KINSTELLAR

UPDATE

ESG legal update: Central and Eastern Europe and Central Asia regions

— JANUARY 2025

The past year has seen a flurry of regulatory developments related to Environmental, Social and Governance (ESG), particularly in the alignment of climate, environmental and reporting rules across the Central and Eastern Europe and Central Asia regions.

Although the deadline for transposition of the Corporate Sustainability Reporting Directive (EU) 2022/2464 (CSRD) passed in July 2024, not all EU member states have managed to fully implement the directive. The European Commission has initiated infringement proceedings against 17 member states, including the Czech Republic and Romania, and it remains to be seen whether it will take further steps in the infringement procedure.

Attention is turning to the Corporate Sustainability Due Diligence Directive (EU) 2024/1760 (CSDDD) which imposes extensive due diligence obligations on corporate operations and supply chains. The CSDDD's transposition deadline is set for 26 July 2026.

Our latest update on each member state's approach to the implementation of these directives is available here. We will continue to monitor the streamlining of EU's ESG regulation in 2025.

OVERVIEW OF OTHER KEY ESG AREAS

Bulgaria Croatia Czech Republic Hungary Kazakhstan

Romania Serbia Slovakia Turkey Ukraine Uzbekistan

Bulgaria

Pending revised National energy and climate plan

As of December 2024, Bulgaria has not yet submitted the final update of the National Energy and Climate Plan (NECP) for 2021–2030 to the European Commission (EC). In April 2024 the EC called for greater ambition and more detailed strategies in the plan to align with the EU's climate and energy goals.

In response, Bulgaria published an updated draft NECP on 13 June 2024. The plan incorporates higher targets and sets national goals for decarbonisation, energy efficiency, energy security, and competitiveness. The draft sets renewable energy targets of 34.48% of gross final energy consumption, 55.51% of gross final electricity consumption, and 29.66% of final energy consumption in transport by 2030. The plan also reaffirms the hydrogen investment commitments made in the National Recovery and Resilience Plan, with the aim of developing 55 MW of electrolysers and producing 7,800 tonnes of green hydrogen per year, as well as building infrastructure for hydrogen and low carbon gaseous fuels transmission.

Public consultations ran until 26 June 2024, but the draft NECP has yet to be finalised and approved. The Ministry of Environment and Water announced in July 2024 that an ecological assessment, particularly focusing on impacts on protected Natura 2000 areas, is necessary before the plan can proceed. The findings from this assessment have to be taken into account and guide the final approval by Bulgaria's Council of Ministers. Only after these steps the NECP may be submitted to the European Commission.

Bulgaria received a letter of formal notice from the Commission on 14 November for failing to submit its final updated NECP and now has two months to respond.

Diversification of nuclear supply

Nuclear energy – generated at the Kozloduy nuclear power plant – accounts for over 30% of the electricity generation in Bulgaria. As an important step towards diversifying its nuclear supply, Bulgaria has launched a project to expand the Kozloduy plant. The state-owned company Kozloduy NPP – New Build EAD has signed contracts with Hyundai and Westinghouse for the engineering and building of two new nuclear reactors using Westinghouse's latest, third-generation AP1000® technology. This is a massive project that will involve a large number of (sub)contractors for the various services involved in the development of the new units. The project is expected to be completed by 2034.

Croatia

Decarbonisation of the economy, energy and transport

The Croatian government has presented a Programme of the Government of the Republic of Croatia for the period 2024-2028 which includes plans for decarbonisation of the economy, energy and transport and expresses an intention to continue the expansion of renewable energy production. The country's potential for solar, wind and geothermal energy is to be harnessed for economic and agricultural development. This will be achieved through the development of infrastructure, including the development of charging points for electric vehicles and the establishment of a network of hydrogen-based charging points to decarbonise heavy goods vehicles, rail and marine traffic. In addition, a carbon footprint monitoring programme will be introduced in public institutions, with a commitment to continuously reduce greenhouse gas emissions.

Energy protection

The Programme also includes the development and securing of key energy infrastructure. new cable and transmission lines to the Croatian islands will be completed. In addition, Croatia will expand the capacity of its LNG terminal from 2.9 to 6.1 billion cubic metres, while the construction of new gas pipelines will increase the capacity of the gas transport system to Hungary and Slovenia. By 2028, two Croatian cities will be supplied with heat from geothermal energy as a result of investments in its development.

