

TERMS OF REFERENCE

ASSESSMENT

EU Carbon Border Adjustment Mechanisms (CBAM) in North Macedonia: Impact, Policy Response and Assistance Needs

1. BACKGROUND

European Union pursues an ambitious agenda to reduce carbon emissions for 55% (compared to 1990 levels) by 2030 and become a climate-neutral continent by 2050. The implementation of the regulatory and implementation requirements designed to achieve these impressive goals are costly and often adversely affect the competitiveness of goods produced in the EU compared to those produced in countries with less stringent climate policies thus resulting in a so-called “carbon leakage”.

To address the risk of “carbon leakage”, the EU introduced the Carbon Border Adjustment Mechanism – CBAM, a tool designed to ensure that a fair price is paid upon imports to the EU of certain categories of carbon-intensive goods that reflects the embedded carbon emissions generated during their production in third countries. The CBAM fee levels the playing field for producers from EU and non-EU countries, ensures that the EU climate policies are not undermined and encourages cleaner industrial production in countries outside the Union.

CBAM started to implement on October 1, 2023. During the transitional phase, until December 31, 2025, the importers will not pay the adjustment fee, but only calculate and report the carbon emissions embedded in the imported goods. The collection of the fee will start in January 2026.

The calculation and reporting requirements during the transitional period of CBAM implementation will apply on certain goods/sectors whose production is carbon intensive and carry the highest risk for carbon leakage, namely iron and steel, aluminum, cement, fertilizers, electricity and hydrogen. However, the European Commission is considering adding new products and sectors to the CBAM list.

According to the EU CBAM Implementing Regulation, if goods imported to the EU have already been levied with a carbon fee in a third country, the amount of the levy will be deducted from the CBAM fee, provided that the calculation and the payment of the carbon fee was executed in an EU-compliant manner.

The draft Law on Climate Action (LCA) that is undergoing adoption procedure in North Macedonia anticipates payment of a carbon fee for every ton of CO₂ emitted in the course of production of goods that are currently falling under the scope of CBAM - electricity, cement, iron and steel, aluminum and fertilizers. LCA also sets out the legal framework for a robust system for monitoring, reporting and verification of GHG emissions. Once operative, this system will enable efficient collection of data on CO₂ emissions embedded in specific goods and an EU-compliant infrastructure for their verification.

In the North Macedonia Climate Public Finance Review released in the spring 2024, the World Bank discussed the impact of CBAM on the overall country indicators – GDP, employment, exports, revenues, as well as its potential to contribute to North Macedonia’s decarbonization goals.

2. PROBLEM STATEMENT

As a country with strong dependency on the EU market, North Macedonia is likely to be adversely affected by CBAM at both micro and macro level; however, CBAM also has a strong potential to foster green transition in the country. It is thus extremely important to identify and understand the risks and opportunities linked to CBAM implementation and to plan and implement next steps accordingly. Macedonian companies should be proactive and efficient in offsetting the negative effects of CBAM in order to continue to successfully export to the EU market, while decision-makers should use all available resources to take decisive steps towards decarbonization of the economy and society.

USAID plans to support and facilitate these efforts, and this assessment is expected to provide useful information and recommendations in this regard.

3. OBJECTIVE

The main objective of the assessment is to elaborate key risks and opportunities related to the CBAM implementation and the introduction of the carbon fee in North Macedonia, recommend ways forward for tackling the key challenges and identify the assistance needs of stakeholders.

4. SCOPE AND DELIVERABLES

At this moment, CBAM creates immediate obligations only for the private sector in North Macedonia. However, the public sector continues to play a key role by supporting multiple aspects of CBAM implementation, and furthermore, by designing and implementing policies aimed at promoting, facilitating and advancing green transition of CBAM-affected industries.

This assessment will address four interrelated topics that have at this moment been identified as key for addressing CBAM and related decarbonization challenges and advancing North Macedonia's climate action goals.

4.1 Effects of CBAM implementation on Macedonian industry

As an additional border charge, CBAM will create seismic changes in the competitive dynamics within the affected industries and their supply chains and thus exert broad and multiple impact on Macedonian economy and society. Companies exporting CBAM goods to the EU will face the economic pressure of losing their price competitiveness while at the same time being required to meet demanding compliance and reporting requirements.

To address above issues, the assessment will:

- Identify the industry sectors of Macedonian economy that are under risk to be the most affected by CBAM.
- Develop scenarios on how CBAM is expected to affect the value chain potential and export patterns of the identified industries on a medium and long term, taking into consideration the envisaged timeline for increase of the CBAM fee.
- Interview companies from the most affected sectors and representatives of relevant business support organizations to identify key challenges that companies expect to face as result of CBAM implementation.

- Put together a list of specific assistance interventions that would help the private sector cope with the challenges.

In addition to analyzing trade statistics, studies and reports, as well as relevant Macedonian and EU legislation and strategic documents, this part of the assessment should include interviews with select companies from the most affected sectors – at least 20 companies, 80% of which SMEs.

