CBAM IMPACT ON IRON & STEEL INDUSTRY OF UKRAINE

Kyiv, March 2026

Introduction

Dear friends,

GMK Center has been covering CBAM issues since 2020, when the mechanism was still being discussed. Today, CBAM is a reality. Our initial calculations and assumptions have proven correct. CBAM acts as a strict trade barrier – the Ukrainian long steel and semi-finished products sector loses its competitiveness in the EU market. This is a colossal challenge for Ukrainian metallurgy, a core sector of the economy accounting for 7.2% of GDP, incl. supply chains.

However, regarding the consequences for Ukraine, the CBAM issue should be viewed more broadly – through the lens of Ukraine's post-war recovery, the future of the entire Ukrainian industry, and its place in EU supply chains.

CBAM is part of EU climate policy. In the context of EU integration, Ukrainian industrial companies would have faced climate challenges regardless. But I believe this should have happened differently. Other Eastern European countries, like Poland, received massive investments during their EU integration.

To preserve domestic production and jobs during European integration, investments are needed. Ukrainian businesses have missed opportunities for these investments due to the Russian invasion. Before the war, all steel mills had their decarbonization roadmaps. These projects are on hold not only because of the war, but also because their financial viability has worsened due to rising energy prices.

Catching up will be an extremely heavy challenge for Ukraine. For this, Ukraine needs a postponement of CBAM. However, the EU authorities rejected Ukraine’s application for a CBAM postponement, despite such a possibility being provided for in the regulation.

GMK Center has conducted a detailed assessment of CBAM’s impact on Ukraine’s steel sector. The key finding is that Ukraine could lose 2.1% of its GDP by 2030 due to the effect of CBAM on the steel sector alone. The potential downside is significant, considering the vulnerabilities in Ukraine's post-war economic transition.

This stands in stark contrast to the estimate in the European Commission’s report (-0.01%), on which the decision to reject Ukraine’s deferral request was based. For a decision to be sound, it must rely on accurate data. Therefore, it is advisable to initiate a revision of the European Commission’s report and continue the discussion on a CBAM postponement for Ukraine, as the cost of error here is significant.

Of course, a postponement of CBAM for a few years will not solve Ukraine's problems. In 2026-2028, the consequences of CBAM will be severe but relatively manageable. In 2029-2030, Ukraine could lose another half of its currently operating 5 steelmaking plants.

In other words, Ukraine's key problem today is an investment deficit. CBAM increases its urgency and worsens the consequences of underinvestment.

So, CBAM issue for Ukraine must be considered systematically, together with the issue of financing decarbonization.

The Ukraine Investment Framework, part of the Ukrainian Facility, envisions only €9.3B in direct assistance and €7.8B in loan guarantees. This is for the entire industry and energy sector. This amount is clearly insufficient. For energy sector recovery alone around €70B is needed. For decarbonizing the existing capacities of the iron and steel sector, our calculations indicate a need of €12B.

Where Ukrainian businesses will get the money for decarbonization in the context of EU integration – that is the key question today. As long as there is no answer, Ukraine needs a postponement of CBAM. The legal possibilities for this decision exist.

Stanislav Zinchenko
Director GMK Center

Ukraine's steel sector is becoming less competitive and more dependent on the EU market

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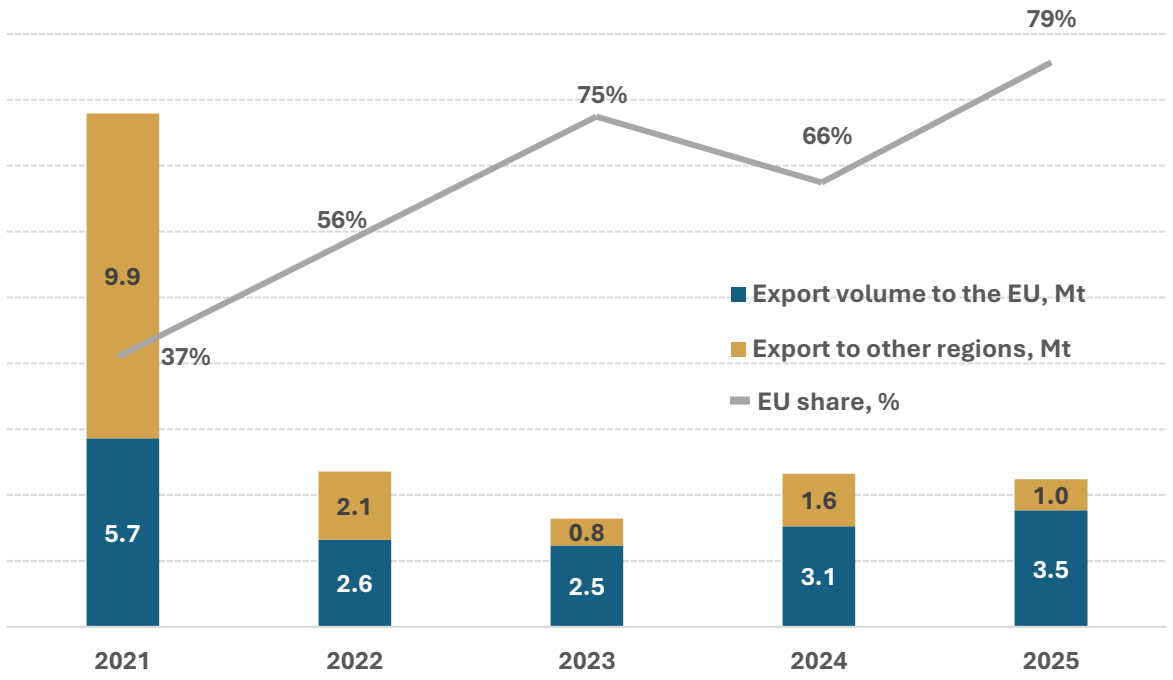
Steel exports from Ukraine



Data source: Eurostat, State Custom Service of Ukraine, GMK Center calculations

Ukraine's steel output declined by 2.2% to 7.4Mt in 2025, indicating the worsening condition of Ukraine's steel sector.

At the same time, steel exports in 2025 fell by 3.4%. The global steel market in 2025 was extremely challenging for exporters. Amid an expansion of Chinese steel exports, flat-rolled prices fell by 10%, and long product prices dropped by 6%.

As of January 2026, only 7 out of 13 blast furnaces in Ukraine are operational. The EAF-based Interpipe Steel was idle for most of 2025. DMZ, a major producer of long steel products, is permanently idle.

Ukrainian exporters, facing a range of war-related challenges, cannot compete with Asian or Russian steel mills on the global markets. Key challenges for Ukraine's iron and steel sector:

- Energy deficit
- The most expensive energy in Europe
- High risks and costs of maritime shipments
- Reliance on coal imports
- Personnel shortage.

Chinese and Russian exports have displaced Ukrainian steel from traditional MENA markets, Turkiye and other regions, which were key destinations in 2024 following the opening of the "sea corridor."

Struggling to survive in 2025, Ukrainian companies had no alternative but the EU — their only remaining market. EU`s share in export from Ukraine raised critically to:

- Long products: 93%
- Flat-rolled: 86%
- Total steel: 79%.

In 2025, the EU absorbed 50% of all steel produced in Ukraine.

EU supply-side regulations are calling into question the survival of Ukraine's iron and steel industry. One such challenge is CBAM.