Reduction of waste disposal, improvement of water management, preservation and restoration biodiversity

The programme envisions the advancement of waste management practices through the construction of supplementary waste management facilities in Croatia between 2026 and 2028. This is expected to enable the achievement of the EU goal of reducing waste disposal to 10% by 2035 and increasing waste recycling to 65% by the same year.

A National action plan for the reduction of water loss in public water supply systems will be adopted, with the objective of reducing the losses in public water supply systems by half by the end of 2028. Investments in activities designed to mitigate the risk of flooding will result in the construction of an additional 80 km of embankment, thereby safeguarding the lives of 30,000 inhabitants from the destructive forces of flooding. In order to mitigate the risk of flooding, the Water Area Management Plan for the period 2028–2033 will be adopted.

Czech Republic

Hydrogen Strategy

The government also approved an updated Hydrogen strategy in July 2024 to cut emissions and support growth of the hydrogen industry. By 2030, it aims to produce 20,000 tons of renewable hydrogen annually, through supporting localized hydrogen valleys. From 2030 to 2045, the focus shifts to importing cheap hydrogen through European pipelines. After 2045, advanced technologies should lower hydrogen production costs and strengthen energy independence. The strategy also supports Czech companies in hydrogen technology to expand their global market presence.

Updated National action plan for clean mobility

The updated National action plan for clean mobility was approved by the Czech government in August 2024. It outlines a strategy for decarbonizing transport, focusing on electric mobility, alternative fuels, and infrastructure development. Key goals include increasing the number of electric, hydrogen, and biogas vehicles, expanding charging infrastructure, and promoting sustainable transportation. Targets for 2025, 2030, and 2035 are set, with efforts to reduce fossil fuel use, lower CO2 emissions, and encourage combined transport modes like electrified rail. Financial support will come from various national and EU funds.

Policies under discussion

The government postponed the approval of the updated Climate protection policy, the State energy plan and the National climate-energy plan.

The government is currently discussing an Amendment to the Act on the Conditions of Trading Emission Allowances. The amendments focus on aligning national legislation with new European directives, particularly regarding emissions from aviation and maritime transport. It introduces regulations on hydrogen, updates emissions trading rules, and expands the system to include maritime vessels.

The proposed amendment to the Air Protection Act updates national regulations to align with EU directives. It refines terminology for pollutants, introduces stricter emissions monitoring and reporting, and allows municipalities to create low-emission zones to reduce vehicle pollution. It is currently disused in the lower chamber of the Czech parliament.

Hungary

Revised National energy and climate plan

In October 2024, Hungary updated its National energy and climate plan which was recently submitted to the European Commission. The updated NECP targets a 50% reduction in gross greenhouse gas emissions by 2030 and raises the share of renewable energy sources from the current 21% to 30%. A key focus is to encourage electrification and decrease energy usage in residential, public, industrial, and transportation sectors.

ESG Association

The ESG Association was founded at the end of August 2024. Its purpose is to support the integration of ESG considerations in the Hungarian business sector, assist local companies in adapting to emerging challenges, and collaborate with key players in the domestic market to take the necessary actions.

Environmental impact assessment for battery plants

Following an amendment to Government Decree no. 314/2005 (XII. 25.), the construction of battery plants may only commence after an environmental impact assessment has been carried out. The obligation to carry out this assessment in turn creates an obligation to obtain an environmental permit from the territorially competent environmental authority. Previously, an environmental impact assessment was only necessary based on the decision of the environmental authority, whereas now it is a requirement set out in law.

Kazakhstan

A new nuclear power plant

In October 2024, a national Referendum was held in Kazakhstan, according to the results of which more than 71% of citizens voted in favour of the construction of a nuclear power plant. According to the government statements, the project will be performed by a consortium, although the parties involved in the project have not yet been selected. The construction of the plant is planned to be completed by 2032.

Consolidation of the Kazakhstan – EU partnership dialogue

On 14 October 2024, Kazakhstan and EU Delegations had the 21st meeting of the Cooperation Council to discuss enhancing partnership and cooperation between the parties. The meeting touched upon aspects such as investment promotion, sustainable development and energy. The parties of the delegation confirmed their intention to develop the Trans-Caspian International Transport Route (TITR) in the near future by investment promotion within the framework of the EU Global Gateway Strategy. This route will make it possible to expand logistics and trade and investment relations between Asia and Europe. The importance of starting work on specific projects as a matter of urgency was stressed. In addition, the European delegation supported the initiative to hold the Regional Climate Summit under the United Nations in Kazakhstan in 2026.