4.2. CBAM-related institutional infrastructure

North Macedonia will have to designate a competent national authority that will closely monitor overall CBAM implementation and its economic, social and environmental impact and serve as focal point for communication and coordination with EU authorities. As a country with an EU membership perspective, North Macedonia will also have to include CBAM in its National Plan for the Adoption of the EU Acquis and eventually start to work on developing the legal and institutional framework to start charging the CBAM fee upon imports.

To inform and facilitate these processes, the assessment is expected to deliver the following:

- Analyze select government institutions related to their authority and capacity to coordinate CBAM-related activities, namely:
 - Monitor the economic and social impact of CBAM implementation and recommend policies for offsetting the adverse effects at micro and macro level;
 - Lead the efforts for harmonization with the EU acquis related to CBAM.
- Based on the available capacities and legal authority, as well as best practices, recommend which institution(s) should be entrusted to perform coordination of CBAM-related government activities.
- Put together a list of assistance activities needed to strengthen the capacity of the institution(s) identified to coordinate the CBAM response in North Macedonia.

This part of the assessment should include the following sources: 1. Interviews with select government institutions, including Ministry of Finance, Ministry of Environment and Physical Planning, Ministry of Economy and Customs Administration of North Macedonia, 2. Applicable EU CBAM legislation; and 3. Best practices on CBAM implementation in EU countries similar to North Macedonia.

4.3 Efficient, cost-effective and EU-compliant verification of GHG emissions

Verification is a main precondition for many policies and measures put in place to address climate change challenges. Firstly, sound and reliable verification procedure is crucial for the functioning of the overall system for monitoring and reporting GHG emissions set out by the draft Law on Climate Action. Secondly, to be accepted by the EU authorities, all data calculated and reported by Macedonian exporters to their partners in the EU for CBAM purposes must be verified. Last, but not least, verification represents a *conditio sine qua non* for the charging of the carbon fee that North Macedonia plans to introduce with the Law on Climate Action. To this end, the assessment will:

- Assess the legal and institutional framework, as well as the existing capacity in North Macedonia in context of the need to develop an EU-compliant verification procedure.
- Elaborate at least three best practice examples of verification eco-systems in EU Member States with similar size, industry scope and administrative capacity.

- Based on the above, recommend the most feasible and cost-effective model(s) for a verification infrastructure in North Macedonia that will satisfy EU verification requirements and ensure recognition of the verification results by EU authorities.
- Elaborate the key steps and capacity building needs for implementation of the recommended model.

This part of the assessment will be based on the following sources: 1. Interviews with relevant institutions, such as the Ministry of Finance, Ministry of Environment and Physical Planning, Ministry of Economy, Institute for Accreditation, environmental experts and donors; 2. North Macedonia's legislation and strategic documents governing climate protection and decarbonization; 3. EU carbon pricing legislation and policies; and 4. Best practices in EU countries similar to North Macedonia.

4.4 Introduction of a carbon fee

One of the overall goals of CBAM is to enhance and accelerate decarbonization reforms in EU trading partners. Within the last few years, North Macedonia has made significant progress in putting this topic high on its economic and environmental agenda by developing the respective strategic documents and clearly spelling out its environmental objectives and indicators in line with the EU Green Deal and the Green Agenda for the Western Balkans.

The Law on Climate Action (under adoption) sets the legal framework for implementation of specific policies and measures that will drive North Macedonia's efforts towards meeting its climate goals. In addition to the establishment of the National Inventory of Green House Gasses and a comprehensive system for monitoring, reporting and verification of GHG emissions, LCA introduces a carbon fee for goods covered by CBAM, i.e. electricity, cement, iron and steel, aluminum and fertilizers.

The main objective of the carbon fee is to promote decarbonization and support the efforts for green transition of the most carbon-intensive industries in the country. In CBAM context, carbon fee paid in the country of exports will be deducted from the CBAM fee, provided that it is calculated and paid in a reliable and EU-compliant procedure. By charging the carbon fee domestically, North Macedonia would ensure that the funds collected by fining excessive carbon emissions stay in the country and be spent to support various climate goals.

To support the introduction of a carbon fee in North Macedonia, facilitate implementation and identify the key assistance needs in this process, this part of the assessment should focus on the following:

- Carry out an analysis of the applicable legislation, as well as existing institutional capacity and relevant experience in North Macedonia and based on EU best practices, develop a roadmap of steps and activities for introduction of a carbon fee compatible with EU requirements. The roadmap should address all aspects of the process, namely:
 - Identify the legal basis (or the lack thereof) necessary for introduction of the fee.
 - Discuss considerations related to the determination of the fee amount and the timeline for its gradual increase.
 - Propose efficient institutional infrastructure for implementation of the fee.
 - Recommend measures for managing the change.

- Identify assistance and capacity building needs that should be designed and implemented to support carbon fee introduction, including but not limited to expert assistance, digitalization tools, study tours, trainings, outreach programs, etc.

This part of the assessment should use the following sources of information: 1. Interviews with relevant institutions, such as Ministry of Finance, Ministry of Environment and Physical Planning, Customs Administration, Ministry of Economy, trade and environmental experts and donors; 2. North Macedonia's legislation and strategic documents governing climate protection and decarbonization; 3. EU carbon pricing legislation and policies; and 4. Best practices in EU countries similar to North Macedonia.