The structure of Ukrainian iron and steel sector makes it vulnerable to CBAM

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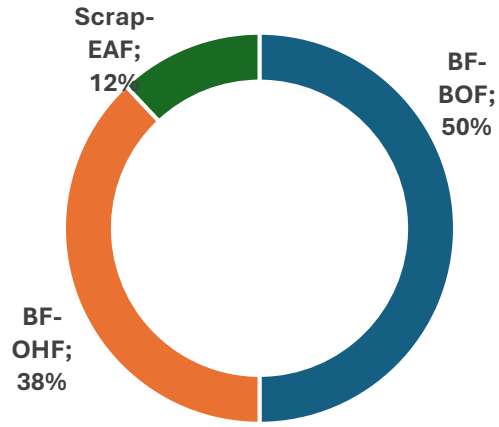
Steelmaking capacities in Ukraine

Mill	Technology route	Product	Status
Zaporizhstal	BF-OHF	Flat-rolled	Operating
ArcelorMittal Kryvyi Rih	BF-BOF	Longs	Operating
Kametsteel	BF-BOF	Longs	Operating
Interpipe Steel	Scrap-EAF	Pipes & tubes	Operating
Dniprospetsstal	Scrap-EAF	Stainless steel, longs	Operating
DMZ	BF-BOF	Longs	Idled

Crude steel output in Ukraine by process in 2024



Data source: World Steel Association, GMK Center

The BF-based production route dominates in Ukraine with an 88% share in crude steel output.

Exports of flat-rolled and long products to the EU are produced via the BF-OHF and BF-BOF routes, respectively.

GMK Center estimates the carbon intensity of Ukrainian products as follows:

- Flat-rolled: 2.3 tCO_2 / t steel;
- Long products: 2.1 tCO_2;
- Square billet: 1.9 tCO_2;
- Pig iron: 2.1 tCO_2.

BF-BOF produced products have a direct carbon intensity (Scope 1) up to 10 times higher than products manufactured via the Scrap-EAF route.

Globally, steelmaking capacity for flat-rolled products is ~90% BF-BOF based, while capacity for long products is predominantly Scrap-EAF based.

This places Ukrainian products at an unequal competitive disadvantage compared to rivals in the EU long products market following the introduction of CBAM.

CBAM: a risk for all imports, including low-carbon

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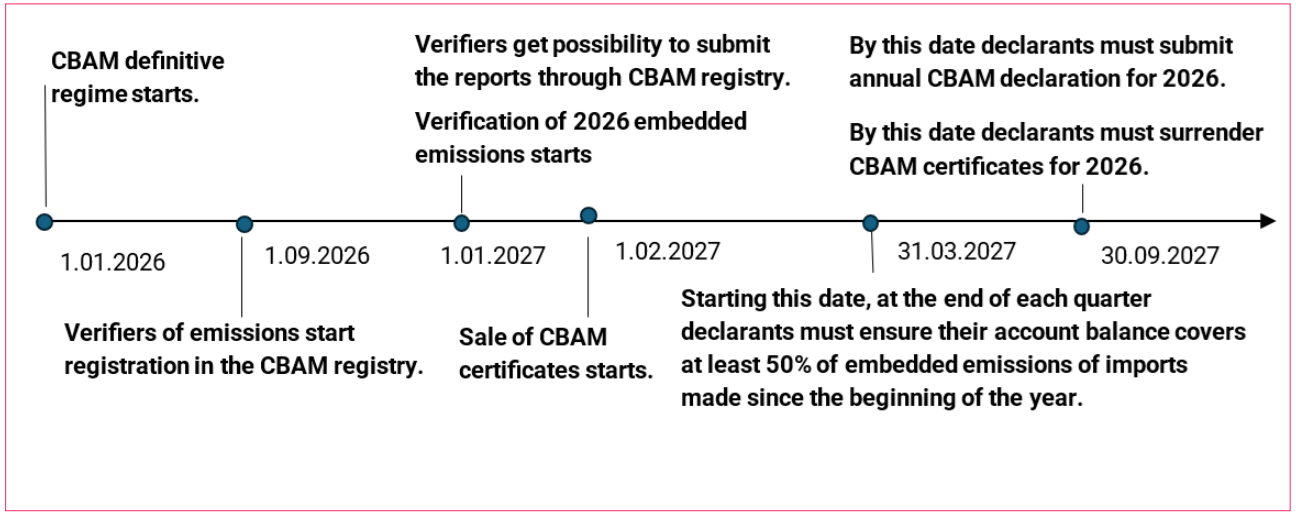
CBAM calculation formula

$$\text{CBAM} = (\text{Carbon intensity (embedded)} - \text{Emissions benchmarks (embedded)}) \times (1 - \text{CBAM factor}) \times \text{CO}_2 \text{ price} - \text{Carbon price paid in a third country}$$

CBAM timeline



Data source: European Commission, GMK Center analysis

The adopted CBAM legislative framework have proven stringent for imports, heightening risks. Key features of CBAM:

- Scope covers all basic iron and steel products under CN codes 72 and 7301-7311, 7318, 7326 with other codes from group 73 added from 2028.
- For iron and steel, Scope 1 emissions are considered as a base for payments calculations.
- CBAM payments can be calculated based on either actual verified emissions data or default values.
- The list of default values per country contains only a single figure, without breakdown by production route.
  This discriminates against the EAF steelmaking route. In other words, CBAM restricts any import, even low-carbon.
- For calculating free allowances, benchmarks are set that correspond to planned values in the EU ETS and are annually reduced by the "CBAM factor" (2.5% in 2026, reaching 100% in 2034). An increase in the CBAM factor values leads to an annual growth in payments.
- The carbon price in 2026 is the quarterly average EU ETS price; from 2027, it is the weekly average.
- CBAM certificates for 2026 emissions must be submited by September 30, 2027.
- Actual emissions data is subject to annual verification. Verification for 2026 emissions can only begin in January 2027. This creates significant trading uncertainty in 2026.
- Starting Q1 2027, a balance of CBAM certificates covering 50% of quarterly emissions must be maintained by the end of each quarter. It is unlikely verified data will be available by these deadlines, necessitating calculations based on inflated default values, which is discriminatory for all imports, including low-carbon.

Exporters are forced to take on CBAM risks to continue trading with the EU, amid inflated default values