Cooperation between Kazakhstan and Uzbekistan in the environmental protection field

The Senate of Kazakhstan ratified an agreement between Kazakhstan and Uzbekistan in the field of ecology and environmental protection. Under the agreement, cooperation between the states will be expanded into seven new areas. The directions concern such topics as improving the environmental situation in the Aral Sea region, interaction of state control over transboundary transport of hazardous waste, coordination of measures to protect wildlife, anti-poaching and meetings on joint research activities, as well as the preparation of specialists in the field of the environment.

Romania

National energy and climate plan

On 16 October 2024, Romania submitted its final updated National energy and climate plan for the period 2021-2030 to the EC. This plan outlines Romania's strategies and targets for achieving the EU's energy and climate goals, focusing on five key dimensions: decarbonisation, energy efficiency, energy security, the internal energy market, and research, innovation, and competitiveness.

The first draft of the NECP was criticised by the EC for the lack of transparency in the approval process. The EC concluded that the draft NECP did not provide evidence of Romania's collaboration with the relevant authorities to update the plan and that it was unclear to what extent local authorities were able to contribute.

Impact of CBAM on Serbian export industries

With the EU's recent adoption of the Carbon Border Adjustment Mechanism (CBAM), Serbian industries that export to the EU will face new environmental compliance requirements. The CBAM imposes carbon-related tariffs on imports from non-EU countries, encouraging alignment with the EU's strict carbon regulations. Serbian businesses, particularly in energy-intensive sectors, are likely to face additional costs if they do not adopt sustainable practices.

The CBAM brings immediate responsibilities for Serbian exporters, particularly in sectors like steel, cement, fertilisers, and electricity. From 2023, companies in these industries must begin reporting their embedded carbon emissions on goods exported to the EU. While CBAM's full implementation with tariffs starts in 2026, Serbian companies need to take steps now to meet the reporting standards, such as calculating their direct and indirect emissions and preparing documentation to comply with the EU's rigorous transparency requirements.

Failure to comply with these new standards could result in additional tariffs, reducing competitiveness in the EU market. As CBAM ramps up, Serbian businesses will benefit from enhancing carbon reduction measures and developing strategic compliance processes, signalling their commitment to sustainable practices and securing their position in the EU marketplace.

Release of the Integrated national energy and climate plan

Serbia is taking significant steps towards a sustainable future with the release of its Integrated national energy and climate plan (INECP), outlining targets up to 2030 and a vision for 2050. This plan emphasises reducing greenhouse gas emissions, increasing energy efficiency, and promoting renewable energy sources. Key objectives include a 40% reduction in carbon emissions and expanding renewable energy's share to 45% by 2030, positioning Serbia towards completion of its goal targeted to the green transition.

Serbia

Impact of CSRD on Serbian businesses

The CSRD has significant implications for Serbian businesses that have substantial activities or subsidiaries in the EU or those in the supply chains of EU-based companies. Serbian-based companies with EU ties will likely need to align their sustainability reporting with CSRD standards to maintain business relations with EU counterparts. This includes adopting transparent reporting practices on issues such as carbon emissions, labour practices, and governance risks which are also central to Serbia's national sustainability objectives.

While Serbia currently does not have a local equivalent to the CSRD, the increasing focus on sustainability and recent regulatory moves (such as the INECP) suggest that Serbian authorities may consider similar frameworks in the future. For now, aligning with CSRD standards may help Serbian companies meet EU expectations, gain a competitive edge, and attract ESG-focused investors looking for regional compliance with EU sustainability principles.

National hydrogen strategy

Romania is set to adopt its inaugural National hydrogen strategy and action plan for the period up to 2030. The draft document outlines the potential applications of hydrogen across various sectors. It discusses the decarbonization of the economy by deploying renewable hydrogen in sectors that are challenging to decarbonize through other means (e.g., where direct electrification is not feasible). Additionally, it emphasizes the potential for economic growth through the sustainable development of technologies for industries that are difficult to decarbonize, the creation of new jobs, and the technological advancements required to ensure the long-term mobilization of the hydrogen economy. This will support the attraction of investment and the enhancement of living standards. Furthermore, the document addresses energy security by leveraging hydrogen and Power-to-X solutions to optimize the integration of renewable energy sources and achieve sector integration.

