

Synthesis Briefing

Policy priorities for industry in Bosnia and Herzegovina in the CBAM era

Authors

Olivia Waterton, Eoin Quill

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Why CBAM matters for Bosnia and Herzegovina

The European Union introduced the Carbon Border Adjustment Mechanism (CBAM) to ensure that products entering the EU face a cost of carbon similar to the cost EU producers face under its Emissions Trading System.¹ CBAM is aligned with the price EU producers pay in the electricity, iron and steel, cement, chemicals, aluminium, and hydrogen industries.

Bosnia and Herzegovina (BiH) is highly exposed to CBAM because of the high carbon intensity of its production and significant trade with the EU, particularly electricity. Bosnia and Herzegovina's emissions intensity of electricity is far above the EU average.² Other sectors are also exposed but, unlike electricity, benefit from a phased transition period that offers the opportunity to invest in decarbonisation before full CBAM charges kick in.

Without any policy response, CBAM is expected to cost 0.4-0.7% of annual GDP by 2035.³ Successfully responding to CBAM, maintaining the competitiveness of BiH's energy-intensive industries, and decarbonising in-line with its legal commitments will require decisive and coordinated policy action across multiple sectors. Cross-cutting measures including introducing domestic carbon pricing can help BiH to retain revenues, reduce emissions, and avoid CBAM costs. Decisive policymaking can support businesses to decarbonise, maintaining competitiveness in international markets and ensuring resilience into the future.

This report synthesises four reports funded by the European Climate Initiative (EUKI). It highlights the key challenges and opportunities faced by BiH in aligning with CBAM.¹ Priority policies are then identified, which can support alignment with CBAM and unlock BiH's industrial competitiveness.

Electricity

BiH's electricity sector is central to the country's CBAM exposure – it is the region's largest net electricity exporter. BiH relies heavily on coal-fired generation, which accounted for 62% of total electricity production in 2024, with hydropower providing the majority of the remainder.⁴ This reliance on lignite gives BiH an emissions intensity of approximately 1.148 tCO₂/MWh – far above the EU average – making electricity exports to the EU economically unviable under CBAM.²

¹ For the complete reports and full list of references, [see here](#).

At current carbon prices of around EUR 75 per tonne, the carbon charge on BiH electricity exports would exceed the market price of the electricity itself. Since the beginning of 2026, electricity exports to the EU have largely become commercially unviable, with importers factoring the expected CBAM cost into their offer prices. BiH exports of electricity in 2025 amounted to roughly EUR 453 million, while in the first half of 2026 electricity exports were roughly EUR 55 million lower than the same period in 2025.⁵

Sectoral challenges and enablers

Challenges

- Entrenched reliance on lignite due to cheap and abundant domestic reserves. Republika Srpska continues to pursue new coal capacity, arguing it is more financially viable to build new plants than to maintain ageing existing ones.⁶ This is not in line with BiH's climate obligations nor what is required to stay competitive in a CBAM economy.
- Fragmented governance and lack of coordination between both entities (The Federation of Bosnia and Herzegovina and Republika Srpska) and across all levels of government complicates coordination, reform, and comprehensive action.
- Lack of a developed wholesale electricity market, and slow regulatory reform to address this hinders market coupling with the EU, leading to cross-border transmission capacity congestion and divergent prices, potentially limiting international trade and investment in the power sector.⁷
- Lack of grid modernisation and storage infrastructure makes integration of variable renewable energy (VRE) highly challenging, which is likely to lead to curtailment.

Enablers

- The 2023 National Energy and Climate Plan includes a target of 41.2% emissions reductions by 2030 compared to 1990 levels and a renewable energy target of 43.6% of final consumption, but it faces implementation challenges.⁸ Should BiH meet these targets, for electricity exports and products where electricity is considered in the CBAM cost calculation, the increase in renewable energy and decrease in power sector emissions should lead to reduced carbon intensity and, therefore, lower CBAM charges for importers, making Bosnian products comparatively less expensive.
- Significant wind, solar, and hydropower potential and a strong base of hydro generation supports system flexibility and integration of wind and solar.⁹
- Progress on energy market coupling would exempt electricity exports from CBAM and integrate BiH into the EU electricity market, increasing investment opportunities and reducing costs.
- BiH has also updated the calculation of its electricity emission factors in response to the EU's default emissions values, which could reduce CBAM costs associated with electricity exports by up to EUR 13 million annually.¹⁰

Iron and steel

BiH's iron and steel sector has traditionally been a cornerstone of the country's industrial base, even though the country is a net importer of iron and steel products. BiH produces steel at an average emissions intensity of just under 1.5 tCO₂e/t, 1.3 times the EU average.³ This is highly dependent on the production process. The scrap-electric arc furnace (EAF) route, which uses recycled steel as its main input, produces steel at an emissions intensity of 0.2-0.5 tCO₂/t of crude steel, compared to 2.33 tCO₂/t for blast furnace-basic oxygen furnace (BF-BOF).