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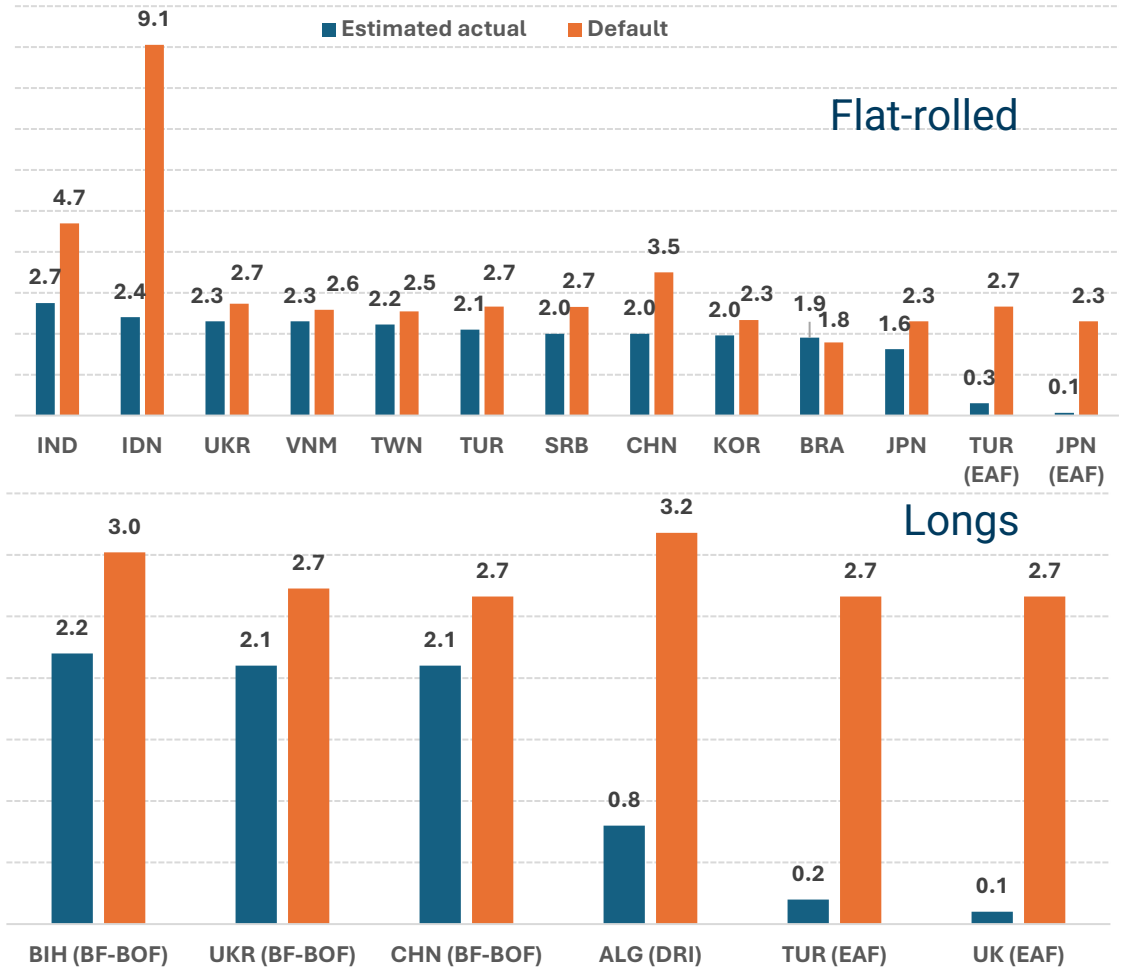
Emissions intensity Scope 1, t CO_2/t



Data source: companies reports, experts survey, GMK Center

The default emissions values set forth in the regulations are significantly overstated, rendering them practically unusable. This is particularly evident in the long products segment, where the majority of supply is EAF-based.

The average default emission value in the flat-rolled segment represents a 100% premium to estimated default emissions, with the range varying from 35% to 652%. Relying on these default values would effectively halt imports in 2026.

For 2026, the default emissions for Ukrainian long products are overstated by 0.63 tCO_2 per tonne of steel, including a 10% markup in 2026. This overstatement inflates the CBAM-payment by €53/t, for flat-rolled – by €36/t.

Consequently, the EU market is already factoring in anticipated actual emissions data when concluding deals. However, verified data will not be available in 2026, creating significant uncertainty.

To mitigate this risk, the market has shifted from CFR-based supply terms to a DDP (delivered duty paid) basis. Under DDP terms, the risk associated with the final CBAM payment amount is transferred to the exporter.

This exposes exporters to potential losses in 2027 if the anticipated emissions diverge from the later verified figures, or if verification is not completed by August 2027.

A further practical issue is the feasibility of verification audits at Ukrainian plants. Key industrial hubs such as Zaporizhzhia, Dnipro, Nikopol and Kryvyi Rih are under constant Russian bombardment. The European Commission has disregarded this reality by deciding that the force majeure clause does not apply to Ukraine.

A potential solution would be to authorize Ukrainian accredited operators to conduct CBAM emissions verification.

CBAM also increased operating costs for EU steel mills

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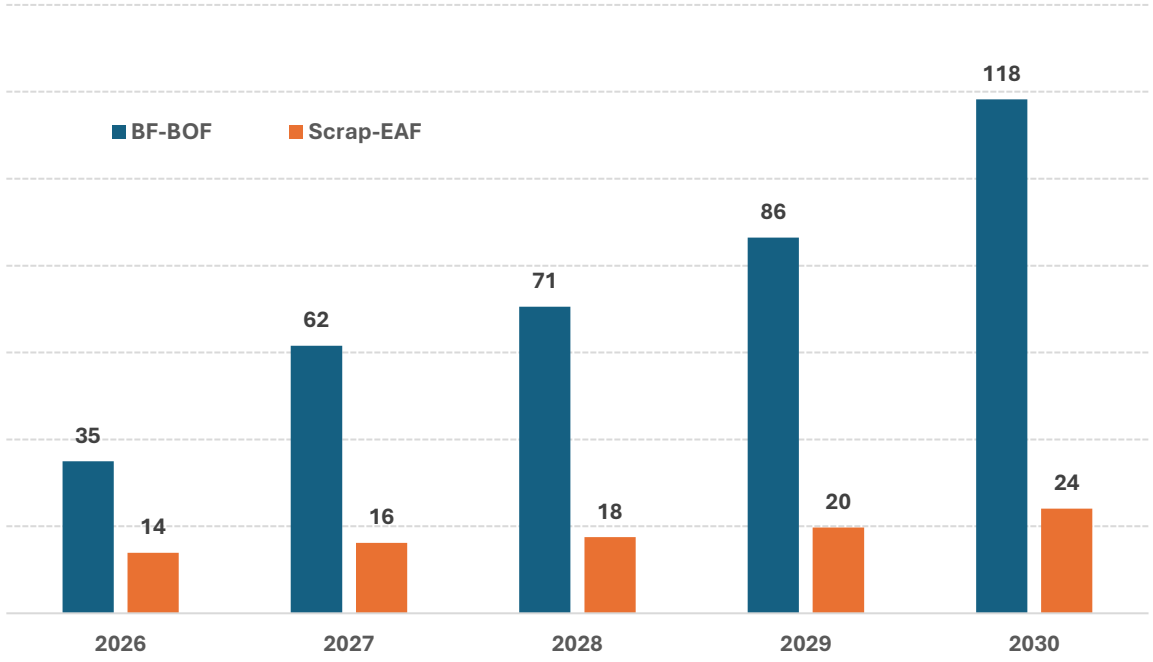
Carbon costs growth for EU mills, €/t to basic 2025



Data source: GMK Center calculations

The start of 2026 also marked an increase in carbon costs for EU mills:

- Reduction of benchmarks for calculating free allocation.
- 2.5% phase-out of free allowances.
- Start of the second allocation period of 4th phase, where the production baseline for calculating free allowances shifts from 2014-2018 to 2019-2023, implying a lower volume of free allocation.

GMK Center estimates the increase in carbon costs for EU mills in 2026 at:

- BF-BOF flat products: €35/t;
- EAF long products: €14/t.

A further rise in carbon costs is likely:

- In the second half of 2026 due to expected growth in EU steel production.
- Long-term due to the phase-out and organic growth in carbon prices.

In 2026, GMK Center expects scrap prices to rise. Due to import restriction measures like CBAM and the anticipated tightening of TRQs, EU steel output is projected to increase by 8%. According to the GMK Center model, this will require an additional 6Mt of scrap supply.

EU scrap prices could rise by €40-60/t to €360-380/t for E3 Demolition Germany EXW. This is important for long product and pig iron prices in the EU.

GMK Center believes EU mills will strive to pass these rising costs on to prices of finished steel products.