Currently, the document is undergoing an environmental assessment, including the preparation of an environmental report and the appropriate assessment study, to advance to the next stage of adoption.

Energy strategy for the 2025-2035 period

On 14 June 2024, Romania's Ministry of Energy launched a public consultation on the country's Energy strategy for the 2025-2035 period, with a perspective extending to 2050. The strategy, aligned with the EU's climate targets, aims to advance national progress, enhance quality of life, and strengthen national security. Its six core goals are: energy security, low-carbon energy, energy efficiency, energy affordability and economic competitiveness, efficient energy markets and optimized, efficient, resilient and transparent energy system.

In September 2024, the strategy underwent an environmental assessment and is now proceeding with the inter-institutional endorsement procedure, which would be generally followed by its adoption through a Government Decision.

Slovakia

Environmental Impact Assessment Act

On 17 September 2024, the National Council of the Slovak Republic passed an amendment that will make environmental impact assessments (EIAs) more efficient and in line with European standards. The Environmental Impact Assessment Act now clearly separates the initial steps of screening (deciding if an EIA is needed) and scoping (deciding what the EIA should cover) from the main environmental assessment itself. The amendment also raises standards for the people conducting assessments, reduces paperwork, and streamlines the process to make it clearer, faster, and more consistent with EU law.

Emissions Trading Act

On 18 September 2024, the National Council of the Slovak Republic passed an amendment to align with EU Directives 2023/959 and 2023/958 to modernise emissions management. The law updates key concepts, revises free emissions allocations, directs auction proceeds toward low-carbon initiatives, and specifies the conditions for granting a permit for the discharge of greenhouse gas emissions. It also sets rules for emissions allowance validity, promotes low-carbon technologies, and defines government responsibilities.

Recovery plan for Europe – State aid schemes in the context of ESG

The Slovak Republic offers several ESG-related support schemes (e. g. Scheme 1, Scheme 2, Scheme 3, Scheme 4) under the national Recovery and Resilience Plan. These include initiatives to support the development of infrastructure for alternative fuels, electricity storage, renewable energy generation and storage, biomethane production, and the decarbonisation of industry, along with related funding tenders from various Slovak ministries.

Turkey

The Draft Climate Law and ETS

The Ministry of Environment, Urbanization, and Climate Change of the Republic of Turkey has been working on a draft Climate Law since 2022. Although the law has not yet been enacted, it is anticipated that the Grand National Assembly of Turkey will adopt it in the coming months, allowing it to become law and enter into force.

The draft law addresses greenhouse gas emission reductions and climate change adaptation, outlining the responsibilities and duties of all individuals and organisations involved in these efforts to collaborate effectively.

One of the most significant regulations introduced by the law is the establishment of an Emissions Trading System (ETS), in line with EU's CBAM regulations. In this context, the ETS is envisaged as a national and international market-based mechanism that operates on the principle of setting a cap on greenhouse gas emissions, allowing for the trading of allowances, and thereby limiting or encouraging the reduction of greenhouse gas emissions.

It is expected that this long-awaited law will include essential guidelines to achieve Turkey's Green Development Vision and 2053 Net Zero Emission Target.

The Draft Green Taxonomy Regulation

Turkish Directorate of Climate Change has recently published its draft Green Taxonomy Regulation which aims to increase investor confidence in and drive investment towards sustainable development activities by increasing transparency and combatting misinformation.

In order to achieve these objectives, the draft regulation is set to impose new reporting requirements to companies and institutions above a certain size operating in a number of finance or finance-adjacent fields, such as financial leasing, factoring, asset management institutions and insurance companies, as well as banks, regardless of their size. Reporting will concern operations in or in support of the enumerated fields of activity relating to sustainable development. Institutions and companies that do not fall under the criteria for mandatory reporting will be allowed to submit reports on a voluntary basis. Reporting will be done annually at the end of the year by submitting key performance indicators to the e-taxonomy system to be set-up as per the regulation. The reports will be evaluated by validating institutions to be authorised by the Turkish Accreditation Agency.

The environmental objectives and technical screening criteria have been formulated by the draft regulation in line with the relevant EU regulations. The regulation is expected to be finalised and published in early 2025, with mandatory reporting coming into force in 2027 and on a voluntary basis until then.

