, a need the EU agrees with within the Green Agenda implementation guideline, see results: part 1. However, if the EU is to listen to the WB civil society, such funding should be highly conditional. Should this funding be given to the WB states, it would not necessarily help the public opinion of CBAM. This is because it might not be used to benefit the citizens, and it doesn´t stop the possibility of malign narratives. Perhaps a better use, if the goal is to avoid backlash, is to use it to fund awareness raising about climate change and EU climate policy benefits. However, to fulfil the aim of reducing emissions globally, perhaps earmarking it for industrial development is an option. This should benefit citizens through at least jobs, easing the transition in coal-dependent communities and perhaps aiding public opinion on the EU in the long term.

Some previous literature emphasised the risk of suffering of developing nations due to CBAM as a reason to delay it. However, if the EU reverts revenues, upholds climate financing and increases climate financing if CBAM leads to revenues due to increased competitiveness, perhaps CBAM is the best available tool to speed up emissions reductions globally. It is the best option to enable the EU to increase carbon pricing with the added benefit of boosting climate action in the WBs. As for countries such as China and Russia, it would force climate action or climate financing to developing nations.

Discussion

Methods discussion

During the study, practical considerations forced some changes in the methods, and some methods-related problems occurred. The exploratory nature of the research design helped map the issues with CBAM in the WBs. The success was partly because the semi-structured interviews allowed the participants to elaborate on their view of the situation relatively freely. This was a successful approach helping fulfil the purpose of the study. However, comparing answers between interviews was difficult since the interviewees were asked different follow-up questions. This made it somewhat challenging to code cohesively and assess interviewees' agreement. Had this been a more extensive project, it would have been beneficial to have follow-up interviews to ensure interviewees could comment on all the key questions. It would have made a more cohesive coding possible and led to clearer conclusions.

The conducting of interviews came with a few problems. These include language barriers, interviewees struggling to hear my questions and the internet connection. Especially interviews B-G01, B-B01 and S-C06 suffered from one or more problems. In some cases, I have been unable to include answers because I believe they misunderstood my question or because I could not interpret their answers. In other cases, the interview did not go as deep as would have been ideal due to interruptions because of the internet connection. In a few interviews, I phrased flawed follow-up questions; however, this has been dealt with when writing the results. In terms of the interview effect, I do not believe it significantly impacted the results.

Lastly, the study was supposed to include countries with differing shares of renewable energy. However, because I could not book and conduct interviews with interviewees from N Macedonia and Montenegro, the study now includes Serbia and B&H. Both have a relatively high coal dependence. It likely affects exposure to CBAM, especially when it includes indirect emissions. This methodological necessity somewhat hampered aims at generalizations for the entire WBs. However, incorporating interviewees from regional organisations has helped highlight differences and similarities between the countries. This has helped discern factors relevant to the whole of WBs, to groups of countries or only some countries. It also provided an opportunity to mirror other regional similarities, such as B&H and Montenegro's common electricity export preference/problem.

Further research

This thesis was exploratory and conducted in an area where previous research was limited—intending to open for further research. Five possible topics have emerged, (1) further detailing the interactions between factors of CBAM exposure and the system/external factors of exposure, (2) how do exposure and barriers interact and shape stakeholder reactions? (3) what are the drivers for dealing with CBAM beyond the cost CBAM imposes? (4) the business perspective.

Regarding point (1), the interaction between exposure factors, the interviewees were asked to elaborate on their view of CBAM exposure according to the literature and if they could think of other underlying factors. However, as time was limited during interviews, there was no opportunity to fully elaborate on the links between all CBAM-specific, system, and external factors. Usually, interviewees elaborated on one or a few.

As for point (2), exposure and barriers forming the available stakeholder reactions, it would be valuable to look beyond states' responses to, for example, companies. Regarding point (3), drivers for dealing with CBAM, this study did not mainly explore drivers. Exploring drivers within the state, private companies, the population, and externally would be interesting, primarily focusing on how these can be utilized by actors trying to support the WB countries.

Lastly, (4) the business perspective, as discussed, I attempted to include this perspective in the thesis. I was, however, unable to reach companies in the CBAM sectors and was forced to reorient my efforts due to time constraints. Therefore, there is an opening for further research in this area.

Conclusion

In conclusion, several types of factors interact and contribute to the exposure of the Western Balkans to effects of CBAM. Factors on different levels, CBAM specific, system and external, interact to form a web of exposure. This in turn creates effects but also forms the basis for possible stakeholder-reactions. The impact of CBAM is more dependent on system factors than on CBAM. However, how the system and external factors interact with the CBAM factors depends on the CBAM design. Some designs make CBAM a powerful driver for action, while others could lead to weaker efficiency and unwanted side effects.