CBAM first results: Long products trade has been hardly hit

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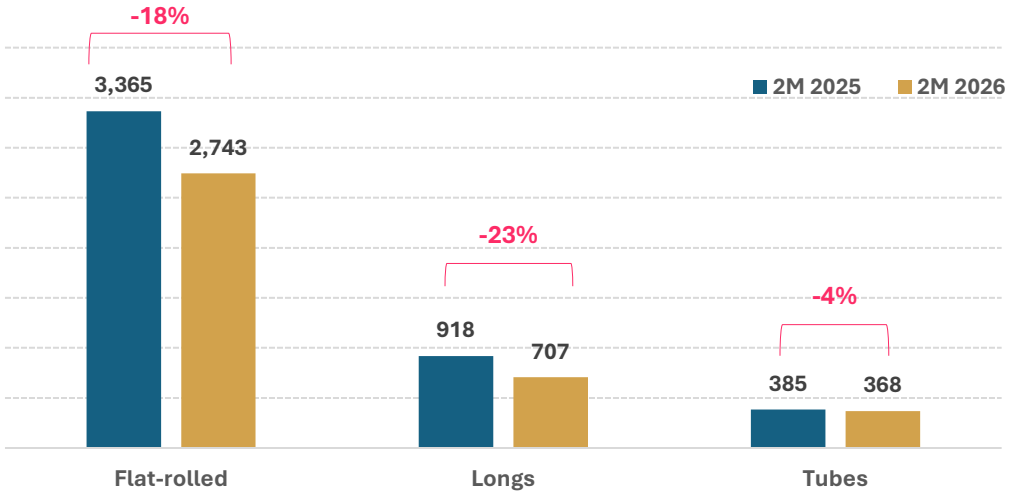
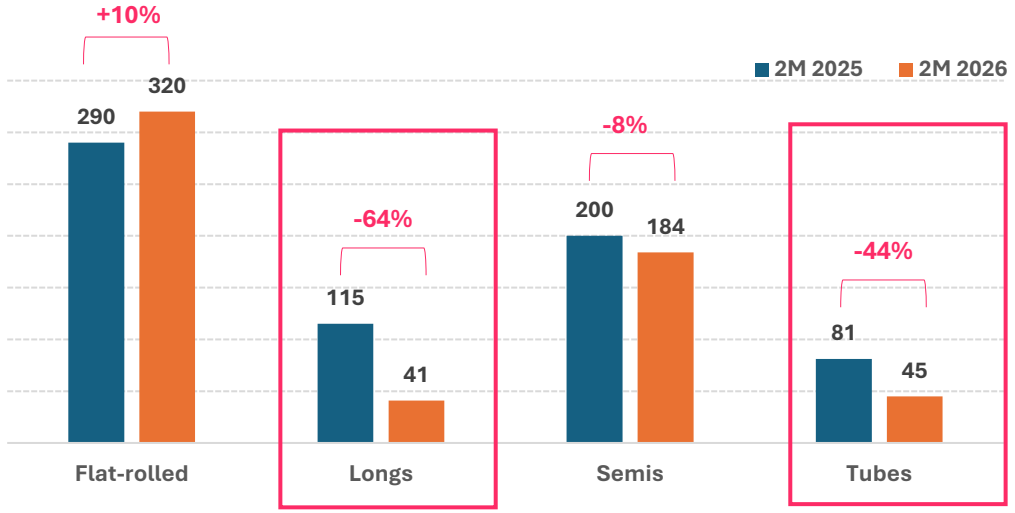
Steel imports to the EU in Jan-Feb 2026, kt



Data source: Eurocommission, Reports on use of tariff quotas

Steel export from Ukraine in Jan-Feb 2026, kt



Data source: State Customs Service of Ukraine

As a technical barrier to trade, CBAM has effectively reduced imports and placed exporters in a difficult position. Early results for Jan-Feb 2026:

- Finished steel imports to the EU fell by 18% y/y;
- Ukrainian steel exports dropped by 14% y/y.

CBAM impact is disproportionate across segments. The impact was felt most significantly in the long products segment, where Ukrainian exports plunged by 64% y/y. While flat-rolled exports edged up. This reflects differing ability to pass on higher import costs to EU prices (see slide 9).

CBAM effectively cut off Ukrainian long products producers from exports in the first half of 2026, pushing local mills into crisis.

CBAM also weighed on Ukrainian pipe exports. Although seamless pipes in Ukraine are produced via the low-carbon scrap-EAF route, uncertainty over actual carbon intensity values drove a 44% y/y drop in exports.

In its current form, CBAM undermines the green transition: uncertainty has negated the progress made by Ukrainian mills, making it irrelevant.

CBAM first results:
CBAM-costs passed on flat-rolled prices, longs prices stagnate

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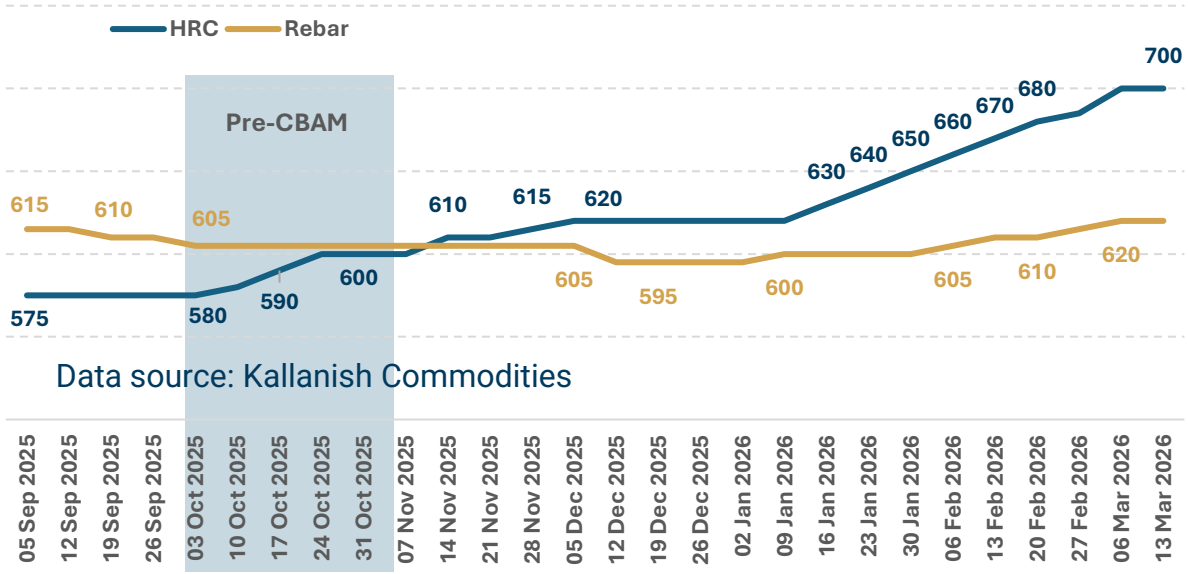
EU steel prices, €/t, NW Europe EXW



Data source: Kallanish Commodities

EU prices forecast, AVG, €/t NW Europe EXW

	Oct 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	2027	2028	2029	2030
Hot rolled coil (HRC)	580	650	700	750	750	750	730	720	740
Rebar	600	600	620	660	660	670	670	680	700

Data source: GMK Center calculations

The ability to pass on CBAM costs to price differs radically by segment.

In the flat-rolled segment, EU mill and importer capacity is ~90% BF-BOF based. Therefore, given rising costs for EU mills, CBAM levies will be passed through onto steel prices.