The sector has been dominated by the Zenica steel mill but has undergone significant shifts in recent months as the plant was closed in April 2026 after being sold by ArcelorMittal to the Bosnian Pavgor Group.¹¹ An ongoing legal battle means it is unclear if the plant will close permanently or restart operations. Before operations were stopped, the plant had multiple production methods, including traditional BF-BOF and scrap-EAF, with an annual capacity of 1.9 million tonnes. However, the EAF has not been operated for several years and BF-BOF is the primary production method.

BiH's CBAM exposure in the iron and steel sector remains highly uncertain as the Zenica mill alone accounted for 75% of iron and steel exports to the EU. Total CBAM-covered exports to the EU amounted to roughly EUR 500 million in 2024.¹² Prior to closure, the Zenica plant renovated its blast furnace and converted a power plant from coal to utilise fossil and waste gases.¹¹ Both steps reduce emissions intensity of production by increasing energy efficiency and reducing direct and indirect emissions, but do not fundamentally transition away from high-emissions production. Should operations resume as before, a fundamental shift away from the BF-BOF route to lower-carbon production will be required to reduce emissions in line with CBAM requirements and BiH's climate commitments.

Sectoral challenges and enablers

Challenges

- Closure of the Zenica steel mill places the sector in significant uncertainty, impacting regulatory decisions, GDP, and investment.
- The iron and steel sector lacks a clear decarbonisation roadmap and political fragmentation complicates long-term strategic planning.
- Historic reliance on BF-BOF production could mean production resumes with high emissions intensity, leading to significant CBAM exposure.

Enablers

- Experience and infrastructure for scrap-EAF production provides a solid base for reducing sectoral emissions, particularly when paired with renewable electricity.
- A high share of hydropower in electricity generation can support integration of renewables into operations.

Cement

The cement sector produced roughly 1.4 MtCO₂e in emissions in 2023.¹³ BiH's emissions intensity of cement is slightly above the EU average, at 0.8 tCO₂e/t. Heidelberg Materials' Kakanj plant and the Lukavac cement plant are the largest single producers of cement, with an annual production capacity of 1.6 million tonnes.¹⁴

The cement sector is a significant contributor to BiH's economy, contributing to 1.5-2% of total GDP and 30% of CBAM-related exports.¹⁵ The EU is the primary market for BiH's exported cement, importing roughly EUR 260 million worth. Total CBAM charges for 2026 for cement products imported from BiH are estimated to be around EUR 123 million.³

Sectoral challenges and enablers

Challenges

- The domestic supply chain for burnable waste cannot meet domestic standards or the needs of BiH's cement producers, forcing firms to import waste that could otherwise have been diverted from domestic landfills.
- At the same time, while increasing the share of waste as an alternative to coal can decrease direct emissions and support improvements in waste management, burning waste still produces emissions and pollutants. Opting for waste over integration of renewable energy could stall necessary deep emissions reductions.
- Lack of accredited domestic emissions verifiers means firms typically hire expensive EU-based consultants.

Enablers

- European parent companies bring technical expertise, capital, and corporate decarbonisation targets.
- Both Heidelberg Material's Kakanj plant and Lukavac Cement have integrated emissions monitoring systems. Heidelberg Materials tracks real-time emissions and has committed to third-party verification. Proven experience with emissions monitoring and reporting supports alignment with CBAM requirements.

Aluminium

Primary production of aluminium produced 651.1 ktCO₂e in 2022, or 2.3% of the country's overall emissions.¹³ Aluminij Mostar is one of the largest exporters and has an annual production capacity of more than 200,000 tonnes.¹⁶ In 2024, it reported 18.7 MtCO₂e of total scope 1 and 2 emissions, with an average emissions intensity of 0.34 tCO₂e/t. This is lower than the EU as BiH's aluminium industry is centred on casting aluminium into billets and semi-finished products rather than smelting.

While energy intensity of the grid plays a key role in determining CBAM costs for other sectors, only direct emissions are currently considered for aluminium. Aluminij Mostar reports that it consumes electricity entirely from renewable sources, which would significantly reduce its CBAM exposure if the regulation were extended to include indirect emissions.

Sectoral challenges and enablers

Challenges

- Technologies to reduce process emissions, including inert anodes to replace carbon anodes, are not yet commercially scalable, meaning some level of process emissions is currently unavoidable.
- There is potential to lock in high-emissions and stranded assets. Aluminij Mostar's parent company signed a memorandum of understanding with the United States for a 20-year supply of liquefied natural gas, which is not aligned with BiH's climate commitments nor sectoral decarbonisation needs.

Enablers

- Aluminij Mostar's CBAM-ready products position it well relative to regional competitors and an already low emissions intensity of production gives a further competitive advantage.
- BiH's significant renewable energy potential could support further decarbonisation of energy-intensive production if CBAM is expanded to include scope 2 emissions.