As for expected effects, these come in the form of direct effects, stakeholder reactions, and new needs forming. Notable effects include (1) economic impacts, (2) incentivising industry transition (3) harmful narratives about the EU, (4) closer EU relations, (5) leaps toward domestic carbon pricing. Most interviewees are concerned about the effects of CBAM but also hopeful of it as a force for action. When weighing the negative effects of CBAM against the opportunities and how the mechanism drives stakeholder action, CBAM looks to benefit the WBs, especially in the long term. This is especially if effects in the form of needs are handled. The primary needs seem to be (1) clear information and knowledge-building, in administration, population and businesses, (2) communication and partnership, (3) additional funding but with strict conditionality. One of the main threats is if the information is unclear, as it can lead to inaction in stakeholders; adversely affecting citizens. Moreover, it enables malign narratives about the EU to take root.

This thesis leans toward the conclusion that movement toward a broader scope CBAM, if approached with a clear timeline, can be good for the WBs. The broader scope could increase exposure to effects but decrease the share of negative effects and unwanted side-effects. At the same time, it would be more efficient in reducing emissions.

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Appendix 1: Verbal informed consent

This interview is conducted as a part of the data collection for my master's thesis in applied climate change strategies. My name is Daniella Andersson, I am a student at the Centre for Environmental and Climate Science at Lund University, Sweden.

The study aims to investigate expected effects of EU climate policy, specifically the Carbon Border Adjustment Mechanism (CBAM) on the Western Balkans. The study is in collaboration with the Operational section/Resilience unit at the Swedish Civil Contingencies Agency´s [MSB]. Through the collaboration the study expands the knowledge foundation for the EU-funded international pre accession assistance 3, on health risks and earthquakes. Which is conducted by a consortium led by the Swedish Civil Contingencies Agency´s [MSB].

Participation in this study is entirely voluntary and you can at any time withdraw your participation without explanation. You can choose not to answer any question if you prefer. Participation is anonymous. In the thesis you will be referred to as "Interviewee #, country, sector".

Should you have any questions or need to contact me, you can do so through the email address used to inform you about this study.

Do you have any questions?

State your name and the date

Now I will read a few statements which I want you to answer yes or no to.

Statement:	Please indicate:
I have read or been read the information sheet about this study	(YES/NO)
I have had the opportunity to ask questions	(YES/NO)
I have received satisfactory answers to any questions	(YES/NO)
I understand that I am free to withdraw from the study at any time, without giving a reason	(YES/NO)
I agree to participate in this study	(YES/NO)

Appendix 2: Written informed consent

Information sheet

This interview is conducted as a part of the data collection for my master's thesis in applied climate change strategies. My name is Daniella Andersson, I am a student at the Centre for Environmental and Climate Science at Lund University, Sweden.

The study aims to investigate expected effects of EU climate policy, specifically the Carbon Border Adjustment Mechanism (CBAM) on the Western Balkans. The study is in collaboration with the Operational section/Resilience unit at the Swedish Civil Contingencies Agency´s [MSB]. Through the collaboration the study expands the knowledge foundation for the EU-funded international pre accession assistance III, on health risks and earthquakes.

Participation in this study is entirely voluntary and you can at any time withdraw your participation without explanation. You can choose not to answer any question if you prefer. Participation is anonymous. In the thesis you will be referred to as "Interviewee #, country, sector".

Should you have any questions or need to contact me, you can do so through the email address used to inform you about this study.

Consent (to be sent to Daniella Andersson)

I have read the information sheet about this study. I have had the opportunity to ask questions. I have received satisfactory answers to any questions. I understand that I am free to withdraw from the study at any time, without giving a reason. I agree to participate in this study.

Appendix 3: Interview guide for CSOs

Background:

- Can you briefly introduce the work you do within your CSO?
- Do you want me to explain CBAM a bit before we start?
- Do you have any other questions?

Expertise and experience:

- If it does, can you describe how your work relates to EU climate policy, CBAM, EU accession, or trade with the EU?

Question about the field (CBAM and the CSOs work):

- Related to these EU policy developments, do you see any trends in your country? Is it talked about or worked with?
    - Does it affect the way climate questions are talked about?
    - Any trends relating to EU trade?
    - Can you describe any emerging opportunities or developments within the work of your CSOs?
    - Can you describe any challenges facing the work within your CSO?
- Based on your expertise, how do you think the CBAM will affect your country?
    - Opportunities
    - Challenges
    - Threats
- What do you think makes your country exposed to CBAM?
    - MRV?
    - Carbon-intensity
    - Trade dependency
    - Sectors
    - Capacity for innovation
    - Emissions reduction targets