We are already seeing this. As of mid-January 2026, flat-rolled prices have risen by up to €110/t, compared to October 2025. This mainly mitigates the impact of CBAM for flat-rolled imports.

Exporters with a total CBAM-payment below €60-70/t can continue supplying without significant disruption. Others will be forced to offer lower prices by sacrificing their margin, which may be feasible for Asian suppliers.

From July 2026, the EU's steel TRQ system will tighten, with quota volumes cut by 43% versus 2025 import levels. The GMK Center expects this to lead to supply shortages and further price increases in the flat-rolled segment, allowing exporters to offset CBAM payments. This effect is not expected to be sustained long-term, as it is driven solely by supply-side factors.

In the long products segment (including square billet, a semi-finished product for longs), the situation is different.

EU long product capacity is 85-90% EAF-based. EU mills have significant potential to ramp up supply, given only ~60% capacity utilization in 2025. BF-BOF imports here can be easily displaced.

Long product prices in November-March remained at the same level. It worsens the position of long product suppliers, who must reduce export prices by sacrificing margin to continue shipments.

A price increase in the long products segment is likely in H2 2026, tracking the anticipated rise in scrap prices due to higher demand from increased steel production volumes in the EU.

CBAM impact on flat-rolled exports: TRQ mitigates the immediate impact, but risks loom after 2030

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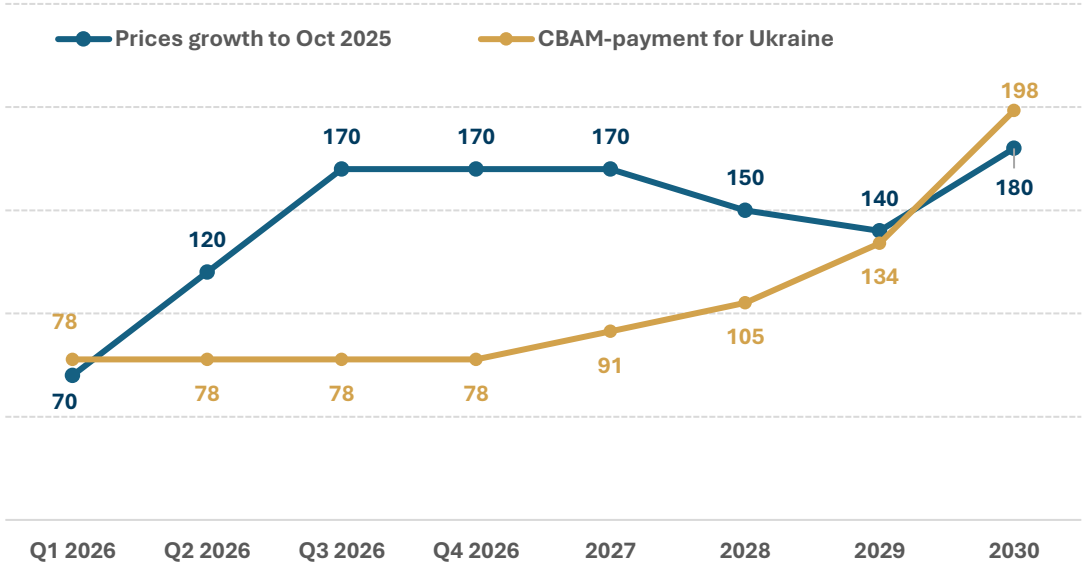
€/t	Q1 2026	Q2 2026	Q3 2026	Q4 2026	2027	2028	2029	2030
CBAM-payment for Ukraine	78	78	78	78	91	105	134	198
Weighted average CBAM-payment	67	67	67	67	78	90	113	168
Carbon costs growth for EU mills*	35	35	45	45	62	71	86	118
HRC price growth*	70	120	170	170	170	150	140	180
Margins of export from Ukraine*	-8	42	92	92	79	45	6	-18
Flat-rolled exports, Kt**	360	420	400	320	1,500	1,500	1,500	1,000

** - compared to Oct 2025, pre-CBAM period* *** - doesn't consider TRQ reduction*

EU HRC price dynamics vs CBAM-payments, €/t



Ukrainian flat-rolled products (BF-OHF produced) have a carbon intensity of 2.3 tCO_2, which is higher than that of competitors. Consequently, the CBAM-payment for Ukrainian HRC exporters is €10-15/t higher than for other importers, though it generally falls within the broader market range.

The €110/t increase in HRC prices since October has effectively offset the weighted average CBAM-payment for importers. So, the CBAM costs has been passed through into the price. This maintains import availability in the EU market. It also indicates that, in the medium term, further increases in CBAM payments will continue to be passed on prices. This reduces risks for flat-rolled suppliers, including Ukrainian.

The anticipated price increase in the EU due to the tightening of TRQs is expected to compensate flat-rolled exporters for their CBAM-payments.

Potential export reductions are possible in Q1 2026, when price increases may lag behind CBAM-payments for exporters from Ukraine. Risks are also projected to escalate after 2030, as the supply of low-carbon flat-rolled products increases and CBAM liabilities become more stringent.

CBAM impact on long product and billet exports: High risks in the short-term and after 2029

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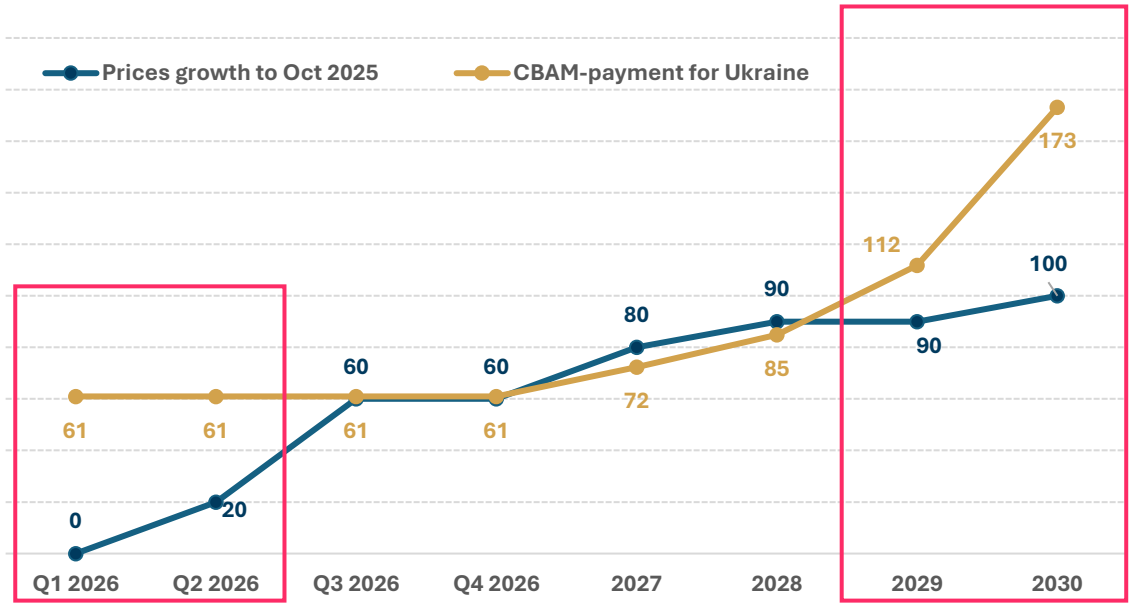
EU rebar price dynamics vs CBAM-payments, €/t



€/t	Q1 2026	Q2 2026	Q3 2026	Q4 2026	2027	2028	2029	2030
CBAM-payment for Ukraine	61	61	61	61	72	85	112	173
Weighted average CBAM-payment	34	34	34	34	38	55	72	108
Carbon costs growth for EU mills*	14	14	14	14	16	18	20	24
Rebar price growth*	0	20	60	60	80	90	90	100
Margins of export from Ukraine*	-61	-41	-1	-1	8	5	-22	-73
Longs exports, Kt**	60	60	120	100	400	400	200	0
Billet exports, Kt	120	120	180	180	800	700	300	0

** - compared to Oct 2025, pre-CBAM period*

*** - doesn't consider TRQ reduction*

Ukrainian long product exports lose competitiveness to other importers and EU mills due to CBAM.