Ukraine

Strategy for the implementation of sustainability reporting

On 18 October 2024, the Cabinet of Ministers of Ukraine (CMU) approved the Strategy for the implementation of sustainability reporting which is, effectively, the strategy of implementation of the CSRD. The main goal of the strategy is to ensure that sustainability reporting is introduced in Ukraine by 2030, which will provide for adaptation of the national legislation to the EU regulations. The strategy will facilitate access by Ukrainian business to the international capital markets and attract investments. We will share a summary of the Strategy in the following issues of the newsletter.

Technical Regulation on the Safety of Chemical Products

On 23 July 2024, the CMU adopted Resolution No. 847 on Approval of the Technical Regulation on the Safety of Chemical Products. The resolution implemented into the Ukrainian legislation the provisions of the Regulation (EC) No. 1907/2006 of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and establishing the European Chemicals Agency. The resolution sets out the requirements for chemical products that must be met if such chemical products are to be placed on the Ukrainian market. The resolution contains certain carve-outs specifying that, for example, if chemical products that do not comply with the requirements are placed on the Ukrainian market before 26 January 2025, they may remain on the market until 26 January 2026. The resolution comes into effect on 26 January 2025.

Law of Ukraine on the Basic Principles of State Climate Policy came into effect on 30 October 2024. It sets out the basic principles for achieving climate neutrality and aims to implement Regulation (EU) No 2018/1999 on the governance of the Energy Union and climate change mitigation and Regulation (EU) No. 2021/1119 of 30 June 2021 establishing the framework for achieving climate neutrality.

Law of Ukraine on Integrated Prevention and Control of Industrial Pollution will come into effect on 8 August 2025. It aims to prevent, reduce, and control pollution resulting from the specified type of activities in the area of energy, metal production and processing, chemical industry, waste management, etc. This law regulates, among other things, the procedure for obtaining an integrated environmental permit for providing the specified type of activities.

On 1 November 2024, the CMU approved the Draft Law on Waste Management of the Extractive Industry allowing Ukraine to implement the provisions of the European Directive 2006/21/E concerning the management of waste from extractive industries into Ukrainian legislation.

Uzbekistan 

National strategy on renewable energy

Uzbekistan has adopted the Uzbekistan-2030 strategy that outlines key areas for strategic development over the coming years. The Government of Uzbekistan aims to increase the share of renewable energy sources to 40% of total consumption, equivalent to 25 GW. Additionally, the strategy targets reducing greenhouse gas emissions by 30% compared to 2010 year levels.

Policies to be implemented

Under the Presidential Decree on the state programmes under the Uzbekistan-2030 strategy, a green investment and green lending system is being introduced which includes the development of green projects funded by both public and private sources. This system will establish sovereign ESG indicators, create technical regulations for green investments and loans, and introduce fiscal and monetary incentives for green projects.

Further, starting from 1 July 2024, large taxpayers with at least 50% government ownership are required to publish annual reports on CSR and ESG practices by 1 July each year. This requirement is part of the ongoing efforts of the Government of Uzbekistan to improve corporate governance and transparency at state-owned enterprises.

Introduction of green corporate bonds

On 10 June 2024, Amendments to the regulations governing the issuance of securities were introduced, allowing for the issuance of green corporate bonds in Uzbekistan. The National Agency for Prospective Projects has also published draft Rules on the placement and circulation of green bonds. These rules cover the management of proceeds from green bonds, reporting on fund allocation, and measuring the impact of green projects through KPIs.

Further, funds from the issuance of green corporate bonds should support environmentally sustainable projects that meet at least one of the categories of the National Green Taxonomy: (i) efficiency and utilisation of raw material inputs; (ii) improvement of air and soil quality; (iii) sustainable agriculture and forestry, ecotourism; (iv) green transport; (v) energy efficiency; (vi) renewable energy sources; and (vii) green buildings.

How we can help

ESG represents the everyday world of compliance, risk assessment, litigation, deal making and proactive strategy-building that an organisation needs to embrace in order to be relevant, purposeful, and attractive to customers and investors. ESG issues are a critical part of the decision-making process in an increasing number of companies, their boards and investors worldwide. The expanding reach of regulatory requirements, combined with the growing public awareness of ESG issues, is causing companies in virtually every industry and sector to rethink their strategies and priorities.

From assessing and mitigating ESG risk, to capitalising on concrete ESG opportunities, Kinstellar's approach is both holistic and tailored to each of the industry sectors we cover. What's more, our own commitment to ESG values is central to our firm's culture and sets us apart from our competitors.

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