Policy Recommendations

Credible coal phase-out planning

High coal use in the Bosnian power sector drives high emissions intensity of the entire economy and undermines industrial competitiveness. As renewables become increasingly inexpensive compared to fossil fuels and Bosnia's coal assets continue to age, establishing a clear plan for the orderly and just phase-out of coal-fired generation is key. A coal phase-out plan tied to the National Energy and Climate Plan (NECP), with clear timelines, will provide a credibility to investors and industry. Further delay threatens to increase uncertainty, cost, and energy insecurity.

Deep integration of renewable energy

With a strong base of hydropower and significant wind and solar potential, building a strong base of renewable energy while transitioning away from fossil fuel use is a fundamental step to aligning with CBAM. Permitting reform for projects including on-site renewable energy and alternative fuel facilities for industrial users will support growth of renewables and international investment, while shielding firms from volatile international fossil fuel markets.

Sectoral decarbonisation roadmapping

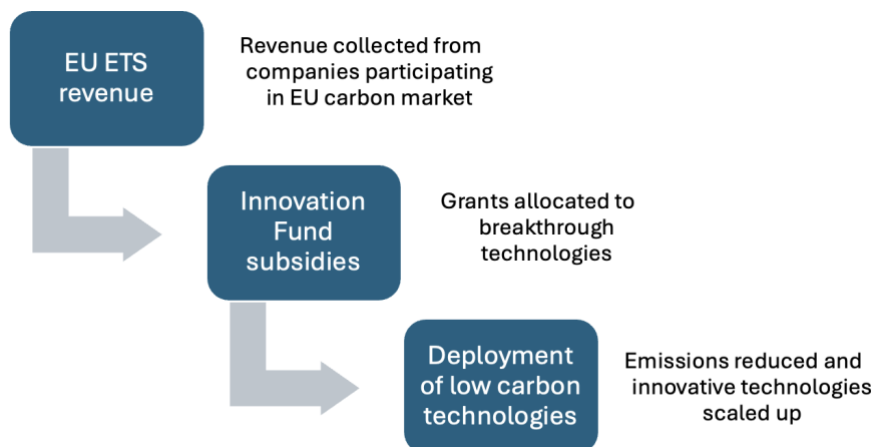
Sector-specific decarbonisation roadmaps that are supported by detailed modelling and set clear timelines and targets, developed in conjunction with industry, are key to provide long-term clarity and certainty across industry, government, and investors. Establishing a clear coal phase-out date is essential. Examples of roadmaps from Türkiye and Morocco provide templates that could be adapted to BiH .

Carbon pricing

A carbon tax that places a cost on the carbon content of a material and the fuel used to make it is a key policy step that supports domestic investment in decarbonisation. A simple carbon tax can be a successful precursor to establishing a domestic emissions trading system (ETS) in-line with its EU accession plans and obligations under the EC treaty.

Carbon tax revenues can be used to subsidise emissions reduction initiatives, thereby easing the upfront cost of transitioning a factory's production process. This is done in the EU, where revenue from the Emissions Trading System is distributed as subsidies through the EU's Innovation Fund. This is illustrated in **Figure 1** below.

EU carbon tax revenue is directed to the Innovation Fund to drive deployment of low carbon technologies



Electricity market coupling

Transposing EU laws and obligations and coupling the electricity market with the EU will allow BiH to secure an exemption from CBAM charges on electricity exports and support further integration of renewable energy, decreasing grid carbon intensity and embedded emissions in other exports.

Monitoring, reporting, verification, and accreditation (MRVA)

A functioning domestic MRVA system is essential for credible emissions reporting, and the lack of domestic verifiers mean BiH companies need to hire consultants or rely on default emissions values, which are significantly higher than actual emissions.

Heidelberg Materials found that actual emissions reporting can reduce CBAM costs by up to 90%.

Workforce capacity development

In addition to improving MRVA capacity, developing workforce capacity to meet CBAM requirements and integrating renewables is critical to aligning with CBAM and supporting the energy transition. Lack of capacity is a key concern among industry leaders, who note training workshops, up-to-date online resources and opportunities for direct exchange can improve capacity and maintain competitiveness.

Green public procurement

Integrating environmental criteria into public tenders can stimulate demand for low carbon products. The CO₂ Performance Ladder (CO2PL) from the Netherlands is proven to drive emissions reductions while supporting innovation without an excessive administrative burden.¹⁷ By supporting the domestic market for low carbon products, companies can scale production and stay competitive in international markets.

Circular economy

As companies that wish to integrate scrap or waste into their operations struggle to source adequate supplies domestically, a clear gap exists between BiH's circular economy goals and waste management industry. In addition to diverting waste flows from landfills and reducing pollution, updated circular economy policies and stricter enforcement can support the supply of scrap steel and aluminium, reducing reliance on primary production and lowering emissions. Options include implementing product passports, ecolabelling, and extended producer responsibility (EPR) schemes to improve scrap quality and availability. For firms that use waste as an alternative fuel, formalising domestic waste flows can help avoid importing foreign waste and support a transition away from coal.

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