With the average carbon intensity of BF-BOF-based Ukrainian long product exports at 2.1 tCO_2, the average CBAM levy will be €61/t, compared to €34/t for other importers, mainly EAF-based.

In H1 2026, rebar prices stagnate and fail to offset the rising CBAM costs for Ukrainian exports. This will lead to a significant decline in long product exports in January-June 2026. ArcelorMittal Kryvyi Rih has already announced the shutdown of its blooming mill.

Expected price increase in H2 2026 should mitigate CBAM's impact and support exports from Ukraine. A solution for the plants could be to continue exports in the short term in anticipation of a price increase. The price of continuing exports in H1 2026 is estimated at a loss of €14M, which may be cheaper than idling facilities.

However, a sharp rise in the CBAM cost factor in 2029-2030 will mean a complete halt to Ukrainian long product and billet exports starting from 2029.

The consequences could be more severe in 2026-2028 if the price increase falls short of expectations or if the EU's long product import mix shifts further towards EAF-based steel.

CBAM impact on pig iron exports: Pig iron loses the competitive battle to HBI

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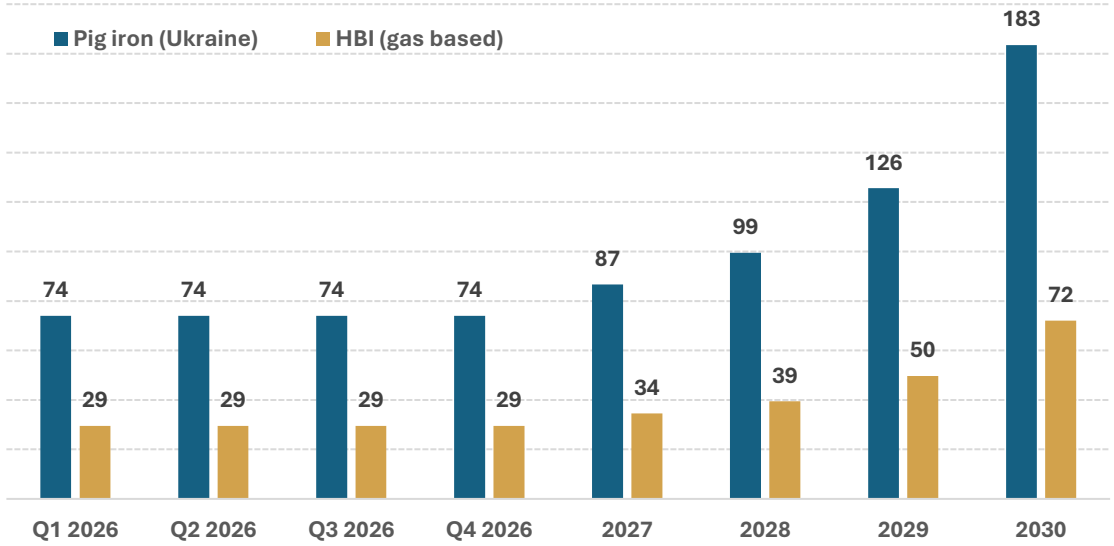
CBAM-payments for pig iron and HBI, €/t



€/t	Q1 2026	Q2 2026	Q3 2026	Q4 2026	2027	2028	2029	2030
CBAM-payment for Ukraine	74	74	74	74	87	99	126	183
Weighted average CBAM-payment (pig iron)	59	59	59	59	69	81	105	160
Weighted average CBAM-payment (HBI)	29	29	29	29	34	39	50	72
Cost competitiveness vs HBI	-45	-45	-45	-45	-52	-60	-76	-111
Pig iron exports, Kt	60	80	120	120	400	400	200	100

Ukrainian pig iron is generally in line with the market in terms of carbon intensity (2.1 tCO_2, which should ensure its competitiveness in the medium term.

The weighted average CBAM-payment for traditional pig iron suppliers in 2026 is expected at €59/t. This correlates well with the anticipated €40-60/t increase in scrap prices compared to pre-CBAM levels.

When the scenario of rising scrap prices materializes and the long products segment absorbs the increase in raw material costs, GMK Center doesn't expect a disruption in pig iron exports, although some risks persist in H1 2026.

Brazil, with a CBAM-payment of €12/t, holds an advantage over other suppliers and could capture a significant share of the EU pig iron market.

CBAM has initiated another trend – the loss of pig iron's price competitiveness compared to hot-briquetted iron (HBI). With a Scope 1 carbon intensity around 0.8 tCO_2, HBI is projected to have a price advantage over pig iron of up to €110/t within five years.

HBI is expected to largely replace the EU pig iron market, including Ukrainian exports, once sufficient supply becomes available, tentatively after 2029-2030.

CBAM impact on the Ukrainian economy: Ukraine to lose 2 steel plants and 2.1% of GDP in 2030

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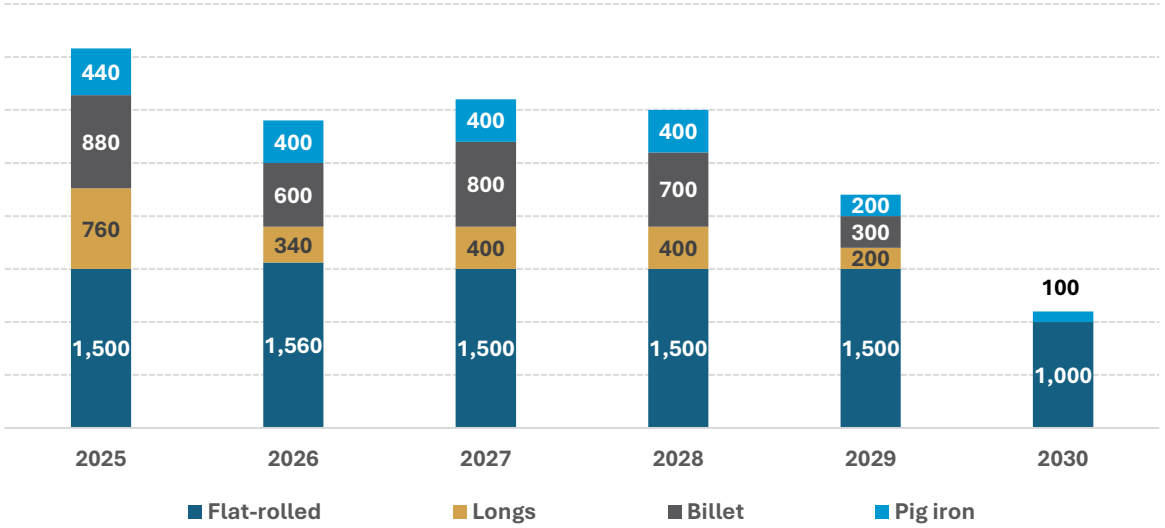
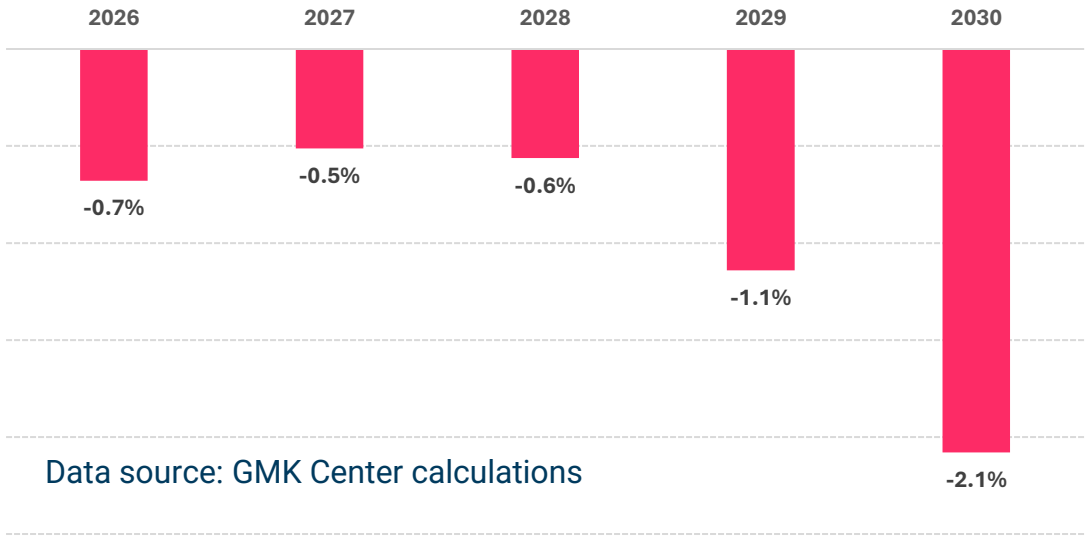
Iron and steel exports from Ukraine to the EU, kt