    - Energy mix
    - Do you think there are other factors or underlying issues?
- How do you think your country will be affected by CBAM?
- How do you think your country will respond?
- What do you think your country needs to adapt to CBAM?
- How do you think CBAM will impact your economy?
    - Short term
    - Long term
    - During a disaster (e.g. health emergencies or earthquake) the energy/industry sector might be impacted and there is a temporary need of using or buying e.g. coal energy, there might be a risk of a double economic impact due to CBAM and the effects of the disaster, how relevant is this risk for you? How can it be managed?
- Do you think CBAM will affect the relationship between your country and the EU?
    - How?
- Do you think CBAM will affect relationships with other countries?
    - How?
- A case study of the effects of CBAM on Bosnia concludes that the country has too close ties with the EU to adapt by choosing other trade partners. Therefor Bosnia is left with only one choice, to decarbonize quickly. It also concludes that this is likely to hold true for neighbouring/similar states.
    - Can you reflect on this statement?
- From your point of view, do you see any potential risk that CBAM might negatively impact or hamper your country´s ability of fulfilling the NDC/climate mitigation strategy/plan or climate adaptation plan/strategy/investments in CCA infrastructure?
    - Or the opposite -do you see any potential that CBAM might bolster CCA/CCM plans? In what way?
- Is there anything you would like to add on CBAM and your country?

Closing:

- Thank you for your time and insights. Is there anything you would like to add, or do you have any questions?

- Do you have any contacts withing CSOs, Government or Businesses that might be interested in participating in a similar interview?
- My contact information

Appendix 4: Interview guide for businesses

Background:

- Can you briefly introduce yourself and your expertise?
- Have you worked with the Carbon Border Adjustment Mechanism before?
- Do you have any questions?

Expertise and experience:

- If it does, can you describe how your work relates to EU climate policy, CBAM, EU accession, or trade with the EU?

Industry or field questions:

- Can you describe any current trends in your industry that relate to this policy development?
    - Any trends relating to EU trade?
    - Can you describe any emerging opportunities or developments within your field?
    - Can you describe any challenges facing your field?
- Based on your expertise, how do you think the CBAM will affect your industry (redo med info vid behov)?
    - Opportunities
    - Challenges
    - Threats
- What do you think makes your industry exposed to CBAM? What do you think makes your country exposed?
    - MRV?
    - Carbon-intensity
    - Trade dependency
    - Sectors
    - Capacity for innovation
    - Emissions reduction targets
    - Energy mix
    - Do you think there are other factors or underlying issues?

- How do you think your industry will respond to CBAM? How do you think your country will respond to CBAM?
- What do you think your industry needs to adapt to CBAM? What do you think your industry needs to adapt to CBAM?
- Do you think CBAM will affect the relationship between your country and the EU?
    - How?
- Do you think CBAM will affect relationships with other countries?
    - How?
- A case study of the effects of CBAM on Bosnia concludes that the country has too close ties with the EU to adapt by choosing other trade partners. Therefor Bosnia is left with only one choice, to decarbonize quickly. Likely this applies to similar and neighbouring countries. Can you reflect on this statement?
- Is there anything you would like to add on CBAM and your industry?

Closing:

- Thank you for your time and insights. Is there anything you would like to add, or do you have any questions?
- Do you have any contacts within the CBAM sectors, that might be interested in an interview?
- My contact information

Appendix 5: Interview guide government officials

Background:

- Can you briefly introduce yourself and your expertise?
- Have you worked with the Carbon Border Adjustment Mechanism?
- Do you have any questions?
- If it does, can you describe how your work relates to EU climate policy, CBAM, EU accession, or trade with the EU?

Country:

- Can you describe any current trends within your country that relate to CBAM, in terms of policy development or industrial matters?
    - Any trends relating to EU trade?
- Based on your expertise, how do you think the CBAM will affect your country (redo med info vid behov)?
    - Opportunities
    - Challenges
    - Threats
- What do you think makes your country exposed to CBAM?
    - MRV?
    - Carbon-intensity
    - Trade dependency
    - Sectors
    - Capacity for innovation
    - Emissions reduction targets
    - Energy mix
    - Do you think there are other factors or underlying issues?
- How do you think your country will respond to CBAM?
- What do you think your industry needs to adapt to CBAM?
- Do you think CBAM will affect the relationship between your country and the EU?

    - How?
- Do you think CBAM will affect relationships with other countries?
    - How?
- Do you think CBAM will affect your economy?
    - Investments for the future
- A case study of the effects of CBAM on Bosnia concludes that the country has too close ties with the EU to adapt by choosing other trade partners. Therefor Bosnia is left with only one choice, to decarbonize quickly. Likely this applies to similar and neighbouring countries. Can you reflect on this statement?
- Is there anything you would like to add on CBAM and your country?

Closing:

- Thank you for your time and insights. Is there anything you would like to add, or do you have any questions?
- Do you have any contacts that might be interested in an interview?
- My contact information