CBAM impact as a share of GDP, %



Data source: GMK Center calculations

The impact of CBAM on the Ukrainian economy will be significant, given its reliance on raw materials sectors.

The GDP decline solely from the reduction in iron and steel exports could reach 2.1%, incl supply chain, by 2030. Losses could be higher, given the risks associated with the post-war restructuring of the economy.

The CBAM impact sharply deteriorate in 2029-2030, when the tariff burden increases from 12% in 2026 to 26% in 2030.

GMK Center expects a complete halt in exports of long products and square billets in 2030, a 75% reduction in pig iron exports, and a 30% reduction in flat-rolled exports.

By 2030, three blast furnaces at two major plants producing long products could be idled.

CBAM could disrupt the established cooperation scheme between Ukrainian and EU businesses. For example, Ukrainian Kametsteel has supplied billets to Bulgarian Promet Steel, that produces rebar. This puts jobs created within the EU at risk.

The consequences for the pipe sector will be milder in mid and long-term. The impact on welded pipe exports will be similar to that in the flat-rolled segment. Meanwhile, seamless pipes in Ukraine are produced via a low-carbon EAF route.

CBAM impact on the Ukrainian economy: Steel mills at risk of permanent closure as imports continue to rise

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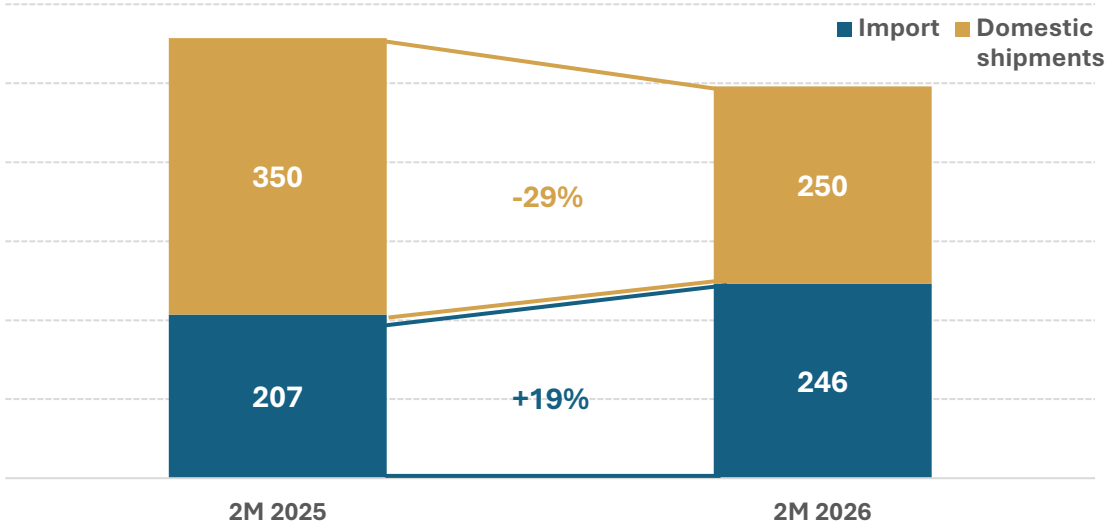
Steel market in Ukraine, kt



50%

Imports share on Ukrainian steel market in 2M 2026

69%

Exports share in steel products output in Ukraine in 2M 2026

Data source: Ukrmetallurgprom association

CBAM could lead to a complete loss of steel exports from Ukraine after 2030, which account for 69% of total output. Domestic plants have no option to redirect exports due to a lack of price competitiveness.

Against this backdrop, the role of the domestic market is growing, where Ukrainian producers are also losing the competition to imports.

However, in January–February 2026, steel consumption in Ukraine fell by 11% year on year. At the same time, imports increased by 19% year on year.

The growth in imports is particularly noticeable in the long products segment, which has been hit harder by CBAM. In January–February, long product imports surged by 260% year on year, driven by supplies of wire rod from China and rebar from Turkiye.

Turkish suppliers have an advantage over Ukrainian plants thanks to cheap gas and semi-finished products from the Russian Federation. Chinese steelmakers rely on low-cost energy and state support.

In the first half of 2026, Ukrainian long product producers found themselves on the verge of shutdown, with exports impossible due to CBAM and supplies to the local market collapsing by 29% year on year.

If Ukraine is not exempted from CBAM, Ukrainian plants could permanently shut down amid the challenges in the domestic market. This is a highly likely scenario after 2030.

It would be advisable for the European Commission to revisit its analysis of CBAM's impact on Ukraine to take these risks into account.

A complete shutdown of steel plants would cost Ukraine 4.3% of its GDP, significantly increasing the need for foreign donor funding.

CBAM impact on the Ukrainian economy: Adverse social impact and harm to national security

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Potential annual CBAM impact on Ukrainian economy, $M*

	2026	2030
Iron & steel export	-450	-1,750
GDP, incl. supply chains	-1,500	-6,000
GDP, incl. supply chains, %	-0.7%	-2.1%
CAPEX, incl. supply chains	-215	-850
Tax revenues, incl. supply chains	-410	-1,620

** - through the impact on the iron and steel sector, does not include the impact of other sectors covered by CBAM*

-$3.9B

Potential iron & steel export losses over 2026-2030

-$3.6B

Potential tax revenues losses in iron & steel and supply chains over 2026-2030

GMK Center's assessment of the CBAM impact on Ukrainian economy differs from the European Commission's calculations. We project a decline in Ukrainian iron and steel exports of $1.75B by 2030.

CBAM-payments for Ukrainian iron and steel exports could amount to €1.2B in 2026-2030, equivalent to the CAPEX of Ukrainian steel mills over two years ($650M in 2024).

By levelling carbon costs for EU plants and importers, CBAM has a discriminatory character for lower-income countries unable to afford state subsidies for financing large-scale decarbonization projects.

Ukraine, which has been under military aggression since 2014, has experienced an investment deficit. CBAM deprives domestic enterprises of much-needed investment resources without offering compensating instruments.

Preserving the iron and steel industry in Ukraine requires a discussion on a new mechanism for financing decarbonization projects with EU participation.

Ukraine must keep its steel industry operational because compensating for economic losses from the closure of metallurgical plants by developing other sectors appears unlikely. There is a shortage of business models in Ukraine that would ensure generating up to $2B in annual exports, $0.9B in CAPEX, and up to $1.6B in taxes, that could be lost due to CBAM.

The steel business provides employment in eastern regions close to the frontline. Investments in these regions appear risky, which will likely lead to population migration.

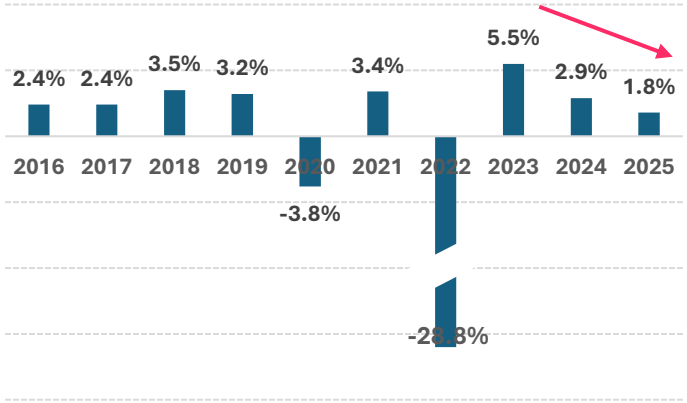
The steel sector is considered strategic by the US and EU amid heightened geopolitical challenges. However, CBAM threatens the existence of Ukraine's steel industry and undermines national security.

Data source: GMK Center calculations

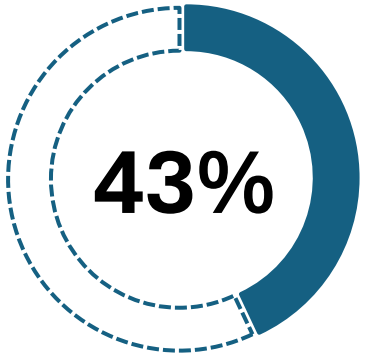
CBAM impact on the Ukrainian economy: Cementing Ukraine’s foreign aid addiction

gmk.center

Real GDP growth in Ukraine



Defense spendings in 2025, % of GDP



Imbalances in Ukrainian economy

19.4%

State budget deficit in Ukraine in 2025, incl foreign aid, % of GDP

vs 3.5% in 2021

26.5%

Trade balance deficit in Ukraine in 2025, % of GDP

vs 1.3% in 2021

61.2%

Share of government expenditures in GDP in Ukraine in 2025

vs 40% in 2021

The war has shattered Ukraine's export-oriented economic model. Its former advantages, cheap labor and low-cost energy, are no longer relevant.

As a result, economic growth is slowing (1.8% in 2025). Since the start of the war, significant imbalances have accumulated in the state budget, foreign trade, and public debt. These gaps are currently covered by financial assistance from international partners ($52B in 2025).

However, this external aid has failed to create a foundation for domestic development. Instead, it converts directly into import growth (+20% in 2025). Consequently, even post-war reconstruction programs are unlikely to change this dynamic.

Fundamental growth drivers are severely constrained in Ukraine. Migration and mobilization have drastically reduced the labor force (-5M people in 2021-2025). At the same time, labor productivity is declining due to a structural shift away from industry and toward agriculture.

A post-war investment boom looks unlikely. Ukraine lacks a competitive edge over other Central and Eastern European countries, while military and macroeconomic risks remain prohibitively high.

The EU's CBAM mechanism threatens to strip Ukraine of a large part of its real economy — the very sectors that generate exports, tax revenue, wages, and investments.

The result is a growing dependency on foreign financial aid. Any suspension or delay in this assistance would trigger an economic collapse, fueling inflation and a sharp devaluation. This would, in turn, raise domestic political risks and ultimately undermine Europe's defense capabilities.

Data source: National Bank of Ukraine

Methodology

All calculations in this document are based on CBAM reporting and calculations using actual data.

The estimated actual carbon intensities in this report are based on Scope 1 reporting data from public companies, consultations with technical experts in the steel sector.

Carbon intensity values for Ukrainian companies are derived from consultations with sector experts and have not been officially confirmed by the emitters.

GMK Center has estimated the benchmark embedded emissions for calculating CBAM payments based on actual values at 1.41 tCO_2 per tonne of steel for hot-rolled coil and rebar. The benchmark for 2025 within EU ETS is estimated at 1.74 tCO_2 per tonne of steel.

In the calculation of the CBAM payments, any carbon price paid in third countries was not factored in.

The calculation of the weighted average CBAM-payments utilizes expected actual data from traditional suppliers of steel products during the 2022-2024 period.

The forecast for weighted average CBAM payment does not account for possible changes in the supply structure.

Hot-rolled coil (HRC) was used as the model product for flat-rolled steel, and rebar for long products.

The forecast for EU ETS allowance prices is a consensus forecast for 2026-2030 compiled by GMK Center.

In this study, the impact of the CBAM on the Ukrainian economy is assessed only through its effect on the iron and steel sector.

The calculation of losses for the Ukrainian economy from CBAM consists of two parts: the direct effect and the supply chain effect.

The direct effect includes the loss of expected export revenue from the cessation/reduction of exports.

Export losses are calculated based on a comparison of CBAM payments with projected price dynamics in the EU market.

Export volume forecasts for 2026 take into account the dynamics of January-February 2026.

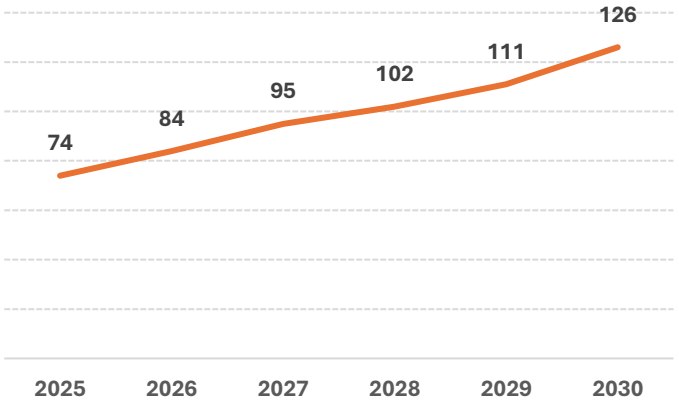
EU market prices are forecast using GMK Center's comprehensive model, which incorporates: macroeconomic factors, economic sentiment indicators, fundamentals in steel-consuming sectors, supply conditions, import attractiveness, capacity utilization, finished product inventory dynamics, raw material and energy market conditions, analysis of the steel industry in key regions, and margins analysis.

The supply chain effect was calculated using a GDP multiplier for the steel industry relative to GDP in related sectors, obtained through an analysis of an Input-Output table.

Losses in investments and tax revenues were calculated in a similar manner.

The losses as a share of GDP are calculated based on the IMF's nominal GDP forecast for Ukraine in 2030.

EU carbon prices, €/t, consensus-forecast



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